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GEORGE OYUGI ONYIEGO, PROF.G. S. NAMUSONGE, DR ESTHER WAIGANJO PHD

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 4, Iss. 3 (25), pp 335 - 346, Sept 8, 2017, www.strategicjournals.com, ©strategic Journals

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George Oyugi Onyiego[*1], Prof.G. S. Namusonge[2], Dr Esther Waiganjo PhD[3]

[*1]PhD Candidate, Jomo Kenyatta University of Agriculture and Technology, Kenya
[2]Full professor, EPD, Jomo Kenyatta University of Agriculture and Technology, Kenya
[3]Dean, Jomo Kenyatta University of Agriculture and Technology, Kenya

Accepted: August 25, 2017

ABSTRACT

The study examined the effect of access to finance on financial performance of SMEs in Mombasa hotel industry in Kenya. The study sought to understand the effect of access to finance in the hotel sector in Mombasa County and environs. The study adopted a mixed research design using both descriptive and quantitative approaches with the aim of establishing the relationship between access to finance and financial performance of SMEs. The target population was 1881 with a sample size of 320. Secondary and primary data was used. Questionnaires were employed in the collection of primary data. SPSS Version 20 was used to generate reports. Tools and instrument used included ANOVA, Regression analysis, correlation coefficient and chi- square. The regression coefficient positive and significant t=2.954, beta 0,191 p- value -0.003. The hypothesis for the study was that access to finance has no significant effect on financial performance of SMEs in the also performed there hotel industry in Kenya. The study findings based on p- value 0.003 which is lower than 0.05 implied rejection the null hypothesis which states that access to finance has on significant effect on financial performance of SMEs in Mombasa County in Kenya. Further chi-square was performed with p-value of 0.000 indicating rejection the null hypothesis and accepted the alternative analysis.

Key Terms: *Access to Finance, Financial Performance, SMEs, Profitability, Liquidity*

INTRODUCTION

Globally SME sector has been reporting difficulties in access to finance. (Bebezuk ,2004, Slotty, 2009, Balling et al, 2009, Irwing &Scott,2010, Yongqian et al 2012). Access to external finance to SMEs has become more costly and troublesome while their accessibility has sharply declined. SMEs financial constraints limit their investment opportunity and stagnant growth. Access to finance is widely perceived to an essential factor for firms, and especially SMEs to maintain their daily business operation as well as to achieve long term investment opportunities and development targets .Presence of general limitations on access to capital markets, many east African firms heavily rely on the banking sector for credit. Therefore a well-functioning banking sector plays an important role in channeling resources to the best firms and investment ventures. Financing constraint crucially limit firms growth, availability of productive resources resulting to sluggish of a sector which might pose threat to the sectors contribution to the economy.

Access to finance is defined as availability of financial services in the forms of demand deposits, credit, payments, or insurance (Beck&Honohan, 2007, Donovan, 2012, Aduda &Kalunda, 2012,Anold &Jonhson,2012,Massa,2013).The availability of such services can be constrained by physical access, affordability and eligibility. Barriers such as high transaction cost, distance and minimum balance requirements can exclude individuals and firms access to credit matters to SMEs. In particular, access to credit is associated with positive growth, (2012, Ouma & Ramo,2013).

Access to finance refers to the possibility that individuals or enterprises access financial services including credit, insurance services and other risk management (Beck and Demurguc 2006). It is the ability of affirm to get and use financial services that are affordable, usable and meet their financial needs (Claessen, 2006). Access has four key dimensions physical access, affordability, appropriate features that meet the users' particular needs and appropriate terms that do not effectively exclude any category of potential users. Access to finance services implies an absence to the use of these services, whether that the obstacles are price or non-price barriers to finance (Demirguc- Kunt et al,2008).

Accessibility to finance is a need to all businesses. Lack of access to finance has been identified as one of the major constraints to small business growth, (Carpenter et al, 2002). Businesses use capital to acquire all resources. Accessibility of capital enables the start and running of business, and lack of it may lead to business failure. Factors related to initial working capital and credit accessibility are the most critical issues in SMEs growth and development. With insufficient financial flows into the business, many businesses cannot grow because they cannot get capital, they cannot buy raw materials and pay workers. Respondents to the Fin scope small business survey (Fin 2010), when asked to identify the single most significant obstacles to growth, access to finance ranked third with 8.7% of small business owners citing the lack of access to finance as reason. Business financing is very important factor in growth and performance of business, shepherd et al (2007) noted that one of the new ventures and especially, the small business obtaining financing.

In Kenya issues of constraint and uneven access have not faded away particularly in rural areas despite recent innovations in credit markets (Aduda & Kalunda, 2012). For example Atieno, (2001) observes that commercial banks and other formal institutions often fail to cater for small borrowers because of their strict lending policies and conditions. She also observes that 33% of borrowers in Kenya ranked credit constraints as among their problems and that 68% of capital from informal sources. Lack of adequate financial resources places a significant constraint on SME development. Cook and Nixson (2005) observe that, notwithstanding the recognition of the role of SMEs in development process in many developing countries, SMEs development is always constrained by the limited availability of sources to meet a variety of operational and investment needs.

Statement of the problem

The study investigated the effect of access to finance on financial performance of SMEs in Mombasa county and environs. There are many constraints that have led to some SMEs, collapse, some selling off their assets, some being acquired by others. Lack of access to financial services is one of the maim problem facing SMEs in Kenya. The difficulties that SMEs encounter when trying to access finance can be due to a greater range of reasons that firms characteristics financial characteristics and entrepreneurs skills and experience. Other may be due to inadequate financial problems and services, regulatory rigidity or gaps in the legal frame work, lack of information on both bank and SMEs side. Banks may avoid providing financing to certain types of SME, in particular, starting up and very young that typically lack sufficient collateral of firms whose activities offer the possibilities of high return, but at a substantial risk or loss (Beck et al, 2008). Due to the level of risk involved in lending money to SMEs, interest rates for loans from banks are high, most financial institutions are reluctant to offer loans to SMEs (Ramedy, 2010).It is therefore necessary to conduct a study and investigate the effect of access to finance on financial performance in Kenya. This study therefore seeks to bridge this gap by investigating the effect of access to finance on financial performance of SMEs in Kenya.

Research objective

The objective of the study was to investigate the effect of access to finance on financial performance in Mombasa County and environs

LITERATURE REVIEW

Theories of access to finance

The pecking order theory

The theoretical basis for research on the SMES finance originates from the corporate finance theory. The pecking order theory of financing hypothesis, the issue of information asymmetries whereby only firm manager is aware of the true value of the firm and the fact that the market is un aware of the true distribution of the firms income. Because investors assume that managers will only issue stock when they believe it to be overvalued, this implies that a new issue of stock will be taken as a bad signal, by the markets thus triggering a reduction in the share price. Myers (1984) extends this theory and states that firms will meet investment and financing requirement of the firm in a hierarchical fashion, preferring internal funds first, external debt next and external equity as a last resort. Literature provides a number of demand-side and supply-side reasons as to why firms prefer, internal sources of funding over external sources and Debt over equity. Stilitzand Weiss (1981) argues that supply side constraint exist when SMEs cannot obtain the debt financing they require at market interest rates, resulting in undercapitalization. This is viewed as an under investment problem, where equity clears the market. Demand-side explanation as presented by Bolton (1971) and Lecornu *et al* (1996) are based on the well-established fact that SMES owners are extremely reluctant to relinquish control of their business e.g. SMEs owners will try to meet their financing needs from pecking order of first their own' money, personal saving and retained earnings, second short term borrowing, third longer term debt and preferred of all (Ciaran macan

&Lucey, 2006). Studies on small business finance have frequently suggested the problem of scarcity of funds (Peer and Wilson, 1996, Laitinen, 1992). It is also observed that limited access to capital markets (Gopinath, 1995) appear to confine the finance of small business to internally generated funds. However there is a limit to which internally generated funds can contribute to the growth of the SMEs which bring to the fore the need for alternative source of capital for development of these enterprises.

Finance growth theory

Berger and Udell (1998) propose a financial growth theory for small business where the financial needs and financial options change as the business grows, becomes more experienced and less information ally opaque. They further suggest that firms lie on a size, age, information continuum where the smaller, younger, more opaque firms lie near the left end of the continuum indicating that they must rely on initial insider finance trade credit and or angel finance. The growth cycle model predicts that a firm grows; it will gain access to venture capital (VC) as stage of growth paradigm, as the firm becomes older, more experienced and more information- ally transparent, it will likely gain access to public equity (PE) or long term debt. Problems related to financing are dominant in the literature with small firms. There are numerous empirical studies, describing inadequate financing as the primary cause of MSMEs failure (Owilalah, 2007 et al). The capital structure of small firms differ significantly from large firms because small firms rely more on informal financial market which limits the type of financing they can receive. The small firms initially use of internal financing creates a unique situation in which capital structure decisions are made based on limited financing options. It is widely accepted that small firms have different optimal capital structures and are finance by various sources at different stages of their organizational lives (Berger and Udell, 1998). Researchers have found that certain attributes of small firms influence the type of funds available to finance the firms operations (Romano,et al.2001).

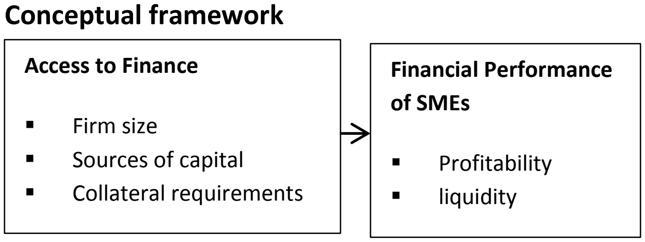
Table 1: Financial growth cycle; Model

Very small firms passively with no collateral and no track record	Medium sized firms. Some track records collateral available if necessary	Large firms of known risk and track record
Initial insider financing	Venture capital	Public equity
Angel	Medium term financial institutions	Long term financial institutions

Source: Beger and Udell (1998)

Angel financing is a type of micro finance where an individual or corporate organization raises limited amount of capital for a micro entrepreneur at start up or for expansion with less stringent conditions for repayment. The expected rate of return on investment is usually very low but high enough to offset risk.

Conceptual framework



Independent Variable Dependent variable

Figure 1: Conceptual framework

Literature Review

SMEs play a significant part in economic growth worldwide including African countries. Studies point out that in developed and developing economies SMEs contribute on average 60% of formal employment in the manufacturing sector (Ayyagari et al, 2007). An important aspect for SMEs sector development in access to finance particularly from financial institutions Le, Venkalesh and Nguyen (2006) pointed out that the achievement stage for any particular SMEs is to have adequate access extend some sources of finance. SMEs have become important players in the Kenyan economy, but at the same time they continue to face constraints that limit that development and financial performance. Lack of access to financial services is one of the main constraints and a number of factors have been identified to explain this problem. These include segment and incomplete nature of financial market, which increases transaction costs associated with financial services. On the supply side, most formal financial institutions consider SMEs un creditworthy, thus denying them credit. Lack of access to financial resources has been seen as one of the reasons for enterprises section in Kenya as most financial institutions view them as unstable and often place tighter lending requirements before advancing credit (Atieno,2009).

Credit constraint operates on a variety of ways in Kenya where undeveloped capital market forces SMEs to rely on self-financing or borrowing from friends or relatives. Lack of assets long-term credit for small enterprises forces them to rely on high cost term finance .These difficulties stem from the more formal lending institutions which led to rate all SMEs equally as uncredited worthy. However, the emergence of less formal institutions like MFLs and SACCOs do not ease this burden. These micro-credit institutions face limited expansion because of their limited funds. Their mainly short term finance means they cannot easily turn the saving they collect into medium or long term loans. They are also up against the cost of refinancing through the formal banking sector and have no central bank (Wanjohi, 2009).

Financial Performances

Financial performance is the process of measuring the results of a firm's policies and operations in monetary terms (Erasmus, 2008). It identifies the financial strengths and weakness of a firm by establishing relationships between the items of the financial position and income statement as noted by Erasmus (2008), profitability, return on equity and liquidity ratios among others provide valuable tools or measures to stakeholders to evaluate the past and current financial performance of a firm. Quarden (2004) argued financial performance analysis helps in short term forecasting and growth can be identified with the help of financial performance analysis. The analysis of financial analysis is a process of evaluating the relationship between the component parts of financial statements to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors illustrated by Chenn (2011), financial performance measures ratios such as assets utilization efficiency ratios, deposit mobilization, loan performance, liquidity ratio leverage /financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to evaluate the banks financial performance(Bekana,2011).

Financial performance is an indicator of how profitable accompany is relative to its total cost assets. It is measured by return on asset. RAO gives an idea as to how efficient management is at using its assets to generate earnings. The return on asset is company's net income divided by its average total assets; RAO is displayed as a percentage. Sometimes this is referred to as return on investment. The formula for return on asset is =

$$\frac{\text{Net income}}{\text{Total Average Asset}}$$

Return on asset formula looks at the ability of a company to utilize its assets to gain a net profit. Kiarie (2011) observed that net income in the numerator of the RAO formula can be found on an income statement and Average total assets to the denominator of the RAO formula is found on company's balance sheet. The average of total assets should be used based on the period being evaluated.

METHODOLOGY

This study adopted a cross section survey research design. The researcher used both qualitative and quantitative approaches with the aim of establishing the relationship between the determinants of financing on financial performance of SMEs in Mombasa County and environs in Kenya. The target population for the study comprised all licensed hotels, tours safaris and restaurant as registered by Tourism regulatory Authority in Mombasa County and environs in Kenya. According to Tourism regulatory Authority Mombasa office revealed that a total of 1881 hotels, tour safaris and restaurants were registered and licensed up 2016. This SMEs sub sector was chosen due to its growth potentially as compared with other sub sector in Mombasa and environs. Also SMEs contributes significantly to the economic and employment and creation of jobs. For the purpose of this research only licensed business and licensed financial institutions were used. From target population of 1881 a sample size of 320 was drawn including Directors, managers, accountants and credit officers who are directly involved in day today running of the business, and also able to fill the questionnaire. Both primary and secondary data was used for this study. Primary data was collected using questionnaires. A pilot study tested reliability and validity of questionnaires which was be conducted before the main study. Quantitative data analysis was executed through descriptive statistics such as means, standard deviation, percentages using package for social science version 20, ANOVA, Chi-square test, correlation coefficient and single regression analysis test of statistics hypothesis. A sample size of 320 respondents includes Director (owners), managers, accountants and credit officers of Hotels, tour safari and restaurants in Mombasa and environs in Kenya was selected.

FINDINGS AND DISCUSSIONS

Figure 2: Effect of access to finance on financial performance

Constructs	N	Mean	S.D
My business is financially stable and does not require financial assistance	257	4.15	.953
It was not easy to access loan without collateral at the first time when you started borrowing from financial institutions	257	2.95	.971
Financial assistance from financial institutions is an important element for performance and sustainability of your firm	257	3.53	.893
Firms size is an important influencer in accessing loans for your firms profitability	257	3.18	.934

Access of capital from financial institutions is a dominant problem affecting your firms Performance	257	3.05	.922
You access all kinds of credit you normally request from financial institutions for your business	257	3.33	.928
Financial constraint and loan size are sometimes a major obstacle of your firms profitability	257	3.03	.874
Collateral requirement is compulsory for loan accessibility for your firm	257	3.45	.814
Financial institutions consider SMEs small and therefore denying credit	257	3.55	.774
Ability of firms to access finance is associated with the size of the firm	257	3.64	.748
You source all your finance from financial institutions only	257	3.11	.946
Lack of collateral is an important issue in granting loans by financial institutions	257	3.53	.771
You are contented with the maximum amount of loan lent by financial institutions	257	3.44	.832

Figure 2 above, the researcher sought to investigate the effect of access to finance on the performance of SMEs. The respondents when asked to indicate the levels of agreements as depicted in the Likert scale of 1 to 5, where 1 was strongly disagree, disagree and strongly agree and agree, their responses were shown by the means and standard deviations shown in the above table. Majority indicated their business were financially stable and did not require financial assistance with mean score value of 4.15 being the highest and a standard deviation of 0.953, which less than one implying a moderate and significant varied response from the mean. On it was not easy to access loan without collaterals at the first time you started borrowing from financial institutions was shown with a slightly moderate mean value of 2.95 and with a less than one of the standard deviation of 0.971 which implied that there was a significant and moderate varied response from the mean. On whether financial assistance from financial institutions was an important element for performance and sustainability of your firm was shown by a moderate mean value of 3.53 and a standard deviation 0.893 which was significant and a less response than one from the mean. On whether firm size was an important influencer in accessing loans for your firms profitability was indicated by a moderate mean of 3.18 which was significant and a standard deviation of 0.934 showing a less than one varied response from the mean. On access to capital from financial institutions was a dominant problem affecting your firm's performance, was shown by a moderate mean score value of 3.05 which was significant and a less than one of standard deviation of 0,922 which revealed varied response by the respondents from the mean. On you access all kinds of credit you normally request from financial institutions indicated a significant moderate mean score value of 3.33 with a standard deviation of 0.928 which was less than one varied response from the mean. About financial constraint and loan size was sometimes a major obstacle of your firm's profitability with a significant and moderate mean score value of 3.03 and with a standard deviation of 0.874 showing a varied response from the mean. On collateral requirement was compulsory for loan accessibility for your firm with a moderate mean score value of 3.45 and a less than one standard deviation of 0.814 with a significant varied response from the mean by the respondents. This was consistent the study by (Kayunula &Quarley,2000, Muhammed et al 2010, Subhan et al 2013) that banks in many cases enforce several lending conditions in a loan contract before granting the loan to SMEs. Such conditions included obtaining personal commitments and adequate tangible assets as collateral, Typically , the value of the collateral was higher than the value of the granted loan and can be in case of payment default. On whether financial institutions considered SMEs small and therefore denying credit showed a moderate mean score value of 3.55 and a significant varied response of 0.744 standard deviation from the mean by respondents. On ability of their firm to access finance was associated with the size of the firm revealed a moderate mean score value of 3.64 and a standard deviation of 0.748 implying a significant varied response from the mean by the respondents. Whether their source all their finance from financial institutions only revealed a moderate mean score of 3.11 and a standard deviation of 0.945 implying a significant varied response from the mean by the respondents. On whether lack of collateral was an important issue in granting loans by financial institutions showed a significant and moderate mean score value of 3.53 and a varied standard deviation of 0.771 from the mean indicating a varied response from the mean by the respondents and, On whether they were contented with the maximum amount of loan lent by financial institutions revealed a moderate mean score value of 3.44 and a standard deviation of 0.832 indicating a varied response from the mean. The results showed a significant and positive mean which implied that access to finance had an effect on financial performance of SMEs. The standard deviation for the variables was low than one depicting a low varied response from the mean. This was in consistent with study by Fidrmuc et al (2009) about banks and SMEs in emerging market which established that there was a lot of uncertainty about risks involved in lending. Kumar and Jeyanth (2007) also agree with Fidrmuc that a good relationship between SMEs and MFLs helps them to easily access finances and information. Also some European banks, particularly those in Italy and Spain, charge a high interest rate for short term loans granted to small industrial companies (Bryant, 2013). From the results access to finance has a moderate effect on financial performance of SMEs.

Table 3: ANOVA on Access to Finance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regressin	1.519	1	1.519	28.441	.000[b]
	Residual	13.621	255	.053		

	Total	15.141	256

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Access Finance

The ANOVA was performed to test the effect of access to finance on financial performance of SMEs. The findings from the above table indicated that there was statistical significant in explaining the effect of access to finance on financial performance of SMEs in Mombasa County, since p=0.00 which less than 0.05

Table 4: Regression Coefficient results

Model	Unstandardized	Coefficients	Standardized	Coefficients	t	Sig.
	B	Std. Error	Beta	t	sig	
Access to finance	0 .201	0 .068	0 .191	2.954	.003	2.954

a. Dependable variable: Financial performance

Regression analysis was conducted to investigate the relationship between access to finance variables, which includes an error term, whereby a dependent variable is expressed as Y= 2.381 Xi 0.201 showed that one unit change in access to finance results 0.201 in increase in SMEs performance p value =0.003 rejecting the hypothesis

Table 5: Correlations Analysis

	CS	CC	ID	AF	FP
Pearson Correlation	1				
Sig. (2-tailed)					
N	257				
Pearson Correlation	.260**	1			
Sig. (2-tailed)	.000				
N	257	257			
Pearson Correlation	.106	.349**	1		
Sig. (2-tailed)	.091	.000			
N	257	257	257		
Pearson Correlation	.154*	.443**	.071	1	
Sig. (2-tailed)	.013	.000	.260		
N	257	257	257	257	
Pearson Correlation	.083	.355**	.039	.317**	1
Sig. (2-tailed)	.187	.000	.530	.000	
N	257	257	257	257	257

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The study conducted analysis of the Pearson's (r) correlation coefficient model between independent

Table 6: Chi-Square Tests for Access to finance

Cross tabulation	Value	df	Asymp.Sig. (2-sided)
Pearson Chi-Square	451.168[a]	342	.000
Likelihood Ratio	252.042	342	1.000
Linear-by-Linear Association	25.688	1	.000
N of Valid Cases	257		

a. 371 cells (97.6%) have expected count less than 5. The minimum expected count is .00.

Association between Access to finance was found by x2 (5,N =257) p < 0.000 and with a p value of (0. 000) less or equal than five percent (0.05). The study found that access to finance was dependent of the population and therefore there is statistical effect between access to finance and performance of SMEs. This study therefore rejects the Null hypothesis and accepts the alternative hypothesis.

Test hypothesis

$H0_4$ Access to finance has no significant effect on financial performance of SMEs in Kenya.

The study findings showed that access to finance had coefficients of a significant based on 0.201 p-value 0.003 which is lower than 0.05 implying that we reject the null hypothesis which states that access to finance has no significant effect on the performance of SMEs and accept the alternative hypothesis which states that access to finance has significant effect on financial performance of SMEs. This indicated that for each increase in access to finance there is 0.201 units increase in the performance of SMEs in tourism industry in Kenya. The effect of access to finance by t-test value was 2.954 which pointed out that the effect of access to capital is over 2 of the error associated by it. Further chi-square test was also performed with a p-value of 0.000 which is lower than the 0.05 implying that we reject the null hypothesis and accept the alternative hypothesis.

CONCLUSION AND RECOMMENDATIONS

The study discussed one of the most important issues of access to finance which is a particular problem for SMEs in Kenya and which affect many SMEs performance due to financial constraints .In summary it can be concluded that access to finance are influenced by firm size, collateral requirements and sources of capital. This is supported by studies of (Abor& Bieke, 2005, who found that majority did not apply for loans due to lack of awareness to inadequate and ineffective market communication adopted by financial providers. It was observed that there was a significant positive relationship between access to finance and financial performance of SMEs. It was also observed that credit boost the business; however the SMEs do not receive the same as requested since they lack collateral or security demanded by the banks.

Recommendations

Increasing importance of SMEs sector in Kenya and their economic contribution necessitates understanding the effect of access to finance on financial performance of SMEs in Mombasa County and environs. Based on the above conclusions the study recommends that accessibility can be improved through policies and programmes initiated by the government to address the problems of their finance accessibility. Government should also guarantee SMEs without collateral to access finance by providing channels that enable them access loans of low interest. Also institutions that support SMEs access financial services should be established to solve the problems of accessibility.

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