RELATIONSHIP LENDING, TRANSACTION COSTS AND THE LENDING INTEREST RATES OF COMMERCIAL BANKS IN UGANDA

BY

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Declaration

I, Henry Sseggujja, declare that this dissertation is my own work and that it has never been presented for a degree award at any other university.

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Date:.....22/10/2010.....

Approval

This is to certify that this dissertation has been submitted with my approval as university supervisor.

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DEDICATION

I dedicate this entire effort to my late Sister Jacinta Rose. We dearly Miss You

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I hereby disassociate all the people acknowledged above from any responsibility for the opinions expressed in this text. Any errors and omissions, where they exist are solely mine.

Henry Sseggujja

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ACRONYMS

BOU	Bank of Uganda
BID	Business in Development
UIA	Uganda Investment Authority
URA	Uganda Revenue Authority
MDIs	Micro Deposit Taking Institutions
UBOS	Uganda Bureau of Statistics
R/ship	Relationship
Credit Admins.	Credit Administrators
PSFU	Private Sector Foundation Uganda
CVI	Content Validity Index
SPSS	Special Program for Social Scientists
TCE	Transaction Cost Economics
KYC	Know Your Customer
CDSs	Credit Default Swaps

ABSTRACT

Lending has been, and is still the mainstay of banking business in emerging economies like Uganda. The commercial bank lending interest rates in Uganda have persistently remained high. The study aimed at understanding the relationship between relationship lending, transaction costs and lending interest rates. To achieve this aim, a transactional cost approach in terms of opportunism, assets specificity, frequency, uncertainty, governance set-up costs and relational lending technology in terms of duration, multiple banking, pre-existence and trust were examined to determine their effect on lending interest rates.

Primary data was collected from 14 commercial banks in Uganda and their borrowers. A sample of 225 was drawn from the population of 566 medium and large sized borrowing enterprises and bank employees of credit departments. A total of 151 questionnaires were returned answered and data was analyzed using SPSS.

The study findings reveal that relationship lending has a significant negative effect on lending interest rates and transaction costs. They further reveal that transaction costs have a significant positive effect on the lending interest rates charged by commercial banks in Uganda. Therefore the study draws a conclusion that relationship lending and transaction costs have a role in commercial bank loan pricing and contracting process or decision making.

Since the findings indicate that loan interest rates are more sensitive to transaction costs than relationship lending, the study recommends that commercial banks consider employing relational governance structures coupled with greater borrower-lender interactions to eliminate opportunism and thus minimize transaction costs incurred.

CHAPTER ONE

INTRODUCTION

1.0 Background of the study

Financial markets and institutions are central to the process of economic growth (Mugume, 2008). The provision of credit has increasingly been regarded as an important tool for raising the incomes of populations, mainly by mobilizing resources to more productive uses (Atieno, 2001). Banks provide credit to sustain manufacturing, agricultural, commercial and service enterprises. These, in turn, provide jobs thus enhancing purchasing power, consumption and savings. Bank failures, especially in such settings, send shock waves affecting the social fabric of the country as a whole and as experienced recently, have the potential of a quick global impact (Emel, Oral, Reisman and Yolalan, 2003). The lending function is thus considered by the banking industry as the most important function for improving resource allocation and investment opportunities. Therefore commercial banks have an important role in the financing of the economies, as they do most of the financial intermediation between depositors and borrowers (Wei-Shong & Kuo-Chung, 2006; Byarugaba, 2005).

An intermediary is delegated the task of costly monitoring of loan contracts written with firms who borrow from it and therefore has a gross cost advantage in collecting this information (Diamond, 1984). The costs of acquiring information, augmenting liquidity (liquidity risk) and making transaction creates incentive for the emergence of financial institutions. They ameliorate the problems created by information asymmetries and transaction cost frictions (Levine, 1997).

Transaction costs therefore are the resultant friction that arises in undertaking transactions among exchange parties (Nalukenge, 2003) that is caused by the opportunistic behaviour of clients (Gray, 1993). The most critical factors influencing transaction costs arising from bounded rationality and opportunistic behaviour of agents in a financial exchange are the degree of asset specificity, frequency of a transaction, governance costs and level of uncertainty associated with the exchange (Williamson, 1981, 1985, 2003 & 2007). In this sense, relationship lending and the relevant governance structure are viewed as some of the mechanisms by which frictions in the economic exchange of goods and services among agents can be reduced (Nalukenge, 2003; Williamson, 1998; Husted & Folger, 2004). Trust may therefore play an important role in reducing agency problems. However, the role of trust in the relationship between entrepreneurs and banks has as yet only been alluded to and has not been explored in depth (Howorth and Moro, 2006).

Additionally transaction costs add to the real rate of interest giving a very high norminal rate of interest. Consequently they are not proportional to the amount lent compared to the cost of funds and the cost of defaults and are therefore a major contributor to high lending interest rates (Shankar, 2007). Lending interest rates arise because borrowers who don't have money and want it must pay back interest on top of the borrowed principle amount to the lending bank (Kanyegirire, 2003, p.1). Financial intermediaries charge an interest rate to compensate them and commensurate with the high transaction costs during the disbursement of loan funds thus making loans very expensive (Nalukenge, 2003; Bwire & Musiime, 2008).

Therefore transaction costs have an effect on the lending interest rate of loans (Gambacorta, 2004). Indeed, notwithstanding the fastest growing rate of Uganda's financial sector with an

assortment of about 21 commercial banks, further expansion is being dragged by high lending interest rates and is witnessed in appendix one, two and three.

Since the beginning of 2003, lending interest rates have been on the upward trend and at times as high as 48% per annum in some MDIs. Such high rates have adverse impact on the financial sector in the form of impairing the borrowers' capacities to service the loans as accumulated interest often become unbearable, deter business from borrowing money, slow down expansion, doubly increase the price and productivity costs of a business operator and discourage consumer spending (Tumusiime-Mutebile, 2006; Beck & Hese, 2006; Kanyegirire, 2003, p.2; Biryabarema, 2007, p.1; Zakumumpa, 2008, p.1).

Therefore the profitability of banks during the period is inconsistent with the reasons they advance for the high lending rates (B.O.U, 2006/2007). There is little wonder therefore that the interest rates charged by the commercial banks has been a sensitive and recurring policy issue and one which requires an objective examination (Robinson, 2002).

1.2 Statement of the problem

Despite the various reforms done by the Central Bank like the abolition of its control over interest rates and credit, and licensing new commercial banks, the financial industry and banking sector in particular has continued to have high lending interest rates. Uganda still stands alone in the East African region with the highest lending interest rates ranging between 21 per cent and 25 per cent (Nannyonjo, 2002; Laddu, 2008, p.20; Osere, 2008, p.21). Such high lending rates impair the borrowers' capacities to service the loans as accumulated interest often become unbearable, deter business from borrowing money, slow down expansion (Kanyegirire, 2003, p.2; Biryabarema, 2007, p.1; Zakumumpa, 2008, p.1). Worst still, many Economists blame

the weak and inefficient financial institutions in developing countries as the prime cause of financial crisis. The major element of this weakness is presumed to be the case of banks extending loans with undue consideration of factors (Suwanaporn, 1996) like transaction costs and the bank-borrower relationship.

Even though contracting and cost-minimizing governance structures have often served as effective tools for solving opportunistic behaviour of borrowers in developed countries, by themselves may not be sufficient tools to solve the opportunism problem among the business borrowers in developing countries (Nalukenge, 2003). This raises curiosity and hence the need to investigate whether the high lending rates are due to the transaction costs that the commercial banks in Uganda incur (Rindfleisch & Heide, 1997; "Why banks don't lend," 2007, p.25) and if relationship lending serves to reduce these problems.

1.3 Purpose of the study

The purpose of the study was to establish how relationship lending and transaction costs affect lending interest rates charged by Commercial banks in Uganda.

1.4 Objectives of the study

The objectives of the study are:

i. To establish the constituents of relationship lending in commercial banks.

ii. To establish the constituents of transaction costs in commercial banks.

iii. To establish the relationship between relationship lending and lending interest rates of commercial banks.

iv. To establish the relationship between transaction costs and relationship lending.

v. To establish the relationship between transaction costs and lending interest rate of commercial banks.

1.5 Research questions

The research questions that are going to guide the study are:

i. What constitutes relationship lending in commercial banks?

ii. What constitutes transaction costs in commercial banks?

iii. What is the relationship between relationship lending and lending interest rates of commercial banks?

iv. What is the relationship between transaction costs and relationship lending?

v. What is the relationship between transaction costs and lending interest rates of commercial banks?

1.6 Scope of the study

Conceptual scope

Relationship lending in terms of the multiple banking relationships, degree of trust, pre-existing relationship and its duration, is the independent variable and the mediating factor being transaction costs in terms of asset specificity, frequency of transactions, governance costs, opportunism, and uncertainty. The dependent variable is the lending interest rates of commercial banks in Uganda. The researcher considered the commercial banks in Uganda.

Geographical scope

The study was carried out in Kampala district and the researcher considered the commercial banks' head offices and medium and large sized enterprises. Kampala district was selected

because it hosts all the head offices of commercial banks and in turn the credit departments are situated at the head offices. While medium and large sized enterprise have their largest presentation in Kampala also.

1.7 Significance of the study

Commercial banks will be able to understand the impact of relationship lending and transaction costs on lending interest rates and which lending technology they can deploy to minimize on the high transaction costs.

The study of transaction costs in credit markets provides a foundation for the design of policies and institutional arrangements that lower transaction costs (Levine, 1997).

Like any other research the findings will be used as a reference as far as further studies are concerned and spark off further research in relationship lending and transaction costs with specific interest in commercial banks.

It will enable the researcher to fulfill the partial requirements for the Award of the degree by Makerere University.

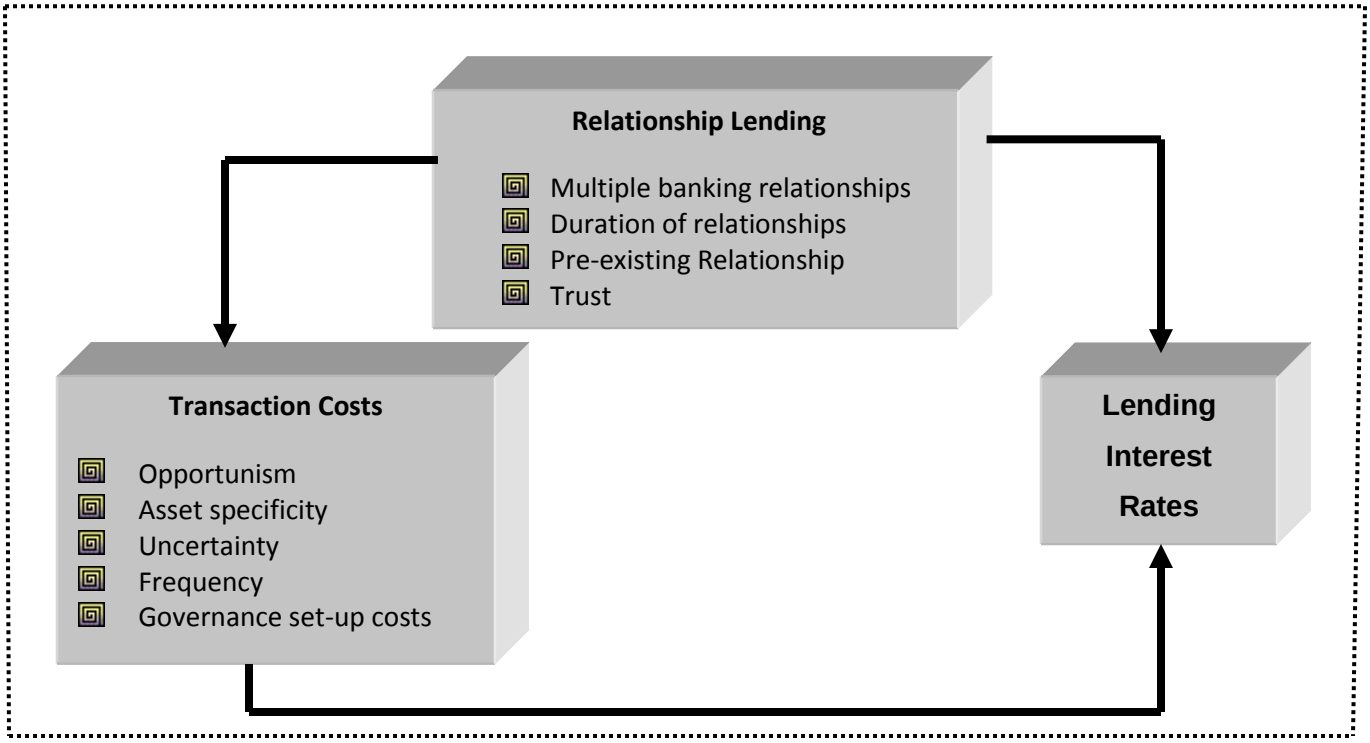
The researcher will be able to understand how the interest rates charged on loans are impacted by the transaction cost and relationship lending factors and how effective as an institution they can be in reducing exchange hazards, that is, opportunistic behaviour of borrowers.

1.8 The conceptual framework

The following conceptual framework developed after review of existing literature was used to investigate the research questions. It shows relationship lending as the independent variable and from the works of Degryse & Cayseele (1998), Berger & Udell (2002) and Nalukenge (2003), relationship lending affects transaction costs (intermediate variable) and the lending interest rate (dependent variable) variables.

Literature suggests several possible indicators to measure relationship lending, such as their duration, multiple banking relationships, degree of trust and its pre-existence (Memmel, Schmeider & Stein, 2007; Petersen & Rajan, 1994; Giannetti, 2009; Elsas, 2003; Berger & Udell, 1995; Ongena & Smith, 1998). According to Williamson (1981 & 1985), the critical dimensions for describing transaction costs are the level of uncertainty associated with the exchange, the degree of asset specificity, transaction frequency, and the opportunism behavior of the transactors. Their behaviour determines the form of governance structure adopted by a particular firm (Aubert & Weber, 2001; Williamson, 1998) and in turn the level of governance setup costs such as the costs of writing contracts (Dyer, 1997). Gambacorta (2004) further notes that these transaction costs have a positive effect on the interest rate on loans.

Figure 1.2 **Conceptual Model**



Developed after review of literature of Williamson (1981, 1985, 1998, 2003 & 2007); Rinfleisch & Heide (1997); Dyer (1997); Shankar (2006); Nalukenge (2003); Akol (1999); Saito & Villanueva (1981) and Gambacorta (2004); Degryse & Cayseele (1998); Blackwell & Winters (1997); Berger & Udell (1995); Howorth & Moro (2006); Mayer, Davis & Schoorman (1995) and Brick, Kane & Palia (2004).

1.9 Organization of the Report

In what remains, the rest of the study is structured as follows: Chapter Two discusses the literature review while the methodology that has been adopted and applied in the study is given in Chapter Three. The study findings are drawn in Chapter Four while the conclusions and Policy recommendations arising from the findings are given in Chapter Five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter critically presents the review of the literature related to the study variables, which includes the relationship lending, transaction costs and lending interest rates.

2.2 Relationship lending

Access to financial services, notably credit is particularly important from a standpoint of human and economic development (Mendoza & Vick, 2008). It is common practice in credit financing for close ties to exist between firms and banks, termed relationship lending. Relationship lending exists all over the world and is regarded as a potentially vital instrument linking interests of borrowers with those of lenders (Memmel, Schmeider & Stein, 2007).

Elsas (2003) defined relationship lending as a long-term implicit contract between a bank and its debtors. He further noted that due to the information production and repeated interaction with the borrower overtime, the relationship bank accumulates private information and thus establishing close ties between the bank and the borrowers. While Boot (2000) defines relationship banking as the provision of financial services by a financial intermediary that:

- Invests in obtaining customer specific information, often proprietary in nature and
- Evaluates the profitability of those investments through multiple interactions with the same customer over time or across products

In western countries, the term relationship banking is viewed as being a favorable practice in which the banks are engaged in information-intensive relationships with customers and committed to keep credits available to them. However, in the wake of the financial crisis in Asia, the term "relationship banking" is sometimes used interchangeably with the term related lending or connected lending (Suwanaporn, 1996). Habyarimana (2003) in his study of the benefits of banking relationships: evidence from Uganda's banking crisis pointed out that if banking relationships contain private and non-transferable information about the creditworthiness of a firm, then the loss of a banking relationship has implications for the firm's ability to obtain external financing. In particular, uninformed lenders are less likely to extend financing to the affected firm.

A prospective lender is more likely to extend credit to a firm that has pre-existing savings accounts and financial management services with them (Cole, 1998). The existence of a prior relationship is important (Dahiya, Saunders, & Srinivasan, 2003) and banks favor firms with pre-existing banking relationships at the time of loan renewal and approval (Sohn & Choi, 2004; Chakravarty & Yilmazer, 2008). This prior relationship is favorable for a loan applicant because it provides more information about the applicant for the bank. Additionally this prior loan relationship gives the bank additional information about the applicant and small banks rely more heavily on it as it provides insights into the character of a borrower (Cole, Goldberg & White, 2004). Similarly a potential lender is more likely to extend credit to a firm with which it has a pre-existing relationship as a source of financial services. The variables relating to pre-existing relationships are checking accounts, savings accounts, loans and financial management services (Cole, 1998).

The role of the loan officer (credit administrator or relationship officer) is critical in relationship lending. There is relatively little empirical research on the role played by the loan officer in relationship lending. If the loan officer plays such an important role in relationship lending, then we would expect to see a link between loan officer attributes and activities, and the production of soft information. He plays a key role in both producing soft information and the provision of relationship lending. Thus, the capacity of the loan officer to produce soft information is critical in relationship lending. Actually banks that delegate more authority to their loan officers make more relationship loans and avoid the dilution of soft information by transmitting it through layers of organizational hierarchy (Uchida, Udell & Yamori, 2008).

Although most bank lending is allocated to large companies, these companies have various funding sources in addition to domestic bank borrowing. But on the other hand, medium sized firms have a major difficulty with financing and bank borrowing (Hamada, 2008). They seem to suffer from limited access to external financial resources all over the world and Banks are usually reluctant to provide credit to this type of enterprises. This behaviour is due to the relatively limited publicly available information about medium enterprises and the legal accounting requirements for these enterprises being low, so that managers of medium enterprises have only small incentives to invest in detailed information practices. Therefore because reliable information on medium sized enterprises is rare and costly for financial intermediaries, they compensate for this by choosing relationship lending as the appropriate lending technique (Baas & Schrooten, 2005).

The empirical literature suggests several possible indicators to measure relationship lending, such as the duration of a bank-borrower relationships and the number of lending relationships (Memmel, Schmeider & Stein, 2007**)**. Firms with multiple sources of financial services are less likely to receive credit and private information generated about such firms by a financial institution is less valuable when the firm deals with multiple sources of financial services (Cole, 1998). However on the other hand, multiple banking relationships may reduce the lock-in problem. In that having a relationship with more than one lender, a firm can reduce the possibility for its incumbent bank to exploit a monopolistic position (Chakravarty & Yilmazer, 2008).

Petersen and Rajan (1994) also point out an important dimension of a relationship lending as its duration. The longer a borrower has been servicing its loans, the more likely the business is viable and its owner trustworthy. According to Brick, Kane and Palia (2004), longer relationships build trust and lessen information asymmetries. Trust is an individual's behavioral reliance on another person under a condition of risk (Curral & Judge, 1995; Tilly, 2004). It is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party (Mayer, Davis & Schoorman , 1995).

Mayer, Davis and Schoorman (1995) further noted that ability, benevolence and integrity are important to trust. That risk is inherent in the behavioral manifestation of the willingness to be vulnerable. Therefore trust leads to risk taking in a relationship and the form of the risk taking depends on the situation.

On the other hand Howorth and Moro (2006) pointed out that trust depends on desire, need, risk involved and interest as well as a specific kind of relationship between the parties. They further noted that as the levels of trust increase, the relationship also strengthens.

The strength of the customer-bank relationship can be approximated by the number of institutions providing finance for the borrower or the duration of the relationship (Jimenez & Saurina, 2004). Giannetti (2009) and Elsas (2003) emphasize the duration of a bank-borrower relationship as the most common proxy for relationship lending and reflects the degree of relationship intensity over time. This is further supported by studies carried out by Berger and Udell (1995).

Further still the intensity of a relationship is measured by the number of financial institutions that the firm borrows from, in which the intensity is highest if a firm uses only one bank (Jiangli, 2004). In this regard, the number of bank relationships captures the possibility for bank to realize the economic benefit associated with the relationship (Giannetti, 2009). While Ongena and Smith (1998) point out the duration as a measure of the strength of a bank relationship. That as the duration lengthens, the bank gets an opportunity to observe, learn and utilize the private information about its customer. However when a firm has a relationship with several banks, none of them can monopolize their information on the borrower's quality (Jimenez & Saurina, 2004).

Despite the perception of its importance**,** the value in a modern economy of a close relationship between the bank and customer is unclear. Many of today's financial transactions are executed

via automated and anonymous markets that require little relationship – building (Ongena & Smith, 1998). While Elsas and Krahnen (1998), found no significant influence of contract duration on the likelihood of relationship termination. They further noted that this is inconsistent with duration being a good measure of relationship intensity.

Worst still there is a remarkable absent in the literature a fully satisfying analysis of precisely how bank-borrower relationships work. It is generally left unspecified whether the primary relationship is between the bank and the firm or between the loan officer and the firm's owner, who within the bank acquires and stores the relationship information, and how this information may be disseminated within the bank. Relationship information is often "soft" data and may be difficult to quantify, verify, and communicate through the normal transmission channels of a banking organization (Berger & Udell, 2002).

Contrary, bank financing often involves a long-term relationship that may help attenuate these information problems. They solve this by producing and analyzing information and setting loan contract terms, such as the interest rate charged to improve borrower incentives. Relationship lending may play a significant role in this process as they may acquire private information over the course of a relationship and use this information to refine the contract terms offered to the borrower (Berger & Udell, 1995). This information becomes a valuable input in the reduction of imperfections about the credit worthiness of a borrower and this reduces transaction costs (Nalukenge, 2003).

2.3 Transaction costs

The economic importance of transaction costs is widely recognized. Transaction costs reflect the costs of economic organization both outside the firm and inside the firm and are one means by which one can measure the efficiency of different institutional designs in achieving economic outcomes in particular environments (Polski & Kearney, 2001).

Many governments and international financial institutions have tried to address the problems of high transaction costs (A.P.E.I.S, 2007). Therefore the existence of transaction costs in loan market implies that financial institutions must become more actively involved in monitoring activities and strategic behaviour of firms because financial institutions invest substantial amounts of funds in business firms (Williamson, 1985).

According to Williamson (1981), a transaction is regarded as a basic unit of analysis. He further clarified that it occurs when a good or service is transferred across a technologically separable interface with one stage of activity terminating and another beginning. Transaction costs refer to the cost of carrying out a transaction by means of an exchange on the open market and are associated to the division of work (Rotke and Gentgen, 2008). In empirical studies, transaction costs are not directly measured, but rather proxies such as uncertainty, transaction frequency, asset specificity, opportunism and so on are used instead. These are believed to critically affect the costs of transactions (Pessali, 2006).

Transaction costs in credit markets therefore are indirect financial costs generated by various processes, including the costs of searching and collecting relevant information. They are indirect costs caused by frictions in the flow of credit funds, preventing credit markets from reaching efficient market equilibrium (Nalukenge, 2003). Consequently transaction costs of lending consist of the costs of administering credit, coordination costs and the costs of the risk of default. It's further highlighted that administrative costs are those, which are directly attributable to the processing, delivering and administering of loans while coordination costs are those resources a financial institution dedicates to ensuring that clients adhere to terms stipulated in loan contracts (Saito & Villanueva, 1981). According to Polski and Kearney (2001), banking activities generate two types of transaction costs, which are subject to different political and economic influences. They further note that one type of transaction costs, interest expense, reflects the costs of funds for banking activities and the second type, noninterest expense, reflects the costs of information and co-ordination. Shankar (2007) went further to break down transaction costs into indirect and direct. Direct transaction costs consisting of training costs, cost of direct administrative activities and cost of monitoring. He further noted that indirect transaction costs include allocated fixed costs of the branch office, regional office and head office, depreciation and taxation costs.

According to Dyer (1997), transaction cost analysis views the firm as a governance structure. However out of the many attributes describing transactions, the three main dimensions that are instructive to the study of commercial transactions are the frequency with which transactions recur, the uncertainty (disturbances) to which they are subject, and the condition of asset specificity (Williamson, 1998). Asset specificity refers to a condition where the physical or human resources invested to support a particular transaction cannot be easily redeployed to alternative uses without a significant loss in value (Husted and Folger, 2004; Zhao, Luo & Suh, 2004).

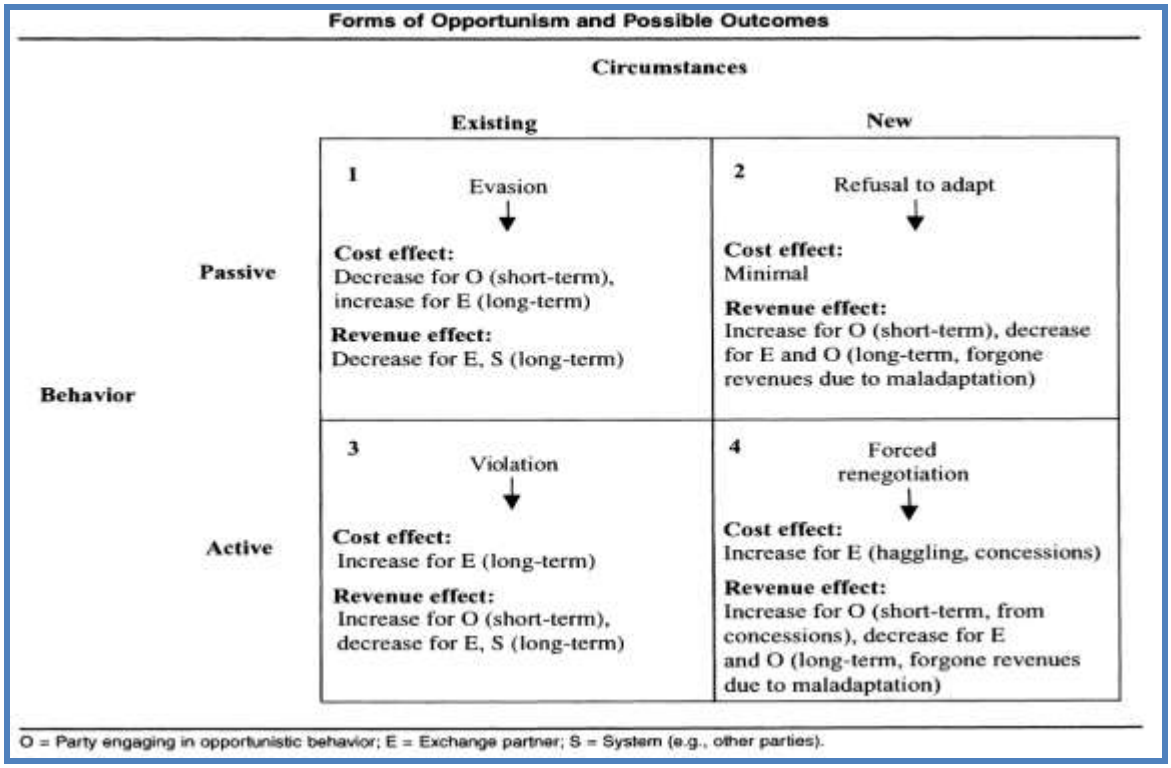
Additionally, asset specificity takes a variety of forms; physical assets, human assets, site specificity, dedicated assets, brand name, capital, temporal specificity and to which individuated governance structure responses accrue. Therefore transaction cost theory rest on the interplay of opportunism, asset specificity, transaction frequency and uncertainty dimensions (Rindfleisch & Heide, 1997; Williamson, 1981).

The interaction of environmental characteristics (asset specificity, uncertainty and complexity) with behavioral attributes (bounded rationality and opportunism) creates transaction costs (Moschandreas, 1997). Similarly if the risk of opportunism in a particular relationship is sufficiently high, considerable resources must be spent on control and monitoring, resources that could have been deployed more productively for other purposes. In addition, the risk of opportunism may produce substantial opportunity costs in the form of "valuable deals that won't be done". Opportunism in the form of quality shirking means that a party is withholding efforts, or passively failing to honor an agreement (Wathne & Heide, 2000). Williamson (1975), (1985) and (2000) defines opportunism as self-interest seeking with guile. He further added that guile may take instances of lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse.

Opportunism can be manifested in two forms of active and passive (Figure 2.2.1). Both forms depend on whether a particular behavior takes place within existing exchange circumstances or whether the original circumstances have changed as a result of exogenous events. Passive opportunism takes the form of shirking, or evasion of obligations, forms of inflexibility or refusal to adapt while active opportunism is the act of engaging in behaviors that were explicitly or

implicitly prohibited. Nonetheless, opportunism has been linked to various forms of vulnerability and these can summed up under information asymmetry and the lock-in condition (Wathne and Heide, 2000).

Figure 2.2.1: Forms of opportunism and possible outcomes



Source: Wathne & Heide (2000)

The unpredictability in business environments makes opportunism difficult to control because a firm would find it difficult to write fully contingent contracts (Sako & helper, 1996). John and Weitz (1988) fundamentally implicate uncertainty as an inability to predict contingencies that creates problems in writing contracts. They further add that when unforeseen contingencies arise, market contracts experience strain in adapting to the changed circumstances because

opportunistically inclined parties can try to interpret unspecified clauses to their own advantage. However, the greater the degree of environmental uncertainty, the greater the benefit from being able to trust a customer, because trust facilitates decision-making in unanticipated circumstances (Sako & helper, 1996).

Environmental uncertainty refers to "unanticipated changes in circumstances surrounding an exchange", that is to say the unpredictability nature of the external environment in terms of volume, technology and technical complexity of the products being offered. However the problem created by environmental uncertainty is handled more efficiently by creating a governance structure that permits adaptation within an ongoing relationship, rather than by switching to a new partner if changes need to be made (Rindfleisch & Heide, 1997).

Similarly Williamson (1985) noted that behavioral uncertainty arises from the difficulties associated with monitoring the contractual performance of exchange partners. That is to say the degree of difficulty associated with assessing the performance of transaction partners (Williamson, 1985)

Therefore the upshot is that contracts are actually and effectively incomplete and exchange agreements must be governed (Boerner & Macher, 2006)**.** Since the risk of opportunism creates a need for formalized governance structures (Rindfleisch & Heide, 1997), then the principle governance problem is to implement a governance structure that provides sufficient safeguarding to secure the return of specific investments. It is assumed that the level of assets specificity

determines appropriate safeguards, and that the use of safeguards influences transaction costs (Buvik & Haugland, 2002).

Aubert and Weber (2001), Williamson (2003 & 2007) argue that as asset specificity and uncertainty increase, the risk of opportunism and in turn coordination cost also increase. Thus decision makers are more likely to choose a hierarchical governance structure. However increments in frequency, lead to the reduction in the comparative advantage of using market governance structures because the cost of hierarchical governance structures can be amortized across more instances of the transaction.

There are costs associated (costs of writing contracts) with constructing a governance structure or safe guard. The most prominent safeguard is the legal contract which specifies the obligations of each party and allows a transactor to go to a third party to sanction an opportunistic trading partner (Dyer, 1997). Therefore since high degrees of trust leads to lower levels of hierarchical governance (Williamson, 1985), then it can reduce transaction costs by eliminating both ex ante and ex post opportunism (Nalukenge, 2003).

Even still TCE advocates a governance form that can minimize the costs associated with governing and monitoring transactions **(**Zhao, Luo & Suh, 2004**).** Governance is the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realize mutual gains. One of the several alternative modes of governance includes market, hierarchical and hybrid contracting (Williamson, 1998). Firms thus adopt governance forms that

minimize the sum of transaction costs (Zhao, Luo & Suh, 2004**).** However, the governance design fails if it does not take into account the relationship between informal norms and formal structures. Further still transaction cost economics may lead people to use the wrong governance mechanism or the right mechanism either for the wrong reason or in the wrong way (Husted & Folger, 2004).

Worst still we encounter serious controversy among economists regarding the theoretical definition of transaction costs. Several economists have noted that the definition of transaction costs is elusive and contested. The concept has even aroused a certain degree of intellectual derision and bad names such as "a theoretical device" because there is a suspicion that almost anything can be rationalized by invoking suitably specified transaction costs (Schlag, 2007).

2.4 Lending interest rates

Price setting (interest rates) behaviors in banks is heterogeneous and is witnessed in the short run only. It is influenced by a wide range of micro and macro economic variables. These may be permanent and transitory changes in income, interest and credit risk, interest rate volatility, banks' liability structure and banks' efficiency. Interest rates on short-term lending if liquid and well-capitalized banks in Italy react less to a monetary policy shock while banks with a high proportion of long term lending tend to change their prices less (Gambacorta, 2004).

Lending interest rates are strongly linked with credit derivatives (credit default swaps) prices. Credit derivatives influence loan rates because they represent the opportunity cost of taking on

risk, thus a pricing benchmark. However, there are also several or rather important arguments against a strong relationship between the pricing of loans and CDSs. The bank-borrower relationship (and the bargaining power of both sides) may have a considerable influence on loan pricing decisions (Norden and Wagner, 2008).

2.5 Relationship lending and lending interest rates

The extant bank relationship research argues that establishing a lending relationship with a bank can reduce asymmetries of information and create value to the borrower. This value can move in the form of reduced interest rate for loans (Jiangli, 2004). As a result banks and borrowers form long-term relationships and such relationships have a positive value to both borrowers (it enables them to obtain lower interest rates on loans) and lenders (long-term relationships enables them to have valuable information about the borrowers) (Mutl, 2002).

According to Machauer and Weber (1998), a binding relationship is achieved in a monopoly situation, for example when the bank is the only financier of borrowers in a certain region. Another way is to build up an information advantage during a relationship which enables the bank to assess borrower risk more accurately than competing banks and thus offer lower loan prices to low risk companies than any other competitor. Therefore relationship lending is an information-intensive type of debt financing which can affect loan pricing (Suwanaporn, 1996). However the private information obtained by relationship lenders about borrowers gives them an "information monopoly". With this they could threaten not to prolong a loan, thereby enforcing relatively high interest rates **(**Memmel, Schmeider & Stein, 2007**).**

Bellouma, Naceur and Omri (2005) explained in their studies that there is a negative relationship between trust and cost of borrowing. While studies done by Petersen and Rajan (1994) note that the loan rate increases with the number of banks from which the firm borrows. Additionally Baas and Schrooten (2005) points out that relationship lending leads to high loan interest rates due to high monitoring costs. Similarly borrowers with longer relationships are monitored less frequently by lenders and as a result pay lower interest rates on average (Berger & Udell, 1995).

Farinha and Santos (2000) noted that longer relationships have a mixed impact on the interest rate charged. The length of a bank-firm relationship significantly increases the loan rate. That is a firm having a longer financial relationship pay a higher interest rate on their loans. Similarly the duration of a bank-borrower relationship affects interest rates (Boot & Thakor, 1994) and a stronger relationship in terms of longer relationship duration reduces loan interest rates (Arano & Breit, 2007). Whereas on the other side Petersen and Rajan (1994) noted that only firms with multiple banking relationships pay higher interest rates than those with a single relationship.

Similarly they provide empirical evidence on the effects of bank-borrower relationship on loan pricing for small firms in the United States. Their results suggest no significant influence. Contrarily, Berger and Udell (1995) who analyzed the same data set obtained significant results. They discovered that small firms with longer banking relationships borrow at lower rates. Consequently when a firm buys other products or performs most of its transactions from that bank, the interest rate on the loan significantly decreases (Degryse & Cayseele, 1998).

Suwanaporn (1996) also recognized that the ability of a bank to privately observe proprietary information about the borrower can cause a lock-in problem. In that the borrower cannot costlessly transfer to another lender what the bank already learned about it, which creates a switching cost for the borrower. The incumbent bank then gains monopoly power over the borrower through its informational advantage over competitors and which may be the reason for some banks to continually charge higher interest rates. Therefore relationship lending is a multi dimensional concept (Degryse & Cayseele, 1998).

2.6 Transaction costs and relationship lending

Trust has a key role in relationships and especially between entreprenuers and banks (Howorth and Moro, 2006). The establishment of relationships not only increases the level of trust of royal customers of a lending institution, but also creates a basis for lenders to establish the knowledge about the behaviour of their borrowers so that they can more accurately predict the repayment capabilities of their clients. A financial relationship that promotes long lasting continuity and trust between the transactors adds value to those economic relationships and exchanges where heavy investment is made in transaction-specific assets. In addition high degrees of trust complement loan contracts that are designed in the presence of information imperfections. This is because a loan transaction involves a promise to repay in the future where opportunism and other problems may prevent the fulfillment of the obligation. Thus it can be argued that trust can reduce transaction costs by eliminating both ex ante and ex post opportunism (Nalukenge, 2003). While on the other hand, high levels of monitoring and control suggest a low level of trust and could lead to less effort to exhibit trustworthy behaviour. Consequently trust mitigates adverse selection

and moral harzad, reduces screening and monitoring costs and this leads to increased profits (Howorth & Moro, 2006).

Curral and Judge (1995) and Zak and Knack (2001) similarly noted that trust is advantageous because it strengthens ties, speeds contract negotiations and generally reduces transaction costs. They further noted that trust between persons is a "relationship specific asset" that facilitates communication and reduces the necessity for organizations to use costly surveillance and control mechanisms. Therefore trust can reduce uncertainty about the future and is a necessity for a continuing relationship with participants who have opportunities to behave opportunistically.

Even though trust is an expectation held by an agent and this expectation reduces the uncertainty surrounding the borrower's actions, some conditions may prevent opportunism but not necessarily foster trust, while other factors which enhance trust may not necessarily constitute a safeguard against opportunism. Further still, uncertainty in business environments makes opportunism (behavioral uncertainty) difficult to control because a financial institution would find it difficult to write fully contingent contracts. Additionally, the greater the degree of environmental uncertainty, the greater the benefit from being able to trust a borrower, because trust facilitates decision-making in unanticipated circumstances. Therefore environmental uncertainty creates a scope for opportunism when there are relation-specific investments and behavioral uncertainty is reduced when opportunism is contained (Sako & Helper, 1996).

According to Gariga (2004), benefits outweigh the costs, that is, relationships generate value. Such value created is passed on to or shared with the borrower, through lower cost of borrowing and more flexible contract terms. Through close and continued interaction, a firm may provide a lender with sufficient information about the firm's affairs so as to lower the cost and increase the availability of credit (Petersen & Rajan, 1994). Jimenez and Saurina (2004) re-affirm this by noting that a close bank-borrower relationship might be associated with a lower level of screening on each individual loan. While the shorter the duration of loans the higher the administration costs and actually careful loan appraisal and supervision also contribute to the high administrative costs (Saito & Villanueva, 1981).

Further still, the effect of a pre-existing relationship is more likely to be negative when the size of the pre-existing loan is large and the screening costs of firms are low (Sohn & Choi, 2004). Additionally an established bank lending relationship allows the lender to renegotiate contract terms at low cost, thereby creating financial flexibility and reducing credit rationing (Ziane, 2001).

2.7 Transaction costs and lending interest rates

Despite the proliferation of banking services, the basic commercial lending process remains the lifeblood of commercial banks and other banking institutions (Altman, 1980). Banks are different from other commercial firms in that they produce financial services, the reward to which is an interest rate (Sarkar, 2002).

Recent research on credit markets in developing countries has focused on transaction costs in the lending process as the key to understand the reported phenomena of high interest rates (Ghatak, 1999) because they have been found to have a positive effect on the lending interest rate (Gambacorta, 2004; Akol, 1999; Saito & Villanueva, 1981). Therefore transaction costs add to the lending interest rate and are a major contributor to high interest rates on loans (Killawala, 1997-1998; Nalukenge, 2003). Shankar (2007) further pointed out that transaction costs of lending are not proportional to the amount lent.

Fernando (2006) in his study of understanding and dealing with high interest rates on micro credit acknowledged that interest charged on loans is the main source of income for institutions and because they incur huge costs, the rates are correspondingly high. Unfortunately, these high interest rates negatively affect the borrowers by reducing their incentive to take actions conducive to loan repayment and this leads to possibilities of credit rationing (Atieno, 2001).

During the past decade the structure of Uganda's banking system has been undergoing rapid and fundamental changes. However, Ugandan banks continue to operate in a very volatile macroeconomic environment, with high interest rates. The average interest rate spread (the difference between ex ante contracted lending and deposit interest rates) have been high and actually hit 20% over the years and are significantly higher than in other countries, including the average low-income Sub-Saharan African countries (Beck & Hesse, 2008). Worst still, Uganda stands alone in the East African region with staggering lending interest rates (Daily Monitor 19th June 2008) and have remained high despite intervention by Bank of Uganda, casting doubts over whether banks respond to monetary policy signals (New Vision, 31 March 2005). High credit

administration costs and operating costs of banks are pointed out as one of the factors behind the high cost of credit in Uganda (Daily Monitor, 17th June 2008).

High lending rates in Uganda reflect unsustainable levels of the budget deficit and high cost of doing business like utility, labour, and security (New Vision, 31st March 2005), discouraging consumer spending, persistent poverty and worst still new small business don't make it beyond the first year mark in developing economies (Nalukenge, 2003; Daily Monitor, 31st July 2008). For most people in Uganda, the incidence of high lending interest rates means that they will not be able to afford home loans, education and development loans (New vision, 13th March 2003) and thus hamper borrowing (Daily Monitor, 4th March 2008).

However the Ugandan banks claim and charge high lending interest rates because "Ugandan businesses" have no financial statements or if they exist the statements are hard to believe (Daily Monitor, 17th November 2007), making the loans risky and thus a high cost of recovery (The Weekly Observer, 1st-7th January 2009). In addition, the lack of access to efficient markets, horrible road networks and poor information technology infrastructure in rural areas are still prevalent and have therefore ensured that transaction cost of lending remain high (Daily Monitor, 12th June 2008).

2.8 Conclusion

As noted in the literature, lending rates have persistently been high in Uganda compared to other Sub Saharan African countries and despite the intervention of the Central Bank, their drastic

reduction is yet to be witnessed. Actually more than 70% of the business community in Uganda did not borrow from financial institutions during 2008 due to high lending interest rates. They instead cast doubt on the future direction of lending interest rates. Various reasons are fronted for their persistence and among them are the transaction costs of lending. These costs also seem to be on a continuous upward trend and thus affecting the lending interest rates directly.

However the relationship lending is believed to have the capabilities of containing these two variables (transaction costs of lending and lending interest rates) within the acceptable range. If this persistently high lending interest rate is not contained sooner, it may turn out to be a debacle for the entire financial system of Uganda.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the framework for data collection and analysis of the study. It covers the research design, sample design, study population, sample size, sources of data**,** research instruments, measurement of variables and limitation of the study.

3.2 Research design and Procedure

A cross-sectional research design was used, combined with descriptive and analytical research design. Also correlation and regression analysis was employed to establish the relationship between the variables (relationship lending, transaction costs, and lending interest rates). Credit administrator and relationship officers of commercial banks and finance managers who are responsible for the management of medium and large sized enterprises' dealings with commercial banks in Kampala were interviewed.

3.3 Target population

The target population considered was identified and divided into two categories in line with the confines of this study. These two categories are namely, the lenders (credit administrators and relationship officers of commercial banks) and the borrowers (medium and large sized enterprises). Commercial banks included those that are regulated (tier one) and licensed by Bank of Uganda to do financial institution business in Uganda as per FIA

(2004) (S.3(C)). While the medium and large sized enterprises comprised of those that employ more than 20 people and generate a minimum trade turnover of Ushs 700 million each financial year (East African Business Week, 28th June, 2009; Ssewanyana & Busler, 2007).

The population size for consideration in this study was drawn from 14 commercial banks, excluding the newly licensed commercial banks (they are yet to fully operationalise their internal structures) and the medium and large sized enterprises as reported in the business register report by UBOS (2006/07) coupled by the list of Top tax payers by URA (2006/07). Therefore a total of 566, disaggregated into 77 relationship officers and 189 credit administrators from the 14 tier 1 commercial banks and a total of 300 medium and large sized enterprises constituted the total population for the purposes of this study.

3.4 Sample size

From a total population of 266 credit administrators and relationship officers, and 300 business enterprises, we estimated the ideal sample size as per the four strata, using Krejcie and Morgan (1970). A summary of these is shown in table 1 and 2 below.

Table 3.1 Distribution of the sample for Relationship officers and Credit Administrators.

Number	Commercial Banks	Population Size		Sample Size	
		R/ship officers	Credit Admins.	R/ship officers	Credit Admins.
1	Stanbic	7	17	3	7
2	Stanchart	10	13	4	5
3	Centenary	3	33	1	13
4	Baroda	4	7	2	3
5	Tropical	3	9	1	4

6	Bank of Africa	6	11	2	4
7	Barclays	17	23	7	9
8	Citi bank	5	12	2	5
9	Crane	4	15	2	6
10	Cairo	2	8	1	3
11	Orient	3	6	1	2
12	Diamond Trust	5	10	2	4
13	National bank of Comm.	2	9	1	4
14	DFCU	6	16	2	6
	Total	**77**	**189**	**31**	**75**

Table 3.2 Distribution of the sample for Medium and Large sized Enterprises in Kampala

Business Categories	Population Size		Sample Size	
	Medium Sized Enterprises	Large Sized Enterprises	Medium Sized Enterprises	Large Sized Enterprises
Trade	62	33	25	13
Manufacturing & Construction	53	59	21	23
Services	51	42	20	17
Total	**166**	**134**	**66**	**53**

Source: UBOS & PSFU (2006/07), Uganda Business Register

3.5 Sampling design and procedure

The choice of 75 credit administrators, 31 relationship officers, 66 medium and 53 large sized enterprises was done through simple random sampling in order to give a representative view of transaction costs, relationship lending and lending interest rates in Uganda.

The name of each of the credit administrator, relationship officer, a medium and large sized enterprise was written on a piece of paper properly filled and put in a small paper box. The researcher then randomly picked 31 out of the 77 relationship officers, 75 out of 189 credit

administrators, 66 out of 166 medium sized enterprises and 53 out of 134 large sized enterprises.

Business Categories

The study used the following categories of businesses for easy analysis

Services*:* These included; Utilities, Hotel and Restaurants, Education, health and social works, community and social personal services and transport and communication business activities. However the study excluded business activities like mining, agriculture, and fishing because their business entities are insignificant in Kampala (Business register, 2006/07).

Trade*:* This included wholesale, retail trade entities, business services and insurance business.

Manufacturing and construction included food processing, construction and other manufacturing activities

3.6 Data sources and data types

The main source of data was primary using interview and self-administered questionnaires.

3.7 Data collection methods

Most of the data used in this study was sought based on a survey of views and judgments of key informants from a selected number of financial institutions, medium and large sized enterprises in Uganda. Therefore two self-administered questionnaires were used for data collection. The

questionnaires were designed according to the objectives of the study with close-ended questions and a few open-ended questions to ensure clarity of response on the themes of the study.

Finally secondary data from various sources was collected where necessary. In order to get more clarifications on unclear issues, the researcher used an interview method.

3.8 Measurement of variables

The principal independent variables of this study were factors influencing transaction costs and relationship lending. While the dependent variable was the lending interest rates of commercial banks in Uganda. The data collected about the variables was assessed for validity, reliability and consistency, to ascertain its goodness and dependability.

Statements and questions describing observable attributes of the variables were specified on the questionnaires and were rated on a 1-5 likert scale ranging from 1=strongly disagree to 5=strongly agree. Respondents answered the questions by checking alternatives which best reflected their views, judgments and experiences with relationship lending, transaction costs and lending interest rates. Qualitative responses were sought because given the fact that part of the respondents was drawn from the ever busy staff of commercial banks. It was therefore easy and faster to gather qualitative than quantitative data and in turn saved the respondents' time, hence improving the total response rate.

3.8.1 Transaction costs

This variable was measured using opportunism (Carson, Madhok and Wu, 2005; John, 1984)), assets specificity (Buvik & Haugland, 2002; Lai, Cheng, & Yeung, 2008), uncertainty (John & Weitz, 1998; Rindfleisch & Heidi, 1997), transaction frequency (Lai, Cheng, & Yeung, 2008) and governance set up costs (Buvik & Haugland, 2002).

3.8.2 Relationship lending

This variable was measured using duration (Suwanaporn, 1996; Boot, 1999; Machauer & Weber, 2000; Ewert & Schenk, 1998); and trust (Bellouma, Naceur & Omri, 2005; Curral & Judge, 1995). Also considered as dimensions under this variable were multiple banking relationships and pre-existing relationships as was applied by Nalukenge (2003).

3.8.3 Lending interest rate

The lending interest rate was determined in terms of the transaction costs and relationship lending (Akol, 1999; Gambacorta, 2004; Degryse & Cayseele, 1998; Shankar, 2007).

LIR = f (transaction costs, Relationship Lending)

3.9 Validity of the instruments

The validity of the study instruments was performed using the content validity index (CVI). The researcher distributed the questionnaires to two sets of experts, 10 financial managers whose

business enterprises have loans with banks and 10 credit administrators of four commercial banks to rate the relevance of questions. The CVI for all the experts was above 0.5, and therefore the questions were considered relevant.

3.10 Reliability of instruments

To ensure accuracy, internal consistency and completeness, reliability of the instrument was established using Cronbach's alpha coefficient test (Cronbach, 1946). The choice of this indicator was influenced by the simplicity and its prominence in transaction costs literature. As table 3.3 below shows, all the alpha (α) coefficients were above 0.5, which signified that the likert scales used to measure the study variables were consistent and therefore the study variables were reliable.

Table 3.3: Reliability Test

Variables	Cronbach α	
	Banks	Borrowing Business Enterprises
Relationship Lending		
Duration	0.60	0.74
Multiple Banking relationships	0.67	0.51
Pre-existing relationships	0.67	0.60
Trust	0.83	0.90
Transaction cost		
Opportunism	0.79	0.86
Asset specificity	0.79	0.74
Environmental uncertainty	0.67	0.78
Behavioral uncertainty	0.53	0.77
Governance set up costs	0.90	0.89
Transaction frequency	0.91	0.58
Lending interest rates		
Lending interest rates	0.83	0.70

Source: Primary data

3.10 Data Analysis

Data collected from the primary survey was complied, sorted, edited, classified, coded into a coding sheet and analyzed using Statistical Package for Social Scientists (SPSS). Descriptive statistics was used to describe the data, also correlation and regression analysis was used to determine the degree and significance of the relationship between relationship lending, transaction costs and lending interest rates.

3.11 Problems Encountered

There is little research done on transaction costs and relationship lending in developing countries, literature and measurement scales for the variables are scarce to be obtained. Nevertheless, the researcher endeavored to use the little literature available and supplemented it with one from developed countries to obtain the measures.

Conducting this study was a challenging activity especially in distributing and collecting questionnaires. Accessing credit administrators and relationship officers of commercial banks was extremely difficult. A lot of time and money was spent as the researcher tried to fix appointments with these bank officials. Similarly it was also difficult to zero down on the borrowing business enterprises of these banks. But with the assistance of senior bank officials, the researcher was able to identify the active borrowing business enterprises of the banks under investigation.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF THE FINDINGS

4.1 Introduction

This chapter contains the results and the interpretation of the responses from the field. The chapter is guided by the research objectives and the statistics were generated with the aim of generating responses that address the research questions.

In the beginning of the chapter are the sample characteristics of the respondents for banks staff and business enterprises that borrow from banks such as their gender, age, number of employees in the company, industry sector, annual turnover, bank facilities, company age, duration of banking relationship, education background of the respondents, criteria of selecting the banks, ownership of the business enterprises and its type, nature of ownership in the firm, management levels and titles of the respondents. Statistical tools such as Cross tabulations, descriptive and correlations were used to generate the results for this chapter. The presentation was guided by the following research objectives;

i. To establish what constitutes relationship lending in commercial banks.
ii. To establish what constitutes transaction costs in commercial banks.
iii. To establish the relationship between relationship lending and lending interest rates of commercial banks.
iv. To establish the relationship between transaction costs and relationship lending.
v. To establish the relationship between transaction costs and lending interest rate of commercial banks.

4.2 Background Characteristics

4.2.1 Gender by Respondent Category

The results show that the respondents from the medium sized firms, large scale firms and the banks comprised 20.5%, 34.4% and 45.0% respectively of the sample.

Table 4.2.1 Gender by Respondent Category

			Respondent Category			Total
			Medium Sized Firms	Large Scale Firms	Banks	
Gender	Male	Count	22	34	38	94
		Row %	23.4%	36.2%	40.4%	100.0%
		Column %	71.0%	65.4%	55.9%	62.3%
	Female	Count	9	18	30	57
		Row %	15.8%	31.6%	52.6%	100.0%
		Column %	29.0%	34.6%	44.1%	37.7%
Total		Count	31	52	68	151
		Row %	20.5%	34.4%	45.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The males comprised the greater proportion of the sample (62.3%) while the females comprised (37.7%). Among the males, the majorities were those working with larger scale firms (36.2%) and only 23.4% were working with the medium sized firms.

4.2.2 Number of employees of borrowing firms by Sector

Table 4.2.2 Number of employees of borrowing firms by Sector

			Number of employees of borrowing firms				
			50-99	100-499	Over 500	Not Sure	Total
	Distribution	Count			1	3	4
		Row %			25.00%	75.00%	100.00%
		Column %			7.70%	6.00%	4.9%
	Manufacturing	Count	1	3	2	13	19
		Row %	5.30%	15.80%	10.50%	68.40%	100.00%
		Column %	8.30%	37.50%	15.40%	26.00%	23.5%
	Construction	Count	1		1	3	5
		Row %	20.00%		20.00%	60.00%	100.00%
		Column %	8.30%		7.70%	6.00%	6.2%
	Power & Energy	Count		1	3	10	14
		Row %		7.10%	21.40%	71.40%	100.00%
		Column %		12.50%	23.10%	20.00%	17.3%
	Transport	Count	1	2	1	1	5
		Row %	20.00%	40.00%	20.00%	20.00%	100.00%
		Column %	8.30%	25.00%	7.70%	2.00%	6.2%
	Communication	Count		1		3	4
		Row %		25.00%		75.00%	100.00%
		Column %		12.50%		6.00%	4.9%
	Finance & Insurance	Count	3		2	7	12
		Row %	25.00%		16.70%	58.30%	100.00%
		Column %	25.00%		15.40%	14.00%	14.8%
	Hotel & Tourism	Count	1			1	2
		Row %	50.00%			50.00%	100.00%
		Column %	8.30%			2.00%	2.5%
	Government	Count				2	2

		Row %				100.00%	100.00%
		Column %				4.00%	2.5%
	Real-Estate & Business Services	**Count**			2	1	3
		Row %			66.70%	33.30%	100.00%
		Column %			15.40%	2.00%	3.7%
	Community, Social & Personal Services	**Count**	1		1	5	7
		Row %	14.30%		14.30%	71.40%	100.00%
		Column %	8.30%		7.70%	10.00%	8.6%
	Other	**Count**	3	1			4
		Row %	75.00%	25.00%			100.00%
		Column %	25.00%	12.50%			4.9%
Total		**Count**	11	8	13	49	81
		Row %	13.6%	9.9%	16.0%	60.5%	100.00%
		Column %	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Primary data

The results in the table above show that the majority of the banks' borrowers belong to the manufacturing sector (23.5%) and the least number (2.5%) to the government and hotel / tourism sectors. Among the manufacturing sector, 68.4% of the respondents are not sure of the number of employees they have, while 15.8% of the respondents believe borrowing firms belonging to this sector employ 100-499 people.

4.2.3 Number of Banks holding accounts for each borrowing firm by annual turnover

Table 4.2.3 Number of Banks holding accounts for each borrowing firm by annual turnover

			Annual turnover in Ugx					Total
			360Mn-2Bn	2Bn-3.6Bn	3.6Bn-5.2Bn	5.2Bn-6.8Bn	Over 6.8Bn	
Number of Banks holding accounts for each borrowing firm by annual turnover	0-1	Count	5	1	6			12
		Row %	41.7%	8.3%	50.0%			100.0%
		Column %	33.3%	9.1%	14.0%			14.5%
	2-3	Count	7	6	32	5	1	51
		Row %	13.7%	11.8%	62.7%	9.8%	2.0%	100.0%
		Column %	46.7%	54.5%	74.4%	83.3%	12.5%	61.4%
	4-5	Count		3			3	6
		Row %		50.0%			50.0%	100.0%
		Column %		27.3%			37.5%	7.2%
	Over 5	Count	3	1	5	1	4	14
		Row %	21.4%	7.1%	35.7%	7.1%	28.6%	100.0%
		Column %	20.0%	9.1%	11.6%	16.7%	50.0%	16.9%
Total		Count	15	11	43	6	8	83
		Row %	18.1%	13.3%	51.8%	7.2%	9.6%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority (61.4%) of the borrowers have accounts with 2-3 banks atleast and 83.3% of these borrowers have an annual turnover of Ug Shs Billion 5.2-6.8.

4.2.4 The Facilities offered by Bank(s) to borrowers by Company Age

Table 4.2.4 The Facilities offered by Bank(s) to borrowers by Company Age

			Company Age					Total
			0-5 yrs	6-10 yrs	11-15 yrs	16-20 yrs	Over 20 yrs	
The Facilities the Bank(s) offer borrowers	Mortgage	Count	1	2	5	3	3	14
		Row %	7.1%	14.3%	35.7%	21.4%	21.4%	100.0%
		Column %	11.1%	10.5%	29.4%	33.3%	10.3%	16.9%
	Term Loans	Count	7	9	11	5	18	50
		Row %	14.0%	18.0%	22.0%	10.0%	36.0%	100.0%
		Column %	77.8%	47.4%	64.7%	55.6%	62.1%	60.2%
	Leasing Facility	Count		1	1		2	4
		Row %		25.0%	25.0%		50.0%	100.0%
		Column %		5.3%	5.9%		6.9%	4.8%
	Overdraft	Count					4	4
		Row %					100.0%	100.0%
		Column %					13.8%	4.8%
	Trade Finance	Count		4		1		5
		Row %		80.0%		20.0%		100.0%
		Column %		21.1%		11.1%		6.0%
	Foreign Exchange Line	Count		1			1	2
		Row %		50.0%			50.0%	100.0%
		Column %		5.3%			3.4%	2.4%
	Derivatives line	Count		1				1
		Row %		100.0%				100.0%
		Column %		5.3%				1.2%
	Brokerage	Count		1				1
		Row %		100.0%				100.0%
		Column %		5.3%				1.2%
	Other	Count	1				1	2
		Row %	50.0%				50.0%	100.0%
		Column %	11.1%				3.4%	2.4%
Total		Count	9	19	17	9	29	83
		Row %	10.8%	22.9%	20.5%	10.8%	34.9%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the most sought after (60.2%) bank loan product by borrowers is the term loan and followed by mortgages at 16.9%. Among the term loans, 36% of the borrowing firms have been in existence for over 20 years.

4.2.5 Duration of banking relationship by category of the borrowing firms.

Table 4.2.5 Duration of banking relationship by category of the borrowing firms

			CATEGORY OF BORROWING FIRMS		Total
			Medium Sized Firms	Large Scale Firms	
Duration of banking relationship	Less than a year	Count	12		12
		Row %	100.0%		100.0%
		Column %	38.7%		14.5%
	1-2 years	Count	8	3	11
		Row %	72.7%	27.3%	100.0%
		Column %	25.8%	5.8%	13.3%
	3-4 years	Count	9	14	23
		Row %	39.1%	60.9%	100.0%
		Column %	29.0%	26.9%	27.7%
	Over 5 years	Count	2	28	30
		Row %	6.7%	93.3%	100.0%
		Column %	6.5%	53.8%	36.1%
	Not Sure	Count		7	7
		Row %		100.0%	100.0%
		Column %		13.5%	8.4%
Total		Count	31	52	83
		Row %	37.3%	62.7%	100.0%
		Column %	100.0%	100.0%	100.0%

Source: Primary data

The results above indicate that the majority of the borrowing firms have been banking with the commercial banks for over 3-4years and 60.9% of these firms belong to large scale firms while 39.1% of them are medium sized firms.

4.2.6 Education Background by Respondent Category

Table 4.2.6 Education Background by Respondent Category

			Respondent Category			Total
			Medium Sized Firm	Large Scale Firm	Bank	
Education Background	Certificate	Count	1		1	2
		Row %	50.0%		50.0%	100.0%
		Column %	3.2%		1.5%	1.3%
	Diploma	Count	2	11	3	16
		Row %	12.5%	68.8%	18.8%	100.0%
		Column %	6.5%	21.2%	4.4%	10.6%
	Bachelors Degree	Count	23	36	51	110
		Row %	20.9%	32.7%	46.4%	100.0%
		Column %	74.2%	69.2%	75.0%	72.8%
	Masters	Count	4	5	13	22
		Row %	18.2%	22.7%	59.1%	100.0%
		Column %	12.9%	9.6%	19.1%	14.6%
	PhD	Count	1			1
		Row %	100.0%			100.0%
		Column %	3.2%			0.7%
Total		Count	31	52	68	151
		Row %	20.5%	34.4%	45.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results showed that the most dominant qualification is the Bachelors Degrees (72.8%) while only 0.7% of the sample held PhDs and Certificates (1.3%). It was observed further that it was the most dominant among the Bank staff (75.0%), medium sized firms (74.2%) and large scale firms (69.2%).

4.2.7 Number of customers by institution

Table 4.2.7 Number of customers and Respondent Category

			Respondent Category			Total
			Medium Sized Firm	Large Scale Firm	Bank	
No of customers	Less than 1000	Count	6	2		8
		Row %	75.0%	25.0%		100.0%
		Column %	19.4%	3.8%		5.3%
	1001-3000	Count	1	3	4	8
		Row %	12.5%	37.5%	50.0%	100.0%
		Column %	3.2%	5.8%	5.9%	5.3%
	3001-5000	Count	3	2	1	6
		Row %	50.0%	33.3%	16.7%	100.0%
		Column %	9.7%	3.8%	1.5%	4.0%
	Over 5000	Count	7	8	52	67
		Row %	10.4%	11.9%	77.6%	100.0%
		Column %	22.6%	15.4%	76.5%	44.4%
	Not Sure	Count	14	37	11	62
		Row %	22.6%	59.7%	17.7%	100.0%
		Column %	45.2%	71.2%	16.2%	41.1%
Total		Count	31	52	68	151
		Row %	20.5%	34.4%	45.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority of the banks were reported to have Over 5000 customers (76.5%) while in addition, among the large-scale firms, only 15.4% of the large-scale firms had over 5000 customers. Furthermore, it was observed that among the Medium Sized Firms, Only 22.6% had Over 5000 customers.

4.2.8 Criteria for selecting Bank by Category

Table 4.2.8 Criteria for selecting Bank by Category

			Category		Total
			Medium Sized Firm	Large Scale Firm	
Criteria for Selecting Bank	Strength of its Brand or Image in the communities	Count	7	21	28
		Row %	25.0%	75.0%	100.0%
		Column %	22.6%	40.4%	33.7%
	Quality of its customer care	Count	10	6	16
		Row %	62.5%	37.5%	100.0%
		Column %	32.3%	11.5%	19.3%
	Turnaround time	Count	3	17	20
		Row %	15.0%	85.0%	100.0%
		Column %	9.7%	32.7%	24.1%
	Favorable Interest rates on Loans	Count	7	1	8
		Row %	87.5%	12.5%	100.0%
		Column %	22.6%	1.9%	9.6%
	Favorable interest rates on deposits	Count	2	1	3
		Row %	66.7%	33.3%	100.0%
		Column %	6.5%	1.9%	3.6%
	Favorable Bank charges	Count		1	1
		Row %		100.0%	100.0%
		Column %		1.9%	1.2%
	Reputation	Count	2	1	3
		Row %	66.7%	33.3%	100.0%
		Column %	6.5%	1.9%	3.6%

	Trustworthiness	**Count**		4	4
		Row %		100.0%	100.0%
		Column %		7.7%	4.8%
Total		**Count**	31	52	83
		Row %	37.3%	62.7%	100.0%
		Column %	100.0%	100.0%	100.0%

Source: Primary data

The results showed that the majority of the respondents (33.7%) had selected their bankers due to the Strength of the bank's Brand or Image in the communities, some 24.1% because of the turnaround time, and 19.3% due to the Quality of its customer care. However, only 1.2% had selected their bankers because of the Favorable Bank charges.

4.2.9 Type of firm by ownership

Table 4.2.9 Type of firm by ownership

			Category of firm		**Total**
			Medium Sized Firm	**Large Scale Firm**	
Ownership of firm	**Joint ownership/partnership**	**Count**	13	4	17
		Row %	76.5%	23.5%	100.0%
		Column %	41.9%	7.7%	20.5%
	Limited liability company	**Count**	18	48	66
		Row %	27.3%	72.7%	100.0%
		Column %	58.1%	92.3%	79.5%
Total		**Count**	31	52	83
		Row %	37.3%	62.7%	100.0%
		Column %	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority of the borrowing firms were Limited liability companies (79.5%) and the Joint ownership/partnerships comprised (20.5%). Among the Limited liability companies, the majority (72.7%) were large scale firms and the Joint ownership/partnerships were dominantly medium sized firms (76.5%).

4.2.10 Nature of the ownership in the firm by category of the firms

Table 4.2.10 Nature of the ownership in the firm by category of the firms

			Firm category		Total
			Medium Sized Firm	Large Scale Firm	
Nature of the ownership in the firm	Local ownership	Count	14	7	21
		Row %	66.7%	33.3%	100.0%
		Column %	45.2%	13.5%	25.3%
	Foreign ownership	Count	9	26	35
		Row %	25.7%	74.3%	100.0%
		Column %	29.0%	50.0%	42.2%
	Local & foreign ownership	Count	7	8	15
		Row %	46.7%	53.3%	100.0%
		Column %	22.6%	15.4%	18.1%
	State owned	Count	1	5	6
		Row %	16.7%	83.3%	100.0%
		Column %	3.2%	9.6%	7.2%
	Foreign & state ownership	Count		6	6
		Row %		100.0%	100.0%
		Column %		11.5%	7.2%
Total		Count	31	52	83
		Row %	37.3%	62.7%	100.0%
		Column %	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the borrowing firms owned by foreign parties dominated the sample (42.2%). While the state owned (7.2%) and those that are owned by both Locals and foreigners (7.2%), featured least in the sample. Among those borrowing firms that are owned by both locals and foreigners, the majority (53.3%) were large-scale firms while the Medium Sized Firms comprised 46.7% of the sample.

4.2.11 Duration of banking relationship and Company Age

Table 4.2.11 Duration of banking relationship and Company Age

			Company Age					Total
			0-5 yrs	6-10 yrs	11-15 yrs	16-20 yrs	Over 20 yrs	
Duration of banking relationship	Less than a year	Count	3	4	1		4	12
		Row %	25.0%	33.3%	8.3%		33.3%	100.0%
		Column %	33.3%	21.1%	5.9%		13.8%	14.5%
	1-2 years	Count	1	3	2		5	11
		Row %	9.1%	27.3%	18.2%		45.5%	100.0%
		Column %	11.1%	15.8%	11.8%		17.2%	13.3%
	3-4 years	Count	3	8	3	3	6	23
		Row %	13.0%	34.8%	13.0%	13.0%	26.1%	100.0%
		Column %	33.3%	42.1%	17.6%	33.3%	20.7%	27.7%
	Over 5 years	Count	2	4	9	4	11	30
		Row %	6.7%	13.3%	30.0%	13.3%	36.7%	100.0%
		Column %	22.2%	21.1%	52.9%	44.4%	37.9%	36.1%
	Not Sure	Count			2	2	3	7
		Row %			28.6%	28.6%	42.9%	100.0%
		Column %			11.8%	22.2%	10.3%	8.4%
Total		Count	9	19	17	9	29	83
		Row %	10.8%	22.9%	20.5%	10.8%	34.9%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority of the borrowers (36.1%) have been banking with the banks for over 5 years and 34.9% of the firms being over 20 years old.

4.2.12 Age Group of bank staff by Management Level

Table 4.2.12 Age Group of bank staff by Management Level

			Management Level			Total
			Lower level	Middle Level	Other	
Age Group of Bank Staff	21-30 yrs	Count	19	12	6	37
		Row %	51.4%	32.4%	16.2%	100.0%
		Column %	65.5%	37.5%	85.7%	54.4%
	31-40 yrs	Count	9	15	1	25
		Row %	36.0%	60.0%	4.0%	100.0%
		Column %	31.0%	46.9%	14.3%	36.8%
	41-50 yrs	Count	1	5		6
		Row %	16.7%	83.3%		100.0%
		Column %	3.4%	15.6%		8.8%
Total		Count	29	32	7	68
		Row %	42.6%	47.1%	10.3%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority (54.4%) of the bank staff are in the age bracket of 21-30 years and the least (8.8%) falling in the age bracket of 41-50 years. Among the age group of 21-30 years, 51.4% of them are at a low level management rank and 32.4% at middle level management rank. While the age group of 41-50 years, 83.3% of them are at middle level management and only 16.7% are at low level management rank.

4.2.13 Titles of banks staff and Age Group

Table 4.2.13 Titles of banks staff and Age Group

			Age Group			Total
			21-30 yrs	31-40 yrs	41-50 yrs	
Titles	Relationship Manager	Count		1	2	3
		Row %		33.3%	66.7%	100.0%
		Column %		4.0%	33.3%	4.4%
	Relationship Officer	Count	3	3		6
		Row %	50.0%	50.0%		100.0%
		Column %	8.1%	12.0%		8.8%
	Credit Manager	Count	1	1		2
		Row %	50.0%	50.0%		100.0%
		Column %	2.7%	4.0%		2.9%
	Credit/Loans Administrator	Count	22	13	1	36
		Row %	61.1%	3s6.1%	2.8%	100.0%
		Column %	59.5%	52.0%	16.7%	52.9%
	Other	Count	11	7	3	21
		Row %	52.4%	33.3%	14.3%	100.0%
		Column %	29.7%	28.0%	50.0%	30.9%
Total		Count	37	25	6	68
		Row %	54.4%	36.8%	8.8%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that 52.9% of the respondents were credit / loans administrators while relationship officers comprised 8.8% of the total sample. Of the credit/ loans administrators, 61.1% of them are in the age group of 21-30years and the least number (2.8%) being in the age group of 41-50years. while 50% of the relationship officers in the sample belong to the 21-30 years age group and the other 50% under the age group of 41-50 years.

4.2.14 Transaction cost of lending in Banks by Bank Age

Table 4.2.14 Transaction cost of lending in Banks by Bank Age

			Bank Age				Total
			0-5 yrs	6-10 yrs	11-15 yrs	Over 15 yrs	
Transaction cost of lending in Banks	Administrative Activities	Count				10	10
		Row %				100.0%	100.0%
		Column %				17.5%	14.7%
	Monitoring of the loans	Count	6	2	2	39	49
		Row %	12.2%	4.1%	4.1%	79.6%	100.0%
		Column %	100.0%	100.0%	66.7%	68.4%	72.1%
	Provisioning for loan defaults	Count			1	6	7
		Row %			14.3%	85.7%	100.0%
		Column %			33.3%	10.5%	10.3%
	Fixed Costs	Count				2	2
		Row %				100.0%	100.0%
		Column %				3.5%	2.9%
Total		Count	6	2	3	57	68
		Row %	8.8%	2.9%	4.4%	83.8%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the most incurred transaction cost of lending is loans monitoring (72.1%), followed by 14.7% of administrative activities and the least being fixed costs (2.9%). Among the costs of monitoring loans, the majority of them are incurred by banks (79.6%) that have been in existence for over 15years.

4.2.15 Lending techniques in Banks by category of customers extended to Relationship Lending

Table 4.2.15 Lending techniques in Banks by category of customers extended to Relationship Lending

			Lending techniques in Banks				Total
			Relationship Based lending	Financial statement lending	Asset based lending	Credit scoring	
Category of customers the Bank extends to Relationship Lending	Personal	Count	20	9	2	2	33
		Row %	60.6%	27.3%	6.1%	6.1%	100.0%
		Column %	54.1%	33.3%	100.0%	100.0%	48.5%
	Government	Count	2	8			10
		Row %	20.0%	80.0%			100.0%
		Column %	5.4%	29.6%			14.7%
	Small & Medium Enterprises	Count	11	6			17
		Row %	64.7%	35.3%			100.0%
		Column %	29.7%	22.2%			25.0%
	Corporations	Count	4	4			8
		Row %	50.0%	50.0%			100.0%
		Column %	10.8%	14.8%			11.8%
Total		Count	37	27	2	2	68
		Row %	54.4%	39.7%	2.9%	2.9%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Primary data

The results in the table above show that the majority of the respondents (48.5%) indicated the category of Personal as the borrowers banks extend to relationship lending and the least number of respondents (11.8%) chose Corporations. Similarly the most popular lending technique among the respondents (54.4%) was relationship lending, followed by financial statement lending with 39.7% and the least being Credit scoring with 2.9%.

4.3 Relationship lending factor analysis

A factor analysis was employed to enable the extraction of the most important constituents of relationship lending in commercial banks.

Table 4.3.1 Relationship Lending Factor analysis results

	Duration of Relationship	Multiple Banking relationships	Pre-existing relationship	Trust
The closeness of the relationship between a borrower and my Bank is often designated as a very important factor for the pricing of loans.	.602			
Borrowers with long term banking relationships with us pay lower interest rates on their loan facilities.	.628			
Borrowers with an exclusive and short duration of borrowing with my bank, pay a much higher interest rate.	.629			
The stronger the bank-borrower relationship, the higher is the interest rate charged on current and future loans of the borrower.	.654			
My bank gives better borrowing terms to borrowers having fewer borrowing relationships with other banks.		.596		
My bank gives better borrowing terms to borrowers having no borrowing relationships with other banks.		.537		
Borrowers who already have current accounts with our bank more easily comply with loan terms than first-time borrowers with no previous history with our institution.			.557	
Borrowers who already have savings accounts with our bank more easily comply with loan terms than first-time borrowers with no previous history with our institution.			.631	
I think before telling the borrower my opinion.				.619
I monitor the borrower closely to ensure that he/she doesn't do something detrimental to the Bank.				.761
I keep monitoring the borrower after asking him/her to do something.				.706
I check with other people about the activities of the borrower to make sure he is not trying to "get away" with something.				.706
In situations other than contract negotiations, I check available records to verify facts stated by the borrower.				.651
Eigen Value	**5.56**	**4.56**	**3.04**	**2.42**

Variance %	**25.28**	**20.736**	**13.815**	**10.988**
Cumulative %	**25.28**	**46.016**	**59.831**	**70.819**

Source: Primary data

The results in the table above revealed that relationship lending is mainly composed of the duration of the relationship and this comprised 25.28% of the variable. In addition, the multiple banking relationships, pre-existing relationship and trust comprised variances of 20.736%, 13.815%, and 10.988% respectively. With regard to the relationship duration, the results showed that major elements under duration of the relationship duration have to do with the strength of the bank-borrower relationship, and the interest rate charged on current and future loans of the borrower (.654).

Furthermore, the results showed that the closeness of the relationship between a borrower and the Bank is often designated as a very important factor for the pricing of loans (.602). It was also observed that the fact that Borrowers with long term banking relationships with the bank pay lower interest rates on their loan facilities (.628). Regarding multiple banking relationships, the banks offer better borrowing terms to borrowers having fewer borrowing relationships with other banks (.596) proved to be an essential item just like the terms offered to borrowers having no borrowing relationships with other banks (.537).

4.3.2 Descriptives for the relationship lending indices

	Min	Max	Mean	Std. Deviation
Duration of relationships	1.00	5.00	2.61	0.77
Multiple banking relationships	1.00	5.00	3.08	1.23
Pre-existing relationships	1.50	5.00	3.72	0.93
Trust	2.25	4.75	3.84	0.54

Relationship Lending	**1.94**	**4.43**	**3.31**	**0.54**

Source: Primary data

The results showed that the commercial banks in Uganda mainly consider trust (Mean=3.84) and the pre-existence of the relationship (Mean=3.72) to be very critical elements in their bank-borrower relationships. While on the other hand, the duration of the relationship (Mean=2.61) and multiple banking relationships (Mean=3.08) ranked least.

4.4 Transaction costs factor analysis.

A factor analysis was used to generate the most important constituents of transaction costs in commercial banks.

Table 4.4.1 Transaction cost factor analysis results

	Opportunism	Asset Specificity	Uncertainty	Governance Setup Costs	Transaction Frequency
Our borrowers on average (50% to 75%) submit doctored financial statements and are not honest about their future business plans.	.826				
More than 75% of our borrowers' financial information is not wholly true including their future business plans.	.583				
Our borrowers always provide a truthful picture of their businesses.	.821				
On average, the information about ownership and property values for the collateral we require from our borrowers is not easily available.		.729			
It takes a lot of time and money to find a suitable price and buyer for urban assets demanded as collateral from our borrowers, when they fail to repay loans.		.676			
It is difficult to establish the right interest rates to charge for loans issued to borrowers.			.820		

When my Bank is contracting a new loan/relationship officer, it's difficult to ascertain the reliability of their performances.			.789		
After my Bank has issued a loan, it's difficult to offer post-loan customer service.			.831		
Our Bank has set firm agreements to incorporate the borrower's business needs.				.920	
Our bank and the borrower have developed rules and procedures for ensuring compliance and following up repayment.				.699	
It is also important in our relationship with the borrower to have a good loan contract.				.850	
The average number of bank products consumed by borrowers is					.583
The average number of transactions processed by borrowers is					.661
Eigen Value	**9.00**	**7.31**	**5.93**	**4.14**	**4.06**
Variance %	**16.67**	**13.54**	**10.97**	**7.67**	**7.52**
Cumulative %	**16.67**	**30.21**	**41.18**	**48.85**	**56.37**

Source: Primary data

The results in the table revealed that transaction costs are mainly composed of opportunism (16.67%). Similarly assets specificity, uncertainty, governance set-up costs and transaction frequency comprised of variances of 13.54%, 7.67%, and 7.52% respectively.

The results further revealed that with opportunism, the fact that borrowers on average (50% to 75%) submit doctored financial statements and are not honest about their future business plans (.826). Similarly a greater proportion of the borrowers' financial information including their future business plans being untrue (.583) ought to be addressed.

Table 4.4.2 Descriptive for the transaction costs indices.

	Min	Max	Mean	Std. Deviation
Opportunism	2.29	4.25	3.34	0.46
Asset specificity	2.38	4.07	3.24	0.35
Uncertainty	2.13	4.15	3.02	0.45
Governance set-up costs	2.78	4.50	3.75	0.38
Transaction Frequency	2.75	4.75	3.61	0.46

Source: Primary data

The results showed that the commercial banks in Uganda mainly encounter the governance set up costs (Mean =3.75), transaction frequency (Mean=3.61) and opportunism (Mean= 3.34). However, the costs that ranked least were uncertainty (Mean = 3.02) and asset specificity (Mean = 3.02).

4.5 The relationships among the variables

The relationships in the proceeding table were generated using the Pearson (r) correlation coefficient so as to assess the relationships between the variables.

4.5.1 The relationship between relationship lending and lending interest rates of Commercial banks

The results in the table below showed a significant and negative relationship between relationship lending and lending interest rates among the commercial banks ($r = -.416^{**}$, $p < .05$). This implies that as relationship lending improves, borrowers are likely to enjoy lower interest rates on their loan facilities from their bankers.

4.5.2 The relationship between the transaction costs and relationship lending in commercial banks

A negative relationship was observed between transaction costs and relationship lending in commercial banks (r =-.597**, p< .05). This implies that the greater relationship lending in the bank-customer relationships, the lower the transactions costs that the banks are likely to incur.

4.5.3 The relationship between the transaction costs and lending interest rates in commercial banks

The transaction costs and lending interest rates in commercial banks were also observed to be significantly and positively related (r=. 570**, p< .05). These results showed that the greater the transaction costs incurred by the banks, the greater the lending interest rates that the banks are likely to charge on their loan facilities.

Table 4.5: The relationships between the variables

	1	2	3	4	5	6	7	8	9	10	11	12
Transaction Frequency-1	1.000											
Opportunism-2	.165	1.000										
Asset Specificity-3	.147	.298**	1.000									
Uncertainty-4	.170	.349**	.031	1.000								
Governance Set Up Costs-5	-.009	.139	.148	.385**	1.000							
Transaction Costs-6	.239*	.617**	.335**	.584**	.311**	1.000						
Duration of relationships-7	-.123	-.449**	-.175	-.406**	-.233*	-.587**	1.000					
Multiple Banking relationships -8	-.150	-.303**	-.303**	-.265*	-.309**	-.441**	.242*	1.000				
Pre-Existing Relationships-9	-.145	-.211	-.354**	-.125	-.356**	-.339**	.259*	.397**	1.000			
Trust-10	-.071	-.369**	-.166	-.226*	-.115	-.303**	.198	.254*	.233*	1.000		
Relationship Lending-11	-.047	-.480**	-.296**	-.450**	-.306**	-.597**	.607**	.414**	.399**	.290**	1.000	
Lending interest rates-12	.066	.468**	.245*	.228*	.069	.570**	-.325**	-.375**	-.189	-.350**	-.416**	1.000
*** Correlation is significant at the 0.05 level (2-tailed).**												
**** Correlation is significant at the 0.01 level (2-tailed).**												

Source: Primary data

4.6 The prediction model

The results in the table below show the extent to which the predictor variables which are transaction costs and relationship lending can explain the dependent variable which is lending interest rate.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Dependent Variable: Lending Interest Rates	
	B	Std. Error	Beta				
(Constant)	1.878	.521		3.604	.001	Adjusted R Square	.287
Transaction Costs	.376	.100	.456	3.763	.000		
Relationship Lending	-.118	.101	-.142	-1.171	.245		

Source: Primary data

The results showed that these independent variables can explain 28.7% of the observed variance in lending interest rate (Adjusted R Square = .287). Among the predictor variables, transaction costs (Beta =. 456, sig. < . 05) was observed to be a more significant predictor of lending interest rates than the relationship Lending variable (Beta = -.142, sig.>.05). The regression model was significant as observed from the level of Significant (sig. <. 01).

4.7 The prediction model of the Variable Dimensions

The results in the table below show the degree to which the dimensions of the variables (relationship lending and transaction costs) explain the dependent variable, lending interest rates.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Dependent Variable: Lending interest rates	
	B	Std. Error	Beta				
(Constant)	5.714	1.382		4.135	.000		
Transaction Frequency	-.443	.140	-.329	-3.166	.002	R Square	.456
Opportunism	.426	.124	.442	3.428	.001	Adjusted R Square	.361
Asset Specificity	.096	.137	.078	.700	.487		

Uncertainty	.004	.109	.004	.035	.972		
Governance Set Up Costs	.151	.125	.146	1.214	.230		
Duration of relationships	-.186	.113	-.204	-1.643	.106		
Multiple Banking relationships	-.213	.127	-.201	-1.668	.101		
Pre-Existing Relationships	-.157	.124	-.155	-1.265	.211		
Trust	-.085	.128	-.071	-.663	.510		

Source: Primary data

The results in the table above showed that these dimensions can explain 36.1% of the variance in the lending interest rates (Adjusted R Square = .361). Among the predictor dimensions, opportunism (Beta =.442, sig. < . 05) was observed to be a more significant predictor of lending interest rates than all the other dimensions. This implies that the greater the opportunistic behaviors of borrowers the greater the lending interest rates charged on those loans as the commercial banks would have to incur higher transaction costs in deploying safeguards against such behaviors.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the research findings presented and interpreted in chapter four. Conclusions, recommendations and suggested areas for further research are also presented.

5.2 Discussion of findings

5.2.1 Sample characteristics

It was established that the majority of the employees of the banks that responded to the questionnaires were credit/loans administrator falling in the age bracket of 21-30 years and are at the low level management. The results indicated that the majority of the staff for both the banks and the borrowing firms were degree holder. This implies that education standards for workers in banks and firms at low level management are considerably high and this will benefit the industry at large as the workforce will have the necessary knowledge to enable them do their work with easiness and efficiently.

It was also discovered that most of the respondents from borrowing firms were males and work for large scale firms. The results indicate that the majority of the borrowing firms belong to the manufacturing sector and employ 100-499 people. Most of these borrowers hold accounts with atleast 2-3 banks and have a turnover of 5.2 to 6.8 Billions. Majority of them are limited liability companies which have been transacting with the banks for over 3-4 years and majorly acquire term loans from the

banks. This implies that this manufacturing sector is undertaking long-term projects like constructions that require long-term financing with the repayment aligned to the duration of the project, thus term loans.

Similarly Parkhe (1993)'s study categorized duration as "short term" (1-3 years) to "long term" (over 5 years). Therefore, it can be noted from the findings of the study that 41% of the medium and large scale business enterprises in Kampala have short term banking relationships with their banks while 36.1% of them have long-term.

Finally the majority of the borrowing firms chose banks based on the strength of the bank's brand or image in the communities around them. Most of these borrowing firms are owned by foreign parties and have banking relationships of more than five years. This implies that most of the borrowers want to be associated with banks that have a positive image in the eyes of the public and more so carries out social responsibility. Additionally firms owned by foreigners dominate loan utilization than firms owned by locals. This can be attributed to the high levels of professionalism and management skills exhibited by firms owned and managed by foreigner in managing finances and having organized, accurate, up to date and credible financial records.

5.2.2 Constituents of relationship lending of commercial banks in Uganda.

The study findings revealed that commercial banks in Uganda consider trust as the most important ingredient of their bank-borrower relationship. Nonetheless the findings also bring to light other

components of relationship lending as duration of the relationship, multiple banking relationships and their pre-existence.

However it was discovered that duration of the relationship causes more variations in relationship lending than any other dimension. This is in line with Giannetti (2009) and Elsas (2003) s' findings that pointed out the duration of the bank-borrower relationship as the most common proxy of relationship lending

Therefore this implies that lending institutions don't only look at the level of trust that they have in the borrower but also the period he has been banking or transacting with them. Brik, Kane and Palia (2004) further explained in their studies that long term relationships build trust. While Howorth and Moro (2006) prominently added that as the level of trust increases, the relationship strengthens.

5.2.3 Constituents of transaction costs of commercial banks in Uganda.

The findings indicate governance set-up costs as the main cost commercial banks in Uganda encounter. Also part of the transaction costs are transaction frequency, opportunism, assets specificity and lastly uncertainty.

However the factor analysis results revealed opportunism as the dimension with the highest variance. As noted by Rindfleisch and Heide (1997), the risk of opportunism creates a need for formalized governance structures. That's why commercial banks incur high transaction costs in terms of

implementing and maintaining an appropriate governance structure that is secure and will safeguard the return of specific investments.

5.2.4 Relationship between relationship lending and lending interest rates of commercial banks in Uganda.

The study found out that there is a significant negative relationship between relationship lending and lending interest rates of commercial banks. This implies that commercial banks in Uganda should focus on relationship lending technique if they are to price their loan facilities cheaply and which would make them competitive. The borrowers should also agitate for relationship lending or banking as with this lending technique, they stand to get better borrowing terms in terms of favorable (lower) interest rates on their loan facilities. This study concurs with the findings of Berger and Udell (1995) and Arano and Breit (2007) whose studies found out that borrowers with longer relationships (stronger relationships) are monitored less frequently by lender and as a result pay lower interest rates on average. Also in support are the studies by Degryse and Cayseele (1998) which vividly found out that if a firm widened its relationship by buying other information sensitive products from a bank or performed most of its transactions from that bank, the interest rate on its loans would be considerably low.

5.2.5 Relationship between transaction costs and relationship lending of commercial banks in Uganda.

Findings from this study indicated a significant negative relationship between transaction costs and relationship lending in commercial banks. This study is in agreement with the findings of Nalukenge

(2003) who found out that in the presence of relationship lending, transaction costs decrease. She further found out that credit institutions that focus on relationship lending are likely not to opt for designing complete loan contracts since certain elements of the contracts may not be required to process loans for long-time, trusting and reliable customers and in turn lesser resources are needed to operate the financial exchange process. Findings by Sako and Helper (1996), Gariga (2004), Jimenez and Saurina (2004), Sohn and Choi (2004), Howorth and Moro (2006), Curral and Judge (1995) and Zak and Knack (2001) further established that trust mitigates advisers selection and moral hazard, reduces uncertainty about the future, screening and monitoring costs (reduced surveillance costs and control mechanisms) and therefore reduced transaction costs. All this implies that commercial banks in Uganda should focus on relationship lending if they are to mitigate the opportunistic behaviors (ex ante and ex post) of customers as they will be able to gather lots of information (both financial and non financial) about the customers and in turn use it to make appropriate decisions. Similarly with the relationship lending technique, commercial banks in Uganda would be able to incur lesser costs on loan origination / screening, evaluation of the loan application, monitoring and insurance policies.

5.2.6 Relationship between transaction costs and lending interest rates of commercial banks in Uganda.

Findings from the study indicate that there is a significant positive correlation between transaction costs and lending interest rates of commercial banks in Uganda. These results emphatically agree with the findings of Shankar (2007) and Ghatak (1999) who established that transaction costs are a major contributor to high interest rates on loans. This implies that commercial banks should explore all available avenues of having their transaction costs reduced so that in turn a drop in lending interest

rates can be achieved. Results indicate that in the presence of relationship lending, transaction costs are low and in turn the interest rates on the loans is also not high.

5.3 Conclusions

Generally, this study investigated the relationship between relationship lending, transaction costs and lending interest rates of commercial banks in Uganda. The findings reveal that relationship lending has a significant negative effect on lending interest rates and transaction costs. While transaction costs have a significant positive effect on the lending interest rates charged by commercial banks in Uganda. Therefore relationship lending and transaction costs have a role in commercial bank loan pricing and contracting process or decision making.

The study brings to light that repetitive interaction of the lender and borrowers, yields valuable information for the lender as the relationship matures and in turn the problems brought about by opportunism, moral hazards, information asymmetry and uncertainties are resolved. This is eventually reflected in the low interest rates that the bank would charge the borrower. Consequently if lending institutions in Uganda consider relationship lending technique strongly, then transaction cost would reduce and in turn this would spark off a drop in the persistently high lending interest rates.

The results from the study reveal that commercial banks in Uganda render trust as a very important component of their interactions with borrowers. This could be due to the fact that trusting a borrower involves a lending institution taking on a multitude of risks. This was further highlighted by Mayer, Davis and Schoorman (1995) and Howorth and Moro(2006) who noted that trust leads to risk taking in

relationship and that it depends on desire, need, interest and as well as the specific kind of relationship between the parties. Therefore commercial banks in Uganda will be able to reduce costs associated with constructing governance structures or safeguards, uncertainty about the future and opportunistic behaviors of the participants in a relationship.

The study findings also reveal that governance set up costs is the biggest contributor towards transaction costs in commercial banks. Given that the risk of opportunism creates a need for formalized governance structures, then by implication commercial banks find themselves having to implement a governance structure that provides sufficient safeguard to secure the return of specific investments. Similarly the findings reveal that most widely used governance structure or safeguard by commercial banks in Uganda is the legal contract which specifies the obligations of each party.

5.4 Recommendations

With reference to the findings of the study the following recommendations are suggested to the stakeholders:

Transaction cost economizing is nevertheless important to all forms of organizations. Governance structures that have better transaction cost economizing properties will eventually displace those that have worse (Williamson, 1981). Since the findings indicate that loan interest rates are more sensitive to transaction costs than relationship lending, commercial banks should consider using relational governance to eliminate opportunism and thus minimize transaction costs incurred. This can also be

achieved through greater borrower-lender interactions (relationship lending) which overtime yield trust among the parties.

Customization of loan agreements/contracts should also be considered as it narrows the domain around which parties can be opportunistic. Customized contracts specify contingencies, adaptive processes, and controls likely to mitigate opportunistic behavior and thereby support relational governance. Banks should however note that, customized contracts do not guarantee the intent of mutuality, bilateralism, and continuance when conflict arises.

The regulators should take into account transaction costs more so opportunistic behaviors of borrower when examining the interest rates charged by commercial banks.

The banking industry would benefit if there is a campaign spreading basic awareness about the concepts of relationship lending/banking and the implications of opportunistic behaviors through the local print/radio media.

The commercial banks should adopt some of the following strategies that were postulated by Wathne and Heide (2000) so as to effectively manage the different forms (passive and active) of opportunism. They further added that each strategy's effectiveness rests, in part, on how the underlying sources of vulnerability are managed.

Monitoring

Given that information asymmetry exists in any relationship, it is possible for a party to act opportunistically without being detected. Therefore monitoring of either partner's behaviour or its outcomes can overcome this problem. From a behavioral perspective, the monitoring process itself may place uncomfortable social pressure on a party and thereby increase compliance. While from an economic perspective, monitoring increases the ability to detect opportunism and ultimately the ability to match rewards and sanctions to the partner's behaviour in an appropriate fashion.

However if monitoring is to achieve its overall purpose of reducing opportunism by virtue of reducing information asymmetry, monitoring itself will be ineffective if the source of the opportunism problem is not information related. Secondly, monitoring may require that a certain "zone of indifference" exists within which monitoring is accepted. Similarly in any relationship existing, monitoring should be implicitly or explicitly permitted as it may serve to control opportunism.

Once these prerequisites are in place, banks will be able to gain benefits beyond a particular relationship. That is to say monitoring may serve as a selection device. In that opportunistically inclined borrowers may be discouraged from entering into a relationship with a bank known for efficient monitoring.

Incentives

Banks should be able to administer incentives that reduce the payoff from opportunistic behaviour. This can be achieved by use of self-enforcing agreements that align each parties' individual interest by creating an incentive structure that makes the long-term gains from cooperative behaviour exceed the short-term payoff from opportunism. If such agreements are appropriately structured, they would reduce the likelihood of opportunism in the first place.

Selection

The most straightforward way of managing opportunism would be to select exchange partners that are not opportunistically inclined or are inherently cooperative with respect to a particular transaction. These selection efforts can be implemented through rigorous screening or "KYC", loan evaluation process, credit origination processes, and many other qualification programs of various kinds that the banks' management may feel fit and effective to employ in their lending policies.

Socialization

It's appreciated that some economic transactions are frequently embedded in social relationships that mitigate the risk of opportunism. Therefore financial institutions should solve this problem of opportunism by deploying deliberately socialization tactics that promote goal convergence. Socialization programs like golf club associations, "Diva's club association", marathon, rotary clubs' community programs, health clubs meetings, musical concerts and so many other programs of various kinds would achieve this goal of mitigating opportunism as complete socialization would permit a party to tolerate vulnerability in the form of lock-in and information asymmetry.

5.5 Areas for further research

The results from the study point out a number of opportunities for further research into relationship lending, transaction costs and lending interest rates.

Future research should attempt to collect data from other borrowers belonging to the small sized firms and assess whether actually they also utilizing relationship lending or banking from commercial banks in Uganda.

The study should also be supplemented with risk variable and assess its impact on the pricing of loans and transaction costs as well as relationship lending.

Future research should be carried out to find out the influence of transaction costs on interest spreads, stability of banking system and informal remittances in Uganda.

Research should be carried out in future to ascertain the effect of relationship lending on the payments systems, availability of credit, credit cycles, corporate governance, collateral requirements and default risk in Uganda. Additionally a detailed research should be carried out future to determine the benefits that accrue to relationship banking and its dark side.

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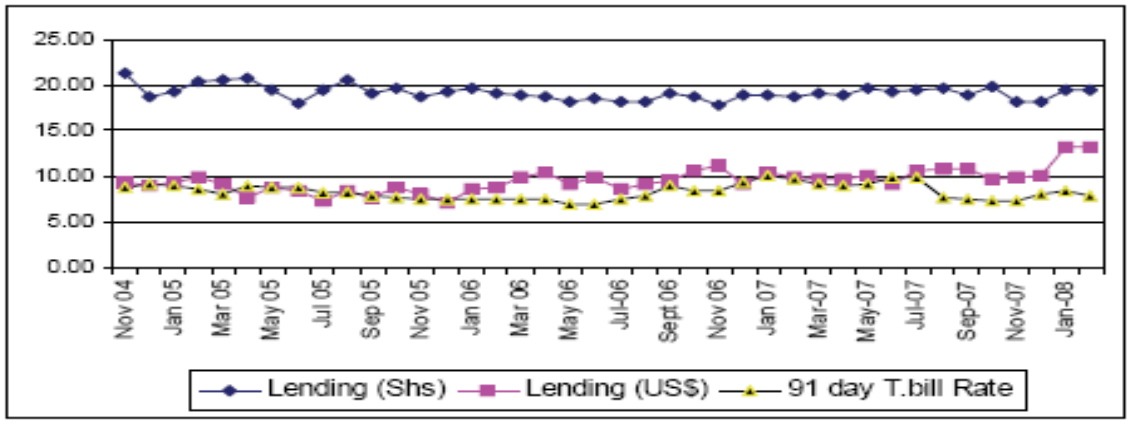
Appendices

Appendix 1: Commercial banks' weighted interest rates, November 2004-February 2008

Chart 2.3: Commercial banks' weighted interest rates, November 2004 – February 2008



Source: Bank of Uganda

Adopted from background to the Budget 2008/2009

Appendix 2: Commercial Banks' weighted interest rates, September 2005-February 2007

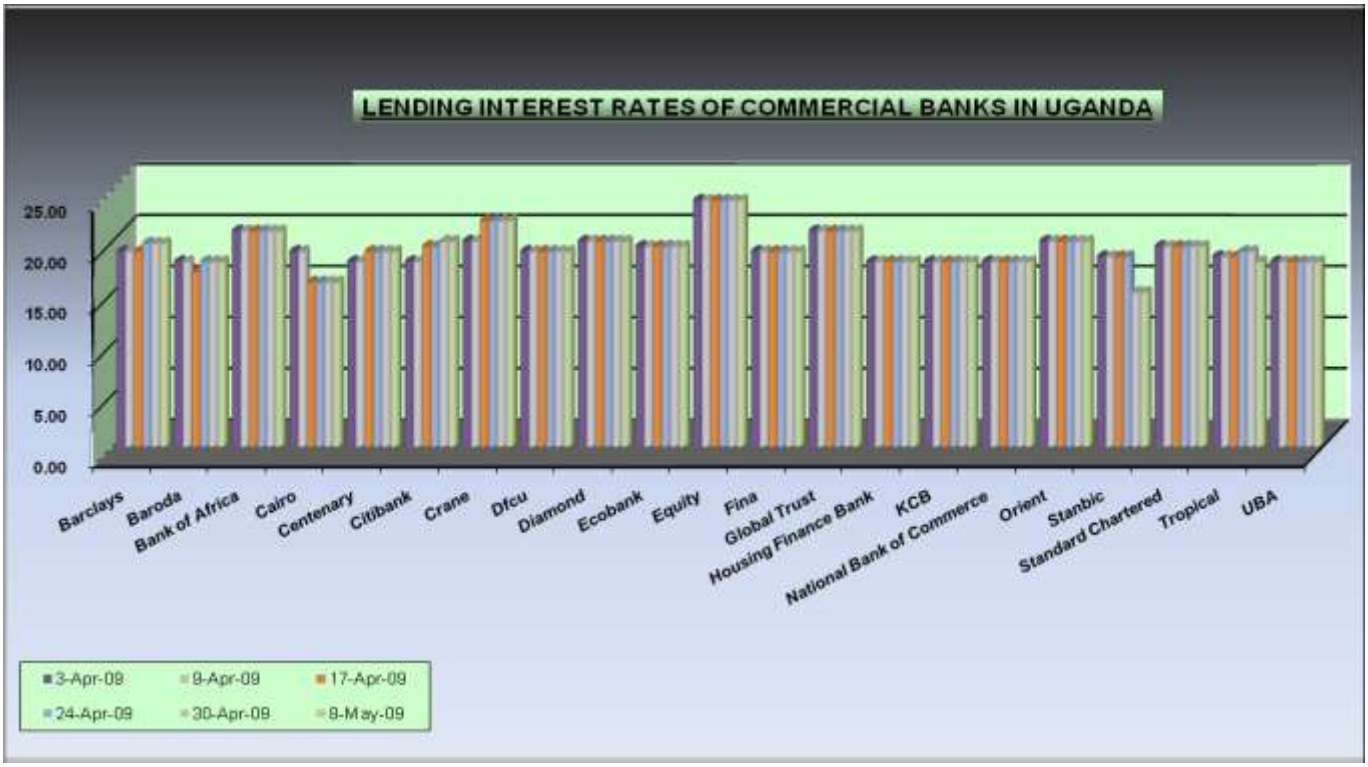
Table 2.17 Commercial Banks' Weighted Interest Rates, September 2005 – February 2007

Weighted Average rates	Shilling Denominated							
	Sep 2005	Dec 2005	Mar 2006	June 2006	Sept 2006	Dec 2006	Jan 2007	Feb 2007
Lending	19.18	19.37	18.86	18.6	19.18	18.91	18.93	18.83
Demand Deposits	1.21	1.18	1.08	1.11	1.14	1.14	1.26	1.16
Savings Deposits	1.97	1.92	2	2.02	2.12	2.02	2.17	2.23
Time Deposits	10.03	7.85	8.43	7.57	9.98	9.12	8.8	10.44

Source: *Bank of Uganda*

Adopted from the Background to the Budget 2007 / 2008

Appendix Three: Lending interest rates of commercial banks in Uganda



Source: Daily Monitor (20th May 2009) / BOU

Appendix 4: Questionnaire guide to Bank staff

Dear respondent your Bank has been selected to participate in a study Relationship Lending, Transaction Costs and Lending Interest Rates am carrying out. This is a purely an academic research and your responses will be treated with utmost confidentiality it deserves. Thank you for your valuable time and cooperation.

SECTION I: GENERAL INFORMATION

Please tick the appropriate box below.

a) **Age of respondent**

21-30 years	31-40 years	41-50years	Above 51 years

b) Gender

Male	Female

c) Education Background

Code	1	2	3	4	5
Level	Certificate	Diploma	Bachelors degree	Masters	PhD
Tick					

d) Management Level

Low level Management	Middle level management	Top level management	Other (Specify)

e) Title

Relationship Manager	Relationship Officer	Credit Manager	Credit / Loans Administrator	Other (Specify)

f) For how long has your Bank been in existence?

Code	1	2	3	4
Duration	0-5yrs	6-10 yrs	11-15 yrs	Over 15 yrs
Tick				

g) How many customers does your Bank have?

Code	1	2	3	4	5
No.	Less than 1000	1001-3000	3001-5000	Over 5000	Not sure
Tick					

h) How many borrowers does your Bank have?

Code	1	2	3	4	5
No.	Less than 1000	1001-3000	3001-5000	Over 5000	Not sure
Tick					

i) Which mean of communication does the Bank use?

FORM OF COMMUNICATION	Code
Face to Face	1
Telephone	2
Email	3
Fax	4

SECTION II: RELATIONSHIP LENDING

1) Number of Bank-Borrower Relationships (R/ships) in your Bank.

0-50 R/ships	100 R/ships	150 R/ships	200 R/ships	> 200 R/Ships	Not Sure

2) The Category of customers the Bank extends to Relationship Lending (Banking).

Personal	Government	Small &Medium Enterprises	Corporations

3) The lending technique present in your Bank.

LENDING TECHNIQUES	Code
Relationship Based lending[1]	1
Financial statement lending	2
Asset based lending[2]	3
Credit scoring[3]	4
Factoring	5
Trading Credit	6

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

[1] **Relationship Based Lending or Relationship Banking or Bank-Borrower Relationship** – is a Connection between bank and customer that goes beyond execution of a simple, anonymous, financial transaction. In such a Bank normally "leans against the wind" and accommodate its borrowers during difficult financial times.

[2] **Asset Based Lending**- lending technique based on deposit of collateral by customer before being awarded a loan.

[3] **Credit scoring** is a transaction based lending technique lenders use to determine whether or not to approve a loan application as well as the terms and conditions of a loan on the basis of a "credit score" of a prospective borrower. The credit score is computed by a quantitative model on the basis of various explanatory variables deemed closely linked to credit risk of a borrower (such as attributes and financial conditions of the owner and the firm).

	DURATION	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	The closeness of the relationship between a borrower and my Bank is often designated as a very important factor for the pricing of loans.	1	2	3	4	5
2	Borrowers with long term banking relationships with us pay lower interest rates on their loan facilities.	1	2	3	4	5
3	Borrowers with an exclusive and short duration of borrowing with my bank, pay a much higher interest rate.	1	2	3	4	5
4	Borrowers with a strong relationship with us comply with our loan terms and repayment obligations.	1	2	3	4	5
5	The stronger the bank-borrower relationship, the higher is the interest rate charged on current and future loans of the borrower.	1	2	3	4	5
	MULTIPLE BANKING RELATIONSHIPS					
1	My bank gives better borrowing terms to borrowers having several borrowing relationships with other banks.	1	2	3	4	5
2	My bank gives better borrowing terms to borrowers having fewer borrowing relationships with other banks.					
3	My bank gives better borrowing terms to borrowers having no borrowing relationships with other banks.	1	2	3	4	5
4	Our borrowers who have multiple loan facilities with other Banks rarely comply with our loan terms and repayment obligations.	1	2	3	4	5
	PRE-EXISTING RELATIONSHIPS					
1	Borrowers who already have current accounts with our bank more easily comply with loan terms than first-time borrowers with no previous history with our institution.	1	2	3	4	5
2	Borrowers who already have savings accounts with our bank more easily comply with loan terms than first-time borrowers with no previous history with our institution.	1	2	3	4	5
3	Borrowers who have obtained loans[4] from us in the past more easily comply with loan terms than first-time borrowers with no previous history with our institution.	1	2	3	4	5
4	Borrowers utilizing our financial management services[5], more easily comply with loan terms.	1	2	3	4	5
	TRUST					
1	In our relationship with the Borrower, the involved parties can always be trusted to do what is right.	1	2	3	4	5
2	Our Bank can be trusted for availing Loan facilities at all times.	1	2	3	4	5
3	Insincerity is on the increase among our borrowers.	1	2	3	4	5

[4] **Loans**- Credit Lines, Equipment loans, Motor vehicle loans, mortgage loans, capital lease and other loans

[5] **Financial management services**- credit-related services, brokerage services, credit-related services, trust and pension services

4	My Borrowers can be relied on to keep their promises.	1	2	3	4	5
5	Our borrowers are usually given honest explanations for the unavailability loan facilities or decline of their loan applications.	1	2	3	4	5
6	Our borrowers' needs and views are taken into account when the Bank is making any decisions.	1	2	3	4	5
7	My Bank trusts all information and documents presented by borrowers who have been banking with us for a longer period.	1	2	3	4	5
8	My Bank does not trust all the information and documents presented by borrowers who have not been banking with us.	1	2	3	4	5
9	Although circumstances surrounding availability of loan facilities may change, our borrowers believe that we will be ready and willing to offer assistance and support.	1	2	3	4	5
10	Our borrowers can count on our Bank to be sincere.	1	2	3	4	5
11	Our Bank can count on the Borrower to be sincere.	1	2	3	4	5
12	Our Bank has confidence in all its Loans officers and the borrowers.	1	2	3	4	5
13	Our staffs always try to inform us if problems with the borrowers occur.	1	2	3	4	5
14	Our loans officers are very competent.	1	2	3	4	5
15	Our borrowers are sometimes unreliable.	1	2	3	4	5
16	Our borrowers are always cooperative.	1	2	3	4	5
17	Our borrowers never try to hide something serious that may impact us negatively.	1	2	3	4	5
18	I think before telling the borrower my opinion.	1	2	3	4	5
19	I give the borrower all known and relevant information about important issues even if there is a possibility that it might jeopardize the bank.	1	2	3	4	5
20	I minimize the information I give to the borrower.	1	2	3	4	5
21	I deliberately withhold some information when communicating with the borrower.	1	2	3	4	5
22	The bank enters into an agreement with the borrower even if his/her future obligations concerning the agreement are not explicitly stated.	1	2	3	4	5
23	The bank enters into an agreement with the borrower even if it thinks other people might try to persuade him/her to break it.	1	2	3	4	5
25	The bank declines the borrower an offer to enter into an unwritten agreement.	1	2	3	4	5
26	I monitor the borrower closely to ensure that he/she doesn't do something detrimental to the Bank.	1	2	3	4	5
27	I keep monitoring the borrower after asking him/her to do something.	1	2	3	4	5
28	I feel confident after asking the borrower to do something.	1	2	3	4	5
29	I check with other people about the activities of the borrower to make sure he is not trying to "get away" with something.	1	2	3	4	5
30	In situations other than contract negotiations, I check available records to verify facts stated by the borrower.	1	2	3	4	5

31. How do you rate trust with your borrower in conducting your credit assessment and financial analysis?

Poor **Good**

1 **2** **3** **4** **5**

SECTION III: TRANSACTION COSTS

TRANSACTION COSTS OF LENDING	**Code**
Training	1

Administrative Activities[6]	2
Monitoring of the loans	3
Provisioning for Loan Defaults & Losses	4
Fixed costs	5

1) The transaction cost of lending incurred most by the Bank.

2) Tick the loan related charges present in your Bank

Loan Related Charges	Code
Application fees	1
Advance commitment fees	2
Arrangement fees	3
Processing and administration fees	4
Loan monitoring fees	5
Insurance fees	6
Legal fees	7
Stationery fees	8
Discharge security documents fees	9
Renewal facility fees	10
Restructuring facility fees	11

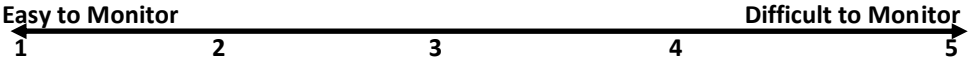
Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

	OPPORTUNISM	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	Our borrowers sometimes alter the facts about their businesses slightly in order to secure loan facilities and protect their interests.	1	2	3	4	5
2	The customer thinks that complete honesty does not pay when dealing with a relationship manager.	1	2	3	4	5
3	My clients on average (25% to 50%) are not completely honest with me concerning their financial records and future business plans.	1	2	3	4	5
4	Our borrowers on average (50% to 75%) submit doctored financial statements and are not honest about their future business plans.	1	2	3	4	5
5	More than 75% of our borrowers' financial information is not wholly true including their future business plans.	1	2	3	4	5
6	Our borrowers always provide a truthful picture of their businesses.	1	2	3	4	5
7	Sometimes the customer alters facts in order to get what he needs.	1	2	3	4	5

[6] Administrative cost include-identifying & screening clients, processing loan applications, disbursing payments, collecting repayments, & following up on non-repayment

8	My customer has on several occasions promised to do things and does not do them.					
	ASSET SPECIFICITY					
1	On average, the skill levels of our officers dealing with loans are higher, compared to officers from other departments.	1	2	3	4	5
2	Our staff must acquire significant training in order to be able to serve our borrowers.	1	2	3	4	5
3	Our borrowers must receive financial management skills before they qualify for loans.	1	2	3	4	5
4	This financial institution has made significant investments in tools and equipment required to serve our borrowers.	1	2	3	4	5
5	Our borrowers are required to use bank-owned for reporting purposes to qualify for a loan.	1	2	3	4	5
6	On average, the information about ownership and property values for the collateral we require from our borrowers is not easily available.	1	2	3	4	5
7	It takes a lot of time and money to find a suitable price and buyer for rural assets demanded as collateral from our borrowers, when they fail to repay loans.	1	2	3	4	5
8	It takes a lot of time and money to find a suitable price and buyer for urban assets demanded as collateral from our borrowers, when they fail to repay loans.	1	2	3	4	5
9	Our borrowers get their loan facilities processed in the shortest time possible	1	2	3	4	5
10	The turnaround time of processing loans is always within the customer's expectations.	1	2	3	4	5
11	A large number of borrowers are one-time borrowers who do not re-apply for loans.	1	2	3	4	5
12	A significant portion of the loans approved, are for long term investments.	1	2	3	4	5
13	A significant portion of loans approved, are for short-term loans.	1	2	3	4	5
14	The procedure and routines we have developed for the relationship loans are tailored to a borrower's particular situation.	1	2	3	4	5
	UNCERTAINTY **ENVIRONMENTAL UNCERTAINTY**	**Strongly Disagree(1)**	**Disagree(2)**	**Not Sure (3)**	**Agree(4)**	**Strongly Agree(5)**
1	It is difficult to predict the number of borrowers that will seek loans from my Bank.	1	2	3	4	5
2	On average, 25% of loan applicants become future customers at this bank.	1	2	3	4	5
3	On average, 25-50% of loan applicants become future customers at this bank.	1	2	3	4	5
4	On average, 50-75% of loan applicants become future customers at My Bank.	1	2	3	4	5
5	On average, 75-100% of loan applicants become future customers at My Bank.	1	2	3	4	5
4	It is difficult to establish the right interest rates to charge for loans issued to borrowers.	1	2	3	4	5
5	On average, it is extremely difficult to predict whether our clients will meet their repayment obligations on time.	1	2	3	4	5

6. How would you describe relationship lending based loans compared to other financial products?



	BEHAVIOURAL UNCERTAINTY	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	When my Bank is contracting a new loan/relationship officer, it's difficult to ascertain the reliability of their performances.	1	2	3	4	5
2	When my Bank is contracting a new loan / relationship officer, it's difficult to be assured that the loan officer will perform well compared to the old one.	1	2	3	4	5
3	After my Bank has issued a loan, it's difficult for a borrower not to utilize the funds.	1	2	3	4	5
4	After my Bank has issued a loan, it's difficult to alter the unfair terms in the loan.	1	2	3	4	5
5	After my Bank has issued a loan, it's difficult to offer post-loan customer service.	1	2	3	4	5
	GOVERNANCE SET UP COSTS **WRITING LOAN CONTRACTS**	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	Our Bank and the borrower have mutually binding agreements that regulate all activities related to the loan.	1	2	3	4	5
2	Our Bank has set firm agreements to incorporate the borrower's business needs.	1	2	3	4	5
3	Our bank and the borrower have developed rules and procedures for ensuring compliance and following up repayment.	1	2	3	4	5
4	The loan contracts with our borrowers are as complete as possible.	1	2	3	4	5
5	The loan contract forms the core of our relationship with this borrower.	1	2	3	4	5
6	It is also important in our relationship with the borrower to have a good loan contract.	1	2	3	4	5
7	The borrower shares in the payment for specific services (collateral managers, land surveyors, lawyers) outsourced to assist in the smooth processing of the loan facility.	1	2	3	4	5
8	The borrower shares in the payment for the investments in specific software systems that we must use to process and manage the loan facilities.	1	2	3	4	5
9	We give guarantees for provision of loan facilities for an agreed period of time.	1	2	3	4	5
10	The location of our Bank plays an important role in the relation with our borrowers.	1	2	3	4	5
11	There is restriction of room for opportunism alteration in our Bank.	1	2	3	4	5
12	In our relationships with our borrowers, it is assumed that loan contracts will in general be reviewed and eventually renewed annually.	1	2	3	4	5
13	Because we have been doing business so long with our borrowers, all kinds of procedures (before and after loan disbursement) have become self-evident.	1	2	3	4	5
14	Because we have been doing business so long with our borrowers, we can understand each other well and quickly.	1	2	3	4	5

15	The risk in the relations with our borrowers is sufficiently covered by contractual and non-contractual means.	1	2	3	4	5
16	My bank writes loan agreements with covenants that protect it against uncertain behaviour of the borrowers.	1	2	3	4	5
17	If my Bank has a long-term lending relationship with a borrower, his loan agreements don't have to be made very stringent.	1	2	3	4	5
18	The more we trust a borrower, the less stringent are the terms of his loan agreement.	1	2	3	4	5

Transaction frequency

Please indicate by ticking the appropriate number in the statements below.

1. The average number of loan requests from borrowers is

Extremely low **Extremely high**

1 2 3 4 5

2. The average number of bank products consumed by borrowers is

Extremely low **Extremely high**

1 2 3 4 5

3. The average number of transactions processed by borrowers is

Extremely low **Extremely high**

1 2 3 4 5

4. The average size of loans disbursed to borrowers is

Extremely low **Extremely high**

1 2 3 4 5

SECTION IV: LENDING INTEREST RATE

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

	LENDING INTEREST RATES	**Strongly Disagree(1)**	**Disagree(2)**	**Not Sure (3)**	**Agree(4)**	**Strongly Agree(5)**
1	Our Lending Interest rate depends on the transaction costs of the loans.	1	2	3	4	5
2	Our Lending interest rate depends on the relationship we hold with the customer.					
3	The relationship a borrower has with my bank determines the interest rate he pays on his loans.	1	2	3	4	5
4	Our Bank charges a higher interest rate on loans, if the costs involved in their management rises.	1	2	3	4	5
5	My Bank prices the borrower's future and current loans slightly higher, if He has tendencies of submitting incomplete financial information and non repayment of his installments on time.	1	2	3	4	5

6	If the borrowers fail to comply with the terms of the loan agreement, their interest rates are adjusted upwards.	1	2	3	4	5
7	My Bank charges interest rate that includes inflated costs.	1	2	3	4	5

8. Please tick the appropriate interest rate that is charged on the loan segmentation below.

BORROWER SEGMENTATION	0%-4%	5%-9%	10%-14%	15%-19%	20%-24%	25%-29%	30%-34%	35%-39%	> 40%
Business Loans[7]									
Corporate Loans[8]									

Appendix 5 questionnaire guide to bank borrowers

Dear respondent your Company has been selected to participate in a study <u>Relationship Lending, Transaction Costs and Lending Interest Rates</u> am carrying out. This is a purely an academic research and your responses will be treated with utmost confidentiality it deserves. Thank you for your valuable time and cooperation.

SECTION I: GENERAL INFORMATION

Please tick the appropriate box for the questionnaire that follows below:

Demographic Characteristics

1. Gender: Male ( ) e (2)

2. Who are your Banker (s)?

…….

3. How long have you been Banking with this Bank(s)

Code	**1**	**2**	**3**	**4**	**5**
Duration	**Less than a Year**	**1-2 Years**	**3-4 Years**	**Over 5 Years**	**NOT SURE**
Tick					

[7] **Medium sized Enterprises** (borrowers) with annual turnover **>** UGX 360MN

[8] **Large sized Enterprises** (borrowers) with annual turnover **>** UGX 5BN

4. What method did you use to search for this Bank(s)

Method	Code
Solicitation by Bank representatives.	1
Recommendations from people within this company.	2
Recommendations from other companies.	3
Advertisements	4
Trade shows & exhibitions	5
Business associations like P.S.U[9],U.M.A[10],KACITA[11]	6
Market surveys	7
Proposals submitted by Bank representatives.	8

5. What aspects did you base on when selecting this Bank(s)?

Method	Code
Strength of its Brand or Image in the communities	1
Quality of its customer care	2
Turnaround time	3
Favorable Interest rates on Loans	4
Favorable interest rates on deposits	5
Favorable Bank charges	6
Reputation	7
Trustworthiness	8
Management of the Bank	9
Past experience with a similar bank	10
Stability of the Electronic Systems used by the Bank	11

6. Your Level of Education

Code	**1**	**2**	**3**	**4**	**5**
Level	**Certificate**	**Diploma**	**Bachelors degree**	**Masters**	**PhD**
Tick					

7. For how long has the company been in existence?

Code	**1**	**2**	**3**	**4**	**5**
Duration	**0-5yrs**	**6-10 yrs**	**11-15 yrs**	**16-20yrs**	**Over 20yrs**
Tick					

8. How many employees does your organization employ?

[9] **P.S.U**-Private Sector Foundation

[10] **U.M.A**- Uganda Manufacturers Association

[11] **KACITA**-Kampala City Traders Association

Code	1	2	3	4
No.	50-99	100-499	Over 500	Not sure
Tick				

9. How many buyers/customers does your company have?

Code	1	2	3	4	5
No.	Less than 1000	1001-3000	3001-5000	Over 5000	Not sure
Tick					

10. What is the type of your firm?

Type	Code
Joint ownership/partnership	1
Limited liability company	2

11. What is the nature of ownership in your firm?

Type	Code
Local ownership	1
Foreign ownership	2
Local & foreign ownership	3
State owned	4
Foreign & state ownership	5

12. What industry sector does your company fall in?

Type	Code
Distribution	1
Manufacturing	2
Construction	3
Power & Energy (Electricity, water, gas etc)	4
Transport	5
Communication	6
Finance & Insurance	7
Hotel & Tourism	8
Non-financial	9
Government	10
Real-estate & Business services	11
Community, Social & Personal services	12
Other (specify)	13

13. How many Banks does your company hold accounts with?

Code	1	2	3	4
No.	0-1	2-3	4-5	Over 5
Tick				

14. The bank account(s) your company holds with the Bank (s).

Type	Code
Current A/C	1

Fixed Deposit A/C	2
Savings A/Cs	3
Other(specify)	4

15. The Facilities the Bank(s) offers to your company.

Type	**Code**
Mortgage	1
Term Loans	2
Leasing Facility	3
Overdraft	4
Trade Finance	5
Foreign Exchange Line	6
Derivatives line (SWAP, T-bills, Forward Contracts etc)	7
Brokerage	8
Trust & Pension services	9
Other(specify)	10

16. Which mean of communication does your Bank privilege?

FORM OF COMMUNICATION	**Code**
Face to Face	1
Telephone	2
Email	3
Fax	4

17. The Annual turnover (revenue) for the financial year ended 31/12/2008.

Code	**1**	**2**	**3**	**4**	**5**
Income in Ugx	**360Mn-2Bn**	**2Bn-3.6Bn**	**3.6Bn-5.2Bn**	**5.2Bn-6.8Bn**	**Over 6.8Bn**
Tick					

SECTION II: RELATIONSHIP LENDING

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

	DURATION	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	Because of our long term relationship with the Bank, we pay low interest rates on our loan facilities.	1	2	3	4	5
2	Given our strong relationship with the Bank, we ensure to comply with their loan terms and repayment obligations.	1	2	3	4	5
3	The stronger our relationship with the bank, the higher the interest rate charged on our current and future loans.	1	2	3	4	5
	MULTIPLE BANKING RELATIONSHIPS					
1	The bank gives us better borrowing terms despite the fact that we have several borrowing relationships with other banks.	1	2	3	4	5
2	The bank gives us better borrowing terms despite the fact that we have fewer borrowing relationships with other banks.	1	2	3	4	5
3	The bank gives us better borrowing terms despite the fact that we have no borrowing relationships with other banks.	1	2	3	4	5
4	My company has multiple loan facilities with other Banks and actually rarely complies with the Bank's loan terms and repayment obligations.	1	2	3	4	5
	PRE-EXISTING RELATIONSHIP					
1	My company holds current accounts with this bank and complies more easily with the loan terms.	1	2	3	4	5
2	My company holds savings accounts with this bank and complies more easily with the loan terms.	1	2	3	4	5
3	My company has acquired loan facilities in past from this bank and complies with their loan terms.	1	2	3	4	5
4	My company utilizes this bank's financial management services[12].	1	2	3	4	5

	DEGREE OF TRUST	Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	In our relationship with the Bank, the involved parties can always be trusted to do what is right.	1	2	3	4	5
2	Our Bank can be trusted for availing Loan facilities at all times.	1	2	3	4	5
3	The Bank trusts all information and documents presented by my company since we have	1	2	3	4	5

[12] Financial Management Services- credit-related services, brokerage services, credit-related services, brokerage service, and trust and pension services.

	been banking with them for a longer period.					
4	The Bank does not trust all the information and documents my company presents to them since we have not been banking with them in the past.	1	2	3	4	5
5	Insincerity is on the increase in my company.	1	2	3	4	5
6	My company can be relied on to keep their promises	1	2	3	4	5
7	My company is usually given honest explanations for the unavailability of loan facilities or their decline.	1	2	3	4	5
8	My company's needs and views are taken into account when the Bank is making any decisions.	1	2	3	4	5
9	Although circumstances surrounding availability of loan facilities may change, we believe that the Bank will be ready and willing to offer assistance and support.	1	2	3	4	5
10	My company can count on the Bank to be sincere	1	2	3	4	5
11	The Bank can count on us to be sincere.	1	2	3	4	5
12	The Bank officials who deal with my company are very competent.	1	2	3	4	5
13	My company is sometimes unreliable.	1	2	3	4	5
14	Our company never tries to hide something serious that may impact the Bank negatively.	1	2	3	4	5
15	The Bank gives us all known and relevant information about important issues even if there is a possibility that it might jeopardize them.	1	2	3	4	5
16	The Bank's loans officer minimizes the information he gives to us.	1	2	3	4	5
17	The Bank's loans officer deliberately withholds some information when communicating with us.	1	2	3	4	5
18	The bank enters into an agreement with us even if our future obligations concerning the agreement are not explicitly stated.	1	2	3	4	5
19	The bank enters into an agreement with us even if it thinks other people might try to persuade us to break it.	1	2	3	4	5
20	The bank enters into agreement with us even if it is unclear whether we would suffer any negative consequences for breaking it.	1	2	3	4	5
21	The bank does not offer us to enter into an unwritten agreement with them.	1	2	3	4	5
22	The bank sometimes suggests to us to enter into an unwritten agreement with them.	1	2	3	4	5
23	The Bank monitors us closely to ensure that we don't do something detrimental to them.	1	2	3	4	5
24	The bank continues to monitor us even after having requested us to do something.	1	2	3	4	5

SECTION III: TRANSACTION COSTS

1) Please indicate by ticking the charges incurred on your loan facilities.

Loan Related Charges	Code
Application fees	1
Advance commitment fees	2
Arrangement fees	3
Processing and administration fees	4
Loan monitoring fees	5
Insurance fees	6
Legal fees	7
Stationery fees	8
Discharge security documents fees	9

Renewal facility fees	10
Restructuring facility fees	11

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

	OPPORTUNISM	**Strongly Disagree(1)**	**Disagree(2)**	**Not Sure (3)**	**Agree(4)**	**Strongly Agree(5)**
1	Our company has to sometimes alter the financial records slightly in order to get loans from the Bank.	1	2	3	4	5
2	Sometimes our company presents facts about its products to the Bank in such a way that they look good.	1	2	3	4	5
3	The Company thinks that complete honesty does not pay when dealing with the Bank.	1	2	3	4	5
4	Our company's employees sometimes have to exaggerate product uses in order to benefit from it	1	2	3	4	5
5	Our company will do anything within its means to further its own interests.	1	2	3	4	5
6	Sometimes our company slightly alters facts in order to get what he needs	1	2	3	4	5
7	My company has on several occasions promised the Bank to do things and does not do them	1	2	3	4	5
8	Sometimes the Bank staff present facts to us in such a way that they look very attractive.	1	2	3	4	5
9	On several occasions, Company staff have lied to the Bank about certain things about the company in order to protect its interests	1	2	3	4	5
10	Sometimes the Bank has to exaggerate its offer in order to convince to accept the loan.	1	2	3	4	5
	ASSET SPECIFICITY					
1	If my company switches to another Bank other than the usual one, it spends a large amount of time to access credit facilities and other services from the new bank.	1	2	3	4	5
2	If my company switches to other Banks other than the regular one, it spends a large amount of time to understand the procedures involved in acquiring credit facilities and other services.	1	2	3	4	5

3	If my company switches to other Banks other than the regular one, it spends a large amount of time to understand how to deal with the new Bank.	1	2	3	4	5
4	My company has to undergo financial management skill training before they are granted a loan by the Bank.	1	2	3	4	5
5	Acquiring loan facilities from banks involves commitment of time and money in most of the instances.	1	2	3	4	5
6	Certain fees must be paid by my company before the loan is granted to it.	1	2	3	4	5
7	Our Bank offers us a wide range of credit options to choose from.	1	2	3	4	5
8	Our Bank requires us to use bank-owned and or licensed software for reporting purposes, so that we qualify for a loan.	1	2	3	4	5
9	Our bank requires us to select the our external auditors only from their pre-approved list of auditing firms in order to qualify for a loan	1	2	3	4	5
10	Our Bank requires us to use land surveyors or property valuers only from their pre-approved list of valuers / surveyors in order to qualify for a loan	1	2	3	4	5
11	Our bank requires us to prepare and present our financial statements strictly in a particular manner laid out by them so that we qualify for a loan	1	2	3	4	5
12	Because we borrow from this bank, they obtain all information about us that would otherwise be difficult to access by the other banks	1	2	3	4	5
13	Our firm has people with specific expertise to be able to monitor our loans with the bank.	1	2	3	4	5
14	We have to make investments to satisfy the specific account balance turnover conditions of our Bank.	1	2	3	4	5
15	My company does not disclose all the details concerning its ownership and property values used as collateral for a loan to Banks.	1	2	3	4	5
16	Our bank processes our loans in the shortest time possible.	1	2	3	4	5
17	Our bank processes our loans within the time we need it.	1	2	3	4	5
18	Most of our loans with this bank have a medium term repayment period(more than1 year but less than 5years)	1	2	3	4	5
19	Most of our loans with this bank, have a short term repayment period(less than 1 year)	1	2	3	4	5
20	Most of our loans with this bank have a long term repayment period (more than 5 years)	1	2	3	4	5
21	The procedure and routines of the Bank are completely tailored to our company's situation.	1	2	3	4	5
22	The bank has adapted to some of our tailor-made norms.	1	2	3	4	5
23	The Bank's staff and loan facilities have been tailored to serve us satisfactorily.	1	2	3	4	5
	ENVIRONMENTAL UNCERTAINTY					
1	The profitability returns, prices, product demand or volume of business for my company is unpredictable at a particular time	1	2	3	4	5
2	The interest rates our bank charges us on the loans is unpredictable and keeps on changing as we apply for more loans	1	2	3	4	5
3	Sometimes my company is not certain that it will meet the repayment obligations on time The interest rates charged on loans by banks are highly unpredictable.	1	2	3	4	5
4	My company only acquires loan facilities from this Bank and does not do any other business with it.	1	2	3	4	5

5	My company in addition to acquiring loan facilities also utilizes other services offered by this bank.	1	2	3	4	5
	BEHAVIORAL UNCERTAINTY					
1	When my company is dealing with a new bank, it's difficult to be assured that their services are reliable	1	2	3	4	5
2	When my company is dealing with a new bank, it's difficult to be assured that the bank will perform well compared to the old bank	1	2	3	4	5
3	After my company has accepted the loan facility and signed the loan application documents, it's difficult to return the funds un-utilized.	1	2	3	4	5
4	After my Bank has accepted the loan, it's difficult to have the unfair terms in the agreement altered or revisited by the bank.	1	2	3	4	5
5	After my Bank has acquired the loan, it's difficult to get good post-loan customer service from the bank.	1	2	3	4	5
6	It is difficult for my company to be assured of the reliability of the date the bank will approve and disburse the funds to us.	1	2	3	4	5
7	It is difficult for my company to be assured that the transactions with the new bank will not involve other hidden or embedded new costs.	1	2	3	4	5
8	Is difficult for my company to predict how much to borrow from the bank in order to fund adequately the company's operations throught the financial year.	1	2	3	4	5
	GOVERNANCE SET UP COSTS					
	WRITING LOAN CONTRACTS					
1	Our Company and the Bank have mutually binding agreements that regulate all activities related to the loan.	1	2	3	4	5
2	The Bank's loan agreements are set in a way that they incorporate my company's business needs.	1	2	3	4	5
3	My Company and the Bank agree to a set of rules and procedures that ensure compliance and loan repayment.	1	2	3	4	5
4	The loan contracts drafted by our Bank are as complete as possible.	1	2	3	4	5
5	The loan contract forms the core of our relation with this Bank.	1	2	3	4	5
6	It is also important in our relation with the Bank to have a good loan contract.	1	2	3	4	5
7	My company shares in the payment for specific services (collateral managers, land surveyors, lawyers) outsourced to assist in the smooth processing of the loan facility.	1	2	3	4	5
8	My company shares in the payment for the investments in specific software systems that we must use to process and manage the loan facilities.	1	2	3	4	5
9	Our Bank gives guarantees for the provision of loan facilities for an agreed period of time.	1	2	3	4	5
11	There is restriction of room for opportunism alteration in our Company.	1	2	3	4	5
12	The services by our Bank cannot be assessed on its merit if one looks only at the interest rate.	1	2	3	4	5
13	In our relationships with our Bank, it is assumed that loan contracts will in general be reviewed and eventually renewed annually.	1	2	3	4	5
14	We see the relationships with our bank as long term relationships in which one must invest and in which both sides are willing to make concessions if they are really needed.	1	2	3	4	5
15	Our Bank knows much about us than we know about them.	1	2	3	4	5

16	Because we have been doing business so long with our Bank, all kinds of procedures (before and after loan disbursement) have become self-evident.	1	2	3	4	5
17	Because we have been doing business so long with our Bank, we can understand each other well and quickly.	1	2	3	4	5
18	The risk in the relations with our Bank is sufficiently covered by contractual and non-contractual means.	1	2	3	4	5
19	The bank's loan agreements have covenants that protect it against uncertain behaviour of us.	1	2	3	4	5
20	Because my Company has a long-term lending relationship with this Bank, the loan agreements are less stringent.	1	2	3	4	5
21	The more the Bank trusts us, the less stringent are the terms of its loan agreement.	1	2	3	4	5

Transaction frequency

Please indicate by ticking the appropriate number in the statements below.

5. The average number of loan requests from my company is

Extremely low Extremely high

1 2 3 4 5

6. The average number of bank products utilized from my company is

Extremely low Extremely high

1 2 3 4 5

7. The average number of transactions processed from my company is

Extremely low Extremely high

1 2 3 4 5

8. The average size of loans disbursed to my company by the bank is

Extremely low Extremely high

1 2 3 4 5

SECTION IV: LENDING INTEREST RATE

1. Please tick the most appropriate interest rate that is charged on most of your loans.

0%-4%	5%-9%	10%-14%	15%-19%	20%-24%	25%-29%	30%-34%	35%-39%	Over40%

THE END