The Influence of Relationship Lending on SMEs Loan Repayment Performance

Full Version is published in Emerging Economy Studies, 2021

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The study examined the influence of relationship lending on repayment performance of small- and medium-enterprise (SME) credit facilities. Four hypotheses were developed and tested using data from 395 sampled borrowers of the largest Tanzanian bank. Data for independent variables were obtained through an administered questionnaire while the data for dependent variable were obtained from the borrowers' records with the bank. Descriptive and econometric analyses were conducted. Findings show that length and depth of relationship between bank and customers positively and significantly influence the repayment performance. Contrary to other empirical works, the findings revealed the scope of the relationship has no influence on repayment performance, while proximity has a negative association with repayment. The article contributes to the debate over the challenges of ex ante selection (adverse selection) and ex post action (moral hazards) by examining an aspect of trust. The bank and the borrower need to develop and cultivate relationship for the loan to perform well; hence, establishing mutual trust and building a long-term relationship is ideal. The article also contributes to the concept of social collateral which has not received much attention in the literature. With the current effects of COVID-19 on the banking and SME sectors, a major mitigator is to rely on their relationship banking for loan repayment, restructuring, and additional loans to boost businesses. Focusing on transactional banking might prove difficult when turmoil and unexpected pandemic like COVID-19 hits the bank and the firm.

Keywords
Relationship lending, SME, Tanzania, Repayment

Citation:
Mori, Neema; Godfrey Ng´ura (2021). The Influence Of Relationship Lending On SMEs Loan Repayment Performance. *Emerging Economies Studies.*
https://doi.org/10.1177/2394901520977461