

**THE SUPPLY-DEMAND FACTORS INTERFACE AND CREDIT FLOW TO
SMALL AND MICRO ENTERPRISES (SMEs) IN UGANDA**

BY

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ABSTRACT

The potential of small and micro-enterprises (SMEs) in promoting economic growth in both developed and developing countries is widely accepted and documented by both scholars and policy makers. Lack of access to sufficient financing for these SMEs, especially in developing countries, has been identified as a major bottleneck in realising this potential. Bank credit is one of the major ways of addressing the challenge of inadequate funding that exists in the SME sector. This study was undertaken in order to explore the experiences of bank loan officers and SME borrowers in credit extension to the SME sector in Uganda.

The research methodology used multiple methods of data collection which enabled an element of triangulation to be built into the study design. Data was collected both from the supply-side (bank loan officers) and the demand-side (SME borrowers), and entailed unstructured and semi-structured interviews and a questionnaire survey of loan officer and SME borrower experience. Further data was collected through direct observation of the interactive interviews between loan officers and borrowers, which enabled a unique opportunity to enhance the understanding of experiences of loan officers and borrowers. This method offers a development of extant methodologies that have been used to assess bank lending to SMEs, typically indirect methods such as verbal protocols and hypothetical business plans.

The supply-side findings suggest that, in addition to the bank lending guidelines and procedures, the organisational context in terms of institutional structure, borrower attributes (especially their knowledge of bank lending guidelines and procedures) and level of congruence between loan officers and organisational goals are important determining factors of credit flow to SMEs. This implies that the context in which lending guidelines are implemented is as vital as the application of these guidelines.

Banks are, therefore, challenged to ensure a favourable organisational context in order to facilitate loan officer decisions.

On the credit demand side, it was found that borrowers seek to play an active role in the lender-borrower relationship which, in turn, influences decisions made by loan officers. It was established that, in pursuit of this role, borrowers deliberately pre-plan loan requests in an effort to influence the results of the evaluation of their loan applications by loan officers. At times, borrowers intentionally manipulate the information they disclose to loan officers in order to enhance their chances of obtaining credit from banks. The findings also suggest that, in most cases, the borrowers with some knowledge of bank lending guidelines and procedures find it easier to access credit than their counterparts who lack this knowledge. With regard to women-owned SMEs, while there little evidence of 'official' discrimination against women-owned SMEs by bank lending policies, there are systematic, cultural, social and legal impediments that lead most women-owned SMEs to access lower levels of credit than their male counterparts.

The study recommends that banks should design lending guidelines that integrate both supply and demand factors, instead of focusing only on supply factors like project viability and collateral availability. It is also recommended that banks should develop comprehensive training programmes for borrowers about all aspects of the lending transaction in order to positively influence them. It is further recommended that there should be more consultations with loan officers and borrowers in order to develop a mutually acceptable set of lending policies. This approach, which integrates bank management, loan officers and borrowers in drawing up lending guidelines and procedures, is likely to minimise information asymmetry in SME lending decisions and create a more conducive environment for promoting credit availability to the Ugandan SME sector.

DEDICATION

I dedicate this piece of work to my family, both nuclear and extended.

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CHAPTER ONE: INTRODUCTION

1.1: Background to the SME Sector in Uganda.

This study is concerned with credit flow from banks to small and micro-enterprise borrowers. It examines the experiences of bank loan officers and small scale business borrowers in order to deepen our understanding of factors that influence credit flow from banks to these enterprises. This chapter provides a contextual setting of and general rationale for the study. It starts by providing a definition of small and micro enterprises (herein after referred to as SMEs), highlights the importance of SMEs in national economic development, and raises some of the challenges that SMEs face with special reference to financing their operations.

Small and micro-enterprises do not have a standard definition in Uganda. According to the Uganda Ministry of Finance, Planning and Economic Development (2000), there is a distinction between small and micro businesses. In the Ugandan context, micro-businesses are defined as those enterprises which employ less than five people, with value of assets, excluding land and buildings, of not more than Uganda Shs.2.5m and an annual turnover of below Uganda Shs.10 million¹. Furthermore, as the Ministry points out, micro-enterprises are predominantly family businesses which are usually not registered and primarily operate in the informal sector. Small enterprises are defined them as businesses that employ up to 50 people with value of assets, excluding land and buildings, of not more than Uganda Shillings 50 million, an annual turnover of between Uganda Shs.10 million and Shs.50 million and an investment in plant and machinery not exceeding Uganda shillings 40 million. Most small enterprises operate in the formal sector and are duly registered for taxation purposes. Nevertheless, the

¹ The value of the Uganda shilling to the US Dollar at the time of writing this thesis was approximately Uganda Shs. 1,650 to one US Dollar.

Uganda Small Scale Industries Association (1998), an indigenous Non-Government Organisation that promotes small scale industries in Uganda, offers a rather different definition of small enterprises. For this organization, a small scale enterprise is defined as that business whose capital does not exceed US\$ 1,000 and employs not more than 50 persons.

The lack of a standardised definition of SMEs does not apply to Uganda alone and reflects the complexities of compartmentalising economic units into strict parameters. According to Zimmerer and Scarborough (1988), there is no universally acceptable definition of a small business. A study by USAID (1993) of 75 countries, for example, found more than fifty definitions of small scale enterprises. As pointed out by Kibera (1996), definitions used to categorise SMEs vary depending on who is doing the categorisation, and the reasons for this categorisation and are based on measures like number of employees, total investment and turn over. As Hallberg (2000) observes, SMEs are a heterogeneous group whose statistical definition varies from country to country though it is usually based on number of employees, turnover and net investment. The official Ugandan government definition by the Ministry of Finance, Planning and Economic Development is the basis on which policies in the SME sector in Uganda are made and is therefore, the operational definition used to identify SMEs in this study.

In addition to the formal definition of SMEs, it is also necessary to point out the scope of their operations as it influences their financing decisions. According to Snyder (2000) and the Uganda Bureau of Statistics (2003), SMEs in Uganda are spread across most sectors of the economy, such as metal working, carpentry, textiles, chemicals, brick-making, foods and beverages, crafts and technical services. Thus, on the basis of size and sector alone, it is clear that there is great heterogeneity within the small firms

sector. Both Snyder (2000) and Ministry of Finance Planning and Economic Development (2006) point out further that the sector is broadly composed of three categories of enterprises based on size as measured by employment and turnover..

The first category consists of micro enterprises which are predominantly found in the informal sector. These are the smallest of the enterprises in the SME category and the majority of them operate outside the formally regulated economic system. They seek to meet household needs by supplementing family income from formal employment.. They also exist as the only option to earn a livelihood in the case of the portion of the population with little or no education to engage in other gainful opportunities, such as waged work. This category of SMEs is generally, but not exclusively, home-based and is dominated by enterprises whose business operations are limited due to the small capital base with which they start up and the resultant small profits base for ploughing back into the enterprises, (Kasekende and Opondo, 2003). Typically, they use simple technology in production, which often negatively impacts on the quality of their products. Many are faced with limited access to markets and strong competition. It is quite usual for this size of firm not to have access to fixed premises, accessible roads and utilities. There is a reported lack of management ability among the owners of these enterprises, a lack of collateral, low professionalism, poor linkages with large firms, poorly compiled records and accounts and limited knowledge of business opportunities which combine to impose major impediments to accessing credit (UNCTAD, 2002).

The second category of enterprises is made of those enterprises which are described as small on a continuum of micro, small and medium sized enterprises. They fall in the range of enterprises that employ between five to fifty people, with a value of assets and turnover in the region of 50 million shillings. To some extent, these firms have demonstrated that they may be profit and growth oriented, certainly most operate

fulltime and are located in premises that are independent from the residences of their owners. Most owners of these enterprises are educated at post-secondary level. These small enterprises are usually a result of graduation from the micro stage though some start up straight away in the small business category (UNCTAD, 2002; MFPED, 2006).

The third category consists of small enterprises which tend towards the medium-scale businesses (Snyder 2000). These firms fall in the upper scale of the definition of SMEs and most of them have better capacity to raise funds as compared to their counterparts in the previous two categories due to relatively high savings that their owners derive from paid employment or using networks of friends to access credit from the formal bank system. They are likely to be growth oriented with a desire to become medium large enterprises. Many of these firms are likely to be located in urban and peri-urban centres and are usually involved in formal sector activities. This category of SMEs usually looks to the banking sector and other financial intermediaries for loans to finance working capital and to provide credit for short-term liquidity management.

While such a distinction in the categories of small firms hints at the range of activities undertaken by the SME sector in Uganda, it fails to elucidate the role SMEs play in national economic development. The small and micro-enterprise sector has been found to play a significant role in the economies and societies of nations (Narain, 2001). In Uganda's case, the economy has been undergoing major changes, underpinned by economic policy liberalisation and growing privatisation since 1986. These policy initiatives have transformed the economy from being public-sector-led to private-sector-driven. The SME sector plays an important role in this emerging economic structure. The SME sector in Uganda is believed to be responsible for about 90 percent of the total non-firm private sector employment, constitutes approximately 20 percent of the national GDP, and contributes over 20 percent of incomes of the labour force,

and has tremendous potential for reducing poverty levels in the population (MFPED, 2000). The importance of the SME sector to the Ugandan economy is not unique and is consistent with the trends observed by Bateman (1996), Hallberg (2000), Lee (1996) and Wellford and Prescott, (1996) who all argue that SMEs have important contributions to make in micro and macro levels of economic development.

In order to fully appreciate the contribution of small and micro-enterprises in Uganda's economic development, it is important to understand the context of economic development challenges the country faces. Uganda's economy is characterized primarily by pressure of population dynamics. According to the Ministry of Finance, Planning and Economic Development (2004), the population is predominantly young with 52 percent of the total population below the age of 14. There is a high birth rate leading to an estimated growth rate in the labour force of 3.4 percent per year (CIA World Fact Book 2004) which is coupled with a general lack of formal employment opportunities. These features make self employment through the establishment of a vibrant and sustainable small and micro business sector commonly viewed as being essential in absorbing the growing labour force and enhance economic growth and poverty eradication.

Another feature of Uganda's economy is its low levels of annual income per capita. Uganda is one of the 49 countries categorized by the United Nations as least developed in terms of GDP per capita, weak human assets and high degree of vulnerability. The country's annual per capita income is about \$310, with low annual foreign exchange earnings of less than \$500m and high dependence on donor funding which supports about 40 percent of the national budget (Uganda Bureau of Statistics, 2003).

The high incidence of poverty among Uganda's citizens is clear: 38 percent of the population live below the national poverty line. It also points out that this high

incidence of poverty is coupled with high levels of income inequality, where the gap between the majority poor and the minority rich has been widening over time. This poverty pressure is set in the midst of slow growth of the agricultural sector, falling prices for farm produce and limited income generating opportunities (Uganda Bureau of Statistics, 2003).

The Ugandan economy is dominated by the agricultural, service and industrial sectors. Stevenson and St Onge (2005) observe that productivity levels of these economic sectors is still low and needs improvement in order to support international trade obligations and enhance commercialization of the economy. As a consequence of low productivity, there is a severe shortage of exportable products in sufficient volumes and for the available exportable commodities; they are dominated by primary agricultural commodities with almost no export of manufactured goods. With unstable world market prices for primary commodities exports, this makes the country extremely vulnerable to international market conditions.

These features of the Ugandan economy demonstrate that there are opportunities for SMEs to exploit as the country seeks to reduce and eliminate poverty and improve the welfare of its people. The small and micro enterprise sector is expected to play an important role in the drive to address this poverty situation. According to Kasekende (2001), SMEs play a strategic role in economic growth and development through their contribution to the creation of wealth, employment and income generation. Kasekende (2001) argues that small firms provide domestic linkages between agriculture and industry as well as that between small scale and large enterprises. These linkages create opportunities for employment and income generation both in rural and urban areas thus leading to more equitable income generation. Finally, a strong SME sector may lead to

progressive decentralization of the economy, thereby creating opportunities for the attainment of equitable and sustainable growth and development.

The Ugandan Ministry of Finance, Planning and Economic Development supports these views. Their report (MFPED, 2000) points out that the SME sector is one of the major policy vehicles for promoting expansion of smallholder agriculture and facilitating the growth of formal enterprises in non-agriculture industries and service sector activities. The Ministry also points out that SMEs are a major tool for accelerating self and wage employment, economic growth and poverty alleviation. The small and micro-enterprises sector is important in this regard as most of the people are poor and unable to raise volume of resources to commit into large scale enterprises.

Despite the important role that SMEs are expected to play in the economy of Uganda, there are a number of constraints which act as barriers to the emergence and growth of a sustainable small and micro enterprises sector. The Ministry of Finance, Planning and Economic Development (2000), UNCTAD (2002) and Stevenson and St. Onge (2005) all emphasize that the major constraints that the SME sector faces. These include: operating in the informal sector which has a weak legal framework for facilitating business activities; the size of their operations which is too small to enable enjoyment of economies of scale; poor production technology; limited access to markets; limited managerial skills; government bureaucracy and limited access to banking facilities in particular and other funding sources in general. Amongst these constraints are those related to the general policy framework of government over which the SMEs have little control but could influence through advocacy, if they had financial resources to set up and sustain professional advocacy associations. There are also those that are specific to the SME which could be addressed by acquiring the necessary resources from the market if funds were available. Kasekende (2001) identifies financing of long term

investment and working capital; lack of creditworthiness; management capacity; collateral; and small capacity to absorb big volume of funds as some of the major constraints that need to be urgently addressed in order to enable SMEs to successfully play their roles in the economy. Limited access to funding by small and micro enterprises therefore compounds and intensifies the problems associated with the SME sector.

1.2: Overview of Financing SMEs in Uganda.

The importance of bank credit in financing SME operations is dependent on other funding alternatives that are available to the SMEs. Many SMEs in Uganda mainly rely on informal sources of funding for start-up activities, but later require funds from formal sources such as banks, when the scope of their operations and track performance record justify the shift to formal debt. In studies by Snyder (2000), Mutesasira *et al.* (2001), Uganda Bureau of Statistics (2003) and Stevenson and St. Onge (2005), it was established that the funding of SMEs in Uganda is obtained from both the informal and formal sources. Informal sources play a leading role in availing funds to many SMEs, especially during the start-up phase. This is highlighted further by the Private Sector Foundation (2005) which point out that informal financing arrangements are the most commonly used financing mechanisms for SMEs in Uganda. The main informal sources of SME financing involve use of personal sources, especially savings and reinvestment of profits, loans and grants from a social network of family and friends, liquidation of family assets, reciprocal asset usage arrangements, informal operating leases, rotating savings and credit institutions and of recent money lenders.

Mutesasira *et al.* (2001) indicates further that SMEs are owned by individuals who rely on personal savings and reinvestment of profits to finance both long term assets and working capital. In relation to loans and grants from family and friends, SMEs typically

rely on social networks to raise initial funds for start-up, working capital and subsequent long term assets financing needs which is by far the most popular financing mechanism. However, the value of funds raised from these social networks is often inadequate due to low income levels of the relatives and friends which are attributed to high incidence of poverty in the economy and failure by some SME managers to honour their obligations after receiving these funds (Mutesasira *et al*, 2001).

Some SMEs find it hard to build up adequate sums of funding from their personal savings, business profits and loans and grants from the social network of their friends and relatives and are therefore forced to sell off their personal assets and use the proceeds to fund highly prioritised business expenses. Such funds are often insufficient for investment in long term assets. Micro finance institutions also provide an additional option for SME financing in Uganda though they have the disadvantage of offering only small loans and short repayment periods which may not meet all SME financing needs (Kasekende and Opondo (2003).

Mutesasira *et al*. (2001) point out that, in the case of reciprocal asset usage arrangements, SMEs devise schemes to share tools amongst themselves based on goodwill and mutual support. Such cooperation is akin to asset sharing in informal 'machinery rings'. Some SMEs may also use rental arrangements with owners of assets employing a scheme akin to an operating lease but on an informal basis. Typically, the SMEs and the owners of assets enter a mutual verbal arrangement to use an asset which is paid for at agreed regular time intervals. These informal operating lease arrangements are found across different SME sectors, such as small scale transporters, fish mongers, tailors, small miners, construction workers, fishermen and coffee processors. They act as a stop gap measure to enable SMEs to use assets they find difficult or unnecessary to buy, due to financial and market limitations. Mutesasira *et*

al. (2001) and Ministry of Finance, Planning and Economic Development (2004) further show that there are also rotating savings and credit associations and accumulating savings and credit associations in which members create a pool of funds over a period of time by making regular contributions. The members of the group receive a contribution from the associations to use at their discretion. Most of these funds are used by SMEs to purchase equipment and fill financing gaps for working capital purposes (Mutesasira *et al*, 2001). One recent trend that has emerged in respect of financing to SMEs, is that of the money lenders, usually wealthy business people in the community that are willing to lend money to individuals generally on a short-term basis. Money lenders usually require some form of collateral to reduce their lending risk. Typically, the security offered for this type of financing is a car logbook and post-dated cheques (it is a criminal offence in Uganda to issue a cheque that will be dishonoured due to shortage of funds). Repayment terms are negotiated between the money lender and the borrower, with interest rates ranging from 10 percent to 30 percent per month.

In addition to the informal sources of funding, there are several formal financing options available to SMEs in Uganda (Mutesasira *et al*, 2001). These include financing by micro finance institutions, hire purchase companies and banks. In the case of micro finance institutions, these provide short term financing that is designed primarily to meet the short-term working capital needs of micro enterprises. The repayment terms for these loans usually provides for short maturity periods normally not exceeding twenty four months. Micro finance institutions usually provide small loans which normally do not exceed 1000 US dollars. Hire purchase companies in Uganda provide a source of financing for low value assets such as refrigerators, domestic furniture and sewing machines. For borrowers to access these facilities, they normally require introductory letters from their employers, possession of business licences, photocopies

of employment identity cards and proof of regular income, a number of relatives to act as guarantors, a down payment of at least 10 percent of the value of the asset and regular lease instalment payments. These requirements demonstrate a preference among hire purchase companies for borrowers with regular salaried employment, and these eligibility criteria make these services unobtainable for most small and micro entrepreneurs that operate in the informal sector.

The Central Bank also operates a number of credit schemes and support programmes on its own behalf, the government and donors. These credit schemes provide loans to SMEs in the private sector through licensed banks while their support programmes are for building the capacity of financial institutions (Bank of Uganda, 2004).

The formal financing sector also contains commercial banks which have traditionally favoured the medium and large enterprises that are considered low risk clients as compared to the SMEs. Though most commercial banks in Uganda have recently included SMEs into their portfolios through their micro lending schemes, they mainly extend small business loans ranging from 70 US Dollars to 7000 US dollars primarily for working capital purposes. Most SMEs often fail to qualify for credit under this opportunity because they find it difficult to meet stringent eligibility criteria, especially collateral requirements (Kasekende and Opondo, 2003).

There are two specific features relating to sources of SME funding in Uganda that have an important bearing on the study. Firstly, most SMEs in Uganda mainly rely on informal sources of funding for their start up activities and subsequent working capital and growth requirements (Stevenson and St. Onge, 2005; Uganda Bureau of Statistics, 2003; Ministry of Finance, Planning and Economic Development; 2005). This is in line with the financing pattern of SMEs in both developing and developed countries. For instance, Hussain *et al.* (2006) argue that small firms in UK rely considerably on

personal savings and informal means of financing. This view is also supported by Fraser (2004), whose survey of small businesses in the UK, established that informal non bank sources of funds are important in the funding of SME operations. Chami (2001) argues that there is a similar trend in China where informal sources dominate the funding of SME operations. In a situation more related to the Ugandan one, Ondiege (1996) found out that in Kenya, most small enterprises derive their initial capital from informal sources including own savings, borrowing and grants from family members and friends as well as informal micro finance institutions.

Secondly, the dominance of the informal financing sources over the formal ones creates an impression that access to bank credit by SMEs may not be critical, as the informal sources are adequate to cover the funds needed for working capital and investment purposes. This argument makes bank credit, as a source of funds for the SMEs, appear a matter of choice rather than a necessity. This is the core argument by researchers of SME funding in the developed countries who argue that SMEs no longer face a major financing gap because there are sufficient informal sources of funds to cover their financing requirements (Cressy 2002 and Fraser 2004). The main assumption of this argument is that the supply of funds in the informal sector is sufficient to meet the corresponding demands of SMEs. Whereas this may be true in the context of developed financial systems, it is not the case in the financial markets of developing countries, which are characterised by high incidences of poverty, poor supply of marketing information and high transaction costs for sourcing funds. These conditions often lead to an inadequate supply of funds in the informal sector thereby leaving a funding gap that needs to be filled. The SMEs in developing countries which experience such gaps normally have no option but to turn to the formal institutions, especially commercial banks, for assistance. Despite the constraints that SMEs face in meeting the eligibility criteria of accessing funds in the formal sector, it still remains the only feasible

alternative for most SMEs to supplement funds obtained from informal sources. This particularly applies to banks which are the major sources of funds in the formal sector and which have specialised micro lending arms to address the financing requirements of SMEs.

1.3: The Research Gap and Definition of the Research Problem

Access to adequate funding for working capital and long-term investment purposes has been cited as one of the major constraints that SMEs face in their operations in Uganda and other developing countries. The following studies highlight that, in the case of Uganda, scholars and policy makers find that informal sources of funding, which normally should constitute the major source of funds for SMEs, are inadequate. In a survey of the districts of Mbarara and Bushenyi in Western Uganda, Kazooba (2006), found out that 48 percent of the enterprises had their growth ambitions adversely affected by lack of sufficient funds for working capital and long-term investment purposes. Difficulties in accessing capital were attributed to low savings in the economy and the inability of SMEs to meet bank requirements which adversely affect their ability to obtain bank credit. Biryabarema, (1998) observed that small businesses in Uganda have a great deficiency as far as availability of credit is concerned which requires special attention of bankers, if such businesses are to uplift their status, develop and progress.

Fungo (2006) and Oyugi (2006) also identified problems of insufficient funding to sustain entrepreneurial activities as one of the critical bottlenecks for survival and growth of SMEs. In addition, a survey by the Ugandan Ministry of Finance and Economic Planning (2006) showed that most SMEs that wish to grow find it difficult due to insufficient operating and investment capital, because of inadequate access to financial resources, especially credit from banks. Studies by Sendawula (2002) and

Nanyonjo and Nsubuga (2004) also point out that banks encounter bottlenecks in lending to SMEs due to high risk embedded in their operations. Kawuki (1998) identified lack of small business managerial skills, low levels of technology and limited market opportunities as constraints to SME growth in Uganda and argues that these problems are compounded by limited access to finance which hinder the acquisition of these capabilities from the national and international markets. Kawuki (1998) further argued that this leads to poor performance of SMEs, making them unsuitable candidates for bank credit thereby forming a vicious cycle of inadequate funding.

In further support of the phenomenon of inadequate funds for SMEs, Mutesasira *et al.* (2001) found that in Uganda, there are few options in formal financing markets and where such are available, they use lending techniques that are unsuitable for the requirements of many micro and small enterprises. Similarly, Balunywa (1999), in a study on the role of entrepreneurial decision-making in small and micro enterprises in Uganda, found that finance is a key constraint to small enterprises growth because small enterprise owners find it difficult to access finance to expand their businesses mainly due to difficulties of providing acceptable collateral, feasibility studies and meeting high costs associated with bank credit.

A cross section of studies shows that the phenomenon of failure to access adequate funds for working capital and growth purposes by many SMEs applies to other African countries with similar characteristics to Uganda. Nondi and Achoki (2006), in a survey of financial management problems in small hotels and restaurants in Kenya, found that 26 percent of these establishments reported lack of working capital as the most serious problem they face in their operations. An analysis by Mwamadzingo and Ndung'u (1999) which focused on the commercialisation of innovations in Kenya also found that small scale firms experience great difficulty in attracting investment funds, which

inhibits their ability to adopt modern methods of production. Onyango's (2000) study of the role of entrepreneurship in coping with development challenges in Kenya, found that women-owned SMEs face financial constraints due to inadequate financial resources caused by their under representation in the salaried employment sector as well as using the low earnings they get to support their families with the basic necessities of life.

Ondiege (1996), similarly, found that over 80 percent of the small enterprises in Kenya obtain initial capital from their own savings and the rest from their friends and relatives in form of grants and loans. According to this study, SMEs are likely to obtain little funds to run their business activities due to low incomes and savings in the informal sector. This leads to the majority of them using relatively cheap tools and equipment which exacerbates their inability to adapt to modern production technology. The argument about the inability of SMEs to adopt modern methods of production due to funding constraints is also supported by Phillips (2006) who reports that most SMEs exporters in East Africa find it difficult to grow their businesses due to shortage of working and investment capital caused by uncertainty in bank lending. Joubert's (2004) study of entrepreneurial behaviour in Swaziland, found that 74 percent of small and micro enterprises obtain less funds than they need due to supply related constraints. Similar results have been found in Tanzania where Itika (2002) established that Tanzanian businesses often operate with obsolete machinery, have poor quality production and lack skilled labour, which he attributed to their inability to access adequate funds. Yankson (1992), when evaluating employment, profitability and development strategies for small-scale aluminium industries in Ghana, also found out that most of these enterprises start and operate their enterprises with very small amounts of liquid capital from their friends and relatives which is often inadequate for expansion and growth of their businesses on a sustainable basis.

A comparison of the situation of SME financing in developing countries and developed countries shows a mixed picture. In developed countries, the constraint of credit access to SMEs has also been identified as one of the challenges that SMEs have faced overtime. The reports by MacMillan (1931), Radcliffe (1959) and Bolton (1971) showed that the SME sector in United Kingdom was characterised by the existence of a funding gap. The extent to which such a gap still exists remains contentions. Hallberg (2000) argued that SMEs complaints that their growth and competitiveness are constrained by lack of access to enough financial resources exist in many parts of the world. Hallberg (2000) also argued that recent events in Latin America and East Asia lend credibility to the view that SMEs are more likely than larger firms to be denied new loans during a financial crisis as was the case during the 1995-96 economic crises in Mexico, where the sharp decline in domestic bank credit affected new lending for SMEs more than for large businesses (World Bank, 1998).

Despite the above arguments that support the notion that SMEs do not access adequate funds to support their operations, the existence of a funding gap in the financing of SMEs is a phenomenon that need not be taken for granted. Recent evidence in developed countries has begun to question the existence of such a funding gap. Fraser's (2004) survey of SME finance in the UK questions the existence of funding gaps, finding that the majority of small businesses get the funds they need though they may experience problems in obtaining these funds. Wilson (2004) also reported that 71 percent of SMEs studied did not consider access to finance as a strategic problem in their operations. In another study in the UK, Hussain and Martin (2005) found that less than one percent of small enterprises in UK consider access to finance as a strategic issue, which is consistent with a narrowing of the funding gap for the majority of the SMEs. In the USA, Levenson and Willard (2000) carried out a survey on access of credit finance by SMEs and found that only 2.14 percent of the enterprises studied did

not obtain the funding for which they applied. In addition, when researchers question the existence of a funding gap, their samples are usually existing businesses that are on-going concerns – thus studies may be prone to survivor bias. A severe funding gap, however, could result in a business either starting and failing quickly or even not starting at all. As these types of business are not usually included in studies on SME finances, there could be a tendency to underestimate the seriousness of a funding gap.

Hussain *et al.* (2006) argue that there are some important variables like size, age, sector and location that may unfavourably affect access to credit by SMEs. This supports the view that even in developed countries, there are market imperfections that may adversely affect credit access by some small businesses. Hussain *et al.* (2006) attributes the apparent narrowing of the funding gap to initiatives such as improving competition in the financial markets and adoption of modern-computer aided credit evaluation techniques which minimise loan officer subjectivity in evaluating loan applications. However, they note that despite the apparent narrowing of the funding gap for SMEs, there is no conclusive evidence that it has been totally eliminated. This conclusion is consistent with the views of Walker (1989) that there may be residual imperfections in domestic financial markets of developed countries that limit the ability of SMEs to raise funds.

The market imperfections argument associated with domestic financial markets in developed countries is more pronounced in the case of developing countries like Uganda. According to the Uganda Bureau of Statistics (2003), the problem of access to funds by SMEs in Uganda is underscored by the existence of high poverty levels in the population which limits the supply of funds from the informal sector. In turn, this also affects and limits the supply of informal capital from friends and relatives. SME savings are generally also too small to provide funds for their working capital let alone

long-term investment needs. In addition, the informal micro-finance institutions often offer credits that are too small to support the SMEs, while the money lenders are unreliable and too costly to use. Additionally, Uganda Bureau of Statistics (2003) also points out that the formal financial market sources are still evolving and primarily focus on large scale businesses, thereby leaving SMEs with no option but to rely on banks which have only recently established SME lending opportunities.

In spite of their shift towards funding of SMEs, Ugandan banks appear to be not yet meeting the credit requirements of the SMEs in a satisfactory manner (Mugume, 2003). The Ministry of Finance, Planning and Economic Development, (2000) highlights a number of reasons which explain the current inadequate flow of credit from banks to SMEs. These include problems with the bank sector which reportedly does not understand the needs of the SMEs. In practice, this means that when making a decision to advance credit, most of the SME needs are not taken care of and as a result, their loan requests get rejected without justifiable reasons. SMEs also contend that the majority of banks have no lending criteria tailored to their characteristics, pointing out the case of stringent requirement that assets used as collateral for borrowing should have a value of 150 percent - 200 percent of the loan, with such assets not being more than thirty kilometres from an urban centre. This eliminates the majority of SMEs which do not have assets and are often rural-based. In addition, commercial bank interest rates are deemed to be very high and often range from 23 percent to 30 percent, a loan rate that deters most SMEs. SMEs also complain of short repayment periods which do not meet their long term needs, and that banks also use inappropriate lending technologies that emphasize collateral and pre-determined loan sizes which may not necessary reflect the needs of the SME clients. As a result, SMEs take any amount of loan that the banks are ready to offer them as a last resort, regardless of whether the loan meets their needs (Mutesasira *et al.* 2001). Most banks also have standard

disbursement policies and procedures, in particular the requirement that loans have to be disbursed by cheque through the client's account (Kasekende and Opondo 2003). Though the cheque system is more secure and convenient for most urban SME clients, it is often difficult for many of the rural-based SMEs to cash their cheques due to the long-distance the borrowers' need to cover before a bank can be accessed which leads to high transaction costs, hence discouraging potential borrowers from seeking credit.

Prior research highlights the broad macro economic and social cultural factors that adversely influence credit flow to SMEs. However, prior studies have not examined the experiences of individual loan officers and SME borrowers who are direct participants in the actual lending process. A study of these experiences is vital in unearthing the micro individual factors that determine the decisions made by loan officers to supply and SME borrowers to demand credit. No such study has yet been undertaken in Uganda, although arguably such an approach is necessary in order to enhance an understanding of factors that underlie availability of credit to SMEs. Consequently this study seeks to contribute to knowledge about credit flow to SMEs by examining the experiences of the parties that are intimately involved in decisions to demand and supply credit.

There is also a methodological perspective to the study. In developed countries where research has been undertaken to examine the factors that determine demand and supply of credit to SMEs, studies have largely relied on questionnaire surveys, library research, verbal protocols and proxy business plans (Fletcher 1995, Gorman 2002, Gorman *et al.* 2005 and Carter *et al.* 2007). Few studies have attempted to observe the lending process in 'real time' in order to understand the experiences of loan officers and SME borrowers who are directly involved in decision making about credit flow. The investigation of experiences of loan officers and SME borrowers in making

decisions about credit flow to SMEs is a contribution of this study that may broaden the field of knowledge about demand and supply of credit in the small business sector.

1.4: Purpose of the Study and Research Objectives

The main aim of this study was to provide further insight into the micro level supply and demand factors that influence the flow of credit to SMEs. The study sought to examine the experiences of loan officers and SME borrowers about their credit, supply and demand decisions. This was intended to enhance the understanding of the underlying determinants of the decisions that they make and how these decisions affect credit flow to SMEs. The study specifically focused on the following objectives;

- i. To investigate the experiences of loan officers in making decisions to extend credit to SMEs.
- ii. To investigate the experiences of SME borrowers in making decisions to seek credit from banks.
- iii. To examine bank related factors that influence supply of credit to SMEs
- iv. To examine SME business factors that influences the demand for credit from banks by SME managers.
- v. To assess whether the decisions of loan officers exhibit a common lending culture.

1.5: Conclusion

The justification for undertaking this study stems from the need to provide a deeper appreciation of the micro factors that determine bank credit availability to SME sector as an antecedent of understanding the

bottlenecks in one of the major financing alternatives available to SMEs. This is

important because financing is one of the determinants of the SME sector growth and survival. The analysis of experiences of loan officers and borrowers as determinants of credit flow to SMEs is expected to enable management, regulatory agencies and national economic policy designers and implementers involved in the operations of banks and the SME sector to generate strategic responses that enable increased flow of credit to the SME sector.

CHAPTER TWO: LITERATURE REVIEW: CREDIT SUPPLY

SIDE

2.1: Overview of Supply Factors in Bank Lending to SMEs.

Various factors have been advanced to explain the factors that affect credit flow to SMEs. In Uganda, credit supply factors that hinder banks from advancing adequate credit to SMEs have been identified as inappropriate lending criteria, high costs of lending, stringent collateral requirements, and distance between banks and prospective SME borrowers as most banks are based in urban areas while the bulk of the SMEs are found in rural ones (Kasekende and Opondo 2003). This chapter reviews existing theories to evaluate the factors that influence credit supply to small and micro enterprise (SME) sector.

Credit from banks is an important source of funding for SMEs in Uganda because the informal sector sources are inadequate for the financing needs of the sector (Mutesasira *et al.* 2001 and Ministry of Finance Planning and Economic Development, 2004). This especially applies to the micro enterprises which primarily focus on generating income for domestic purposes. They are forced to seek credit from banks with some borrowing as little as Uganda Shs. 200,000 (approx. \$100) for working capital purposes. The funding situation is even worse for the small enterprises and those tending to the medium ones that have growth ambitions and need more funds than the micro-enterprises. These enterprises find informal sources inadequate while the formal ones like leasing and hire purchase, are still in their early development stages and are often targeted at the large business sector. This forces them to turn to banks for their funding requirements (Mutesasira *et al.* 2001 and Kasekende and Opondo 2003).

In supplying credit to SMEs, banks seek to minimize risks embedded in lending while

earning adequate returns on their investment (Chapman and Martin, 2007). The SMEs have to satisfy requirements that make banks realise these objectives in order for them to access bank credit. The first major risk that banks face when they lend to most SME is that they may extend credit to a poor borrower with high risk in terms of low probability of payback. The second risk is that even if a good quality project is financed, the owner may in future change behaviour and either poorly implement the project, divert credit to other purposes or simply refuse to pay. These are the twine risks of adverse selection and moral hazard respectively. These risks can only be resolved if the bank has sufficient information to evaluate them. The SMEs, these authors argue, have to satisfy banks that risk levels of the project to financed can be ascertained to a reasonable degree (Cressy 2000, Kasekende, 2001, UNCTAD, 2002). According to Leland and Pyle (1997) and Bris and Welch (2005) inadequate and often inaccurate information is one of the major bottlenecks in the bank's decision to supply credit.

According to Binks *et al.* (1990) and Cressy (2002), banks seek to screen-out borrowers with a high probability of defaulting on repaying the principal and interest amounts on the loan. They argue further that, on applying for a loan from the bank, borrowers usually know more about their projects than the lenders. According to this argument, efforts by banks to get relevant information is frustrated by the borrowers who for the fear of being denied the loan, are not willing to reveal the challenges that may hinder their capacity to pay back. The UNCTAD symposium on modalities of financing SMEs that was organised by the United Nations in 2002 (UNCTAD, 2002) is one of the most important fora in which the issue of credit availability to SMEs in Uganda has been extensively discussed. During this symposium, the problem of insufficient availability of credit was emphasised and it was argued that the difficulties of obtaining medium to long-term financing from commercial banks remain one of the major obstacles that hinder acquisition of modern production technologies by SMEs. (Ricupero, 2002).

Ruffing (2002), in her discussion during the symposium, emphasised further that inadequacy of bank credit tends to force SMEs to rely on informal sources of credit which are usually inadequate. She argues that information asymmetry between SME borrowers and the banks is reflected in inability of the majority SMEs to provide up to date reliable financial information and realistic business plans which increases the cost of lending that banks incur while dealing with these SMEs and limits the ability of banks to assess the credit-worthiness of the individual SME borrowers.

This argument on information asymmetry was supported further by other participants at the symposium like Sendawula (2002), Apire (2002) and Griffiths (2002) who emphasised that poorly compiled records and financial account coupled with inability of SMEs to properly express their knowledge about business opportunities aggregates the lack of adequate information in bank-SME credit transactions. The Private Sector Foundation (2000) and Chen *et al.* (2001) affirm that financial accounting is characterised by poor quality. The International Monetary Fund Mission (IMF 1999) are in agreement with the aforementioned statement that small businesses in Uganda appear ignorant about keeping accounts. Wabwire (1996) amplifies this argument that there is almost complete absence of appropriate accounting records in small business in Uganda. It has been further argued that this information gap is made worse by the fact that SMEs often lack adequate collateral to address the lending risk of banks perceive in lending to them. They also observed that a weak infrastructure of laws makes it difficult for banks to easily recover their loans in case of default by the SME borrowers.

In order to address the bottlenecks of credit flow from banks to SMEs, it was suggested at the symposium that SMEs should seek to build relationships with their banks, maintain proper financial business records, produce sound financial statements, operate

their businesses with more discipline, abide to a code of professional ethics and develop a culture of transparency and accountability. It was also suggested that SMEs should properly understand bank requirements for obtaining credit, establish proper legal businesses, plan for credit utilisation and form guarantee associations in order to improve their relationship with the banks (Griffiths, 2002).

With respect to banks, it was proposed that they should formulate and announce their policies for lending to SMEs and collect data on the composition of their loan portfolios by size of business, gender of the client and refer potential clients to reputable business development service providers and consultants. It was also suggested that banks should enter into partnerships with business development service providers for credit referrals and monitoring of the SMEs (Ruffing (2002). It was suggested further that banks should design credit procedures that address peculiar conditions of SMEs including designing substitutes for physical collateral and constituting forum for regular interaction between them and SMEs, banks and business development service providers (UNCTAD, 2002).

The symposium also addressed the need for government to create an enabling infrastructure that would facilitate bank lending to SMEs. In this respect, government was urged to formulate an official definition for small and medium-sized enterprises, adopt user-friendly accounting and reporting requirements consistent with international best practices so as to improve the reliability of financial information provided by SMEs and enforce such requirements. The government was also requested to strengthen the ability of business development service providers in order to make them more creditworthy through special support measures. It was also recommended that the government should develop an enabling business environment including a mechanism for rapid settlement of disputes and effective management of bankruptcy and

insolvency procedures.

The recommendations to improve bank credit flow to SMEs made at the symposium addressed the institutional responsibility of banks, government and SMEs. Although it was noted that there may be valid interventions which could improve bank credit availability to SMEs, they however did not take into account the personal experiences of the individual SME owners and bank loan officers who are involved in the day to day decisions that ultimately determine whether SMEs will seek credit and if banks will supply it. This leaves an information gap that needs to be analysed and addressed in order for the policy makers in banks and government to have a better set of information for formulating and implementing policy for improving availability of bank credit to SMEs.

The analysis of the proceedings and recommendations of the UNCTAD symposium on SME financing in Uganda reflect the need to ensure a lending methodology used to extend credit to SMEs and resolve the issue of information asymmetry between the financial institution and the SME borrowers. The experiences about group lending methodology mainly used by micro financial institutions and non-governmental organisations in extending credit to smaller borrowers elucidates the importance of resolving the information asymmetry problem. A common characteristic of group lending is that the group obtains a loan under joint liability, so that each member is made responsible for repayment of loans of his or her peers. Most schemes appear to give subsequent credit only if the group has fully repaid its previous loan.

The joint liability, but more so, the threat of losing access to future credit, can incite members to perform various functions including screening of loan applicants, monitoring the individual borrower's efforts, fortunes and shocks and enforcing repayment of their peers' loans. According to Zeller, (1998) Bhatt and Tang (2001),

most group lending programs groups are typically formed with five to ten members. In some programs, the loan is made not to the individual, but to the entire group, which then makes the money available to one or more members. In other models, the loan is made to one group member and others in the group become eligible for the loan, on a rotating basis once the initial borrower proves to be credit worthy by making repayments on time. Each member within the group is thus individually and collectively responsible for the credit rating of the group and for ensuring that the funding cycle is not broken by a default in the repayment schedule. Rural banks and non-governmental organisations, according to the Asian Development Bank (2002) provide credit to SMEs by adopting a methodology that relies on joint liability where group members share responsibility in screening, monitoring and ensuring repayment of loans taken by individual borrowers including SMEs. Zeller (1998) argues that group lending methodology is based on the mutual trust of members who seek to enhance credit availability to the micro-enterprises by participating in the screening of loan applicants, monitoring and enforcing repayment.

The Grameen Bank in Bangladesh is a commonly-cited lending institution that has primarily relied on the provision of non-collateralised credit to small groups of micro enterprises using the group lending methodology. Bhatt and Tang (2001), Schreiner (2002) and Lensik and Mehrteab (2003) point out that this methodology enhances credit flow to small enterprises that are unable to provide collateral by relying on group members to provide information about the individual borrowers to lending institutions. They argue that this reduces problems of moral hazard and minimise costs that lenders face due to information asymmetry between them and their SME clients. According to Conning (2000), reduced default risk in group lending is due to the tendencies by group members to exclude borrowers who are judged to be bad risks in order to protect their own joint collateral they pledge. These safeguards have been found to lead to generally

high loan recovery rates which generally exceed 95 percent. According to Besley and Coate (1995), as long as aspects of group formulation are properly managed, group peer pressure becomes a source of vital information to the lending institution which reduces lending transaction costs and enhances repayment rates. They argue further that repayment rates are high because group members use their information to screen out potentially poor borrowers and those who obtain credit are motivated to repay in order to be favourably evaluated and gain future access. These lending policies and practices are therefore geared at resolving the issues of information asymmetry which in turn reduces the lending risk faced by financial institutions.

This makes information asymmetry a central problem in the lender-borrower relationship that is vital in credit flow transactions and forms the core of this literature review on the credit supply side. Factors like the agency relationship between the loan officer and management, loan officer commitment, bank structure, gender perspective and bank lending culture are evaluated in the context of their influence on information availability in the lending process and hence on the willingness of banks to supply credit to SMEs.

2.2 Bank Lending Policies and Practices.

The review in this section emphasises that information asymmetry is one of the core determinants of credit supply decisions. The review includes an analysis of the lending guidelines and how they filter through the banks to affect the loan officer's decisions to extend credit to SME borrowers. According to Miles and Huberman (1994), understanding the context in which a phenomenon occurs is vital for unearthing deeper meanings attached to the determinants of such a phenomenon. For this study, there was need to explore the organisational set up and lending guidelines and how they relate with credit flow to SMEs. In addition to review of bank lending guidelines, interviews

were also conducted with branch managers and credit supervisors in order to explore their experiences about the lending policies and their influence on credit flow. This was intended to augment the information from review of the lending policies, in order to fill the gap created by limited local research literature about the micro lending contexts of the banks.

The analysis indicated that in addition to lending policies and practices, lending decisions of loan officers are influenced by the overall strategic focus of the banks. The analysis established that, in the case of Bank A, it is a commercial bank that primarily focuses on extending credit to the economically-disadvantaged borrowers in addition to carrying out traditional banking operations, corporate and mortgage lending. Its objective in micro lending is to spread its business over the whole country with a target client group that includes rural inhabitants, small-holder farmers, and the economically-active poor and other disadvantaged groups, like women. In order to meet this strategic objective, the bank developed lending guidelines that emphasise easy accessibility to credit entry including a minimum savings deposit balance of Ush. 10,000 (US\$ 6) and a minimum loan amount of Ush. 50,000 (US\$ 30). Like the case of Bank A, Bank B also focuses on small-scale rural and peri-urban borrowers who seek loans that range from U Shs. 50,000 (\$30) to 10 million U Shs (\$6,000).

In respect of Bank C, its major aim is to provide financial services to the economically-active, but poor members of society, especially women. The women are specifically targeted in order to address the disadvantages that their enterprises face in accessing credit largely due to the communities' tendency of treating them as inferior, being marginalised in education and other opportunities and often considered subservient to men. According to the bank's perspective, despite these unfavourable features that characterise them, women are considered the pillars of the family who ensure that children are educated, nourished and healthy and in order to realise these roles, most

women own and manage a substantial proportion of SMEs which are unfortunately usually characterised by poor capitalisation due to the adverse features that society generally associates with them.

Available policy documents and interviews with credit supervisors and branch managers in these banks revealed that there are mechanisms that these banks have put in place in order to realise their strategic focus. In terms of the staffing strategy, the banks have deliberately set out to create staff capacity to specifically serve the SME borrowers. In this case they have teamed up training institutions and universities and also jointly developed academic curriculum and commenced programmes leading to awards in the micro lending area. This has created a pool of well qualified people from which the banks recruit their loan officers who handle lending to SMEs. In addition to formal training programs, when bank personnel are newly recruited, they are inducted specifically into the challenged world that lending to SMEs entails. These induction programmes enhance the expertise of loan officers by exposing them to best practises used in bank lending in other countries.

The banks have also evolved a location strategy to facilitate access to credit by the SMEs. According to this strategy, they have created a heavy presence in rural and peri-urban areas in order to fill the gap created by the mainstream commercial banks, which are located primary in urban areas which the majority of the SMEs can't easily reach. In this regard, they have even adopted convenient means of transport for their loan officers like use of bicycles and motor cycles which can easily reach the remote locations in the rural areas. In addition to location, the banks have also devised specific promotional programs targeted at the SMEs.

In addition to the mechanisms put in place to attain their strategic focus, the banks have also evolved guidelines which loan officers use when educating SME borrowers' about loans. These guidelines are concerned with the loan period, eligibility criteria and loan

repayment procedures. In respect to the loan period, the lending guidelines show that those banks emphasize the short term perspective and they generally have loan periods that do not exceed two years.

In the case of bank A, it gives short term loans with terms of up to twelve months while for bank B, the loan period offered is categorised based on whether one is a first time or a repeat borrower. The loan is usually for a short-term period of between three and six months for first time borrowers, while for repeat clients, the period is usually extended up to twelve months. With respect to bank C, the loan period ranges from three months to one year for subsequent loans though loans of up to a maximum of two years may also be considered for clients who have developed very strong relationships with the bank. While this focus on short term lending by the banks enables some of SME to obtain funds for working capital purposes, it makes it difficult for them to access long term financing that is essential for acquisition of better production technology to enable the SMEs favourably compete in both the national and international markets. This has been identified as one of the major shortcomings that SMEs face in as far as accessing bank credit is concerned. (Mutesasira *et al.* 2001 and UNCTAD 2002)

Analysis of the lending policies of these banks as well as interviews with the credit supervisors and bank managers also revealed that the SME borrowers are expected to satisfy the eligibility criteria set by the banks before they can access credit. These criteria encompass the traditional 5Cs of credit though special emphasis is placed in provision of collateral. It was established that across the four banks under the study, before one acquires a loan, physical security and personal guarantees must be presented. The total value of the securities must be at least 150% of the amount of the loan. The security presented must also be easily, marketable, transferable, with a legal value. The types of security acceptable to the bank include land title certificates,

kibanja², chattel mortgage, fixed deposit receipts and durable household items. The review also indicated that much as the banks' main target group is the rural SMEs, lending is mainly restricted to businesses located within a radius of thirty kilometres or less from the bank's branch. When there are many potential applicants who are more than thirty kilometres from the bank branch, credit can be extended to them only with the approval of the chief operations manager. In addition to the physical collateral, the banks also require that loans be guaranteed by other people who know the prospective borrower well. The guarantors preferred by the banks include the spouse of the individual loan applicant, an existing client with a good running personal savings account or any other person with verifiable identification.

The emphasis on collateral by the bank is akin to the situation of capital gearing pointed out by Binks *et al.* (1990), Tucker and Lean (2000) and Mason and Stark (2004) which are referred to in section 2.3.1 of this study. The implication of this approach by the banks is that those SME borrowers who lack collateral to support their borrowing have limited access to credit. Since most of the SMEs are rural-based or located in the peri-urban areas where poverty levels are high, this eligibility criteria denies many of them access to credit thereby conflicting with the strategic objectives of the banks.

In terms of the repayment guidelines used by these banks, they reflect the information asymmetry challenge that the banks face. A review of these lending guidelines show that though the banks initially use the system of reminders, they also heavily rely on measures like issuance of post-dated cheques by clients and litigation in courts of law to collect the debts owned by the SMEs borrowers. For instance in Bank A and B, loan officers are fully responsible for the follow up and recovery of all loans in their own portfolio. Loans in arrears are supposed to be recovered before they are more than

² Kibanja refers to a form of customary land tenure where occupants do not have land titles.

thirty days in arrears. Loans that are more than thirty days in arrears are recovered in collaboration with the head of department or a recovery officer.

The customers who fall into arrears are visited by the loan officers and reminded of their obligations. The borrowers are then required to make commitment which is then documented and pursued. If the borrower falls into default, a second visit is paid during which the client is reminded of their earlier obligation. When a loan has been in arrears for more than thirty days, the head of the loan department assists in its recovery by depositing the post dated cheque issued by the borrower at the time of receiving the loan. Should there be insufficient funds to cover the cheque when it is due, then it is taken to the police and the customer is arrested. The loan officer continues the loan recovery efforts by contacting the customers in prison as well as initiating the sale of the chattel items. When these visits and arrest of the customers prove fruitless, the guarantors are urged to pay and if they do not, the next step is to take them to court together with the customer after which the securities that were presented at the time of borrowing are sold to the highest bidder in order to recover the loan money.

In Bank C, clients, who have not paid on their due schedule are visited the next day to find out why they failed to pay. If a client fails to repay within the next six days of the due date, they are visited for the second time by the credit officer and the bank manager before the seventh day. The bank manager, where deemed necessary, applies to head office to have the loan rescheduled. When clients fail to repay within thirty days of the due date, they are forwarded to the legal department at the head office. The branch manager however, has the discretion to continue trying to recover the loan for a further fifteen days. The branch manager may decide to handle the loan repayment at the branch level if the branch still feels it has a strategy to recover the loan at a given time. The legal department has the authority to seize assets from clients who are unable or

unwilling to pay. The recovery officer makes arrangement for the collection and sale of the clients' assets after thirty days, of recovery. If a client refuses to release the assets, the legal department starts the process of obtaining a court order for the seizure of the goods by the court so that they can be auctioned. The reliance on litigation is used as mitigating measure against risk of information asymmetry that the banks face due to weak structures for ensuring voluntary and mandatory information disclosure by the majority of the potential borrowers.

In conclusion, these loan evaluation and recovery procedures emphasize security measures like clients depositing post-dated cheques and heavily relies on litigation measures for loan recovery. This demonstrates a lending philosophy that leans heavily on collateral other than potential wealth as the basis for evaluation and recovery of SME loans. This situation tallies with the capital gearing approach to lending advanced by Binks *et al.* (1992), Burns (2001), Lean and Tucker (2001) and Mason and Stark (2004). In Uganda such stringent collateral requirements by banks have been identified as one of the bottlenecks that affect credit flow to the SMEs (Mugume, 2003).

2.3: Information Asymmetry and Credit Supply to SMEs

The availability of information in the decision to lend is important because it enables the bank to evaluate the risk-return profile of the loan application and hence set the level and terms of credit to be extended to the borrower. However, according to Gorman *et al.* (2005) full information about the borrower's project may not always be available. This leads to a situation of information asymmetry which occurs when one party to the lending transaction has more and/or better information than the other. Where information asymmetry exists, literature shows that it may lead to excess demand for credit in traditional credit markets (Jaffee and Stiglitz 1990) and Cressy 2002). This arises due to credit rationing which results from risks perceived by lenders

because of information insufficiency in evaluating loan applications. They argue that due to information asymmetry, lenders are expected to raise lending rates in order to compensate for potential of adverse selection and moral hazard. The implication of raising interest rates is that some firms will not be able to finance as many projects as otherwise would have been the case at lower rates.

The argument above is that information asymmetry in lending leads to sub-optimal investment decisions due to restricted credit flow. According to Tucker and Lean (2003), when information is distributed asymmetrically between the bank and the firm, banks become hesitant to supply credit to the SME because they are unable to establish the quality of projects and the management of the SMEs. In fact, Cressy (2002), argues that it is information asymmetry that is largely responsible for inefficiencies in credit markets which affects credit flow in different sections of the economy including the SME sector.

The risks that banks face when they lack necessary information to distinguish between good and bad borrowers are adverse selection and moral hazard. In the case of adverse selection, Niemeyer (2003), Padilla (2003) and Simtowe and Zeller (2006) identified two situations when it is likely to occur. In the first instance adverse selection will occur when the bank rejects a good proposal which turns out to be successful. The second case is where the bank accepts a seemingly good loan proposal that later turns out to be a failure. According to Deakins (1999) and Moerman (2005), adverse selection occurs when private information about the project of the borrower is not easily available to the lender. They argue that this leads the lender to depend on the information provided by the loan applicants. The consequence is that when the loan applicants fail to provide all the relevant information, then the lenders may take on bad borrowers with high risks and leave out those who would otherwise have performed

well on their loans by repaying their principal and interest. According to Hoff and Stiglitz (1990) and Cressy (2002) it is assumed that borrowers know the level of risk associated with their projects better than lenders in situations of adverse selection. They also point out that an individual with a high risk project may succeed in getting credit at a high rate of interest while one with a less risky project may be refused credit because the business may not be viable at this high rate of interest. When the interest rate is raised, the borrower with a higher risk is favoured with high probability that such a borrower will later default and hence threaten the capital base of the lender. According to these arguments, adverse selection may result in banks failing to lend to businesses that would otherwise eventually become successful.

With respect to the risk of moral hazard, Besley (1994) and Aghion *et al.* (2002), point out that the moral hazard phenomenon is part of the problem of imperfect information concerning the actions of borrowers. According to Janvry *et al.* (2006), borrowers may be tempted to divert approved loans to other projects with high risk thereby reducing loan repayment ability. The argument goes further to stipulate that borrowers may also refuse to take actions that will enhance loan repayment (Hoff and Stiglitz, 1990). If the moral hazard phenomenon is anticipated, banks are expected to raise the premium for lending in order to compensate themselves for this additional risk being undertaken. Hoff and Stiglitz, (1990) argue further that those clients who can not elaborate their borrowing intentions clearly to the satisfaction of the lenders will be crowded out of the credit market by the high lending premiums required by banks.

2.3.1: Implication of Information Asymmetry on Lending Methodology

Existence of information asymmetry in lending situations has implications for the lending methodology used by loan officers in evaluating SME loan proposals. When

information asymmetry exists, it tends to induce loan officers to rely on collateral as the major consideration in evaluation of loan applications. According to Nott (2003), banks call for collateral as a way of mitigating the risks adverse selection and moral hazard. They argue that when collateral is required to secure loans against non-payment, this makes the borrowers to be motivated to repay the loans to avoid their property being seized by the banks. Nott (2003) further argues that in most cases, if a loan goes bad, the lender's first line of defence is to seize and sell the collateral. However, they also argue that selling the collateral is not a panacea for risk management as it may result into explicit and implicit costs like legal costs. And this can aggravate the borrower's situation of illiquidity into one of insolvency and lead to a bad reputation in the public domain when clients' properties are consistently disposed of. They advance another argument that the lender needs to compare these costs with the expected loss from waiting for the borrower to eventually repay the loan. They further observe that in order to ensure that a particular collateral provides appropriate security, the bank should match the type of collateral with the loan being offered. Additionally, if a bank wants to have a priority claim against the collateral being offered to secure a loan, then it has to incur information search costs of public records to make sure that prior claims have not been filed against the collateral by other lenders.

Triantis (2001) moderates the arguments about costs of collateral by pointing out that reliance on collateral complements loan agreements in minimising consequences of information asymmetry. According to this argument, resorting to the sale of collateral is much quicker than the judicial enforcement of bankruptcy in case of default. Collateral in this case is viewed as a safeguard against unpredictable borrower behaviour that may lead to default in future. Storey (1994) has proposed two factors to be considered when evaluating the role of security which reinforce further the need for collateral in lending transactions. These are to compensate the lender for the risk of

information asymmetry or when information is fully available, to compensate for the level of risk assessed in the borrowers' project. Under the first argument, banks take security because of information asymmetry which implies that security will always be desired by the bank as long as information asymmetry is suspected to exist in the lender-borrower relationship.

Reliance on collateral to mitigate the adverse and moral hazard risks of lending influences the lending methodology used by banks in evaluating SME loan applications. According to Binks *et al.* (1990), Tucker and Lean (2000) and Mason and Stark (2004), the decision to supply credit should rest on financial and managerial strengths of the firms, suitability of the project to be financed by borrowing and prospects within the borrower's industry. Failure to exchange information between the borrower and the bank about these conditions results in the loan evaluation processes being unreliable. According to this argument, banks tend to respond to this risk by adopting a capital gearing approach where collateral is the main basis for lending as opposed to the income gearing approach where future income potential is the principal focus of analysis. These views are consistent with findings by Conning (2000) that banks at times focus more on the value of collateral available in event of financial distress to SMEs than the cash flow potential when lending to SMEs.

Conning (2000) further argues that when banks emphasise the capital gearing approach, this may disrupt credit flow to the borrowers. According to this argument, excluding the borrower's earnings potential and basing on asset-based collateral to lend, restricts credit flow if the borrower cannot provide security that can satisfy the lenders expectations. In support of this argument, the capital gearing lending technique, as a response to reducing the risks associated with information asymmetry has been criticised by Binks *et al.* (1992), Burns (2001), Lean and Tucker (2001) and Mason and

Stark (2004). These scholars identified two disadvantages associated with this approach. The first one is that the approach emphasizes asset-based security for loans which may not be readily available. Secondly, the earnings potential of the company is excluded from the decision-making process yet it forms the basis for future loan repayments. Both problems, they argue, are likely to have a restricting influence on credit flow to SMEs. These scholars have therefore recommended that an income-gearing approach which avoids such shortfalls be used as the basis for evaluating SME loan requests. However, the realisation of these recommendations is likely to remain elusive as long as information asymmetry exists in the bank-SME relationships.

In addition to basing lending decisions on availability of collateral due to information asymmetry, banks have adopted credit screening lending methodology as a strategy for minimising lender risk (Mester 1997). However, successful application of this approach requires that the borrowers should have strong performance reporting systems with enhanced regulatory systems that ensure availability of reliable accounting data (UNCTAD 2002, Ferrary 2003). They also point out that recent improvements in computer technology have enhanced the predictive power of credit scoring. This has increased the reliance by banks on credit bureau scores as a tool to overcome many of the informational asymmetries in the credit market. However, as Ferrary (2003) argues, since low-income individuals may have difficulty in accessing credit, they are likely not to be included in the credit scoring system hence be rationed out of the credit market. This argument according to Cressy, (2002), means that this lending approach is largely unsuitable for evaluation of SME loan applications that are often characterised by informational opaque systems. He advocates for such firms to acquire more personal and closer association with their banks in order to create a pool of information about the business. It is also argued that a network of local contacts and shared interests which provide qualitative is more beneficial in facilitating lending to

SMEs. As UNCTAD (2002) observes that credit scoring systems are important because they reduce subjective interpretations of individual credit officers which aggravates the problem of information asymmetry between the bank and the borrowers.

In Uganda, lack of adequate and accurate financial statement information for application of objective techniques in appraising SME loan applications is cited by Biryabarema (1998) and Kasekende (2001) as one of the major reasons why banks find it difficult to lend to SMEs. These reasons are in line with arguments advanced by the Coffman (2001) and UNCTAD (2002) that though credit scoring has been largely applied in developed countries, its application in developing countries is limited by poor financial reporting systems of SMEs which should be strengthened through a regulatory requirement of standardised approach to accounting and provision of advisory services to these SMEs to enable them adopt these reporting systems at an affordable cost.

In addition, credit scoring may not generally apply to the SMEs sector due to their very nature. Cressy (2002) argues that credit scoring and other related quantitative criteria like balance sheet and income statement information analysis are suitable for transactions-based lending and are mainly applicable to informational transparent, larger, more established firms which can be handled on an arms-length basis with limited monitoring. He further points out that credit scoring may not be suitable for small young firms which are informational opaque and require more personal and closer association between the bank and the SME borrower in order to create a pool of information about the business. In this argument, Cressy (2002) points out that a network of local contacts and shared interests that provide qualitative data is more beneficial in facilitating lending to SMEs. He argues further that the relationship between borrower and lender can reduce information asymmetries, lower the cost of

financial capital and thereby decrease the probability of the SMEs being eliminated out of the credit market.

In addition to the lending methodology, information asymmetry also affects interest rates that banks charge SME borrowers. Nott (2003) argues that when a bank lacks necessary information to adequately screen and monitor credit applicants, then one of the possible solutions available to it is to raise interest rates on loans to cover the risk of information asymmetry. In a related argument, Zhang (2004) points out that banks charge a risk premium to compensate them for undertaking risks of lending to SMEs. The size of this premium depends on the bank's ability to properly assess the creditworthiness of the borrower. According to Barron and Staten (2000), the more accurate information is available to bank, the more ability it has to measure borrower risk and set loan terms accordingly. This implies that it is essential that creditworthy borrowers should be able to signal to lenders that they represent a good credit risk in order to negotiate better loan terms as compared to high-risk borrowers who are likely to have tendency of hiding their information so as to avoid being denied credit or charged higher interest rates.

However, there are instances when the interest rate may not be a fair arbiter of which enterprises access credit. According to Ahmed *et al.* (2002), a bad borrower is likely to accept a higher interest rate since there is a low probability that the loan will be repaid anyway. This argument further stipulates that good borrowers are less likely to apply for credit at high interest rates. This means that as the average riskiness of the borrowers increase, the bank will be forced to raise loan rates even more. This argument emphasises that, the higher the interest rate, the more likely borrowers will reduce their effort to repay the loan, which increases the bank's probability of loss. Banks therefore, consider the extent of information asymmetry in setting the lending

rate charged to the SME borrowers. This raises the propensity to raise interest rates to mitigate losses due to information asymmetry risk which discriminates against genuine SME borrowers who can not afford the high cost of borrowing.

2.3.2: Information Asymmetry and Relationship Lending

According to Han *et al.* (2006), loan officers rely on information provided by the borrowers when assessing the viability of the loan applications under conditions of incomplete information. They also argue that the nature of the applicant's established relationship with the institution influences the extent to which the borrowers are willing to provide information about themselves and their projects to the loan officers. Therefore, according to Madill *et al.* (2002), the bank-SME relationship is a potential remedy for mitigating consequences of information asymmetry on credit flow to the SMEs. Han *et al.* (2006) and Ennew and Binks (1999) point out that, when there is a relationship between the banks and SMEs that is characterised by high levels of interaction then mutual understanding evolves which reduces information asymmetry. Mukherjee and Nath (2003) amplify this argument by noting that effective management of a relationship can positively affect client-customer perception. According to Young (2006), the client-lender relationship benefits banks through reduced lending risks as a result of enhancing the loyalty of SME clients. Loyal SME clients are more likely to share information with their loan officers than if there was no relationship. The relationship also benefits SMEs through greater access to credit, reduced switching costs between banks and increased convenience in accessing credit (Bitner, 1992).

A close relationship between banks and SMEs enhances credit flow through two primary avenues. First of all, the relationship is channelled through the interaction between loan officers, on one hand and the SME owners on the other (Sahay, 2003). In a study by Madill *et al.* (2002), it was found that where there is personal contact

between the loan officer and the SME borrower, there is a strong correlation between the banks lending products and SME satisfaction with the overall bank's services. Secondly, another important avenue for the relationship between the SME and the bank is the existence of a conducive atmosphere and friendly bank procedures (Madill *et al.* 2002). According to Ennew and Binks (1999), when the bank managers exhibit positive behaviour to SMEs and create a conducive institutional atmosphere, then the demand and supply of credit in the bank-SME relationship is significantly increased. This is supported by results from a survey of 3,190 SMEs in Canada which indicated that there was a strong and significant positive relationship between the overall behaviour of the bank branch staff and the satisfaction of the SME with the bank services (Hatch and Wynant, 1991).

Whereas the importance of the relationship between bankers and small business borrowers in ensuring the flow of credit to SMEs is clearly discernible from these arguments, studies also indicate that this relationship is at times difficult to realise bank-SME funding arrangements. Hatch and Wynant (1991), in a survey of SMEs, bankers and accountants in Canada, established that this relationship is characterised by conflict arising from SME misunderstanding of the banks' role and lending criteria, the banks limited knowledge of the SME businesses, differences in judgment and perceptions between bankers and SMEs plus the limitations in bankers' skills in packaging credit that would meet the needs of SMEs.

In addition to the difficulties of establishing sustainable relationships between loan officers and SME borrowers, it has been argued that relationship building between the bank and its clients is not always a panacea for overcoming all the lending risks. As Cressy (2002) argues, intimacy of the relationship between the loan officer and the borrower can potentially create problems for the bank especially when the remuneration of loan officers is a function of the volume of lending they are able to

achieve. This may cause loan officers to focus on portfolio size at the expense of portfolio quality. The loan officers may also overlook warning signs on problem loans if this increases their job opportunities. The implications of these arguments is that relationship building should be concurrently used with the traditional credit appraisal techniques which emphasize minimising lending risks while maximising bank returns. Relationship building and traditional credit appraisal should not be seen as competing approaches to SME loan evaluation but should be treated as a complementary approach that reduces information asymmetry between the two, thereby enhancing the application of the traditional credit appraisal techniques involving the use of the 5Cs framework.

2.3.3: Information Asymmetry and Lending to SMEs in Uganda

The challenges of information asymmetry in lending to SMEs apply to bank-SME lending situations in Uganda. For instance, Kasekende (2001) argues that one of the reasons why most SMEs in Uganda fail to access the funds they need from banks is due to their failure to supply adequate information about their SME businesses. He points out that banks require audited financial statements for at least three years, project proposals highlighting strengths, weaknesses, opportunities and threats and financial projections of the loan proposals. He further observes that SMEs are unable to provide this information because financial and accounting records are rarely in place, and where they are available, their accuracy is usually doubted. He attributes this to the fact that in small enterprises, management does not generally appreciate the need for preparation of financial statements which is aggravated by the fact that most small enterprises are far away from urban influence of modern management practices as well as the fact that these SMEs are too poor to employ skilled labour that could professionally prepare the required financial information.

The views of Kasekende (2001) are supported by the experiences of Biryabarema (1998), who points out that in most cases, banks find it difficult and expensive to appraise loan applications of SMEs because the SMEs are unable to provide the relevant reliable information. This is consistent with the findings of Mugume (2003) that even in cases where banks have funds for lending to SMEs; they find it difficult to conclude lending transactions due to inability to properly evaluate SME loan applications because of insufficiency and inaccuracy of information provided by the SME borrowers.

Banks have made efforts to address the challenges of information asymmetry in lending to SMEs by including guidelines in their lending policies for this purpose. A review of the lending policies of the banks covered in the study³ indicates that there are guidelines relating to evaluation of SMEs loan applications that are intended to reduce information asymmetry and minimize the twin-lending risks of moral hazard and adverse selection. According to these guidelines, loan officers are required to determine the viability of the borrower's proposal basing on the current actual cash flows other than future projected ones. This requirement creates a bias against future enterprise growth by emphasizing present security based on current income other than future viability.

In evaluation of SME loan applications, loan officers are also supposed to ensure that only those SMEs that have minimum of one year experience and expertise in the business, with established business premises and reside within the branch operational area qualify for credit. The other condition that borrowers are supposed to fulfil includes possession of an account that has been operated for a minimum of three months with a regular pattern of positive cash balance.

³ The four banks covered in the study have lending policies which are more or less similar because they were designed by international consultants largely basing on international bank lending practices.

In terms of explicit collateral requirements, only those SMEs that are able to provide a security of at least 150 percent of the amount of the loan required qualify to be considered for a loan. The asset pledged as collateral, especially land, has got to be located within a radius of thirty kilometres or less from an urban centre to ensure the marketability of the asset in case the bank has to revert to liquidation for loan recovery. The borrowers are further required to provide at least two guarantors who should be persons of high standing within the community where the borrower comes from. As indicated in Section 2.2, the banks use litigation as a security measure against the lending risks due to information asymmetry. All in all, it can therefore be argued that the banks rely on a lending approach which emphasises collateral to the disadvantage of the majority of SMEs which lack collateral.

2.4: Congruence between Goals of the Bank and the Loan Officers.

Managing the process of credit supply is essential if credit flow to SMEs is to be enhanced. The commitment of loan officers, who form the initial point of contact between the banks and SME borrowers, is one of the key factors in ensuring that SMEs access credit at acceptable terms. As Dean (2004) argues, the loan officers need to realise their individual goals in order for them to be devoted to providing an appropriate interface between the SME borrower and the bank. The role of loan officers as the first point of contact between the bank and the client is emphasized by Chung and Schneider (2002) who points out that the first interaction influences the perception of clients about quality of service the whole organisation can offer. The alignment of goals of loan officers with those of the bank has been identified as a vital factor that motivates the loan officer and hence determines credit flow from banks to SMEs (Locke and Latham, 2002). On one hand, individual loan officers are concerned about maximising their individual welfare in terms of remuneration, performance appraisal

and promotion while on the other, banks seek to maximise return and minimise the risk associated with lending to SMEs. The challenge faced by the bank is to ensure that the loan officer's goals are matched with those of the bank as this motivates the loan officer to make decisions that are in tandem with the objectives of the bank.

Locke and Latham (2002) emphasize the importance of alignment of individual and organisational goals by arguing that it helps the organisation to provide guidance and direction to both managers and employees. This view is supported by Kim *et al.* (2003) who stipulate that when organisations emphasise functional roles without focusing on needs of individuals working in the organisation, this leads to an organisational environment characterised by lack of responsibility. In order to mitigate this possibility, this argument advocates for management and employee goals to be made congruent in order to promote organisational performance. As Österberg (2004) points out, there is a linear relationship between goal setting and task performance and argues that when a relationship is characterised by goal convergence, it leads to improvement of network communication, market-oriented performance and attainment of organisational objectives. Hartline *et al.* (2000) supports this argument by pointing out that employees who provide the first point of contact with clients need to be committed to organisational goals and values and this is especially relevant for the current study where loan officers deal with clients on behalf of management.

The alignment between goals of individual loan officers and those of the bank presupposes an understanding of the prerequisites for effective goal setting as well as proper management of the goal setting process. In their work, Locke (1996) and Sniehotta *et al.* (2005) identify several principles necessary to ensure successful goal setting in the organisation. They argue that there should be commitment to the goals which should be set in a collaborative manner, and the goals should enable frequent

measurement and feedback, pose sufficient challenge, be specific and inspire confidence. They further argue that successful goal setting should take into account the role of peer group pressure, reward systems and managing task complexity. Locke and Latham (1990) and Tyler (2003) identify the antecedents of goal commitment as individual attachment to the goal, significance and the determination to advance. Latham and Locke, (1991) and Klein *et al.* (1999) also suggest that goal commitment interacts with goal difficulty in determining performance. They specifically argue that with difficult goals, high goal commitment is crucial for high performance. Wofford *et al.* (1992) used different meta-analyses and reviews to demonstrate that the level of goal commitment is a function of attractive and achievable goals. This implies that management needs to secure the commitment of loan officers in order to set mutually acceptable goals to which the loan officers are committed.

In addition to commitment to organisational goals, it has also been argued that alignment of goals of loan officers with those of the bank facilitates feed back in lending transactions which reduces information asymmetry in the lending process. Neubert, (1998) and Aladwani (2001) established that effective goals require frequent measurement and feedback in order to track progress of goal performance. They identify two feedback types that are outcome and process-related. Outcome-related feedback focuses on attainment of a desired level of performance while process-related feedback addresses effectiveness of performance strategies or plans aimed at achieving both short-term and long-term goals. Locke and Latham (1990) suggest that process feedback is important for complex tasks. This implies that goals set by management for loan officers, need to provide a framework for both process and outcome feed back in order to enlist high levels of commitment to these goals by loan officers.

Goal congruence has also been found to enhance confidentiality of the decision makers.

Sniehotta *et al.* (2005) argues that the levels of confidence that people feel about their ability to achieve a goal, the more they are committed to it. According to this argument, short term goal attainment enhances the confidence of decision-makers to strive for longer term goals. He points out that the realisation of short term goals inspires a feeling of satisfaction and persistence to pursue longer-term goals. The implication of these arguments is that goal setting by management of banks should be carried out in such a way that loan officers are influenced to aspire to attain these goals. Performance targets relating to the size of the portfolio managed by loan officers and the loan recovery targets should take into account short and long term objectives of the bank as well as ensuring that the confidence of the officers is assured.

The other aspect of goal setting is to link goals set with performance incentives. Bennett and Gabriel (2001), argue that external and internal rewards like monetary remuneration, personal recognition and other tangible incentives of non-financial nature are critical for maximising goal performance. They also point out that monetary rewards of sufficient value are associated with higher goal related performance compared to performance with no monetary remuneration reward. On the other hand, if a goal is too difficult or impossible to achieve, then offering extrinsic rewards for goal attainment is likely to lower commitment and performance. Li (2003) found that when there are incentives to reward performance for attaining short-term goals, this translates into enhancing the longer-term objectives of the organisation. The challenge for bank management is that an incentive regime of monetary and non-monetary rewards for loan officers should be designed in tandem with the performance goals set.

In addition to appreciating the challenges of goal setting, managers and loan officers need to adopt an effective structure approach that ensures congruence between the goals of the individual loan officer and the bank. Klein *et al.* (1999) advance the

argument that goals may be set using a top-bottom, bottom-top and interactive approaches. They point out that goals set using the top-down approach mean that upper level managers establish the organisations mission and goals which are then communicated to lower level staff as a guideline for performance. They further argue that this approach to goal setting has positive attributes of ensuring that the organisational goals rhyme with the mission that ambitious goals are set for every one in the organisation. However, there are negative attributes associated with goals set using this approach which include setting unrealistic and inflexible goals that do not enjoy full support of employees who have minimal participation in them.

The other approach advanced by these scholars is the bottom-up type where the direction of benefits and advantages of goal setting are reversed in comparison with the top-bottom approach. According to Mahaney and Lederer (2003), goals can also be set using an interactive approach where there is participation of all the stakeholders in the goal setting process. This approach involves contributions from all stakeholders to the organisational goals and relies on inclusion and cooperation among managers and employees so that the final decisions on different goals are reached by consensus. This approach ensures that there is high commitment to the goals on the part of the employees and that these goals are challenging and ambitious due to participation of all the stakeholders in setting them. In conclusion, management of banks and loan officers need a goal setting approach that maximises interactive goal setting which can only be realised if management and loan officers jointly work together to internalise the mission and vision of the bank. This sets a decision making environment for loan officers that is perceived as encouraging team spirit, leadership support, fairness in reward allocation and empowerment.

The quest for attaining congruence between the goals of loan officers and the bank has

to be done in the context of the agency relationship that exists between loan officers and credit supervisors and branch managers. The concept of agency provides a perspective for understanding the relationship between the goals of the bank and those of the loan officer and how they influence credit flow to SMEs. According to Mahaney and Lederer (2003), an agency relationship arises when there is a contractual arrangement involving one or more persons (principals) engaging other persons (agents) to carry out some tasks on behalf of the principals. They point out that contractual arrangement involves the principal party delegating some decision-making authority to the agent in order to enable performance of the task. In the context of extending credit to SMEs by banks, the agency relationship manifests itself when loan officers are entrusted with responsibility to evaluate, recommend and monitor loans on behalf of credit supervisors and branch managers .

This agency relationship creates challenges for management which have to be effectively handled in order to maximise the potential benefit from the relationship. According to Dennis (2003), the fundamental challenge of the agency relationship is to balance the diverse interests of the principal and the agents so that such divergence does not erode the expected benefits of the relationship. This is consistent with the earlier argument of Jensen and Meckling (1976) that people involved in an agency relationship are likely to behave in an opportunistic manner by focusing on their personal interests and goals at the detriment of those of other parties and the organisation as a whole. According to Karake-Shalhoub, (2002), principals and agents have different attitudes towards risk and principals have to devise mechanisms to induce agents to disclose information about their prospective decisions. This argument about the flow of information is also advanced by Ekanayake (2004) who points out that in order to close the information gap between the principal and the agent, there is need to monitor and induce the agent to agree to risk sharing with the principal.

According to Eisenhardt (1989) and Mahaney and Lederer (2003), the potential for opportunistic behaviour creates goal conflict between the principal and the agent. They attribute this to the fact that both parties have different goals and it is difficult for the principal to monitor the agent's behaviour due to information asymmetry. It is argued further that the source of the conflict can be self-interest or simply different attitudes towards risk. The argument is extended to the case where the goals of the agent and principal do not conflict. It is said that when uncertainty is not an issue, the principal can rely on the agent to act in furtherance of their shared goals. They also point out that agents who possess more information than principals should be encouraged to share all the information they have with the principals at zero costs. The absence of such optimal conditions leads to the agency costs which according to Jensen and Meckling (1976) and Mahaney and Lederer (2003), are composed of monitoring costs which are expended by the principal to observe the agents. There are also bonding costs incurred by agents to make their services more attractive. The other cost is the opportunity costs borne by the principal due to the difference in outcomes expected by the principal and the actual output of the agent.

With respect to uncertainty, agency theorists have identified two categories of this problem. According to Eisenhardt (1989) and Padilla (2003), there is the moral hazard problem which involves agents failing to exert the necessary effort to satisfactorily perform their jobs (shirking) and taking actions that benefit them at the expense of the principal (opportunism). They also point out that there is also the adverse selection problem which arises when an agent lacks the competence to perform the job as expected by the principal. They further argue that, because of asymmetric information between the principal and the agent, the principal is forced to control the activities of the agent and bring them in line with the goals of the principal through monitoring the

activities of the agent.

In respect to extension of credit to SMEs by banks, the lesson from the agency problem is that management at times faces a situation where loan officers and borrowers seek to maximise their benefits at the expense of the bank. This behaviour is manifested in the risks of adverse selection and moral hazard that the lending institutions face in extending credit to SMEs. The sum total of all these implications of agency relationships is that monitoring costs to ensure compliance of agents by principals are incurred by the bank and these costs need to be managed in order to maximise the net benefits from the agency relationship.

According to Mahaney and Ledrer (2003), a fundamental assumption of agency theory is that individuals are self-centred and opportunistic and when opportunity arises, they act in self-interest. According to this argument, whenever there is a conflict between the interests of the agent and the principal, the agent is expected to act in his or her own self-interest. For example, in the case of bank loan officers they are contractually bound to work in the interest of credit supervisors and branch managers but if they know that they are neither monitored nor will they be punished for failing to meet performance targets set by the bank, they may exert less effort than is appropriate or take advantage of bank resources for their own personal benefit. The argument about preservation of self-interest by loan officers is re-enforced by another perspective that loan officers need to balance their individual and bank goals in a dynamic nature in which they make credit decisions. As argued by Khushalani *et al.* (1994) and Parnas and Clements (1986), the decision-making environment is not only dynamic but is also characterized by uncertainties due to factors like incomplete and vague job requirements and an ever changing cultural milieu in which decisions are made.

Guindon (1990) and Visser (1991) expound further the above argument by pointing out that prescribing fixed performance targets is not feasible because optimal decisions are difficult to attain in real world decision-making environment. Masuku *et al.* (2003) also argue that setting of fixed performance targets in a principal-agency relationship promotes a decision-making framework characterized by emphasis on convenience and legalistic tendencies. They argue further that such an environment does not enhance trust, cooperation and commitment which are essential in attainment of performance targets. These arguments emphasise the point that in addition to bank management and loan officers operating in principal agent relationship that could promote opportunistic behaviour by agents, there are also environmental uncertainties that influence credit decisions to which loan officers have to adapt in order to meet their individual and bank performance targets.

The argument of Masuku *et al.* (2003) points to the need for banks to sufficiently empower loan officers so that they can participate in a relationship of trust, cooperation and commitment. Bank management need to adopt a management style that enables loan officers to vertically and horizontally participate in performance goal setting as far as lending to small and micro-enterprises is concerned. As Erstad (1997), Pardo del Val and Lloyd (2002), and Greasley *et al.* (2005) point out, a culture of empowerment that emphasises information sharing, training and a fair reward system needs to be created by bank managers so as to facilitate the creation of principal-agency relationship that can lead to high levels of commitment by loan officers who make decisions to lend to SMEs.

These arguments do not say that all loan officers are always opportunistic; in fact Dennis (2003) provides a contrary argument that agents, like loan officers in banks, have motivation to take decisions that are in the best interests of the principals in order to protect their incomes and reputation which are dependent upon the performance of

their institutions. He further argues that in such a case, agents avoid decisions that would result into bankruptcy of the organisation as this would endanger their personal earnings, reputation and future employment prospects. This argument is supported by Fehr and Fischbacher (2002) who point out that though there are many people who behave in a purely selfish manner, there are also many others whose decisions are not exclusively based on attainment of personal gains. They indicate further that many decision makers are often driven by accomplishment of social preferences like reciprocal fairness, where according to Charness and Rabin (2000), individuals expect that their actions should be rewarded in a fair manner by management.

Falk *et al.* (2000), Bolton and Ockenfels (2000) and Cox *et al.* (2001) also contend that many decision makers often focus on attaining fair and equitable distribution of resources in their decisions. The implication of these points of view is that whereas there is an incentive for loan officers to take lending decisions that are consistent with the bank objectives, the issues of opportunism and social preferences of loan officers should not be entirely ignored. It is essential that managers of banks should recognise the agency problem and address it in their lending guidelines and procedures that govern the agency relationship between them and the loan officers.

A review⁴ of the lending policies of the Ugandan banks studied shows that there are guidelines relating to goals of the bank and individual loan officers. According to these guidelines, loan officers are required to generate and manage a given portfolio size in a given period. This portfolio size is set by management and currently ranges between thirty to one hundred clients a month, though these targets change from time to time. The loan officers do not directly participate in the setting of the targets. The guidelines emphasize the number of clients served as opposed to the value of the portfolio. The

⁴ This review is similar to that referred to earlier about measures to contain the challenge of information asymmetry.

guidelines are not flexible and if a loan officer fails to realise the targets, then they are sanctioned by management by withholding their incentives. Loan officers are also required to realise 100 percent recovery rate though in some rare cases, they may be given three percent flexibility. Loan officers are also required to monitor business performance of SME borrowers throughout the entire loan period in order to identify and deal with potential problem loans in a timely manner. Banks require that loan officers strictly adhere to these guidelines without exception and failure to comply with any of these guidelines and targets leads to forfeiture of income incentives, poor performance appraisal reports and denial of promotion opportunities. These guidelines show that banks' primary focus is on minimising risks while maximising their return. Because the guidelines emphasize efficiency, they appear not to reflect goals of individual loan officers. Further more, these guidelines are set without the involvement of loan officers and prescribe targets that are inflexible, and difficult to achieve. The nature of these guidelines and the way they are set risks biasing loan officers away from SME loan applications that are perceived as high risk and favour those borrowers with low risk like salary-backed loans where recovery is not a problem as argued by Kasekende (2001) and Mugume (2003).

2.5: Organisational Structure and Credit Supply to SMEs

Setting goals and solving agency problems in the lending decisions by banks requires an appropriate organisational structure. According to Altinay and Altinay (2004), such a structure is a prerequisite for accomplishing different tasks including recognizing new opportunities and converting organizational policies into realities. They further point out that the organization structure design can be used as managerial tool to ensure that there is adequate communication and interaction between organizational members, delegation of authority and setting up of control mechanisms. Simons (2000) argues further that a lever of control in the organization structure involving diagnostic,

interactive, belief and boundary systems helps in creating balanced decision-making processes. The thesis of these arguments is that the organisational structure is a mechanism that determines levels of coordination, control, formalisation and centralisation of power as a framework of facilitating organisational objectives. The organisational structure is also viewed as a configuration of the organisation hierarchy and mapping out of formal rules to govern different levels of the organisation in order to respond to its goals (Burnes *et al.* 2003, Sor 2004). They also observe that the organisational structure influences information processing and the general behaviour of the organisation. In addition, they argue that structure influences the degree of centralisation of decision-making, formalisation of rules, authority, communication, compensation, standardisation of work processes and skills, and control of output. From these perspectives, structure can be seen as an influencing factor in the flow of authority from top bank management to loan officers and the communication channels used in lending decisions.

The design of the structure also determines whether the organisation is mechanistic or organic in nature. A mechanistic organisation according to Mintzberg (1979) and Brooks (2002) has structures that emphasise formalisation and centralised control. It is argued further that this structure is suitable for tasks that rely on routine information that is easily recognised, understood and predictable in terms of the input-output framework of production. They also argue that the mechanistic organisation is suitable for highly specialised tasks where rules, regulations and standard operation procedures are required to manage low levels of uncertainty. In case of organic organisations, they point out that they are characterised by tasks that require special skills, knowledge and experience and continuous exchange of information with others in order to resolve non-standardised situations that occur in decision-making. It is further stipulated that this structure promotes a network structure of control where authority and communication

are emphasised rather than hierarchy, in order to tap knowledge from all functional areas of the organisation. As Burnes *et al.* (2003) point out, the decision to design the organizational structure should be made deliberately and consistent with the nature of the environment in which the organisation operates. They also argue that where as mechanistic structures are appropriate for stable environments, organic ones are better suited for less stable and less predictable one.

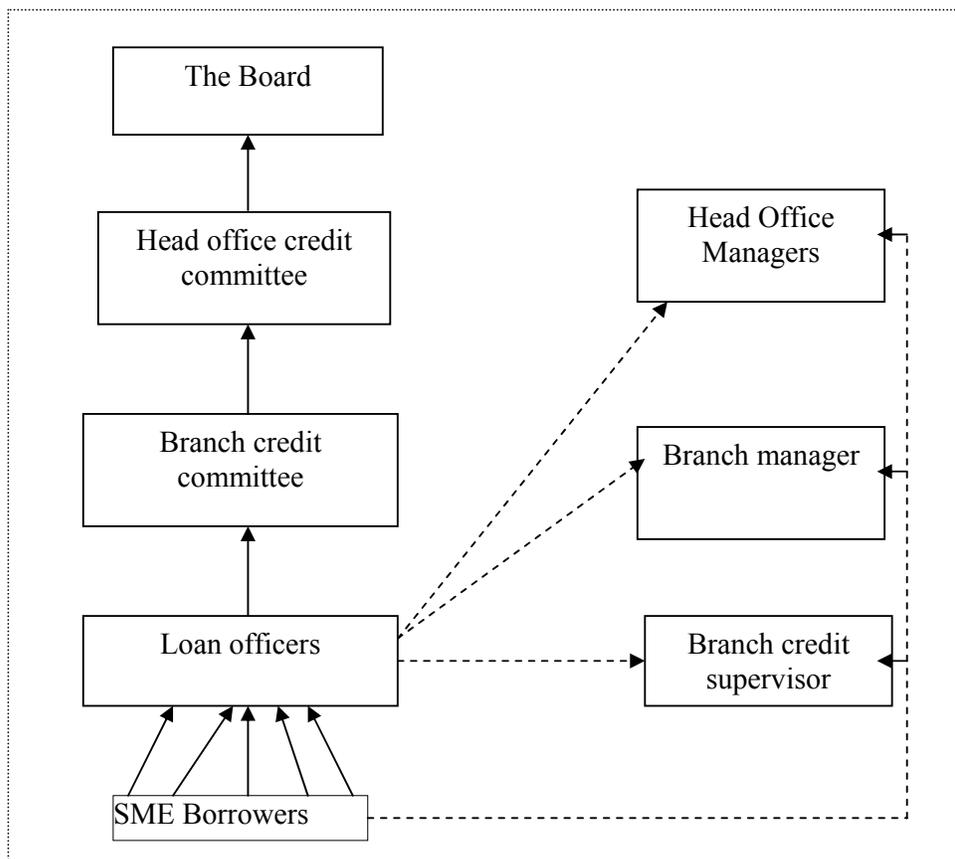
There is a close analogy between mechanistic and organic organisations and the environment for credit decision-making in banks. Loan officers have to deal with complex tasks in evaluating loan risks for a diverse population of borrowers. In this task, they have to use a set of lending policies, procedures and guidelines within a prescribed hierarchy in the bank. This necessitates a clear design of structures to enable the loan officers handle lending decisions to SMEs in a manner consistent with the expectations of the bank. These structures should enable the banks to minimise the risks due to adverse selection and moral hazard while at the same time offering quality service to the SMEs that seek credit.

As Berger and Udell (2002) argue, if banks are to develop relationships with SMEs that address information asymmetry and agency problems in lending transactions, then there should be structures that promote effective delegation of authority to credit officers who deal with SMEs. The structure should also ensure that interface between the banks and SMEs is maintained in order to facilitate relationship lending. The hierarchical structure of contracting is supposed to be the panacea for efficient monitoring in order to minimise the impact of the agency and incentive problems that may result from delegating authority to credit officers who deal with SMEs in lending transactions. The focus of these arguments is that the bank structure affects the lending methodology adopted by the banks in serving SMEs and needs to be cautiously designed.

Accordingly, banks need a structure that allows for a hierarchy of contracts to exist between SMEs, loan officers and management.

Banks involved in this study show that they have put in place structures for handling lending transactions involving SME borrowers as shown in Figure 2.1.

Figure 2.1: Bank hierarchy for credit flow in the four lending institutions under study.



Source: Lending policies and guidelines of banks studied (The broken lines indicate the informal channels of communication that loan officers use in decision-making. The four banks have more or less similar structures because they use policy guidelines that have a lot of uniformity due to their standard design by external consultants).

The formal structure presented in Figure 2.1 shows that there are four major levels at which lending decisions are made. At the base there is the interaction between the loan officer and SME borrowers which culminates into lending proposals that loan officers forward to the branch’s loan committee. The loan officer at the base of the structure is

the primary contact point between the client and the bank and is responsible for managing initial contacts with the borrowers, conducting appraisal of loan requests, defending these requests in the branch credit committee, communicating with borrowers about the outcome of their requests, monitoring the progress of borrowers on servicing their loans and ensuring recovery of these loans. The loan officers in this figure have a privileged position because they act as a bridge between borrowers and the banks. The loan officers have no authority to finalise lending decisions but they are represented on the branch committee unlike the SME borrowers who do not have such representation. When the decisions require the attention of higher committees at the head offices of the bank, the representation of loan officers and SME borrowers is not provided for though they are the initial parties that play a leading role in the initiation and evaluation of the loan application. Loan officers have to strictly follow the structure as provided in the lending regulations in order to have the loan application approved.

The formal structure outlined in Figure 2.1 implies that credit decisions take place in a hierarchical structure with a bottom-top orientation. The loan officer who is at the bottom of the hierarchy is the principal manager of the relationship with the borrower. However, the apparent power of the loan officer is negated by the fact that they cannot make final approval of decisions and have a minimum representation at high levels of decision-making. This is compounded further by poor provision of avenues for the SME borrowers to defend their loan applications beyond the loan officer. This structure for making credit decisions in the banks has positive attributes. As McNaughton (1991) points out, the bottom-up structure of credit approval provides the mechanism for referring big decisions to higher level committees which enables loan officers at lower levels to benefit from experience of their superiors. This minimises the risk of making wrong lending decisions. She further argues that such a structure has in built

checks and balances at different levels of decision-making, which minimises potential abuse of the guidelines by individual loan officers.

Despite the above positive attributes, there are also short-comings identified with this structure. As Berger and Udell (2002) point out, this structure is likely to lead to conflict amongst the different levels of decision-making due to limited formal horizontal communication channels. Further more, Burnes *et al* (2003) argue that emphasis on a rigid structure for decision making may deprive some of the decision makers flexibility in decision making. In case of bank-lending to SMEs, the responsibilities of loan appraisal and recovery are concentrated in the loan officer, while at the same time, it denies them authority to approve loans. This sets a stage for a potential conflict between the loan officers and bank management if loan officers perceive that their work is inhibited by higher level management. The bank's structures should enable loan officers to dispose of their responsibilities without unwarranted restrictions.

In conclusion, as Berger and Udell (2002) argue, if banks are to develop relationships with SMEs that address the information asymmetry and agency problems in the lending transactions, then there should be structures that promote effective delegation of authority to credit officers who deal with SMEs. The structure should also ensure that interface between the banks and SMEs is maintained in order to facilitate relationship lending. When the structure does not enable loan officers to make efficient and expeditious decisions, they resort to a culture of informality whose consequences are discussed in the following section.

2.6: Banking Lending Culture and Credit Flow to SMEs

Bank lending culture is embedded in the practices of loan officers and other bank officials. This influences lending decisions that loan officers make. The arguments about lending culture as advanced by Borgatti (1996) and Caulkins and Hyatt (1999) stipulate that lending decisions based on a common set of lending policy guidelines should culminate into a consensus and a shared decision-making culture amongst loan officers. In the same vein, Gorman (2002) and Gorman *et al.* (2005) found that there is no consensus in loan officers decisions. The lack of consensus in lending decisions of banks is contrary to expectations since decisions are based on standard lending guidelines and training programmes. According to Tucker and Lean (2002), this can be attributed to the fact that SME borrowers have different goals, attitudes and operating environment. This diversity means that loan officers deal with heterogeneous entities at different times which make it difficult for a standardised and common lending culture to emerge.

Hartmann and Margaret, (1998) add to this argument by pointing out that variation in bank resources implies that there is low uniformity in decisions made by different loan officers at different times. They also argue that due to information asymmetry, loan officers deal with complex problems that are unstructured in nature and in an environment that lacks systematic and objective information which forces the loan officer to rely on subjective measures like experience and intuition or peer influence to make lending decisions which make a common lending culture difficult to attain (Lipshitz and Shulimovitz, 2005). Kumar and Motwani (1999), also point out that though loan officers receive comprehensive standardised training, they make different decisions depending on their individual interpretation of the lending guidelines due to their experiences and perceptions.

These arguments about lack of consensus in lending decisions made by loan officers are in line with the findings of Wilson and Marlino (2005) that loan officers have substantial opportunity to make subjective and qualitative judgements based on gut reaction or intuition which they combine with formal guidelines in making lending decisions. They further point out that these subjective judgements lead to situations where the outcome of loan applications reflects the views of individual bank loan officers as well as bank preferences and policies. These findings are also in tandem with the work of Lipshitz and Shulimovitz (2005) who argue that loan officers integrate hard financial data and soft impressions based on gut feeling when establishing credentials of borrowers and viability of loan applications. In further support of the argument about lack of consensus in decisions of loan officers, Myers (2002) argues that properly used intuition is indispensable for effective decision making in the real world. They point out that where use of such intuition has the disadvantage of being subjective, it is an invaluable tool of decision making in the real world as it captures observable specific cues extracted from behaviour of clients and supports the work of Gorman (2002) and Gorman *et al.* (2005), who found limited evidence of a shared risk assessment culture amongst senior managers in banks and government agencies responsible for lending to knowledge-based businesses in Newfoundland and Labrador provinces of Canada.

Lack of consensus in lending decisions by loan officers has three major consequences for bank lending culture. The first one is that individual loan officers and other bank officers are seen by SME borrowers as powerful entities in deciding the final fate of loan applications. This promotes a culture of informality as borrowers seek to influence the outcome of loan applications using informal personal contacts within and outside the bank to invoke a favourable position of the loan officer towards a particular loan application. A culture of informality is recognised by Townsend *et al.* (1998) and

Griffith and Neal (2001) who argue that in most organisations, informal hierarchy is distinct from the formal one and the two operate alongside each other. They also point out that the existence of informality in the organisation is occasioned by parties in decision-making who seek to influence the outcome of the decision outside the formal structure. These arguments mean that informality is a phenomenon that is expected to occur in organisations and is therefore not unique to the lending situations in banks.

An evaluation of the culture of informality shows a mixed picture. According to O'Reilly and Chatman (1996) and Spataro and Anderson (2004) informality can be a positive influence in decision-making by fostering fast communication, influencing decision-making partners towards a favourable disposition and enhancing consensual interpretation of different types of information which reduces information asymmetry. Furthermore, they argue that informality improves social interaction, which leads to a shared value system and therefore helps meet a natural need of loan officers to relate with other officers. This makes informality a source of satisfaction and improved performance.

Despite the above benefits of informality, it also has drawbacks for decision-making. According to Sutton and Hargadon (1996) and Kirikova and Makna (2005), informality makes individuals with no formal authority to wield influence over others which can cause conflicts in the organisation. They also contend that when there is informality, behaviour of decision-makers may be shaped by striving for informal status other than aspirations for formal goals of the organisation. Furthermore, they advance that reward and punishment based on informal structures may differ from formal incentives thereby causing problems of fairness and equity.

These arguments imply that informality may cause loan officers and SME borrowers to take advantage of the informal channels to divert from the strict application of bank

lending guidelines. This exposes the bank to potential fraudulent behaviour. Informality can also be used by unscrupulous loan officers to mislead management officials who then become conduits for poorly executed work or perpetuation of fraud.

The second consequence of informality is linked to influence peddling where senior officers use their power in the organisation to influence decisions of the junior loan officers. According to McKenna and Brett (2005), influence in decision-making is brought about when a person attains control over scarce resources or takes advantage of information he/she holds when dealing with decision situations characterised by uncertainty. They further argue that there are situations when influence in decision-making affects decisions positively and makes it constructive. For example influence could occur as a result of a higher official genuinely recommending a potential good client to the loan officers. Influence could also occur as consequence of senior officials requiring the loan officers to give a positive recommendation of borrower's loan application and if the loan request meets the lending criteria then such influence benefits the bank.

Another consequence of lack of consensus in decision making and the resulting informality is the enhancement of a culture of *personalismo*. According to Munene (1991) and Triandis (1984), the culture of *personalismo* refers to a decision-making situation where people expect positive decision outcomes by relying on a string of individuals known to them. Munene (1991) argues that this culture is intensified where an attitude of excellence in service is lacking or poor such that clients of organisations seek expeditious decisions by using decision-makers personally known to them. He points out further that *personalismo* culture has positive attributes of expediting and positively influencing decisions. For the purpose of this study, this is akin to situations where loan officers and borrowers use informal channels to obtain faster and

favourable decisions. This culture also has negative implications for decision makers because it leads loan officers to focus on informal rather than formal goals of the bank by loan officers. This has a danger of resulting into influence peddling and politicisation of decision making in the lending process (McKenna and Brett, 2005).

In conclusion, bank lending culture that is characterised by lack of consensus and the resultant reliance on use of informality and *personalisimo* culture to get expeditious and favourable lending decisions has both positive and negative attributes. There is need for bank management to be alert to instances of positive and constructive influence which should be encouraged as it promotes credit flow to SMEs and to the negative influence which should be addressed before it leads to unnecessary restrictions in credit flow to SMEs.

2.7: The Gender Perspective and Credit Flow to SMEs⁵.

The main thrust of the argument about the role of gender in credit availability by SMEs is that women-owned enterprises are likely to be supplied with less credit than their male counterparts. This section provides an analytical outline of what is meant by gender, how it is articulated as masculine and feminine behaviours and how these stereotypical characterizations act to devalue that which is associated with the feminine. This analytical frame is then linked to experience of female respondents in the concluding chapter.

The importance of engaging women in business is embedded in their potential to create more enterprises, generate wealth, enhance employment and, in the case of developing countries, contribute to alleviation of poverty (Marlow *et al.* 2008). In this regard, Reynolds *et al.* (2001) advocate for acceleration of the entrepreneurial activity in

⁵ The role of gender in credit supply and demand is jointly treated in this chapter in order to give a coherent review.

various countries through promotion of participation of women in business. However, in order to attain these objectives, the issue of the role of gender in access to funding including credit need to be addressed.

Gender in the context of availability of resources, like credit, does not refer to the biological determination of sexual characteristics of individuals but rather is a social construction (Marlow *et al.*, 2008). In this perspective, gender has been defined as a social phenomenon where people are identified as having masculine and feminine characteristics for men and women respectively (Oakley, 1972). Ex-ante literature shows that this gender characterization permeates through social, economic and cultural spheres in which people operate and that it is a central way in which human beings think (Greer, 1970, West and Zimmerman, 1987 and Butler, 1993). Though there are scholars who argue against this dichotomous way of viewing people (Butler, 1993 and Roseneil, 2000), there are characteristics that bind the majority of individuals together in such a way that conforming to the gender definitions determines social relationships amongst them (Marlow *et al.*, 2008).

A common trait about gender that is consistently argued in the literature is that this characterization has created and re-enforced a dichotomous way of thought where the masculine attributes dominate those associated with the feminine (Flax, 1987, Bem, 1992, Klob, 1994). Marlow *et al.* (2008) argue that though what makes a gender identity may take different articulation due to environmental context, subordination of the feminine is a constant attribute of the gender dimension. As Cranny-Francis *et al.*, (2003) also point out, the masculine is generally regarded as positive and is the standard by which all are judged while, that which is feminine is taken as inferior. Charles, (2003) adds that men use this gender stereotyping to prioritise their interest

and status in economic, social and ideological terms thereby dominating those of women. This leads to inequalities in power and status which makes differences between women and men normal in perception, thought and action (Wilson *et al.*, 2007). The interaction of these perceptions with race, age, class, management and other environmental contexts determine women's life chances thereby enlarging differences between them and men (Letherby, 2003). In an earlier discussion on this question, Bem, (1992) points to a concept of androcentrism where hierarchical relations evolve such that male experiences and behaviour are accepted as the norm while the female ones are regarded different. This is the bedrock for inequality which makes the women to be seen as inferior. The consequences of gender stereotyping include the perception that being feminine is being naive (Kolb, 1999), as well as rendering women appear invisible in negotiating resources for their businesses (Fletcher, (1993). It has also been argued that due to gender stereotyping women get a feeling of incompetence and low self esteem which affects their performance. As West and Zimmerman, (1987) and Bem, (1992) argue further, gender polarization creates a situation where women tend to believe that indeed the inferior characteristics associated with them are true which lowers their self esteem. This leads to a sense of hopelessness and low aspiration levels (Kolb, 1999). Women also get associated with emotionality rather than rationality which is related to men (Mumby and Putnam, 1992) and are often associated with seeking sympathy rather than demonstrating resoluteness in their dealings (Grillo, 1991).

This subordination argument affects access to credit through the entrepreneurial discourse argument (Marlow *et al.*, 2008). This relates to categorization of meaning that entrenches a particular view (Prasad, 2005). In this context Ahl, (2007) points out that entrepreneurship is described in the same words that describe men thereby making

women entrepreneurs invisible. Women businesses are thus seen in terms of “hobby” (Ahl, 2006), related to child and family care, self employment and generally reflecting feminine working habits other than being seen as run in an aggressive, competitive or ruthless manner which is associated with men (Marlow *et al.*, 2008). The effect of stereotyping the gender characteristics in which the female is consistently portrayed as inferior translates into loan officers who have negative attitudes towards women borrowers (Marlow and Carter, 2007), and who subsequently view women-owned businesses as inferior compared to those of men (Smith-Hunter, 2000 and Watson, 2000). This negative perception of loan officers about women-owned businesses is aggravated by the women themselves who exhibit high levels of risk aversity (Marlow *et al.*, 2008) and portray the discouraged borrower syndrome. This forces them rely mainly on informal sources of finance other than seeking bank credit (Orser *et al.*, 1999 and Fielden *et al.*, 2003). These views are discussed in detail in the following paragraphs to demonstrate how gender influences credit availability to women-owned SMEs.

Studies conducted in developed countries identify different ways in which gender stereotyping may lead women-owned enterprises to get less credit than men-owned ones. Marlow and Carter, (2006) and Hilton and Katiyo, (2007) point out that there is a general belief that small-business-women entrepreneurs face greater barriers than those owned by men in raising start-up capital. They partly attribute this phenomenon to negative attitudes that decision makers in financial institutions have towards women-based small businesses. They argue that there are social, economic and cultural environmental factors which lead to stereotyped gender characterization. It is also said that this together with poor previous employment records and low levels of human, social and financial capital, cause loan officers to perceive an unfavourable track record

of women-owned enterprises which negatively impacts on the willingness of these loan officers to positively recommend credit to these businesses.

There is also an agreement that the profile of the SME-owned business adversely affects its ability to obtain credit from banks. This is attributed to the fact that women run life-style enterprises in the service industry which are mainly operated from home. The consequence of this, as argued by Smith-Hunter (2000), is that women establish businesses that generally offer lower returns and require lower start-up capital. Marlow (1997) and Wilson and Marlino (2005), echo these arguments by pointing out that women ran their businesses on part time basis and generally put in fewer hours due to other pressures associated with their gender roles adding that such businesses have low value for resale. They argued further that most women are likely to be excluded from family businesses and by passed in succession which may further enhance the perception of loan officers that women-owned enterprises are not attractive for lending purposes.

Watson (2002), in support of this argument, points out that because women-owned businesses generally start small and are younger as compared to men-owned ones, they face credibility problems with their bankers. Further, Brindley (2005) and Marlow and Carter (2006) refer to the performance profiles of women owned firms which tend to be younger, smaller, located in more crowded and poorly performing sectors in the economy as disincentives for women owners of SMEs to pursue risky debt-financing. According to Loscocco and Smith-Hunter (2004), women run their small businesses as a hobby or an extension of their gender of family support. It has been argued further that women-owned SMEs are normally characterised by a small work force and low volume of start up capital and generally earn low returns which do not enhance their

prospects of obtaining credit from banks. (Carter 2000, Verheul and Thurik 2001 and Marlow and Carter 2004).

Marlow (1997) and Hundley (2000) also argue that the complexities of the profile of women businesses and their demand for credit from banks are compounded by the family role that women play. They point out their case by arguing that by combining running of their small businesses with the family roles, women owners of SMEs are forced to operate them on part time basis which diminishes their concentration and hence the growth prospects of their businesses. Hundley agrees with this argument and shows that there is competition between family work and management of business by women-owned small businesses. With respect to Uganda, Katutsi (2005) in analysis of gender role and performance of women SMEs found a negative relationship between reproduction roles of most women SME owners to be negatively related to the survival of their enterprises implying that gender role is a big hindrance to the performance of these SMEs. He attributes this to the fact that experiences and activities of women on the SME sector are conditioned by demands of multi-societal role and their exclusion from the culture of advantage which constrain the ability of the women to mitigate the challenges that their SMEs face. This negative relationship between the reproductive role of women and the survival of their SMEs is in agreement with the findings of Fielden *et al* (2003) and Timms and Still (2000) that domestic division of labour greatly inhibits the performance of most of the women-owned SMEs because of their multiple social roles.

Marlow and Carter, (2006) point out that social economic and cultural environmental factors lead to stereotyped gender characterization which, together with poor previous employment records and poor levels of human, social and financial capital of women-owners of SMEs, contribute to an unfavourable track record as perceived by loan

officers. Buttner (2001) also advances the socialisation argument to explain why women are likely to demand less credit than men. They argue that the socialisation theory posits that individual behaviour of people is shaped by a set of ideas that characterises the environment in which they grow. They point out that gender differences in the socialisation of men and women get entrenched in their psyche as they grow and this is reflected in their behaviour when they attain adulthood. Buttner (2001) argues further that, the socialisation theory sets the contexts in which women feel that they are less suitable than men to manage business and are therefore less motivated to demand credit to grow their business as compared to men. In addition, bank loan officers have beliefs and values from this early socialisation which fuse into standard bank operating procedures to determine over all outcomes of women-owned loan applications (Wilson and Marlino, 2005). As Mottier (2002) and Wilson and Marlino (2005) argue, women are usually associated with more negative qualities than men that lead to subtle inequality between them. It is generally considered that entrepreneurship and business success is largely a male related aspect while women are seen as inferior in this respect. Ahl (2002), De Bruin and Dupuis (2003) and Wilson and Marlino (2005) wrap up this argument by pointing out that the net sum of the socialisation argument is to negatively affect the psyche of women who then become reluctant to demand for credit from banks. In the case of Uganda, Orobias (2005), in a study of gender difference and start up capital in Uganda, found out that there is fear of future amongst women as compared to men implying that women exhibit higher levels to being risk averse as compared to their male counter parts.

This ties up with the argument that there is a category of women-owned businesses that does not seek credit from banks because the owners feel discouraged to do so. Haines *et al.* (1999) and Wilson and Marlino (2005) also point to intuitive judgments of loan officers. They argue that because loan officers are risk averse, they negatively view

applications of women borrowers because of perceived poor track record, lack of strategic planning and market plans. This poor attitude of loan officers permeates to the psyche of women owners of small and micro businesses. This is closely related to the argument by Cavalluzzo *et al.* (2002), Fielden *et al.* (2003) and Orser *et al.* (1999) that fewer women, as compared to men, are likely to seek credit because of their belief that their requests would be turned down by the loan officers. Kon and Storey (2003) categorises such potential borrowers as discouraged and argue that they may otherwise be good but the fear to apply for bank loan keeps them out of the credit market. Rogoff *et al.* (2004) expand the argument by stressing that whereas there may be no explicit discrimination by banks against women borrowers when they actually seek credit, the underlying perception that they may not succeed if they attempt to borrow turns them into discouraged borrowers which deters them from seeking credit. Furthermore, Slovic *et al.* (2004), Brush (1997), Brindley (2005) and Marlow and Carter (2006) point out that this phenomenon of discouraged borrowers is enhanced further by women borrowers who generally have a low propensity for risk and low desire to grow their businesses.

These arguments suggest that women-owned-SMEs are likely to find it more difficult to access credit as compared to their male-owned ones. However, evidence from studies carried out in developed countries generally suggests that there are no systematic, overt gender discriminatory strategies of banks as suppliers of credit capital which deter women from seeking credit. Wilson and Marlino (2005) studied the role of gender in bank loan officers' perceptions of business owners in the UK and found no evidence of systematic gender difference in the constructs held by bank loan officers. Another study by Carter *et al.* (2007), generally confirms the above by arguing that, despite the diversity of criteria that loan officers use in assessing loan applications, they in the most cases do not vary by the sex of the loan applicants. However, they argue

that though there is no evidence of overt discrimination against women-owned businesses which seek credit from banks, there are latent factors that make loan officers to query the suitability of women-small-business borrowers due to gender stereo-typing and that this may explain some dissatisfaction that has been reported by women in dealing with their banks as argued by Orser and Foster (1994) Verheul and Thurik (2001) and Brush *et al.* (2001).

In conclusion, the evidence from the developed countries appears to be mixed by arguing that though there is no obvious discrimination of small business women entrepreneurs in the credit market, there are underlying gender related factors that disadvantage women and deter them from seeking credit in the levels and volumes that would make their businesses grow at rates they desire.

In the case of Uganda, Stevenson and St.Onge (2005), Snyder (2000) and Kawuki (1998) argue that the lending criteria assumes that clients have the resources to hire experts to prepare project documentation, are highly educated, own land titled land in urban centres, have been able to establish a long-term relationship with the bank and have enough resources to contribute the required level of equity. They point out that women are often not experienced in preparing this type of documentation and cannot afford to pay consultants for its preparation. They further argue that assets deemed acceptable as collateral pose significant problems for women seeking credit because assets pledged as collateral must be easy to liquidate and the realised value must cover the outstanding loan and recovery costs.

Lending requirements have also been identified as another factor that influences credit supply to these businesses. As Hilton and Katiyo (2007) point out, most banks require asset based collateral like land, motor vehicles and buildings which most women enterprises in developing countries lack thus becoming excluded from the bank credit

supply chain. They further argue that this is compounded by the fact that banks use complex lending processes and procedures coupled with little clarity of information on how to apply for credit and other bank services. This intimidates many women SME borrowers in developing countries who are unexposed or under exposed to financial and legal matters. It makes loan officers form unfavourable opinions about many SME women borrowers culminating into negative recommendations for credit. In the case of Uganda, Snyder (2000) also found that women-owned SMEs are straddled with a big burden of ensuring that the family requirements like children's education, feeding and health care are met in addition to running their businesses for profit accumulation.

The gender related supply factors are closely intertwined with the demand ones and are compounded by lack of a supportive legal framework which makes credit flow to most of the women-owned SMEs in developing countries extremely difficult. The discussion on factors affecting small women businesses owners in Uganda on accessing credit are similar to those in the developed countries as reviewed in this section except that they are more pronounced in the developing country context because of unfavourable economic, social and cultural conditions of poverty and deep rooted societal injustices that disadvantage women in developing countries thereby magnifying the problem of credit access compared to their colleagues in developed countries.

2.8: Conclusion

This chapter has discussed supply-related factors that affect flow of credit to SMEs. Analysis of the proceedings UNCTAD (2002) symposium on finance of SMEs in Uganda highlighted the lack of reliable information in the lending decision-environment as major a factor that inhibits the flow to the SME sector. The effect of this information asymmetry was seen to influence the lending guidelines of banks

which mainly lean towards use of collateral as a measure to avert the lending risks that are accentuated by the information inadequacy.

The emphasis on collateral leads to crowding of the SMEs which may be good projects but lack the collateral to support their loan applications. In this connection, the information gap forces the banks to rely on approving of loan applications, evaluating and recovery procedures that have a high probability of impending rather than facilitating credit flow to SMEs.

The information asymmetry was also seen to influence the expectations and performance that bank management require from the loan officers. The insistence by the banks that loan officers must adhere to the guidelines without exception with severe sanctions like withdrawal of incentive being attached to this requirement was seen to lead to discourage loan officers from making lending decisions that required flexibility in approach as well as some risk-taking which tends to cause a favourable bias towards low risk loan applications at the expense of those projects that may have high returns with correspondingly high risks.

It was also established the organisational structure in which lending decisions takes place has been designed to reflect the problem of information asymmetry. The structure imposes responsibility of collecting information about the loan application but at the same time largely denies them the power to make the lending decisions and this generally promotes conflict between loan officers and management as well as encouraging the culture of informality and *personalisimo* in decision-making. In terms of gender, it was established that though women borrowers are not overtly discriminated against by loan officers, there are underlying gender related factors that deter them from getting the credit they need.

The need of information flow to enable the bank assess the risk-return profile of SME loan applications has been seen as a critical factor in lending decisions of banks. It has also been argued that information flow is affected by other factors including congruence of the loan officer and bank goals, the bank structure in which lending decisions are made, lending culture embedded within the bank's operations and the role of the gender in lending decisions. These factors provide a partial explanation of the phenomenon of credit flow to SMEs. In order to complete this explanation, it is necessary to examine the demand factors on the SMEs borrowers' side which is done in the next chapter.

CHAPTER THREE: LITERATURE REVIEW: CREDIT DEMAND

SIDE

3.1: Overview of Factors Influencing Demand for Bank Credit by SMEs in Uganda

The Pecking order Theory

Background analysis of demand for bank credit by SMEs can be made using the pecking order theory. According to this theory, the capital structure of the firm is based on preferences of owners and managers in terms of sources of finance (Zoppa and MacMahon, 2002 and Frank and Goyal 2003). According to Fama and French (2002), the pecking order theory stipulates that firms prefer to use funds in a descending order of own equity, retained profits, debt and then external equity. As Moyer and Krishnan (1996) and Adelrgan (2002) argue, firms are expected to prioritise their sourcing of funds to ensure least effort and inconvenience which relegates external equity and debt to sources of last resort with internal self financing sources being the most preferred.

Using the logic of the pecking order theory, SMEs in Uganda are expected to raise funds using own savings, retained profits in case of on-going concerns, grants and loans from family and friends as well as from other informal sources like savings and credit institutions and village NGOs before resorting to credit from banks. Indeed there is evidence to suggest this is the position. As discussed in Chapter one, Mutesasira *et al.* (2001), Uganda Bureau of Statistics (2003), Stevenson and St. Onge (2005) and Uganda Private sector Foundation (2005) and all point out that initial start up capital for most SMEs in Uganda is obtained from informal sources like personal savings, re-investment of profits, loans and grants from relatives and friends, liquidation of family assets, reciprocal asset usage arrangements, informal operating leases, rotating savings

and credit institutions and of recent money lenders. However, Kasekende (2001) and Ego (2002), note that informal sources are not enough to support the working capital and long term investment needs of SMEs because of high levels of poverty which limit the supply of funds in the informal economy. This makes demand for bank credit by some of the SMEs a matter of necessity rather a matter of choice as they have no option but to rely on bank credit in order to supplement their pool of funds for working capital and growth needs. Credit for working capital requirements is generally required by most of the SMEs across the micro, small and medium spectrum of business.

According to the Ugandan Ministry of Finance, Planning and Economic Development (2004), bank credit for growth purposes is primarily crucial for those SMEs that seek growth and usually include most of those that have reached the threshold of employing around 50 people with value of assets and annual turn over in the range of 50 million Ugandan shillings. These are SMEs that are normally set to graduate from the small business category to the medium and large business sector. These strong SMEs in Uganda tend to be located in urban and peri-urban centres and are usually involved in formal sector activities. This category of SME will usually look to the banking sector and other financial intermediaries for loans to finance working capital and to provide credit for short-term liquidity management. These arguments point to the fact that there is potential demand for bank credit by SMEs. Additionally, most commercial Banks have according to Bank of Uganda (2004), also identified the SME sector as a market segment with a high potential for positive returns. Despite this apparent mutual situation that should promote flow of credit from banks to SMEs, there are various factors which affect the demand side of this phenomenon as discussed in the following sections.

3.2: Suitability of Bank Loan Products and Lending Practices.

The suitability of bank loan products can heavily depend on their quality. Credit quality is reflected in the level and terms of lending and whether these meet the funding needs of the SMEs. The needs reflect core characteristics that credit should have in order for it to play its role as a financing source for SMEs. This perspective of service quality emphasizes core attributes of credit product that banks supply to SME borrowers is referred to as technical quality (Gronroos, 1990). A study by Bitran (2006) shows that, SME clients expect loan officers to be knowledgeable with technical ability, knowledge, technical solutions and have supportive facilities to enable them deliver high quality credit products.

In addition to attributes of loan officers and supporting bank facilities, many SMEs also expect banks to provide loans of the right size in an expeditious manner and at affordable terms of repayment. Banks therefore need to adapt their loan products so that they can meet funding needs of the SMEs and hence, create a basis for more demand for credit in future (Aldlaigan and Buttles, 2002). This argument is in line with the views of Bitran (2006) that bank loans should exhibit high technical quality by ensuring that they are of the right size and are offered at acceptable terms to SMEs. According to Kamalia and Jacques (2000), bank loan products should be effective by being easy to access at manageable prices and delivered in a reliable and responsive manner. These views are further reinforced by Aldlaigan and Buttle (2002) who in their empirical studies of SMEs' expectations about UK banks, established that SMEs expect banks to offer loan products that contain high quality advice that is accurate and customised to individual SME requirements. As Zineldin (1995) points out, bank loan products need to exhibit attributes of high service quality by being reliable and

responsive to the needs of clients as well as being delivered in an efficient manner to the clients.

A review of the loan products offered by Ugandan banks shows that most of them offer two major types of loan products, the commercial and micro loans. Commercial loans are those where the loan seeker must have a business worth at least 15 million shillings, must have collateral that is fixed and exceeds the value of the loan and have an account with the bank. According to banks, this loan is suitable for already existing large businesses and is not intended for SMEs because according to the banks' experiences, most of the SME projects fall below the 15 million threshold and cannot afford the security and cash flow requirements. In case of the micro business loan, it ranges from 100,000 shillings to 15 million shillings. It targets already existing businesses and is the most demanded product in the bank. It is suitable for SMEs as it generally requires low value and convenient collateral which normally includes house hold movable items.

In regard to loan characteristics, most terms, conditions and lending procedures applied by banks in Uganda are not appropriate for SMEs' needs. It has been argued that banks often charge high fees for their services and use complex intimidating processes and procedures with little information exchange (Kasekende 2001 and Mugume 2003). It has also been pointed out that because of the stringent lending requirements, banks often fail to offer the amount of loans that SMEs require and usually no explanations are given to the borrowers (Bank of Uganda, 2004). The likely outcome of such bank practices is to create a category of discouraged borrowers who are afraid to approach banks for fear that their loan applications will be turned down as argued by Orser *et al.* (1999).

3.3: Lender Borrower Interaction

According to Ferrary (2003) and Bhati (2006), interaction between SME borrowers and their bankers is one of the major factors that influence demand for credit. They argue that interaction enhances dealings and relations that exist between loan officers and SME borrowers which leads to social networks that generally improve quality of risk assessment through building personal relations and trust between the two parties. This underlies the importance of interaction between the lender and the borrower in determining credit demand by SME borrowers. Berger and Udell (2002) and Jessca *et al.* (2007) point out that the value of the interaction between the lender and borrower is that information obtained through personal interactions between borrower and the loan officer reduces information asymmetries, lowers the cost of capital and lessens credit rationing in the market for small business loans. Jessca *et al.* (2007) explain further that when credit history of the borrower is unknown, the lender-borrower relationship becomes an important determinant of loan approval as it constitutes a source of information about the borrower.

Furthermore, in a study of relationships in financial intermediation by Miller (1995), it was found that there is a statistically significant positive relationship between personal interaction of borrowers and credit officers and provision of credit to SMEs. The study also established that borrowers who have close relationships with the bank receive credit on more favourable terms than those who lack such contacts. In addition, the study found that the relationship between the loan officer and borrower provides opportunities for the lender to monitor and directly communicate with the borrower and that repeated interactions creates a reputation for the borrower which serves as a form of collateral for securing subsequent loans. Ashton and Pressey (2004) also point out

that relationship maintenance is important since it helps borrowers to gain confidence that the bank is sympathetic to their future funding needs.

There are a number of antecedents necessary for creating effective lender-borrower interaction including the design of the physical facility in which such interaction takes place. According to Zineldin (1995), quality of credit is not only enhanced by the nature of service and how it is delivered but also by the physical facilities in which this delivery occurs. Greenland and McGoldrick (1994) argue that having a good facility layout promotes good customer service thereby leading to competitive advantage and high customer loyalty for the banks. They further point out that a conducive facility provides bank customers with security, privacy, and comfort which facilitate easy interaction with loan officers thereby reducing information asymmetry between the two parties.

According to Sirgy *et al.* (2006), modern facility design promotes the client's positive perception of the products offered by the banks which enhances communication and information sharing between loan officers and the SME clients. This becomes a spring board for creating mutual understanding which makes the borrowers feel more confident about the bank. In another study by Haytko and Baker (2004), it was found that providing a conducive environment is a core objective for modern service designers and that banks with good interaction facility layout are perceived by borrowers to provide better services than those banks that lack such facilities. In other studies by Kincade (2002), Menon and Kahn (2002), it was concluded that has features like windows, spaciousness, colours, signs, and well arranged facilities this enhances privacy and territoriality which permit greater freedom of choice and closer interaction between customers and credit providers. Conversely, it can be argued that when facility layout is not well designed, then customers cannot confidentially share information

with loan officers as their privacy may be compromised. This acts as an impediment to free flow of information between the loan officers and the borrowers which creates an information asymmetry in the lending process.

Another antecedent for effective interaction between the loan officer and the borrower is that loan officers and borrowers should exhibit attributes that facilitate information sharing. A culture of information sharing is vital for enhancing interaction between the loan officer and the borrower (Padilla and Pagano 1997). According to Tullio and Pagano (2000), when borrowers share their information about the loan application with loan officers, it creates an incentive for credit officers to also share information with borrowers which leads to reduced default rates and lower interest rates. They also posit that information sharing about the borrower's characteristics and indebtedness can have a positive effect on credit flow as it improves the bank's knowledge of the applicant's characteristics and hence permits a more accurate prediction of repayment probabilities. They further argue that interaction also reduces the cost of lending and operates as a disciplinary device since borrowers commit themselves to different positions during information sharing. In order to realise the above benefits of lender borrower interaction, Madil *et al.* (2002) found that borrowers expect loan officers to be knowledgeable, accessible, flexible, approachable, interested in the affairs of SMEs, capable of making fast decisions, respectful and reliable. This supports an earlier study by Ennew (1996) which showed that borrowers expect professionalism in credit provision by loan officers who should be able to respond quickly to requests of borrowers, provide products that are relevant to their needs and be dedicated and accessible to them.

SME borrowers and loan officers also expect a display of trust in their dealings with each other in order for successful interaction to occur. The degree of trust the borrowers

possess, with regard to the bank generally and the loan officer in particular, determines whether they will continue using the same financial institution. According to Lehmann and Neuberger (2001), mutual trust between the borrower and the bank is advantageous because it enhances social interaction between the loan officer and the borrower. It also helps create an alternative lending methodology based on social risk evaluation which compliments the quantitative information provided by the borrower. In addition, Bhati (2006) argues that trust thrives on presence of similarity of characteristics, competence of parties, behaviour, integrity, consistency and continuous communication and Velez (2000) adds that a relationship characterised by these attributes creates high commitment of borrowers to the institution's lending products.

Zolin (2002), emphasizes that honesty and competence are vital antecedents for creating trust. According to Tyler (2003) trust is also enhanced if it is based on shared goals. Gomez and Rosen (2001), found that trust between team members is positively associated with attitudinal commitment which improves task performance. Atkinson and Butcher (2003) argue that trust relieves pressure of politics and hidden agendas and self interest in decision making thereby improving long term social arrangements and enhances loyalty which can solve the problem of moral hazard and adverse selection. Young and Daniel (2003) indicate that trust reduces transaction cost and improves coordination and enjoyment of tasks by decision makers.

In conclusion, creation and maintenance of trust between loan officers and SME borrowers is one of the important factors that enhance lender-borrower interaction and hence continued demand for credit by the SMEs. This argument does not imply that the traditional evaluation criteria which emphasizes viability and collateral of lending framework are abandoned but rather that trust enhances information sharing between loan officers and borrowers which reduces potential information asymmetry thereby

rendering it easy for the loan officer to apply the 5Cs framework to establish viability and collateral for the mutual benefits of both the bank and the borrowers. The argument of trust in the interaction between the loan officer and the SME borrowers is of particular relevance in Uganda as most of the SMEs borrowers have had dealings with micro-finance institutions. These institutions extend credit basing on trust under the group lending methodology and it is logical to infer that SME borrowers also expect it to apply to bank lending.

3.4: SME Business Specific Characteristics

The characteristics of the individual SME business influence the decisions of their owners to seek credit from banks. A study to assess the demand for finance by SMEs in Ghana by Aryeetey *et al.* (1994) found that the size, internal management and level of capitalisation of the SMEs determine their decision to seek bank funding. In respect of size, they observed that a positive correlation exists between the size of SME and its willingness to seek credit from banks. It was also established that growth SMEs are more likely to seek credit than those that are not focused on growth. The rationale for these arguments is that the growth-oriented SMEs are more likely to have the pre-requisites for borrowing than smaller ones. This gives the owners of the larger SMEs confidence to seek credit as compared to their smaller counter parts who feel reluctant to seek credit because of the perception that even if they make efforts to borrow, they are likely to fail due to their inability to meet bank requirements.

The study by Aryeetey *et al.* (1994) also found that SMEs with strong internal management systems and good managerial expertise have a higher likelihood of seeking credit than those without such systems and skills. Such SMEs have lower fear of loss of control of their business due to bankruptcy arising out of inability to pay loans and this encourages them to take on more borrowing. In addition to managerial

expertise and skills, Kotey (1999), argues that SMEs which engage in financial planning signal that they value accountability and are more likely to demand credit than those that do not. This is because financial planning activity demonstrates that these SMEs are systematic and high performing and more likely to repay their debt. It was also found out that enterprises that are characterised by inadequate knowledge in dealing with banks are less likely to seek credit. It was established further that those SMEs that do not prepare accounts and lack ability to internally process information relating to their projects are less likely to seek credit because they cannot easily tell whether borrowing is viable or not.

The findings of Aryeetey *et al.* (1994) are largely supported by those of Atieno (1994), who studied formal and informal sources of funding for SMEs in Kenya. She acknowledges that the perception of the SME borrowers about bank lending affects their willingness to seek credit. The study also recognises that the desire of SME borrowers to seek credit is directly related to their expectations of qualifying for the credit. It was also established that when SMEs perceive that lending terms or conditions are unfair then they do not apply for credit from banks. These negative expectations are compounded by SMEs lacking information about the pre requisites for obtaining credit from banks.

Zeller (1994) re-enforces the arguments of Aryeetey *et al.* (1994) and Atieno (1994) by pointing out that SME decisions to seek credit are influenced by the perceptions of their owners, especially if the banks have rationed credit to these SMEs in the past. He also argues that where SMEs experience easy access to credit, then this motivates them to seek further credit while lack of easy credit access creates a feeling in the minds of the SME borrowers that they are not efficiently served thereby leading them to drop out of the chase for credit. He also asserts that bank practices that include cumbersome

application procedures, unfavourable credit terms, short maturity periods, coupled with high application fees and collateral value requirements deter SME borrowers from seeking credit.

In a review of market dynamics to understand what SME clients expect of their bankers in the USA, Burrus (2001) found that the attitude of SME owners influences their demand for credit. The study established that those SME borrowers who have negative feelings about their banks are generally reluctant to seek credit. The study also indicates that if the SME borrowers regard the loan process for credit to be complicated and intrusive, they will be reluctant to seek credit. In the same study, it was established that SMEs want favourable pricing of credit so that they are able to repay their loans without difficulty. SMEs also expect the lending system to be characterised by a welcoming environment and expeditious handling of their applications. The study also found out that many of SME borrowers expect their banks to have a wide range of loan products with flexible terms of repayment. Furthermore, they expected the bank to be able to appreciate the personal and business needs of the micro and small entrepreneurs and make such services accessible with the least hassle possible.

Another enterprise characteristic that influences SMEs to seek bank credit is the entrepreneurial value and behavioural characteristics of their owners. As Kotey (1999) argues, entrepreneurial values and behavioural characteristics of SME owners affect their willingness to demand credit from banks. According to this argument, there are SME owners who are pre-occupied with ensuring that they do not lose control of their enterprises and spend a lot of time arranging protection against potential loss of control other than seeking credit to expand and grow. Such owners are likely to seek as low leverage as possible and hence have low demand for credit from banks.

In conclusion, the argument that credit demand is driven by perceptions of borrowers that both the technical and functional dimensions of credit are paramount in determining credit demand. In their efforts to improve the quality of credit they offer to SMEs, banks ought to work on both the technical and functional dimensions credit availability.

3.5: Social Networks and Credit demand by SME Borrowers

Social networks have been identified as another important factor that influences the willingness of borrowers to seek credit from banks. The creation of social networks results into benefits like social interaction, information sharing and mutual positive perception which enhance the social capital of the SMEs. In this respect, Hannon and Chaplin (2003) argue that social networks positively affect the performance of a small firm and its ability to succeed because it enables it to acquire and exchange implicit and unconditional knowledge, as well as learn and obtain insights into good practice. They also argue that networks reduce information asymmetry through sharing of knowledge and experiential learning. In specific reference to the bank-SME lending context, they argue that in addition to the formal transaction process, SMEs develop knowledge about credit by learning from loan officers in particular and the bank in general. They point out that the network of the bank manager as a person, the bank as an organization and the small firm leads to opening up of communication channels which promote information sharing and mutual understanding.

According to Robson and Bennett (2000), networks link the bank and SME business thereby increasing the possibility of the business obtaining credit due to the relationship between the lender and the borrower. Maxwell (2004) expands this argument by saying that networks create a symbiotic relationship between the bank and its client borrowers which leads to sustainable delivery of financial services including credit. Williams

(2001) emphasises this argument by pointing out that networks lead to an impression of shared risk, reduction of intermediation costs and delinquency rates which encourages a mutual demand and supply of bank products link credit. According to Seibert *et al.* (2001), networks lead to a pattern of ties linking a set of social actors which leads to creation of social capital due to social structures that enhance value and facilitate decision-making of individuals in that social structure. As pointed out by Fukuyama (1995), Tyler and Kramer (1996) and Nahapiet and Ghoshal (1998), a pattern of linkages and relationships built through networks create social capital through relationships that are high in trust, people engagement and cooperative interaction. These networks subsequently improve access to bank resources by SMEs by reducing in information asymmetry through a system of referrals and use of interpersonal and inter-group relationships.

Curran and Blackburn (1994), Baron and Markman (2000) and Neergaard (2005) argue that social networks constitute a business resource in terms of social capital that is useful in enabling SMEs to obtain resources that are not easily accessed through the formal market mechanisms. Borgatti and Foster (2003) support this argument by pointing out that social networks contribute to entrepreneurial goals by facilitating growth of social capital which leads to creation of both tangible and intangible resources for the business. Neergaard (2005) particularly points out that social networks lead to emotional, informational, companionship and tangible support to the business which consequently facilitates the process of resource acquisition and organizational goal attainment.

In the case of Uganda, Mbabazi (2006) established that there is a significant positive relationship between borrowers and their financiers through exploitation of social capital created by an elaborate system of networks. Mbabazi (2006) further found out

that there is a significant relationship between networks and access to resources from their bankers by small firms due to increased cooperation and communication between the bank as a lender and SMEs as borrowers. The two studies point to the fact that arguments about the role of networking in credit flow to small businesses have relevance for the SMEs seeking credit from banks in a developing country context like Uganda. The SME sectors in these countries are vulnerable in their pursuit of funds from banks due to inadequate access to information on business opportunities. They also have little or no representation in policy-making organs of government which leads to poor reflection of their interests at national level policies. If the SMEs are to turn round this situation in their favour, creation of social capital through social networks is essential as the study by Mbabazi (2006) demonstrates.

3.6: Conceptual Model and Research Questions.

Due to limited nature of research literature about credit flow to SMEs in the Ugandan context, it was found necessary to use the recommendation of Miles and Huberman (1994) and construct a case dynamics matrix which helps in linking data with explanations that show why specific things happen. In order to construct the matrix, preliminary interviews were held with bank managers in order to obtain further insights into the determinants of credit flow to SMEs which were integrated with the concepts from literature review to establish a conceptual model. The case dynamics matrix is presented in Table 3.1

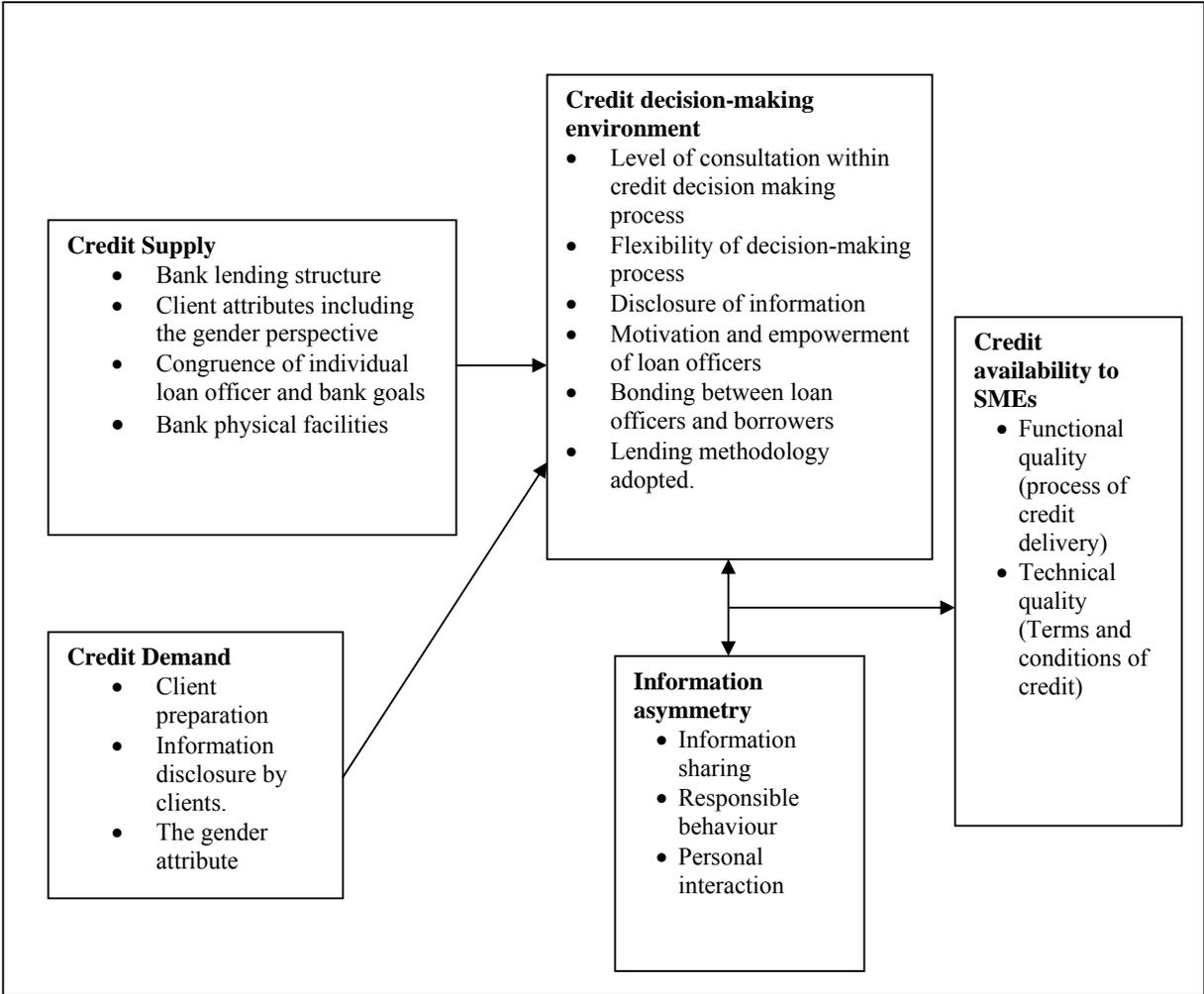
Table 3.1: Case Dynamic Matrix; the Bank Lending Policies as a Factor in Credit Flow from Banks to SMEs

Focus of lending guideline and procedure	Researcher's view of underlying issues	How issues were dealt with	Resulting change in decision-making environment
Structure: - Role of hierarchy in credit decisions. Does hierarchy promote flow of credit from banks to SMEs?	<ul style="list-style-type: none"> - Level of interaction between loan officers, senior management and borrowers. - Channels of communication loan officers and senior management on one hand and between loan officers and clients on the other. - Delegation of authority to loan officers. - Speed of making lending decisions in the system. 	<ul style="list-style-type: none"> - Credit committees used to ensure compliance to lending guidelines and procedures. - Use of informality by loan officers and senior management to overcome rigidity of formal structures - Consultation within and among loan officers and management 	A consultative and legally supportive decision-making environment which is sometimes characterised by use of informal channels for making lending decisions is created.
- Lending guidelines and procedures and how they facilitate bank lending to SMEs.	<ul style="list-style-type: none"> - Terms and conditions banks attach to credit extended to SMEs. - Process of credit delivery to SMEs. 	<ul style="list-style-type: none"> - Loan officers required to strictly adhere to lending guidelines. - Loan officers at times use discretion in lending to SMEs by taking advantage of informality that exists in the banks decision-making structures. - Loan officers at times adjust the procedures and guidelines to ease their work 	<ul style="list-style-type: none"> - Credit extended to SMEs in a rigid framework which at times may inhibit opportunities for flexibility especially at loan officer level. - Loan officers use their experience and bank ground to match lending decisions with the lending framework provided in the lending guidelines.
Incentives provided by banks to loan officers and their effect on lending to SMEs.	Ability of loan officers to achieve their personal goals and hence align them with bank goals.	Loan officers required to achieve set targets in quantity and quality of portfolios they handle.	Loan officers adjust their activities towards realisation of both individual and bank goals.
The client and loan officer interaction.	Creation of a situation where loan officers and borrowers easily relate with one another.	Lending policies ensure that borrowers are informed as much as possible before and after being given credit.	Borrowers make informed decisions when they seek and take credit.

Source: Primary Data

According to Table 3.1, lending structure, hierarchy, lending guidelines and relationship between client and loan officer, client preparation for borrowing information disclosure by clients and the gender perspective are the principal supply and demand factors that influence credit availability from banks to SMEs. Critical analysis of the data from the cases and the matrix shows that the following conceptual model is appropriate for further analysis of factors that determine credit flow to SMEs.

Figure 3.1: Conceptual framework for studying supply and demand factor determinants of credit availability to SMEs



Source: Primary Data

The different relationships identified above are discussed in the context of research questions to guide the study. First of all according to the model, organisational structure affects the decision-making environment by influencing communication channels, lending decisions, delegation of authority to loan officers and level of commitment by loan officers to the lending objectives of the bank. Scholars have argued that designing an appropriate structure influences organisation goals and helps in solving agency problems (Mintzberg 1979, Burnes *et al.* 2003, Sor 2004). Through organisational structure, banks determine the extent of centralisation of decision making, rule enforcement, and shared values between loan officer and the bank. Brooks (2002) argue that if the organisational structure is mechanistic in nature, then it enhances coordination, control, formalisation and centralisation of power as a way of facilitating organisational objectives. The argument is that the lending structure affects the environment in which decisions are made in terms of levels of consultation within credit function and flexibility of credit decision process. Therefore, it is against this argument that the study sought to answer the questions;-

Q1. How does the institutional lending structure influence the decisions loan officers recommend credit to SMEs?

The study also sought to understand the impact of goal congruence of both loan officers and the banks to lending decisions. Matching loan officers' goals with those of the bank is necessary to obtain maximum commitment from loan officers. If loan officers are expected to take decisions that maximise credit availability to SMEs, then lending guidelines and procedures should ensure that the interests of individual loan officers are catered for. Efficient goal setting mitigates the risks

associated with the agency relationship between loan officers and other stakeholders in lending decisions and reduces the risks of adverse selection and moral hazard. These risks can be reduced by making contractual arrangements that take into account loan officers' incentives in such a manner that reduces their probability of behaving in an opportunistic manner. (Jensen and Meckling 1976 and Dennis 2003).

Q2 'How does the interface between the goals of the individual loan officer and the bank influence the decisions of the loan officer to extend credit to SMEs?'

Another important key issue from the literature review is that client character influences credit flow to SMEs. For credit to easily flow between the banks and SMEs, there is need for loan officers and borrowers to understand one another. To have this mutual understanding, clients and borrowers should portray characters that promote mutually supportive rather than antagonistic relationships. Zineldin (1995), asserts that quality of interaction is essential for relationship building. This interaction requires character traits that promote it. Scholars have that trust, knowledge and ability to share information as traits that can promote interaction. Turnbull (1996), established that trust and integrity are virtues expected to build the loan officer–borrower relationship. The trait of borrowers being knowledgeable about the loan procedures makes it flexible and eases the decision of obtaining credit from banks (Madill *et al.* 2002). Therefore, clients who exhibit these characteristics make bonding between loan officers and themselves easy. This facilitates consultation and flexibility in lending decision-making and hence credit

flow to SMEs. It was from these views that the study sought to address the two questions;

Q3. How does the character of the loan officer influence the SME owner's decision to seek credit from the bank?

Q4. How do the attributes of SMEs owners, including the gender perspective, influence loan officer's credit decisions to recommend credit to SMEs?

Physical facilities, in which borrower-lender interaction occurs, are seen to have an impact on both the loan officers and borrowers during the process of credit transaction. Good banking facilities enhance smooth operations in lending by minimising interference in the lender–borrower interaction. Facilities also portray a positive image of the bank which enhances borrower position and cooperation. On the side of the borrowers, good facilities make it easy for them to disclose and share information with loan officers. Good facilities enhance competitive advantage for bank and privacy during information sharing between loan officers and borrowers (Harber *et al.* 1993, Kincade, 2002, Menon and Kahn, 2002 and Haytko and Baker, 2004). From the above, it can be asserted that facilities influence the interaction between loan officers and borrowers thereby affecting the level of flexibility, consultation and bonding between the loan officers and SME borrowers

Q5. What influence do the physical facilities of the bank have on loan officers and borrowers in lending decisions to SMEs?

3.7: Conclusions about Credit Demand Literature

The literature shows that there are two different categories of factors which influence the demand for credit by SMEs. The first category consists of factors like suitability of bank lending practices and loan products, gender issues and lender borrower interaction, bank products and relationships that motivate SME borrowers to demand credit. These are largely outside the control of SME borrowers. The second category is made up SME-specific characteristics which are largely under the control of the SME borrowers. This categorisation of demand factors point to the need for a holistic approach to examine them at individual SME and bank level. It also calls for a joint consideration of demand and supply factors if the full picture of determinants of credit flow to SMEs is to be established. This forms the basis for the next chapter that examines the methodology for studying the experiences of loan officers and SME borrowers in credit supply and demand respectively.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1: Background to Research Strategy and Design

The research methodology was designed to address the purpose and objectives of the study. The overall aim of the study was to provide further insight into the supply and demand factors that influence credit flow from banks to the small and micro-enterprise sector. The study used a triangulation of qualitative and quantitative research methodologies to examine the experiences of loan officers and SME borrowers in relation to factors that influence credit flow to the SME sector in Uganda. The credit supply aspect sought to address the factors that affect the ability of SMEs to obtain credit from banks and covered the following specific issues:-

- i. How does the institutional lending structure influence the decisions of loan officers?
- ii. How does the interface between lending institutional and individual loan officer's goals influence the decisions of the loan officer to extend credit to SMEs?
- iii. How do the attributes of the SME borrowers influence the loan officer's credit supply decision?
- iv. To what extent does a common lending culture exist amongst loan officer's decisions to extend credit to SMEs?
- v. How does gender factor affect flow of credit to SMEs?

The second theme sought to address the issue of demand factors that affect the ability of SMEs to obtain credit from lending institutions and specifically covered the following questions.

- i How does the handling of loan applications by loan officers influence the willingness of SME owners to seek credit from banks?
- ii How do SME borrower attributes affect credit flow to these enterprises?

4.2: Epistemological and Ontological Considerations and Choice of Research Strategy.

In order to choose a research strategy to address the purpose and objectives of the study, epistemological and ontological issues relating to the study were examined. This section addresses the definition of the two concepts of epistemology and ontology as used in research. It further examines the role of epistemological and ontological considerations in the choice of research strategy in general and for this study in particular. Bryman and Bell (2003) define epistemology as relating to the theory of acceptable knowledge about a phenomenon under study. In terms of business research, scholars view epistemology from two perspectives. Firstly, they take epistemology to be linked to the natural science stance where it is argued that knowledge about business phenomena can be independently determined from the decision-makers involved in the management of the organisation. They also stipulate that managerial knowledge can be objectively determined and accurately observed, investigated and measured. This perspective is supported by Arbnor and Bjerke (1997) who argue that epistemological considerations can be taken into account using the natural science methodology where knowledge can be objectively and positively measured. Secondly, other scholars view epistemology from a hermeneutic perspective, which argues that human beings influence the organisation in which they work and knowledge about phenomena they manage should seek to

understand how human interaction with organisation systems affect the phenomena under study.

According to Johnson and Duberley (2000), the approach to epistemology that emphasizes natural science methods are not conducive for the study of social science phenomena since they downplay the role of human beings in influencing these phenomena. This position is supported by Bodart *et al.* (2001), Shanks *et al.* (2003) and Becker and Neihaves (2007) who point out that in social sciences, it is unrealistic to expect that social phenomena can be objectively and independently determined. They argue that in the reality of social sciences, decision actors interact with the system of the organisation and hence, the emphasis should be on interpreting the meaning of decisions that arise out of contact between the decisions-makers and the organisation. In reality, human beings differ from objects of science because they have a conscience and ability to influence the decision-making process and its outcomes and their actions need to be interpreted in order to provide meaning to their decisions.

In case of ontological considerations, Bryman and Bell (2003) define these as issues concerning the nature of social entities under study. According to this definition, social entities can on one hand be regarded as objective in that they have a reality external to the decision-makers, while on the other hand they can be treated as social constructions that are shaped by the perception and actions of decision makers. As Bunge (1997) argues, ontological considerations have to consider whether the organisation should be studied from the objective point of view which emphasizes that social phenomena relate to an organisation as a tangible object with rules and regulations, standardised procedures and hierarchy in which decisions are

taken. These features are judged to be external to the people who make decisions such that people have no influence on such organisational features and they have to simply follow the rules and regulations, procedures and hierarchies as provided (Bryman and Bell, 2003).

An extension of this argument and another view is that the organisation's decision-making environment depends on human consciousness and actions and hence, knowledge about these organisations should take into account human factors involved in decision-making. Becker and Neihavers (2007) argue that while studying social phenomena, it is vital to realise that subjective feelings of actors in decision-making are inevitable. They emphasize further that due to difficulties of removing the decision-maker from the decision-making process, epistemological and ontological considerations should consider this subjectivity perspective to knowledge by taking into account the actor's views because the objective reality of natural sciences cannot be obtained in the real world.

In this study, the major epistemological and ontological consideration is whether the SME borrowers, loan officers and the bank in which they operate are objective entities that take external factors, such as lending policies and bank structures, as given. This would imply that they have no role to play in the way such policies and structures influence the availability of credit to the SME factor. It is also concerned with whether the decisions of these players in the lending process can be objectively measured independent of their influence. The implication of acceptance of this perspective is that lending decisions are objectively determined and decision makers have no influence on them.

An alternative view argues that actors influence the phenomenon of credit flow through social interaction, which is continuously evolving (Saunders *et al.* 2003, Bryman and Bell, 2003). In this case, the study of these phenomena has to take into account the influence that decision-makers have on them. While it is true that there are predetermined phenomena such as bank lending policies and structures in banks which the SME borrowers and loan officers simply have to comply with, it is also true that there is active participation of individual borrowers and loan officers in these decisions. Loan officers and SME borrowers influence the application of lending guidelines and the resultant credit flow to SMEs. Therefore, the research strategy adopted should recognise these realities and seek to understand how the interactions of loan officers and SME borrowers relate with the bank lending policies and structures to influence credit flow to small and micro enterprises.

In addition to epistemological and ontological perspectives, Bryman and Bell (2003) point out the final choice of a research strategy should consider practical realities and circumstances in which the research is undertaken. They emphasize that when study circumstances involve a topic on which insufficient research has been done in the past, there is little literature to draw on and when the study is intended to generate rather than test theory, then an inductive rather than deductive strategy is appropriate. These conditions appropriately define the features of this study since there is no evidence of extensive study of the experiences of loan officers and borrowers about credit flow to SMEs in Uganda. Thus, an inductive research strategy was adopted. In support of this approach, studies in the same thematic area, albeit in very different country contexts, have similarly adopted an inductive strategy. Orser *et al.* (2006), for example, studied gender differences among Canadian small and medium enterprises owners that seek external financing,

by gathering the firms' experiences in recognition of the fact that the firms' owners influence the process of seeking funds. This was an acknowledgement that knowledge about this phenomenon is influenced not only by the regulatory framework that governs these institutions, but also by the personal experience of managers of both users and supplier of funds. A similar position is demonstrated by Gorman (2002) and Gorman *et al.* (2005) who studied lending to knowledge-based businesses in Canada by examining the experiences of both the managers of knowledge based business and suppliers of funding to these businesses. The study by Wilson and Marlino (2005) also used a survey of experiences of women business owners and their loan officers to bring out the role of gender in determining access to funds by women-owned small businesses. All these studies recognise that people influence the process of decision-making and research should therefore, study the influence of the people factor on the phenomenon they deal with. This emphasizes the use of an inductive approach to further the understanding of factors that underlie the phenomenon under study. These approaches are consistent with the one used in this study.

In conclusion, the research strategy used in the study was shaped by a consideration of the ontological and epistemological issues that relate to lending to SMEs. Given the practical reality that limited research has been made about the study area in Uganda, an inductive qualitative research strategy was chosen to examine the experience of loan officers and SME borrowers in order to aid the generation of ideas to further the understanding of the determinants of credit supply and demand in the small and micro-enterprises sector.

4.3: Study Design

The study design was based on a triangulated approach which used both qualitative and quantitative research strategies. According to Bryman and Bell (2003), triangulation of methodology occurs when more than one research strategy and data source are used in a study of social phenomena. Triangulation can be undertaken within a single research strategy by using multiple sources of data or across research strategies (Bryman and Bell, 2003; Marlow and Carter 2006). The combination of qualitative and quantitative design strategy has been recommended and used by researchers in situations where one of the approaches is insufficient to reveal all that is required to be known about a phenomenon (Bryman *et al.* 1996; Wilson and Marlino 2005). The importance of diversifying data sources and methodological approaches is also underscored by Yin, (1994) and Wilson and Marlino (2005) who stipulate that the rationale for using multiple sources of data is to triangulate evidence in order to increase the reliability of the data and the process of gathering it and hence corroborate the data gathered from different sources.

Deacon *et al.* (1998) points out that triangulation of methodology enables cross checking of validity of findings from different research strategies as well as allowing access to different levels of reality thereby enhancing induction of meaning from the findings. They further point out that by triangulation of methodologies, the researcher is able to collect different types of data that enable examination of different aspects of the study as well as the development of multiple measures to improve confidence in the findings.

In pursuit of these virtues of methodology triangulation, a qualitative study strategy involving observation of the lender-borrower interviews and in-depth unstructured and semi structured interviews with the lenders and borrowers was adopted. This qualitative study design was deemed appropriate because the phenomenon of credit demand and supply with respect to SMEs is under researched in Uganda as past research has mainly focused on the macro economic influences of credit flow to SMEs (Ministry of Finance, Planning and Economic Development 2000 and Mugume 2003). This has largely ignored understanding of the underlying micro-level factors and experiences that shape the decisions of both individual borrowers and loan officers to demand and supply credit. The adoption of a qualitative study design was in this respect consistent with the recommendations of Hussey and Hussey (1997) that when studying situations characterised by insufficient knowledge, an inductive research strategy using qualitative analysis is essential to uncover underlying themes of knowledge about the phenomenon.

In addition to the qualitative study strategy, a quantitative design intended to provide deeper understanding of the results obtained from qualitative analysis was also adopted. The results of qualitative analysis could not be taken at face value. A quantitative study design strategy was used to supplement the findings of the qualitative study in order to show the extent to which results of the qualitative study could be generating across the entire banking sector and SME borrowers. Further to the questionnaire survey, the quantitative study also involved consensus analysis which was performed on the loan officers' experiences to establish whether a common lending culture exists in credit supply to SMEs. This is a method that is used to find and understand a common culture of doing things within a particular context. In this study the researcher used consensus analysis to understand the credit

lending culture within banks and to find out whether such common culture does exist. This argument has been advanced by Borgatti (1996) and Sinkey (1998). The study used Anthropac software, as recommended by Borgatti (1996), to establish the extent to which a common lending culture exists in the decisions made by the loan officers to supply credit to SME borrowers.

After selecting the research design, it was vital to provide for a check on its validity and reliability. According to Bryman and Bell (2003), validity and reliability in research design refer to the need to ensure that concepts used in the study measure what they are actually intended to and that this measurement is consistent and stable for all respondents. They argue further that it is essential that validity and reliability checks are recognised and incorporated in the study using different approaches in order to have results that adequately address the objectives of the study. The main strategy used in ensuring validity and reliability was triangulation of the qualitative and quantitative research strategies to subject qualitative findings to the views of a broader cross-section of loan officers and SME borrowers. Further more, classification was continuously sought from the respondents. Each respondent was interviewed at least three times as clarification was sought about items emerging from data analysis. In the quantitative aspect of the study validity was addressed by deriving the questionnaire instrument from the responses obtained from the loan officers and SME borrowers in the qualitative study.

With respect to reliability in the qualitative design, this was incorporated in the study by collecting data from different sets of respondents in terms of borrowers and loan officers from four different banks. In case of observations of the loan officer-borrower interviews, reliability of findings was enhanced by having meeting

sessions of the researcher and his assistants at the end of each interview to identify areas of agreement and address those of disagreement which led to inter-observer consistency as recommended by Bryman and Bell (2003).

In the case of the quantitative survey, reliability of the questionnaire instrument was assured in the following manner. The first assurance was that since the questions were derived from the responses of loan officers and borrowers in the qualitative study, the resulting questionnaires were deemed to reflect their views. The questionnaire instrument reliability was also ascertained by carrying out reliability index tests which showed that in the case of the supply factor questionnaire, reliability indices for the major factors were alpha (α) values of 0.6252 and 0.7578 for both the character of clients and lending structure. Similarly, the reliability indices for the demand questionnaires were alpha (α) values of 0.7444 and 0.7515 for both the client preparation and information disclosure. The index for availability of credit as reflected in technical and functional quality of credit was 0.9261. For all the questionnaires, the alpha (α) values were greater than 0.5 indicating that the questionnaires were reliable instruments for assessing the loan officers' and borrowers' experiences about credit availability to SMEs. Finally, the interim results obtained during the study were subjected to respondent validation at different intervals through discussions by the loan officers and borrowers whose feedback was then incorporated into further analysis. The final results were also presented to banks, policy makers and borrowers and the general public at a public lecture and their comments were also incorporated in the study.

Though triangulation strategy was adopted, it was used cautiously as it is not as not a panacea for over-coming methodological limitations of the quantitative and qualitative research methodologies (Caracelli and Greene, 1993). Though the

virtues of triangulation have been found to include enhancement of the description of processes under study, identification of chronology of events provision of internal validity estimates and acting as a corroboration or validating process for study findings (Hinds and Young, 1987 and Breitmayer, 1993), several weaknesses in the approach have been suggested. In this regard, Massey and Walford (1999) refer to the concept of concurrent validation which argues that propositions from one research strategy do not necessarily tally with those developed from the other approach. They also articulate that even if the results from two approaches agree, this does not necessarily lead to mutual confirmation of the different research methods as both approaches could be initially flawed. As Massey and Walford (1999) further points out, arguments of concurrent validation and mutual confirmation may induce prejudice and bias in the researcher who may then attempt to prove a perfect match between the results of the two approaches. Further more Denzin (1970) and Deacon *et al.* (1998) point out that even when answers from the different researchers appear the same, they may not necessarily mean the same thing and this is supported further by Massey and Walford (1999) who posit that it is difficult for example for the researcher to convert a qualitative statement by a respondent to a quantitative one in a similar way that the respondent would do. In conclusion, as Morse (1991) argues, the triangulation strategy needs to be used cautiously to avoid enhancing the weaknesses of each approach and hence invalidating the results of the study. For this study, the triangulation approach took into account these views and was used to enhance insight into the factors that influence credit flow from banks to small and micro-enterprises in the context of developing countries.

4.4: Data Collection

4.4.1: Qualitative Data Collection

In order to address the objectives of the study, primary data was collected by holding in-depth interviews with loan officers and SME borrowers and observation of the interviews between loan officers and borrowers. In-depth interviews were used to collect primary data from loan officers and clients about their experiences regarding factors that influence the flow of credit to SME sector. These interviews involved discussions between the researcher and the respondents on the determinants of credit flow and were intended to enhance the researcher's understanding of the reasons that loan officers and clients make about credit decisions. This approach is consistent with the work of Cooper and Schindler (1998) and Saunders *et al.* (2003) who stipulate that in-depth interviews constitute one of the vital approaches for understanding phenomena that have not been significantly studied.

As recommended by Saunders *et al.*, (2003), the in depth interviews were carried using unstructured and semi structured interview approaches. In unstructured interviews, conversations between the researcher and the respondents emphasized freedom of expression. They were initially used to generate indicators from loan officers and borrowers about factors that influence credit supply and demand in the SME sector. Unstructured interviews were initially held with a total of sixteen respondents consisting of two loan officers and two clients identified at the headquarters of each of the four participating banks. During the unstructured interviews, respondents were requested to share their experiences as freely as

possible. There was minimal intervention from the researcher except for occasional guidance to keep the interview on track. In order to promote freedom of the respondents to express themselves interview guides were not used during these interviews.

The data obtained from the unstructured interviews was then analysed using Nvivo software to identify common themes emerging from it. Two interview guides for loan officers and SME clients were then drawn up from these themes, as indicated in Table 4.1, and used in the semi-structured interviews. The use of semi-structured interviews was intended to deepen the researcher's understanding of the loan officers' and borrowers' experiences. Thirty-two respondents consisting of sixteen loan officers and sixteen SME borrowers from the four banks were interviewed. The respondents were balanced across the four banks by picking equal numbers of loan officers and clients from each of the banks. In order to diversify the geographical spread of the respondents, interviews were conducted at regional levels including the Central area based in Kampala and Mukono, South-west in Mbarara, Eastern in Jinja and North West in Masindi and Arua.

In order to properly apply the unstructured and semi structured interviewing methodologies, the researcher team was inducted in the use of these techniques by a senior colleague who has a lot of experience in business research. At the end of every interview day, the researcher team gathered and reviewed its experiences in using the technique. Each interview was tape recorded and transcribed. In the cases where the interviewees were not proficient in the English language, interviews were conducted in local languages and later translated into English. In order to minimise the potential impact of translation on the data, the translation was carried out by two

people working independently who later met to agree on a common version of the recorded interview. It was not possible to video-tape the interviews for future analysis because the request to do so was rejected by the respondent institutions. In order to ensure continuous update of findings, the respondents were followed up for subsequent interaction and this helped in enhancing the validity of the findings.

Table 4.1: Semi-structured interview guides for collection of data from credit officers and borrowers.

Interview Guide for the Credit Officer	
1.	Please describe your experience with the borrower in handling his request?
2.	Are there lending structures governing the process in this Institution? a) How do they facilitate your work? b) How do these impede your work?
3.	I believe there are lending policies you rely on in doing your work. Explain how they enhance your dealing with borrowers. Please mention situations, which require diversion from these policies. a) How do you adjust the policies to cater for these situations? b) In case you notice that the client has personal agenda inconsistent with bank objectives, how do you address this?
4.	Are you aware of the organisation's goals? What extent do they tally with your personal goals? Can you please mention instances where the two differ? How do you reconcile the discrepancy between the two?
5.	How do you find out any other information that is not necessarily provided by sticking to lending guidelines?
6.	Please tell me about any other experiences you have had when dealing with clients.
Interview guide for the client (borrower)	
1.	Could you please describe your experience with the lending officer when handling your request?
2.	Are you aware of the bank's expectations of you as a client before it can handle your request? Please discuss them with me. What preparations do you make to meet these expectations?
3.	How comfortable are you in disclosing information about yourself and your project to the bank? Is there some information required of you that you don't want to provide? In case the bank demands it, how do you handle this situation? How free do you feel with your bank loan officer?
4.	What did the credit officer do well when handling your request? What did the loan officer fail to do well? How can the bank improve in handling client's request? How can the credit officer improve in handling clients requests?
5.	Please share with me any other factor that you think affected your chances of obtaining credit from the bank.

The second approach to data collection involved observation of the interviews between loan officer and borrower. The interaction interviews between loan officer and the client were observed by the researcher and at least one assistant. They took

notes about the behaviour, physical facilities, movements and non-verbal cues. The discussion between loan officer and borrower were also tape recorded. At the end of each interview a summary sheet detailing new ideas learnt from the interviews and methodological challenges faced was drawn up.

4.4.2: Quantitative Data Collection

The quantitative data was collected using two sets of questionnaires, one for the loan officers and another for the SME borrower. Detailed questions using a five point likert scale and incorporating data obtained from qualitative interviews were drawn up and used to collect data from a broader spectrum of loan officers and borrowers. Open ended questions seeking views of respondents were also used to enrich the questionnaire. After drawing up the questionnaire instrument, it was sent to a group of loan officers and borrowers who were involved in qualitative study for comments which were then incorporated before the final instrument was made. This, in addition to the fact that the questions were derived from the primary interviews of loan officers and borrowers, was intended to increase the validity of the research instruments.

4.4.3: Desk Research of Credit Supply Context, Policies and Procedures

The last approach used in data collection was desk literature search. This was done in order to establish credit supply context and involved a review of the bank credit policies in order to ascertain the strategic focus of the lending institutions, the lending guidelines and how they affect credit flow to SMEs. The results of the review were appropriately incorporated in the literature review chapters.

4.5: Data Analysis

4.5.1: Qualitative Data Analysis

After data was collected, it was edited and imported into Nvivo through rich text format. The views obtained from observation of interviews between loan officers and SME borrowers were also integrated into Nvivo analysis. Data was classified and organised into themes using mother and child nodes. Themes were merged and modified as meaning was attached to the data being analysed. After editing and importing qualitative data into Nvivo software, analysis continued with review of data collected through coding in order to obtain a full understanding of the factors that influence loan officers and borrowers decisions. The coding resulted into concepts that were used to identify the emerging relationships amongst the different variables. The process of coding was repetitive and consistent with the work of Pandit (1996) and Strauss and Corbin (1990) as reflected in Table 4.2 below;

Table 4.2: Steps in analysing data from loan officers and borrowers using Nvivo software

<i>Steps</i>	<i>ACTIVITY</i>		<i>Purpose</i>
Step 1	Analyzing data from first phase of unstructured interviews with the loan officers and borrowers.	Carried out open coding using Nvivo Software	Open coding was used to generate initial concepts on how loan officers and borrowers understand the factors that influence credit flow to SMEs.
Step 2	Analyzing data which was collected from loan officers using semi structured interview guides.	Conducted open as well as axial and selective coding using Nvivo software.	Was used to enhance understanding of initial concepts derived and categorising data by combining related concepts and carrying out initial integration of categories to come up with the deeper understanding on determinants of credit supply and demand in the SMEs sector
Step 3	Analysing data collected in subsequent phases to enhance initial data from unstructured interviews and semi structured in step two.	Conducted open as well as axial and selective coding using Nvivo software	Was used to enhance understanding of initial concepts derived from data categories by combining related concepts and carrying out initial integration of categories to come up with the further indications of credit supply and demand factors in the SME sector. The process was repetitive and was completed when no significant improvement in findings of new concepts was detected.
Step 4	Exploration of relationship between emerging theory from the study and existing literature	Compared study findings with existing literature	To demonstrate the extent of agreement between study findings and general expectations about the phenomenon of credit flow to SMEs.

Source: Adapted from Strauss and Corbin (1990) and Pandit (1996)

Following data coding, memos were made at each stage to enable continuous update of the emerging themes from data analysis. During the coding, it was also found necessary to continuously repeat the process as new ideas which required clarification emerged until the final memos were generated.

4.5.2: Quantitative Data Analysis

The survey data generated from the questionnaires was analysed using both exploratory and confirmatory statistical techniques. After receiving the completed questionnaires from the field, a data entry capture template was designed in the Statistical Package for Social Scientists (SPSS) which was used for data entry. After data entry and cleaning up, exploratory statistical data analysis was conducted using

frequency distribution tables to summarise and display the respondents' views on the questions under study.

Confirmatory data analysis using inferential statistics to generate conclusions about the relationships between the demand and supply factors and credit availability to SME borrowers was also conducted. On the credit supply side, the independent variables were organisational structure of the banks, congruence between loan officers and organisational goals and client character. On the side of credit demand the independent variables were client preparation and information disclosure. The dependent variable was credit availability which was measured by the functional and technical quality aspects of credit as perceived by the borrowers.

In order to explore the factors underlying the variables, factor analysis was conducted. Because of the exploratory nature of the study, all items that mapped onto a particular factor were recognised. The factor components onto which the different items mapped were named according to the researcher's interpretation. Furthermore, only factor components that had an Eigen value of at least one were selected for further analysis. When an item mapped on more than one factor component, the factor component with the highest correlation coefficient was taken because Varimax rotation procedure assumes zero correlation amongst the factors that define a variable.

After factor analysis, multi-collinearity analysis was also performed to check for inter-correlations among the extracted factors. This was to ensure that the factors extracted were independent representatives of the variables under study. Finally Spearman's rank correlation analysis was used to establish the strength of the association between the dependent and independent variables.

4.6: Methodological Limitations:

From the study, three limitations related to the interviewee, interviewer and their interaction process were observed. First of all, the interviewee-related limitations centred on the perceptions of the respondents about the study. On the side of SME borrowers, they had both negative and positive expectations about the outcome of the study. The positive expectations hinged on the belief that in the process of collecting information from them, the researcher would plead their cases with the banks and therefore increase their chances of having credit extended to them by the banks. They also had an assumption that this research was to shape the bank-lending policies and procedures for the future and therefore make the process of acquiring loans easier.

For the negative expectations, the borrowers suspected that the researchers were planted by management of the bank and tax agencies to spy on their businesses. The borrowers also thought that the information given during the study would have an impact on their chances to access credit facilities in the financial institutions. The borrowers therefore had the motivation to manipulate the responses about their experiences in an attempt to influence the researcher's views of their treatment by loan officers so as to invoke sympathy that would be subsequently channelled to top bank management. In this case of loan officers, it was observed that they had mixed feelings about the research. Loan officers expected that the researcher would use the information they provide to plead for them regarding their incentives which they claimed were not enough compared to the work load which they said was overwhelming. Such expectations were managed by carrying out follow up interviews with the same clients and loan officers to establish rapport and

understanding of the objectives of the research. These follow up activities eventually created a sense of trust that enabled the respondents to open up, thereby providing an opportunity for enriching the initial information acquired. With this hindsight, it can be said that an initial briefing of the loan officers by the researcher and the bank management official who authorised the research to be carried would have cleared the air about the objectives of the study and hence minimise the expectations of the potential respondents.

With respect to interviewer-related problems, one of the limitations was about interviewers' bias against qualitative research. The research assistants were generally not familiar with the approach of qualitative research and preferred use of questionnaires which are not as tedious to administer as un-structured and semi structured interviews at instructive intervals. This mostly affected the initial interviews. This problem was addressed by continuous training and sensitization of the research assistants on the values of qualitative research and how it should be conducted.

There were limitations arising out of the interaction process between the interviewees and the interviewers. The research appeared to create inconvenience for the SME borrowers and loan officers. Most interviews were carried out at places of work where loan officers had divided priorities between providing information for the research and concentrating on the assessment of the client. At times the researcher had a feeling that loan officers were giving data just to fulfil a duty rather than address the underlying concepts in detail. However, through follow up interviews, clarifications were obtained about such cases.

The researcher also faced difficulty in accessing the interviewees after the initial interview. Despite the fact that contacts of loan officers and borrowers were acquired, some clients and loan officers were difficult to track and those who were accessible had a tendency to forget proceedings of previous interviews. Some respondents refused to continue with the follow up interviews claiming that they had planned their time for other things. To obtain further information from such people, the researcher had to create close relationships with these respondents by using a network of friends.

The language barrier was also registered as a limitation for the study during the interaction. The researcher had to use local languages similar to those used by the clients when they could not understand English. Due to different languages dialects, there was difficulty in changing the interview guide to suit a particular language. Because of the language problem, some information could have been lost since some of the concepts which were expressed by the clients were not known to the researchers. This problem was mitigated by having multiple interpreters who separately used to translate the information which was obtained from the respondents in their local languages.

Lastly, the entire loan process from credit initiation to loan repayment was not observed because it was too long and practically impossible to observe in the time-span available. The study concentrated on credit evaluation and decision stages of granting credit to SMEs. The other areas of the process such as management initiation of credit request and the post disbursement period were not considered and this limited the information that was acquired from both loan officers and clients.

These limitations posed challenges to the accuracy of the study finding. The expectations of the respondents, both loan officers and SME borrowers, had the potential of making information from them biased. The loan officers had the motivation to emphasize the perceived unfair employment practices of the banks while down playing their own short comings in order to induce the banks to offer better terms and conditions of service. Similarly because most of the SME borrowers saw the research as a potential vehicle for improving their access to credit, they also had an incentive to over emphasize the weaknesses of the bank lending policies while holding back on revealing adverse information about themselves that could jeopardise their chances of obtaining credit. This potential problem of distorting information disclosed by the respondents was mitigated by embedding an elaborate system of follow-up in order to obtain additional clarifications on information initially provided.

In respect of the attitudes of research assistants about qualitative research strategies and the challenges of data translation from local languages to English, it had the potential of information being biased by their experiences and background. This was addressed by inducing attitudinal change through continuous sensitisation about the approaches to data collection in qualitative research, conducting inter researcher content validation through regular group discussions as well as the use of different assistants to even out potential of individual bias.

CHAPTER FIVE: PRESENTATION OF SUPPLY SIDE

FINDINGS

5.1: Introduction

This chapter presents the results of qualitative and quantitative analyses of the factors that influence the decisions of loan officers to extend credit to SMEs. The results address experiences of loan officers in evaluation of loan applications, monitoring of performance of loan portfolios and ensuring recovery of loans extended to SMEs. The results are specifically focused on the following questions:

- i. How does the bank lending structure influence the decisions of loan officers?
- ii. How does the interface between lending institutional and individual loan officer's goals influence the decisions of the loan officer to extend credit to SMEs?
- iii. How do the attributes of the SME owners influence the loan officer's credit supply decision?
- iv. To what extent does a common lending culture exist amongst loan officer's decisions to extend credit to SMEs?
- v. How does the gender factor affect flow of credit to SMEs?

In order to address these questions, data was obtained from loan officers and SME clients and the matrix in Table 5.1 presents an overview of the findings about the different questions.

Table: 5.1: Matrix showing effect of supply factors on credit flow To SMEs

Supply factors	Theme	Effect on Different Aspects of Credit Decisions		Credit Flow
		Loan Officers	Credit decision-making environment	
Lending Structure	Favourable Hierarchy	<ul style="list-style-type: none"> - Offers legal protection to loan officers. - Provides a consultation forum with higher officers. - Boosts confidence of loan officers. 	<ul style="list-style-type: none"> - Leads to supportive and consultative decision-making environment. 	Credit flow is facilitated due to reliable decisions arising out of the supportive and consultative decision-making environment.
	Unfavourable Hierarchy	<ul style="list-style-type: none"> - Promotes interference by management into the decisions of loan officers 	<ul style="list-style-type: none"> - Leads to delays in decision-making. - Causes poor delegation. - Leads to poor feedback from management to loan officers and clients. 	Credit flow is restricted due to delayed responses to borrowers, and de-motivated loan officers.
	Lending policies and procedures are favourable.	<ul style="list-style-type: none"> - Offers legal protection to loan officers - Enhances clarity in decision-making 	<ul style="list-style-type: none"> - Enhances harmonisation of decisions in the organisation. - Enhances coordination between loan officers, clients and management. 	Credit flow is facilitated due to confident loan officers and clear credit decisions.
	Lending policies and procedures are unfavourable.	<ul style="list-style-type: none"> - Make loan officers' incentives uncertain. - Leads to poor performance evaluation results. - Leads to limited scope for promotion. 	<ul style="list-style-type: none"> - Leads to inflexible, decision-making processes. - Leads Limited discretion by loan officers. - Leads to slow response to borrowers. - Encourages Informal contacts and structure - Leads to diversion from approved lending policies and procedures 	Credit flow restricted due to frustrated loan officers and leads to dissatisfied borrowers.
	Facility layout is non conducive	<ul style="list-style-type: none"> - Reduces esteem of loan officers who lack secrecy - Leads to interruptions and inconveniences in decision-making. - Enhances information asymmetry 	<ul style="list-style-type: none"> - Reduces willingness to share information where there is no secrecy. - Promotes insecurity of borrowers in disclosing details about themselves and their projects in public. 	Credit flow restricted due to limited interaction between loan officers and borrowers.
Congruence of Loan officers' and organisational goals.	Loan officers' goals are congruent with those of the bank.	<ul style="list-style-type: none"> - Remuneration in terms of incentives protected. - Performance evaluation positive - Promotion prospects enhanced - Training and personal growth of loan officers facilitated. 	<ul style="list-style-type: none"> - Leads to a conducive working environment. 	Credit flow facilitated due to motivated loan officers and satisfied customers.

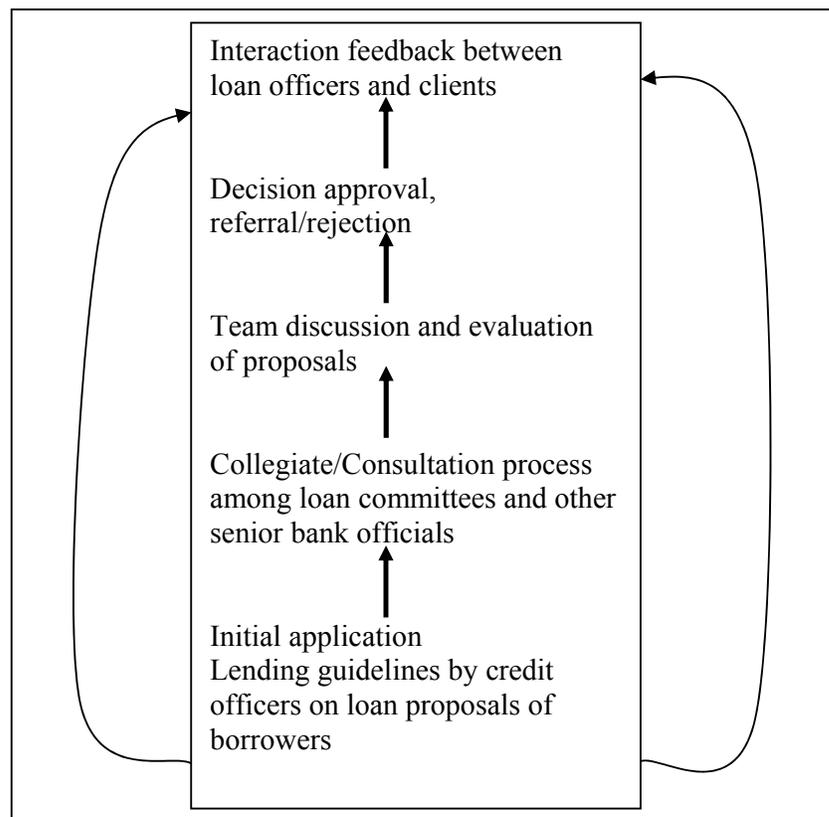
	Loan officers' goals are not matched with those of the bank.	<ul style="list-style-type: none"> - Leads to too much pressure and stress on loan officers. - Leads to threat, of loss of incentives on the part of loan officers. - Promotes poor performance evaluation, of loan officers. - Promotion prospects, of loan officers threatened. 	<ul style="list-style-type: none"> - Tight performance targets set. - Personal efforts, by loan officers to minimise lack of congruence in goals are encouraged. - Conflict between loan officers and organisation is fermented. 	Credit flow impended due to poor quality decisions by dissatisfied loan officers who feel that their goals are ignored.
Client character.	Borrowers have knowledge about purpose of borrowing and Institutional procedures	<ul style="list-style-type: none"> - Leads to better informed about borrowers. - Enhances bonding between loan officers and borrowers. 	<ul style="list-style-type: none"> - Trust between loan officer and borrower is encouraged. - Transparency in decision-making is promoted. - Faster decisions are made. - Cooperative relationship between loan officers and borrowers encouraged. 	Credit flow enhanced due to reduced time for finalising requests and agreement on amount and other conditions, like strengthening of the relationship between borrowers and lenders.
	Borrowers lack knowledge about purpose of borrowing and procedures	<ul style="list-style-type: none"> - It creates suspicion and hostility when loan officers do not know what borrowers want. 	<ul style="list-style-type: none"> - Leads to lack of transparency in decision-making - Causes delays in decision-making - Creates adversarial atmosphere between loan officers and borrowers. 	Credit flow impended as a result of weakened relationships, misunderstanding about the size of the loans and other terms, delayed disbursement of credit and lengthy loan requests investigations.
	Character: Pleasant Character.	<ul style="list-style-type: none"> - Leads to appreciation of clients' needs by encouraging bonding with loan officers. 	<ul style="list-style-type: none"> - Trust generated. - Transparency in decision-making enhanced. - Leads to perceived faster decisions by loan officers. - Cooperation between loan officers and borrowers encouraged. 	Credit facilitated because of faster and perceived fair decision-making.

Source: Primary Data

5.2: Institutional Hierarchy and Credit Flow to SMEs

This section analyses findings about the role of the lending structure in the decision of loan officers to recommend credit to SME borrowers. From Table 5.1, the factor of lending structure, involves hierarchy, lending policies and physical structure of facility layout which are discussed in the chapter. In the study, it was found that the bank's hierarchy consists of loan officers at the base, progressing through branch credit committees to headquarters credit committees and finally to the Boards of Directors. The hierarchal structure of the lending institutions is modelled along the decision-making process summarised in Figure 5.1:

Figure 5.1: Hierarchical lending structure in the financial institutions



Source: Primary Data

According to figure 5.1, hierarchy promotes a collegiate and consultative lending model in contrast to a prescriptive model where loan officers are simply provided with guidelines to apply to lending situations. As UNCTAD (2002) points out, the environment of financial markets in developing countries is characterised by little information and hence there is significant information asymmetry between borrowers and lenders such that the prescriptive model would simply deter loan officers from making decisions and restrict credit flow to SMEs.

The study findings about hierarchy show that it at times facilitates credit flow to SMEs as demonstrated in the case below;

“Loan officers have a lending structure which generally governs their work. There are guidelines which loan officers follow when someone is asking for a loan. For instance loan officers are required to request letters from the local leaders, land titles, car log books and guarantors. There are also the manuals of lending guidelines which loan officers follow and finally there is the loan committee which sits after the loan application form has been filled by the customer. The committee decides whether that person qualifies for a loan or not. There is also an inspection team which establishes the credibility of the borrowers’ claims. There is also a provision to refer complex and sensitive cases to the Head Office. The knowledge that there is a whole institutional mechanism to rely on makes the loan officer feel safe and encourages him/her to make decisions without fear. A loan officer can

*also consult or refer any other matter he/she is not sure about to higher levels in the institution.”*⁶ (Interviews, A5, A8, A12, CI, CIII and CIV)⁵

As the case indicates, using the consultative model identified above facilitates credit flow to SMEs by offering loan officers with legal protection and a mechanism for seeking advice from their colleagues as well as management. This boosts the confidence of loan officers by providing clarity on different decision issues.

In spite of the above facilitating role, hierarchy was also found to obstruct credit flow to SMEs due to delays as a result of lengthy consultative processes and interference by senior officers in the work of the loan officers. Delays were found to be an outcome of the collegial decision-making process which means that loan officers have no authority to finalise credit decisions but have to refer them to branch and head office credit committees. This is demonstrated in the following case;

“Clients require loans that are time-bound but it is a requirement that a bank credit committee approves loans. This sometimes creates a delay in the approval of loans because credit committees have plenty of work to do and loan officers may not forward the loan applications on the first come first serve basis. When there are cases that require to be presented to the Head Office, they delay to get there due to logistical problems. Because of the time bound ness of client requests, the customer may not benefit from the loan and may actually not take it if it is approved late. Sometimes the delay is caused by poor documentation on the side of the clients. The arrangement

⁵The case labels in brackets after each case represent interviews from which major themes of the case were extracted. However, by the nature of Nvivo analysis, there may be small themes that were extracted from other interviews. It has not been possible to attribute the cases to individual respondents because they requested for anonymity as the condition for participating in the study.

of proper documentation may take several days to finalise. For loans that are supposed to be mortgaged, the land title must be checked and caveats placed before the loan is disbursed. When the papers are sent to the Lands office for the title to be worked on, it may even take long to be certified. The loan amount required especially if it is large may also cause delays because of the processes involved from inception to approval. These delays affect our clients who blame us for disrupting their plans”. (A4, A9, A11, A16, CIII and CV)

As the case points out, hierarchy in which lending decisions take place at times causes delays in finalising decisions about the borrower’s loan application. This frustrates the loan officers who have to directly relate with their SME borrowers. This is compounded by failure of committees to sit regularly as well as the inability of loan officers to submit loan applications to the higher committees on the first come, first serve basis. This delay is further aggravated by bank bureaucracy which, requires the to borrowers submit a lot of documents that have to be duly certified by different government agencies which are at times slow in fulfilling their responsibilities.

Another hierarchy related factor that was found to influence the flow of credit to SMEs is interference by some members of management into the work of loan officers as indicated in the following case;

“A client approached me in need of a loan. After important information/details were availed to me, the client left. However, after 30 minutes, I received a phone call from the credit supervisor and bank manager inquiring whether the borrower’s proposal was already concluded

and was ordered to complete it immediately before the end of the day. I was worried because if I failed to work on that request which was an order from above, then I would not receive my incentive. On the other hand, I had to make a proper analysis to see that the loan given out was a good one. Before any decisions were taken, I had to first ascertain whether there was any security attached to the loan application. The whole process was to take a minimum period of about four-to-five days to ascertain the correctness of the information provided by the client. I found myself in a very difficult situation because the top official threatened that if the loan was not approved very quickly then I would be fired from my job and yet if the loan went bad, then I would be requested to recover the loan as a form of penalty to me. The loan was extended in record time and to-date it has proved very difficult to recover and I am still suffering the consequences.” (A11).

Another case of interference in the loan officers’ work is shown below;

“A customer wanted about fifteen million Uganda shillings. He had no security attached to his request so I refused to recommend it without all the necessary information required. The request was thus forwarded to the committee for discussion which upheld my decision not to grant the loan. Apparently, the case was from a senior person in government who is also a relative to a big executive in the bank. The loan was approved at head office despite the objection of the loan officer and the branch committee. We all felt demoralised and were left wondering how we would handle future loan requests. To-date, the loan has never been re-paid and has been handed over to auctioneers to recover”. (A13).

The above two cases demonstrate the dilemma that loan officers face when the lending hierarchy is not respected. The study findings further indicate that as a mechanism of guarding themselves against the interference and weaknesses in the lending hierarchy, loan officers resort to the informal structure to make decisions. According to the findings, loan officers use informal contacts within and outside the bank to facilitate decision-making in those cases that do not fit within the formal structure and guidelines. The informal contacts within the bank include private consultations with managers especially in cases when the loan officers are convinced that the borrower's request is generally worthy of credit but the borrower lacks some minor requirements. As the case below stipulates, informal contacts are used to align client requests with bank requirements: -

“Of course in some cases loan officers bend the guidelines a little. We can judge some customers to be creditworthy or some can be friends or known to some of us. However, they may lack some minor requirements as stipulated by the guidelines but as loan officers if we are convinced of their ability to pay back the loan, we may go an extra mile to reconcile the client's details with the bank requirements. We do this by approaching our loan managers and discussing the merits of such case so that they can support us in the loan committee meetings.” (A1, A8, A11, CIII and CV).

The position of the loan officers expressed in the above case is in line with the researcher's observation that the borrower, the loan officer and the supervisor interact very freely which gives them an opportunity to informally discuss loan applications of SME borrowers.

As the case below points out, loan officers also use their contacts outside the bank like local council officials, employers, workers or friends to verify the genuineness of the loan applications: -

“These borrowers are a bit complicated and may not give you all the information you might need. Sometimes we have to contact the local council officials where they reside to look for genuine information about them. In case of borrowers who are employed we contact the employer. We also informally interact with people at the borrowers’ point of work. Furthermore, as loan officers we depend on an inter bank network to identify borrowers who may seek credit from different institutions using same securities. We also have our intelligence networks from which we get information like opinion leaders, Local Councils and fellow workers of the borrower. We have friends working with other financial institutions. There are also people we studied with and we exchange information with them about potential borrowers on an informal basis. As credit officers, we have devised means of ensuring that we identify good customers because the incentives we are paid depend on it. We socialise in order to relate with people who have information about our potential borrowers and in a relaxed mood, we pick a lot of information from them.” (A1, A8 and A10, A11, A13, CVI and CVII).

5.2.1: Institutional Lending Policies and Procedures

The second factor of the lending structure that was examined is concerned with, bank lending policies, procedures and guidelines. These were found to facilitate credit flow in some respects while stifling it in others as indicated in Table 5.1. The

study found that lending policies and procedures facilitate credit by providing legal protection as well as clarity and a conducive working environment through ensuring harmonisation and coordination of credit decisions. This was found to create confidence in loan officers which facilitates their decisions to extend credit. In terms of credit flow facilitation, three situations were identified where lending guidelines policies and procedures make it easy for loan officers to make credit decisions. In the first instance, loan officers consider the guidelines as a shield that protects them from legal consequences of their decisions as the case below shows:-

“In most cases our institutions protect us from being sued because of the decisions we make. For example when you lend money and the customer fails to pay then the institution cannot penalise you for making a bad decision. Maybe you can lose your incentives but there will be no legal action against you as an officer for causing financial loss to the institution. In addition, according to institutional guidelines, loan officers ask customers to bring in and to provide other forms of security. The legalities of selling the assets of borrowers to recover the bank’s money are well explained and are based on the borrowers’ obligations to the bank which are signed when the loan is taken”. (A7, A8, CX and CXI).

Secondly, lending guidelines were found to give loan officers clarity as to which activities they are mandated to take on in lending as the case below shows: -

“There are some legalities in our work and if we are not clear about any legal issue that binds the bank, we first inquire or consult and make sure that we are moving in the right direction legally. We want to apprise somebody who is going to get money in an acceptable manner. We don’t want to appraise

someone whose case will be rejected or challenged in courts of law.” (A8 and A15).

Thirdly, lending guidelines enhance harmonisation of application of the lending policies and procedures in appraisal, recommendation, monitoring and recovery of loans as presented below: -

“Generally the lending guidelines facilitate the loan officer’s work. With the common guidelines, the manuals and the loans committees, loan officers are in position to work hand in hand. The guidelines enable us to identify most of the borrowers who might not be trustworthy. Through our inspection teams we are enabled to minimise discrepancies which might appear in our approaches to different credit requests.” (A2, A12 and CXII).

Harmonisation of credit decision-making by loan officers was also emphasised with respect to coordination of loan officers’ decisions. This is enhanced by the application of standard lending guidelines as the case below indicates; -

“Sometimes if we don’t have guidelines or policies and procedures in structures, we may go off-target. We have to be in-line with other our fellow credit officers. So in a way, these procedures help us in monitoring our activities so that at the end of the day, we achieve organisational goals in a coordinated manner. The guidelines really facilitate our work.” (A2, A5 and CXII)

Two situations were identified where lending guidelines hampered the smooth flow of credit to SMEs. These involve failure of lending guidelines to offer adequate flexibility and to speed in evaluating loan applications. Loan officers also reported

that at times they find lending guidelines to be too theoretical to address practical situations that they face as the case below shows;

“Sometimes lending guidelines are too theoretical and not practical. You might find that a policy or procedure is written but when you try to apply it, it can’t work and we are forced to find a way around it. For example, I was posted to an area in the country where it is a cultural practice to offer a prize to guests. When I went to visit clients in that area, they offered me an assortment of gifts in line with their cultural norms. However, the lending guidelines clearly and seriously warned any loan officer against accepting gifts from clients. The bank looks at it as unethical. Accordingly, I declined the gifts from the community. This angered my clients who looked at me as a disrespectful person. They quietly made a campaign against me which stopped members of their community from approaching me for loans. My portfolio started performing very badly until I was informed by one of my colleagues from the area about the cause. I had to be initiated into the community as an adopted member by undergoing cultural orientation. I also explained to the community leaders my past behaviour. Thereafter borrowers started coming back to me. Otherwise I was in trouble if I had not bent backwards to recognise the cultural norms of the community”. (A9).

Loan officers also pointed out that lending guidelines at times fail to provide sufficient discretion on decisions as the case below demonstrates: -

“Though lending guidelines generally facilitate our work, there are situations where we find borrowers who come with genuine proposals which need support. Some borrowers are credit worthy but only lack some small things

according to the guidelines. In such cases, we are let down by the requirements and procedures which lead some of us to decline recommending credit if we are not innovative enough to overcome the limitations of the guidelines.” (A1, A2 and A3).

In relation to handling of loan requests, loan officers pointed out that the lending guidelines at times encourage sluggishness in decision-making which frustrates their efforts to respond to requirements of SME borrowers in a timely manner as shown in the following case:-

“To some extent, the guidelines affect our work badly. There are some loan proposals which you think can generate income but the bank policy restricts them. For example we used to give loans to schools without preconditions because of their stable cash flows but now the new policy provides that they should be given loans only when they open up accounts with us and deposit their school fees with the bank. There was a case of a school that did not have a fees account with us but wanted to borrow ten million shillings. My assessment showed that the school could easily mobilise that money and pay the loan back but because the guidelines could not allow me to lend unless the school had a fees account with us for at least three months, I could not offer the loan. We miss good clients and we get frustrated because of such limitations.” (A3)

In a related case, one loan officer states that;

“Guidelines don’t allow us to lend to limited companies. We can only lend to individuals and yet companies can be good clients. Sometimes you see a good business opportunity and you just cannot extend credit to it because it

is owned by a limited company. This can be demoralising when you are trying to make money for the institution and boost your incentive incomes as well.” (A6 and A15)

In cases where lending guidelines restrict credit flow, loan officers also reported that they are forced not to always strictly follow lending policies and procedures as pointed out in the case below-

“To a small extent, there is a scenario when old clients’ request for new loans. They could have got a problem with the old loan like repayment on time. The loan committee may not be satisfied with the earlier performance if the payments weren’t good. But as officers we bend and support these people if we know their problem and we are sure that they will pay in future.” (A1 and A7)

It was also observed by the researcher that loan officers at times use lending guidelines selectively depending on the case of a particular borrower. For instance, when a loan officer is personally impressed by a borrower, the guidelines are used to provide information and clarification as opposed to when the borrower is not fancied by the loan officer. In such a case, the guidelines are used to discourage such a borrower from pursuing the loan proposal as the case below demonstrates;

“A loan officer got a document in which different types of loans were written and asked the clients which loan he wanted. When the client replied that he wanted a salary loan, he was instantly referred to another credit officer who handles salary loans. The guidelines were used to signal to the borrower that the loan officer did not want to handle the loan request.” (CI)

In conclusion, though loan officers find lending policies and procedures to facilitate credit flow to SMEs by offering legal protection to loan officers as well as creating harmony and clarity in credit decision-making, they also find them to restrict credit-flow by at times denying the loan officers flexibility in decision-making. This leads to slow decisions as loan officers seek guidance from higher echelons in the bank.

5.2.2: Facility Layout and Credit Supply

Most loan officers reported that facility layout where the interface between loan officers and borrowers occur is not suitable for promoting interaction between them and SME borrowers. The facilities were said to be generally crowded, devoid of privacy, and comfort. These facilities were considered by loan officers loan officers as a disrupting factor in their decisions because it promotes interruptions as well as reduces their esteem in the eyes of borrowers. The facility layout was also found to unfavourably impact on the credit decision-making environment by causing a sense of insecurity to borrowers through lack of privacy. This was found to result into reduced willingness by borrowers to share information with loan officers thereby discouraging credit flow to SMEs due to reduced information sharing between the lenders and borrowers.

The following cases expound on the relationships between facility layout and credit flow to SMEs. For most loan officers, they argue that the reception areas and offices of banks where they receive borrowers are crowded, lack privacy and experience persistent disruptions by the interview processes. The loan officers argue that this environment gives a poor impression about the bank as indicated in the following case: -

“The office environment is important because it shapes the first impression of the client. In loan officers’ views, the poor reception area and crowding of other clients in the offices affects the way clients communicate to them. These clients reveal to us their personal details in the presence of other people. As officers, we sense that the clients really don’t like this. In fact, there are cases where customers feel that the environment is not conducive and end up going to other banks. This is particularly so for the small and micro-enterprise borrowers whom we handle in a “classroom” set-up which makes them hesitant to give information due to lack of confidentiality. The presence of other people makes it difficult for some clients to volunteer all the required information. Others end up leaving and the bank loses business.” (A1, A2, CI, CIV, and CXII)

In another case, the loan officers commented that;

“The environment affects the bank and clients a lot. Clients need privacy and security. Some clients have indicated that if some one knows that they have borrowed money, then they may be attacked. There was a case when one client was filling in a payment schedule when another client who had lent him money entered and got to know that his creditor had been given a loan by the bank. The two clients got a misunderstanding and our first client wasn’t happy with the bank because he saw it as being responsible for the misunderstanding with the colleague. This actually points to the importance of confidentiality as some clients don’t want people to know when and how they have obtained their finances.” (A6, CI, CXI and CXII).

The influence of physical facilities on lending process was also observed during the interviews between the credit officer and clients. It was observed that the office is designed in such a way that the clients waiting to meet loan officers can hear the interviews between the client and the loan officer. This seemed to make clients nervous in their discussions with the loan officers. It was further observed that loan officers sit together in crowded open spaces with minimal privacy which promotes noise and interruption of the interviews between loan officers and borrowers. In conclusion, the design of the facility layout of the lending banks is sometimes a hindrance to credit supply because it deprives loan officers and borrowers of privacy and reduces information sharing thereby increasing information asymmetry and the perceived lending risks of moral hazard and adverse selection.

5.3: Quantitative Study Findings on the Role of Structure in Decisions of Loan Officers.

The response of loan officers about the role structure in credit flow to SMEs are summarised in Table 5.2;

Table 5.2: Frequency table showing loan officers' experiences about the role of structure in credit flow to SMEs.⁷

	Response					
	I strongly disagree	I disagree	I am not sure	I agree	Strongly agree	Total
Institutional lending guidelines make the task of dealing with the client's request easy	8 (5.6)	24 (16.7)	16 (11.1)	88 (61.1)	8 (5.6)	144 (100%)
The institutional lending procedures help me to monitor the performance of the loan	6 (4.2)	14 (9.7)	8 (5.6)	92 (63.9)	24 (16.7)	144 (100%)
The institutional lending guidelines provide a realistic and practical frame work for assessing client's request	4 (2.8)	38 (26.4)	18 (12.5)	68 (47.2)	16 (11.1)	144 (100%)
I adjust the institution's lending guidelines to suit my client's needs	40 (27.8)	58 (40.3)	20 (13.9)	18 (12.5)	8 (5.6)	144 (100%)
The lending guidelines facilitate teamwork and information sharing with my colleagues	8 (5.6)	16 (11.1)	16 (11.1)	76 (52.8)	28 (19.4)	144 (100%)
The lending guidelines deprive me of flexibility in handling the customer's requests	14 (9.7)	54 (37.5)	26 (18.1)	40 (27.8)	10 (6.9)	144 (100%)
I am forced to divert from lending guidelines in dealing with the clients request	42 (29.2)	76 (52.8)	8 (5.6)	14 (9.7)	4 (2.8)	144 (100%)
Lending guidelines take into account the cultural norms of individual clients	32 (22.2)	50 (34.7)	30 (20.8)	30 (20.8)	2 (1.4)	144 (100%)
The lending guidelines make it easy for me to deal with cultural norms and values of each client	24 (16.7)	40 (27.8)	44 (30.6)	32 (22.2)	4 (2.8)	144 (100%)
I obtain necessary support from my supervisors about credit decisions I make	14 (9.7)	6 (4.2)	10 (6.9)	80 (55.6)	34 (23.6)	144 (100%)
The institutional structure provides good channels of interaction and feed back about credit decisions	8 (5.6)	16 (11.1)	12 (8.3)	88 (61.1)	20 (13.9)	144 (100%)
Lending structures facilitates internal formal contacts within the institution for flexible decision-making about credit	2 (1.4)	22 (15.3)	26 (18.1)	74 (51.4)	20 (13.9)	144 (100%)
The lending structure has informal outside contacts that facilitate decision-making about credit	14 (9.7)	28 (19.4)	48 (33.3)	46 (31.9)	8 (5.6)	144 (100%)
The lending structure supports good delegation of work to me by my superiors	6 (4.2)	34 (23.6)	30 (20.8)	66 (45.8)	8 (5.6)	144 (100%)
The structure for appraisal and approval of loans respects my opinions	4 (2.8)	22 (15.3)	24 (16.7)	80 (55.6)	14 (9.7)	144 (100%)
The structure for appraisal and approval of loans enables me to get feedback by consultation from all levels of my superiors	4 (2.8)	26 (18.1)	22 (15.3)	80 (55.6)	12 (8.3)	144 (100%)
I receive directives from superiors to implement loan decisions which are contrary to my professional advice	34 (23.6)	60 (41.7)	22 (15.3)	20 (13.9)	8 (5.6)	144 (100%)

Source: Primary Data

⁷ The figures outside brackets show the number of respondents while those in brackets show the percentage of these respondents compared to all respondents. This practice is carried through all similar tables used to summarised findings.

Synthesis of these experiences of the loan officers expressed above confirms that the majority of the loan officers find the current structure to generally facilitate rather than impede credit flow to SMEs. This finding is consistent with the views expressed by loan officers in qualitative interviews. This finding should however, be seen against the background of the sizeable minority of loan officers who disagree or are not sure about the role that structure plays in their decisions to extend credit to SMEs. This disagreement is a reflection fact that some loan officers at times perceive hierarchy to negatively affect credit flow to SMEs. This is due to interference with loan officer's decisions from management which leads to delays in concluding clients' requests. For the case of loan officers who were not sure, they may have lacked the knowledge of the formal hierarchy due to knowledge gaps and information asymmetry. This is consistent with qualitative finding, in which a loan officer reported the case below;

“Well, I think the problem of this organisation is lack of orientation. I actually do not know whether we have the formal hierarchy you are talking about. What I know, I have a supervisor and credit committee at my branch to whom I am supposed to report to in case of any thing.” (A15).

However, these disagreements should be seen as isolated cases which are unique to each bank, akin to the concept of unsystematic risk. It is these disagreements that lead to the informal structure which exists to overcome the short comings of the formal structures.

In order to establish the extent to which structure explains credit flow from the perspective of loan officers' experiences, principal component analysis using

Varimax rotation matrix technique was⁸ carried out. As indicated in Table 5.3, four factors of structural interaction, informality in bank hierarchy, flexibility of lending guidelines and cultural norms of borrowers were identified as the main underlying dimensions of lending structure.

Table 5.3: Principal component analysis of lending structure and credit-flow to SMEs

ITEMS	Component ⁹			
	Structural Interaction	Informality in bank hierarchy	Flexibility of lending Guidelines	Cultural norms of borrowers
The institutional structure provides good channels of interaction and feed-back about credit decisions	0.903			
I obtain necessary support from my supervisors about credit decisions I make	0.825			
The lending guidelines facilitates teamwork and information sharing with my colleagues	0.809			
Lending structures facilitates internal formal contacts within the institution for flexible decision-making about credit	0.72			
The structure for appraisal and approval of loans enables me to get feed-back by consultation from all levels of my superiors	0.707			
The institutional lending procedures help me to monitor the performance of the loan	0.675		0.321	
The structure for appraisal and approval of loans respects my opinions	0.616		0.401	
The lending structure supports good delegation of work to me by my superiors	0.616			0.413
I am forced to divert from lending guidelines in dealing with the clients request		0.797	-0.41	
I adjust the institution's lending guidelines to suit my client's needs		0.778		
I receive directives from superiors to implement loan decisions which are contrary to my professional advice	-0.434	0.62		
The lending structure has informal outside contacts that facilitate decision-making about credit	0.419	0.517		
The lending guidelines deprive me of flexibility in handling the customer's requests			-0.783	
Institutional lending guidelines make the task of dealing with the client's request easy	0.587		0.603	
The institutional lending guidelines provide a realistic and practical frame work for assessing client's request	0.573		0.58	
The lending guidelines make it easy for me to deal with cultural norms and values of each client				0.866
Lending guidelines take into account the cultural norms of individual clients				0.84
Eigen Value	5.482	2.131	1.851	1.826
% OF VARIANCE	30.458	11.841	10.281	10.147

Source: Primary Data¹⁰

⁸ This procedure for principal component analysis was used in the analysis chapters and is not explained there again.

⁹ Names of components represent the interpretation of the author.

The factors account for 62.7 percent of the lending structure in availing credit to SMEs. Factor analysis further revealed that structure interaction accounts for 30.5 percent, informality 11.8 percent, flexibility of lending guidelines 10.3 percent and cultural norms of borrowers 10.1 percent as shown in Table 5.4 below.

Table 5.4: Explanation of variance for lending structure

Factors	Rotation sums of squared loading		
	Eigen value	Percentage of variance	Cumulative percentage
Structural Interaction	5.482	30.5	30.5
Informality and bank hierarchy	2.131	11.8	42.3
Flexibility of lending Guidelines	1.851	10.3	52.6
Cultural norms of borrowers	1.826	10.1	62.7

Source: Primary data

The factors were tested for independence using multi-co linearity analysis. This showed that inter-correlation amongst all the factors were very low and hence insignificant. This low colinearity among the components of lending structure as indicated in Table 5.5 below implies that the factors are independent measures of the variable of structure.

Table 5.5: Inter-correlations for lending structure

Factors	Structural Interaction	Informality in bank hierarchy	Flexibility of lending guidelines	Cultural norms of borrowers
Structural Interaction	1.000			
Informality in bank hierarchy	.154	1.000		
Flexibility of lending guidelines	.076	.030	1.000	
Cultural norms of borrowers	.072	-.044	.007	1.000

Source: Primary Data

¹⁰ Factors with an EIGEN value exceeding one which were extracted after Varimax rotation were used in the analysis. (These two observations apply to all tables of factor analysis used in the thesis.)

The four factors that emerged from the principal component analysis were subjected to further examination using Spearman’s Rank correlation co-efficient analysis. In this correlation analysis, the four factors extracted from factor analysis were the independent variables representing structure while credit availability was the dependent variable. Credit availability was measured by the determinants of the nature of credit SMEs receive from banks and how satisfactorily (from the SMEs point of view) the credit is delivered. The nature of credit was perceived as the amount and terms of credit that SMEs receive from banks, thereby representing the technical quality aspect of credit. Satisfactory delivery of credit, on the other hand, referred to the interactive factors in the delivery of credit representing the functional quality aspect. The results of Spearman’s Rank correlation analysis are represented in Table 5.6 below.

Table 5.6: Correlation analysis between structure and credit availability¹¹

	1	2	3	4	5
Structural Interaction (1)	1.000				
Informality in bank hierarchy (2)	.567**	1.000			
Cultural norms of borrowers (3)	.254	.457**	1.000		
Flexibility of lending guidelines (4)	.104	.378*	.445**	1.000	
Credit Availability(5)	.427**	.461**	.445**	.401**	1.000

Source: Primary Data

** . Correlation Coefficient significant at 0.01 level

* . Correlation Coefficient significant at 0.05 level

According to the findings, there is a significant positive relationship between structural interaction, informality of bank hierarchy, cultural norms and flexibility of lending guidelines as structure factors with credit availability ($r = .427, .461, .445,$

¹¹ The intra factor correlation coefficient, using Varimax Rotation Matrix are zero as reflected in Figure 5.5 but they take on different values when relationships are tested for using Spearman’s Rank correlation as reflected in Table 5.6.

.401, p -value <0.01). This implies that structure factors, have a moderate significant positive influence on access to credit by the SME borrowers¹².

In conclusion, these results enhance the findings of the qualitative study by identifying the underlying factors through which the variable of structure influences credit as structural interaction, informality in bank hierarchy, flexibility of bank lending guidelines and cultural norms of borrowers.

These findings relate closely to the main purpose of the study which was to provide further insight into the supply and demand factors responsible for the funding gap in the small and micro-enterprise sector and how the gap may be bridged. There are three major experiences that the results demonstrate in respect to bank structure and credit flow. Loan officers find that hierarchy in which decisions are taken can facilitate positive and fast credit decision making by offering a legal and consultative decision-making environment. However, their experiences also indicate that hierarchy becomes a negative force in decisions of loan officers by causing delays due to lengthy consultative processes and disruption of loan officer decisions through interventions by senior officers. In the case of lending guidelines and procedures, the experience of most loan officers is that they are desirable because they structure and harmonise the lending decision. On the adverse side, loan officers find guidelines restrictive when they are too rigid which deprives them of flexibility in decision making. Lastly, loan officers find the interface between them and borrowers to be crowded, uncomfortable and incapable of ensuring privacy which negatively impacts information-sharing and hence credit flow to SMEs.

¹² Similar procedures were used to generate and interpret results of principal component analysis for the subsequent factors ahead and these observations refer to those analyses as well.

5.4: SME Owner Attributes and Loan Officer Lending Decisions.

The findings in this section relate to the question of influence of client attributes on credit supply decisions. According to Table 5.1, client character was identified by loan officers as a major determining factor in their decision to supply credit to SMEs. The study found that the major character attributes stressed by the loan officers were that borrowers should be knowledgeable about their loan requests and should have a personality that facilitates decision-making.

The findings show that loan officers find borrowers who know the purpose of borrowing and bank lending procedures more willing to share information with them than those who do not know. This information-sharing makes loan officers better informed about borrowers, which enhances their bonding and hence leads to a lending environment characterised by trust, transparency and cooperation between loan officers and borrowers. This environment enhances credit flow to SMEs due to increased understanding between loan officers and SME borrowers. On the other hand, loan officers indicated that borrowers who were not sufficiently knowledgeable about their loan requests cause suspicion about their intentions thereby leading to delays in approving their loan applications thus promoting an adversarial atmosphere in credit decision-making. Insufficient knowledge by the borrower provides ground for impeding credit flow to SMEs due to potential misunderstandings between the loan officer and borrower.

The loan officers emphasize client's ability to clearly demonstrate the viability of their loan applications as the case below shows:-

“I didn't find problems with her. She had all the qualities and she knew her business very well. She told me she wanted to add a freezer in her business and when I looked at her turnover and profit margin they were reasonable.

On further scrutiny I found her open, with a right attitude and truthful. I did not need to carry on vigorous detailed investigation about her case. She was able to defend her request properly.” (A2).

This is consistent with the observations of the researcher during the interviews between loan officers and clients where it was seen that when clients are well groomed and smart, they are given comprehensive answers about loan requests. It was further observed that when clients make good presentations of their business plans, most loan officers deal with them sympathetically and vice-versa.

In addition to knowledge, the personality of the borrower was also identified as an important influence on the loan officers’ decisions to recommend credit. The study found that borrower traits of confidence, trustworthiness, and ability to accept advice were the most critical in influencing credit decisions made by loan officers. Borrowers with these traits induce loan officers to develop a favourable impression about them which results into generation of trust between loan officers and borrowers and facilitates credit flow by ensuring that loan officers make fast and fair decisions regarding credit supply as the following case demonstrates;

”We have found some clients confident though the final decisions on their qualification for loans are verified by the credit committee. We support such clients because they are gentle and present their points well” (A4 and A16)

However, the study found that there are borrowers who know that the purpose for which they seek credit is not acceptable but use their superior knowledge to outwit the loan officers in a bid to avoid the requirements of the bank. This manipulation of knowledge by the borrowers is achieved mainly through a selective provision of information to the loan officers. In these cases, the onus of unearthing the real

purpose of borrowing is shifted to the loan officer and leads to delays or outright refusal in granting credit to SMEs as the case shows;

“This borrower was a new client and he was inquiring about our loans. He started from indicating that he wanted credit for a school but when he was told that he couldn’t get credit for a school then he changed to hair treatment business. He then exaggerated the income expected from the hair treatment business to Uganda Shs. 25,000 a day but our experience in the bank is that such businesses in that area can only earn about Uganda Shs. 2,000-to5,000 a day. He didn’t have enough security and when this was brought to his attention he then switched and said he wanted a salary loan when initially he had wanted to borrow using a school as security. He looked a knowledgeable person but continued changing information thinking that he would confuse me. He was also uncooperative and I had nothing to do but to avoid taking a decision on his request by referring him to my manager.” (A3).

Another occasion when knowledge of borrowers adversely influences credit flow is when the borrowers do not know the purpose of the loan and the process for its approval as the case below shows: -

“Some clients have problems and are not knowledgeable on how to go about them. They don’t know how much they are to borrow; they are not even sure of how to pay back the loan. We also find that if we take off loan repayments from their earnings, then it would be very tight for them to go through normal living. They do not also seem knowledgeable on what to buy and the risks they face. It is difficult to

accept their request in this condition and they are often requested to go back and re-examine their needs.” (A7, A11 and CVII).

In another case, the loan officer observed that: -

“When this particular borrower walked in, I knew he had a complaint about a loan because I had dealt with him before. He had an outstanding loan, which was given to him to buy a plot of land, and he wanted a new one to purchase a motorbike. Our procedures are such that you cannot get a new loan before paying back the old one. He was adamant and insisted that I must process his loan and started making wild allegations that I didn’t like him. Such people who don’t know and don’t appreciate our policies and procedures are difficult to help and hamper decision-making. I had to refer him to my supervisors to cool him off.” (A8)

Evidence from quantitative analysis about the role of borrower character in credit decisions generally supports the findings of the qualitative study. Table 5.7 gives a summary of the quantitative findings:-

Table 5.7: Profile of client characteristics

	Response					Total
	I strongly disagree	I disagree	I am not sure	I agree	Strongly agree	
The clients I deal with give me truthful information about their personal character.	6 (4.2)	32 (22.2)	44 (30.6)	58 (40.3)	4 (2.8)	144 (100%)
The clients I deal with give me truthful information about their projects	0(%)	26 (18.1)	34 (23.6)	80 (55.6)	4 (2.8)	144 (100%)
Borrowers seek to know my information needs and provide a picture of trust.	6 (4.2)	22 (15.3)	22 (15.3)	78 (54.2)	16 (11.1)	144 (100%)
My clients exhibit confidence through knowledge of their project proposals.	4 (2.8)	34 (23.6)	30 (20.8)	66 (45.8)	10 (6.9)	144 (100%)
I find my clients simple with pleasant character to deal with.	16 (11.1)	42 (29.2)	24 (16.7)	54 (37.5)	8 (5.6)	144 (100%)
I find clients with little education more reliable than clients with higher education.	26 (18.1)	24 (16.7)	16 (11.1)	54 (37.5)	24 (16.7)	144 (100%)
The clients with apparently lower levels of income are easy to deal with than those with higher levels of income.	28 (19.4)	40 (27.8)	6 (4.2)	42 (29.2)	28 (19.4)	144 (100%)
The clients I deal with manipulate the information they provide to me in order to meet the requirements of the institution.	12 (8.3)	30 (20.8)	52 (36.1)	30 (20.8)	20 (13.9)	144 (100%)
Clients I deal with are knowledgeable about loan procedures	8 (5.6)	32 (22.2)	24 (16.7)	72 (50.0)	8 (5.6)	144 (100%)
The clients I deal with are willing to accept my advice and guidance about their requirements.	6 (4.2)	14 (9.7)	10 (6.9)	94 (65.3)	20 (13.9)	144 (100%)
The clients make adequate preparations about their loan request before they lodge in their borrowing request.	4 (2.8)	38 (26.4)	26 (18.1)	62 (43.1)	14 (9.7)	144 (100%)

Source: Primary Data

According to Table 5.7, 43.1 percent of loan officers found borrowers to be truthful in revealing information about their character while 26.4 percent of the loan officers did not agree that borrowers provided truthful information about their character. There were also a sizeable proportion of loan officers, comprising 30.6 percent, who were in doubt about the truthfulness of the information disclosed by the borrowers concerning their character. In addition to information about character, 58.4 percent of loan officers believe that they receive truthful information from borrowers about their projects while 18.1 percent, of the loan officers believe that borrowers provide

them with false information about their projects. Data from the table indicates further that like in the case of information about character, there is a substantial portion of loan officers up to 23.6 percent, who are doubtful about the authenticity of the information they receive from borrowers about their projects.

Despite the sizeable number of loan officers who doubt the truthfulness of the information provided by borrowers, a big proportion of these loan officers (65.3%), believe that the borrowers go out of their way to establish information needs of the loan officers. It is also apparent from Table 5.7 that loan officers consider confidence, acceptance of advice and pleasantness as attributes that influence their credit decision to recommend credit to SMEs. The majority of the loan officers of 56.7 percent find borrowers knowledgeable and confident. In terms of character, a similar trend to that of knowledge and confidence is projected where the biggest proportion of loan officers of 43.1 percent find borrowers to be amenable to acceptance of advice from loan officers and pleasant. A further 40.3 percent, of loan officers find the borrowers difficult and unpleasant to deal with while 29.2 percent of the loan officers find borrowers of doubtful character with respect to acceptance of advice and pleasantness.

Loan officers also indicate that they consider client attainment of the borrowers as a vital character trait in deciding on extending credit to them. Two dimensions of client attainment in terms of education and income levels are emphasised by the loan officers. With respect to level of education, 54.2 percent of the loan officers argue that they find their clients with low education more reliable than those with high education levels and terms of income levels, 48.6 percent of the loan officers indicate that they find clients with low incomes easier to deal with than those of high incomes.

In order to enhance understanding of the above factors on credit flow, factor analysis was performed and it identified four major principal components of the client's character as presented in Table 5.8 below.

Table 5.8: Principal component analysis of client character

ITEMS	Component			
	Information disclosure by clients	Client knowledge of procedures	Dependability of borrower	Level of client attainment
The clients I deal with give me truthful information about their projects.	.713		.405	
I find my clients simple with pleasant character to deal with.	.709			
The clients I deal with give me truthful information about their personal character.	.696		.431	
The clients I deal with manipulate the information they provide to me, in order to meet the requirements of the institution.	-.681			
The clients make adequate preparations about their loan request before they lodge in their borrowing request.		.869		
Clients I deal with are knowledgeable about loan procedures.		.791		
The clients I deal with are willing to accept my advice and guidance about their requirements.		.728	.388	
My clients exhibit confidence through knowledge of their project proposals.			.795	
Borrowers seek to know my information needs and provide a picture of trust.			.743	
I find clients with little education more reliable than clients with higher education.				.882
The clients with apparently low levels of income are easy to deal with than those with higher levels of income.				.813
EIGEN	2.100	2.032	1.753	1.529
% of variance	19.093	18.471	15.936	13.903

Source: Primary Data¹³

These factors explain 67.4 percent of the effect of client character on the decision to extend credit to SME borrowers. Amongst the factors, information disclosure by clients is the major factor that accounts for 19.1 percent, clients' knowledge of

¹³ Factors with an EIGEN value exceeding one which were extracted after Varimax rotation were used in the analysis.

procedures 18.5 percent, dependability of borrower 15.9 percent, and level of client attainment 13.9 percent, respectively. This is demonstrated in Table 5.9 below; -

Table 5.9: Variance for the factors of client character

	Rotation sums of Squared Loading		
	Eigen Value	Percentage of Variance	Cumulative percentage
Information disclosure by clients	2.100	19.1	19.1
Client knowledge of procedures	2.032	18.5	37.6
Dependability of borrower	1.753	15.9	53.5
Level of client attainment	1.529	13.9	67.4

Source: Primary Data

The factors were tested for independence using inter-correlation analysis which shows that all the study variables have very low and insignificant coefficients as indicated in Table 5.10 below. They therefore, independently represent the factor of client character.

Table 5.10: Inter-correlations for client character.

Factors	Information disclosure by clients	Client knowledge of procedures	Dependability of borrower	Level of client attainment
Information disclosure by clients	1.000			
Client knowledge of procedures	.109	1.000		
Dependability of borrower	-.027	-.073	1.000	
Level of client attainment	-.001	.001	-.018	1.000

Source: Primary Data

When correlation analysis, between the factors that underlie the client character and credit availability was conducted, the results in Table 5.11 were obtained.

Table 5.11: Correlation analysis between borrower attributes and credit availability to SMEs

	1	2	3	4	5
Information disclosure by clients (1)	1.00				
Client knowledge of procedures (2)	.109	1.00			
Dependability of borrower (3)	-.027	-.073	1.00		
Level of client attainment (4)	-.001	.001	-.018	1.00	
Credit Availability(5)	.461	.518	.511	.470	1.00

Source: Primary Data

The findings indicate, that there is a significant moderate positive relationship between information disclosure by clients, their knowledge of procedures, dependability of borrowers, level of clients' attainment with credit availability ($r=.461, .518, .511, .470, p\text{-value}<0.01$). This implies that the client's character positively influences access to credit by SME borrowers. The findings about the role of borrowers attributes in a loan officer's evaluation of loan applications show that loan officers find it easier to deal with those borrowers who are knowledgeable about bank lending policies and procedures in addition to relying on the traditional information about project viability and collateral.

5.5: Interface of Individual Loan Officers Goals and Organisational Goals

With respect to the question of the role of interface between the institutional and individual loan officer goals in credit flow to SMEs, it was found that loan officers consider the congruence between their individual goals and those of the bank as crucial in their credit decisions. According to the interviews, it was found that when the goals of the bank and individual loan officers converge, credit flow to SMEs is expedited. On the other hand, lack of congruence between the two sets of goals

impedes credit flow to SMEs. Loan officers explained that this was because when their goals are congruent to those of the bank, their incentives, performance evaluation, promotion and training opportunities are enhanced which results in commitment to bank objectives as the case below shows:-

“Of course in some cases our goals and those of the bank are in agreement. The bank facilitates us to grow by training. Through higher qualification, we are able to be promoted. Our performance improves meaning that our incentives also grow. We feel generally contented and motivated to work harder and achieve the objectives of the bank. Of course our customers also benefit from our increased knowledge and skills which enable us to process their credit requests.” (A9 and A11).

It was further established that divergence between goals of loan officers and those of the bank is as a result of very stringent performance targets set for loan officers as well as failure by the bank to emphasise their career plans. This was found to result into a decision-making environment that is characterised by conflict between loan officers and the bank hence adversely affecting credit flow to SMEs as reflected in the following case:-

“The bank has set performance targets for us. Of course it is interested in maximizing its returns at minimum risk. In a month we are required to have a client portfolio of not less than fifty loans. We are also required to realize at least 95 percent loan recovery. These targets are too high. We can not achieve them and in order to earn our incentives. The attainment of these targets sometimes depends on factors we cannot control as loan officers. For example there may be no borrowers forthcoming. We may lack facilities like transport to do our work. Because of this we miss out on incentives, get a poor evaluation on job performance which generally harms our prospects

for promotion. This can be frustrating and sometimes we feel like abandoning the job and do something else.” (A3 and A4)

It was also established that in response to perceived lack of emphasis on their goals by the bank, some loan officers commit errors in the haste to attain desired performance targets in order to avoid adverse consequences of poor performance on their career and remuneration goals as the case below shows:-

“When performance targets are too tight, we are forced to deal with many clients at ago. The target of fifty clients a month means that on average we must appraise, have approved, monitor and recover payments from at least two customers a day. There is not sufficient time for these tasks. We adjust our working methods. We visit clients as a matter of procedure meaning that in such circumstances we are not able to conduct a thorough analysis of the borrower’s proposal. This may lead to mistakes but we do not want to miss incentives. (A12 and A14)

In addition the loan officers reported that as a result of stringent organisational goals, the quality of advice that they give to clients is at times inadequate due to pressure of work as the following case demonstrates:-

“I once dealt with the situation where the borrower brought her guarantors. The undertaking by the guarantors was a technical one in the legal sense and the lending guidelines require that such a guarantor should be led through the undertaking by the credit officer. Due to pressure of work and in a bid to meet my targets, I just gave forms to the guarantor who simply signed. Later the borrower defaulted and we debited the guarantor’s account to recover the

bank's money. The guarantor was annoyed claiming that he did not know that he had given the bank authority to take away his money. I somehow felt pity for this guarantor because he did not get adequate explanation of his undertaking. I had to meet my targets in order to sustain my job and life. From experience I know that these things happen to the majority of our customers. (A14).

In order to assess the extent to which these findings apply across a wide spectrum of loan officers, a questionnaire survey was carried out and the results are reported in Table 5.12

Table 5.12: Views of individual loan officers about their personal goals and bank goals.

	Response					Total
	I strongly disagree	I disagree	I am not sure	I agree	Strongly agree	
My institution is interested in my personal development and incorporates my personal goals into its overall human development plans	10 (6.9)	22 (15.3)	40 (27.8)	68 (47.2)	4 (2.8)	144 (100%)
The institution's lending guidelines enhance my ability to obtain better remuneration	6 (4.2)	28 (19.4)	30 (20.8)	68 (47.2)	12 (8.3)	144 (100%)
The institution's lending guidelines enhance my ability to obtain promotion	2 (1.4)	20 (13.9)	42 (29.2)	76 (52.8)	4 (2.8)	144 (100%)
The institution's lending guidelines enhance my ability to obtain favourable performance appraisal	10 (6.9)	18 (12.5)	38 (26.4)	76 (52.8)	2 (1.4)	144 (100%)
I adjust lending procedures so as to match my goals with those of the organisation.	38 (26.4)	48 (33.3)	20 (13.9)	32 (22.2)	6 (4.2)	144 (100%)
Targets given to me by the institution make me reduce the quality of service that I give to clients seeking loans.	36 (25.0)	64 (44.4)	10 (6.9)	28 (19.4)	6 (4.2)	144 (100%)

Source: Primary Data

The findings from Table 5.12 show that 50 percent of loan officers consider that the management is interested in their personal development and their personal goals are incorporated in overall human development plans of the banks. This finding is enhanced further by the fact that 55.5 percent of loan officers find that lending guidelines enhance the ability to obtain better remuneration. Furthermore, most of the credit officers 55.6 percent, agree that the bank’s lending guidelines enhance their ability to obtain promotion while 54.2 percent of the loan officers find that bank’s lending guidelines enhance the ability to obtain favourable performance appraisal. These are consistent with qualitative findings and confirm the fact that where there is congruence between individual and bank goals, a favourable environment that enhances credit flow to SMEs is created.

In order to establish the extent to which individual and organisational goals explain credit flow from the perspective of the loan officer’s experiences, principal component analysis was carried out. As indicated in Table 5.13 below, two factors of individual goal enhancement and lending guidelines adjustment were identified as the main facets underlying the role of goals in credit flow to SMEs.

Table 5.13: Principal components of personal/individual and organisational goals

ITEMS	Component	
	Individual goal enhancement	Lending guidelines adjustment
My institution is interested in my personal development and incorporates my personal goals into its overall human development plans	0.83	
The institution’s lending guidelines enhance my ability to obtain better remuneration	0.783	
The institution’s lending guidelines enhance my ability to obtain promotion	0.779	
I adjust bank lending procedures so as to match my goals with those of the organisation		0.855
Targets given to me by the institution make me reduce the quality of services that I give to clients seeking loans		0.707
The institution’s lending guidelines enhance my ability to obtain favourable performance appraisal	0.522	-0.623
EIGEN	2.277	1.714
% OF VARIANCE	37.948	28.560

Source: Primary Data

The factors account for 66.5 percent of personal and bank goals as indicated in Table 5.14.

Table 5.14: Variance for the factors of personal/individual and organisational goals

Factors	Rotation Sums of squared loading		
	Eigen value	Percentage of Variance	Cumulative percentage
Individual goal enhancement	2.277	37.9	37.9
Lending guidelines adjustment	1.714	28.6	66.5

Source: Primary Data

The factors were tested for independence using inter-correlation analysis, which showed that the correlation between the factors were very low and insignificant, indicating that the factors are independent indicators of the valuable of loan officer and bank goals as shown in Table 5.15.

Table 5.15: Inter-correlations for the factors of personal/individual and organisational goals

Factors	Individual goal enhancement	Lending guidelines adjustment
Individual goal enhancement	1.000	
Lending guidelines adjustment	-.082	1.000

Source: Primary Data

The two factors that emerged from factor analysis were subjected to correlation analysis and the findings are presented in Table 5.16.

Table 5.16: Spearman's rank correlation analysis of personal goals and credit availability

		1	2	3
Individual goal enhancement(1)	Correlation Coefficient	1.000		
Lending guidelines adjustment(2)	Correlation Coefficient	.345*	1.000	
Credit Availability(3)	Correlation Coefficient	.445**	.395*	1.000

Source: Primary Data

** . Correlation Coefficient significant at 0.01 level

* . Correlation Coefficient significant at 0.05 level

These findings show that there is a significant positive relationship between individual goal enhancement, lending guidelines adjustment with credit availability ($r=.445$, $p\text{-value}<0.01$ and 395 , $p\text{-value}<0.05$). This implies that individual goal factors, moderately and positively influence access to credit by the SME borrowers.

The findings about congruence between loan officers and bank goals indicate that when banks set organizational goals that are considered by loan officers to be in most cases difficult to achieve, this threatens their own personal goals. They further demonstrate that when loan officers are generally not involved in the process of goal setting, they are bound to take bank goals too rigid which forces them to adjust the application of the lending guidelines so as to attain the targets set by the bank.

5.6: The Gender Attribute and Credit Supply and Demand in the SME Sector.

Analysis of study findings about extension of credit to women-owned SMEs, shows that attitudes of loan officers towards women borrowers, ability of women-owned enterprises to meet lending criteria, confidence of women borrowers, knowledge of bank lending procedures, family roles of women-SME owners, women business characteristics and networks with fellow women borrowers and loan officers are the major factors that influence credit supply and demand with respect to women-owned SMEs.

Study findings show that women borrowers are not officially discriminated against by bank lending policies as was put by a series of loan officers that ,

“Practically we have to treat all borrowers equally regardless of their sex. We follow stages logically and those are applied to both men and women. It’s procedural. As policy we are supposed to handle every customer’s application

equally with all our commitment and this is regardless of their sex because we test or evaluate their credit worthiness, the potential of their business and all this follows the same procedure, so there is no case of favoring any sex.”

This equal treatment to all customers is reflected in the following remark by a loan officer who was approached by a borrower seeking a special favor as a woman;

“The woman pleaded but I told her that I could not go against a single rule, simply because of her being a woman. All bank customers are equal irrespective of their sex.”

In reference to the perceptions of loan officers and their willingness to recommend credit for SME women-owned enterprises, there are instances when views of loan-officers about women SME borrowers are positive because they generally regard women borrowers to be more trustworthy than their male counterparts. As one loan officer put it,

“...our experience has shown that in case of character, there are more men who are likely to turn out as bad debtors than women because women in most cases are careful, trustworthy and use the funds lent to them better than men.”
This is supported by another loan officer who points out that, “from experience women take small loans because of the size of their businesses and tend to be more honest and hardworking than men”.

This positive attitude causes the loan officer to perceive reduced lending risks of adverse selection and moral hazard when dealing with women borrowers which creates a favorable environment for evaluation of loan applications and facilitates credit flow.

In case of unfavorable perception, loan officers view most of the SME women borrowers negatively because they are thought to be generally ignorant of bank lending procedures, primarily focused on family and marital issues and being high risk because they generally don't own collateral due to cultural and legal constraints. As one loan officer stated;

“...the Ugandan woman is still being emancipated and many are still ignorant, nervous and generally not confident when they come to us. When it comes to security like a land title in most cases, the title is in the names of the husband and the woman is therefore unable to provide adequate security to support her borrowing needs.”

The conditions of SME-women borrowers increase the perception of increased lending risk which creates an unfavorable environment for evaluation of loan applications.

The interviews indicate further that most of the SME women-borrowers believe that they are perceived by loan officers as poor candidates for lending as compared to their male counterparts. A number of women borrowers interviewed acknowledged that loan officers perceive them as being primarily concerned with family and marital issues other than managing their businesses. The preconceived ideas of loan officers cause some of the SME-women borrowers to be demoralized and lose confidence when dealing with loan officers. As one woman borrower put it;

“We as women borrowers feel disadvantaged when we request for loans from banks because we are generally perceived as poor, with property which usually belongs to our husbands as we are not expected to own property!”

The perceived inadequacy by women borrowers makes them feel inferior and leading to loss of makes them lose confidence in defending their loan applications. As one female borrower stated;

“For us women, we have that women-element that makes us fear loans!”

This phenomenon was found to be more pronounced on the side of rural-based borrowers who usually have low education levels. For those with high education levels, the inferiority complex phenomenon was not very pronounced. This is reflected in the following quotation from one of the women borrowers who is a head mistress of a primary school;

“I don’t mind whether I meet a male or female loan officer. If he/she disturbs me, I go to the next one. I am a normal human being, I am a borrower, I do business and I find nothing wrong with me. I am happy being a successful woman. After all, there are many men who fail to do business and even some fail to repay their loans”.

This feeling of inferiority complex by some of SME women borrowers especially, the less educated ones is corroborated by loan officers. One officer remarked that;

“While men borrowers, whether educated or not tend to have confidence and express their requests very clearly, women borrowers are some times timid, they talk in very low tones, tend to be nervous and are not confident because they fear the loan officers and some of them fail to articulate their request”.

Loan officers find also that some SME-women borrowers, especially the less educated, rural based ones have little or no knowledge about bank lending procedures. Most of them lack adequate literacy and numeric skills which makes it difficult for them to fill in relevant forms and require being assisted which takes a lot of the loan officer’s time. As one loan officer put it;

“Most of less educated women borrowers are ignorant of procedures and the loan officer has to spend a lot of time with such clients before they get loans”

This situation contrasts with that of more educated women borrowers who generally tend to be urban-based. This category of women is generally knowledgeable of lending procedures as one of the loan officers put it;

“If a woman is well educated and informed, you enjoy serving her. But the problem is that most of the women we serve are less educated women and not well informed. For example, when you ask them to bring guarantors, they often bring someone who is not qualified, just because they do not understand the required qualifications!”

In addition to management of their businesses, SME women borrowers have extra responsibilities like looking after children and other home-related chores that affect their ability to access credit from banks. The women borrowers, especially the rural-based ones, find these roles difficult to combine with the tedious procedures for acquiring bank credit. As one borrower put it;

“you come hoping to leave early and go back to attend to the house responsibilities like cooking, looking after children and some women have babies to feed and when they are delayed in the bank, some of them leave before they are attended to, but the men can persist and wait for the whole day”

This view is supported by the loan officer who argued that;

“A woman will come and find a queue and then she moves to your desk and requests that you serve her first because she left a baby at home as she has to go and breast-feed. Also when some women borrowers are pregnant, they argue that their condition should be used to allow her preferential

treatment, yet this cannot be done because we have to follow bank guidelines”

These views demonstrate that there is lack of compatibility between family responsibilities and bank lending procedures that discourage most women borrowers from approaching banks because they fail to get time to come to the banks.

Study findings also established that another consequence of family roles on SME women borrowers is that it makes it difficult for them to associate with decision makers who normally meet after work in social places. Since most of the women borrowers have low education and are rural-based, they do not only lack access to such social facilities but their social life is constrained further by their household chores. As one borrower put it;

“We are not like men who meet at beer parties and are able to discuss loan proposals before they go to the bank. As a woman, I don’t have time for beer parties; I have to look after my children and my home.”

The difficulties in networking for the many SME women borrowers is further aggravated by a finding that women loan officers who are expected to offer them solidarity on account of shared female experiences are often found to be more unhelpful than their male counterparts. As most of the SME women borrowers who were interviewed indicate, they are usually disappointed by lack of support from women loan officers. This was seen to be especially the case with the low educated, rural based borrower. As a result of this disappointment, women borrowers turn to male loan officers as expressed in the following argument;

“Women loan officers are tougher especially to fellow women; generally men are better for me than women, some women are tough, a woman to a woman is not easy and for us women borrowers, women are like that, very

few women will choose to go to female loan officers when there is an alternative of male officers”

Another women borrower observed that;

“men are kinder than women and generally women to fellow women are hard like when I am in the queue, I keep on looking at the loan officers and praying that when it is my turn, I get the male loan officer”

Also inability to bond easily with female loan officers dampens the enthusiasm of some SME women borrowers to seek credit as reflected in the following sentiments expressed by women borrower;

“...there was a time my husband refused to pay fees for one of our children and I used the money that I had prepared to repay the bank loan for fees. I explained to the loan officer but she told me that my family problems are not her concern and whether my husband had diverted the money or not, I had to pay in time. She appeared to be ignorant about women problems”

In another instance a lady borrower pointed out that;

“Sometimes we imagine that our fellow women are going to be kind and understanding to us, but it is not always the case. Some women apart from physically being women have never experienced real women problems”.

The findings suggest that women loan officers are more officious than their male counterparts probably as a result of fear that they are taken less seriously by their supervisors as compared to the male loan officers as the following views of women loan tend to suggest;

“It is still hard to be accepted as a female loan officer, we have to do our best because when we make a mistake it will not be viewed in the same way as when a male loan officer makes one. Even if it will not be out in the open, it will be taken that it is because you are a woman. This makes it hard for us

to divert from the guidelines and it is known that female loan officers follow banking guidelines to the dot. This is because we lack that confidence that male loan officers have as they have already proved themselves in the field.”

The findings indicate further that women-owned small businesses have characteristics that don't favor their access to credit. The findings show that many of the women-owned SMEs are normally smaller than those owned by men and they operate in business sectors that are generally less favorable with low initial capital. As argued by one of the female borrowers;

“For us, we are small scale business ladies; I would want a bank that understands me...”

This makes loan officers to perceive women owned businesses as being non-viable and high risk for lending purposes. This entrenched attitude is transmitted to the many SME women borrowers when they interact with loan officers who make them feel discouraged from borrowing. Another issue that hinders some SME women borrowers from accessing credit is that they do not have registered businesses and these are taken to be illegal by the bank, which makes it difficult to access credit. As argued by a female borrower;

“...the most important thing in my borrowing experience is your credit-worthiness especially when you have a genuine business that is registered. Our businesses are small family units which most banks do not recognize!”

Findings also show that many of SME-women borrowers often lack ability to meet bank-lending criteria. Most SME women borrowers, especially those with low levels of education, do not own land or other assets that can be used for collateral and have to rely on other parties like husbands to obtain such collateral. The most

commonly accepted securities are land titles and cars that are normally owned by men. As one woman borrower put it,

“You must have a sound business and you should have adequate collateral security otherwise your desire to get a loan will always remain a dream”

So, these women end up relying on other parties like husbands to obtain such collateral which is often too small to obtain substantial amount of credit. In some cases, the women borrowers end up bundling together the few assets they own like a fridge, a television set and furniture in order to access loans but normally miss out on the required loans as their security is of low value.

This is due to the inflexible bank lending guidelines that demand high security irrespective of the nature of the borrower. Also most of these SME women borrowers have or operate very small and volatile businesses besides not having or owning any or little property or security. They operate on a very small scale such as selling tomatoes, onions on a retail scale and as much as they would want their businesses to grow the strength of their businesses cannot help them access credit easily. Due to the small size of the businesses they operate, they usually qualify for very small loans.

Cultural barriers further compound the problem of getting collateral by the women borrowers. Women generally do not own land and this makes them depend on their husbands who decide whether their wives should carry out business or not and hence provide collateral for it. This is consistent with a loan officer who argued from that experience and said;

“Often husbands frustrate their wives. They interfere with their business; they want to make decisions in women’s businesses at some stage. Because the man is the decision-maker in the house, he may wish to sell them (the assets) or do anything with them.”

Study findings also indicated that most of SME-women borrowers who have acquired a loan before find it easier to access additional loans because bank loan officers are easy on them as they raise less suspicions..

“...I think it is the number of times you have borrowed with them, because this was my third loan and the process I went through when getting the very first loan was more harder, they over scrutinize you, they inspect you, they investigate you. But when I finished the first loan and I applied for the second, it was easy and now for the third one was even easier. They never go into those details...”

They attributed this to the fact that they had been able to clear their earlier loans on time, thereby earning respect and trust from the bank loan officers. Most of the women borrowers said they prefer working with the same loan officers who they had dealt with before as this creates a good relationship between them. As women borrowers argued;

“Getting a loan is easy because he/she already knows my business, my problems and it is easier for me to approach him/her than a new one. In case I need advise or am unable to pay in time, he/she will be more understanding as we have a prior relationship”

Another study finding is that some SME-women borrowers attempt to overcome the unfair cultural social, legal practices and lending guidelines by influencing the loan officers to positively review their applications. They do this by persuading loan officers to sympathize with their plight caused by their feminine nature as one woman SME borrower put it;

“Of course men are kind especially when you explain your problems to them”

And as supported by one male officer;

“In real practice, women tend to be friendlier than men and I think that is natural. A woman borrower will always try to get closer, more open to you than the male borrower.”

Evidence from some loan officers also shows that at times, some SME women borrowers seek to use their sexuality to cause positive evaluation of their loan proposals. As one male loan officer confessed;

“Some of them (women borrowers) sometimes come to you with attitudes, that they are women and you must treat them as such. They try to be close and intimate. They think that you can be influenced by such emotions. I will tell you some personal experience where a woman took me to her home for inspection of her assets. When we got there she took me to her bedroom and also took me to her husband’s bedroom to demonstrate how they had separated and therefore could not do business together. But the manner and setting in which she was doing it was indicative of something more than that... ”

This is supported by another male loan officer who argues that,

“Others (women borrowers) talk to you in a way as if they want to fall in love with you and when you refuse they get disappointed and comment negatively about you”

This was also echoed by a female loan officer that;

“I have heard my male counterparts telling me how they have been seduced by some women to fall in love with them especially during their field visits. Of course such women do that with a hope of some favour and cover-ups.”

These cases demonstrate the difficulties that women borrowers face in accessing credit rather than them being naturally promiscuous.

5.7: Consensus Analysis and Assessment of Lending Culture

According to Borgatti (1996), consensus analysis is both a theory and a method that is used to assess the existence of agreement amongst decision-makers on a given phenomenon. In the context of the study, consensus analysis was used to examine the extent to which the loan officers' decisions can be said to conform to a common lending culture.

According to Mueller (1976), a credit culture refers to the banks' approach to managing risks, including its strategic focus, credit policy, communication in credit decision-making and composition and quality of the credit portfolios. Barents Group PLC (1998) and Sinkey (1998) evaluate the importance of credit culture in lending institutions and argue that credit culture constitutes the driver of the engine of the credit decision-making process. They argue further that a well developed credit culture is critical in realising credit quality as it drives the lending process. A poor lending culture acts as a misleading influence on the lending decision which could result into excessive risk taking and poor credit flow to the credit users.

The importance of credit culture in the process of credit flow from financial institutions to users provides the justification for examining the existence of a common lending culture amongst the loan officers of the four banks under study. The consensus analysis tool, which was developed by Borgatti (1996), was used to assess the extent to which a common lending culture exists in the four banks. Using this tool, the loan officers' responses to the lending questionnaire, were analysed to identify existence of a common pattern in their responses. Although 144 respondents from four different institutions filled the loan officers' questionnaire, the limitation of the consensus analysis software, led to the split of respondents into

five groups. Each group had 30 respondents, except the last group, which had 24 respondents as Table 5.17 shows; -

Table 5.17: Loan officers group allocation

		Institutions						
		A	B	C	D	ABCD		
Number of officers	1	8	8	7	7	30	1	Groups
	2	8	8	7	7	30	2	
	3	8	8	7	7	30	3	
	4	8	8	7	7	30	4	
	5	10	10	2	2	24	5	
		42	42	30	30	144		
		Totals						

Source: Primary Data

The first group was made of the first:

- 8 respondents from the first institution (i.e. the institution labelled “A”)
- 8 respondents from the second institution (institution “B”)
- 7 respondents from the third institution (institution “C”)
- 7 respondents from the fourth institution (institution “D”)

The subsequent groups, group two through four, were made of the same number of respondents from each institution in the same order. The last group, however, was made of:

- 10 respondents from the first institution (i.e. the institution labelled A”)
- 10 respondents from the second institution (institution “B”)
- 2 respondents from the third institution (institution “C”)
- 2 respondents from the fourth institution (institution “D”)

Consensus analysis only used Group one respondents because the software could accommodate a maximum of 30 items.

Consensus analysis results for the 30 loan officers, are presented in Table 5.18. The ratio of 2.215 between the first and second factors and the declining Eigen values indicate, low consensus and demonstrate a situation of weak agreement within the group, even though the first factor accounts for 57.6 percent of the variance.

Table 5.18: Consensus analysis – loan officers questionnaire all factors (30 respondents)

Factor	Eigenvalue	Percentage	Cumulative	
			Percentage	Ratio
1	4.432	57.6	57.6	2.215
2	2.001	26.0	83.5	1.579
3	1.267	16.5	100.0	
Total	7.7	100.0		

Mean Knowledge Score: 0.316 Respondent Reliability: 0.774

Source: Primary Data

In order to construct a multi-dimensional scaling diagram to further understand the extent of consensus among the loan officers, a review of the knowledge scores was generated by anthropac software for respondents of the loan officers' questionnaire (Table 5.19). They revealed that three loan officers had negative cultural knowledge scores as follows; -

- OA6 was more positive than the group on questions 5, 9, 13, 16, 18, 32, 33 and 34 and more negative than the group on all other questions except on questions 6, 11, 14, 15, 20 and 44.
- OB16 was more positive than the group on questions 17, 18, 20, 26, 30, 39, 40, 43 and 44 and more negative than the group on all other questions except on questions 11, 23 and 38.
- OD30 was more positive than the group on questions 17, 18, 23, 28, 30, 31, 33, 40 and 44 and more negative than the group on all other questions except on questions 5, 9, 20, 34 and 39.

Using the recommendation of Caulkins and Hyatt (1999), data for these loan officers was omitted from subsequent analysis of all factors of the loan officer's questionnaire, thereby permitting a closer and more focused examination, of the remaining loan officers.

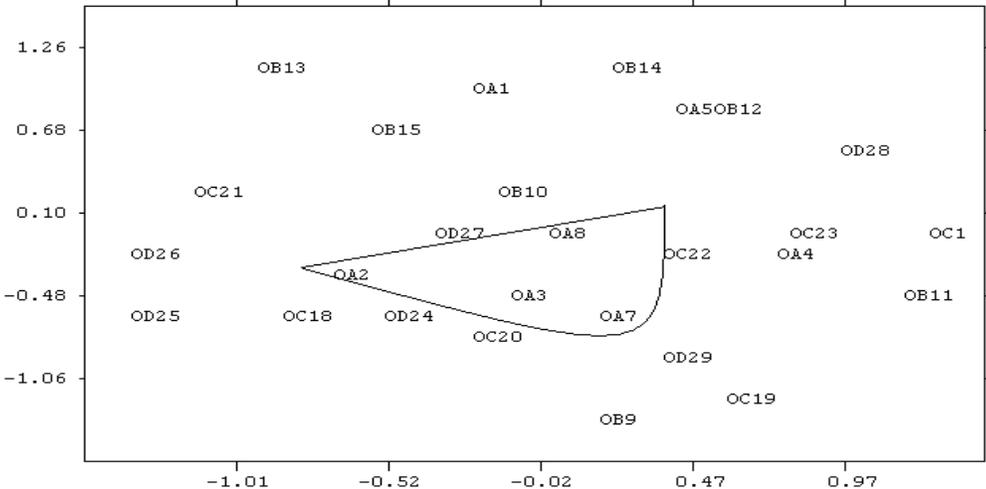
Table 5.19: Knowledge scores of loan officers all sections

Respondents	Knowledge Scores
OA1	0.251
OA2	0.314
OA3	0.623
OA4	0.375
OA5	0.432
OA6	-0.054
OA7	0.323
OA8	0.369
OB9	0.439
OB10	0.025
OB11	0.637
OB12	0.109
OB13	0.19
OB14	0.283
OB15	0.333
OB16	-0.132
OC17	0.699
OC18	0.455
OC19	0.537
OC20	0.596
OC21	0.325
OC22	0.297
OC23	0.449
OD24	0.197
OD25	0.371
OD26	0.678
OD27	0.079
OD28	0.132
OD29	0.23
OD30	-0.079

Source : Primary Data

The non-metric multi-dimensional scaling from the knowledge scores, represented in Figure 5.2 confirms the pattern of weak agreement, identified in the consensus analysis.

Figure 5.2: Multi-dimensional scaling–loan officers questionnaire all sections



Stress in 2 dimensions is 0.236

The study therefore found that overall, there was weak agreement amongst loan officers, about the existence of a common lending culture in the four banks under study.

In order to confirm the weak consensus amongst loan officers, an analysis was undertaken using each factor that was identified, to affect credit flow in the study. This required the data to be segmented into different sections, for client character, credit officer’s personal goals, client’s knowledge and lending structure. Consensus analysis and non-metric multidimensional scaling were then employed to examine patterns of agreement among loan officers for each of these factors. In order to examine, whether loan officers had a common lending culture regarding the conduct of individual clients, consensus analysis was conducted and the results are reported in Table 5.20.

Table 5.20: Consensus analysis – loan officers questionnaire client character

(27 respondents)

Factor	Eigenvalue	Percentage	Cumulative Percentage	Ratio
1	5.279	47.8	47.8	1.567
2	3.369	30.5	78.3	1.405
3	2.398	21.7	100.0	
Total	11.046	100.0		

Mean Knowledge Score: 0.368 Respondent Reliability: 0.807

The results in the table indicate that loan officers, failed to reach consensus as evidenced by the ratio of 1.567 between the eigen values for the first two factors (Table 5.20). Furthermore, the lack of consensus is demonstrated, by a domain that indicates a highly turbulent perspective among the loan officers.

A determination of the knowledge scores, generated by anthropac software for respondents of the loan officers' questionnaire about client character (Table 5.21) revealed that two loan officers had negative cultural knowledge scores. Further examination of the data revealed, that loan officers: -

- OD25 was more positive than the group on question 9 and more negative than the group on all other questions except on question 6.
- OD27 was more positive than the group on all questions, except on question 6.

Again, following Caulkins and Hyatt's (1999), treatment of such outliers, data for these loan officers were omitted from subsequent analysis, of the client character section of the loan officers questionnaire, thereby permitting a closer and more focused examination of the remaining loan officers.

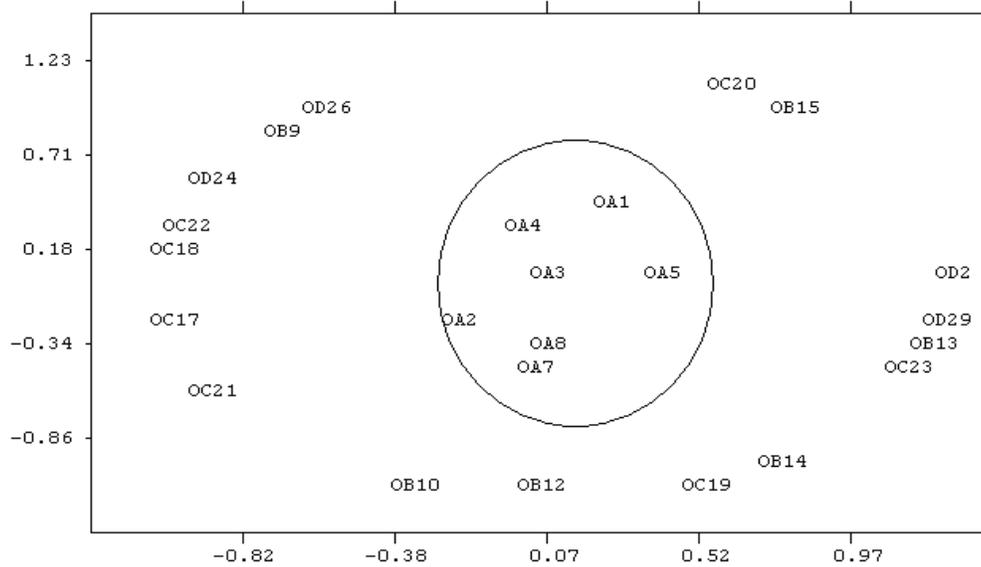
Table 5.21: Knowledge scores of loan officers’ client character

Respondents	Knowledge Scores
OA1	0.757
OA2	0.278
OA3	0.432
OA4	0.074
OA5	0.451
OA7	0.306
OA8	0.502
OB9	0.025
OB10	0.254
OB11	0.346
OB12	0.136
OB13	0.193
OB14	0.395
OB15	0.809
OC17	0.598
OC18	0.438
OC19	0.02
OC20	0.832
OC21	0.569
OC22	0.551
OC23	0.306
OD24	0.547
OD25	-0.001
OD26	0.517
OD27	-0.06
OD28	0.122
OD29	0.539

Source: Primary Data

The multi-dimensional scaling diagram presented in Figure 5.3 below, MDS resulted from the analysis. From the analysis, it is clearly indicated that generally there is a diversity of opinion among loan officers, about the role of client character in their credit decisions though a cluster of sub-cultures can be seen with some loan officers.

Figure 5.3 : Multi-dimensional scaling – loan officers questionnaire client character



Stress in 2 dimensions is 0.741
 Source: Primary Data

Furthermore, the diversity of opinion, exhibited by loan officers, is apparent from the analysis of the data for the credit officer’s personal goals factor. Results of the consensus analysis, presented in Table 5.22, confirms the lack of consensus among the group (Eigen value ratio of 1.072), while the declining Eigen values confirm a diverse domain.

However, the sub-culture clusters amongst case “A” loan officers, shows existence of an emerging cultural agreement. This is explained by the fact that in case “A”, the bank has both traditional commercial bank lending, to medium and big enterprises and micro-lending to SMEs. The loan officers were found to be more uniform in their approach to SMEs because they (loan officers) use their experiences in application of lending guidelines to the larger borrowers.

**Table 5.22 : Consensus analysis – loan officers’ questionnaire credit officer’s personal goals
(27 respondents)**

Factor	Eigenvalue	Percentage	Cumulative Percentage	Ratio
1	3.947	38.2	38.2	1.072
2	3.682	35.6	73.8	1.358
3	2.71	26.2	100.0	
Total	10.339	100.0		

Mean Knowledge Score: 0.194 Respondent Reliability: 0.714

Results of the CA for the clients’ knowledge section are presented in Table 5.23.

The Eigen value ration of 1.259 confirms the lack of consensus among the group.

Table 5.23: Consensus analysis – loan officers’ questionnaire client’s knowledge

(27 respondents)

Factor	Eigenvalue	Percentage	Cumulative Percentage	Ratio
1	5.726	40.6	40.6	1.259
2	4.55	32.3	72.9	1.189
3	3.826	27.1	100.0	
Total	14.102	100.0		

Mean Knowledge Score: 0.372 Respondent Reliability: 0.825

CA results for the lending structure – formal hierarchy section, presented in Table 5.24, also reveal a pattern of weak agreement with an indication of two sub cultural groupings.

Table 5.24: Consensus analysis – loan officers’ questionnaire lending structure – formal hierarchy (27 respondents)

Factor	Eigenvalue	Percentage	Cumulative Percentage	Ratio
1	6.499	58.4	58.4	2.602
2	2.497	22.4	80.9	1.174
3	2.127	19.1	100.0	
Total	11.123	100.0		

Mean Knowledge Score: 0.408 Respondent Reliability: 0.850

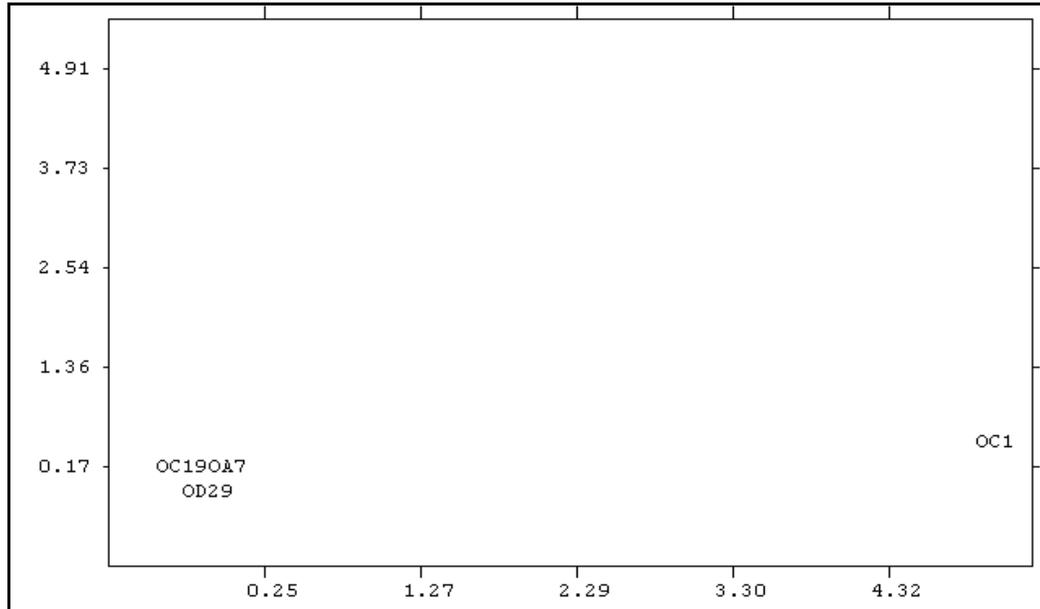
A review of the knowledge scores, generated by anthropac software for respondents of the loan officers' questionnaire (Table 5.25) revealed one loan officer had a negative cultural knowledge score. Further examination of the data revealed this loan officer was more positive than the group on questions 30 and more negative than the group on all the other questions. Again, following Caulkins and Hyatt's (1999), treatment of such an outlier, data for these loan officers were omitted from subsequent analysis of the lending structure – formal hierarchy section of the loan officers questionnaire. This permitted a closer and more focused examination, of the remaining loan officers.

Table 5.25: Knowledge scores of loan officers' lending structure – formal hierarchy

Respondents	Knowledge Scores
OA1	0.141
OA2	0.556
OA3	0.785
OA4	0.602
OA5	0.242
OA7	0.588
OA8	0.465
OB9	0.742
OB10	-0.1
OB11	0.878
OB12	0.135
OB13	0.369
OB14	0.209
OB15	0.25
OC17	0.789
OC18	0.467
OC19	0.674
OC20	0.624
OC21	0.337
OC22	0.165
OC23	0.341
OD24	0.056
OD25	0.473
OD26	0.854
OD27	0.005
OD28	0.117
OD29	0.261

In Figure 5.4 multi-dimensional scaling diagram was derived from knowledge score in Table 5.26 as shown below.

Figure 5.4: Multi-dimensional scaling – Loan officers’ questionnaire lending structure – formal hierarchy



Stress in 2 dimensions is 0.000

Source: Primary Data

The multi-dimensional scaling analysis, also confirms the lack of consensus amongst loan officers regarding the role of hierarchy in credit decision though two sub-cultural groups emerged.

Consensus analysis results for the last section, lending structure–informal hierarchy, demonstrate lacking of clear consensus, but in their case, with some evidence of subculture groupings. As can be seen in Table 5.25 the Eigen value ratio between the first two factors is 2.049.

Table 5.26: Consensus analysis – loan officers’ questionnaire lending structure – informal hierarchy (27 respondents)

Factor	Eigenvalue	Percentage	Cumulative Percentage	Ratio
1	5.998	54.1	54.1	2.049
2	2.928	26.4	80.5	1.357
3	2.157	19.5	100.0	
Total	11.083	100.0		

Mean Knowledge Score: 0.337 Respondent Reliability: 0.755

A review of the knowledge scores, generated by anthropac software for respondents of the loan officers’ questionnaire (Table 5.27) revealed three loan officers had negative cultural knowledge scores. Further examination of the data revealed loan officers:

- OA1 was more negative than the group on questions 40, and 44 was more positive than the group on all other questions.
- OD28 was more positive than the group on questions 40, and 44 was more positive than the group on all other questions except on question 39.
- OD29 was more positive than the group on question 44 and more positive than the group on all other questions except on question 42.

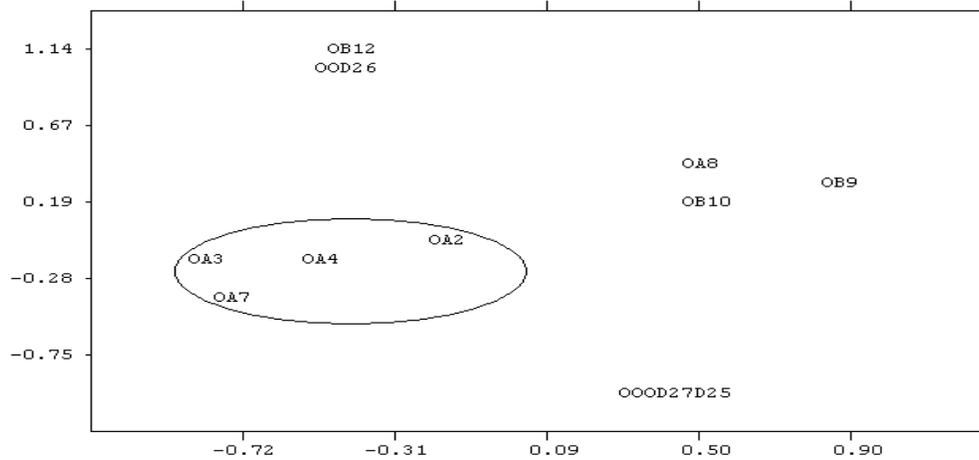
Again, following Caulkins and Hyatt’s (1999), treatment of such outliers, data for these loan officers were omitted from subsequent analysis of the lending structure–informal hierarchy section of the loan officers questionnaire, thereby permitting a closer and more focused examination of the remaining loan officers.

Table 5.27: Knowledge scores of loan officers' lending structure – informal hierarchy

Respondents	Knowledge Scores
OA1	-0.375
OA2	0.339
OA3	0.647
OA4	0.18
OA5	0.738
OA7	0.129
OA8	0.248
OB9	0.247
OB10	0.078
OB11	0.626
OB12	0.072
OB13	0.072
OB14	0.222
OB15	0.037
OC17	0.806
OC18	0.291
OC19	0.922
OC20	0.796
OC21	0.517
OC22	0.365
OC23	0.791
OD24	0.107
OD25	0.463
OD26	0.79
OD27	0.163
OD28	-0.02
OD29	-0.164

The pattern of weak agreement and small subgroups of loan officers, are evident on examination of the multi-dimensional diagram scaling diagram, presented in Figure 5.5.

Figure 5.5: Multi-dimensional scaling – loan officers’ questionnaire lending structure – informal hierarchy



Stress in 2 dimensions is 0.682
 Source: Primary Data

Despite the general pattern of decision-making which shows little convergence in lending decisions of the loan officers in the four banks, the analysis indicates existence of sub-culture clusters for loan officers of bank “A” indicated in Figure 5.3 and Figure 5.5 the clusters suggest that the loan officers of bank “A” have a decision-making pattern slightly different from that of the other three banks. This reflects the difference between bank “A” and the rest of the financial institutions studied. Bank “A” is a commercial bank which, in addition to the micro-financing arm, has other traditional banking operations like large corporate lending and mortgage financing. It has also been in existence for a longer period than the rest of the banks and has therefore attained high stability in its operations and market share and client retention. Its policies have been highly internalized by its loan officers over a long period of time which has increased the standardization of the way they are applied.

The other three banks are at the level of Micro-finance deposit taking institutions. This is a transitory stage from the position of a traditional micro-finance organization that is supposed to carry out provision of small scale loans without

taking deposits from the public to the level of a fully-fledged commercial bank that is not allowed to conduct micro-lending but other traditional banking functions as well. Because of the transitory status of these banks, their policies and practices are still subject to major evolutionary changes which makes the lending decisions of their loan officers much less coherent than those of bank “A”. The implication of this finding is that divergence in lending decisions by loan officers varies in degree depending on the unique circumstances under which these decisions are made.

These findings show that the loan officers’ decisions followed divergent patterns on all the factors that were found to determine credit flow to SMEs. This leads to the conclusion that despite the almost identical lending policies and procedures used by the four banks in extending credit, the decisions of loan officers do not follow a common trend which confirms that loan officers interpret and apply regulations basing on their own background and experiences.

5.7: Conclusion

In conclusion, the study found out that the majority of loan officers consider formal hierarchy, to be a facilitating factor in their decisions to extend credit to SMEs. This facilitating role is however, mitigated by delays and interference it causes into loan officers’ decisions. The study also found that loan officers resort to the use of informal hierarchy in order to overcome these delays and interference in the decisions they make while extending credit to SMEs.

With respect to lending guidelines, it was found out that lending polices and procedures affect the flow of credit, both positively and negatively. On the positive side, it was found out that lending policies and procedures affect the credit flow to SMEs by providing a conducive working environment, enabling coordination of the officers, harmonisation of credit decision-making and creating confidence in loan

officers. On the negative side, it was found out that lending policies and procedures at times hinder credit flow to SMEs by holding up the finalisation of decisions regarding credit flow to SMEs. The conclusion on the role of lending guidelines in loan officer credit decisions is that loan officers use these guidelines and policies to facilitate their decisions to extend credit to SMEs. However, loan officers find the guidelines inappropriate in credit decisions because they limit their flexibility to handle non-standardised and routine aspects like cultural norms, perceptions and feelings of the borrowers.

It was also found that facility layout negatively affects the flow of credit to SMEs because the banking environment is congested with clients at most and lacks private meeting facilities which caused discomfort for borrowers in revealing sensitive information about themselves and their financing needs. It can therefore, be concluded that lending institutions in some cases appear not to have appreciated the need to invest in the facility layout for SME borrowers.

In case of the congruence between individual loan officers and organisational goals, it was found out that there was convergence between the two goals when the banks designed programmes to support promotion, training and remuneration aspirations of the loan officers which promote credit flow to SMEs. On the other hand it was also found that loan officers at times find organisational goals too stringent, causing them to make errors and offer sub-standard advice to SME borrowers. In conclusion, the relationship between the individual loan officers and institutional goals are supportive on one hand and disruptive on the other. There is need for a mechanism of goal setting that minimises the negative attributes identified by loan officers.

CHAPTER SIX: DEMAND SIDE FINDINGS

6.1: Introduction

The results presented in this chapter provide the demand-side perspective of the credit flow phenomenon and address the questions of preparations by SME borrowers that influence their decisions to seek credit and how the handling of the borrower's loan request affects the demand for credit by SME borrowers. The study findings in relation to the questions are summarised in the matrix in Table 6.1 over leaf.

Table 6.1: Summary of SME borrowers experiences on determinants of credit demand

Demand factors	Emerging themes	Effect		
		Borrowers	Loan officers	Credit flow To SMEs
Client preparation to meet bank expectations.	<ul style="list-style-type: none"> Promotes understanding of core characteristics of the loan request Enables systematic presentation of request 	<ul style="list-style-type: none"> Leads to knowledgeable borrowers Promotes consultative environment with loan officers Enhances financial discipline Leads to focused effort Plans for arrangements on how to overcome unfavourable borrowing requirements. Enables projection of positive image to loan officers Enables preparation of records on borrowing 	<ul style="list-style-type: none"> Ensures enhanced information sharing between borrowers and loan officers Leads to improved personal interaction and trust building with loan officers 	Credit flow is facilitated due to information sharing and trust building
Information disclosure by borrowers	Promotes truthful and complete disclosure of information about borrowers and their projects	<ul style="list-style-type: none"> Enables willingness to provide information to loan officers Promotes trust and relationship building 	<ul style="list-style-type: none"> Enhances information sharing Enhances personal interaction 	Credit flow is facilitated due to information sharing and trust building
	Lead to partial disclosure of information about borrowers and their projects	<ul style="list-style-type: none"> Leads to reluctance to provide information Creates mistrust between loan officers and borrowers Reduces perceived credit-worthiness of borrowers 	<ul style="list-style-type: none"> Information sharing with loan officers minimised Trust building minimised Mutual suspicion enhanced 	Credit flow is impeded due to mistrust, lack of information sharing and development of suspicion

Demand factors	Emerging themes	Effect		
		Borrowers	Loan officers	Credit flow to SMEs
Borrowers' request Management	Borrowing needs satisfied	<ul style="list-style-type: none"> • Right size of loan obtained • Suitable repayment terms obtained • Possibility of repeating transactions 	<ul style="list-style-type: none"> • Enhanced information sharing • Enhanced personal interaction • Trust building encouraged 	Credit flow is enhanced due to proper management of the borrower's request
	Borrowers needs not satisfied	<ul style="list-style-type: none"> • Right size of loan not granted • Repayment terms not suitable • Cost not affordable • Unhappy borrowers who do not repeat transaction 	<ul style="list-style-type: none"> • Information sharing minimised • Trust building minimised • Mutual suspicion 	Credit flow is impeded due to poor management of the borrower request
	Treatment by loan officers- positive	<ul style="list-style-type: none"> • Creates feeling of being wanted/appreciated • Borrowers and loan officers encouraged to relate freely • Increases borrowers' sense of responsibility to institution • Creates perception of inter-linked destiny between borrowers and the bank 	<ul style="list-style-type: none"> • Find co-operative borrowers to deal with. • Find borrowers who easily understand guidelines 	Information flow is facilitated due to borrowers' cooperation.
	Treatment by loan officers- negative	<ul style="list-style-type: none"> • Borrowers develop feeling of being neglected by loan officers • Borrowers develop sense of dissatisfaction • Repeat transactions threatened 	<ul style="list-style-type: none"> • Unco-operative borrowers to deal with 	Credit flow is inhibited due to lack of cooperation from borrowers and perceived dissatisfaction by borrowers.
	Facility Layout	<ul style="list-style-type: none"> • Security compromised • Privacy not respected • Willingness to share information diminished • Uncomfortable interface with loan officers 	<ul style="list-style-type: none"> • Difficult to relate with borrowers • Incomplete information from borrowers • Dissatisfied borrowers 	Credit flow is impeded due to partial sharing of information and difficulties to relate with the loan officers

Source: Primary data

6.2: Preparation for Bank Expectations and the Demand for Credit

As reflected in Table 6.1, it was found that the majority of SME borrowers make deliberate preparations to boost their chances of obtaining credit. These preparations involve seeking information about the viability of their loan requests and advance planning for loan repayment. These preparations improve the borrowers' understanding of bank requirements and how to approach loan officers which helps them to project a positive image when they meet with the loan officers. This enhances personal interaction and information exchange thereby improving trust between the borrowers and loan officers. The mutual relationship resulting from this borrower-loan officer interface facilitates credit flow from the bank to SME borrowers. As part of the preparations for borrowing, some SME borrowers seek advance information about bank requirements as the case below shows: -

“I am getting a joint loan with my husband and it is a business loan. After studying the income and expenditure of our business, we decided that we should expand by getting a loan to buy more animals for our small farm and increase our capacity to supply milk to our clients. We relied on our experience and advice from friends to come up with the plan to expand. We could not afford the charges of professional people. They are too expensive.” (B1, CVIII)

In addition to consultation with friends, it was established further that borrowers at times informally seek advice from the loan officers on the viability of their

proposals before placing their official requests to the lending institutions as explained in the case below:¹⁴

“I was helped by a loan officer to get an understanding of the viability of my project before going to the bank officially. I was worried that I would borrow and fail to achieve my targets from the loan and my property used as security would be at risk. My friend’s son who works in Kampala introduced me to a loan officer who went through my proposal and pointed out issues that I needed to emphasise in order to get a loan. I couldn’t manage to hire expensive advisors. My project is now booming and I am grateful to the loan officer who gave me some tips.” (B6)

Findings indicate further that many of SME borrowers face constraints in their advance preparations. First of all, it was ascertained that some borrowers are not able to acquire professional advice through consultancy or training to enable them prepare their loan applications. This was attributed to the fact that though most of the borrowers have the desire and need for technical guidance, they often find it too expensive to acquire as illustrated in the case below: -

“We are asked to bring some requirements which we don’t have. Some of these requirements like accountability of the business are hard to understand. They tell us to balance our books and prepare the cash flow. Loan officers sometimes ask us for expenditure reports. They also ask for cash sale records which are equally hard to get. Without help, we doubt if we could get the loans. Professionals are very costly in this country and we small people can’t manage their services.” (B1, B6 and CI).

¹⁴ These loan officers are dealt with on private basis and are not necessarily those who officially appraise and decide to recommend whether the borrower should get credit or not.

In another case, the borrowers emphasize further that lack of technical expertise adversely affects their preparation as shown below: -

“By the time you get a loan you need to have a plan. I don’t have professional knowledge in poultry business since I stopped in ‘O’ level. I have a poultry business of local breed of hens and I would have gained a lot more from it if I had planned very well since poultry is not easy to handle and the birds’ mortality rate is high. I think small businesses need some training on how to use loans and run our businesses. These people who lend us money should assist. Private providers of training are very difficult to acquire because of their cost.” (B10 and CI).

Most of the SME borrowers also indicated that they are willing to adjust their lifestyle in order to free up funds to repay their loans;-

“Though I got a salary where deductions are automatically made monthly, I have to plan my expenditures carefully so that I can survive and repay the loan as well. I also prepare carefully for repayments by working hard and foregoing some needs so that I and my family can have a better future. For example I earn a profit of Uganda Shs. 4000-5000 a week and I must save it. I have a family at home and if an emergency like sickness occurs, then I may use some of this money, I try very hard not to use it for other things before I repay the bank loan.” (B8)

In addition to business prospects, borrowers indicated that they plan to provide security for borrowing because they know that this is one of the primary requirement of banks in lending as the following case shows: -

“We have some friends who have already acquired loans from the bank and advise us on what to do so that we succeed with loan officers. We pay special attention on security especially the land title. The bank needs it to protect itself. We have to go to land offices to ensure that our land records are in order before we ask for the loan from the bank. When the loan officers ask us about security, we are ready to answer because we know in advance that they are going to ask us for the land title, an account number and guarantors. We have to give the correct picture as this makes the process of getting the loan faster.” (B2, B6, B14 and B15).

It was also established that in some cases, borrowers plan to provide security through deception and are sometimes successful in confusing loan officers. The borrowers are able to do this by studying in advance the behaviour and expectations of the loan officers as the following case below demonstrates: -

“I made advance study of what the bank normally looks for as security and I found out that the person’s bank statement was one of the major focus. I borrowed some money from a friend and deposited it to boost my account. I qualified for the loan and I immediately paid back the friend and continued to use the balance of the loan for my own purposes.” (B6).

From these findings, four conclusions emerge concerning SME borrowers and their preparations for borrowing and how they influence demand for credit. First of all, borrowers understand and appreciate the importance of planning to meet bank expectations. Secondly, most borrowers actually make plans to meet the expectations of the banks. However, the plans are elementary in nature because the borrowers lack skills and resources to acquire expertise for preparing complex

plans. Thirdly the bank's reliance on collateral other than viability of borrower's projects at times interferes with the need for preparation of formal feasibility plans as borrowers place more emphasis on providing security. It also promotes unethical plans by borrowers who, in a bid to realise the security requirements of banks, resort to project an image of an acceptable borrower. Fourthly, by planning for borrowing, most SME borrowers realise the implications of their decisions to borrow and focus their efforts on obtaining good results from their projects in order to meet their obligations.

The qualitative findings were subjected to a quantitative study in order to assess their broad applicability. A survey of 300 clients from the four banks was undertaken out of whom 210 responded. The data from the survey was subjected to descriptive and inferential statistical analysis. The findings related to client preparation are presented in Table 6.2:

Table 6.2: Views of clients on role of clients' preparation in credit flow

	Responses					Total
	I strongly disagree	I disagree	I am not sure	I Agree	I strongly agree	
I make a detailed study of my business project and systematically identify the potential cash flows	2 (1.0)	4 (1.9)	10 (4.8)	132 (62.9)	62 (29.5)	210 (100%)
I use a professional consultant to understand my business project before approaching the lending institution	44 (21.0)	98 (46.7)	14 (6.7)	40 (19.0)	14 (6.7)	210 (100%)
I rely on the examples of my friends with similar projects to understand the viability of my own project	14 (6.7)	12 (5.7)	30 (14.3)	96 (45.7)	58 (27.6)	210 (100%)
Expense of preparing systematic plans prohibit me from acquiring all the professional advice I need to understand the project proposal	12 (5.7)	58 (27.6)	70 (33.3)	60 (28.6)	10 (4.8)	210 (100%)
I lack expertise to fully appreciate the project plans	20 (9.5)	60 (28.6)	64 (30.5)	58 (27.6)	8 (3.8)	210 (100%)
I make an advance schedule of how to pay back the loans once acquired	4 (1.9)	36 (17.1)	22 (10.5)	102 (48.6)	46 (21.9)	210 (100%)
The lending institution helps me in preparing for the loan	8 (3.8)	34 (16.2)	46 (21.9)	90 (42.9)	32 (15.2)	210 (100%)
The lending institution continuously assists me to acquire skills for better management of my business	6 (2.9)	50 (23.8)	62 (29.5)	72 (34.3)	20 (9.5)	210 (100%)
The lending institution trains in basic business management and loan use	12 (5.7)	40 (19.0)	42 (20.0)	94 (44.8)	22 (10.5)	210 (100%)
I know the different securities the bank requires me to bring if I am to obtain a loan	4 (1.9)	6 (2.9)	28 (13.3)	142 (67.6)	30 (14.3)	210 (100%)
I appreciate the usefulness of the Lending institution requiring me to maintain an account with it and to provide other physical security and guarantors	2 (1.0)	8 (3.8)	28 (13.3)	118 (56.2)	54 (25.7)	210 (100%)
I find the requirement by lending institution that I should use funds lent to me for one purpose restrictive and I plan how to avoid this restriction	4 (44.8)	78 (37.1)	20 (9.5)	14 (6.7)	4 (1.9)	210 (100%)
I ask my friends to lend me money to put on my account in order to make it look attractive	94 (44.8)	78 (37.1)	20 (9.5)	14 (6.7)	4 (1.9)	210 (100%)
The lending institution carries out inquiries from L.C about my character suitability for a loan	2 (1.0)	14 (6.7)	46 (21.9)	96 (45.7)	52 (24.8)	210 (100%)
The lending institution inquires about the viability of my project in which I want to put the loan money	2 (1.0)	10 (4.8)	16 (7.6)	122 (58.1)	60 (28.6)	210 (100%)
The lending institution considers the viability of the project where I want to put the money before giving me the loan	4 (1.9)	0 (0.0)	12 (5.7)	128 (61.0)	66 (31.4)	210 (100%)

Source: Primary Data

As indicated in Table 6.2 above, the study found that 92.4 percent of the borrowers make detailed studies of their business projects and systematically identify potential

cash flows, 73.3 percent of the borrowers rely on examples of their friends with similar projects to understand the viability of their own projects and 33.4 percent indicated that the expense of preparing systematic plans prohibits them from acquiring professional advice they need to understand the project proposal.

The findings also show that 70.5 percent of the borrowers make advance preparations for loan repayment which is consistent with the findings in qualitative interviews with the borrowers. However, 67.7 percent of the borrowers do not use professional consultants to understand their business projects and 38.1 percent lack expertise to fully appreciate their project plans.

The findings reveal further that 81.9 percent of the respondents know the different securities which the bank requires and appreciate the importance of the bank having this security.

These findings suggest that the majority of the borrowers plan to provide collateral and other requirements in order to facilitate credit flow to the SME sector which is consistent with the findings of the qualitative study.

In order to further understand the relationship between client preparation and credit flow to SMEs, principal component analysis was conducted which identified five major factors as shown in Table 6.3

Table 6.3: Principal components of client's preparation

ITEMS	Component				
	Project viability	Technical assistance	Personal skills of borrower	Personal planning by borrower	Loan covenant restrictions
The lending institution inquires about the viability of my project in which I want to put the loan money	.841				
The lending institution considers the viability of the project where I want to put the money before giving me the loan	.732				
I know the different securities the bank requires me to bring if I am to obtain a loan	.639				
I ask my friends to lend me money to put on my account in order to make it look attractive	-.619				
The lending institution carries out inquires from L.C about my character suitability for a loan	.605				
The lending institution continuously assists me to acquire skills for better management of my business		.791			
The lending institution helps me in preparing for the loan	.314	.740			
I use a professional consultant to understand my business project before approaching the lending institution		.630		.359	
The lending institution trains in basic business management and loan use		.609	.319		
I appreciate the usefulness of the lending institution requiring me to maintain an account with it and to provide other physical security and guarantors	.481	.498			
I lack expertise to fully appreciate the project plans			.782		
Expense of preparing systematic plans prohibit me from acquiring all the professional advice I need to understand the project proposal			.721		
I rely on the examples of my friends with similar projects to understand the viability of my own project			.713		
I make a detailed study of my business project and systematically identify the potential cash flows				.815	
I make an advance schedule of how to pay back the loans once acquired		.440		.642	
I find the requirement by lending institution that I should use funds lent to me for one purpose restrictive and I plan how to avoid this restriction					.840
EIGEN VALUE	2.861	2.612	2.026	1.459	1.124
% OF VARIANCE	17.879	16.327	12.664	9.120	7.025

Source: Primary Data

Project viability was considered to be the major facet, followed by technical assistance, personal skills of borrowers, personal planning of borrower and loan covenant of restrictions. These factors explain 63 percent of the contribution of client’s preparation to credit flow to SMEs.

Factor analysis further revealed that project viability accounts for 17.9 percent technical assistance 16.3 percent, personal skills of borrower 12.7 percent personal planning of borrower 9.1 percent and loan covenant restrictions 7.0 percent of client’s preparation as shown in Table 6.4 below.

Table 6.4: Variance for client preparation components

Component	Rotation Sums of Squared Loading		
	Eigen value	Percentage of variance	Cumulative percentage
Project viability	2.861	17.9	17.9
Technical assistance	2.612	16.3	34.2
Personal skills of borrower	2.026	12.6	46.9
Personal planning of borrower	1.459	9.1	55.9
Loan covenant restrictions	1.124	7.0	63.0

Source: Primary Data

The component factors were tested for independence using inter-correlation analysis which showed that correlation amongst them was very low and insignificant indicating there was no co linearity among the components of client preparation. Table 7.5 confirms that the five factors measured client preparation independently.

Table 6.5: Inter-correlations among client preparation components

Component	Project viability	Technical assistance	Personal skills of borrower	Personal planning of borrower	Loan covenant restrictions
Project viability	1.000				
Technical assistance	-.083	1.000			
Personal skills of borrower	-.094	.045	1.000		
Personal planning of borrower	.078	.036	-.135	1.000	
Loan covenant restrictions	.038	-.009	.003	.049	1.000

Source: Primary Data

The factors were subjected to correlation analysis and the results are indicated in Table 6.6.

Table 6.6: Correlation analysis of factors of client's preparation and credit availability

	1	2	3	4	5	6
Project viability(1)	1.000					
Technical assistance(2)	-.083	1.000				
Personal skills of borrowers (3)	-.094	.045	1.000			
Personal planning by borrower(4)	.078	.036	-.135	1.000		
Loan covenant restriction (5)	.035	.009	.003	.504**	1.000	
Credit availability(6)	.541**	.614**	.506**	.361**	.520**	1.000

Source: Primary Data

** . Correlation coefficient significant at 0.01 level

The findings from correlation analysis show that there is a significant positive relationship between project viability, technical assistance, personal skills and planning of the borrower and loan covenant restrictions with credit availability to the SMEs ($r=.541, .614, .506, .361, .520$ at $p\text{-value} < 0.01$, respectively). The findings on experiences of SME borrowers indicate that most SME borrowers make advance preparations for loan applications by taking positive, pro-active steps to enhance their prospects of obtaining credit.

Study findings on attitude of borrowers towards information disclosure show that they are generally willing to share information with loan officers if this information is deemed beneficial to their cause as the case below shows:-

“I am comfortable to talk about all aspects of my businesses because I have to tell the officers the truth. If I lie, I will be the loser because it doesn’t help me in future dealings with the bank. I would rather tell the truth today and help the bank know. It makes the banks’ decisions, whether good or bad, easier. I don’t want something to happen in future and I am blamed for hiding information” (B2).

Secondly, it was established that the borrowers are willing to disclose information when the loan officers are perceived to be trustworthy enough to be entrusted with private and confidential information as the case below demonstrates: -

“I tell the bank the truth about every property that I have. Even when I want something from the bank, I tell them everything. That’s why I told him (loan officer) that I have some money on my account but I don’t want to use it. There is some information which is private, but being a bank you trust, especially for me who has been in this bank since 1998, I have trust in it.” (B4).

Most of the SME borrowers also agreed that they deliberately restrict information sharing with loan officers if they consider such disclosure prejudicial to their loan applications as the case below shows:-

“Sometimes when we give the loan officers all the information we may not get the loan. The bank judges our request through its own analysis that we

may not agree with. The bank says we can't pay back but in our own understanding we know that we have the capacity to pay. So in such instances, we hide some information, if need be, in order to improve chances of getting the loan.” (B1, B6 and B7).

Borrowers also indicated that they at times exaggerate their incomes and expenses in order to obtain the desired amount of credit from the bank. They seek to take advantage of the loan officer's incomplete information about their businesses and use it as a hedge against the possibility of the loan officer unfairly reducing the size of the loan advanced to the borrower as the case below indicates: -

“I sometimes exaggerate. Suppose I want a loan of seven million and they ask me my monthly income, I may exaggerate it and at the same time I may hide some of the expenses that I incur such that my liquidity at hand is in excess of what the bank needs. Loan officers are also human beings and they may not know exactly someone's feelings; what you have and whether you are telling the truth or not. Though they are technical, they are not on the ground. They are in the bank and this gives me a chance to say anything because I am in the field. We in the field know our plans better and we can use this to our advantage.” (B1).

It was also ascertained that borrowers are reluctant to disclose information whose value to the loan request is not well explained as reflected in the case below: -

“There is when the bank wants unnecessary information from us. We can explain the aim of getting a loan, the security and where we reside but the

officers still ask for information which is minor or not related to the loan request like your marital relationship.” (B5, B7 and B9)

On the same issue, it was found that asking too many questions reduce the willingness of borrowers to disclose information as the case below points out: -

“The loan officer has just asked me too many questions which I didn’t expect him to ask. For example he wanted to know my other duties which are not connected with the poultry farm for which I wanted money. My other responsibilities are not his business.” (B6)

It was also established that most borrowers are reluctant to disclose information if they perceive that the loan officer is hostile to their loan applications as the case below shows;-

“I own a hair dressing business and a school. The hair treatment business is managed by my employees while I am more involved in running the school. I came wanting a loan to increase investment in the hair dressing business and wanted to use my income from the school as security. The loan officers tossed me around and refused to recommend me for a loan because it is the bank’s policy not to finance schools. They could not consider my security. They had a fixed mind about the hair treatment business yet I wanted to use my school to strengthen it. What was wrong with that? It is such situations that force us tell lies. They don’t appreciate simple situations. They are too rigid.” (B3).

Lastly, it was found that when procedures of information disclosure are too complicated and lack sensitivity, then borrowers are discouraged from providing

truthful information about their credit requests. Borrowers indicated that procedures lack sensitivity when they fail to take into account the profile of the guarantors and to protect confidentiality of the borrowers as the case below indicates: -

“Some clients are not comfortable. We must reveal all our secrets to the guarantors that the bank wants. Some are big people to whom we don’t want to tell all that concerns us. Loan officers request us to bring our husbands but some of us wanted confidentiality. They don’t respect our privacy.” (B1, B2, B8 and CIV).

The findings about information disclosure and credit demand lead to three conclusions. First of all borrowers are willing to disclose full and truthful information if that information is used to create a beneficial long term relationship and if the integrity of the lending institution in safeguarding the information is assured. Secondly, borrowers provide incomplete and/or untruthful information in order to mitigate effects of tight lending requirements by the bank. Thirdly, disclosure was found to be partial or untruthful if the information required by the bank is perceived as unnecessary or too sensitive. From these conclusions, it can be concluded that borrowers can be motivated to increase the amount and quality of information they disclose to loan officers if the bank puts in place incentives to address their expectations on information disclosure.

Quantitative analysis also revealed that borrowers use information disclosure to influence their chances of obtaining credit as shown in Table 6.7:-

Table 6.7: Borrowers' views on information disclosure and credit flow

	Responses					Total
	I strongly disagree	I disagree	I am not sure	I Agree	Strongly agree	
I fear to reveal some of the information because it is confidential to me	12 (5.7)	64 (30.5)	48 (22.9)	60 (28.6)	26 (12.4)	210 (100%)
There is mutual sharing of information with the credit officer which enhances my understanding of lending institution's position on my request	6 (2.9)	26 (12.4)	74 (35.2)	92 (43.8)	12 (5.7)	210 (100%)
I find the credit officer flexible in using the information that I provide to the lending institution	6 (2.9)	44 (21.0)	84 (40.0)	62 (29.5)	14 (6.7)	210 (100%)
My past dealing with the lending institution makes it easier for me to provide all the information I know	8 (3.8)	46 (21.9)	46 (21.9)	90 (42.9)	20 (9.5)	210 (100%)
The lending institution's steps to obtain a loan are simple and enable me to provide the information required	12 (5.7)	56 (26.7)	56 (26.7)	76 (36.2)	10 (4.8)	210 (100%)
The information about the loan requested from me by the lending institution is useful for the purpose of getting the loan	4 (1.9)	8 (3.8)	42 (20.0)	116 (55.2)	40 (19.0)	210 (100%)
The lending institution believes in the information that I provide when seeking a loan	6 (2.9)	10 (4.8)	92 (43.8)	78 (37.1)	24 (11.4)	210 (100%)
The lending institution involves me in analysis of the information that I provide	22 (10.5)	52 (24.8)	68 (32.4)	48 (22.9)	20 (9.5)	210 (100%)
The lending institution, ensures that it understands my unique situation which I provide in the information I give to it.	20 (9.5)	48 (22.9)	72 (34.3)	50 (23.8)	20 (9.5)	210 (100%)
The lending institution considers my unique situation when deciding to give credit	28 (13.3)	46 (21.9)	70 (33.3)	50 (23.8)	16 (7.6)	210 (100%)
I am forced to adjust some information in order to satisfy the lending institution requirements	38 (18.1)	70 (33.3)	40 (19.0)	44 (21.0)	18 (8.6)	210 (100%)
The lending institution seeks to know my feelings and trusts the information that I provide	6 (2.9)	20 (9.5)	92 (43.8)	80 (38.1)	12 (5.7)	210 (100%)
I feel that too much information is being asked which is really unnecessary	20 (9.5)	40 (19.0)	60 (28.6)	66 (31.4)	24 (11.4)	210 (100%)

Source: Primary Data

The findings in Table 6.7 above show that 41 percent of the borrowers fear to reveal some of the information because of its confidentiality while 49.5 percent share

information with credit officers which enhances their understanding of the bank's position on their requests. It was also found that a sizeable number of respondents (35.3 percent) were not involved in the analysis of the information that they provide to the bank and at least 34.3 percent were not sure if the lending institution understands their unique situations when they provide information about them.

When factor analysis was conducted, three factors were identified as the major facets of information disclosure. These were simplicity relevance and confidentiality as shown in Table 6.8.

Table 6.8: Principal components of information disclosure

ITEM	Component		
	Simplicity	Relevance	Confidentiality
My past dealing with the lending institution makes it easier for me to provide all the information I know	.757		
There is mutual sharing of information with the credit officer which enhances my understanding of lending institution's position on my request	.714		
I find the credit officer flexible in using the information that I provide to the lending institution	.702	.424	
The lending institution believes in the information that I provide when seeking a loan	.630	.530	
The lending institution seeks to know my feelings and trusts the information that I provide	.587	.459	
The lending institution's steps to obtain a loan are simple and enable me to provide the information required	.567	.385	-.371
The information about the loan requested from me by the lending institution is useful for the purpose of getting the loan	.551	.377	-.338
The lending institution considers my unique situation when deciding to give credit		.826	
The lending institution involves me in the analysis of the information that I provide		.819	
The lending institution, ensures that it understands my unique situation which I provide in the information I give to it	.382	.807	
I fear to reveal some of the information because it is confidential to me			.830
I feel that too much information is being asked which is really unnecessary			.770
I am forced to adjust some information in order to satisfy the lending institution requirements			.699
Eigen value	3.245	3.115	2.133
% OF VARIANCE	24.965	23.962	16.411

Source: Primary Data

These factors explain 65.3 percent of the determinants of information disclosure in extending credit to SMEs. Factor analysis further revealed that simplicity accounts for 25 percent, relevance 24 percent and confidentiality 16.4 percent of information disclosure as shown in Table 6.9 below: -

Table 6.9: Variance for factors of information disclosure

Factors	Rotation sums of Squared loaded		
	Eigen value	Percentage of variance	Cumulative percentage
Simplicity	3.245	24.9	24.9
Relevance	3.115	23.9	48.9
Confidentiality	2.133	16.4	65.3

Source: Primary Data

The factors were tested for independence using inter-correlation analysis which showed that all study variables had very low and insignificant inter-correlations hence there was no co linearity among the components as shown in Table 6.10.

Table 6.10: Inter-correlations for factors of information disclosure

Factors	Simplicity	Relevance	Confidentiality
Simplicity	1.000		
Relevance	.057	1.000	
Confidentiality	-.103	-.056	1.000

Source: Primary Data

Correlation analysis was conducted to explore the relationship between information disclosure and credit availability. The results are presented in Table 6.11 below;-

Table 6.11: Correlation analysis of factors information disclosure

	1	2	3	4
Simplicity(1)	1.000			
Relevancy(2)	.057	1.000		
Confidentiality(3)	-.103	-.056	1.000	
Credit Availability(4)	.498	.653	.431	1.000

Source: Primary Data

According to the finding, there is a significant positive relationship between simplicity, relevance and confidentiality as information disclosure factors with credit availability to the customers ($r=.498, .653, .431$ respectively).

6.3: Borrowers Request Management

The analysis in Table 6.1 shows that borrowers consider handling of their loan requests by the loan officers as crucial in their decision to seek credit from the bank. The management of their requests was judged in terms of the extent to which their needs are met, the treatment they receive from loan officers and the lay out of the facility where borrower-loan officer interface occurs. In terms of needs of fulfilment, it was found that borrowers emphasise the ability of the bank to grant a loan up to the amount desired, suitability of repayment terms and the cost of the loan as the factors that influence repeat borrowing transactions. From the interview data, it was found that a borrower's request is more likely to be granted in full when there is an existing relationship with the bank and the loan requested is small. As the case below shows, relationship was found to expedite credit flow through creation of trust between the loan officers and borrowers.

“A friend of mine had a hair dressing business in Lugazi and wanted to sell it to me. I approached the bank for a loan for the purpose. Because I had dealt with them before, the loan officer just looked at my request, smiled and quickly recommended it. He said he was comfortable because my track record was quite good. I got the entire loan I wanted easily. I think they trust me now.” (B9)

In fact borrowers who had no previous relationship indicated that in most cases they have their loan values reduced especially at their first time of borrowing as the case below demonstrates:-

“The loans committee reduced the amount of the loans we applied for yet they took a very long time to give us the money. They told us that because we were new, they could not trust us as we had no record with them. If we had known, we would not have borrowed from them because they ended up not solving our problems as the loan given was too small. They are not fair. We walk a lot, use money but yet the amount we are given is very little.” (B5, B7, B10, B13 and B14).

It was also found that repayment terms are a critical determinant of their decision to seek credit. A cross-section of the borrowers indicated that the repayment terms on the loans are very tight, especially in relation to their earning levels and scheduling. Another cross-section of the borrowers deem the repayment terms unfavourable because they impose a repayment schedule irrespective of one’s income, with a very short grace period and too much emphasis on security. This is illustrated in the following cases from interviews with the borrowers:

“Loan repayment is not that convenient because we would want to use the money first and then start repaying. However with this bank we are supposed to repay effective one week after borrowing. The bank wants us to pay whenever the time has reached. They disturb our guarantors, as if we are going to run away.” (B4, B7, B16 and CIII).

Most borrowers perceive the explicit cost of borrowing in terms of interest as fair though they appreciate that the lender has to charge this cost in order to sustain the availability of credit to them, as the cases below illustrates; -

“The cost is of only 2 percent per month and this is almost like free money but I would be happier, for instance, if the interests were reduced further.”

(B16).

Another borrower argues that the transaction costs embedded in the transaction increase further the cost of borrowing which deters their willingness to borrow as the case shown below;-

“My loan is for a restaurant, I operate a personal restaurant and I needed to improve on its appearance because I have got customers. These people do not treat us fairly. I requested for a loan of one million, then after they had tossed me for a very long time they called me and told me to sign for the money, which I did. They are also not fair on the cost. They tell you to bring the vehicle and transport the officer for inspection. When you arrive here they make you wait, sometimes they even tell you to come another day. They don’t consider the fact that we actually just hire these cars and we are charged. Their loans are very hard to get.” (B4).

In addition to meeting their needs, it was found that most borrowers consider the treatment they receive from the loan officers as crucial in their decision to seek credit. In this regard, they emphasize the attitude of loan officers in handling their requests and the formalities of the lending institutions and the office setup where they interface with loan officers takes place. It was ascertained that borrowers were

encouraged to seek credit when loan officers portray a positive attitude towards them. According to the interviews, a positive attitude is associated with loan officers who are accommodative, good listeners, willing to share information, gentle and have empathy. As illustrated in the cases below, the loan officer's character gives the borrowers the motivation to seek credit: -

“We have visited the bank several times. The credit officer has been so soft to us, he accommodates our unnecessary questions, handles us well, and gives us all the information we want and makes us feel to always go back for more loans” (B3, B7 and B16).

Other borrowers remarked; -

“Loan officers are good. They show us love and they are friendly, they give us enough time to explain to them. It seems they know their work. They take us through the procedure of getting the loans because actually some of us sometimes do not know what the bank needs are. ” (B7, B11, B12, B14 and CI).

The borrowers further revealed that when they encounter loan officers who have negative attitudes in handling their requests, they feel neglected which diminishes their desire to seek credit as the case below shows; -

“Some of us feel that we are neglected by credit officers. For example it has taken me too long, almost three weeks, to process my papers. I think may be the credit officers are corrupt in one way or the other and is trying to make a delaying tactic so that I may be forced to give them some money to process my request fast. I have come here several times and finally they have told me that they will call me. When I want a loan I want it for a purpose. When it

delays it becomes useless. There is too much time wasting since I am giving them interest. They have to be mindful of our time.” (B8).

In addition to the loan officer’s attitude, it was also found that borrowers consider the procedures they go through to get the credit as critical in making their decisions. They indicated that procedures which require sensitive information hinder the desire to seek credit, as the case below shows: -

“We wanted a loan to expand our farm. The bank wanted us to sign papers giving away our land. My wife and I saw it as something hard because we thought that the bank was going to take our land. Getting the guarantors was very difficult because some people fear to stand in for us. This had actually stopped me from getting the loan till I got a friend who helped me.” (B5 and B7).

In addition to sensitive requirements, procedures inhibit demand for credit when they are too long and bureaucratic as the case below shows: -

“There is a kind of bureaucracy which I didn’t expect. I knew that I would fill a form there and then, but now the officers have told me to pick forms after paying some money, take them home, fill them and then come back with their security. I told them I am a teacher and I am on the payroll. I want a salary loan and I don’t know why they cannot use the reference of my school I gave them instead of tossing me up and down.” (B7 and CI).

Borrowers further indicated that communication with the loan officers also influences their decision to seek credit. According to the borrowers, communication often lacks feedback which leaves them in the dark about the progress of their request, as indicated in the case below; -

“I have been waiting for news about my loan for one month. If there was any problem they should have informed me. I think I met all the requirements. I filled the forms, I took the guarantors. I am just expecting that they are going to give me some money.” (B7).

It was also found that communication is adversely affected when there is perception that loan officers deliberately refuse to take into account the information the borrower provides. This results into lack of shared meaning between the borrower and the loan officer which leads to the frustration of the borrower as illustrated in the cases below: -

“In the first instance, the loan officer had accepted to give me the money but after checking my account, he realised that I had money already. Then he told me to use that money instead of borrowing. I actually wanted to use this money for another purpose. I explained this to the loan officer but my explanation was simply ignored.” (B4).

Lack of privacy was also reported as a deterrent to the willingness of the client to share information with the loan officer as the case below indicates: -

“The office where we normally sit is not conducive because we don’t want people to know how much money we want from the bank. This is private. We don’t want people to know where we come from and our backgrounds. This makes it difficult for us to say something about ourselves in the presence of other people because we want money. Actually some of us come for money and simply keep quiet because of this environment.” (B4, B8, B14 and CIII).

Office layout was also judged inadequate in terms of security for the borrowers because the environment is generally crowded with many people. Borrowers

indicated that they feel hesitant to commit themselves to the borrowing transaction as the case below indicates: -

“This reception area is not good. It affects us from giving information to the loan officer. We tend to be reserved as we fear to be known and how much we want to get from the bank. This could lead other people to harm us thinking that we have a lot of money.” (B2, B3, B8 and CIII).

Quantitative analysis was conducted and the results indicated that request management has an effect on availability of credit to SMEs as shown in Table 6.12.

Table 6.12: Borrowers experiences on how loan officers handled their requests

Technical Aspects						Total
	I strongly disagree	I disagree	I am not sure	I Agree	Strongly agree	
I know the steps and formalities that my request for a loan has to go through once taken to the lending institution	4 (1.9)	26 (12.4)	36 (17.1)	122 (58.1)	22 (10.5)	210 (100%)
I find the steps and formalities that my request for a loan goes through in the lending institution to be necessary	10 (4.8)	34 (16.2)	62 (29.5)	84 (40.0)	20 (9.5)	210 (100%)
The information I provide is quickly processed by the credit officer	12 (5.7)	64 (30.5)	54 (25.7)	68 (32.4)	12 (5.7)	210 (100%)
The credit officer provides timely feedback on my request for the loan	14 (6.7)	46 (21.9)	68 (32.4)	74 (35.20)	8 (3.8)	210 (100%)
My loan request is handled with understanding and sympathy	26 (12.4)	44 (21.0)	62 (29.5)	66 (31.4)	12 (5.7)	210 (100%)
The credit officer understands my needs	12 (5.7)	54 (25.7)	68 (32.4)	70 (33.3)	6 (2.9)	210 (100%)
My needs are adequately addressed by the credit officer	24 (11.4)	66 (31.4)	48 (22.90)	60 (28.6)	12 (5.7)	210 (100%)
Functional Aspects						
The assigned credit officer handles my request decisively and does not toss me around	12 (5.7)	52 (24.8)	76 (36.20)	56 (26.7)	14 (6.70)	210 (100%)
The credit officer is attractive and accommodates the questions I ask for clarification	8 (3.8)	10 (4.8)	52 (24.8)	116 (55.2)	24 (11.4)	210 (100%)
The Credit officer has a pleasant character and encourages me to discuss the request	4 (1.9)	18 (8.6)	62 (29.5)	104 (49.5)	22 (10.5)	210 (100%)

The credit officer is fair and treats all customers equally	6 (2.9)	22 (10.5)	98 (46.7)	64 (30.5)	20 (9.5)	210 (100%)
The credit officer is flexible in handling my loan request	12 (5.7)	34 (16.2)	80 (38.1)	74 (35.2)	10 (4.8)	210 (100%)
I was comfortable at the reception and in the loan officer's office	10 (4.8)	30 (14.3)	40 (19.0)	114 (54.3)	16 (7.6)	210 (100%)
The physical environment provided by the lending institution enabled me to have confidentiality with my loan officer	18 (8.6)	28 (13.3)	48 (22.9)	96 (45.7)	20 (9.5)	210 (100%)
The physical environment in this institution made me feel secure	14 (6.7)	26 (12.4)	56 (26.7)	100 (47.6)	14 (6.7)	210 (100%)
The bank respects my request and gives the amount of loan I apply for	24 (11.4)	66 (31.4)	46 (21.9)	68 (32.4)	6 (2.9)	210 (100%)
The bank reduces the loan I request for without considering all my needs	46 (21.9)	48 (22.9)	42 (20.0)	54 (25.7)	20 (9.5)	210 (100%)
The lending institution develops new loan types to meet client's specific needs	4 (1.9)	36 (17.1)	110 (52.4)	48 (22.9)	12 (5.7)	210 (100%)
The lending institution requires me to repay the loan and interest according to income available to me	22 (10.5)	100 (47.6)	44 (21.0)	38 (18.1)	6 (2.9)	210 (100%)
The period of loan repayment to the lender is convenient	18 (8.6)	48 (22.9)	58 (27.6)	76 (36.2)	10 (4.8)	210 (100%)
Borrowing from the lending institution does not stop me from accessing my savings with the same institution	6 (2.9)	50 (23.8)	68 (32.4)	62 (29.5)	24 (11.4)	210 (100%)
I find the cost of obtaining the loan reasonable	22 (10.5)	50 (23.8)	54 (25.7)	70 (33.3)	14 (6.7)	210 (100%)

Source: Primary Data

From the study, it was found that the majority of borrowers (68.6 percent) know the steps and formalities that their loan requests go through once taken to the lending institution but only 49.5 percent find these steps and formalities necessary. While 38.1 percent said the information they provide is quickly processed by the credit officers, 39 percent of the borrowers reported that the credit officers provide timely feedback on their loan requests and 37.1 percent reported that their requests are handled with understanding and sympathy.

The study further found that 66.6 percent of the borrowers consider the credit officers to be accommodative of the questions they seek clarification about and 60

percent said that the credit officers have pleasant character which encourages them to discuss their loan requests. The study further shows that 41 percent of the borrowers find the period of loan repayment convenient while 40 percent find the cost of borrowing reasonable.

Principal component analysis indicated that there are four factors affecting request handling. These are layout of interface facility which was considered to be the major facet, followed by needs of borrowers, timeliness of decisions and involvement in decision-making as shown in Table 6.13.

Table 6.13: Principal components of request handling

ITEMS	Component			
	Layout of interface facility	Needs of borrower	Timeliness of decisions	Involvement in decision-making
The physical environment in this institution made me feel secure	0.839			
I was comfortable at the reception and in the loan officer's office	0.838			
The physical environment provided by the lending institution enabled me to have confidentiality with my loan officer	0.803	0.356		
The credit officer is flexible in handling my loan request	0.633	0.498		
The credit officer is attractive and accommodates the questions I ask for clarification	0.628			0.533
The credit officer is fair and treats all customers equally	0.484		0.401	0.358
I find the steps and formalities that my request for a loan goes through in the lending institution to be necessary	0.46	0.337	0.322	0.43
My needs are adequately addressed by the credit officer		0.807		
The credit officer understands my needs	0.32	0.747		
My loan request is handled with understanding and sympathy		0.664	0.401	0.32
The lending institution develops new loan types to meet client's specific needs		0.564		
The lending institution requires me to repay the loan and interest according to income available to me			0.681	
The information I provide is quickly processed by the credit officer		0.504	0.654	
The credit officer provides timely feedback on my request for the loan	0.318		0.621	
Borrowing from the lending institution does not stop me from accessing my savings with the same institution	0.449		0.574	0.312
I find the cost of obtaining the loan reasonable	0.39	0.366	0.555	0.396
The assigned credit officer handles my request decisively and does not toss me around	0.453		0.525	
The period of loan repayment to the lender is convenient	0.346	0.398	0.506	
The bank reduces the loan I request for without considering all my needs			-0.449	-0.38
I know the steps and formalities that my request for a loan has to go through once taken to the lending institution				0.7
The bank respects my request and gives the amount of loan I apply for		0.461		0.596
The credit officer has a pleasant character and encourages me to discuss the request	0.458		0.355	0.54
Eigen Value	4.588	3.585	3.577	2.403
% OF VARIANCE	20.854	16.293	16.261	10.924

Source: Primary Data

These factors explain 64.3 percent of request handling and its influence on credit flow to SMEs. Factor analysis further revealed that layout accounts for 20.9 percent,

needs and timeliness 16.3 percent, and involvement 10.9 percent of request handling as shown in Table 6.14 below.

Table 6.14: Variance for factors of request handling

Factor	Rotation Sums of Squared Loading		
	Eigen value	Percentage of variance	Cumulative Percentage
Layout of interface facility	4.588	20.9	20.9
Needs of borrower	3.585	16.2	37.1
Timeliness of decisions	3.577	16.3	53.4
Involvement in decision-making	2.403	10.9	64.3

Source: Primary Data

The factors were tested for independence using inter-correlation analysis which showed that the correlation amongst the factors were very low and insignificant as indicated in Table 7.15. This implies that the factors are independent measures of request handling.

Table 6.15: Inter-correlation for factors of request handling

Factor	Layout of interface facility	Needs of borrowers	Timeliness of decisions	Involvement in decision-making
Layout of interface facility	1.000			
Needs of borrower	.063	1.000		
Timeliness of decisions	.089	.119	1.000	
Involvement in decision-making	.098	.119	-.101	1.000

Source: Primary Data

Findings show that with respect to request handling, most of the SME borrowers seek to be understood and respected by loan officers. There are instances when they feel neglected and humiliated. These instances involve the loan officers showing that they doubt the integrity of borrowers, are not friendly, don't listen to them, subject them to long waiting periods and they toss them around. Conversely, borrowers prefer dealing with loan officers who show them understanding, are accommodative, explain procedures that their loan application go through. The findings show that when the loan officers meet these expectations, this encourages

SME borrowers to seek credit from banks. Borrowers indicate further that they find the physical set-up of bank facilities inappropriate in promoting information sharing with the loan officer.

6.4 Conclusion

On the credit demand side, the study has established that to a larger extent, there is a number of SME borrowers who make deliberate efforts to disclose information to banks in order to enhance their prospects of obtaining credit. This shows that borrowers are not docile parties in the lender-borrower relationship who simply accept whatever decisions are made by loan officers. They make deliberate efforts to pre-plan their loan requests so as to influence the results of the evaluation of their loan requests by the loan officers.

In respect of information disclosure, it was found that borrowers are prepared to disclose the information about their proposals in order to enhance their chances of obtaining credit from the banks. It was further established that borrowers provide partial information in self-interest. This was found to be the case if borrowers perceive that provision of the information requested for is not likely to improve their prospects of obtaining credit. They also practice partial disclosure when the purpose for the information sought is not well explained to them. Procedures for information disclosure also hamper borrowers from disclosing all information that loan officers require in decision-making. It was also found that borrowers go as far as giving untrue information about their credit requests in order to circumvent what they perceive to be unfair lending guidelines and unhelpful loan officers who are likely to ruin their prospects of getting credit from banks. In conclusion these findings show that borrowers deliberately disclose the information they perceive to

be helpful in their efforts to obtain credit from the banks and they are not naïve parties that fail to disclose information because of personal ignorance. They are calculating clients who seek to maximise their advantage in the lender-borrower relationship.

In the case of borrower request management, it was found that borrowers who have long relationships with the banks are more likely to obtain credit than new ones. It was further found that borrowers at times do not receive adequate explanations for failure to grant their requests for credit. They are also granted credit on terms that ignore their earnings potential which makes them fear obtaining loans. Borrowers are also subjected to high transaction costs due to delays in decision-making and lengthy bureaucratic tendencies of loan officers. They are also subjected to procedures that ignore their confidentiality, security comfort and flexibility which diminish information sharing and hence increase information asymmetry in the lending process.

CHAPTER SEVEN: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH:

7.1: Overview of the Study Findings and Conclusions

This study set out to explore the experiences of loan officers and SME borrowers about the determinants of credit supply and demand in the SME sector in Uganda. Using a triangulation of methodologies, involving non participant observation of the loan officer-borrower interview process, unstructured and semi-structured interviews and a questionnaire survey of loan officers and borrower experiences, various findings have been documented. This chapter provides an overview of these findings and the conclusions that emerge from them. It also analyzes the theoretical implications of these findings and areas for further research.

On the question of how the lending structure influences the decisions of loan officers, three factors of hierarchy, lending guidelines and facility layout were found to be the main determinants of the loan officer's decisions in lending to SMEs. Hierarchy favours credit flow by providing a legal framework and a consultative decision making structure which lead to a conducive working environment. Hierarchy of the banking institutions facilitates credit flow, it is at times found inadequate by loan officers. This is particularly the case when loan officers are expected to strictly follow the decision making structures and lending guidelines without exception which minimises the ability of loan officers to use discretion to manage unforeseen situations like the case of cultural norms of SME borrowers. It was found that banks have adopted the bottom-up model of relationships amongst the borrowers, loan officers, credit supervisors and branch managers. In this case,

the hierarchy was found to emphasise the contact between the loan officer and the borrower as the entry point for clients into the bank. As a consequence, borrower preparation relying on the loan officer as the focal person is facilitated by the hierarchy. However, because of the inflexibility of the hierarchy, it was also established that borrowers have limited access to credit supervisors and branch managers and they cannot easily secure its guidance in their search for credit. In terms of lending policies and procedures, these are designed to ensure tight control of the lending process by credit supervisors and branch managers in order to enable it to monitor the decisions of loan officers. It is this desire for control by management that explains high level of standardization of the lending decisions. This is advantageous to the banks as it gives credit supervisors and branch managers the opportunity to guide the efforts of the bank towards maximising return and minimising risks in credit decisions. On the negative side, however, it deprives loan officers of flexibility in decision-making which at times results into loss of profitable opportunities.

This insistence of management in maintaining tight control over decisions of loan officers can be seen in terms of the need to minimise lending risk to banks especially in a situation where loan officers have proprietary information about the SME-borrowers. This is consistent with the argument of Berger and Udell (2002) and Burnes *et al.* (2003) who point out that banks need appropriate structures which should ensure that loan officers are enabled to carry on their lending decisions but under strict monitoring to minimise incidence of moral hazard risk on the part of the loan officer.

The failure to provide flexibility in decision-making makes the hierarchy and the lending guidelines inappropriate in the eyes of the loan officers because it creates impasse in credit decision-making, which is associated with poor delegation and feedback. This leads to a decision making environment with incomplete information, mistrust and a less than supportive attitude which does not promote credit flow to SMEs. These shortcomings provide a justification for loan officers to use the informal structure and adjustment of lending guidelines which manifest themselves in reliance on private networks, to collect information used in evaluation of loans applications. The loan officers indicated that this was done in order to meet their performance targets and hence increase the likelihood of obtaining their incentives which are performance-related.

The reliance of loan officers on private networks to counter the adverse effects of the inflexible decision-making structure and lending guidelines is a rational reaction intended to reduce information asymmetry in the lending process due to benefits of different sources of information. The networks also lead to constructive conflict around the issue being decided upon which leads to in-depth deliberations about it. It also provides a comparative basis to examine other cases where decision-making has done well or poorly and enables different interpretations to be attached to the decision-making situation thereby enriching the set of decision alternatives to choose from. Therefore, banks need to support initiatives of individual loan officers to use their private networks to reduce uncertainties that arise from inadequate information availability in the lending transactions.

Whereas the adoption of an informal hierarchy is beneficial to borrowers whose credit decision may be expedited and to loan officers who increase their prospects

of realising their performance targets, it may however lead to unfavourable consequences for the bank as critical decisions may be kept away from the formal hierarchy and credit supervisors and branch managers. The bank's policy makers need to put in place guidelines that clearly link the goals of the organisation to the needs of loan officers in order to have a well controlled but flexible organisation structure.

It was further found that the work place in which interaction occurs adversely affects credit flow. Interaction environment between loan officers and borrowers is over crowded, lacks privacy and comfort. Both borrowers and loan officers agree that this environment discourages mutual information exchange, creates unease in interaction and therefore, discourages credit flow. The banks appear not to emphasise physical facility as a strategic variable in the micro- lending function of the bank and this does not promote the privacy, security and comfort of SME borrowers and hence, disclosure of information to the loan officer. The interaction facility therefore, aggravates information asymmetry between the loan officer and SME borrowers because it does not motivate the borrowers to disclose information about themselves and their projects. The bank's justification for this strategy may be cost minimisation but ignores the concept of wealth maximization which requires that the interest of all stake holders should be taken into account when designing overall goals of an organisation. The findings about interaction facility contradict the general thrust by scholars who argue that physical facility design should deliberately be used in enhancing the value of the business as it leads to positive perception of the business by the client and a reduction in information asymmetry amongst decision-makers (Sirgy *et al.* 2000 and Greenland and McGoldrick 1994). The strategic value of the facility layout therefore needs to be established and

incorporated into the lending policies and procedures that govern credit extension to the SMEs.

In conclusion, it is clear that whereas the bank structures and lending guidelines have positive attributes that facilitate the process of credit flow to SMEs, there are also shortcomings which frustrate this process. These shortcomings arise due to the fact that the structures appear to follow a mechanistic design characterised by restrictive lending guidelines, tight control and a vertical communication and implementation structure. This in some cases aggravates the problem of information sharing because lateral flow of information is limited and loan officers may not be able to make appropriate decisions in all situations. The bank structure and lending guidelines therefore need to address the need to improve two way communications between the loan officers and other players within the credit flow decisions and hence increase information sharing which reduces information asymmetry and the lending risk of adverse selection and moral hazard.

In respect of the question of borrower attributes and credit flow to SMEs, it was found out that two attributes of borrower knowledge and character influence the loan officer's decision to extend credit to SMEs. In the case of borrower character, the study established that loan officers find it easy to extend credit to borrowers who exhibit traits of confidence, trustworthiness and willingness to accept advice. In respect of borrower knowledge, it was found that the loan officer finds it easier to make loan decisions when the borrowers are knowledgeable about the purpose of the loan and the bank procedures and policies.

This expectation of loan officers is generally matched by most of the borrowers who explained that they seek information in advance on how to use and repay their

loans. With such preparation and prior knowledge regarding bank requirements, clients are able to explain their needs to loan officers and these results into loan officers giving them the necessary information and support on how to acquire credit facilities. On the other hand, some clients reported that the banks' emphasis on collateral and unsupportive loan officers, who ignore the information they provide discourages them from making advance preparations. As a result, decisions regarding credit extension are adversely affected due to limited information from such clients.

The level of preparation made by the SME borrowers was found to be a critical influence on the manner in which borrower's request is handled by loan officers. The borrowers argued that when they make advance preparations, they find loan officers to appreciate their needs which facilitate their access to credit. The interaction between credit officers and the borrowers is improved by advance preparation of borrowers which makes it easier for loan officers to deal with the borrower's request. This implies that borrowers should not be seen as passive participants in credit transactions but as active partners with a vital role to play in enhancing credit flow to the SME sector. The managers of banks need to put deliberate incentives to enhance this positive disposition of the borrowers and as a result improve credit flow to SMEs. These findings are consistent with the studies by Mather *et al.* (2000), Verrecchia (1983), Bukh *et al.* (2001) and Gelb (2002) who emphasize that enhancement of information disclosure by borrowers improves credit decision of lenders by reducing information asymmetry and lowering uncertainty about the future of the business. They also argue that disclosure has a positive signalling effect on the loan officer which translates into lower interest charge for the SMEs. This implies that it is in the interest on the SME borrower to

disclose as much information as possible in order to impress the bank lenders. The notion that knowledgeable borrowers promote a transparent decision-making environment characterised by trust in the lender-borrower relationship leads to an inference that the bank can shape borrowers into desirable characters through training and sensitisation programmes. In conclusion, banks should realise that borrowers have the motivation to voluntarily disclose information about their loan requests and they should seek to pro-actively influence the borrowers towards a focus that enhances this information disclosure.

On the question of interface between banks and individual loan officer's goals and its influence on the decisions of the loan officer to extend credit to SMEs, it was found out that at times, there is convergence between the two sets of goals when bank policies on promotion, training and remuneration of loan officers match with the aspirations of the loan officers. It was found that when these goals are in tandem, the loan officers perceive the institution as a guarantor of their individual interests which leads to motivated loan officers who exhibit high commitment towards attainment of bank objectives including lending to SMEs.

However, it was also found that in pursuit of maximizing return and minimizing risks, the bank at times sets targets that are deemed by loan officers to be too stringent and this threatens the livelihood and job security of the loan officers when they fail to meet these targets. This was found to result into de-motivated loan officers who seek to manipulate the informal hierarchy and lending guidelines in the bank in order to safeguard their remuneration and career goals. Findings also indicated that most times, loan officers are not involved in setting bank performance goals which leads to ignoring of their personal goals. The results indicate further

that loan officers consider adjusting lending guidelines to create consistency between the lending decisions they make and their personal goals in light of the stringent performance targets set by management. The adjustment in lending guidelines to suit the loan officers' interests is in line with arguments of Ralston and Wright (2003) who say that sound lending practice should involve adjustment of lending conditions to incorporate all risks before lending is approved. The bank lending policies and procedures therefore need to provide a clear, systematic and thorough mechanism in which the organizational and individual loan officer's goals are aligned in order to create a cadre of committed loan officers. This highlights the importance of understanding the underlying indicators that influence individual loan officer's goals. It also requires goal setting mechanisms that involve loan officers in the goal-setting process of the bank.

The study undertook an assessment of lending culture which revealed that decisions of loan officers show little or no consensus thereby implying that there is no common lending culture in the four banks studied. This finding implies that decision making by loan officers does not follow uniform pattern and mainly reflects the interpretation, impression and expectation of individual loan officers. Lack of consensus amongst loan officers about their lending decisions to SMEs in Uganda is consistent with the findings of Gorman (2002), Gorman *et al.* (2005) and Wilson and Marlino (2005) who argue that limited evidence of a shared or risk assessment culture amongst loan officers in banks is expected due to the heterogeneous nature of the SME sector diversity of decision-making environment and the intensive use of subjective techniques of loan appraisal by loan officers.

On the question of how the character of the loan officer and the handling of the borrower's requests influence credit demand by SME borrowers, it was found that the attitude and competence of the loan officer as well as the loan terms and conditions are the critical factors that determine willingness of SME borrowers to seek credit from banks. Most of the SME borrowers indicated that failure by the bank to grant their loan requests in full and lack of explanation for any adjustments especially reductions in loan amount is one of the primary reasons why they do not repeat borrowing transactions with the banks. The study also found that many of the SME borrowers expect to be shown respect and consulted by loan officers other than the terms and conditions of the loan being dictated to them. Some of the SME borrowers also indicated that when they find loan officers disrespectful and unhelpful, they manipulate the information available to such loan officers in order to mitigate the consequences of the unfavourable character of the loan officer on their prospects of obtaining credit. Some of the SME borrowers are therefore, actively involved in influencing the decision of the loan officer as opposed to the view that they are helpless parties in the lending process who simply accept whatever terms and conditions they are offered by the loan officer.

These findings emphasize that banks need to meet the needs of borrowers by proactively involving them in the lending decisions. The emphasis by borrowers that their needs should be paramount in the decisions of the banks reflects the need for loan officers to understand their client needs if they are to package loan products that satisfy them. As Teare (1998) argues, lending decision processes need to meet the SME borrower expectations. He also points out that individual borrowers are unique with different service expectations and hence, there is need to understand the individual borrower's unique needs in order to offer personalised service delivery

that leads to satisfaction. The implications of this argument are that banks need to understand the SME borrower needs so that they can offer loan products that satisfy them. This conclusion is in line with the general thrust of scholarly evidence that bank clients require services of high quality both in terms of the core product and how it is delivered as argued by Kamalia and Jacques (2000), Aldlaigan and Buttle (2002) and Bitran (2006).

On the question of how the gender factor affects the flow of credit to SMEs, analysis of the experience of loan officers and women borrowers shows that attitudes of loan officers towards women borrowers, ability of women-owned enterprises to meet lending criteria and the desire of female loan officers not to be seen as practicing favoritism when dealing with women borrowers are some of the major determinants of credit supply to SMEs. The findings also show that confidence of women borrowers, knowledge of bank-lending procedures, family roles of women SME managers, women business characteristics and networks with fellow women borrowers and loan officers also influence demand of credit by women-owned SMEs.

The finding that most women borrowers who are rural-based and with low education, have poor knowledge of bank lending procedures is hardly surprising. This can be partly explained by the fact that the guidelines are framed in English which in Uganda is only understood by the educated. The majority of these women have not been exposed to any education and hence do not understand the language in which lending guidelines are written. This is aggravated further by the fact that such guidelines are technical in nature and are often couched in legal jargon. The lack of knowledge to appreciate these issues, points to a broader context of women borrowers' inability to accumulate human capital (Davidson and Hong 2006) in

terms of education. In the case of Uganda, this has been aggravated by traditions that have largely limited the girl-child's access to education opportunities as compared to the boy-child (Stevenson and St Onge, 2005). The phenomenon could also be seen from the perspective where loan officers have been conditioned to think that women borrowers are likely to be naive about seeking credit (Klob, 1994) because seeking bank loan in Uganda has until recently been a preserve of men (Snyder, 2000). This perception is consistent with views of Grillo (1991) and Fletcher (1993) who argue that women are made invisible when viewed in the context of being dominated by men in different social discourse.

The finding that loan officers consider women borrowers to primarily focus on family and marital issues other than running their businesses professionally is a confirmation of the social roles argument by Putnam and Jones (1982). It is also in agreement with the association of the feminine with relying on connection and relation, other than individuation and autonomy as in the case of the male, (Jornan *et al.* (1992). In Uganda, the responsibility of looking after the family is largely seen as a role of women as long as men mobilise resources to secure goods and services from the market (Stevenson and St. Onge 2005). The view that the social role leaves women to look after families and children is also advanced by Elkel *et al.* (2000) who allude to the fact that women are expected to perform the traditional role of parenting and nurturing children. When this perception is intertwined with the attitudes of loan officers shaped by growing in a society that sees women as belonging to the "kitchen" other than business, then this is likely to be unconsciously transferred to their opinion about loan application from women-borrowers to their (women borrowers') disadvantage.

The finding that women do not own assets to be used as collateral due to cultural and legal constraints in Uganda is consistent with earlier studies which show that assets like land and fixed property, are almost exclusively owned by men, especially in the rural areas (Snyder (2000) and Stevenson and St Onge (2005)). Though the situation has somewhat changed recently in the case of urban-based, educated women who are in formal employment, they are still restricted on women acquiring long term assets due to the cultural notion that generally property belongs to the man. This is a classic example of the dominance and inequality of women argument (Wilson *et al.*, 2007) which is sustained through gender polarization as argued by Bem (1992). It can also be seen from the point of view of women having no or no power (Kolb, 1994) in terms of owning assets which leads to disadvantages for women seeking credit.

Unfavourable attitudes of loan officers which women-borrowers report as having a demoralising effect on their quest for credit are in line with arguments that loan officers grow with the perception that women-owned businesses are less attractive for credit supply as compared to their male counterparts (Smith-Hunter, 2000, Watson, 2000 and Marlow and Carter, 2007). In addition, the finding that women-borrowers do not feel that they get enough support from female loan officers is in line with the argument that agents who feel low levels of authority and control are less likely to firmly support their positions (Kolb, 1999). The female loan officers who grow up under the situation of stereotyping where the feminine characteristics are taken as inferior are likely to be intimidated into taking a more officious position in applying lending policies as compared to their male counterparts who know that the decisions they take are likely to be accepted as being innovative even if they may at times not strictly tally with the lending guidelines.

The other finding that lack of access to social facilities for networking with loan officers lessens the chances of women borrowers to obtain the credit is in tandem with the argument that failure to network adversely affects the opportunity for women borrowers to accumulate social and symbolic capital through contacts, networks, reputation and credibility respectively (Winn, 2004, Brindley, 2005 and Marlow *et al.*, 2008). This phenomenon may be attributed to the gender gap embedded in the wider social-economic context in which lending occurs (Marlow, 2002, Carter and Shaw, 2007 and Marlow *et al.*, 2008). In this context, women are expected to lay emphasis on the family role as well as taking on low level jobs that make it difficult to network with high level officials like loan officers. This is particularly true in the case of the rural-based women borrowers where opportunities for networking are almost no-existent due to low business activities and high levels of poverty and unemployment as compared to their urban compatriots where formal economic activity is more vibrant.

In terms of profiles of women-businesses not enlisting positive views from loan officers, this finding supports the arguments of Ahl (2006) and Marlow *et al.* (2008) that female-owned businesses are likely to be perceived as being hobbies rather than serious undertakings. The argument goes further that women businesses are normally home-based and run on part time basis other than being run on a professional basis like the male owned ones. When this is interfaced with the socialization argument (Marlow and Carter 2006), then the opportunities for positive recommendation of women-borrowers applications are lessened.

Finally, the finding that women-borrowers use sexuality as a tool of persuasion in order to access credit can be assessed from the masculine dominance argument by Bem (1992), Kolb (1994) and Marlow *et al.* (2008). Because women borrowers are

led to believe that their male counterparts have more power over decisions like giving credit, they feel that the best way of obtaining positive recommendations from male loan officers is to submit to their whims. This was found to be particularly true in the case of the rural-based women who have lower exposure about their rights as compared to their urban-based counterparts who have high levels of emancipation. The use of sexuality by women to convince loan officers to positively evaluate their loan requests is explained by Putnam (1994) proposal that in a negotiation the weak party may invoke use of emotional and empathetic connections to achieve its goals. The women borrowers may therefore feel that seeking sympathy in addition to presenting proof of viability of their loan requests may help them to overcome the deep rooted loan officers' prejudices thereby facilitating their credit access. Much as this approach appears to be socially and morally unacceptable, it is a prevalent mechanism for enhancing credit access as long as the gender stereotyping characterization continues to disadvantage the women borrowers, especially the vulnerable rural-based, lowly educated and less empowered ones.

7.2: Study Implications

7.2.1: Implications for Theory

Supply side findings summarised in section 7.1 have different implications for the theory that underlies the phenomenon of credit from banks to SMEs. Bank hierarchy and lending guidelines, congruence between the goals of the bank and loan officers, borrower character and knowledge, the gender factor and lending culture were identified as the determinants of credit supply to SMEs. Findings show

that bank hierarchy and lending guidelines facilitate decisions of loan officers by providing them with legal structure and confidence in making decisions about SME loan applications. In addition, they offer a consultative mechanism that helps loan officers to tap into knowledge and experiences of their colleagues. According to the bank lending policies, loan officers are required to strictly follow bank hierarchy and guidelines. This ensures that tight control is maintained over the lending decisions of loan officers in order to minimize the potential for abuse of the bank lending policies.

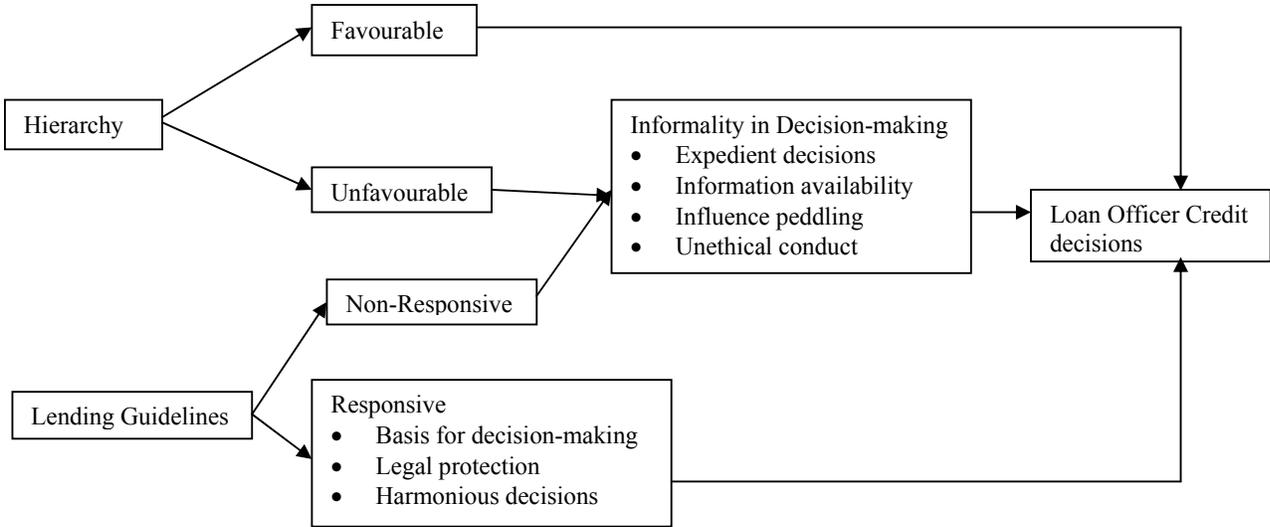
The above focus on the control objective has an inverse relationship with flexibility in loan officers' decisions. As was established in the study, hierarchy and lending guidelines that are strictly enforced lead to rigidity in the process of evaluating borrower loan applications. In these circumstances, loan officers have little discretion in the decisions they make yet the lending guidelines and hierarchy are unable to prescribe solutions to all situations that they face when handling SME loan applications. This was for example demonstrated by the case of the loan officer who found discrepancy between the bank guidelines and the cultural practices of the borrower. Further more, it was reported by loan officers that the guidelines they use remain unchanged for a long time, sometimes making them unsuitable for the ever changing conditions that characterize the businesses of borrowers. The implication of these findings is that at times, loan officers find bank hierarchy and lending guidelines impractical in handling loan applications from SME borrowers.

Besides flexibility, bank hierarchy has implications for representation of both loan officers and SME borrowers at different levels of the decision-making process. Loan officers have heavy representation at the branch level and almost none at the

higher levels beyond the branch. Similarly SME borrowers have virtually no direct contact with the different loan committees that make the final lending decisions. This increases the gap between the loan officers and borrowers who possess the bulk of information about the loan application on the one hand and the different credit committees which make the final lending decision on the other. Loan officers are likely to find this position frustrating especially in realization of performance targets set by management and as a consequence on the on the attainment of their remuneration and career objectives which depend on achievement of the set performance targets.

The relationship between bank hierarchy and lending guidelines on one hand and lending decisions made by loan officers on the other is schematically presented in Figure 7.1 below:

Figure: 7.1: Relationship between hierarchy, lending guidelines and Loan Officer Credit Decisions.



In Figure 7.1 above, favourable hierarchy and responsive lending guidelines enable loan officers to make lending decisions which facilitate credit flow to SME borrowers and vice versa. The critical issue that loan officers face in this regard is when they have to deal with unfavourable hierarchy and unresponsive lending guidelines. Study findings indicate that they adapt to this situation by using informal decision-making channels. Reliance on informal channels by loan officers and SME borrowers has both advantages and disadvantages. The advantages are that in the first instance, they enable loan officers to expedite lending decisions by obtaining guidance from their superiors especially those at levels like the head office committees to which they ordinarily have no representation. In the other instance, they are also used by SME borrowers to get in contact with officers at higher levels in the bank other than loan officers which gives the borrowers opportunity to obtain a moderation of the loan officer's decisions where appropriate.

However, use of informal structures has its own drawbacks. It leads to withdraw of information that loan officers possess from the formal decision-making structures. This may deprive managers in the formal structure of this information. The consequence of this deprivation is to increase information asymmetry contrary to the intentions of the bank structure and lending guidelines. Informality is also likely to promote influence peddling in the credit decision-making process. Loan officers may find it difficult to resist this influence peddling from senior managers who have done them a favour through the informal decision making structure which could spark off a spiral of unethical conduct within the entire decision making process. The sum total of these consequences of informality is to enlarge the information gap between the loan officers and other higher levels of the credit decision-making

hierarchy with a likelihood of promoting adverse selection and moral hazard in lending to SMEs.

In addition to withdraw of information from the formal decision making structure, use of informal decision making channels encourages a split of both loan officers and borrowers into two different categories of those who are able and those who are unable to access the informal system. In case of loan officers who are able to access senior officers, they are able to make faster decisions that are supported at higher committees of decision-making while those who are unable to access senior officers will not be able to enjoy this privilege. This is likely to create a situation of conflict within the corps of the loan officers which will translate into borrowers served by privileged loan officers to easily access credit as opposed to those non-privileged loan officers. With respect to SME borrowers, use of informal systems implies that they have to ensure constant contact with the senior managers. This involves transaction costs in terms of identification of linkage partners, time spent and other logistics like accommodation while waiting for such linkages to materialize. These transactions costs are likely to be felt by SMEs from rural areas who generally lack contacts with bank managers as compared to urban ones. This will therefore create a class of borrowers who can easily access credit due to their ability to make informal contacts as opposed to those who are unable to make the contacts.

The use of informal decision making structure therefore has a risk of diverting loan evaluation from strict viability and collateral requirements to level of patronage those borrowers enjoy from loan officers and other bank managers. This may lead to good borrowers who are not known, being denied credit (adverse selection) which increases the potential difficulty of future loan recovery as SME borrowers seek to

use patronage to dodge their obligations. When influence is used for enhancing personal satisfaction of the top official at the expense of an organisation, it becomes harmful. If the loan request is not acceptable, then the bank is subjected to high risk of non-payment. The results of direction of loan officers by a senior official also depend on the nature of the loan officer involved. If the loan officer is the confident, non-compromising type, then such, a loan officer will be perceived as a stumbling block by senior official. Such a loan officer faces a likelihood of being sidelined by the senior officials who seek to influence decisions. The outcome of this relationship is that such loan officers would not be easily promoted. It is also possible that their recommendations could always be set aside in the higher committees where the senior managers are in control. This would also cause blockage of credit to the clients handled by such loan officers. The loan officer could also be the type that takes orders of superiors without question. Such a loan officer would be seen as cooperative by the senior officers. In the short-run, their decisions would be easily passed by the senior officers. These loan officers can even enhance their prospects of promotion as reward for their cooperation with their superiors. However, in the long run, the bank is likely to suffer from un-collectible loans if the loan officers compromise portfolio quality in a quest of being seen as cooperative by their superiors. The loan officers' performance will therefore be negatively affected and their incentives will suffer. The clients will also suffer as the banks resort to sale of collateral and other recovery efforts, to minimise the risk of default.

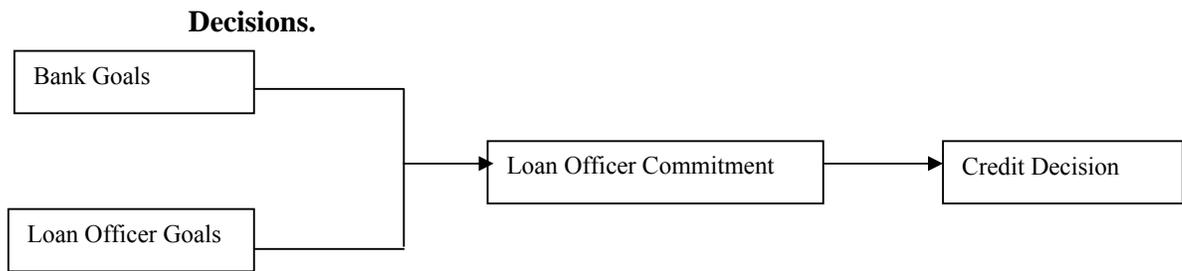
In conclusion, credit supervisors and branch managers of banks should appreciate that informality is likely to exist alongside the formal hierarchy when loan officers make decisions to lend to SMEs. Credit supervisors and branch managers may

actually encourage informality where positive attributes of enhancing communication, expediting decision-making and creating a flatter and more effective organisation are anticipated. However, credit supervisors and branch managers should also be conscious, of the adverse consequences associated with informality in decision-making and ensure that these do not derail decisions made by loan officers. Finally, loan officers should expect senior managers, to at times receive credit requests in their capacity as public relations officers of the institutions. They should also, expect to receive directives to make loans decisions in a pre-determined direction. However, the onus remains with the loan officers to carry-out professional and technical evaluations of such requests and use them to advise their superiors on the viability of the lending requests. This provides a protective mechanism to the loan officer, management and the bank in general against future problems of loan default. In conclusion, it remains true that although the use of informal channels for decision-making has short term advantage, it is likely to be sub-optimal in the long run as flow of credit is diverted from being based on meritorious criteria of viability and collateral to reliance on the subjective measure of official patronage.

Other implications for theory on credit supply to SMEs relate to the findings about congruence between goals of the loan officer and the bank lending decisions. The findings showed that whereas there are instances when goals of loan officers match those of the bank, there are also those where there is a mismatch between the two. When the two sets of goals match, loan officers attain high levels of job satisfaction which increases their commitment and favourable disposition to handling loan applications from SME borrowers. The situation to be carefully managed arises when there is a mismatch between these goals as this may lead to de-motivated loan

officers resulting into low commitment to their work. The schematic presentation in Figure 7.2 demonstrates the effect of these goals on the credit decisions that loan officers make about SME loan applications.

Figure 7.2: Relationship between Loan Officer and Bank Goals and Credit



The main thrust of the argument presented in Figure 7.2 is that when congruence between loan officer and bank goals is attained, loan officer commitment to bank goals is enhanced and this leads to increased efficiency in handling loan applications of SME borrowers. Underlying this argument is agency theory which presupposes that the goals of loan officers (agents) are taken cognizance of by management (principal) when setting bank goals which loan officers are expected to meet.

Study findings in this respect showed that there are cases of mismatch between the two sets of goals especially when the goals are unilaterally set by management without the involvement of loan officers. In addition, it was established that the goals are often regarded by loan officers as unfair and difficult to attain given the circumstances in which they work. This unfavourable situation is compounded by the fact that incentive-based remuneration and career prospects are strictly tied to realization of bank goals with adverse consequences if the set performance targets are not met.

In the case of the bank setting tight performance which loan officers at times consider as unrealistic, it forces them to adapt to the situation in self defence. Findings showed that they are forced to make hasty decisions, manipulate lending

guidelines and hide information from management that does not reflect positively on their performance. The consequence of this approach by loan officers is to deprive both management and SME borrowers of information that loan officers perceive to be adverse to their interests. This perpetuates and enlarges information asymmetry in the lending decision which promotes other than reducing the likelihood of adverse selection and moral hazard in the lending decision.

This has implications for management, loan officers and SME borrowers. It has the danger of promoting poor quality loans as loan officers adapt to what they perceive as unfair performance targets. Loan officers have incentives to hide and manipulate information to reflect a favourable picture to management which may be contrary to the reality about borrowers' loan applications. This creates a situation of moral hazard on the part of loan officers in their relationships with their managers. When this is combined by the potential moral hazard on the part of the borrowers, it magnifies the lending risk the bank faces. The adaptation mechanisms described above may in the short run obscure the manipulative behaviour of loan officers and enable them to meet the personal remuneration and career prospects. However the problem of poor loans given to meet short term performance targets cannot be suppressed in the long run. The loan officer is likely to be saddled with bad loans in his/her portfolio in the long run thereby endangering the remuneration and career prospect such as a loan officer wanted to defend in the first place. As regard the SME borrower, when they receive poor advice and information from the loan officer, they have to incur additional costs to obtain more information in the short run or to manage the consequences of having taken a loan without proper advice in the future.

The argument from all these consequences emanating from mismatch between loan officer and bank goals is that they adversely impact on the entire lending process and whereas the prospects of efficiency on the part of the bank and remuneration and career prospects on part of loan officers may encourage behaviour that obscures these consequences, the situation cannot be sustained in the long run as it leads to sub-optimal credit decisions for the bank, loan officer and SME borrower.

The findings also showed that perception about borrowers is an important consideration in their recommendations that loan officers make about loan applications. It was established that loan officers expect borrowers to possess a pleasant, confident, amiable and humble character. Borrowers without these traits are likely to be disadvantaged in having their loan applications approved. Loan officers also indicated that borrowers who have knowledge of bank procedures are favoured as compared to those who do not. The loan officer's expectations of SME borrowers imply that the lending criteria set by the bank lending guidelines are not sufficient for the loan officer to make lending decisions. Personal preferences for the loan officer play a role in the final recommendation such a loan officer makes about a borrower's loan application. However, the bank lending guidelines do not formally provide for capture of these personal views of the loan officer. It is therefore essential to adjust lending guidelines to provide for this information to be formally captured. The formal criteria based on 5Cs could be assigned the higher score of say 95 percent while borrower's personal views take the other 5 percent with a requirement that the personal views are formally declared by the loan officer to the management¹⁵ on a case by case basis. In a nutshell, the implication of loan

¹⁵ 95% is an indicative figure which could be adjusted to fit conditions under which decisions are made

officer expectations of the borrower is that they may obscure the importance of viability and collateral in the loan officer's evaluation of loan applications and it points to the need to reflect them in the formal evaluation of loan applications from SME borrowers.

The importance of formally reflecting personal views of loan officers in the evaluation instruments of loan applications is underscored further by their lending culture. Study findings indicated that despite use of a common set of lending guidelines and being exposed to standardised training programmes, loan officers lack consensus about the loan decisions they make. It was also established that use of informality and the culture of *personalismo* are common cultural perspectives that lead to loan officers to subtly rely on lending criteria other than those prescribed in the bank lending policies. As long as the personal criteria used by loan officers remain outside the realm of official guidelines used in lending, then the information asymmetry gap between loan officers and bank management will equally widen. In order to close the gap caused by lending cultural practices, management of banks need to tap into the personal views of loan officers by providing a system and incentives for loan officers to officially disclose their personal perspectives on loan applications they handle.

Another dimension of lending guidelines and information asymmetry is related to application of credit screening as a lending evaluation technique. In the developed country context where there is relatively high availability of financial information and the requisite technology, evaluation of loan applications is relatively standardized and is expected to produce decisions with high objectivity. In these circumstances loan officers have little leeway of adjusting application of lending

guidelines. This makes the gap between information held by loan officers, borrowers and management to be narrow which implies an equally narrower problem of information asymmetry in the lending transactions. This position, when compared with the situation in developing countries where financial information and technology for computer-based screening of loan applications are often lacking shows that the propensity of relying on the loan officer's views in making credit decisions increases. As loan officers' information may not be available to management and borrowers, this increases the information gap between the three parties. The implication of these conditions is that information asymmetry and the resultant lending risks of adverse selection and moral hazard should be generally higher in lending processes in developing countries as compared to the developed ones.

Another factor identified by the study as a major determinant of credit supply to SMEs is physical facilities in which loan officers and SME borrowers interact. They were found to be generally crowded, uncomfortable and unable to promote confidentiality in exchange of information with loan officers. Most of the SME borrowers and loan officers reported that the banks' physical facilities are not conducive for personal interaction and information sharing. This implies that personal interaction between loan officers and the borrower is stifled implying that information sharing is not encouraged. This makes it difficult for loan officers to assess viability of the lending proposal and the attached collateral. The banks' facilities therefore encourage information asymmetry and aggravate the lending risks of adverse selection and moral hazard by making it difficult to establish rapport between borrowers and loan officers. This is especially true for rural-based

SME borrowers who have little exposure to banks and are therefore highly likely to be intimidated by the banking environment. The interaction facilities are appropriate for a cost saving strategy on the part of the bank but this is achieved at a cost of enhancing information asymmetry thereby increasing the twin-lending risks of adverse selection and moral hazard. The design of bank interaction facilities therefore needs a review in order to carefully trade off the cost of setting up and maintaining these facilities with the benefits of increased information availability in the lending decision and hence reduce the likelihood of the incidence of adverse selection and moral hazard in the lending decisions.

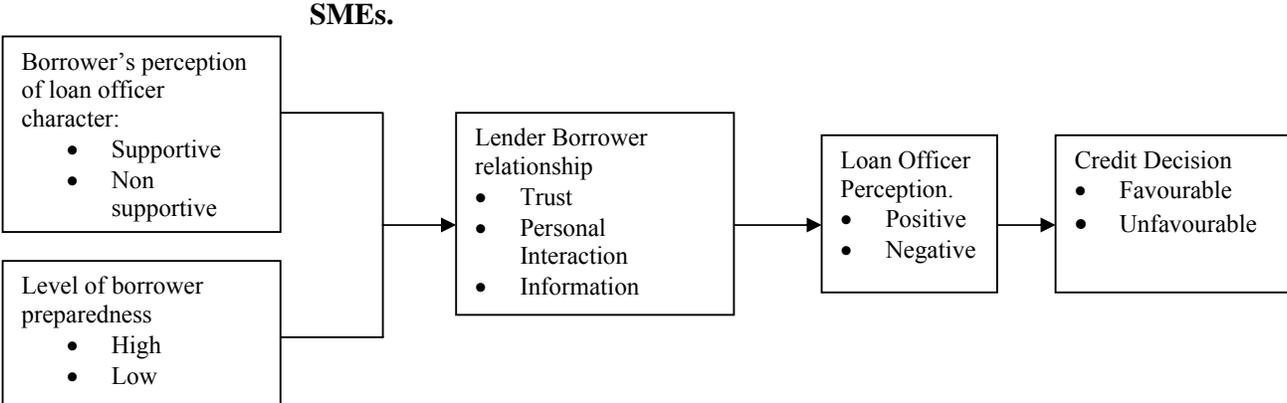
The study findings indicate further that the gender perspective influences credit availability to SMEs. The analysis of supply gender related factors showed that where-as there are no explicit discriminatory lending guidelines when considering loan applications to men and women-owned small enterprises, there are systemic, social, cultural and legal practices that make loan officers to perceive men as better lending prospects than women. The implication of this finding is that it contradicts the general held belief that women are better candidates for lending than men. It was established further that there is a dichotomy between more educated urban-based and the less educated rural women in access to credit with the more educated women more likely to obtain credit than their less educated counterparts. This implies that urban-based women who tend to be more educated than the rural ones are more favoured to obtain credit which creates a divide that does not favour rural development where most of the SME women borrowers are based.

On the study implications for theory from the credit demand side, two factors emerged from the findings. These are levels of the borrower's preparedness for the

borrowing and the character disposition of loan officers. The two factors are closely interrelated. In the first case of borrower preparedness, the thesis from the findings is that borrowers make advance preparation by collecting information they deem essential to enhance their prospects for obtaining credit. They use a network of sources within and outside the bank for this purpose. Level of preparation by loan officers is low when they expect that provision of collateral is sufficient to convince the loan officer to offer them credit.

With respect to the second factor of borrower perception about character disposition of loan officers, the study indicates that borrowers pay interest to the level of support they expect to receive from the loan officer. When the loan officer’s character disposition is anticipated to be helpful to them, then they are willing to disclose the information at their disposal. When the loan officer character disposition is judged to be non-supportive, then borrowers seek not only to withhold but also at times to exaggerate and even falsify the information they provide to loan officers. This effect is captured in Figure 7.3 below:

Figure 7.3: The relationship between borrower attributes and credit flow to



According to Figure 7.3, SME borrowers consciously prepare themselves for borrowing by collecting information to use in their quest for credit. The borrowers use the level of the perceived loan officer's supportiveness as a yard stick for deciding on how much information they disclose to the loan officers. Borrowers expect loan officers to help them understand the loan application procedures and to be patient with them. They also expect loan officers not to be too rigid when responding to their applications, and to respect confidentiality of the information they receive from them. When the level of expected support from loan officers is high, borrowers feel motivated to share information with the loan officers. This enhances personal interaction between the loan officers and borrowers. It also creates an atmosphere of trust between them. These in turn induce loan officers to have positive perception about the borrowers which leads to positive recommendations of borrower loan applications by loan officers.

The relationship between borrower attributes and credit flow to SMEs contained in Figure 7.3 has various implications for deeper understanding of determinants of credit demand factors that influence credit availability to SMEs. First of all, the extent of information disclosure in the relationship is at times manipulated by the borrowers in order to induce loan officers to make decision that favour them. SME borrowers are therefore active players in the process of credit provision other than passive takers of any decision loan officers make. There is need therefore for banks to establish and maintain rapport with SME borrowers in order to improve their perception of the loan officers. This rapport can be established through schemes that tie the borrowers into the bank plans and operations so that such borrowers perceive themselves as an integral part of the credit flow system. Schemes to establish

rapport with borrowers include; initiation of social responsibility projects that cover borrowers' communities, sensitization like seminars and joint sports events on the other hand, mechanisms for feedback with SME borrowers would include; suggestion boxes, periodic interactive sessions and retraining of staff to orientate them in favour of the concept of borrower-integration into the credit supply chain.

These schemes for maintaining rapport between the bank and the SME borrowers are vital for narrowing the information asymmetry gap between the two, thereby reducing the risks of moral hazard and adverse selection. This therefore calls for a paradigm shift in the bank from a competitive-lending model that tries to establish viability and collateral on the assumption that borrowers are not willing or able to disclose all the information they know, to a cooperative lending model that seeks to motivate borrowers to disclose all the information they know about their loan applications.

7.2.2: Implication for Methodology

The methodology used in the study had three major characteristics. First of all, it involved a triangulation of qualitative and quantitative methodologies. Secondly, the methodology used a holistic approach involving study of both credit supply and demand determinants concurrently. Thirdly, it involved structured and semi-structured repetitive interviewing of respondents as opposed to a single interview arrangement.

There are three implications for methodology which arise from the above characteristics. First of all, respondent loan officers and SME borrowers had expectations that the study would either positively or negatively impact on their status. On the positively side, they viewed the researcher as their potential advocate

who could intercede with the bank management on their behalf and improve their prospects of getting better employment terms or accessing credit for both the loan officers and SME borrowers. These expectations positively or negatively influence the information that the respondents supply to the researcher depending on their specific interest. The implication for this methodology is that expectations in studies like this where respondents have deep-rooted interest in the findings need to be managed. This can be done using a two-pronged strategy. First of all, a sample of potential respondents should be involved in the first stages of the study-design in order to anticipate potential expectations and devise strategies for managing them. Secondly, better technological systems like discrete recording of borrower lender interaction can be used in data collection to minimize the effect of human contact in ascertaining experiences of the interviewees.

The first implication is about banks' acceptance of researchers to observe their lending practices. This study has revealed factors like borrower attributes, physical facilities, organisational and loan officers goals, structure and client prior planning that affect credit flow to SMEs. These findings have been enriched by the banks allowing the researcher to observe the lending interviews in addition to in-depth interviews. Without access to the bank lending processes, these findings would have been difficult to unearth. The implication of this finding is that banks should see researchers as strategic allies in understanding phenomena that influence their operations. Banks should therefore be receptive to requests of researchers to study their operations and allow them to observe their activities as long as confidentiality by the researchers is assured.

The second implication for methodology is that there is need to ensure the commitment of interviewers especially to the concepts of the qualitative study design. It was established during the study that most of the research assistants preferred quantitative questionnaire survey which they viewed as concise and time saving. The research assistants were apprehensive about a qualitative research design that does not have a definite research instrument, but requires repetitive data collection and continuous update of study results. Unstructured and semi-structured interviewing used in qualitative study also required patience, ingenuity and good interpersonal skills in dealing with the respondents. In order to secure commitment of the researchers of this study design, it is essential to have continuous sensitisation and review sessions to ensure that they don't relapse into a simple-question-and-answer mode of data collection that does not adequately probe for the desired experiences of the respondents.

The third implication for methodology is about the management of commitment and convenience of respondents. In the case of the study, data was collected during the actual process of making lending decisions and it was at times seen by respondents as interference into an otherwise secret and private transaction between the loan officer and SME borrowers. In order to address this methodological bottleneck, researchers should involve potential respondents in the planning stages of the study so that they appreciate the intention of the study. Convenience and commitment can be enhanced by developing a relationship with the respondents through a repetitive data collection process. This may involve informal contacts outside formal working hours other than approaching the respondents during work time only.

7.2.3: Implications for Policy

The study findings have implications for policy makers including banks, government agencies and associations of SMEs. The finding that loan officers' decisions are unfavourably affected by rigid hierarchy and guidelines has several implications for the banks' policy makers. First of all, there is need to introduce structural reforms that enhance information sharing between loan officers and clients on one hand and management on the other during implementation of the guidelines. Secondly, there is need to increase the level of involvement of loan officers and borrowers in the design of lending guidelines in order to enhance the loan officers' and borrowers' understanding of applicability of such guidelines.

In addition to the design of lending structure and guidelines, bank policy makers should also consider the content of these guidelines. The study found that the lending guidelines emphasized the quantitative aspects of the 5Cs at the expense of qualitative attributes of borrowers. Realizing the heterogeneous nature of the SMEs, this implies that bank policy makers should study the major social and cultural practices of their SME borrowers and incorporate them in their lending policies and procedures. The result of this is that banks will have different sets of guidelines targeting different major groups of SME borrowers.

The finding that many of SME borrowers emphasise both the technical and functional aspects of handling their requests; implies that the bank policy makers should adjust lending guidelines. They should not only emphasise the core aspects of loans but should take into account how the lending transactions are managed. Due to the importance of lending facilities in credit flow as identified in the study, it implies that banking institutions need to adjust their banking facilities for SMEs.

They should therefore conduct benefit/cost analysis in order to have physical facilities that provide privacy and comfort to borrowers at affordable cost.

The study found that majority borrowers have the potential of being pro-active other than passive in credit flow transactions. Banks therefore should undertake deliberate programmes of borrower development like training and sensitisation in order to enhance the emergence of a class of borrowers with characteristics that favour the extension of credit to SME sector. In a nutshell, the implication of the study findings for bank policy makers is that lending structure, guidelines and relationships with borrowers should be reformed to reflect the integrated nature of the credit supply and demand factors as demonstrated in this study.

7.3: Areas for Further Research

The study findings identified gaps in determinants of credit supply and demand in the SME sector that require further research in order to have a full appreciation of the loan officers and SME borrowers' experiences about credit flow to the sector. First of all, it was found that the organizational structures of banks emphasise control to ensure that loan officers' decisions are consistent with those of management and the whole organization. However it was also seen that loan officers need flexibility in decision-making in order to take advantage of potentially profitable lending opportunities to SMEs. Further research is needed into how loan officers can be further empowered and how information sharing between loan officers and management can be enhanced in order to realize the apparently conflicting objectives of increasing loan officer flexibility and preserving tight control on the lending processes to ensure that the banks maximize returns and minimize risks when they extend credit to SMEs.

Secondly, further research is needed into the factors that drive loan officers to rely on informal hierarchy when there already exists a formal hierarchy. Thirdly, more research is needed to understand the social cultural factors that influence the demand for credit by SMEs and application of lending policies and procedures by loan officers. Research is also required about attributes of facility layout that would induce SME borrowers in different social cultural setting towards full information disclosure through boosting their comfort and confidence.

The experiences that were explored in this study concerned borrowers who had actually taken the decision to approach the banks and seek credit. Further research is needed to study the experiences of those SME borrowers who never approach the bank and therefore only remain potential bank clients. There is also need to intensify research into the sector aspects that were brought in the study. This should more specifically focus on examining the applicability of credit and supply demand determinants identified in the study to specific sectors of the society like the different tribes, youth and women.

7.4: Conclusions

This study was intended to enhance the understanding of factors that undertake credit supply and demand in the SME sector in Uganda. It examined the experiences of people who are at the centre of making lending and borrowing decisions and who have a major influence on credit availability to the SME sector. The methodology used in the study adopted a holistic approach in its quest to enhance the understanding of the determinants of credit flow to small and micro-enterprises by examining experiences of decision-makers both, from the banks' and the SMEs' points of view. The methodology also involved direct observation in addition to

unstructured and semi-structured interviews as well as survey of SME borrowers and bank loan officers.

By directly observing the lending interaction process, the study has been able to provide new insights into the determinants of credit flow to SMEs. On the credit supply side, for instance, it has been established that where bank lending guidelines are deemed inadequate by loan officers, they resort to informal means within and outside the bank in order to overcome the inadequacies of the lending guidelines.

It was also established that in addition to the traditional considerations of viability and security, loan officers also consider their experiences, goals and expectations when deciding to lend to small and micro-enterprises. On the credit-demand side, it was found that generally, SME borrowers take pro-active strategies to ensure that they obtain credit from banks. It was for instance, established that SME borrowers are not only willing to provide information to loan officers, but they even seek to influence the type of information they disclose such that they maximise their advantage to obtain credit. Borrowers were also found to influence loan officers' decisions through their approaches to presentations of their loan requests as well as using a network of friends to positively portray themselves before the bank.

The SMEs have had problems of accessing credit from banks. This problem may be due to the lending guidelines that are supply-centred in their outlook. This study has shown that these guidelines are at times deemed inadequate by loan officers. It has also been established that borrowers are active partners in the lending process who pro-actively seek to influence the outcome of this process. The banks therefore need to recognise the needs and views of borrowers and the short comings that loan officers face when using these guidelines in order to come-up with appropriate

lending guidelines that would facilitate credit availability to SMEs. The new lending framework that emerges should reflect the integrated nature of the credit decision by capturing both the banks' and SME borrowers' concerns and needs.

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APPENDIX A:
INTERVIEWS WITH LOAN OFFICERS'

INTERVIEW A.1

Researcher: Good afternoon madam?

Credit Officer: I am O.K how are you?

Researcher: How is work?

Credit Officer: We are trying

Researcher: Can you describe for me the experience with that borrower in handling his request?

Credit Officer: This man seems to be desperate, he is a teacher from Jinja and I have handled his case for sometime, but you know we have procedures, which we have to follow. The loan committee has not yet decided his case and therefore however much I may feel for him I can't do much, I have to wait for the verdict of the loan committee. Otherwise he is a humble man, he seems genuine and I have no doubt he will get the loan. I can feel for him seeing he comes from as far as Jinja.

Researcher: Are there lending structures governing the process in this institution

Credit Officer: Yes

Researcher: To what extent do you rely on them in facilitating your work?

Credit Officer: I think up to around 80 percent to 90 percent but the other 10 percent there incidences when we have to divert from them.

Researcher: Like in which incidences do you find lending structures impeding your work?

Credit Officer: Like incidences, you might know someone personally when you know that the Client is capable of paying but based on what the policy says that Client can't qualify so in such instances you manipulate the system so the Client gets money because you are confident that this money is going to come back

Researcher: In case you notice the Client has personal interests, personal agendas for that matter how you do handle such a case?

Credit Officer: When we discover that we find a way of turning down the offer in a very good way such that the Client goes away satisfied but not annoyed or something like that, you just try to explain why you can't offer a loan

Researcher: Is there any particular way you can tell me you can deny them the loan?

Credit Officer: Like in one instances when clients come with forged documents when I discover they are really forged so instead of sending off the clients like a mad person you tell the client that you what this is a forged document but still you can get a loan if you do it the right way, this time you go away organize your self and come back with security may be we will give you money. So in that way you have let him down but he has hopes that he can still come back and get the funds.

Researcher: I believe you have the lending policies you rely on in doing your work?

Credit Officer: Yes you are right.

Researcher: Now madam, are there instances where you have to divert from these policies?

Credit Officer: Yes

Researcher: How would you adjust the policies to cater for these situations?

Credit Officer: To a small extent , there was a scenario I was explaining to him well there are clients who walk in these are basically like old clients, they could have got a problem say he/she didn't pay on time a loan but now is processing another loan the committee isn't satisfied with the earlier, the payments weren't good but you as an officer you bend and say may be this person had a problem and am re-assessing the client and am giving him money so that's how you can bend. Because n the first place the performance wasn't good you are re-assessing and may be you want to give him the money.

Researcher: In case you notice that the client has personal agenda inconsistent with bank objectives how you address that?

Credit Officer: The best way is to withdraw the case immediately

Researcher: Are you aware of the organization's goals

Credit Officer: Yes

Researcher: Can you please mention instances were the two differ and to what extent do they tally with your personal goals?

Credit Officer: Honestly I should tell you organizational goals here could be a little different from personal goals because it is an organization as you have said with particular objectives , working methods but the end of the day they are ok because we aim at growth and when you join this organization you become part of the organization, your goals tend to be those of the organization, you are achieving and pursuing the organization's goals but sometimes you are limited as a person, you may have to grow in terms of your expertise, you may have to develop, sometimes you may have to exercise

- Researcher** : How do you reconcile the discrepancy between the two?
- Credit Officer** : Some of these goals trying to adjust from the company's procedure to suit what is on the ground.
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : We have various ways of doing this, we have our intelligence net works we have spies for that matter, we have what we call Bank to Bank interaction, we get information from opinion leaders, Local Council's , fellow workers of the loan seeker, police, the list is unending.
- Researcher** : How do you find out any other information which is out side your guide lines?
- Credit Officer** : These borrowers are a bit complicated sometimes some body might not give you 100 percent the information you might need, sometimes we have to contact the Local Council's where they reside at least for them they can give us genuine information about that person. And not only that if the person is employed somewhere we can contact the employer and we get data about that person and sometimes at their places of work they interact with other people those ones can also give us reliable information. Also by personal observation, you can look at person and guess whether the person is credit worthy or at least he doesn't have that queer behaviour you could think of. And what we rely on mostly is scrutinizing the borrower we emphasize much on that
- Researcher** : Ok thank you very much sir
- Researcher** : Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : O.k. information sharing is affected
- Researcher** : What is the cause of such an effect?
- Credit Officer** : You know the office environment is important because it shapes the first and last impression s of the client. In my view, the reception and presence of other clients in the loan officers, office affects the way client communicate to us.

INTERVIEW A.2

Researcher : Good afternoon sir?

Credit Officer : I am fine thanks

Researcher : How is your day?

Credit Officer : It has been ok.

Researcher : Can you describe for me the experience with that borrower in handling his request?

Credit Officer : I didn't find problems with her; she seemed to have all the qualities it seems she knows business form the way she speaks. Ok she told me she wants to add something into her business which is a freezer, when I looked at her turn over is very reasonable I hope the profit margin is also high so, am trying to study her but I found her quite ok, she could ably answer almost all the questions I was asking which she showed she needed to be educated about these things but normally that's how they are. They are our borrowers sometimes they are not informed of certain things; I should say she is ok.

Researcher : Are there lending structures governing the process in this institution

Credit Officer : Yes

Researcher : How do the lending policies facilitate your work?

Credit Officer : Generally I rely on them most of the time, but when I find that the client doesn't qualify I divert a bit and go and discuss with my boss like any one would do my circumstances.

Researcher : How do they impede your work?

Credit Officer : There are instances where the person seems to be qualifying yet in actual sense he doesn't.

Researcher : I believe there are lending procedures that you rely on when doing your work,

Credit Officer : Yes Sir

Researcher : Please mention some instances which require diversion form those policies.

Credit Officer : In some of these cases you find that you have to bend a little, like a customer is credit worthy you look at him, some of them are knowledgeable then you talk to your loan manager and discuss it and you may go an extra mile so of course that's against the risks but we reconcile them I have not found much problems with it.

- Researcher** : Are you aware of the organization's goals?
- Credit Officer** : Yes
- Researcher** : To what extent do they tally with your personal goals?
- Credit Officer** : To a bigger extent they do not tally with mine
- Researcher** : Can you mention instances where these two differ? I mean your goals and those of the organization.
- Credit Officer** : I don't know whether am comfortable to say this but sometimes lets take the instance when people don't borrow, when you don't make people to borrow from you as a source sometimes it reflects on your performance during your evaluation so you are negatively evaluated and when you get a positive evaluation you will have to get benefits but sometimes if you don't cause loans it means your evaluation might not tally with
- Researcher** : How do you reconcile the discrepancy between the two?
- Credit Officer** : What you wish to reconcile those of the organizational goals first and then personal goals that is my principal. Because I know organizational goals will help me achieve personal goals, so they are very paramount and it may affect me personally , that's my principal that's how I built my career , I try to reconcile them
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : From other banks and the Local Council's
- Researcher** : Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : These clients reveal to us their personal details and in our case, they are exchanged in the presence of other people. As an officer, you sense that the clients really don't like this. In fact, cases where customers feel that the environment is not conducive and end up going to other institutions.

INTERVIEW A.3

- Researcher** : Good morning madam?
- Credit Officer** : Good morning to you
- Researcher** : Sorry for interrupting with your breakfast, but I would like to have a chat with you.

- Credit Officer** : Go ahead.
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : This borrower is a new client, he was asking about our loans, about our basic requirements but he didn't know what he wanted, you know we get cases who don't what they want because when you explain to some one these are our requirements for a particular business when he saw hardships there he diverted, you saw he started from the school to a salon, now the salon could just be starting up you know men's salon and how much they make, a good salon is the one that can raise 25,000/= but now even look at the place Kawempe, I have inspected clients' there with similar business but they tell you of how they can get 2000/= or 5000/= a day that one at times you can just tell when some one walks in that this person doesn't qualify for a loan much as they say that never judge a book by its cover but you can start by asking what securities they have so still they fall out. You saw there were many guys another one had a good business of which it is even not his it is for the father. He didn't have enough security , he was giving me a business to fund actually he was talking he wants money for himself , we don't give such kind of money we give money for a business so I asked him what business do you have he tells me am a teacher when he tells you is a teacher may be you recommend a salary loan, then he says I don't want that salary loan and says he wants may be money for the school, I asked him you want money for the school what do you want to buy he told me he wanted to buy furniture that was the first motive , he wants money for the furniture the school when I started putting restrictions and other requirements for the school he diverted so now you can know what the client wants or the person is just coming to inquire so he is not well conversant with what he wants , he diverted now to another business he said that now I have a salon. And the salon he is telling me doesn't make 100,000/= a month, I even asked him how many machines do you have he told me one.
- Researcher** : Are there lending structures governing the process in this institution
- Credit Officer** : Yes, Exactly we do have them, we have lending manuals where we have requirements of a client who is borrowing money from this organization we are trained on which businesses we are supposed to fund, the requirements of a particular requirement of a client who needs to borrow so by the time a client walks in you know what businesses you are supposed to fund, so we follow our policy
- Researcher** : How do these structures enable you in doing your work?
- Credit Officer** : It enables us in a way it gives restrictions which are good because not every one who will walk in today we are going to give him money, when you look at there are some requirements you need from a particular client, we need a trading license, may be bills of the

business or residence such kind of restrictions from our manual help us we try to screen what we want, in the first instances there are some businesses which are illegal which are not supposed to be funded so we don't fund

Researcher : Is there a way in which these structures impede your work?

Credit Officer : to some extent it does, there are some businesses which you think can generate income but when our policy restricts them say like the schools, we used to give them but now the new policy says schools we should only give them money when they open up an account with us for the school but it is a good venture you know when you get a good school which borrows about 10 million you know that they can raise that money and they are in position to pay that money but because they is a restriction we don't fund, we can only fund when they are operating an account with us, depositing school fees with us. There are also incidents were you find that the loan officer has come with a genuine proposal and as a loan officer you want to support it but you may find that the borrower lacks something small according to the guidelines and then you feel let down by the requirements and procedures and you may decline credit if you are not innovative enough to overcome the limitations of the guidelines

Researcher : I believe you have the lending policies you rely on in doing your work?

Researcher : How would you adjust the policies to cater for situation s like rejecting employee proposal?

Credit Officer : In most cases we follow procedure but in other cases we follow personal judgment because if you are to follow this 100 percent you may end up giving no loan. At times someone qualifies but because of procedures the person is rejected so at times it calls for personal judgment so we deviate a little from them. But we have to careful. Like I had told you I have to go and attend to the other customers.

Researcher : Just in case you realize that the client has personal agendas how do you address this situation?

Credit Officer : First of all we have to scrutinize these borrowers if I find out that this person has a filthy behaviour I report to my supervisor I don't take the decision alone.

Researcher : Are you aware of organizational?

Credit Officer : Yes

Researcher : What extent do they tally with your personal gaols?

Credit Officer : My goals and those of the organization. Ok. The bank has set performance targets for us. Of course it is interested in maximizing its returns at minimum risk. In a month I am required to have a client

portfolio of not less than 50 loans. I am also required to realize 95 percent loan recovery. As a person I want to earn my incentives but this will be possible only if I hit these targets.

Researcher : Why can't you hit the targets?

Credit Officer : These targets are too high. They sometimes depend on factors we cannot control as loan officers.

Researcher : Can you please mention some of such factors that can hinder you from realizing the set targets?

Credit Officer : For example there may no borrowers forthcoming. We may lack facilities like transport to do our work. Because of this I may miss out on my incentives, get a poor evaluation on job and generally harm my prospects for promotion through no fault on my own. This can be frustrating and sometimes you feel you should just abandon the job and do something else

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : Have to get inquires from fellow workers

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : I think we have the problem of getting information from the clients. The environment affects the bank and clients a lot, clients need secrecy like in terms of their security. Some clients have indicated that if some one knew that they have borrowed money in the bank, then they may be attacked.

Researcher : Have you ever experienced such a problem?

Credit Officer : Yes, yes I have experienced it. I dealt with a case when a client was filling in a payment schedule, when another client who had lent to first client , entered and got to know that his creditor had been given a loan by the bank. The two client s got a misunderstanding as a result and the lender forced the other client to pay the loan pre-maturely. Our first client wasn't happy with the bank because he saw it as being responsible for the misunderstanding with the colleague. The client actually returned to the bank and demanded for a top-up of 40 percent. This is actually a case of confidentiality as some clients don't want people to know when and how they have obtained their finances.

INTERVIEW A.4

- Researcher** : Good afternoon madam?
- Credit Officer** : I am O.K
- Researcher** : Can you please give me some few minutes to discuss with you?
- Credit Officer** : It is alright.
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : Well I don't know but I have found him a confident man, about his qualification for a loan am not sure I don't know that will be verified by the verification committee. In other words I can't tell right now.
- Researcher** : Any thing else you would want to talk about regarding your experience with him?
- Credit Officer** : He is a gentleman; he has presented his point's well I think that's what I can say about him at the moment.
- Researcher** : Are there lending structures governing the process in this institution
- Credit Officer** : Yes
- Researcher** : How do they facilitate or impede your work?
- Credit Officer** : They actually cause delays
- Researcher** : What happens in such circumstance?
- Credit Officer** : Delays yet clients require loans that are time bound. What happens is that a bank committee to approve sits monthly; which creates a delay in the approval of loans to clients. Branch departments' on credit have plenty of work to do and because of the workload; loan officers may not work on the principle of first in first out. They may just pick out what to be presented to the committee depending on their priorities. Therefore, when these are presented to the Head Office at times, they get there after some weeks or days delays; before a case of about 9M is considered. Because of the time bound ness, the customer may not benefit and may actually not take the loan if it is approved late, as it may no longer serve the purpose. Sometimes the delay is caused by poor documentation on the side of the clients. This arrangement of proper documentation may take about 5 days thereafter. For loans that are supposed to be mortgaged, the title must be mortgaged before the loan is disbursed. When the papers are sent to the lands office for the title to be out, it may even

- take up to 2 months. The amount required may also affect the timing of the process involved from inception to award / approval.
- Researcher** : I believe there are lending policies you rely on in doing your work, right?
- Credit Officer** : Yes we have policies
- Researcher** : Can you please mention situations which require diversion from these policies?
- Credit Officer** : Some clients, you could find that someone is really good, there is a gentleman here who came if he had been a recurrent client, may be he had a land title the previous loan but now he doesn't have the land title and he has been good , pays well and his banking is good, then may be you could give him a loan on removable items like household property, there are some cases that's when you we really look at situations in the name of not losing a good client lets continue serving him although his security levels may not be good in this case may be we look at his capacity to pay and how he has been servicing his loans.
- Researcher** : How would you adjust these policies to f for these situations?
- Credit Officer** : Me personally I can't adjust them alone we do it as a committee, in this case it's to the loans committee meeting that's when we decide
- Researcher** : In case you notice that the client has personal agendas, how would you address this incidence?
- Credit Officer** : Personal agenda like...?
- Researcher** : May be he says he wants a business loan but you find out that he is going to use it another thing
- Researcher** : Are you aware of the organization's goals?
- Credit Officer** : Yes
- Researcher** : To what extent do they tally with your personal goals?
- Credit Officer** : To a smaller extent, you are trying to mean the way we can make the Bank achieve its won goals, you know in private institutions mainly the institutions want to make money, want to make profit and like in Centenary Bank we have to.... Our goal is serving the rural mainly the people who cant easily access loan financial services from these big institutions or the rural poor, and of course as staff we are looking for means of survival and salary structure and stuff like that so we have to make sure we serve our clientele well, we have to make sure we help the Bank achieve its goals and if we don't help the and give like bad loans in the end we will also not be paid. There is an incentive scheme for loans' officers, like how much money has

you given out in a month, what's your recovery rate, have people paid back so you have to see that your goals are met but in the long run like seven years, really you find that when you are committed its not hard

Researcher : Can you mention instances where the two differ? The two goals

Credit Officer : Yah, sometimes you find like our work rate, compare us with the people who do banking, our salary depends on how much we have worked and yet those people theirs is constant so you find that its really unfair because you find that some months like this month very many people may not be able to pay may be because they want to take their children to School so you end up with a high rate and your incentive is really small or not even there, so you see that something isn't fair , that one of the instances. Therefore Loan officers who are under pressure to meet set targets set by management in order to be able to earn their incentives and to get good job appraisals and enhance their promotion prospects.

Researcher : How do you reconcile the discrepancy between the two?

Credit Officer : Just working hard to meet the targets

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : From Local Council's and neighbours

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : What I have experienced is that the policy requires taking photographs when a business is visited. There are those who don't want photos to be taken, because they do not want other people to know that they have borrowed money. There are cases where some customers feel that the environment is not good for them and therefore they end up going to other places. This is for the corporate. There are places where corporate customers meet to discuss sensitive issues with many people around;

INTERVIEW A.5

- Researcher** : Good afternoon Sir?
- Credit Officer** : I am O.K how are you?
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : Basically he was quite genuine, he didn't try to hide any information from me and if it wasn't for his account being new he qualifies for a loan.
- Researcher** : Are there structures governing the process in this institution?
- Credit Officer** : Yes we have a manual for the borrowers.
- Researcher** : How do they facilitate or impede your work?
- Credit Officer** : Yes they do, facilitate because when you go through these we determine whether one is genuine or a quark, there are many quark borrowers out there but as you know that good things go with bad ones they also impede our work in a way in that you can find a borrower who presents her/ him self well but due to these procedures the committee rejects his application so in that case it impedes our work. Sometimes if you don't have guidelines or policies and procedures in your structure you may go off target. You have to a line with fellow workers like your fellow Credit Officer. Polices help us to monitor our activities so that at the end of the day we achieve organizational goals in a coordinated manner. Any way I should say that guidelines facilitate us
- Researcher** : I believe there are lending guidelines or policies that help you in carrying your work?
- Credit Officer** : Yaah we have guidelines
- Researcher** : Is there cases when you divert from policies?
- Credit Officer** : Yes there are cases when you know the client personally, you know the size of the business and you know his capacity to pay but when you compare with all those written down you find that it cant be possible so in those cases you have to find a way by obeying the policy and letting the client know.
- Researcher** : How would you adjust for that situation you have just mentioned, you find that you know the person and you find that there is this little thing that doesn't get in line with the Bank?

- Credit Officer** : sometimes during the documentation that when you are a little bit like don't stop to look at the figures its like you can estimate some things and all that to suit this client.
- Researcher** : In case you notice that the client has personal agendas in your initial contact with them how do you address such an issue?
- Credit Officer** : you know somewhere somehow you guess the client, there are some people who come basically to steal but somewhere on the way you realize that, most of them when they come here they will tell you I have a security then you have to tell him the issue isn't about security but can you pay the money, so those clients who usually bring I have a land title, I have a vehicle card fast before you even talk about any other thing that's always a bad sign you must be careful
- Researcher** : How do you take care of such a person?
- Credit Officer** : sometimes we try to find a way of denying them the loan in a humble way so that they go away convinced but not hurt
- Researcher** : Are your person goals aligned with those of the organization
- Credit Officer** : Yes
- Credit Officer** : Generally they are in line with my goals but I also as a person have my own goals which I can't reveal to you from here but generally speaking they are in line.
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : Make inquires from banks and the Local Council's
- Researcher** : Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : May be this small exchange of information is hard since you may have around 10 people waiting.

INTERVIEW A.6

- Researcher** : Good morning madam?
- Credit Officer** : I am O.K how are you?
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : You mean the one I have just interacted with
- Researcher** : Yes that one madam.
- Credit Officer** : Ok, at least he seemed new to the system, he is a new person in borrowing he has never borrowed before and he had faith in his business and with his attitude if he is given money he can really expand.
- Researcher** : Any other comment you can have on him?
- Credit Officer** : From the way I looked at him he looked genuine, and I think he can be trusted with Bank money because there are some clients when you talk to them like they try to hide information here and there but this one was open, answering everything I was asking
- Researcher** : Are there lending structure that governs your work and this institution.
- Credit Officer** : Yes you are right.
- Researcher** : Do you have any thing you can say about the lending structure?
- Credit Officer** : Like the restrictions? Other restrictions are like these limited companies, those would like to borrow and they are like the range of fifteen million but we FINCA there are limitations on such companies because there are many restrictions for those particular companies because you are supposed to borrow because it's the company which borrows and not individuals yet if you have taken it up it's a good venture though it is risky to our organization you cant take chances.
- Researcher** : Do this bank has lending guide lines and policies that govern you in doing your work?
- Credit Officer** : Yes
- Researcher** : Can you tell situations that have required you to adjust the rules a little bit?

- Credit Officer** : There are situations when a client walks in , actually there was a client who walked in she came to pay her money but unfortunately she has already gone to grade B, the first loan she wanted about 3 million but she was not qualifying because of the securities so I gave her 2.5 million
- Researcher** : Ideally she wouldn't have gotten the 2.5
- Credit Officer** : she wouldn't have gotten 2.5 just you press so that they add on the collateral so there she passes a bit but unfortunately she has already gone to plan B there you try to get some idea that may be I gave her a lot of money she isn't able to raise the monthly instalments, I would have given her may be 2 million. Another scenario is when the client is in grade C these are clients may be who really disturb because you have been with him or her for quite a long time you just say lets give him some money we bend other wise he is supposed to be blocked or to remain on the same amount of money.
- Researcher** : In case you realize the person has personal motives in looking for a loan that kind of violates your rules or procedures, how do you take care of such people?
- Credit Officer** : like in the other situation where I told you that people take money and use it for other ventures
- Researcher** : You may find that you can clearly see that the person has personal agenda, how do you take care of such a person?
- Credit Officer** : Such scenarios you explain to the client the requirements for the kind of loan he or she would love to take, so we ask do you have this he says no, no do you have this he says no, therefore that person will have to fail and you drop him.
- Researcher** : So that's how you take care of that
- Credit Officer** : So there you can't bend any more, if a person doesn't have a trading license you are scared of giving him the money because these are mobile people they will be in Kampala today and the next day they are in Mukono mobile business.
- Researcher** : Are your person goals aligned with those of the organization
- Credit Officer** : Yes
- Researcher** : Can you mention instances where the two differ? The two goals.
- Credit Officer** : In most cases they are always in line, the Bank is interested in making its workers development so that as it develops the workers also develop along but of course somewhere along the way you may find that there is a diversion may be because of excessive need and all that such that what you are getting may not be enough so that's

where there is some diversion but in most cases they are always aligned.

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : Consult Local Councils.

Researcher : How does the environment affect your work?

Credit Officer : The environment affects the bank and clients a lot, clients need secrecy like in terms of their security. Some clients have indicated that if some one knew that they have borrowed money in the bank, then they may be attacked. I dealt with a case when a client was filling in a payment schedule, when another client who had lent to first client, entered and got to know that his creditor had been given a loan by the bank. The two client s got a misunderstanding as a result and the lender forced the other client to pay the loan prematurely. Our first client wasn't happy with the bank because he saw it as being responsible for the misunderstanding with the colleague. The client actually returned to the bank and demanded for a top-up of 40 percent. This is actually a case of confidentiality as some clients don't want people to know when and how they have obtained their finances.

Researcher : What you have to say about the office environment

Credit Officer : There are places where corporate customers meet to discuss sensitive issues with many people around; policy requires taking photographs when a business is visited. There are those who don't want photos to be taken, because they do not want other people to know that they have borrowed money. There are cases where some customers feel that the environment is not good for them and therefore they end up going to other places. This is for the corporate.

Researcher : What you have to say about the office environment

Credit Officer : Regarding micro clients, when a customer goes into a loans department and finds people in a classroom set up, because of confidentiality, some clients want their requests to be kept confidential. The presence of other people will make it difficult for some clients to volunteer all the required information. Others end up leaving the loans and the bank loses business.

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : Some clients do not want to take photos of their home area.

INTERVIEW A.7

- Researcher** : Good afternoon sir?
- Credit Officer** : Good afternoon how are you?
- Researcher** : I am fine.
- Researcher** : Can you please describe for me the experience with that borrower in handling his request?
- Credit Officer** : He has a problem but he isn't on how to go about it, he didn't know how much he should borrow, he doesn't even sure of how to pay it back and from his earnings if we take off loan he has taken it might be very tight for him to go through, he doesn't also seem knowledgeable on what to buy, he was thinking of buying any land he doesn't the risk of losing the little he has borrowed of which he is going to pay with interest. But he was plain he looked open.
- Researcher** : I believe there lending structure governing the process in this institution
- Credit Officer** : Yes and we are protected by the institution, we ca not just be sued if we make bad loans even that the customers bring guarantors to sign them and provide other security. We protected, there is that legality of selling their assets to recover the loan and we can do that with full protection
- Researcher** : How do these guidelines impede your work?
- Credit Officer** : To some extent it does, there are some businesses which you think can generate income but when our policy restricts them say like the schools, we used to give them but now the new policy says schools we should only give them money when they open up an account with us for the school but it is a good venture you know when you get a good school which borrows about 10 million you know that they can raise that money and they are in position to pay that money but because they is a restriction we don't fund, we can only fund when they are operating an account with us, depositing school fees with us
- Researcher** : Do this bank possess lending guidelines and policies that you rely on when doing your work?
- Credit Officer** : Yes
- Researcher** : Now madam, are there instances where you have to adjust from these policies?

Credit Officer : To a small extent , there was a scenario I was explaining to him well there are clients who walk in these are basically like old client s, they could have got a problem say he/she didn't pay on time a loan but now is processing another loan the committee isn't satisfied with the earlier, the payments weren't good but you as an officer you bend and say may be this person had a problem and am re-assessing the client and am giving him money so that's how you can bend. Because n the first place the performance wasn't good you are re-assessing and may be you want to give him the money.

Researcher : Apart from that incident could there be other times when you have to divert?

Credit Officer : No

Researcher : Are you are aware of the organization's goals

Credit Officer : Am a ware

Researcher : Can you mention instances where the two differ? The two goals

Credit Officer : Like there is an incentive system which is based on the number of people you give out money, the amounts you give out and how much you recover so the more you do that the higher the pay but sometimes somewhere along the way you get stuck, you have to give out to many people but at the same time you have to recover then you cant balance the two and once you cant do that your pay is going down so that's where the problem comes in

Researcher : And what would be your personal goal in the circumstances

Credit Officer : Definitely to make more money but because of the policies in place it can't allow you

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : Consult colleagues

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : Guidelines sometimes are too rigid

INTERVIEW A.8

- Researcher** : Good afternoon madam?
- Credit Officer** : I am O.K how are you?
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : When he walked in of course I knew he had a complaint about the loan, and I told him what kind of loan because I have seen him and that's why I was insisting and sending him to some other gentleman who works on salary loans, so he was claiming that he wanted another loan of which we don't offer him he wants to buy a plot, he wants to buy a boda boda but unfortunately we don't give such kind of loans. So I was advising him to first finish the salary because he has a salary loan with us so that he can apply. Under normal circumstances most people who borrow this money they don't take to the businesses, some people just take for their own personal problems very few, it's a small percentage who inject the money in the businesses but the majority are solving their personal problems
- Researcher** : Are there lending structure governing the process in this institution?
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : yah there are there, we have procedures and guidelines, manuals so obviously like in any process there are lending structures and so we have to follow them my dear, in most cases these guidelines and institution protects us from being sued because of the decisions we make. Fore example sometimes we lend money and customers fail to pay. The institution can not sue us for making a bad decision. However sometimes you can lose out some of the incentives but no legal action against you. So I think basically that's that I can tell you.
- Researcher** : Yes. I believe we have policies that govern the lending process
- Credit Officer** : We have polices or what we call manual
- Researcher** : Is there situations where you need to adjust the rules a little to ease your work?
- Credit Officer** : Yes, for example this one comes he wants to buy property, we would actually prefer somebody who has property as security, the way he is asking for this loan it makes for a clean loan, if he buys that land it will be up to the Bank to decide whether he brings that title to form part of the security so that he is committed to pay it not to lose it. This is someone who wants to borrow to acquire an asset on the side of the Bank it would have been better if he had come with that asset and he wants to mortgage it, we would be standing on a

concrete ground to give him a loan where we already hold security but now we don't hold, but when you look at him now he is a teacher who is a permanent employee of the government, now we take up his salary he is supposed to have pension , we are going to ask him to bring a letter from the ministry confirming that he earns this much and the ministry must confirm that they will be paying his salary here till the loan is retired and even they have to the Bank power take up his pension in case he dies before finishing payment. So when we look at the security he doesn't have but when you look at his job, it looks he is running a continuous job so you bend and keep on adjusting where you see its not favourable..

Researcher : Is there instances where you see that the client has personal agendas that are a bit conflicting with the Bank's procedures, how do you handle such clients?

Credit Officer : Personal agenda like what now?

Researcher : For instance he wants to borrow and divert the money

Credit Officer : Ok that's where we have to go through the pre-sanction analysis, some pose an advantage to the Bank, some to the client , but there are some issues we have to assess for example, I have to prove that he is a teacher, prove that he is earning a salary those ones I can prove from account and see that salary has been coming for the past so many years then I will get a letter from his employer to confirm that, now I have to really go in and see is he really going to buy land, if he is going to buy land there must be a specific avenue since you have to bring that title bid and to make it more concrete we have to pay the vendor, if we are to give him this money we have to pay the person selling to him so that the other person selling comes to the picture and the vendor gives the title deed to the Bank along with the transfer at times we create an account where by no one can remove money either the Bank or the buyer or the vendor, we even encourage the vendor to open an account. You have to take care and go out of the Bank to confirm because it is common people deceive and they divert the money but his proposal looks straight because there are people who come and want to buy a car you cant go and look at the depot

Researcher : Are you are aware of the organization's goals

Credit Officer : Am a ware

Researcher : Can you mention instances where the two differ? The two goals

Credit Officer : Yah, sometimes you find like our work rate, compare us with the people who do banking, our salary depends on how much we have worked and yet those people theirs is constant so you find that its really unfair because you find that some months like this month very many people may not be able to pay may be because they want to

take their children to School so you end up with a high rate and your incentive is really small or not even there, so you see that something isn't fair , that one of the instances. There fore Loan officers who are under pressure to meet set targets set by management in order to be able to earn their incentives and to get good job appraisals and enhance their promotion prospects.

Researcher : How do you find out any other information that isn't necessarily in the lending policy?

Credit Officer : We have various ways of doing this, we have our intelligence net works we have spies for that matter, we have what we call Bank to Bank interaction, we get information from opinion leaders, Local Council's , fellow workers of the loan seeker, police, the list is unending.

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : O.k. we have a problem of hard customer who can not understand and they take a lot of time

INTERVIEW A.9

Researcher : Good afternoon Sir?

Credit Officer : I am O.K

Researcher : Can you describe for me the experience with those borrowers in handling their request?

Credit Officer : when that couple walked in I thought it was the husband who wanted the loan yet in actual sense it's the woman who wanted the loan but it seems it's the man who wants this money for use, me I was interested in the lady's business because she the one who runs it and more to that she has much more experience in that kind of business so the husband is having a job somewhere he is working so he doesn't have much experience in that kind of business so basically what I also thought of was like it is the initiative of the man may be he is the one who gave her capital that's why he was having much interest in talking and with such clients when they walk in as a couple there are problems like it may be the woman running the business but the man may own the money, at the time of signing here we know it's the woman taking the money but in actual sense it's the man taking the money and eventually even the woman defaults, she can come and tell you it's the man who took the money but its you who signed so we want our money much as he also guaranteed

Researcher : I believe there lending structure governing the process in this institution

Credit Officer : Yes

Researcher : How do these facilitate your work?

Credit Officer : Exactly we do have them, we have lending manuals where we have requirements of a client who is borrowing money from this organization we are trained on which businesses we are supposed to fund, the requirements of a particular requirement of a client who needs to borrow so by the time a client walks in you know what businesses you are supposed to fund, so we follow our policy

Researcher : I believe there are lending policies you rely on in doing your work. Explain how they enhance your dealing with borrowers and mention situations which require diversion from these policies

Credit Officer : these lending guidelines are too theoretical and they are not practical at all. They do not fit some of our cultures here. We find that these policies are written but when you try to apply them they may not work

Researcher : How would you adjust the policies to cater for the situation?

Credit Officer : At times someone qualifies but because of procedures the person is rejected so at times it calls for personal judgment so we deviate a little from them. But we have to be careful. Like I had told you I have to go and attend to the other customers.

Researcher : Just in case you realize that the client has personal agendas how do you address this situation?

Credit Officer : I report to my supervisor I don't take the decision alone.

Researcher : Are you aware of the organisational goals?

Credit Officer : Yes

Researcher : To what extent do your personal goals tally with the organization goals?

Credit Officer : Of course as an individual I would say they are co-current it's a going concern as the organization grows and is also growing in terms of management, of promotion because this is not where I started from I started from a very lower scale, you keep growing with organizational goals you are heading for promotions I would say

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : From other banks and the Local Councils and even land offices

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : Some clients are just thieves that's why we are so strict

INTERVIEW A.10

- Researcher** : Good afternoon madam?
- Credit Officer** : I am O.K how are you?
- Researcher** : How is work?
- Credit Officer** : We are pushing on
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : You mean the client whom I have just talked to?
- Researcher** : Exactly
- Credit Officer** : That client was not so green about the system. He knew the lending procedures for this bank. Such clients are easy to deal with. Like him who know and appreciate the way the bank do things while evaluating their requests.
- Researcher** : Are there lending structure governing the process in this institution
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : yah there are there, we have procedures and guidelines, manuals so obviously like in any process there are lending structures and so we have to follow them my dear, so I think basically that's that I can tell you
- Researcher** : Yes. I believe we have policies and procedures that you rely on when you are doing your work
- Credit Officer** : we have polices or what we call manual
- Researcher** : Is there situations where you need to bend the rules a little to ease your work?
- Credit Officer** : Yes, for example this one comes he wants to buy property, we would actually prefer somebody who has property as security, the way he is asking for this loan it makes for a clean loan, if he buys that land it will be up to the Bank to decide whether he brings that title to form part of the security so that he is committed to pay it not to lose it. This is someone who wants to borrow to acquire an asset on the side of the Bank it would have been better if he had come with that asset and he wants to mortgage it, we would be standing on a concrete ground to give him a loan where we already hold security

but now we don't hold, but when you look at him now he is a teacher who is a permanent employee of the government, now we take up his salary he is supposed to have pension , we are going to ask him to bring a letter from the ministry confirming that he earns this much and the ministry must confirm that they will be paying his salary here till the loan is retired and even they have to the Bank power take up his pension in case he dies before finishing payment. So when we look at the security he doesn't have but when you look at his job, it looks he is running a continuous job so you bend and keep on adjusting where you see its not favourable..

Researcher : Is there instances where you see that the client has personal agendas that are a bit conflicting with the Bank's procedures, how do you handle such clients?

Credit Officer : Personal agenda like what now?

Researcher : For instance he wants to borrow and divert the money

Credit Officer : Ok that's where we have to go through the pre-sanction analysis, some pose an advantage to the Bank, some to the client, but there are some issues we have to assess for example, I have to prove that he is a teacher, prove that he is earning a salary those ones I can prove from account and see that salary has been coming for the past so many years then I will get a letter from his employer to confirm that, now I have to really go in and see is he really going to buy land, if he is going to buy land there must be a specific avenue since you have to bring that title bid and to make it more concrete we have to pay the vendor, if we are to give him this money we have to pay the person selling to him so that the other person selling comes to the picture and the vendor gives the title deed to the Bank along with the transfer at times we create an account where by no one can remove money either the Bank or the buyer or the vendor, we even encourage the vendor to open an account. You have to take care and go out of the Bank to confirm because it is common people deceive and they divert the money but his proposal looks straight because there are people who come and want to buy a car you cant go and look at the depot

Researcher : Are you are aware of organizational goals

Credit Officer Yes

Researcher : To what extent do personal goals tally with organization goals?

Credit Officer : they are enabling me in a way, much as I have got experience in this micro finance lending program additionally am pursuing a post graduate diploma in banking which will help me in future to grow may be with the organizational goals because what I know is that with time they will want real Bankers and I will be having the qualifications, am setting that target or that goal to become a banker.

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : Consult loan committee, LC, other banks

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : The biggest problem is information sharing and expressing what they exactly want

INTERVIEW A.11

- Researcher** : Good afternoon sir?
- Credit Officer** : Good afternoon to you
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : In fact that lady was inquiring about loans on behalf of her husband, they have a diary farm in Mutungo and currently they have about eight animals already in production so she wanted money to buy more cows and increase production and that's her main source of business.
- Researcher** : I believe there lending structure governing the process in this institution.
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : Definitely there are for example for the case of this lady it has more of an agricultural loan because money is going into farming so in that case you don't ask about things about stock or whatever, the money you give the client is based on projections, productivity of the cows, we rate basing on the situation on the ground.
- Researcher** : How do you find the institutional hierarchy?
- Credit Officer** : Well, the hierarchy to some extent affect our work:
- Researcher** : Can you please explain how it affects your work.
- Credit Officer** : O.k. one day, A client approached me in a need for a loan, After giving me important information about himself, the client left . 30 minutes after I received a call from my supervisor inquiring whether the case was ready.
- Researcher** : What was your reaction?
- Credit Officer** : Of course I was worried because if I had failed to work on it I would loose out on my incentives.
- Researcher** : Now officer how did you conclude the issue
- Credit Officer** : I had to make a proper analysis to see that the loan given out was a good one before any decision was taken. The whole process was to take 4-5 days to ascertain the correctness of the information but I could not make it. I found my self in difficult situation because the

top official threatened that if I do not approve very quickly then I would be fired from job and then if loan went bad I would be requested to recover on penalty which is difficult.

Researcher : Does this bank have lending guidelines that govern you in doing your work?

Credit Officer : Yes

Researcher : Can you tell situations that have required you to bend the rules a little bit?

Credit Officer : There are situations when a client walks in , actually there was a client who walked in she came to pay her money but unfortunately she has already gone to grade B, the first loan she wanted about 3 million but she was not qualifying because of the securities so I gave her 2.5 million

Researcher : Ideally she wouldn't have gotten the 2.5

Credit Officer : She wouldn't have gotten 2.5 just you press so that they add on the collateral so there she passes a bit but unfortunately she has already gone to plan B there you try to get some idea that may be I gave her a lot of money she isn't able to raise the monthly instalments, I would have given her may be 2 million. Another scenario is when the client is in grade C these are clients may be who really disturb because you have been with him or her for quite a long time you just say lets give him some money we bend other wise he is supposed to be blocked or to remain on the same amount of money.

Researcher : In case you realize the person has personal motives in looking for a loan that kind of violates your rules or procedures, how do you take care of such people?

Credit Officer : like in the other situation where I told you that people take money and use it for other ventures

Researcher : You may find that you can clearly see that the person has personal agenda, how do you take care of such a person?

Credit Officer : Such scenarios you explain to the client the requirements for the kind of loan he or she would love to take, so we ask do you have this he says no, no do you have this he says no, therefore that person will have to fail and you drop him.

Researcher : So that's how you take care of that

Credit Officer : So there you can't bend any more, if a person doesn't have a trading license you are scared of giving him the money because these are mobile people they will be in Kampala today and the next day they are in Mukono mobile business.

- Researcher** : Are your person goals.
- Credit Officer** : Yes
- Researcher** : What extent do your goals tally with those of the organization?
- Credit Officer** : At times they differ but I for one would say they are the same because what I did in Makerere is different form what am doing now, now am even pursuing a post graduate diploma that is line with what am working so there also other opportunities like they give you targets if you achieve them you can be recommended at higher post
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : Basically the Local Councils.
- Researcher** : Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : Some workers are not faithful, they tell us lies that why we go for Local Councils.

INTERVIEW A.12

- Researcher** : Good morning sir?
- Credit Officer** : Good morning to you
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : Generally he has some experience he wasn't so green basing on the answers he was giving to the questions I was asking him, it seems he isn't so green about our procedures.
- Researcher** : Are there lending structures governing the process in this institution?
- Credit Officer** : Yes
- Credit Officer** : Although, the lending guidelines govern my work but they are not practical. I do not know but some cultures are not considered in designing the guidelines. The guidelines say that we are not supposed to allow gifts from clients but some cultures they give gifts to guest but the bank looks at as unethical. I visited a client and they offered me a gift which I declined from community. The clients were angry and they took me as a disrespected character. They made campaign against me and stopped members of their community to approach me for a loan. My portfolio started doing badly until my colleagues informed me from the area about the cause
- Researcher** : How do they facilitate your work?
- Credit Officer** : I had to be initiated into the community as an adopted member and I had to go under cultural orientation and I had to explain to community members my past behaviour. Thereafter, clients started coming back
- Researcher** : Do you have lending guidelines that govern your work?
- Credit Officer** : Yes we also have a lending structure which generally governs our work. There are guidelines which we normally follow when someone is asking for a loan, for instance we request for the L.C. letter, like securities if there are there like the land title or if some one has any other security like a car log book we can also accept that and the guarantors definitely those can not miss, they have to be responsible people in cause the borrower fails to pay we simply contact those people. There are other things like the manuals those ones we follow and finally there is the loan committee which sits after the loan application form has been filled by the customer they go through that form and find out whether that person qualifies or not and there after

there is also our team which in our language we call it the inspection team, that one we send it to the site and try to inspect generally how things are going on whether the business is there or not, whether the business is profitable or not, such that we don't lose our money generally that is our procedure.

Researcher : Do you have guidelines or policies that help you in carrying your work?

Credit Officer : Yaah we have guidelines

Researcher : Is there cases when you divert from policies?

Credit Officer : Yes there are cases when you know the client personally, you know the size of the business and you know his capacity to pay but when you compare with all those written down you find that it can't be possible so in those cases you have to find a way by obeying the policy and letting the client know.

Researcher : How would you adjust for that situation you have just mentioned, you find that you know the person and you find that there is this little thing that doesn't get in line with the Bank?

Credit Officer : Sometimes during the documentation that when you are a little bit like don't stop to look at the figures its like you can estimate some things and all that to suit this client

Researcher : In case you notice that the client has personal agendas in your initial contact with them how do you address such an issue?

Credit Officer : You know somewhere somehow you guess the client, there are some people who come basically to steal but somewhere on the way you realize that, most of them when they come here they will tell you I have a security then you have to tell him the issue isn't about security but can you pay the money, so those clients who usually bring I have a land title, I have a vehicle card fast before you even talk about any other thing that's always a bad sign you must be careful

Researcher : How do you take care of such a person?

Credit Officer : Sometimes we try to find a way of denying them the loan in a humble way so that they go away convinced but not hurt

Researcher : Are you aware of organizational goals?

Credit Officer : Yes

Researcher : I believe you have personal goals

Credit Officer : Of course you do have my goals that's why am here working.

Researcher : Are your goals aligned with those of the organization

Credit Officer : No, I do not think so. The goals for this organization are different from mine. You know this is a profit making organization if I may say. They are after maximizing returns without considering so much the efforts of internal customers.

Researcher : How do you reconcile the discrepancy between the two?

Credit Officer : The discrepancy?

Researcher : Yes.

Credit Officer : Well I hope I have got what mean. The bank has performance targets for us which are too high and quite often we can not hit the targets. As a matter of fact, we are forced to deal with many clients at a go in order to earn our incentives. The target of fifty clients a month is too high. We need to do a lot of activities for instance we have to appraise, approve, monitor and then recover payments from at least two customers a day. This is a hard task. What I do personally is to adjust my methods of work. I have to visit clients as a matter of procedure but I may not carry out a thorough analysis of the proposals. This is a mistake but which am a ware of but I do not want to miss my incentives. Even important issues can be missed during the process of appraisal

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : Land officer, Local Councils and consult fellow workers

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : Big numbers sometimes we fix them in a small room which affects their privacy. Some clients end up giving up because they do not want to be known

INTERVIEW A.13

- Researcher** : Good morning sir
- Credit Officer** : Good morning to you
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : That customer is not guanine because he does not tell the truth.
- Researcher** : Aah you mean some customers are not faithful?
- Credit Officer** : Quite often the do so and some are very hard to deal with.
- Researcher** : Can you remember any incident when you have ever dealt with such a customer you are referring to?
- Credit Officer** : Yes, one hard customer approached me in this bank. I conducted an appraisal and I forwarded the case to the committee for approval. The committee recommended that we should visit the client's home before we grant the loan. This customer refused us from visiting her home. Probably this customer never wanted to be exposed. The loan was approved in principle but the customer refused to be visited.
- Researcher** : I believe there lending structure governing the process in this institution
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work/impede your work?
- Credit Officer** : Yes we have a lending structure which generally governs our work. There are guidelines which we normally follow when someone is asking for a loan, for instance we request for the LC letter, like securities if there are there like the land title or if some one has any other security like a car log book we can also accept that and the guarantors definitely those can not miss, they have to be responsible people in cause the borrower fails to pay we simply contact those people. There are other things like the manuals those ones we follow and finally there is the loan committee which sits after the loan application form has been filled by the customer they go through that form and find out whether that person qualifies or not and there after there is also our team which in our language we call it the inspection team, that one we send it to the site and try to inspect generally how thing are going on whether the business is there or not, whether the business is profitable or not, such that we don't lose our money generally that is our procedure.

Researcher : Can you please mention situations which require diversion from these policies?

Credit Officer: Some clients, you could find that someone is really good, there is a gentleman here who came if he had been a recurrent client, may be he had a land title the previous loan but now he doesn't have the land title and he has been good , pays well and his banking is good, then may be you could give him a loan on removable items like household property, there are some cases that's when you we really look at situations in the name of not losing a good client lets continue serving him although his security levels may not be good in this case may be we look at his capacity to pay and how he has been servicing his loans.

Researcher : How would you adjust these policies to cater for these situations?

Credit Officer : Me personally I can't adjust them alone we do it as a committee, in this case it's to the loans committee meeting that's when we decide

Researcher : Are you aware of organizational goals

Credit Officer : Yes

Researcher : I believe you have goals as a person but I would like to know whether your goals tally with those of the organization.

Credit Officer : Yes I have my own goal but they are not in line with those of this organization. This is basically because this organization has created high performance targets for us and for us to gain incentives we must achieve the set targets. The salaries we are getting is nothing, when we fail on incentives we can not achieve our goals.

Researcher : How do you reconcile the discrepancy between the two?

Credit Officer : The discrepancy?

Credit Officer : Here we have so many customers as you can see. But I have to attend to them fully so that they understand the procedure of borrowing money in this bank. But this is not possible if you want to earn your incentives. I have to adjust my working methods in order to hit the target. For instance some customers I just give them the guidelines to read for themselves without getting my guidance.

Researcher : How do you survive problems that may arise out of not understanding the guidelines

Credit Officer : Yeah problems can come up especially if the client is illiterate. I have a scenario where I dealt with the situation where the borrower bought her guarantors. The undertaking by these guarantors was technical in the legal sense and the lending guidelines require us to go through the guidelines with the guarantors with the help of Credit Officer. Due to pressure of work and in a bid to meet my

targets. What I did was to give forms to the guarantors and simply signed. The borrower later defaulted and we had to debit the guarantors account to recover the banks money. The guarantor became mad claiming that he did not know that he had given the bank authority to take a way his money. As a human being I felt bad to this guarantor but I had nothing to do at that time. I had to meet my targets in order to earn my incentives, sustain my job and my life. But I also know that majority of customers are facing such problem.

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : From other banks and even Local Councils

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : O.k. what I think is that we have a problem of clients opening up. Some do not tell us the truth

INTERVIEW A.14

- Researcher** : Good afternoon sir?
- Credit Officer** : Good afternoon to you
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : with the lady, her experience about the business I would say she has less experience in that kind of business, it could be may be they have just started running the business say two or three months back and she doesn't have much say about that business as I have told you earlier that it was the man who was initiating much talking its when I get to the ground that I will really know the truth
- Researcher** : I believe there lending structure governing the process in this institution
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : We have a detailed procedure we follow, I have gone through it with Mr. Bukenya, we fill application forms, we need guarantors, security, and all that, then we have a committee that sits and verifies the applications presented.
- Researcher** : Anything else?
- Credit Officer** : Yes we have a manual for the borrowers, and there are various guidelines we always look at; of course we have to look at the account, how active does this person trust the banking culture and in case we give him money will he be in position to carry money on the account without any difficulty. Then we look at whether the person has got the capacity to pay, I mean sources of income, business or may be this person gets salary from somewhere. We also look at other things like security the other requirements of a loan
- Researcher** : Do this bank possess lending guidelines and procedures?
- Credit Officer** : Yes
- Researcher** : So there are lending policies in this institution not so?
- Credit Officer** : Yes
- Researcher** : To what extent do you rely on them?
- Credit Officer** : I think up to around 50 percent to 70 percent

Researcher : Why not 100 percent

Credit Officer : Because there are some situations when the guidelines are manipulated

Researcher : Aah Can you point for me one circumstance in which the policies are manipulated

Credit Officer : One of a case when one loan officers took advantage of the banks lending guidelines and the access to potential borrowers that they have. In that particular case, our loan officer was able to persuade the client to borrow money on behalf of this loan officer. The loan officer using his contacts in the bank managed to get a loan of 10 million shilling approved. The borrower was given one million for his cooperation while our loan officer pocketed the rest.

Researcher : What exactly happened?

Credit Officer : Like most evil schemes this one also came to light when our loan officer could not service the loan and we were forced to attach the assets of the borrower in whose name the loan was granted. Fearing to loose his assets the borrower revealed the whole plot insisting that he was misled by our own officer that the deal was clean. Testimony from local council officials and elders indicated that the borrower was person of good character and high integrity."

Researcher : Are you a ware of the organizational goals?

Credit Officer : Yes

Researcher : Now Credit Officer are the organizational goals aligned with your personal goals?

Credit Officer : I won't say that they are perfectly in line but as a person I have goals

Researcher : In what case may they not be in line?

Credit Officer : I don't know how you will perceive me but there is an instance where I would need to earn more than I earn but because the organization is after profit maximization my goals can't be met. I am also forced to adjust my working time and just visit the clients as a matter of formality to make sure that hit the target and earn my incentives

Researcher : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?

Credit Officer : we have a spy network among us and Local Council's

Researcher : Please tell me about any other experiences you have had when dealing with clients

Credit Officer : Customers fear to be known by other people that they have got loans

INTERVIEW A.15

- Researcher** : Good afternoon sir?
- Credit Officer** : I am fine how are you?
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : He has a problem he is not knowledgeable. He doesn't know the amount he wasn't and even the lending procedure. Such person may find it hard to obtain- the loan
- Researcher** : I believe there lending structure governing the process in this institution
- Credit Officer** : Lending structure?
- Researcher** : I mean the hierarchy
- Credit Officer** : Hierarchy for this organization? I have worked here for some few months; I do not understand the hierarchy you are talking about.
- Researcher** : I mean the hierarchy which helps you to carry out your work
- Credit Officer** : Well I think the problem for this organization is lack of orientation. I do not whether they we have formal hierarchy or not. What I know is that. But I know we have supervisor and loan committee at my branch and I am supposed to report to those two in case of any problem
- Researcher** : I believe there lending policies you rely on when dealing with clients
- Credit Officer** : Yes at least I know those are guidelines
- Researcher** : How would you adjust the guidelines to cater for situations?
- Credit Officer** : Like there are some legalities where by they are some legal matters where you are not clear about, so before you process something that binds before you waste someone' time you first inquire or consult the guidelines and make sure that you are moving in the right direction because you always want to appraise someone who is going to get money. You don't want to apprise someone whose case will be rejected.
- Researcher** : Are you a ware of the organizational goals?
- Credit Officer** : Yes

- Researcher** : How are the organizational goals aligned with your personal goals?
- Credit Officer** : My goals and those of the organization. Ok. I don't think that they are at par. The bank has set targets for us. It is interested in maximizing its profits at minimum risk. In a month I have a client portfolio of not less than 50 loans. I am required to realize loan recover loans to almost 100 percent. This is incredible as a person I can not hit that target
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : Consult the committee and even fellow workers
- Researcher** : Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : environment is the main issue here. We do not have enough space to handle the customers

INTERVIEW A.16

- Researcher** : Good afternoon madam?
- Credit Officer** : Good afternoon to you
- Researcher** : Can you describe for me the experience with that borrower in handling his request?
- Credit Officer** : I found him ok. He was open and genuine about his security and other property and I think he qualifies for the loan.
- Researcher** : I believe there lending structure governing the process in this institution
- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : I have the opportunity to interact with customers especially new customers, the procedures here are easy to follow to know what type of customer come, what kind of borrower he is and most customers who have defaulted and left I know them so by the type I interact and get convinced to put in the next stage, the managerial stage because me a Credit Officer I now have push him to the credit manager
- Researcher** : How do these guidelines impede your work?
- Credit Officer** : People who are heading the structure are forcing us to do evil things
- Researcher** : What do you mean by evil things?
- Credit Officer** : Sometimes we fail to do our work properly and we go by their words because we fair to be sacked.
- Researcher** : Can you tell me one scenario where such evil circumstance happened?
- Credit Officer** : A customer wanted about 15M shillings, claiming that he had a construction company. He had no security attached to his request so the Credit Officer refused to recommend his request without all the necessary information required. The request was thus forwarded to the committee for discussion because apparently, the case was from a 'senior person in government the case was approved because it was taken as a matter that had been forwarded by the senior official and the loan granted. To-date, the loan has never been cleared and has been handed over to auctioneers.
- Researcher** : I believe there lending structure governing the process in this institution

- Credit Officer** : Yes
- Researcher** : How do these facilitate your work?
- Credit Officer** : Basically our interaction between the clients and the Bank is strictly between officer and the person, in case of anything you are not clear with you report to your supervisor who is the credit administrator in the department. Therefore, when these are presented to the Head Office at times, they get there after some weeks or days delays; before a case of about 9M is considered. Because of the time bound ness, the customer may not benefit and may actually not take the loan if it is approved late, as it may no longer serve the purpose. Sometimes the delay is caused by poor documentation on the side of the clients. This arrangement of proper documentation may take about 5 days thereafter. For loans that are supposed to be mortgaged, the title must be mortgaged before the loan is disbursed. When the papers are sent to the lands office for the title to be out, it may even take up to 2 months. The amount required may also affect the timing of the process involved from inception to award/approval.
- Researcher** : Are you a ware of the organizational goals?
- Credit Officer** : Yes
- Researcher** : How are the organizational goals aligned with your personal goals?
- Credit Officer** : To some extent. This bank makes us to delay in our services to clients. I want to hit my targets but when clients' proposals are presented to the Head Office they over delay to give us responses Because of the time some customers run a way and those who stay you find that the loan is not beneficial. The bank is after avoiding risks by cutinizing the documents
- Researcher** : How do you find out any other information that isn't necessarily provided by sticking to lending guidelines?
- Credit Officer** : From other banks and Local Council's and we visit land offices
- Researcher** :.Please tell me about any other experiences you have had when dealing with clients
- Credit Officer** : Some clients are illiterate and what I have realized is that they are easier to deal with that the so called literate.
- Credit Officer** : Even I have also experienced interruptions and interferences especially phone interference from other officers. This happens every day and all times.

APPENDIX B

INTERVIEWS WITH BORROWERS

INTERVIEW B.1

- Researcher** : Good morning madam
- Client** : Good morning sir.
- Researcher** : Madam you are here for loan, aren't you?
- Client** : Yes sir
- Researcher** : Please describe your experience with the lending officer when handling your request?
- Client** : Ok. The loan officer helped me to understanding my project viability before officially going to the bank. I was worried; I was about to fail to borrow because I thought I would fail to achieve my targets from that loan. I also thought that my property, which is used as security, would be at risk.
- Researcher** : Are you a ware of the bank's expectations of you as a client lient before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me
- Client** : Ok, I have to have an account, security, and also land title.
- Researcher** : What preparations do you make to meet these expectations?
- Client** : How am I prepared?
- Researcher** : Yes
- Client** : In this instance we are getting a joint loan with my and it is a business loan, we hope that after studying our income through that business of ours, we came down and decided that we should expand on our business through getting a loan
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Of course I am not comfortable but I have to give in the information to obtain what I want. Suppose now I want a loan of seven million and they ask me my monthly income I may exaggerate it and at the same time I may hide some of the expenses that I incur. Such that the liquidity at hand is excess
- Researcher** : Now suppose that you have to bring out this information how do you go about it?

Client : The Bank in any way you know they are also human beings they may not know someone's understanding of feelings, they may not know what exactly what you have and what you don't have , they aren't angels to know that you are telling the truth or not. They are not so technical first of all, they are not the ground, they are in the bank I have all the liberty and the chances to say anything because am in the field, I know when the season is bringing in so much and I know when it isn't and I can come when the season is so bad and say am doing so well because they are not in the field, we people in the field know better when the business is booming and when we are at a recess.

Researcher : What did the Credit Officer do well when handling your request? What did the loan officer fail to do well?

Client : Ok they are trying to help me.

Researcher : What exactly has a bank failed to do for you?

Client : The problem I found at the beginning was that they asked me for some requirements which I didn't have. I was told to bring my accountability of the business which expertise to do I did not have. Actually I do not balance my books and cash flow. I had to look for auditors but things were not easy. I was asked for expenditure, which I did not have idea of what really it meant. Auditors were expensive and this delayed loan officers to approve my loan. Loan officers asked me for cash sales since I had failed to get the real books. Things were not coordinating until I was helped by loan officer. Officers were okay and I have found them useful. There is no discrimination, they use first come first serve system.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : Yes, I have been waiting for news about the loan about a month ,if there was any problem they would have informed me otherwise, may be they haven't got the money yet since the borrowers are very many. I met all the requirements, I filled the forms, I took the guarantors there so am just waiting, I expect they are going to give me the money.

Researcher : So thank you very much sir.

Client : You are welcome.

INTERVIEW B.2

- Researcher** : Good morning sir
- Client** : Good morning to you
- Researcher** : Can you please explain to me your experience with lending officer when handling your request
- Client** : At first I went to their Manager (Bank Manager). I explained my case to him at a personal level, I imagine my title is worth 9M/=, I had a bodaboda of about 1.5M/= plus the household items. I wanted 3 million. The Manager explained to me that he had understood by problem but then he had no authority over the decision of the loan committee and he could not change things. I even thought of selling my bodaboda but I abandoned the idea. Many of my customers in the shop even ran away, you know the competition in shops. But a relative of mine, actually my sister in-law who is Headmaster in Jinja lent me 500,000/= after I had explained to he my problem. In fact she did not require any interest on it and I solved the problem. So I accepted the 800,000/= of the bank and started businesses.
- Researcher** : Are you a ware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the expectation
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : Yes, I will take the photographs, and then get the necessary documents.
- Researcher** : Let me ask you another question in line with that. Did you get information from any where about getting the loans?
- Client** : I have some friends who have acquired some loans from Banks but I have not been involved myself. They advised me on what to so that I go through in obtaining a loan. I also concentrated on security because I knew that they need it. I had to go to ministry of lands to ensure that I have my land title. So by the time loan officer asked about my security as prepared. I had my land title, guarantors and account number and I got the loan very fast.
- Researcher** :.How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : There is some information where by some of it is private, but being a Bank and you trust it as I have been in this Bank since 1998 so I have to trust it.

Researcher : So would that mean that you are comfortable

Client : Yes am comfortable with it.

Researcher : Is there information that they require that you don't want to give?

Client : Like which information is that?

Researcher : Regarding these loans

Client : You never know they may even ask you about your personal life

Researcher : What did the Credit Officer do well when handling your request?
What did the loan officer fail to do well?

Client : OK. I think handled me well and explained to me the requirements.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : This reception is not good. It affects us from giving information to the loan's officer.

INTERVIEW B.3

- Researcher** : Good afternoon madam?
- Client** : Good afternoon to you. .
- Researcher** : Madam Can you tell me your experience with the Credit Officer in the conversation you have just had?
- Client** : My experience, what I experienced from him, ok I have been coming here several times, sometimes escorting my friends and so on, but for today's case he has given me his time, he has accommodated my unnecessary questions as I may take them unlike other days when you come, when you come other days they just tell you come back another time we are busy, we are going for such and such business, especially now that I had just come to inquire about getting a loan for somebody who is not available, they would have just told me, make sure that person is there before we can talk
- Researcher** : Are you a ware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the expectation
- Client** : I know the bank wants to pay in time, have guarantors and security
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : Yes, I will take the photographs, and then get the necessary documents.
- Researcher** : Are you saying there is a problem with the information, what are you trying to mean?
- Client** : What am trying to mean is that if some one has something which is at least giving up something and you want two things they should first make a good comparison like we talked about security that they first go and check, like me I own the school then the saloon, then after to go to my residence when they don't find there things which are enough or which can multiply that money that you can fail to get the money. I own the school but when you come to my home you won't find there a fridge or something which is valuable so that one can make me fail. Yet I know I collect five million in two months in the school.
- Researcher** : So when you were you provided with this form there is a way you changed a bit you even asked more questions, did you learn more information from this form?

- Client** : Ok, I got some information from that's why I asked a lot because that's what I was waiting for. I came here I don't know anything about this so I couldn't ask but after I got some information then I had questions to ask
- Researcher** : What did the Credit Officer do well when handling your request? What did the loan officer fail to do well?
- Client** : The officer explained to me the loan repayment and the cost is reasonable to a greater extend only 2 percent after all non one will lend you money for free but I would be happier for instance if the interests was reduced further.
- Researcher** : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?
- Client** : This reception is not good. It affects us from giving information to the loan's officer.

INTERVIEW B.4

- Researcher** : How is your request being handled?
- Client** : Am not satisfied with the way the officer is handling. My loan is for a restaurant, I operate a personal restaurant and I needed to improve on its appearance because I had got customers.
- Researcher** : Do not you think that the officer is following the bank procedure?
- Client** : No. No. That one I don't agree at all. These people do not fairly treat us. I requested for a loan of one million then after they had tossed me for a very long time they called me and told me to sign for the money, which I did. They are not fair on cost they tell you to bring the vehicle and transport for officers for inspissations. They make you to wait and sometimes they can tell you to come back tomorrow
- Researcher** : Are you a ware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the expectation
- Client** : The bank expects me to pay back, have security, guarantors and land title.
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : Yes, I will take the photographs, and I have opened up an account
- Researcher** : How do you find the information the bank official ask you on behalf of the bank?
- Client** : I find it okay.
- Researcher** : How comfortable was it for you to disclose that information?
- Client** : No I was comfortable because I have to tell them the truth, once I lie I will be the loser, it doesn't help me to lie when I want something. I would rather tell you the truth then you help me when you know. In case something happens it will be known that she told us a b c d so we can't help her.
- Researcher** : What did the Credit Officer do well when handling your request? What did the loan officer fail to do well?
- Client** : He failed to convince me about the loan repayment. Loan repayment is not convenient. You may want to use the money first and then start repaying. But this bank you are supposed to repay

effectively one week after borrowing .They want us to pay on time. I you do not pay in time they disturb your guarantors.

Researcher : Madam Can you please comment on the environment of this bank?

Client : The office where we normally sit is not conducive because I don't want people to know how much money I want from the bank. This is private, I want people to know where I come from, my background. This becomes difficult for me but because you want the money, you tell the loan officer. However some people keep quite and they lose out.

INTERVIEW B.5

- Researcher** : Good afternoon madam
- Client** : Good morning sir
- Researcher** : Madam what have you come for in this bank?
- Client** : I want to get a loan for my business
- Researcher** : Have you succeeded?
- Client** : Not yet sir.
- Researcher** : How many times have you acquired loan in this bank?
- Client** : This is my second time. You know a friend of mine has a saloon in Lugazi and wanted to sell it to me. I paid her for the machines but I needed 3 more driers and general improvement in the saloon to make it a first class saloon. So again I thought of borrowing, you know if you are used to borrowing and you know in business borrowing is inevitable. So I decided to come to them. I wanted to change the Credit Officer to another one but the other friend of mine discouraged me from changing.
- Researcher** : Why did you want to change the officer?
- Client** : The first time I dealt with him, he was not friendly. So when I approached him, this time he was quite better to me than he used to be. He looked at my account and smiled and just told me to organize my securities and guarantors so I am going to receive IM/= to put in the saloon and think they trust me now,
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me
- Client** : Ok, I have to have an account, security, and also land title.
- Researcher** : What preparations do you make to meet these expectations?
- Client** : How am I prepared?
- Researcher** : Yes
- Client** : Because if we could get the proceedings from our business and use them to expand the business it would affect the business in such a

way that we wont have adequate milk to supply to our Clients, because if we can get like ten million and buy more cows then we need to feed them, we also need to have people to help us at the farm, we will not get the milk there and then it will affect us so much but if we come in for a loan we shall have to spare this money in instalments and it may not affect us directly

- Researcher** : Now Madam, I can guess that you are here for loans are not you?
- Client** : Yes.
- Researcher** : I understand the bank requires you to give some information about yourself. Do you feel there is too much information that you are required to give in before you are given the loan by the Bank?
- Client** : Yes, there is some unnecessary information because the aim of getting a loan, the security and where you reside should be the information asked because that is relevant but sometimes they ask information which is minor.
- Researcher** : Like what?
- Client** : Family income, total gross income, I really doubt whether people give them the right thing.
- Researcher** : In your case if the Bank insists that you have to give in this information what do you do?
- Client** : You have to comply but it might be wrong since you are using estimations.

INTERVIEW B.6

- Researcher** : Good morning madam
- Client** : Good morning sir
- Researcher** : I understand you are here for loan, am I right?
- Client** : Yes
- Researcher** : How is your request being handled?
- Client** : Am not happy with the way these people have treated me.
- Researcher** : Why are not happy?
- Client** : She reduced the amount of money to Shs.300, 000 and yet they took a very long time to give me the money. I think it was because I was new. And at the end of the 1st month, I was supposed to bring back the 1st instalment. If I knew I would not borrow form them they end up not solving the problem and put you on pressure, you inconvenience your friends to guarantee you, they are not fair. You walk a lot, use money but yet the amount you get will be very little.
- Researcher** : Are you a ware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the bank's expectations
- Client** : guarantors and good bank statement and security
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : I made advance study of what I thought the bank normally wants. I found out that security and the bank statement were the major requirements. Of course as you see me, I did not have a good bank statement , what I did , I borrowed some money from my friend and deposited it to my account so that it can look reasonable. I got the loan and immediately paid back my friends money and continued to use the balance on my account
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Yes at times I do, sometimes when you tell them how you stand they may not give you what you want
- Researcher** : How have you prepared to meet the bank's expectation?

Client : how am I prepared?

Researcher : Yes

Client : We are getting a joint loan with my husband and it is a business loan, decided that we should expand on our business through getting a loan

Researcher : Hmm

Client : Because if we could get the proceedings from our business and use them to expand the business it would affect the business in such a way that we wont have adequate milk to supply to our clients, because if we can get like ten million and buy more cows then we need to feed them, we also need to have people to help us at the farm, we will not get the milk there and then it will affect us so much but if we come in for a loan we shall have to spare this money in instalments and it may not affect us directly

Researcher : How have you been helped?

Client : Ok. The loan officer helped me to understanding my project viability before officially going to the bank. I was worried, I was about to fail to borrow because I thought I would fail to achieve my targets from that loan. I also thought that my property which is used as security would be at risk. I also got help from my friend's son who works in Kampala. He introduced me to the loan officer who helped about my proposal and guided me on some serious issues to consider in order getting a loan.

Researcher : Why didn't you get professional advice?

Client : Oh, I can not manage them, they are too expensive. My project is booming and I am grateful to the loan officer

Researcher : What exactly has a bank failed to do for you?

Client : The problem I found at the beginning was that they asked me for some requirements which I didn't have. I was told to bring my accountability of the business which expertise to do I did not have. I was asked for expenditure, which I did not have idea of what really it meant. Things were not coordinating until I was helped by loan officer. Officers were okay and I have found them useful. There is no discrimination, they use first come first serve system.

Researcher : How have you prepared?

Client : For actually I do prepare my self. Some people do plan but me I did not plan. When you know that you are going to get money, some people plan by getting friends who can give them money to put on his account such that the bank accepts that the person's account is operating and this makes it easier for you to get the loan. The bank

normally looks at the loan statement (person's bank statement) and other bank statements if you have and the land title. But me actually I did not prepare. But I have friend who prepared by getting money into his account.

Researcher : Have you prepared your self before facing the bank officials?

Client : Sir, by the time you get a loan you have a plan. I have a poultry business of local type and I have gained a lot from it and I planned to do this because the other poultry type is not easy to handle since the death rate is high. I do not have professional knowledge in poultry and I stopped in O level. There fore I have decided to concentrate on the local ones. But what I am telling the bank is that we need some training on how to use the loan.

Researcher : Have you prepared your self before facing the bank officials?

Client : Yes, I will get photographs, and then get the necessary documents.

Researcher : Let me ask you another question in line with that. Did you get information from any where about getting the loans?

Client : I have some friends who have acquired some loans from Banks but I have not been involved myself. They advised me on what to so that I go through in obtaining a loan. I also concentrated on security because I knew that they need it. I had to go to ministry of lands to ensure that I have my land title. So by the time loan officer asked about my security as prepared. I had my land title, guarantors and account number and I got the loan very fast.

Researcher : Have you prepared your self before facing the bank officials?

Client : I made advance study of what I thought the bank normally wants. I found out that security and the bank statement were the major requirements. Of course as you see me, I did not have a good bank statement , what I did , I borrowed some money from my friend and deposited it to my account so that it can look reasonable. I got the loan and immediately paid back my friends money and continued to use the balance on my account

Researcher : How many times have you come for loan in this bank?

Client : This is my second time to look for a loan but the first time I got from another bank.

Researcher : How comfortable are you in disclosing information to the bank?

Client : Yah, yah, yah, suppose now I want a loan of seven million and they ask me my monthly income I may exaggerate it and at the same time I may hide some of the expenses that I incur. Such that the liquidity at hand is excess

Researcher : Now suppose that you have to bring out this information how do you go about it?

Client : The Bank in any way you know they are also human beings they may not know someone's understanding of feelings, they may not know what exactly what you have and what you don't have , they aren't angels to know that you are telling the truth or not. They are not so technical first of all, they are not the ground, they are in the bank I have all the liberty and the chances to say anything because am in the field, I know when the season is bringing in so much and I know when it isn't and I can come when the season is so bad and say am doing so well because they are not in the field, we people in the field know better when the business is booming and when we are at a recess.

Researcher : How do you find the information the officer asks you to provide?

Client : There is some information where by some of it is private, but being a Bank and you trust it as I have been in this Bank since 1998 so I have to trust it.

Researcher : So would that mean that you are comfortable

Client : Yes am comfortable with it.

Researcher : Is there information that they require that you don't want to give?

Client : Like which information is that?

Researcher : Regarding these loans

Client : You never know they may even ask you about your personal life

Researcher : Now madam do you have any difficulty in telling the Bank any information that's required of you? What ever they ask you?

Client : Yes at times I do, sometimes when you tell them how you stand they may not give you what you want

Researcher : uum

Client : You tell them you want a loan you are sure you can pay it back and they ask you many questions and then they judge it through their own analysis that you may not be able to pay the loan, yet in your own understanding you know that in such and such time you will be able to pay the loan, may the assets you are required are not worth the money that you want to raise but at that moment you have an idea that can generate more money but because you don't have in enough assets to stand in as security then they may not give you that amount that you need and once you are not given that amount then you are not going to succeed in what you want to do. So in certain instances you forced to hide some information such that you aim at getting that

amount that you want and do what you think will satisfy your needs and then find any other means to pay it back.

- Researcher** : I hard you saying that you are ready; tell me about your self
- Client** : Me my self as you see me am trying my level best so that I may reach my expectation because what I started with I first established a school which has already boomed and am now with it ,I even opened a boarding section
- Researcher** : Is it a boarding school, a primary school?
- Client** : it is a day and boarding school primary school
- Researcher** : Where is located
- Client** : It is within this Kawempe-Mbogo
- Researcher** : I hard you talking about a saloon, where is it?
- Client** : The saloon is located within the area that is Tula near the school in Kawempe Mbogo
- Researcher** : How are you linking the school and the saloon?
- Client** : When I was talking with the other lady I told her that ok, the saloon is mine but it is being operated there are some workers there, so for me I just go there to check but I don't run the place they just bring the money I told them to bring. Am at the school most of the time to teach and administer the school
- Researcher** : Do you think there was too much or too little information that you were required to give. In your interaction with the credit officer did you feel there was too much information, were you comfortable with all the information that was required of you?
- Client** : Ok, before it was little but when we came together in a big room, I was asked this and that and she told me what I wanted to know and I came out with a bit which has satisfied me but there are some other conditions which I wanted to know because on my side just I see them that if some one is not within those conditions and he has an access they can look and see what to do but the information has stopped them from getting the loan, they said you must follow the conditions so that one it gave me burden. Some of us are not comfortable with the conditions so we expect as other things are that when you reach something and it is some how complicated there are some ways of simplifying so that someone can go through. There is a question I asked that if some one doesn't have assets but has a vision, has a school which is well built I was talking on my behalf which has everything when I come and you say you want to see my house and every thing there as security, because some people plan for the

business and not home because he know that things will done that's our problem.

Researcher : Are you saying there is a problem with the information, what are you trying to mean?

Client : What am trying to mean is that if some one has something which is at least giving up something and you want two things they should first make a good comparison like we talked about security that they first go and check, like me they will the school then the saloon, then after to go to my residence when they don't find there things which are enough or which can multiply that money that you can fail to get the money. I own the school but when you come to my home you won't find there a fridge or something which is valuable so that one can make me fail. Yet I know I collect five million in two months in the school.

Researcher : So when you were you provided with this form there is a way you changed a bit you even asked more questions, did you learn more information from this form?

Client : Ok, I got some information from that's why I asked a lot because that's what I was waiting for. I came here I don't know anything about this so I couldn't ask but after I got some information then I had questions to ask

Researcher : I understand the bank requires you to give some information about yourself. Do you feel there is too much information that you are required to give in before you are given the loan by the Bank?

Client : Yes, there is some unnecessary information because the aim of getting a loan, the security and where you reside should be the information asked because that is relevant but sometimes they ask information which is minor.

Researcher : Like what?

Client : Family income, total gross income, I really doubt whether people give them the right thing.

Researcher : In your case if the Bank insists that you have to give in this information what do you do?

Client : You have to comply but it might be wrong since you are using estimations.

INTERVIEW B.7

- Researcher** : Good morning sir
- Client** : Good morning sir
- Researcher** : I understand you are here for loan am I right?
- Client** : Yes
- Researcher** : How is your request being handled?
- Client** : I was attended to well
- Researcher** : Are you satisfied with your request?
- Client** : Yes, For the Bank to respect your request, you must have satisfied them on different grounds like security, having a bank account and recommendation by the Local Council's. I was also helped to understand by the loan officer that when I can not *meet all* these then I ca not receive the amount I wanted and it is okay because the bank must protect its elf.
- Client** : OK, I am borrowing for a second. I first borrowed 700,000/=, I wanted to re- capitalize my shop I had some problems with my husband which affected the shop. It almost ran down but a friend of mine linked me to this bank. I had wanted 2m/= because I had enough securities. OK. The Officer first appeared to be very hard on me. He even doubted the authenticity of my land title. But later on they call me and I was told the committee in charge of loans had recommend only 700,000/=. I was quite disappointed and wanted to reduce the money.
- Researcher** : How is your request being handled?
- Client** : Am not happy with the way these people have treated me.
- Researcher** : Why are not happy?
- Client** : She reduced the amount of money to Shs.300,000 and yet they took a very long time to give me the money. I think it was because I was new. And at the end of the 1st month, I was supposed to bring back the first instalment. If I knew I would not borrow form them they end up not solving the problem and put you on pressure, you inconvenience your friends to guarantee you, they are not fair. You walk a lot, use money but yet the amount you get will be very little.
- Client** : It was okay.
- Researcher** : How do you find the loan repayment?

- Client** : The loan repayment depends on the money I borrowed. The more I borrow, the more I pay at in specific time period.
- Client** : Loan repayment is not convenient. You may want to use the money first and then start repaying. But this bank you are supposed to repay effectively one week after borrowing. They want us to pay on time. If you do not pay in time they disturb your guarantors.
- Researcher** : How do you find the cost loan repayment?
- Client** : The cost is reasonable to a greater extent after non one will lend you money for free but I would be happier for instance if the interests was reduced further.
- Researcher** : How is your request being handled?
- Client** : Am not satisfied with the way the officer is handling. My loan is for a restaurant, I operate a personal restaurant and I needed to improve on its appearance because I had got customers.
- Researcher** : Do not you think that the officer is following the bank procedure?
- Client** : No. No. That one I don't agree at all. These people do not fairly treat us. I requested for a loan of one million then after they had tossed me for a very long time they called me and told me to sign for the money, which I did. They are not fair on cost they tell you to bring the vehicle and transport for officers for insipissations. They make you to wait and sometimes they can tell you to come back tomorrow
- Researcher** : Madam, can you tell me your experience with the Credit Officer in the conversation you have just had?
- Client** : My experience, what I experienced from him, ok I have been coming here several times, sometimes escorting my friends and so on, but for today's case he has given me his time, he has accommodated my unnecessary questions as I may take them unlike other days when you come, when you come other days they just tell you come back another time we are busy, we are going for such and such business, especially now that I had just come to inquire about getting a loan for somebody who is not available, they would have just told me, make sure that person is there before we can talk
- Researcher** : Can you take me through your experience with the Credit Officer you have just interacted with?
- Client** : Joseph is a good man, this is my first time to meet him but he has shown me love, he is good with the customers. He has been friendly to me and gave me enough time. He has explained to me the procedures of getting a loan.
- Researcher** : Any other observations

Client : Since it is my first time nothing

Researcher : Looking at this credit officer what do you think she failed to do well in handling your request, may be where she needs to change.

Client : I feel may be the credit officer is neglecting me because it has been too long, almost three weeks. I may think may be the credit officer is corrupt in one way or the other trying to make a delaying tactic so that I may be forced to give her some money to process my request fast, so am really perplexed. I have come here several times finally she has told me she will call me. When you want a loan you want it for a purpose when it delays it becomes useless. There is too much time wasting since we are giving them interest they have to be considerate of our time.

Researcher : How is your request being handled?

Client : OK. I think here when you are organized and truthful, they don't disturb you they always help you. But many people here don't know any thing about loans at all, they just walk in and they get disappointed. But me I am lucky my project is OK. I have even expanded now.

Researcher : Can you please explain to me what you think the bank had failed to do for you.

Client : What I saw as hard was to tell my wife to sign. My wife and I saw it as something hard because we thought that the bank was going to take our land. Getting the guarantors was very difficult because some people fear to stand in for. It had actually stopped me from getting the loan till I got a friend who helped me.

Researcher : Looking at the credit officer what do you think he should have done that he didn't do?

Client : There is a kind of bureaucracy which I didn't expect, I knew that I would fill a form there and then but now he has told me I have to pick a form where I have to pay some money, take it home, fill it then come back and their security, if I have told you I am a teacher it means that I am on the payroll then why do I have to go and bring my land title or log book, I think its not necessary once they confirm that you are a salary earner then they should just attach the salary only.

Researcher : From all the credit officer asked you do you think he asked you too much information or too little?

Client : Well I don't think so, but any way he has just asked too many questions which I didn't expect him to ask for example how I run my poultry farm along with my other duties.

Researcher : Is there some information you would not have wanted him to ask you or something he asked you that you were not comfortable with:

Client : Yes, My private life

Researcher : Are you hopeful that you are going to get this loan?

Client : Yes, I have been waiting for news about the loan about a month ,if there was any problem they would have informed me otherwise, may be they haven't got the money yet since the borrowers are very many. I *met all* the requirements, I filled the forms, I took the guarantors am just waiting

INTERVIEW B.8

- Researcher** : Good afternoon madam?
- Client** : Good afternoon to you. .
- Researcher** : Can you please describe for me your experience with the bank official you interacted with?
- Client** : In the first instance he had accepted to give me the money but after checking my account he realized that I had money then he told me to use that money yet I never actually wanted to use it though I knew that money was there. I wanted to get money from Centenary because it doesn't have difficult procedures. I wanted to use that money in a period of two months and then I return it immediately, however, it seems am failing to get it.
- Researcher** : How have you found the loans' officer in handling your request?
- Client** : He had handled me well but in the concluding the matter, he told me to use the money I have on my account yet I don't want to use it.
- Researcher** : Madam, can you please comment on the environment of this bank?
- Client** : The office where we normally sit is not conducive because I don't want people to know that am borrowing. This is private, this becomes difficult for me but because you want the money, you tell the loan officer.
- Researcher** : Madam, can you please comment on the environment of this bank?
- Client** : This reception is not good. It affects us from giving information to the loan's officer. Customers tend to be reserved as they fear to be known and how much they want to get from the bank
- Researcher** : Can you please explain to me how you have prepared to meet the expectations of the bank?
- Client** : Though I have salary loan where they deduct their money every month , i have to plan for my expenditures so that i survive I prepared in the following way, working hard and foregoing some needs so that we get what we want in the future. For example I earn a profit of 4000-5000/= and I save it. But I have children at home, I can save 4000 a day only to go back home and one of the kids is sick, domestic demands and I end up using the money. But we try hard to use that money for other things.
- Researcher** : Is there information that they asked or required of you that you didn't provide?

Client : No

Researcher : Is there some information you would not have wanted him to ask you or something he asked you that you were not comfortable with:

Client : What they said, asked me may be to come with my husband, my husband to fill title blah, you know sometimes you can do something confidential and yet the bank wants your husband to be told, so sometimes it can be

Researcher : So you hide that information from them, you don't want them to know

Client : No I told him the truth, there is no need of telling him lies but by all means to get the money you have to be with your husband

INTERVIEW B.9

- Researcher** : Good afternoon madam
- Client** : Good morning sir
- Researcher** : Madam what have you come for in this bank?
- Client** : I want to get a loan for my business
- Researcher** : Have you succeeded?
- Client** : Not yet sir.
- Researcher** : Please describe your experience with the lending officer when handling your request?
- Client** : This is my second time. You know a friend of mine has a saloon in Lugazi and wanted to sell it to me. I paid her for the machines but I needed 3 more driers and general improvement in the saloon to make it a first class saloon. So again I thought of borrowing, you know if you are used to borrowing and you know in business borrowing is inevitable. So I decided to come to them. I wanted to change the credit officer to another one but the other friend of mine discouraged me from changing.
- Researcher** : Why did you want to change the officer?
- Client** : The first time I dealt with him, he was not friendly. So when I approached him, this time he was quite better to me than he used to be. He looked at my account and smiled and just told me to organize my securities and guarantors so I am going to receive IM/= to put in the saloon and think they trust me now,
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me what the bank expects from you?
- Client** : Ok, to get guarantors, open up an account which I already have and security.
- Researcher** : What preparations do you make to meet these expectations?
- Client** : How am I prepared?
- Researcher** : Yes

Client : Obtaining my savings to repay and knowing the procedures.

Researcher : How comfortable are you in disclosing information about yourself and your project to the bank?

Client : Yes am not comfortable

Researcher : I understand the bank requires you to give some information about yourself. Do you feel there is too much information that you are required to give in before you are given the loan by the Bank?

Client : Yes, there is some unnecessary information because the aim of getting a loan, the security and where you reside should be the information asked because that is relevant but sometimes they ask information which is minor.

Researcher : Like what?

Client : Family income, total gross income, I really doubt whether people give them the right thing.

Researcher : In your case if the Bank insists that you have to give in this information what do you do?

Client : You have to comply but it might be wrong since you are using estimations.

Researcher : looking at the credit officer what do you think he should have done that he didn't do?

Client : There is bureaucracy, bureaucracy, I expected to fill a form there and then but now he has told me I have to pick a form where I have to pay some money, take it home, fill it then come back and their security, I think its not necessary once they confirm that you are a salary earner then they should just attach the salary only.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : We are many as clients so may be they fail to serve us. And also the bureaucracy and unnecessary questions

INTERVIEW B.10

- Researcher** : Good afternoon madam
- Client** : Good afternoon to you.
- Researcher** : Please describe your experience with the lending officer when handling your request?
- Client** : Am not happy with the way these people have treated me.
- Researcher** : Why are not happy?
- Client** : She reduced the amount of money to Shs.300, 000 and yet they took a very long time to give me the money. I think it was because I was new. And at the end of the 1st month, I was supposed to bring back the first instalment. If I knew I would not borrow form them they end up not solving the problem and put you on pressure, you inconvenience your friends to guarantee you, they are not fair. You walk a lot, use money but yet the amount you get will be very little.
- Researcher** : Are you a ware of the bank's expectations of you as a client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the bank's expectations
- Client** : guarantors and good bank statement and security
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** :s: I made advance study of what I thought the bank normally wants. I found out that security and the bank statement were the major requirements. Of course as you see me, I did not have a good bank statement , what I did , I borrowed some money from my friend and deposited it to my account so that it can look reasonable. I got the loan and immediately paid back my friends money and continued to use the balance on my account
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Yes at times I do, sometimes when you tell them how you stand they may not give you what you want
- Researcher** : What did the credit officer do well when handling your request? What did the loan officer fail to do well?

Client : At first he did not explain to me well. I have some friends who have acquired some loans from Banks but I have not been involved myself. They advised me on what to do so that I go through in obtaining a loan.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : The main factor is security. May be even describing your self and telling them who you are.

INTERVIEW B.11

- Researcher** : Good afternoon madam?
- Client** : Good afternoon to you. .
- Researcher** : Can you take me through your experience with the Credit Officer you have just interacted with?
- Client** : Joseph is a good man, this is my first time to meet him but he has shown me love, he is good with the customers. He has been friendly to me and gave me enough time. He has explained to me the procedures of getting a loan.
- Researcher** : Any other observations
- Client** : Since it is my first time nothing
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the bank's expectations
- Client** : Basically they want you to open up an account with them and knowing your home of residence.
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : I concentrated on security because I knew that they need it. I had to go to ministry of lands to ensure that I have my land title. So by the time loan officer asked about my security as prepared. I had my land title, guarantors and account number and I got the loan very fast.
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Am very comfortable
- Researcher** : Is there some information required of you that you do not want to provide
- Client** : No, I give in what they want as long as I have it.
- Researcher** : looking at this Credit Officer what do you think she failed to do well in handling your request, may be where she needs to change.
- Client** : I feel may be the credit officer is neglecting me because it has been too long, almost three weeks. I may think may be the credit officer is

corrupt in one way or the other trying to make a delaying tactic so that I may be forced to give her some money to process my request fast, so am really perplexed. I have come here several times finally she has told me she will call me. When you want a loan you want it for a purpose when it delays it becomes useless. There is too much time wasting since we are giving them interest they have to be considerate of our time.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : Me I have all the requirements. May be can say that in explaining my need I feared a bit because other Clients were around me hearing my explanation

INTERVIEW B.12

- Researcher** : Good afternoon madam?
- Client** : Good afternoon to you. .
- Researcher** : Can you take me through your experience with the credit officer you have just interacted with in handling your request?
- Client** : OK. I think here when you are organized and truthful, they don't disturb you they always help you. But many people here don't know any thing about loans at all, they just walk in and they get disappointed. But me I am lucky my project is OK. I have even expanded now.
- Researcher** : Are you aware of the bank's expectations of you as a client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the bank's expectations
- Client** : I am expected to pay back the money promptly and not to default.
- Researcher** : Have you prepared yourself before facing the bank officials?
- Client** : I told that I have a project which is doing well so I will use some money from it to pay back.
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Am comfortable
- Researcher** : Is there some information required of you that you do not want to provide
- Client** : No, like I told you when you tell them the truth they tend to be helpful.
- Researcher** : What did the credit officer do well when handling your request? What did the loan officer fail to do well?
- Client** : This gentleman did his work well. I was explained to every thing and I understood. I do not think he has failed.
- Researcher** : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Researcher : What did the credit officer do well when handling your request?
What did the loan officer fail to do well?

Client : May this congested environment, sometimes you feel insecure in
giving in

INTERVIEW B.13

- Researcher** : Good morning madam
- Client** : Good morning sir
- Researcher** : I understand you are here for loan am I right?
- Client** : Yes
- Researcher** : Please describe your experience with the lending officer when handling your request?
- Client** : OK, I am borrowing for a second. I first borrowed 700,000/=, I wanted to re- capitalize my shop I had some problems with my husband which affected the shop. It almost ran down but a friend of mine linked me to this bank. I had wanted 2m/= because I had enough securities. OK. The Officer first appeared to be very hard on me. He even doubted the authenticity of my land title. But later on they call me and I was told the committee in charge of loans had recommend only 700,000/=. I was quite disappointed and wanted to reduce the money.
- Researcher** : Are you a ware of the bank's expectations of you as a client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the expectation
- Client** : I have to take photos, open up an account and getting guarantors
- Researcher** : Have you prepared your self before facing the bank officials?
- Client** : Sir, by the time you get a loan you have a plan. I have a poultry business of local type besides the shop, and I have gained a lot from it and I planned to do this because the other poultry type is not easy to handle since the death rate is high. I do not have professional knowledge in poultry and I stopped in O level. There fore I have decided to concentrate on the local ones. But what I am telling the bank is that we need some training on how to use the loan.
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Yes I am comfortable and you have to tell them the truth.
- Researcher** : What did the credit officer do well when handling your request? What did the loan officer fail to do well?

Client : they have failed to give me my full loan amount which I asked for

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : The main factor is security and respecting the repayment schedule

INTERVIEW B.14

- Researcher** : Good afternoon sir
- Client** : Good afternoon to you. .
- Researcher** : I understand you are here for loan am I right?
- Client** : Yes
- Researcher** : Please describe your experience with the lending officer when handling your request?
- Client** : It was okay
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the expectation
- Client** : Of course I am expected to pay back the loan and security
- Researcher** : Have you prepared yourself before facing the bank officials?
- Client** : By understanding the procedures before I go and expected to take passport photos.
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : I am comfortable
- Researcher** : What did the Credit Officer do well when handling your request? What did the loan officer fail to do well?
- Client** : they have failed to give me my full loan amount which I asked for
- Researcher** : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?
- Client** : The banking environment is not conducive

INTERVIEW B 15

- Researcher** : Did you get advice from anywhere?
- Client** : I got help from my friend's son who works in Kampala. He introduced me to the loan officer who helped about my proposal and guided me on some serious issues to consider in order getting a loan.
- Researcher** : Why didn't you get professional advice?
- Client** : Oh, I can not manage them, they are too expensive. My project is booming and I am grateful to the loan officer
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request?
- Client** : Yes
- Researcher** : Discuss for me the expectations
- Client** : Me myself as you see me am trying my level best so that I may reach my expectation because what I started with I first established a school which has already boomed and am now with it ,I even opened a boarding section
- Researcher** : Is it a boarding school, a primary school?
- Client** : It is a day and boarding school primary school
- Researcher** : Where is located
- Client** : It is within this Kawempe Mbogo
- Researcher** : I heard you talking about a saloon, where is it?
- Client** : The saloon is located within the area that is Tula near the school in Kawempe Mbogo
- Researcher** : How are you linking the school and the saloon?
- Client** : When I was talking with the other lady I told her that ok, the saloon is mine but it is being operated there are some workers there, so for me I just go there to check but I don't run the place they just bring the money I told them to bring. Am at the school most of the time to teach and administer the school
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?

Client : Am not comfortable .He has asked me a lot of information regarding my life. I have already told him that I have the school and the school and now he is asking how I manage the two that is not necessary

Researcher : How have you found the loans' officer in handling your request?

Client : My request was not attended to may be due to my unnecessarily questioning.

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : The main factor is security and respecting the repayment schedule

INTERVIEW B.16

- Researcher** : Good afternoon madam?
- Client** : Good afternoon to you. .
- Researcher** : Madam can you tell me your experience with the credit officer in the conversation you have just had?
- Client** : My experience, what I experienced from him, ok I have been coming here several times, sometimes escorting my friends and so on, but for today's case he has given me his time, he has accommodated my unnecessary questions as I may take them unlike other days when you come, when you come other days they just tell you come back another time we are busy, we are going for such and such business, especially now that I had just come to inquire about getting a loan for somebody who is not available, they would have just told me, make sure that person is there before we can talk
- Researcher** : Are you aware of the bank's expectations of you as a Client before it can handle your request
- Client** : Yes
- Researcher** : Please discuss with me the bank's expectations
- Client** : They want you to open up an account with them and visiting your home of residence.
- Researcher** : Have you prepared yourself before facing the bank officials?
- Client** : I have security I had my land title, guarantors and account
- Researcher** : How comfortable are you in disclosing information about yourself and your project to the bank?
- Client** : Am very comfortable
- Researcher** : Is there some information required of you that you do not want to provide
- Client** : No,
- Researcher** : looking at this credit officer what do you think she failed to do well in handling your request, may be where she needs to change.
- Client** : He has not failed to do anything I am waiting and I know I will get the money

Researcher : Please share with me any other factor that you think affected your chances of obtaining credit from the bank?

Client : The problem of guarantors

APPENDIX C:

INTERVIEWS ON CREDIT FLOW TO WOMEN-OWNED SMEs

INTERVIEW C.1

Int: As a lady borrower, do you find that being a woman facilitates or makes it difficult for you to access credit? Why?

Res: Me as Juliet, I am more comfortable dealing with a male officer because you know naturally, like poles repel and unlike poles attract each other. Naturally you feel very comfortable when being handled by a man. I don't know why. Even if both a man and a woman are actually going to give you the same terms and amount of money.

Int: What do you mean by naturally?

Res: Yeah, naturally in the sense that that even when God was creating us, he created a man and a woman. He could have created one sex but he created a woman for a man. So for me when I am in this bank, I deal with men alone.

Int: Is it your choice to deal particularly with men or its actually designed like that here in the bank?

Res: No, may be coincidence. You know the very first time I was borrowing, we were many seated there on that bench but there were many officers both male and female. So when I was seated and watching others being served, I saw a male officer the way he was handling customers, he was smiling. So I was paying that when my turn to move reaches, I will go to him. And by chance he was the next person to serve me and indeed he handled me very well. I don't see him nowadays here. I don't know why but he was good and understanding, kind. Actually he was good. So when I finished that loan, even the second loan he is the one who handled it. But he was still good.

This time when I came for another one he had left but even the one I went to was good but he is a bit strict. But you just have to know what is required and fulfil it, he will always be good. You pay in time, you keep the security, you don't tell lies, like that.

But there are also some tough men, they will always back at you, they quarrel and you even prefer women. But generally men are better for me than women. Some women are tough; a woman to a woman is not easy. When you come she looks at you with a tough eye, she looks at the way you are dressing, the hair style, etc. And for us women are like that to fellow women. Very few women will choose to go to female loan officers when there is a choice of male officers. Even at the counter when paying, the way those bugirls (small girls) handle you is not as men do.

Int: Is there any instance or situation when you feel that dealing with a woman is more advantageous than dealing with men?

Res: Very really. Ok if you happen to find a good woman officer, she is just good and that one will be very good and kind when you get her. May be in other fields like restaurants and bars, there you find every body is kind and good and smiling but in offices, men are more kind than women.

Of course I have seen many men also want to be served by women and you will find them smiling. But a big number of men also prefer men because they seem to understand the real problems of the world especially when we talk of making money or doing business.

There is one particular instance where I met a very good woman officer, in Seeta where my daughter studies from. When I went to ask for a place, the lady was so charming, welcoming and up to now she is a very good friend of mine. I don't know whether it is their own business and that they have to be very good. But generally women to fellow women are hard.

Even you look at nurses and doctors, for me I will always prefer a male doctor and nurse although there are very few male nurses.

Int: Do you think being a woman puts at some disadvantage when requesting for a loan in a bank?

Res: In some way yes, because generally women are perceived poor, that they don't own property. What we normally have belongs to our husbands and then you have to convince the officer that the property is yours, the house or title is yours and other things.

For a man, he is expected to own property and they will expect that the property he is presenting as security is his even though men are more crooks or "bayaye"; they will always present property which is not theirs.

But nowadays women are knowledgeable and can do business better than many men. And very few women cheat the bank because for us women we have that woman element in us and fear such things; suppose they take you to prison and things like that, your children. That is why I am saying women should be more trusted when giving out loans than men. But for me I have always been able to repay my loan and I have been doing it honestly by myself.

Although I said a man officer is better than females, he does not cover up for anything, he does not do anything for me to be able to repay. I'm just honest and focused. Ok he helps me when applying for the loan, advising you, encouraging you and generally monitoring you, which is good for me. Because sometimes if I'm not monitored I may relax and sit back but he reminds you, he calls you, and he has been good generally.

Int: Ok, what do you do?

Res: I run two businesses; I have a wholesale shop which deals specifically in flour, wheat, oil and rice. I also have a poultry business at home.

Int: What is your education level?

Res: I stopped in senior three and dropped out because of school fees. I am married with six children; one is going to join university this year. But I know how to read and write. Don't you hear my English is good! My husband also helps me a lot, he is the one who taught me more English because even at home we use it sometimes. He is a Japadhola.

Int: Then your age?

Res: Between 45 and 49 years.

Int: That is the end and thank you very much for your time.

INTERVIEW C.2

Int: As a female borrower, do you find that being a woman facilitates or makes it more difficult for you to access credit? Explain clearly why.

Res: Oh year. You know women are known to be weak as compared to men. When it comes to security, they will ask you how you acquired it whether it is your own and not for your husband.

Now for me my husband works very far and rarely stays at home and when I was presenting the security I could read the mind of the officer, she is a lady, she thought that may be I was taking advantage of my husband not being around and that I was aiming at stealing the man's property. But they inquired from my guarantors and they confirmed that the property was mine.

Int: Did you not have the documents of ownership of the property to prove that it was yours?

Res: Some of it is in my names and some is in the husband's names but we are a family so long as we have agreed as a family to use the property to acquire a loan then no one should question.

But for her she seemed not to have been convinced. So it is sometimes difficult because you are a woman.

Some times the women are ignorant about many things regarding the procedure and then they have to explain to them. For men they always assume that they know and they may not them through other processes.

And of course the size of the loan. When I first borrowed in pride, they advised us women to form groups which would act as security and we borrow together but not as individuals, that because we were poor.

Some times you can be a woman but when you can actually do business very well and pay the loan without any help. But for them, it was after sometime when in groups that you mature into a big borrower and there you can get more money individually. For you do you here of men groups/ It is always women groups because we are perceived to be poor and therefore we can not afford to repay big loans which is not always correct. Of coarse some women are very poor and they can only be strong if they form groups.

Int: How do you compare being served by a male officer as compared to a female one? Explain your experience.

Res: There is no much difference because they will all ask you for the same things and you have to present them in order for them to give you the money. They all ask for security, LC letters, guarantors, etc. So to me they are all the same.

Int: In your experience, are there instances when you have found more advantages to deal with one as opposed to the other?

Res: Ok sometimes men are more better than women in the way they handle women borrowers. For me I have dealt with both of them but the men a little bit kind in the way they handled me. For the woman, although she was my fellow woman, sometimes when I had problems with paying the monthly deposits, she wouldn't understand yet she is a woman.

There was a time when my husband refused to pay fees for one of our children and I used the money that I had prepared to take to the bank to pay his school fees. So I came and explained to her my problem because my husband had another wife and the other wife is not happy about my children going to school, that is why she influences my husband not to pay fees for my children. So I explained to her but she told me that my family problems are not her concern and that whether my husband had how many wives, I had to pay in time. She appeared to be ignorant about women problems especially women who are not married. So that is what I can say about her.

Int: Any particular way in which men appeared to be better than women?

Res: Yes, these men understand, they encourage you and give you some time when you are faced with a problem. There is a time when I wanted to sell my freezer and buy a better one and I had to first sell the one I had and yet it was part of the security. I came and talked to the credit officer and he allowed me to do it and I was able to improve my business which was a good thing for me. But if it was the other woman I don't think she would have allowed me. He was very understanding. Sometimes we imagine that our fellow women are going to be kind and understanding to us but it is not always the case. Some women apart from being women, they have never experienced real women problems. Especially those young girls. They have grown up in soft life and after university they come to work. Some of them are even not married and can not appreciate the problems of marriage and the way it affect your business. But generally they are all (women and men) good and bad depending on their nature. Some women are good and even men are good. Some women say they want to be served by fellow women, that because may be women are more understanding when it comes to women it comes to women's problems. Many are indeed happy with the female officers and they don't get any problems but some few can tell you funny things about the female officers. But as for me I wouldn't mind which one serves me as long as they are understanding. It depends on the individual's character regardless of male or female. But it is also a fact that male officers are good to female counter parts.

Int: So as we come to the end, what do you do?

Res: I operate two shops in Kyebando and a diary cow.

Int: Do you operate it alone or with anybody else?

Res: I can say alone because my husband does other things and comes into the business once in a while although it is well known to the bank that it is a family business.

Int: What is your education level?

Res: I stopped in S.1 and went for a tailoring course but I didn't do tailoring for long and then I started a shop and even got married.

Int: Your age?

Res: Above 38 years.

Int: Thank you very much for your time.

Res: You are welcome, but for me every credit officer should be taught very well how to handle customers, whether they are male or female. Like this woman now

handling the loan I have, she is good. I have not found any problem with her at all. She is kind and you can explain your problem to her and she actually understands. She has the heart of the real woman.

Int: What is particular about the way she handles you?

Res: It's not only me. Even the other people that she has been serving say she is good to them. I don't know whether it's her good character or it is professionalism. Now like today, I just came to tell her that I was not able to raise the money accordingly but she has promised to cover me and I am going to pay it at once next Wednesday. I told her my problems and she understood them. She even calls you to find out how you are doing and she has been consistent since I started dealing with her.

But I am not saying men are bad. In fact men are better but this one is really good and understanding.

Int: Ok, thank you once again.

Res: You are welcome.

INTERVIEW C.3

Int: As a female borrower, do you find that being a woman facilitates or makes it more difficult for you to access credit? Please explain your answer.

Res: In which way? There is nothing special that is given to you as a borrower. We are treated the same way as men. We are all asked to present the same requirements and if you qualify you get a loan. May be with others but for me I have not been helped in any way because I am a woman.

Int: What is the sex of your loans officer? I mean the one working on your request?

Res: She is a woman although the earlier one in the first loan was a man.

Int: How do you compare between the two officers in the way you deal and relate with them as a borrower?

Res: Ok, in the first loan it was a salary loan. You know I am a teacher, actually a Deputy Head teacher of a primary school. So there the requirements are simple and straight. They are clear and if you meet them you get your loan. I don't think the loans officer can refuse to give you a loan if you meet these salary loan requirements. Like your employer guaranting you, they look at your salary account and all that, whether you are a man or a woman. So there is no much closeness with the loans officer because the evaluation is almost automatic. But I didn't find any hindrance at all, the officer was good. I don't know whether it's because for me I was an informed person but I some times see those poor women crying here. They move and move and sometimes they give up before getting the money than they wanted.

Int: And about the second loan with the lady loans officer?

Res: The madam is good generally. You know this second loan is a business loan and there the closeness with the officer is very important because he or she has to evaluate you properly. She has to verify your securities and guarantors very well, the existence of the business and its potential, your credit worthiness and all that is

required. So if you don't satisfy her or him that that you are worthy, then you may not get the loan.

Int: Is there any situation where you get favours because you are a woman or any situation where you feel disadvantaged because of being a woman during this evaluation process of borrowing from the bank?

Res: Naturally women have disadvantages and they can never be equal to men. I know there is a talk about women emancipation but certain facts have to remain. For example sometimes when you come here, you come hoping to leave early and go back to attend the house responsibilities like cooking, children, some women have babies to feed and can not move with them. When they come here and find they are delayed, some of them leave before they are attended to, but the men can persist and wait for the whole day.

But I have not seen here or elsewhere that women get special treatment because they are women, or at least I have not received any favours at all. I just have a good relationship with my loan officer and I think she just treats me like that as a customer not as a woman customer. In fact even the other borrowers who are men find her equally good.

Int: When evaluating your credit worthiness, especially on the second loan, the business loan, did you find any difference in the way you were evaluated in terms of ability to present the required security and guarantors as compared to male borrowers?

Res: Not really, apart from asking me whether the land title I presented belonged to both of us; me and my husband. Ok she also asked me about the management of the business, whether we manage it together with my husband.

Of course more than the borrower herself, the evaluation is largely on the nature and potential of business, whether it can really make profit and pay back the loan. I am a deputy Headmistress of a prominent government school and last year I graduated from Kyambogo where I studied a lot finance and business management and therefore no body can doubt my ability to manage a business and even paying back. I have a reputation among parents and my character is not under any doubt. In any case I was not borrowing for the first time. I got a salary loan from them and they know I can pay.

Int: Now this is your own perspective but in your own opinion and may be knowledge, when the other type of woman who is not well empowered like you, who probably is not educated and probably doesn't earn a salary, do you think they could be at any disadvantage or they could get favours as women?

Res: As I told you, there are those natural disadvantages and I know they affect many women. Many women do not have security, their husbands can not allow them use their security to get loans. Often they are pushed into small groups where they get very small loans that actually can not enable them improve their business. And when you don't have a security and especially as a woman, the impression you give the loan manager can not do much for you. Some of them are ignorant about the bank procedure. They don't know how to write, but I normally see those loan officers trying to politely explain to them how to fill forms and sign but I think this is for both males and females alike. But a big number of women are increasingly becoming aware and knowledgeable about many of these things that the bank requires from them.

Int: So in view of all that you have said, would you therefore find it easier and convenient for you to deal with a female loans officer or not?

Res: Laughter and poses.

Now some women are good and they may tend to understand issues in a woman perspective and this can be an advantage. But again men officers are generally kind to women borrowers as compared to the female loans officers.

Of course some male officers behave like that in the beginning and end up falling in love with the borrowers especially these desperate young or middle aged women. But generally men are more kind to women than female officers. But personally I would prefer a female officer because of the confidence I will have when talking to her in case of a problem along the way, but this is not to mean that I expect any favours from her. But I agree that generally female loans officer are less friendly to borrowers compared to the men especially if the borrower is a woman.

Int: What nature of business do you do?

Res: A number of them that I won't tell you.

Int: Your age?

Res: 39 years.

Int: Thank you for your time Madam.

INTERVIEW C.4

Int: As a woman borrower, do you find that being a woman facilitates or makes it more difficult for you to access credit?

Res: Now for me I don't look at myself being a woman but what is more important is what can I do to transform my family? So I doubt whether being a woman is any issue when borrowing. May be to the bank but for me I am a woman who is hardworking like men are and I am ok being a woman.

Int: Ok now, are you borrowing for the first time or you have actually borrowed before?

Res: This is may be the 9th or 10th time when borrowing. I started borrowing when I was in the 30s (30+ years) and I have been borrowing from different banks but it is my 6th time with Centenary.

Int: Now in your experience, have you been handled by both male and female loan officers and if so and at different times, how do you compare being served by a male and a female loans officer? Of the two what is your preference and why?

Res: Of course I prefer men. Men are better. Me I have been handled by these loan officers since I was in the 30s as I told you but I have found men more understanding when serving. I don't know much about the other borrowers but even among others they still tell you that they prefer men to women. You know women, they will leave you the customer and then they attend to their phone calls and they receive frequent calls and she has to answer them whether she has customers or not. Women with phones!! And then their female visitors; as she attends to you she

receives a female visitor, she abandons customers for visitors. You know they like gossiping, especially young ones. Aah!! So me I don't like being served by a woman at all. Because a man can not do that. He can not leave customers to attend to such but that habit is with women.

I remember one particular incident in the other branch of Centenary when a girl serving us received two visitors when we were struggling in the line. They talked and talked and in fact one of them was a client like we were but she was given the first priority. But a man can not do that at least.

Just this morning I was at the Uganda Bible Society and we were being served by a male and we were very many but the man followed the order and served we were all finished.

And I am now worried. They have now shifted me to a female officer. You know I have been being served by a man but I think he has been elevated or transferred and now they told me that the lady is the one going to serve me and yet I don't like women.

Int: Is it not possible for you to request for a change in the loans office?

Res: My Son!! It looks very bad. I can not do it. I just have to bear with the situation but I am not happy – (as she exhibits a facial expression of being worried, her right hand holding on the right cheek, very emotional).

Int: Now think about what I am going to ask you very carefully and attentively. Do you think being a woman borrower puts you at any disadvantage when requesting for a loan from the bank officer? In particular, have you experienced any disadvantage as a woman when they are evaluating your credit worthiness, your security, your capital, your ability to manage your business and all that?

Res: I don't see any in particular; in fact for me here they respect me. Don't you see all these officers who are humbling themselves to greet me! I am a teacher and I run my own school which I have managed for close to twenty years now. It's a nursery, kindergarten and lower primary school. In fact one of their bosses here was my former pupil in nursery but he has left this branch. May be he has been elevated. But because I am a respectable person who is mature and even I know the procedure. So they don't treat me badly. The title I have always used for the loan is my husband's title and whenever I need a loan, himself as the owner of the title has to come and sign consent that he has allowed his title to be used. With my business potential, at least they have no doubt about me. You know a school, you are sure every term you are sure you are going to receive school fees from parents and for me, I have never disappointed them in any way at all.

I am very religious, my husband is an evangelist and these officers here know me in and out. But as you said, there are some women who come to borrow and once in a while you can see and hear a loan officer barking at a woman or jeering at her. May be because she didn't fill the forms properly or anything intimidating them. You know some of these girls and women who come to borrow some of them don't know how to read and write very well – so they back at them. I know one incident the lady (loans officer) asked the lady borrower why she did not ask the husband to fill for her the forms as if she knew whether the borrower actually had a husband or not. It was embarrassing. So such things and they always happen mainly to women borrowers. For men it is rare.

And then sitting; there are times when you have to come and sit here for a long time may be waiting for an officer to go and inspect your business or anything else and

then you wait for long. Yet some of these ladies run these businesses themselves. So the time she spends here, she is not working. Others are breastfeeding; others have to cook for the young ones, like that. Some of them are forced to move with their babies which is inconveniencing. Such things. May be the other habit which I hope you won't reveal anywhere else.

You know because of the long process you go through to finalise a loan transaction, naturally you feel you have struggled with the loan officer. So as a personal initiative, when you get the loan, you get some token and put it in an envelop and give her to thank her or him for the efforts she/he put in for your loan. But this is mostly a personal initiative.

But what surprised us is that some officers especially the women officers, they would complain that it is too little for them. That we should have given them more. Can you imagine!! This is a personal initiative and you don't tell mo to do it but then someone doesn't appreciate. In fact it is used to lead to conflicts between the borrowers and the loans officer. But nowadays it's not common. I don't know what happened. They no longer do it. But there are not many other good treatment or bad treatment for us women.

The women officers you see here do not extend any favours to fellow women yet some of these new borrowers, I see them when they come and target the female officer hoping that she will treat them specially. Wa!! They get surprised. But as for me, I prefer a man to a female loans officer and it is both natural and through experience.

Int: That is interesting Maama, Now is there any other situation when you would find that dealing with a woman is more advantageous than with a man?

Res: No, no. may be when delivering (laughter). But even in delivering you hear how women treat fellow women. So for me, men. (laughs continuously).

Int: Finally you said you are a teacher, are you an educated/professional teacher?

Res: Yes. A teacher by training. I even went and trained in UK in the late 80s. And I have been managing my own school.

Int: I can see you are old, (laughter) but you look very young and speak very good English. Are you more than 50 years?

Res: Laughs, oh my son, I am 56years young. (Prolonged laughter).

Int: Maama, I thank you very much for your precious time for this discussion and let me wish you every success in all your endeavours.

Res: Its my pleasure.

INTERVIEW C.5

Int: As a lady borrower, do you find that being a woman facilitates or makes it more difficult for you to access credit?

Res: I don't think. I don't see that here, don't you see both men and women in here? We all line up when it is lining up. We present the same requirements just like men and if we qualify, we get the loan and if not then you don't qualify.

Int: Ok, how many times have you borrowed?

Res: This is the second time in Centenary bank. I had also borrowed from Pride before.

Int: When you consider the three situations what type of person has been handling your request for the loan?

Res: Ok in Pride he was a man and when I came here the one was a man also but on this second time here she is a lady (as she points to the female credit officer).

Int: In both situations, when you were served by a man and then by a woman, what can you say about the way they all handled you? The way they evaluated your security, your ability to do business, your character, potential and even your capital?

Res: Ok, here in the bank when you come to borrow they ask you for the business which you are doing and it must already be existing, the amount of loan, the amount of security that you own, guarantors and other small things, opening an account. So when you present them according to what you need, they go ahead to give the loan and if you don't have some, then you are not given the loan. So they all ask for the same things and that is my experience.

Int: How have you been relating with both of them, the men and the woman credit officer? Have you been getting along very well in all the situations?

Res: Ok, what I can say for the first loan, here I was still new but I eventually got to know it. And it is more or less the same procedure in all banks. The difference comes in, in the rates, opening amount and a few other things. But as for the officers themselves, the man was very good. I remember there was a time when I had a problem and could not pay in time and I came and explained to him. He took me to their supervisor and they gave me sometime. We had even become friends. He was good I must confess.

Int: Then your experience with the woman credit officer?

Res: Ok for the woman, since I had been their borrower, I knew almost everything, I used the same procedure. Ok for the other one I needed a business loan but for the lady, it's a salary loan because it is easier to repay back as you are not sacked. But she is also still good. I *get along* very well with her and really I am ok.

Int: So basing on this experience, would you prefer a woman credit officer to a male one or the other way round?

Res: Really when I use these two experiences, I would prefer any; I don't have any preference for either of them. They have been good and understanding, all of them. But I think the most important thing here is knowing what is required of you and fulfilling it and I don't think you get many problems. Ok I hear some people complaining of some officers especially those two women (as she points to their desks) but for me it is ok.

Int: What do these borrowers complain about them(the officers)?

Res: Ok they say that they are arrogant to them, that they back at them. One of them told me that she came and spent almost the whole day here as the officer was apparently doing her other work in addition to speaking on her phone. She told me she eventually went without seeing her.

Int: do you think being a woman puts you at some disadvantages when requesting for a loan in the bank?

Res: I have not seen that. May be when as we women come and yet we have left responsibilities at home. Responsibilities of a woman may be there they are inconvenienced but for the men they can always wait. But a woman with a baby at home, that one can not wait for long. And I always see some here. They come when they are in a hurry and you sympathise with them. But in the process of accessing you, I don't think being a woman limits you in anyway. Ok, there are some women who want loans but with the permission of their husbands especially when she wants to use the assets of the man. Of course there they ask you whether the man has agreed, you even have to bring him here to prove that he has accepted and he fills some forms. But for men when they take security, they always know it is theirs. If it's a car the log book is in his names. Even other assets although some men also forge. But I don't see many disturbances because one is a woman.

But also as a woman, when you come here, you have got to be knowledgeable, equip yourself like men and other women borrowers and if you sit back and expect any one to come and help you because your are a woman, then of course you won't manage.

Int: Lastly, regardless of your experience with the last officers, do you think as a woman borrower, dealing with your fellow woman advantageous than with men?

Res: May be in some cases especially when you have some women secretes (laughter) but otherwise I doubt. As a woman there are some issues you may want to share with your credit officer especially if they affect your business loan repayment. but generally, I don't think it is so advantageous. It just depends on your problem, the nature of the officer and your own character.

Int: So what do you do and what is your age?

Res: I am a mid wife but also run my small clinic and it is the business. I am 30 years.

Int: How do you manage the business yet at some time fulfil your work at the hospital?

Res: Ok I have a person who helps me but when I am off I also join her but as you said, sometimes things get hard. You need to manage and supervise your own business if you are to gain much from it.

Int: Ok. Thank you so much for making up some time for me for this discussion and I wish you success in both your business and work.

INTERVIEW C.6

Int: As a female borrower, do you find that being a woman facilitates or makes it more difficult for you to access credit?

Res: I don't know my son what to tell you because we are both males and females and we all come to borrow. I don't have any problem being a woman borrower along side men.

Int: Ok, what are some of the challenges that you have encountered because of being a woman borrower, if any?

Res: For us women suffer in every situation and it is not only in banks here but almost every where. You go t Mulago you will find women suffering when nurses and doctors are just looking on. So as women borrowers we have problems. We are given little money, some times we don't have property to act as security; like us widows, my husband died long ago and left almost northing and I have struggled with these children alone. They are all in school. But when you come here to borrow money so that you can inject in your small business, you know I have a small shop and a restaurant in Mukono town here, they want to give you money only when you have property as security and guarantors. Yet some of us are capable of doing good business and repay the loan but these banks of ours, aah!

Int: Now as you have explained some of those problems you have, have you tried to explain them to your credit officer and how has he helped you?

Res: Yes I explained all that but they gave me very little money which could not meet my target.

Int: Is your credit officer male or female?

Res: This one is a man and he is slowly trying to understand me. He was even able to plead for me for a bigger loan and they are going to give me although it is still little.

Int: You are saying this one is a man, have you been served by a woman credit officer and how did you find the manner in which she dealt with you?

Res: Yes this is the second loan and the first one I paid it back and it was a woman but women officers are worst. The woman made things very difficult for me, she was very strict and yet she had given me a very small loan than I had wanted. Yet I had explained to her that I had problems and I had a few assets that I would use as security but she refused to help me out. At least the man is better. And to worsen the situation, she was pregnant and you know when those girls are pregnant how they behave. But generally those women are not easy, men are better. Didn't you see all those women? They were waiting for that man and another man who is also out of office. But the ladies, aah! You go to her when your heart is beating and then she stares at you, she begins fumbling with her hair, the phone, those women, aah!

Int: But is there a situation when you find it advantageous to deal with women than with men?

Res: My son, you know what, women! I don't think. You can think that because she is your fellow woman and you think sharing you female problems with her, she will help you but they are the worst. I would rather share my problem with a man than with women (laughter).

Int: You said you are a widow and you now operate a restaurant and a shop, how many children do you take care of?

Res: The man left me with six children and have another niece I look after and they are all still in school. I solely look after them for every need they have.

Int: How far did you go with school and how old are you?

Res: I am 54 years old and I stopped in primary school.

Int: Ok thank you Mummy for your time for this discussion and I wish you every success in your struggle to raise and educate those sisters and brothers of mine.

INTERVIEW C.7

Int: As a woman borrower, how does being a woman make it easy or difficult for you to access credit?

Res: It adds nothing, nothing at all. In fact it even just makes it difficult because how do you begin asking that poor woman (as she points at another woman borrower) to bring security before you give a small loan? You know for us women we are just helped by our husbands and we do small, small businesses of selling tomatoes, cabbages and such things. It's only educated those high class women who can afford those complicated requirements and for them they even get bigger loans because they earn a salary. But for us the desperate poor ("banakunkunyedda"), it is very hard. Every time your credit officer is on your neck, she is pressuring you.

Int: Do you think that situation is due to the fact that you are a woman?

Res: Let me ask you, how many men have you found selling tomatoes in kiosks, nakati, and other food stalls on small scale? Isn't it the woman? So when I say it is women you should also be able to see it by your self. I don't know what your mother does for a living but may be she is educated and she has been able to educate you and for you, you can help them survive. But for us, I don't know when we shall ever be delivered.

Int: Quite interesting. Now how many times have you borrowed and who is handling your request? Is it a man or a woman?

Res: For me this is the third time but the first time I was with Micro Finance and it was a woman handling us. We were in a group. Then the first time here at CMF, it was a woman but now it is a man but we still find the same situation. The one who designed all these banks is the same. They are all there to harden life for us.

Int: Have you tried to share some of these problems with your officers and of the two, a woman loan officer and male officer, whom did you find more understanding to you?

Res: Don't tell me about that small woman ("kakazi"). Let me tell you, that woman reduced my money by a half. That because I was borrowing for the first time with the bank and yet my small assets I had could cover the amount. But it is not only her. Even there is another lady I don't know whether she is their boss and also another man. They are very unfair people. But at least this man handling us is better than the lady. You can explain to him if you have a problem and he understands but the other woman would not allow anything.

Int: Are there a situation when you feel dealing with a woman is more advantageous than dealing with a male loan officer?

Res: I think all of them are not easy. It just depends on the nature of a woman. There are some women who are good and some men are also good. But for me I rather choose a man if I had a choice because at least my experience with this man is good. But I also think women don't favour fellow women, instead they make things even harder.

Int: Lastly, when evaluating your security and capital plus your character, did you feel you were being evaluated differently because you are a woman? Did you feel anything?

Res: Oh yes, as I told you, apart from those educated women who come for bigger loans and who use salary, the rest of us are marginalised and despised. It's very hard to ask for a loan for our type and you get it as required, they make you move and move. May be if we had bigger capital and had bigger businesses we would be treated differently. So women definitely are treated differently especially the poor although both male and female borrowers all have to present security and those other things. May be in those other small banks like Front Page but those people must be thieves. I don't think those conditions that they advertise are real. They must be aiming at some thing and people there are going to cry one day when those Front Page guys steal them.

Int: So what do you do?

Res: I have a small diary shop.

Int: Your age and education level?

Res: I am 31 years and I stopped in P.7 (Laughter).

INTERVIEW C.8

Int: How do you think being a woman facilitates or make it difficult for you to access credit?

Res: Women borrow small loans and the bigger ones are for the high class rich. Don't you know that? Am even tired of borrowing because I have borrowed for a number of times in all these banks but I have never developed. We only make banks rich while they harass us the borrowers. But what can we do? Nothing. I don't know these people shouting "Bona bagawale" whether they will deliver us but I think it's also for elections and politics. For us poor women we have not been helped by government and we are left at the mercy of the banks which are also self seekers.

Int: Who is your bank officer, is she a lady or a man? And how do you find her/him?

Res: She is a lady and very strict. She always makes sure you pay the money and you don't sell the security. She is a young girl but tough and strict but I am used to her.

Int: Have you ever been served by a male credit officer?

Res: Or yes, four times but these two times it's a woman but I am used to her principles now.

Int: Of the two, a male and female, who would you prefer if you were to make a choice?

Res: Of course a man. Men are kind especially when you explain to him your problem. But they also need when you are honest and you fulfil every thing very well. Ok there are some tough men also but women are tougher especially to us women.

Int: Have you ever needed special attention from your female officer due to any female problem and how did she help you?

Res: Very many times but now I have stopped telling her my financial problems. I just have to struggle and sometimes borrow from my friends to pay the loan. But I no longer tell her any problems. I used to tell her especially in the first loan. You know my daughter got an accident then but she would just insist that I follow principles. On the first day she appeared understanding when I told her my daughter had got an accident but she all of a sudden changed her ways. I don't know why. But really how could she help me when herself she is not married and doesn't have any children? But at least for the man, although he is strict, he is some times understanding.

Int: Did you find any differences in the way you were evaluated as a woman as in security, capital and your character?

Res: I am not sure. Me I presented my small security but of course they never gave me full money in all the situations I have borrowed.

Int: Do you think being a woman puts you at some disadvantage or advantage when borrowing?

Res: Poor women and widows can not be given bigger loans and we have little assets. So that is a disadvantage, but I don't know so much how the bank does its business in there. That's all I can say to you.

Int: So what do you do?

Res: I sell charcoal; I go to the villages and buy charcoal.

Int: Your education level and age?

Res: I did not go to school and even don't know my age but what I know is that I am old enough. But you tell those people that they should make some loans for poor women like me and widows who don't have security but can do business. Some times we can do business better than men do but they always think we are poor, we do small business and want us to remain like that. Tell them to provide loans even for the poor; whether the officer serving is a man or a woman, they all give us small loans. That is all.

INTERVIEW C.9

Int: As a lady borrower, how does being a woman affect your access to credit?

Res: How? I don't think it affects me in any way. I know what I want, I know what they need and I present it. If they want they give me the loan if they find that I don't deserve one then I don't get it. That is all. But I think it is the same for men, I don't thin men who don't qualify are given credit, are they given?

Int: For how many times have you borrowed?

Res: Oh, a number of times but I started else where and I joined this alone afterwards.

Int: So how in your experience, how do you find dealing with a male officer versus a female officer, if at all you have ever been served by both?

Res: Yes I have been served two men and two women; in fact the one serving me now is a woman. But I don't have any problem with any of them. The first thing to do before going in for alone is to know every detail concerning it and I make sure am well equipped. OK, the first and two loans were salary loans but all that same I didn't find any problem. I have always been able to repay the loan I have a number of sources for income, this loan for me is just like fuel, it is not the capital. So I don't kneel before a loans officer in order to be given a loan.

Int: Are there situation when you find that dealing with a female officer is more advantageous or disadvantageous to you when accessing credit?

Res: No. I don't mind which one I meet if you disturb me I go to the next, this is about freedom to choose what you want.

Int: Do you find that being a woman is disadvantageous when getting a long?

Res: I said am a normal human being, am a borrower I do business and I find nothing wrong with me. Am, happy being a successful woman after all there are many men who fail to business and even some fail to repay their loans.

Int: So madam, what do you do?

Res: Oh I do many things. I'm a midwife, I have clinics one in Mukono and another in Lugazi and I have a women's saloon plus a few other things.

Int: Are you comfortable telling me your age?

Res: Between 40 – 45 years

Int: Married, any children?

Res: Laughter! Yes, I am a single mother of 2.

Int: Thank you so, so much for your time and commitment to this discussion.

INTERVIEW C.10

Int: Now Madam, how do you compare serving a male customer/borrower with serving a female borrower? Are there any differences; are there issues you have found?

Res: Of course yes. There are quite a number of differences but despite these differences, we are required to treat all borrowers equally regardless of their sex. But to answer you, these women have types of course just like men but there are those women who come when they are knowledgeable, their communication and expression and all that. That one you won't find difficult in dealing with her especially when it is a salary loan; some of them are professionals and you find less difficult.

Then there is the other type who are a bit less educated or not educated at all. Those ones have problems in reading and writing. So you have to labour very much to explain to them everything. Others are helped by their friends. Sometimes they mess up with the forms because may be they never understood them. Even when it comes to payment, some of them come to you to explain to you how they have marital and other family problems and bla-bla-bla. Then they want you to cover for them.

For men, most men whether educated or not tend to have the confidence and express their request very clearly but of course those ones who come when they are

very confident are normally sharp. Some of them are fake and they are always aiming at defrauding. Some times we are able to net them and others are netted in the system latter on. But of course there are those men who are like their female counterparts. They are ignorant and you have to do a lot before eventually getting the loan. But generally it is better for me to serve a man than a woman but this is only in my heart. But practically I have to treat them equally regardless of their sex. We are trained on how to deal with every one of them as they come in. That is why I can leave a customer on the way and my colleague takes on from there. It's procedural. You follow stages logically and these are applied equally to both men and women. Unless a specific loan need is only for women like small women groups, but even these come as a group.

Int: First of all, you have talked of some women coming to you with marital and family problems and asking you to help them. How then do you handle their situations?

Res: Yeah, these problems are always expected to be there and we know they are there. Often husbands frustrate their wives. They interfere with their business; they want to make decisions in women businesses and things like that. Ok in the system, we as the officers dealing with the borrowers, we are given that benefit of judgment of some of these cases. So we carefully try to help them by trying to understand them and give them some time. But we avoid doing it openly and obviously because many would use the opportunity to be bad borrowers. So it is situation to situation but you have to be very very careful because often the consequences at some stage fall on you as the officer in charge. And this is for both men and women although women are more focused on. But sometimes we may not be able to give them any chance and here our personal images are considered by the borrower.

Int: This subjective judgment you have talked about that you exercise, do you some times find yourself looking at a particular situation as a woman in a woman sense or perspective?

Res: of course yes. We are women and being a loans or credit officer doesn't take away the fact that we are women and we have woman instinct. But I try to avoid looking at every situation in that woman perspective because it might actually become the driving instinct when making decisions on women situations. In fact that's why I said in my heart I would prefer a male borrower because here I don't have to be driven by the woman instinct. A man won't come and tell me woman problems and this means I don't have to the subjective judgment as such. But for a fellow woman, that guilt of womanhood often clouds your mind.

Int: But is there a particular situation when you feel that you are more comfortable serving a female borrower than a male borrower?

Res: As I said if a woman is well educated and informed, you will enjoy serving her and some of them appear happy when you are handling their requests. But of course majority of the borrowers are the ordinary women, often dealing in small and medium size businesses. Many are not informed enough. You ask a person to bring guarantors and you explain the conditions for guarantors but the woman brings someone who is not qualified at all. But it's a struggle for the nation and we are trying slowly. Many are becoming fairly knowledgeable and informed about the subject of borrowing and loan management in relation to the way they manage their businesses.

Int: Is there a difference in the way you evaluate the male borrower as opposed to a female one with respect to their character, ability to present security, their capital size every other thing?

Res: Yes and no. Now when it is about security, consider a land title for example in most cases, the title will be in the names of the husband. Yet if the man brings the title the changes that the title belongs to a man are higher and you don't have to ask for acceptance and authorization procedures. So that is a clear difference. And even in the household items, normally men buy the assets and a woman may want to use the assets to acquire a loan for adding capital in her business. But then at some stage because the man is the decision maker in the house, he may wish to sell them or do anything with the assets. So this is an area we scrutinize very carefully. But there are increasingly big numbers of women who are gaining strength and may be come when they have their own property and titles and other assets and these don't have to be asked for husband's consent and all that. But also the system is such that as a policy we extend loans to already existing businesses and during this stage whether man or woman, we equally evaluate them on the same dimension. And our experience is that in case of bad character there are more men who are likely to be bad character than women. You know women are always careful and sometimes timid and risk less than men. So the differences are not as much but are in those areas as mentioned to you. But we encourage many other women to get into business and be able to acquire loans.

Int: Finally as a woman loan officer, do you find that being a woman affects your job of extending credit to SMEs?

Res: Not in a major way. There are borrowers who come to you as a woman and hope they will manipulate you and they avoid some stages but that is not allowed. Some men come and minimise your position, others want to order you and intimidate you but we have a procedure and one won't beat it by intimidating an officer.

Int: Do you think they do it that way because you are a woman?

Res: Oh year, others talk to you in a way as if they want to con you (falling in love with you) and when they are disappointed, they comment negatively about you. You don't find many male officers going through that. But we are used to them and we end up being friends. Then there are those women who come especially those professionals I talked of, they want to be treated specially, they appear to be in hurry, the wiseacre type, then they make all sorts of comments about you. But even in this formal or ordinary type, some of them come to you expecting special treatment from you because you are their fellow woman. Then when they realise that you are not treating them as such they also make those comments such as, "akakazi ako!", "akakazi ako kewurira!", etc. But you rarely hear "akasaja ako". It's always with reference to women. Of course generally women will not be interested in dealing with fellow women. But generally the procedures here over rules anything else be it gender, status, education or what. The procedure will scrutinise you, evaluate your business and character strength whether you are male or female. And many women have gone ahead to beat men in borrowing skills and business skills. That's all.

Int: Thank you so much for having some time for me for this discussion.

INTERVIEW C.12

Int: How do you compare between serving a male and a female borrower? What is your experience like, are there any differences that you can talk about?

Res: Certainly males behave differently from females right from their appearance. Presentability, confidence, knowledge, expression, all these are exhibited differently. But as you said, me as credit officer I would prefer a borrower who can ably express himself, one with knowledge and confidence, whether he or she, I don't care so much. But of course my experience is that male borrowers are more straightforward and confident and I find them more compatible with me than the female borrowers. This is not to mean that there are no men borrowers who are lacking and that there are no women who are very good in every thing. But as a policy, we are supposed to handle every customer's request equally with all our commitment and this is regardless of their sex because we test or evaluate their credit worthiness, the potential of their businesses and their character as borrowers, So in there, there is no issue of their sex or what. But as for my personal experience, I think men have an edge and easier to handle than women borrowers.

Int: Are there situations where female borrowers approach you for any special treatment because they are women and expect you as a fellow woman to help them.

Res: Oh yes, and this is often. Even when they are addressing you as "mukazi munange", that is a sign that she wants you to handle her as a woman but for us we don't act on emotions because then we may not be able to deliver according to the bank's expectations and regulations. Fine I am a woman and you are a woman borrower, what does our womanhood got to do with the loan that you want? In any case, this is not a woman bank. But even in the so called women banks, they evaluate them according to their strength as business borrowers not because they are women. In fact I think even men use these women banks.

Int: Any particular incident or experience to you as a loan or credit officer in this regard?

Res: They are many although not frequent but a woman will come and find a queue when her friends arrived before her and then she moves to your desk and requests that you serve her first because she left a baby at home and she has to go and breastfeed . But can you imagine that!! How do you begin serving someone who came after the others before they are served? Although it is true that she has a suckling baby, we have to be fair to all customers regardless of their structural disadvantages. Even among those waiting there some who could be having similar or even worse problems. So in such a situation, I follow procedure. Period.

Int: Then with respect to evaluating them for their credit worthiness? How does the gender issue play when you are doing your work?

Res: the moment I think of a borrower as being a woman, I will stop doing my work objectively and they will sack me immediately. If you are a woman borrower and you meet the requirements for a given loan you will definitely get and however conc a woman you are, as long as you don't meet the requirements, you can not receive it. And the same applies to me alike. If it is security, if it is in the names of your husband or any other person, we will request that you seek official or genuine permission from your husband before using it as security. If you are pregnant during a particular season, when you must be paying the loan, you must appoint someone to that for you in your absence. If you a suckling a baby, you should know when to

be at the bank before others so that you get service and then go. Your womanhood should not interfere with the operations of the bank. Unfortunately, there are a few people (women) who will come expecting that special treatment although it is not frequent. If you are not credit worthy or honest you will not become one merely by becoming a female borrower. So as for me, there is no preference for whether male or female borrowers, as long as you meet the requirements. But because more men appear smatter and prepared by women, an impression will be created that a man is served faster than a woman.

But we encourage all our borrowers whether male or female to get clear information about every procedure from their friends who already are in the system. And if one finds herself or himself legible for the loan, he/she will come and we will objectively evaluate him on this strength of credit worthiness, potential of their business and their character regardless of their sex. When one qualifies, the bank will not hesitate to go ahead to give them loans.

Int: But as female credit officer, isn't there a case when the feminine instinct sets in and influences your decision?

Res: Yes, the woman instinct, the feeling for a fellow woman often comes in when a fellow woman tries to implore you to do one thing or the other for her which some times may be against the laid down guideline. But apart from just feeling for her and sometimes advising her, there is nothing more you can do for her beyond that. For us we are strictly guided by our guidelines and procedures and cases where we are allowed to use our personal judgements do not talk about the sex of a borrower, in any case they are few.

Int: As a woman loans officer, are there situations where you find that being a woman affects your work in any way?

Res: Very rarely. Of course some male borrowers sometimes want to befriend you or con you to be their lover but once you detect that you act accordingly without necessarily annoying the borrower because at the same time he is a client. I have also heard my male counterparts telling me how they have been seduced by some women to fall in love with them especially during their field visits. Of course such women do that with a hope of some favour and cover-ups. But this would be a very dangerous situation for a borrowing officer. Otherwise not much. Ok some people when they are not successful especially women they make negative remarks about you, "akakazi ako!" "bewurira ", "She thinks the bank belongs to her husband?", etc. And if you are pregnant, the situation worsens. They associate every disappointment they receive from you to your pregnancy and all that. But we are used now, although this is not very frequent. It just happens once in a while, especially with new borrowers but who have been to other banks or MFIs.

Int: Ok, that is all and thank you for your time.

INTERVIEW C.13

Int: Do you find any differences when serving women vs men borrowers?

Res: Of course yes, the woman presents herself a bit different from a man. The confidence, the tone, you know for us women generally we are humble, low in our tones and even nervous. So a woman will come and she speaks at a very low tone and sometimes you have to tell her to speak up but of course this is embarrassing at

times. Ok others the way they talk is such low because they don't want others to hear what their problems are. But men generally speak up although there are some who are also very low like woman. So yes there is a bit of difference but for me as credit officer I have to treat them equally. I can not deny you a loan just because you are a woman or because your voice was small or any other thing. I have to try and listen and understand the borrower very keenly and with interest so that I can be able to solve his problem because he/she is the king.

Int: Now in your experience as a woman loans officer, what is your preference of both the sexes and why?

Res: Ok, naturally and sincerely speaking, as a woman you fell better serving a man and this is an irony because one would imagine that serving a male is more appropriate. But experience is different at least for me. A man is always confident when talking to you and its easier to deal with him. But for a lady, those ladies when they come to borrow, the way they look at us, the way they talk to you, some of them are very rude. Others straightaway give introduce their problems to you as if you can help them, others just don't like women at all. Ok, may be it is the woman in-thing, woman to woman is always not friendly. So I would prefer serving a man but of course that is only a wish. But the ideal is different. In business you expect to meet *all* people of different sorts and you are required to be prepared to receive and serve them equally fairly. You put aside your inner wishes, your ideal preferences otherwise which bank have you seen serving only single sex?

Int: Oh that is interesting. Now are there situations when women borrowers come to you for special attention as women?

Res: Yes, very much. As I said, some one will come to you and tries to drive you into her own life; her problems may be at home with their husbands and all sorts of problems. And the way they do it is as if they want you to bail them out as a fellow woman. But for me I just follow procedure, even if I understand their unique problem or woman problem, I still insist because this is an institution and it's not my own business- if I bring emotions into business I will loose my job.

Int: Else where, studies have shown that women borrowers get support from women credit officers because of the women solidarity thing or idea. But women borrowers in Uganda generally have negative attitudes towards women loans officer loan officers. Why do you think this is so?

Res: Well, here the Ugandan woman is still being emancipated and many are still ignorant and if you try to behave as if you are helping them as women, they take advantage of that and they may actually bring you problems. And when you get a problem because you were helping her the bank wont give you any pardon because you were helping or covering up for a fellow woman. Our women here have a lot of problems with us, others minimise us or sometimes some of them hate us. I don't know whether they associate us with their co-wives (laughter) but generally they are more problematic than men.

Of course in developed countries, there are a lot of policies for women and I think this could be the reason. The women in developed countries are enlightened and empowered. But my old woman here comes and expects you to solve their problems which you can't. Some of the mature women when they come they expect to be treated like our mothers and we are their daughters and when she is not treated as

such she always develop that negativity towards you. But for me I serve both male and female as long as you meet the loan requirements.

Int: Finally do you think or do you find that being a woman affects your job of extending credit to borrowers?

Res: I don't think so because for me when I am serving customers I don't serve them as a woman officer but just as a credit officer .I follow the same procedure just like the male credit officer s do. No one can intimidate me and I go ahead to do the wrong or write thing because I am a woman. No. Every thing is done according to policy and if there is ant issue I or we forward it our supervisor and effective decisions are taken there.

Int: Very lastly, when evaluating the credit worthiness of a borrower, say by way of their security, capital, the potential of their businesses, do you find any differences in the way this is done between men and women?

Res: I said I evaluate a person as the rules require. There is no separate procedure for a particular sex. If you are a woman and there is something that requires your husband, and this is common with titles and log books of cars, we ask you to bring him to approve this and that is all.

If you are sick or delivering as a woman, we expect that you delegate some one to do the payment of the loan on your behalf as the schedule may require. So we treat them equally.

Int: Ok, Thank you very much for your time.

INTERVIEW C.14

Int: How do you compare and contrast between serving a male and a female borrower?

Res: They are more or less the same but just that men are more confident than women. Even the loan amount they want, often men request for bigger loans than women overall. You know most of our women borrowers do small, petty businesses which require relatively small loans and securities. In fact when it comes to group loans, you will find mostly women in the group. Of course men borrow for bigger businesses and sometimes they are the ones with ownership of security.

Int: Being a woman loan officer, how have you found serving women borrowers as compared to male borrowers? What is your preference?

Res: I don't mind whether you are a man or a woman borrower. All I want is you to have the qualifications. Of course some women come to you and they appear as if they want you to help them but you politely tell them that you have to follow procedure. There is an old woman about 50 years, she wanted a loan to finance her poultry business, and actually she needed money to buy food for the birds. But she had problems with her security and when I went to see her business for inspection, she told me, "my daughter, help me. I am a helpless woman and I have your sisters that I have to pay fees for in high school. Just do it for the sake of being your mother". The woman pleaded that I told her that I couldn't adjust a single rule simply because of being a woman. I told her to present the situation to my boss and it would be looked at against its own merit or demerit. And eventually the commit agreed to bail her out and they gave her the loan. It was small money. So such

things often come up but really my brother, let me ask you, “If I decide to handle women’s problems because they are women, how many people will I have to help?” First of all, majority of our borrowers are women. So where will I stop? So we try to limit these “special women” cases.

Int: Else where, studies have shown that women borrowers get support from women credit officers because of the women solidarity thing or idea. But women borrowers in Uganda generally have negative attitudes towards women loans officer loan officers. Why do you think this is so?

Res: I really don’t know but I think you could ask the women borrowers themselves why. May be because a woman tends to be more attracted to a man and a man gets more attracted to women. Just like in many families, in majority of the families, the sons tend to be closer to their mothers and the girls more closer to the fathers. Even in my own family it’s like that. How is it in your family? (She jokingly asks me as she laughs). But may be in those societies the chemistry between a man and a woman is different. But also you find that these banks here are equal opportunities banks. They do not address a specific sex. May be they can address a specific social class like the poor or middle class or high class, like that. But here we treat them equally. But we have also experienced situations where male loan officers fall in love with their female clients and it’s always dangerous. May be that is the other reason. But the woman solidarity here is mainly exhibited in social work, women community programmes and in fact there are some NGOs which passionately and strictly help particular categories of women, may be widows, orphans, disabled women, girl child, like those. There they strictly lend them money which they use for some small income generating projects. And if you are approached by a person who has been in that background they are in the bank she will receive disappointment.

Int: When are you evaluating them for their credit worthiness do you find any issues in the way women are evaluated vs. men?

Res: No, not at all. We evaluate them equally regardless of their sex. Take the example of a salary loan, all we need is your employer’s guarantee that your salary will always be affected and you have to open up an account with us. So if you work and earn a salary which qualifies you for a loan, why would we disturb you because you are a man or a woman? Of course we appreciate that often women present with unique problems and indeed we try to understand them but their unique situations can not allow us bend the rules. And I know because many women expect that, when they come to us, when they get disappointments they will accuse us of being inconsiderate or insensitive to their cases as fellow women. But we are employed to serve all customers equally regardless of their grounds.

Int: Lastly do you think that being a woman loans officer facilitates or impedes you in your job of extending credit to borrowers?

Res: In making loan decisions, no. But in some ways yes. If you are a woman there are those natural disadvantages, men minimise you, some propose to you. Then our natures; if you have a baby at home you are always thinking about the baby at home and other women issues. But I think every body knows and appreciates these women problems and I can not console myself for any of those that I am a woman. No. What matters is what I do as a loans officer.

Int: Ok, thank you very much for all your time and commitment to this discussion.

INTERVIEW C.15

Int: Do you find any differences when serving males vs. female borrowers?

Res: In which way?

Int: In the way they present their requests, in the way you communicate with them, in the way you evaluate them and generally in the way you relate with them as borrowers.

Res: As individuals yes there are differences but as borrowers they are the same. What I mean is as individuals, the way a lady will dress differently from a male borrowers A female borrower may want to impress you the officer or some times to show to you how desperate for a loan she is while a male borrower while a male borrower might just dress smartly. The way a lady borrower talks to you some times is different, the way they are humble, with a smile, they show a passion for what they are doing. A man on the other hand might be impolite, confident, and so on. So really in their personalities, definitely, definitely yes. There tend to be a difference and I hope you also understand this. But as borrowers, they are all the same. First of all, they will all come for money and they will need different amounts of money but certainly they will all be wanting loans. They all expect to provide security guarantors, open accounts with us and all that. So as borrowers, they present them selves similarly and I also have to put on the creditors spectacles and I will view them as such.

Int: Are there any situations when you find that dealing with men is more advantageous than dealing with women borrowers?

Res: I don't think so. Whether you are a man or woman, you have to *meet all* the requirements and that is what I follow. Ok, in real practice, women tend to be more friendly than men, and I think that is natural. A woman borrower will always try to get closer, more open to you than the male borrower. But this does not influence my approach towards any of them because I follow laid down procedure and this governs my decisions. In any case, at some stage be causes a team's relationship, I mean the loan department's and the borrower and this means if I'm sacked or if I die (laughter) the system of our relationship continues with the bank not myself as an individual.

True some men are more confident than women and you will find it much easier to handle them but women are more honest and involving. But this opinion varies from officer to officer. Another one may tell you a totally different view but the majority of men happen to share what I have told you.

Int: In Uganda, women borrowers' attitude towards women loan officers seems to be negative but studies in other countries of the world indicate that women borrowers *get along* with female loan officers more easily, mainly because of the women solidarity thing. What do you think about this situation?

Res: Ok to begin with as a natural phenomenon, women in Uganda here have more attraction to men than women to women. I don't know whether it's very different in other countries. But also women tend to misbehave when it comes to fellow women. I have heard of comments like "that lady, every time she is talking on her phone", in reference to a female loans officer. And it is true, women here when it gets to their female counter parts they tend to want to show them that they are a class above

them. They want to speak in a unique way, they gossip here and there, they try to compare their own hair with that of the borrower, and you know those petty things with women. But when she comes to me a man, really why should I do that, I know I'm a man and she is a lady. And I think it is still to do with our society because for us here education is a recent thing and it's of recent that women started serving in offices. This makes those who are educated to be proud while the other less educated who are normally the borrowers feel low. But I think it is also to do with confidence. A woman feels confident dealing with a male officer and she perceives a fellow woman as being generally lazy and weak. But even when women borrowers tell the female loan officers about their problems, what much can they do anyway?

So really it's a complex situation and that is the way I can analyse it.

Int: As a male officer, do you find that being a man affects your job of extending credit?

Res: I don't find any problem with that. In fact when you analyse the situation very critically you discover that we do (we men) quite a lot to encourage women to borrow than our female counter parts. The notion that women can help fellow women to overcome problems is only an illusion. It's a misconception. So I don't have any problems with being a man and handling female borrowers. In fact some of them try to drive you towards loving them; you know what I mean but we contain the situation. We are professionals.

Int: Finally when evaluating the borrower's credit worthiness and potential of their business, are there any differences you address women borrowers compared to male borrowers?

Res: No. I said when evaluating them as borrowers I put on the creditor's gauges and that is that.

Yes during the interaction a few unique things may come up, a woman saying that this or that but at the end of the day, they are subjected to the same procedure. From experience, women have proven to be more honest and hard working and reliable when it comes to managing a loan than men. They only get problems in security acquisition. Often they have to use the husbands' assets as security but generally we treat them equally. But I have not heard a particular incident when I had a cover up for a woman because of this and that problem. No, but we try to understand their problems, advise them, encourage or discourage them, like that.

Int: Thank you so much for your time.

INTERVIEW C.16

Int: How do you compare and contrast between serving a male vs. a female borrower?

Res: That is interesting. Yes, there are a bit of differences especially when it comes to the nature of businesses. You find that most of our women borrowers borrow money for the smallest projects and the men go for the fairly bigger size of loan although it is also small. Yes some women borrow bigger money but on average, they borrow small amounts and this is normally smaller than 1.5 million. Of course men are aggressive and sharp when they come to you; they know the procedure and requirements in most cases than the women borrowers.

Int: How differently do you therefore handle their requests, i.e. men vs. women?

Res: Apart from themselves presenting differently, they are all assessed using the same yard stick because they are all borrowers and in the end they will take money. Of course as a credit officer, you will receive them differently. Others come when they are ignorant especially the poor ladies, they have different securities and do different businesses, but as an officer, you will always try to look for what you need in each of them and at the end of the day give them loans.

Int: How differently do you scrutinise or evaluate them in terms of their security, character, business potential and the size of their capital, in other words their credit worthiness?

Res: Now the bottom line is that we are supposed to be very objective when evaluating these borrowers, whether men or women. One hand we assume that potentially all of them are capable of being bad debtors or borrowers and therefore we examine their credit worthiness before giving them the loan. On the other hand we assume that they are all potentially capable of being good borrowers and that's why whether women or men we end up giving each of them the loan they ask for.

Of course a few feminine issues may come up during the evaluation process for instance many women come here for individual small business loans when they have previously been group borrowers elsewhere and a follow up of how they behaved in the group loan will reveal their character as borrowers. Even some of their guarantors, it would be a tricky situation if the guarantor of the borrower is her lover and here you have to be careful.

If the assets or securities a woman borrower has brought to the bank are in the ownership of her husband then you establish that and there are guidelines to that effect. But even for male borrowers we more or less do the same thing. So you can summarisingly say it depends on an individual situation.

Int: Have any women borrowers presented to you a situation where you were influenced to make decisions because of the feminine nature of the problem or situation?

Res: I highly doubt. Yes they some times come to you with attitudes that they are women and that you must treat them as such. They try to be closer and intimate. They think that you can be influenced by such emotions. I will tell you of some personal experience where a woman took me to her home for inspection of her assets. When we got there she took me to her bed room and also took me to her husband's bedroom to demonstrate how they had separated and therefore could not do business together. But the manner and setting in which she was doing it was indicative of some thing more than that. But as a professional credit officer, I had to carefully handle the situation in order not to lose the client nor offend her directly. Such things and others occur to us from the female borrowers but we have to be objective and professional. Even from the way they speak to us, some times they go beyond and you only select what you need for your work. So to answer you, yes situations like these exist but we aim at objectivity and professionalism.

Int: Studies in other countries have tried to indicate that women borrowers find it more convenient to deal with women credit officers than with males. The situation in Uganda suggests the opposite. Why do you think this is so?

Res: As I have just told you, women want trust and confidence. They want to deal with an officer they will feel more free to relate with and this is by their nature. They know whatever they reveal to you as a man whether you liked it or not, you would never reveal it to any body else but they expect that their fellow women can reveal some of their secretes especially through gossip. You know those mannerisms of women, they stare at each other, and they despise each other, so you can only find 2 in 5 preferring fellow women to men.

Int: So in view of what you have high lighted, what would be your preference of the two, serving a male or female?

Res: In my work you have to be prepared for both of them. The most important thing is honesty, reliability and hard working to repay the loan. So whether you are a man or a woman matters less. But I know a woman borrower would feel more comfortable dealing with me or any other male credit officer than with her fellow woman.

Int: Finally, does being a male credit officer affect your job of extending credit in any way?

Res: Yes and no.

Yes in the way I explained to you earlier when women take you for granted and challenge you (laughter) but again challenges are good. But that is not a serious problem and in fact we end up being friends. But the procedure we follow is the most important thing and it applies equally to both women and men borrowers.

The other sentiments are just for you as an interface between the bank and the client you play very well in order to make the client comfortable and happy. But both male and female are our clients, they are our friends and they are the reason for our core existence.

INTERVIEW C.17

Int: As a Lady Credit officer do you find any differences when serving us women borrowers?

Res: Well, it is there is credit worthiness that matters, their business potentials and really not their sex. Therefore when am handling their requests I analyse them in that perspective not their gender.

Int: That quite true but as they approach you do you find any differences in the way they present their requests, their communication, the confidence, knowledge, business potential and in all the various aspects? Do you find any ease in dealing with one and the other?

Res: OK, on that point, you know women are naturally different from men. But normally I see they came in groups of 2 or 3. It is very rare to find a woman borrower coming alone but with men, he comes alone. And what else, may be women tend to be a bit nervous as if they are fearing you and actually some of them fail to articulate their request but as officers we try as much as possible to understand them differently the way they are. With men not so much, at least for them they tend to be courageous and firm. But there are women especially those that have borrowed before or even intelligent women, those who are sometimes educated, they are confident. But generally for me as I wait to speak to a client I

don't want to focus on their gender but rather their ability to use the loan productively and be able to repay back.

Int: Studies in other countries have indicated that female borrowers tend to gain support from fellow women officers and this is mainly due to the women solidarity issue. In Uganda, however, female borrowers tend to find it easier to deal with male credit officers than with female credit officers. What do you think is the cause of this?

Res: Laughter, you know our women here generally are still ignorant and they are nervous and a bit not confident when they come to us. So she knows that a man will always pay special attention to a female borrower even when they are creating rapport and if she is a young lady borrower you know, she kind of prefers a man to a woman credit officer. They know men will always be impressed by their appearance, their way of talking and I think naturally men are preferred by women borrowers. But of course here the policy is that a borrower will always approach any loans officer who will be there in office at that material time and we don't discriminate against them. For those countries especially the developed world, there the societies are different, there, there is no difference between males and females and these things of banks are things of long ago, they are used, they know what they want, even almost everybody is informed and literate. And may be there are even clear policies for promoting gender borrowing. But here the society is different and we still have a long way to go.

Int: In your experience, are there situations when women borrowers approach you specifically, because they feel you are their fellow woman and that you will understand them better?

Res: Of course, this is there; quite a number of them will do that. She comes and say, "you know my fellow woman I'm just a widow and looking after so many children and all that and then she expects you to plead for her for fair terms so to speak. But of course as women, we also know that, may be some of uses have passed through the same but you can only sympathise with her. Sometimes where possible you can plead with the loans manager for her but these are always tricky situations.

Int: As a woman loans officer, how does the issue of being a woman play in your role? Does it affect your work in any way?

Res: May be when you are pregnant or you have a baby you feed, because there you may have to decide your time and attention between work and the baby. But we have maternity leave but it may not also be sufficient for you to go through the cycle but that is a normal thing.

Int: Apart from these?

Res: Now like what? We all sit in the same chairs whether male or female, the borrowers approach any of us, we get some terms as male credit officers. These other small things of being disturbed by our clients are usual and it also happens to males also. So I don't see any problem, we all have the same qualification, training and we do our work following some procedures. That enough for you.

Int: Thank you very much for your time for this discussion.

INTERVIEW C.18

Interviewer: As a male credit officer Officer, how do you compare handling a male vs. female borrower?

Res: Now I will say one thin here, although women tend to take small loans be cause of the size of their businesses, they tend to be more honest and hard working than men. So the government must encourage more women to borrow, they particularly need to get adequate information about banking and loans because a lot of potential. A woman borrower will always respect the loan obligations, she is always humble and I really sympathise with them. But of course, many are still less informed about business. For men they are just wiseacres and they are the ones who often give us headache. You know their problems, a man will even borrow with a hidden intention of misusing the money even on other wives but it is not very common for women. But of course all require to go through the same procedures before we give them the lean. We have to carefully examine them especially when it comes to their businesses and securities. So that is all I can say about women and men borrowers.

Int: In Uganda women borrowers tend to prefer dealing with men loan officers to their fellow women. In Uganda women borrowers tend to prefer dealing with men loan officers to their fellow women. Studies in other places however indicate that their women borrowers tend to gain support from fellow women and this is mainly because of the women solidarity issue. Why do you think this is so and what is your experience?

Res: Of course, that is true for Uganda. I have both male and female borrows that I have handled but I also notice that female borrows feel more comfortable with me than they do with the female borrows. Even my other male colleagues feel the same but of course there are also women who feel safe with their fellow women but I think those are not so many.

This is not that the other female officers mishandle them and that may be I treat them uniquely but I think they are just comfortable with men. Sometimes there are situations when you have to abandon a borrower for other responsibilities or transfer but you can see the way they feel and if you hand them over to a female colleague, they make funny comments about it. May be it is natural. But OK sometimes those women officers and even in other banks tend to behave a bit different when it comes to their fellow women but this is some, not all of them. But we have same conditions we subject them to whether male or female and each of them has to meet the requirements. When you talk of other countries, man, those are different societies. Those are places where a woman feels equal to a man, they enjoy equal benefits and most of all they are very enlightened.

When she goes to the bank she expects the female officer to treat he in exactly the same way as a male officer. But her, some women still doubt their fellow women in solving their problems, they are more sure and conformable dealing with use men and that their fellow women. That is what I think could be the cause but I know there are many causes especially of advancement but that is my opinion. In your report in those studies, what were the causes? Because really I'm not sure.

Int: And finally do you think being a male credit officer facilitated or impedes your work of extending credit?

Res: I don't thin it affects me at all. That is all I can say, thank you.

Int: That you very much for your time.

INTERVIEW C.19

Int: As a female loans officer, how do you compare serving or dealing with a male borrower versus a female borrower?

Res: Oh what can I say? You know being a female professional in a men's world is quite challenging but am happy many women are increasingly rising up the ladder of senior professions. However, this doesn't mean that it does not come with challenges.

When a lady borrower comes for service she expects that you are going to handle her femininely especially the uneducated woman. She has a lot of expectations from you and yet we use same guidelines like our male counterparts but in essence you feel like we are competing against the other.

For male borrowers, I don't think they mind so much who serves them, you know, you men you always want to challenge us (laughter) but to precisely answer your question, it is mainly the underprivileged, often illiterate woman who intimately tries to relate with you, she confides in you, she is closer, you know. But there is probably no difference between the way I deal with the educated or affluent woman and a man. They are knowledgeable, they know what they want and the procedure to get it, but the problem sometimes is with the underprivileged woman, my mother selling a few tomatoes and onions on the road side.

Int: So in your experience which of the two, a male borrower and a female one would you prefer serving?

Res: Oh, of course women. I would prefer a woman, you know am very passionate about women and sometimes I enjoy handling their requests and at the end of the day if she is able to solve her problem and progress am very happy about it. I don't want to sound feminine but honestly, as a woman I really feel passionate about their issues. You know I once worked as a social worker before going into bank business and I got interested in women problems from there in addition to my own background. You know these are women who are poor, some of them have to pay school fees, others are even widows and they are just struggling to survive. Men are always strong and less vulnerable but I equally serve them, there are some men who present unique problems just like the women and when I related with them I am very conscious about this.

Int: Quite interesting, now studies elsewhere indicate that women borrowers tend to have comfort in dealing with female loan officers that they do with men. However, in Uganda it seems to be the other way round, they are more comfortable with men. Why do you think this is so?

Res: You know in my opinion this is brought mainly by individual characters. Among women credit officer in different banks there are some women who have that character of insensitivity, they are rude, they are arrogant, but again this is due to their background. I would suggest some of our women, if you are going to work in the position of loans officer you should undergo the basic social relations training you know, how to deal with people, how to understand people especially the vulnerable. Then I think they might be made aware of women problems. Of course

in our orientation to the job we have tips on how to deal with different kinds of people but this is just a formality and may do less to change our core mannerisms, and characters. But I also know of very many other women loan officers who are very understanding and people always tell them their unique problems especially when repaying loans. That is my personal opinion.

Int: Are you saying men handle them differently?

Res: Laughter, yeah, some men are really very good especially when you look at the way they related with the old women, they are really understanding. But sometimes these borrows do not have a choice, they just approach any officer wither male or female. But of course as you said their experiences are always different. But why would really a female borrower have confidence in a male officer when there are women officers!! It is ironical.

Int: So is there a difference therefore in the way you evaluate a male borrower versus a female one?

Res: Laughter! Although not official, you as a Loans officer have got to be flexible in that way you handle customers, the way you relate with others. Women for instance, when they are presenting their problem after go into personal problems, she will take you through her problems and in my opinion this is fair and to me it is a sign of confidence and trust. So when assessing her creditworthiness, where possible I put into mind some of these issues and when they feel helped they are always happy. But I have to be careful because they must be in the credit guidelines of the bank.

Int: Finally, do you think being a woman affects the way you do your work as a credit officer in any way?

Res: I don't think so. I relate very well with both male and female borrows despite what I have told you. On the contrary, I think it is very good for me because it gives me a change to serve my fellow women better because I do understand their problems and I enjoy my work.

Int: O.K., than you so much for your vulnerable time that you have committed to this rather informative discussion.

INTERVIEW C.20

Int: How do you compare serving a male borrower versus the female one? Are there any differences in the way you handle their requests?

Res: In my understanding they are all borrowers and I treat them as such. Woman or man to use it doesn't matter; do you expect a bank to deal with same sex customers? So I treat them in the same way.

Int: When women borrowers come to you, are there any unique issues that you find, may be in the way they communicate with you, the way they present their requests or even their businesses?

Res: Really, no much. OK some women try to get closer, they tell you some of their family problems but even men try to do it especially when they get into problems when paying the loan. They think that you can help them in a special way especially women but you are not acting alone, you are following procedure and

you have your boss or supervisor. OK, some of their problems are considered and some are given some help or reconsidering of given positions but this is at the loan supervisor level – but not always. But really apart from listening to them and forwarding their explanations, even if you feel so much for someone I can't really do much. Yes flexibility is expected but it is got to be done very carefully in order to get into problems.

Int: In Uganda women borrowers tend to feel more comfortable dealing with male loan officers than with women loan officers. However, studies elsewhere have indicated the opposite and this is due to the issue of women solidarity. Why do you think this is so?

Res: May be because the societies are fundamentally different. A woman here will expect a man to solve her problem more effectively than a fellow woman. We women are accused of being arrogant to fellow women, that we are always slow. But this is to a few women not all of us and I know even some men are more lazy (laughter) than women. That's all I can say.

Int: How, do you think, being a woman officer affects your work of extending credit?

Res: Really no. It is only when you are lazy or incompetent or sometimes when you have some problems like when you are pregnant or nay other thin. But otherwise we relate or I relate very well with all people just like makes do. May be I haven't come across those problems. You know I have been a credit officer for only 1 and half years. I will see when I get there (laughter).

INTERVIEW C.21

Int: As a male loans officer, how do you compare serving a male versus a female borrower?

Res: Laughter! What can I tell you! I talk with all of them very well. They all have similar situations but loan amounts than men. You know their business. The other category which is educated and working they are very OK, some of them come for salary loans which are automatic. Where the woman borrower wants to use a man's asset as security, the man has to come and declare that. Of course you rarely have a situation where a man wants to mortgage his small house or TV or Fridge and he has to consult the wife unless they have joint ownership. But principally they are equally handled.

Int: When you consider the female borrowers, are the situations when woman borrowers approach you in some way that suggests that they expect support from you?

Res: This is a usual thing. Many of these borrowers including men will tell you a thing or two which highlights may be problems they are going through in business, or at home or in their life and they hope that you will be able to put these into consideration when making decisions about them. But you have to just be understanding; you select that information that is relevant and helpful in your relationship of borrowing and lending.

Int: There is a tendency for Uganda's female borrowers to feel more comfortable being served by male officers than female officers. In other places, studies have

tried to indicate the reverse or the opposite. Why do you do this like that, what do you have to say?

Res: I haven't taken keen interest in that but probably it is true. May be it is because of the way men handle or deal with their requests. You know sometimes women tend to be stubborn to their fellow women and true, once I have heard a female borrower insisting that I should be the one to serve her. Not that for me I don't follow rules but may be because of that feat of being handled by a fellow woman.

Int: Do you or how does being a male officer affect your work, how negatively or positively does being a male affect the way in which you execute your roles here in the bank of extending credit.

Res: Why should it interfere with my work? I don't think it affects m in any way. Be it with male borrowers or with female borrows I fell OK, I follow principles here and I don't favour anybody. That is enough for you.

Int: OK, Thank you very much for your time.

Res: Thank you for your time.

INTERVIEW 21

Int old: I refer you to our earlier interview we had last time.

I asked you about how being a woman affected your chances of accessing credit.

Now, apart from the issue of your gender, what other things affect your access of credit?

Resp: I don't think being a woman is really the big problem for m.

It is the size of your business and securities that you present.

With guarantors you can always afford to get them, because they need 2 guarantors who already have active accounts with this bank. So those you will not find much difficult in getting them.

But the most important thing is your business- whether it is big enough and profitable to repay the loan plus the physical securities.

Int: Apart from those, how does the communication between you and the Credit Officer affect you chances of getting credit regardless of the gender of the credit officer?

Resp: Now, what can I tell you, first of all when you go to the bank you have to know what the bank needs in order to give you a loan.

The Credit Officer will ask you many things and you have to be prepared to explain them. May be when you are not straight forward and honest. If he or she finds out you will definitely not get the loan.

Int: Of all those issues you have said, did you find any of them affecting your chances at any stage of borrowing the loan?

Resp: Oh Yes!

Security was my problem, you know I had a fridge but it was in my daughters' names and I had a problem to explain and convince the officer that I was the owner.

Other wise he had been convinced by my business, my guarantors and even my ability to pay, but when it came to security the two TVs could not be enough and I had to add on the Fridge which now became a problem. But I managed to convince him after sometime although it took me a lot of time.

That is the most important thing to them I think.

Int: Ok. Thank you very much.

Int Old: As I have already explained to you, apart form being a woman borrower, what other things of factors affect you ability to acquire the loan?

Resp: For me the most important thing is the credit officer himself. I think if I had not been in good terms with the loan officer, on this second loan things would have been very hard.

You know I had problems towards that end of the last loan but I explained to him everything and he sympathised with me.

Even when I applied for this one he covered me up for something.

You know my boda boda had knocked a person and it was at police and I was still struggling with the case but he reported to his bosses that it was still existing and running. In fact he risked for me and I am very grateful to him.

For me that is the most important thing if you have to successfully get a loan you must establish very good relationship with the loans officers.

Int: Any other thing?

Yes all those things are there, guarantors, security the business itself but the most important thing to me my son is your own relationship with your officer.

Once that one is not good then you will always find problems.

Sometime you are unable to make the periodic remittances to the bank may be every week or month. But if you are his friend he can cover up for you. So that is what is most important for me.

Int: Is there anything that you ever wished the bank to do for you but actually never did it?

Resp: I don't think

They set rules which they use to lend money so we the borrowers have to follow that. Whether I wanted something or not I can do nothing

Int. Old: Apart from your gender what other factors influence your chances of access to

Credit?

Resp: Are you asking for my own personal experience or even with others?

Int: In your own experience when pursuing a loan and in the experience of other that you have witnessed.

Resp: For me I think it is the number of times you have borrowed with them because like this was my 3rd loan and the process I went through when getting the very first loan was more harder, they over scrutinise you, they inspect you, they investigate you. But when I finished the first loan when I applied for the 2nd it was now easy and for the 3rd it was even easier. They never go into all those details.

In fact it is the officer who encourages you to take another loan if you want and every thing changes.

But when you are new, you can never be given the full money you ask for even when you have security. I remember I needed 0.6m bur they gave me 0.4m and now I'm borrowing 1.8m and they gave it to me in full amount.

So for me and the other friends I have shared with, we have noticed that.

Int: So when they gave you less than the 0.6 you had wanted what did you do then to meet your financial requirements?

Resp: I had to do with that and I was lucky my chicks didn't disappoint me and they grew up very well and I was able to repay the loan.

Int: How do you think your own relationship as a borrower with the officer affects your chances of accessing credit?

Resp: I had no problem with the officer; I always did what I was supposed to do. But he is a good man and I enjoy dealing with him but I don't know whether they consider is relationship when deciding to give us loans.

Int: Is there anything that you had wanted the bank to do that was never done according to your expectations?

Resp: As I said in the first loan it was mainly the size of the loan which they cut but in the 2nd and 3rd loan the have been giving me full money. When I have a unique financial problem I explain to my officer and he listens to me so it is just that size of loan in the 1st borrowing. May be the other thing is that insurance fee of 5%. I really don't see it's relevant but when you are borrowing sometimes you have no choice. That is all I can say to you.

Int. Old: With reference to our past interview about your experience when borrowing, do you think the bank adequately addressed your request?

Resp: Oh yes. I wanted 0.9m and they gave it to me in full. Even the previous loan they gave me the full 1.20m. May be in the first loan, there they cut it. And I think it is a question of trust. Before you have borrowed from them and shown them that you can really pay, they doubt you. But after they have trusted you they advance the whole loan.

Int: So apart from your gender, what other factors do you think influenced your process of accessing credit?

Resp: My dear, business!!
 You must have a sound business and you should have adequate collateral security otherwise your desire to get a loan will always remain a dream. No amount of talking and explanation without security will make you get a loan. So you should always come prepared for that.
 Of course honesty is also important here because if you are not honest you bring problems to your guarantors and yet they helped you to get a loan. So for me if the business is unable to repay the loan I would rather use my salary to repay the loan but not putting my guarantors into trouble.

Int: Why then don't you just get a salary loan straight away?

Resp: A salary loan has a trick and it means that your employer will always trample on you. If he knows he covered you for a loan and you have to repay back, if he mistreats you can't do any thing at all. That is why I prefer a business loan.

Int: Any other issues that you think influenced the process?

Resp: That is the most important thing the business and security, period. Even if a con man or a "Muyaye" disguises with security and a small business those people will give actually go ahead and give him the loan. And however honest you may be, but without those you will be as good as a dreamer. (Laughs)

Int: Ok. Thank you

Int. Old: Apart from your gender, what other factors affect your ability to access credit?

Resp: Generally, I don't think gender plays any serious role in this process. Apart from a few vulnerable women who are often ignorant, the most important thing in my borrowing experience is your credit worthiness. I mean, whether you have a genuine business. Those are the most important things and of course having a good active account with the bank. The other things are less important. You know this is a financial institution which aims at profits. How do you expect it to trust you without putting security? You have to present something reasonable and this governs the whole process. Not your good face, not your expensive dress and not even your nice smile (laughter) And I wonder if the officer is your brother he can do much for you to access credit without those key things.

Int: How comfortable are you with those requirements that the bank needs before giving you a loan?

Resp: These are necessary requirements for any financial business otherwise you would be a charitable organisation. If borrowers can defraud the bank where their own property is at stake, how would it be if there were no strict conditions and requirements!! Don't joke with human races, we are always selfish. So for me I think all this is necessary. Those banks have lost millions of money to bank borrowers and they have to put there safe guards.

Int: So did these requirements impede your access to credit in any way?

Resp: Really not because I expect them to ask for those things and I had prepared myself even if am a woman. I'm used to borrowing; it was not my first time to borrow.

Int: Thank you.

Int: Old: Last time you told me you preferred a male officer to a female one. Apart from this, what else would you like to find at the bank when pursuing a loan?

Resp: Yes I want to deal with a male borrower but this is not the most important thing because even if I got there a man and the bank finally refuses to give me that loan it would not have helped me.

For us we are small scale business ladies. I would want a bank that understands me, a bank that gives me enough time to repay the loan. And of course the interest rate must be fair for a poor borrower like me.

Int: So what other issues made it hard or easy for you to access credit?

Resp: As I said the interest rate. And moreover you incur too much cost at the start, Insurance fee, opening and account, transporting yourself and the officers for inspection and other things. So, that cost plus time wasted is really a problem. Then they reduced my loan yet I had a target in my business.

Int: Why did they reduce your loan?

Resp: I don't know, because me I presented everything they wanted from me but they gave me but they gave me 780,000 instead of 1m plus those inconveniences.

I would have expected them to solve my problem because I was not going to run away with their money.

Int: How did you find their requirement before giving you a loan? Were you comfortable with them?

Resp: I wouldn't have cared if they had gone ahead to give me the whole amount. But they took me through their procedure, I presented the land agreement, you know I used my plot but it doesn't have a title so they accepted the agreement, even my chairs at home were part of security.

After that the man told me that the loan committee has decided to give me 780,000/=. And I had to take these because I was desperate my business was going to collapse.

Int: So what did you do then to meet your financial needs?

Resp: What could I do? I had to manoeuvre like that. Could I go and steal or sell myself? No.

Int: Thank you.

INTERVIEW 22

Int: What are the issues that you think enabled you to access this loan?

Resp: well, a number of things here.

1. I'm a customer of this bank. I have a savings account with them.
2. I have also borrowed a salary loan from this bank before and I paid it very well.
3. I have security and my business is not illegal, because if you are doing an illegal business you can hardly get a loan.

So those are the things I think made me successful.

Int: Talking about business, what do you do?

Resp: Am a Veterinary Officer but operate a veterinary drug shop which my sister manages when I'm on duty.

Int: Did it matter to you whether the loan officer is a man or woman?

Resp: Not really. It's not important. Because none of them works independently, in any

case this is not their own bank (laughter).

So any one can serve me. Actually I have been served by both male and female officers before and I relate with them very well.

Int: So do you think your relationship with the officers had anything to do with the final decision to give you the loan you wanted?

Resp: Laughs continuously.....

Any way I didn't mean that, am so close to them or known to them in any way but it's just that when they are handling my matters, I always enjoy it, they understand, they care and I also full fill my responsibility.

As to whether this has anything to do with the loan I must say probably yes because this is all part of the process for me to get a loan. From the time I came in up to when I finish repaying the loan.

I don't think if we had a negative relationship with them, any thing would have gone ahead (laughter).

Int: How comfortable were you with their requirements?

Resp: It's ok.

These are genuine requirements Things like security, guarantors, and all that, all those are ok. After all I had them. Why would they trust me without security? (Laughter)

Int: Finally, I see your officer is a female, would it matter to you which sex the officer is?

Resp: Definitely no. I deal with whoever is willing to serve me well.

Int: Ok. Thank you.

INTERVIEW 23

Int: Madam, how many times have you borrowed from Pride?

Resp: This is the 2nd time.

The first one of a salary loan but this time I have decided to use any business itself.

Int: In both the situations what is the gender of the officers who served you and what is the difference in experience?

Resp: Both of them are women.

Even their boss is also a woman. The salary loan is very simple to get because you only have to get written proof from your boss but the business loan is a bit different. You have to present security, LC letters, guarantors, verification of the business and all that.

Int: So do you think all these requirements are necessary?

Resp: I think yes. It's very necessary.

Int: During the process is there anything that helped you or disadvantaged you to get the loan?

Resp: laughter!! Now like what?

Because for me I know the procedure and the requirements and after the process I got the whole money I wanted. In fact they gave me the full 12m I wanted. Ok I have had people crying of being given lower amount of money than what they requested for. But for me I got the whole amount first time.

Int: why do you think for you, you were given full money and others don't get full?

Resp: I really don't know.

May be because I had finished paying the earlier loan!

Oh may be my security was good, I have a land title worth 6m/=, is that little really? (Laughs)

Those other ladies bambi, they lack security and even their businesses are very small and volatile, may be that is why!

Int: Do you think this could have been because of your relationship with the loans officer or your gender?

Resp: Laughs!!

No, No. I don't accept that. My gender had no contribution. For what really?

But what could that woman do to stop me from accessing credit? Nothing.

They need customers, I'm a reliable one and had my security and that is my strength.

Int: So what do you do?
Resp: Is it necessary really?
Ok. Am an Administrative Assistant at UMI but I also operate some business in case my husband chases me I have some where to run (Jokes & laughs)
Int: Ok. Thank you very much.

INTERVIEW 24

Int: You look happy and satisfied, has your need been adequately addressed?
Resp: Laughs
Oh yes but even without that an always happy. But today they have given me my loan and am going to push into my business.
Int: Which business are we talking about?
Resp: I have a take away but I have been lacking a cooler and yet my customers have been asking for cold drinks. I had a small fridge but it got burnt and want to replace it.
Int: sorry about that. Now, how did you find the lady officer?
Resp: She has been good and fast. Some people I found here haven't yet got theirs but for me am through.
Int: Why do you think they have served you very fast?
Resp: I also don't know. I think I was just lucky. Don't you think so?
May be I was very organised, when I came I was aware about everything they need and I organised myself very well.
Int: Can you say it is because of the relationship with the officer?
Resp: This lady, I just met her here and I don't think if I was not organised and equipped she should have quickened loan process. Otherwise, i don't think she covered for me anything or that I bribed her, no. I think she was just good to me.
Int: Do you think she was good to you because you are her fellow lady or anything?
Resp: Laughs. Really no. Being a woman does not put me in any special position to access loans. I pass through the same process like others. I think I was just organised and lucky.
Int: Then the conditions and requirement? How comfortable were you with them?
Resp: These are simple things to understand if you genuinely want a loan for business, I don't think they were very hard, one can afford them.
Int: So would you prefer a male officer or a female one?
Resp: I really don't know. I haven't been served by a male one because this was my first time of borrowing from a bank. But the lady was good and I think a man would even be better with us women. I guess if it had been a male it would have been equally good or better. (Laughs on and on)

Int: So what do you regard as being important when borrowing?
Resp: 3 things.
1. Security and it must be organised, not just tracing it.
2. Then your honesty and size of the business.
3. Then you must have guarantors very important, very crucial.

Int: Finally, you speak very well and seem to be very informed, what is your education level?

Resp: I possess a degree in Education from Islamic University but I think I was not meant to be a teacher because I have never taught in my life. I do business.
(Laughter)

Int: Ok. Thank you.

APPENDIX D:

**OBSERVED INTERVIEWS BETWEEN
LOAN OFFICERS AND BORROWERS**

INTERVIEW D: 1

- Client** : I want to know the procedures about getting a loan
- Credit Officer** : You are a customer here?
- Client** : Am a customer here
- Credit Officer** : What account are you operating?
- Client** : Savings account
- Credit Officer** : Can I have your account number; do you have your pass book with you?
- Client** : No but I have my ATM card
- Credit Officer** : I can't get your account from there, what are your full names?
- Client** : Wabwire Centurion
- Credit Officer** : Do you recall when it was opened?
- Client** : I opened it in 1998
- Client** : Now I want to know the procedures in requesting for a loan because I want to do some development, I find my self not saving as I had expected, whatever you save you find yourself using it.
- Credit Officer** : What did you have in mind, what type of loan do have in mind
- Client** : I don't know the types of loans you have
- Credit Officer** : Don't tell me the type of loan, tell me what type of loan a small loan, a big loan
- Client** : Medium loan
- Credit Officer** : What type of business are you doing?
- Client** : Am a teacher by profession
- (Borrower sits directly facing the Credit Officer.)*
- Researcher** : The borrower is speaking Luganda and in a low tone, he appears very humble and meticulous.
- (The borrower also appears to know less about the procedure and listens very attentively to get every word the officer is saying.)*

(The Credit Officer stammers and keeps breaking as he talks to the borrower.)

- Credit Officer** : But you need this money in the line of teaching or something else?
- Client** : In the line of teaching
- Credit Officer** : What do you want to do in the line of teaching?
- Client** : I want to buy a small plot
- Credit Officer** : For personal use, not for teaching or setting up a school?
- Client** : No am not going to set up a school
- Credit Officer** : So you just want to buy a plot, where is the plot?
- Client** : I have not yet targeted the area but where am working from, where I have been transferred there are plots at a cheap price
- Credit Officer** : Where have you been transferred to?
- Client** : Am now in Kira, I was in Nabbingo St.Josephs
- Credit Officer** : Do you think you can get a plot of 2 million
- Client** : It will depend but the range will be between 2-3 million. But I don't know how much you guarantee for someone to get a loan.
- Credit Officer** : How do you think you will pay it back?
- Client** : My payment will be monthly as you deduct from my salary.
- Credit Officer** : So you want that money to be reduced from the salary to pay the loan. How much do you think you can pay in a month?
- Client** : I think 100,000/= then you calculate how many months you can deduct. So you will guide me because this is my first time to get a loan
- Credit Officer** : I will guide you on the side of the Bank but when it comes to your personal side you have to have a concrete plan because you know when we take 100,000/= will you survive on the balance so you have to know how much you think you can afford to pay
- Client** : I think 100,000/= is not bad.
- Credit Officer** : So which means if you taking 100,000/= and again a loan of 2 million then you thinking of paying this loan after may be a period of 20 months, because if we are taking off 100,000/= then we have to remove the amount with interest it cant be 100,000/= flat which means you are looking at the plan of paying this loan in a period of 20 months

Client : So what would be your opinion?

Credit Officer : when it comes to repayment I don't give you my opinion because it is you who is going to pay, you should be able to see what is comfortable for you where you will not be led into defaulting.

Client : So in case I ask for 3 million shillings

Credit Officer : You don't seem to be sure of how much money you want to borrow.

Client : No I want to about the length of time allowed because you have said I can pay 2 million in 20 months

Credit Officer : When you say you want a particular amount then the instalments you have to pay every month will determine the period in which you will pay the loan or we shall get the amount of loan into instalment which will fall also in a particular period it is up to you to know how much money you want and when you want to borrow, you first know how much money you want to borrow, don't over borrow or don't under borrow.

Client : Ok I wanted to start with 2 million because its where I was convinced that I can get a medium plot of 2 million shillings

Credit Officer : Does that plot have a title with it

Client : Normally this is a Kibanja without a title its just an agreement made with the owner of the land in the presence of the Local Council's

Credit Officer : Why don't you look for where there is a title then?

Client : Madam you see those ones are very expensive

Credit Officer : Because you might buy something cheap and you end up buying air and you are buying it on borrowed money which you are going to pay with Interest.

Client : any way sells said there is one of 3 million shillings that one has a title but again I didn't want to go in for a lot of money.

Credit Officer : But you can gauge and see what you want to buy and the value

Client : One I was told is a place called Bulawa between Namugongo and Kira that one is of 3 million with a title

Credit Officer : I think if you are looking at something like land its better you buy something which is complete especially when you are going to use Bank's money.

Client : Because when I look ahead when the children grow up I will not be in position to do it.

Credit Officer : We really appreciate your proposal,

Client : Ok let me apply 3 million

(The Credit Officer probed for security but unfortunately the Client relied on his salary from his professional work as a teacher)

Credit Officer : Apart from that in borrowing against your salary do you have any security for that borrowing

Client : Presently there is nothing, because there is very small allowance given which I think will carter for sometime then the balance of the salary as I plan ahead.

Credit Officer : You said your net salary is 300,000/=

Client : 345,000 when they deduct what comes here is 330,000

Credit Officer : So when I look at 3 million if you are to pay it in 24 months you to pay instalments of 125,000 plus some interest. On average you will have to pay 170,000/= lets call that 200,000/=

Client : Per month?

Credit Officer : Per month but will that be comfortable for you.

Client : It will not

Credit Officer : So we have to rethink your proposal and see because we don't want to come to a situation where you will default.

Client : That one I know I may default because I have a heavy responsibility of fees

(The Client expressed and accepted that he can default any time because of the too many responsibilities. The Client was being genuine)

Credit Officer : Then you think about reducing the loan yet when you reduce it won't play the purpose for which you want the money.

Client : You said it will roughly be 200,000/=

Credit Officer : If you are to take 3 million and pay it in 24 months on average you will be paying an instalment principal plus interest of at least 200,000/=. Have you looked at the title deed?

Client : I went there with a colleague and we looked at the land we didn't look at the title because the old man wasn't around but we are sure that he has the title

Credit Officer : So you are not sure in whose names it is.

Client : But he said he has been there since the 1950s, that's where he was born and he is now just selling so it's just a matter of going to lands and survey and they demarcate and we change.

Credit Officer : Because I just see that if you bought a property where there is a title deed you a chance of using that title deed at a later stage for developing that place if you buy and its changed to your names then you can bring it here and we give you another loan depending on the value of the property which you have purchased then you will have a chance of getting money to develop it instead of having it redundant , so I would suggest that you look for a property where there is a title deed then you bring it and sacrifice I think you can get the facility but you think about it as an asset if its valuable you look at the amount which you want the Bank to give you. We look at your ability to pay back considering the pay back time as 24 months of repayment and really what you obtain in terms of an asset but from the way of your life and income it will be a sacrifice so may be you have to supplement your salary with something else, you take extra lessons, you do some coaching may that one can take you to maintain your family as you pay back the loan. How do you see?

Client : Now I will move there with the other brother and we see and we get the exact information form the old man.

Credit Officer : But if you are looking at borrowing really for something like that for such an investment look at something that has a title deed, don't look at Kibanja because you will be at a risk on money which you have borrowed, you are going to pay back that money with interest and after a lot of sacrifice so think along that line.

Client : So there I can't get a form now?

Credit Officer : No

(The Credit Officer probed further for the customers understanding of the loan he wanted to take and his ability to pay. The Client seemed a little confused and she asked for guidance)

Client : So I have to come back and give a feed back

Credit Officer : You don't seem to have a concrete plan as of now, because you are thinking of 3 million, you are thinking of 2 million

Client : Ok what I came with in plan was of 2 million but when I got the guidelines from you so that's why I had to shift to three because I had got scared of the other one of three because I didn't know how many months I would need to pay that money if you have got it from the Bank because I didn't know.

Credit Officer : May be the time you come you will have a clearer mind than today then the Bank will advise you on other requirements you have to bring in.

Client : I will come back on Friday for the final decision.

Overall Observations

(I observed that the setting of the bank was an open spaced office with line of Credit Officers on one ends each having a computer right in front of him/ her. Right opposite them were the seats meant for the Clients. There was an area for Clients and this is close to the first two Credit Officers. The first Client entered and asked about the loan procedures and was given a comprehensive answer to this query. He was asked a couple of questions about his business and transactions. The Client clearly presented his business's history and his expansion plans if availed the credit facility. He also disclosed that he did not mind what kind of security the bank wanted and that he was willing to cooperate. In this presentation, the Client seemed to have had some knowledge of the loan acquisition process.)

INTERVIEW D: 2

Loans' Officer : So you wanted a salary loan, a business loan or a personal loan

Client : It's a business loan

Loans' Officer : And want to pay using a salary

Client : No, from the proceedings of the business

Loans' Officer : Where is the business located?

Client : In Kabowa

Loans' Officer : Does his salary pass through Centenary Bank

Client : He has been having an account with Centenary Bank

Loans' Officer : Where does his salary pass?

Client : Either standard Chartered

Loans' Officer : Not Stanbic

Client : Not Stanbic, they were supposed to make it pass through Stanbic but they haven't changed it

Loans' Officer : what if we give him a loan here and when his salary goes through Stanbic he gets a loan too there, wont it be difficult for the family to pay off the two loans?

Client : Getting a loan after doing what

Loans' Officer: You know we have had instances whereby a Client can get a loan through Centenary then another loan through Stanbic at the end of it the Client gets stuck

Client : I don't think you are given a loan unless you apply for it, despite the fact that there salaries are going to be paid through Stanbic, he may not wish to get a loan from there

(The Client was well groomed, and very smart. He wore a brown suit, purple shirt and tie. He then approached the Credit Officer and greeted him with a warm welcoming expression on his face and then he took his seat. The Credit Officer welcomed him with a smile and asked him for his reason for the visit to which he replied business loan.)

Loans' Officer: What if he does? Because we cant stop him from getting a loan from any other institution

Client : If he knows it's in his means to do it then he knows better

Loans' Office : The problem we have found in the past and even recently, when it comes to getting money its easy which is general but the problem is always paying, like if there were free loans every one would rush in to get that money but the problem is paying

Client : The problem comes in paying

Loans' Officer : Any way that's not the case, how big is the business?

Client : We want to increase on our farm

Loans' Officer : The business is a farm, animal farm or mixed farm

Client : It's an animal farm

Loans' Officer : Cows

Client : Cows

Loans' Officer : Where is it located?

Client : In Kabowa

Loans' Officer : Kabowa, kabowa

Client : But am not comfortable with this thing here

(At this point the Client seem to be disturbed by my presence after seeing me being attentive and listening to his business story)

Loans' Officer : This gentleman they are just doing a Researcher on loans

Client : So the farm is in Kabowa and we want to buy more cows.

Loans' Officer : How many cows are there now?

Client : We already have ten

Loans' Officer : Diary

Client : Yes, so we wanted to get more three or four

Loans' Officer : That's about three or four million?

Client : Around four million

Loans' Officer : So apparently you are producing like how many litres a day

Client : Litres a day but it depends but the minimum is 120 litres of milk every day

Loans' Officer : Readily sold, basically business

Client : And now we want to get a stable supplier, I mean a customer, a Client

Loans' Officer : What about Dairy co-operation

Client : Where we would be supplying monthly and we have to increase on our production that's why we were thinking of bringing in a number of animals such that increase the volume of milk

Loans' Officer : Before you can get a stable consumer

Client : Because we can go in for that tender and then we fail to deliver

Loans' Officer : What security are giving us in case if we are to give you that money

Client : We have a car, we have the farm itself

Loans' Officer : Is it a land title or kibanja

Client : Kibanja

Loans' Officer : For the car if it's not comprehensively insured the maximum we give you would be three

Client : Three?

Loans' Officer : For the kibanja may be five, what's your husband's account?

Client : May be the name, don't you check through the name, the names are similar

Loans' Officer : Ok let's check but we might find that there are five to six people with the same names

Client : At least he uses three names, he is Arinaitwe .P.K or if he didn't use P.K then he is Katurebe

Loan Officer : Arinaitwe P.K? P stands for what

Client :Penna

Loans' Officer : What of the K?

Client : Katurebe

Loans' Officer : I can't access it, it seems there are so many people those ends or he used the P instead of the K

Client : The order of the names is usually Arinaitwe Peneha

Loan's Officer : Even the order matters, he could have used Katurebe

Client : No, he never changes the order, its Arinaitwe

Loans' Officer : It is penaeaha, may be you will have to come back with the account number

Client : Ok

Loans' Officer : And we look at the way he has been running his account and from that I will tell you roughly how much the Bank can give you

Client : When should I come back, can I come back in the afternoon

Loans' Officer : Any time before 2:30

Client : Let me just go and call him and then he gets me the account number I come back then we access it because he is coming on 30th and may be if you are to give us then signing those forms when he comes because he comes once in a while

Loans' Officer : Ok, if you are sure it is in his names

Client : It is in his names

Loans' Officer : He has to be available on the day the money is paid to his account and he has to present when we visit those premises

Client : That's why I wanted that before he comes we do every thing

Loans' Officer : We do the visiting? That's convenient

Client : Ok

(I observed that the Credit Officer's expressions communicated satisfaction and appreciation of the Client's presentation. He was warm and very receptive to the Client and in addition explained explicitly what the Client needed to be assisted which was to open an account with the bank and also present a copy of his bank statement from Allied Bank stressing that this will not hinder acquisition of the credit facility. Client showed satisfaction with the way his request was handled.)

Overall Observations

(I found out that the setting was an open with a number of Credit Officers in different points within the same Officer. In front of each Credit Officer there was seats meant for the Clients.)

INTERVIEW D: 3

- Client** : We can look at more than six years
- Loans' Officer** : We have no problem with giving someone the money stretch if we are certain the person is going to pay,
- Client** : Anti munange that one we can't avoid it, it can happen to anyone.
(I observed that offices are in open space where several Credit Officers sit at their desks with the borrower reception desk facing them.)
- Loan Officer** : It's hard but we are surer when there is some form of contract between the employer and the employee
- Client** : Let's leave that alone because it will not be involved in this issue but I have a land title but unfortunately its not here in Kampala but I have it.
- Interviewer** : Where
- Client** : Its after Mityana, I don't know whether you know Kasangati trading centre,
- Loan Officer** : Basically in Centenary and other banks when we are lending money, we are more interested in the client's ability to pay, other than the client's security. So that's why Even if you have a security of 10 Million when you want 1 Million, but when you don't have a clear source of income that can pay that loan we are always very reluctant to give you a loan.
- Client** : Actually, I think my.....,I will pay
- Loans' Officer** : Do you have any side income apart from your salary?
- Client** : Really I don't have, I don't have, am getting salary only
- Loans' Officer** : What of your husband?
- Client** : My husband is working with a water project
- Loans' Officer** : Is he going to be involved in this loan?
(I found the banking atmosphere very quite with only two Officers in the spacious loans' office. There is only the credit supervisor and the Credit Officer in question.)
- Client** : Actually, I have thought about it, may be I will inform him, but

Loans' Officer : Because there we would be comfortable lending to a family rather than lending to one party

Client : Hm.....

Loans' Officer : It's better for all the parties to know what's going on

Client : Hm...

Client : Ok then am going to inform him, but he will ask me what do you want? What and what and how much money are you ready to give us. He will ask me all that. Could you please tell me in case I come with him. let me say this is my husband we are all here then we want 2 million then for you as a bank what do you want from us?

Interviewer : You have to show us that you have a clear source of income; you have to be with an account with the bank

Client : This, your bank

Loans' Officer : Centenary Bank any branch

Client : What about in case I have an account in any other bank

Loans' Officer : That one is not acceptable because when we are giving you money, the money goes direct to the account and is not given to you in cash so an account is a necessity.

Client : Ok let's say I have an account here

Loan Officer : When you have an account with the bank which is active, which is three months old .so you have to have an account, you have to have a clear source of income to make us comfortable that you will be in position to pay.

Client : um.....

Loans' Officer : And some form of security to secure the money we are giving you

Client : Ok, then now, you mean you need an account for me and my husband or

Loans' Officer : It can be yours alone

Client : It can be mine alone

Loans' Officer : It can be a joint account, it can be a current account, its ok

Client : Ok, then

Loans' Officer : But the account name, the names on the account have to be the names on the assets you are giving us as security.

Client : So now in case I come with my husband then the topic of the land title will be off ,it will be and my husband

Loans' Officer : If you have security

Client : The security I will take to be may the opened account and so on

Loans' Officer : The security has to be an asset owned by the clients

Client : Uum

Loans' Officer : So that in case of problems like failure to pay we can sell

Client : You can sell

Loans' Officer : Because the money we are lending is customers' money you will tell a customer that we can't pay you today because someone borrowed your money

Client : Umm somebody...umm

Loans' Officer : So all the money we loan out has to be recovered

Client : So that's why I was standing alone me as me , as my land title in my children's names without my husband

Loans' Officer : The land title in your children's names can't be used as security

Client : Why not, when the children

Loans' Officer : Because a child is a minor

Client : They are kids they are still young

Loans' Officer : They are minors so when we go in court we cant sell off that land in the names of the kids in case you fail to pay the loan.

Client : eeh

Loans' Officer : Legally its not acceptable

Client : It has to be in your names or in the names of any one above eighteen who can give you powers of attorney to use it as security

Client : Look here my kids are too young am the one who bought the plot.

Loans' Officer : And so legally that land belongs to the kid and that kid cant give you powers to borrow using that title

Client : It's for the kid

Client : So what advice are you giving me?

Loans' Officer : May be you can transfer that land title back to your names

Client : No no it's too late

Loans' Officer : If you can't do that, you have to look for another form of security apart from that land title

Client : Like what?

Loans' Officer : I don't know, what do you own because I can't tell that bring another land title when you don't have

Loans' Officer : So I have to ask you what do you own so that I advise you accordingly to what you have?

Client : Now that, its another plot which I have here in Kampala but am not yet getting the land title

Loans' Officer : You bought it where

Client : Ntinda

Loans' Officer : It's in Jinja

Client : Ntinda, Ntinda, Ntinda here not Jinja

Loans' Officer : It's like a kibanja agreement, if its like a kibanja you have to start with the Lc's

Client : Ok I first got the land but I haven't started processing it

Loans' Officer : What am asking you, when you bought it , you made like an agreement with the seller

Client : I made an agreement that I bought it

Loans' Officer : That so and so has sold land to you

Client : umm

Loans' Officer : Its ok we accept those documents as security

Loans' Officer : We do

Client : You do

Loans' Officer : So if you have that bring it and I look at it and I advise you accordingly but with land issues whether it's a title or what always involve we take it to the valuer, we try to avoid certain things , you know like these land acts, it considers land as family property so even if you want to get a loan as you we will have to have seek your husband's approval for use of land which we consider as family property so you will have to bring signatures which allows you

Client : Ok at this point what I really want to know lets say if I finish and bring each and everything you want and I ask for 2 million, how much period will you give me to pay that money. How many?

Loans' Officer : For construction, if it's for business we give you twelve months

Client : Twelve months that's one year

Loans' Officer : One year

(The Client tried to bargain for the repayment period and it was shifted to two years)

Loan Officer : If you are going to build and we are convinced that you are really going to build we can give you up to twenty four months.

Client : Twenty four months

Loans' Officer : uh uh

Client : Ok, that's not so bad at all I can do that. You know the problem I have my husband is not as serious as me .my husband is always taking things to be simple but sometimes things are not easy. ok I know he more educated than me but he is taking things easy, you wait , you wait, I don't like that, sometimes there is where I want to do, the bible even says if you want to do something do it fast, faster is better. But for him I can tell him and he refuses to come whereby for me I can manage to come and I can manage to pay that money for my banks

Loans' Officer : But where land issues are concerned you can ask him to sign

Client : I can tell him to sign

Loans' Officer : When you bring that agreement and I look at it I will advise you accordingly then I will give you those forms

Client : Ok

Loans' Officer : And you request him to sign and you will explain to him, if he cant understand you can tell him to come and I will explain to him. And once ha signs me I will process things for you.

Client : Ok another thing, how much money do you open the account with

Loans' Officer : If it's a savings you need only ten thousand

Client : Ten ok, if current

Loans' Officer : A hundred thousand

Client : Which is one better than another when am applying for a loan

Loans' Officer : Any, any can work

Client : Any can work

Loans' Officer : But for purposes of a loan we just need a savings

Client : Really, ok thank you very much for that, I really thank you.

Loans' Officer : Well

(The Client and the loan Officer understood each other and the Client left the loan Officer's desk contented about the loan application)

INTERVIEW D: 4

Researcher observed that Loan offices have an open space setting. There were two Credit Officers in a small office that had provision for a queue of 6 Clients. The Credit Officer's desks were filled with piles of files, which kept them busy when not attending to Clients. A Client entered the office and consulted for the inquiries desk. He wore a jumper over a t-shirt, which was not tucked in, dirty shoes, and his beard was unkempt. He was then shown a Credit Officer to whom he went and asked for help. The Credit Officer took a glance at him and she did not smile or show welcoming non-verbal expressions. At the time she was looking through files while being asked questions about the loan schemes and during this period the Client was standing. After a while he was given a seat and attention (Credit Officer was now giving him eye contact).

Loans' Officer : Well what are your names?

Client : My names are Paul Kamugizireho

Loans' Officer : You want to get a loan?

Client : Yes I want to get a loan

(I saw Credit Officer getting a slip on which she wrote the types of loans and asked the Client which one he wanted. This question was posed to the Client earlier to which he replied salary loan and at the instant he was being referred to another Credit Officer who handles salary loans but his persistence won him the Credit Officer's attention).

Loans' Officer : Do you have an account with Centenary bank?

Client : Yah

Loans' Officer : What's your account number?

Client : My account number is here

Loans' Officer : Do you have a business

Client : Well am operating a take-away and you should be knowing it, its called Bisero

Loans' Officer : What do you sell?

Client : We sell some snacks, sodas, beers

Loans' Officer : Where

Client : It seems you have ever been there

Loans' Officer : Where

Client : Najjananumbi

Loans' Officer : Where about

Client : Down there wakaliga zone, do you know the place?

Loans' Officer : No I don't know the place

Client : Really? You have never been there? So am the owner of the place

Loans' Officer : So you want a loan for, you want to borrow the money for, what are you exactly is the purpose

Client : The purpose of the money, I want to increase the volume of the business, increase some of the materials like red meat, another one okay, I constructed my house and I want to finish it

Loan Officer : How much money is in your business?

Client : Its almost about, it's almost three million

Loans' Officer : You want to borrow how much money

Client : I want three million

Loans' Officer : You want three million

Loans' Officer : When you are given a loan here in the bank, you are supposed to pay on a monthly basis, paying back the loans, how much money do you think you can pay back to the bank every month

Client : Every month

Loans' Officer : Uuh

Client : Three hundred thousand

Loans' Officer : You can pay, ok

Client : My daily savings every day, mutwalo gumu kitundu almost everyday

Loans' Officer : You can save almost fifteen thousand every day

Client : Fifteen thousand almost every day

Loans' Officer : Apart from that business, the canteen, do you have any other source of income?

Client : Another source of income is that one which I am going to roof my house, so I can almost 460,000/= per month

Loans' Officer : So there are no people staying in the house as yet

Client : Not as yet, but if I could complete it within one month it can do.

Loan Officer : Soka ondindemu katono

(The supervisor and another lady entered, they chatted a bit and then told the Credit Officer that they will be coming back after a while)

Loans' Officer : So you were saying that you are going to roof your house

Client : My house, and am expecting almost 460,000/= per month

Loans' Officer : Of the three million the money you want, how much do you want to put on the house, how much do you want to put in the business?

Client : Ok on my house I want to put almost 1.5 million and 1.5 million in the business

Loans' Officer : So you want to divide the money into half .ok what security do you have? What security will you offer the bank? Just in case you fail to pay the bank should not lose

Client : You are the one to decide which can

Loans' Officer : No because I could decide that you give us a land title and you don't have a land title, that's why am inquiring what security you have.

Client : For me I think either the house or the business

Loans' Officer : What documents do you have to prove that the house is yours?

Client : Ok I have got endagano, I did that right from the Lc I with the seller who sold it to me, so even the business can do

Loans' Officer : You the business, we cant take the business as security, basically we want something tangible, because you know in the business everyday you are selling, stock could be security today, tomorrow you could have sold all of it and there would be nothing, so we need to have security that's why we are interested in the land title. Can the Lc's confirm that the land is yours? How much did you buy that place

Client : I bought it long time almost 2.5 million

Loans' Officer : Which year was that?

Client : Okay, last year but one, but now it could be worth almost eight million including those buildings

Loans' Officer : What do you mean including those buildings? Where exactly is it?

Client : Nsambya kevina, those ends

Loans' Officer : Is that where you stay

Client : Um

Loans' Officer : I can see that you have just opened your account here and its not active, have you been banking anywhere else

Client : Okay, I was banking in DCU, Centenary nankani, okay at first during

(Another Client entered, interrupting the conversation. He was looking for the loan Officer, whom he did not know the name and where he sits. Loan Officer stood up and directed the Client where he can go for help)

Loans' Officer **to a different Client:** Sebo how are you

New Client : Am looking for someone who handled my case, can you show me how to get to her?

Loans' Officer : Who handled your case, it was concerning

New Client : Regarding opening an account

Loans' Officer : Opening an account, Mzee mutwale wali awadako,waliwo omulyango ogudako woba omutwala

Back to interview

Client : At first during the closure of those Banks I can't recall which year I was banking in Centenary Bank, this Entebbe road, so that bank we closed it, then last year

Loans' Officer : Was that Green land Bank or Co-operative bank

Client : Centenary Bank

Loans' Officer : They closed Centenary Bank?

Client : But the closure of those Banks, there I withdrew the money and started that business, all the money I had on the other account so I started that business take away. Then I opened another one in Nile bank then during the purchase of the land the same I withdrew that amount, that I had put in Nile, then I came back, they told me that the old bank Centenary I was in can lend

Loans' Officer : So in the mean time you haven't been saving your money

Client : No I have been saving for almost three months

Loans' Officer : In your house, in your shop and not putting it in the Bank

Client : In my house, you have been keeping in your house or in your shop, you haven't been putting it any Bank

Client : Well I have been saving it in my house, then rest putting it back buying some cows and what not

Loans' Officer : Where is your home?

Client : Ntungamo district

Loans' Officer : Ok, how many, what do you have there? What do you have in Ntungamo?

Client : Just only cows

Loans' Officer : How many are they?

Client : About twenty

Loans' Officer : Do you get any money from them, like form the sale of milk on a monthly basis?

Client : But the demand is very little, you see up country there, demand, transportation and what not, they are at a low price almost a little its three hundred

Loans' Officer : May be you could sell the milk there

Client : Yee we are selling it

Loans' Officer : Do you get any money from your cows on a monthly basis or you don't get anything

Client : uum we get some

Loans' Officer : Like how much

Client : Ok per day we sell almost five litres, a litre is three hundred, that's lukumi mu bitano, mutwaro gumu every month

Loans' Officer : So your account has, your account isn't very active actually you have just opened it

Client : The money I have been keeping in Nile Bank I used it to buy cattle, bought that plot so

Loans' Officer : So basically we would request you to run your account for at least for one more month. We want you to show us that you have the capacity to pay back the loan

Client : Yes

Loans' Officer : Because when we give you money you will be required to always put the money on your account, so we want you to show us that you have the capacity to pay back the loan by at least first operating your account for one more month. Because I can see here you just opened your account here last month, so its just like one month, its not very active. What I want you to do may be from your daily sales, like after every one or two days , you come and bank your sales, then when its time to purchase, where do you purchase from your products?

Client : Nakasero

Loans' Officer : When its time to purchase the products you come and withdraw the money, then you can go and purchase the products like that. We want to see that your account is active. What will give us an assurance that you can pay back the bank loan?

Client : So how much at least

Loans' Officer : No it depends on how you have sold, if you have sold ten or twenty thousand that's what you bank, I mean am not telling you to bank one million which you might not have

Client : Eeh

Loans' Officer : I just want you to bank what you can, like how much are your daily sales on a daily basis, how much do you sell very day?

Client : Every day, almost fifty thousand, sixty, you see days are not the same

Loans' Officer : So you can come and bank that money. Have you applied for an ATM card, have you got it?

Client : I have it

Loans' Officer : Like in the evening you can come and Bank

Client : But the problem with it, the ATM machine doesn't show the money but in order to give me a loan it has to show that my account is active

Loans' Officer : It gives you a receipt and all the transactions they show on your account

Client : Like the ATM

Loans' Officer : On the book it doesn't but you can always up date the book by going to the counter

Client : On the ATM it doesn't show the money

Loans' Officer : But it shows, it gives you a receipt when the money is being deposited

Client : On the receipt it doesn't

Loans' Officer : But the money goes to your account

Client : Yes

Loans' Officer : When you put your money on your ATM its like you have deposited your money on your account, the ATM only helps to facilitate that's fast, I mean you don't have to go through the long queues and even come up to the bankers' counter. It's just like you go to the cashier and you give your money there, it does the same thing only that there is no person there, its only that the ATM is more convenient. Any time day and night you can come and withdraw money on your account. so that will be your first requirement at least first make your account active like for one month. Then you can come back, when you come back and you account is really active, the procedure is, an Officer visits your business and your premises where you stay and we also visit your security and take photographs, then you give us the purchase agreement for the land and the Local council's confirm that its your land and we shall use your land as security in the Bank, then you need guarantors, people to, guarantors basically help, these are people who trust you and know you, just in case you fail to pay those guarantors are responsible , actually the forms they sign they commit themselves

Client : What of this security

Loans' Officer : We take combinations of security; we don't take one security like only land. We take combinations of security we also take house hold property as security , as additional security , on top of all those securities the land, the household properties we also need guarantors. So you have to get like two people to guarantee you. People with active accounts, in case you fail to pay those people should be ready to pay.

Client : Ok

Loans' Officer : Uum, but all this process will be after one month

Client : After one month

Loans' Officer : Uum

Client : It's very long

Loans' Officer : Actually you only came and opened the account last week so you make sure one more month.

Client : Uum

(The Client expressed himself by wondering the time he is supposed to take waiting for the promised money/ loan)

(Researcher observed that Loan offices have an open space setting. There were two Credit Officers in a small office that had provision for a queue of 6 Clients. The Credit Officer's desks were filled with piles of files, which kept them busy when not attending to Clients.)

A Client entered the office and consulted for the inquiries desk. He wore a jumper over a t-shirt, which was not tucked in, dirty shoes, and his beard was unkempt. He was then shown a Credit Officer to whom he went and asked for help. The Credit Officer took a glance at him and she did not smile or show welcoming non-verbal expressions. At the time she was looking through files while being asked questions about the loan schemes and during this period the Client was standing. After a while he was given a seat and attention (Credit Officer was now giving him eye contact).

INTERVIEW D: 5

Credit Officer : Ok madam how can I help you

Client : Good morning sir

Credit Officer : Good morning sir, how are you?

Credit Officer : Fine thank you, how may I help you?

Client : I have to inquire about how one can acquire a loan from you people

Credit Officer : So which one do you want? Here we have the group loans where people who can not afford security for bigger amounts of money team up among themselves and they form a group and then they use their group as security then they acquire a loan, then there is the individual loan like you have come where somebody has the capacity to raise the security for a big amount of money and even the business is even bigger and usually for this kind of loan the minimum is usually five hundred thousand and above so which one are you interested in?

Client : In fact I would prefer the individual loan

Credit Officer : Ok you want the individual loan, of about how much money?

Client : Of about seven hundred

(Researcher observed that at this moment there was only one borrower who has come to be served and generally a moment of silence exists.)

Credit Officer : Seven hundred thousand?

Client : Yes please

Credit Officer : Ok, which business are you operating?

Client : Am operating a small restaurant those sides of Kawempe

Credit Officer : Restaurant in which sense?

Client : Restaurant and take away

Credit Officer : What is its name?

Client : Its Fast food take away and restaurant

Credit Officer : What's the size of the business?

Client : Its actually not big, am just a beginner

Credit Officer : About how big is your capital or investment?

Client : Around 2 M

(I saw other Clients entering and sat on the waiting desk. The Client at the loan Officer's desk looks behind and he realized that other three Client s were waiting. He replied after a while)

Credit Officer : Around 2 M? OK, why do you need a loan now?

Client : I thought of expanding my business

Credit Officer : You want to make more restaurants?

Client : Yah

Credit Officer : Sure?

Client : Yah if all goes well

Credit Officer : Can you explain the way you want to expand it?

(Borrower sits directly facing the Credit Officer , the borrower is speaking Luganda and in a low tone, he appears very humble and meticulous. The borrower also appears to know less about the procedure and listens very attentively to get every word the Officer is saying. The Credit Officer is a stammers and keeps breaking as he is talking to the borrower.)

Client : I had wanted to secure a deep freezer

Credit Officer : Yes

Client : In that way I think I would expand my sales

Credit Officer : You said you wanted a loan of about 500,00/=, ah, 700,000/=

Client : I want 700,000/=

Credit Officer : What is your daily turnover?

Client : So far not bad because my daily sales are between 200,000 and 300,000/=

Credit Officer : For how long have you been operating this business?

Client : At least nine months

Credit Officer : Nine months? So is that business stable, have you analyzed it?

Client : Yah it is so far so good

Credit Officer : Doesn't it change with circumstances

Client : So far no change, so far so good

Credit Officer : Who owns the business?

Client : My self

Credit Officer : Alone?

Client : Yes please

Credit Officer : How about, do you have workers?

Client : Yes please

Credit Officer : How do you manage them and first of all how many do you have?

Client : I have like four

Credit Officer : Yes they are four?

Client : Yes I have four workers, actually the three I pay on a daily basis because I can't manage salary basis and the other one is paid on the monthly basis

Credit Officer : That's a good idea, do you have security?

(At first the Credit Officer seemed to be generating the question from his head but later on pulled a guide for borrowers which he began following by reading loan requirements one by one. Here was evidence that he was not comfortable talking under observation while talking to the borrower.)

Client : Yes

Credit Officer : Because security here we mean things, assets

Client : Security like what?

Credit Officer : Properties you know?

Client : Ok

Credit Officer : Because when you are getting this loan you have to put in something in case you fail to repay the loan we attach it.

Client : Ok for that case I have my own boda boda and its doing well

Credit Officer : Is it licensed? Is it in good condition?

Client : Yes

Credit Officer : Ok what else?

Client : I also have a deep freezer, I have another one

Credit Officer : And then the guarantor because apart from security we need somebody who can act as your guarantee to guarantee that he will pay this money in case you fail to raise this money you know, so this person must be a resident in the area, he must be permanent resident not any resident. I forgot to ask you is your business in a permanent premise or you are renting?

Client : It's a permanent place

Credit Officer : It's a permanent place?

Client : Yes please

Credit Officer : Even this guarantor must be permanent resident in that area

Client : In that particular area?

Credit Officer : Yes, so do you have this kind of person?

Client : Yes please

Credit Officer : So now madam before we go on to give you a loan we shall first of all study your business, the way you run your business we have to visit it and inspect it to ascertain that what you are telling us is true and then we have to examine your guarantor because these are people you are going to bring which we don't know. So it is a process, so now I think on Wednesday you come here between ten and mid day, I think preferably between ten and eleven so that you take me to your business premises so that I have my own understanding of the business, of course you have a better one so that we go along with the process. I think you are eligible for a loan

Client : Thank you sir

Credit Officer : I hope you will get it if what you are telling me is right

Client : Take it from me

Credit Officer : That's good I will prove it then

Client : Alright

Credit Officer : So remember to keep time between ten and eleven we shall be going and I need to inspect this business and verify it and see

Client : I need to know about the interest how am I supposed to pay back?

(The Client looked worried about the repayment mode and facial expression changed)

Credit Officer : The repayment mode is, it shall depend on finally what we shall agree on but normally first of all there is a rate that you have to deposit back with us every week you will have to be told all the other things pertaining the way you will have to service the loan. Don't worry you will be educated about that but that at the stage where we are now considering you for a loan. Just be well assured that you are going to learn all this

Credit Officer : So thank you very much

Client : You are welcome.

(I found out that the office space was an open where several Credit Officers sit at their desks with the borrower reception desk facing them. There is a very quite atmosphere with only two Officers in the spacious loans' office. In my analysis, there is only the credit supervisor and the other Officer s are had gone out in the field.)

INTERVIEW D: 6

Client : I need money to buy necessities for my school before the beginning of the term.

Credit Officer : How much money do you want to put in?

(The office in this bank is an open space type with cubicles for each Officer (these are of different specialties). There is one for one Credit Officer and the waiting area for other Clients is not close to the Credit Officer's cubicle.)

Client : About 4 million

Credit Officer : With schools at the moment we are not financing them because of this seasonality when students get holidays. But what we would advise you do is to open an account with us which is a school account such that when the terms begins all students bank with us that's when we can give you money for the school

(I saw that the Credit Officer beckoned the Client who was dressed casually but looking smart, to come in for help. She welcomed him warmly and quickly pulled out an A4 size sheet of paper, which turned out to be the guidelines governing the loan acquisition process. She then asked the Client how she could help. He then mentioned that he wanted to inquire about loans. She then asked him to classify the kind of loan he wanted. He did not seem to understand the question and this point she elucidated by giving in him hints for instance size of loan. He then had a lengthy explanation of the type of loan he wanted and size and what he was going to do with it.)

Client : I had thought that when I come want money just to be loaned as my self what should I do?

Credit Officer : That one we don't give that kind of service, we give money to people who have existing businesses like we are boosting your business now in your case it's the school that's your business

Client : Sorry to ask but what if it was some other small business like saloons what of those ones when I come in that category.

Credit Officer : We can

Client : So now that's may be my

Credit Officer : So now you are changing

Client : Am not changing but in fact we went into details because of the questions

(The Client seemed not genuine; he started switching from one business to another. The Client was actually not sure of what he wanted)

Credit Officer : If it's the saloon I will give you questions. How long have you been in the saloon business?

Client : Operating it? There are more than 5-6 years

Credit Officer : What kind of saloon is that is it for women or men?

Client : It's for men just

(The Credit Officer probed further for the customer's understanding of the loan he was taking and his ability to pay back and here the Client seemed a little confused and asked for guidance. She then explicitly explained to him the risks involved and those especially related to being sold a plot of land that is not legitimate. She also suggested that he goes for the higher loan that would enable him buy the land and in addition told him that the title deed could even help him get another loan in the future if he wanted.)

Credit Officer : How much do you make a day?

Client : The workers bring me twenty five

Credit Officer : Twenty five a day?

Client : I don't know how much they make but I told them to give me twenty five thousand.

Credit Officer : Do you pay trading license for that business?

Client : Yah, its there

Credit Officer : Where is it?

Client : In Kawempe

Credit Officer : How much did you to borrow for that saloon?

Client : I wanted five hundred

Credit Officer : Five hundred to do what?

Client : I want at least to put in other things which are missing like a TV, a radio there are some things which we need to put there to attract

Credit Officer : Do you know the homework am going to give you? You are going back home to sort out and reorganize your self so that when you come back you tell me what exactly you want to buy, because when you came you wanted money to boost the school, the school you

- want to buy furniture, and the saloon it seems you have very many needs to buy
- Client** : I talked about the school but that's why at first I said I had not come in the name of the school
- Credit Officer** : But then you asked a business loan
- Client** : Because that's my personal money
- Credit Officer** : What securities do you have?
- Client** : The what?
- (Loan Officer is irritated since the Client seemed not to agree with her explanation and he do not know what exactly he wanted)*
- Credit Officer** : The securities you want to bring because you must give us security before we give you money it's the more reason I gave you this paper to read through and it shows our minimum and maximum amount you can take plus our interest rate and the collateral we need
- Client** : Kati bwemba njagala kwongeremu saloon ejule nga TV ezo ye ensonga lwaki nzize
- Credit Officer** : Okkwongeramu tusobora tukiriza era osobora kwongeramu era offcer ajja nalaba lwaki oyagala ekintu ekyo
- Client** : Kubanga this one is existing kati endala gyentandisewo waliwo byendaba ebi lacking mu
- Credit Officer** : Kubanga business ya abasajja teri expensive nyo, machines ziri cheap
- Client** : it depends ebitundu bye turimu oba oyina omutindo gwo oyagala ogitekako
- Credit Officer** : Esawa eno business gyombulila ngimanyi sigikolamu naye mba ngimanyi kiki . I want to finalise with you because these are new
- Client** : Wariwo ekilala sekitegedede , ekyo guarantor
- Credit Officer** :Let me just go through it. Do you have this paper? You can check. Kati guarantor aina kuba nga ari permanent resident, this is someone seconding you to borrow to get a loan because there are requirements we need from him or her, say one passport photo, utility bills in his names either electricity or water bills plus a photocopy of his identity card that's current
- Client** : Ate bwaba nga tabiyina?
- Credit Officer** : Oina okunonya abilina

Client : kale

Credit Officer : waliwo ekilala kyobuza

Client : Security

Credit Officer : Security gyo'ba otuwa eba eina okusinga ku sente zoyagala okwewola ekyo ndowoza ekimanyi bulungi. We pay some loan application fee at the reception this one we it before loan officer agenze kukulambula and the security you are giving us you take pictures of the securities katugamba ebya business you take pictures, ebya awaka you take pictures because we value them we give them a value which is usually first sale value , if you are renting say your business you are renting that place you give us photocopies of the receipt , then you have to have a photocopy of the license that is current , a Bank statement from your Bank you save with, we want to see your financial stand of your business, then the photographs I have talked about them

Client : kati ate bwobela nga toyina Bank gyo banking mu sente

Credit Officer : Omusomesa omulamba ,

Client : mbuza kumanya just

Credit Officer : You are just asking for knowing, you can open up with us because we have a bank and we encourage you to save with us as well but in most cases what you say shows the strength of the business, then Lc letter of introduction addressed to the manager eno ebela ekwogelako you are a permanent resident of that area , you rent somewhere, you have been here for such and such a time then there is this deposit of 10 percent of loan approved put on your account as cash corratel guno gubela musingo gwa sente apart from this security emisingo emikalu tuba twagala ne sente

Client : Zino baziteka kwa account gwoba ogudewo

Credit Officer : zisinzila kuzoba osabye, katugambe oyagala million bili otekayo emtwaro abili, bwoba oyagala million satu otekayo mitwaro asatu, ezo zibela ku account yo okutusa lwomalilizayo sente zo, bwoba ogimazeyo you can withdraw it, then of course Officer akukyalila nalambula business, residence, securities ,ne guarantors residence that's the summary of these requirements

Client : Ndina Bank account naye mu requirements mwagala statement elaga bwembade saving, kati bwemba nga maze emyezi nge esatu nga sitekayo kindemesa ekyo?

Credit Officer : Tekilemesa ekyo naye nange mba nkubuza account wagulayo yaki ate lwaki obade tetakayo sente

- Client** : waliwo bwenkola bwenti nti nagulawo account naye mba ndinayo omuntu wange ekenya amperezayo emitwaro oba kumi buli mwezi nze nenzijayo buja wabealwo enkola ngeyo bwemba ntadeyo nentekayo emitwaro ebili ekyo kyo kili kitya?
- Credit Officer** : Kati ezili mu business eno kyo okola onkakasiza nti olunaku okola nkola emitwaro kumi nensobola okutelaka emitwaro esatu, esatu ogitekawa
- Client** : Nzitelaka mu account, enaku zino abantu baina amagezi mangi okwata enkumi tano noziteka mukibina namanya nti tojja kutawana na Bank charges many anti buli bwoteka mu Bank bakujako bisatu lwojayo nebajako ebibili kati awo nteka mu ka box akanzijako interest bweziwera nenzinjamu nenziteka mu business yange
- Credit Officer** : Kati awo wemba nkusindikila nti dayo obe okyakozeza kwezo ezili mu ka box kubanga wano bwotandika okujawano kubanga wano bintu bya kwesigingana otya charge naffe tuya charge. Katugambe tukuwade sente notudukako kati bwenkuwa million emu kitundu lwaki tosobla ku saving nange mu Bank eyange
- Client** : Ekyo nsobo'la okikola naye ekibade kintisamu kwekugamba nti ndina okubela ne Bank statement
- Credit Officer** : Kale bwoba nga oina naye obade to telekayo gindetele
- Client** : Kati oli bwaba taina ayinza okugulawo wano
- Credit Officer** : osobola okugulawo wano
- Client** : Sobola okugulawo otya, mu eno 10 percent oba just
- Credit Officer** : osobola okugulawo olulwo just, we are just a Bank nga Bank endala gyogendamu nogulawo account
- Client** : Wano Lc introduction letter addressed to the manager eno eba eganda kundaga nit mutuze kukyalo oba Lc chairman awandiki nti business yange oba byona abigate wamu?
- Credit Officer** : Abigata wamu
- Client** : wano waliwo amazi na amasanyalazi kati omuntu bwabelako nekimu nga amasanyalazi
- Credit Officer** : you can bring
- Client** : kino simanyi oba kili beyond you, bwoba otute emitaro atano oba million oba ozo otya
- Credit Officer** : oyinza okuza buli week or after every two weeks oba monthly .The Officer will ask you what you are comfortable with either week or

- month but we can also dictate according to the income of the business.
- Client** : Tubela nobuzibu abamu nobera nga okomawo maybe after three weeks okuja okulaba business bwetambula ate nga you would have wanted to bring the money, can you dictate on that?
- Credit Officer** : We can dictate depending on the committee, negamba nti mwami gundi okusinzila bwayingiza emitwalo etano buli lunaku lwaki tuba tumulinda omwezi okugwa kazituwe oluvanyuma lwa weeks bili
- Client** : sisasula mazi tukima ate na amasanyalazi silina
- Credit Officer** : Ewuwo wali permanent oba wopangisa
- Client** : Owange wali permanent , tugeze mbuza just generally, katugambe nti ndi muntu atasasula masanyalazi na mazi ate requirement eyagala photocopy yakimu kwebyo
- Credit Officer** : Bwoba bwe atwala loan yaffe tobiyina guarantor gwoba otuwa, guarantor aku seconding aina okuba nabyo, ye guarantor tekwa aina okuba nabyo
- Client** : Kati guarantor awandika letter oba ajawano kumulaba kubanga wano waliwo obufananyi oba Officer gwengendanaye yagendayo namulaba?
- Credit Officer** : Bwengenda nawe ngenda kulaba business yo, wosula newa guarantor. Kati bwentuka nkubuza guarantor akola wa asula wa nengendayo nemulaba nebwaba taliyo ngendayo nendaba oba wakolela wano ajja na signing
- Client** : ok maximum
- Credit Officer** : maximum is one week minimum is three days after processing all those
- Client** : Kati nyinza okugenda nenkomawo lwakuba ndinga abitegedde byona,
- Credit Officer** : Oina okugenda nga okoze appointment
- Client** : Tewali kintu kisobola ku replacing point number seven
- Credit Officer** : Gisome egamba ki?
- Client** : Two utility bills
- Client** : nabera nga taina utility bills naye nga aina ekilala
- Credit Officer** : Ezo zetwagala ezili current ate bili

Client : Sinasasula license ya mwaka guno naye ndina ya previous year

Credit Officer : I want for this year

Client : Kale

INTERVIEW D:7

Credit Officer : Ok, has a seat, what were you saying?

Client : I work with NCR so last time we got a loan from here , ok me I have my plot and now I was asking whether its possible for me to get a loan and then I buy a motor cycle for boda- boda and also get money to complete my building

Credit Officer : So what kind of loan? because we can not just give you money to complete your building that's why I still was asking what of loan and you are talking about the salary loan which you are supposed to pay to the other gentlemen, now what kind of loan is that?

(I observed that The Credit Officer seemed not to be interested in the Client. There was no warmth from the Credit Officer in welcoming the Client).The Client explained that he needed a loan to start a boda-boda business. He was then probed by the Credit Officer for employment, an extant business to which he had a positive response for the former and negative for the latter. The Client then also talked about a loan he was servicing (salary) that was due to be finalized in September this year. The Credit Officer reacted to this by clarifying that first of all the organization did not give loans to start businesses and that the Client had to wait until his current loan is fully serviced before he could get this new loan.

Client : as for me now I don't know the categories of loans

Credit Officer : Do you have a business?

Client : Well that one I don't have but am having a plan which I told you of buying a boda-boda

Credit Officer : Are you still working with those people? Why don't you get a salary with them?

Client : But now will the amount reach, will it be the same as the one which can buy for me what I want

Credit Officer : Its is going to depend on how much you earn

Client : So according to me if I were to get the money then since they are still deducting that one and I will be making money weekly so that one you can deduct some of it and I will keep on paying.

Credit Officer : The whole issue is we cant give you that kind of loan you need to at least have a business and we don't give money to start a business, because you are saying if we give you money you buy a boda boda you start, we are not sure of that new venture you want to start up so

we don't give you that kind of money. We would prefer the working capital when the business has been in existence for at least eight months and above, then the salary loan which you qualify for because your employer will recommend you. You still have a loan balance with them?

Client : Yah I think I will complete September

Credit Officer : So it is better you wait, when it ends you reapply again

Client : Ok, it's ok

Credit Officer : otherwise we can't give you that king of loan

Client : Ok

(I saw that the Client showed satisfaction with the way his request was handled as he thanked and walked away from the Credit Officer. In this interaction, the Client, regardless of the fact that he was attempting to get a second loan, did not seem to be cognizant of the loan procedure. The Client was well handled (there were clear explanations to all his queries) and again in this case there were no documents of any kind that were used to explain the process to the Client . (Can we again assume that the Credit Officers know the procedure by heart?) Secondly there was no warmth from the Credit Officer in welcoming the Client. I further observed that there is privacy in this case for the waiting area is a good distance from the Credit Officer's cubicle. However there is interference from the other banking officials in addition, the Credit Officer's boss kept on interfering the interaction with the Client by demanding some things of the Credit Officer .

INTERVIEW D: 8

Credit Officer : So how are you nyabo, what business does she have?

Client's husband: she has a restaurant

Credit Officer : Where is the restaurant?

Client : Luwum Street

Client : Which one fast food?

Client : Yah

Credit Officer : Is it this receipt

Client : It has no name

Credit Officer : Can it easily be seen? There are so many there these small ones

(The Credit Officer approached the couple well unlike the first time when I observed the interaction. Loan Officer smiled and made the couple feel at home. The husband seemed to have escorted the wife but he did a lot of answering than the wife who wanted the loan)

Client's husband: Apparently it is operating in one room so the idea is that if she can widen and get two rooms we think she can work better.

Credit Officer : For how long has she been operating?

Client : over a year

Credit Officer : how much money do you make a day?

Client : forty, fifty and at times sixty

Credit Officer : Those are the daily sales or those are the profits?

Client : sorry

Credit Officer : are they daily sales or profits

Client : profits

Credit Officer : profits?

Client : yah

Credit Officer : sure

Client : yah

Credit Officer : How much is a plate of food?

Client : chips plain 1000, chips liver 2000, chips beef 2000, chips chicken 2000

Credit Officer : you have a trading license

Client : yah

Credit Officer : How much money do you want to borrow and why do you want to borrow?

Client : I would like to expand on my business and there are things that I would like to have which I don't have

Credit Officer : like what?

Client : I need a cooker

Credit Officer : you have been using what? Charcoal stove?

Client : charcoal stove

Credit Officer : So you want a serious cooker now

Client : I want us to get a bigger place

Credit Officer : How much money do you want to borrow?

Client : 500,000

Credit Officer : 500,000/= ? Only 500,000/= ?

Client : yah only 500,000/=

Credit Officer : of you want 5,000,000

Credit Officer : payable in what period?

Client : sorry, I don't understand what periods you usually give

Credit Officer : were you reading those

Husband to Client : no she didn't

Credit Officer : The minimum we would give is three months and for beginners you can take it for six months after that you can take it for eight months considering that you are in grade A because we award grades according to the payments. We tell you that every 31st you are supposed to bring in your payments on dot 31st you pay, other people

will take three two days my cheque hasn't matured or my son is sick or his wife is what

Client : that's how you grade them

Credit Officer : yah, the system already grades them so the moment you miss some days you are already going to grade B. So what securities do you have because the securities you are offering us must exceed the amount you want to borrow?

(This time, Credit Officer laboured to explain the process of borrowing and I realized that first impression has an impact on the way Clients respond)

Client's husband: ok, properties in the house

Credit Officer : They are the ones to give us, like what

Client's husband: like the side boards, fridge whatever you will want

Credit Officer : So you mean a cooker is 500,000/=?

Client : am buying a gas cooker

Credit Officer : 500,000?

Client : I saw it somewhere, ok it's below that but I also wanted to buy more chairs there aren't enough chairs for the restaurant

Credit Officer : How many chairs and each is at how much?

Client : each is at 20,000, these plastic chairs

(The Credit Officer then took the couple through each requirement for the loan using the sheet she had earlier given them to read through. She asked the lady for the amount she needed and this was followed by an explicit explanation of the terms related to acquiring a loan namely interest rate, duration of pay back and a non-refundable fee of 5000/-. They were then asked for what security they had at home and at this moment the couple mentioned the electronics they had. The Credit Officer told them that the value of their security should exceed the amount they wanted to borrow. Mention was also made of security and why it was needed, she also explained the essence of visiting the restaurant and their residence.

Credit Officer : So these are the basic requirements you have seen an Officer will make appointments or the Officer comes to visit your business premises, the place of residence , at the business we are assessing the business is it capable of paying back our money weekly ,biweekly or monthly , so we look at your business you said you are giving us household chattels , are they worth, we take pictures, if you could take pictures of the securities you are offering , the moment you have

our loan those chattels are in our hands its only after finishing paying and pulling out that now am done with your loan give me back my pictures.

Client : Ok

Credit Officer : You see there was a gentleman he failed with us he wanted to pull out his security, its ok you can pull it out, lucky enough I didn't talk about the guarantor, you are supposed to have a guarantor this is some one seconding you. You might get some one who is at least financially stable who is in a better position to pay your loan in case of default. These are the requirements you have to get a guarantor that's someone seconding you we refer to this guarantor as the second borrower of this loan, you open up a savings account with us minimum requirement is 12,000/= they will ask you for utility bills in your names if you are permanent residents if you are not permanent you help us with land lord's copy or the guarantor's, then you deposit 10 percent of the loan amount you are applying for

Client's husband: 10 percent of 500,000 is like

Credit Officer : 50,000/= you put it on your account

Client's husband: on our account

Credit Officer : On the account of the person who is borrowing, then Local council's letter of introduction which is addressed to the manager while opening up an account with us, one passport photo for the Client, then those of the guarantor seconding you , then two utility bills either of water of electricity or the guarantor's the guarantor must be a permanent resident , a photo copy of the trading license current for this year then a Bank statement if you have

Client' husband: if I have the husband can provide

Credit Officer : you can provide since it seems it's a family business

Client's husband: it is, she only runs it but it's a family business

Credit Officer : or it is yours

Client's husband: it can also be mine

Credit Officer : Then for a first borrower you make a payment of 5000 which is non refundable, then you take photos of the securities you are giving us even the photos of your restaurant when you are closing. This is also admission security if you are giving us a car or land title these I will not talk about them

Client's husband: Us we are not part of that category

Credit Officer : we are at 10 percent as of now

Client's husband: 10 percent per month, so after we compiling all this stuff that's when we come and you give us an Officer to go out

Credit Officer : No the moment you leave this place when you leave this place when we have made an appointment

Client's husband: Yes we can make an appointment

Credit Officer : because you might come in when have collected all these things then I go to the business yet your securities are not enough

Client : So we can make an appointment now?

(I observed that the Credit Officer concluded by setting up an appointment with the couple to visit their premises.)

Credit Officer : next Monday at 2:00 pm, you come for me we shall be going to see your business, guarantors and where you reside

Client's husband: ok

Credit Officer : The guarantor I want someone permanent

Client's husband: you can give us your name and phone numbers. Thank you very much

(I found out that in this interaction, the husband dominated the talk and the wife only coming in when the Credit Officer questioned her. I observed that The Credit Officer was handling a Client and on seeing this couple come in she gave them a sheet to read containing information about getting a loan The husband read through the sheet as the wife sat and waited. The couple was then asked to come over to be assisted. There was a warm welcome for them followed by questioning to ascertain whether they had read through the sheet that was given to them. The husband responded by saying that he had read it. A screening process in which the Credit Officer asked whether the couple had a business followed this. She then focused in the lady who the husband said was running the business and she asked what type of business it was, its duration, location, performance, daily sales and whether it had an up to date trading license. She asked why the lady needed a loan and here the lady responded that she needed one to buy a cooker and chairs for her business (restaurant).

INTERVIEW D: 9

Client : Good afternoon Sir

Credit Officer : Good afternoon.

Client : Sir I had come to open here an account, how much money do I need to open an account and I also wanted a loan.

Credit Officer : To open account and also to get a loan

Client : Yes sir

Credit Officer : We have procedures which we follow as Microfinance in giving some one a loan. What are your names sir?

Client : Am called Mukasa I sell fish

Credit Officer : Where is your fish business located?

Client : In Katusi

Credit Officer : How much would you say is your business worth?

Client : About 8 million.

(The other Clients six of them were squeezed on the bench a waiting. They had conversation and one had his phone rung. The Client at the loan Officer's desk looked uneasy. The Client failed even to express himself to the Credit Officer)

Credit Officer : How have you been running this fish business?

Client : I have boats where they bring the fish from to my shop, I also have a pick up but it has developed an engine problem.

Credit Officer : How much profit do those people who sell for you bring?

Client : They give profit between 500,000-800,000/=

Credit Officer : In this Bank we follow procedure, if we are to give you a loan we have two types of loans, we have a salary loan for those who get a salary where we deduct our money from the salary, we also have personal loan in which category I think you fall but to give you that loan we will need two guarantors.

Client : I will get them sir

Credit Officer : Another thing I will ask is, do you have a land title or assets which we can use as security.

Client : I have a land title and I have a car log book.

Credit Officer : Ok, you will bring the log book and we look at it because sometimes people give us fake log books but how much money would you like to borrow?

Client : I want about 1.5 million

Credit Officer : The personal loans we give is usually 300,000 but since you want 1.5 million you will bring two guarantors. Now let us look at the lending guide and requirements, this application form has requirements which you must meet before we can give you a loan. You should bring passport photos, and you will need 20,000 to buy the form.

Client : Ok let me right away.

(She also probed for security if he had any but the Client did not have any, he instead talked about his salary. The Credit Officer then deducted the interest on the loan from the salary and then told the Client that it would take him a long time to repay the loan and at this point asked whether he had other sources of income. The Client had none but he mentioned his allowances. The Client kept pondering about his situation for the information that was being given to him seemed to have surprised him. At this point the Credit Officer told him to go and think seriously about this loan he wanted especially the amount he needed and to scrutinize the property he wanted to acquire and after that he could come back).

Credit Officer : Let me give you more details, you will need two guarantors who will not run away. Do you have land titles or vehicle log book because we will need them as security, and a letter from the Local Councils where you reside and to process your loan file we charge you 2 percent which isn't a lot of money. I will give this form to take home and fill after which you will bring it back to me and then some one will come to survey. Where did you say your business is located?

(The Credit Officer had files written on manuals and lending guidelines but he never referred to them until he picked a form and gave it to the Client)

Client : It is in Katusi

Credit Officer : in Katusi, what did you say you wanted the money for?

Client : To repair my car

Credit Officer : Ok take this form, fill it and return it when you return it we shall see what to do but you should not worry. We will send your matter to the board and if you will have given us all we ask for we will give you the loan and you will go and repair your car and continue

running your business. Another thing which I had forgotten to tell you is that to give you a loan you must open an account with our Bank where we will put your money when approved and where you will deposit when paying back, do you have an account in another Bank?

Client : In Stanbic

Credit Officer : After we have given you the loan you will have pay 2.5 percent per month but if you haven't understood that I will calculate for you after you get the money. But for now take that form, fill it and return it.

Client : Ok sir, how much money do I need to open an account? Ten thousand?

Credit Officer : Is there something which you didn't understand? Opening an account depends on many things but for your case you can use 10,000/= but for now let me process the loan papers when you return the form we will explain further but please fill that form well. Thank you very much sir. Fill it and bring it within the week to enable us process your loan.

Client : Ok.

(I observed that the Client who seemed content with how he was handled thanked the Officer and left)

INTERVIEW D: 10

- Loan Officer** : Ki dala kyobade oyagala kumanya about loans.
- Client** : Ok now, I have some hint about loans however, I have a business and the business is f motor cycles.
- Loan Officer** : Hiring, selling?
- Client** : Selling by hire purchase. I have here a sample of an agreement I moved with, did I come with it because I remember packing it but unfortunately I might.
- Loan Officer** : That agreement is for which company?
- Client** : It's, yes, its here, its not a company, its my business, Ok am in the process of registering it. Ok this is the way I do it, I buy motor cycles and I give them to the boys to ride.
- Loan Officer** : Then they pay back.
- Client** : Every day they bring ten thousand, then when they bring that ten thousand, they can decide either to pay weekly or daily for a period of like fifteen months, normally with these JVC's these new motorcycles, I usually given them fifteen moths, however I started with these super cabs and I used to given them ten moths, so after fifteen months, I calculated that I will be getting of over 2.3 on every motor cycle, OK currently I have two so later on I saw that it was interesting.
- Loan Officer** : Profitable
- Client** : And profitable, so I tried, I wanted to get a loan, I tried this Housing Finance, they told me that with business loans they need security of which they need land titles and building of which I didn't have, so I told them that however, am cables of paying, me personally am a teacher, am a professional teach and I teach at Greenhill Academy, much as am doing that diploma just because I want to divert from teaching, so I do this to do what, its, I realized that it was a good business only that I lacked capital of which I wanted to get a loan.
- Loan Officer** : How long have you been in this business>
- Client** : Now it is two years.
- Loan Officer** : Do you think you are experienced now that if we inject in our money you won't sink with it tomorrow.

Client : No, because now I realized, at first I wasn't insuring comprehensively.

Loan Officer : Ok, how many motor cycles have you sold through this system of hire purchase so far?

Client : I sold two but they were old ones, because for the one I gave four months, then, actually I started with old ones, I saw it was coming that's when I started moving to new ones these super cabs, then later on I moved to TVC, I just acquired one.

Loan Officer : It's about 2.2

Client : It is 2.2

Loan Officer : So how much did you want from the Bank?

Client : OK, for a start I wanted to get for two motorcycles then if I finish to pay it back then I can get even for like four motor cycles.

Loan Officer : Do you have an account with us?

Client : Ok I haven't opened an account with you, I don't have an account with you, with the Bank.

Loan Officer : Usually our policy is you have to be with an account with us.

Client : Yes

Loan Officer : Because once we are giving out money we don't give it in cash.

Client : Yes

Loan Officer : The money comes from the treasury and it goes directly to your accounts.

Client : Yes

Loan Officer : Such that you are the only person who has access to it, this business of saying that some one took off with all the money doesn't exist, we put it directly on you account.

Client : Ok.

Loan Officer : So you have to open an account with the Bank any branch convenient to you, then that account has to be at least three months old, you have to run it for two to three months.

Client : Two to three months, Ok.

Loan Officer : Running it means that you deposit, you withdraw like you business people you keep there money, when you want to do business you withdraw then after that you come.

Client : Yah, I come and apply for a loan?

Loan Officer : Yes

Client : Now, Ok that one is Ok but now my worry, me I have an account with Allied Bank because it was a school policy to get an account because we are paid in the Bank. But there is not problem me I can open there an account for this business.

Loan Officer : How active is your account in Allied Bank?

Client : Eh!

Loan Officer : How active is your account in Allied Bank?

Client : OK, I put there and withdraw; I just put there and withdraw.

Loan Officer : Can you avail us with a statement of an account after opening up this, because sometimes we can give you a loan based on account in a foreign Bank, because your account here is new it doesn't mean that you haven't been banking so is that statement is good we can give you a loan based on that statement on condition that future banking will be more here than the other side.

Client : You want for how many months.

Loan Officer : At least for six months.

Client : For six months.

Loan Officer : From the date of requisition of that statement.

Client : Six months backwards.

Loan Officer : Yes

Client : Ok, that one is ok.

Loan Officer : So what are you going to give us as Security?

Client : Me, I was suggesting that these motor cycles if need be, the log books can be written in the names of the Bank.

Loan Officer : They actually can be in your names and you just give them to us when they are in your names.

Client : Then its Ok, I just come, given them you or else even there is no need of paying the money to me, you can pay the supplier.

Loan Officer : You mean we release the money before we can get the log books.

Client : Ok, there are some log books I have.

Loan Officer : How many?

Client : Ok, the one I have currently is of the TVS and the other one of the super cab, but what I was saying.

Loan Officer : Like we make an arrangement with the trader.

Client : Here you can deal directly with the supplier.

Loan Officer : Ha that might drag on. You know that sort of arrangement, you know Indians, we have done it before but it drags customers so much that they get fed up of the process.

Client : But the one am dealing with is not an Indian, he is a good man actually.

Loan Officer : He is a Ugandan.

Client : Eeh

Loan Officer : So you first open up an account then we shall see how we are going to go about that.

Client : Ok.

Loan Officer : You have to be with an account.

Client : It's ok that one I will open I can even take forms and open tomorrow.

Loan Officer : Actually you can pass by accounts opening they give you details and you open it as soon as possible

Client : Yah, only that my worry is I don't know for business loans what's the interest rate.

Loan Officer : For business loans the interest is 22 percent a year and the loan period never exceeds twelve months. Maximum is twelve months.

Client : Now because of what you are saying that you don't want to exceed that period, me I would even wish to be in six months so that after paying I get more I do what.

Loan Officer : Now we can give you twelve months but when you want to pay off in a shorter period it's acceptable.

Client : It is acceptable.

Loan Officer : As long as you have the money on your account its Ok.

Client : So I can open.

Loan Officer : You run for two to three months then you can come back here we start processing.

Client : Securities you can get the log books.

Loan Officer : We shall use those log books those the ones you have.

Client : Ok.

Loan Officer : The initial amount you wanted four million.

Client : Eeh

Loan Officer : About 4.5

Client : Eeh 4.5

Loan Officer : You open up an account we shall see how we will help you

Client : No I get boys from our place.

Loan Officer : You know, isn't that biased aren't you alienating your customer base?

Client :You see I also first did it as a trial, then later on, actually at first I didn't have these agreements, I developed the issue of agreements later, I had to put them on, there is my friend who is a lawyer actually I went and saw him we wanted to see how actually we designed this thing together with him, so its not limiting my customer because me I don't have enough capital, even the customers I have today. In other words, the demand is higher than the supply. Because I have my boys whom I trust there is not where they can run to, we come from the same place we do what only that he lacks is this. So me I give him and he had never thought of owning it in life so you tell him to pay in fifteen months because they have been riding it for six years, they have never had one, if you tell him to ride in fifteen months giving you money they do it and they have no problem.

Client :Ok, suppose I open an account and I get that statement you have told me.

Loan Officer : I will first make consultations with my immediate bosses, we discuss it then I will advise you accordingly.

Client : So I can come tomorrow.

Loan Officer : If your account will be opened in that time, you can come tomorrow with that statement then we see how we can do it.

Client : Which account should I open?

Loan Officer : Whichever is convenient, either savings or current.

Client : Current you give cheque books.

Loan Officer : Yes they are issues with a cheque book and you can pay your clients using cheques.

Client : Ok, thank you very much.

(The Client and the loan Officer understood each other I found out that The Credit Officer was handling a Client and on seeing this her come in she gave her a sheet to read containing information about getting a loan There was a warm welcome for She asked why the lady needed a loan and here the lady responded that she needed one to start business.)

INTERVIEW D: 11

Client : Good Afternoon Sir.

Credit Officer : Good Afternoon to you Sir.

Client : I have come to see if my case is cleared and I take the money.

Credit Officer : Which case? Can you remind me once again?

Client : I am called Mukiibi from Jinja.

Credit Officer : Ooh I have remembered, you are Mr. Mukiibi let me check your case from the computer but I don't think you are through yet. Am sorry you are not yet due, you will still have to wait for some time now.

Client : Ah.

Credit Officer : You know Mr. Mukiibi, we are in a recovery process as you are aware. We are concentrating on recovering what we have given out. You know we regulate our loan policy as a Bank and that's the procedure.

Client : But I came from Jinja and am actually coming for the third time now.

Credit Officer : I am sorry Mr. Mukiibi, I understand that and its really very unfortunate but that is the policy and personally there is nothing I can do for you. May be you gave us your phone number, not so?

Client : Yes, You have it.

Credit Officer : I will give you a call to collect it when it due.

(I observed that the setting of the bank was an open spaced office. There was an area for Clients. The first Client entered and asked about the loan procedures and was given a comprehensive answer to this query. He was asked a. The Client clearly presented hi business's history and his expansion plans if availed the credit facility. He also disclosed that he did not mind what kind of security the bank wanted and that he was willing to cooperate. In this presentation, the Client seemed to have had some knowledge of the loan acquisition process.)

INTERVIEW D: 12

(I observed that the setting of the bank was an open spaced with benches were the Clients sits.)

Credit Officer : You are Welcome Sir.

Client : Good Morning Sir

Credit Officer : Good Morning to you.

Client : Unfortunately I have been dealing with a different officer but now I will deal with you. I hope I will not intimidate you with my grey hair.

Credit Officer : So how may I help you sir?

Client : Actually I am a serial borrower here and I want to get another loan as usual.

Credit Officer : Which means you already have an account with us and a loan file?

Client : Yes Sir and my name is Biseruka Samuel.

Credit Officer : You have already successfully completed four cycles of loans

Client : Oh yes of course, am an old man.

Credit Officer : Why do you need this one this time?

Client : I want to finish my house and actually want a salary loan still. I completed the lat one with my wife even before the due date.

Credit Officer : I can see that from the records. Are you maintaining the same securities and guarantors?

Client : I may change a few of them especially the securities, I need a bigger loan so I may have to use bigger securities and actually God has provided me with a lot as his chosen Pastor for his people.

Credit Officer : So you are very well conversant with the lending procedures here?

Client : Definitely actually a master of these procedure through experience.

Credit Officer : You can take this form and fill and bring it back in time so that it is considered in the next in take next month.

Client : I will bring it back on Monday. My wife also to get another loan but separate from mine.

Credit Officer : What is your wife's name?

Client : Jane Biseruka

Credit Officer : Who is handling Jane Biseruka's case?

Supervisor : Its Mugisha handling it but he is out now, but what I know is that the talked and she took and brought back the application forms.

Client : Actually she asked to inquire whether she is due for inspection.

Supervisor : Yes she is, actually you wait for Mr. Mugisha and you go with him for inspection. Is your wife at home right now?

Client : Yes, she is there the whole of today. Thank you sir I will come back on Monday with every thing ready.

Credit Officer : Thank you also for your intentions.

(The Client appreciated for the attention from the Credit Officer and the explanation she acquired and promised to get security.)

APPENDIX E:
QUESTIONNAIRE ON CREDIT SUPPLY BY LOAN OFFICERS

THIS QUESTIONNAIRE SEEKS TO OBTAIN MORE INSIGHT INTO THE FACTORS THAT INFLUENCE YOUR DECISION TO EXTEND MICRO CREDIT TO POTENTIAL BORROWERS

Background information

This information is intended to appreciate the characteristics of the respondents.

1. Sex:

- 1. Female
- 2. Male

2. Educational level

- 1. Certificate
- 2. Diploma
- 3. Degree
- 4. Masters
- 5. Other please specify.....

3. Age

- 1. 20----24.
- 2. 25----30
- 3. 31--- 34
- 4. 35-- 40
- 5. 41—45
- 6. 46 and above

4. Title e.g. Loan officers, Supervisor, etc.....

Please use the following scale in order to give us your response to the following questions:-

5	4	3	2	1
Strongly Agree	Agree	I am not sure	I disagree	I strongly disagree

	Client Character: The following questions aim at enhancing our understanding of the influence that the client's character has on your decision to extend credit					
5	The clients I deal with give me truthful information about their personal character	1	2	3	4	5
6	The clients I deal with give me truthful information about their projects	1	2	3	4	5
7	Borrowers seek to know my information needs and provide a picture of trust	1	2	3	4	5
8	My clients exhibit confidence through knowledge of their project proposals	1	2	3	4	5
9	I find my clients simple with pleasant character to deal with	1	2	3	4	5
10	I find clients with little education more reliable than client with higher education	1	2	3	4	5
11	The clients with apparently lower levels of income are easy to deal with than those with higher levels of income	1	2	3	4	5
12	The clients I deal with manipulate the information, they provide to me in order to meet the requirements of the institution	1	2	3	4	5
13	Clients I deal with are knowledgeable about loan procedures.	1	2	3	4	5
14	The clients I deal with are willing to accept my advice and guidance about their requirements.	1	2	3	4	5
15	The clients make adequate preparations about their loan request before they lodge in their borrowing request	1	2	3	4	5
16	Suggest in the order of importance the character traits you clients should have in order to facilitate your decision to give credit					
17	Please recommend in order of importance the improvements in the clients knowledge that would enhance your credit decision					
i						
ii						
iii						
iv						
	Credit officer's personal goals: The following questions are intended to give an insight into how the individual credit officers goals agree with the overall institutional goals and how this relationship affects your decision to give credit					
18	My institution is interested in my personal development and incorporates my personal goals into its overall human development plans	1	2	3	4	5
19	The institution's lending guidelines enhance my ability to obtain	1	2	3	4	5

	better remuneration					
20	The institution's lending guidelines enhance my ability to obtain promotion	1	2	3	4	5
21	The institutions lending guidelines enhance my ability to obtain favourable performance appraisal.	1	2	3	4	5
22	I adjust bank lending procedures so as to match my goals with those of the organisation	1	2	3	4	5
23	Targets given to me by the institution make me reduce the quality of service that I give to clients seeking loans	1	2	3	4	5
24	Please recommend in order of importance adjustments that should be made to the existing institutional structures and goals in order to meet your personal goals	1	2	3	4	5
i						
ii						
iii						
iv						
	Lending structure: The following questions aim at establishing how the institutional set up and the lending guidelines influence your credit decisions					
25	Institutional lending guidelines make the task of dealing with the client's request easy	1	2	3	4	5
26	The institutional lending procedures help me to monitor the performance of the loan	1	2	3	4	5
27	The institution lending guidelines provide a realistic and practical frame work for assessing clients request	1	2	3	4	5
28	I adjust the institution lending guidelines to suit my clients' needs.	1	2	3	4	5
29	The lending guidelines facilitates teamwork and information sharing with my colleagues	1	2	3	4	5
30	The lending guidelines deprive me of flexibility in handling the customer's request	1	2	3	4	5
31	I am forced to divert from lending guidelines in dealing with the clients requests	1	2	3	4	5
32	Lending guidelines take into account the cultural norms of individual clients	1	2	3	4	5
33	The lending guidelines make it easy for me deal with cultural norms and values of each clients	1	2	3	4	5
34	I obtain necessary support from my supervisors about credit decisions I make	1	2	3	4	5
35	The institutional structure provides good channels of interaction and feed back about credit decisions	1	2	3	4	5
36	Lending structure facilities internal formal contacts within the institution for flexible decision-making about credit	1	2	3	4	5
37	The lending structure has informal outside contacts that facilitate decision-making about credit	1	2	3	4	5
38	The lending structure supports good delegation of work to me by my superiors	1	2	3	4	5
39	The structure for appraisal and approval of loans respects my opinions	1	2	3	4	5
40	The structure for appraisal and approval of loans enables me to get	1	2	3	4	5

	feedback by consultation from all levels of my superiors					
41	I receive directives from superiors to implement loan decisions which are contrary to my professional advice	1	2	3	4	5
42	Please recommend in order of importance adjustments you think should be made to the institutional structure and guidelines in order to improve your decision on credit	1	2	3	4	5
i						
ii						
iii						
iv						

Thank you very much for participating in this Survey. We hope that the outcomes will go a long way in improving availability of credit to our small and micro enterprises.

APPENDIX F
QUESTIONNAIRE ON CREDIT DEMAND BY BORROWERS

THIS QUESTIONNAIRE SEEKS TO OBTAIN MORE INSIGHT INTO THE FACTORS THAT INFLUENCE YOUR ABILITY AND DECISION TO APPROACH AND OBTAIN (MICRO CREDIT) FROM FINANCIAL INSTITUTIONS

Background information

This information is intended to appreciate the characteristics of the respondents.

1. Sex
 1. Male.....
 2. Female.....

2. Age

 1. 18—25
 2. 26—33
 3. 34---41
 4. 42—49
 5. 50—57
 6. 58 and above

3. Type of the business...
 1. Sole trader
 2. Partnership
 3. Corporative
 4. Other please specify.....

4. Educational level.....
 1. Primary
 2. Secondary
 3. Tertiary
 4. University
 5. Other please specify.....

5. Marital status
 1. Married
 2. Single
 3. Others specify.....

Please use the following scale in order to give your response to the following questions:-

5	4	3	2	1
Strongly Agree	Agree	I am not sure	I disagree	I strongly disagree

	Client's preparation: The following questions aim at our understanding the preparations and plans you make to understand your business in order facilitate the credit institution to accept your loan application					
6	I make a detailed study of my business project and systematically identify the potential cash flows	1	2	3	4	5
7	I use a professional consultant to understand my business project before approaching the lending institution	1	2	3	4	5
8	I rely on the examples of my friends with similar projects to understand the viability of my own project	1	2	3	4	5
9	Expense of preparing systematic plans prohibit me from acquiring all the professional advise I need to understand the project proposal	1	2	3	4	5
10	I lack expertise to fully appreciate the project plans.	1	2	3	4	5
11	I make an advance schedule of how to pay back the loan once acquired	1	2	3	4	5
12	The lending institution helps me in preparing for the loan	1	2	3	4	5
13	The lending institution continuously assists me to acquire skills for better management of my business	1	2	3	4	5
14	The lending institution trains in basic business management and loan use	1	2	3	4	5
15	I know the different securities the bank requires me to bring if I am to obtain a loan	1	2	3	4	5
16	I appreciate the usefulness of the Lending institution requiring me to maintain an account with it and to provide other physical security and guarantors.	1	2	3	4	5
17	I find the requirement by lending institution that I should use funds lent to	1	2	3	4	5

	me for one purpose restrictive and I plan how to avoid this restriction					
18	I ask my friends to lend me money to put on my account in order to make look attractive	1	2	3	4	5
19	The lending institution carries out inquires from L.C about my character suitability for a loan	1	2	3	4	5
20	The lending institution inquires about the viability of my project in which I want to put the loan money	1	2	3	4	5
21	The lending institution considers the viability of the project where I want going to put the money before giving me the loan	1	2	3	4	5
22	Please what measures can you or the lending Institution take to improve your preparation and plans in order to facilitate the credit institution to accept your proposal?	1	2	3	4	5
i)						
ii)						
iii)						
23	Please suggest in order of importance what clients can do in order to improve on the security and enhance credit flow.	1	2	3	4	5
i)						
ii)						
iii)						
	Information disclosure: The following questions aim at our understanding of how the information given to the lending institution by the client facilitates credit flow	1	2	3	4	5
24	The information about the loan requested from me by the lending institution is useful for the purpose of getting the loan	1	2	3	4	5
25	The lending institution believes the information that I provide when seeking a loan	1	2	3	4	5
26	The lending institution involves me in analysis of the information that I provide.	1	2	3	4	5
27	The lending institution ensures that it understands my unique situation which I provide in the information I give to it.	1	2	3	4	5
28	The lending institutions considers my unique situation when deciding to give credit	1	2	3	4	5
29	I am forced to adjust some information	1	2	3	4	5

	in order to satisfy the lending institution requirements					
30	The lending institution seeks to know my feelings and trusts the information that I provide	1	2	3	4	5
31	I feel that too much information is being asked which is really unnecessary	1	2	3	4	5
32	I fear to reveal some of the information because it is confidential to me.	1	2	3	4	5
33	There is mutual sharing of information with the credit officer which enhances my understanding of lending institution's position on my request.	1	2	3	4	5
34	I find the credit officer flexible in using the information that I provide to the lending institution	1	2	3	4	5
35	My past dealing with the lending institution makes it easier for me to provide all the information I know.	1	2	3	4	5
36	The lending institution's steps to obtain a loan are simple and enable me to provide information required.	1	2	3	4	5
37	Please indicate in the order of importance what you think are the factors that hinder information flow from the credit officer to the lending institutions and what can be done in order to improve on the information flow	1	2	3	4	5
i)						
ii)						
iii)						
	Request handling: The following questions aim at giving us further insight on how the client's requests to obtain credit are handled by the credit institutions.					
38	I know the steps and formalities that my request for a loan has to go through once taken to the lending institution	1	2	3	4	5
39	I find the steps and formalities that my request for a loan goes through in the lending institution to be necessary	1	2	3	4	5
40	The information I provide is quickly processed by the credit officer	1	2	3	4	5
41	The credit officer provides timely feedback on my request for the loan	1	2	3	4	5
42	My loan request is handled with understanding and sympathy	1	2	3	4	5
43	The credit officer understands my needs	1	2	3	4	5

44	My needs are adequately addressed by the credit officer	1	2	3	4	5
45	The assigned credit officer handles my request decisively and does not toss me around	1	2	3	4	5
46	The credit officer is attractive and accommodates the questions I ask for clarification	1	2	3	4	5
47	The credit officer has a pleasant character and encourages me to discuss the request	1	2	3	4	5
48	The credit officer is fair and treats all customers equally	1	2	3	4	5
49	The credit officer is flexible in handling my loan request	1	2	3	4	5
50	I was comfortable at the reception and in the loan officer's office	1	2	3	4	5
51	The physical environment provided by the lending institution enabled me to have confidentiality with my loan officer	1	2	3	4	5
52	The physical environment in this institution made me feel secure	1	2	3	4	5
53	The bank respects my request and gives the amount of loan I apply for	1	2	3	4	5
54	The bank reduces the loan I request for without considering all my needs	1	2	3	4	5
55	The lending institution develops new loan types to meet client's specific needs	1	2	3	4	5
56	The lending institution requires me to repay the loan and interest according to income available to me	1	2	3	4	5
57	The period of loan repayment to the lender is convenient	1	2	3	4	5
58	Borrowing from the lending institution does not stop me from accessing my savings with the same institution	1	2	3	4	5
59	I find the cost of obtaining the loan reasonable	1	2	3	4	5
60	Please indicate in order of importance what can be done by the lending institutions such that handling of the client's request is improved					
i)						
ii)						
iii)						

Thank you very much for participating in this Survey. We hope that the outcomes will go a long way in improving availability of credit to our small and micro enterprises.