

Abstract

The Small and Medium sized enterprises are considered as the power driving many countries' economies. It has been argued that SMEs are the lifeblood of most economies around the world and any government cannot afford to ignore the sector. Access to financial capital can be a critical factor for the success of SMEs, particularly in their early years. A recent Central bank of Kenya (CBK) survey shows these SMEs topped the list of biggest loan defaulters in the first quarter of 2015. The objective of this study is to assess financial factors influencing loan defaulting by the SMEs operating in Kitui central Sub-county. It is an extension of empirical work on the loan default. The target population in this study was all the registered SMEs operating in Kitui central Sub-county. This study adopted simple random sampling method to select reasonable number of firms to represent the target population. Data for this study constituted the primary data. Primary data was obtained by use of a structured questionnaire which was administered to the chief executive officers of each specific enterprise. The data was edited, coded and analyzed using statistical package for social sciences (SPSS). Descriptive analysis was also done and the respective statistics computed. The study employed multiple correlation and regression analysis. Correlation was used to investigate the association between the variables under study. Multiple regression analysis was used to measure the effect of financial factors on loan default by SMEs. The findings of this study revealed that there was a medium positive correlation and a significant relationship between the mode of loan payment and loan default. There was also a strong positive correlation and a significant relationship between the structure of interest rate and loan default. The research findings also revealed that there was also a weak positive correlation and a significant relationship between the size of loan and loan default. There was also a weak correlation between the loan repayment interval and loan default. There was a significant relationship between the type of financial institution and loan default. The study concluded that the mode of loan repayment, the structure of interest rate and the type of financial institution were highly associated with loan default. The study therefore recommends that the non bank commercial banks should revise their lending policies so that they can reduce loan repayment problems arising from lender, loan, and institutional characteristics.