AN INVESTIGATION OF THE FACTORS THAT LEAD TO LOWER LOAN REPAYMENT AMONG SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF INDEBANK LTD.

MASTER OF BUSINESS ADMINISTRATION DISSERTATION

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Master of Business Administration Dissertation

By

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A Thesis submitted to the Department of Management Studies, Faculty of Commerce in partial fulfillment of the requirements for the degree of Master of Business Administration.

University of Malawi

The Polytechnic

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DECLARATION

I declare that this thesis is my own and where other researchers' work has been used, due acknowledgements have been made in the text and references. This thesis is being submitted in partial fulfilment of the requirements for the award of Master of Business Administration in the University of Malawi. It has not been submitted before for any degree or examination in any other university.

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Date: ………………………………………………………………………..

CERTIFICATE OF APPROVAL

We the undersigned certify that we have read and hereby recommend for acceptance by the University of Malawi, a thesis entitled '*An Investigation of the Factors That Lead To Lower Loan Repayment among Small and Medium Enterprises: A Case Study of Indebank Ltd.'*

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Signature : ______________________________

Date : ______________________________

Co-supervisor : ______________________________

Signature : ______________________________

Date : ______________________________

Head of Department : ______________________________

Signature : ______________________________

Date : ______________________________

DEDICATION

This work is dedicated to my wife, Mariana, my son, Victor, and my daughters, Lisa, Lexa and Ayanda. Thank you so much for your support during the time I was doing the work.

ACKNOWLEDGEMENT

For the successful completion of this paper, special thanks go to the following who took the time to support me as I went through the research process: Firstly, thanks be to God for allowing this achievement to happen in my life. His name should always be praised. Secondly, many thanks to all participants in this study. Thirdly, my sincere gratitude to my supervisors, Mr. Stephen Chimtengo and Mr. Admore Kamanga for their tireless work and guidance throughout thesis writing process. Lastly, I also want to thank all my friends and relatives who gave me valuable encouragement and guidance during my studies. May God bless you all.

ABSTRACT

Financial institutions all over the world have experienced significant default in loan repayment resulting into decrease in employment levels and cash flow problems. This study was carried out in order to establish the factors that lead to low repayments among Small and Medium Enterprises at Indebank Ltd.

The study used both primary and secondary data and an interview based questionnaire was administer at the respondents' business places. Data were analysed using Statistical Package for Social Sciences (SPSS). Internal data was also used to support the findings. A sample of 9 Indebank outlets (2 service centres and 7 agencies) was used as a representative of 16 outlets. A total of 91customers were interviewed out of 117 that were targeted representing 78% response rate.

The study revealed that Indebank customers were heavily affected by adverse weather, regulatory changes, high interest rates, diversion of funds and poor management. The study also revealed that the bank introduced three major debt recovery strategies namely legal, debt management and relationship management strategies after suffering from low repayment rates. The study concludes that Indebank ought to devise a strong loan underwriting policy that ensures that loans and overdrafts are given to deserving customers only.

The study recommends that Indebank ought to consider SME specific constraints and develop strategies to surmount both financial and technical challenges faced by SMEs. This will ensure that the bank reduces default cases. As a complementary strategy, the study further recommends that manager and loan officers need to be trained in loan origination, monitoring and debt recovery.

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LIST OF ABREVIATIONS

ADB	Asia Development Bank
AfDB	African Development Bank
BESTAP	Business Environment Strengthening Technical Assistance
CEO	Chief Executive Officer
DEMATT	Development of Malawian Traders Trust
GDP	Gross Domestic Product
IADB	Inter- American Development Bank
IFC	International Finance Corporation
KYC	Know Your Customer
MBS	Malawi Bureau of Standards
MEDI	Malawi Entrepreneurs Development Institute
MEPC	Malawi Export Promotion Council
MIF	Multilateral Investment Fund
MIPA	Malawi Investment Promotions Agency
MIRTDC	Malawi Industrial Research and Training Development Centre
MITC	Malawi Investment Trade Centre
MRFC	Malawi Rural Finance Company
MSME	Micro, Small and Medium Enterprises
MWK	Malawi Kwacha
NBM	National Bank of Malawi
NPAs	Non-Performing Assets
NPL	Non-Performing Loans
PSDP	Private Sector Development Program
RBM	Reserve Bank of Malawi
SEDOM	Small Enterprise Development Organization of Malawi
SMEDI	Small Enterprise Development Institute
SMEs	Small and Medium Enterprises
UN	United Nations
UNDP	United Nations Development Program

CHAPTER ONE

INTRODUCTION

1.0. Background to the Study

World Bank (2008) reports that Malawi has a small banking system with low but increasing level of financial intermediation. The banking system in Malawi is very profitable mainly due to a non-competitive foreign exchange market and plays a vital role in implementing and bringing about economic reforms. The banking sector in Malawi has adopted a very competitive culture which has seen its earnings increasing over the past years.

In many emerging economies Small and Medium Enterprises (SMEs) have become the principal driving forces for economic growth and job creation. Fox (2005) notes that on average, SMEs and micro enterprises represent over 90% of all enterprises and account for 50–60% of total non-farm employment and gross domestic product (GDP) worldwide. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization (UNDP, 1999). They are also a major source of entrepreneurial skills and innovation. Painter-Morland and Spence (2009) describe SMEs as the engine of many economies in the developing world. SMEs also play significant role in meeting the needs of their country, community, and closer circle of family and dependants. These roles include creation of jobs for the people in the community they operate in and distribution of goods and services to areas or people that would otherwise not have access to them. Some SMEs are involved in creating a market for small suppliers whereas others reduce the dependency on imported goods as they are locally produced hence save foreign exchange from being externalised.

Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of the small and Micro enterprises. When the state of the macro economy is less favourable, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole.

It is imperative to note that SMEs can operate without accessing capital hence depend on banks to obtain loans. According to Reserve Bank of Malawi (RBM) (2013) the banking sector in

Malawi is growing as there are eleven dealer banks. Among the eleven authorised dealer banks currently operating in Malawi, Indebank Ltd is one of the fastest growing and the sixth largest in terms of market share at 8% (Indebank Ltd, 2012). Incorporated as development bank in 1972, Indebank was transformed into a commercial bank in 2001 and has steadily been expanding its points of representation and profitability. Indebank is positioned to service niche markets such as Small and Medium Enterprises (SMEs), High Net Worth individuals and Corporations.

The Bank's vision is: *To be the acknowledged local bank of choice*. While the mission of the Bank is:*To deliver customer oriented service through a skilled and motivated team, with the view of maximizing shareholder value, whilst remaining relevant to the communities in which we operate (*Indebank Ltd, 2015a*)*.

The competitiveness of the banking sector in the country prompted Indebank Ltd to streamline its banking activities in 2010 and introduce new products and services for small and medium enterprises (SMEs) sector. This was done in order to increase market share and remain profitable both in the short term and long term.

1.1. Problem Statement

SMEs play an important role in providing employment and improving people's livelihood in any economy. In recognition of the role that SMEs play in the economy, the Government of Malawi has made the development of SMEs a priority (Malawi Government, 2012). Harvie & Lee (2005) and World Bank (2009) report that SMEs are important to economic growth and are significantly essential to generate employment.

Malawi has about 760 000 small business owners generating annual revenue of about US$2 billion and employing over a million people. Malawi Government (2012) states that forty percent of these businesses use financial services from both formal and informal sectors. Therefore, the future of the economy in Malawi, just like in most developing countries depends on the success of SMEs.

Despite the significant role that SMEs play, they are faced with a series of challenges that limit their contribution to the economy (World Bank, 2009). One of the major challenges SMEs face is lack of access to credit as among the greatest barriers to their operations and growth (Harvie & Lee, 2005; World Bank, 2009). The main sources of capital for SMEs are their retained earnings, informal savings and loan associations, however, these sources are unpredictable, not secure and have little scope for risk sharing due to their sectoral focus. Access to formal finance is poor because of high risk of default among SMEs and due to inadequate financial facilities (Beck, Demirgüç-Kunt & Pería, 2008). In order to create and increase access to credit by SMEs, Indebank Ltd streamlined its operations and introduced SME products in 2011.

However, SME loans in Africa appear to be riskier and the share of Non-Performing Loans (NPLs) among small firm loans averages 14.5 percent compared to 5.5 percent in other developing countries (Beck et al., 2008). Beck et al. (2008) further indicate that the NPL ratio for medium-sized firms is also higher in Africa (6.8 percent) than in other countries (5.1 percent).

Credit risks remain a significant challenge to Malawi's financial system. This is largely due to prevailing high lending rates in the credit market, which undermine borrowers' abilities to service loans. Consequently, non-performing loans as a percentage of gross loans and leases increased to 13.6 percent in September 2013 from 11.6 percent in March 2013 (RBM, 2013). It was further observed that non performing loans' ratio was higher than 6.5 percent, which was recorded in September 2012. This represents a significant threat to financial system stability.

Low repayment rates have not spared Indebank's SME department either as the level of NPL for the department which had been going up. According to Indebank Ltd (2015a), the stock of NPLs rose from MK0.3 billion (5%) of SME portfolio by 31st December, 2011 to MK1.2 billion in 2012 representing 20%. In 2013, NPLs rose to MK1.8 billion (38%) and as at 31st December, 2014 it reached MK2.6 billion representing 58% of the total SME portfolio. The low repayment rate is of great concern to the bank and it is against this background that the study was motivated to assess the factors that lead to low repayment rates by SME clients at Indebank Ltd.

1.2. Aim of the Study

The aim of the study was to investigate the factors that lead to low repayment rates among SME customers at Indebank Ltd.

1.3. Specific Objectives

The objectives of the study were;

i. To identify the challenges that affect loan repayments among SMEs.

ii. To find out the factors that constrain SME's loan repayment.

iii. To identify debt recovery strategies that Indebank is implementing in order to increase loan repayments among SMEs.

1.4 Research Questions

The study addressed the following research questions:

i. What challenges affect loan repayments among SME businesses?

ii. What the factors that constrain SME's loan repayment?

iii. What strategies is Indebank implementing in order to increase loan repayment among SMEs?

1.5 Significance of the Study

When banks extend credit to small businesses it is expected that both parties should benefit, however, low repayment is a threat to the bank's business. Therefore, the study sought to identify the factors which cause low repayment. Policy makers (legislature, as well as policy makes at bank and any lending levels) are expected to benefit from the study as it will empower them to come up with stringent policy measures which will easy debt recovery.

The study contributes to the existing literature on debt recovery in the bank. It also generates results which will be of benefit not only to Indebank but the entire banking fraternity at large. In addition, the banking industry will be the lead beneficiary as it benefits by reducing its non-performing loan (NPL) book. The application of this study will span the entire lending organizations as they would like to borrow a leaf from best operational strategies that Indebank puts in place to be able to tame the default rate by ensuring that their recovery efforts bear fruits. The study also adds value to the research in the area of SME financing. Scholars will find it important as it increases the body of knowledge in this area. The knowledge gained from the serves as a basis for planning and point of reference for further studies in the field of SME financing.

1.6 Chapter Summary

This Chapter has highlighted the background to the study, the research problem statement, research objectives, research questions, and significance of the study. The rest of the thesis has been organized as follows: Chapter two reviews literature regarding SMEs; Chapter three discusses the research methodology, Chapter four presents study data findings and analysis and finally Chapter five outlines conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter constitutes literature review of theories of SMEs. It starts by looking at the concepts related to SMEs in the world; their contributions, the challenges they are facing, NPLs, causes of NPL and conclusions. This chapter also provides information about SMEs in developing countries as the basis for the study.

2.1 SME Concepts

There is no universal definition for Small and Medium Enterprises (SMEs); they are rather identified more by their characteristics than by explicit definition and may therefore vary in different jurisdictions (Africa Centre for Open Governance, 2012). It is argued that the definition of SMEs is mainly derived from SMEs being entities engaged in an economic activity, irrespective of their legal form coupled with pre- determined thresholds in the total full time and part time employees, the annual turnover and the annual balance sheet after all rebates have been paid out. For example, in Britain, a small business is that with paid employees totalling less than 200 while in Kenya, a small business is that with 10-49 employees, and a medium business is that with 50-99 employees (Africa Centre for Open Governance, 2012).

Ministry of Trade and Industry (2012) defines micro, small and medium enterprises based on the number of employees and the annual turnover of the businesses. It further says that small and medium enterprises play an important role in providing employment, improving people's livelihood and in the overall economy. In recognition of the role that SMEs play in the economy, the Government of Malawi has made the development of SMEs a priority (Malawi Government, 2012).

Malawi Government (2012) further defines micro enterprises as firms with 1 to 4 employees and an annual turnover of USD $7143 and small enterprises are defined as firms with 5 to 20 employees and an annual turnover of USD $7143 to $71428. It also defines medium enterprises as firms with 21 to 100 employees and an annual turnover of $71428 to $357 142. Large enterprises are defined as firms with more than 100 employees and an annual turnover of more than $357142 (Malawi Government, 2012).

Africa Centre for Open Governance (2012) further states that other characteristics of SMEs include: rampant competition within the SME sector with each SME fighting for market share; some SMEs being technology driven, in some cases, even having been set up as result of the changing technological innovations. SMEs also have difficulties in accessing credit facilities to get the necessary funds to run their operations. Malawi Government (2012) proposes that it is important to see small business as a continuum, from informal micro-enterprises all the way to formal medium-sized firms. The policy also clearly states that what is most important is not the distinctions within the continuum, but the ease with which enterprises can move up or down the scale.

While the definition of SMEs varies from one country or continent to another, most organizations have been using the definition of the SME sector as provided by the World Bank or International Finance Corporation (IFC). In terms of need for finance, the IFC defines an SME as 'Small Enterprises' with loan size of $10,000 to $100,000 and 'Medium Enterprise' with loan sizes of $100,000 to $1 million (UNEP, 2007). In many countries such as USA, Britain, European Countries, Japan and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees, that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees or based on the number of paid employees, turnover, balance sheet and level of independence of the enterprise (European Commission (EC), 2003). According to EC (2003) a "small enterprise" is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million; a "micro enterprise" is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million (European Commission, 2003).

Table 2-1: **SME Definitions Used by Multilateral Institutions**

Institution	**Maximum number of employees**	**Maximum revenue**	**Assets**
World Bank	300	15,000,000	15,000,000
Multilateral Investment Fund – IADB	100	3,000,000	None
African Development Bank (AfDB)	50	None	None
Asian Development Bank(ADB)		None	None
UNDP	200	None	None

Source: Brookings Global Economy and Development (BGED), (2008)

BGED (2008) indicates that characteristic of the disparities among these definitions is the substantial difference between how the World Bank and the Multilateral Investment Fund (MIF) of the Inter- American Development Bank (IADB), let alone the African Development Bank (AfDB), define an SME. As Table 2-1 shows, the World Bank's definition includes businesses three times larger by employees and five times larger by turnover or assets than the largest SME under the MIF definition. At the same time, African Development Bank defines SMEs as an organization that employs 50 people. But this definition leaves out important variables namely turnover and assets.

Asian Development Bank has no official definition for SMEs whereas United Nations Development Program (UNDP) defines SME as the one which employees 200. It is evident that each and every country or organization has its own definition. These varied definitions do not help matters as it is difficult for donor organizations, government and other business supporting agencies to formulate policies which should empower or support SMEs. For examples, UNDP and other multinational organizations might introduce policy which in their own might seem to be working in Malawi but in reality this might not be the case. Based on the varying definitions of SMEs above, this study will adopt an Indebank's definition postulates an SME as the one whose annual turnover reaches MK200 million.

Wynarczyk, Watson, Storey, Short, & Keasey (1993) suggest that there are three ways in which small firms differ characteristically from large firms. These are uncertainty and vulnerability, active engagement in innovation, and in terms of evolution and change. Some of these characteristics, such as engagement in innovation and change, may be more typical of SMEs in developed countries. In developing countries including Malawi, local businesses are rarely engaged in innovation. A business just copies what the other business is doing. For example, if one organization is buying and selling farm produce, other businesses will follow suit regardless of the risks that are associated with this type of business.

Wynarczyk et al. (1993) further argue that in developing countries, SMEs also include micro-business such as street vendors and small service delivery operations, which depend on community networks and a loyal customer base, and are not reliant on innovation and change to the same extent. Elsewhere, the idiosyncrasies of small firms have been described as independent and owner-managed, stretched by a broad range of tasks, limited cash flows, facing persistent survival challenges, built on personal relationships, mistrustful of bureaucracy and controlled by informal mechanisms (Spence, 1999).

Wilson and Bates (2003) agree with Spence (1999) that one- third of SMEs fail within three years after start-up. Malawian entrepreneurs do not have realistic business plans when starting their business. It becomes very difficult for commercial banks to finance these SMEs because the business plans do not paint a clear picture on how the entrepreneur will implement the plans.

2.2 Small and Medium Enterprises in Malawi

According to the business information register (2008-2009) prepared by the National Statistical Office of Malawi and the Malawi Confederation Chamber of Commerce and Industry, there are 3,027 establishments operating in the non-agricultural sector of the economy. About 19.9% of these establishments operate in the manufacturing sector and 80.1% operate in the services sector. The register indicates that 44.9%, 33.2%, 21.8% of the firms operating in the manufacturing sector are small, medium and large respectively. On the other hand, for firms operating in the services sector, the register indicates that 78.4% are small firms, 16.2% are medium firms and 5.4% are large firms. It is clear that a larger percentage of firms operating in both the manufacturing and service sector are small.

In terms of external financing use, the World Bank's 2009 Enterprise Survey Country Profile Report indicates that 15 % of the firms in Malawi use bank financing which is higher compared to 10% of the firms using bank financing in other sub-Saharan African countries. 2.9%, 2%, 1.4% of the firms in Malawi use trade credit financing, equity financing and other sources of financing respectively. Use of trade credit financing and equity financing is lower in Malawi compared to other sub-Saharan African countries which is 3.3% for trade credit financing and 1.4% for equity financing.

The Enterprise Survey Country Profile Report by the World Bank (2009) also indicates that only 4.5% of the small firms use bank financing while 18.4% of the medium firms and 28.7% of the large firms use bank financing. For trade credit financing 0.6%, 4.9% and 3.1% of the small, medium and large firms respectively use trade credit financing in Malawi. For equity financing 2.3% of the small firms, 1.1% of the medium firms and 3.3% of the large firms use equity financing. Studies indicate that small firms face a lot of problems in doing businesses. These problems include limited access to finance, poor transportation, unreliable power supply, exorbitant tax rates, inadequately educated workforce, crime, complicated business licensing procedures, corruption and limited access to land (Chirwa, 2008; World Bank, 2009). These problems hinder their growth and survival and consequently their contribution to the economy.

Beck & Demirgüç-Kunt (2006) point out that although SMEs account for a significant part of the total employment in many countries, they may not be able to contribute to economic growth because they face many growth obstacles. The World Bank’s 2009 Enterprise Survey Country Profile Report for Malawi shows that 45.6% of the firms reported limited access to finance as a major obstacle to their business. Of the remaining firms, 8.9% reported poor transportation, 8.6% percent reported unreliable power supply, 6.2% reported exorbitant tax rates, 4.9% reported inadequately educated workforce, 3.8% reported crime, 3.6% reported complicated business licenses/ permits procedures, and 2.5% reported corruption and 1.7% reported limited access to land as obstacles to their businesses.

2.3 Contributions of SMEs to the Economy

Scarborough (2012) reports that in recent years, large companies around the world have engaged in massive downsizing campaigns, dramatically cutting the number of managers and workers on the payrolls. But every year entrepreneurs launch nearly million businesses striving to realize the dream of owning and operating their own businesses. By November 2003, 30 companies were either closed or privatized in Malawi alone leading to retrenchments and organizational restructuring therefore contributing to an increase in unemployment rates (Kambewa & Tekere, 2007). Small and Medium sized Enterprises have been and are the basis for economic development. They play a crucial role in employment creation and innovation. Small companies are job creation machines (Mac an Bhaird, 2010). Storey (1994) found out that small firms were faster, more consistent creators of jobs than larger firms, even though there are also higher gross job destruction rates in the sector (Klomp & Thurik, 1999). The reason for this is that there are higher failure rates (Cressy, 2006). The share of employment accounted by small firms has been remarkably constant (Brown, Hamilton & Medoff, 1990). Micro, small and medium enterprises employs 38 percent of the Malawian labour force, 42 percent of them being women (Daniels & Ngwira, 1993), therefore reducing unemployment levels in the country.

Small and Medium Enterprises have a number of advantages in pursuing innovative activities. Firstly, because of a less complicated bureaucratic structure, they are fewer obstacles to blocking new, risky projects (Scherer, 1991). Secondly, large firms may not be interested in pursuing some innovations because, although absolute return on investment is significant, it is not adequate. Empirical evidence suggests that SMEs have a relatively greater role in generating innovation (Scherer, 1991). Large companies mostly concentrate on improving their existing products and services than innovating new products because of the risks that are involved. Kambewa & Tekere (2007) noted that small and medium enterprises contribute 13 percent to Malawi’s export revenue in exports of tobacco, tea, sugar and coffee.

2.4 Challenges SMEs are Facing in Malawi

Many studies have identified a range of challenges to the growth and development of SMEs in Malawi. Common hindrance to the development and growth of these firms are weak institutional and regulatory framework, high cost of doing business. Some of the challenges are weak value chain integration, lack of specific policies aimed at women and the youth, limited access to credit and business development services, lack of a strong, coherent and organized SME voice to represent the sector, inability to meet production standards and few or no opportunities to export their products. Ministry of Trade and Industry (2011) reports the following as the key constraints to MSME growth in Malawi and these include a poor investment climate, weak culture of entrepreneurship amongst indigenous Malawians, lack of access to capital and the high cost of capital for MSMEs, weak private sector support institutions, outdated policy, legal and regulatory framework, and unreliable and costly infrastructure services.

Ministry of Trade and Industry (2009) suggests that the main reasons for small business failure are lack of capital for business expansion, lack of business management skills. It further notes that there is lack of a level playing field that advantages foreigners over Malawians. Other factors include lack of skilled labour, low support by Malawians for Malawian businesses; high interest rates, costs and customs duty, and underhanded business practices in SMEs.

As many players operate in the sector, competition is stiff. The report also notes that difficulties in accessing credit due to the requirement for traditional forms of collateral, low awareness of the policy environment and rules and regulations, low knowledge of quality and standards requirements, unfavourable government procurement practices, difficulty in accessing export markets due to complex documentation and an inability to supply large orders, lack of export financing schemes and lack of adequate production premises. The Ministry of Trade and industry (2009) also cites lack of a national export strategy and citizen empowerment policy as constraints. Unpredictable policy application – such as a ban on exporting of some products earmarked for export – increases investment risk perception and uncertainty. Lack of transparency in procurement (for example in the construction industry) creates perceptions that contracts are awarded to those who have political connections and not on merit (Ministry of Trade and Industry, 2009).

Cultural and lifestyle factors also have a bearing on SME development. Some behaviours include a poor repayment records, poor customer service and overcrowded markets due to copycat entrepreneurs. There are also unethical business practices tarnishing the image of the sector, for example, most of the people who are involved in corruption are SMEs.

Although doing business is more rewarding than employment, Wilson & Bates (2003) say one-third of businesses fail within three years of start-up. That is a stark statistic, but not one by which aspiring and current entrepreneurs should feel enslaved. Business is a tough game, piled high with challenges, obstacles, and problems. They argue that owner-managers and founding directors face major dilemmas throughout both the start-up and growth phases of their businesses, such as how to write an effective business plan that allows initial finance to be raised; constructing a business and marketing strategy to drive business growth; how to find, hire and retain the best talent on the market; and how to manage business' finances effectively and aid its survival and growth beyond the initial two years of trading.

Many entrepreneurs may not have the entire requisite reservoir of skills and experience to meet these challenges; as a rule, few people do. The key to avoid becoming another statistic or being another failed business is to augment your skills to be smarter. Taking appropriate, relevant and practical advice is therefore a keystone in achieving commercial success (Wilson & Bates, 2003). Chauluka (2014) agrees with Wilson & Bates (2003) that doing business in Malawi requires individuals with "double skins", two hearts and growth in period in an army barracks.

He further stresses that business is really tough in the country; high interest rates, unfriendly suppliers, heartless banks and most of all, real ruthless competition without meaningful regulation.

Kihimbo, Ayako, Omoka, & Otuya (2012) report that in many emerging markets, the Small and Medium Enterprises sector is one of the principal driving forces for economic and job creation. SMEs and micro-enterprises constitute over 95 per cent of all enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization (UNDP, 1999).

However, inadequate access to financing continues to be one of the major significant impediments to the creation, survival and growth of SMEs in Africa. Further, owing to their high risk profile, SMEs in Africa largely remain an unattractive investment for mainstream investors. Of particular concern for investors are the country, currency and credit risks characteristics of many African countries in which SMEs operate (UNEP, 2007). SMEs financing constraints is attributed to high transaction costs, high collateral requirements and lack of guarantee credit instruments, deficiencies in legal systems, regulatory and policy problems and asymmetric information. In order to operate efficiently, SMEs require easy access to short and long term capital.

In general terms, it appears that lending to SMEs is seen as a high risk business since most of these enterprises lack collateral. However, the problem does not appear to be lack of funds in the financial institutions but rather how to make them accessible to SMEs. The available funds are often diverted to the larger enterprises and only an insignificant number of SMEs seem able to attract bank financing (United Nations, 1993).

2.5 Credit Policies

There are many policies that financial institutions put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not clear their loan repayment obligations in time. The collection effort should, therefore aim at accelerating collections from slow payers and hence reducing bad debt losses. A collection policy ensures prompt and regular collection for fast turnover of working capital keeping collection costs and bad debts within limits and hence maintaining collection efficiency. The collection policy specifies clear-cut collection procedures and hence dissuades conflicts arising from loan repayment periods, amounts and loan structure (Pandey, 2004). The policy analyses business viability position and business management by appraising the financial strength of the applicant, the firm`s quality of management and nature of the customer's businesses. The lender also conducts management audit to identify weakness of the customer's business management. If the nature of the customers' business is highly fluctuating or has financially weak buyers or the business depends on a few buyers, then it is risky to extend credit to such borrower (Weston & Brigham, 1982).

In addition, credit policies also considers credit limit (maximum amount of credit which the firm will extend at a point in time). It indicates the extent of risk to the firm by extending credit to a customer. Credit limit is also a function of the character of a customer (customer's willingness to pay and the moral factor). There are various methods employed to analyse credit worthiness. The debt capacity of the applicant is reflected in cash flow projection, forming the basis for the decision on the loan conditions and the payment plan .The willingness to pay is assessed either on the basis of his credit history or, if there is none, using statement of suppliers, neighbours on the borrowers reputation and how promptly the client repays loans. Further to that clients are also assessed based on their character and capacity for repayment and determine the appropriate loan amount using financial expertise.

2.6 Factors to Consider When Giving a Loan or an Overdraft

There are many factors that financial institutions take into account before advancing loans to borrowers. In most lenders, business development department is in charge of loan application. The department is responsible for credit analysis. The staff in the Credit Department goes through the application as delivered to them by the relationship managers and relationship officers requesting for a loan on behalf of the customer.

According to Lough (2009), lending organizations are concerned particularly with four things; First, the interest of making short-term loans. Second, the ability of the funds lent to be reconverted into cash. Third, a thorough understanding of the person or enterprise the bank is lending to including the inside workings of the firm or if an individual, how the person is going to spend the funds borrowed and finally , the security or collateral to be attached to the loan.

The bank would be interested in placing an acceptable proof that the collateral will cover the cost of the loan and not leave the bank exposed (worse off) and that the security should easily be convertible to cash. Many banks use some key factors before lending, such as; credit scoring, reputation of individual or firm , guarantee or security, creditworthiness assessment among other methods to extend a credit.

2.7 Malawi Government Support towards SMEs

The Government of Malawi (GOM) established a number of statutory and other institutions to create favourable environment for the private sector. These included the Malawi Export Promotion Council (MEPC) which merged with the Malawi Investment Promotions Agency (MIPA) to form the Malawi Investment Trade Centre (MITC), the Malawi Bureau of Standards (MBS), the Malawi Industrial Research and Training Development Centre (MIRTDC), Small Enterprise Development Organization of Malawi (SEDOM), Development of Malawian Enterprises Trust (DEMAT), and the Malawi Entrepreneurs Development Institute (MEDI) with the latter three organizations having been recently merged to form the Small Enterprise Development Institute (SMEDI). However, many of these institutions duplicate each other's' functions and are seen to be ineffective. MSME survey (2012) showed that for instance nearly two thirds of small businesses (62%) were unaware of institutional support.

Moreover, the GOM established Malawi Rural Finance Company (MRFC) to assist SMEs with soft loans to start and operate their businesses. However, this institution's activities were heavily politicized and most politicians got loans but they never paid back resulting in the liquidation of this institution and rendering its employees jobless.

2.8 Non-Performing Loans (NPLs) and Their Effects on Banks

There is no global standard to define Non-Performing Loans (NPL) at the practical level. Variation exists in terms of the classification system, the scope, and contents. A non-performing loan is a loan that is in default or close to being in default. Gilbert & Hazen (2001) define non-performing loans are those loans which are ninety days or more past due or no longer accruing interest. Hennie (2003) agrees that non-performing loans are those loans which are not generating income. This is further supported by Fofack (2005), who defines non-performing loans as those loans which for a relatively long period of time do not generate income that is, the principal and/ or interest on these loans have been left unpaid for at least ninety days. Non-performing loans are also commonly described as loans in arrears for at least ninety days.

Michael, Vasanthi & Selvaraju (2006) emphasized that NPL in loan portfolio affect operational efficiency which in turn affects profitability, liquidity and solvency position of banks.

In addition to the influence on profitability, liquidity and competitive functioning, NPLs also affect the psychology of bankers in respect of their disposition of funds towards credit delivery and credit expansion. NPLs generate a vicious effect on banking survival and growth, and if not managed properly leads to banking failures. According to this proposal, NPL is defined as assets not generating income and is when principal or interest is due and left unpaid for 90 days or more (Hennie & Sonja, 2009). Loan defaults are inevitable in any money lending institution. What banks do is to minimize the risk of defaults. NPL are loans that have defaulted or in danger of defaulting, when payment have ceased.

2.9 Causes of Non-Performing Loans

NPLs result from what are termed as defaults. In finance default, is the failure to meet financial obligations. These loans can occur due to usual banking operations, bad lending practices and banking crisis. Other causes are overhang components due to environmental reasons and business cycle, incremental component due to internal bank management, like credit policy, terms of credit among others

Tiwari & Sontakke (2013) attribute the rise in the nonperforming assets (NPAs) of both public and private sector banks to diversion of funds away from the original purpose for which they were granted, as well as wilful default (or misappropriation of funds) by borrowers. Besides that, adverse economic and market factors, ranging from recessionary conditions, regulatory changes and resource shortages to inefficient management and strained labour relations have impacted on the health of businesses, and driven them to default on their loan repayments. They further argue that banks themselves are responsible – delay in loan disbursement can throw a project off track, and have a cascading effect on its viability and capacity to repay. Tiwari & Sontakke (2013) reported that banks have also been known to take comfort in collateral, and hence not follow up diligently enough on loan dues. If the market value of the collateral is to drop, there is an immediate impact on the quality of the related loan asset.

2.10 Chapter Summary

The chapter has highlighted SME concepts, SMEs contribution to the economy, challenges SMEs face in Malawi, GOM supports towards SMEs, NPLs and their impacts on banks, causes of NPLs, factors considered when offering credit and credit policies among others. It is imperative to note that although a number of studies have been conducted in both developed and developing countries, their findings cannot be applied to the Malawi set up in their entirety due to another of differences that occur.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter provides a research methodology that was adopted for the study. The following are the key issues that have been included in the chapter are: research design, target population, sample size, questionnaire design and administration, data analysis

3.1 Research Design

The study was conducted by using a survey where the researcher completed a questionnaire during interviews with respondents. The advantages of using surveys are that they allow the collection of a large amount of data from a sizeable population in a highly economical way. A survey strategy gives the researcher more control over the research process and, when sample is used it is possible to generate findings that are representative of the whole population at a lower cost than collecting the data for the whole population (Saunders, Lewis & Thornhill, 2007).

Indebank had 16 Service Centres countrywide and 9 Service Centres were located in Central Region and all these 9 Service Centres were included in the study. These ervice centres were Lilongwe, Capital City, Bwaila, Mchinji, Kasungu, Salima, Mponela, Gateway Mall and Kanengo. The rationale for choosing all Service Centres located in Central Region was that they were located at the centre of the country where the researcher operated from. In addition to that it was cheaper for the researcher to visit all the service centres.

The research adopted the phenomenological paradigm. This paradigm is concerned with understanding human behavior from the participant's own frame of reference (Collis & Hussey, 2003). Unlike the positivistic approach which emphasizes on measurement of variables, the phenomenological paradigm stresses the subjective aspects of human activity by focusing on the meaning rather than the measurement of social phenomena (Collis & Hussey, 2003). The research also utilized both qualitative and quantitative approaches. Qualitative approach concentrates on words and observations to express reality and attempts to describe people in natural situations whereas quantitative approach uses unambiguous, predefined coding system and produces counts or frequencies that may be tabulated and analysed using standard statistical technique (Saunders et al., 2007).

3.2 Population

Table 3-1 indicates the bank's borrowing customers. Indebank had nine service centres across central region with a population of 165 SME borrowers who were in arrears at the time the survey was conducted and these borrowers were targeted for interviews. Indebank's internal records showed that as at 15th November 2015, during which the survey was conducted, it had 165 defaulters.

Table 3-1: Borrowers

Service Centres	Number of Borrowers (defaulters)
Bwaila	9
Capital City	30
Lilongwe	60
Salima	11
Kasungu	12
Mponela	16
Gateway Mall	7
Mchinji	10
Kanengo	10
Total	**165**

3.3 Sample Size and Sampling Methods.

The researcher used a sample size of 117 respondents out of the total population of 165 defaulters. These clients were the ones who did not make any attempt to pay interest on loan on time thereby contributing to generation of nonperforming assets which in turn reduced the profitability of the bank.

The researcher used probability sampling (simple random sampling). The simple random sampling technique was used to select the sample clients. Each customer was assigned a number and random numbers were generated for the selection. This provided a more rigorous and representative analysis. The random sampling technique assisted in selecting a sample that was representative of the total population. The sampling enabled the researcher to generalize the research findings to the total population.

The sample size was calculated using the formula by Yamane, (1967)

$$n = \frac{N}{1 + Ne^2}$$

where, n = sample size; N= population size

e = level of precision.

Therefore, using 95% confidence level thus,

$$n = \frac{165}{1+165(0.05)^2}$$

Which is 117.

The researcher used 95% confidence level which gave a manageable and reasonable number of the sample population, a number which could be reached by the researcher.

The sample of nine service centres of Lilongwe, Capital City, and Bwaila, Mchinji, Kasungu, Salima, Mponela, Gateway Mall and Kanengo were chosen and all visited by the researcher. These service centres were chosen because they are located at the centre of the country where the researcher operates from and it was convenient and cheaper for the researcher.

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3.4 Data Collection

3.4.1 Primary Data

Primary data was gathered for the research from the borrower’s business place. This was to ensure that the exact and first hand data for the study was obtained. The types of information such as the perceptions and attitudes of entrepreneurs are best obtained by talking to them. The researcher obtained primary data by administering questionnaires and interviewing individuals.

3.4.2 Secondary Data

Secondary data was also used in the study. Secondary data is data gathered through existing sources. That is, they are data that already exist and do not have to be collected by the researcher. The researcher used secondary data namely documentary secondary data and survey secondary data. Saunders et al. (2007) note that documentary secondary data are often used in research projects that also use primary data collection methods. In this study, the researcher used the Indebank’s annual reports, memos, and management accounts among others.

3.4.3 Questionnaire Design

Questionnaires were used to collect data (refer appendix 1 and 2). The questionnaire for customers was divided into two parts. Part (A) gathered information about the respondents' demographics and part (B) had 12 survey questions. The questionnaire for bank officials was also divided into two parts. Part (A) gathered information about the respondents' demographics and part (B) had 9 survey questions.

The respondents were grouped into four age groups of youths, middle aged, and very aged. The youths were those aged between 18 and 34 years, middle aged were those aged between 35 and 50 years, the aged were those aged 51 to 60 years and 61 and above were classified as very aged. The respondents had various educational background and different age groups.

3.4.4 Questionnaire Administration

The researcher visited the sampled service centres and the respondents were randomly selected by the system. The survey was conducted towards the end of November and beginning of December, 2015.

A semi structured questionnaire was administered to bank officials. A questionnaire was also sent to Indebank's three SME Relationship Managers, three SME Relationship Officers and four Branch Managers who manage SME portfolios bank wide. It should be noted that these bank officials are involved in SME lending activities for at least two years.

3.5 Data Analysis

Data was analysed by using SPSS package. Tables and charts were used to display the results. Indebank internal data was also used to back up the results of the study. The internal data was presented in Microsoft Word and Microsoft Excel.

3.6 Ethical Considerations

Ethical considerations of confidentiality and privacy were addressed in the study. A concerted and conscious effort was made at all times to uphold this promise. Each participant was made fully aware of the nature and purpose of the research. No information would be made public (if necessary) without prior consent of the concerned individuals. All necessary written approvals were granted to the researcher before any part of the questionnaire administration was conducted. Inherent to those guidelines was the promise of anonymity for the respondents. As such, no identifying questions were asked to the respondents and in no way could the researcher track a respondent based on his or her responses to the questionnaire.

3.7 Chapter Summary

This chapter has highlighted the research methodology employed in the study. The chapter has highlighted a research design, population, sample size, and sampling method that were used in the study. The chapter has also presented the instrument used, data collection methods, data analysis and presentation and ethical consideration.

CHAPTER FOUR

PRESENTATION OF RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents the findings of the study based on the data collected. A total of 91 respondents were interviewed out of 117 respondents targeted. This represented 78% response rate. It was not possible to achieve 100% as some interviewees declined to be interviewed whereas others had cleared their arrears prior to the interviews. The responses were compiled into frequencies and some were converted into percentages and presented in graphic and tabular forms; this was to facilitate easy analysis. The study also targeted 10 bank's relationship managers and relationship officers and branch managers. All targeted ten members of staff responded and this represented 100% response rate. The analysis was done based on each question asked by the researcher in the interview guide. However the findings and interpretations were done on the basis of study objectives.

4.1 Demographic Characteristics of the Customers

Ninety one SMEs from 9 Service Centres responded to the questionnaire. The demographic information was captured in order to determine the gender, age, education level of respondents. This was important because it enhanced reliability and gave the basic understanding of the respondents who took part in the study. Table 4-1 presents the demographic profile of the sampled customers.

Table 4-1: Demographic Characteristics of Customers

Characteristics	Variables	Frequency	Column N%
Gender	Male	79	87
	Female	12	13
	18- 24 (Youth)	33	36
Age Range	35-50 (Middle aged	51	56
	51- 60 (Aged)	7	8
	Primary	11	12
Qualification	Secondary	66	73
	Tertiary	14	15

In the table it is clear that males dominated the study, comprising about 87% of the sample whereas female were 13%. Even though the study could not achieve a 50/50 percent gender representation, the views of both genders were well represented in this study

The study shows that most customers were middle-aged 35 to 50 years old representing 56% of all respondents while 36% of respondents were between 18-34 years of age stood at 36%. Majority of the respondents fell in these two age brackets, this shows that the employees are experienced and capable of dealing with the challenges the businesses face. Only % were aged between 51 to 60 years old.

The respondents had various educational backgrounds. There were no customers that had no formal education as many of them (73%, n = 66) had attained a secondary level education, tertiary were 15% and primary were 12%. This shows that majority of the customers are somehow educated and are able to make good business decisions concerning their ventures.

4.2 Distribution of SMEs by Business Sector

The study sought to determine the distribution of SMEs by business sector.
Table 4-2 presents the findings of the study.

Table 4-2: Business Sector

Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Wholesale, retail, trade	27	29.7	29.7	29.7
Health	10	11.0	11.0	40.7
Tourism	6	6.6	6.6	47.3
Services	3	3.3	3.3	50.6
Housing	2	2.2	2.2	52.8
Construction	15	16.5	16.5	69.3
Agriculture	21	23.0	23.0	92.3
Transportation	7	7.7	7.7	100
Total	**91**	**100**	**100**	

Thirty percent of the SMEs were in the wholesale, retail and trade sector. Wholesale, retail and trade sector dominated the study because there are no major entry and exit barriers. Once an individual has start-up capital he can just register his business at Registrar General's office by just completing business registration forms and presenting an identification which can be a passport, driving licence or a voter registration certificate. There are no further requirements apart from that. The results of this study agrees with RBM's 2014 Report which stated that total credit for wholesale and retail led in October 2014 with the sector claiming about 25% of the total private sector's debts, way ahead of agriculture and manufacturing, which are principal drivers of economic growth and employment.

The results of the research indicated that Agriculture came second with 23% which concurs with the report by RBM (2014) which showed that while wholesale and retail trade accounted for a quarter of total credit in December 2014, agriculture, the main driver that contributes over 30% of gross domestic product (GDP), wires in over 80% of foreign exchange and employs 90% of the workforce, claimed 20% of credit. The Private Sector Development Programme (2011) noted that Agriculture contributes 60% towards GDP hence the backbone of Malawi's economy. Government has been urging Malawians to focus much on agriculture. It has been providing subsidies in form of farm inputs namely seeds, fertilizers and some pesticides. Due to these subsidies, more Malawians have resorted into growing different crops hence most SMEs have started to take part tobacco farming and farm produce businesses.

The study revealed that construction industry is also well patronised as it came third with 17%. Since Malawi's economy is agro based, most of its farm produce is transported through roads. Road Authority (2014) says that it is due to large volume of internal freight and passenger traffic that the government has given priority to maintenance and construction of the roads in Malawi. The tarred roads attract investors and spur economic growth, resulting in improved livelihoods for the people. Health sector is ranked fourth with 11%. This is one of the lucrative business sectors in the country as most public hospitals, clinic and health centres are always do not stock enough medicine due to reduced funding from the government. Private businesses have identified the opportunity by establishing hospitals and clinics to complement government efforts. This followed by transportation at 8%, then tourism with 6%, services at 3% and lastly housing at 2%.

4.3 SME's Experience in Business

The study sought to determine customers experience in the business. Figure 4-1 presents the findings.

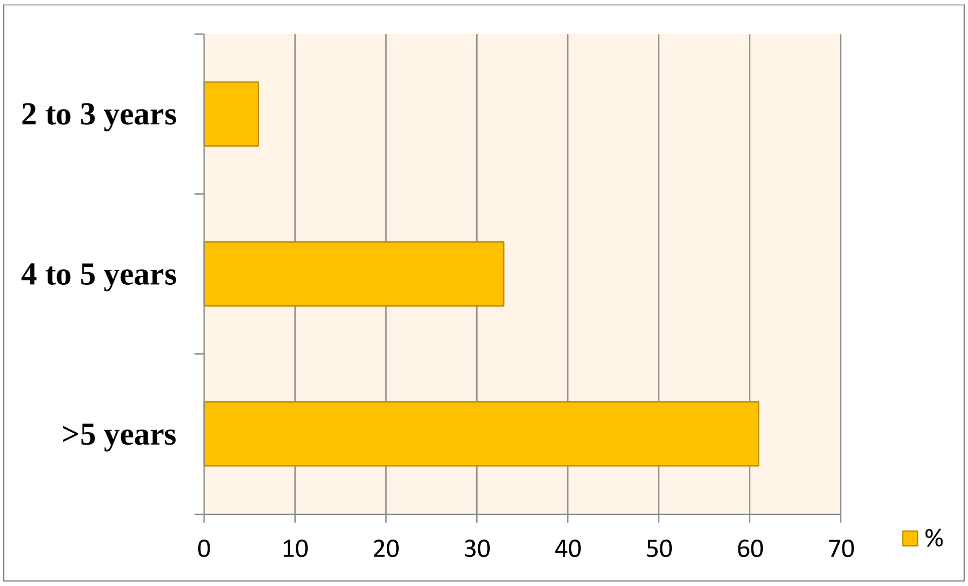

Figure 4-1: Customers Experience

The study revealed that fifty five customers representing 61% had done business for over 5 years, 30 customers representing 33% had been in business for 4 to 5 years and lastly 6 customers representing 6% had been in business for a period between 2 to 3 years. From this information, it can be concluded that most of Indebank's customers have enough experience in running their businesses. Experience in a similar field or the same industry of course means that a person has greater understanding of that market. The finding is supported by Scherer (1991) who notes that experience gives an entrepreneur more confidence in a certain area than if he has never been there and also helps to foresee problems clearly and find ways on how to mitigate those problems. He further says that experience also helps the businesspersons to identify the customers, marketing strategies and opportunities for growth.

4.4 Business Management

The study sought to determine who ran the business on daily basis.Table 4-3 presents the findings about who ran the customers' businesses.

Table 4-3: Who Runs Business on Daily Basis

Who Runs Business	Frequency	Percent	Valid Percent	Cumulative Frequency
Self	11	12.1	12.1	12.1
Self and family	18	19.8	19.8	31.9
Family members	2	2.2	2.2	34.1
Self and non family	60	65.9	65.9	100
Total	91	100	100	

When asked who ran their businesses on daily basis, 66% of the business owners indicated that their businesses were run by themselves and some employees. This finding of the study agrees with findings of Harvie & Lee (2005) and World Bank (2009) which reported that SMEs are important to economic growth and are significantly essential provide employment to other people while 20% were run by self and family members, 12% were solely run by business owners and finally 2% were run by family members.

4.5 Whether SME had Overdraft with any Institution Before Indebank

Figure 4-2 presents the results of the customers who had or had no facility with any institution before accessing one from Indebank.

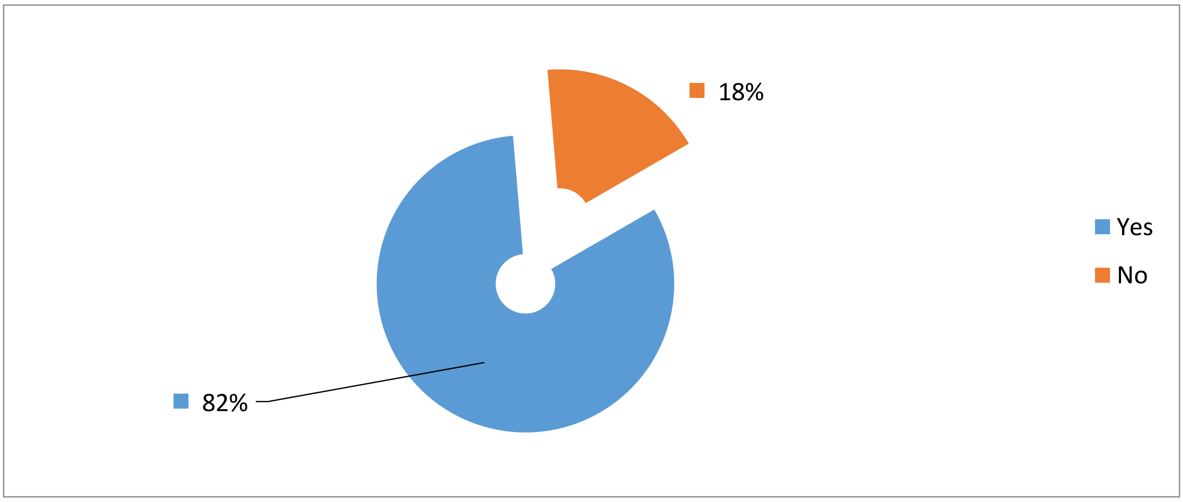

Figure 4- 2: Customers Who had Facilities with other Institutions

Most SMEs (82%, n=75) indicated that they had a loan with some other institutions before Indebank Ltd whereas 16 SMEs representing 18% responded that they had never borrowed from any financial institution before. From lending perispective, once the customer has satisfactorily serviced the facility, he or she will borrow again from the same lending institution. Embedded in this concept is the assumption that this would allow a bank to make more accurate credit decisions, aided by a wealth of information on existing customers and the ability to consider a customer's lifetime value. However, this has led customers borrowing from two or more lending institutions. The effect of multi-borrowing, according to Krishnaswamy (2007) noted that multiple borrowers have been found to have equal or better repayment records than their single borrowing peers in the same villages. Contrary to Krishnaswamy (2007), a number of incidences of failure to repay because of multiple borrowing have been reported. For example, Wisniwski (2010) found that multiple borrowers had increasingly high debt levels and repayment obligations, which they frequently could not fulfil because of over-indebtedness.

4.6 Status of the Facilities

The business owners were asked to indicate the status of their facilities in order to determine the level of default in loan repayment. Figure 4-3 shows status of the facilities.

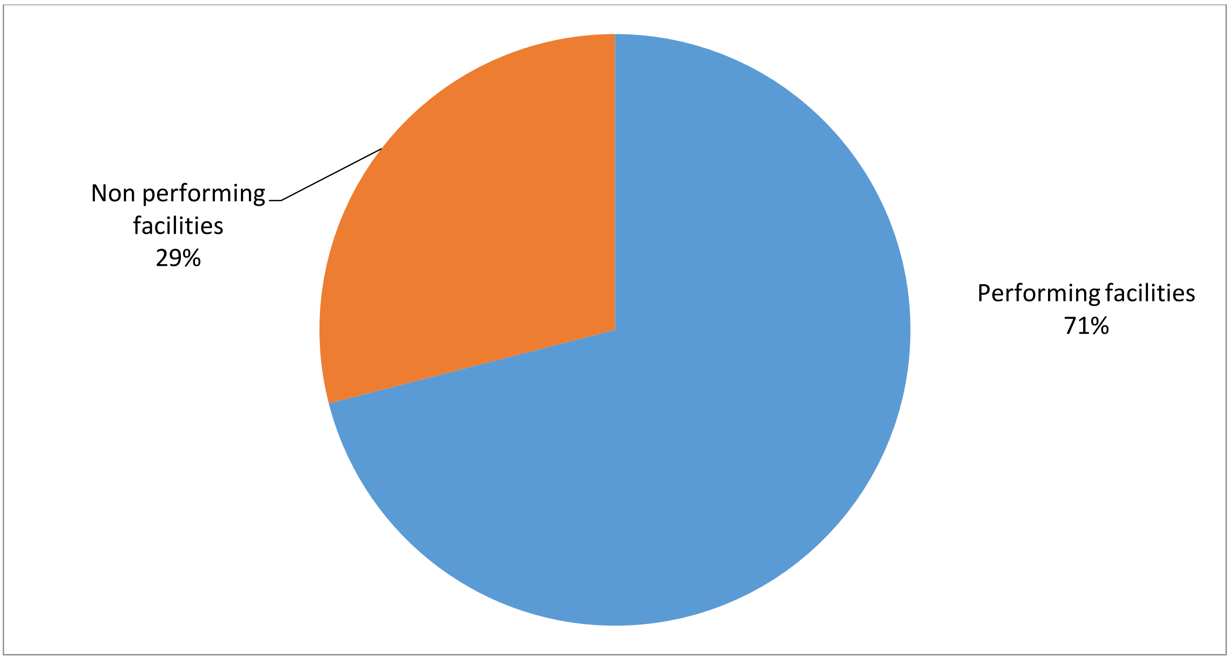

Figure 4- 3: Status of Facilities

Based on the responses and in line with acceptable banking practices, the loans are classified into performing loans/overdrafts and nonperforming loans/overdrafts. The majority of SMEs (71%) indicated that the facility they were servicing at the time of the study was normal (performing). However, 29% of the respondents said that their facilities were not normal (nonperforming or were in arrears. This is supported by RBM (2013) which reported that non-performing loans as a percentage of gross loans and leases increased to 13.6 percent in September 2013 from 11.6 percent in March 2013. RBM further observed that non performing loans' ratio was higher than the ratio of 6.5 percent, which was recorded in September 2012.

4.7 Default by Sector

The study sought to determine the sectors which contributed to high default rate. Figure 4-4 shows that there were several sectors which contributed to high default rate.

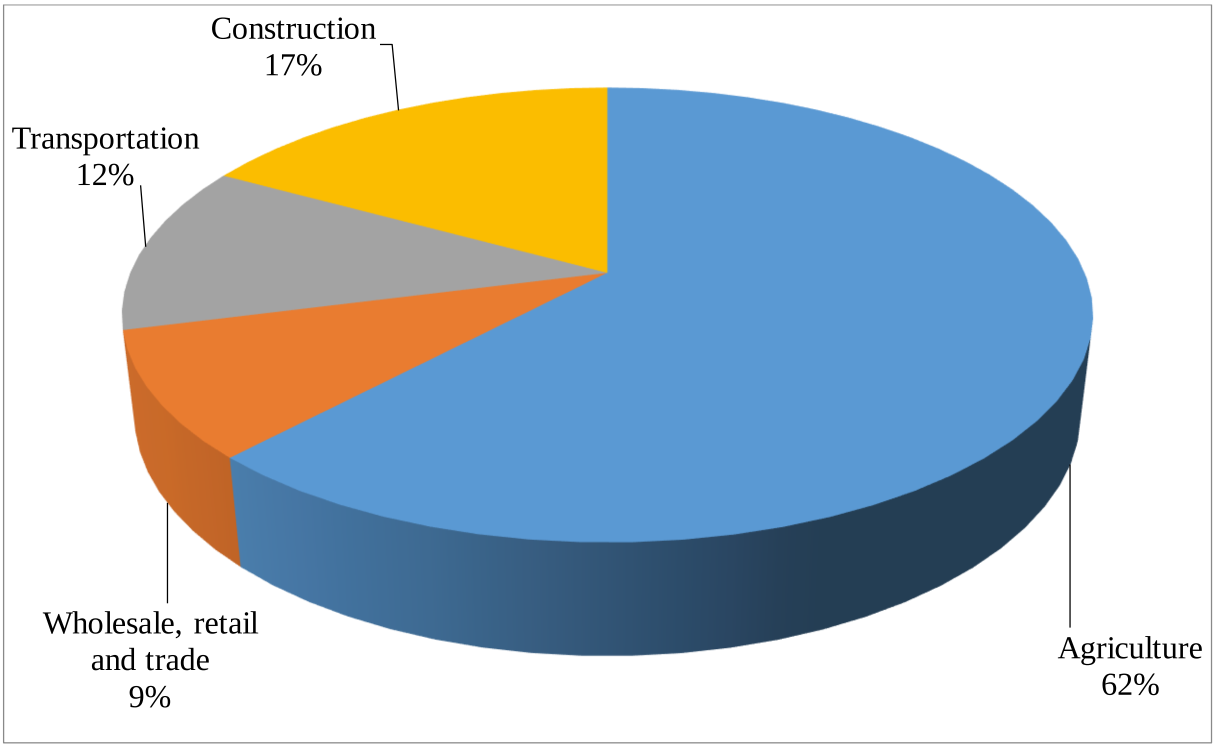

Figure 4- 4: Default by Sector

The study indicated that agricultural sector dominated the non-payment of facility totalling 62% followed by construction which stood at 17%, transportation stood at 12% and finally wholesale, retail and trade at 9%. This concurs with RBM (2014) which observed that wholesale, retail and trade sector deals in fast moving products which are on high demand hence low default cases.

4.8 Reasons for Delayed Repayment

Customers were asked about the reasons for not paying on time. Figure 4-5 presents varying responses.

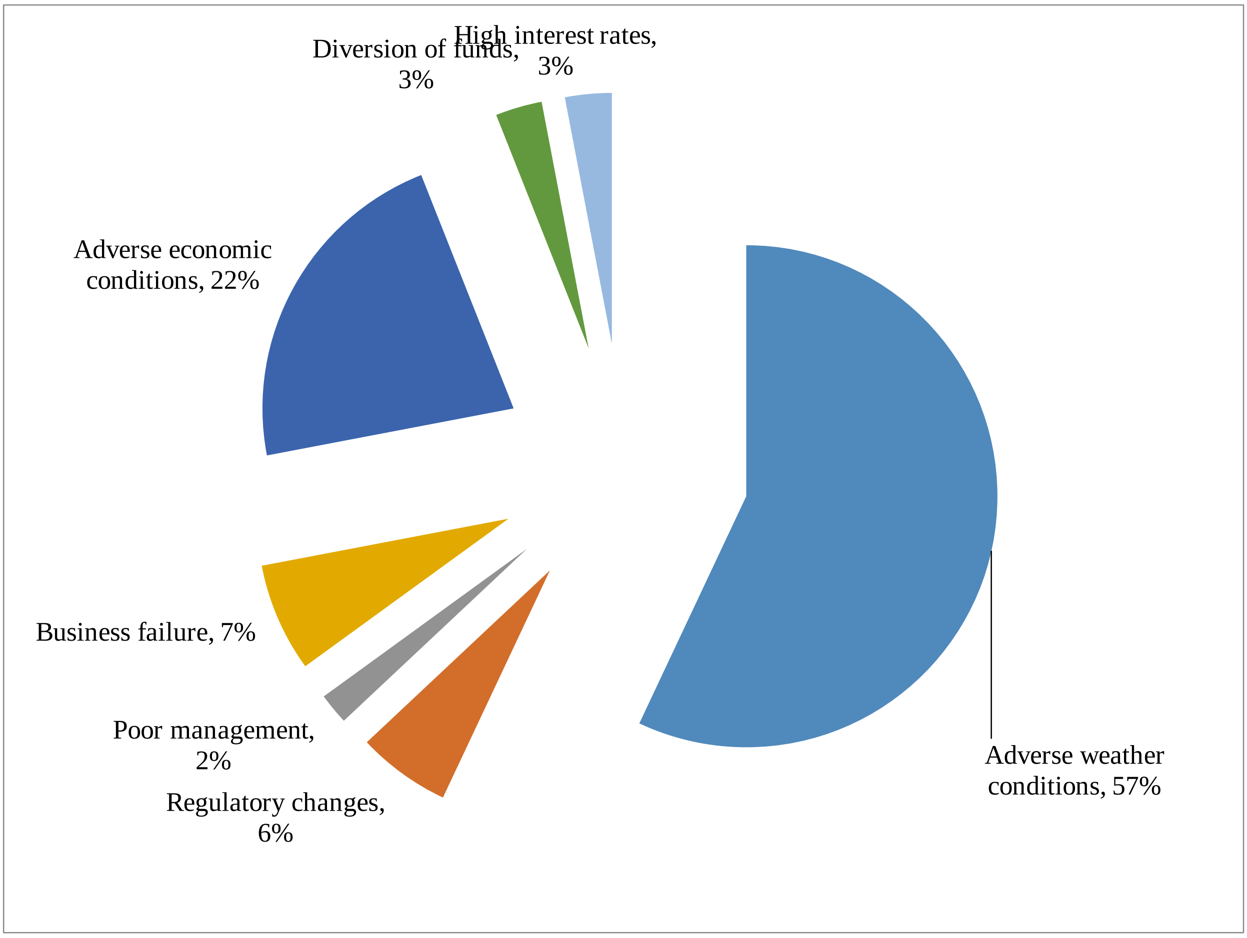

Figure 4- 5: Reasons for Delayed Repayment

The study indicated that 57% of respondents said that they were heavily affected by adverse weather. The findings of this study agrees with RBM (2014) which reports that real gross domestic product (GDP) grew by 5.7% in 2014 but slowed down to 2.8% in 2015 as Malawi suffered from dual challenges of adverse weather conditions and macroeconomic instability. Flooding in southern districts followed by countrywide drought conditions saw a contraction in agricultural production. Maize, the key crop for food security purposes, saw a 30.2% year-on-year drop in production. As a result, an estimated 2.8 million people (17% of the population) were unable to meet their 2015/16 food requirements. This is followed by adverse economic condition at 22%. Business failure was the third reason as it was indicated by 7% of respondents followed by regulatory changes at 6%, then high interest rates and diversion of funds at 3% and lastly poor management scooped 2%.

4.9 Relationships Manager/Officer/Branch Managers Visit to Customers

The study sought to determine how often managers and officres visited the customers. Table 4-4 presents the findings of the study.

Table 4-4: How often do Managers Visit their Customers

Visited	Frequency	Percent	Valid Percent	Cumulative Frequency
Never	12	13.2	13.2	13.2
Weekly	6	6.6	6.6	19.8
Fortnightly	20	22.0	22.0	41.8
Monthly	53	58.2	58.2	100
Total	**91**	**100**	**100**	

The study indicated that 58% of the respondents were visited once a month, 22% were visited every fortnight, 7% were visited once a week. These findings agree with credit policy which requires that any customer who is servicing a loan, an overdraft or any other facility should be visited at least once a month (30 days) by the relationship manager or branch managers (Indebank Ltd, 2011). This is to ensure that red flags are detected earlier and corrective action should be taken to deal with the situation.

Lastly, 13% of the respondents indicated that they were never visited at all. This is contrary to the requirements of the credit policy which require that a borrowing customers is visited at least once a month (Indebank Ltd, 2011). Although more businesses were visited by the managers and officers it is clear that that some customers were not visited. This shows that managers and officers failed to detect red flags which could have shown that businesses were facing problems. This is not surprising that there is low repayment rate at Indebank as early warnings were totally missed. By detecting early warnings, the bank could have taken some steps to arrest the situation.

4.10 Challenges that SMEs Face in Running Their Businesses

The study sought to determine the challenges that SMEs face in running their businesses. Figure 4-6 below presents findings of the study.

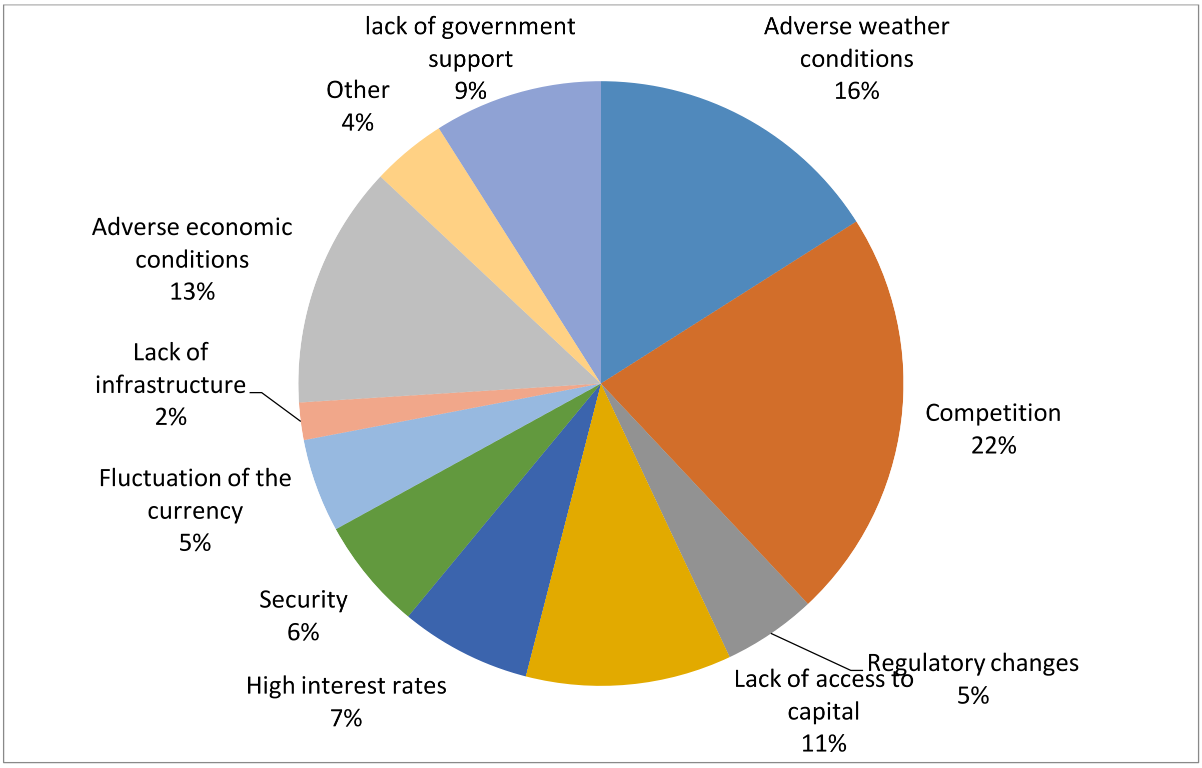

Figure 4- 6: Challenges Faced by SMEs

The respondents gave a number of challenges which they face in their business which had an adverse effect on loan repayments. Most of them indicated competition as a major challenge (22%). The findings of the study agrees with Capon, Capon & Hulbert (2009) who say that competition erodes away even what appears to be the most sustainable differential advantage. They further say that maintaining differential advantage is marketing's most fundamental challenge. Adverse weather conditions stood at 16% and then adverse economic conditions (13%). The findings collaborate with RBM (2015) which noted that Malawi was heavily affected by adverse weather conditions and there was need for government to assist its people through provision of free foods as most fields were swept away by floods and some areas did not receive enough rains. According to Cheah & Cheah (2005) economic crisis has constrained the development process in many developing countries which has a great impact on SMEs as they play an important role in these countries. It is argued that SMEs are more vulnerable to economic crisis and due to their small size they have limited resources such as finance, knowledge, technology and skills (Cheah & Cheah, 2005).

The other challenge that was revealed by the study was lack of access to capital (11%). The findings of this survey corroborate with the findings of Sleuwaegen & Goedhuys (2002) who assert that insufficient capital or lack of financial sources is the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial resources to start up their business and to expand the operations, since the internal financial sources are normally insufficient.

Lack of support from the government (9%) was another challenge. This confirms what Harvie & Lee (2005) found that there has been an increase in government policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, though there is still lack of laws, administrative procedures and support from governmental agencies, thus, their legal standing are weakened. The significance of SMEs within an economy emphasize the importance of having government policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs.

Other challenges which were identified by the survey were high interest rates, security, regulatory changes, fluctuation of local currency and lack of infrastructure.

4.11 Whether SME Accessed Loan Facilities from Other Institutions Apart from Indebank

Customers were asked to indicate whether they also borrow from other financial institutions apart from Indebank Ltd. Figure 4-7 presents results of the study.

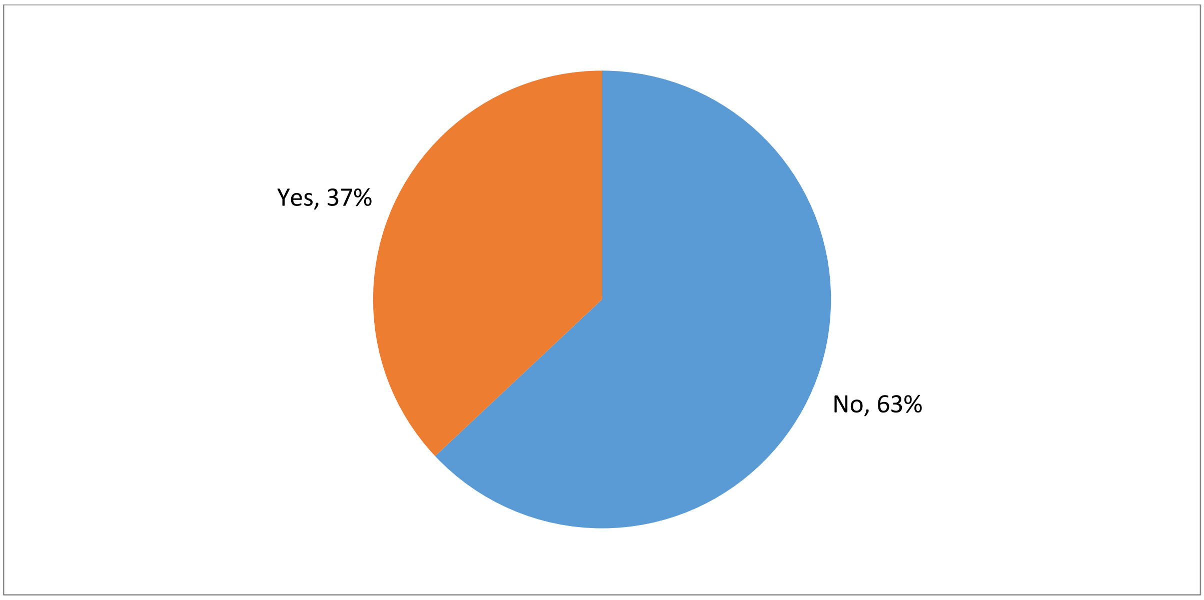

Figure 4- 7: Customers who Accessed Funds from Other Institutions

Sixty three percent of businesses indicated that they did not access loan facilities from other institutions apart from Indebank. This agrees with National Bank of Malawi (2011) states that one of the canons of good lending is to satisfy the needs of the customer to obviate multiple borrowing which will make repayment difficult. It further says that is better to decline the whole request than extend half of it just because that is what the customer qualifies for when it is clear that success of the project/business transaction depends on the full amount requested. Despite servicing a facility with Indebank, 37% of the business owners responded that they were also borrowing from other lenders. Indebank Ltd (2015a) noted that some of the Indebank's customers who were in arrears were also borrowing from other banks. The findings indicated that multi borrowing is one of the reasons that contributed the rising nonperforming loans at Indebank.

4.12 Reasons for Multi-borrowing

The study sought to find out about the reasons why customers are multi-borrowing. Figure 4-8 presents the results of the findings.

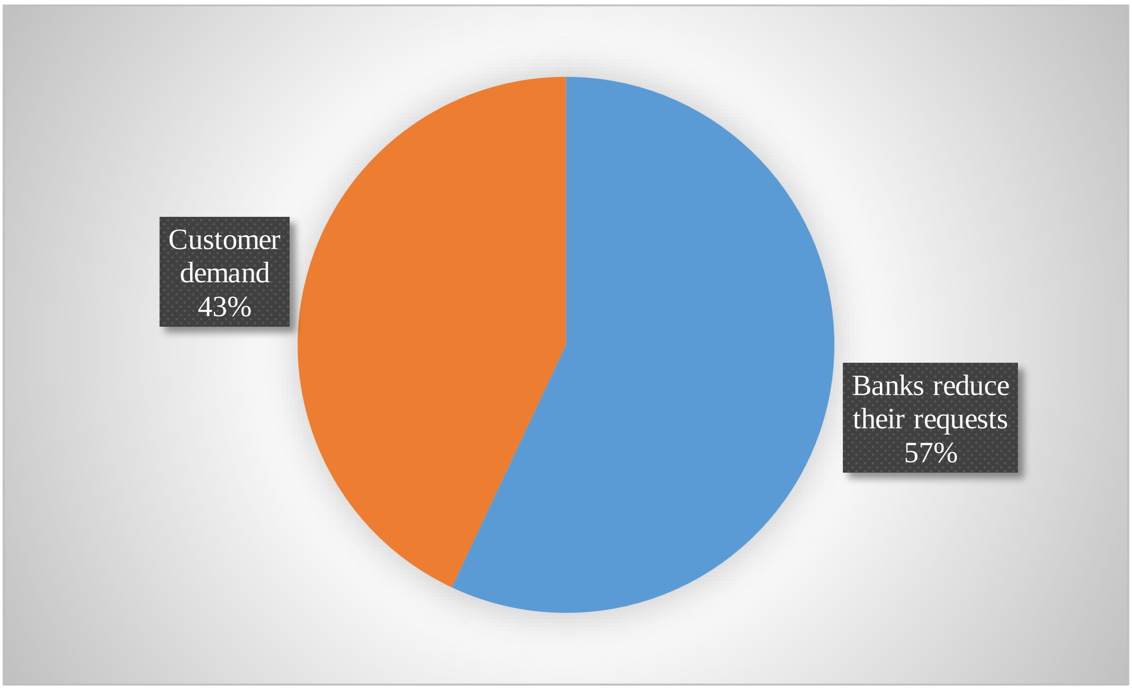

Figure 4-8: Reasons for Multi-borrowing

The results of the findings indicated that 57% of the respondents who multi-borrow said that they borrow from several institutions because banks reduce their requested amount. The findings are supported by Lough (2009) who noted that bank customers are likely to multi-borrow if their initial request is reduced without apparent reasons and without engaging the concerned customers. Lastly 43% of the respondents said that they multi-borrow because there is always high demand of their products from their customers. So based on demand, banks do not always top up the customers' additional loan requests. As a result of this, customers engage in multi-borrowing.

4.13 Categories of Lending institutions for SMEs

The study sought to determine the categories of lending institutions which SMEs also borrowed apart from Indebank. Figure 4-9 presents results of categories of money lending institutions accessed by SMEs who borrow from other institutions, apart from Indebank.

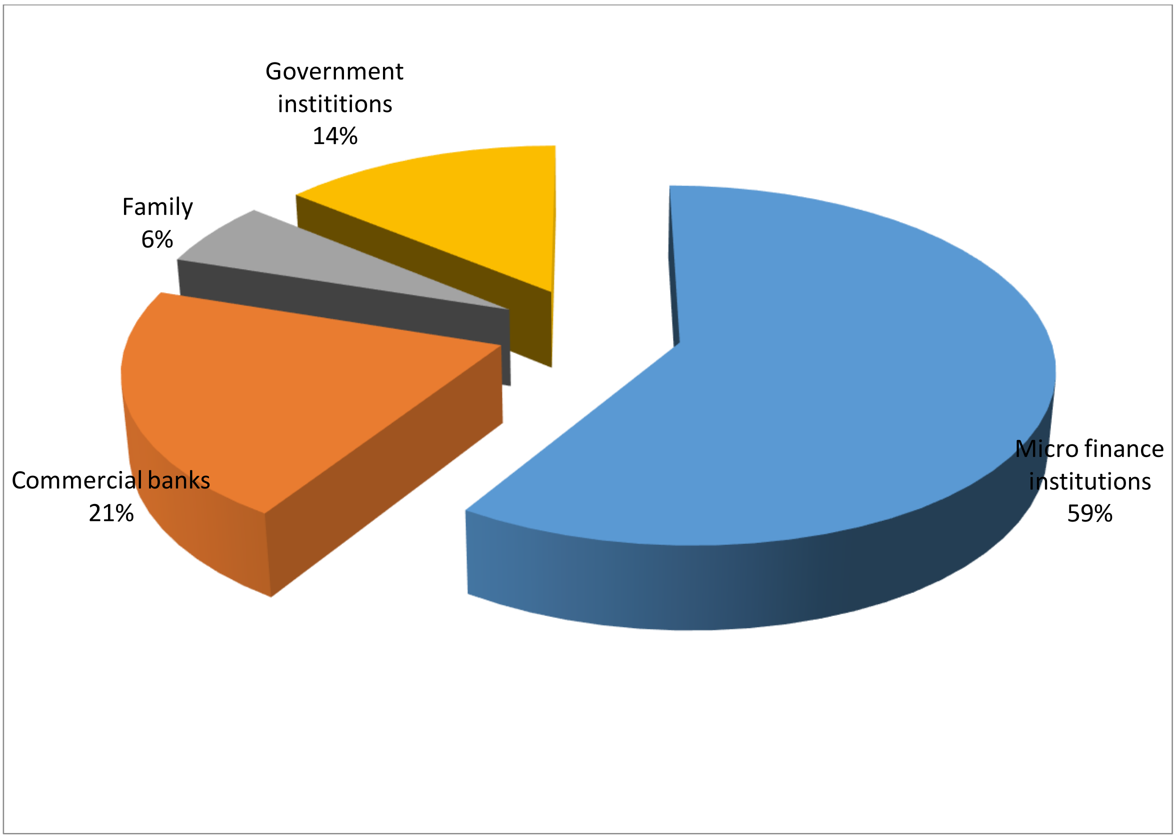

Figure 4- 9: Categories of Lending Institutions

The study revealed that 59% of the respondents indicated that they were also borrowing from microfinance institutions (MFIs). This finding concurs with Krishnaswamy (2007) who reports that clients do not reveal their borrowings/membership with other providers (and also MFIs do not share the information with other MFIs). He further noted that MFIs' aggressive growth plans force poaching the existing clients of other MFIs as the members have proved their credit history. This is followed by commercial banks at 21%, then government institutions at 14% and finally family stood at 6%.

4.14 Responses from Bank Officials

4.14.1 Sicio-Demographic Characteristics of Bank Officials

The study also targeted three relationship managers, four branch managers and three relationship officers from all nine service centres from Central Region. One relationship manager and one relationship officer were interviewed from each of the following service centres; Capital City, Lilongwe, and Kasungu whereas branch managers only were interview from Bwaila, Mchinji, Kanengo, Salima Service Centres. These people were the ones who were handling SME related issues at their respective service centres.

Table 4-5 presents demographic characteristics of relationship managers and officers.

Table 4-5: Socio-demographic Characteristics of Bank Officials

Variable	Frequency	Percent	Valid Percent	Cumulative Percent
Gender				
Male	6	60	60	60
Female	4	40	40	100
Total	**10**	**100**	**100**	
Age Range				
26-30	2	20	20	20
31-35	5	50	50	70
36 and above	3	30	30	100
Total	**10**	**100**	**100**	
Highest Education Attained				
University	10	100	100	100
Experience in Current Position				
2 to 3 yrs	1	10	10	10
4 to 5 yrs	4	40	40	50
Above 5 years	5	50	50	100
Total	**10**	**100**	**100**	

Among the 10 managers and officers, 4 were females, representing a sex ratio of 0.67 female managers to 1 male manager. About half of these managers (n=5) were aged between 31 and 35 years, inclusive. Almost all the managers and relationship officers in the study had attained university as their highest level of education. Regarding their experience, about half of these managers had been in the managerial position for over five years, with 1 manager having between 2 to 3 years of experience at that level. It could be deduced that Indebank probably by policy does permit an official stay in one position for more than four years and that the bank believes that employees with university degrees are more capable of achieving its objectives than those without degrees.

4.14.2 Number of Borrowers on Portfolio

The managers and officers participating in this study were requested to indicate the number of borrowers they had on their respective portfolios. Table 4-6 presents the findings.

Table 4-6: Number of Borrowers in a Portfolio

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	>10<=15	5	50.0	50.0	50.0
	>15	5	50.0	50.0	100.0
	Total	10	100.0	100.0	

The results of the study indicated that 50% of the managers and officers had about 11 to 15 borrowers on their portfolio, while the remaining 50% had over 15 borrowers. This clearly shows that the managers and officers are handling a manageable number of borrowers in their respective portfolios and they can be able to visit all of them on monthly basis.

4.14.3 Managers' and Officers' Visit to Customers

The study sought to know how often managers and officers visit their customers. Table 4-7 presents the findings of the study.

Table 4-7: How often do Bank Officers Visit their Customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weekly	1	10.0	10.0	10.0
	Fortnightly	5	50.0	50.0	60.0
	Monthly	4	40.0	40.0	100.0
	Total	10	100.0	100.0	

Only one of the ten interviewees indicated that he visited SME owners and their business places weekly, 5 visited them every fortnight, with 4 indicating that they visited them monthly. However, this is contradicted what business owners said. It was found that 13% of customers said they were never visited at all. Based on what customers said, it can be concluded that senior managers of SME department whom relationship managers, branch managers and relationship officers report to are not enforcing these managers and officers to write call reports about each and every borrower on their portfolios. These call reports are evidence of customer visits and they detail about business performance and any issue that affect the business and the owners.

4.14.4 SME Credit Policy

The study sought to investigate whether the bank's credit policy clearly addresses SME issues. Table 4-8 presents the findings.

Table 4-8: Whether Bank's Credit Policy Addresses SME Issues

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	10	100.0	100.0	100.0

All interviewees in all service centres said that the bank has SME credit policy in place and they indicated that their credit policy addresses some SME credit issues. However, despite the policy being in place, managers and officers pointed out that this policy was derived from Corporate Credit Policy and some issues are leaning towards corporate world rather than addressing SME issues. This is contradictory to National Bank of Malawi (2011) which asserts that the bank will always face credit risk in lending, be it in statement of financial position or off statement of financial position activities. This risk has to be proactively managed. In view of such risks, credit facilities, be they funded or non-funded, will be granted only where the identified and assessed level of risk is deemed acceptable. National Bank's policy covers every class of lending and does not lean towards one product.

4.15 Challenges Encountered by Indebank Ltd in Debt Recovery

Managers and officers were asked list the challenges that the bank is facing in recovering debts. Table 4-9 presents the findings.

Table 4-9: Challenges Facing the Bank in Debt Recovery

Lack of credible information on borrowers
Legal challenges
Diversion of funds
Untraceable and unsalable collaterals

All managers and officers said lack of credible information on borrowers, legal challenges, diversion of funds and untraceable and unsaleable collaterals as the major challenges the bank faces in debt recovery.

4.15.1 Lack of Credible Information on Borrowers

Malawi's Parliament passed an Act in 2013 which established Credit Reference Bureau (CRB) however, this in not fully operational. This has exacerbated the defaults as one person is able to borrow from several lending institutions without being traced that he is borrowing from other institutions. This finding agrees with Africa Economic Outlook (2005) which reports that in Africa, many banks have suffered financial distress and failure due to non-performing loans. Afica Economic Outlook (2005) further states many local banks fail to avoid defaults due to poor creditworthiness assessment and lack of Credit Reference Bureaus among others.

Further to that, RBM issued a directive whereby each and every bank should implement Know Your Customer (KYC). This is where the bank must have all information for its customers. This information in most cases has not assisted in tracing defaulters. When the bank sends demand letters or repossession orders, they fail to trace the whereabouts of the borrowers. This has been proved to be big challenge as it is impossible even present court orders to defaulters.

4.15.2 Legal Challenges

Managers and officers noted that with the advent of democracy in Malawi people have become so empowered and the majority of them know their rights very well. When banks want to repossess tangible collateral in order to get back their money, customers often will go out of their way to use the courts to delay recovery process by obtaining injunctions or suing the financing institution. Many defaulters have taken advantage of this process to keep the bank off any repossession and this has seriously hurt the bank's debt recovery process leading to heavy costs. This is in agreement with National Bank of Malawi (2011) which demonstrates that there are some borrowers (either natural persons or legal entities), who seek all possible solutions to avoid the collection being aimed at the pledged property, obstruct smooth course of insolvency proceedings, and try to prevent the real estate sold in auction from being taken over in freehold and possession of the new acquirer (winning bidder).

4.15.3 Diversion of Funds

There are situations where customers borrow money from the bank for specific undertakings. However, some borrowers once they access cash from the bank, they decide to engage in some other business activities whose intention was not why they borrowed the funds. This finding agrees with what Mishkin & Eakins (2012) term as moral hazard which is the problem created by asymmetric information after the transaction occurs. These authors further state that the borrower might engage in activities that are undesirable (immoral) from the lender's point of view, because they make it less likely that the loan will be paid back.

4.15.4 Untraceable and Unsalable Collaterals

Managers and officers stated that there are some situations where the bank has charged its interest on a certain property, for example, residential or commercial property, it has always been difficult to find the collateral in good shape rendering them unsalable. To make matters worse, some collateral are untraceable or other collaterals are also encumbered by some financial institution. This makes recovery complicated as it now forces the bank to employ legal machinery to file cases which makes the whole process costly and cumbersome. Mishkin & Eakins (2012) demonstrate that collateral is an important protection for the lender, however, borrowers will try to stop the bank from disposing the borrowers' assets due to failure to service the advances through court actions.

4.16 Solutions to the Challenges the Bank is Facing

Studies have been undertaken regarding non-performing loans which shows clearly that debt recovery is still a challenge in banking industry in Africa (Africa Economic Outlook, 2005). Based on this, relationship managers, branch managers and officers were asked to suggest the solutions to the challenges that the bank is facing and they suggested the following solutions: establishment of credit reference bureau and implementation of KYC, legal solution, tracing of funds and collateral perfection.

4.16.1 Establishment of Credit Reference Bureau and Implementation of KYC

Managers and officers reported that Indebank is a member of Bankers Association of Malawi (BAM), a grouping of all banks in Malawi which is working hand in hand with government to make Credit Reference Bureau operational and there is hope that all necessary measures have been put in place to make it operational.

In terms of KYC implementation, Managers and officers reported that Indebank should vigorously continue to implement KYC and randomly visiting its borrowing customers and their property in order to authenticate and validate the information provided by its customers.

This finding is collaborated with Indebank Ltd (2011) which states that KYC procedures enable bank know or understand their customers and their financial dealings better which in turn help them manage their risks prudently. This has assisted the bank in giving out loans to the deserving customers only. This measure will manage to prevent the defaults.

4.16.2 Legal Solution

Managers and officers proposed that the bank should employ more legal practitioners (in addition to two legal practitioners currently working with the bank) in its legal department so that it reduces the backlog of court cases. This suggestion collaborate with the findings of Donaldson (2006) who advises that in a case of debt recovery through courts, a lender seeking to recover money should employ more legal personnel so as to reduce backlog of cases and reduce costs.

4.16.3 Tracing of Funds

Managers and officers proposed that the bank should devise a policy where all payments should be directly channelled to the suppliers of materials of that particular project instead of giving directly to the customers' account. This will reduce the incidents of diversion. This proposal agrees with Mishkin & Eakins (2012) who suggested that the financial intermediary should design covenants which should lower moral hazard by keeping the borrower from engaging in the undesirable behaviour of undertaking risky investment projects. Some covenants mandate that a loan can be used only to finance specific activities, such as the purchase of particular equipment or inventories (Mishkin & Eakins, 2012). Other covenants restrict the borrowing firm from engaging in certain risky business activities, such as purchasing other businesses.

4.17 Strategies Indebank Use to Increase Loan Repayment Rates

Altman, Resti & Sironi (2004) in their study of Default Recovery Rates in Credit Risk Modelling noted that as the default rate increase so does the debt recovery rate increase. It therefore calls for measures to be put in place to ensure that credit risk is quickly reviewed to reduce or lower default rate. Based on the results of the content analysis as collected from the relationship managers, branch managers and officers, it is clear that Indebank Ltd employs three strategies in trying to reduce debts and these are legal, debt management and relationship management strategies.

4.17.1 Legal Strategies

Legal strategies entails the use of demand notice to customers who have not responded to frequent reminders, phone calls and emails sent by Indebank. As per debt collection policy, these demand notices are sent after thirty working days. Then the bank goes further to issue repossession orders which must follow the law so as to have an impact. The legal strategies also employ the use of repossession orders from courts which they present to borrowers to enable them collect the movable or immovable security. Examples of movable assets are motor vehicle. Repossession of movable assets was outsourced to Bema Debt Collection Company. They repossess the assets wherever the movable assets are. This is not only effective in enforcing compliance but also embarrassing and the borrowers would wish to be removed from their vehicle in the eyes of the public and sometimes in the presence of family members and friends. This has reduced the number of defaulters and NPL as most customers are afraid of being embarrassed in the eyes of the public and dent their image.

4.17.2 Debt Management Strategy

In implementing debt management strategy, the bank keeps customer very close and occasionally, relationship managers, officers and sometimes some members of the bank's executive committee visit customers and understand their business as well as discuss the challenges they are facing. After understanding the customer's challenges, they arrange to offer a customer another product which may assist the client to start servicing the debt. For instance, the bank may offer a client an invoice discounting product where a customer may have invoices, the bank may agree with customer to finance those invoices and arrange the sharing of the payment so that part payment should go towards clearing of the first loan, the other chunk may go towards the servicing of the current facility. This strategy has managed to refinance the customer and clear the NPLs in bank's books.

4.17.3 Relationship Management Strategy

Relationship management strategy is the most successful strategy for Indebank towards debt recovery. This strategy has made hopeless situations look good, in many instances, at the bank. Through the use of relationship management, the bank decides to restructure a loan by extending loan period or reducing repayment amount. This is arrived at after discussions between relationship managers, senior managers or relationship officers with customers concerned. This has made loans to be moved from non performing status to performing status.

4.18 Debt Recovery Strategies Playing any Positive Role in the Reduction of NPL

Managers and officers were asked to state whether debt recovery strategies are playing any positive role in the reduction of NPL portfolio at Indebank. Table 4-10 presents the findings.

Table 4-10: Data Presentation Showing whether Debt Recovery Strategies Lower NPL

Does Debt Recovery Strategies Reduce NPL of the Bank	Number of Responses	Percentage of Responses
Yes	9	90
No	1	10
Total	10	100

The response gathered supported the fact that debt recovery strategies have reduced NPL book at Indebank. Majority of respondents (90%) said that debt recovery strategies have help to reduce NPL whereas 10% of the respondents said that the debt recovery strategies have not reduced NPL. From the interview conducted, it was evident that Indebank has reduced its NPL from MK2.8 billion in 2014 to as low as MK0.6 million in 2015 financial results despite the fact that its loan book has been growing. It is expected that with the growing loan book, NPL will equally grow. However, this has not been the case with Indebank as it has managed to reduce its loan book.

According to response received from the study, the loan book of the bank is big and it keeps growing with time. It is encouraging that the bad debt is reducing and this can only be attributed to the debt recovery strategies of the bank which have been demonstrated to contribute to the reduction in NPL book of the bank.

By using the debt recovery unit, Indebank has shown that proper debt recovery strategies on debt with a well empowered work force can help a bank managed its debt recovery strategy. This is a testimony that NPL can be reduced through a clear and well-coordinated operational strategies using debt recovery measures.

4.19 Interpretation of Influence of Debt Recovery Strategies on Indebank's NPL

There is tremendous contribution of debt recovery department in the reduction of NPL book of Indebank and this is met by the aggressive nature by which the bank's debt recovery strategies contribute in pursuing customers who would default. Indebank established a customer engagement avenue which is supported by relationship management making it ideal for the bank to have a constant talk with its customers such that any issues arising from customer difficulties especially in cash flows is detected early and the customer is managed in such a way that they see no need to go into hiding but keep engaging the bank until such a time that their financial position improves. This has seen Indebank perform well in its debt recovery measures.

4.20 Chapter Summary

This chapter has presented the findings of the survey whereby a number of issues were revealed. Some of the notable issues identified were that most of the bank's customers are middle aged and male customers dominated the study. Some factors that contributed to low repayment rates among Indebank's SME customers were competition, adverse weather conditions, adverse economic conditions. Lack of access to capital, lack of support from the government. Other challenges which were identified by the survey were high interest rates, security, regulatory changes, fluctuation of local currency and lack of infrastructure. Multi-borrowing also contributed to low repayment rates. The study found out that there are several challenges which the bank faces in debt recovery. These are lack of credible information on borrowers, legal challenges, and diversion of funds, untraceable and unsaleable collaterals.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5. 0 Introduction

The results of the research led to the conclusions and recommendations discussed in the following sub-sections.

5.1 Summary of Major Findings

The study revealed that Indebank customers were heavily affected adverse weather as most of the customers who were financed by the bank were running agricultural businesses. Flooding in some districts followed by countrywide drought conditions saw a contraction in agricultural production. This is confirmed by default rates by SMEs running agricultural businesses which stood at 62%.

The research further revealed that adverse economic condition also affected the loan repayments. The findings of this study agree with World Bank (2015) which reports that real gross domestic product (GDP) grew by 5.7% in 2014 but slowed down to 2.8% in 2015 as Malawi suffered from dual challenges of adverse weather conditions and macroeconomic instability. Other challenges were business failure, regulatory changes, high interest rates and diversion of funds and lastly poor management.

The research revealed that despite customers servicing Indebank's facilities, more customers are also borrowing from other lending institutions. For example, 59% borrowed from microfinance institutions, 21% from commercial banks, and 14% from government institutions and lastly 6% are servicing facilities provided by their respective families. This is one of the factors affected loan repayments among SMES at Indebank.

The study has revealed that as of late, the bank introduced three major debt recovery strategies namely legal, debt management and relationship management strategies after suffering from low repayment rates. The strategies are very important both in the short term and long term. By using these strategies the bank has shown that proper operational strategies on debt will increase loan repayment rates among SMEs.

5.2 Conclusions

The study had the following objectives;

i. To identify the challenges that affect loan repayments among SMEs.

ii. (b) To find out whether SMEs'multi borrowings affect loan repayments.

iii. (c) To identify debt recovery strategies that Indebank is implementing in order to increase loan repayments among SMEs.

Based on the objectives, it is concluded that loans not repaid decrease the funds intermediaries have available to lend, make it difficult to assure safe deposits and to attract savings, absorb scarce managerial time, undermine the financial integrity of the lender, and tarnish the intermediary's reputation. Persistent defaults also cause financial intermediaries to be perceived as transitory rather than permanent institutions.

It can also be concluded that the relationship between the bank and client should evolve over time and not be a single event. The end result of this process is a client with greater debt capacity than when the relationship began. When an individual does not repay a loan the process of creating debt capacity is reversed and capacity is destroyed. While the volume of loans handled by intermediaries are the most commonly cited measure of the products created by financial markets, the increase in debt capacity among borrowers is the true measure of a financial markets contribution to development.

It is also concluded that loans that are not recovered, therefore, are doubly damaging: they undermine the vitality and ability of financial markets to carry out their basic function of supporting economic activities, and they also destroy the most important product that financial markets create: debt capacity. This study attest to the fact that a good and diligent lender becomes attractive hence the reason that makes banks to grow and maximize shareholders wealth.

5.3 Recommendations

In view of the findings of the research the following recommendations are made in order to sustain the SME department and increase repayment ratio.

5.3.1 The Bank should address the Challenges that SME Businesses Face

It is not enough to have an SME department but to ensure that Indebank's management should identify the constraints SMEs face on one-on one basis and put in place strategies to surmount not only financial challenges but also technical challenges as well. This will make sure that the bank minimizes default.

Besides that, it is recommended that the bank should constitute a centre of excellence which should provide the critical mass analysis for the economic turn-around process, by highlighting opportunities and challenges facing SMEs. In this way, the businesses will be able to find survival strategies during economic downturn.

5.3.2 Financial Management Education

Indebank should organize training for all its SME customers to ensure efficient and effective management of financial resources. This will reduce the problems associated with fund diversions. Again lack of knowledge by most business operators on the activities and requirements of the bank set up to help finance SMEs can be eliminated through such education and training.

5.3.3 Status Enquiry Reports and Customer Visits

In order to curb multi borrowing practice, it is recommended that Indebank should introduce a policy whereby each and every loan application should be accompanied by status enquiry reports from other commercial banks and financial institutions. This should be mandatory as it will curb clients borrowing from several financiers.

Further to that, it is also recommended that the bank should introduce a deliberate policy that should state that each manager should be visiting their borrowing customers weekly, every fortnight, and monthly. After the visit, the managers have to written a report about their visits to their customers and how the businesses are doing. This will ensure that problems are known or detected earlier than later.

5.3.4 Training for Managers

Although, almost all relationship managers and officers have been with the bank for many years and have proven experience in SME lending, it is recommended that the bank should train its managers and officers in loan origination, monitoring and debt recovery. This will ensure that good loans and overdrafts are underwritten. Problems will be detected earlier and quick remedial action will be taken. This recommendation agrees with Altman et al. (2004) who asserts that debt recovery unit and relationship management unit should have trained personnel who should be able to handle credit issues professionally. They further said that this results in high repayments rates and high profitability for the bank.

5.4 Research Limitations

The study had a limited geographical coverage.

5.4.1 Geographical Coverage

The study only covered 9 service centres and agencies only out of 16 service centres and agencies across the country. It should be noted that these service centres and agencies are located in Central Region. The results from these service centres and agencies were a true reflection of all the other outlets. The coverage was limited due to funding limitations.

5.5 Areas for Further Research

The study was a case study of one particular bank, however, every aspect of SME banking could not be studied let alone taking some of the core variables of the SME industry. As a result this, a further study may be extended to explore the effects of SMEs' debts on profitability performance of commercial banks in Malawi. This may find out how SMEs access to loan and advances affect their profitability and how the supply of loans and advances affect commercial banks' financial performance. Profitability ratios may be used for the analysis.

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APPENDICES

Appendix 1- Questionnaire Introductory Letter

My name is Alexander Munthali and I am currently studying with The Malawi Polytechnic, a constituent of the University of Malawi pursuing Executive Master of Business Administration. In order to fulfill the requirements of the course, I am doing a research on ***Investigating the Factors that Lead to Low Repayment Rates among SME clients at Indebank Ltd.***

Attached are some questions that I am requesting responses from you. I would like to assure you that the information which you will provide will be strictly confidential and will not be referred to by name in the final report.

The questions should take you about twenty minutes to complete. If you have any question, please contact me on 0999589214/0888589214 or email on amunthali@indebank.com or alexandermunthali@gmail.com.

Finally I would like to thank you sincerely for taking your time to help me.

Yours faithfully

Alexander Munthali

Appendix 2 –Questionnaire for Customers

<u>RESEARCH QUESTIONNAIRE ON FACTORS THAT LEAD TO LOW REPAYMENTS BY SME CUSTOMERS AT INDEBANK</u>

NOTE: Tick what is applicable

PART (A) : Demography

1) Gender:

A: Male [1] B: Female[2]

2) Age range:

A: 18 to 34 (Youth) [1]

B: 35 to 50 (Middle aged) [2]

C: 51 to 60 (Aged) [3]

D: 61 and above (Very Aged) [4]

3) Highest education attained.

A: None [1]

A: Primary [2]

B: Secondary [3]

C: Tertiary [4]

PART (B): Detailed Survey Questions

4) Which sector of economy does your business fall--------- ----------------

5) How long have you been in business?

A: Less one year [1]

B: 2 to 3 years [2]

C: 4 to 5 year [3]

D: 5 years and above [4]

6) Who runs this business on a day-to-day basis?

A. Self [1]

B. Self and Family [2]

C. Family member(s) [3]

D. Self and other non family employees [4]

E. Non family employees [5]

7) Did you get any loan/overdraft from any financial institutions before this facility you are servicing with Indebank Ltd?

A:	Yes	[1]
B:	No	[2]

8) Is your loan/advance facility you are servicing with Indebank current/normal?

A:	Yes	[1]
B:	No	[2]

9) How do you rate the performance of your facility with bank?

A:	Excellent	[1]
B:	Good	[2]
C:	Fair	[3]
D:	Worse	[4]

10) If yes, go to the next question. If no, why is it that you are not paying in time?

A:	High interest rate	[1]
B:	Diversion of funds	[2]
C:	Business failure	[3]
D:	Regulatory changes	[4]
E:	Poor management	[5]
F:	Adverse economic conditions	[6]
G:	Market condition changes	[7]
H:	Death of key person	[8]
I.	Natural disasters	[9]
J.	Unfaithfulness of bank staff	[10]
K.	Other ---------------------------------	

11) How often your relationship manager/officer does visit you and your business place?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………

12) Do you access loan facilities from other institutions apart from Indebank Ltd?

A.	Yes	[1]
B.	No	[2]

13) If yes, give reasons why you borrow from several institutions rather than servicing one facility from one financial institution?

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

13) If yes, specify the categories of loaning institutions that provide the loan?

A.	Family	[1]
B.	Government institutions	[2]
C.	Commercial Banks	[3]
D.	Micro Finance Institutions	[4]
E.	Others………………….	[5]

14) What problems are you facing in running your business?

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

Appendix 3 - Questionnaire Introductory Letter

My name is Alexander Munthali and I am currently studying with The Malawi Polytechnic, a constituent of the University of Malawi pursuing Executive Master of Business Administration. In order to fulfill the requirements of the course, I am doing a research on ***Investigating the Factors that Lead to Low Repayment Rates among SME clients at Indebank Ltd.***

Attached are some questions that I am requesting responses from you. I would like to assure you that the information which you will provide will be strictly confidential and will not be referred to by name in the final report.

The questions should take you about twenty minutes to complete. If you have any question, please contact me on 0999589214/0888589214 or email on amunthali@indebank.com or alexandermunthali@gmail.com.

Finally I would like to thank you sincerely for taking your time to help me.

Yours faithfully

Alexander Munthali

Appendix 4- Questionnaire for Managers and Officers

RESEARCH QUESTIONNAIRE ON

FATORS THAT LEAD TO LOW REPAYMENT RATES BY SMES AT INDEBANK LTD FOR BANK OFFICIALS

Service Centre where you are based…………………………………………………………………

Position held……………………………………………………………………………………

Date..

NOTE: Tick what is applicable

PART (A) : Demography

1) **Gender:**

A: Male [1] B: Female [2]

2) **Age range:**

A:	21 to 25	[1]
B:	26 to 30	[2]
C:	31 to 35	[3]
D:	36 and above	[4]

3) **Highest education attained.**

A:	Secondary	[1]
B:	University	[2]
C.	Technical College	[3]

PART (B): Detailed Survey Questions

4) How long have you been in your position?

A.	Less than one year	[1]
B.	2-3 years	[2]
C.	4-5 years	[3]
D.	6 and above	[4]

5) How often do you visit your customers and their business premises?

A.	Weekly	[1]
B:	Fortnightly	[2]
C:	Monthly	[3]
D:	Other (please specify)…………………	[4]

6) What criteria do you use to assess your credit applications?

7) Does Indebank have SME Credit Policy?

A:	Yes	[1]
B:	No	[2]

8) If yes, does SME credit policy clearly address SME issues?

A.	Strongly Disagree	[1]
B.	Disagree	[2]
C.	Neither Agree nor Disagree	[3]
D.	Agree	[4]
E.	Strongly Agree	[5]

9) What are the challenges do you encounter in debt recovery?

10) How is the bank trying to reduce the challenges it is facing?

11) What strategies do you have in place in order to increase loan repayment rates?

12) Are the debt recovery strategies playing any positive role in the reduction of NPL portfolio at Indebank

Thank you very much for participating in this survey