

ABSTRACT

According to the World Bank, Small and Medium Enterprises (SMEs) contribute to over 60 per cent of total employment in developed countries and 80 percent in developing ones, including the estimated informal sector whereas, according to Organization for Economic Co-operation and Development (OECD) figures, SMEs account for 40 percent of exports of OECD countries, and a somewhat smaller share in developing countries. In Kenya, SMEs subsector is businesses in both formal and informal sectors contributing Kshs 3371.7 billion against a national output of Kshs 9917.4 billion representing a contribution of 33.8 percent in 2015. A majority of the SMEs serve a number of populations and a class of income group who are basically in rural and semi urban set up. Whereas, the exchange functions in the economy may be large scale, medium scale or small scale, the greater orientation in that area or sub economy determine its contribution to that economy. Available information from the trade and licensing records 2017 shows that Bondo region for instance has a majority of its business undertaking classified to small and medium enterprises which attract a funding model relevant for the SMEs. The purpose of this study was to determine the effect of short term debt financing on financial performance of SMEs in Bondo sub county, Kenya. The specific objectives were to determine effect of accounts payable on financial performance of small and medium enterprises and to establish the effect of short term loans on financial performance of small and medium enterprises. A correlation research design was used for the study. A target Population for the study was 503 owners of SMEs operating in Bondo Sub County. 400 owners of small and medium enterprises were sampled by use of stratified random sampling technique as guided by Krejcie and Morgan table. This research used secondary data. The data was obtained from financial statements of SMEs. A pilot study was conducted for instrument reliability and data validity using Cronbach's Alpha and expert opinions was also sort for instrument validation. Data was analyzed using correlation and regression methods. Profit margin ratio, return on assets and return on equity were used as the measurement of performance whereas; short term debt and accounts payable were used as independent variables. The findings of the study revealed that there was a significant moderate positive relationship between accounts payable, short term loan and performance of SMEs. While it concludes that accounts payable and short term loans are important in explaining financial performance of SMES in Bondo Sub County because there is significant association between accounts payable, short term loan and financial performance of SMEs. The study recommends that SMEs should use more of short term debt financing since it's not open to fluctuations.