

**LEASING AS A MAJOR FINANCING TOOL IN SMALL AND MEDIUM
ENTERPRISES IN EMBU COUNTY**

PHILIP MAINA NGUGI

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ABSTRACT

It has been established that Small and Medium Enterprises (SMEs) make up the most crucial part of the economy. Sources of finances such as debts and equity capital, that are external to these SMEs, make up the major source of financing their activities. However, imperfections in the market in the form of uncertainty and asymmetrical information between the two sides of the economy, demand (entrepreneur) and supply (financial institutions), have been an impediment in the access of financial resources by SMEs. SMEs have to resort to leasing for financing especially in the case that they do not meet the collateral threshold required by the mainstream banks. Leasing has to be known and used by those SMEs. The objective of the study was to identify the effect of leasing as a major financing tool in Embu County. This study adopted descriptive research design. The target population was all of the 615 registered SMEs in Embu County. The sample size of the study was 100 SMEs in Embu County, selected by means of stratified and simple random sampling. Secondary data was collected for the firms from the annual financial reports. Primary data was gathered by use of questionnaires. Data collected will be both of quantitative and qualitative nature. Descriptive statistics were used in the measurement of quantitative data which was analyzed using the Statistical Package for Social Science (SPSS). Tables, measures of central tendencies, measures of variations and graphical presentations have been used to give a clear impression of the data collected for easy analysis and understanding. This study will be relevant to the policy maker, by exposing the ineffectiveness of the conventional sources of finance for small and medium enterprises. The study will also be relevant for individual SMEs, by increasing awareness of this device of financing; for investors and for researchers. Leasing is considered as a viable alternative scheme of financing and thus it can be put into proper use through formulation of supporting policies. This paper sheds light on leasing as an important SME finance tool, in consideration of market weaknesses for SME lending. It explains the rationale of SME leasing and gives up-to-date market information available for use.