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Factors Influencing the Borrower's Behaviour and Attitude towards Different Sources of Credit in Uganda: A Case Study of the Formal and Informal Lenders in Kampala

The study examined the factors influencing the customer's behaviour towards the different sources of credit services in Uganda. The case study was that of the formal and informal lenders in and around Kampala. The objective of the study was to establish the factors influencing the customer's continued consumption of informal lenders' services amidst a blossoming formal lenders sector in Uganda. The research also aimed at evaluating the importance of these factors in explaining the co-existence of formal and informal financial service providers in Uganda. The study used primary data from a group of selected respondents from both the clients of the formal and informal lenders and the management of lending financial institutions. Two kinds of questionnaires were issued; one for clients and another for the management of the financial institutions. Data were collected by administration of a structured questionnaire to the different respondents that had been randomly selected. Analysis of data was done using descriptive and analytical methods with cross tabulation. From the study, it is noted that there is a number of factors that influence customer's choice of informal lenders over the formal lenders. The factors range from the loan application terms of lenders to other exogenous factors like the relationship and distance between the lenders and the borrowers, the borrower's knowledge of the facilities offered by the lenders or lack of it. The loan application terms and conditions that influence a customer's choice of informal lenders over the formal lenders include loan amount, flexibility of loan terms, loan product type, loan processing time, collateral requirement, loan repayment period, loan purpose and transactional charges of the formal lenders. Loan pricing although very important in facilitating competition between the formal lenders, it was found not to be influential in preventing borrowers from acquiring credit from the informal lenders. Actually, borrowers rated the interest rates of the informal lenders very high yet they went ahead to obtain credit from them. The study recommends diversification of loan products, increase in flexibility of loan terms and processing speed, review in collateral requirements, and need to increase product awareness by the formal lenders. The study also recommends fiscal policy review by consideration of regulations for the informal money lenders.

Key words: Credit, Borrower, Behaviour, Attitude, Lender