EFFECT OF FINANCIAL INTEREST RATES ON SMALL SCALE ENTERPRISES. A CASE STUDY OF OWINO MARKET / KISENYI FLOUR MILLERS IN KAMPLA CITY

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DECLARATION

I declare that this dissertation is my original work and has never been submitted elsewhere either for a degree or diploma in any university of learning.

Signed...

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This dissertation has been submitted with my authority and approval.

Signed...

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Date: 21/8/04

DEDICATION

To my wife Damalie Kuteesa Kaule and children. Also to my parents, Mr. And Mrs. Mugabba of Jinja Kabowa.

ACKNOWLEDGEMENT

My thanks go to the many people who helped me in gathering and preparing this research, but I would mostly like to thank my supervisor Mr. Vincent Kisenyi. The associate Dean Mr. Kaabi Lubega, Mr. Kasozi Geoffrey the Business School Director and coordinator and Agnes Bagaya Mwesige who helped type the script and fellow course mates.

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ABBREVIATIONS

GDP . Gross Domestic Product

NPART . Non- performing Assets Recovery Trust

USAID – United States Agency for International Development

PRESTO – Private Enterprise Support Training and Organizational Development

GERA – Gender and Economic Reforms in Africa

FINCA – Foundation for International Community Assistance

CERUDEB – Centenary Rural Development Bank

MED-Net – Micro Enterprises Development Network

MFI- Micro Finance Institution

NGO – Non-Government Organization

UCB – Uganda Commercial Bank

UDB – Uganda Development Bank

EADB – East Africa Development Bank

UWFT – Uganda Women's Financial Trust

SEDCO – Small Enterprises Development Company

FEF – Friedrich Ebert Foundation

PAPSCA – Program for Alleviation of Poverty and Social Costs of Adjustment

NURP – Northern Uganda Reconstruction Program

SSE – Small Scale Enterprises

UMA – Uganda Manufacturers Association

BAT – British American Tobacco

EXECUTIVE SUMMARY:

My Study was based on financial institutions with reference to lending rates. The scope was mainly on small scale enterprises and the impact felt due to these rates. The method applied was both quantitative and qualitative in Owino Market and Kisenyi Flour Millers.

The research was able to establish causes that lead to poor performance as high bank rates and lack of awareness of the Banking sector and its operations.

It is therefore, recommended that banks harmonize their bank rates to attract high investment and conduct awareness seminars to build a strong foundation for small investments.

In conclusion both banks and small scale investors are working at lower capacity than projected because of low borrowings and also small investments are suffering from liquidity problems because of the hardships in obtaining credit.

CHAPTER ONE

INTRODUCTION:

1.1 BACKGROUND TO THE STUDY

Uganda is emerging from the economic doom of the 1970s and 1980s. But the question posed is how it is reclaiming itself and whether it is recording a positive trend in development.

My focus will be geared at financial institutions, with lending rates in relation to small-scale enterprises as the biggest number of entrepreneurs seem to lie there.

The population is not well informed about the banking sector since they do not participate in the setting of Bank rates, but it is the monopoly of the Govt. to fit these rates. This not withstanding the unpredictable inflationary patterns.

The issue is whether the proprietors or small investors do benefit from the financial institution facilities or not.

1.2. PROBLEM STATEMENT

The general public accesses its finances mainly from financial institutions i.e Banks and non-Bank financial intermediaries, but these are pegged on high interest rates which seem to dominate the small-scale entrepreneurs

This study attempts to look deeply into the interest rates and why the enterprise is shying away from the loan facilities.

1.3. OBJECTIVE OF THE STUDY

Why small-scale entrepreneurs are increasingly not accessing the Bank facilities.

SPECIFIC OBJECTIVES

a) To establish ways that small scale entrepreneurs can utilize to their advantage the bank loans to enhance their incomes.
b) To look at deeply and investigate other impediments, other than Bank interests.

1.5. THE RESEARCH QUESTIONS

The study sought to ensure the following research questions are answered.
(i).What is the significance of credit to the development of Owino market and Kisenyi millers small scale enterprises ?
(ii) What are the causes of low borrowing in case of small scale enterprises ?
(iii) How can this low borrowing be improved in lending institutions ?

1.6. SCOPE OF THE STUDY

This study shall be carried out in Owino market and Kisenyi flour millers in Kampala city in conjunction with Pride Africa, Uganda Women Finance

Trust (UWFT), commercial micro finance (CMF) and Centenary Rural Development Bank (CERUDEB).

1.7. SIGNIFICANCY OF THE STUDY

i) To reverse the trend of small and low borrowings by entrepreneurs

ii) To create a back up information data to enable assist present and potential investors

iii) To stimulate government and the public response towards alleviating poverty

iv) To help create a springboard for further research.

1.8. ANTICIPATED LIMITATIONS

i) Financial Constraints

ii) Lack of proper reliable data as small-scale entrepreneurs i.e. the area of scope are less or not educated and thus poor record keeping.

iii) Unpredictable inflationary patterns i.e. the Uganda shillings versus the dollar rate.

iv) Some institutions code of conduct that prohibits its members from releasing institutional information

v) Lack of general cooperation from respondents

vi) Limited time frame.

CHAPTER TWO

LITERATURE REVIEW

2.0 Definition of small scale enterprises (SSE)

There is no standard definition of small-scale enterprises or small firms. In fact the term itself tends to be relative. The most useful generic or economic definition is perhaps one that emphasizes the common characteristics of these firms. Namely;

a) the share of the market
b) the management
c) the independence

First, small-scale enterprises have relatively small share of its market, for example, if involved in production, say textiles, or footwear, then it captures relatively small proportion of the market for these commodities.

Secondly, its owners manage it in a personalized way, that is to say, not formalized management structure. (Mostly they are family concerns), with help of relatives/friends.

Thirdly, independence, in the sense that they do not form part of larger enterprises, which can provide financial backing or umbrella. That is to say owners tend to be free from outside control in taking major decisions, although this freedom may be limited by obligations to outside financial institutions. For example in Uganda, small firms may employ 5 – 20 persons while in developed countries 50-80 people are hired.

2.1. How Businesses Fund Their Business.

By;

- **Internally generating funds:**

  For example from profits after tax and depreciation represent easily the major part of any business funds. Other ways are through share issues (through it raises capital markets to begin to think whether this business will fund its operations in form of either equity or loans.

- **Borrowing:**

  When you borrow so much the business will incur costs of idle cash, borrowing little you could be losing out on cheap finance. Like levels of borrowing in Italy, Japan, Germany and Sweden are generally higher than UK and USA. The reason is the strength of relationship between the lenders and borrowers.

- **Debt financing:**

  Here businesses decide an appropriate form of debt or how to manage the debt portfolio. For example through,

  1) Form, for example loans, leasing or other forms.
  2) Maturity, for example long, medium or short-terms.
  3) Interest rates either fixed or floating.
  4) Currencies mix i.e. what currencies should the loans be in?

- **Finance asset growth:**

Businesses plan investment by short-term finance and how much by long-term finance i.e. (involves looking at trade off between risk and return).

- **Current assets:** Either through

(a) Permanent current assets or through

(b) Fluctuating current assets, e.g. retail stores i.e. build up considerable stock levels.

2.2. The Interest Rate Concept.

Before considering the actual mechanisms and institutions through which finance may be made available to small enterprises, it is necessary first to deal with the vexed questions of interest rates. If the intention is to help small enterprises and in some ways to compensate for the disadvantages inherent in their small nature, it is natural to suggest subsidized rates of interest because, it is administratively simple, politically demonstrated and attractive and small business enterprises are generally assisted because they have to pay less for a resource for which larger enterprises have to pay.

2.3. Arguments Against Subsidized Interest Rate OR (ADVANTAGES OF HIGH INTEREST RATE ON LENDING INSTITUTIONS)

Capital is needed for small business enterprises if its price is automatically lowered below the prevailing market figure. This forces SSE to use more of the first than they would if it was more expensive.

- With subsidised interest rate demand will be increased because of the effect of low interest, so will thus be to attract a lager number of applicants, but to satisfy very few of them. For example, if the available fund is spread over a larger number of borrowers or applicants of which no single borrower receives what he needs.

With subsidized interest rate whatever the price of the commodity when artificially reduced below the market level, demand exceeds supply and so the market price will assert itself through fees corruption or other costs that must be incurred in order to obtain supplies like for the others case of small business enterprises finance, it is true for taxes, licenses or foreign exchange. Therefore, supply of funds must depend on government grants, foreign assistance or other unreliable sources which are insensitive to demand because the interest rate will not be to high enough to encourage local people to deposit money with lending institutions and people will want to borrow money than can be accommodated.

- Business that can receive the loans should be nearer to maximum level of scale i.e. the condition of eligibility because they have time to use bribes, administrative procedures, traveling expenses, which must be expanded before a loan is obtained.
- Subsidised interest rates will lead to high level of arrears i.e. a borrower has to decide when to repay a loan, because the interest rate is the only variable since the principle doesn't change.
- High rates of interest will not automatically solve all problems of arrears, but they have some influence on borrowers who cannot effectively be forced to pay.

- Extra penalty interest charges imposed after due re-payment dates have passed are complicated to administer and difficult to explain to the borrowers and so an initially high market rate more effective.

2.4. The Effect of Interest rates to the Lender; (Disadvantages of low interest rate to lending Institutions)

More important is the influence of low interest rate on lending Institutions themselves; however, effectively such an institution is organized. It is bound to be more expensive to lend small amounts to fewer borrowers. The cost of promotion, appraisal, disbursement, supervision and collection are not directly related to the amount of money lent and smaller less sophisticated borrowers may take long to appraise and require more skill because they are unable themselves to present the necessary financial data. If the risk of default and the interest rates are the same as for large and small borrowers, large loans then would be more profitable, the situation is even worse, funds may be provided through a special small business window where by the central bank re-finances all loans made to small business at a very low rate of interest which is intended to compensate the lending bank to the higher risk and costs. Alternatively, in addition there may be guarantee scheme to reduce the risk of loss but subsidized rates of interest are often so low that even if the lending institution pays nothing for its money it cannot itself cover its costs if the actual transaction cost are correctly calculated and charged to the loans to which they relate it will be still clear that the large scale lending must subsidize lending to smaller enterprises. However much management may stress the importance of small business lending it will be clear to those involved that it's a loss making activity; if they are properly trained and motivated to judge their activities by the return earned from them and to work to the interest of the long term survival of their employer, they will inevitably tend to prefer lending to the largest enterprise eligible for whatever scheme they are operating which is not what is intended. Whether an existing financial institution is persuaded to implement a special subsidized small business scheme or a new one may specially be set up for that purpose they are likely to have few limitations if the interest rate is artificially low. Small business will be forced to rely on the source whose officials are consciously aware that what they are doing is unviable, and this is a scarcely promising basis for an effective mutually satisfactory long-term banking relationship.

2.5 The effect of interest rates to the borrower (Advantages of low interest on the SSE).

The purpose of low interest rates apart from any political aspects is of course to help small business by lowering the cost of finance; it is important to examine how important this cost is to the small borrower and how variable the reduced interest rates is actually to them. All other things being equal a lower interest rate would clearly be preferable to a borrower than higher one. We have seen that from the lenders' point of view at any rate, low interest rates lead to excessive demand, un enthusiastic management and reduced competition. These factors influence the level of service provided to borrowers, so that application delays will be lengthened and applications will be less likely to be successful; will these disadvantages more than out weigh the advantages that might arise from cheaper money? WE saw earlier that institutional finance is mainly required to supplement existing funds at least existing business; the enterprise needs to remove a critical constraint such as the lack of tools, shortage of raw materials that is preventing economic use of a large part of resources of employees. If a relatively small loan even in relation to the quite small amount of capital employed in the whole business can remove a barrier to economic operation. It can transfer a net loss into a profit of several hundreds percent of the funds employed which will be even higher when expressed in terms of return on the amount borrowed. So these circumstances even a large reduction in the rate of interest is inherent as far as less important than the fact that the enterprise can operate at all. This point can best be illustrated by reference to specific examples from Mexico, India and Philippines.

1) Vegetable stallholder in Mexico.

	$
Daily sales	12.00
Daily sales of vegetables	10.0
Daily gross earnings	2.0
Interest at 1% per day (365% per year) the cost of vegetables	0.10
Net daily Earnings	**$1.90**

Increase in earnings if interest rate is valued at 2.5%

This woman like any other borrows the 10$ she needs to buy for her day's supplies from a branch of a private bank, which specializes in small business lending. The bank opens at 5:00 am so that the woman can set the money in time to buy their vegetables before the retail market opens. At the end of the day, the woman returns her $10 along with ten cents interest. No security is required beyond the bank knowledge that she is a registered trader. The banks operation is profitable but not excessively so because of the very high cost of operating large numbers of small branches in convenient locations with very long opening hours and because of occasional defaults.

2) Handloom weaver in India

	$
Annual sales	300
Material provide free of charge by customer	____
Gross annual income	300
Capital equipment	200
Annual interest	25%
Net Income	**$ 250**
Increase is earnings if interest rate is valued	10%.

This man has borrowed the money to buy her loom and related equipment from a welfare agency, which attempts to cover as much as possible of the costs of its various services by charging people what they can afford but no more. No formal security is required but its understood that agency can re-possess the loom if a weaver falls behind in his payments. There has been some criticism of the high interest rates when compared with that charged by the Government sponsored lending schemes but the agency would have substantially curtailed.

3) Woodcarvings producer in the Philippines.

	$
Monthly sales	305
Wage (3 employees)	180
Raw materials	20
Total cost	**200**
Monthly sales income	**200**
Interest is $200 working capital borrowed	105
Monthly at 10% per month (120% per year)	20
Net monthly income	85
Increased earnings if interred rate valued at	20%

This woman borrows about $200 every month from a local money-lender who provides similar services to a number of people in the community. She can have the money when she wants it and vary the amount if necessary. She repays what she has borrowed plus interest when she has her self been paid for the savings by the trader who visits the community at the end of the trader who visits the community at the end of each month. In every case, the benefit to the borrower of a reduction in the interest would be relatively insignificant when compared with the lender's reduction in income, lenders whether they are banks or individuals, they are encouraged by high receipts to provide wider range of services and to reduce collateral requirements. They can therefore, pay more for their funds themselves and thus attract more money for lending to more small businesses. It may be that some or all lenders in these well providing a valuable service to prohibit private money lending or to impose official interest rate ceiling their borrowers. The remedy for this is not to discourage people from lending but to encourage many individuals and institutions as possible to enter the market for financing small business. Competition will bring down interest rates for faster than legislation as it may already has started to do in India and Philippines.

2.6 Ways to manage interest rates risk exposure

a) Interest Rate Mix: A mix of fixed and variable rate to reduce the effect of unanticipated rate movements. She would need to give more thought to whether the current ratio of 2 million pounds variable 5 million pounds fixed rate was sufficiently well balanced.

b) By Forward Rate Agreement: (FRA) some risk exposure could be eliminated by entering into afterward agreement with the bank. This would lock the company into borrowing at a future date at an agreed interest rate. Only the difference between the agreed interest that would be paid at the forward rate and actual loan interest is transferred.

c) Interest Rate "cap": It's possible to cap the interest rate to remove the risk of interest rise. If the cap is set at 11%, an upper limit is placed on the rate the company pays for borrowing a specific sum unlike the FRA, if the rate falls, the company doesn't have to compensate the bank.

d) Interest Rate Future;

These contracts enable large interest rate exposures to be hedged using relatively small outlays. They are similar in effect to Fraps except that terms, the amounts and the periods are standardized.

e) Interest Rate Options;

Also termed interest rate guarantees these contracts grant the buyer the right but not the obligation to deal at a specific interest rate at some future date.

f) Interest rate Swaps; These occur where a company (usually very large firms) with predominantly variable rate debt worried about a rise in rates, "swaps" or marches its debts with a company with predominantly fixed rate debt concerned that rates may fall. A bank usually acts as an intermediary in the process but it can be through direct negotiations with another company. Each borrower will still remain responsible for the original loan obligations incurred. Typically, firms continue to pay the interest on their own loan and then at the end of the agreed period, cash adjustments will be made between the two parties to the swap agreement. Interest rate swaps can also involve exchanges in different currencies.

2.7. A Discussion on whether formal lending interest rates in Uganda are really high.

According to David Kihangire, he said this at a meeting on October 25th 1996 where the governors of the East Africa Central banks signed a communiqué in which they expressed concern that real interest rates (lending rates be adjusted for inflation) in the three (3) countries, Uganda, Kenya and Tanzania were very high. They cited a number of factors that were in their view responsible for high interest rate, including high operating cost, inadequate competition in the banking system, non-payments by borrowers etc.

Interest rates are one of the most important monetary indicators in an economy.

Role of interest rates in the economic policy of Uganda.

- Facilitate inter-mediation through promotion of mobilization and efficient allocation of resource.

So the level and stability of interests is therefore, very important and justifiable concern of the investing public, so sometimes be induced in through policies that keep desirable limits (only possible in formal markets).

Internal markets are results of control in formal markets.

Note: So interest rate are high by looking at interest rate structure before and after their liberation in November 1992.

So the role of Bank of Uganda in maintaining macro economic stability, seeks evidence of high interest rate in Uganda by making comparison with other countries in the region and focuses on the factors that might explain this as well as the measures taken to regulate them.

Note: Savings mobilization, inflation rates and investments, lower real savings rates mobilization and high inflation rate are associated with low/negative real saving rates whole high interest rates help to mobilize savings for investments and fight inflation. Consequently, monetary and fiscal authorities in Uganda have sought to liberalize interest rates in the economy to try create a conducive environment for monetary policy management, promotion of savings mobilization and ensure efficient system of credit allocation.

But the first in this respect has been to reduce annual inflation rates to low single digit levels through the use of tight fiscal and monetary policies since 1992/1993 the monetary and fiscal authorities in Uganda have fallen from over 40% between February and August 1992 to consistently below 15% since April 1994.

In the period of 1992 / 1993 – 1996 /1997, the economy registered buoyant GDP rate of over 6% per annum on average (the growth rate was 10.5% in 1995 and 8.6% in 1996) the authorities are committed to consolidating the macro-economic stability already achieved and to maintain it in the medium term. Overall the inflation target is programmed at not more than 5% with the corresponding real growth being average 7% per annum.

2.8. Measures to regulate interest rates.

The importance of increasing real deposit rates reflects the need to mobilize financial resources to support investment in the economy. Indeed it is not easy to raise the level of savings but its believed that this is attainable through increased competition for deposits in the financial sector. Lending sector rates on the other hand have been influenced by such factors as:-

- The rate of interest on deposits
- Opportunity costs on statutory cash resources
- The cost of maintaining liquid assets for prudential purposes.
- Administrative costs per unit of asset of balance sheet.
- Provisioning for actual loan losses and un-collectable interest.
- Other off setting charges on various services rendered by a financial institution.
- Sluggish payment and settlement systems in the economy.
- High cost of utilities (electricity, water, telephone, courier services etc.)

The challenge of the interest rate policy is largely to reduce lending rates to levels that are conducive to investment promotion, without compromising the objective of savings mobilization.

Interest rates need to be high enough to encourage mobilization of savings to finance the needed investment in the economy. Under a regime of indirect monetary control, this should be achieved through increased competition in the deposits within the financial sector. On the other hand, interest rates on lending need to be low enough to encourage borrowers to promote investment and economic growth. Again under similar regime, this can be achieved by educating borrowers about servicing their loans, minimising the population of financial bad debts in banks, improving efficiency in the financial sector and addressing the indirect costs associated with high prices for public utilities. The dilemma of monetary policy as far as interest rates are concerned is that a tight monetary policy is usually synonymous with high interest rates to promote a dis-inflationary process. A high interest rate policy regime can undermine the performance of the credit markets and the overall economy adversely affecting the financial sector through an increased process of non-performing assets.

It should be noted that in November 1992, interest rates were liberalized and there was a shift by the monetary authorities from direct to indirect system of monetary control.

The major focus was on raising real interest rates on savings and refusing lending rates by abolishing normal interest rates floors and ceilings respectively. The liberalization of interest rates sought among others things to improve monetary management and financial deepening. Initially, the measures (tight and revenue driven monetary fiscal policies) sought to reduce the high rate of inflation, which was above 60% to below 15% per annum.

In the medium term, Uganda would wish to attain the record of macro economic stability and economic performance compared to that of high performing economies like Mauritius. A compared analysis of the level of money supply in Uganda and the countries in the peer group (Kenya and Tanzania), indicate that Uganda has succeeded in reducing monetary expansion to levels that compare favorably with those of Kenya. However, the reduction in monetary expansion has been much stronger in Tanzania in recent times with m2 growth rates at below 20% per year since March 1996.

Uganda success in reducing the inflation rate to less than 10% per annum has enabled interest rates in savings to turn real positive since February 1993. The liberalization of and reform in the financial sector have also increased competition for savings mobilization. As a result today, private savings deposits account for over 30% of m2, up from less than 15% in 1986 while the share of currency in circulation in m2 has reduced from over 50% in 1986 to about 33% in 1996.

Uganda's low rates of inflation and interest rates compare very favorably within the East African region as well as those in Mauritius.

It should be recognized as pointed out that already the high rates of monetary expansion in Uganda in October 1991 to August 1992 and May 1993 to September 1993) and in Kenya (July 1992 to April 1994) are in part responsible for the high inflation and normal interest rates for Uganda (October 1991 to September 1992) and in Kenya (February 1993 to June 1994) respectively. The high rates of inflation corresponded to the high nominal interest rates in savings proxy by the treasury bills and on lending rates by commercial banks respectively. Periods of low interest rates are also correspondent to periods of low inflation rates, and this may underline the significance of maintaining Macro-economic stability as a basis for reducing nominal interest rates as demonstrated by Mauritius.

NB: The development in money supply and inflation performance suggest that nominal savings and lending rates in Uganda are not very high. The rates compare very favorably with those of "model" developing countries such as Mauritius, particularly since July 1994.

2.9. POLICY ACTIONS WHICH CAN BE TAKEN TO REDUCE INTEREST BY THE MONETARY AUTHORITIES.

In line with indirect monetary policy regime, interest rates in Uganda are fully regulated. Policy related rates are also adjusted from time to time to take into account developments in money markets. The Bank of Uganda has been active in intensifying measure to address the impediments to reduction of interest rates. These include:-

- Educating borrowers to service their loans.
- Restructuring banks for increased efficiency and profitability.
- Promoting the establishment of commercial courts.
- Encouraging competition in supply of banking services.
- Encouraging introduction of credit rating agencies.

2.9.1. Examples of small business enterprises:-

- Flour mills
- Secondhand clothes, shoes
- Grinding mill
- Tailoring /dress making
- Carpentry
- Grocery/retail shops
- Piggery
- Gardening
- Poultry
- Cattle keeping

- Knitting
- Welding
- Bakery
- Bakery
- Irrigation
- Butchery
- Restaurant
- Tractor hiring
- Ox-cart
- Brick molding
- Fishing, etc.

2.9.2. High interest rates hurting business, prices going up. (New vision Kampala)

Analysis of 13th March 2003 by Andrew Kanyegirire Kampala

Uganda's financial and business operations, account are one of the fastest growing sectors in the economy. However, this growth and the attraction of investments into the country are being dragged by high interest rates.

Interest rates (lending rate) arise because borrowers who do not have money want it and so must pay something to the banks which lend it for a reward called interest.

At the beginning of last year lending rates across the entire banking industry were fluctuating between 18% and 24%. Despite dip in some months of 2002.

Interest rates have been edging up since September 20022.

A recent statement by the central bank indicated that in September 2002 in response to inflation pressures, it tightened its monetary stand through the increase of policy rates and the increased sale of treasury bills. So as a result of this "commercial banks" increased their lending rates, added the statement. Since the beginning of 2003, lending rates have been on the upward trend with most banks charging between 14% and 19%. Such high rates do not only alter business from borrowing money but they also slow down expansion.

Crane banks senior manger Mr. Bhaskaran said in a recent interview, high interest doubly increases the price and productivity costs of a business operation "they are not good for the manufacturing sector. In the long run, we have to devise ways of bringing them down, urges Abid Alam, Chairman, Uganda Manufacturers Association. (It is a detriment to investment as the cost of production goes up, he adds). He said as the costs of a loan go up, entrepreneurs tend to reduce on making large purchases for their business. Basing on the recent bank cases in the country it is evident that high interest rates make it harder for business to repay debts given that most of the payments get eaten up by the principle amount, instead of being used to pay the interest.

According to Blaskaran, it is partly for this reason that most business are today going in for a moderate range of interest range which they will be able to pay. With production costs on the rise and investments on the opposite side, coupled with reduced business activity and consumer spending, fewer jobs will be created in the economy. For people in Uganda the incidence of high interest rate means that they will not be able to afford home loans, education and development loans, education and development loans, as they would become more expensive.

However, it is not doom and gloom for Uganda.

ADVANTAGES

- High interest rates have helped to propel the economic growth.
- Uganda has received international credit for maintaining high growth rates over the past few years.
- In addition, as one source in the financial sector, foreign investors in Uganda with cash deposits in interest bearing accounts have also been keen on taking advantage of the high interest rate which guarantee a good turn in their investments.
- Commercial banks are also expecting the high interest rates to encourage more and more people to save in an attempt to receive good interests on their incomes. But the 19% interest rate is not good for the growth of private sector, is borrowing at 19% stance for much of 2003. As such, interest rates are going to carry on standing out as one of the most closely watched variables in the economy given that they directly affect our everyday lives and that of the overall economy.

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7) 16^{th} 11 – 1999 page 2
8) 6^{th} 2 – 2000 Page 8
9) 25^{th} 5 – 2000 Page 18
10) Monitor 24^{th} 4 – 1999 Page 11
11) Monitor 1^{st} -2 – 2001
12) Monitor 19^{th} – 4 – 2001
13) New Vision 15^{th} – 8 – 2001
14) New Vision 13^{th} – 2 – 2002
15) New Vision 22^{nd} – 11 – 2001
16) New Vision 13^{th} – 7 – 2001
17) Tuesday 4 – 2002 (New Vision) by Stephen Odeu
18) The East African 4^{th} June 2002

2.9.3. Honourable Kadaga's speech on 30^{th} January 2003 called for reduced interest rates posted to the web by January 30^{th} 2003.

The deputy speaker of parliament Rebecca Kadaga asked commercial banks to give attraction interest rates to encourage the culture of saving in the country.

Kadaga while presiding over the opening of a New office for dfcu bank in Masaka said that people have partly not been saving because of the low interest rates and she hailed the banks new initiative of the young savers account which he said would teach the young children the value of saving.

Dfcu bank, last week launched the young savers account a new product and first of its kind in the country which deals with children below 18 years. Kadaga again appealed to dfcu bank to reduce on the interest rates on loans to allow more business development. She said that the financial institution bill 2000 does not provide protection fund, which has paved way for the saving culture to be very low in Uganda. She said the financial institutions act would create a deposit protection fund when enacted. If this protection fund is included in the bill, which is still in parliament now along way of heightening depositor's confidence in banks and the entire financial sector.

2.9.4. Role of commercial banks in development:

According to the Uganda banker Journal (1996), the traditional function of commercial banks was deposit taking and lending especially on short-term basis. Today banks offer a variety of products sold as deposit taking and lending especially short-term and long-term managing payment system, forex dealing, investment in the money markets, distribution of cash extending business services to customers and the general public among others.

Jhigan M.L. (1998) identifies the following as roles of commercial banks in a developing economy:

- Mobilising savings for capital formation
- Financing trade
- Financing industry
- Financing Agriculture

- Financing customer activities
- Financing employment generating activities
- Help in monetary policy

In short, commercial banks contribute much to the growth of a developing economy by generating loans to agriculture, trade and industry by helping in physical and human capital formation and following the monetary policy. Briefly commercial banks play an important role of fulfilling the diverse of both the ultimate borrowers and lenders in the economy.

2.9.5. The structure of the financial system in Uganda

Formal sector:

Most of the commercial banks are concentrated in urban areas or centers with very few in semi-urban and non at all in rural areas. Most poor people do not use formal banks. This is because they require opening accounts with unreasonable big cash balances, the minimum balances are very high, they have intimidating appearances, the staff are unfriendly to poor people, the bank's branches are usually too far from the poor people's neighborhood, they have relatively complicated transaction forms, the transaction costs are too high (for example wasting time, charges), the poor people perceive formal banks as a reserve for the well to do in urban centers.

The formal banking sector has recently had financial crisis related to the closure of a number of branches due to insolvency.

Semi-Formal Financial Institutions

Savings and credit associations range from a handful to thousands of numbers. They are organized mainly for savings mobilizations among the poor. They are however, found with several problems ranging from weak financial management to rampant fraud. The risks of saving and credit organization are quite high in that they traditionally, suffer from opaque governance and poor accounting and management systems, such that the members and some time management have little idea of the financial status of the institution.

2.9.6. Main Financial Institutions:

These are organizations that offer credit and sometimes savings services to micro enterprises and others in poor communities.

The Role of M.F.I (Micro Finance Institutions)

Micro enterprise financial services attempt to enable the majority of the 3rd World access financial services especially credit and savings from locally generated funds without external subsidies.

Gohany Jin, the Ugandan Banker (1996), concurs with Rhyne on this position. He observed that throughout the developing world million of low-income people pursuing entrepreneurial activities are largely ignored by the formal sector. They lack access to financial services that would enable them participate full, in economic life especially savings and credit. As such, extension of financial services to the poor becomes a major goal for (MFIs).

1) Micro enterprise finance enables the poor people to access credit and savings services, which affect their economic circumstances and quality

of life, these services enables the micro-enterprise entrepreneurs to increase their production, which contribute to economic development.

2) Financial services help people meet their household and business goals. Micro-entrepreneurs and self-employed people make complex financial decisions about how to allocate income, how much to save and in what form and how much and when to invest among others.

3) Access to financial services gives people the ability to inspire their ambitions and thereby increase the productivity of their resources. Savings services allow depositors to store income as assets for future use while credit services allow client to invest or consume now, drawing on expected future income. Without access to financial services, individuals face limited options.

In summary, Gohany J. emphasized that access of micro-enterprise and poor households to financial services is an important tool in improving their efficiency, productivity and welfare while reducing risk.

Contrary to the above assertion, Gender and Economic Return in Africa (GERA) a non-government organization established its research findings in which it disclosed that MFI loans were a burden and trapped borrowers to poverty and debts.

According to the study carried out by GERA the women in Kawaala, a Kampala suburb said the MFI loans had increased people's poverty instead of eradicating the poverty for which they were introduced by creating high indebtedness among the poor.

Guy Winship the country Director FINCA (U) Orumuri December (2000) counteracted the above view and maintained that MFI programmes had helped many women in conducting their business and in improving on their economic and social welfare. In agreement with the other MFI(S), approached by the other voice (1999), Winship maintained that women were finding it easier to access loans from numerous MFI(S) rather than banking institutions which had high interest rates and demand securities which are unaffordable by most of the poor people.

Main Features of Credit:

- **Trust and confidence:** The lender will lend money or goods in trust and confidence that the borrower or buyer will pay back the money or price in time.
- **Time element:** Money is borrowed or goods are bought with a promise to pay back the money or price in time.
- **Transfer or goods and services:** Credit involves transfer of goods or services by the seller to the buyer on the pay back promise of the buyer income future date.
- **Willingness and ability:** Credit depends on the person's willingness and ability to pay the borrowed money. Credit of a person depends on his character, capacity, and capital (3Cs). A person who is honest and fair in his dealing possesses the capacity of making his business a success and such a person can set credit easily.
- **Purpose of credit:** Banks and financial institutions give large amounts of credit for productive purposes.
- **Security:** Security in form of property, shares or bonds is an important element for raising credit.

Credit is a form of investment of capital. Lenders offer credit in anticipation of returns in their investment in form of interest.

Interest refers to a payment for use or service of capital.

It is a reward for risk taking, management, and inconvenience. Interest has a direct bearing on the repayment capacity of the loan. A high interest rate may disable the borrower from paying in time while a low interest rate may discourage lending.

According to Tayebwa: (1992), these are the reasons why interest should be charged on borrowed funds:-

- Interest is paid as a reward for saving, encourages savers to postpone consumption to the future date.
- It is believed that people prefer to enjoy goods in the present than in the future, a phenomenon referred to as time preference. People are believed to have a positive rate of time preference that is why they prefer consumption today than in the future, and therefore, interest is paid to reverse this tendency.
- Further more, interest is paid as a reward for parting with cash, the owners of funds have to break their liquid preference for which the borrowers have to pay
- According to neo-colonialists, interest is paid as a price for use of credit. Borrowers have to pay lenders for using their loan facility.
- Interest is also paid to lenders so that they can meet expenses of the lending business, as a result of parting with cash and as a reward for

inconvenience. Since the lender who parts with cash cannot use it for personal business.

Interest Rate Determination in Uganda.

Government fixes interest rate in Uganda. Interest rates are used by the Central Bank (Bank of Uganda) as a control mechanism for inflation. Interest rates are increased when there is inflation to encourage savings. The rate of increase in interest is always less than the rate of inflation.

However, it is believed that an increase in interest rates discourages borrowing. Increased rates are known to be responsible for low borrowing in especially small business enterprise loans.

N.B: Credit is not without any defects but here are some defects associated with credit.

According to Jhingan (1998) further identifies some of the defects associated with credit below:-

- **Too much and too little credit is harmful:** Too much of credit leads to inflation, which causes direct and immediate damage to creditors and consumers. ON the other and to little of credit leads to inflation which brings down the level of output, employment, and income.
- **Growth and monopolies:** Too much of credit leads to the concentration of capital and wealth in the hands of a few capitalists. This leads to growth of monopolies, which exploits both consumers and workers.

- **Cyclical Fluctuations:** Express supplies of credit, leads to a boom. When it contracts, there is a slump. In a boom, output, employment and income decline (depression) leading to under consumption.
- **Speculation and uncertainty:** Over issue of credit encourages speculation, which leads to abnormal rise in price, the rise of prices brings an element of uncertainty into trade and business, which hinders economic progress.

It is common knowledge however, that in spite of these defects, credit remains important in any country. Credit is an indispensable lubricant and a tool of convenience for the economic progress of a country. Both the uncontrolled use of credit brings untold problems for the economy.

Objectives of a national credit policy Ideally are:-

- Ensure access to all genuine productive uses and support production and growth.
- Promote entrepreneurship with credit support.
- Facilitate flows of investment to priority areas.
- Help to correct distribution in the economy.

Factors considered by lenders before approving loans:-

According to Bibangambah (1988) he identifies the following considerations for lending:

- **Character:** Honesty, Integrity and management ability. 4

- **Capacity**: The income generating and therefore repayment ability of the borrower best measured by income statement and projected cash flow.
- **Capital:** Amount of borrowers Investment and his liquidity position.
- **Collateral:** Borrower's assets, which could provide tangible security for a loan and which could be sold to pay the loan if necessary.
- **Conditions**: The general environment with in which the borrower will likely be operating for the duration of the loan.

Conditions for accessing a loan: -

Conditions and procedures that require borrowers to access all the time before they can access the credit.

- **Loan descriptions:** Shows specific terms of the loan, because commercial loans which will have different terms from an agricultural loan, which may also differ from the terms set for a long-term development loan.
- **Purpose of the loan:** Most lending institutions provide finance for productive purposes. They provide finance to a borrower's current assets and agricultural production. Business loans are not intended in financing fixed assets or any other investment.
- **Maturity:** The maturity of a borrower's first loan shall not normally exceed 6 months. However, subsequent loans can have a maturity of up to 12 months.
- **Payment mode**: commercial banks agree with the borrower on the mode of payment that is regular. Grace periods are negotiated

although they are usually avoided except for loans intended for agricultural production.

- **Loan pricing:** The pricing of all lending products is based on the going concern principle and aims at full cost coverage. According to Centenary Bank (1998), business loans are priced 2% per month above the bank's prime (standard) rate as a monitoring fee. Upon disbursement of the loan, the borrower pays an acceptable commission of 2% of the loan amount, when in arrears the borrower pays 5% per day of the amount due as penalty interest up to 10% of the loan amount.
- **All other fees and costs** related to security registration and / or cost incurred in the process of loan recovery will be borne by the borrower.
- **Security:** A particular security shall only be accepted and held for a particular advance if the security is to cover more than one advance or credit line operated concurrently a very thorough evaluation of this security shall have to be carried out and the valued confirmed sufficient to cover those advances.

- **Offer requirements**:
  - An experience of not less than one year in Business
  - An established business premises and a resident within the operational area of the lending institution.
  - Possession of savings or current account (for loan amounts above Ug. Shs. 500,000) in the bank.
  - The business to be financed must have at a regular cash flow with an exception of agricultural production loans and schools.

- The loan applicant should not have any other outstanding loan facility with in the lending institution.

Lending/Loan cycle procedure:-

Especially for Centenary Bank loan policy and procedure (1998) is as below:

- Application
- Loan assessment and analysis.
- Formulation of credit proposal. Having, for example, proposed loan amount
    - Proposed loan period.
    - Proposed installment amount
    - Proposed installment form

- Loan decision: (loan committee takes all loan decision)
- Disbursement: Ensure that the following documents are in place.
    - Two loan agreements to be signed by the borrower branch manager and witness
    - Disbursement Voucher signed by Accountant and the borrower
    - Documentation checklist signed by branch manager upon completion and by the Accountant at the time of disbursement.
    - Signed committee summary report with the appropriate authorization for the loan amount.
    - Signed post dated cheques by the borrower (in case of banks)

In summary:

In consultation with government, BOU has been producing wide range returns to improve efficiency to the financial sector. Following the new Bank of Uganda Act in 1993 and the financial Institutional Act 1993, the Bank's mandate of implementing monetary policy and supervising the financial sector was substantially enhanced commensurate with these changes, many aspects of prudential regulations were significantly stored and the supervising role of the Bank was augmented notwithstanding these actions, however, the sector remains inefficient with high percentages of non performing loans and some weak banks. It is estimated that 4% of total PMB's were substandard or non-performing as at September 1996, down from over 50% in 1993/94. Then banking sector as continuing to undergo restructuring to make it more competitive and official by end of December 1996, most Banks had to fulfill the prudential capital requirements the Non-performing Assets Recovery Trust (NPART) set up in 1994 to recover non-performing loans extended by UCB. The BOU it self is undergoing restructuring to its effectiveness in monetary management as well as the supervision and regulation of banks. Although domestic savings in Uganda have improved for less than 4% of GDP in 1988/89 to almost 1.5% in 1995/6, these levels are still very low compare to the average of 22% sub-Saharan Africa. This poses a major constraint in achieving sustainable financing of economic growth.

CHAPTER THREE

3 Methodology

This chapter addresses the techniques I used in the study. It presents the methods that were used in addressing the objectives of the study or answering the research questions. It describes the research design, methods of data collection, the survey populations, data sources and methods of data analysis, which were used.

3.1 Research Design:

The study was across sectional based on random and purposive sampling. Four financial institutions were used in Kampala District, which were UWFT, CERUDEB, CMF, and PRIDE AFRICA, with special emphasis to Owino market (Balikudembe market) and Kisenyi flour millers.

3.2. The population study:

The study population comprised of loan officers, managers and clients from the above financial institutions who were purposely and randomly selected. 1 manager, 3 loan officers and 5 clients from the financial institution, giving a total number of respondents as 9.

3.3. Data Sources:

Secondary data: This was got from literature about the topic of study.

Primary data: This was obtained through questionnaires.

3.4. Methods of data collection:

This study relied mainly on two methods of data collection.

Questionnaires: The study used questionnaires to collect primary data from respondents of these financial institutions.

Observation;

Applied during my visit to the financial institutions during their hours of operation and Owino market/Kisenyi millers

3.5. Data analysis:

Data was analysed using qualitative and quantitative methods. Descriptive statistics was used to analyse and summarise the data gathered through Primary sources.

CHAPTER FOUR

Presentation and Discussion of Findings

4 Introduction:

This chapter presents the findings of the study about the research questions. The findings are presented and discussed basing on relevant questions from the questionnaires. And the data is going to be presented through tables and graphs.

4.1 Characteristics of the Population study:

- The respondents of the study were businessmen in Kampala District selected from the 4 financial institutions with emphasis on Owino market and Kisenyi flower miller.
- People who participated in the study were; 1 manager, 3 loan offers and 5 clients from different institutions.
- All respondents were aged between 27 – 50 years.
- They were 3 males and 6 females.
- Their education levels ranged from S.4 leavers, certificate holders to graduates.

Age bracket	No. of respondents
25-30	2
31-35	2

36-40	3
41-45	1
46-50	1

Source: Primary data

4.1.1 Significance of Credit

The study also aimed at establishing the significance of credit to development. And response showed this from credit officials.

The question was how do financial institutions promote development?

Table showing the role of credit in development:

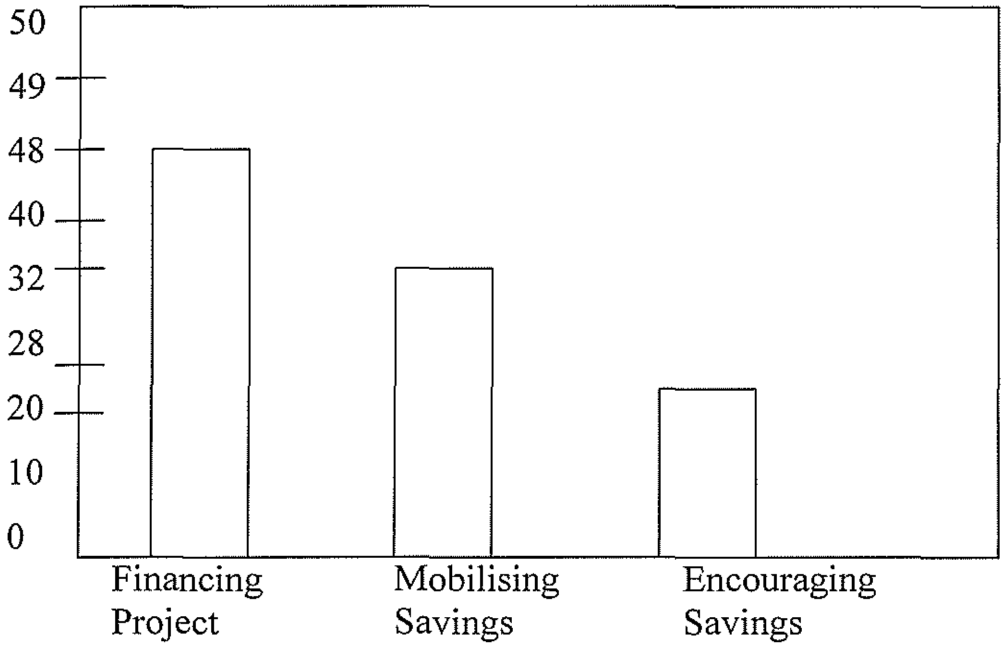
n = 4

Credit help in	**Frequencies**	**Percentages**
Financing projects	2	48
Mobilising savings	1	32
Encouraging savings	1	20

N = Number of officials

48% of the respondents show that financial institutions offer credit that is used to finance projects, 32% show that they help to mobilize savings and 20% show that they encourage people to save. The above information can be simplified further in a histogram.

The role of credit in development:



Source: Primary data

The figure above shows that credit is helpful in financing project, which consequently increase income of individuals. This takes place through marketing the products of the financed project and using profits to solve the financial needs and reinvest in other income generating activities thereby increasing the income base that is to say promoting development and reducing financial needs.

Note: These financed projects employ other needy people with other skills which all in all lead to the overall development of the whole economy and overall improvement in the financial status of SSE entrepreneurs.

Financial Institutions through providing credit encourage individual savings. For example one requirement of an account holder with financial institutions requires a client to save regularly, of which these savings are either reinvested by their owners that is to say, the savers or lent out to others with an interest charge. NB: Interest charged on borrowers, which is given to savers also increase their credit, that is to say, savers capital, thereby promoting development as it solves financial needs of these SSE.

Other points that respondents were not in position to point out are these below:

- Also credit enables entrepreneurs to purchase business inputs in form of fertilizers, seeds, drugs, and farm implements for example tools, raw materials and so on
- Credit is also used to hire both skilled and unskilled labor in SSE firms for example, Accountants.
- Credit can also be used to modernize most of the projects for example use of tractors, use of computers and so on.

The question is that has there been growth in activities financed?

The study found out that credit extended to SSE borrows has an impact on the activities financed. 4 official who responded to this question showed this:-

Table showing improvements **n = 4**

Improvement	**Respondents**	**Percentage**
>80%	3	70%
50%	1	20%
<40%	-	10%

70% of the respondents estimated growth in the financial status of the borrower's finances. And 20% showed their original position before they got credit improvement while 10% were rated below 40%.

From the table it is evident that credit plays an important role in the improvement of the financial situation of people and the general growth of the economy.

These confirms what Schultz TW said (1980) that credit increases the quality of output, quality of life of the people and raises the level of productive technologies.

Role of credit in solving financial needs of small-scale borrowers:

N = 4

Improvement	**Respondents**	**Percentages**
>80%	3	70%
50%	1	20%
<40%	-	10%

Source: Primary data

It showed that 20% of the respondents estimated the general improvement in the financial status of SSE borrowers about 50% increase compare to their original position before they started using credit.

70% of the respondents put the estimate above 80% while;

10% estimated the improvement to less than 40%

Note: These were responses from loan officers and the manger.

Reasons given for the improvement above 50% among others are:-

- Credit enables SSE to obtain inputs such as fertilizers, improved seeds and animal breeds, tools, raw materials and other farm implements, maize, sorghum, millet and other merchandise.

- Credit enables SSE to access market for their products and inputs
- Credit helps them to get technical services from skilled personnel such as accountants, auditors, planners, advisors, surveyors etc. on the other hand

Note: 10% of the respondents say that SSE is trapping SSE entrepreneurs in poverty because of the high interest rates and the unfavorable weather conditions, lack of SSE extension services, all hinder output thereby, disabling the SSE to solve their financial needs.

Questionnaire for clients

Questionnaires were administered to 9 respondents of different institutions that is to say,

1 respondent from commercial micro-finance that is to say, CMF.

1 respondent form PRIDE AFRICA

1 respondent from CERUDEB

1 respondent from UWFT

3 Owino market

2 Kisenyi millers

The question administered to clients

One of them was, what is the role of SSE credit or how is merchandise (trading) credit helpful to you (question 12 of the questionnaires). The responses given varied as illustrated in the table.

Table showing role of SSE (merchandise) credit

N = 9

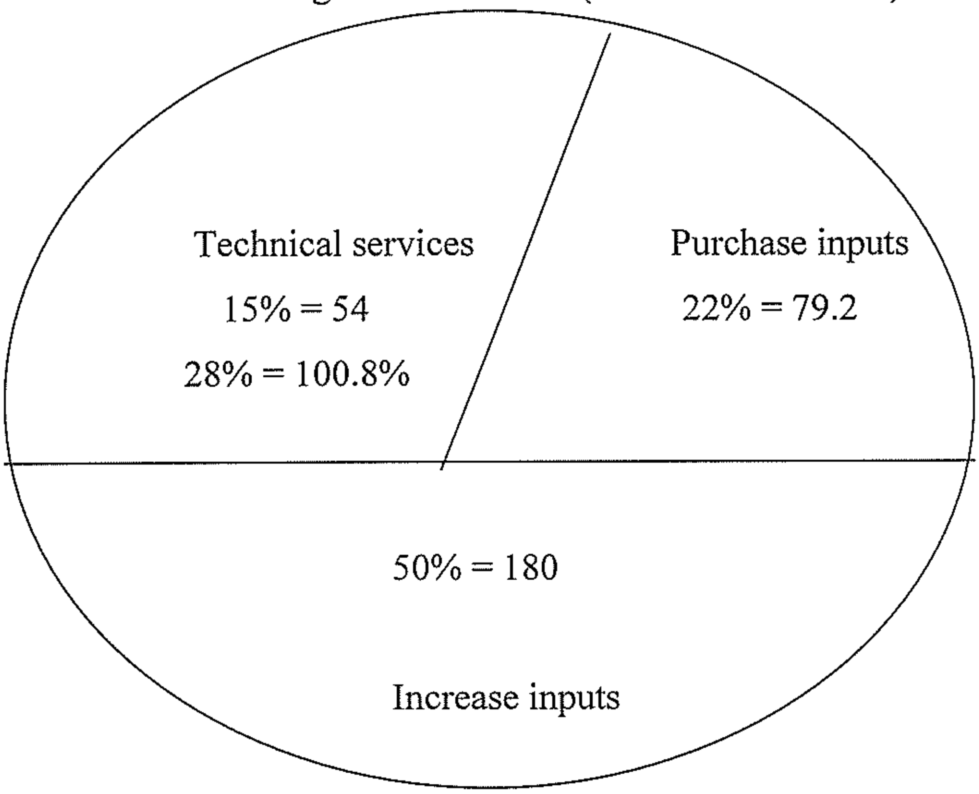
Role of merchandise credit	Frequencies	Percentages
Purchase inputs	3	22%
Increase input	4	50%
Technical Services	2	28%

Source: Primary data (questionnaire to clients)

22% of the respondents of SSE show that credit enable them to acquire inputs, 50% say that SSE (merchandise credit) enable them to increase output.

28% say that credit enable them to acquire technical services like advisers, Accountants and so on.

Pie Chart showing the role of SSE (Merchandise Credit) in development



Source: Primary data

4.2. WHY SSE BUSINESSES BORROW LITTLE MONEY

Who are the biggest borrowers?

Table showing biggest borrowers.

Borrowing sector	Frequencies	Percentages
Commerce	2	70%
Agriculture	-	5%
Service Sector	1	20%
Others	-	5%

Source: Primary data (questionnaire of the manger/loan office)

The table shows that 70% of commercial loans lent out to people with financial needs in the commerce sector and 20% of service sector loans are lent out while 5% of Agricultural and other sector loans are lent out respectively. Showing that the biggest percentage of loans lent out is to the commerce sectoring especially big businesses but very little is apportioned to the SSE borrowers. Thereby, bringing about financial needs in SSE though they allege to be giving out loans to SSE.

How did you get money to start?

And this is what showed up from the questionnaires administered to client with SSE businesses.

This is a table showing how SSE entrepreneurs get money to start business.

N = 9

Source of money/capital	**Frequencies**	**Percentages**
Used my own money	6	70%
Borrowed from relatives	2	20%
Borrowed from bank/financial institutions	3	7%
Other ways	-	3%

Source: Primary data

From the table above it shows that 70% of money got by SSE for entrepreneurs to start business it is their own money they put in the business themselves that is to say, in that business venture. 20% of money to start business is got from relatives while 5% of that money is got from banks/financial institutions and other ways is 3%. Showing that basically the capital money is SSE business largely it is the money got from outside sources and yet out of the 30% it is only 5% which is got form Banks and financial institutions thereby, justifying my view of low lending/borrowing largely because of large interest charged which scares off people yet they have financial needs in their SSE businesses.

In conclusion, the reason why these SSE borrow from these banks and financial institutions is basically just to expand on their business but still these financial needs remain because of interest rate charged and other procedures to follow before you acquire the loan. These have not solved these needs and the proof was here and the question was what causes you not to borrow funds from three financial institutions?

Table showing causes of low borrowing in SSE. **n=9**

Reason	Frequencies	Percentages
Financial institution procedure difficult	3	20%
Interest rate charged	2	70%
Grace period given	4	10%

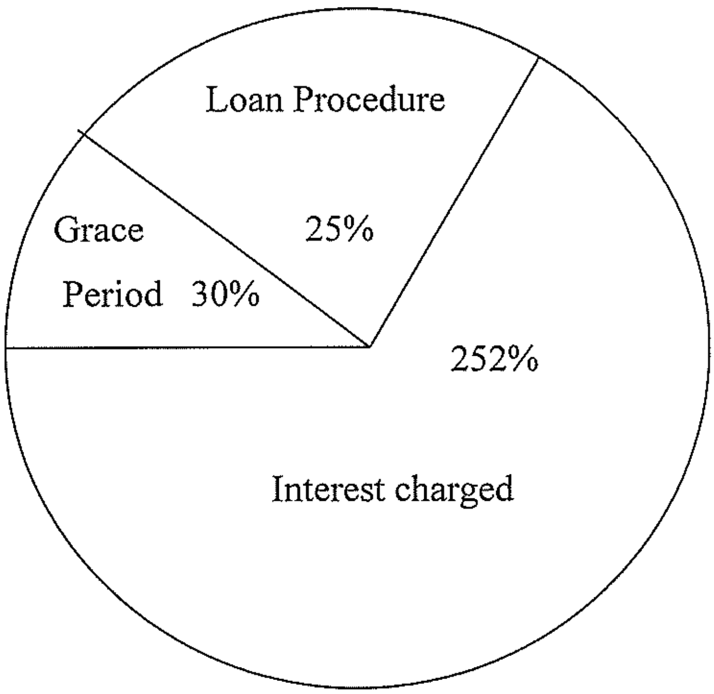
Source: Primary data

It shows that 70% of causes of low borrowing in interest rate. 20% of the cause is the loan procedure and 10% because of low grace period given to business.

NB: There are many things in the questionnaires to back up these arguments above for example if you get a loan the following week you are required to pay back. Plus other complications before one gets a loan. So by the time they charge their high interest rate, SSE borrowers are already disgusted.

However, this can also be illustrated on a pie chart as below to actually show the degree of variances.

Interest rate 252, loan procedure 72, grace question was, what period 36



Are there special borrowing considerations for SSE borrowers that is to say, question 12 of the manger's questionnaires.

There was no consideration or whatever consideration extended to small-scale enterprises.

Table showing no special borrowing considerations for SSE

N = 4

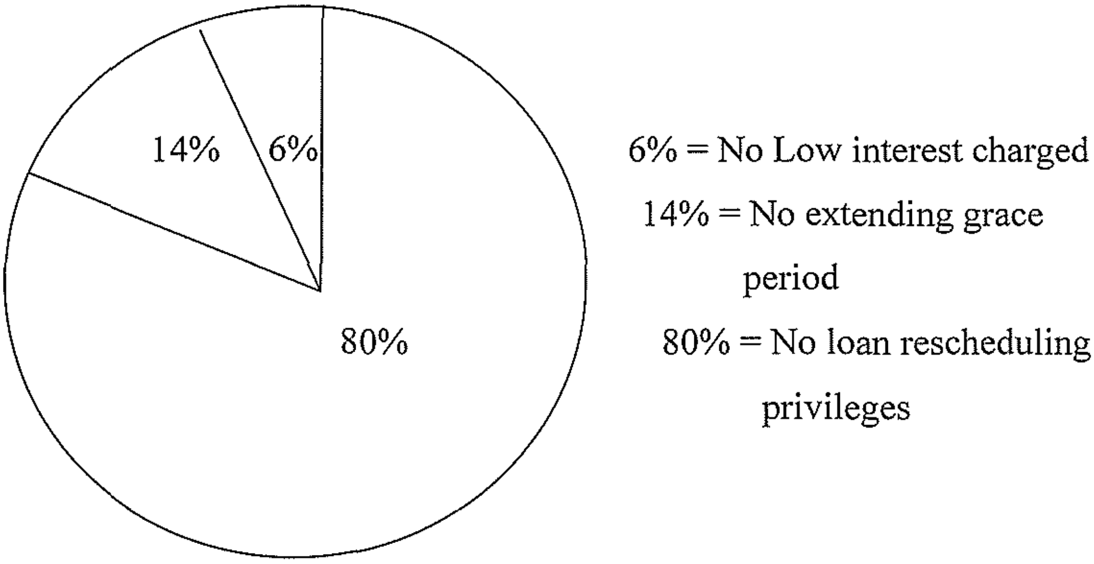
Area of consideration	**Respondent**	**Percentages**
No low interest charged	1	80%
No extending grace period	2	14%
No loan rescheduling privileges	1	6%

Source: Primary data

Respondents showed that 80% indicated that SSE borrowers were not given special consideration by way of low interest rate compared to other borrowers.

14% showed that SSE borrowers were not considered for special extended grace period, while 6% showed that there was no assistance extended through rescheduling. Accordingly apart from the extended grace period, SSE borrowers are not even given special repayment considerations despite their nature of investments. This is noted when the majority of the respondents as one of the major cause of continual financial need constraint in SSE. They cited high interest rates and it concurred with Olaki E in the New Vision of Friday July 5^{th} 2000 where he said that these high interest rates are one of the causes of financial constraints in both the firms of borrowers and even those of lending institutions because it is through interest rates charging that lending institutions get money to run their other activities.

Pie Chart illustration is as below:



The Pie chart shows that there is no main privilege available to SSE borrowers and no rescheduling being the least. The fact is that rescheduling privileges are least and that the interest rate subsidy is also worse also everything is not at its best. According to my primary data from officials all were saying no privilege is available to SSE borrowers.

The other question I asked was what problems do you meet on loan Disbursement?

- Lack of skills for business requirement by borrowers
- Bureaucracy in loan disbursement procedures leading to delays.
- Unreliable business environment due to low effective demand in commodities.

- Lack of variable projects
- Poor loan appraisal by loan officials

And I went ahead to ask problems specific to SSE borrowers?

He never answered anything but this is what I cited out:-

- Distance from financial institutions
- Low quality products
- Delays in loan processing
- Some businessmen are not dependable that is to say, they are seasonal, and so on.

Loan processing procedure

The question was what is the loan processing procedure from the date of application?

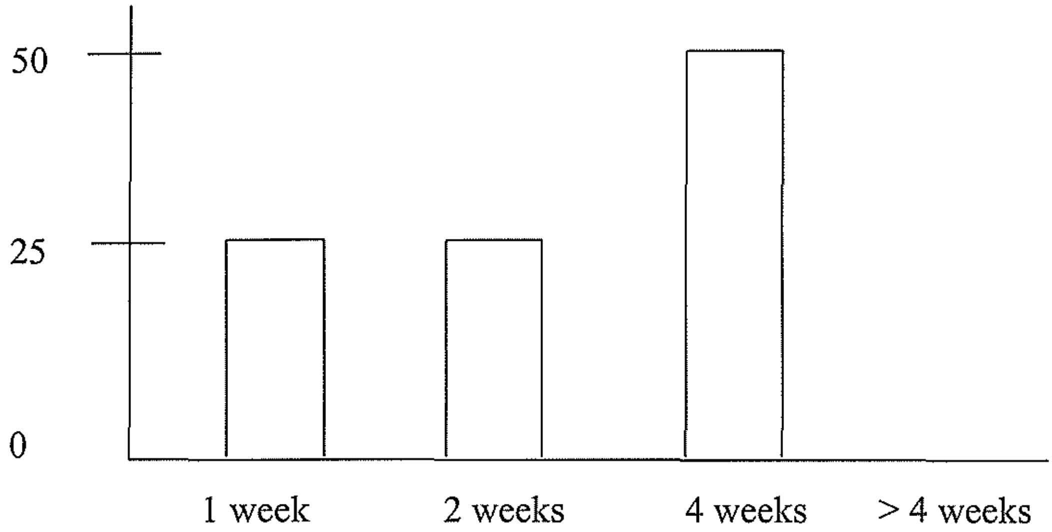
n=4

Period of procession	**Frequencies**	**Percentages**
1 week	1	25%
2 weeks	1	25%
4 weeks	2	50%
More than 4 weeks	-	-

Source primary data

50% of the respondents said to be within 4 weeks, 25% showed two and one week respectively.

Illustration by bar graph



The reason would be 4 weeks are long enough for loan officers to appraise the project adequately and 1 week is too short a time for loan officers to study the project and make informed decision.

Effects of distance on financial

	Frequencies	**Percentages**
Poor monitoring/follow up	4	46%
Insufficient loan appraisal	2	24%
Lack of financial services	3	30%

Source: Primary Data

4.2 I also asked a question on how to solve or improve this low borrowing. And this is what 5 clients had to answer about this question that is to say,

Suggestions given showed to :-

- Reduce Interest Rates
- Increase confidence in borrower that is to say, SSE borrower.
- Consider increasing grace period to these borrowers depending especially on the business one holds.

This situation can be illustrated as below in the table

Suggestions	**Frequencies**	**Percentages**
Interest Rate reduction	3	80%
Increase confidence in trader	1	15%
Grace period increment	1	5%

Source: Primary data

Showing that the biggest percentage or problem is actually the Interest Rate charged which take away the biggest profit margin and therefore, leading to continuous financial need /lacking in SSE.

15% is all about collateral security and 5% is all about increasing the grace period that is to say, if the business activities/ undertakings have taken long to mature or materialize they should consider but not rushing to sell the collateral security offered.

CHAPTER FIVE

5.0. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Chapter five presents the summary, conclusions and recommendations learnt from the previous chapters and the information gathered from the field and other ideas of other scholars about this very topic of study.

5.1. SUMMARY

To overcome this constraint, it has been suggested by some development strategies that secured loans be replaced with personal character loan. But in societies and communities, lacking a credit culture like Owino market/Kisenyi millers the personal character may be a wrong character. Thus a loan becomes a bad debt on the very day on which it is issued. This occurs because the necessary appraisal was not done or was not proper or was based on wrong information and false promises and assumptions or implementation was poor or never attempted at all because it was never intended.

What emerges therefore, is a serious dilemma on the one hand that needs credit that is to say, (whether credit is an essential or just accelerator of development process is not the point at issue; nor is the distinction between need and demand). On the other hand, our attitude as SSE borrowers values are such that they make use of credit as a development tool ineffective that is to say, (in the sense that inability to produce the desired results) and viable, no capacity enhancement, no improved productivity, no multiplier effect, no economic growth and so even no increase resources.

However, there is an assertion that there is need to address this serious dilemma of low borrowing in SSE by regarding financial development in Owino market/ Kisenyi miller and not just being an alarm but it being an optimistic view from theory.

For instance, Michael Nevin of the European Investment Bank has made this observation; that "traditionally" lending operations by development banks have taken the form of project loans that is to say, loans to specific identified large projects, the reason being that to maintain tight control over the uses to which funds are put, that is to say, that a large project can be appraised, the cost estimates checked independently by the financial staff, disbursement made against bills and invoices and transformation of finance or capital in fixed assets maintained by staff on the ground. By these it means the development bank can be fairly sure that these are not siphoning off its funds for non-authorised purposes. The problem of project lending is, it biases the flow of funds into SSE but into public sector projects, and against SSE but into public sector projects, and against SSE entrepreneurs, this was with (Nevin 1985).

The difference between the situation in Africa and that in Asia has to do with credit culture that is to say, the existence and practice of money lending is an important and critical component of Asia's Economic History.

The Desal and mellor study corroborated much with what we already know in Uganda, that developing countries response of savings and deposits to interest rate charge changes is very limited, while on the other hand, the demand for loans responds actually to the changes in interest rates.

In Uganda those banks do so in order to secure safe custody for their financial assets rater than seeking to promote development of small business.

So business (SSE) whose acquaintance with banks is limited, prefer to hold their assets in physical forms. Yet in their developing countries accessibility, liquidity, and safety affect SSE saving, and SSE deposits improve than the interest rate does.

As proof to the above project, credit development finance programmes of Bank of Uganda, Uganda Development Bank, Centenary, UCB, that is to say, have the experience got from the donor funded credit schemes being executed by NGOs and what we learn from news papers regularly advertises defaulters including default by trustees and assumed commanders of credit sets.

Actually these are the ways in which continuous financial needs in SSEs exist.

According to information got from case study of Luweero, Mubende, and Mpigi districts consistent with our stipulation of a dilemma (even with non structural variables of a dilemma) SSE credit programmes are needed, people want but their success is constrained by poor loan repayment, lack of collateral security, risks associated and high loan transaction costs. The findings showed that the financing problem is a management problem on the part of both the lenders and borrowers;

- There is a problem of poor selection of borrowers.
- Also the training offered to borrowers of SSE credit is then too inadequate.
- Credit schemes are characterized by fraud and misappropriation of funds attributed to low integrity of officials.

- The other problem that later result in low borrowing is poor loan monitoring, supervision and follow up on the part of the lenders.
- Also officials at grass root level often lack knowledge of credit control and book keeping.
- The other is that there is diversion of funds to non-productive undertakings, thereby loans failing to provide pay off.
- Also there are just to many willful defaulters and for these it does not matter whether or not the loans are repaid, hence many character loans are bad debts on the very day they are issued to wrong characters.
- Often the design and appraisal are purely financial, forgetting commercial evaluation and integration towards markets. No integration between production and marketing.
- There is also a problem of these borrowers delaying in disbursement and failure to meet the timing of the clients operations.
- Loan performance is characterized by high default rates; only 40% repayment rate is achieved.

5.2. CONCLUSION

How to Improve on this Low Borrowing Situation:

This is what can be done to create a positive credit culture (borrowing culture) in Uganda?

There is a time that an intensive educational campaign about the purpose and true use of credit was provided and the required orientation but it turned out that the problem of people of not borrowing has nothing to do with lack of knowledge. But it needs more than education. It requires conscientiusation.

Yet what I can say that can be done on the other side of the coin is savings mobilisaiton and much of the empirical insight. But it is also true that some up country UCB branches closed down because of failure to break even. It's possible to speculate on the causes including predatory contingencies and wide spread poverty. In depth studies about savings adequately and availability is yet to be done or if they have been done the results are yet to be disseminated. However, my own evaluative research on the effectuality of Uganda's structural adjustment programmes as an intervention into the country's economic crisis reveals that while stability in terms of anti-inflation has been restored, public deficit still persists at both national and community levels.

In 4 districts, which, were studied, they found out that the income level of respondents was still low with 83% earning less than $500 per annum (USA dollars). Only 9% of the respondents earned above USD 1,000 per annum, 41% earn less than USD100 as in the districts of Mubende, Mbale, Tororo, Lira and Apac. It was also found out that a simple subtraction of income declared by respondents and expenditure incurred revealed that 55% of the respondents were spending more than their income (that is to say, were in deficit). This could be genuine deficit or could be due to under declaration of income.

In summary these are the policy changes necessary to improve the position of most micro-enterprise business as below by maximizing the outreach of micro-enterprise finance: (that is to say, people lacking access to services also participate fully in economic life).

But today in Uganda it is a unique position, the macro-economic environment in Uganda is stable. For example, in fiscal year 1994/5 GDP grew by 10% and rate of inflation declined to about 3% by June 1995. Because of increased number of NGOs and financial institutions interested in intending sustainable financial services to the Uganda poor, actually who mostly situated in rural areas with a dynamic environment in development of sustainable micro-enterprise. By showing the value of borrowing services: (financial services) financial services help people to meet their household and business goals and gives people access to financial services, that is to say. The ability to expand their options of borrowing, and thereby increased productivity of their resources.

In short, access to borrowing services by these small business enterprises and poor households give people an important tool for improving their efficiency, productivity, and welfare while reducing risk. For example, recently USAID funded a global study on eleven micro-enterprise financial services in Uganda, which were on a good road map. The studied 11 micro-enterprise included looking at their average loan size given (a rough proxy in client income), number of borrowers, and the reputation of financial strength.

By outreach and financial sustainability:

Answers question on:

- Does serving the poor prevent achieving financial viability related needs of the financial institutions that is to say can institutions achieve both self-sufficiency and financial viability related needs?
- How financially viable can micro-enterprise finance institutions be? Can they reach commercial standards? Can they do so consistently or only in limited settings?
- If we wish to ensure that micro-enterprise finance reaches the even very poor, must we expect to work with institutions that are permanently dependent on down subsidies?
- What factors are necessary for achieving strong outreach and financial viability?
- What are the challenges facing frontier institutions and those facing institutions that have not yet reached the frontier?

Actually they sought to draw a conclusion about the relationship between successful micro-enterprise finance experiences and the local policy environment.

- **By expanding boundaries:** That is to say, expand borrowing services (lending services) to even self-employed persons plus even these part-time income-generating activities for example (shall farmers, trading and value-added tax agricultural activities), and households, plus those linked to enterprises.
- **By Depth of outreach:** that is to say, how poor are the poor? World Bank statistics information about poverty show that those people living below $1 per day (in 1985 dollars) as being truly poor, for

example World Bank in 1990, 19933 and 1/3 of population of LDCs are poor. That is to say, including 48% in South Asia, 33% in Middle East and North Africa, and 25% in Latin America and the Caribbean.

But in USAID study, loan size is used as the primary indication of depth of outreach in several reasons for example, programs that offer small loans actually serve the poor and those offering larger loans serve clients who are better off.

By Financial Viability: is the key to sustained outreach: that is to say. Allows institutions to access increased amounts of funds that is to say, (client savings and financial markets in general).

In short successful micro-enterprise finance programmes, in widely differing countries demonstrate that we now have at our disposal financial services technologies capable of efficiently bringing quality financial services within the reach of very large number of small business enterprises and households.

Levels of financial self-sufficiency:

Can be placed at various points along which range of financial self-sufficiency harassed by two hurdles that separate programs into three levels.

Level 1 Level II Level III

Operational efficiency (covers all non-financial expenses out of programmes fees and interest charges), for example salaries, administrative Expenses depreciation of fixed assets, and the cost of loan principal lost to defaulting.

The importance of such policies to Owino market/Kisenyi millers generally will bring about;

- Over all level of development of a country for example – Increase in rates of economic growth.
    - Good climate
    - High GDP per capita

- The government will be judged as being effective because of
    - Monetary and fiscal policy
    - Macro-financial stability
    - Low rates of inflation
    - Stability in foreign exchange rates.

- The extent of government control over interest rates and the existence of wide spread directed credit programmes becomes viable.
- These directed credit programmes that target SSE or Micro-enterprise with subsidises, low interest loans make it difficulty for micro enterprise borrowing programmes (finance programmes) to reach these same clients on a sustainable basis.
- The regulatory environment affects the rules and regulations of those deposit-taking institutions.

In conclusion:

SSE in Uganda suffer a wide range of genuine problems, compared to large ones, in seeking finances from formal sources, especially banks, most of the problems reflect the high costs of borrowing in small amounts or the high risks involved in lending to small borrowers.

On the other hand, they are related to some imperfection in the supply in finance as well as the ability and readiness of financial institutions to serve the legitimate demands for funds. This is perhaps one of the major weaknesses of Uganda's financial system. It should be recognized that a large proportion of the commercial bank funds is made up of short-term liabilities thus limiting their capacity to lend for long-term investment.

The large majority of SSEs in Uganda have problems with working capital. (It is the biggest and perhaps most crucial problem in their effort not only to mitigate the presumes arising from high costs of operation and maintain sales volumes in real terms, but also to provide for their expansion, which as pointed but inherits so vital for the country's economic development. In their regard, commercial bank lending would be absolutely crucial. Yet finance from banks and other financial institutions are not readily available to SSEs.

The failure to access institutions finance is attributed to a number of reasons, which, in my opinion are hard to dispute.

First, lending to SSEs is considered to be very risky, these enterprise face numerous uncertainties, have a high mortality rate and are vulnerable to market and economic changes. These considerations make banks reluctant to deal with them.

Secondly, most financial institutions in Uganda as everywhere also tend to be biased they favour lending to large corporate borrowers. This is especially true of financial banks, which prefer to deal with blue-chip customers, such as oil companies, large companies such as BAT, Nile Breweries, UMA that is to say. The reason for such preference is obviously their credit worthiness, the low costs of administration of their loans and the high profit margins for such lending.

Thirdly, the loan sizes of SSEs are small, and raise cost of administration and cutting the profitability of such loan. In additions, the twenty commercial banks in Uganda are overwhelmed by the numbers of such small borrowers as compounding the cost of administering the loans.

Fourthly, most banks are saddled with poor loans portfolio as a result of poor recoveries of loans by even to medium and large-scale borrowers. Where else have failed to pay back, the banks are reluctant to expose themselves to the small borrowers whose chances of default are even higher.

Fifthly, the banks' point out that many SSEs are unable to produce updated and professional financial statements, such as the balance sheet and profit and loss accounts. This makes it difficult for Banks to trust credit worthiness. Also many of them do not meet the collateral requirement, which is indispensable considering the high rate of lending to them.

Finally, banks in Uganda often find SSEs notorious for diverting and misusing funds lent to them. The banks complain that it is not uncommon for SSE to apply for funds for a particular investment purpose only to divert them to other uses. Such borrowers are unreliable in the eyes of the banks.

In light of the above, it is not surprising therefore, that small firms constantly complain that they meet with lack of understanding of their problems and lack of sympathy with what they regard as their justifiable needs for additional finance. In recent years though, some effort has been made to provide formal funding for small enterprises. Primarily from the two largest former indigenous banks that is to say. UCB and Cooperative Bank, through their credit schemes namely the rural farmers scheme and the cooperative credit schemes respectively. However, the experience of these sources and initiative showed that they were not suitable for this type of exposure and that it was important to link with a special intermediary network. Today the efforts of these institutions have been supplemented by Centenary Rural Development Bank (CERUDEB). In addition to the above sources, government provides administered credit through various programmes under the prime ministers' office, Ministry of Agriculture Animal Industry and Fisheries, Ministry of Local Government, Ministry of Gender and community development and son on. For example programmes like NURP Northern Uganda Reconstruction Programmes, Rural Revolving Scheme, Small Holder Cotton Rehabilitation Programme, Southwest Rural Agricultural Rehabilitation Programme, Programme for Alleviation of Poverty And Social Costs of Adjustment (PAPSCA), Entandikwa and so on. But even this source of funding is inadequate compared to the needs of small-scale enterprises so they should go in for **alternative bank credits for all small-scale enterprises in Uganda.**

For example,

- **Through loans or equity injections from relatives and friends.**

As pointed out earlier, income levels for the majority of Ugandans tend to be low. As a result, relatively few people have large sums of money to invest with the exception of perhaps the Asian community who are able to mobilize short-term finance for trading activities. Such arrangements usually involve a high degree of trust.

- **Money Lenders:**

Until the expulsion of Asians in 1972, they dominated the lending activities in Uganda. After 1972, the numbers of moneylenders declined and overall climate was not conducive for such transactions in the subsequent years of turmoil. Today few moneylenders seem to be doing business and those that are in it demand high interest and security. This leaves the small enterprises with virtually little financial assistance.

- **By resolving Saving and Loan Associations**

The history of these associations in Uganda has not been encouraging. In fact in recent years many of them have collapsed. Today the few that have managed to survive are generally connected to churches and Charity organization. These organizations tend to make small loans to customers whose borrowing needs are often too small to interest banks with even satisfactory security. These associations sometimes borrow from banks and their activities tend to compliment the banks rather than compete with them.

- **Through Insurance companies and other Non-bank financial intermediaries:**

There are about 26 insurance companies in Uganda most of which are very small for example, NIC (National Insurance Corporation) is the largest but has no loanable resources, especially to small enterprises. Today a number of Non-governmental organizations (NGOs) both local and foreign are engaged in the provision of credit facilities to small entrepreneurs. The most active of these are ACORD, FINCA, World Vision, Uganda Women Finance Trust, (UWFT), ADRA that is to say.

From the above analysis it is clear the scale of informal institutions and extent of their lending to SSEs and other potential borrowers is not significant compared to the banking system. Personal savings provide about 60-70% of the initial investment capital, with gifts and loans from relatives and friends helping to boost the figure. Successful growth of SSE in Uganda will depend on gradually reinvesting the profits.

In addition, other related constraints included the burdensome taxation and regulation, which tend to deter SSEs from linking their activities with formal financial and information systems. As a result, their ability to pool resources is limited to informal networks. Trade policies have generally favored large-scale capital-intensive firms while increasing costs for small-scale enterprises.

5.3. RECOMMENDATION

Areas to help small-scale enterprises in Owino market/Kisenyi millers. SSEs need to be assisted in two main areas, namely, **source of financial resources as well as costing and control.**

- **Finances**

Small firms lack information and knowledge about the appropriate sources of development finance and working capital, and are not aware of the advantages of different methods of raising capital. They need information describing the type of short-term and long-term finance available to small firms if any, the various sources providing this type of finances, the criteria they use and on what terms it is available. They lack skill in preparing and presenting a financial case to potential lenders and investor.

- Cost control and costing data:

The majorities of SSEs have poor or no cost control and costing data. This situation is so pathetic that quite often management learns of an impending crisis with the appearance of annual accounts or following a reminder, or urgent call from a bank manager. This is a serious problem which actually concerns even medium size and at times large enterprises in Uganda. In some cases, lack of costing data makes it difficult to gauge the effects of different levels of activity courses of action on their profits. Credit control and stock control information is often inadequate while it is clear that Banks are constrained in assisting small borrowers. They need to come up with innovative ways of helping them and one way to do this to insists on production of regular cash flow statements, or adequate estimations and budgetary system (including age lists of debtors and analysis of inventory in relation to future production programmes) as a condition for providing an over draft facility to a firm. If such disciplinary measures, valuable in their own right, are recognized as helpful for obtaining bank finance the efficiency on SSEs in Uganda (Owino market/Kisenyi millers) will be enhanced. This system of control need not to be dismissed as bureaucratic red tape, but should help the bank manager to improve the efficiency of his customers. In their interest, as well as his own, he will also help them by pointing out benefit of regular attention to certain simple indices of the health of the business – the profit/sales ratio, the inventory/turnover ratio, return on capital employed that is to say. This way the bank manager would strongly support the accountant improving the viability of the SSEs. Currently some assistance is provided to the SSEs through the USSIA with donor funding from Friedrich Ebert Foundation (FEF), a German NGO, most technical assistance is organized through a constancy company, Small Enterprises Development Company (SEDCO) which is a joint venture between FEF and The Uganda Development Bank. SEDCO is now concentrating activities in South Western Uganda and has a regional office in Kabale.

Other organizations have come in to support efforts of USSIA. They include "Swiss Contract", a Swiss Government Agency that has concentrated on promoting SSEs in Mukono, Tororo, Mbale, Jinja, and Iganga through SEDCO. This is based on three-year programme focusing largely on management, entrepreneurship development, and financial assistance to entrepreneurs. Already, SEDCO has completed two phases of the project. German Agency also provides support for technical co-operation.

APPENDIX I

QUESTIONNAIRE FOR CLIENTS

My name is Jason Kaule, a student of Bachelor of Business Administration at Kampala International University. I am carrying out a research purely for academic purposes as seen from the introductory letter from the University Administration.

The information given and your identity will be given maximum confidentiality.

Personal information (optional)

Client's Name:.. Sex:........................

Age:...

Education level: ....

Distance from the Financial Institution:.................................(Km)

Address:...

1. What income generating activity are you carry out? (Tick)

   a) Trading:..

   b) Farming:...

   c) Operating a hotel/a private school:..

   d) Others specify:..

2. How did you get the money to start? (Tick)

   a) Used my own money:...

   b) Borrowed from friends/Relatives:..

c) Borrowed from Bank/Micro-finance institution (savings and credit society):

……………………………………………………………………………

d) Others specify:………………………………………………………

3. If you borrow from a financial institution, what conditions do you meet?

Banks Micro-finance institution

i) ……………………………………………………………………..

ii) ……………………………………………………………………

iii) ……………………………………………………………………

4. How do the conditions in 3 above, affect your borrowing ability?

………………………………………………………………………………

5. Why would you borrow funds from micro-finance institution?

a) Solve a financial problem

…………………………………………………………………………….

b) Invest the money in an income generating activity

…………………………………………………………………………….

c) Expand the existing business

…………………………………………………………………………….

d) Others specify

…………………………………………………………………………….

6. Are you educated about using loan funds? (Tick)

Yes:………………………… No…………………………………

7. How often do loan officers visit your projects to advise you?

a) Once a week ……………………..

b) Twice a week ……………………..

c) When appraising the project ……………………..

d) Not at all ……………………..

8. What types of income generating activity have you borrowed funds for? (Tick)

e) Trading:…………………………………………………………

f) Farming /Agriculture:……………………………………………………

g) Operating a hotel / a private school:…………………………………

h) Others specify:……………………………………………………..

9. If Small Business Enterprise, what was the borrowing period? (Tick)

a) 6 months: ………………………………………………………

b) 1 Year: …………………………………………………………

c) 2 years: …………………………………………………………

d) Others specify:…………………………………………………

10. What was the interest rate?……………………………………………..

11. What was the grace period? (Tick)

a) 3 months ………………………………………………………………..
b) 6 months ………………………………………………………………..

c) More than 6 months and less than 1 year……………………………..

d) Other specify ……………………………………………………………

12. Is mechandise (trading) credit helpful to you? (Tick)

Yes……………….…. No………………………………….

13. If yes explain

………………………………………………………………………………...

14. What causes you not to borrow funds from financial institutions?

i) ……………………………………………………………………………

ii)……………………………………………………………………………

iii) …………………………………………………………………………….

15. What causes you not to continue borrowing for merchandise (trading) activities?

i) ……………………………………………………………………………

ii)……………………………………………………………………………

iii)……………………………………………………………………………

16. What solutions do you suggest to minimize low borrowing for merchandise loans?

i)………………………………………………………………………………

ii)……………………………………………………………………………..

APPENDIX II

RESEARCH QUESTIONNAIRE FOR MANAGERS/LOAN OFFICERS

Introductory Statement:

My name is Jason Kaule a student of Bachelor of Business Administration at Kampala International University. I am carrying out a research purely for academic purposes as seen from the introductory letter from the University Administration.

The information given and your identity will be given maximum confidentiality.

1.How long have you worked in this Organisation?...............................

2. Who is the majority of your customers? (Tick)

a) Merchandise Traders ....

b) Farmers / Agriculturists ....

c) Service providers ....

d) Others specify ....

3. How many branches do you have countrywide?

....

4. How do financial institutions promote development?

i) ....

ii) ....

5. What type of loans do you give out? (Tick)

a) Commercial loans ....

b) Agriculture loans ....

c) Service Sector loans ....

d) Others please specify ....

6. Who are your biggest borrowers? (Tick)

a) Commercial loan borrowers..

b) Agricultural borrowers..

c) Service Sector borrowers..

d) Others please specify ....

7. Have there been growths in the activities you finance? (Tick)

Yes............................ No...

8. If yes, what is your estimate of the average growth from the original position of the borrowers? (Tick)

a)> 80% b) 50% c) > 40%

9) Do you have different interest rates for different borrowing sectors (Agriculture, Commerce, Service (Tick)

Yes .... No ....

10. If yes, which sector pays the highest interest rate (Tick)

a) Agriculture...

b) Commerce...

c) Service...

d) Others specify ……………………………………………………………

11. Which sector pays the highest rate? ……………………………………...
12. Are there special borrowing considerations for Small Scale Business Enterprise borrowers?

Yes …………………………..   No…………………………………..

13. If, yes what are they? (Tick)

a) Low interest rate ………………………

b) Extended grace period ………………………

c) Loan rescheduling privileges ………………………

d) Others specify ………………………

14. What problems do you meet on loan disbursement?

i) …………………………………………………………………………

ii)…………………………………………………………………………..

iii) …………………………………………………………………………

15. In question 14, what problems are specific to Small Business Enterprise?

i) …………………………………………………………………………...

ii) …………………………………………………………………………..

iii)……………………………………………………………………………..

16. How long is the loan processing procedure form the application date?

……………………………………………………………………………………..

17. Do you thing the period above affects borrowing more? (Tick)

Yes…………………………….. No……………………………..

18. Has the credit extended to you as a Small Business Enterprise clients helped to Improve your economic status? (Tick)

Yes…………………………………. No……………………………..

19. If yes, what is your estimate of the improvement? (Tick)

a) >70% b) 50%……………….. c) <40%……………..……

20. What is your longest borrowing period of both the principal and interest?

a) Short-term loans ……………….(months or years)

b) Medium-term loans ……………….(Months or years)

c) Long-term loans ……………….(Months or years)

21. What is your mode of repayment?

a) Monthly installment of principal interest ……………………………

b) Monthly interest and principal paid in the last month of loan period……………………

c) Others specify …………………………………………………………

22. In the table below, tick appropriately.

Sector	**Borrow most**	**Repays most**	**Defaults most**
Commerce			
Agriculture			
Service			
Others specific			

23. From the above table, give reasons why the sector that defaults most does so.

i) …………………………………………………………………………

ii)…………………………………………………………………………
iii)………………………………………………………………………..

24.What are your recommendations for improving loan borrowing in general?

i)…………………………………………………………………………

ii)…………………………………………………………………………

iii)…………………………………………………………………………

25. What recommendations can you give to increase borrowing by the Small Scale Business Enterprises' borrowers?

i)…………………………………………………………………………

ii)………………………………………………………………………..

iii)…………………………………………………………………………

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SCHOOL OF BUSINESS AND MANAGEMENT.

TO WHOM IT MAY CONCERN

This is to certify that Mr. Kaule Jason Richard is a third year student of the school of Business and Management,he is enrolled as a student under the Bachelor of Business Administration program .

Mr. Kaule Jason Richard is currently carrying out a project research entitled **"Effect of Bank Rates on Small Scale Investiments. A Case Study of Owino/Kisenyi Millers,"** for which he needs sufficient data to be able to carry out his research to its logical conclusion . This office therefore, request for the necessary assistance to be accorded to him to obtain the requisite data from your organization.

DR. THOMAS OPIYO ODEGI.
Associate Dean, School of Business and Management.

& MANAGEMENT
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