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SME FINANCING BY ZIMBABWEAN BANKS: THE APPLICATION OF RELATIONSHIP LENDING

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ABSTRACT

Access to bank financing has remained the major constraint to the growth and development of the small to medium enterprise sector despite significant development of the Zimbabwean financial sector and the subsequent emergence of several new locally based financial institutions. The study sought to review the application of relationship lending, which most literature view as a way to cope with the information opaqueness of SMEs thereby allowing financial institutions to play a leading role in the financing of SMEs. The study aimed at understanding the relationship between relationship lending and SME financing as well as the feasibility of this lending technology taking into account the unique characteristics of the Zimbabwean economy. To achieve this aim relationship lending technology in terms of duration, multiple banking, pre-existence and trust were examined to determine their effect on the level of bank SME lending and the subsequent effect of loan conditions to SMEs. Primary data was collected from 16 commercial banks in Zimbabwe and a sample of 120 was drawn from SMEs around Harare. A total of 136 respondents took part in the research by actively contributing through completion of questionnaires. A total of 151 questionnaires were returned answered and data was analyzed using SPSS. The study findings reveal that relationship lending has a significant positive effect on improving access to finance for SMEs. They further reveal that the market for SME lending has potential new business which banks should capitalize on as a large proportion of this sector is still unbanked. It was also noted that large international banks are playing a significant role in SME financing using mainly credit scoring though all banks consider pre-existing relationship on availing borrowing facilities. Therefore the study draws a conclusion that relationship lending improves SME access to bank financing and also that private owned local banks can play a significant role in financing this sector through relationship lending. It was recommended that SMEs should start bank relationships which will be beneficial when they need bank funding. The study further recommends that the central bank should license small micro banks to cater for the needs of the SME sector and there is need to disperse loan approval from Harare where all the Zimbabwean banks are headquartered. Aanalysis of data for the whole country as well as the performance of firms after accessing relationship loans was recommended for further research.