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FACULTY OF COMMERCE

BACHELOR OF BANKING AND FINANCE

EFFECT OF LENDING BY COMMERCIAL BANKS ON THE FINANCIAL PERFORMANCE OF SMES: CASE STUDY OF BINDURA SMES.

BY

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DEDICATION

I dedicate this dissertation to my family, whose love and encouragement fuelled my journey through this dissertation.

ABSTRACT

This study investigated effect of lending by commercial banks on the financial performance of SMEs. This study sought to investigate the relationship between commercial bank financing and the financial performance of SMEs, examine barriers faced by SMEs in obtaining commercial bank financing, explore the commercial banking products available to small and medium-sized enterprises. A total of 109 were distributed to SMEs in Bindura using stratified random sampling technique. Out of the distributed questionnaires, 100 usable questionnaires were returned representing 91% response rate. Descriptive techniques were used to analyze the data. The data was analyzed using descriptive statistics including frequency tables, percentages, pie charts and bar graphs. The findings from the study indicated majority of the population dominated the agricultural sector. Over half of the surveyed businesses in Bindura struggled to obtain financing due to a lack of collateral. Theories of the study used were Packing Order theory, the Agency theory and the static trade-off theory. The pecking order theory helps SMEs make informed decisions about financing based on cost, risk, and the message they want to send to the market. Consequently, many SMEs in the town rely on personal savings to launch their ventures. The study suggests collaboration between the Reserve Bank of Zimbabwe and the Zimbabwean government to create practical policies and a robust feedback system. This would improve access to finance for SMEs. Additionally, the study recommends government oversight of commercial bank interactions with SMEs to ensure fair practices, including managing interest rates on SME loans. Further studies are recommended to look beyond this specific area. If there are studies of lending practices and SME performance in other parts of Zimbabwe, there could be a better overall picture of how these two factors work together throughout the country.

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This work would not have been possible without the unwavering faith and guidance of my religion. I am incredibly grateful to my family, who have been my rock and provided emotional support throughout this project. I would also like to express my sincere gratitude to my project supervisor, whose contributions were essential to the successful completion of this course. Finally, I extend my appreciation to everyone who played a part, big or small, in making this research a success.

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CHAPTER ONE

1. Introduction

This study's primary objective is to assess effect of lending by commercial banks on the financial performance of SMEs. This chapter lays a foundation for this research by providing background information, outlining the research questions, and exploring underlying assumptions.

1.1 Background of study.

The past few decades have witnessed a surge in recognition of the critical role that small and medium enterprises (SMEs) play in propelling economic development. This is supported by research from Ahmad, Abdullah and Roslan (2012) who found that SMEs are significant contributors to global economic output, job creation and income generation. SMEs are now the dominant force in the business world. For instance, a staggering 99% of Japan's business sector, a highly industrialized nation, is comprised of SMEs according to the EIU (2010). The picture is similar in India, where 13 million SMEs account for a remarkable 80% of the country's businesses (EIU, 2010).

Data from 27 European Union countries in 2012 suggests that SMEs are a powerful economic engine. The data showed that nearly all SMEs (99.8%) employ a significant portion of the workforce (67%) and contribute a substantial share to the total economic output (58% of GDP).

However, the impact of SMEs can vary depending on the country's income level, according to Dalberg (2011). The prevalence of small and medium-sized enterprises (SMEs) is significantly higher in high-income economies compared to low-income ones. This disparity can be attributed, at least in part, to the prevalence of formal businesses in developed economies. In contrast, low-income economies often see a higher concentration of SMEs operating informally. Despite their potential, SMEs are not immune to economic downturns. Hanke (2017) highlights how the 2008 financial crisis triggered a

credit crunch by banks, severely impacting SMEs by dampening demand for their products and services. This highlights the need for policies that support SMEs during economic challenges.

According to Callen (2008), the Gross Domestic Product (GDP) is the total market value of all items produced inside a country's boundaries over a specific time period, usually a year. The SMEs sector contributes to this value. A nation's total economic activity is gauged by its GDP. According to Hanke's (2017) theory, the SMEs sector in Zimbabwe accounts for 50% of the country's GDP, and in general, SMEs contribute significantly to GDP around the globe. The majority of SMEs in low-income nations operate informally because they are unable to achieve the necessary requirements. Since they are unable to pay taxes and adhere to regulations, the majority of SMEs choose to operate informally as a survival tactic.

Commercial banks play a crucial role in supporting small and medium-sized enterprises (SMEs) by extending credit to qualified borrowers. Hallberg (2000) emphasizes that commercial banks act as instruments for implementing government initiatives aimed at economic development. They achieve this by providing financial resources to businesses in need, ultimately promoting growth across various sectors of the economy. This aligns with Ahiabor's perspective (2013) on the intermediary role of commercial banks. They act as a bridge, pooling funds from a large number of smaller investors and transforming them into larger sums that can be loaned to businesses with a financing gap. This system benefits both sides: SMEs gain easier access to the capital they need to invest and grow, while investors can potentially see quicker returns and lower transaction costs.

In addition to providing credit, commercial banks also act as advisors to SMEs, helping them improve their business practices and become more attractive candidates for funding. Supporting Hallberg's (2000) observation that banks provide essential skills training like record-keeping and accounting to SMEs, Kidwell et al. (2012) highlight the enduring role of commercial banks as primary financial intermediaries. This means banks facilitate transactions across various financial instruments. Even with the rise of alternative funding options, banks play a unique and valuable role. They equip SMEs with not only financial resources but also the skills necessary to thrive in today's dynamic business environment.

Studies in the United States underscore the significant contribution of small businesses to the economy. Research by Charles (2006) suggests that around 2003, there were roughly 23 million small businesses in the US, and they played a vital role in both employment and economic

output. This is supported by Beck, Demirguc-Kunt and Levine (2018) who highlight the World Bank Group's commitment to supporting SMEs. They mention that between 1998 and 2002, the World Bank Group allocated $10 billion to finance programs specifically designed to aid small businesses.

Despite a positive global trend in the relationship between banks and SMEs since 2010 (Beck, Demirguc-Kunt & Levine, 2018), a 2008 study by the Korean Development Institute (KDI) highlights persistent obstacles hindering the growth and development of SMEs in Ghana.. The study identifies a lack of initiative and underdeveloped entrepreneurial skills among Ghanaian SMEs, coupled with a severe capital shortage. This translates to a situation where the majority (almost 80%) of Ghanaian SMEs have limited employee size, potentially hindering their contribution to Ghana's GDP growth through value addition.

Despite the positive global trends, macroeconomic conditions can significantly impact individual SME performance. As illustrated by Demirguc-Kunt and Levine (2018) in the case of Ghana around 2000, increased government borrowing can restrict access to financing for private businesses. This led to higher interest rates, making it difficult for SMEs to access loans. The government's attempt to rectify the situation by forcing banks to lend to SMEs wasn't entirely successful. High interest rates remained a barrier, hindering SMEs' ability to borrow and grow.

In Zimbabwe, SMEs represent a significant segment of the economy, employing roughly 2.9 million people and boasting ownership by 2.8 million Zimbabweans according to the Fin Scope SMEs Survey (2012). However, the Confederation of Zimbabwe Industries (CZI, 2014) paints a concerning picture of SME struggles since 2000. Their report estimates that around 400 SMEs closed in 2000 alone, followed by another 100 closures in 2001. The primary challenges identified by CZI include financial constraints and the inability of SMEs to adapt to rapid technological advancements, hindering their growth and sustainability.

SMEs in Zimbabwe face a multitude of challenges that hinder their growth and contribution to the economy. Kanyenze (2017) identifies several key obstacles, including, limited access to capital hinders their ability to invest in equipment, inventory, and expansion, lack of innovation and **re**stricted market access.

Financial constraints are a major pain point, as highlighted by both Kanyenze (2017) and Ntayi et al. (2010). Ntayi et al.Emphasize that limited access to credit facilities like overdrafts and

term loans offered by commercial banks (Feakins, 2005) is a crucial factor stifling SME performance.

Despite these challenges, SMEs remain a vital force in the Zimbabwean economy. Kanyenze (2017) cites national budget statements indicating that SMEs contribute a significant 50% to the GDP and employ a substantial 60% of the workforce. This underscores the importance of addressing these obstacles and fostering a more supportive environment for SMEs to thrive.

Access to finance is a critical cornerstone for the development of SMEs in African economies. Despite their potential, many SMEs struggle with financial limitations that impede their growth and overall success. Limited credit access is a major obstacle, as highlighted by Schmidt and Kropp (2022) who point out that without access to credit, SMEs cannot fulfil their potential to transform their economies. Rand et al. (2008) add another layer of complexity by suggesting that some SMEs struggle to secure funding due to weak loan proposals.

As Rand et al. (2008) highlight, the structure of the current global financial system plays a critical role in determining how readily SMEs can obtain financing. While commercial banks are the primary channel for credit in most economies, there's a persistent gap between the financial needs of SMEs and their ability to secure traditional bank loans. This gap is largely caused by difficulties SMEs face in meeting banks' strict lending requirements.

1.2 Statement of the Problem

Despite numerous efforts by SMEs in Zimbabwe to secure funding, many continue to struggle financially. This study aims to investigate how commercial bank lending practices influence the financial performance of these small and medium-sized enterprises (SMEs).Dalberg (2010) suggests that access to finance for SMEs has become significantly tighter over the past decade. Numerous small businesses have closed as a result of inadequate funding for working capital management and investment operations. This has had a negative effect on the growth of the national economy by forcing many small businesses to liquidate and forcing others to divest. Although many African economies confront financial constraints that impede their growth and performance, access to money is a crucial component of their development.

1.3 Objectives of the study

●Investigate the relationship between commercial bank financing and the financial performance of SMEs.

●To examine barriers faced by SMEs in obtaining commercial bank financing.

●To explore the commercial banking products available to small and medium-sized enterprises.

●Develop recommendations for strategies to enhance the flow of commercial bank funding to small and medium-sized enterprises.

1.4 Research Questions

●What are the potential risks associated with commercial bank financing for the financial performance of SMEs?

●What are the key challenges that hinder SMEs from obtaining bank loans?

●What range of commercial banking products cater to the needs of SMEs?

●What strategies can be implemented to encourage commercial banks to increase lending to SMEs?

1.5 Hypothesis

H^0: Commercial bank lending have a significant impact on the output of SMEs.

H^1: Commercial bank lending do not have any significant impact on the output of SMEs.

1.6 Assumptions of the study

For the purpose of this research, the researcher assumed the following:

●The analysis is based on the assumption that respondents provided information to the best of their knowledge.

●The study participants are likely to be knowledgeable about the topic being investigated.

●The data collected from the sample strives to be an accurate representation of the entire population.

●The data collection process yielded a sufficient amount of information to address the research questions effectively.

1.7 Importance of the study

1.7.1To the student

To the academic field, this research study helped the researcher in the partial fulfilment of the honours degree in banking and finance. The data obtained from this study added on to already existing knowledge that will help other researchers to fill in the gap in the literature review of commercial banks products impact on SMEs performance.

1.7.2To the SMEs

This paper aims to empower SMEs by equipping them with knowledge on how to improve their standards and become more competitive. By adopting standardized procedures, SMEs can potentially increase their chances of securing financing from commercial banks and enhance their overall business sustainability.

1.7.3To the university

The results of this study not only contribute to the academic understanding of the effects of commercial bank funding on SMEs but also offer valuable insights for policymakers. This can lead to improved practices within universities and potentially influence policy decisions.

1.8 Limitations

●A low response rate can limit the generalizability of research findings. In this study, some respondents were hesitant to complete the questionnaires, and some may not have finished all

the questions. To mitigate this challenge, the researcher actively approached potential participants and explained the potential benefits of the study in detail.

●A small sample size makes study findings less generalizable. Low sample numbers resulted in inadequate representation of the overall population, which weakened the external validity. Therefore, in order to gather a variety of data and develop a well-thought-out conclusion, the researcher spoke with a number of stakeholders.

●Limited internet access due to frequent power cuts posed a significant challenge for data collection. Information available offline was restricted. To overcome these obstacles, the researcher adopted a multi-pronged approach. This included utilizing internet cafes when power was available and leveraging mobile data on a cellphone to access and gather the most up-to-date and comprehensive information possible.

1.9 Delimitations

To investigate the influence of commercial bank lending on the financial health of small and medium-sized enterprises (SMEs), this study was conducted in Bindura town, Mashonaland Central Province, Zimbabwe. Bindura, situated approximately 88 kilometres northeast of Harare in the Mazowe Valley. It's important to note that the study specifically examined commercial banks, limiting its scope to this type of financial institutions. Consistent with the Zimbabwean government's policy definition (2004), this study classified SMEs as businesses with 100 or fewer employees.

1.10 Ethical Consideration

As highlighted by Pritha Bhandari (2021), ethical considerations in research provide a crucial framework for designing and conducting research studies. Throughout my data collection process, I ensured adherence to a specific code of conduct, guaranteeing the ethical treatment of participants.

Throughout my research, I prioritized obtaining informed consent, a cornerstone of ethical research. Potential participants were fully informed about the study's details before their voluntary participation. This ensured their decision was free from coercion or deception.

Another ethical consideration was anonymity. This offers a stricter form of privacy than confidentiality because the researcher doesn't retain any identifiable information about participants. This approach protects those who may be hesitant to participate if their identities were known.

1.11 Key Definitions

Commercial banks

(Chapter 22:15) of the Reserve Bank Act defines a bank as a financial institution authorized to accept deposits and offer loans, operating for profit. These banks perform several key functions such as acting as a safe place for people and businesses to store their money, offering withdrawals, providing business loans and offering financial guidance to clients.

Small to medium enterprises

The Zimbabwean government's 2004 policy classified Small and Medium Enterprises (SMEs) based on employee count and financial thresholds. SMEs are typically defined as businesses employing 100 or fewer workers, with total assets less than $100,000 and annual revenues under $240,000. Medium enterprises fall outside the scope of "small" but still have assets below $1 million (USD).

Gross domestic Product (GDP)

As defined by Callen (2008), Gross Domestic Product (GDP) represents the total market value of all final goods and services produced and sold within a country's borders over a specific period, typically a year. This excludes intermediate goods, which are used in the production of other goods.

1.12 Summary

This chapter outlines the research methodology, which serves as the roadmap for data collection, analysis, and presentation. This approach will guide the formulation of conclusions

and recommendations based on the gathered information. The research explores how access to commercial bank loans influences the financial performance of SMEs.

CHAPTER TWO

Literature Review

2.0 Introduction

The engine of economic growth, especially in developing countries, small and medium-sized businesses (SMEs) are a major area of study for researchers globally. In recognition of this, both developed and developing nations are focusing on how to make it easier for SMEs to get loans from commercial banks. This chapter explores what past research tells us on this topic. First, we'll look at the relevant theories, then discuss established models. Finally, we'll summarize the key findings from previous studies.

2.1 Theoretical Review

2.1.1 The Packing Order Theory

In 1984, Stewart Myers and Nicolas Majluf presented the pecking order theory. This theory aimed to explain how companies make financing choices, rather than dictate a single "best" capital structure. The theory identifies three main sources of financing: internal funds (retained earnings), debt (loans), and new equity (selling shares). Unlike other capital structure theories, the pecking order theory doesn't focus on finding the optimal mix. Instead, it proposes a hierarchy that businesses tend to follow Internal Funds: Companies naturally prefer to use their own internally generated funds first. This avoids the costs associated with external financing. Debt: Once internal funds are tapped out, companies may turn to debt financing. This involves borrowing money, but it can also signal confidence in the company's ability to repay the debt. New Equity: Issuing new equity, which involves selling shares to investors, is generally considered the least preferred option. This is because it dilutes existing shareholders' ownership and can be a complex and expensive process. The pecking order theory highlights a preference for financing based on a perceived risk-and-cost hierarchy. Companies prioritize less risky and less expensive options first, then move to riskier and potentially more costly options as needed.

Developed by Myers and Majluf in 1984, the pecking order theory takes a unique approach to corporate financing. Unlike other theories that prescribe a one-size-fits-all capital structure, this theory focuses on how managers make financing decisions. The theory identifies three key funding sources: internal funds (a company's own profits), debt financing (borrowing money), and issuing new equity (selling shares).

According to Myers (1984), a company should seek outside funding if its internal resources are insufficient to cover all of its expenses. He proposed that the existence of knowledge asymmetry would lead to the firm's securities being undervalued. Retained canings would thereby lessen the knowledge asymmetry. They recommended that the company should favour debt over equity and retain earnings over debt. According to Myers (1984), a company should seek outside funding if its internal resources are insufficient to cover all of its expenses. He proposed that the existence of knowledge asymmetry would lead to the firm's securities being undervalued. As a result, using retained canings would lessen

Additionally, Bakur and Wurgler (2007) conjectured that a company's use of internal funding indicates to the market that it can satisfy its funding demands. Debt, on the other hand, demonstrates that the business can manage its fixed finance. To sum up, all three of these theories of capital structure address the fact that enterprises can obtain funding from both debt and equity.

2.1.2 The Agency Theory

The agency theory was developed by Jensen and Meckling (1976) in an effort to ascertain the ideal business capital structure that avoids financial crisis. They suggested that agency costs come in two varieties. These were the agency costs associated with loan and equity. They continued by stating that disagreements between management and shareholders typically occur when the latter tries to decide how geared a company should be.

A 1991 view suggests agency theory examines how different players in a company's finances make decisions. This includes managers, shareholders (equity investors), and lenders (debt providers). These stakeholders' actions are examined in light of how they affect the financial system. According to Israel's (1991) theory, the Principal-Agent Model, an agency theory, aims to explain partners' behaviour from the outset of their agency relationship by identifying the best agreements between them.

One key idea of agency theory is the misalignment of interests that can arise between managers and shareholders. The core of the theory includes information gap where managers are typically privy to more information about the company's inner workings than shareholders. This creates an "information asymmetry." Agency theory posits that managers might prioritize their own interests, such as job security or perks, over maximizing value for the company's shareholders. This divergence in goals can lead to conflicts.Uddel (2003) supports this theory by suggesting that people naturally tend to prioritize their self-interest. In this context, managers might act in ways that benefit themselves, even if it comes at the expense of shareholder value. Another source of conflict emerges between shareholders and bondholders. Since lenders base interest rates on a company's risk, this can create tension. This potential conflict between shareholders and bondholders can incentivize managers to make decisions that prioritize shareholder value over creditor interests. Monitoring and controlling managers' actions to prevent value transfer from creditors creates a financial burden known as agency costs of debt.

Financial theorists have identified numerous potential conflicts within a company, such as those surrounding investment decisions and optimal capital structure (as noted in earlier works). However, the capital structure itself can be a source of two key conflicts: between managers and shareholders. Resolving these conflicts is crucial to achieving the optimal capital structure that maximizes firm value.

Jensen and Meckling (1976) introduced agency theory, which explores potential conflicts between managers and shareholders. They proposed that debt financing could be a tool to address this issue. The theory suggests that high levels of debt can create a situation where managers' actions are more closely aligned with shareholder interests because debt creates a financial obligation for the company. Managers, facing the potential consequences of bankruptcy if the debt isn't serviced, are incentivized to make decisions that generate cash flow and improve the company's financial health. This focus on performance can ultimately benefit shareholders.

According to Jensen and Meckling (1976), a company's capital structure can influence managerial behavior. They theorize that high levels of debt can act as a pressure cooker for managers. The increased risk of bankruptcy associated with debt can serve as a powerful motivator for efficient management. When a company is heavily indebted, managers may feel their job security is at risk if the company fails to meet its financial obligations. This can incentivize them to work harder and improve performance to generate the cash flow needed to

service the debt. In essence, Jensen and Meckling argue that debt financing can create a situation where managers are under pressure to perform efficiently. The potential consequences of failure (bankruptcy, job loss) can motivate them to take actions that bring in more cash flow, ultimately benefiting the company's financial health.

2.1.3 The static trade- off theory of capital structure

In 1958, Modigliani and Miller (MM) sparked a debate in finance with their capital structure irrelevance theory. This theory challenged the conventional wisdom that a company's financing choices (debt vs. Equity) impacted its overall value.

Modigliani and Miller (1958) challenged conventional wisdom with their capital structure irrelevance theory, arguing that in a perfect market, a firm's value depends solely on its assets and future cash flow, not how it's financed (debt vs. Equity). This theory highlights the tax benefit of debt, where interest payments are tax-deductible, potentially making debt financing more attractive than equity. However, the theory is based on assumptions that may not hold true in the real world, and other factors like financial risk associated with high debt need to be considered when determining a company's capital structure.

Modigliani & Miller (MM) revisited their capital structure theory in 1963, suggesting that in a perfect world, companies could maximize value by using as much debt as possible (even 100% debt financing). The logic behind this is that debt's tax shield (interest payments reduce taxable income) lowers the weighted average cost of capital (WACC) and increases the present value of a company's cash flow, ultimately boosting share price. Leary & Roberts (2005) support this notion, arguing that debt is inherently less expensive than equity because interest payments are tax-deductible. On the other hand, there's a limit. Scott (1970) cautioned against excessive debt, highlighting the risk of financial distress. Companies need to find a balance between the tax advantages of debt and the potential drawbacks of increased financial risk. After all, debt isn't a one-size-fits-all solution, and a company's capital structure should consider both the cost and benefits of debt alongside equity financing.

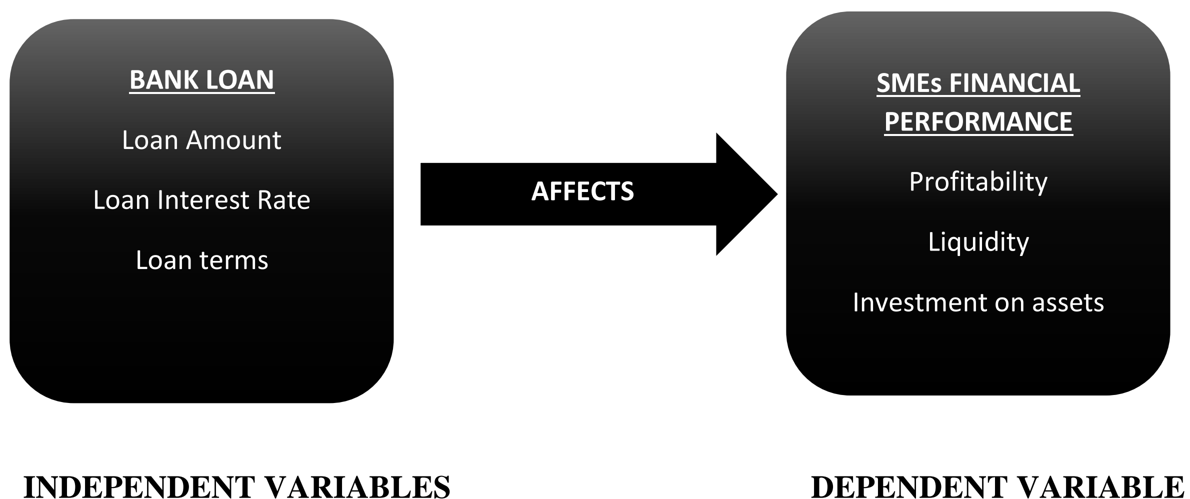
Modigliani & Miller (MM) revisited their capital structure theory in 1963, proposing that companies could maximize value by using maximum debt (even 100%) in a perfect world. The allure? Debt's tax shield (tax-deductible interest payments) lowers the overall capital cost (WACC) and boosts the present value of cash flows, ultimately increasing share price. Leary

& Roberts (2005) agree, seeing debt as inherently cheaper due to the tax benefit. However, there's a catch. Excessive debt, as Scott (1970) cautioned, raises the risk of financial distress. Companies must navigate this balance between the tax shield benefit and the potential drawbacks of debt financing. In reality, capital structure involves a complex cost-benefit analysis of both equity and debt financing.

Modigliani and Miller proposed that a company's value remains constant regardless of its debt or equity financing, assuming a perfect market. They pointed out that while equity financing avoids debt interest payments, it also means higher taxes overall. However, MM acknowledged that excessive debt increases a company's financial risk (cost of capital) and the chance of bankruptcy, potentially outweighing the tax benefit. This risk can erode the tax savings and even decrease share price. Scott (1970) further argued that relying solely on debt (100% gearing) isn't realistic due to ever-increasing interest costs. These contrasting views on debt's role in capital structure highlight the need for a balanced approach that considers both tax advantages and financial risk.

Companies are drawn to debt financing for two main reasons: tax benefits and collateral security. Tax shields arise because interest payments on debt reduce taxable income (Fama & French, 2002). Additionally, firms with tangible assets can use them as collateral in case of bankruptcy, giving lenders more confidence and potentially leading to better loan terms (Michaels et al., 1999).

2.2 Conceptual Framework



INDEPENDENT VARIABLES **DEPENDENT VARIABLE**

2.2.0 Loan Amount and Profitability of SMEs

Loan amount plays a balancing act on profitability. While it can finance growth and improve efficiency, leading to higher returns. However, a very large loan could lead to a situation where the SME struggles to make interest payments, even if the project is successful, reducing overall profitability. SMEs need to find the right loan amount that maximizes their return on investment while keeping interest costs and debt manageable.

2.2.1 Loan interest rate and liquidity

Lower interest rates decrease the amount of cash a firm needs to dedicate towards loan repayments. This frees up more cash flow for the firm's daily operations, increasing their readily available funds. However, higher loan interest rates can squeeze a firm's liquidity by increasing the amount of cash needed for loan repayments. This reduces the firm's readily available funds for day-to-day operations and unforeseen expenses. This can lead to situations where the firm has to scramble for additional cash, potentially at higher costs, hindering their financial flexibility.

2.2.2 Loan terms and investment on assets

Loan terms can significantly influence a firm's investment decisions. Stricter terms, like shorter repayment periods or high collateral requirements, can limit the amount a firm can borrow. This might restrict investment projects to smaller scales or those with faster returns to meet repayment deadlines. Conversely, flexible terms with longer maturities allow for larger loans, enabling financing for bigger projects with potentially higher returns but longer payback periods.

2.3 The definition of a Small and Medium Enterprise (SME) varies across countries. In some countries, like South Korea and the Philippines, the number of employees is the key factor. Japan, for example, sets the threshold at 300 employees (Wiebe, 2022). South Africa, on the other hand, defines SMEs based on legal registration and employee size, with a limit of 250 employees (IFC, 2009). This highlights the lack of a universal standard for SME classification.

Unlike some countries that rely solely on employee count, Zimbabwe's official definition for Small and Medium Enterprises (SMEs) considers both the number of employees and the size of the company's asset base. This two-pronged approach, established in 2002 by the Ministry of Small to Medium Enterprise Development, addresses the limitations of using sales volume

as a metric. Zimbabwe's hyperinflationary period around 2008 and the subsequent shift to a multicurrency system rendered sales figures unreliable in the current economic landscape where the country lacks its own national currency. As Perk, Ledwidth, and Nicholas (2011) point out, SME definitions can vary depending on the source, industry, and even geographic location.

The term "Small and Medium Enterprise" (SME) lacks a universal definition. Variations can occur based on the source providing the definition (government agency, industry association, etc.), the specific industry sector being considered, and even the geographical location (Perk, Ledwidth, & Nicholas, 2011). Due to variations in SME data collection methods across countries, drawing comparisons between regions can be difficult.

The Zimbabwean definition of an SME, as outlined in (Chapter 24:12) of the SME ACT, specifies that an SME is a legally recognized business with the following variables

●Employee Headcount

●Annual Sales

●Net worth excluding land, buildings, and equipment, for a business with one owner or a partnership.

The characteristics of Small and Medium-Sized Enterprises (SMEs) can influence the amount of funding they receive from commercial banks. Researchers Hudson, Smart, and Bourne (2001) identified several key characteristics that distinguish SMEs from larger companies, which we'll explore below.

-Highly original

-horizontal structures

-Cater to niche markets

-Resource constraints, including a shortage of skilled workers, hinder operations

-Buyer's relationships are unstable

- Bootstrapping the business**:** refers to using personal resources to fund a business.

2.2.4 The Crucial Role of SME sector in Zimbabwe

The recent decades of economic hardship in Zimbabwe, characterized by extensive job losses across industries, have inadvertently driven the growth of many small and medium-sized enterprises (SMEs) in urban centers like Bindura. This surge in entrepreneurial activity can be seen as a coping mechanism for Zimbabweans seeking alternative livelihoods in the face of widespread unemployment.

Zimbabwe's Standards Association of Zimbabwe (SAZ), a non-profit organization, recognizes the critical role of SMEs and has implemented programs to upgrade their systems. Funded by the European Union, SAZ trained SMEs across all ten provinces, with roughly 200 companies receiving operational certificates. However, despite efforts by commercial banks, access to finance remains a major hurdle. Research by Irwin and Scott (2010) suggests that a key challenge identified was SMEs' inability to present viable business proposals. This perception of SMEs as high-risk ventures with a greater chance of failure discourages financial institutions from lending, hindering their growth.

Zimbabwe's government acknowledges the crucial role of SMEs in the national economy and has taken steps to strengthen their financial health. This includes directing financial resources towards them. These efforts are well-founded. Joshua and Biekper (2019) highlight SMEs' role as a breeding ground for local ownership and mobilizing underutilized resources. Jelili and Adedibu (2017) add that SMEs are no longer just a source of basic income for the urban poor, but also attract talented individuals with strong academic backgrounds, contributing significantly to job creation. Ephraim (2013) emphasizes that SMEs are typically labour-intensive, employing more people compared to capital-intensive larger enterprises. This focus on job creation is particularly important in Zimbabwe's context. Irwin and Scott (2010) point to the large-scale job losses during the Structural Programme (1991-1995) and the economic downturn around 2008, highlighting the need for alternative employment opportunities that SMEs can provide.

No longer underestimated, the SME sector has become a crucial job creator, absorbing a significant portion of the "redundant workforce." Ncube (2023) emphasizes the vital role SMEs play across Sub-Saharan Africa, acting as a major source of income and a tool for poverty reduction. Their presence fosters a shift towards domestic products, reducing reliance on imports, while also boosting exports. Yerima et al. (2007) highlight the resourcefulness of

SMEs, crediting their success to efficient utilization of local resources and their ability to cater to the needs of low-income earners through creative solutions

Easy access to funding is crucial for SMEs as they play a key role in keeping prices competitive. Hanke (2017) argues that unlike larger enterprises which raise prices on essential goods, SMEs can offer them at lower costs. This affordability is often attributed to their informal nature, as highlighted by Ephraim (2013). Unlike larger businesses, SMEs may not incur taxes or interest charges, which translates into lower prices for consumers. This was particularly evident during Zimbabwe's inflationary period around 2008, where SMEs offered significantly cheaper goods compared to larger enterprises, without compromising on quality.

Securing funding from commercial banks is critical for SME survival and growth. Ephraim (2013) laments that many promising SME ideas fizzle out due to lack of financial backing. Access to capital empowers SMEs to weather harsh economic conditions, compete with larger firms, and fuel their expansion. Unlike large enterprises, SMEs often excel at product customization, catering to niche markets. Additionally, funding helps them manage working capital, ensuring smooth day-to- day operations. Mboko and Hunter (2009) highlight the prevailing sentiment among business owners, including SMEs, who view the economic climate as hostile and challenging for business success.Historically in Zimbabwe, access to bank finance was limited to large, established companies, leaving SMEs out in the cold. Ndlovu (2013) points to the multicurrency regime's impact on SMEs, wiping out their savings. Ephraim (2013) suggests that as commercial banks struggled to function effectively, their legal financial structures became more rigid, making it difficult for SMEs to comply. This lack of access to formal finance, coupled with a general decline in business confidence, created an opportunity for SMEs to establish themselves in various sectors. However, Bell and Mawadza (2017) warn that the current financial landscape may be pushing some SMEs to resort to unethical practices simply to survive.

2.2.5 Roles of SMEs

2.2.5.0 Improvement in Quality Of Life

SMEs thrive by offering a more personal touch and readily adapting to customer needs. This agility stems from their origin: often starting to fill a niche, catering to a specific segment within

the broader market. Furthermore, their small size fosters innovation. Tight-knit teams and individual ownership within SMEs often become breeding grounds for fresh ideas, novel concepts, and even technical breakthroughs.

2.2.5.1 Employment Provision

Poverty remains a significant challenge in many developing nations, including Zimbabwe. However, the rise of Small and Medium Enterprises (SMEs) offers a beacon of hope. In Mbare, for example, the steel manufacturing sector within the SME landscape has become a crucial source of employment. Many families rely on the income generated by these small businesses, particularly those involved in steel roofing sales, to provide for their loved ones.

2.2.5.6 Flexibility, Innovation and Competition

SMEs are a driving force for innovation and competition in the market. Their smaller size allows for greater flexibility in manufacturing, often achieved through subcontracting specialized tasks. This agility fosters a culture of innovation, where individuals and small teams can readily experiment and develop new ideas, concepts, and even technical inventions. Additionally, the presence of numerous SMEs within a market fosters healthy competition. This competition keeps businesses on their toes, driving them to constantly improve their products, services, and overall efficiency. Ultimately, a vibrant SME sector benefits consumers by offering a wider range of choices and potentially lower prices due to the competitive landscape.

2.2.5.7 Promoting International Trade

By engaging in internationalization, Zimbabwean SMEs can unlock new markets, boost revenue, and create job opportunities. Internationalization refers to increasing involvement in international markets, as defined by Welch and Luosharienen (2018). In simpler terms, it means conducting business transactions with other countries (Dhanaraj & Beamish, 2013). Recognizing this potential, the Government of Zimbabwe (GoZ) has partnered with the private sector to establish institutions like ZimTrade, the Zimbabwe Investment Authority, and Trade

Missions. These institutions work together to promote international trade, attract Foreign Direct Investment (FDI), and empower SMEs to navigate the exciting world of international business.

2.2.5.8 Overall reduction in economic decline

The SME sector serves as a powerful engine for economic growth in many countries around the world. Research by Ball et al. (2010) suggests a strong correlation between successful SME development and significant economic progress. Examples like China, South Korea, and Malaysia showcase the transformative potential of SMEs. Zimbabwe, facing its own economic challenges, can benefit greatly by fostering a thriving SME landscape. These small and medium-sized enterprises hold the key to economic recovery and improved well-being for its citizens. As Battersby (2003) argues, a robust SME sector is often seen as a hallmark of a developing nation.

According to Ndlovu (2017), a significant number of Zimbabwean SMEs in the import/export sector struggle to access bank financing due to foreign currency limitations. Ephraim (2013) adds that even when banks have foreign currency available, the Reserve Bank of Zimbabwe's (RBZ) allocation prioritizes other sectors, leaving SMEs at a disadvantage. This restricted access to foreign currency can hinder their growth potential and force them to seek alternative funding sources.

Bridging the gap between commercial banks and SMEs in Zimbabwe requires addressing some key challenges. Sachikonye and Sibanda (2016) highlight a disconnect between the formal operating style of banks and the sometimes informal practices of SMEs. Additionally, Irwin and Scott (2010) point out that some SMEs may struggle with non-traditional sourcing of materials, leading to weak accounting systems and hindering their ability to secure loans. Furthermore, banks often prioritize sectors deemed essential, potentially limiting access to foreign currency for viable yet non-essential SME ventures. Ultimately, improving communication, transparency in business practices, and a broader understanding of diverse market demands are crucial for fostering a more collaborative lending environment.

This study investigates how to bridge the financial gap between commercial banks and SMEs in Zimbabwe. There is significant room for improvement in how banks impact the financial health of SMEs. Agyei (2012) identifies challenges hindering access to credit, including a lack

of strong professional relationships between SMEs and banks. Additionally, inadequate infrastructure on the part of SMEs can limit their ability to secure loans by hindering collateralization (Ahiabor, 2013). Furthermore, the absence of skilled personnel and proper bookkeeping practices can negatively affect financial performance and the ability to present convincing business cases (Ahiabor, 2013; Ephraim, 2013). The research aims to identify solutions that address these limitations, such as improved communication between banks and SMEs, capacity building initiatives for SMEs, and exploring alternative loan assessment models that go beyond traditional collateral requirements.

The table **2.2.6 below shows challenges encountered by both banks and SMEs**

Problems faced by SMEs	**Problems faced by banks**	**Problems faced by both SMEs & Banks**
Lack of collateral security	Defaults by SMEs	Inflation
Poor record keeping	Burdensome regulation	Government regulations
Lack of formal education	Issues in the credit risk management	Lack of labour
Short repayment period for loans	Erosion of public confidence in the industry	Insufficient funds to start a business
Poor credit worthiness	Frequent changes of bank policy	High interest rates
Lack of guarantor		Exchange rate fluctuations

Several factors limit commercial bank lending to SMEs in Zimbabwe, as illustrated in the diagram. These include loan defaults by borrowers, including SMEs themselves, strict government regulations for entering and exiting the banking industry, and inflationary pressures. Katunzi (2010) acknowledges the challenges faced by banks in the current economic climate, emphasizing that their own financial sustainability is also a concern. It’s important to note that commercial banks hold the most weight in Zimbabwe’s financial landscape. As outlined in the Banking Regulation Act of 2000, commercial banks are authorized to accept

public deposits and utilize them for lending or investment purposes. As Katunzi (2010) points out, this core function involves accepting deposits through various accounts like savings, checking, and term deposits, and then lending those funds at interest for a specified period. This cycle of deposit-taking and lending allows commercial banks to play a crucial role in the financial system.

Commercial banks play a key role in facilitating financial transactions. As Mishkin (2008) highlights, they extend loans to borrowers in various forms. These loans can be used by a wide range of individuals and businesses, from investors and entrepreneurs to everyday citizens. However, banks typically require collateral security to mitigate risk. In addition to lending, commercial banks also manage deposits. This core function allows individuals and businesses to deposit their money in various accounts, such as checking and savings accounts. These deposits are then used to fund the loans mentioned earlier. Importantly, commercial banks also provide depositors with convenient ways to access their funds. This can be done through checks, debit cards, or credit cards, enabling them to make payments, transfer funds, or withdraw cash.

Several factors contribute to a decline in trust towards formal banking in Zimbabwe, as highlighted by Bell and Mawadza (2017). Perceptions suggest that more money circulates in informal systems than through official channels. This lack of confidence is further fueled by the perception of banks as exploitative, as evidenced by Ndlovu's (2017) observation that some people prefer to "save under the pillow" rather than trust the banking system. Additionally, Hanke (2017) points to high bank interest rates (18-21%) that discourage a culture of saving. Many Zimbabweans believe depositing money leads to charges instead of earning interest. Consequently, SMEs primarily use banks for transactions, not as a reliable source of savings or investment.

2.2.7 How the technological environment affects the operations of the SMEs

The ever-evolving technological landscape presents both challenges and opportunities for SMEs. As Zhang (2013) observes, the rapid pace of technological advancements, particularly the rise of the World Wide Web and other information technologies, is transforming how businesses operate, especially in terms of information storage and transmission. Chinomona (2013) emphasizes the challenges these changes pose for SMEs, who may struggle to keep up.

However, with proper adaptation, SMEs can leverage technology to enhance their operations and reach new markets.

2.2.8 Effects of the challenges faced by SMEs on the Zimbabwean economy

Several challenges hinder the growth of SMEs in Zimbabwe, potentially requiring the government to re-evaluate resource allocation strategies aimed at boosting the sector. These obstacles could negatively impact national development initiatives like ZIMASSEST, which relies on a thriving SME landscape. Business closures would lead to unemployment, potentially impacting living standards and social stability. While some SMEs might adapt by lowering product quality to manage costs, this could ultimately harm consumer welfare. Additionally, the financial constraints faced by struggling SMEs can lead to reduced tax contributions, impacting government revenue.

2.2.9 Commercial bank products to SMEs.

2.2.9.1 Debit Cards

Debit cards, as defined by Slatter (2020), are bank cards that provide convenient access to funds. When making purchases, the cardholder can electronically transfer funds from their linked checking account. When you use your debit card, the purchase amount is immediately deducted from your bank account and recorded in your bank statement. This, as Sanderson (2017) points out, makes debit cards a safer and more convenient way to pay since you don’t need to carry cash. Beyond purchases, debit cards offer additional functionalities such as ATM withdrawals, transfers between accounts, and balance checks. These versatile cards empower users to make payments and manage their finances without requiring frequent bank or ATM visits. It’s important to note, however, that debit cards often have daily spending limits.

Debit cards offer users a convenient and flexible payment option, as highlighted by Sanderson (2017). They allow for economical purchases anywhere and anytime, and unlike cash, facilitate online payments and international fund transfers via various channels like email, phone, or internet.Trull (2014) emphasizes the benefits for SMEs, as debit cards eliminate the risk of debt and provide a clear record of transactions on bank statements, simplifying expense tracking

compared to manual cash accounting. Additionally, debit cards offer security advantages. Sanderson (2017) points out that they reduce the risk of loss or theft compared to cash, as cards can be blocked if stolen. However, debit cards are not without drawbacks. Sanderson (2017) acknowledges that the ease of use can lead to overspending, potentially straining budgets and causing financial difficulties. Furthermore, debit cards are still vulnerable to theft, and in today's digital age, unauthorized transactions can lead to significant financial losses.

2.2.9.2 Overdraft

Bank overdrafts offer a valuable temporary financing option for SMEs, as highlighted by Ephraim (2013). They allow businesses to withdraw funds exceeding their current account balance, providing a buffer for unexpected cash flow gaps. Overdrafts can be secured (backed by collateral) or unsecured, depending on the creditworthiness of the SME (Irwin & Scott, 2010). This system breaks from the traditional loan model where interest accumulates on the full amount borrowed, regardless of use. Here, interest is charged only on the portion of the funds you utilize (Katuunzi, 2010). This feature makes overdrafts potentially more cost-effective.

Overdrafts also promote responsible financial management. By enabling timely payments and avoiding penalties for late payments (Ephraim, 2013), they can help SMEs maintain positive creditor relationships. Additionally, overdrafts encourage good record-keeping practices, as transaction history is readily available for review (Irwin & Scott, 2010). Furthermore, the application process for overdrafts is typically less complex compared to long-term loans (Katuunzi, 2010)

However, it's crucial to use overdrafts strategically. Limits are set based on an SME's financial health (Joshua & Biekper, 2019). Exceeding these limits can result in significantly higher interest rates (Katuunzi, 2010). Ultimately, the availability of overdrafts depends on the overall financial performance of the SME.

2.2.9.3 Business Loans

According to Trull (2021), most SMEs are provided loans by commercial banks specifically for business purposes like funding working capital. The funds are mainly for addition for the

funds that they already have. Claude (2020) said that the loans have specified interests' rates and should be repayable in the shortest possible time. The loans granted are usually small and either secured or unsecured. For loans to be granted there is need of viewing business balance sheet, business plans and business accounts. Types of small business loans include line of credit loan. This type of loan protects the company from stalled cash flow and emergencies that might arise. Their purpose if of purchasing inventory, equipment and payment of working capital costs. These types of loans are short term loans with the lowest interest's rates. Ephraim (2013) postulated that business loans are convenient in the sense that they can be paid off when one has the funds. Other types of business loans include installment loans, import and export loans etc.

2.2.10 Demand side constrains

These are the constrains that arise from the SMEs side.

●Compared to larger companies, most SMEs operate in a more turbulent competitive landscape. This heightened uncertainty – driven by factors outside their direct control – contributes to the higher failure rates often seen among small and medium-sized enterprises.

●Small businesses (SMEs) often struggle with outdated equipment and limited staff and funding, making it harder to weather economic storms.

●Flawed accounting in SMEs weakens their financial data, hindering reliable reviews and raising doubts about their true financial health.

●Tight personal wallets limit initial investment by founders (promoters), hindering start-up capital.

●Thin assets hold SMEs back from securing loans

2.2.11 Supply side constrains

Supply-side constraints originate from financial institutions themselves.

●Many SME loan defaults make lenders wary, slowing new loan approvals

●Banks often cite poor quality project proposals as a reason for limiting SME loans. As research by Lean and Tucker (2003) suggests, many SMEs lack the ability to present compelling investment proposals, hindering their loan applications.

●Volatile and high interest rates can significantly hinder SME growth. This is because these costs can erode potential profits, making some projects financially unviable and discouraging loan applications from SMEs.

SMEs face a steeper climb than large firms when seeking funding. Studies by Schifer and Weder (2023) point to their higher perceived risk of default, smaller loan sizes, and the resulting high transaction costs for lenders. This often leads to stricter credit evaluations by banks, as Tucker (2021) argues, where the cost of processing a smaller loan becomes relatively expensive.

SMEs face an uphill battle securing commercial bank loans due to factors highlighted by the IFC (2009). These challenges include a lack of collateral to secure loans, difficulty establishing creditworthiness, limited cash flow, a non-existent credit history, a higher perceived risk of default, and potentially strained relationships with lenders.

Commercial banks stand out as the primary source of debt financing for SMEs due to their widespread presence. Unlike other financial institutions, commercial banks boast extensive branch networks, reaching even remote areas. This accessibility aligns with Anderson's (2024) observation of commercial banks being key players in the financial system, catering to a broad range of borrowers including SMEs.

Limited access to equity markets makes commercial banks crucial for SMEs seeking external funding (Magutu, 2010). By acting as intermediaries that connect SMEs (fund-requiring units) with investors (fund providers), banks bridge a critical financing gap for small and medium-sized enterprises (Longneck, 2006).

While Zimbabwe offers various funding sources for SMEs, including banks like CABS and CBZ, and microfinance institutions like Untu and FMC (Ephraim, 2013), access to credit remains a hurdle. These institutions may not always be readily available, and historically, banks have viewed SMEs as risky borrowers, limiting their loan approvals.

2.3 Empirical evidence

Aluko and Oke (2015) investigated how commercial banks influence financing for small and medium-sized enterprises (SMEs) in Nigeria. Their research looked at ten commercial banks and built a dataset combining information specific to each bank with broader economic trends over time. Instead of self-administered questionnaires, the study likely involved collecting data directly from the banks. Panel data analysis, a statistical technique, was then used to analyze the information and assess the impact of commercial banks on SME financing.

The importance of small and medium-sized businesses (SMEs) for economic growth, especially in developing countries, has become a major focus for researchers around the world. This has led both developed and developing nations to prioritize figuring out how to make it easier for SMEs to get loans from commercial banks. This chapter will explore what past research has said on this topic. First, we'll look at the key theories that inform this area. Then, we'll discuss the established models that help us understand the situation. Finally, we'll summarize the most important findings from previous studies.

Yeboah, Asirifi, and Adigbo (2014) looked into how banks in Ghana help small and medium-sized businesses (SMEs) get the funding they need. They focused on understanding three things: how involved banks are with SMEs, how banks choose which SMEs to lend to, and how bank loans affect SMEs. The businesses and banks filled out questionnaires on their own, and the researchers analyzed the answers using charts and graphs to show how often certain answers appeared.

Yeboah et al (2014) found that commercial banks in Ghana view small and medium-sized enterprises (SMEs) as a promising market segment. Their study also suggests that providing loans to SMEs benefits both the banks and the businesses themselves. This has led to banks becoming more involved with SMEs. However, there are still hurdles SMEs face when trying to get funding, such as lack of collateral, high interest rates, and a lack of clear information. To address these challenges, the authors recommend that all relevant players work together to create approaches to strengthen confidence between banks and SMEs.

Several studies have examined the impact of SME financing on economic growth in Nigeria. Afolabi (2013) found that increased lending to SMEs, trade activity, and a stable exchange rate all contribute to economic development. Onyeiwu (2012) reached a similar conclusion, highlighting the positive effect of loans on GDP growth, with some exceptions. Duru and Lawal (2012) focused on the role of government policies, recommending reforms to create a

more business-friendly environment for SMEs. Finally, Abiola et al. (2011) explored microfinance, finding a weak positive link between microloans and business expansion.

In a study by Agbaje and Rafiat (2015), researchers examined the impact of commercial bank financing on the growth of SMEs in Ado Ekiti, Nigeria. They specifically looked at whether bank interventions could play a role in SME growth. To gather information, they used a targeted sampling method (purposive sampling) to involve 363 participants. Questionnaires were used to collect data directly from the participants, and the researchers also conducted interviews and observations to gain a more well-rounded understanding.

The study found that bank loans and grants have a positive impact on the growth and development of SMEs in Ekiti State. This suggests that a strong relationship between banks and SMEs is crucial for their success. In fact, the study highlights that without effective financing from banks, SME growth in Ekiti State may be limited. To address this, the researchers recommend that commercial banks develop more flexible loan programs that better cater to the needs of SMEs.

Ackah and Vuvor (2011) focused on the challenges faced by small and medium-sized enterprises (SMEs) in Ghana when trying to obtain credit from banks and other financial institutions. Their aim was to shed light on the specific issues hindering access to credit and propose recommendations to overcome these obstacles. The study used a quantitative approach, surveying a sample of 80 SMEs in the Accra and Tema metropolitan areas. They chose participants through a convenience sampling technique, which involves selecting readily available subjects.

The study's surveys revealed that while financial institutions were interested in lending to SMEs, many SMEs couldn't meet the requirements. Common hurdles included lack of collateral and a small equity base. Even SMEs that qualified faced challenges: high interest rates and short repayment periods made it difficult to fund long-term, profitable projects. Weak cash flow due to high default rates and poor receivables management was another obstacle. The study proposed several recommendations for financial institutions to make credit more accessible to SMEs. These included establishing factoring services, enforcing the credit reporting act, and offering tax incentives to banks that lend to SMEs, encouraging broader participation.

Lymo (2014) also investigated the challenges and opportunities faced by small and medium-sized enterprises (SMEs) in Tanzania when trying to access credit facilities. The study focused

on 100 SMEs in Arusha and used a combination of purposive sampling (selecting specific types of SMEs) and random sampling to choose participants. Questionnaires and checklists were used to collect data, which was then analyzed using panel data analysis and regression analysis, which are statistical techniques to identify trends and relationships.

Lymo's (2014) study in Arusha, Tanzania, found that around half of the participating SMEs were family-owned businesses. A significant challenge for most SMEs (70% of respondents) was the lack of collateral, which is often required by banks to secure loans. As a result, many SMEs had to rely on personal funds or savings to finance their businesses, limiting their growth potential. To address these challenges, Lymo (2014) suggested two key recommendations: strengthening the Credit Reporting Act to improve perceptions of SMEs and incentivizing banks to lend to them.

Mensah, Azing and Sodji (2015) investigated the difficulties that small and medium-sized businesses (SMEs) in Ghana face when trying to get loans from banks and other financial institutions. Their research was unique because it considered the perspectives of both the borrowers (SMEs) and the lenders (bankers) on the challenges that make it difficult for SMEs to get loans. They conducted a survey using questionnaires to gather information from 300 participants. Half of the participants were from SMEs and the other half were bankers from Stanbic Bank Ghana Limited. The researchers used statistical methods to analyze the data they collected, but this summary focuses on the overall findings rather than the specific statistical techniques they employed.

The study by Mensah, Azing and Sodji (2015) identified several challenges that both bankers and SME borrowers perceived as significant hurdles to obtaining credit from Stanbic Bank Ghana Limited. These challenges included high inflation, limited borrower capital, high market interest rates, and fluctuating exchange rates. Interestingly, the research found a strong positive correlation (62.3% of the variation) between the challenges identified by borrowers and those identified by bankers. This suggests a high level of agreement between the two groups regarding the main obstacles faced in securing credit from Stanbic Bank Ghana Limited.

Bishi, Nair, Dubey, and Hajela (2015) examined the use of debit and credit cards (bank products) through a survey of 200 people. This group included students, government officials, and working professionals. A stratified random sampling method was used to ensure a representative sample. Questionnaires were used to collect data on card usage preferences and experiences. The analysis, which employed correlation techniques, revealed that while

consumers favoured both debit and credit cards, each came with pros and cons. The main advantage was convenience, but drawbacks included potential transaction costs and challenges obtaining the cards from banks. Despite these hurdles, the researchers (Bishi et al., 2015) projected a bright future for the use of "plastic money," referring to debit and credit cards.

2.4 Research gap

Zairani and Zaimah (2013) point out a significant gap in the existing research on how commercial bank lending affects the financial performance of SMEs, and the challenges SMEs face when trying to access those loans. They argue that current studies haven't provided enough evidence to fully understand this relationship. The effect of commercial bank lending on SME financial health has been a topic of debate, with past research producing conflicting results. This study ventures beyond these limitations to offer fresh perspectives. By investigating the specific problems SMEs encounter in getting loans, exploring types of bank products designed for them, and directly assessing the effects of such financing on their financial health, this research seeks to significantly enhance our understanding in this critical area. To inform the continued development of this field, this chapter concludes by proposing insightful suggestions for future research on commercial bank lending to SMEs.

2.5 Chapter summary

This chapter took a deep dive into what past research tells us about how commercial bank loans affect the financial health of SMEs. By carefully examining different studies, we were able to clearly define the focus of our own research. We also explored the theoretical background that shaped our research design and discussed the key concepts that guided our investigation.

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

The chapter will delve into the research design, including details about the target population, sampling techniques used to select participants, and the final sample size. It will also explain the tools used to collect data (research instruments), how the data will be presented, analyzed, and finally summarized the key findings of the research.

3.1 Research Design

In essence, a research design acts as a blueprint. It outlines the specific data needed, the methods used to collect and analyze it, and ultimately, how this information will address the research questions [Creswell, 2014]. As Labaree (2009) emphasizes, it's a strategic approach that integrates all the different elements of a study into a cohesive whole.

3.2 Descriptive Research

This study employed a descriptive research design. This approach is well-suited because it allows for characterizing and understanding a particular group, in this case, SMEs [refer to Bernad & Bernad, 2012]. Descriptive research is valuable as it can lay the groundwork for future investigations by identifying relevant variables. Here, the research examined the impact of commercial bank lending on SMEs. The findings will highlight specific areas that might be worth exploring in more detail through further research.

Descriptive research offers valuable insights for policymakers and researchers in education by generating statistical data on relevant aspects [refer to Hussey & Hussey, 2020]. This approach also helps minimize bias in data collection. The study utilized descriptive statistics, which involve tables, patterns, and trend analyses, to effectively present the findings [refer to Zikmund, 2003]. This method allows for a comprehensive overview and in-depth examination

of the data from various angles. Descriptive analysis is not only efficient and cost-effective, but also provides a quick and accurate way to understand a population, like SMEs in this case. Additionally, descriptive research designs often yield a rich dataset due to the large volume of data collected.

3.3 Population

Population in this research refers to all the subjects or candidates who are of interest to the researcher. Vonk (2017) differentiates between a target population and a study population. The target population represents the entire group the researcher is interested in generalizing the findings to. In this case, the target population is all SME owners in Bindura. A subset of this larger group, also known as the study population, is chosen for the actual research. This study specifically focused on a sample size of 150 SME owners within Bindura.

3.4 Sample

3.4.1 Sample size

Due to limitations in studying the entire population of SME owners in Bindura, the research employed a sample size. The Taro Yamane formula was used to determine this sample size. However, after potentially encountering practical limitations during data collection, the final sample comprised 109 SME staff members within Bindura. It's important to note that the research adopted the Zimbabwean government's Policy Framework (2004) definition of SMEs, which classifies them as businesses with 100 or fewer employees.

Hence the sample size determination is stated below:

$$n = \frac{N}{1+N(e)^2}$$

Where; N = Population of the study (150)

n= sample size

e = level of significance (0.05)

1 = constant

Substituting

$$n = \frac{150}{1+150\,(0.05)^{2}}$$

N= 109

3.4.2 Sampling technique

3.4.2.1 Stratified random sampling technique

The study utilized stratified random sampling, a probability sampling technique (Bornstein et al., 2013). In this approach, the target population is first divided into homogenous subgroups, called strata. These subgroups are formed based on relevant characteristics. Then, a simple random sample is drawn from each stratum, ensuring that all subjects within the sample size have an equal chance of being selected (Lameshaw, 2011) This method helps to ensure the sample accurately reflects the composition of the larger population.

For this research study, the researcher divided SMEs into separate groups below

- Retailing industry
- Fast food industry
- Wholesale industry

The researcher used this technique since it is an effective method of gathering information from a large population. It helped the researcher to break down large groups into more manageable sample sizes.

3.5 Data sources

According to Avevor (2016), data sources act as channels for conveying research information. This study employed both primary and secondary data collection methods.

3.5.1 Primary data

Hox and Boeije (2022) define primary data as information gathered directly by the researcher, without relying on any intermediary. This approach offers advantages in terms of ease of handling and feasibility, making it a popular choice among researchers. However, as this study employed closed-ended questionnaires for primary data collection, it's important to acknowledge potential limitations. These include efficiency considerations during data collection and the possibility of encountering respondent reluctance to participate.

3.5.2 Secondary data

Secondary data, as defined by Ghauri and Gronhaug (2010), refers to information collected by someone else for a different purpose but is valuable for the current research. This approach offers advantages in terms of cost-effectiveness and time efficiency, as highlighted by Ghauri and Gronhaug (2020). In this instance, the researcher utilized journals, books, articles, and annual reports as secondary data sources.

3.6 Research Instruments

3.6.1 Questionnaire

The questionnaires were the chief tool used for the purpose of gathering information from the respondents. A questionnaire is a list of written questions that can be completed by respondents to gather information for the study Saunders et al (2020). Economics Network (2014) defined questionnaires as a research instruments consisting of series of questions for the purposes of gathering information from the respondents. McLeod (2018) postulated that questionnaires are thought of written interviews.

To understand how Bindura's SMEs get loans from commercial banks and how those loans affect their performance, the study distributed 109 surveys across various sectors. The questionnaires aimed to answer key questions like: what challenges do SMEs face when borrowing from banks? What types of loans do banks offer them? And lastly, do these loans

help improve SME performance? The surveys started with general information and gradually delved deeper into specific details about the businesses. The wording was kept clear and simple, avoiding technical jargon for better understanding. Additionally, the researcher ensured complete confidentiality, emphasizing that the information collected was solely for academic purposes and wouldn't be used elsewhere.

To gather data, the study employed two questionnaire methods: self-administered paper surveys and electronic versions sent via email. Both formats included open-ended and closed-ended questions. Open-ended questions allowed SMEs to elaborate on unforeseen aspects, while the two-week timeframe ensured completion. A "drop and pick later" option accommodated busy respondents. Questionnaires were chosen for their high response rates and reduced pressure on participants (Nachmias,2023). Furthermore, standardized questionnaires were used within each sector, guaranteeing all respondents received the same questions in the same order, facilitating data quantification and comparison across groups.

With the questionnaire method there is speed of data collection, large amounts of information are gathered from a large number of people over a short period of time. Questionnaires are beneficial because data gathered can be easily quantified through the use of a software package. More they have relatively low cost, quick and efficient way of obtaining large amounts of information from a sample size that is large as of this study. This is because interviews were impractical. The questionnaires were used for this study because they are an effective means of measuring behaviour, attitudes, preferences and opinions of a large population. More so, information obtained from questionnaires can be quantified and thereby allowing statistical analyses of the responses. Questionnaires provide standardized questions where all respondents are asked same questions in the same order, reliability is guaranteed.

While questionnaires are great for gathering data, they can miss out on non-verbal cues like behavior and emotions. To address this limitation, the researcher sometimes opted for a combined approach: distributing questionnaires along with verbally guiding respondents through the questions in person

3.7 Data validity and reliability

Ghauri and Gronhaug (2020) suggest that primary data, such as questionnaires specifically designed for the research questions, can contribute significantly to the overall reliability and

validity of the study. Saunders et al. (2009) define data reliability as the consistency and stability of the findings. In other words, reliable data would produce similar results if the study were repeated under similar conditions. Validity, as explained by Joppe (2023), refers to how well the research outcomes address the research objectives and accurately reflect reality. In simpler terms, valid data truly measures what it is intended to measure.

This study incorporated several measures to ensure the trustworthiness and quality of the data. First, the research was firmly grounded in existing theory, with clear references provided to support the chosen theoretical framework. Second, the questionnaire was carefully designed to ask clear and understandable questions. Additionally, respondents were assured of anonymity and confidentiality, which helped to encourage them to provide honest and voluntary responses. These steps all contribute to the overall reliability and validity of the research findings.

3.8 Data Analysis and presentation techniques

According to Cooper and Schindler (2019) data analysis refers to collecting, modelling and converting data with the aim of emphasizing useful information, proposing and supporting decision making. Charts, graphs, and tables were used to synthesise and summarise the data from the respondents after the field data collection from SMEs' owners. Descriptive analysis was used to quantify and relate variables gathered from administered surveys, such as frequency tables and percentages.

3.9 Ethical considerations

Underlining the importance of research ethics, the UCLA Centre for Policy Research (2015) emphasizes the need to safeguard participants from any harm or negative consequences arising from the research. In adherence to this principle, the researcher ensured respondent confidentiality by omitting names from the questionnaires. This protects the privacy of participants and encourages them to participate openly and honestly.

3.10 Chapter Smmary

This chapter outlined the study approach taken to look into how the financial performance of SMEs was affected by commercial bank loans. The research design, sample size and methods, target population, data analysis, and presentation were all covered in this chapter.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter focused on the practical results (findings) of the research. The researchers examined the data, which came only from small and medium-sized businesses (SMEs), and presented it in tables, charts, and graphs. These visualizations helped explain the results in relation to the research questions outlined in chapter one.

4.1 Response rate

Impressively, the survey achieved a 91% response rate from a target group of 109 participants. This high rate can likely be attributed to two factors: familiarity with the topic among most respondents and the researcher's clear explanations for any areas of confusion.

4.1.2 Questionnaire Response Rate

Despite the town's culture of keeping information private, a remarkably high response rate of 91% was achieved, as shown in the following table.

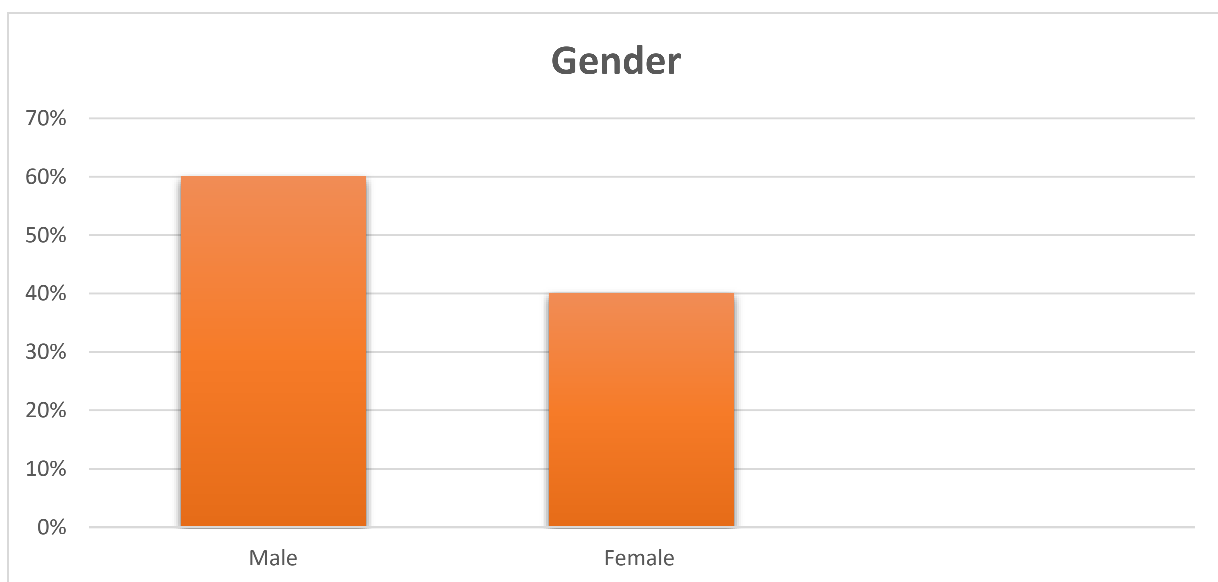
Table 4.1.2.1 Questionnaire response rate

Questionnaire Administered	Questionnaires completed and Returned	Percentage Response
109	100	91%

The researchers had a great turnout for their study, with an impressive 91% response rate (100 out of 109 questionnaires returned). This is significant for the study's reliability because, according to Fincham (2022), response rates exceeding 60% generally help minimize non-response bias. This bias arises when those who don't participate in a study are fundamentally different from those who do, potentially skewing the applicability of the findings to the larger population.

4.2.0 RESPONSE BY GENDER

Figure 0.1 Gender

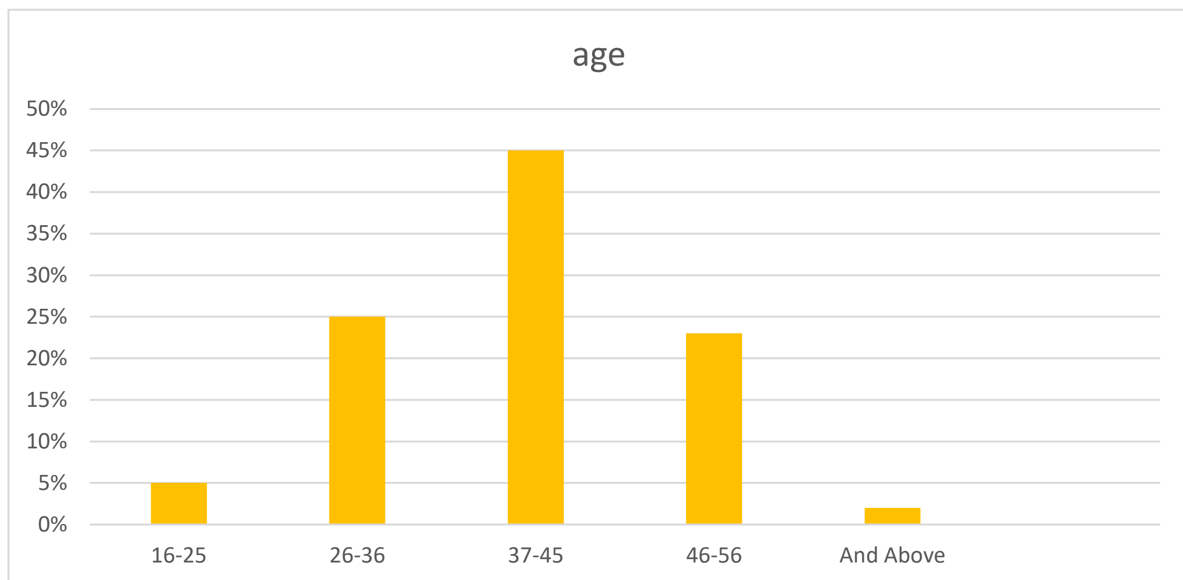


Source data: Primary Data 2024 n=100

The graph clearly illustrates a trend of male dominance (60%) in the SME sector compared to females (40%). This aligns with Pederson's (2020) research findings on societal norms in African societies, where women are traditionally expected to manage household duties, while men take on the role of breadwinners. However, there are signs of a shift, with a growing number of women entering the SME sector and achieving success.

4.2.1 RESPONSE BY AGE

Figure 0.2 Age



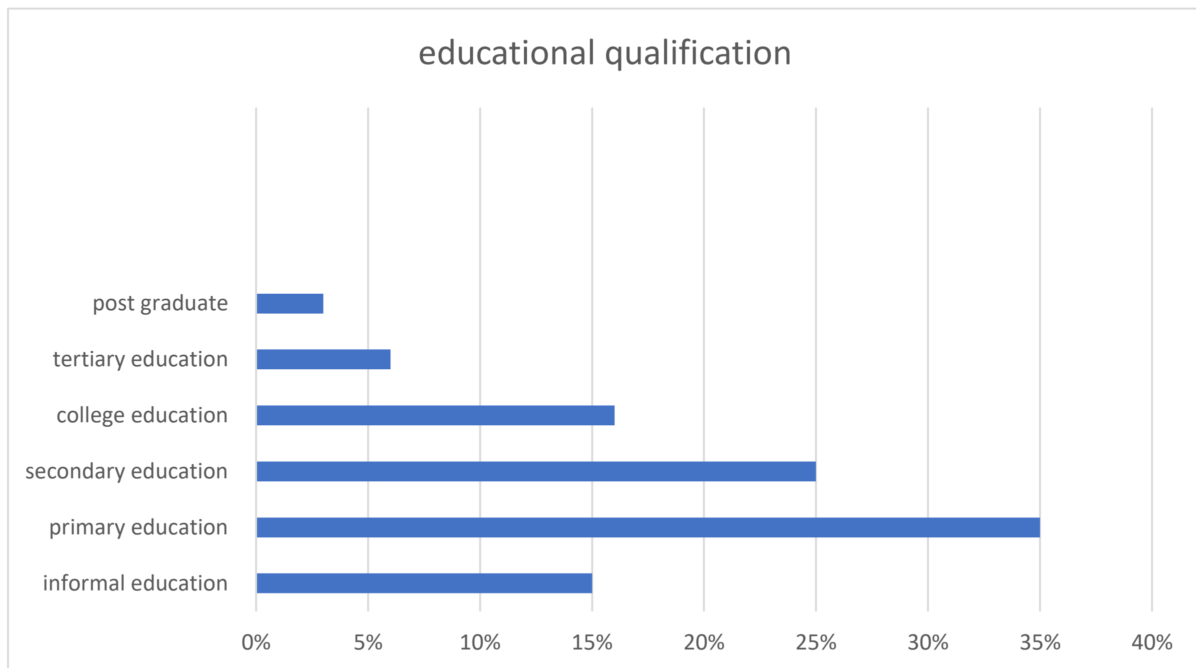
Source data: Primary Data 2024 n=100

The chart reveals that SME ownership is concentrated among those aged 26-56, with the 37-45 age group having the highest proportion (45%) followed by 26-36 (25%) and 46-56 (23%). This aligns with the idea that individuals in this mid-career stage possess the necessary skills, experience, and resources to lead SMEs. Conversely, younger adults (16-25) and older individuals (56+) are less likely to be SME owners. This could be because younger people are still pursuing education or haven't yet accumulated the experience or capital needed, while older adults may have retired or chosen other paths.

4.2.2 Educational qualification

The study investigated the educational backgrounds of SME owners, encompassing a range from informal learning to postgraduate degrees. As illustrated in the following diagram, the majority of respondents had achieved at least some formal education.

Figure 0.3 Education



SOURCE: PRIMARY DATA 2024 n=100

The research indicates that primary and secondary education are the most common educational backgrounds (60%) among SME owners. Informal education (15%) follows, with college (16%) and postgraduate degrees a smaller group (3%). This pattern might be due to the nature of many SMEs, especially in agriculture, which may not require extensive formal qualifications. These sectors may value experience and practical skills more than academic achievements.

Our research aligns with Simanowitz and Brody (2020) who suggested a link between educational attainment and business success in SMEs. The findings imply that SME managers with more education might be better positioned to utilize theoretical knowledge to tackle complex business problems, particularly during economic instability and secure financing through effective communication and negotiation skills with lenders.

4.3 Relationship between loans and SMEs financial performance

Respondents were asked if there is a positive relationship between loans and SMEs financial performance. The table below shows different responses that were given.

Table **4.3.1**: **Relationship between loans and SME financial performance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	DISAGREE	17	17.0	17.0	17.0
	INDIFFERENT	22	22.0	22.0	39.0
	AGREE	26	26.0	26.0	65.0
	STRONGLY AGREE	35	35.0	35.0	100.0
	Total	100	100.0	100.0	

The table overwhelmingly suggests a positive association between access to loans and financial performance for SMEs. A significant majority (61%) of respondents either strongly agreed (35%) or agreed (26%) with this sentiment. Only a small minority (17%) disagreed, with no respondents strongly disagreeing. This positive perception likely stems from the opportunities loans provide SMEs to pursue various profitable ventures with higher returns. This aligns with Agbaje and Rafiat's (2015) study, which found a positive correlation between bank loans and the growth and development of SMEs in Ekiti State.

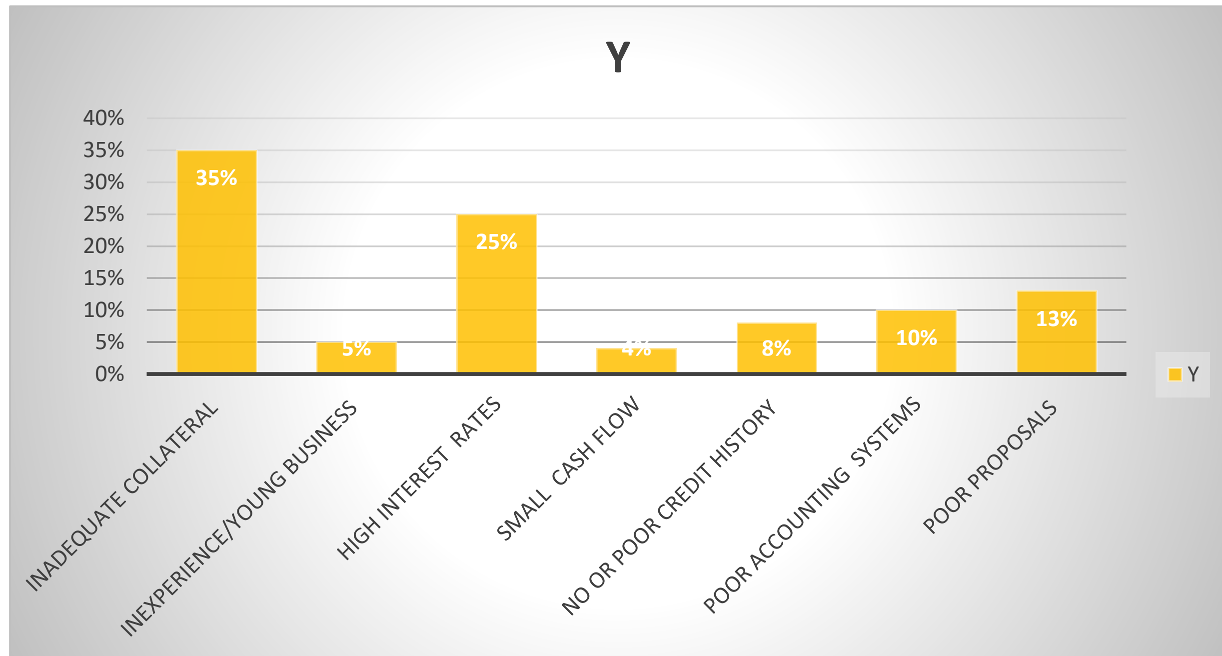
4.3.1Discussion of Findings

There is a positive relationship between commercial bank financing and SMEs financial performance. Respondents has revealed that, access to loans can be a powerful tool for SMEs to achieve financial growth and success. By using loan funds strategically and managing debt effectively, SMEs can unlock their full potential and become significant drivers of economic development.

4.4 Factors that inhibiting access to finance

This survey investigated the obstacles Zimbabwean SMEs face when applying for bank loans. The following graph depicts the challenges reported by the participants.

Figure 0.5 Factors that inhibiting access to finance



Source: Primary Data 2024 n=100

The graph reveals that insufficient collateral (55%) is the biggest hurdle for SMEs seeking commercial bank loans. This likely stems from a lack of qualifying assets to use as collateral. Short loan repayment periods and high interest rates (both at 50%) follow closely as deterrents. Poor loan proposals and limited cash flow are also roadblocks. These findings align with Binks et al. (1992) who argued that SMEs struggle to access finance because even when collateral is offered, it may be deemed inadequate or have little resale value ("carcass value").

While insufficient collateral presents a major obstacle, it's important to consider other perspectives. Berger and Udell (2006) emphasize the broader lending infrastructure of nations as a key factor impacting SME access to finance. Schiffer and Weder (2023) highlight the inherent riskiness of SMEs, citing factors like limited cash flow and small portfolios. These characteristics, they argue, lead to higher transaction costs for banks assessing creditworthiness, further hindering access to loans. However, Coco (2000) underscores the significance of collateral in mitigating default risk. Collateral provides some security for creditors in case of loan repayment failure.

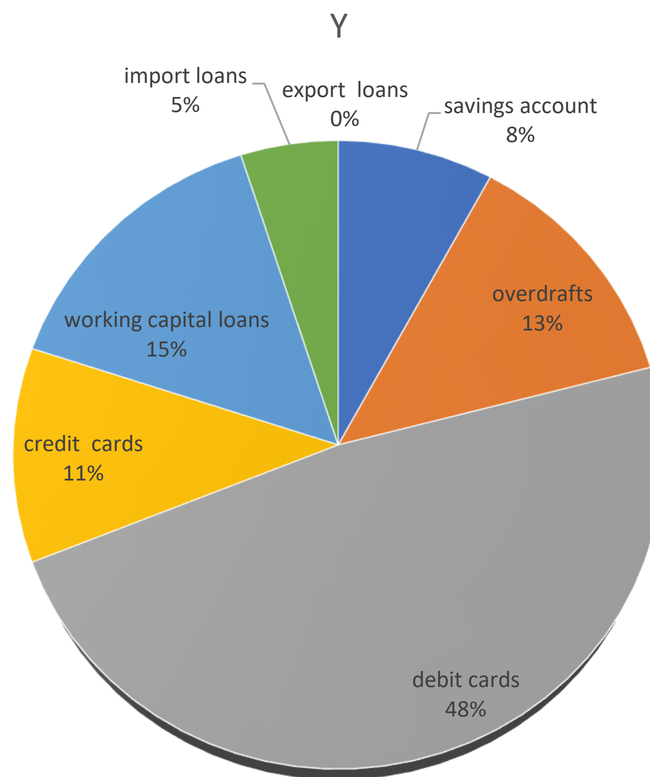
4.4.1 Discussion of Findings

Despite the potential benefits, many SMEs (Small and Medium Enterprises) struggle to secure financing, hindering their growth and prosperity. Commercial banks are hesitant to lend to SMEs because they often don't have enough assets to secure the loan in case of default.

4.5 Bank products available to SMEs

The rate at which SMEs accessed bank products determine their financial performance as shown in the pie chart

Figure 4.5.1 Bank products availability to SME



Source: Primary Data 2024 n=100

The pie chart paints a concerning picture: none of the surveyed SMEs utilize export loans. While basic financial products like debit cards are common (48%), access to loans for working

capital (15%), overdrafts (13%), and credit cards (11%) is limited. Savings accounts and import financing hold the remaining shares (8% and 5% respectively).This lack of export activity likely stems from a combination of challenges, limited knowledge of foreign market demands, high transportation costs, restrictive local government regulations, small-scale production suitable only for the local market, and unfavourable tax and indigenization policies. This aligns with a news report (February 16, 2018) citing poor product quality, service delivery, and packaging as reasons for struggling to enter regional and international markets. Furthermore, Sibanda (2005) suggests Zimbabwe's economic climate and Bindura's reliance on imports contribute to the lack of exports.

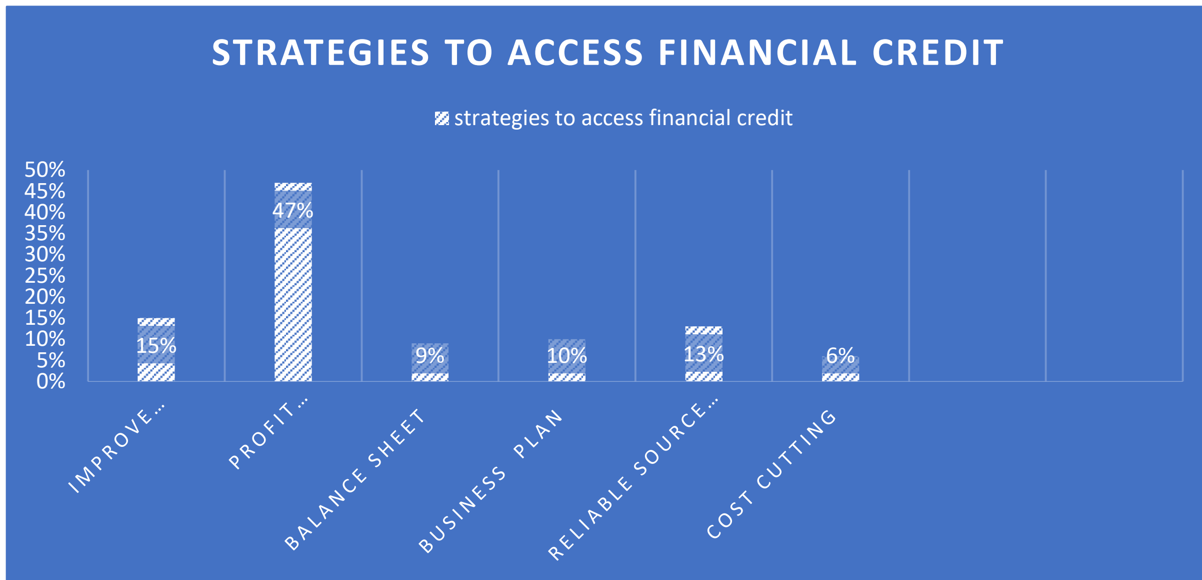
4.5.1 Discussion of Findings

The dominance of debit cards in the SME sector likely reflects Zimbabwe's current economic challenges, particularly the cash shortage. With limited physical cash available, debit cards offer a more practical alternative. Similarly, the low accessibility of import loans can be attributed to the lack of a stable national currency. Since the local currency has limited value internationally, it becomes difficult to secure import financing. The low savings account usage might be linked to a lack of trust in the financial sector. The devastating inflation of 2008 eroded past savings, leaving many SMEs wary of financial institutions and hesitant to save.

4.6 Strategies employed by SMEs to access financial credit

Graph 4.8 depicts various strategies SMEs use to secure financing. The most common approach involves maximizing profits (47%), followed by strategies like maintaining a reliable source of income (13%) and cost-cutting measures (6%). Interestingly, efforts to improve human resources (15%) and financial documents like business plans (10%) and balance sheets (9%) appear less frequent.

Graph **4.6.1**: **Strategies employed by SMEs to access financial credit**



Source: Primary data 2024 n=100

The most prevalent strategy for SMEs to secure funding is profit maximization (47%), likely because a profitable business is seen as less risky and better equipped to weather economic downturns. Improving personnel skills (15%) follows in importance, perhaps to enable the production of customized products tailored to the local market. This focus on internal improvements aligns with Lymo (2014) whose study identified strategies to enhance access to finance. These included strengthening the Credit Reporting Act to address risk perceptions towards SMEs and lobbying local governments to incentivize banks to extend credit to SMEs

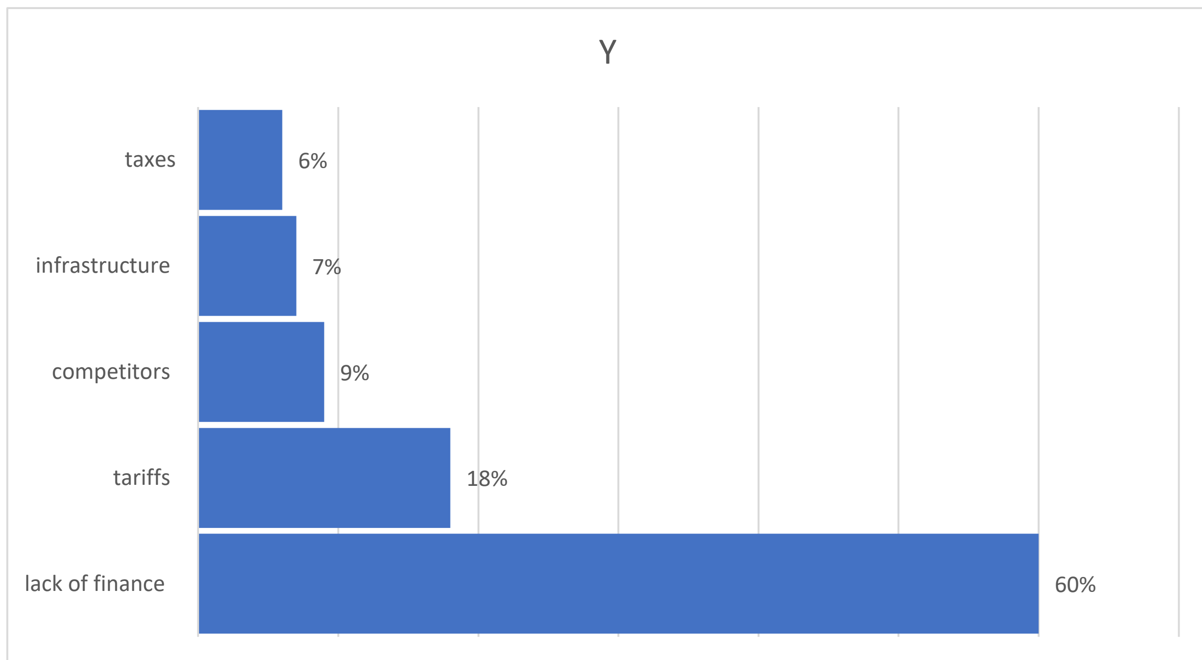
4.6.1Discussion of Findings

Studies reveal that access to financial credit is a major hurdle for SMEs, hindering their growth and prosperity. However, resourceful SMEs have developed various strategies to overcome these challenges. Profitable businesses demonstrate a stronger ability to repay loans, boosting their creditworthiness in the eyes of lenders. This can lead to higher credit limits and access to a wider variety of loan products. The effectiveness of these strategies can vary depending on the specific context, such as the economic climate, industry, and the regulatory environment. However, by employing a combination of these approaches, SMEs can increase their chances of obtaining the financial resources needed to grow and thrive.

4.7 Major constraints to business financial performance

The study's initial focus was to explore the roadblocks faced by SMEs in securing bank loans. As illustrated in the figure, a significant challenge for participants (around 60%) was a lack of funds to improve their financial standing. Other hurdles included tariffs (18%) and competition (9%). Interestingly, taxes posed the least concern, likely due to lower tax burdens for SMEs compared to larger corporations.

Figure 0.4 Major constraints to business financial performance

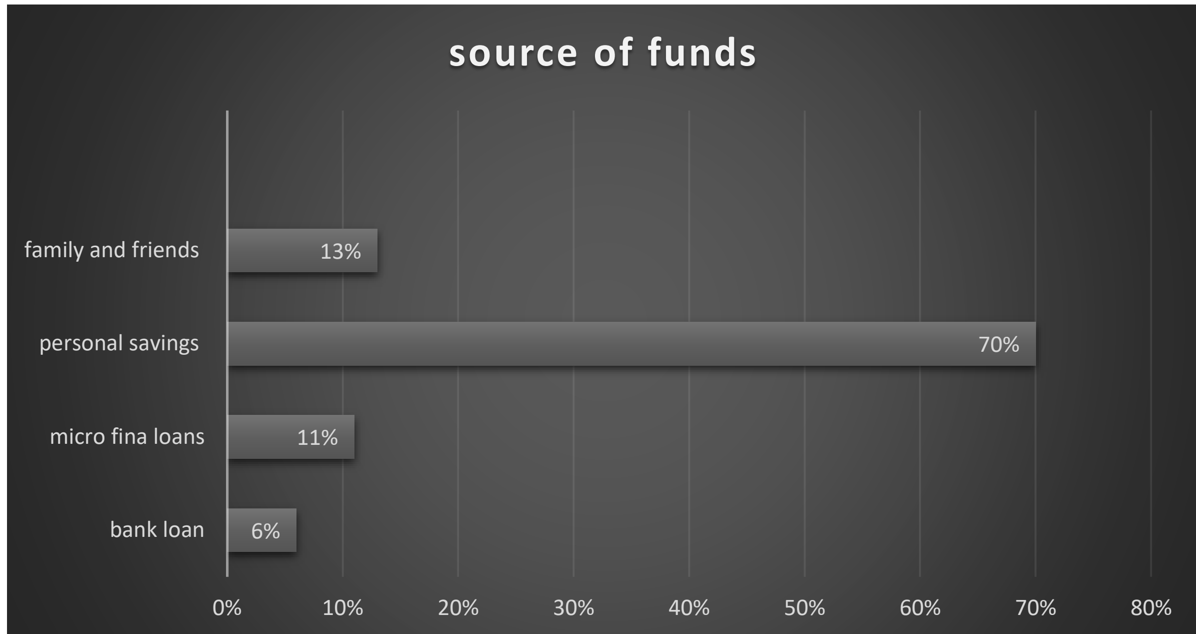


Source data: Primary Data 2024 n=100

The findings, particularly the dominance of "lack of finance" (60%) as a challenge, align with Aryee et al. (1993) who argued that financial limitations are the biggest hurdle to business performance. Despite the presence of 16 financial institutions and other options, access to credit remains a major obstacle for SMEs, as confirmed by numerous studies. Our research echoes Schiffer and Weder's (2023) observations: SMEs face greater difficulty securing funds compared to larger firms.

4.8 Sources of funds for start-up business

A survey question explored the financing methods used by participants to launch their businesses. As illustrated in the following diagram, the most common sources included bank loans, microfinance loans, personal savings, and contributions from family and friends.



Source: Primary Data 2024 n=100

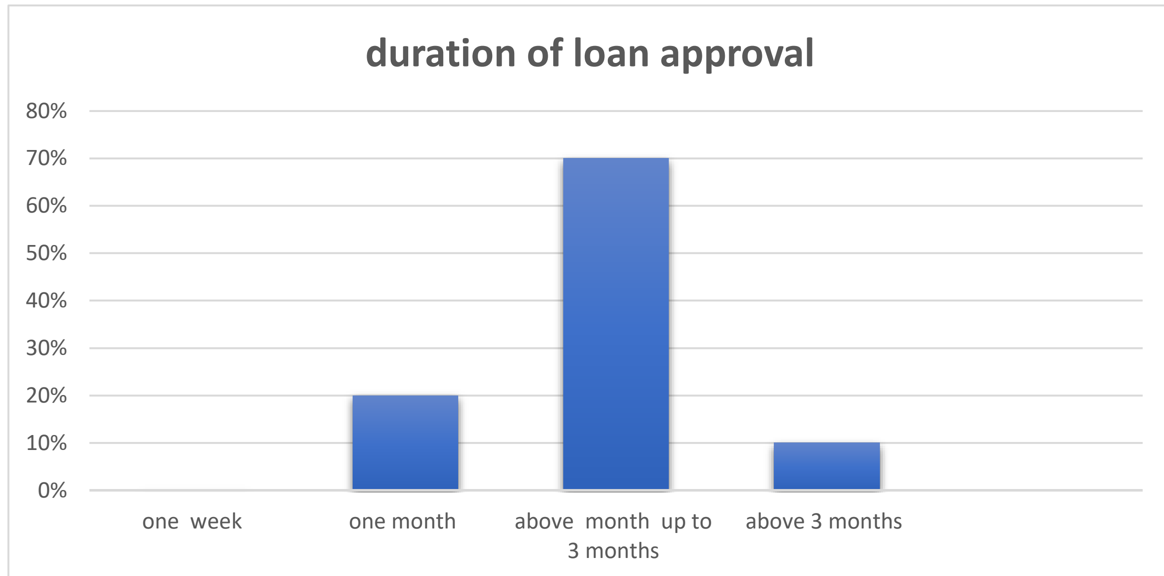
Figure 4.8.1 sources of funds

The diagram reveals that personal savings are the dominant funding source for SME start-ups, accounting for 70%. Family and friends contribute to 13% of funding, while microfinance and bank loans follow at 11% and 6%, respectively. This trend might be explained by the perceived high-risk nature of SMEs, making them less attractive to banks. Additionally, factors like high commercial bank interest rates and a lack of collateral security could further discourage SMEs from seeking bank loans.

This aligns with Avevor (2016) who identified several reasons why SMEs opt for alternative financing methods besides bank loans. These reasons include insufficient collateral, limited cash flow, high-interest rates, inadequate accounting practices, lack of business experience, poor credit history, and weak loan proposals.

4.9 Duration of loan approval

The graph below shows that most of the loans applied for by SMEs are approved by commercial banks between one to 3 months.



Source: Primary data 2024 n=100

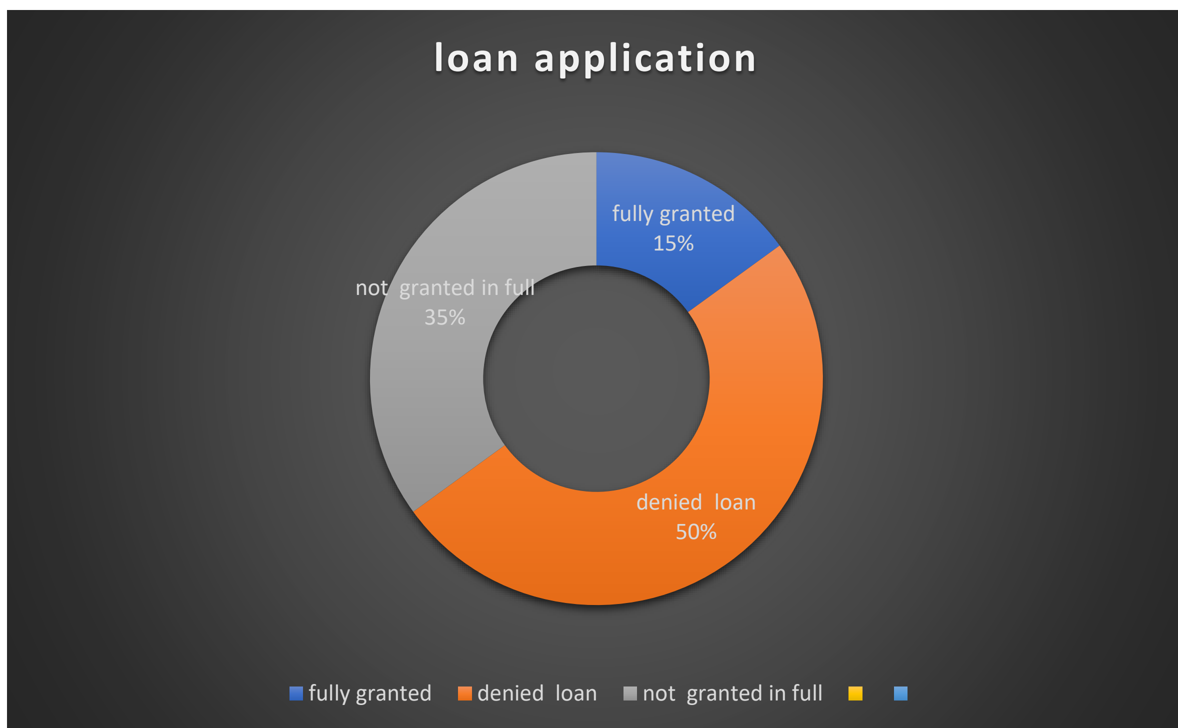
Figure 4.9.1 Duration of loan approval

The graph reveals a lengthy loan approval process for commercial banks, with no approvals happening within a week. The majority (70%) take one to three months, with 20% approved in a month and the remaining 10% exceeding three months. This extended wait time likely stems from the banks' comprehensive assessment procedures. These include investigating the borrower's creditworthiness, evaluating the viability of loan proposals, assessing the riskiness of the business venture, considering any additional income sources, and appraising the value of offered collateral. Beyond these core factors, the graph suggests that the loan approval timeframe can also be influenced by the nature of the borrower's business, the amount and type of loan requested, and the credit history of both the borrower and any guarantors involved.

Avevor (2016) lends support to this notion by highlighting the apprehension of financial institutions when dealing with SMEs. This wariness often translates into offering short-term loan options rather than long-term financing.

4.10 Loan application

The pie chart below shows that most of the small to medium enterprises that apply for credit facilities were not successful as shown below.



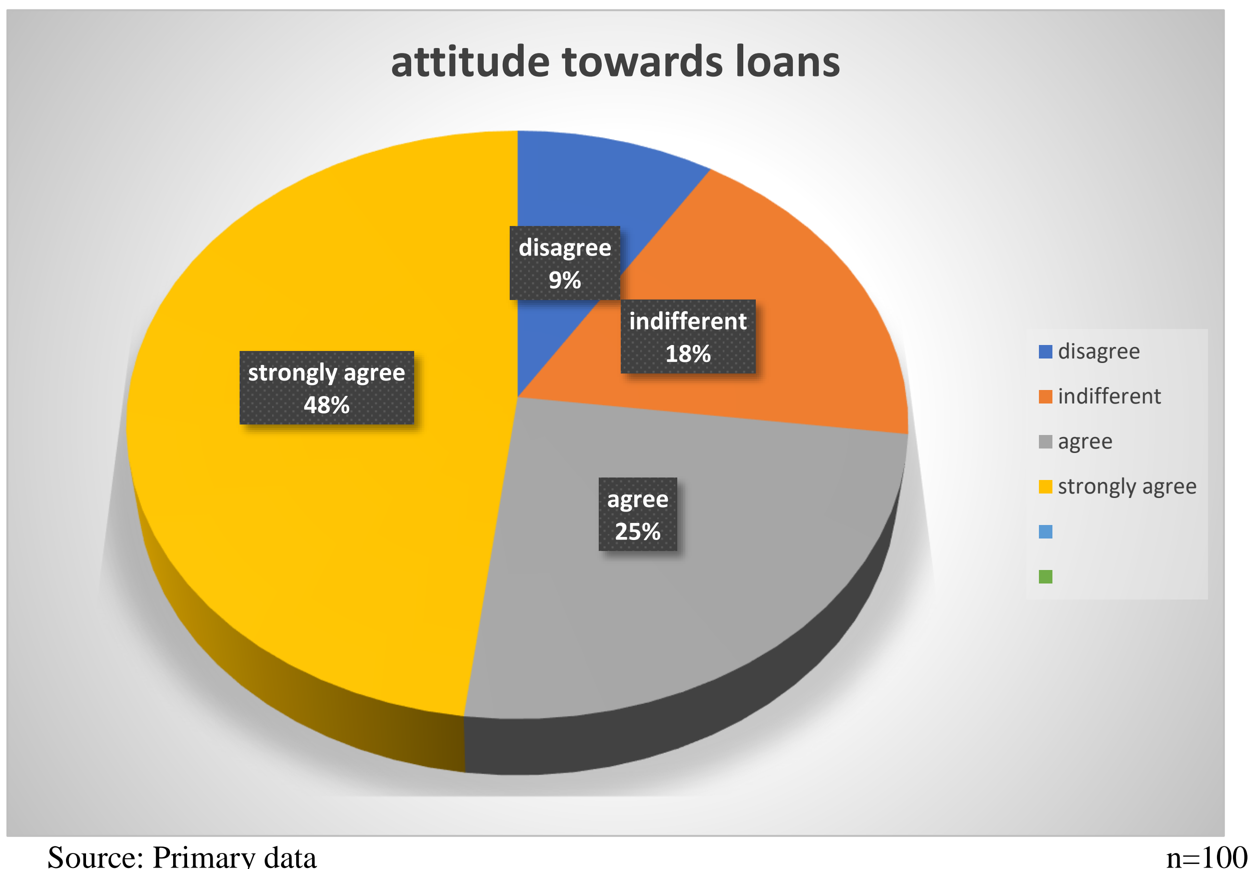
Source: Primary data 2024 n=100

Figure 4.10.1 loan application

The graph paints a concerning picture for loan access among SMEs. A significant portion (50%) were denied loans altogether, while only 15% secured the full amount they requested. The remaining 35% received partial funding. This limited access could be due to several factors: borrowers failing to meet loan requirements, banks' minimum loan thresholds, and short repayment periods forcing SMEs to request smaller amounts. Additionally, banks' appraisal processes might deem certain projects ineligible for full funding. Ackah and Vuvor (2011) support these findings, suggesting that weak cash flow due to high default rates and poor receivables management can also contribute to SMEs receiving less than the requested loan amount.

4.11 Attitude towards the amount of loan interest

The high interest rates charged by commercial banks are a major hurdle for SMEs seeking loans, as shown in the following diagram. A survey question likely revealed that a significant portion of SMEs found these interest rates to be excessive and a barrier to accessing financing.



Source: Primary data n=100

Figure 4.11.1 attitude towards loans

SMEs in this study faced a significant obstacle in high bank loan interest rates. Nearly half (48%) of respondents strongly agreed that these rates were excessively high, with another 25% simply agreeing. Only a small minority (18%) were indifferent, and even fewer (9%) disagreed. These high interest rates can erode a business's profits and increase overall costs. This aligns with Sibanda (2005) who attributed high interest rates to the perceived riskiness of the SME sector. Insufficient collateral and these high rates are cited by Sibanda (2005) as major reasons why SMEs shy away from bank loans. Ackah and Vuvor (2011) add to this point, highlighting

that even qualified SMEs face not only high interest rates but also short repayment periods, making it difficult to pursue long-term, potentially profitable projects.

4.12 Perception towards accessibility of commercial bank loans.

To understand the ease of accessing commercial bank loans, survey participants were asked to rate their experience on a scale from "very easy" to "extremely difficult," as shown in the following table.

Table **4.12.1**: **Perception towards accessibility of commercial bank loans**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	VERY EASY	2	2.0	2.0	2.0
	FAIRLY EASY	5	5.0	5.0	7.0
	ACCEPTABLE	15	15.0	15.0	22.0
	VERY DIFFICULT	20	20.0	20.0	42.0
	EXTREMELY DIFFICULT	58	58.0	58.0	100.0
	Total	100	100.0	100.0	

The table reveals a negative perception of bank loan accessibility among SME traders. A significant majority (78%) agreed that acquiring loans is difficult, with only 22% finding the process acceptable. This negativity might be linked to the perceived high-risk nature of the SME sector, often associated with higher default rates.

4.13 Chapter summary

This chapter explores the impact of commercial bank loans on the financial health of small and medium-sized businesses (SMEs). The research reveals that despite the common belief that banks avoid lending to SMEs, they continue to be a crucial source of funding for these

businesses. The analysis shows that commercial bank loans can actually improve the financial performance of SMEs. The next chapter will wrap things up by summarizing the key findings.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5. Introduction

This chapter explores the relationship between commercial bank lending and the financial performance of SMEs in Bindura. It summarizes the data collected, presents the main conclusions drawn from the analysis, and offers recommendations based on the findings.

5.1 Summary

5.1.1 The study indicates that most people believe access to loans helps SMEs improve their financial performance. Very few people disagreed, suggesting a broad consensus. This positive view likely arises from the potential loans offer SMEs to invest in profitable ventures and achieve higher returns.

5.1.2 The inability of SMEs in Bindura to readily have access to credit from the commercial banks was mainly caused by lack of collateral security. However, there were also other factors inhibiting access to finance which include lack of government support, insufficient collateral, high interest rates, small cash flows, poor credit history, poor proposals, short repayment period, inexperience / young business and poor accounting systems. This raised an alarming awareness that SMEs need support for them to maximize their full potential. Among all these requirements high interest rates, insufficient collateral and short loan repayment period were the frequent challenges.

5.1.3 The study found that several bank products were popular with SMEs, including loans for imports, business expansion, and working capital, as well as overdrafts, debit cards, credit cards, and savings accounts. Interestingly, debit cards were the most commonly used product. This could be due to the ongoing cash flow challenges in Zimbabwe's economy. Debit cards provide a convenient and secure way to manage finances without relying on credit, which can be harder to obtain during economic hardships.

5.1.4 The study showed that the most common strategy for SMEs to secure funding is profit maximisation. This suggests lenders view profitable businesses as less risky borrowers. . Improving staff skills is the second most important strategy. This might indicate that lenders value businesses with skilled personnel who can potentially adapt and create products suited to local needs.

5.2 Conclusion

5.2 1 Based on the research findings the researcher concludes that there is strong consensus that access to loans benefits small and medium businesses (SMEs). Most people believe loans improve SME financial performance. This positive sentiment likely stems from the opportunities loans provide SMEs to invest in ventures with higher returns, ultimately boosting their financial health.

5.2.2 Based on the research findings the researcher concludes additionally, SMEs often lack the collateral and audited financial statements that banks require, coupled with the high interest rates that further hinder their ability to secure loans. This essentially locks them out of traditional banking options.

5.2.3 Based on the research findings the researcher concludes despite being crucial for economic growth, SMEs struggle to access formal financial resources due to limitations on both sides. While banks offer specialized loan products, some are costly and unsuitable for the development stage of many SMEs, such as export loans.

5.2. 4 Based on the research findings the researcher concludes **l**enders favour profitable businesses, suggesting that a strong track record of making money reduces perceived risk. Secondly, investing in skilled staff is important, possibly because lenders value businesses that can adapt and cater to local needs through a capable workforce.

5.3 Recommendations

5.3.1 Commercial Banks and SMEs should have good professional business relationships so that commercial banks handle SMEs carefully in considering their proposals in terms of loan request and ensure that funds borrowed by SMEs for a particular purpose are not diverted to another purpose. The government of Zimbabwe should encourage commercial banks to lend to SMEs and regard them as first preference.

5.3.2 The researcher recommends SMEs to build a strong credit history to maintain a positive track record of on-time loan repayments and responsible credit management to improve their creditworthiness in the eyes of lenders. They should also develop a comprehensive business plan to create a well-defined business plan with financial projections that demonstrates their business viability and potential for success when seeking loans.

5.3.3 The researcher recommends SMEs to match their needs to the product. They should carefully assess their specific needs (working capital, equipment purchase, expansion) and choose the most suitable product offered by commercial banks. SMEs should not just go for the first option presented. They should also compare loan terms such as interest rates, repayment periods, fees, and prepayment penalties as they can vary significantly between banks and loan products. They should shop around and compare offers to secure the most favourable terms for their business.

5.3.4 The researcher recommends policymakers to promote Financial Literacy Programs that provide educational initiatives to equip SMEs with the knowledge and skills to manage finances effectively and navigate the loan application process.

5.4 Recommendations for further studies

Investigating the impact of commercial bank lending on SME financial performance in Bindura, Zimbabwe, this study highlights the need for further research. The analysis suggests that future studies should expand their scope to encompass other regions within the country, enabling a more comprehensive understanding of the relationship between bank lending and SME performance across Zimbabwe. Additionally, exploring the strategies employed by SMEs to improve their access to commercial bank funding would be a valuable area for further investigation.

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APPENDIX ONE: LETTER
BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

Dear Respondents

I am an undergraduate Banking and Finance student at the Bindura University of Science education. I'm conducting research to understand how access to commercial bank loans impacts the financial performance of small and medium-sized enterprises (SMEs) in Zimbabwe. Your insights are crucial to this research. By participating, you'll be contributing valuable information that can help businesses like yours gain better access to funding and ultimately thrive. The attached questionnaire will ask about your experiences with commercial bank loans and their impact on your business's financial health. Your participation is completely voluntary. All your responses will be kept strictly confidential. No information that can identify you or your business will be shared in the final research report. Thank you in advance for your time and consideration!

Yours Sincerely

B201049B

APPENDIX TWO: QUESTIONNAIRE

Tick where applicable

1. Gender :male ☐

   Female ☐

2. Age range:16-25 ☐ 36-45 ☐

   26-36 ☐ 46-56 ☐ And above ☐

3. Educational qualification: Informal education ☐ Secondary education ☐

   College education ☐ Primary education ☐

   Tertiary education ☐ Post graduate education ☐

4. With what form of financing did you start your business?

   Micro finance loan ☐ Family and friends ☐

   Personal savings ☐ Bank loans ☐

5. What type of business organization is your firm? Sole Proprietor ☐

   Partnership ☐

   Limited Company ☐

   Family owned ☐

6. Have you borrowed funds or accessed any bank products to assist your business operations

Yes ☐ No ☐

7. If yes, tick the bank products: Overdrafts ☐ Credit cards ☐

Savings accounts ☐ Debit card ☐

Working capital loans ☐ import loans ☐

Export loans ☐

8. Did the commercial bank(s) gave the loan that you applied for? YES ☐

NO ☐

9. If no, what were the problems that prevented you from getting a loan?

a) Inadequate collateral ☐ e) No or poor credit history ☐

b) Inexperience/ young business ☐ f) Poor accounting systems ☐

c) High interest rates ☐ g) Poor proposals ☐

d) Small cash flow ☐

11. If yes, did the commercial bank (s) give full amount of loan applied? Yes ☐

No ☐

If not what was the reasons for giving less than applied?

Legal minimum loan requirements ☐

Small cash flows ☐

Insufficient collateral ☐

12. Were you able to meet all the conditions required by the Bank? Yes ☐

No ☐

13. How long did it take the bank to give the loan? Less than a week

One Month

Three Months

Over 3 months

14 Were you satisfied with the process of access to credit? Yes

No

	Strongly disagree	**Disagree**	**Indifferent**	**Agree**	**Strongly agree**
Banks avoid extending credit to SMEs because of their high risk profile					
Lack of collateral hinders SMEs to a greater extent access of credit					
There is a positive relationship between bank loans and financial performance					
Does lack of capital pose serious problems in the operation of your business					
It's easy for SMES to access loans from commercial banks					
Does educational qualification of SMEs managers affect the success of SMEs					
Interest rates charges on bank loans are extremely high and unattractive to most SMEs					

Match Overview

12%

#	Source	Type	Match
1	liboasis.buse.ac.zw:80...	Internet Source	8%
2	core.ac.uk	Internet Source	<1%
3	fastercapital.com	Internet Source	<1%
4	peter.veritas.edu.ng	Internet Source	<1%
5	scholar.mzumbe.ac.tz	Internet Source	<1%
6	aarf.asia	Internet Source	<1%
7	www.coursehero.com	Internet Source	<1%
8	5dok.org	Internet Source	<1%
9	dissertations.umu.ac.ug	Internet Source	<1%