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DEPARTMENT OF BANKING AND FINANCE

THE EFFECT OF DEBT FINANCE ON PERFOMANCE OF SMALL TO MEDIUM ENTERPRISES FOCUSING ON BINDURA SMES

BY

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A DISERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING AND FINANCE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION, FACULTY OF COMMERCE.

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APPROVAL FORM

The undersigned attest that that they have supervised and recommended to the Bindura University of Science Education for acceptance of a research project titled: **EFFECTIVENESS OF DEBT FINANCE ON PERFORMANCE OF SMALL TO MEDIUM ENTERPRISES. CASE OF BINDURA SMES IN MANUFACTURING SECTOR.** This research project by B1953719 is submitted in partial fulfilment of the requirements of Bindura University of Science Education

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DEDICATION

This research endeavour is dedicated to both me and my parents, who have given everything they have in order for me to have this chance. For their unwavering love and support, I also dedicated my study to my closest friends and fellow students.

ACKNOWLEDGEMENT

I want to thank the all-powerful God for his mercy and fortitude throughout the study session. It is also important to recognize the research project supervisor for his help and tolerance while this project was being completed. I will always be appreciative to my parents and brother for their financial, emotional, and spiritual support during the duration of this study, as well as for their prayers. Last but not least, I want to express my gratitude to my friends.

ABSTRACT

The ideal debt to equity ratio for what is known as capital structure is the subject of a sizable body of literature, empirical research, and theoretical formulations. Studies have shown that the best capital structure is one that balances debt and equity, uses more debt than equity, or uses a combination of the two to maximize shareholder wealth. Investigating the effects of debt financing on the financial performance of SMs in Bindura town was the primary goal of the study. The information was taken through financial reports published on the websites of some SMEs, and other SMEs were required to fill out a data collection form with information pertinent to the analysis and drawing of conclusions for this study. The data were gathered using primary and secondary data collection methods. There were 72 responders in all who gave the information needed for the study in a timely manner, which reflects an 85% response rate. The SPSS program version 20 was used to analyze the data, and the results were presented as graphs and tables. A negative but statistically insignificant correlation between debt financing and the financial performance of SMEs in Bindura town was found by the study. The summary of the regression model indicated a R Squared coefficient of determination of 0.042. The study was able to accept the null hypothesis that there is no link because the p value was more than the alpha value of 0.05 and the computed F value was lower than the crucial F value. The study additionally revealed that SMEs in Bindura financed their activities mostly with equity and with little debt. The majority of the debt funding secured was short-term debt, which is more expensive.

It is recommended that owners and managers of SMEs should not shy away in investing in projects with positive NPV by use of debt, since the correlation between debt financing and financial performance is insignificant. This would mean that increase of debt financing would only adversely affect financial performance by a percentage of 4%.

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CHAPTER ONE
1.1 INTRODUCTION

In this chapter, the author provides an overview of the research by discussing its context, purpose, and research inquiries. The chapter also addresses the limitations and underlying assumptions of the study, as well as the challenges faced during the research process and potential solutions. Furthermore, the author discusses the delimitations of the study, which refers to the boundaries or restrictions placed on the research. The chapter concludes with a summary that emphasizes the importance of the research and its potential impact on the field. Overall, this chapter provides a comprehensive understanding of the research and its significance.

1.2 BACKGROUND OF STUDY

The development and expansion of many nations' economies depend significantly on small and medium-sized enterprises (SMEs), but their ability to grow and compete may be constrained by the major barrier of access to finance that they frequently face. Debt financing is one of the main financial storms that SMEs frequently face. The purpose of this study is to evaluate the success of local small manufacturing businesses in relation to outside funding sources.

The finance manager is in charge of evaluating the way funds should be applied and making crucial managerial choices on the investment and dividend policies. The management of a firm frequently has to strike a balance between the amount of money that should be raised internally (in the form of equity from owners and shareholders) and the amount that should be raised externally (in the form of debt from non-owners). When making this choice, management usually weighs both the advantages and disadvantages of each potential source of money. When it comes to being able to meet its obligations to the sources of capital, the company may run into financial problems as a result of making a bad choice of these capital components. Similar to this, regardless of a firm's flexibility in balancing debt and equity, managers typically develop a mixed capital structure that will enhance performance and increase the firm's market value.

The agency hypothesis, established by Jensen and Meckling, is a well-liked explanation for the relationship between the capital framework of a business and success. The fundamental premise of the theory is that managers, who are key decision-makers for a company, may act more in their own inter than those of the owners, who are the key participants in the

relationship, as opposed to acting in concert with shareholders, who are separate entities and are not in a position to profit from a firm's managers' decisions because they are not in a position to do so. When there is a high danger of default, there will also be confa lict between equity investors and debt holders (Jensen and Meckling, 1976).

According to the hypothesis, the agency fee rises along with a company's leverage, indicating that tension between stock holders and debt holders gets worse as a result of shareholders' willingness to take on greater risk at the expense of debt financiers. This demonstrates that a company's profitability is inversely correlated with its level of debt, or leverage (Soumadi and Hayajneh, 2012). Debt, though, can also improve a firm’s profitability. In this situation, the likelihood of bankruptcy rises as more loans have higher interest rates. InToaximize return for stakeholders while also considering how the alternative would effect affectrm's ability to operate sustainably, a firm's capital structure decision must be made carefully in any working environment.

The proportion of debt to equity has an important effect on how successful the companies are since it affects risk and reward. The benefit of the situation is that, unlike other risk factors like systematic risk and investment decisions, management has control over the risk coming from the choice of leverage (Skopljak and Luo, 2012).

It follows that management, when choosing financing options, must be aware of how to assess degrees of leverage. As long as the return percentage on investments is more than the cost of borrowing, rising debt financing (or leverage) is said to increase a company's profitability, according to Hutchinson (2009). The ideal capital structure choice is therefore based on how well the company can generate returns that are greater than the debt providers' costs. The maximum debt the company may consider taking on at various points in time may be impacted by this.

In particular for developing economies, small and medium-sized enterprises (SMEs) have established themselves asthea nation's most significant industry. This becausehat SMEs are these economies' main economic drivers and account for the majority of economic activity (Boocock and Shariff, 2005). It is impossible to emphasize the importance of SMEs for

economic growth given that they make up the majority of enterprises in less developed countries and are essential to their development (Mitchell and Reid, 2010). According to Mac

and Bhaird (2010), policymakers and scholars have taken notice of the value that SMEs have for any country's economic activities. This is due to the perception that SMEs are the foundation of industrial development and the force behind economic progress in emerging economies in the majority of industrialized countries (Salehand NSaleh and2006).

1.3 Research problem

A typical issue that organizations face when making finance decisions is figuring out the optimal ratio of debt to equity financing that a firm should use. The finance mix is crucial since it has an impact on the firm's success (Abor,2005). Similar to high equity levels, large debt levels have benefits and drawbacks. Making a compromise between the amounts of debt and equity in order to get the optimal ratio between the two is the most crucial choice.

The ideal mix level, in accordance with Gleason et al. (2010), is that which optimizes the firm's value, which serves as a measure of shareholders' wealth, while offering the lowest cost of capital. The choice of the optimal debt to equity proportion falls primarily on the shoulders of the company's management. They must select a strategy that increases shareholder wealth while long-term operational sustainability of the company is maintained. According to Mujahid et al. (2014), the choice of a capital structure has a direct impact on the calculation of the cost of capital, which in turn influences the market value of a company. This implies that the choice of financial mix affects other factors, such as business performance and profitability. They must select a strategy that increases shareholder wealth while long-term operational sustainability of the company is maintained. According to Mujahid et al. (2014), the choice of a capital structure has a direct impact on the calculation of the cost of capital, which in turn influences the market value of a company. This implies that the choice of financial mix affects other factors, such as business performance and profitability.

Easley and O'Hara (2014) assert that SMEs are crucial to the development of industrialized countries. In the country, SMEs are given a lot of attention in an effort to increase employment and economic stability. Su (2014) claims that small and medium-sized firms (SMEs), which make up 99.7% of all businesses, 80% of job vacancies, and 70% of discoveries, have been a key factor in propelling growth in rapidly industrializing countries like China. because SMEs are essential to a nation's economy. Assessing the performance of SMEs in a nation, especially emerging nations, and implementing appropriate policy concepts that will support the sector's growth are the responsibility of that nation's political leadership and policy makers.

The ideal capital structure for a corporation to adopt and how it might impact financial performance have both been the subject of several studies. To find out how capital structure and company performance impacted Jordanian firms, Zeitum and Tian (2007) carried out research. The study's findings indicated that the September 2000 financial crisis in the West Bank and Gaza had a big influence on the company's ability to make money. The top-performing SMEs in Malaysia, as well as the managers' preferred financing solutions and associated financial mix composition, were researched by researchers Zabri, Ahmad, and Lea in 2014. They found that the choice of SME managers for equity over external funds is influenced by the amount of short term and long term funding and equity used. The 2016 study by Ahmad EI-Maude and associates examined the financial makeup and operational efficiency of firms operating in the Nigerian cement industry. When borrowing was not employed in the capital structures of cement industry enterprises, they found that performance was not optimal.

Karanja (2014), in particular, examined how the choice of funding affected the performance of SMEs in the Kiambu Country by focusing on the dairy industry. The study found that the profitability of the dairy businesses in the district was positively impacted by the debt asset ratio, liquidity ratio, and debt equity ratio.

The aforementioned conclusions are diverse, but more crucially, the study either focused on impoverished nations or on significant Kenyan firms. Furthermore, virtually little primary data was used in any of the research studies. Smaller businesses, like SMEs, whose improper use of financial statements has been acknowledged, have not, however, been the focus of extensive scrutiny. The primary objective of the study was to determine how loan financing affected the financial status of SMEs in the province of Bindura. Debt financing is a dependent variable, whereas SME success is an independent variable. A corporation will agree to borrow money from a lender, like a bank or other financial organization, and then repay the loan with interest over a specified period of time. Debt finance is a term used to describe this type of funding. Debt financing can be a desirable option for SMEs since it allows them access to money without requiring them to give up ownership or management of their business.

1.4 Objectives of the Study

• To determine how well SMEs succeed when using debt financing provided by financial institutions.

• To determine how financial institutions influence the performance of SMEs in Bindura town.

• To look into how debt financing provided by financial institutions helps SMEs achieve their aims.

1.5 Research questions

• Examine the impact of loan financing provided by financial institutions on the operation of small manufacturing enterprises in the town of Bindura.

• What impact do financial institutions have on the productivity of SMEs in Bindura town?

• How can financial institutions' debt financing help businesses achieve their goals and objectives?

1.6 NECESSITY OF THE STUDY

.Significance of the study to the reseachers,the researcher's knowledge and expertise in the field of study will increase as a result of this investigation. By the time this study is finished, the researcher will have a thorough understanding of how well hard capital rationing works for small private-sector enterprises. By applying the ideas of cost of capital, cost of borrowing, and cost of equity, the researcher will also be able to use this to make shrewd financial decisions. The study is also being conducted in order to fulfill a requirement for the Bachelor of Commerce with Honours in Banking and Finance program at Bindura University of Science Education.

Secondly, importance of the researcher to the policy maker, to help decision-makers develop better financial plans and policies, the research will offer qualitative information. Additionally, it will generate empirical data and knowledge that is beneficial to both the government and higher education.

Also, the study will benefit future students since it will improve the Bindura University Library, where they may find resources to help them with similar research projects.

More so, by demonstrating how debt financing affects a firm's performance, the findings will be helpful to the small manufacturing companies in Bindura. It goes on to list further factors that hinder the performance of Small to Medium Enterprises in Zimbabwe. The research project may more explicitly discuss the drawbacks and benefits of adopting debt financing as a source of funding. By identifying the necessary criteria and comparing them to business performance, this study will help small business owners decide if it is a smart idea to apply for bank loans or not.

1.7 DEFINITION OF KEY TERMS

Debt financing- This is one of the primary sources of funding for corporations and other businesses. To meet operational demands, it requires securing funds from entities or individuals outside the business. By generating a bigger return than the cost of borrowing money, borrowing money, according to Damodaran (2000), is a financial strategy used to increase the rate of return on an owner's investment.

Short-term debt: This type is often utilized to obtain the funds necessary for running the company on a daily basis. It is referred to as "short-term debt" due to its short-term maturities, like those of Treasury Bills, Certificates of Deposit, and other comparable products.

Long-term debt financing: This is the exact opposite of short-term debt. Usually, capital investments like the purchase of company assets demand for these money. These have a protracted maturation phase, just like bonds.

1.8 Limitations of the research

The research was only conducted on small sized firms in Bindura town. As a result, only a limited generalization of the results should be made, and this should be done carefully. Because they felt the information was private, the respondents chose not to share it. By assuring the respondent that the data would only be used for academic purposes, the study mitigated this. The model utilized only took into account a small number of the variables that may be examined when examining the research topic. The model could be strengthened by taking into account new factors that could be incorporated. A longer time frame is necessary to allow the researcher to gather more data and review more study indication elements.

1.9 Delimitations of the Research

The research's main objective was to determine how well SMEs perform when they get debt financing from financial institutions. There must be established parameters for the investigation's emphasis period and geographic reach. In Bindura, the study is carried out by looking at regional small manufacturing firms to observe how they react to debt financing as stated in the research subject. I decided to conduct my study of SMEs in Bindura because there is a significant concentration of businesses there, allowing the researcher to gather more information from a wider range of respondents as well as from more financial institutions.

The focus of the study was exclusively on businesses in Bindura that are involved in manufacturing. The research mostly concentrated on the three (3) years from the year 2020 to the present. This is due to the fact that acquiring finance at this time mig3 ht be quite difficult for the majority of SMEs due to Covid 19. There were no additional companies or people required besides SMEs that are part of the manufacturing sector.

1.10 SUMMARY

To give fundamental the readers a grasp of the research, this chapter begins with an introduction. A brief introduction is followed by a review of the study's background and a definition of the problem statement, which acts as the study's main focus. The significance of the study is then emphasized, along with its goals, research questions, hypothesis, and supporting premises. Last but not least, it discusses the study's constraints and limits and specifies key topics.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The research highlights the findings of various researchers who have done studies on the organizational performance and structure of SMEs in a number of contexts . The three main issues covered in this chapter are conceptual foundation, empirical review, and theoretical foundation.

2.2 Theoretical Framework

Several hypotheses have been put up to explain the variables impacting the financing decisions made by various business types, despite the fact that the concept of a firm's finance structure is still a mystery that hasn't been fully explained. Numerous hypotheses are put forward in an effort to help people make educated judgments. Making judgments is therefore crucial, especially when it comes to the performance of a firm as indicated by its profitability and market value (Awunyo, 2012). The agency theory, pecking order theory, and trade-off theory are the theories that are most pertinent to this study.

2.2.1 Agency theory

The agency hypothesis, developed by Jensen and Meckling in 1976, is a common idea to explain the connection between a firm's capital structure and financial performance. This argument states that if a company's owners and managers are two separate entities, their interests will not be aligned since managers, who are in charge of making crucial decisions, will act in the interests of themselves instead of those of the owners of the business, who are the main stakeholders in the relationship.

In Muritala's 2012 lecture, he suggested that one way to lower agency expenses is to increase the amount of debt that a company uses for financing. This suggests that a company's activities can be financed with less stock, which reduces agency expenses. Using excessive debt, however, could also lead to greater agency costs because there is a higher chance of financial difficulties. Successive lenders will charge a greater interest rate as the amount of debt used grows because to the firm's higher risk profile, which will lower the return to shareholders.

When there are no profitable investment options for these funds to be committed to, business owners often endeavour to guarantee that the management provides them with cash flows (in the form of dividends). Increased agency expenses are the outcome of managers' practice of thoroughly weighing all pertinent considerations before making decisions.Due to the owners' frequent management of the cash and decision-making about dividend payouts, the agency conflict for SMEs in terms of misusing free-flowing money is constrained.

Managers may be under pressure to run businesses more efficiently if they take on additional debt to fund their operations (Lubatkin and Chatterjee, 2004). The management would be reprimanded into using more caution in the management and usage of finances if there were still unmet debt commitments, according to these authors. As pragmatists, the management will choose to reward shareholders over investing in ventures with poor net present values (Onaolapo and Kajola, 2010). The management's duty to cover interest expenses will make this practicable.

As a result, the managers will be forced to only fund initiatives that will guarantee the company can pay off all of its debts. Therefore, high leverage reduces the amount of money available to management for arbitrary acquisitions that don't add value.

2.2.2 Pecking order theory.

The Parking Order Theory, commonly referred to as the Perking Order Model, was created by Stewart Myers and Nicolas Majluf in 1984 after being presented by Donaldson in 1961. The theory primarily focuses on a corporation's capital structure. Loans, fresh equity, and internal savings are frequently three internal sources of a company's finance. As a result, it is recommended that businesses prioritize internal financing before turning to debt and equity. Equity should only be employed as a last resort. According to this hypothesis, businesses choose internal funding when it is available and go through a hierarchy of financing options. If outside finance is needed, debt is preferred over equity because doing so would necessitate issuing shares, which would entail bringing outside ownership into a corporation. Therefore, this order shall be the order of the shareholders.

The Parking Order Theory states that equity is a less preferred means of raising capital because when managers issue new equity, investors assume they believe the company is overvalued and are taking advantage of this overvaluation. This theory was made popular by Myers and

Majluf (1984), who are thought to be more knowledgeable about the true state of the company than investors. As a result, investors will give the new equity offering less value.

Awunyo (2012) asserts that, in contrast to SMEs that will have operated for a longer period of time and retained significant internal funds, the majority of SME enterprises may not have amassed significant internal funds during the growth stage and may not have chosen to use loan financing for their operations. According to these viewpoints, businesses follow the line of command when making financial decisions. Funding from retained earnings is given precedence in this situation. When all internal resources have been spent, taking on debt is the best course of action; financing equity should only be done as a last resort. As a result, a company's choice of debt kind indicates whether it need outside funding.

In conclusion, the notion of information asymmetry is sometimes referred to as the pecking order hypothesis. Since they are the simplest, most affordable, and safest method of financing a company, internal sources of capital are viewed as the first preferred method. They can also be found easily. Debt financing is the next method and is thought to be the least expensive when compared to equity financing because interest payments on debt financing are deducted from profits before taxes. Equity financing is the final resort after exploring all other possibilities. This is because it is the most expensive option due to the greater levels of knowledge asymmetry between the issuer and the investor. Each source's accessibility and degree of information asymmetry are taken into account while determining the rating. Therefore, based on the highlighted hierarchical factors, the most advantageous capital structure should be developed.

2.2.3 Trade-off Theory

According to Myers (1984), a company's choice of financial structure is crucial and affects how successfully the business thrives. This viewpoint claims that both debt and equity have benefits and drawbacks. According to Margitis & Psillaki (2009), the best capital structure is one that blends debt and equity in a way that best balances these advantages and disadvantages. Tax advantages are generally thought to be the primary benefits of debt financing. But the expense of declaring bankruptcy is one of the additional costs of debt.

The optimum financial strategy therefore weighs both ends of this double-edged sword to identify the best levels of debt. According to Myers (1984), a corporation should consider the trade-off between the advantages and expenses when deciding how much debt vs. how much equity to use in order to optimize value. While the marginal cost decreases as debt decreases, the marginal gain increases. From an empirical perspective, this theory, according to Margaritis and Psillaki (2009), may only be able to account for variances in debt-to-equity ratios within industries; it is impossible to explain for variations in this ratio between enterprises that are participating in the same industry. Because of this, a corporation will only use exteBecause of this, a corporation will only use external capital if there is still funding available, first with retained earnings before moving on to equity and debt.

This implies that there isn't a clear best financial combination for SMEs. It is important to note that this theory emphasizes two different types of equity: fresh equity shares, which are given the least priority, and retained earnings, which are given first preference (Myer, 1984). Because it focuses on trend analysis of SMEs' financial performance, employing it for this study is crucial.

2.3 Conceptual framework

The phrase "conceptual framework of the study" frequently refers to understanding concepts that are connected to the research's topic statement. It is possible to graphically or diagrammatically depict dependent and independent variables. According to Mugenda et al.'s explanation of the conceptual framework from 2003, it conceptualizes the relationship between study variables that are shown in either diagrams or graphs.

The relationship between the research variables is depicted in the image below. Financial performance serves as the study's dependent variable. The firm's debt financing is an independent variable that is anticipated to have a major effect on financial performance. In Figure 2.1, the operationalization of the two variables is displayed.

Figure 2.1 Diagram displaying the relationships between the variables

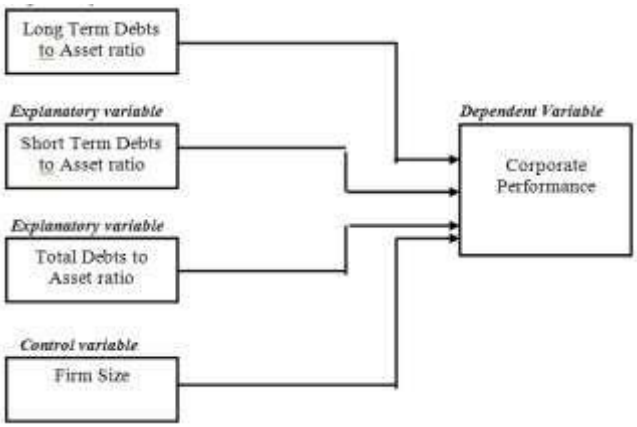

Figure 2.1: Research Analytical Framework, 2018)

(Conceptualised by Researchers)

2.3.1 Debt-based funding

It is unclear exactly what the firm's capital structure is because several researchers have produced diverse definitions of capital structure. For instance, Nirajini and Priya (2013) claim that an organization's capital structure is determined by how effectively it utilizes a range of funding sources, including short-term as well as long-term funds. Long-term capital sources, as opposed to short-term capital sources, consist of items like equity funding and the reserves preferred stocks, bonds, and long-term loans from banks. Overdrafts from banks and trade-related creditors are examples of short-term funding sources. The capital structure is described by Myers and Brealey (2003) as a combination of various securities. According to Konchhar (199Kochhartal structure is the combination or blend of funds that a corporation has used and how that combination of funds affects the operations of the company.

According to Tong and Ning (2014), it is plausible to conclude that debt and equity both serve as the cornerstones for financing business activities based on the definitions of capital structure. On the other hand, once debt interest has been paid, equity holders may end up being the last to get payment. As a result, they take on the biggest risk and have the biggest say in all of the organization's actions and choices (Abor, 2005). According to several studies on the subject of the structure of capital with a focus on Small to Medium Enterprises that have been done around the world, these organizations are often regarded to encounter identical problems when it comes to funding their operations. These challenges include making it challenging for them

to obtain financial resources, and even when they can, the interest rates imposed are usually greater than those provided by large multinational entities.

Because of the significant risk involved with their possession of few assets (collateral), little capitalization, and occasionally high death rates, Wang (2008) claims that fund providers view SMEs as less appealing clients. These characteristics of SMEs also apply to Kenyan SMEs, as noted by Karanja (2014), who also adds that commercial banks do not like to lend to SMEs because of the inefficiencies of scale involved in lending relatively small amounts. Banks only make a tiny profit in this market when they lend little amounts because doing so has relatively high transaction expenses.

2.3.2 Financial Results

Performance has been a challenge to define because it involves so many distinct elements. The performance measures are either organizational or financial, according to Murphyv et al. (2006). Profitability, asset return, and increasing shareholder value are examples of well-known indicators of financial performance. Additionally, they have operational performance metrics like sales volume and market share. These are viewed as larger indicators because they finally determine financial performance (Hoffer and Sandberg, 2007). The ideal statistic to use will rely on the objectives of the firm, claim Ang, Cole, and Line (2000).

2.3.3 Performance of Businesses and Debt Financing

Capital structure is one of the internal dynamics that impacts how effectively a corporation succeeds, claims Mizra (2013). How capital is allocated between debt and equity is referred to as the capital structure. Although debt financing has some tax advantages, a company must also consider an increased risk of bankruptcy as its debt level increases (Su & Vo, 2010). According to a study by Oguna (2014) on the impact of capital structure on the financial performance of companies listed on the Nigerian Stock Exchange, long-term debt and return on equity show a substantial negative correlation. Leverage has an impact over the long term, but not in the short term, according to this result. The division of total debt into long-term loans and short-term debts was the study's main focus with regard to the debt component of the capital structure. As a result, these debt-related capital structure elements are quickly analyzed (i.e., study variables are examined).

2.3.4 The Performance of Firms and Long-Term Debts

The portion of assets that are financed by debt with a maturity date of more than a year is known as the long-term obligation ratio. Additional choices include long-term loans and bonds. Because lenders want to make more money in exchange for taking on the added risk of making long-term loans, the interest rates on these bonds and loans are often higher. In fact, having a lot of long-term debt restricts managerial options because it is harder to take out fresh loans and avoid making riskier investments (Hart & Moore, 1995). According to a study by Hernandez-Canovas and Koeter-Kant (2008), long-term loans are the factors that have the biggest influence on a company's profitability. Among other researchers, Onoja and Ovayioza (2015), Yan (2013), and Zeitun and Tian (2007) discovered a link between long-term debt and

the performance metrics return on assets (ROA) and return on equity (ROE) for companies. Onaolapo & Kajola (2010) discovered a negative correlation between long-term debt and profitability, in contrast to Makanga (2015) who discovered a negative correlation between long-term debt and return on assets.

2.3.5 Short Term Debts and Business Performance

Actually, the amount of short-term debt a company has is a key indicator of how sound its finances are. The ideal kind of funding is short-term debt because it isn't perceived as being more or less expensive for businesses (Nwude, Itiri, & Agbadua, 2016). Olaniyi et al. (2015) note that any loan that a corporation incurs that is due within a year is referred to as short-term debt and is recorded as an account in the current liabilities part of a company's statement of financial status. Typically, a company's liabilities statement will contain all of its debts, including short-term bank loans. GarciaTerul and Martinez-Solano found a link between an organization's ability to expand and how much short-term debt it had in 2007. Onoja & Ovayioza (2015) assert that short-term indebtedness are also promoted in order to lessen executive discretion and organizational moral hazard. In addition, research by Yan (2013), Weill (2008), Zeitun & Tian (2007), Onoja & Ovayioza (2015), and Onoja & Ovayioza (2015) found evidence supporting a positive relationship between short-term debt and an enterprise's profitability (as determined by return on assets). However, Makanga's (2015) study found a marginally significant but negative relationship between short-term debt and corporate profitability (return on assets).

2.3.6 Total Debts and Business Performance

The various debt instrument types (such as short term loans, long term debts, or both), according to Khan (2012) and Amjed (2011), have varying rates of return that investors will seek, varying risk components, and consequently, varying effects on company performance. However, other academics, including Michaelas, Chittenden, and Putziouris (1999) and Abor (2007), issue warnings against trying to pinpoint one optimal degree of leverage and make a connection between it and company performance. This theory was further advanced by Hutchinson et al. (1998) and Van der Wijst and Thurik (1993), who claimed that when long-term and short-term debts are mixed, their effects tend to cancel out.

When Sheikh and Wang (2011) studied non-financial companies registered on Pakistan's Karachi Stock Exchange (KSE), they found an inverse association between total debt ratio and business performance. Saeedi and Mahmoodi (2011), on the other hand, looked at the relationship between capital structure and business performance among companies registered on the Tehran Stock Exchange and discovered a positive correlation between profitability and debt ratio. A different study conducted in 2013 by Boroujeni et al. found a link between business success and both the long-term and overall debt ratios. According to Makanga (2015), there is a slender negative relationship between overall debt and performance (return on assets).

2.3.7 Firm Size and Corporate Performance

According to Richardson, Taylor, and Lanis (2013), it is possible for extra elements to combine in an improper way and have an impact on debt financing or business performance. Therefore, firm size was used as a control variable in the analysis. This is crucial since the breadth and scope of an organization's operations are determined by its size. Usually, the logarithm of total assets is used to calculate firm size. The logarithm of total assets is used in this study to estimate the firm size. Mohammad & Jaafer (2012) and Kebewar (2012) had previously conducted research in the accounting literature and found a positive association between corporate performance and firm size. Based on the results of earlier studies, the empirical model was expanded to include firm size as a control.

2.3.8 Focus on the concept of SMEs.

The SME sector (small, medium, and micro enterprises) drives the global economy. Both industrialized nations, like those in Europe, and developing nations, like China, have recently boosted their support for the expansion and growth of small businesses. This is due to the fact

that SMEs have contributed to the country's employment growth and the consequent decline in poverty. According to Radaev (2001), the expansion of small businesses in a nation aids in a number of goals, such as the fulfillment of income distribution, the creation of jobs, the mobilization of savings, the production of goods and services that cater to the basic needs of the underprivileged, and so forth.

Lall (2001) claims that while banks typically define SME in terms of firm's average annual sales, risk management objectives, and amount of business activity, the definition of SME is based on the number of employees. However, according to Mangesh (2012), there isn't a one definition of SMEs because it depends on who is describing it and where. For instance, in Canada, small businesses are those with fewer than 500 employees, whereas medium-sized businesses are those with more than 100 workers. The definition of an informal enterprise, however, in Zimbabwe is one whose operations are not registered under the Factory and Works Act (Chapter 283) and the Company Act (Chapter 190).

Although this sort of business has a number of difficulties in its operations, a key issue is the lack of financial resources, or the lack of money to pay for the business's expenses. In most countries, the government provides funding to these businesses as a means of promotion, but in our country, due to the government's limited financial resources, not all small businesses are able to receive assistance from the government; as a result, they only have the option of obtaining debt financing from financial institutions.

The absence of debt and equity finance, according to Lieldholm (2001), is a significant impediment to the small and medium firm sector's rapid expansion. Having quick access to financial resources is essential for SMEs to grow their operations, enable them to compete with larger companies, and give locals jobs. Bindura SMEs in the manufacturing industry engage in a wide range of entrepreneurial operations, with furniture manufacture, couch manufacturing, catering, and other key activities among them. These businesses encounter significant challenges when trying to get debt financing from banks and other financial institutions. Lack of collateral security is one of these, and tiny start-up businesses may have trouble getting loans from banks because they lack collateral security for their company assets. In Zimbabwe, small businesses find it more challenging to generate a return greater than the cost of debt than in small businesses in affluent nations, notwithstanding the possibility of high financing costs. Madera (2010) found a negative correlation between the usage of debt and the profitability of

small manufacturing firms in Zimbabwe, which she attributed to the high interest rates imposed on bank loans.

SEDCO (Small Enterprises Development Corporation), commercial banks, and microfinance institutions are sources of funding for SMEs in Zimbabwe. Many SMEs still struggle to thrive despite getting considerable financing from SEDCO and banking institutions. Therefore, the aim of this study is to ascertain how the productivity of SMEs in Bindura's manufacturing sector is impacted by loan funding.

2.3.8 Factors that influence financial success in small and medium-sized businesses.

An entity's financial structure has an effect on its leverage, liquidity, cash flow condition, and capacity to honour credit commitments. The amount of interest received, the debt to equity ratio, and the debt to total assets ratio are the metrics used to assess a company's financial structure, also known as gearing or leverage. The current ratio, acid test ratio, and interval measure are a few examples of liquidity indicators that are used to evaluate a company's ability to convert assets into cash. The sources and uses of cash during a certain time period are quantified using the cash flow statement.

2.3.8.1 Leverage

The percentage of a company's assets that are supported by equity as opposed to debt is known as leverage, according to Penman (2001). In contrast to equity financing, which does not have a mandatory call on cash paid occasionally to capital providers or for the liquidation of equity holders' capital interest, the use of debt financing typically subjects a firm to a mandatory obligation to repay interest and principal on a regular basis. Therefore, once the interests of debt holders and other claimants have been satisfied, equity owners still retain a claim to a company's earnings and assets.

Bomiley and Hendrickx (2012) claim that when the earnings of a business are less than the cost obligation owing on debt, investors lose money. In this instance, the loss incurred by the equity orders is equal to the difference between the firm's earnings and the amount payable to the debt owners. On the other hand, regardless of whether a business generates enough

revenue or not, debt holders are always guaranteed to receive their full remuneration. This suggests that the amount of debt utilised has a direct impact on any profits or losses that stock investors may experience. As a result, during bad economic times, a heavily indebted firm is more likely to file for bankruptcy, but during prosperous economic times, stock investors profit from higher earnings.

Hoskisson, Hit, Jonson, and Moesel (2008) also suggest that leverage can be used as a control variable in strategic management studies because managers of highly leveraged firms may only have a limited number of options for raising additional money and may need to rely on raising expensive equity capital.

2.3.8.2 Liquidity

Liquidity is the capacity of a business entity to make prompt, hassle-free payments on her debts. According to Brealey et al. (2011), the ease with which an asset may be turned into cash determines its liquidity. As a result, in order to achieve liquidity, a business must produce enough willingly available money to fund operations. Liquidity is thus one of the performance indicators for a firm's components, even though it is insufficient on its own to completely evaluate a firm's success. Both absolute values and percentages can be used to assess a company's performance. An example of an absolute metric that shows how the values of current assets and liabilities relate to one another is a company's working capital. This difference is referred to as net working capital. The interval measure is yet another absolute value that can be applied.

This figure represents how long a business can maintain its current level of operations while only using its liquid assets and making no money. Acid test ratios, fluctuations in current, and the % change in working capital are a few examples of widely used percentage metrics.

One issue with financial statement-based indicators of liquidity, according to Hoskisson et al. (2008), is that they do not consider off-balance sheet access agreements, such as accessible lines of credit and other arrangements.

A loan's financing costs are frequently higher than its potential returns from short-term investments. The wisest course of action, provided that borrowing agreements can easily

replace the capital, is to utilize any additional income to settle any unpaid short-term obligations. Relying purely on financial statement-based metrics of liquidity risk underreports a firm's genuine level of strength in this area because it's possible for a corporation to have standby financing agreements with lenders.

2.3.8.3 Cash flow

Cash flow determines whether the corporation can pay its present financial obligations. It proves that the business is capable of paying back its financial lenders in full. The ability of the corporation to make prompt payments of what is owed to the financing providers will determine how long the connection between the two parties lasts. Brealey (2011) asserts that a company's worth is frequently based on its expected future cash flows.

The cyclical percentage growth in operating cash flows, cash flow return on equity (i.e., cash flow represented as a percentage of capital), and net operational cash flow are just a few methods for evaluating cash flow. In order to fulfill commitments for the objectives of financing and investment operations as well as payments to investors, each of these metrics takes into account how quickly money may be made accessible (West and Jones, 2009). The simplest and clearest measure of a company's value is its cash flow. Therefore, cash flow is crucial in determining how well a company is doing. But it's important for researchers to decide how long they should keep track of the financial flows. This is due to the possibility of significant year-to-year variations in cash flows due to growth rates and investment activity.

2.4 Empirical Studies.

Both domestic and foreign researchers have shown a strong interest in the subject of a firm's capital structures. Mixed conclusions emerged from the investigation, which concurred with the firm's financial performance, organizational structure, sector, and general state of the economy.

Llando, Cusaga, and Magno's 1991 paper, The Effectiveness of a Credit Guarantee Scheme, was published in Japan.The effectiveness of the credit guarantee schemes put in place in the Philippines was investigated by researchers Llanto, Casuga, and Magno in 1991. They emphasized the fact that the loan guarantee policy had failed to persuade banks to lend to small-scale borrowers and observed a generally poor impact. They said that the initiatives did little to boost the economy and were expensive to implement. Llanto et al. assert that the lengthy

administrative procedures inside the programs increased the transaction cost of borrowing and that the Guarantee fees collected only partially covered the expenditures related to operating these programs. Llanto and Magno (1993) provided evidence in a follow-up study that their 1991 study was accurate.Their key discovery was that borrowers with loan guarantees and those without barely differed in terms of traits and transaction costs. They claimed that this showed the guarantee programs' inability to address the issues that the plans were created to address.

An evaluation of the efficiency of the Korea Credit Guarantee Fund (Korea) by Park et al. In 2005, Park Yong-pyung, Chin, and Yong-ju conducted a study in Korea in collaboration with KIET to assess the effectiveness and significance of the Korea Credit Guarantee Fund (KCGF). Through their investigation, they learned that the KCGF does, in fact, have a favourable impact on the development and performance of SMEs and, as a result, on the overall Korean economy. Their findings included the fact that between 2002 and 2004, the KCGF directly contributed to the development of over 80,000 employment as well as the increase in the tax collection from SME from USD 160 million in 2002 to over USD 215 million in 2004. According to Park et al., any developing nation in East Asia might apply the same idea and theory underlying KCGF and get the same outcomes.

According to Matarirano (2007), loan financing has an effect on the profitability of small manufacturing businesses in Bulawayo, Zimbabwe. Matarirano (2009), many industrialized nations, including the US and Japan, rely heavily on their small enterprises to drive their economies forward. Small enterprises have the power to transform stagnant economies into thriving ones, as has been seen in developing nations like Zimbabwe. The focus of the researcher's investigation was how debt financing affected small manufacturing companies' profitability. After quantitative information was acquired, a sample of 200 manufacturing companies was chosen to represent all small manufacturing businesses in Bulawayo. The researcher's example strategy was rather simple.Non-probability sampling was a strategy used by the researcher. The study's findings demonstrated that external financing improved the financial performance of small sized firms. The paper encourages government policymakers to reform the financial sector in order to enhance SMEs' capacity to receive bank financing and enhance their financial performance.The study also found a contradictory association between SMEs' financial performance and their tangibility. According to the report, SMEs should

choose a financial structure that will enable them to grow their commercial operations as a result. The study's findings demonstrated a positive relationship between SMEs' financial success and size. In order to grow their operations and enhance their financial performance, the report advises SMEs to boost their investment.

In their study of Malaysian manufacturing companies, Deesmsak et al. (2008) found that high levels of capital structure debt had a detrimental influence on the company's financial performance as measured by levels of gross profit margin. Chi-square was utilized by the researchers to evaluate longitudinal data. A negative link was found between capital structure and company performance according to data gathered in Australia, Singapore, and Taiwan. They also discovered that, other from Singapore, company size had a positive impact on leverage. This conclusion was linked to the government assistance that Singaporean enterprises receive, which shields them from facing financial troubles. Deesomsak's research will use primary data from SMEs as opposed to the current study's use of secondary data from big industrial businesses. This is how it varies from the latter's research. It is advisable to use primary data because the researcher assumes that the targeted SMEs in Bindura don't keep reliable records.

The profitability and capital structure of the company in Ghana are evaluated by Abor (2009). The study's main focus was on the companies that are listed on the Zimbabwe Stock Exchange. The debt-to-total-assets ratio was found to have a favourable effect on profitability. It was proposed that the low interest rates might be to blame. The survey finds that 85% of all debt utilized to finance Zimbabwean firms is in the form of short-term loans. It has been established that long-term financing negatively affects return on equity. Ultimately, it was shown that total debt had a positive effect on profitability. The researcher also discovered that profitable companies listed on the ZSE are more likely than small and medium-sized businesses, who can have trouble maintaining correct financial records, to have their financial records checked by respected organizations.

At the Shangai Stock Exchange, Huang and Song (2009) conducted research on the impact of capital structure on the performance of listed companies. The capital structure, as shown by total debt and long-term debt, has a negative impact on performance, as shown by the rate of return on assets, claims the study. The authors made the assumption that this was brought on by the underdeveloped equity market in the Chinese market, which led businesses to rely mostly on bank funding. Another difficulty is that equity funding is favoured to preserve

control in China, where the government owns the majority of firms. Additionally, the relevant statutes do not provide any significant shareholder rights. Additionally, profitable companies need more of external funds to finance their growth. In China, enterprises of all sizes and types, including those that fall under the category of SMEs at their level of operation, are developed and industrialized. Because the new study is being conducted in a developing nation with distinct financial issues, it will diverge from the original plan.

Weill (2011) conducted study in seven different European nations on the connection between a company's success and its financial leverage. In the research, which takes into account both accounting and market performance factors, leverage ratios, business size, age, and board size are all regressed. Leverage significantly increased performance in Spain and Italy, France, Norway, Germany, and Belgium, but not significantly in Portugal, according to the researcher.

Adekmule (2012) conducted a study in Kenya with a focus on the pharmaceutical industry to ascertain the impact of capital structure on financial performance. Performance was assessed using rates of return on equity and assets, and the financial structure of the company was evaluated using the debt ratio. a connection analysis utilizing the Ordinary Least Squares approach. The study discovered that a company's potential to produce money is negatively impacted by its debt ratio. The potential moderating impact of internal cash flows on this link, however, was not taken into consideration in this analysis.

Dube (2012) examined how debt financing affected SMEs' productivity in Zimbabwe and Masvingo.The study's conclusions showed that the productivity of SMEs benefited from debt funding. Additionally, the study demonstrated that firms with sufficient bank financing boosted their output. Another study's finding was that the cost of borrowing was too high for businesses to be able to borrow enough money for the necessary investment in financing. The study found that SMEs' capital structures with a reasonable level of debt contributed to an increase in productivity. In order for SMEs to purchase capital equipment to increase production in the future, banking institutions should grant them long-term debt, the study suggests. The study also recommends lowering lending rates to encourage SMEs to accumulate sufficient funds for capital equipment investments.

Gwari(2012) An analysis of the merits of debt versus equity as funding choices for small and medium-sized businesses. The effectiveness of financing solutions for enhancing the performance of SME businesses was the subject of the survey. The advantages of

entrepreneurship that were the focus of the study included market share expansion, diversification of company ventures, productivity gains, increases in capital employed, increases in gross profit margins, increases in capital employed, and increases in rate of return. To represent Small to Medium Enterprises in the Zimbabwean economy, 60 SMEs were chosen. They were questioned in light of the financial advantages gained from each sort of funding used. Eight banks were taken into account, and they gave the researcher the necessary information about debt financing for SMEs. The registered SMEs were located using secondary information from the Ministry of Small and Medium Enterprises and Cooperatives Development.

Information from financial institutions and SMEs was gathered via questionnaires. The researcher also looked at data from the Export Credit Guarantee Cooperation of Zimbabwe in order to ascertain the financial institution's support for SMEs and to provide other crucial information. The data was presented using tables, charts, and graphs. The Mann Whitney and Wilcoxon rank sum tests were used by the researcher to statistically analyze secondary data from the Small and Medium Enterprises. The advantages of entrepreneurship were compared to the type of financing used to run the business operations. The only sources of equity were the owner's cash and the company's retained profits. These funding options were compared to the advantages they provided for entrepreneurship. The findings demonstrated that debt financing was superior to equity in terms of effectiveness.

Impact of microfinance on SMEs in Nigeria, Christopher (2013), In order to facilitate the collection of relevant data for analysis, the researcher conducted a study to ascertain the impact of microfinance on Small and Medium Enterprises (SMEs) in Nigeria. The 60 SMEs that made up the research's sample size were chosen using a straightforward random selection procedure. Descriptive statistics, which include basic percentage graphical charts and drawings, were strategically used in data presentations and analysis. A structured questionnaire was created. Although only a small percentage of SMEs were able to secure the necessary amount, the study's findings show that a considerable proportion of them benefited from FI loans. It's interesting to note that the majority of SMEs acknowledge the favourable effects of FI loans on increasing their market share, gaining market excellence through product innovation, and maintaining their competitive advantage overall. In addition to tax breaks and financial aid, it is recommended that the government endeavour to build enough infrastructure, such as a top-notch road network, energy, and training facilities, to encourage SMEs in Nigeria.

Kaumbunthu (2014) carried out yet another investigation in Kenya. The investigation's main objective was to ascertain the relationship between the capital structure and rate of return on equity. The study assessed the connection between equity return on investment and capital structure. Using businesses that were based in Bindura town and listed on the Zimbabwe Stock Exchange, the study assessed this connection between 2009 and 2013.A regression model was used to estimate the association between the capital structure as measured by the debt-to-equity ratio and performance as measured by the rate of return on equity. This study's flaw is that it only looked at one industry of businesses in Bindura. Additionally, this study only paid attention to one aspect of financial decisions.

2.5 Research Gap Analysis

Debt finance has been demonstrated to either positively or negatively affect the operation and expansion of small and medium-sized businesses (SMEs). For instance, a research by Beck et al. (2014) found that SMEs with higher levels of debt financing have better levels of productivity and profitability. However, a different study by Berger and Udell (2006) found that SMEs with high amounts of debt financing were more likely to encounter financial troubles or bankruptcy.

Additionally, the majority of research solely consider how debt financing affects SME performance, ignoring the significance of other financial factors like equity financing, cash flow management, or financial management approaches. Another shortcoming is the study's narrow geographic scope; the majority of research has been conducted in developed countries, and little has been done to look at how loan funding affects SMEs in developing countries. Additionally, there aren't many long-term studies; instead, the majority of research is cross-sectional and provides an overview of the relationship between debt financing and SME success at a certain time.

The research study on the impact of debt financing on SMEs is subject to a variety of limitations. One of these is the absence of uniformity in the definition and measurement of debt finance. It is challenging to compare the findings of different studies because they all employ different definitions and metrics for debt financing. Few studies specifically differentiate between distinct types of debt, such as bank loans, trade credit, or leasing, focusing instead on overall levels of debt finance.

The debt-to-equity ratio was used to evaluate the capital structure, while the rate of return on equity was used to gauge performance. A regression model was used to estimate the relationship. This study's flaw is that it only looked at one industry of businesses in Bindura. Additionally, this study only paid attention to one aspect of financial decisions

2.6 Summary

The reader will learn about the theoretical as well as conceptual foundations of the investigation in this chapter. The study is significant for still another reason: it might highlight the various debates and points of view around the subject under investigation, highlighting the knowledge gap that the researcher is working to close. The study also offered factual justification for credit guarantee programs' existence. The researcher will explain how they intend to fill this research gap in the chapter that follows.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

According to Creswell (2009), research methodology is a description of all the steps taken to carry out the study. This chapter will examine the techniques and approaches used in the research in light of this. This implies that it will go into great detail about the methods utilized to carry out the study. The procedures and study design utilized to compile, analyze, and present the research findings are fully described in the documentation. It will also go into the research designs for the study and the thinking behind them. In addition to discussing demographic and sample methodologies, research instruments, and data collection tactics, this section also covers the procedures for data gathering, analysis, and presentation.

3.1 The Research Philosophy

The study's philosophy may be based on a positivist approach. In order to obtain objective and empirical outcomes, this strategy strongly emphasizes the collecting and analysis of data using scientific methodologies. Quantitative research methods, including as surveys and statistical analysis on secondary data sources, will be utilized to test hypotheses and reach general conclusions about the relationship between loan financing and SME performance. The study may also use deductive research methods, which create theories and hypotheses based on prior research and test them through data collecting and analysis.Determining the causal link between external financing and perfomance of SME as well as the extent to which debt financing influences various SMEs' performance measures, such as sustainability, growth, and profitability, may be among the study's goals.

A cross-sectional approach, which collects data from a sample of SMEs in a particular industry or region at a single point in time, may also be used in the study. This design allowed the study to provide a snapshot of the state of SME finances and performance at the time it was conducted as well as identify any patterns or trends that might have existed. The research will finally adopt a neutral and objective viewpoint in order to produce conclusions free from bias and personal opinions. The study might make sure that data is gathered and analysed honestly and that findings are exclusively supported by empirical data.

3.2 Research Approach

Research approaches refer to the standard operating procedures that researchers employ when performing a study. Quantitative research is the best research methodology for this type of subject since it fits and is adapted to it. The researcher will employ secondary research data because it is the easiest to use and might provide sufficient information. The changes in how research procedures are used depend on the application of the findings and the investigation's practical ramifications, in addition to the data collecting. A descriptive research design was used in the study to gather data on the performance of SMEs in Bindura municipality and their debt financing.

Small- to medium-sized business owners who worked in the manufacturing sector were the study's target population. There were no main statistics used in the study. Descriptive and inferential statistics are also utilized to assess the study's data collection. It was discovered how the performance of SME's was impacted by both short- and long-term loan financing using a multivariate regression model. The employed linear regression model is shown in the diagram below:

$Y=\beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

where the following variables were present::

Y= the SME's performance Using ROA

$\beta o, \beta 1, \beta 2, \beta 3, and\ \beta 4$ - Represents the coefficient of debt financing options

X1 = Total of all debts, long and short term / Overall Assets

X2 = Long term borrowing / Total Assets

X3 = Short terborrowing / Total Assets

X4 =Size of the Firm – Log (Total Assets)

$\boldsymbol{\beta o}$ = intercept term / constant term

ε = Error term / stochastic term

3.3 Research Strategy

It is shown in this study that there are two variables: loan finance and SME performance, which are both known as dependent and independent variables, respectively. There are numerous tactics that may be employed in order to get the data required for the research and to carry it out. However, the researcher used secondary research methods for this study, which are essentially the facts that have been primarily found by other authors.

3.4 Research design

It made use of the correlation research design. examined and described how the two variables were related to one another. Its main goal is to prove that there is a relationship between the variables and to explain how it operates. A correlation coefficient (descriptive statistic), which gives a number to the observed association, acts as a tool. Correlations enable us to forecast from one variable to another in addition to describing a relationship. If two variables are connected, it is feasible to anticipate how well they will work together.

3.5 Sampling and the target population

3.5.1 Target Audience

The term "population" in research can also refer to the "target population," which a grouping of all the elements is believed to be necessary to give the researcher the vital data they require. The group of people who will be the focus of the intervention's study and analysis is referred to as the target population, according to Louise Barnsbee (2018). It's there for the entire population or group that the researcher gathered data from, which may include the people who were asked the questions, as well as for the potential for sampling. A population contains each and every one of the variables the researcher is interested in.

The research population consisted of 500 registered small and medium business owners employed in Bindura Town's manufacturing industry. The focus of the study was on owners of registered SMEs who had obtained both short- and long-term debt funding from financial institutions. The SMEs operating in Bindura's various manufacturing sectors as well as the financial institutions that provide loan financing to these businesses may make up the target audience for this study. The study's targeted audience is shown in the table below.

Table 3.1 Target population

Types of Firms	Target audience	%
Hard ware firms	80	16%
General firms	150	20%
Fish vendors	140	38%
Hotels	30	6%
Electronic shops	100	20%
TOTAL	**500**	**100%**

Source: Secondary data Country Government of Zimbabwe, 2017

3.5.2 Sampling Design

The sampling design refers to the strategy, method, or steps the researcher should take to select the items for the sample. Online sources provided by LIM BD ORG Admin (2005) revealed that a researcher must carefully select a small number of factors from the population in order to develop conclusions that may be applied to the public without risk. Because this is where the research gets the essential data that will be used in the study, the sample selection process is more important. As a result, it is crucial that the researcher use caution while selecting the sample size, optimum sampling strategies, and best sample testing processes.

3.5.3 Sample size and Sample Methods

A stratified random sample was the preferred sampling strategy. It enables the researcher to take into account the numerous population subgroups and raises the possibility that the sample fairly represents the population in terms of certain features. The population was segmented into strata or subsamples to achieve this. According to Table 3.2 below, 86 small and medium business owners were selected using the Krejcie $ Morgan sample size table from 1970, with a 95% confidence level and a 5% margin of error.

Table 3.2: Distribution of Sample Size

Percentage %	Target audience	Size of Sample	%5
Hard ware	80	15	17.4%

General shops	150	26	30.2%
Fish vendors	140	20	23.3%
Hotels	30	20	23.3%
Electronic shops	100	5	5.8%
TOTAL	**500**	**86**	**100%**

Source: County Government of Zimbabwe, 2017

3.6 Instrument for research

3.6.1 Data gathering

Self-administered data collection forms were used for the study's data gathering. An essential instrument for information gathering is a data collection form since it allows you to learn things directly from the source that may not be expressed in the financial data. In order to develop the data collection technique, the researcher also analyzed books and official documents, such as financial reports. The researcher employed the self-administration strategy so that the respondents would have enough time during the data collection process to provide thorough responses and ask any questions that needed clarification.

The study's objectives were outlined in an introduction letter, which served as evidence that it was only being conducted for academic purposes.

The study's objectives were outlined in an introduction letter, which served as evidence that it was only being conducted for academic purposes. All data collecting forms were accurately documented in order to ease follow-up and guarantee a high response rate. Owners and managers of small to medium-sized businesses who are in charge of the financial operations of the SMEs made up the respondents. The data gathered included the company's profit or loss margins, total debt owned by the company, and the short- and long-term components of that total debt. The researcher also gathered data on the overall assets and profits of all the businesses.

The study made use of an additional set of data. The information from financial records, including the balance sheet and inventory records, among others, was gathered using a secondary data schedule. Pritha Bhandari (2022) defined data gathering as the methodical process of compiling observations or measurements. He also pointed out in his research that acquiring data enables the researcher to gain first-hand knowledge and distinctive insights into the research problem. As a result, the data collected must be consistent with the study's goals.

For instance, it can help the researcher comprehend how financial institutions' loan financing affects the productivity of Bindura manufacturing SMEs.

3.7 Pilot Study

Pilot studies, according to Julia Simkus (2023), are an essential part of the research process that can aid in the discovery of design issues as well as the assessment of a study's viability, practicality, resources, time, and cost. Before the substantial research is completed, this. He said that it involves selecting a small sample of individuals to conduct the study on. Any weaknesses in the researcher's methods can be found, saving time and, in some situations, money.

A pilot study may reveal any ambiguities (such as strange items), uncertainty over the participants' understanding, or issues with the task design. The researcher may encounter a "floor effect," in which no participants perform well enough to earn any points or complete the test, when a task is overly challenging for the participants. When a work is too easy, everyone gives their best effort or obtains near-perfect ratings, which is known as "hitting the ceiling," the opposite outcome happens.

Conducting pilot studies has a wide range of advantages, some of which include better research quality and time savings. The time spent conducting interviews with respondents may be decreased due to the limited number of participants required for this study, and the quality of the research may also improve. The largest flaw in the pilot study, however, is that it did not ensure the success of the overall research project.

3.8 Reliability and Validity Test.

According to Mugenda & Mugenda (2003), reliability is a measure of how well a researcher's instruments deliver consistent results after numerous trials. A secondary data schedule was given to a randomly chosen sample of respondents from each respondent, and the reliability of the data gathered was then assessed. As part of the pretesting process, respondents were randomly given copies of the secondary data schedule. With a carefully chosen sample of respondents, a pre-test on the secondary data schedule was conducted, and the reliability of the instrument was assessed using the information acquired.

The primary objective of the pilot project was to evaluate the approaches for data pre-collection. The extent to which an instrument measures what it was intended to measure or was scheduled to measure is known as its validity. (2015) Ombok and Aila. The degree to which a

measured variable accurately represents the conceptual variable (i.e., the construct) that it is meant to assess is known as construct validity. Only when a measure assesses the things we want it to measure does it have construct validity.

Table 3.3: Statistics of Reliability

Cronbach's Alpha	N of Items
.703	13

3.8.1 Test of Significance

A one-way ANOVA with a 95% level of significance was used to assess the significance of the influence of the independent variable on the dependent factor. This test is important to determine whether the link between the variables is real or phony when there are several variables in the study.

3.9 Data Analysis.

The data were analyzed using both correlation and regression analysis. To determine the relationship between the two variables, regression analysis was utilized. The dependent variable, according to this model, is a function of one independent variable, which makes the assumption that the random error has a constant value of zero. Below is a depiction of the regression model that was used. The multiple linear regression models were used to evaluate the relative relevance (sensitivity) of each independent variable in determining the financial performance of SMEs.

The model was shaped as follows:

$$Y=\beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

where the following variables were present::

Y= the SME's performance Using ROA

$\beta o, \beta 1, \beta 2, \beta 3, and\ \beta 4$ - Represents the coefficient of debt financing options

X1 = Total of all debts, long and short term / Overall Assets

X2 = Long term borrowing / Total Assets

X3 = Short term borrowing / Total Assets

X4 =Size of the Firm – Log (Total Assets)

$\boldsymbol{\beta o}$ = intercept term / constant term

ε = Error term / stochastic term

3.9.1 Data Presentation

Tables, pie charts, and graphs were used to illustrate the analyzed data, with percentages and frequencies being used for interpretation.

3.10 Research Ethics

This study recognized the significance of ethical considerations in a research study, and as a result, the researcher handled and collected information from sources with honesty, secrecy, and integrity while keeping respondents' rights in mind. Because the researcher used secondary data, there was an excessive amount of interacting with people and no use of surveys and interviews.

3.11 Summary

The study's methodology was described in this chapter. The research's demographic, sample, data sources, research instruments, data collection practices, and data analysis methods were highlighted. The research findings are presented in the following chapter, where they will also be thoroughly examined. Additionally, it can consider a careful review of secondary data.

CHAPTER FOUR

4.1 Introduction

The data gathered on the impact of debt financing on the financial performance of small and medium-sized businesses in Bindura town is analysed in this chapter. The data was gathered through the use of self-administered questionnaires and an examination of the financial records. This chapter includes an explanation of the analysis' findings as well as their results.

4.2 Demographic Results

4.2.1 Rate of Response

86 respondents were contacted for the study, and 73 of them, who represented 84.88% of the SMEs under consideration, completed and supplied responses to self-administered data collection forms. Therefore, the study's sample size was enough. A response rate of 50% is typically regarded as satisfactory, followed by that of 60% for good performance, and that of 70% for exceptional performance, according to Mugena (2003).

4.2.2 Respondents' gender

Table 4.1: Respondents' gender

Respondents' gender	Frequency	Percent
Male	28	38.4
Female	45	61.6
Total	**73**	**100.00**

Secondary Source: Research data 2017

The table 4.1 above lists the respondents' gender data, together with the frequency of each and the corresponding percentage results. The findings show that 45 of the study participants were female, making up 61.6% of the respondents, while 28 of the study participants were male, making up 38.4% of the total. This study found that women run the majority of Small and Medium Enterprises in Bindura Town. The information is contrasted with global data on small and medium-sized businesses (SMEs), which, according to the Asia-Pacific Economic Cooperation (APEC) (2016), only account for an average of 37% of SMEs owned by women, although accounting for a significant share of all businesses in APEC economies. Though estimates from the International Finance Corporation (IFC) from 2014 show that around 9.34

million formal SMEs, or about one-third of all SMEs, are owned by women in over 140 examined countries.

4.2.3 The respondents' ages

Table 4.2: The respondents' ages

The respondents' ages	Frequency	%
11-20	9	12.3
21-30	25	34.2
31-40	20	27.4
	15	20.5
41-50		
51 and above	4	6
Total	**73**	**100.0**

Source: Research data 2017.

Information about the respondents' chronological ages for the study is provided in Table 4.2. According to the data, 12.3% of small- and medium-sized business owners in Bindura town are between the ages of 11 and 20, while 6% are over the age of 51. Ages 21 to 30 accounted for 34.2% of respondents who were SMEs owners, while ages 31 to 40 accounted for 27.4% of respondents who were SMEs owners. The majority of the labour market is comprised of younger people, thus this is consistent.

4.2.4 Types of Firms

Table 4.3: Type of Firms

Type of Firms	Frequency	%
Hardware Firms	9	12.3
General Firms	25	34.2
Electronic Shop	15	20.5
Hotels	20	27.4
Fish Vendor	4	6.0
Total	**73**	**100.00**

Source: Research data 2017.

Table 4.3 above lists the various business kinds along with their frequency and percentage scores. According to the results, general shops accounted for the majority of respondents (34.2%), followed by the hotel and electronic stores (20.5%), and fish vendors (6.0%). Comparatively, the majority of SMEs jobs are concentrated in the service industry, which makes up two thirds of the economy and employment in OECD nations. According to an OECD policy brief from 2000, these businesses include wholesale and retail trade, electronics stores, hotels, and restaurants, among others.

4.3 Descriptive Statistical Analysis

The highest, lowest, mean, standard deviation, kurtosis, and skewness of the data were used to define the variables in this study project. As indicated in table 4.4 below, these conclusions are:

Column1	Colum	Colum	Colum	Colum	Columi	Colun	Colum	Columi	Columr
	N	Min	Max	Mean	Std. Devi	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std . Error
ROA	73	-16.11	100	7.37	16.81	3.731	0.283	16.901	0.559
Total debt/ Total Assets (X1)	73	0	100	48.12	35.46	-0.017	0.283	-1.495	0.559
Long Term Debt/Total Assets (X2)	73	0	91.59	15.9	27.64	1.668	0.283	1.22	0.559
Short Term Debt / Total Assets(X3)	73	0	97.11	32.22	34.06	0.702	0.283	-1.083	0.559
Firm Size (X4)	73	16.23	25.44	20.94	2.18	-0.563	0.283	-0.522	
Valid N (list wise)	73								

Source: Author, 2018

Table 4.4 displays an overview of the findings for the research variables. The firms under consideration's financial results, as measured by ROA, ranged from a loss of 16.11% to a maximum return on assets of 100%. The mean is 7.37 percent, the SD is 16.81%, and the kurtosis is high at 16.9 percent. Usually, it reveals that SMEs in Kenya demonstrate a wide

range of financial performance, from dreadfully bad to incredibly good. However, the vast majority are top achievers with high kurtosis ratings.

The second factor is how much debt is compared to assets overall. The sum of the short-term and long-term obligations is the total debt. The data collection revealed the SMEs with the greatest value of 100%, indicating that all of the company's assets are funded by debt, and the lowest value of 0%, indicating that in this particular example, none of the firm's assets were funded by debt. With a standard deviation of 35.460% and a mean level of 48.120%, respectively. Using this example, it can be shown that the distribution only includes companies with high or low leverage. With a negative skew, the data is primarily flat.The proportion of total long-term loans to total assets was also taken into account in the study. This ratio had a mean of just 15.90%, a standard deviation of 27.640%, and a range from 0% to 91.590% at its extremes. Long-term debt was employed to finance almost all of the business's activities by those who were successful in getting it. This data is positively skewed and fairly flat.

Short-term debt held by the company ranged from 0% to 97.11%, with a mean of 32.22% and a standard deviation of 34.06%, according to the ratio of a SME's short-term debt to its total assets. The data was positively biased and somewhat flat. The results demonstrate that most SMEs can obtain short-term finance, which is dispersed among them rather equitably.

The natural logarithm of total assets was used to calculate the other study variable, firm size. Natural logs for the largest and smallest corporations were 25, 44 and 16, 23, respectively. The median value was 20.94, with a 2.18 standard deviation. The kurtosis of the data was flat but negative, and it was negatively skewed.

4.4 Correlation Analysis

The associations between the variables have been tested using correlation analysis.

Table 4.2: Analysis of Correlation

	ROA (Y)	Total of external	Long-Term Debt to Total	Ratio of Short Term	Firm Size (X4)

		funds/Total Asset(X1)	Assets Ratio (X2)	External finace to total Assets (X3)	
ROA	1				
Ratio of Total Debt / Total Assets(X1)	-.12	1			
Ratio of Long Term external finance to Total Assets (X2)	-.13	.44	1		
Ratio of Short Term external finance to total Assets (X3)	-.02	.68	-.35	1	
Size of the Firm (X4	-.16	.10	.21	-.07	1

2018 author as the source

The link between independent and dependent variables is what tht researcher is interested in. The variables may not correlate, correlate positively or negatively, or both. High correlation variables have values that are equal to or close to one, while variables with little to no correlation have values that are either zero or almost equal to zero. The fact that all of the variables in this study are negatively correlated to the dependent variable, i.e., an increase in one would result in a decrease in the other, suggests that there is a weak relationship between

the independent variables and the dependent variable, even though the correlation is almost equal to zero.

4.5. Regression Analysis

To find a connection between the variables under investigation, the researcher employed regression analysis. The data from the independent and dependent variables were combined, and regression analysis was used to establish the link between the dependent and independent components.

The study's regression model was as follows:

$Y=\beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

where the following variables were present::

Y= the SME's performance Using ROA

$\beta o, \beta 1, \beta 2, \beta 3, and\ \beta 4$ - Represents the coefficient of debt financing options

X1 = Total of all debts, long and short term / Overall Assets

X2 = Long term borrowing / Total Assets

X3 = Short term borrowing / Total Assets

X4 =Size of the Firm – Log (Total Assets)

$\boldsymbol{\beta o}$ = intercept term / constant term

ε = Error term / stochastic term

4.5.1 Overview of Regression Models

Table 4.3 Model Summary

Model	1
R	0.205
R Squared	0.042
Adjusted R Squared	0.000
Standard Error of the Estimate	16.81
Durbin Waston	2.0480

a. Predictors (all constant) include business size (X4), the ratio of short-term borrowing to total assets (X3), and the ratio of long-term borrowing to total assets (X2).b. Relying Variable: ROA (Y)

For the regression summary model in table 4.3, the coefficient of determination, or R2, which gauges the goodness of fit, was 0.042. Therefore, it's possible that just 4.2% of the performance fluctuations (ROA) of SMEs are attributable to loan funding. It shows that outside variables that are not accounted for in the model can predict the financial success of SMEs in Kenya to a degree of 95.8% accuracy. While a value of Durbin Watson of 4 or more indicates the presence of autocorrelation, the statistic for Durbin-Watson 2.048 revealed the absence of autocorrelation of the predictor variables.

4.5.2 ANOVA Table

ANOVA was also used in the study to assess its significance. It consists of the computations that produce data on levels of variance inside specific regression models and hence serves as the foundation for the significance test.

Table 4.4 The Anova Table

Model	**Regression**	**Residual**	**Total**

Total Squares	839.491	19216.203	20055.694
Degree of Freedom	3.00	68.00	71.00
Average Square	279.83	282.591	
F	0.99		
Sig	0.403		

a. Relying Variable: ROA (Y)

b. The determinants include the firm size (X4), the ratio of short-term debt to total assets (X3), and the ratio of long-term debt to total assets (X2).

Even though the research's alpha value was set at 0.05, table 4.4 above shows that the significance p value was 0.4030. Therefore, it can be demonstrated that the p-value is greater than the level of significance. Therefore, we can conclude that there is no statistically significant relationship between the study's variables.

The three levels of significance and the 38 degrees of freedom are each at a critical value of 0.05 and 2.525, respectively, despite the fact that the table shows a computed F value of 0.99. In light of these findings, we reject the null hypothesis that there is no association between debt financing and the financial success of SMEs in Zimbabwe's Bindura Province. The computed F value is within the permitted range, and the critical F value is higher than the calculated F value.

Despite the fact that this connection is not statistically significant and the model only takes into account about 4% of these characteristics, the results show that loan financing has a negative impact on the financial performance of SMEs in Bindura.

4.5.3 Coefficients of Regression

The research variables' coefficients for the 4% of the dependent variable they can predict as follows in Table 4.5 below.

Table 4.5. Summary of Regression Coefficents Model

Model	Unstandardized Coefficients		Standardised Coefficients	T	Sig	95% Confidence Interval for B	
	B	Sig. Error	Beta			Lower Bound	Upper Bound
(Constraints)	32.992	19.650		1.697	.098	-6.219	72.203
Ratio of Long- Term Debt to Total Assets(X2)	-.078	.079	-.128	-.988	.327	-.235	.079
Ratio of Short- Term Debt to Total Assets(X3	-.037	.063	-.075	-.588	.559	-.162	.088
Firm Size(X4)	-1.108	.937	-0.143	-1.183	.241	-2.978	.761

a. Relying Variable: ROA (Y

From the author, 2018

The values for the coefficients o, 1, 2, 3, and 4 are respectively 32.992, 0, -0.078, 0.037, and -1.108. By 19.65, the error term is provided.

As a result, the following equation is what SPSS's regression analysis yielded:

Y= $32.992 - 0.078X2 - 0.037X3 - 1.108X4 + 19.65$According to the study, the dependent variable—the SME's financial success—could only be predicted by 4% using the aforementioned equation for any quantity of short- and long-term debt and business size. Each independent variable has a negative correlation with the dependent variable, which demonstrates that increasing an independent variable decreased the dependent variable, but only slightly.

4.6 Discussion of the Findings

The information gathered on the effects external financing provided by financial institutions on the financial results of SMEs in Bindura town is examined in this chapter. The information was acquired by reviewing the financial statements and using self-administered data collection questionnaires. This chapter presents the analyses' findings and interpretations. However, the majority of SMEs can only access temporary funding, business partners, close friends, and family. They lack the security needed to obtain long-term financing. They are left with little alternative but to take out loans, typically in the form of short-term loans, to finance their business.

The majority of the debt used to finance the assets in SMEs in Bindura Town is short-term debt, with an average ratio of 48.2% between total debt and total assets. Owner's equity covers the remaining 51.8% of the total assets. This data demonstrates that SMEs in Bindura have opted for equity financing as opposed to debt financing as their preferred method. SME's are being compelled to rely more and more on short-term loan finance or the use of equity due to the capital market's growing difficulty in acquiring debt financing. According to the MM theory, using financing prevents the company from fully utilizing the tax shield inequity. According to the MM hypothesis, using equity financing prevents the business from fully utilizing the tax shield component, lowering firm value and harming a company's financial performance. The study also found no connection between loan funding and the SMEs in the Bindura municipality's financial success. The study's findings show that the p value is 0.403, which is greater than the alpha value of 0.05.

Despite the estimated value being below the crucial value, the null hypothesis is accepted. The results of the study indicate that there is a relationship between loan financing and the financial performance of Small to Medium Enterprises in Bindura, however it is not statistically significant. A regression model that attempted to forecast financial performance using loan financing and had a coefficient of determination (R squared) of 0.042 could only adequately explain 4.2% of the variance in SMEs' financial performance. Only additional variables not considered in the model can account for the remaining variances in financial performance. These findings corroborate numerous empirical investigations that failed to find a clear correlation between the factors. According to a 1996 study by Schiantarelli and Jaramillo, production may be marginally increased by long-term loans.

Additionally, the results support research by Moore (1995) that found long-term loans have an impact on management discretion. They enable this by making it possible to access fresh monies. Results from Chepkomoi (2013), who found that SMEs' performance was influenced by capital structure in Nakuru, Kenya, were in sharp contrast to those of this study. The study's results also go against MM's thesis, which maintains that debt financing raises an enterprise's value.

The study's findings disagree with those of Garcia-Terul and Martnez-Solano (2007), who discovered a link between a firm's potential for growth and its short-term debt levels. Similar research revealed that ROA and liquidity are two ways in which short-term borrowing harm SMEs' profitability. The best funding options for SMEs are also not short-term debt obligations. The analysis's concluding paragraph makes it quite evident that SMEs' financial performance is negatively impacted by both short- and long-term loans.

The study finds a conflict between the loan funding of SMEs and their financial success. This may be explained by the fact that short-term loans, as opposed to long-term debt, are regularly used for funding by SMEs in Bindura. Short-term loans come with high-interest rates and default penalties. It follows that shorter-term debt would inevitably lead to lower profits and subpar financial performance of a firm.

CHAPTER FIVE

5.1 Introduction

The summary, conclusion, and recommendation were provided in this section by the study's objectives. The study's objective was to ascertain how loan financing impacted the operational financial health of SMEs in Bindura town.

5.2 Summary of Findings

The research project's aim was to determine how loan funding affected the efficiency of SMEs in Bindura. Taking on debt was the independent variable. Data were collected during five years from 2012 to 2016 and included a sample size of 85 SMEs. However, only 73 SMEs finished and submitted the self-administered data collection forms.

Although the study revealed a correlation between SMEs' financial performance and loan financing, the significance of this relationship was undermined by the fact that the p-value exceeded the alpha value. Therefore, the findings cannot be deemed statistically significant.

The research model, with a R-squared coefficient of determination of 0.042, predicts the dependent variable, which accounts for 4.2% of the variation. The remaining 95.8% were correctly predicted by other variables outside the model.

All of the independent factors had negative correlations with the dependent variable, but these correlations were more closely connected to zero than to one. As a result, as the independent variable, debt financing increased, the dependent variable, financial performance, decreased. Even though there was a weaker correlation between the variables, closer to zero, the reduction in the independent variable was rather small.

The survey also found that the level of financing for SMEs in Bindura town was insufficient. The majority of their total assets are equity-financed assets. Instead of pricey long-term debt, SMEs frequently finance their debt with expensive short-term debt. The survey found that 52% of assets are financed by equity, while 48% of assets are financed by debt. Just 16% of the assets were financed by long-term debt, and 32% were financed by short-term debt, leaving equity to account for 48% of the funding for the assets.

5.3 Conclusion

The capital structure of the organization serves as a representation of the common financing strategy used to fund all of its assets. Because it directly affects the company's capacity for financial success, the capital structure decision is crucial from a financial perspective. This study looked at how loan financing affected SMEs in the Bindura area's return on assets (ROA).

The results of the study demonstrate that SMEs in Bindura prefer to finance their assets using equity rather than debt. In actuality, they rely more on short-term loans than long-term loans. Their solvency is more in jeopardy due to the higher interest rates and risk of default associated with short-term financing. SMEs are typically reluctant to accept lower-cost, long-term funding from lenders due to their perceived high risk. As a result, SMEs are compelled to use pricey short-term financing to fund their operations.

As a result, SMEs see declining profitability as they take on more short-term **5.4 Recommendations**

loans, which, albeit to a very minor extent, hurts their ability to make money. As a result, debt finance and business success are not strongly correlated.

The study also comes to the conclusion that there is only a 4% accuracy rate in predicting financial performance from debt financing, demonstrating a tenuous relationship between the two. This suggests that SMEs who use debt to finance their operations won't face negative effects on their financial performance despite the negative link.

To SMEs, governments, lenders, and academics for review and consideration in light of the aforementioned result, the study makes the following recommendations. As long-term debt financing is less expensive than short-term debt financing, investors and management of SMEs should lower their risk levels in order to convince lenders and obtain it. Despite this, there is minimal connection between debt financing and a company's financial performance, thus owners and managers of SMEs shouldn't be scared to use debt to finance initiatives with a positive Net Present Value. This would suggest that a company's financial performance would only be adversely affected by 4% if debt funding increased.

Government agencies that fund SMEs should do so at the lowest interest rate possible, if not none at all, to ensure that they achieve sustainable and stable financial performance. The government needs to be aware that these SMEs rarely receive the long-term financing required to fund their operations, despite their size and higher proportion of competent people employed.

In order to increase the dependability and accessibility of the funds to many underfunded business operations, the Zimbabwean Government's funding program for SMEs, including the Woman Enterprise Fund and Youth Development Funds, should be tailored to meet the needs of each SME borrower in addition to the current emphasis on group affiliation. The National and County Governments ought to act as guarantors of the business loans that SMEs have obtained from lenders in order to ensure that they function successfully and sustainably.

The study shows that SMEs must improve their skills, particularly in business management, as this would have an overall effect on their financial performance. On the facts regarding short- and long-term loans, this is founded. The SMEs should concentrate on cutting down on loan processing times and borrowing costs. Training and skill development will give the MEs a foundation from which to deploy loans to reduce profitability and prevent credit rationing, giving the government more from them in the form of capacity building. This is especially important for Zimbabwe given the problems with unemployment since the government would have a platform to implement measures to solve them.

To improve the understanding of the impact of loan financing on SMEs' financial performance in Bindura, it is suggested that similar studies be conducted in other regions. This would provide a more comprehensive outlook and a broader perspective on the subject matter. Additionally, it would be beneficial to increase the sample size in future research to allow for comparative analysis, which would lead to a more extensive and in-depth understanding of the topic. In light of this, it is recommended that banks offer long-term loans to businesses to enable them to invest in machinery and equipment, as short-term loans are more challenging to repay when utilized for long-term investments.

5.4 Suggestions for further research

The research conducted in this study was limited to the SMEs located in Bindura town, which represents a small portion of the overall population. To gain a broader perspective and better comprehend the impact of loan financing on the financial performance of SMEs in Bindura, it would be beneficial to conduct similar studies in other countries. In future research, a larger sample size could be utilized for comparative purposes, which would provide a more comprehensive understanding of the topic.

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Appendix 11: data capture form

Items	Survey items	Variables	2012	2013	2014	2015	2016
Y	Ratio of either Net Income to Total Assets	Net Income					
		Total Assets					
X1	Ratio of Total Debt to Total Assets	Total					
		Total assets					
		Ratio					
X2	Ratio of long term debt to Total Assets	Long term debt					
		Total assets					
		Ratio					
X3	Short term debt to total assets	Short term liabilities					
		Total assets					
		ratio					
Firm		Total assets					

Size	Log of total assets	Long term assets				

APPENDIX III: Research Data

SMES	ROA (%) (Y)	Total Debt to Total Assets (%) (X1)	Long term debt to total Assets (%) (X2)	Short term Debt to Total Assets (%) (X3)	Log of total assets (X4)
SME 1	1.52	87.77	0.28	87.49	22.06
SME 2	1.56	87.23	1.24	86.00	21.93
SME3	0.35	100.00	2.89	97.11	18.68
SME4	0.32	100.00	3.24	96.76	18.46
SME5	0.33	100.00	3.54	96.46	18.38
SME6	100.00	100.00	4.27	95.73	18.32
SME7	0.59	100.00	11.35	88.65	18.35
SME 8	0.67	64.20	5.59	58.61	21.53
SME 9	0.31	2.46	2.44	0.03	1.93
SME 10	-0.06	77.17	72.36	4.81	23.48
SME 11	0.11	81.15	79.65	1.51	23.54
SME 12	0.15	76.33	75.08	1.25	23.30
SME 13	1.34	67.90	67.10	0.80	22.67

SME 14	1.50	5.35	3.83	1.53	21.97
SME 15	0.16	84.14	79.76	4.37	24.03
SME 16	1.46	82.95	77.01	5.94	23.95
SME 17	1.47	81.36	5.59	75.77	23.73
SME 18	1.33	93.58	6.61	86.97	23.24
SME 19	1.18	98.83	91.59	7.24	17.21
SME 20	2.07	97.20	87.15	10.05	16.35
SM3 21	1.58	48.47	35.35	13.12	22.62
SME 22	5.88	52.66	17.75	34.91	23.19
SME 23	1.07	86.18	78.26	7.92	21.89
SME24	2.16	55.69	0.00	55.69	21.44
SME 25	4.16	60.46	0.00	60.46	21.28
SME 26	7.46	57.66	0.00	57.66	121.20
SME 27	-9.48	99.43	23.47	75.97	19.48
SME 28	24.16	79.18	37.77	41.41	18.75
SME 29	-16.10	27.58	8.50	19.08	16.23
SME 30	-7.21	26.22	0.00	26.22	16.29

SME 31	1.47	20.12	0.00	20.12	20.71
SME 32	0.50	15.01	0.00	15.01	20.59
SME 33	1.31	13.88	0.00	13.88	20.48
SME 34	2.50	62.12	60.67	1.45	23.10
SME 35	4.61	61.20	59.42	1.77	22.95
SME 36	3.76	65.21	63.22	1.99	22.65
SME 37	-3.08	1.08	0.00	1.08	17.53
SME 38	42.84	6.38	0.00	6.38	17.63
SME 39	26.49	1.07	0.00	1.07	16.97
SME 40	22.09	0.44	0.00	0.44	16.67
SME 41	-1.09	88.73	0.02	88.53	22.38
SME 42	-9.57	89.70	0.00	89.70	22.39
SME 43	-4.03	82.37	0.68	81.69	22.51
SME 44	5.81	62.84	0.00	62.84	22.31
SME 45	8.73	61.83	0.00	61.83	22.19
SME46	6.88	68.24	0.00	68.24	22.04

SME 47	5.48	78.34	0.00	78.34	22.16
SME 48	1.35	79.78	0.00	79.78	21.50
SME 49	5.00	32.26	0.00	32.26	18.88
SME 50	3.25	24.03	0.00	24.03	18.56
SME 51	5.60	10.57	0.00	10.57	18.48
SME 52	9.59	16.20	0.00	16.20	18.58
SME 53	14.57	21.55	0.00	21.55	18.15
SME 54	7.31	47.43	0.00	47.43	21.31
SME 55	13.36	48.27	0.00	48.27	20.33
SME 56	9.30	47.83	0.00	47.83	20.40
SME 57	11.99	38.12	0.00	38.12	20.39
SME 58	0.58	0.00	0.00	0.00	21.76
SME 59	3.51	0.00	0.00	0.00	21.54
SME 60	2.27	0.00	0.00	0.00	21.29
SME 61	4.81	0.00	0.00	0.00	23.26
SME 62	4.84	15.63	11.04	4.59	23.20
SME 63	8.92	39.46	17.85	21.61	20.62

SME 64	7.71	0.00	0.00	0.00	21.45
SME 65	35.22	27.54	18.41	9.13	20.47
SME 66	4.05	21.53	17.36	4.17	25.44
SME 67	79.83	21.36	10.71	10.65	22.07
SME 68	9.85	0.08	0.01	0.07	22.78
SME 69	1.52	3.05	1.35	1.70	22.37
SME 70	20.60	0.00	0.00	0.00	21.28
SME 71	8.49	0.53	0.04	0.49	21.21
SME 72	14.18	9.44	2.12	7.32	21.44

CHAPTER 1-5

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