

An Evaluation of Financing and Development of Small and Medium Enterprises in Mombasa County, Kenya

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Abstract

The purpose of this research was to establish the relationship and the link between financing institutions and the level of development, growth of small and medium enterprises in Mombasa County. In the course of the research it was found out that many factors contribute to the growth and development of SMEs in Mombasa County as it is also envisaged in other parts of the country. However the element of financing came out clearly as a major factor that contributes positively to the development of SMEs. The research covered various categories which included but not limited to formal, informal, public and private owned enterprises. It was interesting to note that most of the SMEs could not survive the third year incubation period which was attributed to lack of adequate and relevant financing information. Empirical evidence from this study suggests that SMEs operators need information on available bank loans, sources of business finance, SMEs loan schemes, information on venture capital and other types of finances. This study was realized through the use of questionnaires both open and closed ended. A descriptive research design approach was employed to collect data from service, manufacturing, commerce and trade among other small and medium enterprises in Mombasa to actualize the objectives of this research. The data was then tabulated quantitatively in form of charts, tables and percentages and analyzed using SPSS and Ms. Excel. Further to this research, it was observed that generally Mombasa County has a weak enterprise finance information system that could not support, in particular, the information needs of SMEs. The findings revealed that general knowledge and awareness of financing options available to SMEs in Mombasa County are weak. This research will be of great importance to small and medium enterprises by opening their eyes to alternative sources of finance and probably giving them a better chance of development and become competitive in the global corporate setting. It may also go a long way in helping the policy makers come up with rules and regulations governing SMEs financial development. Some recommendations that the study made include the government involvement in setting out of policies to help in finance uptake by SMEs. In conclusion, the underlying issues are that all must be involved in order to use SMEs as wealth creating instrument as portrayed in Kenya's vision 2030 (GoK, 2007).

Key Words: Financing, Development of SMEs in Mombasa, Kenya

1.0 Introduction

Small and Medium Enterprises (SMEs) plays a major role in economic development, particularly in emerging countries. According to World Bank surveys (2010) studies indicate that formal SMEs contribute up to forty five percent of employment and up to thirty three percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. The informal sector presents one of the greatest challenges in the SMEs space, with issues that go well beyond finance. In the context of the international development agenda, and given the critical importance of job creation in the recovery cycle following the recent financial crisis, promoting SMEs development appears to be an important priority (World Bank survey, 2010).

GoK, (2007) study found out that the importance of the financial system to economic development is well understood and Kenya's long-term national strategy, Vision 2030. It identifies the sector as one of the country's core growth pillars. While generally more developed than others in the region, Kenya's financial sector remains far from achieving its full potential. Despite considerable progress in the last decade, the financial sector in Kenya has only met a modest fraction of the growing demand from poorer households and micro, small and medium enterprises (MSEs).

Schiffer and Weder (2001) in their book found out that access to finance has been identified as a key element for SMEs to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms.

Well-functioning and sustainable mechanisms for SMEs financing require institution building and a market approach. Lending institutions must improve their ability to provide financial services to SMEs through commercial mechanisms that lower costs and minimize their risk exposure. Only in this way will financial institutions find SMEs lending to be more profitable, and thus be encouraged to construct lending programmes targeted at SMEs (Hussain, 2000).

Capital shortage (Indarti and Langenberg, 2004) greatly hinders the development of SMEs. Small enterprise

owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and unexplained bank charges (Garikai, 2011). SMEs cannot meet bank conditions to access loans; this is also aided by poorly defined property rights in developing nations. Women in Kenya for instance have historically not been allowed to own land and this has prevented them from accessing credit from banks. This means that they cannot access finance to enable them to grow. Collateral, interest rates, extra bank charges, inability to evaluate financial proposals and lack of financial management skills also hinder the growth of small enterprise.

The financing hurdle must be overcome in order to set up and stay in business. This can be overcome with access to risk capital (Omar, Arokiasamy and Ismail, 2009). Informal sources of credit, though with high interest rates, constitute very substantial contributions to business start-ups in developing countries (Indarti and Langenberg, 2004).

Family-owned SMEs lack financial capital. Greater dependence upon external finance is associated with better business growth. SMEs have difficulty accessing the financial markets. This limitation on financial sources has a significant impact on the profitability of SMEs (Kongmanila and Kimbara, 2007).

1.2 Statement of the Problem

Owing to the problems associated with accessing alternative credit facilities, a large proportion of SMEs in Mombasa County rely more on self-financing in terms of retained earnings. The implication, therefore, is that SMEs do not have adequate credit to meet the needs at different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand according to Garikai, (2011). How then can the financing gap or finance information need be bridged in order to reduce the ambiguity in the financing environment? This could be achieved by understanding the information needs of SMEs in Mombasa county context and their fulfillment.

However, the long-term growth and competitiveness of SMEs are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. Limited access of SMEs to credit and financial services has been identified as one of the most important supply constraints confronting the sector in Kenya, particularly developing towns. This study therefore sought to fill the gap by conducting a research to critically assess the relationship between the level of financing on development of small and medium enterprise in Mombasa County, Kenya.

2.0 Literature Review

2.1.1 Introduction

The study reviewed theories on the development and growth of SMEs as well as information on financing, empirical and secondary literature. It also investigated the underpinnings which impede the growth of SMEs after which the following variables emerged from the gaps; SMEs awareness of alternative sources of finance, sources of information on financing sources; through information asymmetry and reputational effects, easiness to access finance, methods used to access information on sources of finance and information needs in Mombasa County. This research will highlight on already conducted researches by different scholars, while addressing issues that arise on SMEs financing on a daily basis.

2.1.2 Informational asymmetries

Informational asymmetries considered under a basic theoretical analysis of conditions of imperfect information, suggest that there will be insufficient credit available for all sound or 'bankable' propositions (Stiglitz and Weiss, 1981). Asymmetric information means that there will be some proposals on which bank officers will not have 'perfect' information. These, for example, include new and technology-based propositions for which market intelligence will be limited and asymmetric information is more acute. At an early stage, information is limited and not always transparent (Hall *et al.*, 2000; Schmid, 2001) and assets are often knowledge based exclusively associated with the founding entrepreneur (Hsu, 2004). Especially with manufacturing or technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit (Shane and Cable, 2002). In addition, there may be asymmetries arising from location as well as sector. For example, owners of SMEs in rural environments may face difficulties with access to bank finance (OECD, 2008).

2.1.3 Reputational effects

Reputational effects apply theoretically where SMEs owners are prevented by their own or others experiences from applying for finance. This provides a discouraged borrower effect (Kon and Storey, 2003; Fraser, 2005). That is, some small business owners may not access finance because at some stage they are discouraged from applying. For example, ethnic minority or women owners, who may be discouraged by perceived bureaucracy or financial requirements or are discouraged by a first refusal (Deakins, *et al.*, 2005). Entrepreneurs may not seek finance if there are perceived issues. This could be either that they think they will be unsuccessful so there is little point in applying or a perception that they will not have the information and good credit history that it is perceived that banks require.

It may occur where entrepreneurs from certain groups distrust bankers, as for example can occur with ethnic minority entrepreneurs since they may perceive institutional bias in banking institutions. Other work has suggested that women seeking to start-up businesses may also form a category of discouraged borrowers (Roper and Scott, 2007). It has been suggested that banks with extensive and close relationships with some small firm communities may be able to overcome these adverse effects (Watanabe, 2005).

2.1.4 Demand and Supply determination on SMEs Credit

Oketch *et al.*, (1995) conducted a study on 16 financial institutions to determine the demand and supply of credit to the SMEs sector. The study revealed that the demand and supply for credit have been on the increase since 1991. It also revealed that the demand has only been met by 16% of what is required. The study further revealed that although financial institutions lend to prime borrowers with collateral security, there is need for these institutions to increase their lending to SMEs. Commercial banks plays several functions including providing long term loans for acquiring productive industrial assets by mobilizing savings for investment and channeling savings to more productive activities. Another key function is devising different types of securities with different maturity period that are acceptable to the borrowers of loan able funds for purchasing securities and secondly, to the lenders of such funds. Commercial banking and development finance in institutions are an indispensable institution for a country whose government is bent on indigenizing its economic base.

2.1.5 Business start-up challenges

There are many constraints that hinder new business start-ups. Empirical studies according to (Kibera and Kibera, 1997) have identified the factors that are generally agreed on as the constraints to the growth of SMEs. The factors according to Garikai (2011) include lack of market opportunity, access to finance, enabling environment, market information, and managerial skills. Other key challenges faced by SMEs include increase in raw material prices, rising overhead costs and cash flow problems. Jun and LIjun (2007) identified the factors affecting enterprise growth to be: strategic thinking of entrepreneurs, employment level of entrepreneurs, social responsibility of entrepreneurs, scale of capital, level of profit, corporate culture and entrepreneurial decision-making mode. Some studies have also shown high interest rates as the main hurdle facing SMEs but this still needs further investigation since not all SMEs rely on credit.

Other literature suggests that other challenges are related to illiteracy and lack of management skills, financial constraints, poor marketing and sales efforts, technology and lack of policies and laws to regulate SMEs sector as factors hindering growth of the SMEs sector (Garikai, 2011).

According a World Bank study (2009), there are many SMEs in Kenya which, despite their high potential, have been unable to access financing from existing institutions in the financial sector. Such situations may be due to the inability of the SME to offer sufficient loan collateral or to operational issues within the SMEs requiring more hands-on assistance than commercial banks and leasing companies, for example, are normally able to provide.

Over the past two decades, Kenya has emphasized micro and small-scale enterprises in its development agenda. This is important since many Kenyans lack formal employment. They therefore depend on informal employment in SMEs. SMEs also create job opportunities, promote national productivity, provide materials and components to other industries, promote rural development, and reduce rural-urban migration and supply goods and services to customers at reasonable prices (GoK, 1994).

2.1.6 Influencing Capital – Risk Capital

The financing hurdle must be overcome in order to set up and stay in business. This can be overcome with access to risk capital (Omar, Arokiasamy and Ismail, 2009). Family-owned SMEs lack financial capital. Greater dependence upon external finance is associated with better business growth (Oketch *et al.*, 1995). SMEs have difficulty accessing the financial markets. This limitation on financial sources has a significant impact on the profitability of SMEs (Kongmanila and Kimbara, 2007).

Potential entrepreneurs with good business ideas end up not implementing them due to lack of capital. Many of them also lack collateral to enable them access credit from banks. Still others fear approaching banks for loans for fear of the consequences that may arise if the business fails and they are not able to repay the loans. This is due to the high level of uncertainty associated with businesses and the unpredictable nature of the current dynamic business environment. Lack of capital is also a big problem faced by existing SMEs (Hallberg, 2001).

2.1.7 SME's Development through Financing

SMEs can obtain loans from commercial banks, other financial institutions, or credit from suppliers for capital needs, that can enhance investment opportunities and the performance of SMEs (Gongera, 2011). Internal equity such as retained earnings is a more convenient source of corporate financing for SMEs. However with the current unemployment rates and high costs of living due to inflation, retained earnings may simply remain a dream since whatever one earns is used to buy basic needs/ physiological needs such as food, shelter and clothing as advocated by Maslow as illustrated in his book (Enos, 1992).

2.1.8 The Roles of Financial Institutions to SMEs

Banks are the most significant source of external finance to SMEs, and can exert considerable influence on them - most SMEs have a banking relationship.

When lending to SMEs, banks consider the quality of management and other risks, which can include environmental factors. Thus banks can explicitly factor in environmental considerations when deciding whether to extend funds, in conditions (e.g. covenants) they impose on lending and in the terms they offer.

Financial institutions are a major source of information for companies, particularly SMEs, and there is potential for financial institutions to act as a conduit of information in the environmental area. There are already a number a very promising initiative here.

There is scope for banks to develop financial products which contribute to the environment, e.g. energy efficiency loans or leasing of environmental technology. Most emerging tourism SMEs can face difficulty getting recognition from the financial markets, because they are new, the risks are unknown, the technology unfamiliar and the markets uncertain. The environmental business sector certainly faces these difficulties. By actively trying to understand the sector and the issues it faces, financial institutions can at least try to reduce some of the obstacles these emerging businesses face, although one cannot expect them to forgo normal financial judgment. Interestingly, while several banks are actively involved in areas such as renewable energy financing, often neither their environment nor their publicity departments seem to be aware of such activities.

2.1.9 Challenges faced by SMEs in Kenya

Research has shown that most small businesses discontinue within a few years of their start up. Of the businesses that continue, there is considerable variability in the rate of growth (Wijewardena and Tibbits, 1999). The causes of failure or success of SMEs vary from country to country, depending on economic, geographical, and cultural differences. This is because countries vary markedly in the way they regulate and provide an enabling environment for enterprises. In Kenya for example the Government has recently made efforts to support the sector.

2.2.0 Research Gaps

From the above literature, it is clear that small enterprise sector is recognized as having potential to enhance job creation through establishment of industries and initiation of commercial enterprises (GOK, 2004). It is also clear that much has been done to promote programmes aimed at improving the Kenyan economy through promotion of SMES (GOK, 1989).

Further to improving Kenyan economy, various studies show that lack of credit is not always the main constraint for micro enterprise growth and development, and that SME's require a wide range of financial, business development, social services for different business and household purpose. Financial flexibility is significantly correlated to business success.

3.0 Research Methodology

3.1 Research Design

Descriptive research design was used since this study sought to provide further insights into the research problem. A cross sectional survey was used to collect data from the sample selected from the population. Target population was over 1 000 SMEs operating in Mombasa Town and the environs. Stratified sample procedure was used for the preliminary sampling of the SMEs. Most of the variables identified under this study are both categorical and proportionate. Therefore, the researcher employed Cochran's (1977) formula for categorical variable with precision level of 0.05 as shown below:

$$n_0 = \frac{(z)^2 * (p) (q)}{(d)^2}$$

$$n_0 = \frac{(1.96)^2 (.5) (.5)}{(.05)^2} = 384$$

Where z= value from table which contains the area under the normal curve = 1.96.

(The alpha level of .05 indicates the level of risk the researcher took effect that true margin of error may exceed the acceptable margin of error).

Where (p) (q) = estimate of variance = .25.

Therefore, for a population of >1 000 SMEs the required sample size is 384. However, since this sample size exceeds 5% of the population (5%*1,000=50), the researcher employed Cochran's correction formula to identify minimum sample size required as follows:

$$n_1 = \frac{n_0}{(1 + n_0 / \text{Population})} \quad (384)$$

$$n_1 = \frac{384}{(1 + 384/1000)} = >277$$

Where population size = >1,000

Where n_0 = required return sample size according to Cochran's formula = 384

Where n_1 = required return sample size because sample > 5% of population

Since the study population is limited to SMEs in Mombasa County, the researcher anticipated a minimum response rate of 65%. Hence, leading to an optimal sample size of $n = >277 * 0.65 = >180$

3.2 Data Processing and Analysis

Quantitative data from the questionnaires was coded and entered into a suitable statistical package (SPSS) and later analyzed. Data was analysed using inferential statistics, whereby ANOVA analysis helped in determining the significant effects of development of SMEs whereas correlation analysis established the nature of relationship between Financing of SMEs and development of SMEs and Logistic regression was used to analyze contribution of factors which affects SMEs performance.

4.0 Data Analysis and Interpretation

4.1 Introduction

This section presents data related to the respondent and business characteristics which assisted in getting a clear picture of the SMEs sector in Mombasa County. The section begins by presenting the performance of bank financing and its attributes. The patterns of findings were presented and discussed, while relating to the existing literature and the critical analysis of financing on performance, and development of SMEs in Mombasa County were also discussed. The data was then analyzed using the SPSS and other information was interpreted using a Likert -Scale, where the mean, variance and standard deviation were used in data presentation.

1 Performance of Bank Financing

Table1. Statistical Performance of Different Attributes to Bank Financing

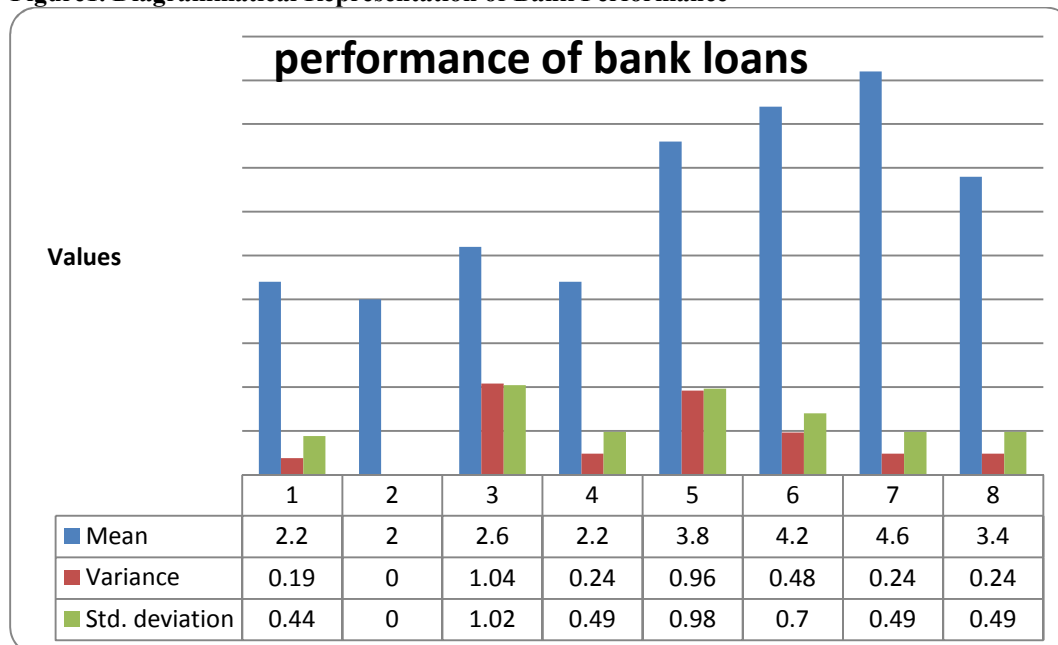
	1 Stat.	2 Stat.	3 Stat.	4 Stat.	5 Stat.	Mean	Variance	Std. deviation
Amount granted	1.44	1.44	.64	.64	.64	2.2	.19	.44
Processing time	0	1	0	0	1	2	0	0
Interest rates	1.96	.36	.16	.36	.36	2.6	1.04	1.02
Service fees	.04	.64	.64	.04	1.44	2.2	.24	.49
Guarantees required	1.44	.64	1.44	.64	.64	3.8	.96	.98
Support to the SME's	.04	.04	.04	.64	.04	4.2	.48	.70
Terms of contracts	.36	.36	.16	.16	.16	4.6	.24	.49
Overall	.36	.06	.16	.16	.16	3.4	.24	.49

Source: Researcher, 2013

The statistical presentation as illustrated in table 1 indicate the biggest attribute on bank financing towards customer satisfaction with regard to standard deviation include; interest rates, guarantees required by the banks, support to the SMEs by banks and the least attribute being processing time. Processing time according to the respondents was not a significant factor in their satisfaction levels.

Those factors that influence bank loan accessibility according to this research include; favourable interest rates and collaterals required. To increase the foresaid loan accessibility, bank managers ought to review the above attributes and although processing time is not a major factor, it should be put into consideration.

Figure1. Diagrammatical Representation of Bank Performance



Source: Researcher, 2013

In determining the performance and satisfaction levels towards their bank finances on different attributes measured on a scale of 1 - 5, the study used frequencies and percentages out of which mean scores, variances and standard deviations were obtained to be used as measure of extent, figure 1 and table 1 above.

$$x = \text{mean} = \frac{\sum x}{n}$$

Standard deviation is a measure of spread- out numbers. It is the square root of the variance. Variance is the average of the squared differences from the mean. Standard deviation is defined as:-

$$S = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

The following linear equation was developed in order to test the relationship between the different attributes on bank financing.

$$Y = 4.95 + 0.01X$$

Where Y is the success level of business considering the level bank financing, there is a positive relationship between the success level and the financing levels, especially bank financing. When financing increases by one unit, success level increases by 4.95 units. When the entrepreneur has no formal financing the business success level is at 0.01.

2. Performance of Family Financing

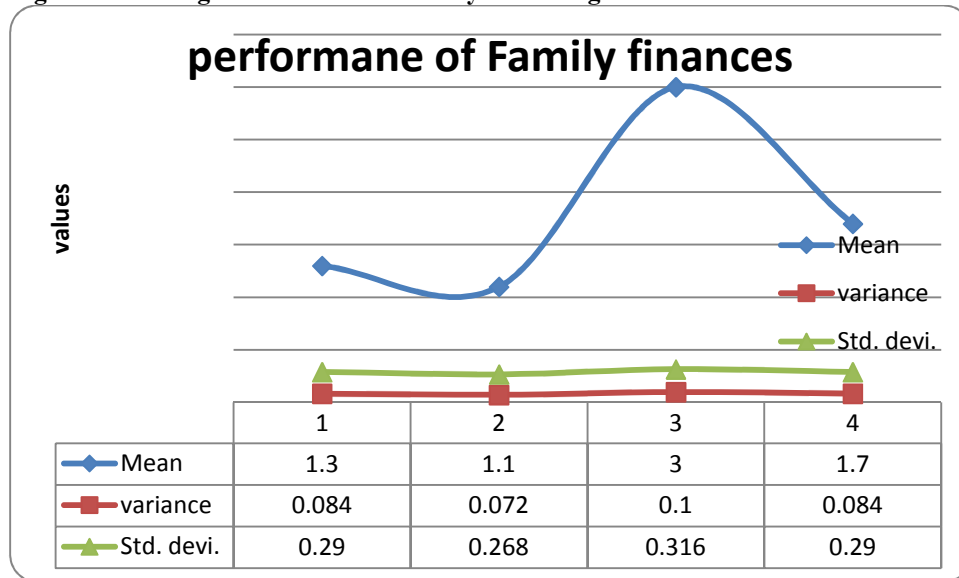
Table2. Statistical Representation of Family Financing

	1	2	3	4	5	6	7	8	9	10	Mean	Variance	Std. devi.
	Stat.	Stat.	Stat.	Stat.	Stat.	Stat.	Stat.	Stat.	Stat.	Stat.			
Family involvement	.09	.09	.09	.49	.09	.49	.09	.09	.49	.09	1.3	.084	.29
alternative finance	.01	.01	.81	.01	.01	.01	.01	.01	.01	.01	1.1	.072	.268
R/ship with family	1	1	1	0	0	1	0	1	0	1	3.0	.1	.316
Overall	.49	.49	.09	.09	.09	.09	.49	.09	.09	.09	1.7	.084	.29

Source: Researcher, 2013

The attributes above ranging from 1-5 represent the level of satisfaction as a result of family/relative financing. From the sampled respondents, the highest attribute with the highest dissatisfaction rate at 0.316 was the relationship with the family member/relative. This shows a disconnect rate in family ties, the least attribute is alternative finance from other institutions according to table 2 above. In overall, comparison between bank financing (Table 1) and family financing (Table 2), shows that most SMEs entrepreneurs would prefer the use of bank financing at 0.49 than the use of family financing at 0.29

Figure2. Showing Performance of Family Financing



Source: Researcher, 2013

The following linear equation was developed in order to test the relationship between the different attributes on family financing; this can be deduced from table 2 and figure 2 above.

$$Y = 6.88 + 0.062X$$

Where Y the dependent variable is the business success level and the independent variable X represents domestic roles. There is a positive relationship between the business success level and domestic roles. If domestic roles increase by 1 unit the business success level will decline by 0.062 units.

Working capital is the most common constraint identified by entrepreneurs of existing SMEs. To access working capital, SMEs often borrow from informal financial sources such as family or friends, supplier or local moneylenders. Usually moneylenders charge relatively high interest rates and may not offer loans products or terms suited to the borrower (Dondo, 1999).

4.2 Cooperatives/Sacco and NGO Financing

Cooperatives/ Sacco's and NGO tie with each signifying a six percentage in the respondent level, Table 3.4 above. Some of the reasons for a significant financing from NGO's and Sacco's in Mombasa can be attributed by some of the following factors cited by respondents; availability of NGO's at the coastal town, high incentives from NGO's, low interest rates, assistance from the NGO's, government assistance. Further investigation revealed that half of the enterprises had affiliations from outside the town; while 19 percent were financed as a result of family involvement in the NGO's and or Sacco's

3. Sacco's, NGO's and Cooperatives Performance

Table3. Showing Statistical Representation of Sacco's, NGO and Cooperatives Financing

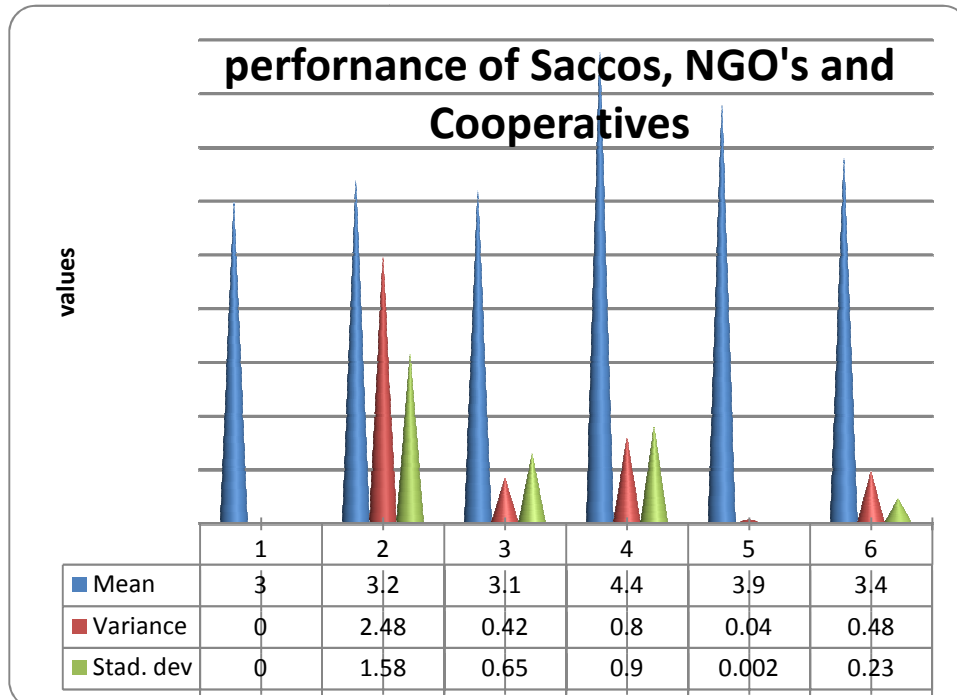
	1 stat	2 stat	3 stat	4 stat	5 stat	6 stat	7 stat	8 stat	9 stat	10 stat	Mean	Variance	Std. dev
Application process	0	1	1	0	1	0	0	1	1	1	3.0	0	0
Accessibility of services	.04	.04	.64	.04	4.84	.64	.04	.64	.64	.04	3.2	2.48	1.58
Simplicity of application	1.21	.81	1.21	.81	.01	1.21	.81	.01	.81	.01	3.1	.42	.65
Approval time	.36	.36	1.96	.16	.36	.16	.36	.16	.16	.36	4.4	.8	.90
Amount received	.01	.81	1.21	.8	.01	1.21	.01	.81	.01	.01	3.9	.04	.002
Overall	.16	.36	.16	.16	.36	.16	.36	.10	.36	.16	3.4	.48	.23

Source: Researcher, 2012

The overall goal of this research question was to probe further on other financing institutions at Mombasa County except the commonly sourced methods by most SMEs that is bank financing. Other sources of finance according to the respondents included Sacco's, NGOs and cooperatives. To check on the satisfaction levels 5 questions were asked against 6 attributes. Most of the respondents were not satisfied with the accessibility of

services, and among the least attributes towards respondents satisfaction levels included amount received and application process (Table 3.7). Overall comparison between bank financing, family financing and financing from NGO's and Sacco's shows that entrepreneurs would still choose bank financing at .49 as compared to family financing at .29 and financing from NGO's and Sacco's at .23 (Table 1, 2 and 3 respectively). Success levels (performance) are still high with financing from NGO's and Sacco's due to their involvement with SMEs.

Figure3 Performance of NGOs, Saccos, and Cooperatives



Source: Researcher, 2013

The following linear equation was developed in order to test the relationship between the different attributes on Sacco's, NGO's and cooperatives financing, in reference to table 1 and figure 1.

$$Y = 20.83 + 0.09 X$$

Where Y the dependent variable is the success level of the business and X is the independent variable if the respondent had borrowed a loan. Therefore when loan application process increase by one unit the business success level increase by 20.83 units and when the entrepreneurs' loans are not available the business success level is equal to 0.09.

Dondo (1999) notes in an occasional paper on the status of micro-finance in Kenya that in the past six years there has been a proliferation of NGO programmes to promote micro finance development. The organizations range from small charitable units operating in a limited geographical area to large institutions, covering vast tracts of the country and carrying out a variety of development. The organizations range from small charitable units operating in a limited geographical area to large institutions, covering vast tracts of the country and carrying out a variety of development and welfare activities. Increasingly, organizations have emerged whose sole objective is providing financial services to MSEs; for example, K-REP, Kenya Women Finance Trust (KWFT) and Faulu Kenya. Three Welfare organizations have recently spanned off their microfinance activities for instance CARE, NCKK, and plan International. The paper indicates that SMEs Sector is a very important organ of development in Kenya but it is still evident that there is a gap in literature for reference by policy makers on the constraints the entrepreneurs face after acquiring FI's loans.

5.0 Conclusion, Recommendations and Further Researches

5.1 Summary

Through this research, it was observed that generally Mombasa County has a weak enterprise finance information system that could not support, in particular, the information needs of SMEs. The findings revealed that general knowledge and awareness of financing options available to SMEs in Mombasa County are weak. This can be attributed to lack of understanding and awareness of what is available, due to fragmented financial information, lack of targeted awareness and/or educational schemes with a view to raising the profile of finance issues among the SMEs. Empirical evidence from this study suggests that SMEs operators need information on

available bank loans, sources of business finance, SMEs loan schemes, information on venture capital and other types of finances.

5.2 Conclusion

This research focused on SMEs awareness of alternative sources of finance, sources of information on financing sources, easiness to access finance, methods used to access information on sources of finance and information needs in Mombasa County and further looking on improving SMEs access to finance through other innovative mechanisms.

To achieve this several dependent variables were used to identify the implications on socio-cultural, educational and legal barriers to success of SMEs as well as to determine SMEs access to economic opportunities and formal inputs on finance. In order to achieve these objectives, the factors influencing success level of SMEs were first listed from literature and investigated with a view of determining the extent of their effects in inhibiting success of SMEs own enterprises after information on FI's loans.

The findings of the study reveal that the success level of SMEs is sensitive to all the factors investigated. However, some determinants like information asymmetries and reputation effects are more influential than others. The following paragraphs summarize these findings.

From the study it can be concluded that most businesses in Mombasa County are individual owned and that most are not registered due to their small size, fear of attracting more taxes once they are registered and lack of benefits in registering the business. Failure to register was also attributed to a very lengthy and time consuming registration process, thus limiting financing opportunities with FI's.

Most businesses were found to have operated for less than 5 years and to most the performance was not good due to poor economic conditions, high operating prices, high inflation rate and frequent increases in prices of basic commodities but their existence (SMEs) is as a result of very good and reliable customers. Year of business existence dictates the level of borrowing from FI's.

The challenges they face include lack of information on finance/ capital to expand the businesses, taxation, unfriendly laws, lack of insurance, increased fuel prices and political instability. Availability of loans equally was crucial factor constraining success of SME's, especially women. Among those who had borrowed a loan, 74 percent says it was adequate and further analysis by gender shows that two thirds of the males received adequate loans compared to 49 percent of females. Provision of government incentives loans to women SMEs will go a long way in ensuring success of business. The findings also reveal that two thirds of all respondents are willing to take another loan in order to enlarge business and due to inadequate savings and therefore the need for such loans. Based on the findings, bank loans as sources of start-up capital contributed to only 6 percent of the SME's interviewed compared to 70 percent contributed by own savings indicating the need for more loans.

5.3 Recommendations

SMEs in Mombasa, Kenya, Africa and globally experience problems of under capitalization due to difficulty accessing credits from banks and other financial markets (Garikai, 2011; Ariyo, 2008). The Kenyan government has recently shown great determination to formulate tangible and lasting policies and/or programmes to support the SME sector as portrayed in the government blue print of vision 2030 and the underlying government stimulus programmes.

The need to provide information on alternative loans to SMEs is clearly evident from the findings as most FI's charge them high interest rates making loan repayment difficult. The government should ensure that such FI's are observed closely to avoid exploitation by providing alternative interest loans or at low interest to SMEs.

The researcher recommends the following measures directed to the government and private entities such as NGO's and individuals; aimed at encouraging growth of the SMEs sector.

5.3.1 Support from the Government

The government should make strategic policy decision to provide both technical and financial assistance to the SMEs sector. The government must have SMEs policy at the top of its agenda. It has to put concrete steps in place to ensure that SMEs are able to grow and prosper. Government policies to encourage the growth of SMEs should include: simplify registration and other legal processes, provide information on SMEs financing, help create SMEs linkages with larger companies and implement favorable tax and trade policies (Garikai, 2011). Governments should also provide an enabling environment for private sector development and creating a level-playing field that will allow SMEs to compete with the large organizations on an equal basis. To prosper, SMEs need a conducive business environment and regulations, adequate basic infrastructure services, access to short and long-term funding at reasonable rates, equity and venture capital, advisory assistance, and knowledge about market opportunities. This can be achieved by removing constraints; further recommendations can be derived from government – private partnerships, they are discussed below.

The government can formulate policies favorable towards women to enhance them compete with men fairly in the field of business. Men have the advantage of collateral against women; the government through the ministry of finance can offer loans to groups of women. Provision of such government incentives loans to women SMEs

will go a long way in ensuring success of their business.

Awareness should also be created by the government to enhance provision of information to the youth, youth make majority of SMEs owners. They tend to be risk takers and are vigorous in starting small and medium businesses thus offering employment.

The government should also offer financial training to groups engaged in SMEs thus enhancing their chances of survival.

Interest rates should be kept on check together with taxes. They are the highest rated challenges by SMEs in Mombasa County. Further the government should support; private and public partnerships to initiate and encouraged development at the lowest SMEs levels. This recommendation is further discussed in details below;

5.3.2 Public-Private Partnerships

Sustainable SMEs development will require concerted efforts among the various parties concerned including commercial and rural banks, leasing companies and equity providers, NGOs, international agencies, consulting and training firms, Internet providers, as well as local business associations. This will enable the various groups to complement each other for the success of the sector.

5.4 Suggestions for Further Research

Access to finance is the second most pressing problem facing SMEs, after finding customers. It is cited by around one in seven business managers (alongside competition) that it is the most pressing problem. This research focused on this research focused on SMEs awareness of alternative sources of finance, sources of information on financing sources, easiness to access finance, methods used to access information on sources of finance and information needs in Mombasa County.

Further research on this aspect on the social aspect on financing towards SMEs development in Mombasa County is recommended in order to determine the factors (age, marital status, gender, among other factors) of startup SMEs that drive them to survive beyond their third birthday. A replication of this study could be carried out in the service-based incubators. Such a study would be important in highlighting the competitive factors that startup SMEs need to consider in order to improve their growth, success, development and survival tactics according to Roper and Scott (2007).

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