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FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

RESEARCH PROJECT

The Impact Of Bank Lending On The Growth Of Smes In Zimbabwe. (Case Of Bindura Town)

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APPROVAL FORM

The undersigned attest that that they have supervised and recommended to the Bindura University of Science Education for acceptance of a research project titled: THE IMPACT OF BANK LENDING ON THE GROWTH OF SMES IN ZIMBABWE. (CASE OF BINDURA). This research project by B201433B is submitted in partial fulfilment of the requirements of Bindura University of Science Education.

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II

DEDICATION

This project is dedicated to myself and to my parents who supported me all the way to make this project a success. I also dedicate it to my family and friends who were also there supporting me.

ABSTRACT

This research study is an investigation directed towards determining the impact of bank lending on the growth of SMEs in Zimbabwe mainly focusing on the town of Bindura. The main objective of the study is to assess the impact that bank lending has on the growth of SMEs in Zimbabwe, determining the challenges that are being faced by SMEs in accessing credit from banks, to explore the role in which the accessibility to bank loans enhances the performance of Zimbabwe's small and medium-sized businesses as well as to identify the principal obstacles banks encounter when attempting to provide credit to Zimbabwean SMEs. A mixed approach of questionnaires and interviews was used where 60 questionnaires were given to SMEs in Bindura targeted towards both SMEs owners and employees. Interviews were also conducted with a total of 8 bank employees and loans officers from 2 banks. Purposive sampling was used to select respondents and descriptive statistics used to analyze the data from SPSS. The study found out that bank lending is making a positive impact towards the overall growth and performance of SMEs in Zimbabwe. Those who have managed to access credit from banks are able to develop their businesses in terms of infrastructure, purchasing better equipment and dealing with better suppliers which is leading to them producing standardized goods and services that attracts more customers. Another important issue that was found from the study are the challenges that some of these SMEs are facing when trying to access bank loans which included lack of assets to use as collateral high interests charged on the loans. The study therefore recommended that it is important for banks to offer tailor made products for these SMEs so that they are able to access credit and operate effectively without financial struggles. They can also create products with lesser collateral requirements and specific industry-based loans especially for towns dominated by industries like the town of Bindura. The study also discovered that banks are also facing challenges in them trying to extend loans to these SMEs which included the fact that some of these SMEs are failing to pay up their debts on the agreed time. Another challenge is the instability of the Zimbabwean economy and the continued fluctuations of currency in Zimbabwe, this is increasing the overall risk environment for banks. The researcher suggested that the researchers in the future researchers should put more focus on how banks can improve their relationship with SMEs so as to give them awareness on how they can benefit and take advantage of the loans provided by these banks. This will help the banks, the economy of Zimbabwe and also the SMEs to grow and emerge since finance is one of the core organs for business survival.

ACKNOWLEDGEMENTS

I want to start by thanking God for allowing me to start and finish the project and giving me the wisdom that only he can give. I would like to acknowledge the people who made it possible for this project to be a success through the unending support and contributions.

My sincere gratitude goes to my school, Bindura University for giving us resources and the support that we needed not leaving out my supervisor who was there always directing me and giving me the guidance that I needed.

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SMEs – Small and Medium Enterprises

SMEDCO- Small and Medium Enterprises Development Cooperations

UNIDO- United Nations Industrial Development Organisation

CHAPTER 1

INTRODUCTION

1.1 Introduction

This study is an assessment of the impact that bank lending has on the growth of SMEs in Zimbabwe. This chapter is focusing on the background that serves as the starting point of this research, statement of the problem, the study objectives, research questions, and validation of the research, limitations and delimitation to the research and lastly the definition of terms.

1.2 Background of the study

Ever since gaining independence in 1980, the Zimbabwean government has made increasing productivity and economic acceleration its top priority. To boost productivity and widen our economic base, the government is implementing a number of programmes and initiatives. This is related to the government's deliberate choice to indigenize the economy; students are now being taught how to be employers rather than employees. After realising the change in the business sector, the Central Government of Zimbabwe developed the Small, Medium Enterprises Policy in 2022 with the goal of advancing the sector. The policy's primary components are the framework for supporting small and medium-sized enterprises (SMEs), financing for SMEs, regulatory changes pertaining to the licencing of unofficial businesses, the creation of designated trading areas and spaces, and business education and training programmes for SMEs. Achieving more general development objectives like job creation, income generation, poverty alleviation, and economic development became contingent upon the expansion of the small- to medium-sized business sector. As the backbone of the private sector, SMEs have an important role that they play in the economic development of any nation, according to the United Nations Industrial Developed Organisation (UNIDO, 2012).

Small businesses are generally known for their greater adaptability to difficult and changing environments because they have an advantage over large enterprises in serving dispersed local markets, producing a variety of goods at low scale economies for multiple markets, and acting as veritable means of mobilising and utilising domestic savings. Small and medium-sized enterprises (SMEs) play a critical role in addressing global issues of poverty, inequality, and rural job creation. They are a major source of employment, particularly for women, young people, and low-skilled labourers. However, a number of problems persist that prevent SMEs from growing, such as strict bank credit facility requirements, insufficient funding, inappropriate management, and sometimes mishandled government regulations. Numerous problems still afflict the industry, including a lack of social protection, conflicting laws governing small and medium-sized businesses, a lack of technological advancement, inadequate infrastructure, and disputes among traders.

The majority of these SME's find it challenging to compete with more established companies because they have limited access to outside funding sources. Consequently, the lack of sustained funding makes it more difficult for the industry to start up and expand. The majority of emerging markets continue to have severely restricted access for SMEs to financial services, the International Finance Corporation (IFC) (2016) also explains why SMEs are receiving more attention globally. Dhliwayo & Radipere, (2014) asserts that in Zimbabwe, the financial services industry significantly contributes to the growth of SMEs. If significant economic growth is to be realised in Zimbabwe, SMEs need more financial and technical support. The commercial banks were the main subject of this study because they are a part of the financial services sector and can influence how bank lending impacts the growth of SMEs in Zimbabwe.

1.3 Statement of the Problem

Globally, small and medium-sized enterprises (SMEs) are critical to the boost of the country's economy. An increasingly informal economy has replaced Zimbabwe's formal one as a result of the country's ongoing macroeconomic problems. The "informal sector" has grown significantly in recent years as the performance of the formal industry has declined. At an average of 61% of the country's GDP, this sector ranked among the largest in the region in Zimbabwe between 1991 and 2019. This industry is making a huge difference in many ways, such as lowering poverty and removing obstacles to the creation of jobs in rural areas. However, despite the government's support and interest in the sector, a number of problems, funding being the main one are preventing its growth. Due to them having many advantages like increasing competition, bring in new ideas, better respond to shifting consumer preferences and market demands, offer more specialised products, capacity to adjust to shorter cycle products, create employment eventually supporting economical growth, small and medium-sized businesses (SMEs) are critical to development (World Bank, 2014; OECD Observer, 2000).It has recently come to light that Zimbabwe's SMEs have enormous potential for producing wealth and jobs, as well as raising the country's output. The enormous and estimated

61% GDP contribution of SMEs to the country's statistics highlights the need for the sector to be further developed. However, the main challenge small and medium-sized businesses face is that they don't have enough access to outside funding, which means that most of their problems stem from financial strains. Finance plays an important role in encouraging the expansion of small and medium-sized enterprises. Bank loans primarily target large corporations and other well-established businesses. The issue of the "missing middle" results from SMEs being left in a situation where they are essentially in "no man's land" (Beck, 2006). This study's primary goal was to investigate further how the government, the central bank could collaborate to identify strategies for SMEs to obtain short and long term financing and to determine how bank lending is positively impacting the growth of SMEs.

1.4 RESEARCH OBJECTIVES

1.4.1 Primary Objective

- To assess the impact of bank lending on the expansion of Zimbabwe's small and medium-sized businesses in Bindura.
- **1.4.2 Secondary Objectives**
  - To determine the challenges that SMEs in Zimbabwe (town of Bindura) are facing in accessing loans from banks.
  - To explore the role in which the accessibility to bank loans enhances the performance of Zimbabwe's small and medium-sized businesses in Bindura.
  - To ascertain the principal obstacles banks encounter when attempting to provide credit to Zimbabwean SMEs particularly the town of Bindura.

1.5 Research Questions

- To what extent does the bank lending impact the expansion of Zimbabwe's small and medium-sized businesses?
- What are the challenges that SMEs in Zimbabwe (town of Bindura) are facing in accessing loans from banks?
- What can be done to improve the relationship between SMEs and bank in Zimbabwe?

1.6 SIGNIFICANCE OF THE STUDY

1.6.1 To the Banking and financial sectors

* The study's conclusions gave banks a better understanding of the value of lending to SMEs and some strategies they might use to make landing facilities easier for these businesses.

1.6.2 Regarding Small and Medium-Sized Businesses

• The study informed SMEs about the requirements they need to meet in order to be eligible for bank lending facilities. Additionally, SMEs learned how to manage the money they received from bank credit facilities and how to make a repayment plan for it.

1.6.3. To society

- The society also largely benefited from this study. For example, the study helped in achieving a goal of banks' lending more to SMEs that means the rate of growth of these businesses will increase. The increase in growth means increased productivity, increased variety of choice to the society and increased employment levels by the SMEs.

1.7 Assumptions of the study

- The researcher assumed that, holding other things constant, bank lending has a positive impact on the growth of SMES.
- Respondents had an understanding of the questions they were being asked.
- The researcher took the responses which were provided by the respondents to be accurate.
- The information that was obtained from the town of Bindura represented the general population of SMEs in Zimbabwe.

1.8 Delimitations of the study

Evaluating the effect of bank lending on the expansion of SMEs in Zimbabwe was the primary goal of the research. The study's primary focus was the Bindura community, with SMEs located in Bindura town receiving more attention. A selection of respondents from Bindura will be provided with questionnaires to fill out. The information from banks and SMEs in the area was more beneficial. Additionally, the research was conducted using a mixed research approach.

This improved the study's reliability, helped the researcher get past each method's limitations, and clarified the research question.

1.8.1 Limitations of the study

- The researcher had to work particularly hard to persuade some respondents who were unwilling to participate in the study to do so.
- The researcher also had to balance finding time for research with focusing on other school courses and modules. As a result, the researcher needed to set aside time to ensure the study was completed effectively.
- Financial problems – this is as a result of the researcher's student status. The researcher, a student with a small budget allocated for this study, had to pay for travel expenses, binding and printing costs, as well as data access fees.

1.9 Definitions of key terms

1.9.1 Small and Medium enterprises

The Organisation for Economic Cooperation & Development (OECD) (2013) defines small businesses as those with revenue up to US$5.5 million, while developing countries define them as those with revenue below US$4 million.

The country where the business is located provides the information about what constitutes a SME. Numerous factors may determine a company's size or classification as a SME, depending on the country. The attributes comprise the market capitalization, workforce size, total assets owned by the company, and yearly revenue, or any mix of these. Furthermore, different industries in the US have different definitions of SMEs.

1.9.2 Bank lending

Lending is the process by which a bank extends credit to a borrower. In return for the loan, the bank also known as a lender usually receives interest. Lending in the banking sector benefits lenders as well as borrowers by increasing liquidity in the markets where loans are originated and utilised.

1.10 Chapter summary

The chapter gave a summary of the study by describing its background, the problem statement, the reason for conducting it, its objectives, and the research questions that resulted from these goals. The chapter also focuses on the study's importance and its limitations, which could have a negative effect on its findings.

CHAPTER 2 **LITERATURE REVIEW**

2.1 INTRODUCTION

This chapter aims to give readers a solid understanding of the subject matter, support the researcher's planned use of all available data, and situate the research within the body of existing literature. The chapter also attempts to present the various viewpoints of other academics who have previously studied related subjects. The goal of the literature review is to present the theories and empirical data that inform the study and, via gap analysis, demonstrate how the study differs from previous research that has been conducted.

2.2 Theoretical literature Review- SMEs financing theories

2.2.1 Lending theory

The lending theory is among the most important theories for funding SMEs. Lending theory states that when small and medium-sized businesses take out high-interest loans, lending markets, which include financing organisations supported by the government, can lower the lending to credit ratio. This suggests that growing borrowing costs are making it harder or impossible for companies to launch any kind of project, mainly affecting start-ups. It is imperative that this research focus more on this theory from the perspective of bank lending while also looking for methods that these lending institutions can employ to lend to SMEs and make money more accessible. Because it makes it simpler for SMEs to comprehend borrowing costs and decide whether or not they can afford the credits based on what lending institutions are currently offering and how far they are willing to go in lending them, the lending theory is crucial.

2.2.2 Neo-classical theory

The Neoclassical Growth Theory, introduced by Robert Solow in 1956 and emphasising the significance of capital formation and savings for economic growth, is one of the primary theories underlying the study. In conclusion, the Growth Theory of Neo-classicism suggested that government integration, formation of capital, and savings can boost the growth of SMEs. This could be achieved through allocation of resources to real sectors of the economy and productive SMEs, and it also functions as a gauge for economic development and growth. The ability of certain SMEs to draw in capital and allocate it effectively accounts for a portion of their success, which the theory also helps to explain.

2.2.3 Finance-growth theory

Addressing Bagehot's exposition and clarification of the finance-led growth theory is the aim of the Finance-Growth Theory. The financial growth theory states that through supply-leading and demand-following effects, financial intermediaries that support enterprise financing should normally cultivate an environment that promotes productivity, growth, and economic sustainability among SMES. The foundation of the demand following effect theory is the assertion that, rather than generating economic growth, the financial system frequently only responds to and influences the expansion of the real sectors. The study will examine the impact of bank lending as a funding source on the growth of SMEs in order to accomplish this.

2.2.4 The pecking order model and the trade-off model

The primary argument against the pecking order theory is that funding is the single most significant component and essential element in SMEs' growth, which in turn defines their ability to grow. This money ought to act as the uniting factor for every part of a business. The main cause is that any SME business needs financial assistance from various financing schemes in order to survive and expand. A range of SMEs development sectors need to be prioritised, including start-up financing, market expansion, R&D, increased capacity, improved skills, modern technology to encourage product innovation, and so forth.

2.2.5 Human capital theory and SMEs financing

According to the human capital theory, a company's ability to succeed depends on the knowledge and abilities of its employees. The theory is applied to SMEs in a variety of ways. For instance, to stay competitive, SMEs must invest in the training and development of their workforce. This suggests that SMEs may profit from training and development opportunities for their staff members. This theory is most relevant to this study because bank lending can give SMEs access to capital that they are finding difficult to raise on their own. This funding will support SMEs' expansion and strengthen their pool of human resources. The SMEs will benefit from being able to invest more in the training and development of their staff and this will help them to attract more investors.

2.3 Empirical Review

In New Zealand, 99% of all businesses are small to medium-sized enterprises (SMEs), according to MBIE, and they account for 28% of the country's GDP. This suggests that the SMEs sector is thriving. Meanwhile, the government of New Zealand has been supporting SMEs through a number of significant initiatives. Business.govt.nz launched the Kiwi Business Boost initiative in New Zealand. This was a government initiative which was aimed at helping small businesses grow and increase their value chains' productivity, sustainability, and efficiency while also channelling resources towards their development. These programmes were very beneficial in boosting the stability of SMEs and assisting business owners in continuing to operate and serve the community without interruptions as COVID-19 took effect.

A combination of tax incentives was also introduced by the New Zealand government to provide research and development funding in 2019. These incentives included technological integration into production systems, market research, and innovation to help SMEs operate with precision and high productivity. In an ideal world, the New Zealand government would have included "responsible financing," or incentives for smooth production in SMEs, along with climate compliance in SMEs' systems, as part of the funding portfolio. This would have motivated SMEs, particularly those in the energy sector, to adjust to and lessen the effects of climate change. The main criticism of these developed-world examples is the straightforward combination of incentives provided to the funded SMEs because the governments of those countries have the financial resources to support these companies transparently and with defined output goals. Nevertheless, it appears that most developing nations are not experiencing this.

In South Africa, where the availability, affordability, and funding process are barriers to SMEs' growth and ultimately define their adaptability and room for expansion Goga, Murphy, & Swinburn (2006) argue that interest rates are a critical concern. Furthermore, Goga, Murphy, & Swinburn (2006) postulated that the Industrial Development Cooperation would need to be allowed to investigate the issue of cross-subsidizing financing activities and to focus more on potential zero-rated interest loans in order to fulfil its mandate of financing SMEs and promoting economic industrialization. The primary complaint in this case is that IDC, a government organisation, was required to go through financial reform and reengineering to create space for aiding SMEs. A study by Beck, Thorsten, & Demirguc-Kunt (2006) claims that obtaining financing products is significantly hampered by the legal flaws in the financial services sector, especially in many developing countries. Thus, Beck went on to analyse a selected figure of countries that are still developing, eventually reaching roughly 70, and drew a conclusion that the establishment of institutions that promote business and local empowerment via the expansion of SMEs was primarily the responsibility of the government. Ensuring equitable development while concurrently addressing past economic disparities is the aim. To make sure that policies that are attractive and encourage the growth of SMEs are implemented, an analysis of the sector is essential. This should be carried out in a way that permits the establishment of an appropriate regulatory framework that lessens financing constraints that are detrimental to the development of SMEs.

Based on empirical data from Zimbabwe, the government has demonstrated its commitment to political economy through the enactment of numerous laws and policies that have paved the way for the creation and growth of the Small and Medium Enterprises Development Co-operation (SMEDCO). Within the Small and Medium Enterprise and Corporate Development Ministry, the SMEDCO is in charge of financing the development of SMEs and making sure that the loans it grants to these businesses are strictly adhered to ensure the recovery of the funds. This is carried out in an effort to maintain the funding of SMEs in a manner similar to a revolving fund. Accordingly, some SMEs are said to have remarkably lost their properties as a result of this development, having completely failed to repay the government loans that funded their operations. Given that SMEDCO is a ministry, it is reasonable to assume that government approval of SMEDCO's operations is motivated by the organization's desire to ensure funding while also facilitating the repayment of borrowed funds so that they can be used to benefit others. Furthermore, it's crucial to remember that while some of the SMEDCO-supported SMEs fail to repay their loans because of poor management, a sizable percentage fail because of the unfavourable macroeconomic climate in which these small to medium-sized businesses operate as well as the extremely unstable market dynamics in Zimbabwe. It is basically argued that one of the reasons some SMEs don't pay back their loans could be the excessive cost of capital. At the moment, the majority of banks and microfinance organisations that work with the government charge an average of 55% interest rates on short-term loans taken out by SMEs. By all measures, this drives up the cost of capital and, in the worst case scenario, results in SMEs losing the assets they would have pledged as collateral when the company takes a while to operate because of the weak economic performance. Furthermore, because of these high rates in Zimbabwe, SMEs are reluctant to borrow money from SMEDCO and other institutions and ultimately give up on investment opportunities out of fear that they won't be able to repay the debt and lose their assets. In order to determine the situation, the development of SMEs, and their revolutionary legitimacy depending on the backing they get from the government, these independent variables must be examined in this study. This study looks at bank lending as an independent variable in an effort to highlight how lending can assist the sector to be reformed and operate more effectively. Empirically Watambwa & Shilongo (2019) showed that inadequate funding is a significant issue facing business owners in Zimbabwe generally, indicating the need to change the way SMEs are supported. Njanike went on to say in the areas he studied of SMEs that the obstacles they encounter involved finance, rules, and institutions that were inaccessible to outlying SMEs, which prevented the SMEs from growing. These difficulties in Zimbabwe are related to the location and accessibility factors mentioned above and beyond the important factors of the costs of funding from government-aided institutions, which are held accountable for the sluggish expansion of small and medium-sized enterprises.

Furthermore, by prohibiting many aspiring firms from obtaining funding, policies related to the SMEs sector that involve financial intermediaries limit the growth potential of SMEs. Therefore, government-aided institutions financing SMEs need to be redesigned to make sure they provide appropriate terms, services and financial goods for SMEs. This needs to be carried out in concurrent with plans for re-engineering the nation's small- and medium-sized enterprise (SME) growth and sustainability.

2.4 Conceptual literature review

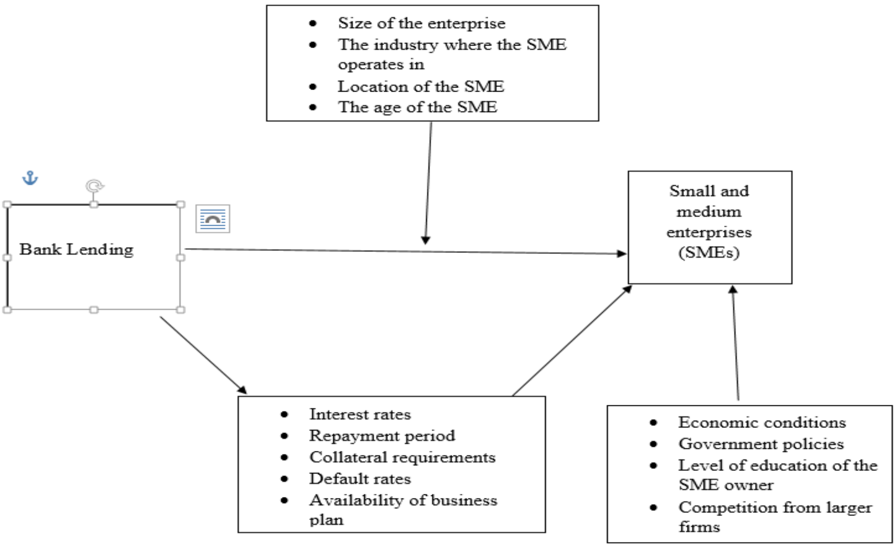

Figure 1: Framework of the bank lending and SMES growth relationships

2.4.1 The concept of bank lending in Zimbabwe

Five main organisations in Zimbabwe are in charge of monitoring and controlling the financial sector. These consist of the Reserve Bank, the Insurance and Pensions Commission, the Ministry of Finance, the Securities Exchange Commission, and the Deposit Protection Board. For the purpose of regulation, the RBZ is in charge. Four building societies, fourteen operational commercial banks, and microfinance organisations make up the banking sector. Reserve Bank of Zimbabwe (2016).

Bank loans have been one of Zimbabwe's primary sources of funding for a very long time. Following Zimbabwe's independence, the government took steps to promote financial inclusion, make credit more accessible, and support the nation's economic expansion. Furthermore, the government instituted programmes to facilitate lending to small and medium-sized enterprises (SMEs) and prioritised funding for the development of industries, infrastructure, and agriculture.

Following the economic crisis that occurred in the 1990s where the country experienced hyperinflation, collapsing of many banks and a significant reduction in the productivity of key sectors of the economy. Bank lending fell as a result of the negative effects on both lenders and borrowers. One of the measures the government has taken to revive the financial system is the financial sector reform. This helped rebuild the credibility of the banking system. Enhancing the accessibility of credit for both individuals and businesses was an additional objective of the reforms.

2.5 The challenges being faced by banks to finance SMEs

Banks in Zimbabwe have a difficult time lending money to small and medium-sized businesses. The main parties to whom banks are accountable are shareholders, depositors, and regulators. Banks should satisfy the needs of all of these parties as well as those of other stakeholders when they adhere to the right principles. The public, the corporate sector, which includes people who use banking services, and the government, which is in charge of enacting laws and policies, are the other stakeholders. The Reserve Bank of Zimbabwe (RBZ), for example, mandates that banks establish and submit to it annual goals for lending to SMEs in an effort to upgrade bank financing to the sector.

The other problem faced by bank in lending to SMEs is that the usual credit delivery entrepreneurs' fear losing control of the company and failure to fulfil the majority of the listing requirements. Allen, Otchere, & Senbet L, (2011). According to the FinScope MSME Zimbabwe Survey (2012), only 57% of MSMEs in Zimbabwe are financially included, meaning they have a bank account that is either a savings account or a check account. Furthermore, they typically maintain bad records, which makes it challenging for banks to assess these potential borrowers' creditworthiness.

2.5.1 Critical success factors in small business lending

A low credit rating which is primarily caused by the borrower's past history of delinquent payments or the company's lack of a strong track record is the most significant indicator of risk failure. Still, a lot of these small businesses don't run consistently, and some of them close down when their owners die. Because of this, most Zimbabwean banks are hesitant to lend to SMEs.

2.5.2 Lack of business plan.

If the banks were to lend money to most SMEs in Zimbabwe, they would not know how to use the funds or have a plan in place for doing so. Still, the majority of banks are hesitant to lend money to businesses without a well-defined repayment strategy. SMEs must give a detailed plan outlining their intended use of the loans as well as their repayment plan to the bank.

2.5.3 Lack of viable business models and operating in struggling or overcrowded industries

SMEs usually operate for short periods, with a high probability of exiting from the market, which scares away lenders. About 85% of SMEs in Zimbabwe fail (60% in the first year and 25% in the first three years). Mudavanhu, Bindu, & Chigusiwa (2011). This is one of the reasons why the lenders might be reluctant to lend to them fearing their high risk of failure.

2.5.4 High default rates

This is mainly posed by diversion of the SMEs funds from the intended business purpose characterize many SMEs, hence banks exercise extreme caution when lending to them. Instead of ploughing back their profits into the business or reserving them for their intended purposes in the business, SMEs might divert these funds and use them for personal purposes. This causes banks to be more cautious and reluctant to lend to them.

2.6 Principles of bank lending

2.6.1 Safety

The primary principle of lending is guaranteeing the safety of borrowed funds. It offers an answer to the question of whether the borrower can repay the loan balance plus interest in accordance with the terms of the contract. The amount of the loan that is repaid depends on your willingness and capacity to do so. Before making a loan, the bank must make sure the borrower is stable and able to repay the debt.

2.6.2 Liquidity

The ability and potential for the loan to be converted into cash without wasting time or money is referred to as liquidity. Banks should always give loans with shorter terms rather than ones with longer ones. This lowers the default risk. For instance, in Zimbabwe, where exchange rates are subject to periodic fluctuations, the bank may experience losses if it offers longer-term loans. This is due to the fact that the loan repayment would have been negatively impacted over longer time periods by the depreciation of money.

2.6.3 Profitability

One of the sources of income for banks is the interest they receive on loans. These funds are then used to pay for staff salaries, interest on deposits, and other ongoing operating expenses. As a result, it's critical that banks use money profitably. This does not imply, however, that they should forgo safety and liquidity in order to maximise profits. After giving serious thought to the bank's safety and liquidity position, profits should be realised.

2.6.4 Security

Banks should always ensure that the loans they are making are secured before making any grants. This is so that the bank will be able to realise the security in the event that the borrower defaults on the loan. Collateral is another tool used in security when granting loans. This aids banks in preventing total losses from bad debts.

Review of Related Literature

2.7 Role played by SMEs in Zimbabwe

The primary advantages of SMEs are the creation of jobs and their low capital requirements, which make them valuable agents of economic growth and development .Yewande & Edwin, (2016). According to Chinembiri (2011), the growth of SMEs is seen as essential to achieving more general development goals, such as reducing poverty, bringing jobs to rural areas, and enhancing the lives of marginalised groups like women, youth, and people with disabilities.

2.7.1 Allows people to start their own businesses and become entrepreneurs.

According to Chinembiri (2011), SMEs provide the foundation for an opportunity to support new business ventures because of their low capital needs, lack of significant managerial experience requirements, and low marketing expenses because the market for goods produced or resold is primarily local.

2.7.2 Job creation

SMEs are responsible for creating a large number of job opportunities in Zimbabwe. They are often a source of employment for people who unable to find work in the formal sector. They give their employees training and development opportunities which help to improve the overall skills of the employees.

2.7.3 Competition

SMEs foster innovation by developing new products and services that meet local consumer needs. Small and medium-sized enterprises (SMEs) have the ability to enhance national efficiency by promoting competition amongst themselves and with larger firms that depend on them, owing to their inherent flexibility, dynamic nature, and sensitivity to shifts in demand. Chinembiri (2011).Furthermore, Tinarwo (2016) claimed that SMEs enable competition to win because their involvement enables the development of a free market system that permits participants in the market.

2.8 Challenges being faced by SMEs in Zimbabwe

SMEs make up a large portion of Zimbabwe's economy, but most of them still struggle to manage their operations. According to Chinembiri's (2011) theory, SMEs face a variety of difficulties related to institutional, policy, regulatory, and capacity issues that are impeding their growth and development. Here are a few of the issues raised.

2.8.1 Lack of finance

According to Chinembiri (2011), SMEs have extremely limited access to and availability of financing because they only rely on the owner for funding, and financial institutions are hesitant to lend to them because of their higher perceived risk and lack of collateral. One of the main issues SMEs have is financing. They find it challenging to obtain credit from banks and other lending organisations. This is mostly because they don't comply with certain bank requirements, like providing collateral. Some of the conditions include the banks requesting a minimum income level and the SMEs having been in business for a specific amount of time. This can be a significant obstacle for small businesses that are just starting.

2.8.2 Stiff Competition from large Corporations

SMEs are less productive and have higher expenses per unit of revenue than larger companies. SMEs employ more labour-intensive technology than larger, more capital-intensive companies. It is challenging for SMEs to expand into foreign markets or even to form alliances with larger businesses because of their lack of access to funding, the competitive nature of the market, and their antiquated technology. Occasionally, they are unable to satisfy the standards that are comparable to those of large corporations when attempting to obtain credit from banks and lending organisations. Other obstacles, such as inadequate infrastructure, make it difficult for SMEs to compete with bigger businesses. Some of them lack skilled labour as well as consistent internet and electricity access. They find it challenging to persevere and thrive in the face of massive competition from larger firms which leads in some of them failing to survive.

2.8.3 Lack of managerial expertise

Most SMEs are family-owned, which means that most of them are run by individuals with little to no managerial experience. Inadequate market research has been caused by a lack of experienced managers who are knowledgeable about certain SMEs. Some of these managers are also overly focused on a small number of carefully chosen markets for finished goods, lack a succession plan, improper bookkeeping, improper or non-existent records, an inability to keep business and personal finances separate, a lack of a business strategy, an inability to distinguish between revenue and profit, an inability to use the appropriate equipment and machinery, and an inability to engage or hire the right kind of personnel. Gombarume (2014). There is a strong correlation between the entrepreneurial skills of the owner and the performance of SMEs. Owners who possess a management qualification stand a 30% greater chance of surviving in the business world than those who do not. Owing to their tiny sizes, some SMEs may fail as a result of basic management errors, providing no chance to learn from previous mistakes

2.8.4 Addressing the challenges being faced by SMEs

Since the world is quickly becoming one big market and local small businesses must recognise this and create markets outside of Zimbabwe in order to grow, the emergence of globalisation has given SMEs new opportunities to explore Banda C. (2018). Numerous initiatives have been implemented in an attempt to address the problems that SMEs in Zimbabwe face. A few of them are covered in the section below along with recommendations for enhancing SMEs' growth.

Small and Medium Enterprise Development Corporation (SMEDCO)

SMEDCO is defining the norm for small enterprise development by interacting with businesses that are still in the infancy phases of their existence within the Zimbabwean economy. Its main objective is to promote and facilitate the growth of small and medium-sized enterprises (SMEs) in Zimbabwe by supporting the implementation of revenue-generating projects that will also support sustainable businesses. With a primary focus on record keeping and skill development training, SMEDCO facilitates business management and entrepreneurship training to develop professional skills in business management. To this, Gombarume, (2014) said that SMEs need to maintain accurate accounting records. This way, when they approach financial institutions for loans, their application will be assessed based on their post-performance.
In order to lower collateral requirements and offer protections, the government should establish a policy environment. Turyahikayo, (2015). The Zimbabwean government's perspective on the

private sector has undergone a substantial shift, and small businesses are now seen as a key driver of economic growth and the creation of jobs. Zindiye, (2012). The Zimbabwean government has developed the following policies: tax breaks for SMEs that spare them from paying the full tax rate, creation and setup of malls and booths to provide workspace for SMEs to operate in, SMEDCO has helped SMEs build and provide factory space, as demonstrated by Gaza land in Harare Chinembiri, (2011). Access to financing has improved as a result of the establishment of organisations that provide loans to SMEs, such as SMEDCO, Agribank, and the Zimbabwe Women's Bank.

2.9 Strategies that can be adopted by banks to meet the needs of SMEs

As the economy transitions into the next credit cycle, banks are faced with opportunities as well as challenges in the market for lending to small and medium-sized businesses (SMEs). Even though volume has increased somewhat, most banks are not using all of their potential. Many still cling to the notion that SMEs are corporations, outmoded business practices, and outdated procedures. By refusing to meet these companies' demands, banks are missing out on opportunities.

2.9.1 Strategy

Banks should consider target groups, SME pain points, and the best ecosystem model when looking for a plan that works for them. In many countries, SMEs have distinctive local characteristics, but they also share traits that enable cross-border scalability in terms of expenses and go-to-market. The optimal design solutions for each dimension must consider the objectives, markets, customers, goods, locations, protocols, and banking channels. Then, by formulating questions and identifying goals in each dimension, the best design solutions can be applied. With knowledge of the challenges that the SMEs in the target market face, the bank can then create a product and coverage model.

2.9.2 Offering tailor-made financial products

Banks should create products specifically tailored for SMEs in order to strengthen their customer relationships with them. These are products that are flexible for these SMEs and are specifically made for them. These consist of business loans with more accommodating terms for repayment and merchant services that facilitate the acceptance of credit and debit cards by

SMEs. Instead of making things harder for SMEs by trying to fit into products designed for larger businesses, the main goal is to develop products that are specifically made for them.

2.9.3 Offer training and educational programmes

Banks ought to provide SMEs with training courses that will help them become more efficient at running their businesses. This is mainly because most of these SMEs lack the expertise necessary to manage their companies in a way that satisfies the requirements banks have in order to lend to them. Opportunities for training will aid in the growth and effectiveness of SMEs.

2.10 CONCLUSION

The purpose of this chapter was to review the literature on how bank lending affects the expansion of SMEs. Relevant definitions were emphasised. The chapter's main objective was to analyse pertinent theoretical works on SMEs and bank lending. The results of previous studies conducted on the same subject in various settings were also derived from the collection and review of empirical literature. The chapter also discussed the difficulties SMEs have getting bank loans, as well as the measures being taken to try to lessen these difficulties.

CHAPTER 3 **METHODOLOGY**

3.0 Introduction

This section outlines the methods that the researcher implemented in carrying out the study. The researcher made use of first-hand information (primary data) and second hand information (secondary data) to obtain answers to the research problem and research objectives stated in chapter one. The chapter outlined the research design, research population as well as data collection methods and instruments. The limitations and strengths of each method were also briefly mentioned. A summary of the above mentioned concluded the chapter.

3.1 Research design

A research design is a summary of the steps the researcher takes in developing the theories to gathering data and analysing it. It explains how the researcher made sure the research questions were addressed in a way that was legitimate, impartial, precise, and cost-effective.Du Ploy-Cilliers, (2014). It is a strategy or road map used to find answers to research questions, according to. Kolbaek, (2014) distinguished three types of research designs: mixed methods, which combine the first two methods, qualitative, and quantitative methods.Using a qualitative methodology, this researcher conducted in-depth, qualitative conversations with the intended audiences. Choosing the subjects (or objects) which will provide the researcher with accurate and trustworthy data or information is another aspect of research designing. The research employed a descriptive survey, which is defined as an organised process of collecting primary data using a structured questionnaire. Because it integrates data and highlights implications and interrelationships, this approach was chosen (Quartey & Awoyemi, 2002).

3.2 Sampling and Population

3.2.1 Study Population

A study population, according to Makrygiannakis & Jack, (2018), is a collection of comparable objects or occurrences that are interesting for investigation and share certain traits for the study. The researcher targeted owners of Small and Medium Enterprises in Bindura operating in and around Bindura town, loan officers for different banking institutions with the selection of the officers for interviewing being based on the knowledge of their presence during the period covered by the research as well as the top management of the banks that had given services to SMEs.

3.2.2 Sampling and population

Mugo (2002) defines sampling as the act, procedure, or method of selecting a representative sample or portion of a population in order to ascertain the parameters or features of the entire population. "A sample is a proportion or subset of a larger group called a population," state Bryman & Bell (2015). Purposive sampling, sometimes known as judgmental sampling, is a non-probability sampling technique used by the researcher. With purposeful sampling, the units under investigation are chosen based solely on the researcher's assessment.

Formula for calculating sample size of an unknown population;

$$n = \frac{p\,(1-p)\,z^2}{e^2}$$

Where;

n= sample size

p= population proportion (0.2)

e= sampling error (0.08)

z= z value at significance level

Significance level 0.90 = 1.65

Source: Cochran, 1997.

Using the above statistical formula as a guideline, a sample size of 68 was derived from the population proportion of 20%.

The methodical and deliberate selection of the chosen population was predicated on:

- A selected number of clients (SME owners) of banks including those with running loans and those paid up.
- Two banks operating in Bindura town that is their Loan Officers, middle and top management.

The advantages of choosing the sample include cutting transport costs and saving time as well as easy access of information for the researcher. Saunders et al. (2012) supported this notion by saying that sampling makes it possible for a researcher to produce results that are more cost-effective than gathering data for the entire population and that are representative of the entire population.

3.3 Model Specification

Model specification is the process of determining which independent variables to include and exclude from a regression model. In this scenario the researcher is trying to determine the variables that are involved in the model which include the dependant variable in this case it is the loan and the independent variables include sales growth, gross profit margin and profitability.

$$\text{Loan} = \beta_0 + \beta_1 GPM + \beta_2 SG + \beta_3 P + \mu$$

1. Loan is representing the loans that SMES apply for from banks.
2. GPM is the Gross Profit margin earned by SMEs
3. SG is the growth in the day to day sales for the SMEs.
4. P is the overall profitability for the SMEs that they might gain through the loan.

5. μ contains unobserved factors such as Interest rates, knowledge about the loans and also accessibility.

3.4 Goodness of fit

Goodness of fit involves a comparison of observed data with expected data using some fit statistics such as the chi-square. The Hosmer and Lemeshow test was used to evaluate whether the actual distributed cases were matching with the expected distributed cases and the results are given below. The significance of the test is determined by the comparison of the test statistic based on the chi-square, to the critical value which depends on the (df). The test statistic according to the table below is greater than 0.05 which is α (alpha). This suggest that the model

Table 3.4. Goodness of fit

Table 1: Goodness of fit

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	.000	8	1.000

3.5 Data Sources

3.5.1 Primary Data

Primary data, or first-hand information gathered from no other sources, was used in this study. To obtain this primary data, the researcher conducted interviews and surveys. The decision to gather primary data was made by the researcher due to its dependability and applicability in addressing the research question. Primary data collection is also specifically designed to meet the goals of the study. The investigator employed structured questionnaires and interviews as methods of data collection. Structured questionnaires were used to get an unbiased opinion of respondents and the collected data assisted the researcher to examine and analyse the findings of the relationship between bank lending and SMEs.

3.5.1.1 Questionnaires

According to Saunders et al. (2012), a questionnaire is a research tool that consists of a list of questions and additional prompts intended to elicit information from respondents. A combination of open and close ended questions were used in the questionnaires to enable respondents to give further explanations to their views on some questions. Questionnaires were be given to SMEs employees and SMEs owners so that they complete them on their free time given that they are mostly occupied with work. The researcher sought approval from concerned authorities before distributing questionnaires and the process was carried out during lunch hours to avoid disruptions to work.

Advantages of questionnaires

- Allows respondents to open up and produce more information.
- Guarantees anonymity of the respondent and thereby increasing the quality of the data obtained.
- Questions are tailor made by the researcher to address the specific research objectives.

Disadvantages of questionnaires

- Lacked immediate feedback that was required by the researcher
- Some respondents forgot to complete the questionnaires

3.5.1.2 Interviews

Personnel from key banks which consist of loans officers and other employee from the other departments participated in standardised, open-ended interviews. While asking the same set of questions to each participant, the standard open-ended interview technique allows participants to discuss additional pertinent and other related topics that may have been omitted by the questionnaire questions. Du Ploy-Cilliers, (2014)

3.5.2 SECONDARY DATA

Additionally, this study used previously collected secondary data from other researchers that were stored for later use as references.

3.5.2.1 Internet

The researcher used electronic books, electronic journals, and online publications written by other authors. This is primarily due to the availability of current information about bank lending and SMEs' operations on the internet, which is updated by various authors and researchers.

3.6 Data interpretation and presentations

While data analysis demonstrates how the presented data will be contextualised and explained in accordance with research objectives, data presentation is the means by which research findings are displayed. The way the data is presented makes it simpler to comprehend and analyse. In addition to guaranteeing that the goals of the research are accomplished, the data should also address the research questions. This makes it possible for the researcher to solve the problem statement. The data was subjected to a number of processes in order to make the collected data meaningfully presented and to match it with the study objectives and research questions. These steps included editing the data to find spelling errors, missing gaps, incomplete answers, and unwanted data, coding, and categorising the data with characteristics.

To display the data, the researcher created tables and included explanations that summed up the themes. Descriptive survey techniques were heavily relied upon for the analysis of the collected data, highlighting the diverse findings. Additionally, statistical analysis was performed using SPSS software. The research's conclusions were also examined through qualitative and quantitative data analysis. Tables, graphs, and charts were used as interpretation tools to help readers understand the results and make comparisons easier.

3.7 Validity and Reliability

According to Creswell (2018), "reliability" refers to how consistently participants' scores or responses remain the same over time or among various rates. If a measure is repeated under the same conditions and consistently produces the same results, it is considered reliable. The supervisor assisted in creating the questionnaire, and by presenting the questions to the participants in the same order, the information was more reliable. According to Creswell (2018), validity is the degree to which a study accurately captures or investigates the precise idea or structures that the researcher is trying to measure. Standardised measurements were used whenever possible to guarantee the validity of the questionnaire, and appropriate statistical techniques, such as SPSS, were used to analyse the data that was gathered. The sample used was representative of the relevant population, and the research's design and methods were sufficient to address the study's objectives, ensuring the validity of the findings.

3.8 Ethical Consideration

By asking the school for permission to contact businesses, the researcher followed all necessary protocols and obtained consent from each respondent in the right way. The researcher ensured that every piece of information obtained from respondents was treated with the utmost discretion and privacy. The informant's identity was kept private in the paper. Along with providing a briefing on the data needed for the investigation, the researcher also explained to the participants the significance of the data, the reasons for its necessity, and the requirements for participation.

3.9 Conclusion

The research methodology utilised to conduct the study was described in the chapter. A descriptive survey design was employed and data was collected through primary and secondary sources. Primary data was collected through questionnaires while secondary data was collected through textbooks, academic journals and the internet.

CHAPTER 4 **DATA PRESENTATION AND ANALYSIS**

4.0 Introduction

This chapter serves to present and analyse research findings in relation to the research design mentioned in chapter three. The researcher made use of tables, graphs and charts to present and analyse collected data. The main aim of the gathered data was to ascertain whether bank lending have a role to play in promoting SMEs.

4.1 Questionnaire Response Rate

A response rate is calculated by dividing the number of participants who completed a questionnaire with the entire number of individuals who were given the chance to respond (Johnson, 2010). A total of 60 questionnaires were issued to SME owners and employees in Bindura. A response rate of 85% was obtained. The table 4.1 and Fig 4.1 below shows the response rates in their respective categories.

Table 4.1 Questionnaire response rate

Table 2: Questionnaire response rate

Description	Questionnaires distributed	Response	Response rate
SMEs owners	40	40	66.7%
SMES employees	20	20	33.3%
Total	60	60	100%

The investigator sought 60 respondents, 40 of whom were SMES owners and the other twenty were SMES employees. All 60 questionnaires given were completed and returned, resulting in a response rate of 100% because all replies were considered valid. A high response rate is a reflection of a good research and the overall response rate of 100% is high enough to be accepted as a true representation of the total population. Saunders (2007) argued that a 35%-50% response rate and above is more useful in academics and therefore the achieved 100% response rate for this study can be considered appropriate. The following figure represents the response rate.

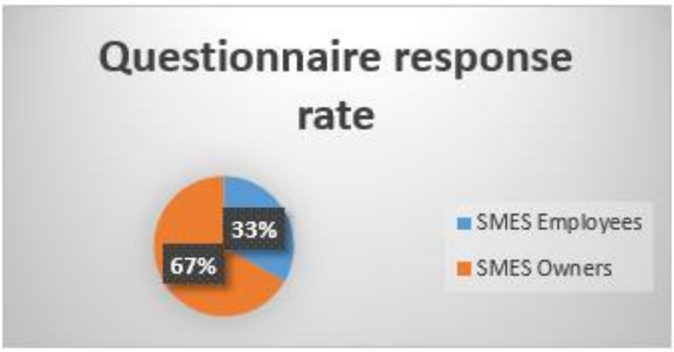

Figure 2: Questionnaire response rate

4.2 Interview Response Rate

The researcher purposively targeted to interview 4 loans officers from 2 local banks which are Zb bank and First Capital Bank. The interview was mainly aimed at finding out the types of SMEs that are mostly preferred by banks and some of the problems banks are facing in trying to lend to these SMEs. Appointments were made through emails and phone calls. The researcher also managed to get hold of 1 of the top managers of ZB bank who had gone out of Harare on business and the two middle managers of First Capital Bank who had failed to receive the questionnaires on email. An interview was scheduled and the interview guide prepared by the researcher was forwarded to the respondents prior to the interview. Reminders were done through email and telephones. The time for the interview was therefore shortened and the total response rate from the interviews was 100% thus adding great value to the study.

Interview Guide Responses

1. **What category of SMEs do you prefer extending lending to?**

The researcher conducted separate interviews with the officials of the two financial institutions. The interviews conducted indicated that the two firms had certain types of SMEs they preferred to offer their services to which were almost similar to each other. In a way these two were competitors. They cited light industries, grocery shops, gas vendors, vegetable markets and small scale miners.this is mainly because these SMEs are the ones that are dominating in the town of Bindura currently and making significant sales. Barbers and hair salons, butcheries, flea markets including those selling second hand clothing, mabhero, and hard wares were not in their preferred category.

2. **What is expected for an SME for it to be eligible to get credit from your bank?**

The respondents gave a list of aspects that are expected to be met by SMEs for them to be eligible to get a loan. This included the ability of the business to generate revenue, the gross profit margin made by the business and the overall profitability of the business. This is mainly because a business that has better performance is likely able to repay the loan in the future. A business that is also underperforming in terms of profitability is likely to fail and may lead to lead to credit risk for the bank.

3. **Are your clients adhering to the terms and conditions of the loan which may also include paying on time?**

The respondents agreed that the SMEs are complying with most of the terms and conditions of the loan. However, this does not imply that the banks are getting an absolute 100% return on these loans. Due to the economic hardships in the country, there will always be a space left for credit risk, this is because some of these SMEs are failing to thrive and may end up closing.

4. **How are you creating good relationships with your clients to ensure that you will retain them as your clients in the future?**

Flexible terms and conditions and also discounts are given to loyal customers that have a good reputation with the banks. This is done by banks in order to retain their existing customers and also to ensure that they attract new customers as well.

5. **What are some of the problems that you are facing in trying to extend credit to SMEs?**

The respondents mentioned that most of the SMEs have a low credit rating. This is primarily caused by the borrower's past history of delinquent payments or the company's lack of a strong track record. A lot of these small businesses don't run consistently, and some of them close down when their owners die. Because of this, most Zimbabwean banks are hesitant to lend to SMEs. Another respondent claimed that some of the SMEs do not have viable repayments strategies that guarantees that in future they can repay their debts. SMEs must give a detailed plan outlining their intended use of the loans as well as their repayment plan to the bank

4.3 Demographics characteristic

Demographic information entails the respondents' gender, age, educational levels and duration of time in the industry.

4.3.1 Gender distribution

Table 3: Gender distribution

Gender	**Frequency**	**Percentage**
Male	31	52%
Female	29	48%
Total	60	100%

The findings in the table above indicate that both banks provide services to males and females as well as being equal opportunity employers. The researcher therefore chose both male and female respondents with the former being 31 (52%) and the latter being 29(48%). The researcher considered gender balance in order to overcome gender biasness in the research findings. This is shown in the following diagram

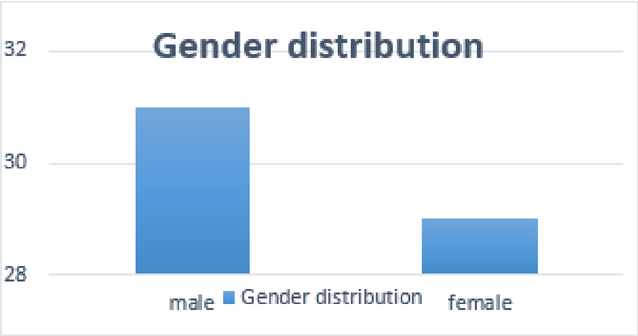

Figure 3: Gender distribution

Table 4: Age Distribution

Age Distribution	Frequency	Percentage
20-29 years	24	40%
30-39 years	17	28%
40-49 years	7	12%
Over 50 years	12	20%
Total	60	100%

The study was comprised of respondents from different age groups. Table 4 shows that respondents in the age group 20-29years were 24 (40%) and 30-39years were 17 (28%). Those in the group 40-49 years were 7 (12%) while those with 50 years and above were 12 (20%). The first age group constituted mainly young SMES employees who recently graduated from high schools and colleges. The 30-39 years age group consisted of a majority of SME owners in Bindura town. This group of entrepreneurs are deemed to be the active economic group that needs support for economic growth. The 40-49 years age group was dominated by the top managers of banks and a few SME owners. This was because mainly because management positions are mainly achieved by work experience and qualifications. These age results seem to suggest that most SME owners are in the age group of 30-39 years with a few in 20-29 years and over 50 age groups.

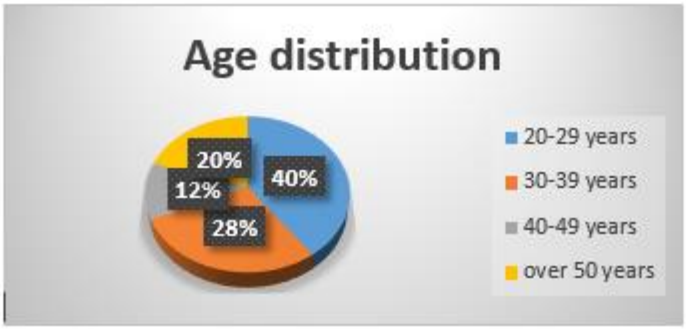

Figure 4: Age distribution

4.3.3 Duration in Business

Table 5: Duration in business

Duration in business	Frequency	Percentage
Less than a year	20	33.3%
2-5 years	14	23.3%
Over 5 year	26	43.3%
Total	60	100%

The results shown above in table 4 above and fig 4 below indicate that the majority of SMEs in Bindura had over 5 years and a few of them have been working with banks for services like loans.. Respondents who had less than one year in business were almost equal to those who were in the over 5 years category due to the rise in the growth of SMEs as the economy of Zimbabwe is largely dominated by the informal sector due to inherent economic hardships in the country. A selected respondents had started and expanded their own enterprises through the assistance from banks.

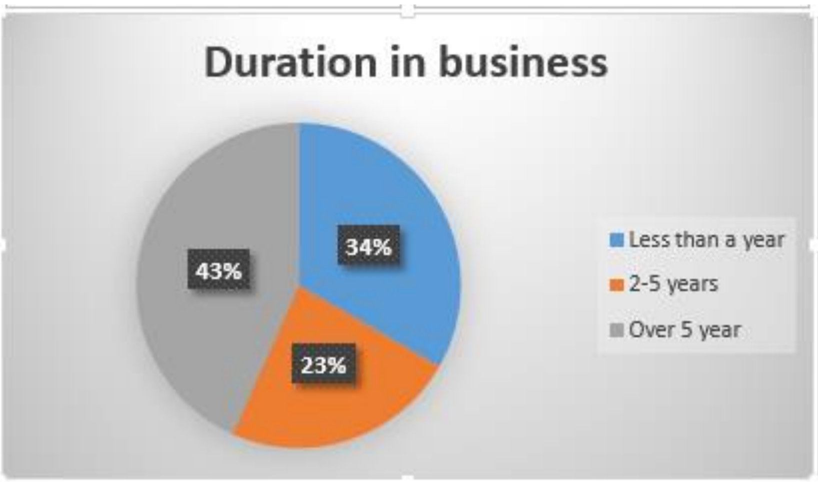

Figure 5: Duration in business

4.3.4 Education Level

Table 6: Education level

Education level	**Frequency**	**Percentage**
Diploma	5	8%
Degree	17	28%
Ordinary Level	22	36%
No Education	16	26%
Total	60	100%

The researcher also took into account the levels of education of the respondents surveyed in Bindura town. Table above shows that 5 (8%) have attained diplomas and 17(28%) degrees. 22(36%) have got ordinary level qualifications while 16 (26%) have no education at all. Those dominating the diplomas and degrees groups were SMES owners and employees that are the management and staff. However there were entrepreneurs who were in the two aforementioned groups who were in possession of qualifications but were failing to get placements due to economic hardships in Zimbabwe which had forced various companies to downsize and some to close. Other respondents fell in the group possessing ordinary level qualifications and those having no qualifications at all. This group had the ability to own enterprises and operate them, they only needed to be equipped with basic skills like book keeping.

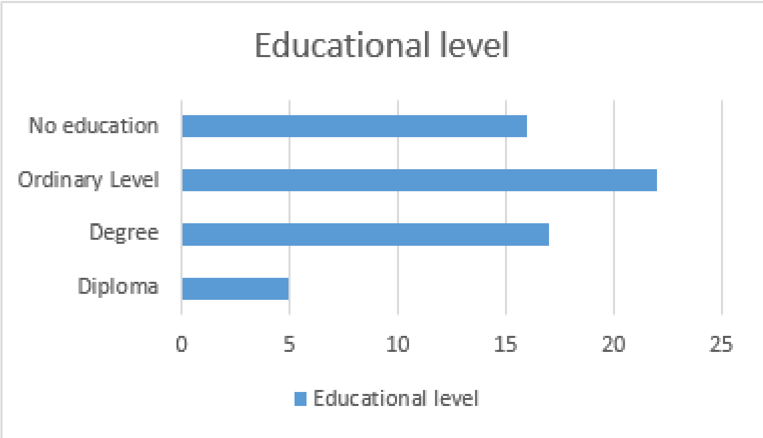

Figure 6: Education level of respondents

4.4 LOGISTIC REGRESSION ANALYSIS

4.4.1 Model Summary

The summary statistics are designed to give a clear indication of how well the model fits the data. The results for the models summary are given below indicating. The Cox & Snell R Square was computed and the results are given below which is 0.500 which is a moderate result. It means that the logistic regression model used explains about 50% of the variance in the dependant variables.

Table 7: Model summary

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	.000[a]	.500	1.000

4.5 Goodness of Fit

Goodness of fit involves a comparison of observed data with expected data using some fit statistics such as the chi-square. The Hosmer and Lemeshow test was used to evaluate whether the actual distributed cases were matching with the expected distributed cases and the results are given below. The significance of the test is determined by the comparison of the test statistic based on the chi-square, to the critical value which depends on the (df). The test statistic according to the table below is greater than 0.05 which is α (alpha), this implies that the test is not significant meaning the observed data is not significantly different to the expected data. This also suggest that the model fits well the data.

Table 8: Hosmer and Lemeshow Test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	.000	8	1.000

4.6 Descriptive Statistics on variables

The descriptive statistics provides information about the strength of the association between independent and dependant variable in a model. Table 4.6 shows that the Gross Profit margin had a mean of 2.6 and this show that it is positively associated with the bank loan, which also illustrates that the increase in the gross profit margin has same impact on loan accessibility for SMEs. In the table 4.6 Sales Growth are also indicated with a mean of 2.4, this illustrates that an increase in sales of an SME increases its likelihood of obtaining loan and also the increase in accessing bank loans in resulting in the increase in the sales growth for SMEs. The table also shows a mean of 2.8 for profitability which is moderately positive mean. This means the higher the profitability of a business the higher the chances it has of getting a bank loan. This is mainly because profitable businesses have less credit risk and have the ability to repay the loan in the future.

Table 9: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GPM	60	1.67	5.00	2.6556	.86350
SG	60	1.00	4.33	2.4333	.81025
P	60	1.67	4.33	2.8167	.58360

Valid N (listwise)	60				

4.7 Correlation

Correlation refers to how a change in one variable is related to a change in another variable. Using the VIFs the results in the table 4.7 show that Gross Profit Margin is 4.1 which reflects that it is collinear and is not affected by another variable. The Sales Growth also has a VIF less than 10 which is a positive result. The table also show a VIF of 2.6 for profitability which is positive and shows that the profitability is not explained by other variables.

Table 10: Correlation Coefficient

Correlation Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.118	.143		.828	.411		
	GPM	-.039	.067	-.112	-.589	.558	.241	4.154
	SG	.134	.061	.358	2.174	.034	.321	3.118
	P	.270	.078	.521	3.458	.001	.382	2.617

a. Dependent Variable: LOAN

4.8 Variables in the equation

The variables in the involved in the equation are (SG) which is representing Sales Growth, (P) representing profitability, (GPM) which is standing for Gross Profit Margin. The table below is showing the significance of each of these variables as independent variables in the accessibility of a loan. The table shows a significance of 0.992 for SG which means that sales growth is less significant in determining if one can access a loan. This is because some SMEs could be making these sales but they have a bad credit history. This is a barrier for banks to lend to them, so making good sales is not highly significant in allowing a business to access a loan. The table also illustrates that both Gross Profit Margin and Profitability are also moderately significant. This is mainly because there are other factors that affect credit access for these SMEs which include credit history, the type of business and also the location of the business.

Table 11: Variables in the Equation

Variables		Sig.
Step 1[a]	SG	.992
	P	.990
	GPM	.990
	Constant	.989

4.9 Discussion of the findings

This study was focused on investigating the impact that bank lending has on the growth of SMEs specifically in the town of Bindura. From the researcher's findings there are several factors that are affecting the relationship between banks and SMEs businesses. The study shows that although SMEs that are able to access finance from banks are appreciative and they agree that the loans have helped in growing their businesses, there is still a gap in the industry and there is a lot that banks could do so that they lend more to these SMEs. In addition these SMEs as much as they need financial support from banks and other lenders. It is vital for them to keep on improving and ensure that they meet the banks requirement so that they are able to access credit.

The study had sales growth as one of the variables included. This was explaining that those SMEs that have the potential to grow their sales in the future are the ones that have a high probability of getting loans from banks. However from the researcher's findings most of these SMEs usually start with a graph of higher sales which tends to deteriorates as they time in the industry increases. From the interview that the researcher had with banks and some of the business owners, this due to some of these SMEs lack the knowledge on how to efficiently run a business in a sustainable manner. In the case of some of the SMEs in Bindura particularly light industries because they are the ones that are dominating in the town of Bindura, most of them are failing to make significant sales due to stiff competition in the industry. The industries that have been in the business with known customers are the ones that are only able to survive the stiff competition and make higher sales. The study also shows that those SMEs that were able to get loans from the selected banks are getting positive outcomes in their sales. The loans are enabling them to access more resources to produce better goods and services which in turn attracts more customers and increase sales.

From the interview that the researcher had with the loans officers from unnamed banks, one of the requirements that banks require before granting a loan to businesses are income statements and cash flows. These are the accounts that shows the gross profit that is being earned by the business and the projected future cash flows. However most of these SMEs are dominated by a lack of managerial and entrepreneurial skills which hampers the growth of SMEs in Zimbabwe. This also hampers the growth of their profits. From the researcher's investigations and data collections, most of these SMEs do not have these day to day accounts and do not have record keeping of their funds which makes them less fit to acquire credit through banks.

There are also other factors and challenges that these SMEs are facing in trying to access finance from banks aside from the variables that the researcher was focused on. According to the interviews that the researcher had and the data collected from the questionnaires given out, interest rates is one of those factors. Most of these SMEs are claiming that they are failing to get bank loans because they cannot afford the interest rates that are charged by banks. The study also shows that despite the efforts that is being made by financial institutions to reach out to people with small businesses, the study still pointed out that some of these SMEs still lack knowledge on bank lending. Which brings out a gap that needs to be filled, the banks should reach out to more of these SMEs.

4.10 Chapter Summary

The chapter gave a qualitative and quantitative summary of findings of the study obtained from responses to questionnaires. The qualitative data acquired was presented and analysed quantitatively. The findings were also compared to the findings of other past researches that related to this study.

CHAPTER 5 **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.0 Introduction

This chapter discusses the results as they were discovered through the analysis of primary and secondary data sources. Based on the results, recommendations will be provided as well regarding how best the relationship between SMEs and banks can improve their relationship to enable SMEs to access finance and also develop trust between SMEs and financial institutions.

5.1 Summary of findings

The aim of this study was to assess how bank lending is impacting the growth of SMEs in Zimbabwe, particularly in the area of Bindura. The conclusions were derived from theoretical, practical, and empirical findings. The following findings were drawn.

The study found out that the credit that was extended to some of the SMEs in Bindura made a positive impact to their businesses. The businesses agreed and some of them even strongly agreed that bank loans have helped in increasing their sales growth and also raising their gross profit margin. However, some of the SMEs, regardless of them having high sales and improved profits, they are still failing to pay up their debts on time. The study populated that this is due to most of these SMEs owners having no knowledge on how to manage their funds and how to use the funds they get from banks. Most of these SMEs are family owned business and from the observations and interviews that the researcher had with them and their banks, it shows that some take the profits and use it for home consumption without carefully taking care of the business expenses prior. This also goes to the educational levels of the hired labour, most of them only had a highest certificate of an ordinary level, which means it might be easy to just manage the day to day bookkeeping of the business but when it comes to managing the finance efficiently they do not have the knowledge.

The study also reviewed that those SMEs who are failing to get bank loans are mostly demotivated by the interest rates charged by the banks. Most of them are scared away by these interest rates because they think they may not be able to pay back the loan in the future. From previous researchers, the majority of banks and microfinance organisations that work with the government charge an average of 55% interest rates on short-term loans taken out by SMEs which is less affordable for most SMEs especially those involved in vending, grocery shops and light industries which are the SMEs that are dominating the area of Bindura which was under study. Some of them are also hindered by lack of collateral. Since most of the SMEs in Bindura are small and family owned with a very small number of employees and assets. This means they do not have any assets that they can give to the bank to guarantee their payments. This limits the chances of them being granted by the banks.

The study also found out that banks are also facing challenges in trying to extend credit to some of these SMEs. Some of the challenges that the banks pointed out during interviews included the fact that some of these SMEs are failing to pay up their debts on the agreed time. This is a disadvantage to the operations of banks since it earns its profits from the interest charged on those loans. This is causing them to be selective when lending, and also completely cease from lending to SMEs who have a bad credit worthiness. This is also leaving to prone to cases of credit risk and NPLs. Another challenge is the instability of the Zimbabwean economy and the continued fluctuations of currency in Zimbabwe, this is increasing the overall risk environment for banks. The situation is making it difficult for banks to predict the future cash flows for businesses and their ability to repay loans in the future which is further increasing their reluctance to lend to SMEs since they are more prone to the these economic challenges. In addition most of these SMEs have limited assets that they can pledge to the bank as collateral which makes it a burden to banks when they lend to SMEs since the regulatory environment in Zimbabwe is complex and have certain requirements when it comes to lending.

5.2 Recommendations

The researcher would recommend banks to make more tailor made credit products sorely meant for SMEs. This can include loans with flexible repayment options for example lower amounts that they can pay even on a weekly or daily basis according their contracts. They can also create products with lesser collateral requirements and specific industry based loans especially for towns dominated by industries like the town of Bindura.

Banks might also increase their awareness programmes to SMEs in various areas to ensure that business owners get the knowledge on how they can borrow, the advantages of the credit and how they can repay the loans. There is also need to increase financial literacy programmes and workshops to SMEs to help them have a better understanding on how to manage the finances and profits. This will help the bank to reduce credit risk and also empowering the SMEs to access credit.

The researcher would also recommend banks to focus more on developing long term relationships with the SMEs that they lend to. This can help them to build trust and better understanding on how their clients run their businesses and lead to the bank making more informed lending decisions. Building relationships can start by opening accounts for the SMEs that charges less monthly maintenance fees, this will give them a motivation to do business with the bank so when the loans are offered most of them might be open to the idea.

SME owners are encouraged to register their businesses so as to avoid disruptions which accrue from operating unregistered. This will attract a lot of financial institution and thus widen their choices on loan products available that will best suit their financial requirements. Banks will also be forced to reduce interest rates and thus SME owners will greatly benefitt and create room for expansion. SME owners should enrol in courses that will help them run their enterprises in an effective and efficient manner. These may include business management, entrepreneurship and bookkeeping. They will be equipped with the technical knowhow on running businesses and thus making them competitive. Banks will not hesitate to lend money to a person with skills as they will know chances are high that the money will be used for the intended purpose. The researcher noted that a majority of SME owners' respondents had no formal education and thus encourages acquiring skills.

5.3 Conclusion

This study concluded that bank lending is making a positive impact on the growth of SMEs. Those SMEs that accessed loans through the bank loans have experienced improved sales and improved day to day production. The vendors were able to build better stalls and improve their products whilst also the tuckshop owners were able to improve their infrastructure and improve their stocks , on the other hand those in light industries pointed out that the loans enabled them to get better equipment which is also improving the production process and ensuring that they withstand competition.

The results gathered also pointed out that regardless of them receiving these loans, some of these SMEs are still failing to manage the funds because they lack knowledge on how to use the funds effectively. From the literature review in chapter 2, the human capital theory is explaining the importance of employees in the overall business success. This means a firm with educated employees succeeds. However, from the study most SMEs in Bindura are family owned and the workers are just school leaver and family member without knowledge of how to run businesses in a competitive standard, this in turn is causing them to continue suffering less profits and stunted growth and some of them are also ending up failing to pay back the money that they owe to the bank. This calls for banks to continue supporting these SMEs by offering them programmes that will give them knowledge on managing their finances effectively in a way that creates room for expansion and sustainability. Giving them access to finance can also assist them to hire management that is skilled since they would be able to afford them.

The study also found out that banks are still facing several challenges in trying to reach out and extending credit to some of these SMEs. These include low credit ratings, delayed payments and lack of collateral. Most of these SMEs have limited assets that they can pledge to the bank as collateral which makes it a burden to banks when they lend to SMEs since the regulatory environment in Zimbabwe is complex and have certain requirements when it comes to lending. To solve this issue the researcher suggests that banks should create tailor made loan products that are also characterized by low collateral requirements since they are still small and still establishing themselves in the industry and cannot compete with large and established firms.

5.4 Suggestions for future studies

The study’s main objective was assess the impact that bank lending has on the growth of SMEs in Zimbabwe. The researcher suggests that future researchers should put more focus on how banks can improve their relationship with SMEs so as to give them awareness on how they can benefit and take advantage of the loans provided by these banks. This will help the banks, the economy of Zimbabwe and also the SMEs to grow and emerge since finance is one of the core organs for business survival.

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LIST OF APPENDICES

Appendix 1: Questionnaire to SMEs owners.

BINDURA UNIVERSITY OF SCIENCE EDUCATION

DEPARTM

Dear Respondent

This questionnaire aims to fulfil the requirements of a bachelor of commerce (honors) degree in Banking and Finance being pursued by the researcher at the Bindura University of Science Education. The researcher wishes to assess the **Impact of bank lending on the growth of SMEs in Zimbabwe mainly focusing on Bindura town as a case study**.

The researcher assures you that this is sorely meant for academic purposes and therefore invites you to complete this questionnaire as directed for purposes of facilitating the study. The researcher assures you that the information collected from this document will be anonymous and confidential. Your cooperation is greatly appreciated.

Yours sincerely

Marcia Masiya

Instructions

1. You are advised not to write your name on this questionnaire.

2. Any information provided in this questionnaire will be confidential and anonymous.

3. Please answer the questions faithfully and honestly, your views are very important

4. Put a tick opposite the right response.

Section A

Tick the appropriate box

1. Gender - male [ ] female [ ]

2. Age - 20-29 [ ] 30-39 [ ] 40-49 [ ] over 50 [ ]

3. Marital status - married [ ] single [ ] divorced [ ] widowed [ ]

4. Educational qualification - diploma [ ] degree [ ] O level [ ]

Section B

5. What category of business are you in**?** Groceries [ ] hardware flea market [ ] Industries [ ]

6. Period of time in the business? Less than a year [ ] 2-5 years [ ] more than 5 years [ ]

7. Number of employees? Less than 5 [ ] more than 5[ ]

8. What products /services have you received from banking institutions? Loans [ ] insurance [ ] savings [ ] training [ ]

9. What was the purpose of the product/service you mentioned above? ………………………………………………………………………………………………

…………………………………………………………………………………………………
………………………………………………………………………………………………….

10. What changes did it make to your overall profits and income?

....
....
....

11. If your answer is loan, are you able to repay it on time? Yes [ ] no [ ]

12. In your opinion, are the interests being charged fair to your business and to other SMEs? Yes [ ] No [ ]

13. What are the procedures that were required for you to go through before getting the loan?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………………….

14. Did you notice some changes to your income after taking the loan? Yes [ ] No [ ]

15. In your own opinion, has the loan made positive impact to your business? Yes [ ] No [ ]

…………………………………………………………………………………………………
…………………………………………………………………………………………………
……………………

Section C

Tick in the appropriate box which you are in agreement with according to the key.

Key

SA- 5

A- Agree

N- Neutral

D- Disagree

SD- Strongly Disagree

	SA 1	A 2	N 3	D 4	SD 5
SALES GROWTH					
Bank lending has contributed to the growth of sales revenue in my business [SG1]					
The increase in the amount of my sales has increased my chances of obtaining more credit from the bank. [SG2]					
The loan has led to improved quality of your products hence increased day to day sales. [SG3]					

GROSS PROFIT MARGIN					
Can you say your gross profit margin has changed over the past year due to the loan you obtained? [GPM1]					
Do you think the ability of you accessing a loan from a bank is dependent on the Gross Profit Margin that you earn? [GPM2]					

If so, are you accessing the amount that you require and is it also helping to boost your revenue? [GPM3]					

PROFITABILITY					
Are you satisfied with your current profitability?[P1]					
Is the current profitability of your business allowing you to access credit from banks? [P2]					
Would you say bank lending has solved your financial problems? [P3]					

16. Do you have any additional comments or feedback on issues to do with loans from banks and SMEs growth……………………………………………………………………

Thank you for taking your time completing the questionnaire!

Appendix 2

Interview questions to banking institutions

1. What category of SMEs do you extend lending products to?
2. What is expected for an SME for it to be eligible to get credit from your bank?
3. Are your clients adhering to the terms and conditions of the loan which may also include paying on time?
4. How are you creating good relationships with your clients to ensure that you will retain them as your clients in the future?
5. What are some of the problems that you are facing in trying to extend credit to SMEs?