

**EFFECT OF DEBT FINANCING ON FINANCIAL PERFORMANCE OF SMALL  
AND MEDIUM SIZE ENTERPRISES IN ELDORET TOWN (2010-2012)**

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## DECLARATION

This dissertation is my original work and has not been presented in any university or Institution of Higher Learning for award of any degree.

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## APPROVAL

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## **DEDICATION**

First and foremost, I dedicate this research project to my God whose grace and provision has been helpful. Secondly I dedicate this research project to my lovely husband Mr. Emmanuel Kaliakamur for his encouragement and support.

Thirdly I dedicate this research project to my guardian Mrs. Catherine Kamigoi, brothers and sisters and for their inspiration and encouragement.

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**ABSTRACT**

Small businesses are the engines for economic development both in developed as well as developing countries. Most of the existing studies on debt financing have focused on large scale firms using data from macro level while little attention has been paid to Small and Medium Enterprises at micro level (data from firm level). As such this study sought to investigate the effects of debt financing on the financial performance of small scale enterprises in Eldoret Town over the period 2010- 2012 using data from the firm level. This research was guided by the following objectives; to assess the effects of trade credit on financial performance of SMEs, to determine the effects of short-term loans on financial performance and to examine the effects of long-term loan on financial performance of SMEs. This study employed descriptive and explanatory research designs. The data was collected from a sample size of 50 SMEs, with audited financial statements for a period of three consecutive years. This research project employed purposive sampling methodology with use of quantitative secondary data acquired from audited firms in Eldoret Town. The data was analyzed using descriptive statics and regression analysis. This study found that trade credit positively influenced financial performance of SMEs, long term and short term debt ratios negatively affected financial performance of SMEs. The study recommends SMEs capacity building of areas of business management (including financial record keeping), formation of cooperative societies by SMEs where there will be a kind of risk pooling when applying for bank loans.

**Key words:** Debt Financing, Short Term Debt, Long Term Debt, Trade Credit, Financial Performance, SMEs

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## **LIST OF ABBREVIATIONS**

**GDP**- Gross Domestic Product

**KNBS**- Kenya National and Bureau Standards

**OLS**- Ordinary Least Squares

**R&D** – Research and Development

**SMES**- Small and Medium Enterprises

**ROE**- Return on Equity

**ROA**- Return on Asset

**PMR**- Profit Margin Ratio



