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Effect of Financing Decisions on Financial Performance of Small and Medium Enterprises in Nairobi City County, Kenya

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ABSTRACT: Small and medium enterprises play a role in contributing to the development of the economy through job creation, poverty eradication, wealth creation as well as the creation of new businesses. However, SMEs have significantly high incidences of illiquidity and lack of credit access. Over the last two decades, alternative sources of SME financing have emerged and include equity, short-term debt, long-term debt, and internal financing. Nonetheless, despite the availability of these sources of financing, SMEs in Kenya are still experiencing poor financial performance. This study, therefore, sought to investigate the influence of financing decisions on the financial performance of SMEs in Nairobi City County, Kenya. The study sought to determine the influence of equity financing, short-term debt, long-term debt, and internal financing on the financial performance of small and medium enterprises in Nairobi City County. The study sought to determine the moderating effect of firm characteristics on the relationship between financing decisions and the financial performance of small and medium enterprises in Nairobi City County. An explanatory research design was used in this study. The unit of analysis was the top 100 small and medium enterprises in Nairobi City County. Stratified random sampling was used in the selection of 80 SMEs from the target population. This study used secondary panel data, which was collected by the use of a data extraction tool. Analysis of quantitative data was done by the use of inferential and descriptive statistics with the help of statistical software known as Stata version 14. This was followed by inferential statistics which included multivariate regression analysis. The results were presented in figures (bar charts and pie charts) and tables. The study found that equity financing has a positive and significant influence on the financial performance of SMEs in Nairobi City County. The study also established that short-term debt has a positive and significant influence on the financial performance of SMEs in Nairobi City County. In addition, the study established that long-term debt has a positive and significant effect on the financial performance of SMEs in Nairobi City County. Also, the study revealed that internal financing has a positive and significant effect on the financial performance of SMEs in Nairobi City County. The study recommends that the management of small and medium enterprises should make use of equity financing whenever they want to explain their businesses and when they are financing different projects including product development and internal business process improvement. Also, the management of small and medium enterprises should obtain loans from banks, Sacco's, and microfinance institutions to finance their operations. Moreover, the study recommends that the SMEs in Nairobi City County should avoid obtaining short term loan since these loans have high interest which requires to be paid for a brief period of time and hence may negatively affect the financial performance of the SMES. The study recommends that the management of small and medium enterprises should seek to increase the total assets of their organization so as to enable them to obtain loans from financial institutions to grow their business and improve financial performance.

KEYWORDS: Financing decisions**,** Equity financing, Financial performance, Internal financing, Long-term debt

I. INTRODUCTION

Globally, Small, and medium enterprises (SMEs) play a significant role in economic development (Aminu & Shariff, 2015). SMEs, in most countries, are considered the backbone of economic growth since they are key catalysts of innovation, employment and entrepreneurial skills (Afrifa & Padachi, 2016). Therefore, a growing and healthy SME sector is considered crucial for economic development and sustainable competitive advantage at local, regional, and international levels. However, SMEs in various parts of the world are known for their poor financial performance and failure within the first five years after their establishment (Oladele, Oloowokere & Akinruwa, 2014). According to Suryadevara (2017), SMEs experience a challenge in their sales-based performance measures which include, productivity, profitability, sales revenue, market share and return on investment. According to Sharu and Guyo (2013), SMEs' survival rate is exceptionally low due to extreme challenges which have led to performance failure of up to 60 percent in the first three years of existence.

In an effort to maximize the profitability of their firms and improve financial performance, finance managers in different sectors have recommended the utilization of various financing decisions. The financing of private firms comes

from three main sources: internal funds, equity, and internal funds (Topal, Tunahan & Dizkirici, 2013). The pecking order theory indicates that a firm should prefer to finance its operations internally using retained earnings. If this source of financing is unavailable, they can finance their operations through debt. The last resort in financing the operations of a company should be issuing equity. Therefore, a firm can finance its operations with internal funds, debt, or equity. The utilization of fixed charged funds such as debt and preference capital along with the owner's equity in capital structure is described as leverage. Financial leverage takes the form of a loan or other borrowing (debt), the proceeds of which are (re)invested with the intent to earn a greater rate of return than the cost of interest.

II. GENERAL OBJECTIVE

The objective of the study was to investigate the effect of financing decisions on the financial performance of small and medium enterprises in Nairobi City County.

III. SPECIFIC OBJECTIVE

The specific objectives of the study were;

i. To determine the effect of equity financing on the financial performance of small and medium enterprises in Nairobi City County
ii. To assess the effect of short-term debt on the financial performance of small and medium enterprises in Nairobi City County
iii. To examine the effect of long-term debt on the financial performance of small and medium enterprises in Nairobi City County
iv. To establish the effect of internal financing on the financial performance of small and medium enterprises in Nairobi City County

IV. THEORETICAL PERSPECTIVES

The agency theory

Agency theory was propagated by Jensen and Meckling (1976). According to the theory, an agency is any relationship between two parties in which one, the agent, represents the other, the principal, in day-to-day transactions. The principal or principals have hired the agent to perform a service on their behalf. Principals delegate decision-making authority to agents. Since many decisions affecting the principal, financially, are made by the agent, differences of opinion, and even differences in priorities and interests can arise. Agency theory assumes that the interests of a principal and an agent are not always in alignment. This is sometimes referred to as the principal-agent problem. By definition, an agent is using the resources of a principal. The principal has entrusted money but has little or no day-to-day input. The agent is the decision-maker but is incurring little or no risk because any losses will be borne by the principal (Nasimi & Nasimi. 2018).

The Adverse Selection Theory

This theory was developed by Stieglitz and Weiss (1981). The theory holds that the rate of interest charged by financial entities has a certain role in sorting or determining potential borrowers (ensuring adverse selection) and influencing the action of borrowers (hence incentive impact). It is therefore assumed that the interest rate does not necessarily clear the market, but it influences the nature of the transaction. It is argued that both influences are due to imperfect financial information dominating the credit markets. The theory holds that most of the borrowers in financial institutions are cut out by formal lenders due to a lack of the needed collateral. This act enables only a few of the borrowers who are able to access credit facilities due to possession of the needed collateral. Nahamya *et al.* (2013) argues that most lenders prefer to evaluate the borrowers' credibility since it helps to determine the credit worth borrowers who won't fail to honour their repayments. Formal financial entities fail to extend credit facilities to SMEs since they are seen as too risky, and this is why most SMEs seek informal loans instead of formal sources.

Trade-off theory

The trade-off theory of capital structure is the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to Kraus and Litzenberge (1973) who considered a balance between the dead-weight costs of bankruptcy and the tax-saving benefits of debt. Often agency costs are also included in the balance. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity (Sharma & Bhardwaj, 2015). It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting).

V. EMPIRICAL REVIEW LITERATURE

Equity Financing and Financial Performance

Bile and Abdullah (2016) used primary data to explain the effects of equity financing on a firm's financial performance of commercial banks in Mogadishu Somalia. The study used primary data which was collected from finance managers in commercial banks in Somalia. Using a descriptive research design, the study found that equity finance significant effect on a firm's financial performance in commercial banks in Mogadishu Somalia. Equity eliminates the disadvantages of debt in that it does not divert capital from the business in order to pay down debt, and it also shares in the business risk along with the entrepreneur.

Among non-financial firms quoted at the Nairobi Securities Exchange, Muthoni and Muniu (2019) examined the effect of

equity financing on shareholder value creation. The study adopted positivism philosophy and explanatory research design. The study focused on 40 non-financial firms quoted at the Nairobi Securities Exchange. Secondary data was collected from NSE handbooks, CMA publications and annual financial statements. The results indicated that equity financing had a significant effect on shareholder value creation among non-financial firms quoted at the Nairobi Securities Exchange.

In a census of all firms listed at the Nairobi Securities Exchange, Koech, and Kimetto (2020) examined the influence of equity financing on the financial performance of firms. The study covered a period between 2008 and 2013 and used explanatory non-experimental research. The study used secondary data, which was obtained from the published annual reports and financial statements of the listed companies at the NSE. The results indicated that equity financing had a positive and significant effect on financial performance.

Using a descriptive research design, Mwende, Muturi and Njeru (2019) examined the relationship between equity finance and financial performance of small and medium enterprises in Kenya. The target population of the study was 291,449 licensed SMEs in the selected counties by operational wholesale and retail trade. The study secondary and primary data were useful to provide information in this study which was either quantitative or qualitative. The findings revealed that there is a statistically significant relationship between equity financing and the financial performance of small and medium enterprises in Kenya.

Utilizing panel econometric techniques, Achieng and Wanjare (2018) examined the relationship between equity financing options and financial performance of non-financial firms listed at the Nairobi Securities Exchange. The study covered 40 non-financial firms listed at the Nairobi Securities Exchange between 2009 and 2015. The results indicated that equity financing options had a significant effect on financial performance measured by the use of return on assets.

Njagi, Kimani and Kariuki (2017) conducted a study on the effect of equity financing on the financial performance of small and medium enterprises in Embu Town, Kenya. The study adopted a descriptive survey research design, and the target population of the study was 300 SMEs from which a sample size of 60 SMEs was drawn. From the findings, it was evident that equity finance had a positive relationship to the financial performance of SMEs. Equity offered a lifelong financing option with no or minimal cash outflow inform of interest. The study also noted that the performance of the SMEs was largely affected by the source of finance and the liquidity position of the business.

In a descriptive research design, Noor and Simiyu (2020) examined the effect of equity financing and the financial performance of small and medium enterprises in Garissa County, Kenya. The target population was 3097 small and medium Enterprises in Garissa County. Both primary and secondary data were used. The results indicated that equity financing significantly and positively affects the changes in financial performance.

Short-term Debt and Financial Performance

Baum, Schäfer, and Talavera (2016) examined the effects of short-term liabilities on the profitability of German and United States firms. Using a comparative research design, the study found that German firms that rely more heavily on short-term liabilities are likely to be more profitable. The link between liability maturity structure and profitability does not appear in the results from the US sample, which reflects the importance of institutional factors. The study concluded that short-term liabilities have a significant effect on the profitability of German and United States firms.

In an explanatory study, Prempeh, Nsiah and Sekyere (2016) examined the effect of debt policy on firms' performance among listed manufacturing companies on the Ghana Stock Exchange. The study used secondary panel data covering a period between 2009 and 2014. The results indicated that the debt structure of firms in Ghana was made up of 49% long-term debt and 37% short-term debt. The results indicated that short-term debt had a negative effect on firms' performance. The financial performance of firms was measured in terms of Tobin's Q Ratio, Gross Margin Profit and Return on Assets.

Aniefor and Onatuyeh (2019) conducted a study on the relationship between debt financing and corporate performance among listed consumer goods firms in Nigeria. Based on data gleaned from the audited annual reports of fifteen (15) consumer goods firms listed in the Nigerian Stock Exchange (NSE) for the period 2006 to 2017. The results of the panel regression technique revealed that short-term debt to asset ratios positively influence the performance of consumer goods firms in Nigeria. In reality, the amount of outstanding short-term debts is an important measure of a firm's financial health. Short-term debt is the best financing tool since it is perceived to be cheaper or less costly for firms.

In Uganda, Mugisha, Omagwa and Kilika (2020) examined the effect of short-term debt on the financial performance of small and medium scale enterprises in the Buganda region. The study adopted a descriptive cross-sectional research design to collect and analyze the data. Stratified random sampling technique was used to select SMEs while purposive sampling technique was used to select one key respondent from each of the sampled 453 SMEs in Uganda. Primary data was collected using a survey questionnaire. Data was analyzed using descriptive statistics and simple linear regression analysis. The findings indicated that short-term debt had a negative and significant effect on the financial performance of SMEs as measured by return on assets.

VI. RESEARCH METHODOLOGY

5.1 Introduction

This section presents the adopted procedures by the researcher for selecting the sample size, sampling them as well as

analyzing the sample sizes. The chapter constitutes research design, research site and rationale, target population, sample size and sampling technique, research instruments, data collection procedures, data analysis and presentation and ethical considerations.

5.2 Research Design

A research design is a framework for incorporating several parts of the research in a way that ensures that the study problem is effectively handled (Hair, 2011). Stokes and Wall (2017) argue that it is a blueprint for collecting, measuring, and analyzing data. An explanatory research design was adopted. This design shows that the research aims to explain the phenomenon under study rather than to describe it. The design is also known as the causal research design and is done with the aim of revealing the extent as well as the nature of the relationships (Sahu, 2013). Explanatory research is concerned with the analysis of the problem with the aim of revealing the sequence of the relationship between the dependent and the independent variables. In time of research, the research should be in a position of adapting to the new data that he or she recognizes as the study subject (Creswell, 2014). This study sought to establish the influence of financing decisions on the financial performance of SMEs in Nairobi City County.

5.3 Target Population

A target population is defined as a set of entities that contain observable attributes which are used for the generalization of the study finding (Russell, 2013). As indicated by Stokes and Wall (2017) it is a group of items or individuals possessing common attributes. The unit of analysis was 100 top SMEs in Nairobi City County published by the Ministry of Industrialization, Trade and Enterprise Development in the year 2019 (Ministry of Industrialization, Trade and Enterprise Development, 2019). The target population was all the 100 top SMEs in Kenya.

5.4 Sampling Frame

A sampling frame refers to the register, a list of records of elements or individuals from which a sample is obtained. According to Kothari (2012), a sampling frame is a register of all individuals in a population that can be included in a sample and may include institutions, households, or individuals. In any study, a sampling frame is required to enhance the identification of every person in a population and ensure that they have equal opportunities of being selected in the sample size. The sampling frame of this study was all the 100 top SMEs in Kenya.

5.5 Sample Size and Sampling Techniques

5.5.1 Sample Size

A sample is a portion of the group of interest taken for study to stand in place of the entire population of interest (Bhattacherjee, 2012). Sample size determines the used samples in an experiment. Slovin's Formula, as indicated by Ryan (2013), was used for the determination of the sample size. This research adopted the formula since it incorporates the size of the target group.

5.5.2 Data Collection Instruments

2 Sampling Procedures

A sampling technique is a process used to choose the sample of the study (Creswell, 2014). For this study, a stratified random sampling method was used to choose heads of finance departments from the target population. This method of sampling is characterized by strata that are based on the participants' traits and attributes. The study's strata were made up of the types of businesses that include supply and logistics, automobile, construction, health, hospitality, ICT, manufacturing, financial and others (agriculture, training, cleaning, and security)). The researcher took a random sample from each of the strata in line with the sample size compared to the total population. The samples from the strata were then combined to come up with a randomly chosen sample (Creswell, 2014). Stratified random sampling helps the researcher get a sample that is representative of the total population that is not biased, and no segment of the population is under or over-represented. To choose the number of employees from each category, proportionate sampling was used. This is a method that selects a random sample from every stratum that is in line with the stratum size and in relation to the total population size (Greener, 2008).

5.6 Data Analysis and Presentation

Panel data was generated by data obtained through a data collection checklist. Panel data refer to a multi-dimensional data concerning measurements over time. Moreover, panel data encompass observations of organizations (supermarkets) acquired over a specified time period (Wilson, 2014). This study covered a period of five years and also involved 9 large size supermarkets. The study used inferential as well as descriptive statistics to analyze data and STATA version 14 was used to carry out all statistical analysis. Descriptive statistics comprised of mean, frequency distribution, standard deviation, percentages, and trend analysis. Inferential statistics included correlation and also regression analysis. Results were given in figures (line graphs) and tables.

Multiple regression models were used in the present study to model the linear association between the dependent variable (Financial Performance) and independent variables (equity financing, short-term debt, long-term debt and retained earnings). The multiple regression analysis was used in the present research for several reasons: to determine the relationship between each element under investigation and determine the relationship between the dependent and independent variables (Bryman, 2013).

The Regression Model was as follows:

The regression model will be;

$$FP_{it} = \beta_0 + \beta_1 EF_{1it} + \beta_2 STD_{2it} + \beta_3 LTD_{3it} + \beta_4 IF_{4it} + \varepsilon_{it}$$

Where;

FP_{it} is dependent study variable (Financial performance (Return on Equity)),
B_0 symbolize Y intercept,
β_1- β_4 are coefficients of determination,
EF symbolizes Equity Financing (independent study variable),
STD symbolizes Short Term Debt (independent study variable),
LTD symbolize Long Term Debt,
IF symbolizes Internal Financing (independent variable),
ε = error term, *t* subscript symbolize time, while *i* subscript symbolize number of SMEs

The study used stepwise regression analysis to establish the moderating effect of firm characteristics (FC) on the relationship between the independent variable and the dependent variable. The statistical model used for analysis was as follows:

$$FP_{it} = \beta_0 + \beta_1 EF_{1it} + \beta_2 STD_{2it} + \beta_3 LTD_{3it} + \beta_4 IF_{4it} + \beta_3 FC_{5it} + \beta_1 EF_{1it} FC_{5it} + \beta_2 STD_{2it} FC_{5it} + \beta_3 LTD_{3it} FC_{5it} + \beta_4 IF_{4it} FC_{5it} + \varepsilon_{it}$$

Where;

FP_{it} is dependent study variable (Financial performance (Return on Equity)),
B_0 symbolize Y intercept,
β_1- β_4 are coefficients of determination,
EF symbolizes Equity Financing (independent variable),
STD symbolizes Short Term Debt (independent variable),
LTD symbolize Long Term Debt,
IF symbolizes Internal Financing (independent variable),
FC is Firm Characteristics (Moderating variable);
ε = error term, *t* subscript symbolize time, while *i* subscript symbolize number of SMEs

5.7 Response Rate

The study's sample size was 80 heads of finance departments in the top 100 small and medium enterprises in Nairobi City County. The researcher administered 80 questionnaires among finance departments in SMEs in Nairobi City County. The response rate was as depicted in Table 4.1.

Table 4. 1: Response Rate

Category	Sample Size	Responses	Response Rate
Supply and Logistics	29	27	93.10
Automobile	6	6	100
Construction	8	8	100
Health	3	3	100
Hospitality	3	3	100
ICT	10	9	90
Manufacturing	14	13	92.86
Financial	2	2	100
Others (agriculture, training, cleaning, and security)	6	6	100
Total	**80**	**76**	**95**

Source: Research Data (2021)

Out of the total 80 questionnaires that were disseminated, 76 questionnaires were duly filled and returned on time. Henceforth, the study's response rate was 95%. Babbie (2017) suggests that a 75% and above response rate is considered reliable for making conclusions and inferences about a population. Therefore, a response rate of 95% was considered acceptable.

5.8 Descriptive Statistics

The main aim of descriptive statistics is to provide summaries of a population as well as its measures. Further, descriptive statistics encompass, frequency distribution, percentage as a proportion of the population, measures of spread as well as measures of central tendency. Generally, the measures of spread comprise of minimum values, variance, standard deviation, maximum values, kurtosis and skewness. The measures of central tendency in a data set include median, mean and mode. In this study, descriptive statistics entailed calculation of standard deviation, mean, maximum and minimum of dependent variable (financial performance) and the independent variables EF, STD, long term debt and internal financing. This sub-section entailed presentation of standard deviation(s), minimum(s), mean (s) and maximum values of the variables. The results were as depicted in Table 4.2

Table 4. 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EF	380	36.79384	32.97551	4	166.06
STD	380	40.01153	26.66825	3	163
LTD	380	51.85837	49.59855	12	306
IF	380	31.71868	28.08849	7	190
ROE	380	21.80042	7.599584	5.87	65.44
TA	380	94.13211	58.5306	24.23	450.3

Source: Research Data (2021)

There were 380 observations from 100 SMEs covering duration of 5 years (2016 to 2020). From the findings, the ROE among SMEs was 21.80042 per cent and the standard deviation was 7.600 percent. The minimum return on equity during the study period was 5.87 per cent and the maximum was return on equity was 65.44 per cent. The EF measured in terms of sale of shares, external expansion financing and external project financing was 36.794 million and the standard deviation was 32.976 percent. The minimum EF among SMEs, during the study period, was 4 million and the maximum was 166.06 million. The findings indicated that the

STD measured in terms of trade credit, mobile loans, and overdraft facilities for the period between 2016 and 2020 among SMEs was 40.012 million and the standard deviation was 26.668 percent. The minimum STD was 3 million and the maximum amount was 163 million.

The Long-Term Debt measured in terms of bank loans, SACCO loans and MFI loans among SMEs was 51.858 million and the standard deviation was 49.598 percent. The minimum LTD was 12 million and the maximum was 306 million. The internal financing measured in terms of retained earnings, savings and sale of assets was 31.719 million and the standard deviation was 28.088 percent. The minimum IF among SMEs, during the study period, was 7 million and the maximum was 190 million.

5.9 Trend Analysis

5.9.1 Trend of Equity Financing

The average amount of equity financing in small and medium enterprises in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.1.

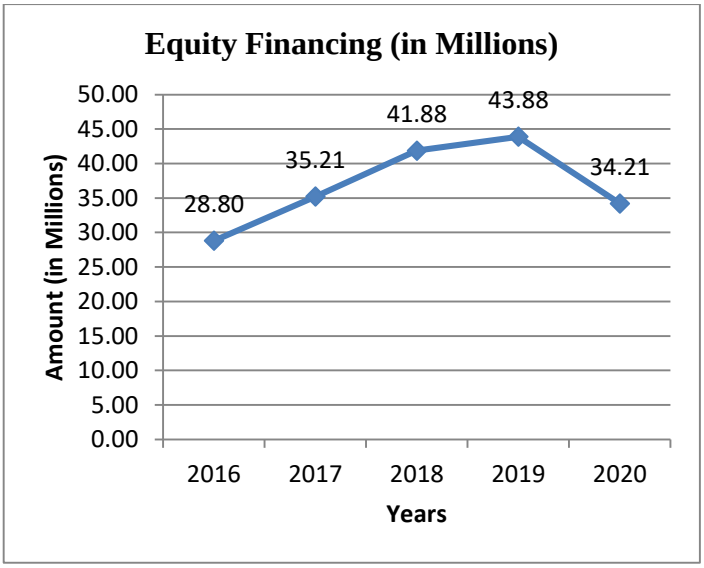

Figure 4. 1: Trend of Equity Financing (2016-2020)
Source: Research Data (2021)

As indicated in Figure 4.1, the average amount of equity financing in SMEs in Nairobi City County was 28.80 million in the year 2016. This figure increased to 35.21 million in the year 2017 and further increased to 41.88 million in the year 2018. The amount of equity financing further increased to 43.88 million in the year 2019, but later decreased to 34.21 million in the year 2020.

5.9.2 Trend of Short-Term Debt

The average amount of short-term debt in small and medium enterprises in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.2.

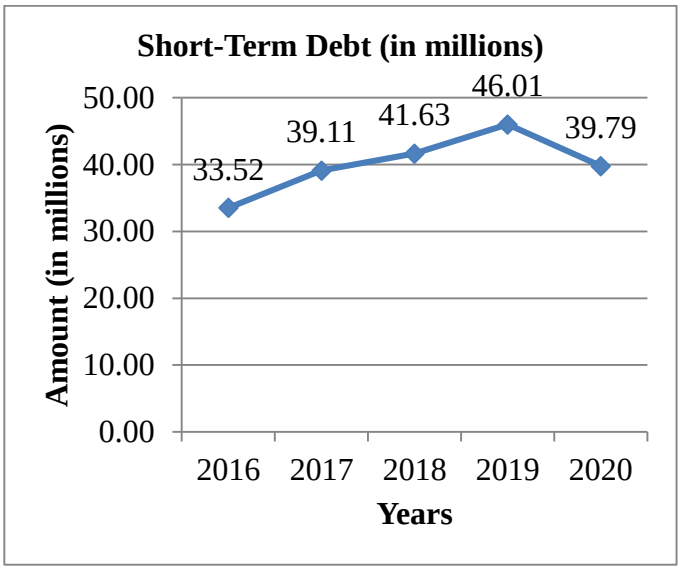

Figure 4. 2: Trend of Short-Term Debt (2016-2020)
Source: Research Data (2021)

As indicated in Figure 4.2, the average amount of short-term debt in small and medium enterprises in Nairobi City County was 33.52 million in the year 2016. This figure increased to 39.11 million in the year 2017 and further increased to 41.63 million in the year 2018. The amount of short-term debt further increased to 46.01 million in the year 2019 and later decreased to 39.79 million in the year 2020.

5.9.3 Trend of Long-Term Debt

The amount of long-term debt in small-medium enterprises in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.3.

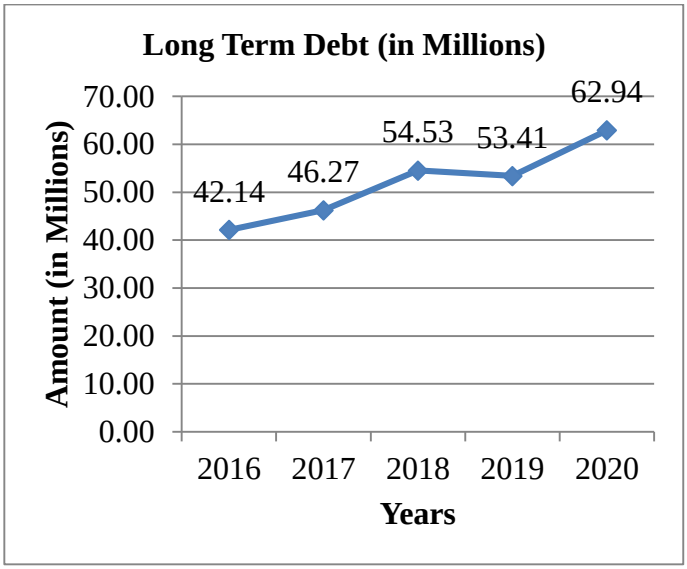

Figure 4. 3: Trend of Long-Term Debt (2016-2020)
Source: Research Data (2021)

As indicated in Figure 4.3, the average the amount of long-term debt in small and medium enterprises in Nairobi City County was 42.14 million in the year 2016. This figure increased to 46.27 million in the year 2017 and further increased to 54.53 million in the year 2018. The amount of

long-term debt decreased to 53.41 million in the year 2019 and later increased to 62.94 million in the year 2020.

5.9.4 Trend of Internal Financing

The average amount of internal financing in small medium enterprises in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.4.

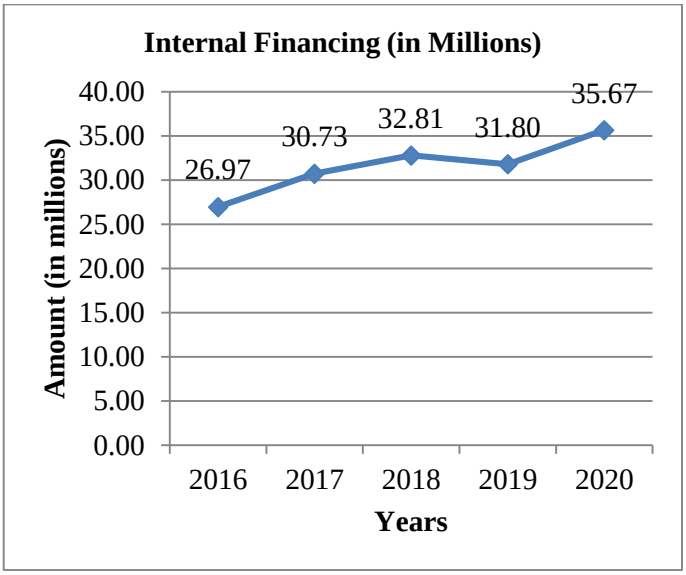

Figure 4. 4: Trend of Internal Financing
Source: Research Data (2021)

As indicated in Figure 4.4, the average amount of internal financing in SMEs in Nairobi City County was 26.97 million in the year 2016. This figure increased to 30.73 million in the year 2017 and further increased to 32.81 million in the year 2018. However, the amount of internal financing decreased to 31.80 million in the year 2019 before increasing to 35.67 million in the year 2020.

5.9.5 Trend of Total Assets

The amount of total assets in small and medium enterprises in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.5.

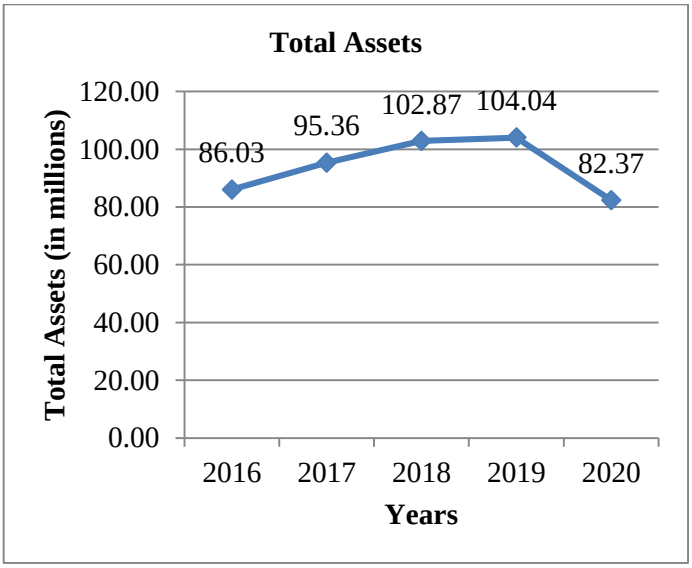

Figure 4. 5: Trend of Total Assets (2016-2020)
Source: Research Data (2021)

As indicated in Figure 4.5, the average amount of total assets in small and medium enterprises in Nairobi City County was 86.03 million in the year 2016. This figure increased to 95.36 million in the year 2017 and further increased to 102.87 million in the year 2018. The amount of total assets increased to 104.04 million in the year 2019 before decreasing to 82.37 million in the year 2020. These findings concur with the Kenya Association of Manufacturers (2020) argument that profitability among manufacturing firms in Kenya has been reducing for the last year.

5.9.10 Trend of Net profit

The net profit in SMEs in Nairobi City County for the last 5 years (2016-2020) was as shown in Figure 4.6.

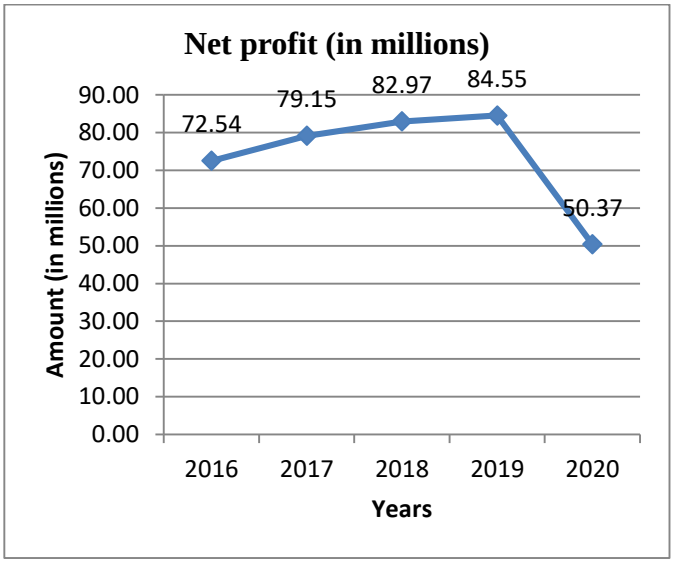

Figure 4. 6: Trend of Net profit (2016-2020)

The study concludes that equity financing has a positive and significant influence on the financial performance of SMEs in Nairobi City County. The findings revealed that the sale of shares, external expansion financing and external project financing influence revenue collection. This implies that improvement in equity financing (sale of shares, external expansion financing and external project financing) leads to improvement in the financial performance of SMEs in Nairobi City County.

The study concludes that short-term debt has a negative and insignificant effect on the financial performance of SMEs in Nairobi City County. The findings revealed that trade credit, mobile loans and overdraft facilities influence financial performance. This implies that improvement in STD (trade credit, mobile loans, and overdraft facilities) leads to a decrease in the financial performance of SMEs in Nairobi City County.

The study concludes that long-term debt has a positive and significant effect on the financial performance of SMEs in Nairobi City County. The findings revealed that bank loans, SACCO loans and MFI loans influence the financial performance of SMEs in Nairobi City County. This implies that improvement in long-term debt (bank loans, SACCO

loans and MFI loans) leads to improvement in the financial performance of SMEs in Nairobi City County.

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