

**IMPACT OF LOANS ON PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES OPERATING IN NAIROBI**

BY

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of the Degree of Master of Business Administration, School of Business,
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DECLARATION

DECLARATION BY CANDIDATE

This project is my original work and has never been presented anywhere for any academic award.

MBURU M.P
D61/P/7870/04

DATE

DECLARATION BY SUPERVISOR

This project has been submitted for examination with my approval as university supervisors.

MR. BARASA J. L.

DATE

DEDICATION

To my beloved husband

Mburu Humphrey

and

Dear children

Njuguna

Njeri

Helen

To grow beyond me tenfold

ACKNOWLEDGEMENTS

The attainment of this degree has been a challenge and would not have been possible without the assistance of many.

First and foremost, I thank God for enabling me.

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ABSTRACT

A bigger financial leverage of SMEs is associated with higher profit and sales growth. Debt may thus serve as an incentive to perform well, particularly for young start-up firms. Higher leverage may also reflect a firm's quality in the sense that more talented entrepreneurs are willing and able to obtain more credit. The objective of the study was to establish the impact of loan advancement on the performance of the SMEs. The study used simple random sampling technique to sample the population of these SME's. The study used secondary data obtained from the annual financial accounts comprising three years before loan advancement and three years after loan advancement. The key ratios computed are; Return on Assets Ratio, Return on Equity Ratio, Profit Margin Ratio and Debt Ratio. t- Test for the sample means was analyzed with the help of SPSS to test the hypothesis that there is relationship between the loans advanced and the performance of the SMEs.

The findings indicate that there was significant improvement in performance of the SMEs after loan advancement. The results for the measures of performance, that is, four out of four ratios showed a significant difference in t-test statistic, implying a change in SMEs performance after loan advancement. This confirmed the theoretical assertion that firms performance improved with debt leverage.

