Small-scale enterprises (SSEs) are important in raising the economic status of individuals and that the country as a whole since they are the breeding grounds for entrepreneurship, innovations and inventions. This in return creates employment thus yields income which in turn reduces poverty level of a country. In Kenya the SSEs have not grown to a satisfactory level often because credit is either lacking or inadequate. The Kenyan financial system has a dual structure. It is characterized by both formal and informal financial markets. The formal sector is supplier of credit and it makes up in part for lack of formal financial services. This raises the question whether the financial institutions will advance credit to SSE's. The main objective of the study was to investigate: the demand for external financing; the constraints faced in accessing formal credit and the awareness of financing from formal sources by SSE's in Machakos town, Kenya. The study also identified the sources of finance commonly used by the SSEs in Machakos town and how the different sources vary with the size of the enterprise. The study is intended is helpful to individual entrepreneurs, banks, micro-finance organization, and the government as well as other researchers. The study utilised stratified random sampling where a sample of 100 was drawn from the population. The different sectors of the small scale enterprises in Machakos town that is trade and service were used as stratum. Data was gathered using questionnaires. The data was analyzed with the help of statistical package for social sciences (SPSS). Descriptive and multiple regressions were used. Based on the survey findings data and descriptive statistics were provided as well as the conditions of the findings, recommendations. Survey results revealed that institutional credit to SSEs has not been substantially used despite a strong interest in debt financing. Interest rates, collateral requirement, cumbersome documentation and time involved were identified as factors constraining access to formal credit. Recommendations made are: the enactment of interest regulatory law; creation of a credit institution to provide information to SSEs and make the current stringent regulatory framework more flexible to allow use of collateral substitutes for securing loans.