The impact of debt-financing costs on the growth and development of Small-Medium Enterprises in South Africa: Empirical evidence from Durban.

by

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DECLARATION

I, the undersigned, Khethiwe Prudence Majola, hereby declare that this dissertation entitled, **THE IMPACT OF DEBT FINANCING COSTS ON THE GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN SOUTH AFRICA: EMPERICAL EVIDENCE FROM DURBAN**, submitted for the degree of Master of Accounting (Financial Accounting) at the Durban University of Technology is a representation of my own independent work in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished work and sources has been acknowledged and indicated in the list of references.

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Co-Supervisor: Mr Ngiba   Date – 25/03/2024

DEDICATION

I dedicate this piece of work to my late mother, Ntombizoxolo Majola. You left me at a very young age, but I am grateful for your good teachings as they have shaped me into the woman I am today. Thank you for being my guardian angel in every stage I encounter in life. May your soul continue to rest in eternal peace. You are forever loved and missed.

I would also like to dedicate this thesis to my son, Abongwe Zukhanye Majola. I am forever grateful to the almighty God for blessing me with you during this research work. Allow this to serve as inspiration to you to always strive for success in life and to make yourself and everyone around you proud. I will love you forever.

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ABSTRACT

Since small-medium enterprises are considered the backbone of every country's economy, it is important that they have a source of finance for their growth and development. As a result, the objectives of this study were to examine the factors that impact access to debt financing; determine the effect of market imperfections on the decision of small-medium enterprises (SMEs) to apply for debt financing; evaluate the impact of debt financing as a source of finance on the growth and development of small-medium enterprises (SMEs); and lastly, examine the influence of the economic environment on small- medium enterprises (SMEs)' growth in South Africa: Empirical evidence from Durban.

A qualitative research method and a purposive sampling technique were utilized to select the participants for this study. The researcher used the formula proposed by Yamane to calculate the sample size at a 90% confidence level, where P = 10. The sample size was calculated to be 88. For the purposes of this study, a target sample size of 200 was used. The study collected primary data through a survey questionnaire from respondents who are owners and managers in the agricultural, retail, manufacturing and construction sectors in Durban, South Africa. Three hundred (300) questionnaires were administered, and the data was analyzed using the Statistical Package for the Social Sciences (SPSS). A regression analysis and Pearson's correlation analysis were conducted to address and achieve the objectives of the study.

Some of the most notable findings were small-medium enterprises (SMEs) are shutting down even though they had been funded because of weak financial management skills in utilizing funds effectively and efficiently, using funds on unrealistic market criteria, and ending up over-indebted and unable to pay back the borrowed amount with interest. Small-medium enterprises (SMEs) are finding it difficult to obtain debt financing for their growth and development due to their limited knowledge on how to go about applying for debt financing and what requirements they must meet to obtain funding.

KEYWORDS: Debt financing, growth and development, small and medium-sized enterprises (SMEs).

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CHAPTER ONE

OVERVIEW OF THE STUDY

1.1. INTRODUCTION AND BACKGROUND TO THE STUDY

Small-medium enterprises (SMEs) are considered crucial economic players, given their role in driving economic growth, creating employment opportunities, and fostering development. In South Africa, the government has recognized the significance of this segment of business operations, leading to the establishment of a new Ministry of Small Business Development in 2014 (Small Enterprise Development Agency, 2016). The present study aims to investigate the influence of debt financing expenses on the growth and development of SMEs in Durban, South Africa. It is noteworthy, however, that a key challenge facing many SMEs is their inability to formulate feasible proposals that convince financial institutions of their viability and sustainability, in addition to their limited access to markets and the regulatory barriers they encounter (Cassar,2017). As a result, banks tend to perceive SMEs as high-risk ventures with a high likelihood of failure. Consequently, most banks cannot provide collateral protection to this sector of the economy.

The Department of Trade and Industry (DTI) (2016) has provided a broad definition of small and medium-sized enterprises (SMEs), encompassing formal, informal, and non-VAT registered businesses. Among SMEs are micro-enterprises, which range from established family-run businesses to survivalist enterprises located at the lower end of the spectrum. These survivalist enterprises employ between 10 and 30 people and are often run by self-employed individuals from disadvantaged populations. In Durban, South Africa, most SMEs are located at the lower end, where survivalist enterprises, such as street trading, backyard manufacturing and services, and occasional home-based evening jobs are prevalent. The informal sector predominantly consists of SMEs, with survivalist entities typically having limited potential for growth and employment expansion (DTI, 2016; Berry, Shostack, & Upah, 2017).

The oversight and control of Small and Medium Enterprises fall under the purview of policy agencies and accountable organizations. The National Small Business Amendment Act of 2004 established the Small Enterprise Development Agency as a branch of the Small Business Administration. Its primary responsibility is operationalizing the government's small business agenda, including devising a universal, all-encompassing distribution system for nurturing small businesses using standard methods. Furthermore, it incorporates government-funded support organizations for small businesses at various levels of governance. To offer financial assistance to small enterprises up to R3 million, Small Enterprise Finance Agency (SEFA) has amalgamated with the South African MicroFinance Apex Fund (SAMAF) and Khula Enterprise Finance Limited. SEFA provides funding options such as bridging finance, term loans, asset financing, revolving loans and working capital funding. On the other hand, the National Youth Development Agency (NYDA) supports young adults in South Africa aged between 14 and 35 by providing start-up finances for their business ventures while promoting technological advancement and reinforcing local firms' global competitiveness. The Science and Technology Department established the Technology and Innovation Agency (TIA). TIA was formed through the combination of seven bodies that were previously assigned the same mandate.

The National Empowerment Fund was set up to financially and non-financially support businesses owned by black individuals, which account for 34 percent to 50 percent of the gross domestic product and about 60 percent of job opportunities (Mutezo, 2016). Small and medium enterprises’ access to finance has long been a subject matter that stakeholders, such as policymakers and academic experts, have shown an interest in globally because of their critical role in SME development and sustainability. By providing the necessary funds, SMEs can make efficient investments that contribute significantly to economic growth at the national level while also reducing poverty levels. Various factors affect the sufficiency of funding that banks evaluate, such as credit history, cash flow records for SMEs, and available collateral for security. Properly managing debt financing can improve economic welfare; however, excessive usage may lead to undesirable outcomes. Limited access to finance poses a significant challenge for small and medium-sized enterprises attempting to establish themselves without an established credit history or owners with insufficient assets, as lenders expect them to have adequate loan repayment capabilities (Beck, 2017). Additionally, there is the issue of moral hazard, wherein some business managers might divert funds towards obscure ventures instead of utilizing them responsibly within their own companies.

The issue is rooted in insufficient financial control measures, widely evident among small and medium-sized businesses. Effective managerial skills play a crucial role in the successful operation of SMEs; however, numerous companies lack the necessary expertise, strategies, and abilities to manage their organizations effectively. Proficiency in directing, coordinating, planning, and managing human resources and materials is critical to business success. Building on this notion, it has been found that, due to limited resources and size-related challenges, SMEs face difficulties in recruiting highly skilled professionals such as accountants or administrators who could otherwise support these organizations with their growth objectives while driving operational excellence within them. Consequently, inadequate accounting standards become an inevitable outcome of this situation, leading ultimately towards sub-optimal financial reporting practices.

Furthermore, Small- medium-sized enterprises play critical and beneficial important roles; however, they encounter various obstacles, such as power shortages, insufficient capital, inadequate management skills, lack of information access, and corruption. It is striking that numerous African governments provide minimal backing for these ventures, disregarding the significant economic stimuli contributing to the formation of developmental structures. Financial capacity insufficiency caused by commercial, or equity banks and institutional shortcomings constitute challenges among SMEs in their daily operations. They lament their unsatisfactory level of financing options and their associated costs, making innovation a pivotal element for advancing competitiveness and growth within this sector. SMEs are expected to adopt innovative approach practices to establish sustainable solutions. Innovation refers to acquiring, exchanging, developing, and incorporating information that can lead to the emergence of novel technologies. Such innovation is important for fostering competitiveness within a business enterprise, thereby positively impacting growth rates and market expansion nationally and internationally through export development while attracting investment, increasing sales revenue, consequently increasing profits, and promoting creative potential among workers (Clarke, 2018). In present-day market conditions, where competition is fierce, it has become imperative for SMEs rather than being viewed as an option but instead regarded as a necessity that must be adopted if any enterprise desires long-term survival prospects.

The funding of small and medium enterprises in African economies has captured the attention of policymakers for two major reasons. First, SMEs need to compete successfully in an increasingly globalized setting. Second, supporting their micro- and small enterprises towards progression and proficiency will enable them to increase productivity levels significantly. According to statistics worldwide, almost 90 percent of companies are SMEs, clocking over 50 percent of employment rates, while formal SME establishments contribute nearly 40 percent of national income in developing environmentally friendly markets (https://www.worldbank.org/en/topic/smefinance). The World Bank has predicted that a growing workforce by 2030 will require approximately 600 million jobs; thus, SME growth is a significant focus for many governments worldwide. Small- and medium-sized businesses in emerging markets generate seven out of every ten formal jobs. However, there's a challenge in accessing finance as it remains one of the main constraints affecting SME growth in these developing countries.

The strategy of obtaining operating capital or other debt funds is called debt financing. This typically involves issuing debts, mortgages, or insurance policies for such debts. Lenders who lend money through bond purchases and others become business creditors in exchange for interest payments and complete loan repayment at an agreed-upon date (Asmelah, 2016:17-25). Whether its support duration is long- or short-term, long-term financing serves basic company necessities such as assets. In contrast, short-term funding fulfills daily requirements such as inventory payments on payrolls by utilizing shorter-maturity debt instruments. Small and medium-sized enterprises require debt financing for their growth and sustainability, which is crucial at national and international levels. Access to debt financing is especially important for small businesses such as retail firms looking to settle or expand. Reliable financial backing could ultimately drive the progress of well-established SMEs, which, in turn, can significantly impact their home nation's economy. As evidenced by the African Development Bank (2017), SMEs can scale up into large corporations locally and globally with adequate support structures. However, such companies may find it difficult to acquire bank loans due to limited investment opportunities compared to their larger counterparts, leading most to depend on internal funding sources, including contributions from family members or friends, when starting or initially operating their business.

The limited financial resources of small and medium-sized enterprises often impede their operations, leading them to consider debt financing from financial institutions. However, SMEs must be cautious about using debt financing because it is a double-edged sword. If used prudently and modestly, welfare can be enhanced. However, if handled extravagantly and excessively, this may result in calamities. The absence of sufficient collateral assets makes SMEs incapable of securing formal loans from commercial banks, like large corporations with more substantial reserves at their disposal, making it difficult for them to obtain the funds necessary for daily business needs (Azubuike and Ogbuji, 2018). This restricted access hinders commercial and equity banks' capability to provide adequate funding while preventing SMEs from competing successfully in an increasingly globalized milieu. The success of small and medium-sized enterprises relies heavily on having strong working capital (which is the difference between current assets and liabilities). This enables them to fund their daily production activities effectively. In addition to initial start-up costs, such as investing in capital and conducting research, SMEs also require financing as they advance to purchase raw materials and pay off outstanding short-term obligations. Several sources are available for such funding; therefore, it becomes even more crucial for SMEs to determine their continuity amid changing performance levels.

1.2 STATEMENT OF THE RESEARCH PROBLEM

Small and medium enterprises play a significant role in the economic growth. The performance of the SME sector is closely associated with the economic with the economic performance of the nation. SMEs are considered the engines of economic growth in developing countries (Yeboah,2020). While several commercial banks offer loans to fund SMEs' operations, many fail due to inadequate financial management skills, leading 5 them to over-indebtedness, making it challenging to pay back the borrowed money with interest based on unrealistic market criteria. Despite being an effective method for sufficiently funded businesses by banking institutions, debt financing carries adverse effects related to high borrowing costs, primarily through interest rates which negatively impact those unable to borrow enough funds. The introduction of legislation by the central bank mandates banks to restructure their loan portfolios such that 30% is dedicated towards SMEs. This measure was necessitated as it has been observed that over the past thirty years, small and medium-sized enterprises have experienced significant growth due to limited options for accessing interest-bearing investment avenues via formal channels. Developing countries within this sub-region face challenges in developing robust stock markets while inflation rates continue to rise with no corresponding increase in interest rates; consequently, SME development tends to be stunted owing to a lack of access to financial resources required for expansion and progress towards greater accomplishments (Danish and Wassen, 2019).

Through their daily operations, small and medium-sized enterprises helped to sustain household income (Rajagopaul, Magwentshu and Kalidas,2020).

The advancement of developed countries can be attributed to implementation of effective policies that propel SMEs. SMEs' potential capabilities and contributions in Durban, South Africa, are minimal compared to those found within well-established economies (Jide, 2019). In many jurisdictions, commercial banks are the primary external financiers for small and medium-sized enterprises. Thus, banking systems must provide credit access to this market segment. Nonetheless, several macroeconomic factors, along with structural or regulatory inflexibilities, tend to prejudice lending opportunities directed towards SMEs. Henceforth such firms often face challenges when obtaining long-term financing from formal financial entities, especially via debt equity arrangements. Banks' inability endangers funding initiatives meant for supporting operations within these businesses.

Location poses a challenge that has the potential to impede an enterprise's access to external finance and debt financing, which is also contingent on the proximity of financial service providers. According to Pandula (2018), geographical location seems to correlate with accessibility to debt financing positively. Moreover, small enterprises are disproportionately affected by location in terms of both funding costs and availability. In rural areas, spatial disparities attributed to multiple factors identified by the author create discrepancies in fund attainment for small businesses. Access to financial services in rural areas is a major challenge for small-medium enterprises (SMEs).

Financial institutions are scarce, leading businesses in these areas to resort to high-interest loans because of limited alternatives. Moreover, bank branch managers operating in these remote locations may have inadequate authority delegation, which causes delays or rejection of loan applications, because decisions are 7 often made by officials who lack sufficient knowledge about the borrower's business venture and credit worthiness. The decision of small and medium enterprises to seek external financing may be affected by market imperfections, which are attributed to information asymmetries. Financial institutions like banks usually require sufficient financial data or records from an enterprise before granting loans. SMEs, in turn, may lack adequate knowledge of potential lenders that can provide them with the required capital or funds. Moreover, they might perceive borrowing from formal financial sources as less likely because of the difficulty of obtaining loan approval. Responsible lending practices dictate that banks follow strict guidelines and standards when extending their 8 credit facilities to protect consumers and businesses. Aspiring borrowers should also take responsibility for understanding the requirements during the application process to increase their chances of being approved for a loan.

Durban, South Africa, was selected as the study's focal point because of its challenging financing landscape. Despite numerous programs offered by public and private institutions in Durban, business owners still perceive access to funding as a significant hurdle, according to Mahembe and Under-hill Corporate Solutions (UCH) 2011. Moreover, this organization observes high rates of bank loan refusals while many small- and medium-sized enterprises cannot participate in financial markets. Once these issues are addressed, promoting cooperation among all stakeholders would allow for growth and prosperity. Despite the existing information about small and medium enterprises in Durban, South Africa, there are still gaps that need to be addressed regarding their access to debt financing. This aspect is crucial for SMEs' sustainability and progress, yet it has not been sufficiently explored in previous studies on SME activities in Durban. To address this gap and generate actionable insights into enhancing local business support services, this study examines the financing challenges faced by SMEs operating in Durban.

1.3. RESEARCH AIM AND OBJECTIVES

1.3.1. RESEARCH AIM

The fundamental objective of this study is to assess the influence of debt financing on the progress and expansion of small and medium-sized enterprises. The specific aims of this study are as follows:

The specific objectives of this study are to:

1. Examine the factors that impact the access to debt financing by SMEs in Durban, South Africa
2. Determine the effect of market imperfections on the decision of SMEs to apply for debt financing in Durban, South Africa.
3. Evaluate the impact of debt financing as a source of finance on the growth and development of SMEs in Durban, South Africa.
4. Examine the influence of the economic environment on the growth of SMEs.

1.4. RESEARCH QUESTIONS

1. What are the factors that impact SMEs' access to debt financing in Durban, South Africa?
2. What is the effect of market imperfections on the decision of SMEs to apply for debt financing in Durban, South Africa?
3. What is the impact of debt financing as a source of finance on the growth and development of SMEs in Durban, South Africa?
4. What is the influence of the economic environment on SMEs' growth?

1.5. SCOPE OF THE STUDY

This study focused on small-medium enterprises in the city of Durban. The current body of literature contains a shortfall regarding the tittle of the study. as most previous investigations have concentrated mainly on internal funding mechanisms and managerial aspects related to SMEs' performance and sustainability. Tshabalala (2016) explored "the impact of internal finance on firm growth through a case study on South African SMEs". Another study was conducted by Mahohoma (2017), "The impact of entrepreneurial competence on the performance of SMEs in the eThekwini Municipality region, KwaZulu-Natal." Despite the lack of research on the effects of debt finance 10 costs on SMEs' growth and development, specifically in Durban, South Africa, it is crucial to conduct further studies. These studies will help evaluate SMEs' access to external funds from bank financing for their progress. Furthermore, they can raise awareness among these enterprises about fulfilling the necessary documentation and collateral security requirements when applying for external funding, such as commercial banks' debt finance.

The challenge SMEs face manifests primarily in their limited access to funding sources. South African entrepreneurs struggle with insufficient resources, compounded by socioeconomic disparities stemming from their past as an unequal society. Moreover, banks exhibit conservative practices that display reluctance to invest in startups because of the perceived risks associated with such ventures.

SMEs must work efficiently and effectively to foster economic expansion. To achieve this objective, and look at parameters that require adequate financing, which may be met through internal funds, such as investments and savings, or external sources, such as debt financing, provided by financial institutions (Dube, 2016). Despite receiving bank loans from commercial banks, several SMEs face closure due to weak financial handling practices. This leads them to utilize funds in unrealistic market conditions, resulting in over-indebtedness; hence, repaying borrowed sums with interest becomes an insurmountable challenge.

The population target of the study was estimated to be 700 small medium enterprises in KwaZulu-Natal Central Business District (CBD) of Durban. the researcher employed Yamane's proposed formula, which provides a simplified approach to calculate sample size of the study. Using the formular, the researcher set P=10 and utilized a 90% confidence level and the sample size was determined to be 88.

1.6. SIGNIFICANCE OF THE STUDY

This study aimed to contribute to the existing pool of knowledge of both adversely and favourably effect of debt- financing costs for the expansion and progress of small- medium enterprises in Durban. it anticipates an impact on reputable financial intermediaries in this area, such as market regulators and economic policymakers.

small and medium-sized enterprises rely heavily on financial institutions for funding, as they have limited access to public capital markets. This results in their vulnerability to banking cris es because any disruption in banks' lending practices has an immense impact on SMEs' credit supplies. This issue is compounded when economic instability arises, as this exacerbates SMEs' financing constraints. Additionally, according to Berger and Udell (2018), fluctuations in the overall economic climate can substantially influence lenders' willingness and ability to provide loans specifically targeted at small or medium-sized firms.

To address the challenges encountered, proprietors and administrators should engage in open dialogue with the credit guarantee program of commercial banks and implement significant improvements to render it more accessible. Concurrently, alternative risk minimization approaches that have proven successful in other regions, such as mutual assurances, are scrutinized to evaluate their applicability in South Africa's market. Economically, the policymakers must Collaborate with institutions such as the Small Business Development Agency, Financial

Sector Charter Council, National Credit Regulator, and South African Reserve Bank is essential for resolving issues stemming from inadequate SME funding data reliability and pervasive credibility throughout the country.

This study will benefit small and medium enterprises in terms of how owners/ managers can manage their funds to their businesses to grow and develop.

The findings will help create awareness of the importance of debt-financing on the growth and development of SMEs, a formulation of accommodating policies by financial institutions to enable small business to compete in a globalised markets of products manufactured or needed by SMEs. Furthermore, SMEs have the potential to enhance the standard of living of their employees and their dependents, whether directly or indirectly associated with them, and thus contribute to rural-urban migration (Uchechukwu, Faga, and Obeikwe, 2016:500-518).

1.7. STRUCTURE OF THE STUDY

Chapter One plays a significant role in providing an inclusive overview, including different components like the research background, problem statement, inquiry objectives, the research aims, boundaries of investigation and the structural framework of the study. The purpose is to give readers a clear depiction of what they can expect from the study.

Chapter two comprises a comprehensive examination and evaluation of relevant literature. The review is conducted considering the research questions posited in the study, aiming to establish conceptual foundations, analyze theories and concepts, conduct analytical assessments, provide an overview of existing knowledge on the topic under investigation and pinpoint areas where gaps in knowledge exist.

Chapter three examines the methodology, study design, demographic data sources and characteristics used in the analysis. The chapter also discusses population sampling procedures employed during research, such as pretesting and reliability of report validity methods, and detailed insight into data collection strategies and analytic approaches.

Chapter Four presents an evaluation and interpretation of results from obtained information by analyzing outcomes from prior research conducted regarding small to medium-sized business enterprises' growth development within the Durban area in South Africa.

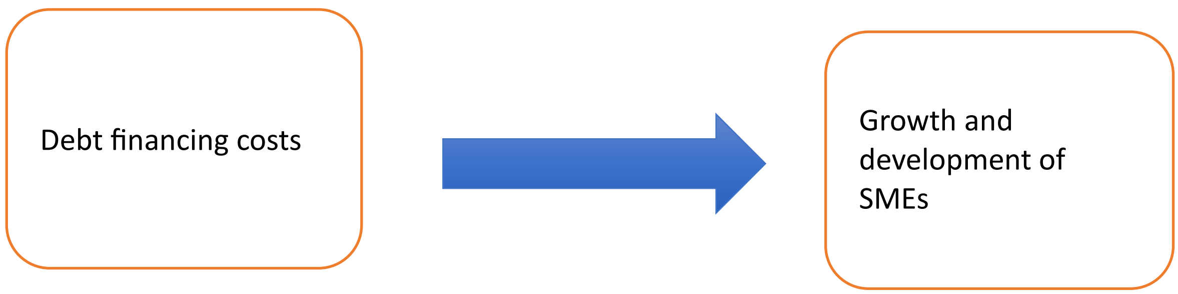
Lastly, Chapter Five outlines concluding remarks deduced from the findings while providing recommendations derived through further studies highlighting that debt financing is revered for its impacts on financial aspects affecting SMEs businesses practices across various areas throughout Durban region's manifestation economic effects.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter presents a comprehensive scholarly analysis of the costs and impact of debt financing on the development and expansion of small to medium-sized enterprises, including empirical findings, theoretical frameworks, and research gaps identification.



Independent Variable Dependent Variable

Figure 1: Source: (Authors design, 2022)

2.2 CONCEPTUAL FRAMEWORK

A conceptual framework explains the interdependence between two variables in a research study and establishes the necessary variables for investigation (McGaghie, Bordage and Shea, 2016). The relationship is explained in the diagram below:

2.3 CONCEPTUAL REVIEW

2.3.1 DEFINITION AND ROLE OF SMES

Scholars have presented varying definitions and explanations of small and medium-sized enterprises (SMEs) as a business category. Owalabi (2016) posited that SMEs are instrumental in promoting economic growth and development as they convert raw materials into finished goods, thereby serving as productive enterprises. Undoubtedly, SMEs constitute a critical sub-sector that significantly impacts the growth and development of any economy. Jide (2017) further asserted that the performance of SMEs is a crucial determinant of the success of an economy.

According to Oyekanmi (2017), the benefits of SMEs to the economy are conspicuous; they contribute significantly to producing goods and services and create employment opportunities at a relatively low capital investment, chiefly in the rapidly expanding service industry. Furthermore, SMEs provide a pool of skilled and semi-skilled workers that can serve as a foundation for future industrial development, enhance forward-thinking and innovative approaches, establish backward linkages between diverse sectors of the economy, and offer a suitable platform for entrepreneurial and managerial talent development. These factors are pivotal to the economy's future, as Aina (2017) emphasized.

2.3.2 THE SMES OWNER AS AN ENTREPRENEUR

Entrepreneurship refers to establishing a business, typically a start-up offering a unique product, process, or service. The entrepreneur identifies an opportunity and often demonstrates biases in capitalizing on it, including creating a business plan, acquiring necessary human and financial capital, and taking responsibility for its success or failure (Holloway et al., 2016). Entrepreneurial activities can also occur in an ecosystem of entrepreneurship, encompassing governmental measures and facilities that facilitate entrepreneurs, resources directed towards entrepreneurship (inclusive of business incubators and seed accelerators), education, and training related to entrepreneurship, along with financing possibilities, such as venture capital funding, loans, or grants.

2.4 SMES GROWTH AND DEVELOPMENT

The study of small and medium enterprises and their operations has notably increased over time. SMEs are prevalent across all economies, causing national governments and policymakers to take an interest in them for various non-academic reasons in developing and developed nations (Beck and Cull, 2016). However, SME growth can be constrained by an assortment of factors, such as limited financing options - a common obstacle that hinders the expansion of most companies but one which poses more significant challenges to smaller businesses than larger corporations (Peterson, 2016; Quartey & Turkson, 2017). Globally conducted regional surveys show that owners/managers of SMEs consistently cite access to funds as the primary barrier impeding firm growth (Jones-Evans, 2016:791-824).

According to Quartey (2017), business growth encompasses various factors, including increased sales volumes, production capacity, job creation, and using raw materials and electricity. However, these factors do not provide a precise indication of growth. The growth of enterprises is typically determined by an absolute or relative increase in revenue, assets, jobs, efficiency, income, and profit margins (Delmar, Davidson and Gartner, 2016:189). Scholars have used various metrics, such as properties, market share, physical performance, and profits, to measure business development and performance. Sales and job creation are significant indicators of firm growth (Delmar et al. 2016).

Researchers have argued that small and medium-sized enterprises (SMEs) differ from larger companies, although they have similar growth opportunities (Huston, 2016). Larger companies experience growth during recessions and recoveries, while SMEs expand only during economic booms. Companies with growth aspirations tend to have a higher level of debt than those with lower growth rates. Job creation is closely associated with enterprise growth (Davidsson, Achtenhagen and Naldi, 2017:69-166). Nkwabi and Mboya (2019) identified the enterprise's finance and human capital (age, experience, environmental and business characteristics) as critical influencers of SME growth.

Verwey (2017) highlights that the facilitation of SMEs' financial expansion and progress in South Africa's Durban region is achieved through several measures, including offering them preferential credit terms, pricing structures, mentorship programs, and business acumen by established firms. This mode of empowerment yields faster growth rates at a comparatively lower cost than approaches such as bringing in a black shareholder. Furthermore, this strategy has additional advantages, such as the enhancement of smaller vendors' organizational capabilities, which can assist them in securing substantial contracts and promoting their competency level along with profitability and sustainability.

The South African Enterprise Agency Forum has incorporated various enterprise development programs, including the provision of grants and loans, investment in recipient institutions, secured coverage guarantees, seed capital assistance, relaxed collateral or security conditions for accessing capital resources, timely payments on delivered goods and products, and extended procurement credit terms. Additionally, it provides infrastructure support to manufacturers and organizations operating in their vicinity using labor-intensive manufacturing methods. The forum further focuses on investments towards rural community ventures while promoting their growth through developmental measures.

2.4.1. AUTOMATION AND TECHNOLOGY

As a result of advances in information and communication technology (ICT), businesses have been able to operate more efficiently, and the world has become a global village. Nonetheless, small, and medium-sized enterprises (SMEs) must adopt ICT to function at a higher level. According to Kiveu and Ofafa (2013:29-46), To remain competitive, businesses must prioritize ICT adoption and make it an essential aspect of their operations in a globalized economy. SMEs that lack efficient technology tend to be less productive and, as a result, are less profitable. Additionally, lacking capital and government support often hinders SMEs from acquiring up-to-date technology, limiting their growth and development (O'Leary 2017:77-90).

ICT plays a crucial role in business innovation, particularly for SMEs. Automation and innovation enable businesses to stay in sync with current business trends and communicate and engage with clients and customers from all over the world with ease (Levy & Powell, 2004:22). The changing trends in global business and the shrinking "global village" necessitate the collaboration of various types of research. SMEs utilize this knowledge to design new products, making innovation heavily reliant on R&D.

The changing trends worldwide have made SMEs need to adopt new technologies in their operations. SMEs that want to remain competitive and grow must embrace technological advancements and no longer ignore automation and new technologies (Bravi and Murmura, 2021). SMEs are more likely to adopt new technologies because of the increasing use of knowledge and organizations in the corporate world (Higgins and Aspinall, 2011). Failure in many enterprises has been linked to their inability to acquire and adapt to changes in the business environment (Atsan, 2016:435-442). Business automation is essential in helping organizations gain a competitive advantage by producing commercial products or services through knowledge transformation. Companies with well-developed capabilities for acquiring, assimilating, transforming, and exploiting new knowledge are regarded as having high levels of success (Zahra, 2021:511-513).

While small and medium-sized enterprises (SMEs) stand to benefit significantly from the adoption of information and communication technology (ICT), automation, and other new technologies, these firms must navigate several challenges. As Ingaldi and Ulewicz (2019) noted, SMEs face three primary barriers as they seek to integrate new technologies into their operations. These barriers include external forces, such as requirements imposed by trading partners, competitive pressures from other firms, and issues related to organizational readiness and the perceived benefits of the technology. However, as Das, Kundu, and Bhattacharya (2020) highlight, developing an organization's capacity to implement new technologies is critical to its success.

According to Ngugi (2021), external factors often hinder SMEs from adopting and effectively utilizing new technologies. These factors include pressure from buyers and suppliers, government interventions, and competitive pressures. Similarly, Msomi (2020) notes that the government facilitates technology integration. Most government actions related to technology adoption focus on financial support, such as direct assistance for application development and tax incentives for technology infrastructure.

2.4.2 GOVERNMENT REGULATIONS AND THE GROWTH OF SMES

The Department of Trade and Industry (DTI) (2016) asserts that the optimal course of action for government regulations and the progress of SMEs is the creation of effective institutions. This is executed to provide entrepreneurs with a predictable framework, business support, and the necessary business skills to expand their operations. The DTI (2016) maintains that a prerequisite framework facilitates the government's interaction with SME owners to furnish them with basic foundational support through its existing agencies. The DTI (2016) suggests that assistance may take financial and non-financial aid to aid SMEs in their growth and development. The government commits to supporting the public through its policies, and it also assists organizations, producers, and distributors in an industry to prevent the decline of that industry and enhance the welfare of its citizens and industry development.

2.5 DEFINITION AND IMPORTANCE OF DEBT FINANCING COSTS TO SMES.

Debt financing refers to obtaining operating capital or other debt money, typically through mortgage issuance, debentures, or other debt instruments. In return for lending the money, bondholders and other creditors become business creditors, entitled to receive interest payments and repay their loans at the end of the term (Asmelah, 2016:17-25). Debt financing can be either long-term or short-term, with the former typically used for purchasing essential assets such as equipment and the latter used to cover day-to-day expenses like inventory or payroll. Small and medium-sized enterprises (SMEs) rely heavily on debt financing to sustain and grow their domestic and international businesses. Access to debt financing is particularly crucial for establishing and expanding small businesses, which can contribute significantly to a country's national economic growth. In the right business environment, SMEs have the potential to expand into large companies, catalyzing local growth and establishing a global presence.

2.6. SOURCES OF FINANCE FOR SMES

Contemporary research has disclosed that the funding sources accessible to small and medium-sized enterprises (SMEs) are nearly as diverse as those available to large corporations. Nevertheless, SMEs encounter more access constraints than their larger counterparts (Beck and Cull, 2016:913-937). This challenge is particularly acute in developing countries (Dong and Men, 2018), where most SMEs are not listed in stock exchanges, limiting their access to capital markets, and impeding their ability to disclose information to the public. This further aggravates the existing information asymmetry between SMEs and their external stakeholders. In general, SME funding sources can be categorized as formal or informal, internal, or external, and short-term or long-term equity or debt (Abor, 2017), with certain sources overlapping these broad categories and being more widespread in some geographical regions than others. For instance, European banks have remained a significant source of financing for SMEs, particularly in the aftermath of the global financial crisis, as reported by Harrison and Baldock (2015: 1-6). On the other hand, in Japan, banks have continued to be the primary source of finance for SMEs, despite the impact of the global financial crisis (Ono, 2016). In Africa, SMEs tend to be informal and depend on informal financing sources (Beck and Cull 2016). The succeeding section presents an overview of the financing sources employed by SMEs that have been extensively examined in the literature.

2.6.1. TRADE CREDIT

Banks offer loans, overdrafts, and diverse forms of secured credit to small and medium-sized enterprises (SMEs) (Dwyer and Kotey,2017). Recent studies have also indicated that banks are the principal financial providers for SMEs in developing economies (Badulescu, 2016). SMEs generate revenue by purchasing goods and services and often opt to remunerate their suppliers using a loan equivalent period instead of cash payments (Baker and Klapper, 2018). This is a common practice even in developing countries, where trade credit remains a popular source of financing for SMEs. However, it is worth noting that trade loans can be costly, with some studies indicating that they do not support the growth and development of SMEs (Berger and Udell, 2018). Nevertheless, trade credit offers some liquidity and is essential for the survival of SMEs (Abdulsaleh and Worthington, 2017).

According to Esho and Verhoef (2018), leasing is a popular financing option among SMEs and is often preferred over other alternatives. Leasing is considered a viable option, especially for SMEs without collateral, to apply for bank loans, as it helps save cash flow (Idrissa, 2016:1889-1911). Furthermore, leasing offers tax-related benefits, simplifying growth and is a versatile option for SMEs. Although Abor (2017) has demonstrated that debt financing hurts SME performance, some empirical studies have indicated that leasing has a positive effect.

2.6.2. INFORMAL SOURCES

The sources of financing mentioned above are categorized as structured financing, given that they occur within established entities or are subject to regulation (Bazzana and Hanedar, 2016). Transactions related to finance that occur informally are carried out outside official financial institutions and are not governed by government entities. Informal financing alternatives include personal loans, property, colleagues, moneylenders, staff members, and the entrepreneur or business owner (Abdulsaleh and Worthington, 2018). However, It has been demonstrated that informal finance hinders the growth of small and medium-sized enterprises (SMEs) (Nguyen and

Xiao, 2017). Research on Chinese businesses, which included a substantial sample of SMEs, indicated that formal financing was positively interrelated with growth in the firm (Khan, 2016). SMEs were found to be compelled to utilize informal financing, which had an unfavorable impact on their growth.

2.6.3. VENTURE CAPITAL

According to Abdulsaleh and Worthington (2016), financial institutions, limited partnerships, and other entities are the facilitators of venture capital, a type of financing. This funding source serves as both a formal and external means of financing for small and medium-sized enterprises (SMEs). Traditionally, venture capitalists offer private, non-exchange-traded equity investments in a business, as stated by Snyman (2017:168). However, due to the significant risks and uncertainties associated with investing in SMEs, venture capitalists have become less inclined to invest in convertible securities in recent years (Martinez, 2018:19). According to Berger and Udell's (2016) research, SMEs tend to use venture capital as they grow, typically relying on it at the initial stages. Despite potential conflicts in definition and classification, some countries include companies that receive angel funding in their venture capital category. It is important to note that SMEs’ use of venture capital is primarily limited to developed countries, resulting in limited literature on its use in developing countries (Msomi, 2020).

2.6.4. FACTORING

Factoring, a type of asset-based finance, is commonly called current-asset financing (Bakker and Klapper, 2018). This method of funding provides cash to businesses based on the discounted value of their commercial debtors (De Vries and Cameron, 2017:31-40). In addition to capital, factoring companies offer debt chasing and recovery services as they trade export debtors for cash. By providing liquidity, factoring enables SMEs to enhance their financial position (Klapper, 2017:3111-3130). Despite its significant growth in recent years, factoring is more widely used by SMEs in developed countries than in developing countries due to the latter's limited funding institutions. However, some developing countries, such as South Africa, have adopted reverse factoring as a variant of factoring, where reputable companies guarantee purchases to enable factoring for their businesses (Baker and Klapper, 2018).

2.6.5. LEASING

Leasing is a contractual arrangement wherein the lessor grants the lessee permission to use an asset, such as property, plant and equipment, or land, for a specified period in exchange for a payment or a series of payments (Idrissa, 2016:1890). According to research, SMEs employ leasing extensively as a form of debt financing (Berger and Udell, 2016), as it offers a feasible substitute to direct asset procurement for small and medium-sized enterprises, thereby preserving cash flow, especially for those lacking collateral to apply for bank loans (Idrissa, 2016). The tax-related advantages, ease of growth, and flexibility make leasing an attractive option for small and medium-sized businesses. While studies demonstrate that debt financing has an unfavourable impact on the performance of SMEs, leasing has been shown to have a positive effect on their performance, as revealed by some empirical studies (Abor, 2017).

2.6.6. BUSINESS ANGEL FINANCE

Angel funding is a distinct type of informal financing where prosperous individuals and investment groups extend monetary assistance to start-up firms, predominantly in the form of equity or debt (Abdulsaleh and Worthington, 2018). Unlike other formats of informal finance, business angels do not require formal recognition or affiliation with owners of small and medium-sized businesses. Additionally, angel investors can provide valuable networking opportunities and managerial expertise to the SMEs they fund. According to Berger and Udell's (2018) research findings on American enterprises sector contexts; Angel funding represents the second-largest source of capital availability after personal savings reserves for this stakeholder group.

According to Annamalaisami's (2021) study, which surveyed more than 230 business angels and Shane's research, the ecosystem of business angel investment is growing rapidly in developed countries such as Europe, the US and other industrialised nations. According to previous literature, investing from business angels could be most appropriate for small or medium-sized enterprises during their seed or start-up phases (Lopes and Costa, 2017:138-161). SMEs tend to rely on certain funding sources such as bank financing, angel investors, and venture capital firms factoring services together with leasing arrangements and trade credit rather than others, including peer-to-peer channels through crowdfunding technologies. Besides these avenues of support available to them, SMEs also access funds via retained earnings (Abdulsaleh and Worthington, 2018), government agencies/institutions offering grants; subsidies may offer loan guarantees whereas public equity finance options exist too but are scarce among smaller companies listed on stock exchanges.

2.6.7. THE INFLUENCE OF THE LEGAL AND BUSINESS ENVIRONMENT

Small and medium-sized enterprises (SMEs) face limitations in selecting financial resources due to their legal and business environment. For instance, factoring necessitates a positive institutional climate. Hanedar, Altunbas, and Bazzana's (2016:65-86) research uncovered that despite formal funding sources being accessible, certain SMEs still choose to employ informal sources due to the complexity of formal funding. Furthermore, informal credit is more prevalent in nations where legal proceedings are protracted or sluggish. According to Shane's (2017) findings, law enforcement rates impact banks' ability to lend to SMEs.

Consequently, while the impact of contextual elements on SME financing is not explicitly addressed in the literature, the influence of the legal and business environment is subtly apparent. The legal framework and formal institutions required to support specific financing sources are simply lacking in certain countries (Dong and Men, 2016). Additionally, the vast disparity in financing sources available to SMEs in developed and developing nations implies that the established and market climate are generally critical in determining the availability of SME funding sources.

2.7. IMPACT OF TRADE CREDIT

Trade credit is an essential financial instrument that facilitates a contract between a seller and a buyer, whereby the seller agrees to a postponed payment for their goods instead of immediate cash payment (Mian and Smith, 2015). This type of credit plays a significant role in a firm's financing policy, serving as a source of financing for the buyer through accounts payable and as an investment in accounts receivable for the seller. While previous research has focused on explaining trade credit factors, most literature has centered on large firms (Niskanen, 2016). Nevertheless, trade credit is particularly critical for small and medium-sized enterprises, as trade debtors form the primary asset on most of their balance sheets. As a result, implementing credit management policies could have far-reaching implications for a firm's growth. According to Ayyagari, Demirgüç-Kunt, and Maksimovic (2017), the degree of trade credit extended to customers is higher in nations with more developed SME systems. In countries with weak legal systems, accessing financial markets can be challenging, and suppliers' provision of trade credit may serve as a crucial channel through which businesses can indirectly access capital (Rajan and Zingles, 2018).

Trade credit has the potential to facilitate demand smoothing, thereby augmenting the growth of a firm. There exists evidence substantiating the employment of trade credit as a tool to mitigate information asymmetry about the quality of a product, leading to an improvement in the profitability of a firm. Conversely, larger firms, in comps compared to smaller firms that lack a product market reputation, stand to gain a greater return on investment through the edit. Various reasons motivate suppliers to extend trade credit, with one of the primary objectives being the reduction of financial friction encountered by customers, which increases sales and market share growth (Nadiri, 2015:408-423).

Trade credit can increase sales by decreasing information asymmetry between the supplier and the buyer regarding product quality and resolving financing issues (Smith, 2011:862-873). This, in turn, reduces product quality uncertainty, which makes exchange easier. In addition to enhancing sales, trade credit can increase revenues by reducing transaction costs or interest income (Emery, 2011:271-285). However, providing trade credit can have undesirable consequences, such as late payments or default risks, negatively impacting firm profitability. Additionally, extending supplier financing can result in direct financing and opportunity costs, diminishing funds available for expansion projects. There are also administrative costs associated with the grant and monitoring process and transaction costs for converting receivables on the balance sheet.

2.8. SMES CHARACTERISTICS AND ACCESS TO FUNDING

The current research on financing for small and medium-sized enterprises (SMEs) has largely focused on understanding how various characteristics impact the financial actions of SMEs, their owners, and their ability to access funding for business growth. In particular, the literature has examined how different sources of finance are related to trends in SME financial behavior, with legal form, geographical location, asset structure, firm age, and owners' characteristics being the most studied features. While many SMEs are not listed, making it difficult to access equity, some countries have established alternative stock exchanges specifically for SMEs (Harwood and Konidaris, 2016). However, most SMEs are still largely unable to list on these exchanges, highlighting the need for further research into the variations between quoted and unquoted SMEs. This is particularly important because the characteristics of SMEs can significantly impact funding and financial activities, especially for small and medium-sized enterprises that are not listed. Thus, integrating SMEs into legislation can signal formality and legitimacy to banks and other financial institutions (Cassar, 2017).

Legally established small and medium-sized enterprises (SMEs) have the potential to obtain funding from formal and external sources (Absulsaleh and Worthington, 2018). Nevertheless, incorporation alone does not bridge the funding gap. Nguyen's (2017) research indicates that a firm’s location can impact its financing opportunities and patterns, with differences observed between urban and rural businesses. However, due to location, Hanedar, Altunbas, and Bazzana (2016) found no significant effects on SME funding. SMEs with fixed assets are more likely to seek debt and bank financing (Abdulsaleh and Worthington, 2018). Nonetheless, the literature on SME funding primarily focuses on the effects of firm age, owner characteristics, and reputation.

2.9. OWNERS’ AND MANAGERS’ CHARACTERISTICS

In most small and medium-sized enterprises, ownership and authority are intimately linked, with SME owners wielding substantial influence over funding decisions and actions. As such, their individual frequently plays a role in determining financing choices and accessibility. Some established financial institutions may even factor in an owner's overall assets when extending credit to SMEs (Kumari & Trivedi, 2019:193-203). The literature has extensively examined owner–

managers' three principal personal characteristics– their gender, age, and educational background.

The existing literature presents opposing evidence on the gender influence of small and medium enterprises and their access to funds. Studies by Coleman and Watson (2017) have discovered that female-owned SMEs typically receive lower external funding rates, mainly from banks and financial institutions. West African countries report a gender impact only in Mali. It has also been observed that loan transaction costs are usually higher for SMEs controlled by women (Coleman and Watson, 2017). In addition, it is challenging for female entrepreneurs to acquire venture capital support Shava (2018). However, studies show no discrimination against females owning an SME when accessing bank loans; instead, other variables like low risk-taking propensity should be considered, as Coleman & Watson (2017) suggested. Finally, any effect of financing disparities between male-female-owned businesses may depend on factors such as varying levels of feminine risk tolerance (Shava, 2017).

Previous research has also suggested that any potential gender effect in small and medium-sized enterprise (SME) financing may stem from variations in preferences between male and female entrepreneurs. For instance, SMEs owned by women are inclined to utilise fewer informal sources of financing in comparison to those owned by men. While research on the impact of owner-manager age on SME financing has yielded unambiguous results, investigations on gender effects have been inconclusive. Recent research by Kumari and Trivedi (2019) indicates that younger SME owners are more likely to secure credit than their older counterparts in India.

Nguyen and Luu (2016) found a positive correlation between the educational attainment of business owners and access to various financial sources. Those favour debt financing with more formal training due to their enhanced understanding of associated risks. This finding is corroborated by a study which surveyed thousands of small- and medium-sized enterprises, revealing that college-educated entrepreneurs generally experience less difficulty securing bank funds than those lacking such credentials.

2.10. PROBLEMS ASSOCIATED WITH CREDIT AVAILABILITY FOR SMES

2.10.1. BAD CREDIT HISTORY

Small and medium-sized enterprises (SMEs) may encounter difficulty securing loans with an unfavorable borrowing history, particularly if it involves a sister organization. It can be logically inferred that poor credit history indicates a certain personality pattern that may result in future problems when attempting to clear refinancing initiatives. Hence, banks are advised to either stay away from such borrowers or offer very stringent terms for borrowing.

2.10.2. POWER BUSINESS PLANS

Small and medium-sized enterprises (SMEs) often need to provide compelling feasibility studies or appealing business plans when seeking loans, leading to their classification as ventures with high risk.

2.10.3. LACK OF COLLATERAL

Thirdly, even if small and medium-sized enterprises (SMEs) have developed business plans, the prospect of lending to them without sufficient collateral presents an unacceptable risk to the lender. As financial institutions cannot afford to gamble on the repayment of loans, borrowers must meet the required collateral standards in case of default. Effective financial management dictates that lenders only accept a refinancing proposal when they are entirely confident in their capacity to cover the loan fully should circumstances necessitate it. Collateral serves as the ultimate safeguard in meeting these standards, and if it is absent, lenders are likely to decline the proposal.

2.11. THE IMPACT OF REGULATORY AND MONETARY FACTORS ON A BANK LOAN

Also, in times of credit crunch and accompanying financial crises, the possibility of bank financial distress may play a significant role in determining credit availability. Nevertheless, the stringent conditions of the traditional feasibility appraisal model, formulated for small and large firms, are met by only a few small businesses. While certain small firms fulfil some of the criteria, others do not. Therefore, to provide loans, banks must establish lending regulations that consider the unique characteristics of both SMEs and their owners.

Furthermore, many SMEs need deposit accounts in the formal banking sector, which is required for loan applicants. Another reason SMEs do not receive any concessions in terms of loan conditions is the absence of laws protecting bankers from default. Furthermore, banks are hesitant to lend to SMEs due to the reluctance of owners/managers to obtain formal training, which is beneficial in providing additional knowledge and expertise in a particular field of business, as well as enhancing the likelihood of receiving loans (Zirra, Mambula, & Anyatonwu, 2019).

2.12. Supply and Demand-side factors of financing knowledge.

Current research and empirical studies demonstrate that small and medium-sized enterprises encounter challenges obtaining sufficient financing to support their operations and expansion. This widely acknowledged phenomenon is often called "gap funding." Further analysis of the funding gap was conducted from two perspectives. The first perspective attributes the financial constraints to supply-side factors, with a focus on how SMEs' knowledge asymmetries and opaqueness jeopardize financial institutions' willingness to provide funding. These same factors also lead to higher transaction costs, rendering it prohibitively expensive for SMEs to access finance and ultimately unprofitable (Boadi, 2018).

According to another perspective, insufficient financing for small and medium-sized enterprises is mainly caused by demand-side factors such as knowledge gaps and expectations about available sources of funding. This view aligns with diverse literature streams (Abdulsaleh and Worthington, 2018) that have studied various aspects affecting bank credit and lending towards SMEs. In addition, regional and multinational studies conducted by scholars like Beck and Peria, (2016). Despite extensive research on SME financing constraints, integration among these different streams has been limited. A few existing studies concentrate solely on examining the characteristics of SMEs alongside their funding channels (Kumar and Rao, 2017).

2.13. THEORETICAL FRAMEWORK

The study of small and medium-sized enterprises (SMEs) has experienced exponential growth in recent years, with a focus on understanding their development, growth, and operations. SMEs are a defining feature of all economies, and their significance extends beyond academic research to national governments and policymakers in developed and developing nations (Beck and Cull, 2016). However, SMEs face various constraints that impede their growth, including a lack of access to finance. While access to finance is a challenge for most firms, SMEs encounter greater difficulties securing growth capital than larger corporations (Carpenter and Peterson, 2016:298-309). In many national and regional surveys, owners and managers of SMEs consistently cite limited access to funds as the primary constraint to the growth of their businesses (Jones-Evans, 2016).

Both empirical studies and prior research have demonstrated that small and medium-sized enterprises (SMEs) frequently suffer from a lack of financing to support their operations and growth, which is commonly referred to as "gap funding" (Bungey, 2017). Two distinct perspectives have been utilized to explore the funding gap issue. The first viewpoint posits that supply-side factors are to blame for the financial constraints experienced by SMEs. This perspective focuses on how SMEs' knowledge asymmetries and opaqueness put financial institutions at risk when granting funding. These same factors are also responsible for increasing transaction costs and rendering financing too costly for SMEs, ultimately resulting in the unprofitability of such ventures.

The trade-off theory is used as the theoretical framework underpinning this study, which posits that a firm assumes expenses in securing external funding and that the enterprise is commonly financed through a combination of debt and equity. One benefit of utilizing debt for financing is the tax advantage. Conversely, the drawbacks of financing with debt consist of the expenses associated with financial hardship, insolvency costs, and non-bankruptcy costs such as employee attrition and suppliers requesting unfavorable payment arrangements.

2.13.1. TRADE-OFF THEORY (TOT)

According to the trade-off theory in a completely perfect capital market, there is an influence on firm valuation based on corporate taxes and the likelihood of bankruptcy due to imperfections found within the stock market through its impact upon capital structure. Henceforth, Kraus and Litzenberger (1973) argue that given such circumstances, there exists an optimal level of debt whereby a balance between tax advantages and chances of insolvency can be achieved. The corporation's solution for this trade-off would be to secure borrowing until the point where any additional earnings from applying more funding are equal to costs related to it regarding any financial difficulties they face. It is assumed by those who uphold this viewpoint that companies could manage debts properly while considering suitable data sets gathered symmetrically from effective markets, ensuring ideal outcomes which prove beneficial compared with their expenses, thereby achieving optimum results in terms of their businesses' overall financing structure through minimized risk management strategies.

2.14. EMPIRICAL REVIEW

A study by Abeh (2017:278-294) scrutinized the growth and development of small and medium-scale enterprises in Nigeria, particularly selected SMEs in Delta State. The research investigated various paradigms associated with challenges, opportunities, and policy interventions for these businesses within the state. Both survey and descriptive research approaches constituted the research design employed in this report. To analyze data collected on participants' demographic details, software known as SPSS version 23 was utilized. Furthermore, T-test analysis was employed to evaluate how measured variables impact business growth. The research discovered that the impediments confronted by small and medium-sized enterprises have a substantial impact on their expansion and progress. The government's endeavors have been observed to influence the growth and development of SMEs in Nigeria constructively. However, the potential of SMEs in Nigeria profoundly influences their expansion and progress, and the respondents' viewpoints were not significantly divergent based on their age and gender. Proposals were put forward.

Azubuike and Ogbuji (2018) researched examining SMEs' impact on economic growth. The study employed several empirical methodologies such as ordinary least squares (OLS), cointegration test, and autoregressive conditional heteroskedasticity (ARCH). The data was obtained from the Central Bank of Nigeria Statistical Bulletin (2017) and the World Development Indicators (2017). The dependent variable was real gross domestic product per capita in order to economic growth while other variables served as independent or controlled ones. The study's results indicate that while the exchange rate had a favorable impact on real GDP per capita, it was trivial. Conversely, labour demonstrated a noteworthy positive influence on growth in Nigeria. In contrast, interest rates exhibited a significant negative effect on economic expansion. The research proposed several suggestions to enhance economic growth in Nigeria by bolstering the inadequate and ineffectual commercial bank lending to the SMEs sector; such an enhancement could transpire through monetary policies implemented by the Central Bank of Nigeria prompting commercial banks to allocate at least 10% of deposits towards financing SME sectors stimulating financial success.

Bagh, Arif, and Razzaq (2017) conducted a study investigating the effects of financial constraints on the growth and development of small and medium enterprises (SMEs) in Sialkot, Pakistan. The study's objective was to determine the underlying impact of financial constraints on the development of SMEs in Sialkot. The study highlights the challenges SMEs face in Sialkot in accessing financial markets and assessing small and medium enterprises in Pakistan. The data was collected through a standardized questionnaire completed by 150 SME respondents in Sialkot. A model was developed to test the relationship between the dependent and independent variables, and the statistical results were analyzed for validity.

Bello, Jibir, and Ahmed (2018) investigated the influence of small and medium-scale enterprises on economic growth in Nigeria. The study employed time series data from 1986 to 2016, sourced from the Central Bank of Nigeria's (CBN) statistical bulletin. The research utilized regression analysis to gain insight into the collected data. The study's results indicated that small and medium-sized enterprises play a crucial role in Nigeria's economic development, as evidenced by their positive and significant correlation with production growth. The authors suggested that the government should create new economic policies that limit the importation of foreign goods, particularly those that could be manufactured locally by SMEs, to shield domestic producers from foreign competition. Additionally, they recommended that adequate infrastructure be put in place to support the proper functioning of Nigeria's SMEs.

Bhunia's (2016) study examined the correlation between default patterns exhibited by small and medium-sized enterprises and the credit-related characteristics of their owners. The primary purpose of this research centered on analyzing the interlinkage between SME behaviors and corresponding facets of owners' credit profiles. Based on logistic regression analysis with recurrent sampling data, after segmenting ownership data into fundamental variables incorporating aspects related to creditworthiness as well as payment routines, it was revealed that features reflecting criteria pertinent to assessing one's ability to obtain loans displayed a more crucial association with defaults in terms of SME credit management actions.

According to the research, credit-related factors and personal borrowing history correlate with business default probability. In particular, delinquent loans account for many variables that play an important role in estimating default risk. The findings suggest that managing credit risks for small- to medium-sized enterprises differs from those of larger companies due to their heightened vulnerability towards the influence exerted by business owners. Thus, implementing more effective strategies tailored toward SMEs' unique characteristics could lead to better outcomes in handling their credit issues.

Bian and Gan (2017) conducted a study investigating the impact of government intervention and bank competition on external debt financing for small and medium-sized enterprises (SMEs) in the Chinese capital market. The study employed the ordinary least squares (OLS) method with standard errors clustered at the firm stage and the dynamic system generalized moment methods to address potential problem regressions.

Their survey of 908 firms from 2000 to 2010 revealed that SMEs are more likely to receive bank loans in regions with higher rates of government involvement than the median level of government intervention. Additionally, the study found that the government is incentives to help SMEs acquire more external debt in regions where bank competition is lower than the median level. Based on these findings, the study recommends that the government has a strong motivation to assist SMEs in obtaining long-term loans for political purposes when the level of bank competition is low (Berger and Udell, 2017).

Danish and Wassen (2019) conducted a study exploring SMEs' debt financing decisions in emerging markets. The objective of this study was to investigate the different factors that impact the decision of small and medium-sized enterprises (SMEs) to seek bank loans. The researchers utilized data from survey responses from 145 SMEs in Selangor and the Kuala Lumpur Federal Territory. The data was analyzed using explanatory element logistics regression and SEM-PLS. The results of the survey revealed that the financial performance of SMEs, their access to finance, and their legal framework are significant positive factors that influence their decision to apply for debt financing. However, the study also found that credit history has a notable negative effect on the decision to apply for funding, as SMEs with weak credit histories are more likely to seek funding. The age of the SME has a minor impact, while its size has no significant effect on its decision to apply for financing. Based on the findings, it is recommended that the role of financial market imperfections, such as adverse selection and knowledge asymmetry, in determining the need for debt financing for SMEs be further examined to gain a deeper understanding of SMEs' debt financing decisions.

Delid, Perteka, and Kurtovit (2016:37-50) investigated the capital structure and competitiveness of small and medium-sized enterprises (SMEs). The study emphasized the significance of stock market expansion for economic progress and competitiveness of a country as it facilitates the channelling of capital towards high-yield assets, ensuring optimal liquidity and efficient enterprise grouping, which leads to proficient risk-taking. The freedom of businesses to develop their capital structure is primarily expressed in the availability of a wide range of financing sources. The methodology employed in the study involved analyzing the decision-making process on the capital structure of a sample of 108 SMEs. The findings showed that businesses that rely less on debt for their capital structure achieve better financial results and growth. The study also discovered that owners, administrators, and advisors with experience of the advantages and drawbacks of various funding sources make financial decisions in such businesses. The recommended course of action is to increase financial awareness, as it is one of the most critical determinants of the capital structure that will support the growth and development of the SME market.

Delid, Perteka, and Kurtovit (2016:37-50) investigated small and medium-sized enterprises' capital structure and competitiveness (SMEs). The study emphasized the significance of stock market expansion for a country's economic progress and competitiveness as it facilitates the channelling of capital towards high-yield assets, ensuring optimal liquidity and efficient enterprise grouping, which leads to proficient risk-taking. The freedom of businesses to develop their capital structure is primarily expressed in the availability of a wide range of financing sources. The methodology employed in the study involved analyzing the decision-making process on the capital structure of a sample of 108 SMEs. The findings showed that businesses that rely less on debt for their capital structure achieve better financial results and growth. The study also discovered that owners, administrators, and advisors with experience of the advantages and drawbacks of various funding sources make financial decisions in such businesses. To promote the expansion and progress of SMEs, it is advisable to enhance comprehension regarding financial matters. This approach holds significant importance since it is pivotal in shaping the capital composition that will facilitate their growth prospects.

In 2017, Dube conducted a study to examine how debt financing influences the productivity of small and medium-sized fixed enterprises in Masking, Zimbabwe. The primary objective was to investigate the impact of this type of funding on SMEs' operations through both qualitative and quantitative research methods. A survey-based approach was utilized with a sample size of 80 SMEs for gathering primary data while relying on secondary records from these entities. The analysis relied on the utilization of SPSS version 19. According to the study, SMEs experienced enhanced profitability due to obtaining debt financing. It was discovered that adequate funding from banks resulted in boosted profits for these companies. Even with this, borrowing costs were observed to be exorbitant and hindered access to sufficient funds for businesses that required them. Therefore, the study suggested that financial institutions offer long-term debt options which would enable investment into capital equipment with an expectation of greater profitability later. Lastly, reducing interest rates was also proposed as a solution so as diversify alternative sources SME could explore whilst raising more funds toward investments in capital equipment.

Woźniak, Duda, Gąsior, and Bernat (2019:2470-2480) conducted a study aimed at examining the relationship between GDP growth and the development of small and medium-sized enterprises (SMEs) in Poland. The study involved statistical analysis of the collected data to test the hypotheses. The results revealed that while all SMEs supported the hypotheses in some aspects, they must be rejected in the case of micro and small enterprises. The link between GDP growth and the development of SMEs can be considered robust. In a related study, Karim and Li (2017:1-21) investigated the nonlinear relationship between CEO power and capital structure in China's listed SMEs. The authors explored the connection between the decision-making authority of CEOs and the corporate capital structure in a dynamic market characterized by deep collectivism and a less perspective regulatory and legislative climate. Employing a sample of 297 companies listed on the Shenzhen Stock Exchange SMEs Board between 2009 and 2013, the study uncovered a hump-shaped combination of CEO control and leverage, indicating a clear nonlinearity between these two variables. The present study reveals that the influence of CEO control on company leverage is growing more pronounced in state-owned enterprises. These findings remain robust even when alternative CEO power index measurement procedures and estimation techniques are employed. The study suggests that shareholders and policymakers should leverage these results to enhance the performance of CEOs in small and medium-sized Chinese companies.

In a separate investigation, Kozubíková, Klička, and Maňák (2017) sought to explore entrepreneurs' understanding of debt financing in the SME sector of the Czech Republic. Their objective was to determine SMEs' knowledge of debt financing, including cost and risk considerations, as well as to identify any disparities in expertise across age, education, and experience levels. Data was collected through a questionnaire survey of 352 SMEs in the Czech Republic. The findings indicate that 83% of entrepreneurs possess a comprehensive understanding of the most critical aspects of credit risk, and 73% agree that loans are an essential component of business financing. The study reveals statistically significant differences between male and female entrepreneurs, with women recommending the use of more equity than loans. This finding is statistically significant at the 0.05 level compared to 69% of 265 individuals.

Makgalemele's (2017) investigation delved into the effect of tax incentives on the growth of small and medium enterprises (SMEs) and the subsequent impact on economic growth. The study primarily focused on tax incentives as a means of supporting SMEs and the overall industry. The development and growth of SMEs are deemed crucial to a country's economic and overall development, particularly in South Africa. The report revealed that the South African government set up the national development plan as a macroeconomic policy to promote growth in the country. It is imperative that the country's policies align with the growth strategy of the economy as taxes collected play a significant role in funding economic growth. The study highlighted that taxpayers' perception of the tax system is critical, especially in an economy that is severely impacted by poverty, high unemployment, and inequality.

Reza-Gharehbagh, Hafezalkotob, Makui, and Sayadi's (2019:960-981) study investigated the government's intervention policy concerning competition among financial chains (FCs) using the game theory approach. The research aimed to analyze the competitiveness of two financial chains and the government's role in mitigating the arbitrages generated by risky transactions to prevent excessively high-interest rates. Each FC comprises an investor and an intermediary attempting to finance the capital-constrained firms' financial needs. The study employed the Stackelberg game theoretical framework to formulate two and three-level optimization problems for six potential scenarios through the lens of the two primary FC decision-making frameworks (centralized and decentralized) and three government policies (mini speculation). The study suggests that resolving the issue leads to optimal tariff prices and a healthy competitive market. As a result, government policymaking has decision variables that can be analyzed through numerical methods. The authors propose that the government can control the effect of speculation and influence the FCs on the open market by enforcing tariffs and prohibiting high rates. The study recommends imposing interest rate tariffs to balance the economy and limit financial transactions. Through the game theoretical paradigm and numerical analysis, the paper introduces mathematical models of optimization problems and compares different scenarios.

Perez, Alarcon and Umali (2017:89-96) undertook an academic investigation to identify the factors contributing to credit risk when accessing financing for entrepreneurial pursuits. Specifically, their research delved into how a borrower's capability to repay influences his/her ability to obtain debt funding and secure bank capital. They utilized a three-step approach incorporating community-based monitoring data as its underlying methodology to achieve this objective. The research results indicate a positive association between the household entrepreneur's gross expenses and the market income of the company, along with the participation of pregnant women in domestic activities. Moreover, it suggests exploring alternative financing options for debt financing by small and medium enterprises while promoting resource management and risk mitigation skills among households. To facilitate these efforts, establishing credible credit exchange offices or comprehensive databases catering to SMEs may prove beneficial according to the study recommendations.

The aim of the Organization for Economic Cooperation and Development's (OECD's) 2016 report on novel approaches to financing for small and medium-sized enterprises (SMEs) and entrepreneurship was to expand the range of financing options available to these entities, improve comprehension of the complete array of financing instruments they can access under varying circumstances, and promote dialogue among stakeholders on innovative policies and strategies for financing SMEs and entrepreneurship. The study's methodology involved two parts. The Mapping Report's first part mapped the funding instruments currently available to SMEs and entrepreneurs. This section drew on existing reports from governments, public agencies, international organizations, research institutions, non-governmental organizations, financial institutions, business associations, and academic literature in the field, as well as those from the commission. The second section concentrated on utilizing secondary sources such as scrutinizing literature reviews, analyzing media records and conducting interviews with policymakers, small and medium-sized enterprise members, professionals who work at affiliated public or private organizations as well as additional participants in the market. The new approaches to economic challenges (NAEC) project, which was presented at the May 2016 OECD Ministerial Council meeting, emphasized the importance of financial systems returning to their crucial role of intermediation and providing the necessary resources for productive activities (OECD, 2016). According to the findings, financing options for small and medium-sized enterprises (SMEs) should be accessible at an early stage of growth, but only to a restricted percentage of this population.

Maduka (2018) conducted a study on debt financing of growth-oriented small and medium-sized enterprises (SMEs) in Nigeria. This study aimed to investigate the correlation between financing of SMEs and business development in Nigeria. The research delved into the vulnerabilities faced by growth-oriented SMEs in terms of external debt financing, the impact of finance on the growth of SMEs, and the factors affecting SME financing. The study analyzed the viewpoints of SME financing from both the supply and demand side, which included the public policy support for growth-oriented SMEs. Data was collected through semi-structured interviews to determine the main funding needs of SMEs and assess if they were experiencing debt financing gaps and the extent of these gaps. The study also established a link between access to bank finance and SME development, highlighting the crucial role that external finance plays in the development of small and medium-sized enterprises in developing countries. The study recommended valuable insights that could be used to educate policymakers and business practitioners on developing and advancing the SME finance initiative in Nigeria and improving the overall partnership between SME owners and managers, and debt finance providers.

Wijaya and Linawati (2018) delved into the implications of managerial overconfidence and government ownership on the financing decisions of small and medium-sized enterprises (SMEs) in Indonesia. Specifically, the study scrutinized the influence of managerial overconfidence and government ownership on the financing decisions of SMEs that were listed on the Indonesia Stock Exchange timeline from 2012-2016. The methodology involved linear regression, whereby panel information data forms were utilized. The sample size comprised 21 SMEs that had gone public and provided annual financial results for the 2012-2016 period. The research established that the CEO's network and performance, in addition to government ownership and control variables such as productivity, production, and research development, had a significant bearing on the capital structure of SMEs going public. The study recommends that organizations should prioritize effective funding of operational activities using the appropriate capital structure, given the significance of business finance in the overall success of SMEs.

Sefiani and Bown (2013) examined the impact of credit features of small and medium-sized enterprise (SME) owners on the credit default behavior of their respective enterprises. The study aimed to establish a correlation between SME default behavior and the credit features of their owners, to enable a more appropriate and efficient approach to managing SME credit. Upon dividing the property characteristics data into variables for basic features, credit ability features, and credit features, certain patterns were observed. The findings indicate that credit capacity features have a stronger relationship with credit default actions of SMEs as opposed to the owner's credit, which is variable. According to the study, identifying and evaluating credit risk for SMEs may require a different approach as compared to larger enterprises, since SMEs are more actively and substantially influenced by their owners.

Rosavina and Rahadi (2018) undertook a study that investigated the credit default behavior of small and medium-sized enterprises (SMEs) in relation to their owners' credit characteristics. This study was presented at an international conference on Management and Services Science and aimed to determine the correlation between SMEs' default behavior and their owners' credit features. The goal of the study was to identify a more appropriate and effective approach to managing SMEs' credit. To achieve this, the paper combined empirical study with logistic regression analysis and repeated sampling data. The owner's characteristics data were separated into variables of basic features to facilitate the analysis. The findings of the study indicated that credit capability features had a stronger relationship with the credit default actions of SMEs than the owner's credit variables. Specifically, the age of the lender, the frequency of reviewing the owner's credit details for post-loan risk management and pro-loan approval, and the proportion of overdue loans were significant indicators. The study recommended that the credit risk assessment of SMEs should differ from that of large firms since SMEs are more directly influenced by their owners.

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In the research conducted by Efni (2017:40), the focus was on investigating the impact of investment and financing decisions on corporate risk and dividend policy, and how this, in turn, affects the value of a company. The study was specifically centered on the corporate property and real estate sectors, which were listed on Indonesia's stock exchange for a period of nine years (2001-2016) and had complete financial reports during this time frame. Using descriptive and inferential analyses, the study examined the relationship between the variables of interest and five different structural models were developed using Warp PLS. The main objective was to identify the influence of independent variables (exogenous) on the dependent variable (endogenous), both directly and indirectly. The study concluded that investing in a strategic position can enhance a company's value, whereas financing decisions and dividend policy do not necessarily have a significant impact on a company's value. Based on these results, it is recommended that companies focus on managing their risks and making informed investment decisions to increase their overall value.

2.15. SUMMARY OF LITERATURE AND IDENTIFICATION OF RESEARCH GAP

Through an examination of relevant literature, it becomes clear that research into debt financing costs has been conducted both domestically and internationally. For example, (Fatoki and Asah, 2011) examined a study on the impact of firm and entrepreneurial characteristics on access to finance by SMEs in King William's town, South Africa. Similarly, Williams, Louw, and Asah (2020) explored a study in the availability of credit from the formal financial sector to small-medium enterprises in South Africa. Werner, Botha, and Gideon (2022) examined a study on the impact of the South African business environment on SMES trade credit management effectiveness. Dube (2017) conducted a study on the productivity of small and medium-scale enterprises in Zimbabwe because of debt financing. While reviewing the development of finance in Africa, analyzed financing growth of small and medium-sized enterprises. These reviews suggest that there have been only a few studies regarding debt financing in South African SMEs, particularly in Durban. Furthermore, specific research has yet to be conducted on the impact of debt financing costs on the growth and development of SMEs in Durban, South Africa. This study aims to address this gap in the literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This chapter expounds upon the research methodology implemented in the present study. The methodology is divided into six distinct sections. Section 3.1 outlines the research design. Section 3.2 elaborates on the nature and sources of data, encompassing population, sample, and sampling technique. Section 3.3 delineates the data collection techniques, covering both data collection and recruitment methods. Section 3.4 deals with reliability and pretesting. Section 3.5 explicates the inclusion criteria, while section 3.6 focuses on the ethical considerations of confidentiality and anonymity in the study.

3.2. RESEARCH DESIGN

In this research endeavor, a quantitative approach will be adopted to gather numerical data, measurements, and stages that will establish the relationship between theory and research deduction. The methodology will entail rigorous observation, relying on credible and authentic sources, and utilizing statistically precise descriptions (Khan, 2017:3-10). As such, the quantitative research data utilized in this study will be derived from a questionnaire consisting of closed-ended inquiries. These inquiries will be directed towards SME owners and managers, necessitating that they carefully comprehend and interpret the queries All research designs have strength and weaknesses. The selection of a research design rest largely on weighing these strengths and weaknesses given a study's research question, problem, and purpose.There are three main research types.

Experimental Design.

Experimental research adheres to a scientific research design. It includes a hypothesis, a variable that can be manipulated by the researcher and variables that can be measured, calculated, and compared by the researcher. between independent variable and dependent variable link, the randomization procedure used assign participants into a group or condition. An experiment that is designed well with alignment to research questions and hypotheses provide a strong foundation for making inferences about causation (Frankfort-Nachmias,2016). This design is completed in a controlled environment. The researcher collects data and results will either support or reject the hypotheses (Singh,2021).

Correlational Design

When you goal is to understand the nature of the relationship or association between naturally occurring variables that cannot be manipulated, a correlation cannot provide information about the direction of the casual relationship between variables. (Loseke, 2018)

Exploratory Factor Analysis

Exploratory research design seeks to answer a question or address a phenomenon. The nature of the entity being studied does not allow a variable to be manipulated by the researcher (Singh,2021)
This research design seeks to learn between two variables, the dependent variable and independent variable.

Descriptive research Design

This research design is used to summarize data in an organised manner by describing the relationship between variables in a sample or population. Calculating descriptive statistics represents a vital first step when conducting research and should always occur before making inferential statistical comparison. They enable health care decision-makers to assess specific populations in a manageable form (Yellapu and Vikas, 2018).

For the purposes of this study descriptive and inferential statistics, Descriptive statistics, such as a bar chart, were employed to examine the demographic particulars of the survey, while inferential statistics, including linear regression and Pearson's correlation coefficient, were utilized to respond to the research inquiries and fulfil the research objectives presented to them.

3.3. NATURE AND SOURCES OF DATA

The collection of initial information will involve the use of a questionnaire, administered to those individuals who are the subject of the study.

3.3.1. POPULATION AND TARGET POPULATION

Polit and Hungler (2017) define population as the complete set or collection of all entities, individuals, or members that conform to the established criteria. For the purposes of this study, the target population will consist of the proprietors or supervisors of each small and medium-sized enterprise (SME) within the eThekwini region, which is overseen by the Durban Chamber of Commerce and Industry (DCCI). As the quantity of SMEs in KwaZulu-Natal is vast and innumerable, the target population will be limited to the manufacturing, agriculture, construction, and retail industries. More than 700 SMEs in KwaZulu-Natal are affiliated with the Durban Chamber of Commerce and Industry (DCCI) and the Small Enterprise Development Agency (SEDA), both of which serve small businesses in Durban (Mahohoma, 2017).

3.3.2. SAMPLE AND SAMPLING TECHNIQUES

This research will concentrate on small and medium-sized enterprises (SMEs) situated in the KwaZulu-Natal Central Business District (CBD) of Durban. These SMEs employ between 10 and 200 individuals and need more access to funding and challenges in sustaining their enterprises (Joensuu, Edelman, and Saari, 2020). The study's objective is to target a sample size of 200 from a population size of 700. To calculate the sample size, the investigator will employ Yamane's proposed formula, which provides a simplified approach. In this study, the researcher set P=10 and utilized a 90% confidence level.

Based on the formula and estimated figures, the sample size was determined to be 88.

$$n = \frac{N}{1 + Ne^2}$$

A sample of 200 individuals, consisting of owners or managers of small and medium-sized enterprises, will be selected for the study, with data being collected via distributed questionnaires.

TYPE OF SME	NUMBER OF SME
Agricultural SME	100
Retail sector SME	140
Manufacturing SME	35
Construction SME	25
	300

3.4. DATA COLLECTION TECHNIQUES

3.4.1. DATA COLLECTION AND RECRUITMENT METHOD

The process of gathering data was initiated upon obtaining consent from the Durban University of Technology's (DUT) Faculty of Accounting and Informatics Research Committee. To collect primary data, questionnaires were utilized and administered via QuestionPro to individuals identified in the DCC database. The questionnaire was accompanied by a voluntary consent form, which participants had to complete to indicate their willingness to join the study. Considering the COVID-19 pandemic's strict regulations on social distancing, the questionnaire was an effective tool to prevent physical contact with the respondents, allowing them to complete the survey at the comfort of their homes.

QuestionPro, is commonly used electronic software, was utilized to disseminate the questionnaire. An email containing the survey link was sent to the respondents who were expected to take approximately 15-20 minutes to complete the survey. If there was no response or the answer was unsatisfactory, a reminder letter was sent by the researcher after a week of the questionnaire distribution. The questionnaire and consent form were written in English, and the latter aimed to provide a clear introduction and explanation of the research's objectives to the respondent.

3.4.2. DATA ANALYSIS TECHNIQUES

Durcevic (2020) posits that data analysis is a process that concentrates on the collection techniques and methods of raw data. It involves seeking insights that are related to the primary objectives of a company, and further exploring this knowledge to transform measurements, figures, and statistics into improvement initiatives. After the data has been gathered, refined, and processed suitably, it is primed for examination. While manipulating data, you may discover that you either have sufficient information or require additional data to fulfill the needs of your analysis. In this process, it is mandatory to employ various analytical tools and software that aid in comprehending and analyzing while making conclusions based on specifics requirements. For instance, this research employed a questionnaire-based primary approach. Data collected were initially recorded in Microsoft Excel spreadsheet before being transferred for coding into Statistical Package for Social Sciences (SPSS) which facilitated easy interpretation highlighting SMEs' necessary utilization of debt financing as growth funding strategy. SPSS was availed capable of sorting out statistical details from where the organized dataset was generated also meaningfully arranged readying correct output results presented later.

3.4.3. THE LINEAR REGRESSION MODEL

The linear regression model is presented in the methodology section as below.For descriptive statistics included mean, standard deviation, frequencies, and percentages. Regression analysis was used to determine the nature of the relationship between the study variables at a generally accepted conventional significant level of P<001. This helped to ascertain the extent to which each of the independent significantly affected market imperfection as dependent variable. The regression model is:

$$Y = \beta 0 + \beta 1x1 + \beta 2x2 + e$$

Where: Y = Access to financing

B0 = Constant Term

β1 to β4 = Regression Coefficients

x 1 = Market imperfection

x 2 = access to financing.

e = error

3.4.3. DESCRIPTIVE ANALYSIS (FREQUENCY TABLES, PERCENTAGES, AND ANALYSIS)

Descriptive analysis, as posited by Ayush Sing Rawat (2021), serves the purpose of presenting, explicating, and encapsulating data points in a constructive manner such that variables satisfying all data conditions may be identified. It is deemed as the crucial first step in statistical data analysis as it furnishes the determination of data distribution. This study expounds on the use of frequency tables, percentages, and analysis to achieve these objectives.

3.4.4. INFERENTIAL STATISTICS ANALYSIS

Inferential statistics is the process of reaching generalization about the whole population by examining a sample (Salvatore and Reagle, 2021). Inferential statistical procedures are explicitly designed to permit inferences from observed sample statistics to corresponding population parameters using the rules for statistical inference with a test of significance. Inferential statistical examples include t -tests, univariable and multivariance analysis of variance, structural equation models, discriminant analysis and multiple regression analysis (Cooksey,2022).

3.5. RELIABILITY, VALIDITY AND PRETESTING

3.5.1. RELIABILITY

In the field of psychological science, the concept of reliability pertains to the precision of a measurement test or analysis (Mcleod, 2019). Reliability can be inferred if research findings are consistently replicated. Maskal and Leydens (2020) posit that the degree of consistency in results when the experiment is conducted multiple times under the established methodological conditions is what is being measured by reliability. Thus, in this study, Cronbach's alpha will be utilized for the quantitative analysis to gauge and ascertain the reliability of each construct, while composite reliability will also be employed.

3.5.2. VALIDITY

Kelly (2016:41-48) introduced the concept of validity, positing that a test is considered valid when it accurately measures what it purports to evaluate. In the case of an intelligence test, it should assess intelligence rather than any other variable. The differentiation between internal and external validity is significant in the assessment of validity within research studies. These various forms of validity are crucial in the evaluation of a test's validity.

Internal validity

Internal validity pertains to the extent to which the outcomes obtained from a particular sample can be attributed to the independent variable that was manipulated, rather than any other influencing factors. This implies that the independent and dependent variables have a causal relationship. To enhance internal validity, it is crucial to exercise control over extraneous variables, utilize structured directions, counterbalance, and eliminate demand characteristics and investigator impact. In the current research, debt financing is considered as the independent variable, while the growth and development of SMEs serves as the dependent variable.

External validity

External validity encompasses the extent to which study findings can be generalized to different environments, populations, and historical periods, and can be enhanced through the use of natural settings and random sampling.

3.5.3. PRE-TESTING

In the realm of testing instruments, a pre-test is an initial administration used to identify any potential flaws or issues (Polit and Hungler, 2017). To pre-test the questionnaires in this research study, a retrospective approach with debriefing was employed. The researcher closely observed the respondents as they interacted with the questionnaire, without intervention, and accurately recorded the time it took for them to complete the questionnaire. Only individuals who are available, possess the necessary information, and could answer the questions will be selected as respondents.

3.6. INCLUSION CRITERIA

The stipulated criteria for inclusion in this study necessitate that the subjects involved are proprietors or executives of small and medium-sized enterprises (SMEs) operating under the jurisdiction of the Durban Chamber of Commerce within the eThekwini locality.

3.7. JUSTIFICATION OF METHODOLOGY

The present investigation employed the qualitative research methodology as the primary data collection method to ascertain the influence of debt financing expenses on the progress and advancement of small and medium enterprises (SMEs) situated in Durban, South Africa. This research technique facilitates the collection of data from a vast number of individuals (Jilca,2019) thereby aiding the investigator in managing and regulating the factors under scrutiny in this study.

3.8. ETHICAL CONSIDERATION/CONFIDENTIALITY AND ANONYMITY

Ethical considerations may be considered a crucial aspect of research. Bell, Bryman, and Harley (2022) have outlined the most significant principles that pertain to ethical considerations in dissertations.

1. The study's participants shall not be subjected to any form of harm whatsoever.

2. Precedence shall be given to the respect of the participants' dignity in the research.

3. Full consent shall be acquired from the participants prior to the commencement of the test.

4. The privacy rights of participants must be upheld during the study.

5. Adequate confidentiality of the study's data shall be achieved.

For the objectives of this investigation, the questionnaires that have been filled out, without any indication of the participant's identity or their respective enterprise, shall be retained for a duration of five years, after which they will be destroyed; this course of action will guarantee the confidentiality and anonymity of the participants and serve to enhance the study's overall content validity.

3.9. POTENTIAL OUTPUTS

- The outcomes of this study will be disseminated as a thesis, accessible to academics and other stakeholders interested in the research field, through DUT's libraries and the internet.
- This research endeavor will augment the existing knowledge base and serve as a valuable resource for educators, researchers, policymakers, and students who are interested in comprehending the financial barriers encountered by SMEs both nationally and internationally.
- In terms of its relevance to community development, the results and recommendations of this study will be utilized to enhance the financial condition of SMEs and alleviate their financial limitations. This will also lead to an improvement in the living standards of the employees and all other individuals who are directly or indirectly linked with SMEs across various communities.
- Furthermore, research articles will be published to disseminate the findings.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1. INTRODUCTION

The present study aimed to examine the effects of debt financing expenses on the progress and advancement of small and medium-sized enterprises (SMEs) in Durban, South Africa. The chapter provides an overview of the results and the discussion of the findings obtained from the analysis of the data. A structured questionnaire was utilized to collect responses from the participants of the survey. The Questionpro tool was employed to administer the structured questionnaire to the respondents. The data was extracted from the Questionpro tool and imported into Microsoft Excel for the purpose of preliminary cleansing. Subsequently, the cleaned data was analyzed using SPSS, which involved two types of statistical analysis: descriptive and inferential statistics. Descriptive statistics, such as a bar chart, were employed to examine the demographic particulars of the survey, while inferential statistics, including linear regression and Pearson's correlation coefficient, were utilized to respond to the research inquiries and fulfill the research objectives. The demographic section of the questionnaire is outlined in the following section.

4.2. DESCRIPTIVE ANALYSIS OF THE RESPONDENTS' DEMOGRAPHY

The survey respondents were asked to provide information pertaining to eight distinct demographic categories. These categories encompassed a range of factors including job designation, enterprise sector, firm scale, age group, work experience, marital status, highest level of education, and access to financing for the enterprise sector. The demographic information for each category is presented in the subsequent sections.

4.2.1. JOB DESIGNATION

The survey participants were requested to specify their job title in the different small and medium-sized enterprises that were examined. The scrutinized data revealed that 76.3% of the overall respondents were the proprietors of the establishment, 13.4% were the supervisors of the establishment, whereas 10.4% were both proprietors and supervisors. According to the findings of the statistical analysis, the majority of the survey respondents were small and medium-sized enterprise owners. Figure 4.1 displays a visual depiction of the analyzed data.

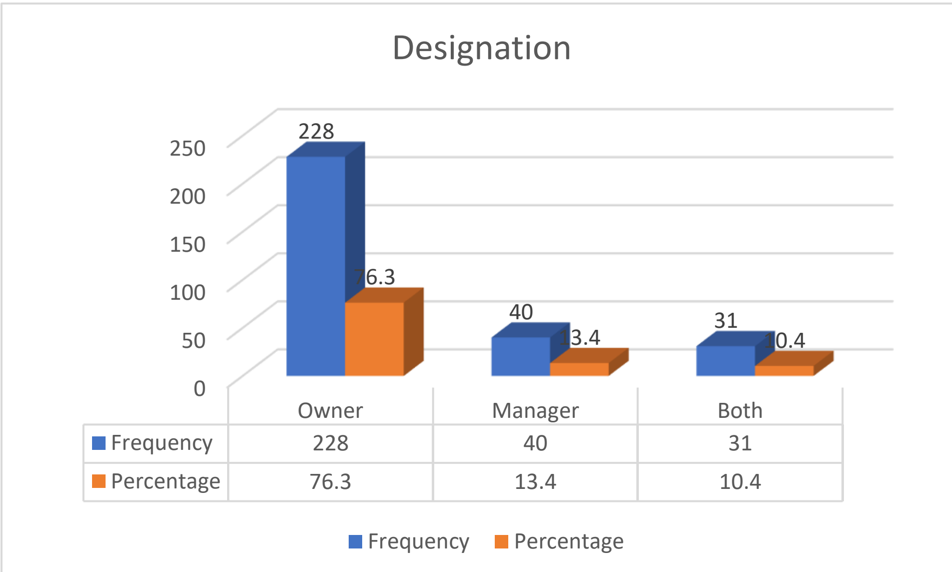


Figure 4. 1 Designation

4.2.2. SECTOR OF THE ENTERPRISE

- The participants were requested to specify the type of enterprise they were affiliated with. The data that was scrutinized demonstrated that out of the overall sectors, 146 (48.8%) were engaged in agricultural activities, 92 (30.8%) were involved in retail commerce, 32 (10.7%) were operating in the manufacturing domain, while the remaining 29 (9.7%) belonged to the construction industry. The reasons behind the agricultural sector percentage at 48.8%, the highest. Certain trends have put a lot of pressure on cities and their limited resources in Durban, such as Land, Water and their infrastructure which have not been keeping up with the pace of change, however there is still high demand for urban agricultural in Durban. There is evidence of support and interest from eThekwini Municipality. The drought- management fact sheet has a single advice on Watering gardens at night to reduce evaporation rate of water. Multiple programme have existed to promote the eThekwini Agro-Ecology programme that liaises with field staff in those communities (Bisaga and Pakiri, 2019). A graphical representation of the examined statistics is depicted in Figure 4.2.

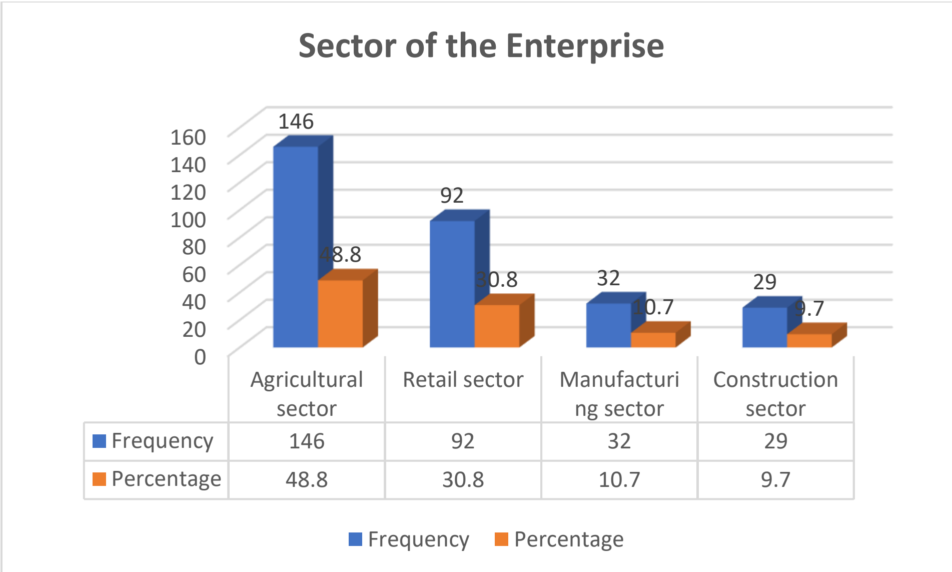


Figure 4. 2 Sector of the Enterprise

4.2.3. FIRM'S SCALE

The survey participants were requested to denote the scale of their respective firms. Upon analysis of the data, it was discovered that 54.5% (163) of the respondents represented very small firms, 13.4% (40) represented medium firms, while small firms accounted for 32.1% (96) of the data set. A visual representation of the analyzed data pertaining to the scale of the firms is presented in Figure 4.3.

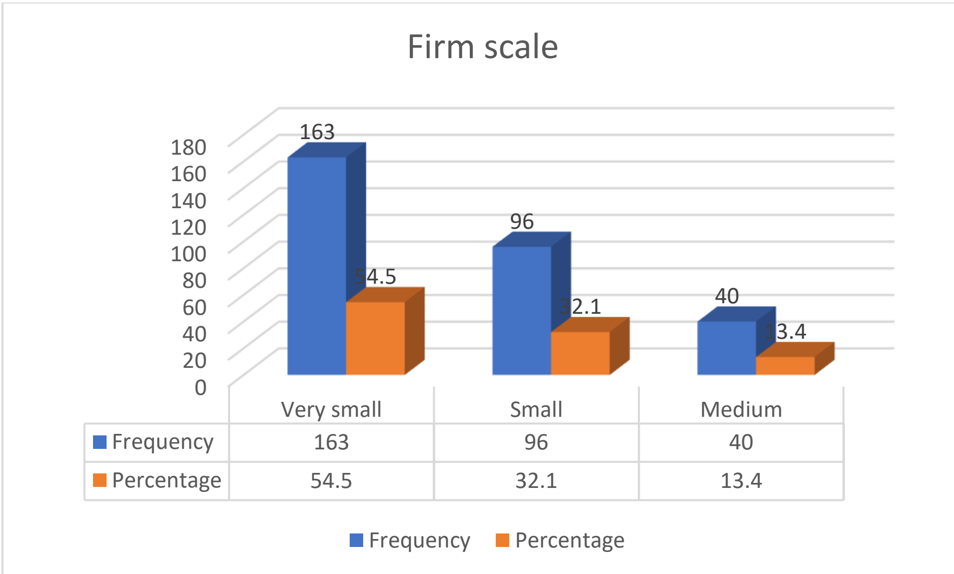


Figure 4. 3 Firm scale

4.2.4. AGE GROUP

The age groups of the respondents were analyzed, and it was found that the majority (60.2%) fell between the ages of 21 and 30, while a smaller percentage fell into the categories of 20 years or younger (27.4%), 31-40 years (11.4%), or older than 40 years (1%). The graphic illustration of analyzed data for the age group is presented in Figure 4.4.

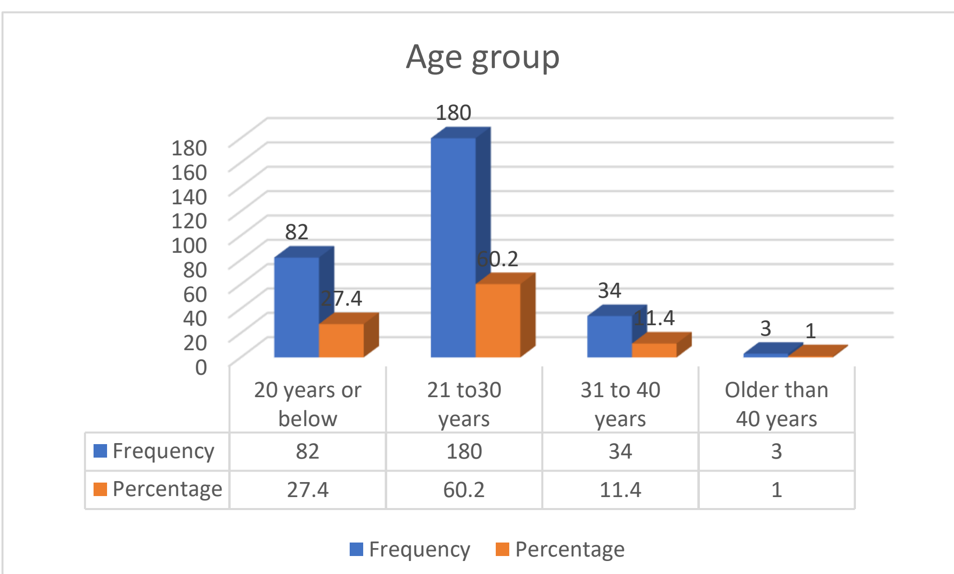


Figure 4. 4 Age group

4.2.5. WORK EXPERIENCE

The participants were requested to disclose their professional backgrounds. Subsequent analysis of the data revealed that 91 (30.4%) had 0-5 years, 183 (61.2%) had 6-10 years, 21 (7%) had 11-15 years, 3 (1%) had 16-20 years, and 1 (0.3%) had more than 21 years of experience. A visual representation of the analyzed data concerning their work experience is presented in Figure 4.5.

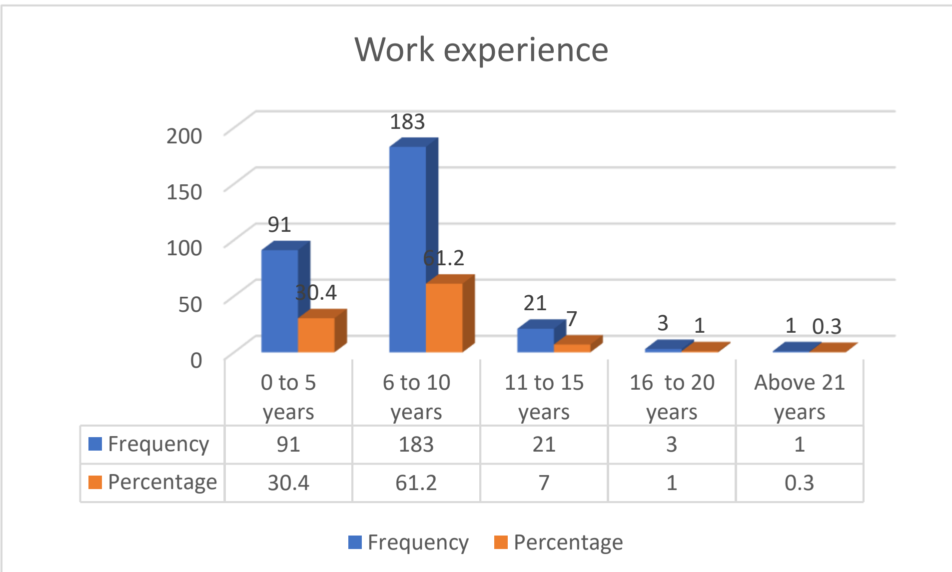
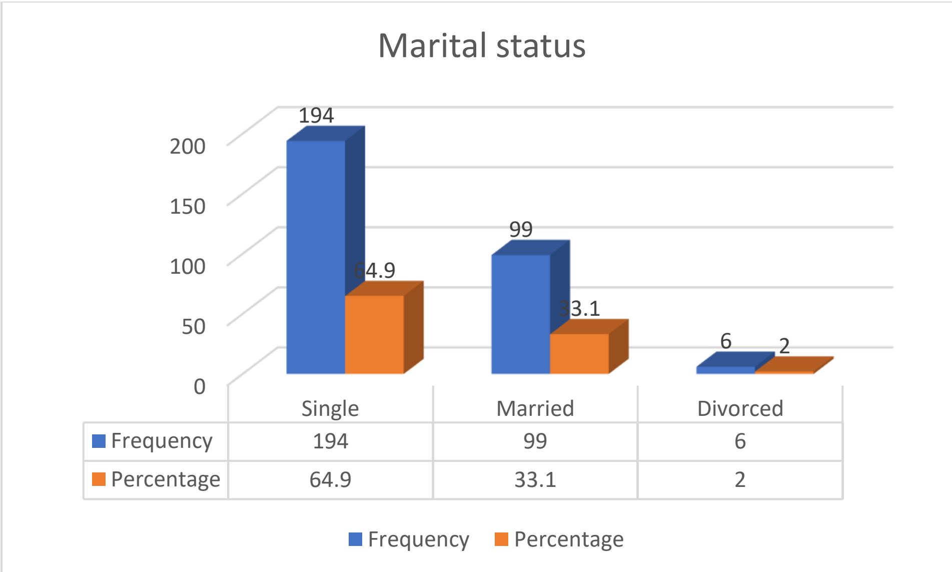


Figure 4. 5 Work experience

4.2.6. MARITAL STATUS

Participants indicated their current marital status. Data analysis revealed that 64.9% (194 individuals) were single, while 33.1% (99 participants) were married, and only 2% (6 respondents) identified as divorced. The infographic in Figure 4.6 illustrates the findings on the participant's marital status.



4.2.7. HIGHEST LEVEL OF EDUCATION

The respondents indicated their level of education. The analysis revealed that 41.1% hold a matriculation certificate, 46.2% have a diploma or bachelor's degree, and 10.4% attained Honors or Btech degrees. In comparison, only 2% earned a postgraduate degree and merely 0.3% fall into the other category. See Figure 4.7 for the visual representation of educational attainment data analyses in this study.

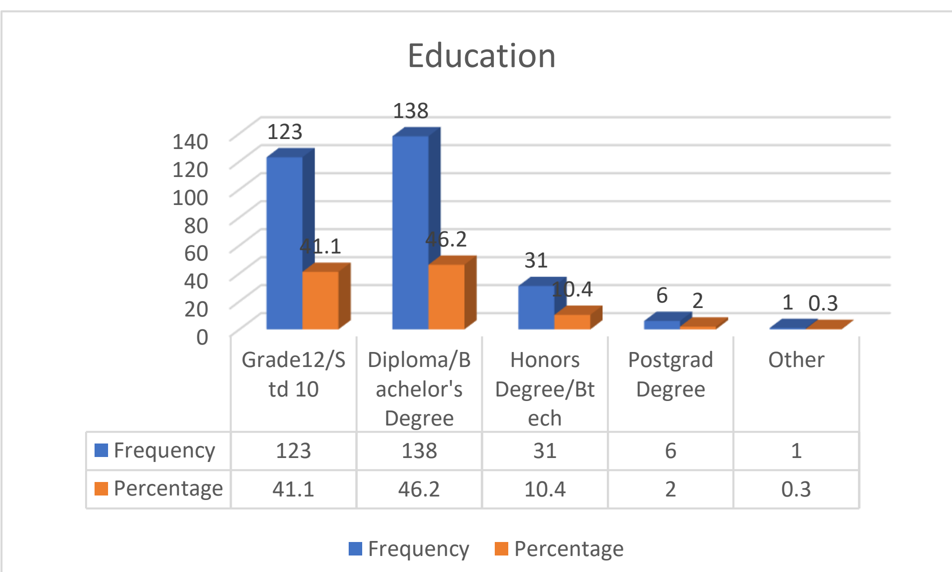


Figure 4. 6 Highest level of education

4.2.8. ACCESS TO FINANCING

The participants were asked to rate the accessibility of financial resources for their establishments. The statistical analysis revealed that the majority, 52.2%, found it highly challenging to obtain financing. 18.1% found it exceedingly easy, 21.10% deemed it average, and only 8.7% considered it neither easy nor difficult. Figure 4.8 depicts the analytical data below.

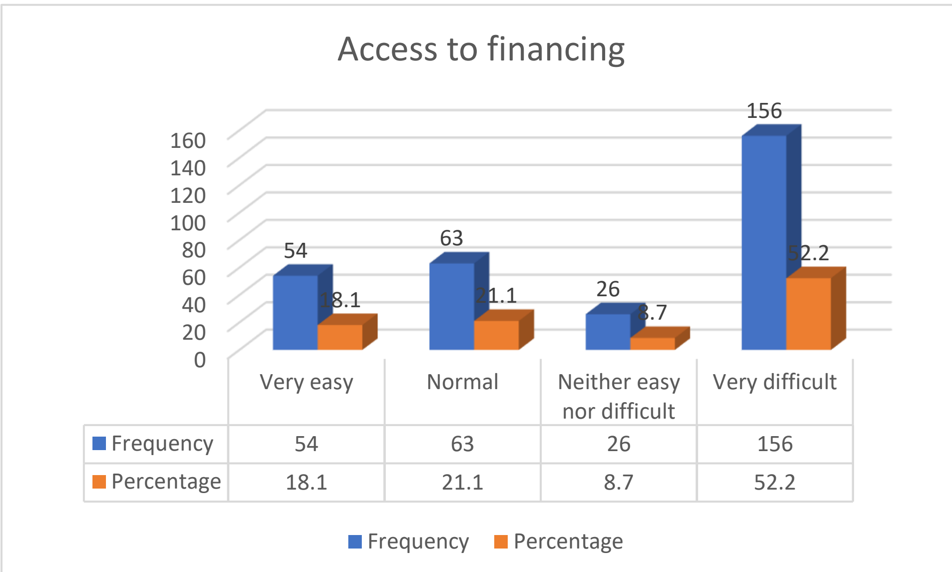


Figure 4. 7 Access to financing.

4.3. ANALYSIS OF THE SURVEY RESPONDENT'S RESPONSES TO THE SCALE

The findings on the correlation between debt financing costs and SME growth and development, based on responses from a scale of strongly disagree to agree strongly, are displayed in Table 1 with frequencies and percentages.

4.3.1. DEBT FINANCING COSTS AS EXTERNAL FUNDING FOR SMES

Table 4. 1 Response to Analysis of survey responses

S/N	Statements	SD	D	N	A	SA
4.3	DEBT FINANCING COSTS AS EXTERNAL FUNDING FOR SMEs.					
4.3.1	Debt financing is crucial for SMEs' competitiveness and sustainable growth.	6 (2%)	4 (1.3%)	15 (5%)	229 (76.6%)	45 (15.1%)
4.3.2.	The provision of debt financing is crucial for the growth and development of SMEs.	20 (6.7%)	1 (3%)	20 (6.7%)	139 (46.5%)	119 (39.8%)
4.3.3.	Debt financing can enhance an enterprise's profitability.	19 (6.4%)	1 (3%)	24 (8%)	187 (62.5%)	68 (22.7%)
4.3.4.	SMEs frequently need more financial resources and thus opt for debt financing.	17 (5.7%)	2 (7%)	20 (6.7%)	211 (70.6%)	49 (16.4)

Table 4.1 shows the impact of debt financing on external funding for SMEs. The study reports that most owners/managers surveyed recognize the criticality of debt financing to SME competitiveness and sustainable growth; over 46% consider access to such funds vital for business establishment and expansion. Findings reveal positive effects of debt financing on enterprise profitability, endorsed by around two-thirds of participants. Moreover, owing to financial inadequacy experienced commonly by SMEs, the majority of respondents – nearly 71% – deem it a feasible option.

4.3.2. FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs

Table 4. 2 Responses on analysis of survey responses

S\N	Statements	SD	D	N	A	SA
4.4	FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs.					
4.4.1.	The obstacles to obtaining adequate funds created by commercial banks and SMEs disable them from competing effectively in the increasingly globalized market.	4 (1.3%)	12 (4%)	3 (1%)	160 (53.5%)	120 (40.1%)
4.4.2.	Financial performance indicators such as turnover and profitability can influence an enterprise's debt financing level.	2 (7%)	0	10 (3.3%)	168 (56.2%)	119 (39.8)
4.4.3.	Management expertise and level of education are also very important factors enabling SME owners/managers to access finance.	2 (7%)	0	17 (5.7%)	201 (67.2%)	79 (26.4%)
4.4.4.	The higher the degree of competency SME owners/managers display, the more successful they	15 (5%)	1 (3%)	26 (8.7%)	221 (73.9%)	36 (12%)

	are likely in obtaining debt funding.					

The results presented in Table 4.2 about FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs demonstrate that a significant percentage of respondents (53.5 percent) believe that commercial banks and SMEs themselves pose considerable obstacles to accessing sufficient funds, thus hindering their ability to effectively compete in an increasingly globalized market 56.2 percent of respondents agree that financial performance indicators, such as turnover and profitability, can influence an enterprise's debt financing level. Additionally, 67.2 percent of respondents acknowledge that management expertise and educational level are crucial factors that enable SME owners/managers to obtain financing. The evidence indicates that SME owners/managers with a higher degree of competency are more likely to successfully secure debt funding, as 73.9 percent of respondents opined.

4.3.3. EFFECT OF MARKET IMPERFECTIONS ON THE DECISIONS OF SMEs TO APPLY FOR DEBT

Table 4. 3 Responses on analysis of survey responses

S/N	Statements	SD	D	N	A	SA
4.3	EFFECT OF MARKET IMPERFECTIONS ON THE DECISIONS OF SMEs TO APPLY FOR DEBT.					
4.3.1.	Banks need more financial details about the enterprise they want to borrow, discouraging them from lending.	5 (1.7%)	0	21 (7%)	146 (48.8%)	127 (42.5%)
4.3.2.	Enterprises do not have adequate knowledge of	4	0	8	191	96

	potential lenders; therefore, they are discouraged from borrowing because they perceive that banks will not lend to them and lose out on borrowing opportunities.	(1.3%)		(2.7%)	(63.9%)	(32.1%)
4.3.3.	SMEs must acquaint themselves with the credit application procedure and the prerequisites demanded by lenders to improve their likelihood of being evaluated for financial support.	3 (1%)	0	10 (3.3%)	226 (75.6%)	60 (20.1%)
4.3.4.	The rejection is high for SMEs that apply for bank finance, and a large proportion of SMEs are excluded from financial markets.	15 (5%)	1 (3%)	10 (3.3%)	220 (73.6%)	53 (17.7%)
4.3.5.	High financing costs are one of the reasons why SMEs hesitate to borrow funds from financial institutions.	15 (5%)	3 (1%)	17 (5.7%)	220 (73.6%)	44 (14.7%)

The findings depicted in Table 4.3 about the EFFECT OF MARKET IMPERFECTIONS ON SMALL AND MEDIUM-SIZED ENTERPRISES' (SMES) DECISION TO APPLY FOR DEBT, reveal that a significant proportion of respondents (48.8%) think that banks lack sufficient financial information about the borrowing enterprise, leading to reluctance to lend money. Moreover, most respondents (63.9%) concur that SMEs possess more potential lenders, which deters them from borrowing due to the perception that banks are averse to lending funds, thereby causing them to miss out on borrowing opportunities. Additionally, a substantial percentage of the participants (75.6%) believe that SMEs should acquaint themselves with the credit application process and the requirements of lenders to improve their chances of being approved for loans, as the rejection rate for SMEs seeking bank finance is high, and a significant number of them are excluded from financial markets. Lastly, a considerable proportion of the respondents (73.6%) agreed that high financing costs are one of the primary reasons for SMEs' reluctance to borrow from financial institutions.

4.4. FINANCIAL SUPPORT AND SMEs

Table 4. 4 Responses on analysis of survey responses

S/N	Statements	SD	D	N	SA	A
4.4.	FINANCIAL SUPPORT AND SMEs.					
4.4.1.	Increased access to loans and financial support can enhance the growth of SMEs.	21 (7%)	1 (3%)	1 (3%)	191 (63.9%)	85 (28.4%)
4.4.2.	Small and medium-sized enterprises (SMEs) such as NGOs should consider diversifying their financial resources.	16 (5.4%)	0	9 (3%)	146 (48.8%)	128 (42.8%)

4.4.3.	Providing tax incentives to SMEs would facilitate the establishment of a robust financial foundation.	6 (2%)	1 (3%)	11 (3.7%)	217 (72.6%)	64 (21.4%)
4.4.4.	SMEs will endeavor to access financial aid by identifying other financing institutions.	16 (5.4%)	1 (3%)	11 (3.7%)	228 (76.3%	43 (14.4%)

The results presented in Table 4.4 concerning the provision of monetary aid and its impact on small and medium-sized enterprises (SMEs) indicate that a significant majority of 63.9% of the respondents strongly agree that SMEs would flourish with greater access to loans and financial support. Furthermore, 48.8% of the participants firmly believe that SMEs should explore alternative sources of financing, such as non-governmental organizations. Additionally, a noteworthy proportion of 72.6% of the respondents strongly agrees that tax incentives would assist SMEs in establishing a robust financial foundation. Interestingly, a substantial majority of 76.3% of the participants strongly agree that SMEs would actively seek financial assistance if they were aware of more financing organizations.

4.5.THE INFLUENCE OF–DEBT FINANCING SOURCE ON THE GROWTH AND DEVELOPMENT OF SMEs

Table 4. 5 Responses on analysis of survey responses

S/N	Statements	SD	D	N	SA	A
4.5.	THE INFLUENCE OF DEBT FINANCING SOURCE ON THE GROWTH AND DEVELOPMENT OF SMEs.					
4.5.1.	The progress and advancement of SMEs are reliant on financial institutions aiding, particularly in the form of debt financing.	16 (5.4%)	1 (3%)	6 (2%)	136 (45.5%)	140 (46.8%)
4.5.2.	It is imperative for an enterprise to formulate its growth and development strategy prior to pursuing debt finance.	17 (5.7%)	1 (3%)	11 (3.7%)	159 (53.2%)	111 (37.10%)
4.5.3.	SMEs should adopt the utilization of debt financing to facilitate efficient expansion and progress.	4 (1.3%)	0	8 (2.7%)	211 (70.6%)	76 (25.4%)
4.5.4.	When employed prudently and with restraint, debt financing	4 (1.3%)	0	4 (1.3%)	249 (83.3%)	42 (14.0)

	can enhance the prosperity, expansion, and progress of a business.					
4.5.5.	Improper utilization of debt financing can lead to a catastrophic outcome.	16 (5.4%)	0	5 (1.7%)	236 (78.9%)	42 (14%)

The findings reported in Table 4.5 regarding the IMPACT OF DEBT FINANCING SOURCE ON THE GROWTH AND DEVELOPMENT OF SMEs demonstrate that a substantial percentage of the respondents 45.5%, firmly believe that financial institutions, such as debt financing, play a crucial role in supporting and promoting the growth and development of SMEs. Additionally, 53.2% of the participants strongly agreed that a growth and development strategy must be developed before seeking debt financing. Furthermore, a significant proportion of SMEs, specifically 70.6%, should adopt debt financing auto achieve effective growth and development. Furthermore, a high % of the respondents, that is, 83.3%, asserted that debt financing, when used judiciously and in moderation, can contribute to an enterprise's prosperity, growth, and development. Notably, 78.9% of the participants strongly agreed that reckless debt financing could lead to disastrous outcomes.

4.6. ECONOMIC ENVIRONMENTAL VS GROWTH AND DEVELOPMENT OF SMEs

Table 4. 6 Responses on analysis of survey responses

S/N		Statements	SD	D	N	SA	A
4.6		ECONOMIC ENVIRONMENT VS GROWTH AND DEVELOPMENT OF SMEs.					

4.6.1.		Durban proves to be a highly attainable and expedient venue for the operations of my enterprise.	6 (2%)	14 (4.7%)	17 (5.7%)	143 (47.8%)	119 (39.8%)
4.6.2.		The enterprise is secure for SMEs' development and growth	3 (1%)	15 (5%)	7 (2.3%)	145 (48.5%)	129 (43.10%)
4.6.3.		The Location is crucial for SMEs' sustenance and development.	2 (7%)	0	13 (4.3%)	218 (72.9%)	66 (22.1%)
4.6.4.		Competition by larger firms inhibits SMEs' growth and progress.	2 (7%)	11 (3.7%)	15 (5%)	217 (72.6%)	54 (18.1%)

The findings disclosed in Table 4.6 regarding the impact of economic conditions on the growth and advancement of SMEs illustrate that nearly half (47.8%) of participants firmly concurred with Durban being a convenient and accessible area for their enterprises. In comparison, 48.5% strongly agreed that their businesses were secure enough to promote SME development. An overwhelming majority (72.6%) believed that extensive competition from larger companies was an obstacle to small business growth, and many respondents (72.6%) emphasized the pivotal role of location in ensuring SMEs' survival and expansion.

4.7. ANALYSIS OF RESEARCH OBJECTIVES

This study crafted four research inquiries and aims. The design of the research questions and objectives facilitated accomplishing the objective by answering each inquiry. To fulfil both, inferential statistics, specifically Pearson's correlation and regression, were implemented. Below are the findings from statistical analysis on both sets of research queries and aims.

4.7.1. RESEARCH OBJECTIVE ONE:

Factors Affecting SME debt financing in Durban, South Africa

Table 4. 6 Responses on analysis of survey responses

S\N	Statements	SD	D	N	A	SA
4.7	FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs.					
4.7.1.	The challenges in securing sufficient financing faced by commercial banks and SMEs impede their ability to effectively compete in an ever-expanding global marketplace.	4 (1.3%)	12 (4%)	3 (1%)	160 (53.5%)	120 (40.1%)
4.7.2.	Financial performance indicators such as turnover and profitability can also influence an enterprise's debt financing level.	2 (7%)	0	10 (3.3%)	168 (56.2%)	119 (39.8)
4.7.3.	Management expertise and level of education are also very important factors enabling SME owners/managers to access finance.	2 (7%)	0	17 (5.7%)	201 (67.2%)	79 (26.4%)

4.7.4.	The higher the degree of competency displayed by SME owners/managers, the more successful they are likely in obtaining debt funding.	15 (5%)	1 (3%)	26 (8.7%)	221 (73.9%)	36 (12%)

The outcomes presented in Table 4.7 in terms of FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs indicate that a majority of respondents, specifically 53.5%, agreed that the challenges faced in obtaining necessary funds due to both commercial banks and SMEs hinder their ability to compete effectively in an increasingly globalized market. In comparison, 56.2% of respondents also agreed that financial performance indicators such as turnover and profitability could influence an enterprise's debt financing level. 67.2% of respondents agreed that management expertise and level of education are also very important factors enabling SME owners/managers to access finance. 73.9% of respondents strongly agree that it is evident that the higher the degree of competency displayed by SME owners/managers, the more likely they are to be successful in obtaining debt funding.

4.7.2. RESEARCH OBJECTIVE TWO

The impact of imperfect market conditions on the choice of SMEs to seek debt financing in Durban, located in South Africa.

The second research objective aimed to establish a connection between market imperfections and the ability to obtain financing. Table 4.8 demonstrates the results obtained from computing Pearson's correlation coefficient for this relationship.

Table 4. 7 Correlation between market imperfection and access to finance

• Construct A	Construct B	Pearson's correlation (r)	p-value
Market imperfection	Access to finance	.650**	<.05

**Correlation is significant at the 0.01 level (2-tailed)

The statistical analysis using Pearson's correlation coefficient, as shown in Table 4.8, has confirmed a significant association between access to finance for small and medium-sized enterprises and market imperfection ($r = 650$, $P < 0.05$). The positive correlation suggests that the two variables - construct A (market imperfections) and construct B (access to finance)- are linked. Specifically, this implies that improving market transparency through greater knowledge exchange among financial institutions regarding borrowers' creditworthiness or enhancing SME applicants' comprehension of lenders' requirements may lead to better chances of securing debt funding despite high financing costs.

In their recent research, Ghak and Zarrouk (2022:311-328) emphasized the significant role of SMEs in driving economic growth through innovation and job creation. However, despite their importance, these entities encounter various challenges that hinder them from accessing financing. The study recommends that governments create an enabling environment by implementing initiatives and programs tailored towards uplifting SMEs' financial capacity. This comes as a response to the limited availability of capital sources apart from traditional bank lending, which hinders access to funds for development, thereby obstructing business growth.

Gupta and Gregoriou (2018:13-25) conducted a research investigation examining the influence of market-oriented finance on the failure of SMEs. According to the authors, legislators' endeavor to eliminate significant hindrances to their involvement in capital markets. Additionally, they recognized that there is an essentiality for improved access among SMEs to ease entry into capital markets; consequently, publicly listed small businesses obtain certain financial benefits whilst facing significantly less imbalanced information than those unlisted companies.

Therefore, it can be inferred that SMEs need to comprehensively understand the various market imperfections that affect their choices when seeking debt financing. Regression analysis was examined to illustrate the degree of impact between these two concepts. The outcomes obtained from linear regression are displayed in Table 4.9 underneath for reference.

Table 4. 8 Linear Regression

The impact of imperfect market conditions on the choice of SMEs to seek debt financing in Durban, located in South Africa.

<table>
<tr><th>Variables in the equation</th><th>B</th><th>Beta</th><th>T</th><th>p-value</th><th>R^2</th><th>F</th><th>Df</th><th>p-value</th></tr>
<tr><td>Constant</td><td>2.591</td><td></td><td>6.282</td><td><.001</td><td rowspan="2">.423</td><td rowspan="2">217.795</td><td rowspan="2">1; 297</td><td rowspan="2"><.001</td></tr>
<tr><td>Access to financing</td><td>.362</td><td>.650</td><td>14.758</td><td><.001</td></tr>
</table>

a. DV – Market imperfection

b. Predictor - Access to financing

Table 4.9 presents the findings of the regression analysis, which reveal an R^2 value of 0.423. The outcomes imply that approximately 42.3% of market imperfections variance is accounted for by access to finance factor's influence on it. The R^2 indicator measures what percentage of variation in the dependent variable (market imperfection) can be attributed to variations in independent variables (access to financing). Evidently, a considerably robust linear relationship exists between market imperfections and financial accessibility since F (1; 297) = 217.795, P<001. A P-value less than 0.05 implies that access to finance predicts changes in the outcome variable - market imperfections- with B=0:650; P <0:001 as depicted hereabouts.

4.7.3. RESEARCH OBJECTIVE THREE

Debt source financing effects on the growth and development of SMEs in South Africa.

The third research objective aimed to establish a correlation between financial resources and the growth of SMEs. The resulting Pearson's correlation coefficient is presented in Table 4.10 underneath.

Table 4. 9 Source of financing and SMEs growth

• Construct A	Construct B	Pearson’s correlation (r)	p-value
Finance source	SMES growth	.741**	<.001

**Correlation is significant at the 0.01 level (2-tailed)

According to Table 4.10, Pearson’s correlation coefficient reveals a significant statistical connection between the growth of small and medium-sized enterprises and their financing sources with a positive correlation (r = 741, P < 001). This implies that maintaining control over borrowed funds is crucial for SME owners/managers as business relationships conclude upon repayment in full. Additionally, these individuals require favorable credit scores to receive financial backing. Moreover, there are tax benefits associated with interest payments since they can be deducted from overall obligations; hence financially disciplined repayments must be made punctually by SME managers/owners located in Durban, South Africa if debt-based funding is desired for driving organizational expansion efforts.

Badi and Ishengoma’s (2021) investigated the correlation between debt finance accessibility and performance amongst small and medium enterprises in Tanzania; their findings demonstrate a favorable effect of accessing debt financing on SMEs' overall success. Through standard multiple regression analysis deployed to test hypotheses using gathered data, positive outcomes indicate increased profitability among such businesses through access to these funding opportunities. Therefore, obtaining debt financing is crucial for advancing growth and enhancing SMEs’ performance levels.

Ophelia (2012) conducted a study to examine how debt financing affects the performance of small and medium enterprises in Ghana. The research results revealed that SMEs can obtain funding from both short-term and long-term debt instruments. However, if improving financial performance is the primary goal for assessing SMEs, then both types of loans hurt their financial outcomes. Therefore, it is imperative to enhance capacity building by nurturing effective company management practices and sound record-keeping skills. To ensure efficient loan processing time and lower borrowing costs, measures must be taken to encourage skill development through training initiatives facilitated by government authorities; this will enable meticulous usage of resources mostly targeted towards curbing credit rationing among SMEs.

Considering the multitude of research studies on leveraging debt to augment performance and expand Small and Medium Enterprises, it is incumbent upon them to acknowledge that appropriate utilization of debt financing can potentially enhance their growth prospects. At the same time, injudicious usage may result in adverse outcomes.

The level of influence between the two constructs was demonstrated through a regression analysis, with the results displayed in Table 4.12.

Table 4. 10 Linear regression

Variables in the equation	B	Beta	T	p-value	R^2	F	Df	p-value
Constant	7.330		10.309	<.001	.549	361.035	1; 297	<.001
SMES growth	.816	.741	19.001	<.001				

a. DV – SMEs growth

b. Predictor – Finance source

The data presented in Table 4.11 reveals that SME growth is responsible for approximately 54.9% of the variance in finance sources, as indicated by an R2 value of 0.549 derived from regression analysis. The calculated R2 value establishes the extent to which changes in the dependent variable can be attributed to alterations observed within the independent variable (finance source). Based on these findings, an observable linear relationship exists between small and medium enterprise expansion and financing sources. With F (1 .297) = 361035; P<001 at a probability level below five per cent, it is established that there is evidential indication showing financial sources are linked with enhanced performance-related variables such as SME results expressed using B=0.741; P<0.001 values obtained through this study's predictive model.

4.7.4. RESEARCH OBJECTIVE FOUR

The fourth research objective aimed to establish the correlation between the economic environment and the growth of SMEs, which is presented in Table 4.12 using Pearson's correlation coefficient.

Table 4. 11 Economic environment and SMEs growth

• Construct A	Construct B	Pearson's correlation (r)	p-value
Economic environment	SMES growth	.612**	<.001

**Correlation is significant at the 0.01 level (2-tailed)

The findings presented in Table 4.12 using Pearson's correlation coefficient demonstrate a statistically significant association (r = 650, P < 0.001) between the economic circumstances and the advancement of SMEs. The constructive correlation indicates a relationship between constructs A and B, suggesting that in Durban, South Africa, by monitoring both micro- and macro-economic factors, there is potential for growth and development of small to medium enterprises.

The findings from this study contradict those of Sitharam and Hoque's (2016) research, where they discovered a negative correlation between the variables that impact small and medium enterprise performance in KwaZulu-Natal, South Africa. Most SME owners/managers consider competition (the micro factor) to be one of the primary obstacles hindering growth prospects. Competition poses a significant challenge for domestic SMEs who face global competitors despite concentrating heavily on local products and sales channels. Consequently, local SMEs struggle with sustaining themselves or retaining their market position amidst stiff competition.

Additionally, the study contended that SME expansion is being influenced by macroeconomic indicators such as inflation and interest rates. The inquiry's findings were consistent with traits of the South African economy, which demonstrate a feeble rand value and elevated inflation rate. These pose significant challenges for SMEs to expand their business operations, particularly those engaged in imports since a depreciating currency can adversely impact profit margins.

A linear regression was conducted to determine the degree of influence between the two constructs, as evidenced by the results displayed in Table 4.13.

Table 4. 12 Linear regression

Variables in the equation	B	Beta	T	p-value	R^2	F	Df	p-value
Constant	7.495		7.520	<.001	.375	177.945	1; 297	<.001
SMES growth	.791	.612	13.340	<.001				

a. DV – SMEs growth

b. Predictor – Economic environment

The outcomes of the regression analysis, portrayed in Table 4.13, reveal an R2 score of 0.375, indicating that SME growth contributes to 37.5% of the economic environment's variability. The R2 value reflects how much variation in the dependent variable (SME growth) can be explained by changes in the independent variable (economic environment). A significant linear association exists between SME growth and the economic environment with F (1.297) = 177.945; P< 001. P<001 is less than (p < .05), showing that Independent Variable accurately predicts Dependent Variable B=612; P<0.001.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. INTRODUCTION

This chapter provides an overview of the proposed study's objectives, conclusions, and recommendations regarding the impact of debt financing costs on the growth and development of small and medium-sized enterprises in South Africa: Evidence from Durban. The study's achievements in meeting its objectives and supplementing its literature are discussed, along with its conclusions and recommendations derivation. The findings are summarized, contributing to the current knowledge base, while limitations and potential avenues for future research are also identified.

5.2. SUMMARY OF FINDINGS

The research aims to analyze the consequences of debt financing costs on the advancement and progress of small and medium-sized enterprises in South Africa: Empirical evidence from Durban. To achieve this objective, the following goals were considered:

The factors that impact SMEs' access to debt financing in Durban, South Africa, were examined. The effect of market imperfections on the decision of SMEs to apply for debt financing in Durban, South Africa, was determined. The impact of debt source of financing on the growth and development of SMEs in Durban, South Africa, was evaluated. The influence of the economic Environment on SMEs' growth in Durban, South Africa, was examined. The study further recommends ways to assist owners/managers of SMEs with debt financing costs awareness to run a successful small business. To achieve these specific objectives, data was collected and analyzed using information from four sectors of SMEs under the control of the Durban Chamber of Commerce (DCC): retail, construction, agriculture, and manufacturing. The research study utilized a questionnaire to gather qualitative data from owners/managers of various sectors, which was then analyzed using SPSS to meet the study's objectives.

Chapter One: This study section provides a comprehensive overview of the study's background, problem statement, research queries, objectives, scope, and organizational structure. The underlying motivation for this research stems from the multitude of factors that influence the decision-making of SMEs in seeking debt financing to expand and enhance their enterprises. It is linked to information asymmetries: banks do not have enough financial details about enterprises that want to borrow, discouraging them from lending. On the other hand, enterprises may not have adequate knowledge of potential lenders or may be discouraged from borrowing because of the perception that banks will not lend to them, so that they may lose out on borrowing opportunities. The research focused more on avoiding these factors and what to be aware of when an enterprise decides to finance through debt finance.

Chapter Two: The literature review looked at the conceptual framework, which provides an understanding of how the two variables of the study-- debt financing costs (an independent variable) and growth and development of SMEs (a dependent variable) -- are linked. This chapter also looked at the conceptual review, where the definition and role of SMEs, SME growth and development and sources of finance were outlined. The chapter also looked at the relevant theories relating to the study. Empirical studies that relate to and are associated with debt–financing costs, growth, and development of SMEs locally and nationally- were also examined and identified. This was all from the existing literature to establish the study’s knowledge gap.

Chapter Three: This chapter discusses the research methodology of the study and the research design, which presents the nature and sources of data, including the population, sample size, and sampling method; data collection methods such as data collection and recruitment methods; reliability and pretesting; inclusion criteria, and lastly, ethical consideration/confidentiality and anonymity. 300 questionnaires were distributed to SME owners/managers in Durban, South Africa, via electronic mail.

Chapter Four: In this chapter, an analysis of data and discussions of the findings were presented. The Statistical Package for the Social Sciences (SPSS) was utilized to assist in attaining the study's objectives. The study conducted two categories of statistical analysis: descriptive and inferential statistics. The demographic section of the survey was analyzed using descriptive statistics, such as bar charts. Meanwhile, inferential statistics, such as linear regression and Pearson's correlation coefficient, were utilized to address the research questions and achieve the research objectives.

5.3. PRESENTATION OF CONCLUSIONS BASED ON THE FINDINGS

The section below presents a brief discussion of achieving research objectives.

TO EXAMINE THE FACTORS THAT IMPACT ON ACCESS TO DEBT FINANCING BY SMES IN DURBAN, SOUTH AFRICA.

The researcher aimed to investigate the factors influencing access to debt financing in Durban, South Africa, for SMEs. The literature review in Chapter Two highlighted some of these factors, while inferential statistics like linear regression and Pearson's correlation coefficient were employed in Chapter Four. Chapter Two delved into SME characteristics and funding access to achieve this objective. Previous studies on SME growth impact, problems and prospects of small and medium-scale enterprise growth and development, and the impact of small and medium-scale enterprises on economic growth in Nigeria by Azubuike and Ogbuji (2018), Abeh (2017), and Bello, Jibir, and Ahmed (2018) were explored. Still, no study focused on SMEs in Durban, South Africa.

The results presented in Table 4.7 demonstrate that a significant proportion of respondents, namely 53.5%, acknowledge the hindrances to acquiring adequate funds that arise from both commercial banks and SMEs themselves. This, in turn, hampers their ability to compete effectively in a world that is becoming increasingly globalized. Furthermore, 56.2% of respondents agree that financial performance measures, such as turnover and profitability, can influence the level of debt financing available to an enterprise. In addition, the survey reveals that management expertise and level of education are crucial factors that enable SME owners/managers to access finance. Specifically, 67.2% of respondents consider these factors to be very important. Finally, the survey also found that 73.9% of respondents believe that SME owners/managers with a higher degree of competency are more likely to obtain debt funding successfully.

TO DETERMINE THE EFFECT OF MARKET IMPERFECTIONS ON THE DECISION OF SMES TO APPLY FOR DEBT FINANCING IN DURBAN, SOUTH AFRICA.

The study's objective was to assess the influence of market imperfections on the decision of SMEs to seek debt financing in Durban, South Africa. The second chapter of the report, titled "conceptual review," examined several factors contributing to market imperfections. However, for this study, the most relevant effect of market imperfection was "the entrepreneur status of SME owners", which plays a significant role in their decision to seek debt financing. Entrepreneurship was defined as establishing a new business venture that offers a unique product, service, or process. Entrepreneurs typically identify opportunities and exhibit biases when deciding how to capitalize on them. This includes developing a business plan, acquiring necessary resources, and being accountable for success or failure (Holloway, 2011). Entrepreneurship can also operate within an entrepreneurship ecosystem, which involves government programs, resources such as business incubators and accelerators, entrepreneurship education and training, and financing options like (loans, venture capital financing, and grants).

TO EVALUATE THE IMPACT OF DEBT SOURCE OF FINANCING ON THE GROWTH AND DEVELOPMENT OF SMES IN DURBAN, SOUTH AFRICA

The outcomes of the investigation reveal a statistically significant correlation between deficient markets and access to financing for small and medium-sized enterprises at ($r = 650$, $P < 0.05$). Additionally, it was discussed that financial establishments possessing sufficient information about the borrowing enterprise's monetary status would lead to market imperfections. The enterprise with adequate awareness regarding potential lenders and familiarization with credit application procedures along with what is required by lenders could enhance prospects of obtaining funding which would better help in averting high financing costs associated when being informed otherwise, leading towards more accommodation of debt finance access attainment.

The study aimed to assess the influence of debt financing as a source of capital on the progress and advancement of small and medium-sized enterprises (SMEs) located in Durban, South Africa. Chapter two, the literature review, delved into the significance of debt financing as a means of funding. It was determined that debt financing is indispensable for the endurance and sustainable expansion of the market for SMEs, both domestically and internationally. Debt financing was particularly critical for establishing small businesses, such as retail, and growing existing SMEs. Ultimately, the development and progress of established enterprises could potentially augment a country's overall economic growth. The African Development Bank (2017) has demonstrated that SMEs have the potential to evolve into large corporations in favorable business environments, thereby transforming the local market and exerting influence globally.

The study's findings demonstrate a noteworthy correlation between financing resources and SME growth at ($r = 741$, $P <001$). This suggests that for small and medium enterprises to grow, proprietors should retain control over the amount borrowed as the business association terminates after full loan repayment. Owners/managers must uphold good credit ratings to qualify for funding their enterprise. Additionally, borrowing bears tax benefits since interest paid can be deducted, thus reducing net obligation costs. Lastly, financial discipline by making timely repayments would empower SMEs based in Durban, South Africa, with access to debt sources, thereby enhancing their development prospects.

TO EXAMINE THE INFLUENCE OF THE ECONOMIC ENVIRONMENT ON SMES' GROWTH

The researcher's objective was to investigate the impact of the economic landscape on the expansion of small and medium-sized enterprises (SMEs). Sitharam and Hoque (2016:277-288) conducted a study to investigate the factors influencing the performance of SMEs in KwaZulu-Natal, South Africa. The research revealed that most SME owners and managers identify competition (the micro factor) as the primary obstacle affecting SME performance and is the most significant impediment to business growth. Despite their products and sales being highly localized, many purely domestic SMEs face global competition as per competition. Local SMEs are increasingly having difficulty surviving or maintaining their current market position.

According to the research, the growth of SMEs is influenced by macroeconomic variables like inflation and interest rates. However, these findings differ from those obtained in our study, where we discovered a statistically significant correlation between economic conditions and SME growth (r = 650, P < 0.001). This link appeared challenging since South Africa's economy is feeble, with high inflation rates that hinder SME development even more severely. Moreover, a declining rand might negatively impact business profits for an importing SME.

5.4. RECOMMENDATIONS FOR SMES IN DURBAN, SOUTH AFRICA

This section outlines recommendations to SMEs in Durban, South Africa, on improving their enterprises' growth and development through debt financing.

The investigation results indicate that debt financing is a double-edged sword that favors firms that can obtain adequate funding from financial institutions. Still, it has an unfavorable effect on those unable to borrow enough due to high borrowing expenses, such as interest rates. As businesses are perceived as the backbone of economic development in both developed and developing nations, the importance of SMEs working efficiently and effectively for growth and development is critical to enhancing the economy. This can be accomplished when SMEs have sufficient funds, whether internal funds such as savings and investment or external funds such as debt financing from financial institutions.

The study identified several factors that impact the accessibility of debt financing and the growth of small and medium-sized enterprises (SMEs). It has come to light that despite receiving funding from commercial banks through bank loans, many SMEs are still compelled to shut down. This is primarily due to their weak financial management skills, using funds based on unrealistic market criteria, and ultimately becoming over-indebted and unable to repay the borrowed amount with interest. Therefore, it is imperative for the owners/managers of SMEs in Durban, South Africa, to recognize the significance of management expertise and education level as crucial factors that facilitate the acquisition of finance. One way to achieve this is by attending short courses that enhance their knowledge and skills. It is worth noting that the higher the level of competency exhibited by SME owners/managers, the greater the likelihood of success in obtaining debt financing.

The investigation's discoveries additionally uncovered that high financing costs are one of the reasons why SMEs are hesitant to obtain funds from financial institutions. Therefore, numerous survey responses have declared that enterprises lack adequate knowledge of potential lenders, discouraging them from borrowing due to the perception that banks will not lend to them, resulting in a loss of borrowing opportunities. SMEs seeking financial assistance should familiarize themselves with the credit application process and lenders' requirements to increase their chances of being considered.

The results of numerous surveys have revealed that the advancement and expansion of small and medium-sized enterprises (SMEs) rely on the backing of financial institutions, particularly debt financing. A growth and development plan ought to be formulated before an enterprise seeks debt funding, and SMEs ought to adopt debt financing to realize productive progress and development. SMEs can therefore prosper with greater accessibility to loans and financial support.

Lastly, small business enterprise owners/managers in Durban, South Africa, are encouraged to have an entrepreneurial mind and capacity that will enable administrative simplicity, such as start-up capitalization and examine initiatives that will assist in utilizing funds for the growth and development of their enterprises, rather than always considering debt-finance due to high borrowing costs.

5.5. IMPLICATIONS OF THE STUDY

Based on the findings of this study, it is evident that debt financing sources have significant implications for the growth and development of small-medium enterprises (SMEs). Employed judiciously and prudently, debt financing can enhance an enterprise's welfare, growth, and development; however, when used carelessly, it can lead to catastrophic outcomes. Smaller enterprises have limited access to debt financing relative to their larger counterparts (Kira and He, 2016). Small enterprises are commonly known for their high-risk nature, which explains lenders' hesitation to provide them with credit. This results in smaller debt maturity and collateral requirements often unattainable for these enterprises. However, SMEs can improve the growth and development of their businesses by not solely relying on debt financing but also by cultivating entrepreneurial capacity and exchanging information and knowledge. Furthermore, creating business relationships through networking can enable SMEs to implement alternative sources of finance.

5.6. LIMITATIONS OF THE STUDY

The scope of the research was restricted to SMEs operating in four distinct industries - retail, manufacturing, construction, and agriculture - located in Durban, South Africa. The study's drawback lies in the fact that the responses to the survey were not classified by industry, making it challenging to ascertain the precise effects of debt financing costs on each sector, given that these may diverge based on the sector's nature.

The limited scope of the research on 300 SMEs in Durban, South Africa, precludes the generalization of findings to SMEs in other cities/provinces, necessitating further exploration of additional studies in other cities/provinces in South Africa for more information.

5.7. CONCLUSIONS

Based on the results of the investigation, it can be inferred that the subsequent deductions were made:

1. The regression model reveals that SMEs' expansion is responsible for the largest share, accounting for 54.9% of the variation in finance sources.

2. A positive association exists between financing sources and small and medium-sized enterprise growth.

3. A moderate correlation is observed between economic circumstances and SME development.

4. Empirical data indicates that an elevated level of competence exhibited by owners/managers of SMEs raises their probability of availing debt funding satisfactorily, which amounts to a 73.9% likelihood ratio.

5. Accessibility to capital also accounts for a significant contribution of a 42.3% variance related to market imperfection within the regression analysis.

5.8. SUGGESTIONS FOR FUTURE RESEARCH

The outcomes of this investigation have recognized and instigated notions that ought to establish the groundwork for forthcoming research. These suggestions are founded on the findings of the study and necessitate an exhaustive exploration. Programmed or organizations that aim to increase decision-makers' knowledge and focus not only on funding but also on teaching management skills to owners or managers to use funds for the advancement of SMEs should be developed. Initiatives that encourage entrepreneurial culture and capacity, such as business seminars that will educate people more and offer training on handling an enterprise, should be implemented to influence access to finance for SMEs in Durban, South Africa. The current study discovered a gap in knowledge on impact/factors that influence debt financing costs, such as macro- and micro-factors in the economic environment; therefore, future research should be carried out to better understand the research topic.

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APPENDIX A RESEARCH QUESTIONNAIRE

*I **Khethiwe Majola,** am a student Durban university of Technology, working on my research, studying towards a master's degree in Financial Accounting.*

THE AIM OF THIS QUESTIONNAIRE IS TO INVESTIGATE THE IMPACTS OF DEBT-FINANCING COSTS ON THE GROWTH AND DEVELOPMENT OF SMEs in DURBAN, SOUTH AFRICA.

PLEASE INDICATE YOUR ANSWERS BY PLACING A CROSS (X) IN THE APPROPRIATE COLUMN.

SECTION A: DEMOGRAPHIC INFORMATION

1. **Job Designation**
   ☐Owner
   ☐Manager
   ☐Both

2. **Sector of the Enterprise**
   ☐Agricultural sector
   ☐Retail sector
   ☐Manufacturing Sector
   ☐Construction Sector
3. **Firm Scale**
   ☐Very Small
   ☐Small
   ☐Medium
4. **Age Group**
   ☐20 years or below
   ☐21 to 30 years
   ☐31 to 40 years
   ☐Older than 40 years
5. **Work Experience**
   ☐0 to 5 years
   ☐6 to 10 years
   ☐11 to 15 years
   ☐16 to 20 years
   ☐>. 21 years

6. Marital Status

☐Single
☐Married
☐Divorced
☐Widowed

7. Highest level of Education

☐Grade 12/ Std 10
☐Diploma/Bachelor's Degree
☐Honors Degree/Btech
☐Post Grad Degree
☐Other

8. Access to financing for your enterprise sector is considered

☐Very Easy
☐Normal
☐Neither easy nor difficult
☐Very Difficult

SECTION B: DEBT-FINANCING COSTS.

INSTRUCTIONS TO RESPONDENTS:

1. **Please indicate by means of an "X", the extent to which you agree or disagree with the following.**
2. **Please answer ALL the pre-coded statements in this section.**
3. **Please DO NOT leave any statements blank.**

KEY: SD= Strongly Disagree (1); D= Disagree (2); N= Neutral (3); A=Agree (4); SA= Strongly Agree (5).

S/N	Statements	SD	D	N	A	SA
1.1	**DEBT-FINANCING COSTS AS EXTERNAL FUNDING FOR SMEs.**					
1.1.1.	Debt-financing is important for the competitiveness and sustainable growth of SMEs.					
1.1.2.	Access to debt-financing is particularly important for the establishment and expansion of SMEs.					
1.1.3.	Debt finance has a positive effect on the profitability of an enterprise.					
1.1.4.	SMEs are often crippled by lack of adequate financial resources; therefore consider “Debt-financing”.					

S\N	Statements	SD	D	N	A	SA
1.2	**FACTORS THAT IMPACT THE ACCESS TO DEBT-FINANCING BY SMEs.**					
1.2.1.	The obstacles of obtaining adequate funds created by commercial banks and SMEs themselves disable them from competing effectively in the increasingly globalized market.					
1.2.2.	Financial performance indicators such as, turnover and profitability can also influence an enterprise debt financing level.					
1.2.3.	Management expertise and level of education are also very important factors enabling SME owners/managers to get access to finance.					
1.2.4.	The higher the degree of competency displayed by SME owners/managers, the more successful they are likely in obtaining debt funding.					

S/N	Statements	SD	D	N	A	SA
1.3	**EFFECT OF MARKET IMPERFECTIONS ON THE DECISIONS OF SMEs TO APPLY FOR DEBT.**					
1.3.1.	Banks do not have enough financial details about the enterprise that want to borrow, which discourages them from lending.					
1.3.2.	Enterprises do not have adequate knowledge of potential lenders, therefore discouraged from borrowing because of the perception that banks will not lend them and lose out on borrowing opportunities.					
1.3.3.	SMEs that seek financial assistance should familiarize themselves with credit application process, and what lenders require, to increase their chances of being considered.					
1.3.4.	For SMEs that apply for bank finance, the rejection is high and a large proportion of SMEs is excluded from financial markets.					
1.3.5.	High financing costs are one of the reasons why SMEs hesitate borrowing funds from financial institutions.					

SECTION C: GROWTH AND DEVELOPMENT OF SMEs.

1. **Please indicate by means of an "X", the extent to which you agree or disagree with the following.**
2. **Please answer ALL the pre-coded statements in this section.**
3. **Please DO NOT leave any statements blank.**

KEY: SD= Strongly Disagree (1); D= Disagree (2); N= Neutral (3); A=Agree (4); SA= Strongly Agree (5)

S/N	Statements	SD	D	N	SA	A
2.1.	**FINANCIAL SUPPORT AND SMEs.**					
2.1.1.	SMEs will thrive better with more access to loans and financial support.					
2.1.2.	SMEs should explore more sources of finance, such as NGOs.					
2.1.3.	If SMEs are given tax incentives, it would help them build strong financial base.					

2.1.4.	SMEs will seek avenues for financial help if they know about more financing organizations.					

S/N	**Statements**	**SD**	**D**	**N**	**SA**	**A**
2.2.	**THE INFLUENCE OF DEBT- FINANCING SOURCE ON THE GROWTH AND DEVELOPMENT OF SMEs.**					
2.2.1.	Growth and development of SMEs is constituted by support from financial institutions, such as Debt-finance.					
2.2.2.	The growth and development strategy should be constructed before an enterprise go about seeking debt-finance.					
2.2.3	SMEs should embrace use of debt-financing for the effective growth and development.					
2.2.4.	Debt-financing when used wisely and in moderation it can improve the welfare growth and development of an enterprise.					
2.2.5.	When debt- financing is used imprudently, it can result in a disaster.					

S/N	**Statements**	**SD**	**D**	**N**	**SA**	**A**
2.3	**ECONOMIC ENVIRONMENT VS GROWTH AND DEVELOPMENT OF SMEs.**					
2.3.1.	Durban is an accessible and convenient location for my business.					
2.3.2.	The business is safe and secure for the growth and development of SMEs.					
2.3.3.	The location is critical to survival and growth of SMEs.					
2.3.4.	Competition from much bigger companies hinders the growth and development of SMEs.					

S\N	Statements	SD	D	N	A	SA
3.1	**FACTORS THAT IMPACT THE ACCESS TO DEBT FINANCING BY SMEs.**					
3.1.1.	The obstacles of obtaining adequate funds created by commercial banks and SMEs themselves disable them from competing effectively in the increasingly globalized market.					
3.1.2.	Financial performance indicators such as, turnover and profitability can also influence an enterprise debt financing level.					
3.1.3.	Management expertise and level of education are also very important factors enabling SME owners/managers to access finance.					
3.1.4.	The higher the degree of competency displayed by SME owners/managers, the more successful they					

	are likely in obtaining debt funding.					

YOUR PARTICIPATION IS HIGHLY APPRECIATED……THANK YOU!

Appendix B

LETTER OF INFORMATION

Title of the Research Study: The purpose of the study is to investigate the impacts of Debt-financing Costs on the growth and development of SMEs in Durban, South Africa.

Principal Investigator/s/researcher: Miss Khethiwe Prudence Majola

Co-Investigator/s/supervisor/s: Dr. Odunayo Margret Olarewaju, PhD, CA(NIG), ACMA, CGMA

Brief Introduction and Purpose of the Study: The purpose of this study is to investigate how debt-financing costs have impacted the growth and development of SMEs in Durban, South Africa. Moreover, determine the effect of market imperfections on the decision of SMEs to apply for debt-financing in Durban, South Africa. This study will also evaluate the impact of Debt-source of financing on the growth and development of SMEs. Despite the various public and private initiatives available, business owners in Durban, South Africa see access to financing as a significant problem. For those SMEs that apply for bank finance, the rejection is high and a large proportion of SMEs are completely excluded from financial markets. If all role-players are working together in solving these issues and ensuring the existence of the already identified SMEs, this will lead to growth and development. The real picture of SMEs activities in Durban, South Africa has not been fully revealed in reflecting the financing issues to access debt- financing, as it has a key significance for SMEs growth and development. Hence, the purpose of this study is to conduct such investigation, with a view to making recommendations at local level for more appropriate business support services.

Outline of the Procedures: As you have been chosen to be part of the sample of this study, this form serves to provide further information about this research and your rights as a participant. Your participation is voluntary and you may withdraw at any time. After reading this letter of information and consent, should you choose to participate please click on the checkbox at the bottom. The questionnaire is distributed via QuestionPro to respondents identified in the DCC database. QuestionPro is a generally used electronic software that will be employed to distribute the questionnaire. Emails will be sent, and a link will be included in the email. The respondents will be asked to click on the link provided and help complete the survey which is estimated to take 15-20 minutes by the researcher.

Risks or Discomforts to the Participant: Participants will not be asked to perform any acts or make statements which might be expected to cause discomfort, compromise them, diminish their self-esteem or cause them to experience embarrassment or regret. There are no foreseeable adverse reactions.

Benefits: This research will benefit by increasing and contributing to the store of information and serve as a reference source for researchers, education, students and policymakers interested in the financing challenges faced by SMEs.

In terms of applicability to community development, the findings and recommendations of this research will be used to improve the financial status of SMEs and minimize the financial constraints faced by SMEs. The standard of living for employees and those directly and indirectly associated with SMEs in different communities will also be improved.

The benefit of this research will be published in a form of a thesis which will be available at DUT libraries and accessible on the internet for academics and other interested stakeholders seeking information in the research field.

Reason/s why the Participant May Be Withdrawn from the Study

Participation is voluntary, and participants may withdraw from the study for their own personal reasons, like a lack of time to complete the questionnaire. There will be no adverse consequences for the participants should they choose to withdraw.

Remuneration

Participants will not receive any remuneration for participating in the study.

Costs of the Study

Participants will not be expected to cover any costs towards the study.

Confidentiality

The data collection process will not involve access to confidential personal data. Participants will be assured of anonymity and confidentiality of their responses. The completed questionnaire, which do not contain the name of the participant or his/her enterprise, will be stored for a period of five years, and will , thereafter, be shredded.

Research-related Injury

There will not be any compensation for any research related injury because it is very unlikely for any injury to occur while answering the questionnaire.

Persons to Contact in the Event of Any Problems or Queries:

Please contact me on 061 169 1446 or Dr. Odunayo Margret Olarewaju (Supervisor) on 031 373 5632 or the Institutional Research Ethics Administrator on 031 373 2375. Complaints can be reported to the Director: Research and Postgraduate Support, Dr. Linda Z. Linganiso on researchdirector@dut.ac.za

General:

Potential participants must be assured that participation is voluntary and the approximate number of participants to be included should be disclosed. A copy of the information letter should be issued to participants.

Once again, the data collection process will not involve access to confidential personal data. Participants will be assured of anonymity and confidentiality of their responses. The completed questionnaire, which do not contain the name of the participant or his/her enterprise, will be stored for a period of five years, and will , thereafter, be shredded.

Thank you for participating.

Your assistance is greatly appreciated.

Sincerely,

Miss K.P. Majola
Cell no.: 0611691446

CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, **Khethiwe Prudence Majola**, about the nature, conduct, benefits, and risks of this study.
- I have also received, read and understood the above written information (Participant Letter Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during this research which may relate to my participation will be made available to me upon request.

By clicking on the checkbox, I give my consent voluntarily to participate in this study

Faculty Research Office
Durban University of Technology
Date: 12 August 2021

Student: Khethiwe Prudence Majola
Student Number: 21543119
Degree: Master of Accounting (Financial Accounting)
Email: 21543119@dut4life.ac.za
Supervisor: Dr Magret Olarewaju
Supervisor email: odunayoo@dut.ac.za

Dear Ms Majola

ETHICAL APPROVAL: LEVEL 2

I am pleased to inform you that the Faculty Research Ethics Committee (FREC) following feedback from two reviewers, has granted preliminary permission for you to conduct your research 'The impacts of debt financing costs on the growth and development of Small and Medium-sized Enterprises in Durban, South Africa'.

You are required to present the letter at your research site(s) for permission to gather data. Please also note that your research instruments must be accompanied by the letter of information and the letter of consent for each participant, as per your research proposal. This ethics clearance is valid from the date of provisional approval on this letter for one year. A student must apply for recertification 3 months before the date of this expiry.

Recertification is required every year until after corrections are made, after examination, and the thesis is submitted to the Faculty Registrar.

A summary of your key research findings must be submitted to the FRC on completion of your studies.

Kindest regards.
Yours sincerely

Dr Mogiveny Rajkoomar
FREC Chair
Faculty of Accounting and Informatics
Durban University of Technology
Ritson Campus
Durban, South Africa
4001

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The pen is mightier than the sword

To whom it may concern

I edited the thesis entitled: The impacts of debt financing costs on the growth and development of small and medium-sized enterprises in Durban, South Africa by Khethiwe Prudence Majola, Student Number: 21543119, a research thesis submitted in fulfilment of the Degree of Master of Accounting: Financial Accounting in the Faculty of Accounting and Informatics at the Durban University of Technology, South Africa.

Signed:

Sury Bisetty
Professional Language and Technical Editor
17 January 2023

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