

UNIVERSITY OF KWAZULU-NATAL

**The impact of interest rate on loan repayment and demand for credit: A case study for
the Swaziland Development Finance Corporation (FINCORP)**

By

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Master of Business Administration**

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College of Law and Management Studies**

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DECLARATION

I **Zenzele Henry Dlamini** declare that:

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Abstract

Interest rate is the premium that a borrower pays to a lender, usually expressed as a percentage of the amount granted or principal. Interest rates, higher interest rates to be specific, are often associated with low demand or appetite for credit. Moreover, it is also believed to negatively affect loan repayment amongst borrowers. The aim of the study was to determine whether the interest rate leads to low demand for credit amongst FINCORP clients. Stratified random sampling method was used to select 89 active clients for this study. Data were collected through a self-administered questionnaire. Results revealed that interest rates charged at FINCORP is not a challenge for customers, represented by almost 50% of respondents. Another 82% of respondents stated that loan repayment was smooth. Regression analysis found that interest rates and non-performing loans (NPLs) were negatively related to demand for credit. Furthermore, repayment ability was positively related to demand for credit. Despite the significant contribution of the loan facility from FINCORP, the loan duration for most products is too short, and thus results in poor loan repayments. It is also recommended that the interest rate should not be generalized across the clients; loyal clients with FINCORP should be rewarded with somewhat low interest rates. FINCORP has the potential to change the credit lending landscape amongst SMEs in Swaziland through its wide range of loan products.

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CHAPTER ONE

Introduction

1.1 Introduction

Small, medium enterprises are instrumental in driving economies of most countries globally. This is even more relevant for developing countries like Swaziland, where the economy is more inclined towards the primary and secondary sector. However, the economy of the country is subdued at the moment, suggesting that there are challenges in the SME sector, amongst others. Consistent with this view, (Outlook, 2014, p. 3) stated that “growth in the primary and secondary sectors was subdued mainly due to a combination of poor agricultural season, especially the maize and citrus sectors, and slow recovery in South Africa and European Union”. SMEs form a majority of entrepreneurs in the primary and secondary sector and are responsible for over 70% of goods exported to these countries annually. However, despite this phenomenal contribution of these SMEs in the economy, they still face a host of challenges in accessing finance, which unfortunately hamper their success. This is what is now referred to as financial exclusion. Kumar and Mohanty (2011, p. 13) opined that “financial exclusion is significant in the creation and amplification of poverty”. It is therefore important for the country to focus in the development of the financial sector to support in the inclusion of SMEs in the economy. Outlook (2014, p. 10) stated that “particularly worrying is the fact that access to credit facilities is limited to only 53% of businesses in Swaziland”. Therefore formal and informal financial institutions are vital in reversing the culture of financial exclusion. Craigwell and Kaidou-Jeffrey (2012, p. 53) stated that “the central role of the banks is the provision of money or credit necessary to expand productivity, creating multiplier effects on output and growth”. There are several factors responsible for the financial exclusion of SMEs, one of which is interest rates. Deloitte (2015, p. 13) found that “in Southern Africa, 60% of respondents view the cost of funding as expensive, up from 52% in 2014. The justification for the upsurge between 2015 and 2014 is increases in loan rates as banks apply equilibrium credit rationing”. This study sought to determine the impact of interest rates on loan repayment and demand for credit.

1.2 Motivation of the Study

This study will be of great benefit for the policy involved in credit advancements, both for commercial financial institutions and non bank financial institutions NBFIs i.e. Development Finance Institutions (DFIs). The document will also be of great assistance to the Financial Services Regulatory Authority (FSRA), regulator of DFIs, as a reference document for benchmarking interest rates in the industry. The Government of Swaziland can use the results and recommendations for taking appropriate action towards credit advancement for SMEs in the country. The study will be of great benefit to the Board of Directors and Executive Management for FINCORP as they can use the findings of the study to formulate new credit policies to address the concerns of SMEs in as far as demand for credit and loan repayment is concerned. The SMEs can also benefit regarding requirements for funding at FINCORP and the general understanding on interest rates.

1.3 Focus of the Study

This research has been conducted to determine the main factors which play an important role in determining the impact of interest rates on demand for credit and loan repayment: a case study for FINCORP. There are a host of other factors that determine the performance of SMEs in the country and specifically at FINCORP. However, the study only focussed on interest rates.

1.4 Problem Statement

FINCORP is one of the main Development Finance Institution (DFI) in Swaziland. Its core objective is to sustainably provide increased access to financial services to Swazi Entrepreneurs, (FINCORP, 2014). The organization was tasked to cater for the small, medium enterprises (SMEs) as they usually struggle to access funding from the commercial financial institutions. The main constraints cited by the commercial institutions with regard to funding for SMEs relates to information asymmetry. The organization has a very competent credit department tasked with engaging all potential clients, assist them in getting all the requisite documentation in place and put together their proposals for presentation to the credit committee.

Portfolio growth at FINCORP has somewhat decreased in the last five years. This is also reflected in declining weekly credit committee submissions. The total portfolio for the organization is slightly over One Billion Emalangeni at E737 Million, a huge achievement for the organization dealing with mostly the unbanked. However, this growth has been characterized by steady increase in the portfolio at risk (PAR), a proxy for non performing loans. Currently the PAR is at an all time high of 25% against a benchmark of 10% (FINCORP, 2014).

1.5 Research Question

Do interest rates really matter in determining loan repayments and demand for credit?

1.6 Aims and objectives of the study

1.6.1 Aim of the study

The aim of the study was to understand or establish the extent of the effect of interest rates in influencing loan repayment and demand for credit.

1.6.2 Objectives

- (a) To investigate the impact of interest rates on the demand for credit for FINCORP clients.
- (b) To determine the impact of interest rates on loan repayment for FINCORP clients
- (c) To determine the relationship between demand for credit, interest rate, repayment ability and Nonperforming loans (NPLs).
- (d) To determine the relationship between Nonperforming loans and interest rates.

1.7 Significance of the Study

Interest rate is a word that is on everybody's lips, whether in business or not; big conglomerate or just SME at the corner of a dirty road. It therefore, resonates well with members of the business community, and SMEs alike, however, very few understand its overall effect on their businesses. The study will thus assist to inform all the stakeholders on the impact of interest rates in the performance of their businesses specifically with respect to loan repayment and demand for credit.

1.8 Limitations of the Study

The major limitations encountered in conducting the study were limited financial resources and time to conduct the study at a large scale. In light of the foregoing limitations, the researcher was unable to have a representative sample from the population of clients in the organization covering almost every sector financed by FINCORP. This would have yielded more credible findings and recommendations. Internet connectivity and accessibility was another limitation particularly in the rural places of Swaziland. This rendered the ever reliable web based questionnaires useless in favour of the manual questionnaires that had to be physically administered to the clients, at a huge cost. Getting feedback from the clients also proved to be a huge challenge. The clients were given the questionnaires well in advance but they always had excuses for not having completed the questionnaires. Time was also another huge factor considering that I had to deliver on my portfolio as well. I had to travel for long distances at times, in the process failing to meet deadlines in terms of Board proposals and reports.

1.9 Chapter Outline:

Chapter One: Outlines the discussion on why and how the study was done, problem statement, aims and objectives of the study.

Chapter Two: Literature review scholarly material and other publications which was the foundation for the background for the study.

Chapter Three: Presents the research methodology employed in the study.

Chapter Four: Presentation of the research findings through descriptive and inferential statistics.

Chapter Five: Outlines the discussion of the study findings.

Chapter Six: Recommendations and Conclusion of the research.

1.10 Summary

This chapter has successfully outlined the overview of the research and what it aims to achieve. The outlined topics include motivation for the study, focus for the study, problem statement, objectives and limitations of the study. All these key topics lay the foundation for

this dissertation. The next chapter is the literature review covered interest rate concepts, theories and trends in Swaziland and around the world.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction

Chapter two sets out by examining the various theories that have a bearing on interest rates and its influence on demand for credit and loan repayment, such as the credit market theory. Furthermore, SMEs characteristics are discussed in detail, highlighting their contributions in the economy and their sources of funding. Lastly, the chapter provides theoretical and empirical insights on interest rate characteristics and their influence on demand for credit and loan repayment.

2.2 Theoretical Construct

Credit risk has been a subject for debate amongst scholars and researchers for a long time. There are currently several theories on the study of credit risk and its implications in the lending sector. Key among these theories is the interest rate theory which posits a strong correlation between interest rates and credit risk, (Odhiambo, 2013). The theory asserts that, an increase in the interest rate, results in an increase in the risk or the likelihood that the loan might not be paid and subsequently higher credit risk.

2.2.1 The Credit Market Theory

Ramskogler (2011) summed it up nicely when he stated the importance of information based banking as a cornerstone of the new Keynesian banking theory. The theory postulates asymmetric information or information opacity as the root cause for imperfect credit markets. Pioneers of this theory are Stiglitz and Weiss (1981) asserted that the theory offer a Model which provides a framework for analyzing financial markets inefficiencies or failures.

Lending institutions such as commercial banks are not only interested in the income earned from loans but also the inherent risks of such loans, Avortri et al. (2013). According to the theory, interest rates play a dual purpose among a pool of borrowers, screen customers through the adverse selection process or moral hazard. “Banks have to employ various screening means to identify potential borrowers who are more likely to pay back their loans, since the expected returns on such loans depends crucially on the probability of repayment” emphasised (Avortri et al., 2013, p. 389).

Therefore, the lenders use the loan rate that a potential borrower is capable to remit as screening tool. Consistent with this view, (Pandula, 2011, p. 256) inferred that “banks face difficulties in discriminating between good and bad credit risks and simply increasing the price of credit to all potential borrowers can lead to adverse selection”. According to previous and recent findings by scholars, the preference for borrowers screening using interest rates is supported by the efficient markets hypothesis, where borrowers who claim to be capable of paying high loan rates usually end up failing to honour their loan obligations and therefore financial institutions are reluctant to give loans to such borrowers, (Abdulsaleh and Worthington, 2013). Generally, increases in the rate of interest is positively related to the borrowers risk also escalates culminating to reduced banks profits. Moreover, high interest rate decrease returns on projects which succeed. In short, the borrower could divert the loan granted by the banks and use it to finance other projects and thus loan repayment cannot be assured. Some scholars have stated that in most of the developing nations, loans are often diverted for consumption, (Messah, 2011).

Adverse selection also has an effect on risk adverse clients because when confronted by escalating loan rates, assuming *ceteris paribus* will expect negative returns and thus will not take the loans (low demand for credit). High interest rates, therefore, induces investment companies to undertake high risk projects characterised by good returns. The advances in information technology has enhanced sourcing and manipulation of customer information by commercial banks, however, these institution have no control on the actions of the borrowers, Avortri et al. (2013). It is therefore incumbent on the banks that the terms and condition on the loan agreement or contract induce the borrowers to take action in the interest of the bank and also entice low risk borrowers.

Moral hazard arises when banks have a difficulty to discern borrowers’ action that would have an impact on the distribution of returns on investment. It is often characterised by subdued propensity risky investment which consequently in low returns on investments. Pandula (2011, p. 256) stated that “a borrower could use proceeds of the loan for a higher risk purpose or a non income generating activity, necessitating costly *ex post* monitoring of the financial contract”.

In conclusion, the credit market theory posits that information asymmetry leads to adverse selection and moral hazard, which unfortunately results in inefficient credit market in

emerging markets. As consequence, low risk borrowers such as SMEs are sidelined or financially excluded from the stream of potential borrowers”.

So the theoretical constructs support the view that high interest rates, as a screening device, are negatively related to credit demand and loan repayment.

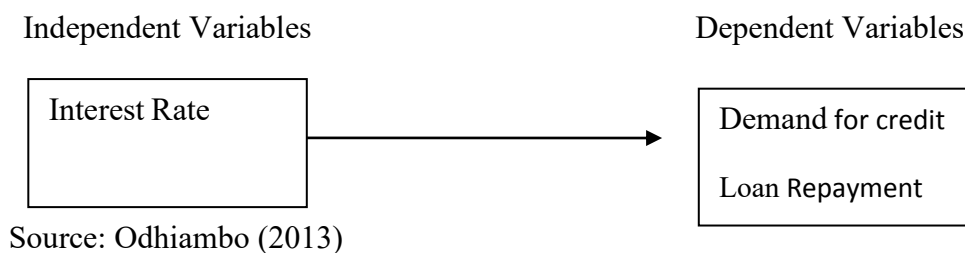
2.3 Conceptual Framework

The study claims that a high interest rate negatively impacts on demand for credit and on loan repayment. A large body of literature from Odhiambo (2013), and Messah (2011) among others, have demonstrated that high interest rates results in increased financial burden on borrowers. Kumar and Mohanty (2011) have done studies on MFIs which demonstrated that these institutions may charge interest rates ranging from 31.63 percent to 56.8 % P.A, a rate quite high for entrepreneurs.

Studies have been conducted in various parts of Africa on the factors affecting demand for credit among the rural poor. In Uganda for instance, credit demand was analysed based on social economic characteristics of the households, Messah (2011). They concluded that it was “possible most small scale entrepreneurs who seek credit would be able to obtain it but costs and conditions may be prohibitive for the high risk borrowers”.

Based on the compelling research papers, this study proposes a conceptual framework in which the demand for credit and loan repayment is the dependant variables and interest rate is the independent variable. The conceptual framework is shown in figure 2.1 below.

Figure: 2.1 Conceptual Framework



2.4 Small and Medium Enterprises

2.4.1 Definition

Various efforts have been explored by researchers to define the concept of small and medium enterprises globally. At present, there is no agreed definition for small and medium enterprises due to the various viewpoints observed by different countries. According to the (WTO, 2014, p. 2) the “term SME encompasses a broad spectrum of definitions which vary between country and region”. Variations in SME definition is also observed within countries in some cases.

SME definition can broadly be divided into two categories, economic and statistic aspects. According to (Mahembe, 2011, p. 22) “under the economic definition a firm is regarded as small if it meets the following three criteria:

- (1) It has a relatively small share of the market place;
- (2) It is managed by its owners or part owners in a personalized way and not through the medium of a formalized management structure and
- (3) It is independent in that it is not part of a larger enterprise”.

According to (Abor and Quartey, 2010, p. 218), SMEs are defined based on three key issues:

- (1) Quantifying the size of the small firm and its contribution to GDP employment and exports;
- (2) Comparing the extent to which the small firm sectors economic contribution has changed overtime and
- (3) In a cross country comparison of the small firms economic contribution”.

As outlined in a number of academic literatures, the (WTO, 2014, pp. 2-3) , “each country has its own criteria for the classification of SMEs. Research has shown that international institutions and financial organizations use their own specific guidelines for defining an SME”.

According to the WTO (2014), SME definition is a combination employees complement, annual income and number of assets (refer to Table 2.1)

Table 2.1: WTO definition of SME

Institution	Maximum no. of employees	Maximum revenue or turnover (US\$)	Maximum Assets (US\$)
World Bank	300	15, 000, 000	15, 000, 000
Inter-American Development Bank	100	3, 000, 000	None
African Development Bank	50	None	None
Asian Development Bank	50	None	None
UNDP	200	None	None

Source: WTO (2014, p. 2)

Furthermore, (Thieu Dao et al., 2014, p. 3) stated that “SMEs are corporations using less than 280 thousand employees and /or a revenue not exceeding 43 million EUR”.

In Swaziland, according to FINCORP (2014), the definitions of SMME is enshrined in the country’s SMEs National Policy which categorises enterprises as follows:

Table 2.2: SME definition

	Micro	Small	Medium
Value of Assets	Under E50 000	E50 000 – E2 million	E2 – 5 million
No. Of Employees	Up to 3	4 to 10	11 to 50
Annual Turnover	Up to E60 000	E60 000 – E3 million	E3 – 8 million

Source: FINCORP (2014)

In conclusion, the basic requirement for an entity to qualify as an SME, should be generally based either on staff complement, turnover ceiling or balance sheet ceiling, (CSES, 2012).

2.5 SME Characteristics

SMEs characteristics play a critical role in influencing their financial decisions and eventually their overall performance and growth. Given the critical role played by SMEs in the economy, scholars, researchers and policy makers alike have conducted extensive research around the area of SMEs, which includes their characteristics. The contributions from these stakeholders have assisted in identifying various SME characteristics as “factors influencing the financial behaviours of firms in this sector”, (Abdulsaleh and Worthington, 2013, p. 37). The author further stated that these factors “include firm size, age, ownership and legal form, location, industry sector and asset structure”.

2.5.1 SME size

The small and medium enterprises size is critical for it to access finance. Burkart and Ellingsen (2004) as cited by (Fatoki and Asah, 2011, p. 171) state “that the size of a firm has an important influence on the debt ratios as a firm with more real assets tends to have greater access to long-term debt”. He went on to say “Larger firms tend to be more diversified and fail less, so size can be a reverse proxy for the probability of bankruptcy”. It is a fact that SME increase their sphere of influence as they scale up in terms of growth, and thus attracting a number of banks from which they can source funds, (Abdulsaleh and Worthington, 2013).

2.5.2 Age of the SME

In most research settings, the age of the SME, taken together with its size, often exhibit related effect on the SME functioning. Young SMEs are often characterized by information opacity due to lack of proper track records, resulting in the commercial banks refusing to assist them.

According to (Abdulsaleh and Worthington, 2013, p. 37) “young enterprises (those established less than four years), are more reliant on informal financing and far less bank financing due in large part to information asymmetry between the bank and the firms”. It is thus a general observation that there is high failure rate amongst start-up or young entrepreneurs when compared to large firms, (Abdulsaleh and Worthington, 2013).

2.5.3 Business Information or Audited Financial Statements

According to (Pandula, 2011, p. 261) “the lack of reliable information leads to comparatively high interest rates even if a long term relationship between the borrower and the banks exists”. Financials are therefore crucial to mitigate in such situations. Fatoki and Asah (2011, p. 172) stated that “creditors use financial information provided by firms to analyse their present performance and predict their future performance”. Financials are therefore a resourceful proxy for enterprise ability to service a loan.

2.5.4 Location

There is a claim amongst SMEs that the geographic location plays a pivotal role in determining their ability to access external funding. Abdulsaleh and Worthington (2013) stated that firms located on the outskirts of major towns often encounter challenges in acquiring external finance, especially long-term debt, as opposed to their peers doing business in the city centres. Consistent with this claim, (Thieu Dao et al., 2014, p. 3) stated that “businesses located in the northern and eastern regions of India have limited access to credit than the southern regions”. The geographical location is important in the case of India as the “industrial regions are mainly located in the western and southern regions and thus access to external credit by SMEs is more convenient compared to the north and east”, (Thieu Dao et al., 2014, p. 3).

The location of a firm has also been found to be crucial in the success or otherwise of the business. Fatoki and Asah (2011) stated that the geographical positioning of the firm has implications for its access to markets and resources. SMEs in town or cities are perceived to have higher chances of success when compared to their peers operating in the rural areas.

2.5.5 Ownership and Legal Form

Researchers have always argued that there is a strong correlation between the firm influence and the legal status of organization. This argument is also supported by (Abdulsaleh and Worthington, 2013, p. 38) who opined “that the form of business as one of the factors explaining the capital structure decisions of Ghanaian SMEs”.

Furthermore, ownership structure in SMEs has greater influence in the SMEs access to finance. Researchers have always asserted that SME are fraught with “concentrated

ownership and control in the same owner-manager, a characteristic which leads to information asymmetry challenges, financiers are reluctant to lend to SMEs and the extensive use of collateral are understandable and justified”, (Abdulsaleh and Worthington, 2013, p. 38)

SME organized under sole proprietorship often face more difficulties in raising finance when compared to those firms organized under limited proprietorship. According to Pandula (2011) findings from empirical research conclude that firms listed in stock exchanges and foreign owned firms face less challenges with respect to financial constraints.

The legal status of the SME has a great influence on bank lending in general. This is consistent with Abdulsaleh and Worthington (2013) who observed that formal registration of firms may be perceived by commercial banks and other finance suppliers as a positive sign of the firms formality and credibility. Formally registered firms are usually favoured by financial institutions for external funding when compared to unincorporated firms. As a consequence, limited private companies rely on banks for financing compared to sole proprietorships.

2.5.6 Industry Sector

Recent studies point to the fact that industry related factors determine to a large extent the capital structure and financial decisions. Consistent with this, (Abdulsaleh and Worthington, 2013, p. 38) note that “firms in the service sector for example, can differ from those in the manufacturing and construction in terms of financial needs and choices”. Michaelas et al. (1999) as cited in Abdulsaleh and Worthington (2013) stated that the different capital structure of firms in the United Kingdom impacts on the loan repayment period.

Studies done in some parts of Africa such as Ghana; revealed that there are some differences in the funding preferences for SMEs. Abor (2007) as cited in (Abdulsaleh and Worthington, 2013, p. 38) stated that “SMEs in the Agriculture sector and medical industries rely more on long-term and short-term debt than their counterparts in the manufacturing sector”. The study further concluded that the wholesale and retail trade sectors “rely on short-term debt compared to their peers in the manufacturing sector. In

general, firms in the following sector are more inclined to long-term debt as opposed to short-term debt: construction, hotel and hospitality and mining industries”.

2.5.7 Asset Tangibility

Previous and most recent researches suggest that collateral plays a vital role in enhancing SMEs access to debt finance. In most of these studies collateral is usually proxied by land, machinery and personal assets. SME with high exposure to intangible assets have limitations in terms of the amount to borrow when compared with firms with more tangible assets because of the collateral factor, (Abdulsaleh and Worthington, 2013). It has also been argued that SMEs with collateral tend to have easy access to finance. This is due to the fact that these businesses can access debt finance at a discount given that their facilities are secured.

Empirical studies in Japan SMEs established that security and SMEs access to debt finance are positively related. Abdulsaleh and Worthington (2013, p. 39) find a “positive relationship between the use of collateral and access to external sources of finance”. Odit and Gorbardhun (2011, p. 114) reached a similar conclusion when investigating factors responsible for “financial leverage by SMEs in Mauritius”. They concluded “that debt finance is affected by the positive association between the debt ratio and asset structure”. They also confirmed the view held by other researchers “that SMEs with lower portions of tangible assets in their total assets are more likely to encounter difficulties in applying for outside finance because of the inability to provide the collateral required”.

2.5.8 Entrepreneurial Characteristics

2.5.8.1 Education Background of Entrepreneur

The education level plays a vital role in determining the managerial competency of SME and business people in general. Consistent with this view, (Abdulsaleh and Worthington, 2013, p. 40) observed that the “educational background of the SME owner-manager is often positively related to the firms usage of leverage”. Consistent with this (Fatoki and Asah, 2011, pp, 172-173) “inferred that lack of education and training has reduced management capacity in SMEs in South Africa, hence the high failure rate for SMEs”. Previous researchers have also established a strong relationship between educational level, in particular higher educational qualification, and the success of the business.

The best attributes of education is the fact that it enhances communication skills and generally better understanding in owner-managers, Pandula (2011). It further assists the SME to prepare compelling loan proposal and present a convincing case to the financier during loan appraisal.

Managerial education is also vital to enhancing SME access to credit. Pandula (2011, p. 262) “found a strong education effect in explaining access to financial services in Brazil”. Education can thus be considered as the engine driving the success of most SME business.

2.5.8.2 Networking and Relations with Financier

It is a widely held belief amongst the entrepreneur community and business at large that networking plays a significant role in assisting SMEs to get debt finance. Therefore it is imperative for SMEs to have good networking relations with all stakeholders in the community. According to (Fatoki and Asah, 2011, p. 173) “networking assist in raising required capital, identifying market opportunities, obtaining personnel, identifying suppliers, identifying and developing technology”. Consistent with this (Pandula, 2011, p. 225) stated that “networks help to provide advice, information and capital to small firms”. Furthermore “long standing relationships between a bank and SMEs owners does convey an advantage in the case of bank credit”.

However, there is an argument that SMEs with close relationships with banks tend to use less of debt finance. According to (Fatoki and Asah, 2011, p. 173) “SMEs with a close banking relationship use less debt in their financing”.

Networking could be expected to assist SMEs mitigate challenges of information asymmetry and thus act as an enabler for SMEs in accessing debt finance. The discussions on the forgoing, posit a very strong relationship between SME access to funding and good networking.

2.5.8.2 Gender

It is well documented in recent research that accessibility to debt finance favours men as opposed to women-owned SMEs. According to Abor (2007) as cited in (Fatoki and Asah, 2011, p. 173) “women-owned SMEs are less likely to use debt finance for a variety of reasons including discrimination and greater risk aversion”. Abdulsaleh and Worthington

(2013, p. 39) “found that although men and women do not significantly differ with regard to the type of capital, women SME owners appear to have small amounts of start-up capital”. The playing field is still not even in the lending space as women SMEs still face challenges in accessing finance when compared to their male counterparts, Badulescu (2011).

2.5.8.3 SME and Business Experience

Recent research has found a strong correlation between SME manager experience and business growth. Furthermore, commercial banks also place emphasis on the experience of the business promoter in their loan appraisal and due diligence process.

2.5.9 Sources of SME Finance

2.5.9.1 Equity Financing

According to (Abdulsaleh and Worthington, 2013, p. 40) described “equity capital as that capital invested in the firm without a specific repayment date, where the supplier of the capital is effectively investing in the business”. They further inferred “that equity capital can be mobilised either internally or externally. Internal equity is those funds that are obtained from the current owner-manager(s), relatives, and friends or from the retained earnings with the firm”.

2.5.9.2 Venture Capital

These are individuals or investors who invest in portfolio firms with specific characteristics. According to Blum (2015), Venture capitalist invest in nascent high growth, high risk and market scalable companies for the purpose of achieving successful exit. According to (Akingunola, 2011, p. 87) further stated that “venture capitalist provides financing for new business, expansion of existing firm or bail-out for ailing company”. They are further involved, to some less extent, in investments in certain companies where they buy a certain proportion of share capital.

These investors raise funds from different spheres of the economy and in turn extend it to entrepreneurs especially in developing countries. Venture Capitalist use their influence to raise funds from a number wealthy organizations around the globe.

Venture Capitalist fosters the culture of innovation and technological improvements in the management of portfolio firms. This is consistent with the observation of (Li and Zahra, 2010) who stated Independent Venture Capitalist stimulate innovation, job creation, technological improvements, enhancement of international competitiveness and economic growth.

However, the percentage of companies or SMEs getting funding from venture capitalist is quite low and as such it is deemed not the primary source of capital for most SMEs. Kaplan and Lerner (2015) inferred that portfolio firms receiving venture capital funding accounts for one-sixth of 1% of all new businesses per year that obtain capital funding.

2.5.9.3 Business Angels

Capital availability plays a crucial role in the transformation of new businesses or start-up firms from an entrepreneurial idea to a revenue generating entity. According to (Hellmann et al., 2015, p. 2) “angel financing runs the critical first leg of the relay race, passing the baton to venture capital only after a company has begun to find its stride”. This notwithstanding the fact that smaller businesses, typically access funding on less favourable terms than larger businesses. Business angels are therefore important in the funding of start-up firms. These are well respected entrepreneurs in their business space and their intervention in business financing is recognized all over the globe especially for its impact to start-up SMEs.

Business Angels are usually high net worth individuals with extensive business experience and usually invest in high growth SMEs. Consistent with this view, (OECD, 2011, p. 21) stated “that an Angel is a high net worth individual who invest directly into promising entrepreneurial businesses in return for stock in the companies. The report further stated that many are entrepreneurs themselves, as well as corporate leaders and business professionals”.

Empirical research has found that angel financing is more appropriate for SMEs as opposed to venture capital. Angels are more involved in the nascent phase of the business and they close “the so called equity gap by forming a bridge between internal financing sources and outside investors”, (OECD, 2011, p. 21). The author further stated that “with fewer and fewer venture capitalist investing in the early stage, the equity funding gap

between the individual angel investment and venture capital is in the USD 500, 000 million range”.

The other reason why angel financiers are appropriate for SMEs is that they have lower rate of rejection and generally are characterised as a more patient form of external financing with longer exit horizons. Business Angels are increasingly being regarded as desirable funding providers in Europe and other parts of the globe, Abdulsaleh and Worthington (2013). Another unique feature between angel investors and venture capital is that the former usually invest in SMEs within their local economies.

Empirical research also points to the fact that Angel investors are a fundamental source of financing for start-up firms. Business Angels investors were over 260 000 in early 2000 and their contribution was over 36 billion, assisting over 50 000 business ventures, (Shane, 2012).

Notwithstanding the good contribution of angel investors in the world economy, angel financiers have their own limitations. According to (Abdulsaleh and Worthington, 2013, p. 42) “a few angels are prepared to inject additional money into a firm to enable it grow to be a real competitor in its market”. Business angels usually lack the skills and appetite to fund SMEs firm after it has access to other sources of finance options, including equity markets.

2.5.10 Debt Financing

Akingunola (2011) defined debt finance as outside source of funding that is common in capital business funding and usually has an obligation of regular interest payment. It is for that reason that every SME should have a clearly defined capital structure that defines its debt finance appetite. The capital structure of any business entity is based on either equity or debt or both. The observation in the SME space informs that SMEs in general have no appetite for external equity mainly as a result of information opacity challenges. They are, however, more biased towards debt finance so as to avoid ownership dilution and control due to external equity.

The capital structure for SMEs is quite different especially when compared to funding big enterprises. According to (Abdulsaleh and Worthington, 2013, p. 42) “unlike managers of large firms who usually have the choice of a broader range of debt financing resources,

SMEs tend to be more attached to commercial lenders, especially institutional lenders, as a source of short term debt financing that can be renewed for long-term debt”.

The other factor is that SMEs are usually associated with information asymmetry challenges when compared to larger firms. Long-term lending relationships are therefore important for SMEs in order to deal with the resultant agency problems.

Lastly, as observed by (Abdulsaleh and Worthington, 2013, pp. 42-43) “in concentrated owner-managed SMEs and contrary to what the agency theory suggests, it is not clear whether debt can lower the agency costs that result from information asymmetry arising due to different motives of owner-managed SMEs”.

2.5.10.1 Trade Credit

Trade credit is another source of funding common amongst SMEs which is normally characterized by delayed payments for goods and services supplied to the firm, (Martinez-Sola et al., 2010). Therefore this constitutes an important source of funding for SMEs. This transaction is treated as current liabilities in the SMEs balance sheet and account receivables for the supplier. Matic et al. (2012, p. 20) further stated that “the average small business obtains the other half of debt funding from its trade suppliers, when it obtains inventory, equipments and services without immediate payments”. This is a very common and important source of funding not only in developing countries but also in the US were it account for one-third of the total debt of SMEs, Abdulsaleh and Worthington (2013).

Researchers and scholars have investigated the use of trade credit by SMEs for a long time. Ellihausen and Wolken (1993) as cited in (Abdulsaleh and Worthington, 2013, p. 43) “attributed this attitude to both transaction motive and financing motive”. According to the authors, “transaction motive suggest the better ability for both parties (the seller and the buyer) to predict their cash needs in the short-term”. This therefore assists in economising cash management transaction costs. It is critical though for the suppliers to have all the information about their customers, especially with regards to credit risk before they could assist with the trade credit, (Bonte and Nielen, 2011). The financing motive, on the other hand, is that trade credit is preferred by entrepreneurs when alternative sources of finance are unavailable or expensive.

In the finance space, credit suppliers may be in better position compared to commercial banks in providing trade credit. According to Bonte and Nielen (2011, p. 415) “major

sources of advantages: advantage in information acquisition, advantage in controlling the buyer, and advantage in salvaging value from existing assets”. Trade credit is important in as an alternative source of capital for firms in developing countries often characterised by less efficient banking sector and further faced with information asymmetry challenges.

2.5.10.2 Non Bank Financial Institution Debt

Non Bank Financial Institutions (NBFI henceforth) differentiate from commercial banks through its unique credit policies especially with references to regulatory framework. In the Swaziland financial sector, commercial banks are regulated by the Central Bank of Swaziland (CBS) and Nonbank Financial Institutions on the other hand are regulated by the constitution of the Financial Services Regulatory Authority (FSRA).

NBFI play a vital role in addressing the financing gap that is not attractive to the commercial banking sector. In Swaziland for instance, NBFI include pension funds, DFIs, furniture stores, micro lenders and insurance companies amongst others, and are so vital in assisting SMEs. However, the contribution of NBFI has not been explored by many scholars and in finance research.

Interestingly, there is limited research that undertakes to investigate the contribution of NBFI to SMEs. One of the best attribute of NBFIs is the fact that the loan application process is quite short when compared to banks, hence their popularity in amongst SMEs especially in Kenya, Abdulsaleh and Worthington (2013). These institutions occupy a special space among SMEs by offering loans with longer maturity periods. Furthermore, NBFI debt offers a channel for SMEs to raise funding in both developing and developed nations. Abdulsaleh and Worthington (2013, p. 44) stated that “in Zimbabwe, loans granted by NBFI allow for near 30% of total debt and were ranked second in order of importance for domestic SMEs”.

Despite the positive contribution played by NBFI in economic growth, some researchers posit that NBFI have a negative effect on economic growth. Studies by Liang and Reichert (2012), (Kuo et al., 2011) all point to an insignificant contribution of NBFIs in both advanced and emerging countries. The authors further stated that “the findings suggest that these NBFI which are often loosely regulated, may introduce an excessive level of risk into the financial sector and the general economy”.

2.5.10.3 Bank Finance for SMEs

Malhotra et al. (2011, pp. 16-17) stated that “banks as financial intermediaries are playing a crucial role in bringing enhanced liquidity and promoting market efficiency by facilitating smooth transfer of funds between borrowers and lenders, that will promote capital mobility among nations”.

Researchers and scholars have demonstrated overtime that banks are the main source of external finance for SMEs in developed and emerging economies. Due to the strong regulatory environment in the banking sector bank loans are offered to SMEs on a competitive and fair basis.

Those scholars who believe in a perceived optimal capital structure posit that the focus for SMEs should be to source finance from banks. This is consistent with (Abdulsaleh and Worthington, 2013, p. 44) who argue that “in spite of the fact that bank financing is more expensive in comparison to other sources of finance, it generates a higher rate of return for SMEs”. Research find that bank finance can help SMEs accomplish better performance levels than other financing sources can do. This is based on strong correlation between efficient use of funds by SMEs and monitoring by bank officers.

Recent literature has indicated a strong appetite for banks towards SMEs lending. Banks in advanced and emerging nations have come to realise overtime that the SME sector is important in contributing to their profitability. Ghuslan et al. (2010) stated that commercial banks lending to the agriculture sector rose substantially by RM135, 593.3 mn in the year 2007 to RM 157, 780.3 mn or 14% of the total commercial bank lending by the end of the year 2008.

At the heart of every successful bank there is a very strong loan policy. According to (Ghuslan et al., 2010, p. 41) “the most important factors in a loan policy include; capital position, economic conditions, stability of deposits, influence of monetary and fiscal policy, credit needs of area served, macroeconomic factors and others”. A good loan policy should try to address public enemy number one; credit risk (in the form of defaults by borrowers).

In line with the foregoing, (Abdulsaleh and Worthington, 2013, p. 44) stated that “empirical literature on bank financing to SMEs emphasis some mechanisms, techniques and models developed and adopted by banks to lend to SMEs such as relationship lending,

factoring and scoring”. Credit scoring is currently the most preferred method for loan appraisal, Ghuslan et al. (2010).

2.6 Interest Rates

Interest rate is the amount or premium paid by a borrower to a lender, usually expressed as a percentage of the amount granted or principal. It is also expressed as the money paid to lenders for liquidity by those who demand liquidity. There are basically two schools of thought around the study of interest rates, classical scholars and Neo-classical economists. Notably, the study of interest rates has always been the subject of intense debate and controversy.

The classical scholars believe that the interest rate is determined by savings and investments. These scholars posit a negative correlation between the rate of interest and the overall volume of aggregate investment. This is consistent with (Kurz, 2012, pp. 874-875) who stated that “a high rate of interest implies that some projects can no longer be profitably taken. Furthermore, the author observed that this tends to decrease the demand for credit and the scope of investment”. Interest rate influence on aggregate investment has been observed to be weak such that a small change (increase or decrease) in interest rate will not significantly disrupt the long-term expansion of the enterprise, (Kurz, 2012).

Neo-classical economist strongly believes that the rate of interest is determined by supply and demand. These scholars assert that the more savings there are, the lower the interest rate. This is consistent with Keynesian scholars who view that the supply of money is instrumental in determining the interest rate. According to the Keynesian the equilibrium interest rate is reached when the money supply is equal to the money demanded. Hoff and Stiglitz (1990) as cited in (Odhiambo, 2013, pp. 24-25) stated that “the equilibrium rate of interest is determined by factors affecting the supply of money and money demanded”. They concluded by saying that “the modern view of interest rate is based on the imperfect information paradigm or simply information asymmetry.

2.6.1 Financial Liberalization

The pioneers of the financial sector liberalization theory, McKinnon (1973) and Shaw (1973) assert that it should impact positively on economic growth and development. Recent research has also found that financial systems in general enhance effective exchange of goods and services as well as inculcating the culture of saving in the economy.

Financial sector liberalization has led to the deregulating of loan rates; flexible credit policies eliminating barriers to entry to the financial sector especially commercial banks. Laws regulating banks are of international standards which facilitates easy transaction between local and international banks.

2.6.1.1 CMA and Interest Trends including SACU

Swaziland is one of the founding members of the of the Common Monetary Area, where there is free flow of capital from country to country, (CBS, 2014). CMA member states are South Africa, Swaziland, Lesotho and Namibia. Fundamental to the CMA, as stated earlier, is the easy flow of capital among member countries and the existing fixed single exchange rate with the Rand (ZAR) thus mitigating any exchange rate related risk. The economic activity, especially exports from Swaziland are so low to the extent that the country has no justification to deviate much the interest rates from its neighbour South Africa, CBS (2014).

This implies that the interest rates of each member state are more or less the same, even though there could be some differentials at times. For instance, the current bank rate there is a 50 basis point difference between the Swaziland and South African., with Swaziland at 5.75% and South Africa at 6.25%. This is in line with the agreement between Swaziland and South Africa which allows for flexibility on interest setting between the two states at a arrange of 0.25 to 0.5 percentage points.

There are cases where the South African rand depreciates substantially and Swaziland cannot keep pace for the interest of Swazi investors. A case in point was in 1998 where the South African rand was depreciating resulting in a huge jump in interest rates within the CMA. In that period the differential between Swaziland and South African lending rates reached six percentage points. The CBS had to go against the general policy and stopped tracking the South African interest rates.

The Government of Swaziland like, many Governments around the world, always tries to promote financial inclusion for SMEs and an enabling environment for same to claim a market share in the Swazi economy. The initiatives include, but are not limited to the following:

- Rural Development Fund
- Inhlanyelo Fund
- Government Guarantee Scheme (Managed by the CBS)
- Swaziland Development and Savings Bank (DFI)
- Swaziland Industrial Development Corporation (SIDC)
- Swaziland Investment Authority (SIPA)

FINCORP is also a Government parastatal and formed solely to be an enabler for the inclusion of SMEs especially those that are agricultural oriented in the economy by assisting them with finance. This is consistent with FINCORP (2011) which states that Swaziland Development Finance Corporation is being established to provide support to entrepreneurs and individuals in order to create jobs and alleviate poverty among the Swazi people. Furthermore, FINCORP promotes development through provision of a suit of credit products and other services.

In the case of FINCORP interest rate are based on prevailing prime lending rate as issued by the CBS from time to time. FINCORP has a comprehensive credit policy which amongst other things determines the interest rates that should be charged to customers. According to FINCORP (2011) a comprehensive range of written policies is required, covering all aspects of lending operation and they are:

- Credit risk,
- Eligibility,
- Loan products,
- Interest rates,
- Overdue loans,
- Credit procedures and,
- Foreclosure/Litigation procedures.

The policy further states that “FINCORP will charge interest on its loans, which reflect its cost of funds, capitalization requirements, intermediation costs, investment income, credit

risk and loan loss provisions”. This pricing model is reviewed every five years and there have not been many changes since the inception of the organization in 1995. As is stands the interest rate for loans at FINCORP is prime lending rate plus 4.5%.

The current prime lending is 9.25% and thus the current prevailing interest rate at FINCORP is 13.75%. The prevailing interest rate at FINCORP is much higher than that charged by commercial banks mainly as a result of the costs of funds and risk profile of the clientele. Below is table 2.4 depicting changes in interest rate at FINCORP since 2006.

Table: 2.4 Interest Rate Changes Schedule

Date Effected	Prime Lending Rate (%)	Plus 4.5%	Prevailing Interest Rate (%)
15 December 2006	12.50	4.5	17.00
12 December 2007	14.50	4.5	19.00
14 December 2008	14.50	4.5	19.00
17 August 2009	10.00	4.5	14.50
13 November 2010	9.00	4.5	13.50
24 November 2011	9.00	4.5	13.50
25 July 2012	8.50	4.5	13.00
28 May 2014	9.00	4.5	13.50
1 June 2015	9.25	4.5	13.75

Source: Swaziland Development Finance Corporation (2015)

2.7 Loan Repayment

Commercial or formal banking institutions utilize depositors’ funds to provide loans to their potential borrowers including SMEs. This implies that depositors finance commercial banks to carry out their mandate of lending funds to borrowers. Informal financial institutions such as the NBFIs, DFIs to be specific, source funds from external financial sources to advance credit to borrowers. The fundamental of credit is to source funds at lower interest rates and advance credit to borrowers at a higher interest rate or at a premium, based on your specific pricing policy, so as to cover your costs of funds, among others. Lending is based on a tacit contract between the lender and the borrower, whereby the assumption is that the borrowers will keep to their obligations and honour their loan repayment. The lender benefits by recouping its financial capital plus interest earned. However, reality is not as theory or assumption would suggest; as some borrowers default

in their loan repayment, resulting in bankruptcy of the financial institution and consequently reduced financial intermediation. There are many reasons that results in customers defaulting. Some of the factors for poor loan repayment such as loan period, market imperfections, SME behaviour and poor business performance, Messah (2011).

Financial institutions monitor loan repayment ability of customers by classifying their loans into non-performing loans (NPLs henceforth). Odhiambo (2013, p. 31) stated that “the Central Bank of Kenya defines NPLs as those loans that are not being serviced as per the loan contracts and expose the financial institution to potential losses”. Worthy to note is the fact that NPL refers to accounts whose principal or interest remains unpaid 90 days or more after due date.

2.7.1 Credit Risk and Management

The recent economic or global crises in 2008 heightened the need to be more robust in credit risk vigilance and management. Volatile macroeconomic factors and firm specific challenges such as economic crises and stagnation, company bankruptcies, declining and volatile value of collaterals necessitates credit risk management by financial institutions to reduce their exposure to these risks. Odhiambo (2013) stated that credit risk is the risk of losses caused by default of borrowers. Default is characterised by borrowers’ failure to meet their financial obligations. Financial institutions, formal and informal, place greater emphasis on credit risk management and containment. Credit risk increases leads to gradual liquidity and solvency challenges. These increases may be as a result of lack of due diligence in loan appraisal, poor supervision, high interest rates, unsecured lending, poor credit policies, lack of entrepreneurial skills and low capital and liquidity levels. Financial institutions are therefore increasingly measuring and managing inherent credit risk in their environment to ensure good portfolio quality. However, these institutions always face challenges with respect to credit risk management. According to Odhiambo (2013, pp. 25-26) “interest rate theories recognize that interest rates have an effect on credit risk because the higher the interest rate the higher the risk that the loan might not be repaid and thus the credit risk”. Various studies have shown that interest rates on long repayment period are high risk compared to short repayment periods interest rates and lenders charge high interest rates to be motivated to invest on long-term bearing instruments, (Odhiambo, 2013)

2.8 Demand for Credit

Credit is fundamental in closing or bridging the so-called gap between SMEs current financial capacity and the needed capital by the enterprise. In the real economy there is always an imbalance between owners of financial assets and the enterprise required financial assets (supply and demand), thus SMEs in general demand credit. The demand for credit is often categorized into three parts, that being perceived , potential and revealed demand, Odhiambo (2013).

Perceived demand is characterized by SMEs or enterprises that are in need of funding and mention finance as a constraint. Most of the youth and women SMEs in Sub Saharan Africa (SSA), Swaziland included, often mention finance as a constraint for their development and eventually financial exclusion.

Potential demand is represented by a situation whereby there is a strong desire for credit which unfortunately is not received, thanks to imperfect markets and institutional barriers.

Lastly, revealed demand manifests itself through completed loan application forms in request for financial support at an interest rate.

Research has demonstrated being reasonably doubt that demand for credit far outweigh the supply, especially amongst rural SMEs, however, there are currently challenges in the transformation of potential demand into revealed demand, (Messah, 2011). Consequently, the lack of supply will translate to low demand usually characterized in the form of revealed demand.

There is still a fierce and inconclusive debate amongst scholars on whether high interest rates translate to low demand for credit. There are two arguments or school of thought to this subject, the first one suggest that high interest rates negatively affect demand for credit and the second school suggest that high interest rates do not affect demand for credit, (Messah, 2011).

Proponents of the first school that interest rates are strongly correlated to the demand for credit are Stiglitz and Weiss (1989) and later Besly (1994). Their assertion is that high interest rates encourage adverse selection and moral hazard for loan seekers (SMEs) due to information asymmetry. Recent research states that as a consequence of information opacity, lenders have a nightmare in soliciting information from SMEs. This is consistent

with Messah (2011) who stated that “to compensate for high information costs of information gathering or reliability; lenders consider it logical to increase interest rates”. The consequence of which is low demand for credit.

Extensive research has been done in countries like Uganda to determine factors that influence demand for credit and to establish the reasons behind credit rationing for the rural poor, Messah (2011). The researchers concluded that in general SMEs have challenges in obtaining credit, however, costs and conditions may be quite prohibitive for the high risk borrowers.

The second school suggests that there is no correlation between interest rates and demand for credit. Odhiambo (2013) conducted a study to determine the effect of interest rates on demand for credit in Ghana. The conclusion of the study was that high interest rates were not a major concern for SMEs in Ghana. Furthermore, SMEs considered “an average annual interest rate of 19,5% to be fair and reasonable and it fell below the minimum market rate that time by 7 percentage points”.

2.9 Conclusion

The literature review has indicated wide gaps in the theoretical and empirical literature on interest rates and demand for credit. The study assumes that high interest rates negatively affect demand for credit and loan repayment amongst SMEs in general. However, extensive research from different parts of the globe somewhat disagrees with this hypothesis. The literature discussed extensively factors responsible for the credit market imperfections, SME characteristics, sources of credit for SMEs, and the credit risk amongst others. It was demonstrated that credit providers are more concerned about information asymmetry which normally results in poor loan repayment. SMEs on the other hand are more worried about the obstacles prohibit them from accessing credit. The next chapter, therefore, seeks to test the views of FINCORP financed SMEs on the relationship between interest rates with regards to demand for credit and loan repayment in the Swazi credit space.

CHAPTER THREE

Research Methodology

3.1 Introduction

Chapter three details the specific research methodology for this dissertation. It assists to present the specific procedures undertaken in conducting this research. The research methodology covers the following topics: Aims and objectives, data collection strategies, research design and methods, administration of questionnaires, analysis of the data and lastly the summary of the chapter.

3.2 Aim and Objectives of the Study

The aims of the study are the following

- (e) To determine the impact of interest rates on the demand for credit for FINCORP clients.
- (f) To determine the impact of interest rates on loan repayment for FINCORP clients
- (g) To determine the relationship between demand for credit against interest rate, repayment ability and Nonperforming loans (NPLs).
- (h) To determine the relationship between Nonperforming loans and interest rates.

3.3 Research Design and Methods

3.3.1 Description and Purpose

Research studies are exploratory, descriptive, or casual in nature. This study adopted a descriptive approach since it involved quantitative research. According to Sekaran and Bougie (2013) the attributes of descriptive studies is the fact that it assist in collecting data that describes the characteristics of the persons, events or situations. Furthermore, it assist the scholar to comprehend certain behaviours and attributes of respondents in specific prevailing conditions. empower the researcher to think methodically about attributes of a prevailing event, present ideas for further probe and research and lastly assist in making certain decisions. The most important attribute of the descriptive approach is that it is an enabler for the collection of large amounts of data within a short space of time.

3.4 Location of the Study

The Swaziland Development Finance Corporation (FINCORP) is one of the main Development Finance Institutions (DFI) in the country, the others being Swazi Bank and Swaziland Industrial Development Institution (SIDC). It is a Parastatal or State Owned Enterprise (SOE) housed under the Ministry of Finance and is regulated by the Financial Services Regulatory Authority (FSRA). Its aim is to “Sustainably provide increased access to financial services to Swazi entrepreneurs”, (FINCORP, 2011, p. 4).

3.5 Population, Sample and Sample Size

The portfolio at FINCORP consists of clients from two main sectors, Agribusiness and General Business, spread geographically throughout Swaziland, in both urban and rural areas. The portfolio under the General Business sector consists of public transport, haulage, construction, retail trade, services and other enterprises. The Agribusiness sector on the other hand consists of sugarcane production, sugarcane haulage, forestry, vegetable production services and other business such as poultry.

The research involved clients financed by FINCORP and employees from the credit department who manage various portfolios. The following employees were selected since they have easy access to and well versed to credit policies: Branch Administrators, Senior Credit Officers, and Credit Officers.

The study was conducted in all the four geographical regions of Swaziland being: Hhohho, Manzini, and Lubombo and Shiselweni regions. The total sample for the study is 120 made up of 10 FINCORP employees and 90 SMEs. The total number of clients at FINCORP was 1600 as at March 2015 and thus sample size should have been 310 as per guide by Sekaran and Bougie (2013). However, given challenges relating to resources for data collection, the rule of thumb was used to come up with a representative sample size that can be generalized to a given population. This is consistent with (Sekaran and Bougie, 2013, p. 269) who stated that “sample sizes larger than 30 and less than 500 are appropriate for most research”. The sample size of 150 respondents (75 from General Business and 75 from form Agribusiness) from FINCORP clients was initially targeted, distribution was 10% from each industry sector (public transport, heavy haulage, construction, retail trade, services and other) and 10% from the agribusiness sector (sugarcane production, sugarcane haulage, forestry, vegetable production services and

other). However, only 89 respondents successfully participated in the study, distributed as follows: General business (public transport (3), heavy haulage (3), construction (1), retail trade (27), services (7) and other (11); Agribusiness (sugarcane production (25), sugarcane haulage (9), forestry (2), vegetable production (3), services (2) and other (5). Two main reasons were that some of the respondents declined the questionnaire, and some could not be available due to work commitments.

Stratified random sampling and simple random method were both used to select respondents to be included in the study. Firstly, using stratified random sampling, industry sectors were divided into two groups; General Business and Agribusiness. Secondly, simple random method was used to pick samples from each subgroup for the research. Stratified random sampling was appropriate given the nature of clients' portfolio at FINCORP. It enabled the sample selection with strata's for representative size.

3.5.1 Data Collection Strategies

Data was collected from SMEs engaged in both General Business and Agribusiness at FINCORP. Primary data was collected using self administered structured questionnaires. Respondents who had challenges to interpret the questions in the questionnaire, due to illiteracy challenges were assisted through the questionnaire by the researcher or credit officers.

3.5.1.1 Construction of the Instrument

The questionnaires were simply and easily understandable in order to collect as much information as possible. The questionnaires were designed to draw from inferences extracted from the research, especially to address the concept or objective of the study. They used mainly closed questions as opposed to open-ended questions. This is consistent with (Sekaran and Bougie, 2013, p. 150) who inferred that "closed questions help the respondents to make quick decisions to choose among the several alternatives before them". The questions were mutually exclusive and collectively exhaustive. The researcher

adopted the funnel approach in sequencing the questions. The funnel method ensures easy and smooth progress of participants as they go through the questionnaire (Sekaran and Bougie, 2013).

3.5.1.2 Recruitment of study Participants

The main goal of the participants' recruitment exercise is to enrol the required number of eligible participants, key to the study. The target population was drawn from a large population who were familiar with issues pertaining to interest rates, FINCORP credit facilities and the finance space in general. The target participants were, therefore active clients for FINCORP and the employees from credit department. These participants were recruited to participate in the survey, because they are deemed to be eligible. As part of the screening process, active clients, with a fair level of education and understanding of the lending procedures were considered fit for participation in the study. Participants that were illiterate and those with negative attitude were eliminated in the survey. Structured questionnaires were administered to the respondents through either emails or hand delivered.

After the due eligibility test and screening exercises were complete, 120 clients were recruited from the four geographical spheres of Swaziland to participate in the study. However, only 89 were eventually sent the questionnaire. On the other hand, 20 employees from FINCORP were targeted for the study but eventually only 15 participated; bringing the total number of participants to 109. The reduced numbers were as a result of some participants declining for various reasons.

3.5.2 Pretesting and Validation

3.5.2.1 Pretesting

Pretesting of the questionnaire was done to check if the respondents had a fair understanding of the questionnaire and the study in general. A pre-test was conducted in study area covering ten clients and four FINCORP employees. The ten clients consisted of

five (5) SMEs from sugarcane production and haulage, three (3) market vendors in the retail business and two (2) owners in the construction industry. The employees on the other hand involved two (2) Branch Administrators and two (2) Credit Officers. The pretesting exercise assisted to gauge if the questionnaires were understandable and easy to navigate. The feedback from the selected respondents, in terms of questions and opinions, confirmed that the questions were clearly understandable to the respondents.

3.5.2.2 Validation

Sekaran and Bougie (2013, p. 225) explained that “Validity is a test of how well an instrument that is developed measures the particular concept it is intended to measure”. There are several validity tests that are at disposal for researchers and they are; “content validity, criterion-related validity and construct validity”, (Sekaran and Bougie, 2013, p. 225). Content validity was used, through the face validity method, to ensure that the sample or measure includes an adequate and representative set of items that address the objective. Content validity is important in determining adequate and representative set of items when performing any research, (Sekaran and Bougie, 2013).

3.6 Administration of the Questionnaire

There are two sets of questionnaires for this study, one for FINCORP employees and the other for clients financed by FINCORP. The questionnaires for FINCORP employees targeted to take part in the study were administered through the intranet email facility. The attachment included the questionnaire, cover letter detailing the study and the consent letter. The respondents (employees) were requested to print all the attachments, complete the questionnaire and consent letter and scan it back to the researcher. Those at the main office were given the option to hand- deliver the questionnaires to the researcher’s office.

In the case of the other respondents (clients) the questionnaires were hand-delivered by the responsible credit officers. The reason to collaborate with the credit officers was aimed to make sure that the clients can fully express themselves given that they have a working relationship with him/her. However, those with email facility, the questionnaires were emailed to them together with the covering letter and consent letter. The study was fully explained to the respondents and the fact that they may choose not to participate if they so wish, without any consequences. In most case the questionnaires were left with the respondents to complete and were collected after a week. However, some were completed

on the spot, especially for market vendors who are usually in and out of the country. For those respondents (clients) with email facility, the questionnaires were also emailed to them with a clear message on the study and when the questionnaires are expected back to the researcher.

3.7 Analysis of the Data

The questionnaires from the respondents were coded, keyed in, and edited as a first step of data analysis. This was done to identify outliers, inconsistencies and blank responses, which were then appropriately corrected. The data was collected through quantitative techniques from respondents who included FINCORP clients and Officials from FINCORP credit department. Descriptive statistics was used to determine the different variables in the study and regression analysis assisted in examining the relationships between the variables in the study. This was achieved through the use of SPSS Statistical package which processed the captured data to generate frequencies, measures of central tendency, and dispersion. Quantitative data analysis was presented in frequencies which were displayed as bar charts, histograms, tables, and pie charts.

The data from the FINCORP database, Bankers Realm, was used as a source of inferential statistics through which regression analysis was performed to determine the relationship between the independent and dependant variables. There were two regression equations that were generated; one to determine demand for credit and the other to establish loan repayment by SMEs at FINCORP.

The demand for credit can be expressed in an equation as follows:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \quad \text{Equation 1}$$

Where: Y_1 is credit demand. β_0 is constant. $\beta_1, \beta_2, \beta_3$ is co-efficient indicator for credit demand. X_1 is interest rate. X_2 is Nonperforming loans. X_3 represents repayment ability and ϵ random error

Non-Performing loans will be determined as accounts whose principal remains unpaid 90 days or more after loan due date. Repayment ability is categorised into current, watch, substandard, doubtful and bad.

Current means well serviced loans granted to financially sound clients where no weaknesses exist, watch means principal and interest is due and unpaid for 30 to 90 days,

thus exhibiting potential weakness but not past due date. Substandard means principal and interest is due and unpaid for 180 to 360 days and recovery prospects are quite questionable and finally bad means principal and interest is due and unpaid for more than 360 days. These loans are considered uncollectible and are usually recommended for write off.

Regression equation for changes in interest rate:

$$Y_1 = \beta_0 + \beta_1 X_1 + \varepsilon \quad \text{Equation 2}$$

Where: Y is the Loan Repayment, β_0 is the constant, β_1 represents co-efficient indicator for interest rate, X_1 is interest rate and lastly ε is random error.

The above regression equations were successfully used by (Odhiambo, 2013) to determine the effect of interest rates on demand for credit and loan repayment amongst Kenyan SMEs.

3.8 Ethical considerations

The first was to get permission from FINCORP management to engage clients and employees as respondents in this research. Permission was granted by the Group Managing Director (GMD) by way of a gatekeeper's letter. Clients and employees from the credit department were invited to participate in the study. Those who agreed were issued with a questionnaire and a consent letter to sign, as acknowledgement of participating in the research. It clearly explained that confidentiality will be observed and that they are at liberty to withdraw from the study without any negative repercussions.

3.9 Summary

The research methodology section is important as it sets out to address or tap the concept or objective of the study. The number of respondents that participated in the study was 109, which comprised of 89 SMEs and 15 FINCORP employees. Questionnaires were designed and distributed to these participants for them to complete. These questionnaires were very easy to follow and the respondents had no challenges with them. The data was then captured on SPSS and further analysed using regression equations.

CHAPTER FOUR

Presentation of Results

4.1 Introduction

This chapter presented, analysed and interpreted data pertaining to the impact of interest rates on loan repayment and demand for credit by SMEs financed by FINCORP. The organization has two departments, General Business and Agribusiness departments. The General Business department has the following sectors: public transport, heavy haulage, construction, retail trade, services and others. Under the Agribusiness department, the following sectors were analysed: Sugarcane production, sugarcane haulage, forestry, vegetable production, services and others.

The study is based on the theory that posits a negative relationship between interest rates and demand for credit. It also assumes an inverse relationship between interest rates and loan repayment. To test these two theories, clients and employees were asked the following questions: is the interest rate charged too high to which three thirds of the respondent said in was not high. In the case of loan repayment, they were asked if loan repayment is smooth. Again an overwhelming 82% of the respondents agreed that it was smooth. However, findings of the regression analysis were in line with the expectations of the study even though the results were not statistically significant at 10%.

4.1.1 Descriptive Statistics (Frequencies)

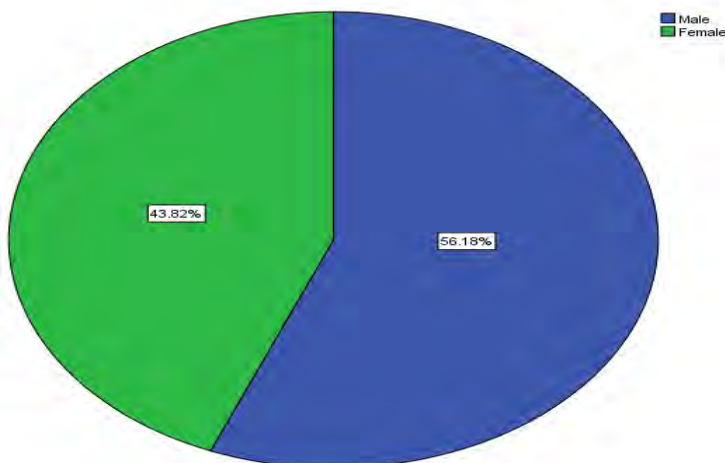


Figure 4.1: Gender

The above figure represents the gender of the respondents who took part in the study. 56% of the participants were male and females were 43%.

Table 4.1: Interest rate and Gender

		Gender		Total
		Male	Female	
Interest rate charged is too high	Strongly agree	6	1	7
	Agree	8	10	18
	Not sure	11	8	19
	Disagree	14	17	31
	Strongly disagree	10	3	13
Total		49	39	88

Table 4.1 represents the number of males and females who were asked about the interest rates charged at FINCORP, specifically if the charges were too high. 25 respondents, both male and females, agreed that the interest rate is too high, 44 respondents disagreed that interest rate is too high, and lastly, 19 of the respondents were not sure.

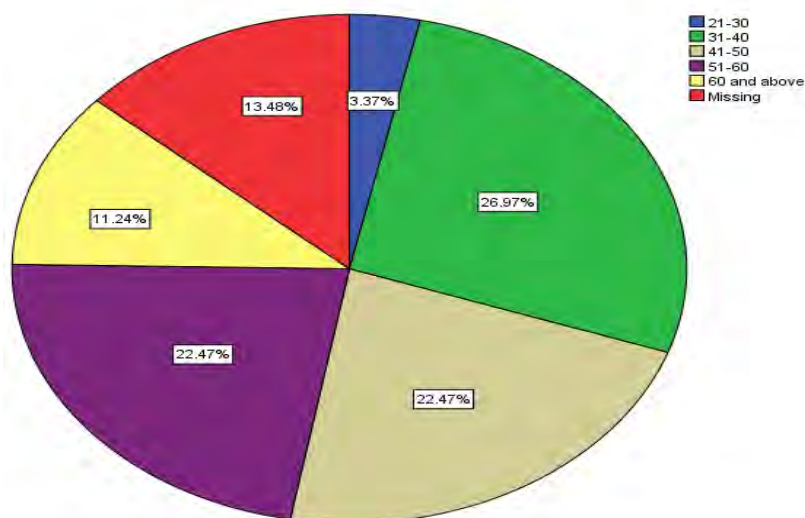


Figure 4.2: Age

The table above represents the age of the respondents who participated in the survey. Age is often a good measure of demand for credit since in most cases young SMEs are usually characterised by information asymmetry. Over three thirds of the respondents are within the age ranges of 31 – 40, 41-50 and 51-60.

Table 4.2: Age and Interest rate

	Interest rate charged is too high					Total
	Strongly agree	Agree	Not sure	Disagree	Strongly disagree	
21-30	0	2	1	0	0	3
31-40	3	2	4	11	3	23
41-50	3	5	1	8	3	20
51-60	0	2	4	9	5	20
60 and above	1	0	5	2	2	10
Total	7	11	15	30	13	76

The data presented in the table 4.2 above represent respondents by age with relation to interest rate charged at FINCORP. More than half of the respondents stated that interest rates are not too high.

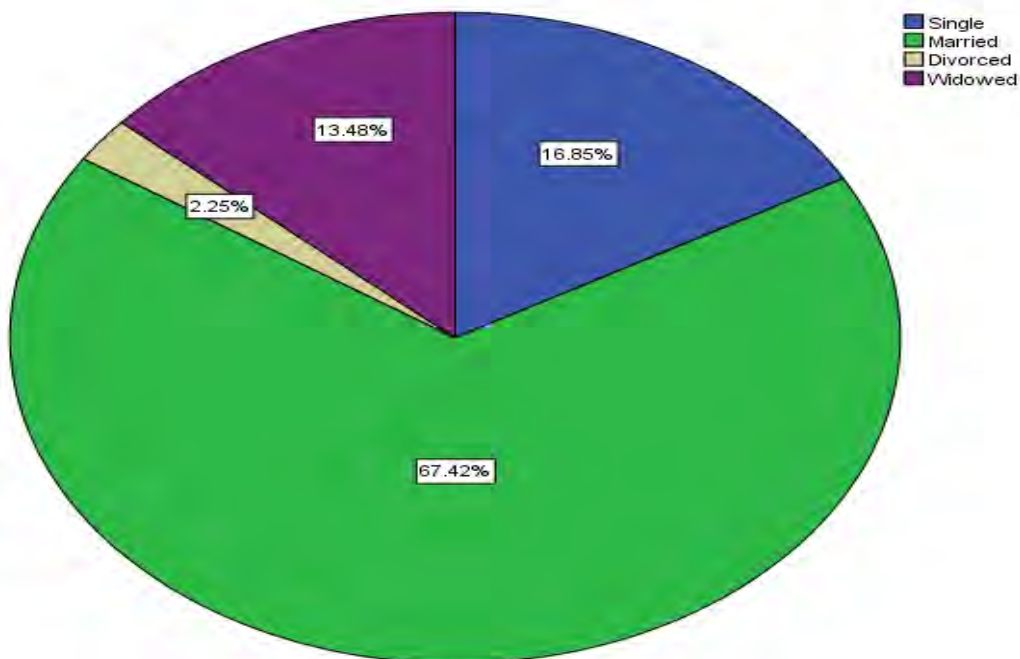


Figure 4.3: Marital Status

In the figure above, of the total number of 89 respondents who took part in the study from the four regions of Swaziland, more than three thirds of the respondents are married.

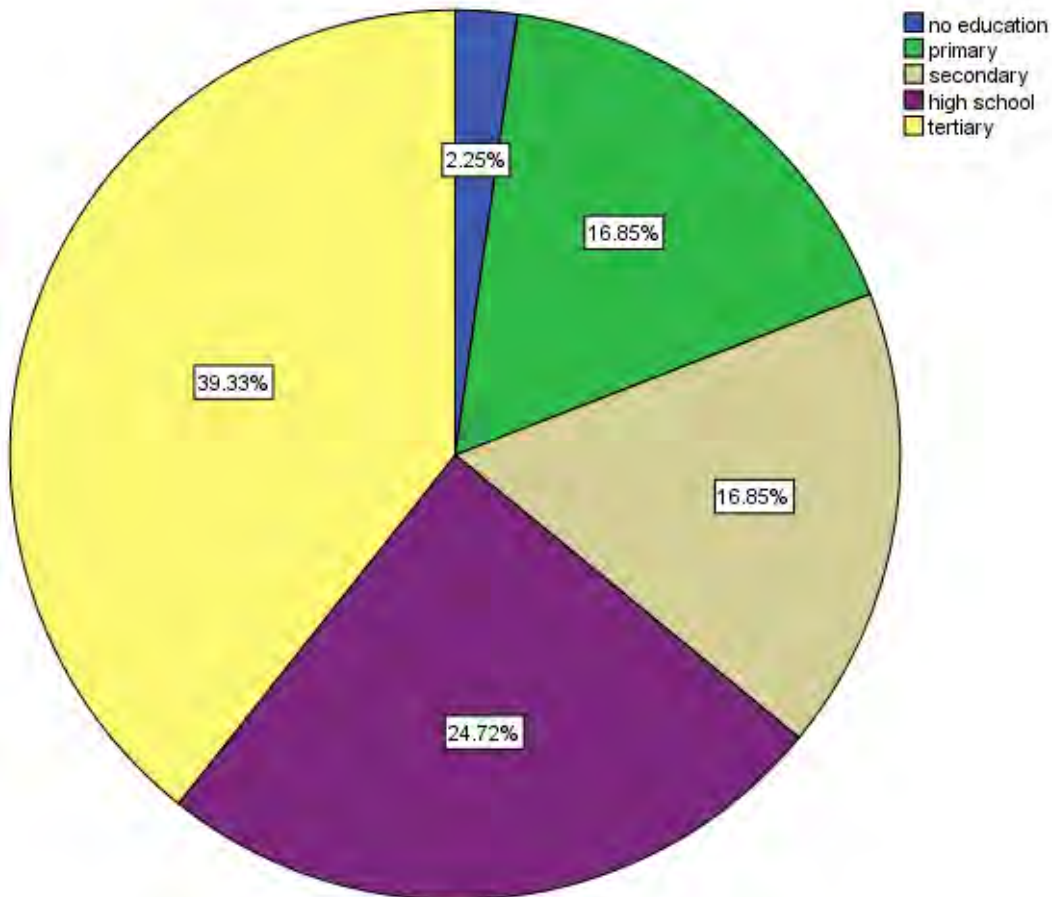


Figure 4.4: Education Level

Respondents were asked to state the highest level of education reached in their academic lives. The above presentation highlights that most of the respondents, 39.33% had tertiary education, which is quite an impressive observation. The other positive observation is the fact that only 2.25% of the respondents had no formal education at all. Education is very important mainly in understanding the basic credit procedures and the importance of loan repayment in SMEs. This implies that more and more Swazis are getting involved in entrepreneurial activities irrespective of education level.

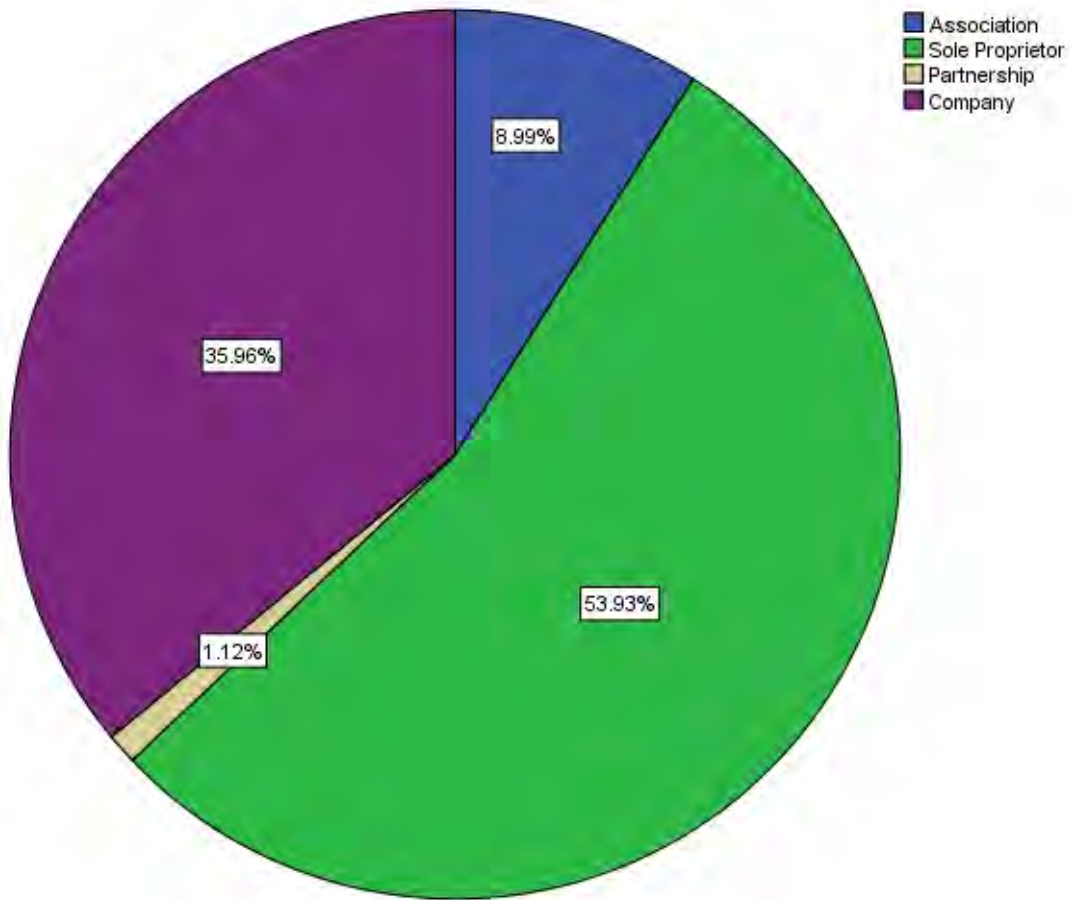


Figure 4.5: Legal Status of SMEs

Figure 4.5 represents the legal status of SME businesses. 53.93% of the respondents are sole proprietors, 35.96% are companies, 8.99% are associations, and lastly partnerships account for only 1.125.

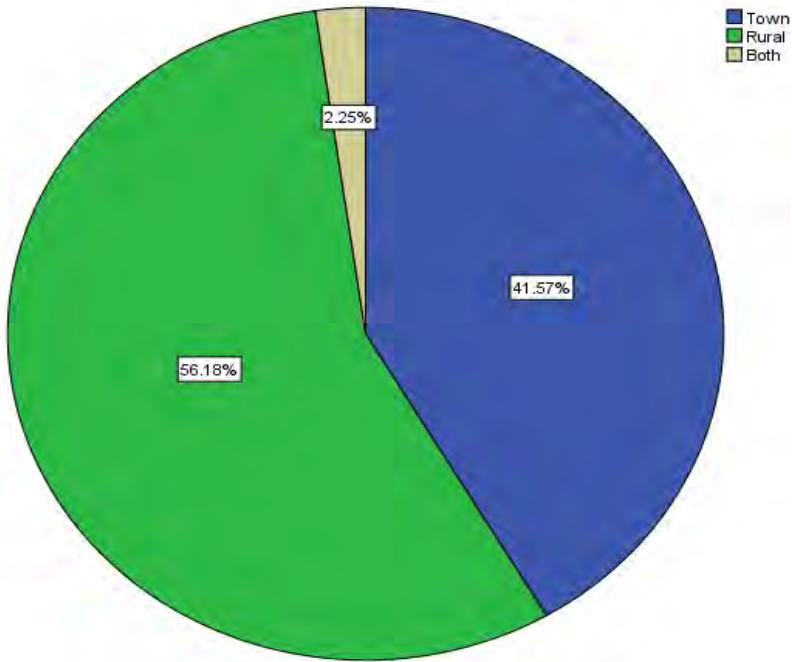


Figure 4.6: Business Location

Consistent with the legal status of these entities, most SMEs are found in the rural areas with 56.18% than in urban areas, with 41.57%. However, the data from these respondents depict a narrowing gap between these two locations, which can be explained as there is now a strong culture of entrepreneurship amongst SMEs in the country. It could mean that some SMEs have discovered that most opportunities in terms of business prospects are high in the urban areas as opposed to the rural areas.

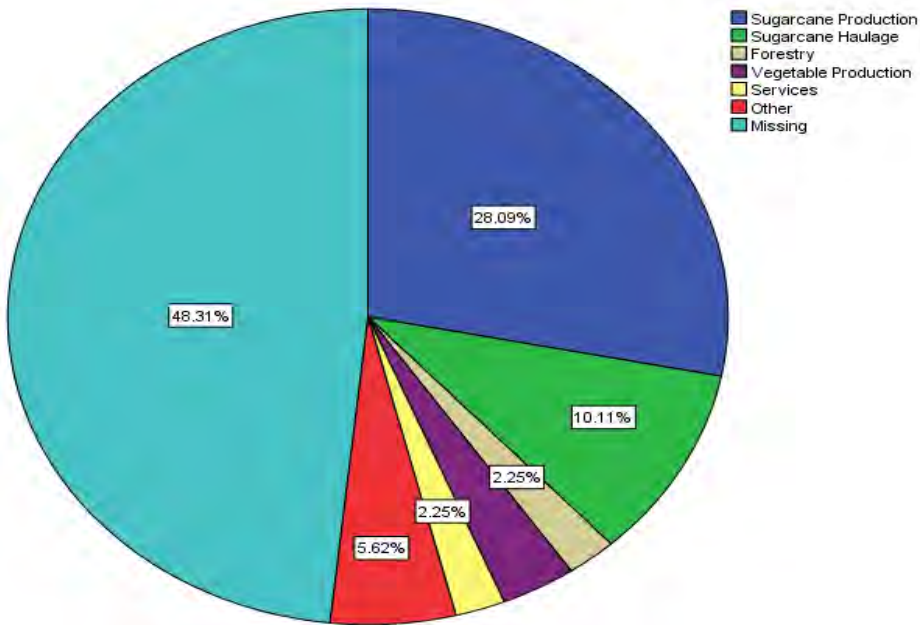


Figure: 4.7a: Agribusiness

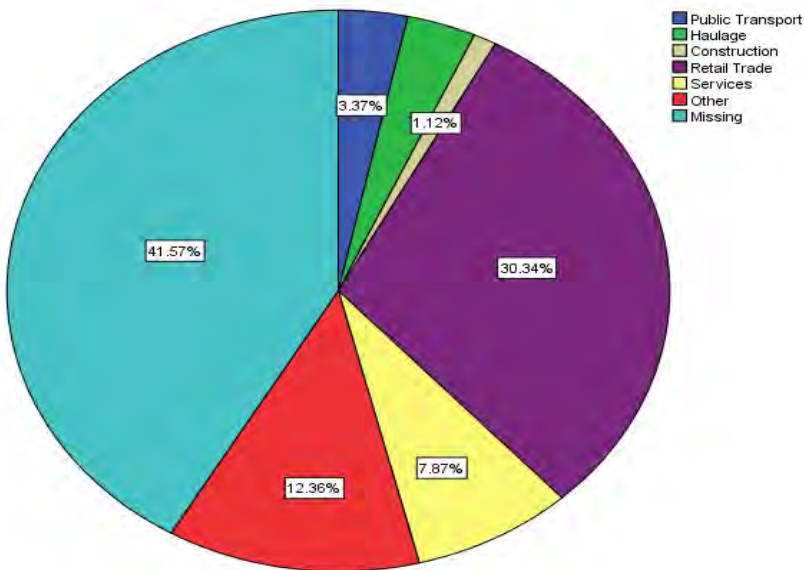


Figure 4.7b: General Business & Agribusiness sectors

The market share for the General Business and Agribusiness should always be maintained 50:50 percent in the organization, as per the policy of the company, (FINCORP, 2011). Swaziland is mainly agricultural oriented and organizations like FINCORP have to ensure that the sustainability of the agribusiness sector if food security is to be realized in the country. It is therefore in the interest of FINCORP to see this ratio maintained as shown in the survey where the agribusiness sector had a market share of 48.32% and the General

Business with 55.06%. If this ratio is not maintained, the General Business sector has the potential to crowd out the Agribusiness industry in the country, (FINCORP, 2011).

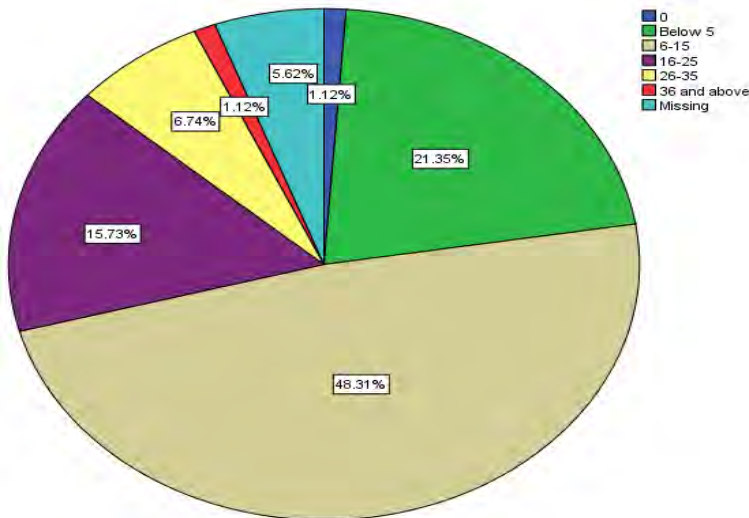


Figure 4.8: SMEs Experience

48.31% of the respondents had business experience of between 6 to 15 years, followed by those with 5 years and below at 21.35% and the experience range of 16 to 25 years was third at 15.75%. It can be inferred that the culture of entrepreneurship is on the rise in the country, as shown by the 21.35% for those with 5 years and less in the survey.

Table 4.3: Loan Amount Granted

	Frequency	Percent
Less than 10, 000	17	19.1
10, 000-100, 000	26	29.2
101, 000-1, 000, 000	20	22.5
1, 000, 000 +	26	29.2
Total	89	100.0

The data presented in table 4.3 is indicative of the fact that the organization has more medium and large businesses as opposed to micro entrepreneurs. This is also evidenced in the organization financial statements which indicate a portfolio balance of over 1 billion Emalangeni. In order for the organization to reach this milestone, there has to be more clients

in the medium to large category range. The total 89 respondents were represented with over 50% clients borrowing between E100, 000 and over 1 million Emalangeni.

The study also determined if SMEs financed by the organization had any challenges in their dealings with FINCORP. Outlined below are two tables, the first one frequency of the challenges and the second one outlines the nature of the challenges.

Table 4.4: Challenges with Fincorp

	Frequency	Percent
Yes	42	47.2
No	47	52.8
Total	89	100.0

Table 4.5: Nature of Challenges

	Frequency	Percent
High interest rates	15	16.9
Short repayment period	7	7.9
Small loan amount approved than applied for	9	10.1
Lack of supervision and monitoring	3	3.4
Lack of entrepreneurship skills	8	9.0
Total	42	47.2
Missing System	47	52.8
Total	89	100.0

The tables above present comparisons of respondents who had challenges working with FINCORP to those who were more than happy to do business with the organization. More than 16% of the respondents had challenges related to high interest rates.

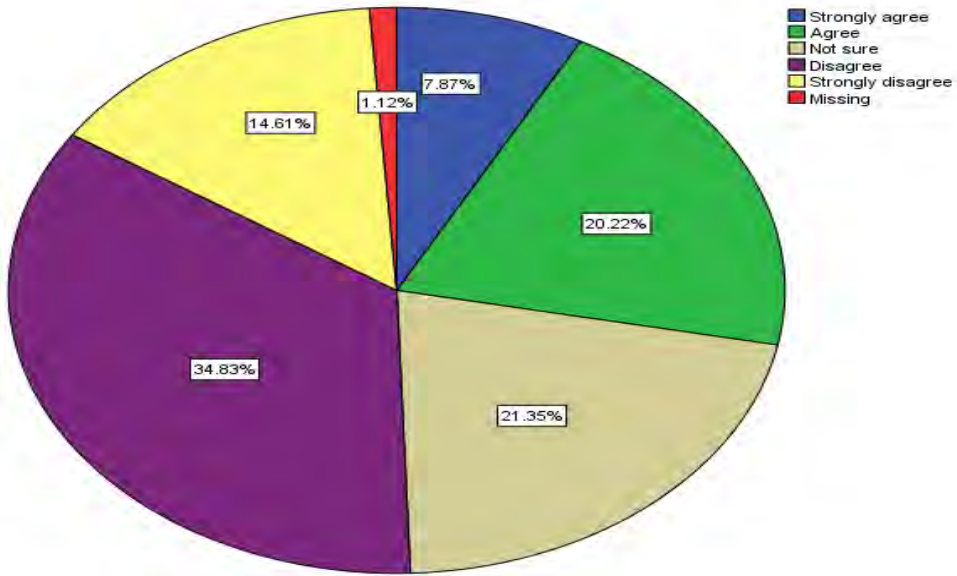


Figure 4.9: Interest rate charged is too high

The presentation in figure 4.9 indicates that about half of the respondents did not believe that the interest rate charged at FINCORP is too high. Those who disagreed and strongly disagreed were at an all time high of 49.44% compared to those who agreed and strongly agreed to the statement with 28.09%.

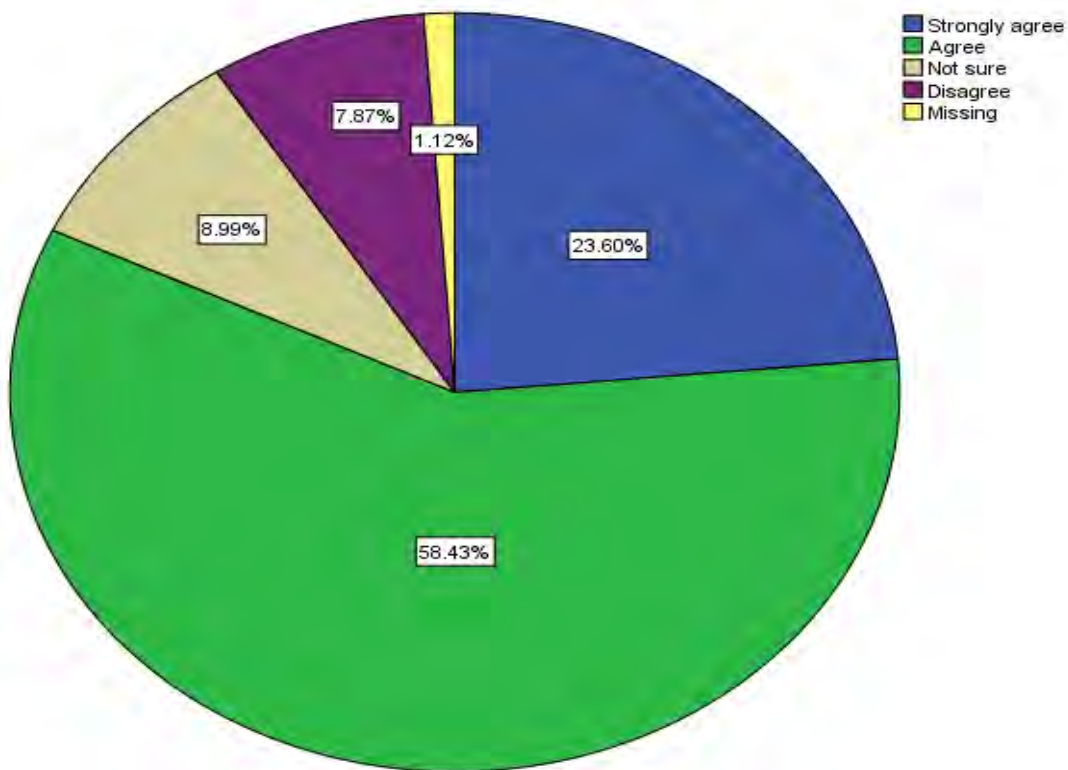


Figure 4.10: Loan Repayment Smooth

Even though some respondents stated that interest rates were on the high side in the organization, there seem to be no relationship between the two. An overwhelming 82.03% agreed and strongly agreed to the statement that loan repayment is smooth, and only 7.87% strongly disagreed.

4.2.2 Inferential Statistics for Interest Rates on Demand and Loan repayment

Table 4.6 below represents the simple regression analysis which modelled the demand for credit as a function of interest rates, repayment ability and non-performing loans (NPLs) using 2014 portfolio data from FINCORP. This was modelled using the following equation:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Table 4.6: Simple Regression Test for demand for credit

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Beta	Lower Bound
(Constant)	3.800	1.358		2.799	.013	.922	6.679
Interest Rate	-.124	.100	-.269	-1.243	.232	-.336	.088
Repayment Ability	.189	.427	.138	.442	.664	-.716	1.093
NPLs	-.430	.262	-.537	-1.642	.120	-.985	.125

Model

Summary

Model	R	R Square	Adjusted R Square	Std. Error of Est.			
1	.594	.352	.231	.703			

Dependent Variable: Demand for Credit

The two variable, interest rate and nonperforming loans have a negative relationship to the demand for credit. However, they are not statistically significant at 10%. The increase in interest rates results in an increase in costs of capital therefore decrease in demand for credit, which is in line with our expectation.

R square: the model explains 0.352% of variation in the demand for credit, which in this case is quite low. This indicates that variation is influenced by other variables which may not have been captured in this model.

Table 4.7 below represents the simple regression analysis which model the loan repayment (proxied through non-performing loans NPLs) as a function of interest rates using 2014 portfolio data from FINCORP. This was modelled using the following equation:

$$Y_1 = \beta_0 + \beta_1 X_1 + \epsilon$$

Table 4.7: Simple Regression for Loan Repayment

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	3.783	.501		7.546	.000	2.730	4.836
Interest Rate	.202	.128	.350	1.583	.131	-.066	.470

Model Summary

Model	R	R Square	Adjusted R Square	Std Error of Est.			
1	.350	.122	.073	.963			

Dependent Variable: Nonperforming Loans

Interest rates are positively related to non-performing loans (NPLs), a proxy for loan repayment. However, this is not statistically significant at 10%.

The increase in interest rates results in increase in costs of capital therefore increase in non-performing (NPLs), which is in line with our expectation.

R square: the model explains 0.122% of variation in NPLs, which however is on the lower side. This indicates that variation is influenced by other variables that may not have been captured in the model.

4.3 Summary

The results for the study conducted through a survey that included clients and employees on the impact of interest rates on loan repayment and demand for credit were presented in this chapter. The presentation included descriptive and inferential statistics, with the former based on the questionnaires and inferential statistics tapping into the performance of the respondents in as far as loan repayment and credit demanded is concerned. The descriptive statistical presentations were through pie charts and tables generated from information captured on the statistical programs SPSS. These graphical presentation mainly captured the

SME characteristics as discussed in the literature review deemed to influence the granting or otherwise of credit to SMEs. The main characteristics presented included respondents: gender, educational level, marital status, business location experience, business legal status, industry sector, appetite for credit and lastly their perception of the interest rates charged at FINCORP and the loan repayment experience with the institution.

A regression analysis was run to determine the relationship between interest rates charged at FINCORP and loan repayment, interest rates and the demand for credit. These presentations, descriptive and inferential, forms the foundation for the discussion of the results in the next chapter and will further assist to determine if the study did address its aims and objectives.

CHAPTER FIVE

Discussion, Conclusion and Recommendations

5.1 Discussions

This chapter sets out the stage for the discussion of the study results and conclusions are then drawn as to whether the objectives of the research have been met. It further outlines the limitations and recommendation of the study findings. The discussion will cover the demographic presentation and inferential statistics.

5.1.1 Demographics

The following SME attributes are demographic variables that may influence demand for credit and loan repayment. These are age, gender, marital status, and experience, and education, legal status of business, location, industry sector, and interest rates. These variables have been descriptively analysed in this survey and presented through pie charts and tables extracted from SPSS.

Gender distribution in the survey was found to be more biased towards men accounting for more than 56%. The lower number of women in this survey is to be expected based on literature. According to (Abdulsaleh and Worthington, 2013) Women usually start with less seed capital when compared to their male counterparts and face more challenges when dealing with commercial banks. Therefore, women are more comfortable working with DFIs compared to commercial banks. As a consequence, banks try to cut out or limit financing small amounts and thus women are eliminated in the process. Abdulsaleh and Worthington (2013, p. 39) stated that “although men and women do not significantly differ with regard to the type of capital, women SMEs appear to have a smaller amount of start-up capital”. It has been observed globally that women are more inclined towards micro-businesses when compared to their male counterparts, due to gender inequalities, Messah (2011).

Education is another attribute that significantly influence demand for credit amongst entrepreneurs. This survey found that most of the respondents had impressive educational backgrounds as more than 39% of the respondents had tertiary education. This is in line with a similar study in Kenya by Zachary (2013) where most of the respondents (56%) were males. Abdulsaleh and Worthington (2013) observed that “higher levels of education, provide entrepreneurs with greater confidence in dealing with bankers and other funders when

applying for loans”. This observation can be explained by the fact that over the years, sub-Saharan Africa and in Swaziland to be specific, the number of high schools and tertiary institutions has been on the rise. As a consequence, many people have taken strides to improve their education. Due to the apparent high unemployment challenges in the country, these people find themselves with no option but to engage in entrepreneurial activities. The loss of the AGOA status by the country early this year, will further result in the increase in this SME sector. Financial institutions, including banks, rate an educated person favourable when compared to an uneducated person.

In terms of industry sector distribution, most of the respondents are in the retail trade with 43% and sugarcane production sector with 28.09%. The sheer dominance of the retail trade portfolio in Swaziland as in other developing countries is a common feature. This can be explained by the fact that the financing of the retail trade related business is through the provision of working capital or short-term loans as opposed to long-term debt. This is consistent with (Abdulsaleh and Worthington, 2013, p. 38) who stated that “short-term credit is more used in the wholesale and retail trade sectors compared with manufacturing SMEs, whereas construction, hotel and hospitality, and mining industries appear to depend more on long-term finance and less on short-term debt”. The retail trade portfolio at FINCORP has a maximum repayment period of twelve months and the clients are granted mainly working capital from as little as E5, 000.

The high percentage of the sugarcane portfolio is also expected in an agribusiness related country like Swaziland. According to Fatoki and Asah (2011) the agricultural sector has the highest capital structure and tangible assets which can be utilized as collateral. The barriers to entry in the sugarcane production are very low given that this enterprise is heavily subsidized by the Government of Swaziland in collaboration with the European Union. More and more of agricultural land in the rural areas is being converted into sugarcane production. Currently there is an ongoing development in the South of the country that seeks to replant over 10 000 hectares with sugarcane and will cost over E5 Billion when complete. EU will contribute 70% of operational costs and the farmer companies have to raise the 30%, which will cater for production costs. Therefore, this sector is expected to grow more than three folds in the next five years.

Business location is also a factor on demand for credit and loan repayment. The study found that more than 56% of the respondents are from the rural areas. However, this reflects a narrow gap between rural and urban SMEs. This can explain a steady increase in the entrepreneurial culture in the country. Swaziland is an agricultural oriented economy and thus it is expected for most SME related businesses to be located in the rural areas of the country. However, most studies have found a negative relationship rural businesses and demand for credit. Messah (2011) stated that “whereas being the rural area has no significant impact on the probability of applying for credit and the success of the application, loan application from individuals for the rural areas are about 44% smaller in magnitude than that of those in the urban areas”. The findings of the study can be expected given that the mandate for FINCORP is to stimulate the SME sector who are deemed to be excluded from financial services. African Economic Outlook (2014) found that “37.5% of the population continues to be excluded from any form of financial services-which represents 44% of the rural population and about 78% of 18-19 year-olds.

Interest rates on loans also play a very crucial role in the demand for credit and loan repayment. The respondents were asked a question that seeks to find out if interest rates charged at FINCORP are too high. The study had assumed that high interest rates negatively influence demand for credit and loan repayment. The response from the survey was that 49.44% of the respondents did not believe that interest rates charged at FINCORP are too high. The current prevailing interest rates at FINCORP is 13.25%, that is prime + 4.5%, which is quite high compared to rates charged by commercial banks, who normally charge prime plus 1%. Scholars believe that the interest rate is a tool at the disposal of financial institutions to screen borrowers, a process now known as credit rationing. When financial banks raise the interest rates, natural selection occurs and only those who can afford high interest rates will be considered for funding. This further indicates those interest rates are negatively related to demand for credit. This is not in line with a study done by Odhiambo (2013) on the effect of changes in interest rates in loan repayment and demand for credit in Kenya. The author found that interest rates have a positive impact on credit demanded by SMEs in Kenya.

In terms of loan repayment, respondents were also asked to state if loan repayment was smooth. Again, the assumption is that high interest rates negatively affect the loan repayment process. Wongnaa and Awunyo-Vitor (2013) “investigated the factors affecting loan repayment performance of farmers in Iran”. They stated that “results from a logistic model

showed that loan interest rate was the most important factor affecting repayment of agricultural loans”. However, findings from the demographic statistics revealed that more than 82% of the respondents believe that loan repayment is not a problem. This is consistent with (Bhattacharjee and Rajeev, 2013) who observed a negative relationship between interest rates and loan repayment in the formal lending sector.

5.1.2 Inferential Statistics

The basis of regression analysis is to establish or determine a relationship between two or more variables. According to Hussaan (2012) an investigator attempts to find the quantitative cause and effects relationship among variables. There are many regression tools that are used to determine or explain the cause and effect relationship between variables. One such technique is the ordinary least squares technique (OLS), which was also used in this study.

5.1.2.1 Regression analysis for credit demand by SMEs

According to Keller (2012) coefficients are usually denoted by $\beta_0, \beta_1, \dots, \beta_k$, and it merely describe the relationship between independent variables and the dependent variable in the sample. The independent variables in the study are interest rates, repayment ability and NPLs. Nonperforming loans (NPLs) are accounts with arrears of over 90 days, (FINCORP, 2011).

The two variable, interest rate and nonperforming loans have a negative relationship to the demand for credit. However, they are not statistically significant at 10%. The negative relationship between the two variables and demand for credit is in line with our expectation: increase in interest rates results in increase in cost of capital and therefore decrease in demand for credit. However, this is contrary to the findings from the respondents, where there is high appetite for credit despite the increases in interest rates over the years.

The increasing demand for credit as demonstrated by the respondents is in line with findings from (Odhiambo, 2013), who did a similar study in Kenya. The author stated that “the year 2011 saw the highest interest rate and still the demand for gross loans was higher than the previous year”. The author analysed clients’ financial statement over a period of four years. Therefore, the deviations between the demographic and inferential statistics were mainly as a result of the fact that the regression analysis used data for a period of only one year, 2014

annual data. The main reason being that data was done manually before 2014 and the current banking database, Bankers Realm (BR), were adopted towards the end of the 2013 financial year.

R square: the model explains 0.352% of variation in the demand for credit, which in this case is quite low. This indicates that variation is influenced by other variables which may not have been captured in this model. The study only focussed in one financial year (annual dataset), 2014, which did not create enough variability, (Odhiambo, 2013)

5.1.2.2 Regression analysis for loan repayment

Repayment Ability has a positive relationship to demand for credit. However, this is not statistically significant at 10%.

This is also in line with the study expectations as increases in interest rates results in increases in nonperforming loans. Consistent with this view, Odhiambo (2013) posited a strong relationship between loan repayment ability of SMEs and changes in interest rates. The limitation with this study is that it focussed in only one year, 2014, and thus had to be based on the prevailing rate, which was 13.5%. This will further account for the low r square value as indicated below.

R square: the model explains 0.122% of variation in NPLs, which however is on the lower side. This indicates that variation is influenced by other variables that may not have been captured in the model. Odhiambo (2013) did a similar study in Kenya and his dataset was analysed over a period of five years. However, this study was based on the client performance over a period of one year, 2014. This did not create enough variability. The findings are based on the classification of the loans repayment ability in 2014 where current loans were 65.6%, bad loans were 5.6%, doubtful loans 5.6%, substandard loan 1.1% and watch loans accounted for 11.1%. So variance could not be determined due to limited information in terms of the number of years.

5.2 Summary

The results of the descriptive statistics and inferential statistics were discussed in detail in this chapter, relation to the hypothesis assumed at the onset of the study. The study hinges on two main hypotheses: (1) High interest rates negatively affect demand for credit and (2) High interest rates negatively impact on loan repayment for the clients. The first hypothesis implies that as interest rate charged to clients increases or when the Federal

Open Market Committee (FOMC) in the US or Monetary Policy Committee (MPC) in the case of Swaziland meet and announce increases in interest rates, clients are expected to demand less credit for the enterprises. This is based on the assumption that high interest rates factored in the cash flow of any business proposition will reduce the return on investment of the project. This hypothesis was satisfied in the regression analysis for credit demand where with an interest rate coefficient of -0.124, which implied that for every 1% increase in interest rates there is 0.124% decrease in demand for credit. As stated earlier, this is not in conformity with the findings from respondents, who demonstrated huge appetite for credit despite increases in interest rates.

Loan repayments were hypothesized to be negatively affected by high interest rates. The regression analysis of loan repayments a 1% increase in interest rates results in 0.350% increase in loan repayments.

These conflicting results were to be expected to some extent given the low R square values, which posit that there were some challenges in packaging the model for the regression analysis. However, these findings will form the basis for further research in this field

5.3 Conclusions

Interest rates are a prominent feature for both small and large enterprises. The main aim of the study has been to determine the impact of interest rates on loan repayment and demand for credit with particular inclination to the FINCORP experience in Swaziland. Primary data was collected through structured questionnaires administered to both FINCORP clients and employees under the credit department. The clients were further linked to their performance records through Bankers Realm database used by FINCORP. The performance records were: loan amounts, non-performing loans and repayment ability. The data was captured in the SPSS statistical package, which assisted to generate demographic and inferential statistical reports, the latter, however was statistically insignificant at 10%.

The study conclusion is based from the findings and the objectives of the study. Objectives one and two are based on the demographic statistics and objectives three and

four are based on the inferential statistics. The aim was to cross check the relevance of what the respondents said against their actual performance.

Objective one was to determine the impact of interest rates on demand for credit. This was based on the assumption that high interest rates negatively affect demand for credit: increases in interest rates results in decrease in demand for credit. Findings from the demographic statistics revealed that 16.9% of the respondents stated that high interest rates were one of the challenges they face with their business dealings with FINCORP. However, more than 49% of the respondents disagreed that interest rates are too high, when asked if interest rates charged at FINCORP is too high. It can thus be concluded that based on the demographic statistics interest rates somehow negatively affect demand for credit.

Objective two was to determine the impact of interest rates on loan repayment. The assumption was that high interest rates negatively affect the loan repayment process. The findings from the demographic statistics revealed that an overwhelming 82% of the respondents agreed that the loan repayment at FINCORP was smooth. It can thus be concluded that the 13.25% interest rates charged at FINCORP does not negatively affect the loan repayment process.

Objective three was to determine the relationship between demand for credit against interest rates, repayment ability and Non-performing loans (NPLs). The results found that the two variables, interest rates and NPLs have a negative relationship to the demand for credit. However, they were not statistically significant at 10%. This can be interpreted that high interest rates results in increases in cost of capital. It can thus be concluded that based on the regression analysis, high interest rates negatively affect demand for credit.

Objective four was to determine the relationship between loan repayment (proxied by non-performing loans NPLs) and interest. The study found that loan repayment has a positive relationship to demand for credit. However, it was also not statistically significant at 10%. This is in line with our assumption that increases in interest rates results in increase in cost of capital therefore increase in non-performing loans. The conclusion is that based on the regression analysis, high interest rates negatively affect

loan repayment. However, this cannot be said with certainty as it was not statistically significant at 10%.

In conclusion, it can be said that demographic statistics and inferential statistics gave to two conflicting findings, with the latter satisfying the main assumptions of the research the high interest rates negatively affect loan repayment and demand for credit. Even this cannot be said with certainty as relationships were statistically insignificant at 10%.

5.4 Recommendations

The research paper sought to establish the impact of interest rates on loan repayment and demand for credit. Given the wide scope of SMEs and the fact that there are many commercial banks and non financial institutions (NBFIs) in the country, the study was limited to SMEs and Employees for the Swaziland Development Finance Corporation (FINCORP).

Descriptive and regression statistics were used to address the aims and objectives of the study. The findings under descriptive statistics somehow deviated from the hypothesis that high interest rates negatively affect loan repayment and demand for credit amongst SMEs, who are clients at FINCORP. In demand for credit, respondents still come for loans at FINCORP and that is influenced by the fact that they derive significant improvements from the facility they get as credit for their businesses. Moreover, these clients are of the view that interest rates charged at FINCORP are not too high. This is contrary to the perceptions prevailing amongst the general public and the fact that FINCORP interest rate are generally higher when compared to other financial institutions. In actual fact 49.44% of the respondents disagreed and strongly disagreed that interest rates charged were too high. In terms of loan repayments, an overwhelming 82.03% of the respondents strongly agreed that loan repayment is smooth. This is also contrary to the inverse relationship between high interest rates and loan repayment, as hypothesized by the study.

However, findings from regression analysis painted a somewhat different picture. With respect to demand for credit, the results demonstrated that an increase in interest rates will result in a decrease in demand for credit. But with loan repayment, an increase in interest rates was found to result in an increase in loan repayment. However, these conclusions cannot be said with certainty given that they were not statistically significant at 10%.

The somehow conflicting findings derived from the two methods used in the study, did not address the concerns of the researcher and to some extent, the general public. However, this study has laid down a good foundation for future studies on interest rates and their effects on clients credit loan repayment performance in the country. It will first and foremost assist FINCORP in future pricing of its loan products for the benefit of the SMEs. Furthermore, FINCORP should revisit its staff training policy, since some of the respondents complained about the lack entrepreneurship amongst its employees in the credit department. Policy makers especially the regulators and the Ministry of Finance will benefit from these findings, by knowing what exactly afflicts SMEs in the country other than interest rates.

There is a need to further engage on this topic as interest rates affects business performance over the globe. Currently there is apprehension amongst small and large businesses alike as the US look certain to increase interest rates in the second week of December 2015. FINCORP should encourage other employees doing MBA to research on this topic as interest rates form the foundation of our business model.

Lastly I would recommend that future studies on this particular topic should cover or focus on one specific sector in a given period. This is because the impact of interest rates has varying effects on businesses with different loan sizes. Further studies should focus on relationship lending. Large organization with loans sizes in excess of millions of Emalangi, felt hard done by being charged interest rates similar to micro SMEs. They believe long-term standing clients and those with more reliable collateral should derive a benefit for their status as it greatly addresses whatever default risk that may exists.

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APPENDIX

Appendix 1: Questionnaire for Small Scale Enterprise finance by the Swaziland Development Finance Corporation (FINCORP).

Dear Respondent,

I would like to thank you for participating in this survey. The questionnaire seeks to get as much information as possible on the impact of interest rates and demand for credit at FINCORP.

Kindly be informed that your participation in this study is completely voluntarily and therefore you can freely withdraw from the survey at any point, should you feel compromised. However, there are no risks associated with the survey as the researcher only seeks to get your input and understanding on the topic. Your input in terms of data and responses will be treated with the highest level of confidentiality.

SECTION A: GENERAL INFORMATION

1. Gender

Male

Female

2. Age (Years)

3. Marital status

Single

Married

Divorced

Widowed

4. Highest Level of Education

No education

Primary

Secondary

High School

Tertiary

5. What type of business are you engaged in? (tick where applicable)

a) General Business

- Public Transport
- Haulage
- Construction
- Retail Trade (e.g. retail shops, kiosks, rental flats, etc.)
- Services (e.g. saloon, restaurant, clinic, etc.)
- Other (Please specify).....

b) Agribusiness

- Sugarcane production
- Sugarcane haulage
- Forestry
- Vegetable Production
- Services (e.g. supply of farm inputs, land preparation, sugarcane cutting, etc.)
- Other (Please specify).....

6. What is the legal status of the business are you operating? (tick where applicable)

- Cooperative Society
- Association
- Sole Proprietor
- Partnership
- Company

7. Where is the business located?

<input type="checkbox"/>	Town
<input type="checkbox"/>	Rural

8. How long have you been in business?(Years).....

SECTION B: COST OF BORROWING AND LOAN REPAYMENT

1. Do you have any knowledge on the credit facilities offered by FINCORP and how it operates?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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2. If yes, how long have you been using FINCORP's credit facility?

Less than 1 year	<input type="checkbox"/>	3-4 Years	<input type="checkbox"/>
1-2 Years	<input type="checkbox"/>	4-5 Years	<input type="checkbox"/>
2-3 Years	<input type="checkbox"/>	5 Years and above	<input type="checkbox"/>

3. How much loan did you apply for?

10,000-100,000	<input type="checkbox"/>
101,000-1,000,000	<input type="checkbox"/>
1,000,000+	<input type="checkbox"/>

4. Do you think there has been an improvement in your business since you started using credit facility from FINCORP?

a) I strongly agree	<input type="checkbox"/>	c) I strongly disagree	<input type="checkbox"/>
b) I agree	<input type="checkbox"/>	d) I disagree	<input type="checkbox"/>

5. If there has been an improvement, to what extent has the credit facility assisted in improving your business?

- a) To great extent c) To very less extent
- b) To less extent

6. Are there any other challenges faced by SMEs using FINCORP loan facilities?

- Yes
- No

7. If yes, what are the challenges?

- High Interest rates
- Short repayment period
- Small loan amount approved than applied for
- Lack of supervision and monitoring
- Lack of entrepreneurship skills

8. Interest rate charged is too high

Strongly agree	Agree	Not sure	Disagree	Strongly disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Loan repayment is smooth

Strongly agree	Agree	Not sure	Disagree	Strongly disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. What other challenges, in your view, are faced by FINCORP clients

.....

.....

Appendix II: Questionnaire for FINCORP Officials responsible for funding Small Scale Enterprises (SMEs)

Dear Respondent,

I would like to thank you for participating in this survey. The questionnaire seeks to get as much information as possible on the impact of interest rates and demand for credit at FINCORP.

Kindly be informed that your participation in this study is completely voluntarily and therefore you can freely withdraw from the survey at any point, should you feel compromised. However, there are no risks associated with the survey as the researcher only seeks to get your input and understanding on the topic. Your input in terms of data and responses will be treated with the highest level of confidentiality.

SECTION A: GENERAL INFORMATION

9. Gender

Male

Female

10. Age (Years)

11. Marital status

Single

Married

Divorced

Widowed

12. Highest Level of Education

No education

Primary

Secondary

High School

Tertiary

13. What type of business are you engaged in? (tick where applicable)

c) General Business

Public Transport

Haulage

Construction

Retail Trade (e.g. retail shops, kiosks, rental flats, etc.)

Services (e.g. saloon, restaurant, clinic, etc.)

Other (Please specify).....

d) Agribusiness

Sugarcane production

Sugarcane haulage

Forestry

Vegetable Production

Services (e.g. supply of farm inputs, land preparation, sugarcane cutting, etc.)

Other (Please specify).....

14. What is the legal status of the business are you operating? (tick where applicable)

Cooperative Society

Association

Sole Proprietor

Partnership

Company

15. Where is your portfolio located?

- Town
- Rural
- Both (town & rural)

16. How long have you been employed at FINCORP?.....

SECTION B: DEMAND FOR CREDIT AND LOAN REPAYMENT

1. What is the size of your portfolio?

- 10,000-100,000
- 101,000-1,000,000
- 1,000,000+

2. Do you think there has been an improvement in your portfolio?

- c) I strongly agree
- c) I strongly disagree
- d) I agree
- d) I disagree

3. If there has been an improvement, to what extent?

- a) To great extent
- c) To very less extent
- b) To less extent

4. Are there any other challenges faced by SMEs using FINCORP loan facilities?

- Yes
- No

5. If yes, what are the challenges?

- High Interest rates
- Short repayment period
-

Small loan amount

Lack of supervision and monitoring

Lack of entrepreneurship skills

6. Interest rate charged is too high

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

7. Loan repayment is smooth

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

8. What other challenges, in your view, are faced by SMEs FINCORP clients

.....

.....

.....

.....

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Sector	Industry	Loan Amount	Non-Performing Loans	Repayment Ability	Interest Rates
Construction	General Business	101, 000 – 1, 000, 000	360+	Bad	13.5
Forestry	Agribusiness	101, 000 – 1, 000, 000	360+	Bad	13.5
Forestry	Agribusiness	1, 000, 000+	180 – 360	Doubtful	13.5
Heavy Haulage	General Business	101, 000 – 1, 000, 000	180 – 360	Doubtful	13.5
Other	Agribusiness	10, 000 – 100, 000	360+	Bad	13.5
Other	General Business	10, 000 – 100, 000	360+	Bad	13.5
Public Transport	General Business	101, 000 – 1, 000, 000	360+	Bad	13.5
Retail	General Business	Below 10, 000	360+	Bad	13.5
Retail	General Business	10, 000 – 100, 000	360+	Bad	13.5
Retail	General Business	Below 10, 000	360+	Bad	13.5
Retail	General Business	Below 10, 000	180 – 360	Doubtful	13.5
Services	Agribusiness	101, 000 – 1, 000, 000	180 – 360	Doubtful	13.5
Services	General Business	10, 000 – 100, 000	360+	Bad	13.5
Services	General Business	10, 000 – 100, 000	180 – 360	Doubtful	13.5
Services	General Business	101, 000 – 1, 000, 000	360+	Bad	13.5
Services	General Business	10, 000 – 100, 000	360+	Bad	13.5
Sugarcane Haulage	Agribusiness	101, 000 – 1, 000, 000	91 – 180	Substandard	13.5
Vegetables	Agribusiness	10, 000 – 100, 000	360+	Bad	13.5
Vegetables	Agribusiness	10, 000 – 100, 000	360+	Bad	13.5
Vegetables	Agribusiness	10, 000 – 100, 000	360+	Bad	13.5

Respondents' Annual portfolio analysis Data 2014: Author

28 August 2015

Mr Zenzele Henry Dlamini (213570685)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Dlamini,

Protocol reference number: HSS/0271/015M

Project title: The impact of interest rate on loan repayment and demand for credit: A case study for the Swaziland Development Finance Corporation (FINCORP)

Full Approval – Expedited Application

In response to your application received on 30 March 2015, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

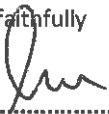
Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



.....
Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dr Muhammad Hoque
Cc Academic Leader Research: Dr Muhammad Hoque
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

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