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The process of female borrower discouragement

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Abstract

Recent entrepreneurial finance literature identifies 'borrower discouragement' as an important phenomenon explaining why female entrepreneurs hold less capital to grow their venture. But how do you become a discouraged borrower? We apply grounded theory to interviews with Tanzanian female entrepreneurs and model the process via which these entrepreneurs become discouraged. Our model suggests that entrepreneurs hold negative perceptions regarding loan application, allocation and payback procedures shaped by both internal and external information sources. We demonstrate that negative perceptions cause an unfavorable attitude towards formal loans which together with entrepreneurs' perceptions of societal norms lead to a low intention to apply.

JEL classification: G21, G41, O16

Keywords: entrepreneurial finance; borrower discouragement, female entrepreneurship, grounded theory

Highlights

- Borrower discouragement is a key demand-side funding constraint in emerging markets
- We model the process via which female entrepreneurs in Tanzania become discouraged
- We find negative perceptions towards loan application, allocation and payback
- These perceptions are formed through personal experiences and social interactions
- In combination with societal norms these perceptions lead to low intention to apply

The process of female borrower discouragement

Abstract

Recent entrepreneurial finance literature identifies 'borrower discouragement' as an important phenomenon explaining why female entrepreneurs hold less capital to grow their venture. But how do you become a discouraged borrower? We apply grounded theory to interviews with Tanzanian female entrepreneurs and model the process via which these entrepreneurs become discouraged. Our model suggests that entrepreneurs hold negative perceptions regarding loan application, allocation and payback procedures shaped by both internal and external information sources. We demonstrate that negative perceptions cause an unfavorable attitude towards formal loans which together with entrepreneurs' perceptions of societal norms lead to a low intention to apply.

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1. Introduction

Bottom of the pyramid entrepreneurship is an essential driver of economic growth in emerging economies (Sarkar, 2018). However, many small and medium sized enterprises (SMEs) and especially those owned by women, are financially constrained which severely inhibits their growth potential. Female entrepreneurs are less likely to use formal loans from banks or microfinance institutions (MFIs) to finance their businesses (Stevenson & St-Onge, 2005; Asiedu et al. 2013) and in general hold less capital in the early stages of their venture (Alsos et al., 2006).

Traditionally, these financing constraints have been attributed to a lack of funding *supply*. Some studies report that female entrepreneurs are discriminated against by credit providers (Agier & Szafarz, 2013; Alesina et al., 2013) or face tougher loan requirements because they are perceived as more risky (Aterido et al., 2013; Hansen & Rand, 2014). Other studies observe similarities between men and women in application procedures going against the discrimination hypothesis in terms of access to loans (Carter et al., 2007). A range of studies[1] report that female

[1] Marlow & Patton (2005) argue that the entrepreneurial financial system is male- oriented which leads to negative perceptions towards female borrowing translating into a disadvantage in borrowing conditions. Amine & Staub (2009) find women entrepreneurs face unfavorable lending conditions caused by the local regulatory, normative and cognitive institutional context. Lindvert et al. (2017) show that female entrepreneurs are restricted in building sufficient 'social capital' to succeed.

entrepreneurs face hidden or 'latent' borrowing constraints sometimes referred to as 'second-order gender effects' (Wu & Chua, 2012).

Focusing on supply-side issues only, however, paints a partial picture since the level of capitalization is determined jointly by demand and supply. Recent studies therefore highlight the role of *demand-side* constraints in formal lending. Whereas in many economies the 2008 financial crisis caused a negative supply shock in business financing as capital markets dried up (Del Giovane et al., 2011), the microfinance industry has known a rapid expansion in many emerging economies. In addition, profit-seeking private investors are attracted to the micro-lending market by a combination of high interest rates and high repayment rates from the predominantly female borrowers (McIntosh & Wydick, 2005) resulting in an *abundant* supply of credit in many developing regions. Therefore, any reported market imperfection in formal lending to female entrepreneurs, could very well be the result of demand-side barriers. Specifically, the large amount of asymmetric information in emerging economies gives rise to two important demand side issues preventing microloans from being allocated efficiently: *over-indebtedness*, i.e. the excessive demand for loans[2] and *borrower discouragement*, i.e. the reluctance to apply for loans.

Discouraged borrowers are entrepreneurs with good investment projects who do not apply because they fear rejection (Kon & Storey, 2003). For some discouraged borrowers, this fear is misplaced; they would actually get a loan if they applied for one. According to Cowling et al. (2016) underinvestment caused by misplaced discouragement could amount to more than 1.5 billion dollars each year in the US. Along similar lines, Freel et al. (2012) show that in the US there are twice as many discouraged borrowers than rejected applicants. For emerging economies in Eastern Europe and Asia the situation is even worse. For every rejected applicant there are three discouraged borrowers (Gama et al., 2017). Consequently, excluding discouraged borrowers would bias any estimate of credit constraints (Jappelli, 1990).

The existing literature on discouragement shows two shortcomings. First, it generally focuses on developed economies (Cavalluzzo et al., 2002; Cole & Sokolyk, 2016; Xiang et al., 2015). Only a handful of studies look at emerging economies (Brown et al., 2011; Chakravarty & Xiang, 2013; Raturi & Swamy, 1999; Gama et al., 2017) where discouragement is arguably more widespread due to higher levels of asymmetric information (Kon & Storey, 2003). Secondly, previous studies mainly use logistic regressions to investigate which business, entrepreneurial and environmental characteristics influence the probability of an entrepreneur

[2] See for instance Guérin et al. (2014) for an extensive research overview on the issue of over-indebtedness.

being discouraged. While these studies are able to identify *which* entrepreneurs are most likely to be discouraged, very little is known about *how* and *why* borrowers end up discouraged.

Our study aims to open up this black box by inductively building a theoretic model of the process via which female borrower discouragement occurs. To this end, we conduct in depth interviews with Tanzanian female discouraged borrowers analyzed using the Gioia methodology (Gioia et al., 2013). We provide a comprehensive overview of the entrepreneurs' perceptions towards formal loans and subsequently investigate how these perceptions lead up to borrower discouragement within the context of the Tanzanian economy. As far as we know, we are the first to shed light on the set of attitudes, perceptions and behaviors surrounding each step in the decision-chain to apply for formal loans and thereby unravel the process leading up to discouragement. Hence, we contribute to the emergent literature on the effect of demand side issues, more specifically borrower discouragement, on financial constraints experienced by female entrepreneurs.

We focus on female entrepreneurs because they are more likely to be discouraged than male entrepreneurs (Chakravarty & Xiang, 2013; Gama et al., 2017) and because the economic potential of 'lifting' borrower discouragement is arguably higher for female entrepreneurs (Khandker, 2005; Lock & Lawton-Smith, 2016). We focus on Tanzania because female entrepreneurship is widespread (52% of small and medium-sized businesses are female-owned) but concentrated on the lower end of the spectrum in terms of growth potential and job-creation[3] (MIT, 2012; Lindvert et al., 2019). Furthermore, in a study done by Chakravarty & Xiang (2013), which looks both at developed and at emerging economies, Tanzania is the country with the second highest percentage of discouraged borrowers i.e. more than 40% of businesses in the Tanzanian sample are discouraged. In light of 'purposeful sampling' employed in qualitative research (Patton, 1990) female entrepreneurs in Tanzania therefore constitute a strong sample to analyze the discouragement process.

In what follows we provide an overview of the literature on borrower discouragement to position our research. We then elaborate on our research context and methodology followed by our findings narrative and the discussion of our theoretic model. In the discussion and conclusions section we offer recommendations to avoid borrower discouragement and reflect on areas for future research.

[3] Entrepreneurial ventures at the lower end of the spectrum in terms of growth potential and job-creation is sometimes referred to as 'subsistence' or 'survivalist' entrepreneurship considered problematic from a development-perspective since these ventures do not generate a decent remuneration for capital nor create jobs (Smallbone and Welter, 2001; Crecente-Romero et al., 2016).

2. Literature

2.1. Conceptual framework on borrower discouragement

Kon & Storey (2003) present a generic theoretic framework on borrower discouragement. Due to asymmetric information, credit providers cannot accurately screen potential borrowers which increases the equilibrium interest rate. Borrowers with safe projects who are not willing to pay higher interest rates drop out of the market. The model predicts that entrepreneurs will anticipate that information asymmetry causes credit providers to make screening errors and reject good borrowers. Consequently, potential borrowers only apply for a loan if the expected return is larger than the expected cost to apply. Expected application costs are 'financial' i.e. the cost of providing information or the amount of collateral needed; 'in kind' i.e. the time it takes to complete the application process; and 'psychical' i.e. the cost of having to divulge confidential information to external parties. The behavior of discouraged borrowers can be captured using the following equation:

$$(1 - b_G)(X_G - D - w) > K_i \quad (1)$$

The left hand side of the equation describes the expected return of applying for and investing a bank loan for a positive Net Present Value (NPV)-project. In this equation, b_G equals the probability that the bank rejects a borrower with a positive NPV-project, X_G is the return of the project, D is the interest rate on the loan and w is the opportunity cost of applying for a bank loan. The right hand side of the equation represents the application costs K_i. Rearranging terms provides an application condition proposing that a firm will apply for a bank loan only if:

$$X_G > (D + w + K_i)/(1 - b_G) \quad (2)$$

The right hand side of this equation is defined as the effective borrowing cost y_i or the sum of the interest payments, the opportunity costs, and the effective application costs. Figure 1 shows the circumstances under which borrower discouragement occurs. The Y-axis measures the effective borrowing cost y_i for each firm *i*. The line denoted AC_GP shows the level of y_i when there is perfect information and banks make no screening errors (b_g=0). Under this condition all firms with positive NPV-projects apply for a bank loan and there are no discouraged borrowers. When there is asymmetric information and banks make screening errors (b_g>0), AC_GP shifts up to AC_G'. Thus, for some firms the effective borrowing cost y_i is larger than the

return of their positive NPV-project denoted by $\boldsymbol{X_G}$. The number of firms applying for a bank loan drops from $\boldsymbol{N_G}$ to $\boldsymbol{G_A}$. The borrowers between $\boldsymbol{N_G}$ and $\boldsymbol{G_A}$ are labelled discouraged borrowers who thus fail to apply in spite of having positive NPV-projects.

< Insert Figure 1 >

Kon & Storey (2003) thus define discouraged borrowers as: "good borrowers who do not apply for a bank loan because they feel they will be rejected" (p37). Empirical studies building on this notion have extended this definition in two main ways. First, in practice it is hard to distinguish between 'misplaced' discouraged borrowers, who would have received a loan if they applied; and 'appropriately' discouraged borrowers, who would not have received a loan. Both categories have never applied and thus any application outcome is unobservable *ex ante*. Nevertheless, these two types of discouragement are quite distinct. While the former represents a market imperfection due to foregone growth potential, the latter represents an efficient self-rationing mechanism (Rostamkalaei et al., 2020).

There is considerable discussion in the literature about the proportion of 'appropriately' versus 'misplaced' discouraged borrowers. Han et al. (2009) argue that most discouraged borrowers in the US are appropriately discouraged, and thus poor credit risks. Rostamkalaei et al. (2020) show that a significant proportion of discouraged borrowers in the UK are informally rejected by their loan officers and subsequently decide not to submit a formal application. This is supported by studies which find that discouraged firms are significantly less profitable (Cole & Sokolyk, 2016; Cowling et al., 2016) and have a higher credit risk compared to non-discouraged peers (Cavalluzzo et al., 2002; Chakravarty & Yilmazer, 2009). Nevertheless, Cole & Sokolyk (2016) estimate that between 21% and 55% of their sample of discouraged borrowers would receive a loan if they applied. While no comparable figures exist for emerging economies, Han et al. (2009) expect borrower discouragement to be less efficient in less sophisticated financial markets. In the context of our study, we do not dinstinguish between 'misplaced' and 'appropriately' discouraged borrowers on an *ex ante* basis. However, as discussed below, we have conducted a follow-up survey and interviews which allows to shed some light on the actual credit risk of our sample on an *ex post* basis.

The second extension of the definition by Kon & Storey (2003) concerns the discouraged borrowers' *perceptions* related to formal loans. According to the original model borrowers are discouraged from applying because they fear rejection. Subsequent empirical studies however have identified discouraged borrowers based on a wider range of negative perceptions towards

formal loans. Some entrepreneurs become discouraged because they perceive discrimination in credit allocation (Cavalluzzo et al., 2002; Fraser, 2009). Others fail to apply because they anticipate unattractive borrowing terms such as high interest rates and collateral requirements (Brown et al., 2011; Raturi & Swamy, 1999). Some discouraged borrowers perceive corruption in the loan allocation process or believe the process will take too much time (Thakur & Kannadhasan, 2019; Levenson & Willard, 2000). Finally, some perceive loans as too risky or believe they might lose control of the business (Watson et al., 2009).

Regardless of the perception investigated, these studies define discouragement based on a number of *pre-determined* perceptions, and exclude discouraged borrowers who fall outside the scope of this definition. Our study follows an inductive approach which allows us to tease out the whole spectrum of negative perceptions that lead up to discouraged borrowing. To this end, we start from a general definition of discouragement which does not specify the perceptions held by a discouraged borrower *ex ante*: an entrepreneur who is in need of business financing but does not apply because of his/her negative perceptions. We identify discouraged borrowers based on this broad definition and then investigate the exact nature of their perceptions of formal loans, thus inductively modelling the process via which entrepreneurs become discouraged.

2.2. Determinants of borrower discouragement

According to the Kon & Storey (2003) model explained above, there are three main determinants underlying discouragement, namely (a) the difference between the bank interest rate and the interest rate of alternative financing sources, (b) the application cost and (c) the likelihood that the bank makes a screening error. An increase in any of these factors will lead to an increase in the likelihood that a borrower becomes discouraged. Several empirical studies explore how business, entrepreneurial and environmental characteristics influence these determinants and consequently lead to variation in the probability of being discouraged.

Chakravarty & Xiang (2013) and Gama et al. (2017) for instance show that female entrepreneurs are more likely to be discouraged than male entrepreneurs. Several possible explanations exist. First, women might refrain from applying because they expect to be discriminated against by credit providers (Haines et al., 1999; Alesina et al., 2013). Second, women have significantly lower levels of entrepreneurial and financial self-efficacy compared to men (Farrell et al., 2016) and consequently are less confident about their chances of being successful if they submit a loan application (Bellucci et al., 2010). Finally, women have been shown to be more risk-averse than men and therefore are less likely to engage in situations with

an uncertain outcome such as applying for a loan (Chaganti, 1986; Singh et al., 2014). Although few studies find actual proof of gender discrimination (Buttner & Rosen, 1992), female entrepreneurs in emerging economies perceive they face tougher requirements or are rejected more often than their male counterparts (Asiedu et al., 2013).

Another entrepreneurial characteristic which impacts discouragement is education. Less educated entrepreneurs are less aware of the application process i.e. how to apply for loans, which documents to supply, etc. and therefore may anticipate higher application costs. In addition, less educated entrepreneurs are considered more risky by credit providers and are more likely to face tougher credit constraints or have their applications rejected. Consequently, less educated individuals are more likely to be discouraged (Cowling et al., 2016; Chakravarty & Xiang, 2013; Raturi & Swamy, 1999). Similar arguments have been made regarding younger businesses (Fraser, 2009; Cole & Sokolyk, 2016; Mac an Bhaird et al., 2016) and smaller businesses (Xiang et al., 2015), both considered more likely to be discouraged. Banks have less information about the credit quality of informationally opaque firms and are thus more likely to make screening errors. Furthermore, smaller and younger firms are considered more risky and face higher interest rates or collateral requirements (Gama et al., 2017).

Finally, business industry also influences the likelihood of discouragement. Firms active in an industry with a strong asset structure and high capital investments are considered less risky and face more lenient requirements and are thus less likely to be discouraged. Firms active in sectors with traditionally low profit margins are perceived more risky and see their applications rejected more often. Therefore, these businesses are more likely to be discouraged (Riding & Haines, 2001; Freel et al., 2012).

We conclude from the empirical literature that several determinants of discouragement have been identified relating both to entrepreneurial characteristics (such as *gender*, *education level* and*literacy level*) and business characteristics (*age*, *size* and *industry*). Little is known, however, about the *process* via which borrowers become discouraged and the perceptions leading up to borrower discouragement. Understanding this process is nonetheless a necessary precondition to stimulate value-creating entrepreneurship at the bottom of the pyramid.

3. Sampling and methodology

We conduct in depth interviews with discouraged female entrepreneurs in Tanzania. Our sample selection is given in by a purposeful sampling approach (Patton, 1990; Glaser & Strauss, 1967) which involves "strategically selecting information-rich cases that provide unique knowledge regarding the issues of central importance" (Kaczynski et al., 2014, pp. 132). The fact that in Tanzania the majority of small and medium sized-business (52%) are female-owned, and that many borrowers (40%) can be labelled discouraged (Chakravarty & Xiang, 2013), makes Tanzania a useful study-ground. Previous studies also show that female entrepreneurs are more likely to be discouraged than male entrepreneurs (Chakravarty & Xiang, 2013; Moro et al., 2017) which illustrates the relevance of focusing on discouragement among female entrepreneurs.

As a result of this sampling approach, results should be interpreted in light of the Tanzanian context and cannot necessarily be generalized to another context. When comparing the macro-economic context in Tanzania to that of other sub-Saharan African countries we note that over the past fifteen years GDP growth in Tanzania (6,24%) has been substantially higher than the average in sub-Saharan Africa (SSA) (3,99%). The same applies to the average inflation rate: 8,22% in Tanzania, versus 5,28% in SSA. In the whole of SSA the proportion of women who are self-employed surpasses the proportion of self-employed men. Additionally, the proportion of self-employed women in Tanzania is considerably higher (91,48%) compared to the average in SSA (83,76%). This demonstrates that Tanzania has a dynamic economy with a growing entrepreneurial sector. Nevertheless, about 53% of the Tanzanian population lives below the poverty line (1,90 dollars per day) compared to 45% for SSA and poverty is slightly more prevalent among women. Concerning the institutional framework for businesses, it takes on average 30 days to start a business and 70 days to register property which is marginally lower than the average in SSA. Profit tax amounts to 21% of business profits in Tanzania, compared to 18% in SSA. The average lending interest rate for the private sector in Tanzania is 15,94%, compared to 14,82% for SSA in general.[4]

We argue that a qualitative method is most suitable to model the process of discouragement. First, qualitative research produces deeper knowledge and is better suited for process-oriented research i.e. to answer the *how* question (Gioia et al., 2013). Second, our study deals with perceptions which are inherently difficult to measure quantitatively (Bouton & Tiongson, 2010). In depth interviews allow us to ask informants about their perceptions and understand

[4] Macro-economic data originates from the World Bank Development Indicators as well as the World Bank Poverty and Equity Database. All indicators are averaged between 2006 and 2020.

how they were formed (Eriksson & Kovalainen, 2008; Silverman, 2008). Finally, in contrast to quantitative research, qualitative research tends to be inductive (Kaczynski et al., 2014; Creswell, 2009) which better matches the purpose of our study.

All participants in our research are female discouraged borrowers from Dar es Salaam, the largest city and economic capital of Tanzania. We define a discouraged borrower as an entrepreneur who needs extra financing for her business but has not applied for a formal loan (bank or MFI loan) in the last 12 months, and is currently not reimbursing a formal loan. Among the many definitions of borrower discouragement used in the literature, we prefer this broad definition similar to Gama et al. (2014) to capture all possible reasons why informants become discouraged.

To select individual informants, we combined a list of entrepreneurs who followed a business training program at University of Dar es Salaam Business School (UDBS) and a list of participants to an informal loan group. We supplemented these lists with personal contacts of our research assistants and used snowball sampling to identify additional informants. By selecting informants from separate points of entry, we adhere to the principle of data triangulation which ensures informants originate from independent subsets of the population (Glaser & Strauss, 1967; Denzin, 1978).

We collected our data through 33 face-to-face semi-structured interviews which lasted for approximately one hour and took place at UDBS in September 2017. Ten interviews were conducted in English, the remainder in Swahili. To enhance the reliability of our findings we employ researcher triangulation by using five different interviewers with diverse backgrounds. All interviews were recorded. During the interviews we included questions to ensure all informants fit our definition of a discouraged borrower. Based on the responses we exclude four informants from the analysis. The interview topic list is based on previous work concerning discouraged borrowers (i.e. Han et al., 2009; Chakravarty & Xiang, 2013; Brown et al., 2011; Raturi & Swamy, 1999). Because of the inductive nature of our study we maintained flexibility throughout the interviews and adapted our questions to the answers provided by informants. Throughout the interviews we used neutral, open questions designed to expose the informants' perceptions of formal loans and the reasons why they do not apply for formal loans. When necessary 'probing' was used to find out where certain perceptions, thoughts and feelings originated from and how they contributed to the informants' decision not to apply for a loan. After a while the same elements kept coming up in different interviews suggesting theoretical saturation (Corbin & Strauss, 2008; Morse, 1994). During the interviews we asked questions to assess the informants' credit quality and to gain insight into whether they are falsely or

appropriately discouraged. In November 2018 we contacted all informants again through telephone and asked them similar follow-up questions to check whether the informants' answers were consistent.

Appendix A provides an overview of each informant's characteristics as well as how she was recruited. Owing to the multiple entry points our sample is reasonably varied with respect to several business and entrepreneurial characteristics proven to impact the probability of discouragement. The majority of discouraged borrowers in our sample is active in the wholesale or services sector. This is fairly representative for the population as a whole since more than half of Tanzanian micro, small and medium sized enterprises (MSMEs) are active in the wholesale and services sector. Due to the fact that all our informants are from Dar es Salaam, our sample is underrepresented with respect to the agricultural sector (MIT, 2012). Most of our informants are aged between 26 and 44, followed by the under 25 age group and the group between 45 and 54. This is representative for the age distribution of Tanzanian female-owned MSMEs (MIT, 2012). The most experienced entrepreneur started her business in 1995, the most recent business started in 2017. 52% of our informants attended university. In 2014 less than 1% of Tanzania's female population had a university degree[5]. Hence our sample is not necessarily representative of all discouraged women in Tanzania across all levels of education. Although previous work reports that a higher education level reduces the probability of an entrepreneur being discouraged (Cowling et al., 2016; Chakravarty & Xiang, 2013; Raturi & Swamy, 1999) our sample distribution demonstrates borrower discouragement is not limited to less educated individuals.

We analyze our interview data using the Gioia methodology, a systematic method used to inductively build new theory from data also known as Grounded Theory (Glaser & Strauss, 1967; Strauss & Corbin, 1998). This methodology is especially useful to theorize processes (Gehman et al., 2017) and is an example of 'interpretive research' which assumes people's understanding of reality as well as their subsequent behavior is shaped by their interpretation of information they are exposed to (Gioia & Chittipeddi, 1991; Neuman, 2014). In line with this assumption we investigate how entrepreneurs' perceptions of formal loans and ultimate discouragement are guided by the people, events and information they are exposed to.

After translating and fully transcribing, all interviews were coded. According to the Gioia methodology there are three stages of coding. As you go from one stage to the next, labels evolve from empirical *first order codes* to more theoretical and abstract *second order themes*

[5] Source: World Bank Development Indicators

and *aggregate dimensions* (Gioia et al., 2013). In a first stage we code all relevant text using labels which remain as close as possible to the data to prioritize informants' interpretations. We take care not to impose our preconceptions onto the data but rather let the data guide the analysis. We continue with this stage until no new codes emerge. In a second stage we compile a list of all first order codes and look for similarities and dissimilarities between them in order to group them into more abstract second order themes. To avoid bias, the arrangement of the concepts is determined by the structure which arises naturally from the data. In the third stage of coding we use existing theory as an interpretative lens for our data to theorize the empirical patterns we find. We draw upon the theory of Reasoned Action, a sociological theory which contends that a person's behavior is governed by his perceptions, his attitudes and his interpretation of relevant societal norms (Ajzen & Fishbein, 1977; Ajzen, 1985). By iteratively switching between data and theory we progress from second order themes to more abstract aggregate dimensions. This repeated interaction is part of an 'abductive' research approach often used to theorize processes based on a limited amount of empirical data (Dubois & Gadde, 2002). We then start vetting the data for relationships between these aggregate dimensions. The ultimate model on the process of borrower discouragement is derived from the list of second order themes, the list of aggregate dimensions and the relationships between the dimensions.

4. Findings

The analysis thus starts with a list of 'first order concepts' capturing all perceptions expressed by the informants on a wide variety of topics, that are subsequently aggregated into second-order themes and aggregate dimensions. For example, the following first order concepts: (1) 'loan amounts are too small, (2) 'interest rates are too high', (3) 'loan term is too short' are aggregated into a second order theme labelled: 'unattractive borrowing terms'. Table 1 provides an full overview of all progressions from first order concepts, across second order themes, to aggregate dimensions.

< Insert Table 1 >

In Figure 2 we summarize our final model which is composed of three main topics that document on a distinct feature of the discouragement process namely: a) the origin of entrepreneur's perceptions b) the nature of the perceptions and c) the effects of perceptions on behavior. In this section, we will break down the model and explain it in a stepwise fashion. We formulate 'propositions' concerning the process of discouragement with respect to each of the main topics identified. To back up our findings and illustrate how we move from the

interviews to our conclusions we include a selection of clarifying informant quotes in the main text. An exhaustive overview of all informant quotes per second-order theme identified is presented in Appendix B.

< Insert Figure 2 >

4.1. The origin of perceptions

Proposition 1: *Through personal experiences and stories from others, discouraged borrowers form expectations of problems associated with formal and informal loans. This shapes their perceptions of applying for a formal loan. The effect of experiences and stories can be limited by reflection mechanisms.*

The discouraged borrowers' perceptions of formal loans are shaped both by internal (through personal experiences) and external (through social interactions) information sources. This is similar to Capon et al. (1996) who find that investors choose between different mutual funds by relying on their previous experiences as well as on advice from others. We identify three types of personal experiences that shape perceptions. First, some informants had negative experiences with loans in the past. They either applied and were rejected or experienced difficulties in paying back their loan. Second, some visited credit providers with the intention to apply for a loan but after gathering some information decided against it either because they felt they did not meet the demands or because they were unwilling to do so. This is reminiscent of the phenomenon of informal rejection described by Rostamkalei et al. (2020) in the UK. Third, some informants had gained first-hand experience with the issues borrowers deal with via prior employment (for instance as business consultant or lawyer). Through their job they have seen many entrepreneurs who defaulted and had their collateral seized and auctioned because of suboptimal use of loans (for example to pay for a child's wedding or a new dress). One informant who used to work as a credit and legal officer for both a bank and an MFI mentions she knows loan officers are corrupt because she used to request bribes herself. Her experience with harassment and bribes inspired her not apply.

Informants mention two main external information sources which influence their perceptions of formal loans. First, fellow entrepreneurs tell stories about their negative experiences with loans. Sometimes these stories are covered in the media (i.e. newspaper, televised news, internet) but more often they come from within an entrepreneur's personal network (i.e. family, neighbor). These stories mostly concern entrepreneurs who had to bribe loan officers or

defaulted and had collateral seized. Second, some informants have peers who work for banks or MFIs whose stories offer a unique insight in the supply side of formal loans. These peers inform them about extremely high interest rates, corruption, and harassment with which they are sometimes personally involved. One informant mentions that one of her friends who works for a bank even explicitly advised her against taking up a loan.

"Initially, I had a bank loan from X but as time went on, because this business was just starting, the interest rate was so high, it was 20%, and then when it came to January 5 I could no longer break even. After paying the loan, the rest of the profit that is left I no longer managed to run the initials of the business" - ***Informant 26***

"I've actually SEEN people, while working in the bank, who've had to sell their houses to pay back the loan and a VERY cheap price … It's common to see a person take a loan because their child is getting married … So if you're gonna take out money, as a loan, for a wedding … You're not going to be able to pay back at all. They're gonna come and take that stuff, sell out the house and whatever you put in as collateral" - ***Informant 2***

"I have done it myself when I was working at the bank sometimes the customer needs the loan …. they don't care of the loss, if interest is high they just want to get the money … we used to tell them 'if you want to get the loan fast make sure the amount you get you consider me too there'. Sometimes the people are not qualified so they give us bribes and we fill in false information … I have done that job in microfinance institution X so I used to see how we harassed the people, so until today that makes me to be afraid to take a loan" - ***Informant 12***

"You hear about people saying 'yeah the loan officer was her relative so they helped him get a loan faster. Maybe they didn't even meet all the requirements but she had access to a loan'. Yeah it happens, you hear about it … There are stories and you READ in newspapers" - ***Informant 17***

Interestingly, we noticed that the personal experiences and stories which discourage informants from applying concern both formal and informal loans. Entrepreneurs clearly understand the difference between both types of loans but they expect similar problems to occur. Only a few informants explicitly differentiate between them.

Informants do not automatically internalize all information they draw from personal experiences or stories but reflect on the relevance of the information for their personal situation. We identify three examples of such 'reflection mechanisms' in the data. The first one concerns the influence of a previously rejected loan application. Studies show that prior rejection discourages an entrepreneur from applying again in the future (Cavalluzzo et al., 2002; Xiang et al., 2015). However, one informant who was previously rejected, believes the reason of loan rejection stated by the loan officer was not genuine but rather an excuse not to give her a loan. Interestingly, this rejection plays no role in her decision not to apply at a later instance. Instead, it is the high interest rate which discourages her.

Interviewer: *"I'm going back to your loan with X, in your case, you were not given loans because you were seen as a risky?"*

Informant 16: *"No, that was different, it was because they're trying to get us to open accounts with them … Loans have got insurance … like I said our bosses have accounts with them, we had a relationship with them. They could study the way our business was going so that was just an excuse"*

Interviewer: *"Do you think that this influenced you on deciding whether you were going to apply again for a loan? Or, do you not consider this?"*

Informant 16: *"I was actually searching for a bank which could give, actually, when I came to realize the amount of interest I was paying I thought it's good that I didn't apply it"*

Interviewer: *"So the rejection was not exactly a setback?"*

Informant 16: *"No it wasn't actually"*

The other two reflection mechanisms concern the effect of stories about other entrepreneurs' experiences. Informants state they do not automatically believe stories people tell them, especially when they do not know the person it happened to. When something happens to someone in the community, the story is passed on between community members as 'hearsay' which is regarded as less trustworthy by informants. This confirms findings by Patacchini & Rainone (2017) who find members of a network only influence each other's financial decisions in case of long term, close relationships originating from mutual trust. Finally, some mention they believe the stories they hear, but would not act in a similar fashion since the stories are not applicable to their personal situation.

"Even what I hear it might be even diluted already. It might have a little of bit salt, sugar, but if I hear it direct from you as maybe a perpetrator or a victim, it has a different view. If I hear from someone who heard from someone it's completely, totally different" ***- Informant 1***

Informant 2: *"It's common especially for us women, … I take out a loan for my business but I guarantee you, I'm not gonna use the whole amount on the business. If I have a friend who's getting married, I will take out a little bit of that money and give it … I'm not supposed to use it to buy food, but I will because I can't look at my children hungry. I'll pay their school fees with that money, I'll buy my new dress … And so at the end of the day, I will definitely not be able to pay it back on time because part of the money has gone into expenses that were not originally supposed to be utilized for that money"*

Interviewer: *"Do you think that influences you in whether or not you decide to apply for a loan?"*

Informant 2: *"No, no it doesn't. Because I don't, I mean it's, it's sort of interrelated. I wouldn't take a loan if I'm not able to pay back. I wouldn't take a loan if I don't have use for it at the moment. That's how I operate, but it's not how many people operate"*

4.2. Female entrepreneurs' perceptions about formal loans

Proposition 2: *Discouraged borrowers hold negative perceptions towards the following aspects of formal loans: (1) borrowing terms, (2) application and payback procedures, (3) risk associated with loans, (4) discrimination, (5) loan officers' behavior, (6) business environment.*

Several informants complain of unattractive borrowing terms and collateral requirements and high interest rates seem to be mostly problematic. Informants also mention loans are too small and need to be paid back too quickly. They argue that applying for a loan is expensive and takes a lot of time and effort. All informants complain about high collateral requirements. Nevertheless, in our follow-up survey almost half of them argue that they have access to land and/or a house to pledge as collateral if necessary (see Appendix C). A closer look at the interview data demonstrates that even if informants do own assets, they are mostly unwilling to pledge them as collateral. They fear that in case of payment arrears their assets will be sold. Nearly all informants worry about not being able to pay back loans and the negative consequences this would entail. Apart from losing collateral they believe they will face harassment, humiliation or abuse by loan officers as well as an increase in interest rates. Furthermore, informants fear that a failure to pay back in time may curb business growth and negatively affect their health or that of their family members. Finally, in the case of group loans informants mention they fear to be held responsible for the loan-share of their fellow group members.

In contrast to previous work (ILO, 2014; IFC, 2011; Asiedu et al., 2013) informants in our study do not believe they face discrimination when borrowing from banks or MFIs. In fact, some feel women are actually favored by financial institutions. The perceptions held by our informants seem to be grounded in reality as most studies provide little evidence of discrimination against female entrepreneurs in emerging economies (Moro et al., 2017; Aterido et al., 2013; Aga & Reilly, 2011). Nevertheless, some informants argue they do fall prey to gender prejudices. According to them, loan officers believe women are not serious about doing business, have too much other responsibilities or will use the money for another purpose.

Inappropriate behavior by loan officers is a major theme in our data. Most often, this involves corruption: loan officers ask for bribes to speed up the application process or in some cases bend requirements. The informants also feel loan officers exploit their clients' lack of knowledge. Less educated entrepreneurs are typically considered to be at a higher risk for discouragement (Cowling et al., 2016; Chakravarty & Xiang, 2013; Raturi & Swamy, 1999). However, the majority of our sample is highly educated and it seems as if their knowledge of formal loans is actually discouraging them from applying. Some women mention they do not

apply for a loan because they understand how interest rates are calculated or because they are aware banks can seize their property in case of default. Some informants argue that many less educated entrepreneurs borrow from banks or MFIs because of stories from other entrepreneurs without being aware of the risks associated with loans or having a clear purpose for the borrowed amount.

Informants also mention that loan officers visit to try and convince them to take out loans. Yet most informants do not think formal loans could bring much value to them. They believe a loan would not improve their situation, lead to problems or mainly benefit the credit provider. Only a few informants believe formal loans could help them in developing their businesses, allowing to make bigger investments and help you pay for day-to-day needs.

Finally, informants complain about the unattractive business environment. They argue that there has been an economic downturn in 2015, leading to increased taxes and changing regulations. This curbs informants' profits, limits their ability to pay back loans and discourages them from applying. In our follow-up survey eight informants mention that, over the last six months, their sales have decreased and five informants believe their profits have decreased (see Appendix C). Finally, informants complain of inefficient regulatory institutions. They argue that banks are under-regulated and that existing regulations are not enforced causing borrowers to run off with loans.

"I have a plot of land right now, I won't allow myself to take that plot of land as a security for the sake of getting loan. If I fail to repay back they will sell that land, they take their money so it would be like I start from stage one then I return from zero stage" - ***Informant 1***

"When the customer fails to pay they expose them to the public which it is not good. It's like embarrassing them and they will make announcements even in the streets. It's like degrading the customer" - ***Informant 12***

"I think, women are more considered because of women empowerment. It's not about the loan officer but it's about the bank in general, they are trying to empower women in the country" - ***Informant 10***

"They tell you the interest rate is 5% but when you calculate it, it is even higher. There was a time I calculated on my own I got the rate at 60% so they are very smart in explaining the rates" - ***Informant 7***

"A lot of women have small businesses, … they are not well informed, and educated, they don't know what questions to ask, what to look for in the agreement. The loan officer's biggest purpose is to generate as much profit as possible for a particular loan. I don't think they will give you extra information you haven't asked for. For them being silent about that is dishonest but if you didn't ask me then I don't give you any extra information" - ***Informant 2***

"The economic situation is really bad ... I have to sell whatever it is at a VERY cheap price as compared to others. That's the only way you survive because it's not doing well economically. So, if I go and take a loan, and then I have an interest rate to pay, while I'm selling myself at a lower profit margin" - ***Informant 10***

4.3. The effect of perceptions on behavior

Proposition 3: *As a result of their predominantly negative perceptions discouraged borrowers hold a range of negative attitudes towards formal loans.*

Throughout the interviews we noticed that informants generalize their negative perceptions towards a specific loan element into a negative attitude towards formal loans in general. For example, some hold negative perceptions towards the default risk i.e. having to sell their assets in case of default which inspires a negative attitude that formal loans in general are too risky. Others believe they will be excessively monitored by loan officers if they take out a loan leading to following attitudes: 'if you take a loan you are not free'; 'it is stressful'; and 'it is a burden'. Other negative attitudes towards formal loans held by our informants include that loans are 'frustrating' and some mention they do not like loans or it makes them 'unhappy'.

It's something that really scares personally, to take a loan, because, as a mother, I have my kids to think about … as an entrepreneur it's the biggest scare to take a loan" **- *Informant 2***

"Although I have taken the loan I feel I am not free with my own business because every time I am monitored" **- *Informant 9***

"It would be bothering to know someone is monitoring my business like this and, and then maybe I'm having a hard time paying due to the high interest rates and then it would be a burden" **- *Informant 26***

"To be honest I don't like loans even to pay attention to their stories about loans I do not want at all" **– *Informant 9***

Proposition 4: *Discouraged borrowers' attitudes towards formal loans shape their intention to apply for a formal loan.*

As a result of their negative attitudes informants do not intend to apply for formal loans in the future even if they know this will probably limit business growth.

"Better to remain with a small capital with my freedom than increasing capital through a loan and gain more stress and pressure … that is why we can't develop further businesses" **- *Informant 9***

"if I have other means of getting the money then I, then I definitely will do that. A loan will be the LAST thing I'm gonna do" **- *Informant 2***

Proposition 5: *Discouraged borrowers' urgent financing needs and their perceptions of alternative financing sources alter the relationship between attitude and intention to apply.*

Despite their predominantly negative attitude towards applying for formal loans, some entrepreneurs state they might apply for a loan in the future. Two possible explanations arise from the data. First, many informants mention they do not have enough funds to run their business or expand activities as planned. Second some argue that alternative financing sources have their own problems and are no better than bank or microfinance loans. For example

accessing informal loans from SACCOs[6] is costly and takes a long time and the loans are often too small to satisfy the entrepreneurs' financing needs. The combination of urgent financing needs and a lack of satisfactory alternatives for formal loans compel informants to apply for formal loans despite their negative perceptions and unfavorable attitudes.

> *"There was a SACCO … I wanted to be part of it but … if you wanted a loan, you have to have three times money … it didn't add up because if I had three times the money I wanted I could just save it up"* **- *Informant 16***
>
> *"Just few days ago I took a loan from X [an informal loan group from an international NPO] but it is in groups, I didn't like it since you go there and waste much time"* **- *Informant 3***
>
> *"We say no business man has ever succeeded without taking a loan. I don't know it, if it's a must but it's a saying, so eventually I might take a loan"* **- *Informant 10***

Proposition 6: *Discouraged borrowers' perceptions of social norms further reduce their intention to apply for a formal loan.*

Bailey et al. (2003) report that an individual's financial decision making is shaped by social norms. In order to be accepted in society people behave in accordance to the social norms they believe they are subject to. In our study, we also observe the influence of social norms on individual financial decisions. Specifically, informants believe their husbands and communities do not want them to apply for formal loans. For instance, some informants state their husbands do not allow them to use the house as collateral to access loans because they do not want their wives to become too successful. One informant states she does not want to apply for a loan because it is community tradition to run a business without loans.

> *"When I was starting in 2015, I was trying to find some capital but the problem they wanted house. and, the owner [of the house] is my husband. He says 'oh you can't take my house in order to take to get capital because I know you will be bigger so I can't help you' and then he started to even to kick me"* **- *Informant 21***

5. Conclusions and discussion

In recent years the aggressive expansion of the microfinance industry in emerging economies has led to an abundant supply of loans for SMEs (Cull et al., 2015). Yet, it is consistently reported that female entrepreneurs hold less capital to finance the early growth stages of their ventures than male counterparts (Alsos et al., 2006; Marlow & Patton, 2005; Eddleston et al., 2016). Recent studies identify 'borrower discouragement' i.e. entrepreneurs who need a loan but refuse to apply, as a major demand-side impediment to entrepreneurship (Chakravarty & Xiang, 2013; Gama et al., 2017). Discouragement prevents entrepreneurs from growing their

[6] SACCOs are Savings and Credit Cooperatives which are grass-roots member-based financial cooperatives where group-members come together on a regular basis to transact savings and loans.

business and thus contributing to economic growth, poverty alleviation and social change through valuable grassroots entrepreneurship (Sarkar, 2018).

In this study, we model the process via which female entrepreneurs become discouraged. We focus on female entrepreneurs in Tanzania since previous studies show that women are most at risk of becoming discouraged (Chakravarty and Xiang, 2013) and because the economic potential of lifting borrower discouragement is higher for female-led businesses (Khandker, 2005). Our focus on Tanzania is governed by the fact that female entrepreneurship is widespread but women-owned ventures are often concentrated at the lower end of the growth-spectrum and discouragement among these ventures is prevalent (MIT, 2012; Chakravarty & Xiang, 2013; Lindvert et al., 2019). Our model expands knowledge on borrower discouragement in three main areas: a) discouraged borrowers' perceptions of formal loans, b) the origin of these perceptions, c) how these perceptions lead to discouragement. Our research thus illustrates the importance of borrower discouragement as a major demand-side impediment to entrepreneurship and directly responds to Fraser et al. (2015) who call for more research on the effect of entrepreneurial perceptions on financing decisions.

We find that discouraged female borrowers hold a wide range of negative perceptions towards formal loans. For example, informants perceive interest rates and collateral requirements as being too high, too expensive and too time-consuming. They also perceive formal loans as risky and fear their collateral will be seized in case of default. It seems that the current design of formal loans does not fit the entrepreneurs' needs in line with Meyer (2002) and Labie et al. (2017) who find that inappropriately designed products and a lack of flexibility prevent entrepreneurs from taking part in microfinance programs. Interestingly, fear of loan rejection is not common in our data. Hence, our findings contrast with the original model by Kon & Storey (2003) whose definition of discouragement centers around fear of being rejected. Furthermore, in contrast to previous studies (Cavalluzzo et al., 2002) we show that the perception of gender discrimination is not conducive to borrower discouragement as informants do not feel loan officers discriminate against women.

Tang et al. (2017) show that trust in a loan manager has significant potential to reduce discouragement. We build on this by showing how female entrepreneurs' lack of trust in loan officers and credit providers is an important contributing factor to their discouragement. Informants mention they do not apply for a loan because loan officers are corrupt, exploit their clients' lack of knowledge concerning formal loans, and are dishonest about the calculation of the interest rate thereby mimicking earlier findings by Lau et al. (2013).

Entrepreneurs' negative perceptions towards formal loans are guided by negative information gathered through personal experiences (such as previous loan applications, application attempts and work experiences) as well as through stories of other people's experiences with both formal and informal loans. Stories from peers play an important role not only for less educated entrepreneurs but also for highly educated entrepreneurs who seem equally guided by stories of other people's negative experiences and are well aware of possible problems associated with formal loans. This could explain why highly educated entrepreneurs, who according to previous studies are less likely to be discouraged (Cowling et al., 2016; Chakravarty & Xiang, 2013) are in our sample still reluctant to apply for formal loans.

The influence of personal experiences and stories on perceptions regarding formal loans depends on the outcome of 'reflection mechanisms'. Entrepreneurs reflect on the relevance of information drawn from a specific experience or story. If the information is not perceived relevant to their personal situation the effect on perceptions will be limited. We identify three reflection mechanisms. First, an entrepreneur who believes she was rejected because of invalid reasons will not be discouraged. Second, a story of someone else's experience with loans will have limited impact on an entrepreneur's perceptions if the entrepreneur does not yield credibility to the story. Third, the impact of a story on an entrepreneur's perceptions will be limited if the entrepreneur believes she would act differently, compared to the person in the story, in the same situation.

We find that entrepreneurs' negative perceptions inspire a range of unfavorable attitudes towards formal loans which then lead to a low intention to apply. However, if an entrepreneur has an acute need for extra funds and/or if alternative financing sources are perceived unsuitable she expresses the intention to apply for a formal loan despite an unfavorable attitude. Furthermore, the entrepreneur's perceptions of social norms dictated by husbands and the community at large further reduce the intention to apply.

Although at the time of the interviews all informants are discouraged according to the employed definition, some indicated they might apply for a formal loan in the future. This demonstrates that discouragement is not a permanent state. It also suggests that measuring borrower discouragement using a scale based on application-intention might be more insightful than the binary construct based on behavior used in previous studies (Chakravarty & Yilmazer, 2009; Freel et al., 2012; Brown et al., 2011).

How discouragement should be dealt with ultimately depends on whether they are 'falsely' or 'appropriately' discouraged. Appropriately discouraged borrowers represent high credit risks, in which case discouragement can be seen as an efficient self-rationing mechanism and they

should arguably not be encouraged to apply for a loan (Rostamkalaei et al., 2020). Indeed, non-productive entrepreneurship is a persistent problem in low-income communities (Matos and Hall, 2020) and funding such ventures may put the entrepreneurs in a state of over-indebtedness. However, both our interviews and follow-up survey data suggests that at least some and possibly most of the informants in our sample are falsely discouraged. Only four informants mention problems in paying back their creditors over the last year. Almost half of the informants have access to a house or land to pledge as collateral and a quarter believes it is *likely* or *very likely* they would get a loan if they applied. For these entrepreneurs, who can be labelled 'falsely discouraged' borrower discouragement causes foregone growth potential and they should be encouraged to apply for a loan.

To avoid borrower discouragement, it is necessary to change discouraged borrowers' negative perceptions towards loans. This can be achieved by exposing them to new information through their own experiences or through stories by others (Fishbein & Ajzen, 1975). One could stimulate communication between borrowers and loan officers from banks or MFIs in order to provide loan officers with the opportunity to present their products and entrepreneurs with the opportunity to express their financing needs. Loan officers should provide transparent and straightforward information about application, allocation and reimbursement procedures as well as about the borrowers' rights and obligations. We find that a lack of knowledge about formal loans prevents entrepreneurs from applying. Hence, we suggest educating them on loan application procedures and loan requirements. Furthermore, informants mention they do not know how to properly use a loan to generate future profits. Consequently, advising them on ways to use loans responsibly might reduce their perception of formal loans as being extremely risky. In general, positive stories about other people's experiences with formal loans are needed to counter the considerable influence of negative stories. We suggest setting up a learning environment where entrepreneurs who successfully used formal loans to expand their businesses share their experiences with discouraged borrowers.

Independently from changing entrepreneurs' perceptions, we believe borrower discouragement can also be reduced by improving the legal climate and by inducing a change in the cultural position of women. Strengthening legal institutions could reduce corruption among loan officers (Chen et al., 2015), as well as other types of inappropriate behavior such as discrimination or sexual harassment. Eliminating gender discriminatory cultural practices could make it easier for women to use their assets as collateral, could give female entrepreneurs more time to spend on business activities, and could increase the support they get from their husbands, loan officers, and communities.

While our methodology allows us to gain an in depth understanding of the process via which entrepreneurs become discouraged, our study is not free from limitations. First, as a result of our purposeful sampling approach our findings should be interpreted in light of the specific context studied. Our aim is not to generalize findings to other contexts, nor do we claim representativeness across contexts. Second, during the interviews we asked informants about past events which could lead to a recall bias (Gibbs et al., 1986). Also, since we asked informants about subjective personal experiences with loans they might give socially desirable answers (Bertrand & Mullainathan, 2001). Finally, we assume that discouraged borrowers' attitudes towards loans drive their decision not to apply. However, informants could suffer from cognitive dissonance in the sense that their behavior influences their attitudes instead (Bertrand & Mullainathan, 2001).

Based on our findings we identify several areas for future exploration. We find that stories from others have a considerable effect on discouraged borrowers' perceptions. This could be explained by the tight community structures indicative of our sample environment (Patacchini & Rainone, 2017; Kahn et al., 2017). It would be interesting to test the importance of social influence in other contexts as many studies highlight the institutional context of the entrepreneur as key influencing factors for value-creating entrepreneurship and poverty-alleviation in developing regions (Si et al., 2020; Goel & Karri, 2020).

Furthermore, we execute an in depth analysis of *female* borrower discouragement. While justified from a qualitative research set-up, i.e. borrower discouragement is more prevalent among female borrowers, our approach does not allow to conclude that borrower discouragement has a gender bias built into it, nor can we conclude that the process via which male entrepreneurs become discouraged would be similar. Future research could be aimed at comparing male and female borrowers. Do male discouraged borrowers in emerging economies hold different perceptions of formal loans compared to females? Is the effect of stories on male entrepreneurs' perceptions equally large or are they inspired to a greater extent by personal experiences and education? Such research would help to better understand borrower discouragement in general terms but would also help to pull out female entrepreneurship out of the stigma of being low-end subsistence entrepreneurship.

A factor largely omitted in our study is 'risk-preference'. It could be the case that the negative perceptions, behaviors and attitudes of the discouraged female entrepreneurs towards formal loans observed in our sample are driven by a high degree of risk-aversion. As such the model we propose may be typical for entrepreneurs with 'low risk appetite' and not generalizable towards more risk-tolerant entrepreneurs, i.e. for instance male entrepreneurs who have been

proven to be more risk-seeking (Croson & Gneezy, 2009; Jianakoplos & Bernasek, 1998). Future research could investigate the extent to which risk-preferences influence the likelihood of being discouraged or the process via which entrepreneurs become discouraged.

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Figure 1. Conditions for discouragement (Kon & Storey 2003 p40)

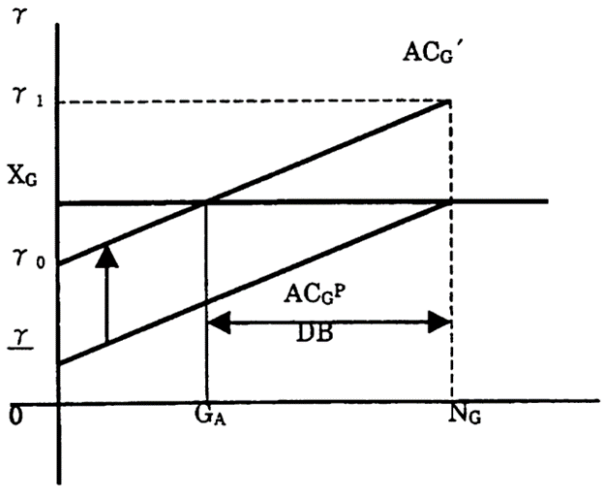
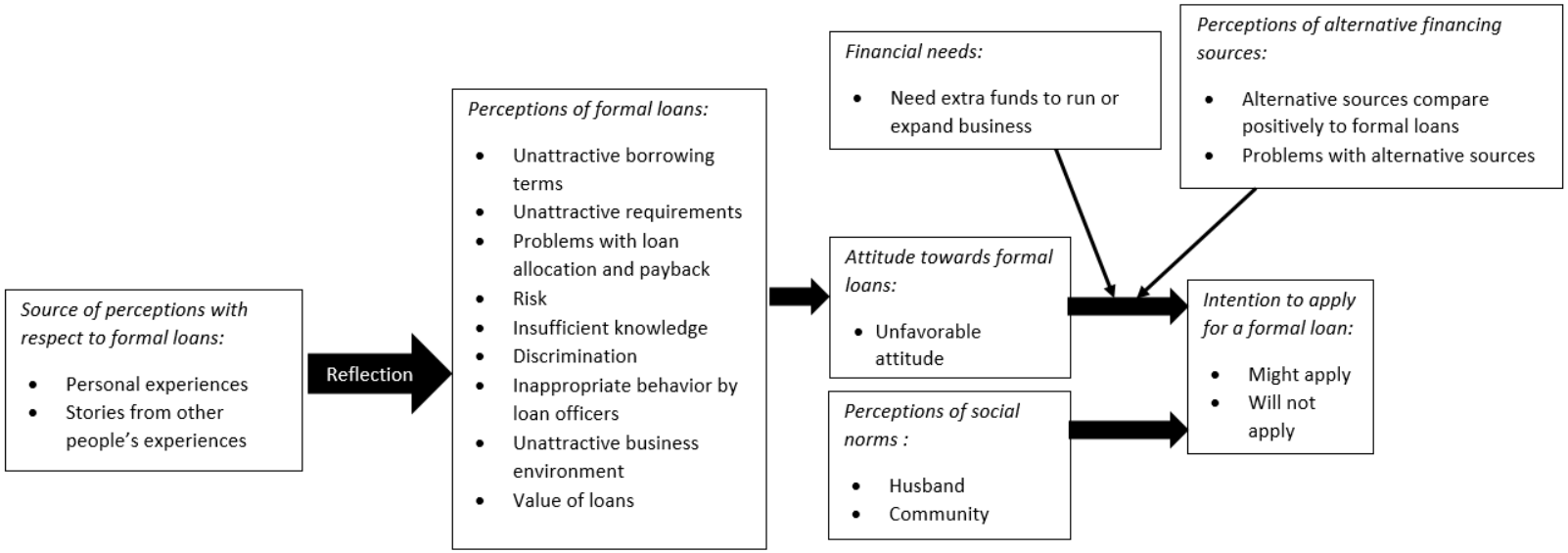


Figure 2: Model of the process of female borrower discouragement



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Table 1: Progression from 1st order concepts to 2nd order concepts to aggregate dimension

FIRST ORDER CONCEPTS	SECOND ORDER THEMES	AGGREGATE DIMENSIONS
• Previous formal and informal loan applications, rejections and payback • Current or previous job as lawyer, business consultant or working for a bank or MFI • Visited bank or MFI to get information but didn't apply • Media coverage of other's experiences with formal and informal loans • Stories of formal and informal loan experiences from friends, family, colleagues, neighbors and fellow entrepreneurs	Personal experiences	Source of beliefs with respect to formal loans
• Stories from friends working for banks or MFIs • Stories of formal and informal loan experiences from within community	Stories from other people's experiences	
• Insufficient knowledge on formal loans • Insufficient knowledge on optimal use of loans	Insufficient knowledge	Beliefs with respect to formal loans
• Detrimental economic climate • Government unsupportive of businesses • Inefficient regulatory institutions • Unfavorable political situation	Unattractive business environment	
• A lot of time and effort needed to acquire loans • Follow-up causes disturbance and stress • High application costs • Difficult to provide necessary information • Loan officers are not understanding in case of arrears • Small loan amounts	Problems with loan allocation and payback	
• High interest rates • Short loan and repayment terms	Unattractive borrowing terms	
• Need for bank account • Need for share in your business • Need for fixed salary • Need to be government employee or have a family member who is a government employee • High collateral requirements • Need to be married • Need for physical business location • Need for business license and a Taxpayer Identification Number (TIN) • Need for high capital • Need for sponsors or referees • Need to be part of a loan group	Unattractive requirements	

FIRST ORDER CONCEPTS	SECOND ORDER THEMES	AGGREGATE DIMENSIONS
• Fear of not being able to pay back • Fear of losing collateral in case of arrears • Fear that you or family members will suffer in case of arrears • Fear of harassment, humiliation and abuse in case of arrears • Fear of increased interest rate in case of arrears • Fear of lack of business growth in case of arrears • Fear of having to pay for group member debt	Risk	Beliefs with respect to formal loans (continued)
• Women are not discriminated against, they have an advantage compared to male entrepreneurs • Women are discriminated against • Small and young businesses are discriminated against • Entrepreneurs believed to be insolvent are discriminated against	Discrimination	
• Loan officers ask for bribes • Sexual harassment • Nepotism • Loan officers exploit clients' lack of knowledge • Loan officers believe women do not take their business seriously • Loan officers convince customers to open an account by promising access to loans and do not fulfill these promises • Loan officers visit entrepreneurs to try and convince them to get loans • Loan officers share confidential information	Inappropriate behavior by loan officers	
• Loans will not improve my situation • It allows you to make bigger investments • It can help develop your business • It can help pay your daily needs • It would lead to problems • It only benefits the credit provider, not me	Value of loans	
• It scares me • It stresses me • It's frustrating • I do not understand it • I do not like it • I am not free • It makes me unhappy • It's a burden	Unfavorable attitude towards formal loans	Source of beliefs with respect to formal loans

FIRST ORDER CONCEPTS	SECOND ORDER THEMES	AGGREGATE DIMENSIONS
• Husbands do not want their wives to be more successful than them • Women should be at home, taking care of the family	Husband	Norms concerning formal loans
• Community tradition not to get loans	Community	
• If loan characteristics were different, informant would apply • If business characteristics were different informant would apply • Informant might apply because she needs funds	Might apply for a formal loan	Intention to apply for a formal loan
• Informant does not apply because of loan characteristics • Informant does not apply because she prefers alternatives • I do not need a loan to succeed	Will not apply for a formal loan	
• Friendlier and more flexible follow-up • Lower costs • Lower interest rates • Less deposits needed on account • No business license needed	Alternative financing sources compare positively to formal loans	Evaluation of alternative financing sources
• It takes too much time • Too much personal information required • High costs • A lot of savings needed • High interest rates • Small loan amounts • Lower costs	Problems with alternative financing sources	
• Not enough capital to run the business • Want more capital to expand business	Need for extra funds	Financing needs

APPENDICES

Appendix A. Sampling

ID	Source	Age	Sector of business	Year	location	Marital status	chldr.	Education
1	Participant program at UDBS	38	consulting	2013		Married	0	University
2	Participant program at UDBS	33	consulting	2014	Mbezi	Married	2	University
3	Participant program at UDBS	39	sewing	2011	Mbezi	Single	2	Secondary
4	Participant program at UDBS	50	lounge and shop	1997	Muhimbili	Married	1	University
5	Personal contact assistant	26	insurance agency	2012	Sinza	Single	1	Post-Secondary
6	Participant program at UDBS	54	bakery	2011	Tegeta	Widowed	2	Secondary
7	Participant program at UDBS	57	agribusiness, livestock production	2015	Mbezi	Divorced	2	University
8	Participant program at UDBS	26	stationary	2013	Mikocheni B	Married	2	University
9	Personal contact assistant	37	saloon	2010	Mlalakua	Married	1	Secondary
10	Referred by other informant	23	selling handbags	2017	Mbezi	Single	0	University
11	Participant program at UDBS	45	selling undergarments	2006	Kariakoo	Widowed	3	Secondary
12	Personal contact assistant	27	ladies clothing store & grocery store	2013	Kimara	Single	0	University
13	Participant program at UDBS	39	catering, Handcraft	2010	Mikocheni B	Single	3	University
14	Personal contact assistant	37	saloon	1995	Mwenge	Divorced	2	Primary
15	Participant program at UDBS	35	selling cooking gas	2010	Chanika	Married	3	University
16	Personal contact assistant	40	cooking & selling snacks	2017	Nyumbari Ninapdishi	Single	0	Post-Secondary
17	Personal contact assistant	29	catering & branding and communication	2012 & 2015	Makongo Suu	Single	0	University
18	Member of informal loan group	35	selling spare parts for motorcycles	2012	Sinza	Single	0	University
19	Personal contact assistant	26	cake bakery	2016	Mbezi	Single	0	University
20	Personal contact assistant	31	selling food	2013	Sinza	Married	2	Primary
21	Personal contact assistant	30	dairy plant	2007	Mbezi, Ubungo	Married	3	Secondary
22	Participant program at UDBS	42	pharmacy	2003	Milimani City	Married	3	Secondary
23	Personal contact assistant	47	making & selling snacks	2007	Nyumbani	Married	7	Primary
24	Personal contact assistant	23	making spices	2016	Online	Single	0	University
25	Personal contact assistant	21	selling home decoration items	2015	Mbezi	Single	0	University
26	Personal contact assistant	35	selling building materials	2016	Hazo Tegeta	Married	2	University
27	Personal contact assistant	28	saloon	2014	Mlalakua	Married	4	Post-Secondary
28	Personal contact assistant	34	cosmetics	2016	Mlalakua	Married	2	Secondary
29	Personal contact assistant	25	selling clothes	2016	Mwenge	Married	1	Post-Secondary

APPENDIX B. Representative quotes per second-order theme identified.

Personal experiences
"There was a time I borrowed and things did not go as I planned, sometime you can find the money you pay at the bank is very high while you could just top up that amount of money somewhere and gain the same amount you borrowed without interest" - Informant 28
"I have done it myself when I was working at the bank sometimes the customer needs the loan so they will not care how they will get the loan … we used to tell them if you want to get the loan fast make sure the amount you get you consider me too there. Sometimes the people are not qualified so they give us bribes and we fill in false information. You want 10 million but you deserve only 5 million so you have to bribe me so as I can feel in the forms you deserve the 10 million" - Informant 12
"Let me give you an example, there is a place where I went to borrow when I went to borrow, that loan officer who was assigned to give me the service, gave me a condition that if you want to get a loan or for you to get a loan, on time and the amount that you need, are you ready to give me 600,000!? … that really bored me a lot it totally bored me and I left it" - Informant 13
"I never applied, but I tried to talk to one of the loan officer that I know. I asked the loan officer … what if I apply for a loan … but he told me that, No, your business is so small, you cannot apply, I asked why, and then he said you do not have a title deed or a plot number" - Informant 3
Stories from other people's experiences
"They are a lot of information and to my side it might not help or decrease anything because there was a day I saw on tv a woman who had a pharmacy and at the end of the day she took empty boxed and filled them with stones. So if they go and they are not professional auditors they will be satisfied and yes it's a good business and they got a loyal customer but at the end of the day its nothing so they will think the time they take and effort of checking the business it has helped them but no it has not helped them at all" - Informant 12
"What frightens me most is to be killed heard someone has gone to get a loan from a bank and then they get robbed and kill her. So that frightens me so much, that whenever I think of going to take the loan, I think of my security because I believe it's the people from within the bank that are mostly responsible for those robbers as they are the ones with the information. And thinking that you have just loaned and that can risk your health or life so that frightens me" – Informant 9
"My neighbor borrowed 50 million … when the time reached she didn't repay even a cent so they had to auction the house for a certain million … so they come to throw her things out like dogs, that thing scared me a lot so imagined if it was me" - Informant 9
"I have seen one woman whose house was sold because she failed to repay the loan … she was given a loan and she failed to repay the loan so they can sell their house and they sell if for a lower price … I do not think It can happen to me because when you take the loan you have to fight with the situation and repay the loan" - Informant 14
"Because when you hear on the streets, some of the things might be true, or it might be someone who heard it from somebody else and they had a misconception about it … So, I think they help me to be more careful and I will, I will check on everything … Then I will decide, but I don't think what I've heard will prevent me from trying to get a loan". - Informant 7
"If you sit with … those who are being given in a groups, they tell you for example when someone join you have to pay a certain amount of money every week, then after they discuss about you and see if you can take a loan, so it's not possible that today you want a loan for next month, … so I think it's take a lot of time" - Informant 15

"I used to study with, the colleagues who work at a bank … when you talk about starting a business and all that they say the interests are high" - Informant 10
"It was all over the media that there was a woman that was around at our place; yeah, they'd taken a loan and they failed to pay so their house was put up for rent and it's a sad story because she got mentally ill, frustrated yeah, she became crazy" – Informant 10

Insufficient knowledge

"If I get a chance I will like to learn more about a loan so as I can go and apply for it but I am afraid" - Informant 15

"Maybe I should find someone so she can help me to understand what process I should pass through so as to get a loan" - Informant 23
"They should provide education to me as an entrepreneur I have a certain amount of capital and from that capital how much loan can I get … example maybe I have 500,000 as capital so what amount of loan can I get as a loan … Second after getting the loan how should I invest it which can help me get high return and repay your loan and not go back to the same stage I was before" - Informant 25

Unattractive business environment

"They [female entrepreneurs] will be having a lot of stress due to thinking of the family from what I am getting I give it some to the family so as they can eat … a man they just think they have their own ways of getting money they don't worry about their children … a man doesn't worry they know mum will do it. So to him it is easy to get income fast than a woman … but for a business woman its important in the morning they have to make sure their kids are safe if all of them have been prepared to school or if they are young at least they are on safe environment so as when they go to work they will have a peace of mind" - Informant 9
"The economic situation is really bad, especially here. So whatever I am trying to do … the profit margin has to be a little, I have to sell whatever it is at a VERY cheap price as compared to others. That's the only way that you can survive because it's not doing well economically, yeah. So, if I go and take a loan, and then I have an interest rate to pay while I'm selling myself at a lower profit margin" - Informant 10
"Our country's still very poor and to locate someone who is in debt it's very hard, sometimes people run with money … And then to start business in Tanzania, even their own government does not support that much so you don't expect another private institution to do much for you. Because the foundation, the layout are not very clear to them as well" - Informant 16
"It's really tough to have a business right now … a lot of people are just shutting down their businesses. Partly because of the loans but partly because people aren't spending the money. So as a business person … say maybe you took a loan say in 2016 or 2015 when the new president came in; and you thought you'd be able to pay back the money say in 2018. But because of the new, you know, government it's been REALLY hard to get the money … the change in the Bank of Tanzania rules, … because the government had initially put its money in other banks apart from the Bank of Tanzania, but it has recently retrieved that money, so what happens is the banks don't have the money to give out the loans and the banks survive on the loans … and so the actual loans that are still pending, are the ones that the banks are REALLY looking forward to get back the money. And so a little bit of a default, they're really harsh" - Informant 2

Problems with loan allocation and payback

"Them paying a visit will be pressuring me and stressing … At least they could be sending messages or emails … and asking for my progress rather than physically visiting and supervising you. That will cause a lot of pressure to me" - Informant 9

"They have a voice over your business so you really can't control much … They can actually even have an employee from the bank come to your business, like say, twice a week, for maybe seven hours or eight hours to actually see how you work and if you're using the money according to what you actually asked it for" - Informant 2

"I can relate that I think it takes a long time before, you can actually fill the forms … and then it takes a long time for you to actually get the loan" - Informant 10

"For example Bank X they give loans in groups but later when you read their details … you can find 'we give 300,000 as a loan but you have to save 100,000 in order to get 300,000 tsh' also you have to repay, they tell you, in a week for example 25,000 tsh" – Informant 11

"You know a person fail to pay a loan due to different factors, maybe someone got problems, but they [loan officers] only look at their side that what are they benefiting, they don't look at the other person's side. That is something that if possible to be removed or they should find another way" - Informant 24

"I think still it will be hard for me [to provide the information to the loan officer]. I don't think I keep proper record depending on the rules and requirements and most women in the streets they don't keep records in a formal way" - Informant 25

Unattractive borrowing terms

"The interest rates are very high, I think that is why many businesses collapse" - Informant 11

"When they are giving loans to groups … 300,000 it's is not enough you see that is why many women at home they lose their home utensils … So they should check and give them at least 1 million each so as they can see how they grow. Because 1 million someone can open a proper business station so they can expand their business and be able to repay the loan even weekly even if it is 20,000. Because 1 million and tell them to pay 80,000 per week that will be a problem" - Informant 11

"The amount they will give you is small compared to the one that you deposited … you will have to repay in a month 100,000 but when you calculate you don't have that 100,000" - Informant 14

"I think the banks have the highest interest rate … when I was calculating the amount I was going to pay until the loan was off it was actually going double" - Informant 16

"Women are given loans in groups of which the amount is small" - Informant 12

"There is insurance, though by my side it's not that much … Banks have too high [costs] though I have never, you know, I've never requested a loan with a bank directly, banks are too high compared to … like VICOBA or SACCOs". - Informant 20

Unattractive requirements

"Based on my views they ask for too much because when you go there they ask for a house, land and a person does not have … They should decrease collateral because a house is expensive" - Informant 9

To banks from what I heard it's like you have to have a certain amount in your account so as you can get a loan " - Informant 9

"Sometimes if you are not married they don't give you loan … You have to be in a group so as you can be guaranteed and get the loan … In order to get the loan you will need a relative who works for the government " - Informant 12

"If you go to the banks, they are telling you if you need a loan provide a title deed, I asked myself so I should bring my title deed just for 2 million? No way - Informant 15

"Sometimes the loan agreement could actually give the bank the mandate to have a percentage in your business … For them to actually give you the money, they would say, part of your collateral will be a percentage shares in your company" - Informant 2

"I do online business and most of the microfinance institutions wants someone who has a place already, has a frame, that has TIN [Tax Identification Number], that one whose business is registered" - Informant 24

Risk

"I think they call themselves microfinance or something but the interest is, like you pay 30% of the money … within I think after one month. And then if you don't pay it up … you add another 30% until you finish up pay" - Informant 16

"Loans are provided in groups … some may be 5 but for one of them repaying the loan is a problem so you have to contribute all in a group so as you can reap the deficit" - Informant 14

"Sometimes you work hard in order to make sure you return that loan and if it doesn't mature you have sell your property … . If I fail to repay back they will sell that land, they take their money so it would be like I start from stage 1 then I return from zero stage" - Informant 1

"In case you fail they will take your collateral and you will not be able to continue the business and the business will fail, it is like going two steps behind" - Informant 8

"But if they give us high interest rates it becomes a problem since they will come take our assets. The assets may be small but someone has used so much time to get it and they come to take it, it becomes a problem and some may end up killing themselves, some run away from their families while they are supposed to provide for them" - Informant 27

"When the customer fails to pay they expose them to the public which is not good, it's like embarrassing them and they will make announcements even in the streets what they have done, so I find it's like degrading the customer" - Informant 12

"Interest increases every month if you delay to pay on installment and bond ownership is transferred to lender" - Informant 5

"At the end of the day you might lose even the house you have when you fail to repay the loan they come take your things" - Informant 6

Discrimination

"Whether you are a man or a woman, they treat you equally but there are some bank of course, they have their own system of … helping women, like women banks …But if you go to a normal bank they do business, they don't care whether you are a man or a woman" - Informant 1

"I think, women are more considered because of women empowerment. So it's not about the loan officer but it's about the bank in general that they are trying to empower women in the country" - Informant 10

"I think, definitely it would be easier for the male business people than for the female ones because the females they usually regard you as you have so many things on your plate, the kids, the pregnancies, the this and that, the, and they usually think for women it's very easy to give up on the business because they are not, in most cases we are not the sole providers of the family, euhm, this that kind of mentality." - Informant 26

"Loan officers should not discriminate the small business people because we are trying to make a living and it has to start as small so as the business can grow we are the ones should be empowered more than big businesses …if I take the loan I will return just like the rest of other businesses … we should be watched like the others … You need to do businesses with happiness … you end up doing business unhappily if you are not treated right. Of course you get the money but you are discouraged due to the fact that we are charged the same while we are two different levels " – Informant 9

"Those with small businesses will not get enough profit so they [loan officers] would rather provide loans to big businesses which have more profit so if you are taking 500,000 or 1,000,000 it is not easy they will just waste your time … they prefer big business which have already settled of which their businesses have already matured and have a stable market" - Informant 12

"We just hear that there are others who favor those who have money … to accept those who are still low in living standard like us, you see like, 'ah, no, what will that one pay', so it is like that, there are those with such behavior" - Informant 23

Inappropriate behavior by loan officers

"So from that time onward I was discouraged just by talking to him at home, and mind you he was the one who was convincing me to ask for a loan, he told me to open a bank account so that I can be able to borrow, so then when I talked to him and he said I can't get a loan" – Informant 3

"Someone I know borrowed money from one bank and the loan officer delayed the process, then she gave the officer some money … and the loan was faster she received her loan" - Informant 5

"It's happened to me … I think they have got a challenge that they have to enroll a lot of customers so they will use that as a trap to get, you know 'come to this bank, you'll get a loan'" - Informant 16

"When they're providing loans they're usually very cunning because they know that they're going to make a lot of money from you. They usually don't want to make it difficult for you" - Informant 26

"The way they come take the things at home .You will think they are not the ones who came to ask you to apply for a loan 'it will help you honestly'" - Informant 25

"I was working in a certain region … and one of the colleagues who he was working in bank … he was even fired for the allegation of asking bribe to a certain woman and that woman reported to the higher authorities" - Informant1

"The loan officer will like say like 'let me push up your thing, give me 2% of the loan'" - Informant 10

"I think there's a lot of favoritism. If you go there if you have a relative who is a loan officer they will make things easy for you but if they don't know you, you have to go through the hassle like anybody else does" - Informant 17

"I've seen how clever the bank officers can be. When you, you know, you put collateral, something that is viable for them, they would like to have that and so; I mean, the interest rates are very high. If you really know how to calculate, you'll find that you're paying at least 300% of the loan amount, so you're actually paying a lot of money back to the banks … I just wanna say, they are clever. They might use a language that you might not, If you're not careful, understand and at the end of the day when maybe for some reason you default, then it becomes really easy for them to take your asset … And you know, a lot of people … we feel having a lawyer present is expensive and so… we would just be desperate for the money, and sign, and get the money, but we don't really look through the fine print and see what really, the loan means and at the end of the day, … when you're struggling to pay the loan, then you realize they actually have the mandate to do 123 and there is nothing you can do" - Informant 2

"I applied for a loan but later we did not understand each other so I asked them to refund my money and they told me the money cannot be refunded and they make sure you sign that if you give out the money it will not be refunded" - Informant 6

"When I took a loan, … we ask how "how much is the interest", they tell you 18%, but you don't know how they calculate it … Once they tell you it's 18%, then you think it's 18% throughout. But I did experience that myself so, I was shocked when I was told that it's about 30 something. But I didn't know there is a way they calculate and then it goes that way" - Informant 7

"Also sometimes you might go to bank asking for a loan, you may find a male officer starting to court … sexually. You may find him saying, 'if you want me to help you fast, … if you do like that, I will do it fast just in three days, you will have a loan'" - Informant 13

"I think loan officers should not be greedy and stop harassing women for sex" - Informant 28

"For the male entrepreneurs they [loan officers] believe that because they're the providers of their families, they will work tooth and nail to make sure the business survives because they depend on it to serve their families compared to the female ones who, they know they're doing this to earn profit yes but when things don't turn out right, she can as well go home and tell the husband to provide and things like that. So there's usually that kind of think" - Informant 26

Value of loans

"The bank loan can help you to maybe to increase the magnitude of your investment and maybe some equipment which you are not able to pay without having to get a loan" - Informant 7

"The loan helps in developing your business and to sustain your day to day needs" - Informant 11

"It won't satisfy the needs of my business …it will bring me a lot of problems " - Informant 25

"Having a loan is good for a stable business but for trial business it's not good at all" - Informant 8

"I don't see if they help those small entrepreneurs that much, but what I see mostly is that they get profit" - Informant 15

"It is not good, it's like exploiting this entrepreneur" - Informant 3

"So it's like, you're working for them instead of working for yourself" - Informant 26

Unfavorable attitude towards formal loans

"I'm really scared to take loans … you'll be like a slave" - Informant 1

"I know X [an MFI] but I've never tried anything like … I've never really, I was never keen to them" - Informant 16

"There is a lot of disturbance to the loan, ESPECIALLY FOR US WOMEN" - Informant 22

"It would be a burden" - Informant 26

"I don't like it's not safe" - Informant 28

"It is too stressful, and I can't handle it and if I apply I won't get it … to be honest I don't like loans" - Informant 5

"I didn't want to commit myself to something that I know would cost me at the end of the day" - Informant 16

Norms: Husband

"It is difficult for my husband to give out a title deed, so I decide to quit because it brought some sort of conflicts, a fight between us, because my husband is not willing, he's an employee and he believe on his job" - Informant 22

"You know when you are in a relationship a man can tell you: 'You might fail to repay and they will come sell my things and my house also', so you know man usually will try to make you have fear I think it's because they don't want you to earn more income than them so if you have a business you might succeed and have more income than them" - Informant 29

"Sometimes they [husbands] might not have confidence that a wife can repay the loan. So they are scared of losing their property, sometimes because of some cultural issues, just doesn't want the wife to do the business" - Informant 7

Norms: Society

"Society believes men entrepreneurs can repay more than women since women have a lot of things to do like taking care of the children, we have a lot of things if we were given a loan we will won't use it well, if the children need school fees we will use the money for that. We will do this and that. We like beauty stuffs. We have a lot of things which makes them think we cannot do, but a man is seen capable to run a business and use the money effectively compared to a woman" - Informant 12

Might apply for a formal loan

"Maybe I try to apply and see because everything is an experiment" - Informant 9

"I'll have to take a loan anyway but the conditions are the ones that make the most of us shy away" - Informant 7

"I think a lot about that so I'm like 'no, let me just keep on saving and, my profit and then I'll see some day maybe I'll take'" - Informant 19

"I wish to ask for a loan when I already have an ability to circulate it fast because currently my timetable is divided twice school and business so it might come a time where I won't be able to circulate it fast, but if it reaches a time that I am done with school, I can stay at my business 24hrs maybe but for now no" - Informant 24

Will not apply for a formal loan

"I can't take out a loan at this time … Yes, I mean the whole purpose of having a business is for you to get the profits and actually expand, but if the money I'm working on … is just quantified by paying back the loan … if I have other means of getting the money then I, then I definitely will do that. A loan will be the LAST thing I'm gonna do"- Informant 2

"I think it has never been in my mind to get a loan from a bank" - Informant 10

"My vision is I believe if I don't take a loan also I can make it. If you manage to do something without taking loan it is best but if you can't manage it is better also to take loan" - Informant 1

"I am not ready to take a loan" - Informant 20

"So you see just decide not to take a loan so as you can live in peace" - Informant 1

Alternative financing sources compare positively to formal loans

"If I get money from somebody I know, yeah, you can talk your way out, you can negotiate a little bit of the interest, so it's better that way … you can ASK for more without interest increasing if you know that person … there are people who, they're not banks but they're people. They're not microfinance, it's not official but … they would lend you money and then you have to pay back with interest. Yeah, at a lower interest" - Informant 10

“This [loan from a VICOBA] is different from banks because this according to the explanations it's like they will check your business and give a loan then sign certain documents but they cannot say they want a collateral of anything .No I think collateral is your business location which they have seen it themselves, that’s collateral” - Informant 9

“It has happened to my father … he was looking for more money to add in his business … because he was a local farmer he was not given [a bank loan] because he did not have a license so … he couldn’t get a loan. He had to go to VICOBA to get a loan … So these institutions like banks he never got a loan from there” - Informant 12

“If you’re gonna look for why women don’t take loans from banks, it’s because it’s easier to get money from the VICOBA and SACCOs and so a wife can take money from a SACCO say and without informing the husband, and you know they don’t really want a lot of collateral. They say I want your tv, I want your cushions, you know. They won’t take it, but you’ll have it in writing. When you default, they’ll come and take that stuff, doesn’t matter if you’re using it or not. And so, a husband comes home and finds the house empty, it’s a problem” - Informant 2

“These small, small VICOBAs they’re, you know, they’re really looking to help us, yeah. They’re not based much on money no, they just need to help you, to help us, in developing our business … I have never had the loan from the bank, it was only from VICOBA …and I have already given them everything and we normally meet say like once per month so, it’s like a friendly thing … they know Maria’s business place is there … me myself at the end of the month I know it’s my obligation that I have to pay … I think it’s a different between those big banks institutions and VICOBA …VICOBAs or SACCOs, they are more friendly ” - Informant 18

“For the SACCOs, the good thing is that we don’t have to have unmovable property because us members we are security to each other” - Informant 7

“About cost I know on my side example at VICOBA they call it insurance of the loan. But it is not that expensive but to institutions like banks I believe it will be higher” - Informant 8

Problems with alternative financing sources

“The effort like what I heard from the first time every day I call them [VICOBA] even yesterday I called them what they told me is to wait and I have already waited, this is like the third month so I have gone too much … yesterday I called them, I am talking to that woman … and she is answering me she’s on leave I told her it has been months and she tells me ‘others take up to 3 months, you only 2 months’ … that is the issue, that is why I call them every day they tell you ‘we are busy we will come tomorrow’, every day they say tomorrow but tomorrow doesn’t reach”- Informant 9

“Just few days ago I took a loan from X [Informal loan group connected to international NPO] … but I didn’t like it since you go there and waste much time. So I saw that kind of disturbance I didn’t engage much, I just went to the seminar about entrepreneurship … I did not take a loan I just went to pay a visit” - Informant 11

“There are so many companies which give loans online but they want you to give your personal information which other companies don’t require; for example to read you phone messages, and all other information they want to know. Something which I failed to give and at the end of the day I failed to get the loan. So they want to enter in your phone book read your messages which was too personal … 20,000 for a start they want to know more and the amount is not worth it … it’s just an online loan from telecommunication company” - Informant 12

“There was a SACCOs … I wanted to be part of it but it’s, it was quite very far … the conditions, if you wanted a loan, you have to have like three times money … it didn’t add up because if I had three times the money I wanted I could just save it up … and then also when you borrow the money you have to pay 15% of

the interest and then you also have to pay SACCOs I think a membership fee or something like that it was like more than 20 or 25% which is the same as in the banks so I didn't thought it was very helpful to me" - Informant 16

"If you are in a group or maybe a SACCOs … they don't have enough money to fund" - Informant 17

Need for extra funds

"It's the money I get from my business but the money is not enough … I believe my business will be bigger … because I wanted a big saloon, where I can do wedding makeup something like that so it's something like when you get enough money I can build a bigger saloon and get more income out of it" - Informant 9

"I'm doing a … very small business. I could purchase more and sell them but I can't because of the financial limits … My future plan is to like, I don't wanna sell only handbags, I wanna sell office shoes, yeah. So currently studying here at the MBA I come across a lot of people who are working so I know … they're really tired, it's hard for them to go out and shop. So what I do is I sell online. Everybody is online and then I deliver to them … So, but right now I'm focusing on the handbags, if I get enough capital, I'll start doing shoes … we say there is no business man that has ever succeeded without taking a loan, you have to take a loan. I don't know it, if it's a must but it's a saying that, yeah, so eventually I might take a loan" - Informant 10

"Sometimes you have to take money from another pocket. For example there is a month when business become difficult, so you have to find another source of money so that you can pay a salary to your employee or even sometimes you have to pay for rent, because it's rise and fall" - Informant 15

"A woman who goes to ask for a loan in a bank has exhausted these other means like SACCOs, VICOBA and whatnot, these local means. And now she's trying to expand her business and she needs a bank" - Informant 2

"No, actually you know in advance that it's going to be that way [that the interest rate is high], but then you don't have other options, … you're usually guided by the need, the goal that is ahead of you and sometimes you have to take the risk" - Informant 26

"If the bank conditions were easier and the interest rates are not TOO high, I would for sure go for a loan. I'll have to take a loan anyway but the conditions are the ones that make the most of us shy away" - Informant 7

Appendix C: Data follow-up survey

ID	Are you still in business?	Why not?	Have you started another business?	Over the past six months, have sales increased, stayed the same or decreased?	Over the past six months, have expenses increased, stayed the same or decreased?	Over the past six months, have profits increased, stayed the same or decreased?	Who are the most important creditors for your business?	Have you experienced problems in paying back creditors during the last year?	What is the likelihood that you would be granted a bank or microfinance loan if you applied for one now?	Do you have access to land or a house you could use as collateral if you had to?	Have you ever applied for a bank or microfinance loan and been rejected?
2	Yes		No	Decreasing	Increasing	Decreasing	Suppliers	No	Neutral	Yes	No
3	Yes		No	Increasing	Increasing	Increasing	None	No	Likely	Yes	No
6	Yes		No	Increasing	Increasing	Increasing	Family	No	Neutral	Yes	No
8	Yes		No	Decreasing	Decreasing	Decreasing	Family	Yes	Unlikely	Yes	No
9	Yes		No	Decreasing	Decreasing	Decreasing	None	No	Very unlikely	Yes	No
10	No	Bankruptcy	No								
11	Yes		No	Decreasing	Staying	Increasing	Bank	Yes	Likely	Yes	No
13	Yes		No	Decreasing	Increasing	Decreasing	Bank	Yes	Unlikely	Yes	No
15	No	Bankruptcy	Yes	Increasing	Increasing	Staying constant	None	No	Likely	Yes	No
16	No	Bankruptcy	No								
17	Yes		Yes	Increasing	Increasing	Increasing	Family	No	Very likely	No	No
18	Yes		No	Decreasing	Increasing	Staying constant	Informal credit	No	Unlikely	No	No
20	Yes		No	Increasing	Increasing	Increasing	Suppliers,	Yes	Neutral	No	No
22	Yes		No	Decreasing	Staying	Increasing	Bank	No	Very likely	Yes	No
23	Yes		No	Increasing	Staying	Increasing	Family,	No	Likely	Yes	No
24	Yes		No	Increasing	Increasing	Increasing	None	No	Neutral	No	No
25	No	Bankruptcy	No								
26	Yes		No	Increasing	Increasing	Increasing	Informal credit	No	Neutral	Yes	No
28	Yes		Yes	Decreasing	Decreasing	Decreasing	None	No	Neutral	Yes	No
29	Yes		No	Increasing	Decreasing	Increasing	None	No	Very likely	Yes	No

a Only 20 out of 29 informants responded to this follow-up survey. Informants with the following ID numbers did not respond: 1,4,5,7,12,14,19,21,27

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