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The benefits of lending relationships between SMEs and lenders in Balochistan

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Introduction

- SMEs face issues different from large organizations- raising finance is one of them
- Raising funds is not only difficult and restricted but also more costly
- Balochistan, the back bone of Pakistan's economy, is almost entirely governed by SMEs
- In line with academic theory, Mazhar, Javaid & Goraya (2012) confirm restricted funding to SMEs in Balochistan by the regulated institutions

Problem Statement

- Building lending relationships- an effective way out
- However, borrowers/ lenders often unaware of lending relationships (Lean & Tucker, 2000)
- Understanding the benefits of lending relationships will improve SMEs' financing in Balochistan; the interest of government

Objective

- To highlight the lending relationships between SMEs and lenders in Balochistan
- To find if BLR predicted the perceived economic development of Balochistan and selected economic variables of SMEs

Some theoretical aspects of financial problem for SMEs

- SMEs:
- low return as high as large firms
- have less credit-worthiness for FIs
- are prone to crises more than LFs- higher risks
- building lending relationships- the way out

Benefits of lending relationships in theory

- lower cost of loans
- lenders willing to learn about SMEs and the resulting information acts as security
- improved credit limits

Methodology

- Target population: owners/managers of SMEs; experts in the field; managers of FIs (purposive sampling)
- quantitative data collected self-administered questionnaire developed with 7-point Likert scale
- 23 variables/ items of **BLR** adapted from several previous studies in the questionnaire
- ***Economic development*** section contained 5 questions regarding productivity, employment, growth, poverty reduction and family health and education

Methodology

- economic variables of SMEs included 15 items covering governmental support, working capital, cash flows and sources of finance
- Sample size: 300
- Questionnaire returned: 241
- Response rate: 80%

Analysis

- KMO and Bartlett's test of for adequacy of data for factor analysis
- Factor analysis run to classify the lending benefits
- Varimax rotation used in factor extraction
- Cronbach's Alpha calculated for reliability of each factor
- Diagnostic tests were run for regression analysis for multicollinearity, autocorrelation and heteroscedasticity
- Regression analysis run between BLR (IV) and economic development (Mediator) and economic variables (DV)

Results

- KMO and Bartlett's test of adequacy (.868; sig= 0.000 at 95% CI): FA appropriate
- four factors extracted and named:
- cost effectiveness: (items: 2,6,8,9,14R,20) (Cronbach's Alpha .991)
- availability of funds (3,7,12,16,15) (CA=.994)
- information and security (1,4,16,18,19)- (CA=.992)
- Low risk (5,10,11,22,23)- (CA=.993)
- Items 17 and 21 dropped for low loadings

Factor Analysis. The Rotated Components Matrix and Communalities

	Component				Communalities
	cost effectiveness	Information and security	low risk	availability	
BLR_1		0.98			.969
BLR_4		0.98			.935
BLR_16		0.969			.979
BLR_17		0.504			.968
BLR_18		0.983			.973
BLR_19		0.975			.964
BLR_2	0.961				.982
BLR_6	0.976				.981
BLR_8	0.981				.973
BLR_9	0.975				.968
BLR_14	0.96				.968
BLR_20	0.961				.977
BLR_3				0.988	.966
BLR_7				0.987	.950
BLR_12				0.984	.975
BLR_13				0.978	.954
BLR_15				0.982	.272
BLR_5			0.981		.974
BLR_10			0.976		.956
BLR_11			0.968		.957
BLR_22			0.976		.970
BLR_23			0.971		.967

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Ranking of factors

Factors	Mean Loading
availability	0.9838
low risk	0.9744
cost effectiveness	0.969
Information and security	0.8985

Effect of BLR on perceived economic development and selected financial variables

- **Model summary: BLR affect ED**
- Benefits of lending Relationships (Tot_BLR) explain Economic Development (Tot_ED) significantly (Tot_E) (F(12.8596), Beta= .0831, $p < .0004$, $R^2 = .0513$).
- **Model summary: BLR and ED affect EV**
- Benefits of lending Relationships (Tot_BLR) significantly explain Economic Variables (Tot_EV) significantly (Tot_E) (F(58.8730), Beta= .3222, $p < .000$, $R^2 = .3319$).
- Economic Development (Tot_ED) significantly explain Economic Variables (Tot_EV) significantly (Tot_E) (F(58.8730), Beta= .2209, $p < .0149$)
- Thus ED significantly mediates the BLR-SMEs economic variables relationship.
- **Collinearity**
- Collinearity tests are applied to check if the data is meeting the supposition of Collinearity, the results by SPSS suggests that multi-Collinearity was not a problem in this data file (Tot_ED, Tolerance = .95, VIF = 1.054; Tot_BLR, Tolerance = .95, VIF = 1.05).

Discussion

- Experts and SMEs owners foresee four types of BLR:
- cost effectiveness in borrowing (getting rid of payment system)
- Improved availability of funds
- information and security (working as colateral)
- Low risk (in the situations of crises and problems)

Discussion

- BLR have an impact on the economic development of the province and this economic development as well as the economics of the firms in terms of better finance, working capital and most prominently government support
- ED improve the BLR of economics of SMEs
- Government would be more interested in SMEs development after a show of economic development

Conclusion

- SMEs in Balochistan can get low cost loans that are easily available and can lower the risk of SMEs in times of need and crises. The BLR would also serve as alternatives to collaterals and security through improved information about SMEs.
- SMEs trigger Econ. Dev which showcases their importance and in turn not only improves the financial standing of SMEs but also makes government become more interested in SMEs.

Limitations

- Only covers Balochistan
- Statistical analyses might look overdue despite their theoretical relevance.
- An overall/ general appreciation of the problem, standalone studies needed for further exploration of each factor individually.

- Thank you very much