

**INTEREST RATES AND BORROWING OF LOANS FROM COMMERCIAL BANKS
IN UGANDA A CASE STUDY OF CENTENARY RURAL DEVELOPMENT
BANK KABALAGALA BRANCH
KAMPALA - UGANDA**

BY

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**A RESEARCH REPORT SUBMITTED IN THE PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF THE DEGREE OF
BACHELORS IN BUSINESS ADMINISTRATION OF
KAMPALA INTERNATIONAL
UNIVERSITY**

JUNE, 2013

DECLARATION

GIMBO ESTHER declare to the best of my knowledge that the information in this research proposal is the first of its kind and it has never been presented anywhere within the university or outside before.

Signature

Gimbo

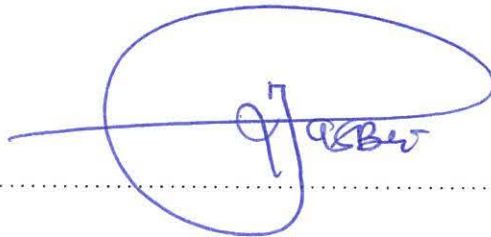
Date

7th / 05 / 2013

APPROVAL

This is to acknowledge that this research proposal on interest rates and borrowing of loans from commercial banks in Uganda in Centenary Rural Development Bank especially Kabalagala branch by GIMBO ESTHER, has been submitted under my close supervision and is now ready for submission to the college of applied economics and management sciences with my approval.

Signature



Mr. ACELLAM BEN

(Supervisor)

Date

30/07/2013

ACKNOWLEDGEMENT

Special thanks go to the almighty God for giving me the strength, wisdom, grace, opportunity and mercy in accomplishing this work and also for having showed me the way towards doing his work. All I know is the total of what I have learnt from all those who taught me either directly or indirectly.

I am grateful to the countless outstanding men and women in their dignities and respective capacities who by their commitments and dedication to becoming the best they could be, have inspired me to do the same.

My sincere appreciation go to Mr. Acellam Ben my supervisor, for the encouragement, corrections and understanding my situation which enabled me to accomplish this work. I also thank the entire community of centenary rural development bank, Kabalagala branch both employees and customers for the handful of cooperation they extended to me in the process of conducting my study.

Finally I thank all those who contributed to the outcome of this piece of work whose names could not appear here because of space and am grateful and appreciative to you all, and may the mighty God bless you abundantly.

DEDICATION

This report is dedicated to my beloved parents Mr. Yakobo Wabuje and Mrs. Robinah Jamusubo, my guardians Mr. and Mrs. Magoola Willison, Mr. and Mrs. Kitembe Grace, Mr. and Mrs. Lumara Elyazali, Mr. and Mrs. Dombo Emmanuel, to my beloved brothers and sisters like: Wafula John, Wabunje Peter, Joice Mugoya, Birike Mary, my beloved friends like Mugawered, Masawi Agnes, Sibihwana Kanah for all the prayers, sacrifice, financial support and guiding me in both all aspects of life and academic undertakings. This report is written in the honor of my beloved country Uganda, family, as well as academicians and those who struggle to build and develop the economy of the republic of Uganda without racial, religious, political, social, cultural, tribal prejudices and preferences.

LIST OF ACRONYMS

C.R.D.T	Centenary Rural Development Trust
S.L.A's	Savings and Loan Associations
C.R.D.B	Centenary Rural Development Bank

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter shows the background, problem statement, Purpose, Objectives, Research Questions, Scope and Significance of the Study.

1.1 Background of the Study

Interest on borrowed funds has existed since ancient times, but interest was not always an acceptable means of conducting business. Religious groups in the Middle Ages, Jewish, Christian, and Islamic forbade the use of interest, considering it reprehensible. Romans in ancient times also outlawed the practice of charging interest, as did the English government until the thirteenth century. In time, and with increasing demands for credit to support the growth of commerce and trade, a distinction was made between moderate interest rates and excessive interest rates. Chinese and Hindu laws prohibited excessive interest rates, known as USURY, and in 1545, England set a maximum rate of interest. Other countries followed England's practice. In the United States as of 2002, the payment of interest for loans is a widely accepted business practice, with illegal usury reserved for interest rates exceeding the maximums set by law.

Interest rate refers to the price that equates the demand for and supplies of loanable funds. Ronald W. Melicher (2000), in this study interest rates is defined as the compensation demanded by the lender of money funds for parting with liquidity.

The history of loans is an interesting thing. In ancient times it was called usury. Christian groups in the medieval period had strict rules about who could loan money and couldn't, and most of the rules involved being unable to charge interest, of any amount, for any reason. The famous exception to this rule was the Jewish community. Jewish people at the time followed very strict rules generated by their religion, but none of those rules involved not being allowed to loan out money to people. Because of this, they were the only ones able to fill that niche in their communities.

The next big step in the history of lending money to people was compound interest. There's a joke about Albert Einstein meeting three people in heaven. One of them has an IQ that makes them a genius. Albert Einstein is quite happy about this. He says they can discuss the theory of relativity. One person has the IQ of a normal person. Albert Einstein is quite happy about this as well. He says they can discuss the laws of physics. The third person has a below average IQ. Albert Einstein shrugs, smiles, and says they can discuss compound interest.

Compound interest is what makes a low interest personal loans possible. If you take out a low interest loan for \$500, but your payment duration is many years, the amount you end up paying to the person the length you the money will be far over \$500 because the interest adds up. Compound interest is also why the interest rates on payday debts are so high. Their payment periods are very short, and they have to make all their money up front. This is also why mortgages can have such low interest rates. Their duration is very, very long.

Borrowing of loans is defined as the action or obligation of taking and using money from the bank under an arrangement to pay it back later. Gary Smith (1991). In this study it will be referred as a debt, an obligation to obtain and repay the borrowed money plus interest.

In short, the evolution of commercial banking is related to the practice of safe keeping of Gold and other valuables by people with merchant/goldsmiths/money-lenders.

Etymologically, however, the word bank is derived from Greek word "banque" or the Italian word "Banco" both meaning a bench-referring to a bench at which money-lenders and money-changers used to display their coins and transact business in market place. In England, initially the bank of England was established in 1694 on Italian lines to support government with finance. Modern joint-stock commercial banks, however, came into the picture with the passage of banking act of 1833 in England.

In India however, modern banking started when the English agency houses in Calcutta and Mumbai began to serve as bankers to the East India Company and the Hindustan Bank was the first banking institution of its kind to be established in 1779.

Therefore a commercial bank is defined as a financial institution that accepts chequable deposits of money from public and also uses the money with it for lending. Dr. D. M. Mithani (2001)

In this study, commercial banks will refer to an institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Centenary Rural Development Bank (C.R.D.B) is a commercial bank in Uganda. It is one of the commercial banks licensed by Bank of Uganda, the national banking regulator. The bank is a mid-sized financial services provider in Uganda. It is primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small manufacturers, small traders, importers and exporters. While engaged in all areas of commercial banking, Centenary Bank has a significant portion of its portfolio in the microfinance arena in an attempt to meet the needs of the many individuals and business entities with limited means that the other banks serves. As of December 2011, Centenary Bank had an asset base that was valued at about US\$381.3 million (UGX: 944 billion), with shareholder's equity in excess of US\$57 million (UGX: 140 billion). (Centenary rural development bank financial reports 2011)

The bank was founded in 1983 as a credit trust, **Centenary Rural Development Trust (CRDT)**, by six individuals: (1) *Simeon Lutuakome* (2) *Hugh Francis Pulle* (RIP) (3) *Paul Kateregga* (4) *Incent Kirabo kya Maria* (5) *Emmanuel Mpande* (RIP) and (6) *John Ogutu* (RIP). In 1985, CRDT began to provide financial services to the public. Centenary Bank became a fully licensed commercial bank in 1993, after receiving a banking license from the Bank of Uganda, Uganda's central bank. As of December 2011, Centenary Bank was the 6th largest commercial bank in Uganda, with an asset base estimated at US\$381.3 million (UGX: 944 billion), representing approximately 7% of all bank assets in the country at that time. Centenary Bank is the second-largest indigenous Ugandan bank, behind Crane Bank.

Centenary bank kabalagala branch is bordered by Kibuli to the northwest, Namuwongo to the northeast, Muyenga to the east and southeast, Kansanga to the south, Lukuli to the southwest and

Isambya to the west. Kabalagala is located along Ggaba-kasanga road about 6 kilometres (3.7 mi) southeast of Kampala's central business district.^[1] The coordinates of the neighborhood are: 0° 7' 53.00"N, 32° 36' 2.00"E (Latitude: 0.298056; Longitude: 32.600556).

.2 Problem Statement

Despite the numerous commercial banks in Uganda today, very few people still access loan products from banks. (Gerald.O.Hatler 1991), November, 1, 2011 event. This inaccessibility and expensiveness to acquire loans is indicated by few businesses taking place, few loan borrowers, poor standards of living, low economic growth among other indicators. This problem of low loan borrowing is likely to result into: more poor standards of living, slow business growth, reduction of money in circulation, low levels of economic development. The major causes of this problem include: high interest rates (discount rate), inflation, making of fixed rate loans as market rates rapidly increase rates of business growth, less gain from investments, risk of default, competition from other banks. Therefore while many studies have investigated on causes of low levels of borrowing loans, no study has been conducted on interest rate that is why the researcher in her study opted to investigate about the relationship between interest rates and borrowing of loans in commercial banks especially in Centenary Rural Development Bank, kabalagala branch.

.3 Purpose of the study

The purpose of the study was to assess the relationship between interest rates and borrowing of loans from Commercial Banks especially Centenary Rural Development bank Kabalagala branch along Ggabba -Kasanga road Kampala Uganda.

.4 Objectives of the study

- i. To establish the relationship between interest rates and borrowing of loans from commercial banks especially in centenary rural development bank, kabalagala branch Kampala Uganda.
- ii. To determine the types of interest rates used by centenary bank while giving loans to clients.

5 Research Questions

Is there a significant relationship between interest rates and borrowing of loans from commercial banks especially in Centenary Rural Development Bank, Kabalagala branch, Kampala Uganda?

What are the types of interest rates used by Centenary Rural Development Bank while giving loans to clients?

6 Scope of the study

6.1 Geographical Scope

This study was conducted from Centenary Rural Development Bank, at Kabalagala branch along Masaka-Ggaba road in Kampala Uganda.

6.2 Content scope

This study was limited to interest rates as in prime interest rates, discount interest rates, nominal interest rates, real interest rates, simple interest rate, and compound interest rate among others.

The loans borrowed in this study were limited to real estate loans, consumer loans, commercial and institutional/industrial loans and finally inter-bank loans and participation loans.

7 Significance of the study

The finding of this study will be paramount to the customers of Centenary Bank, government agencies both profit and non-profit making organizations, commercial banks and other financial and non-financial institutions in Uganda. This will enable them to know the rates at which money can be supplied and demanded, rates which can attract customers to borrow among others.

8 Limitations of study

The limitations of the study will include:

- i. Biasness of the respondents in answering the questionnaires
- ii. Failure of the researcher to set proper questions in the interview guide or list which will result into wrong answers to wrong questions.

- iii. Failure to fill all the necessary blanks which will make computations of data difficult.
- iv. Failure to retrieve the minimum number of questionnaires

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter shows the theoretical review, conceptual frame work and review of related literature to the study objectives.

2.1 Theoretical review.

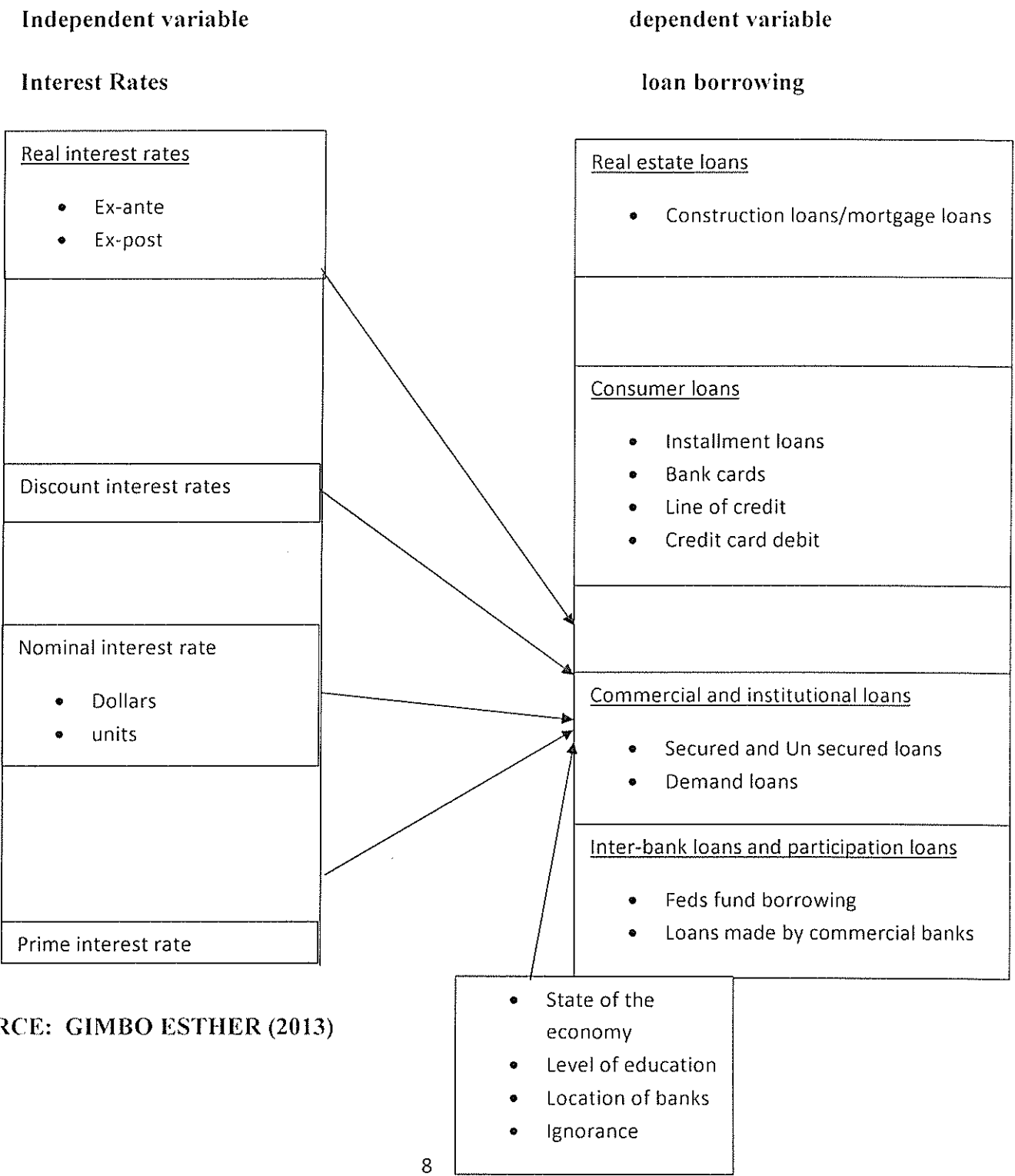
This study was based on the loanable funds theory/Neo classical theory of interest which was proposed by a famous Swedish economists, Knut Wicksell in 1895) cited in Frank J Fabozzi et al (1998) and Dr.D.M Mithani (1989)

This theory asserts that interest rates are a function of the supply of and the demand for loanable funds. This is a flow theory in that it focuses on the relative supply and demand of loanable funds during a specified period .however, the supply of and demand for loanable funds interact determines both the interest rates and the quantity of money/funds that flow through the financial markets during any period. If the supply of funds increases, holding demand constant, and interest rates will tend to fall, likewise, an increase in the demand for loans will tend to drive up interest rates Ronald.W.Melicher et al (2000)

It goes ahead to say that demand is negatively related to interest rate except the government demand, which may not frequently depend on the level of interest rates. If the income of other variables does not change, then an increase in the interest rate will reduce the demand for borrowing on the part of many firms and individuals, as projects become less profitable, and consumption and holding cash grow more costly. Dr.D.M mithani (1989)

1.2 Conceptual frame work

This shows the breakdown of variables as shown below



SOURCE: GIMBO ESTHER (2013)

Other factors apart from interest rates

In the frame work above, interest rate is the independent variable and borrowing of loans is the dependent variable. Therefore it is the interest rates and other factors listed that make borrowing of loans to be high or low in commercial banks especially in centenary rural development bank more so Kabalagala branch as the case study. It is interest rates which determines people's rate to borrow loans such as, real estate loans, consumer loans, commercial loans, inter-bank loans and anticipation loans just as seen above.

.3 Review of Related literature

.3.1 Prime interest and commercial or institutional loans

Prime interest rate refers to the rate banks charge their largest and credit worthy customers. It's charged on a six month commercial loans to customers.

According to Paul A Carrubba(1994), he defines commercial loans as the loans made to businesses and there are the major components of the bank's total loan portfolio.Types of commercial loans include; term loans, short term loans to provide working capital, secured and unsecured loans, demand loans and time loans.

According to Gary Smith (1991) A Study was conducted in 1970s on prime interest rates and loans, where US banks loaned almost \$200 billion, to latine American countries that is to say Argentina, Brazil, Mexico and due to high interest rates as a result of recession by 1982 it crippled their abilities to pay back and even acquire more loans. It was also found out that by 1988, it forced a refinancing agreement on its debts and other countries like Costa Rica, Mexico, the Philippines and Venezuela also re- negotiated their loans, reducing and postponing the payment of interest and principal. All this was due to the high interest rates which had brought problems in borrowing and payment of loans.

In another study still in Gary Smith (1991) was conducted where a savings and loan associations could buy and sell mortgages, it was found out that in 1982,the US league of savings association estimated that the average cost of funds(interest rates) on savings and loan associations (S&LA's) was 11 1/2 % and that a mortgage would have to yield 13 1/2% to cover these costs and that 87 % of outstanding mortgages at that time had rates below 10%.this is why aggregate net of

savings and loan associations fell from 23 billion at the end of 1997 to a frightening \$4 billion at the end of 1981 and why nearly a quarter savings and loan associations operating in the 1970s collapsed or merged in early 1980s collecting a single digit rate on their mortgages while paying a double digit rate to depositors, they suffered alarming losses, simply because of interest rates which had risen unexpectedly. They would not have been able to keep these high interest rates on mortgages because borrowers would have refinanced at a new or low rates.

According to (small business.chron.com>small business>money and debt), it was found out that average interest rates on small business loans depends upon factors like: size of the loan, maturity of the loan among other factors.

According to Peter S Rose (1997), he also says that the credit demands of domestic businesses generally are more responsive to changes in the interest rates than consumer borrowing. He says that most business demand for credit for such investment purposes as the purchase of inventories and new plant and equipment. As noted in the classical theory of interest, a high interest rate eliminates some business investment projects from consideration because their expected rate of return is lower than the cost of funds. On the other hand, at lower rates of interest, many investment projects look profitable; with their expected returns exceeding the cost of funds. Therefore the quantity of loanable funds demanded for business sector increases as the rate of interest falls

3.2 Interest rate and consumer loans

According to Gerald O Halter (1997), he defines interest rates as the representation of the cost banks pay for funds and prices that they receive for the use of their funds; according to him such interest rates include prime interest rate, discount rate among others.

According to Peter.S.Rose (1997) he defines consumer loans as the loans given to each individual customer to fulfill their needs such as purchase of a wide variety of goods and services

n credit. Such consumer loans includes; credit card debt, installment loans. line of credit among
thers.

According to Peter.S.Rose (1997), domestic consumers demand loanable funds to purchase a wide
variety of goods and services on credit and the recent research indicates that consumers are not
particularly responsive to the rate of interest when they seek credit but focus instead principally
on the nonprice terms of the loan such as the down payment, maturity and size of installment
payments. This implies that consumer demand for credit is relatively inelastic with respect to the
rate of interest. Certainly a rise in interest rates leads to some reduction in the quantity of
consumer demand for loanable funds (particularly when home mortgage credit is involved),
whereas a decline in the interest rate stimulates some additional consumer borrowing. However,
along consumer's relatively inelastic demand schedule, a substantial change in the rate of interest
must occur before the quantity of consumer demand for funds changes significantly.

3.3 Interest rates and interbank loans (foreign demand for loanable funds)

According to Peter S Rose (1997) in the recent years, foreign banks and corporations as well as
foreign governments, have increasingly entered the huge US Financial market place to borrow
billions of dollars. This huge foreign credit demand is sensitive to the spread between domestic
lending rates and interest rates in the foreign markets. If the US interest rates decline relative to
foreign rates, foreign borrowers will be inclined to borrow more in the United States and less
abroad. At the same time, with higher foreign interest rates, US lending institutions will increase
their foreign lending and reduce the availability of loanable funds to domestic borrowers. The net
result then, is a negative or inverse relationship between foreign borrowing and domestic interest
rates is relative to foreign interest rates.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covers the research design, population, and sample size, sources of data sampling techniques, research instruments, validity and reliability, data gathering procedures, and data analysis.

3.1 Research Design

The Researcher used cross sectional and comparative descriptive designs. The cross-sectional design was to enable the researcher to collect Data about interest rates changes in centenary bank kabalagala branch for a short time. comparative design was to enable the researcher to compare how interest rates affects borrowing of loans from commercial banks especially in centenary rural development bank kabalagala branch. These designs were to enable the researcher to draw clear conclusions on interest rates and borrowing of loans.

3.2 The population

The population consisted of both employees and clients of Centenary Rural development Bank abalagala branch. The employees included those at management level and operational level who were to be grouped basing on the levels of education.

3 Sample Size

The researcher used Sloren’s formulae to come up with the sample size to be used in the study. The Sloren’s formula states that given the population, the minimum sample size is given by:

$$n = \frac{N}{1 - Z^2 \cdot \frac{p}{N}}$$

Where

n=sample size

N=target population

z=level of significance which is fixed at 0.05

Therefore basing on the formula, the minimum sample size was to be

Assuming that the targeted population (N) was 40 then the sample size was to be

$$n = \frac{40}{1 - (1.96)^2 \cdot \frac{0.5}{40}}$$

$$n = \frac{40}{1 - 0.196 \cdot 0.0125}$$

$$n = \frac{40}{1 - 0.1}$$

$$n = \frac{40}{0.9} = 36$$

herefore 36 was the sample size

4 sampling techniques or methods

In this research, the researchers used purposeful or random sampling techniques. A systematic sampling technique was used to enable the researcher to get satisfactory information from the respondents, and stratified sampling will enable the researcher to get greater accurate information.

5 Sources of Data

The sources of data collection were both primary and secondary as explained below:

5.1 Primary source

This is the first hand Data that was collected from the field by the researcher. The Data came from responses from the respondents.

5.2 Secondary data

Under secondary data, information was extracted from the text books and work of other scholars whether published magazines, written data source including published and unpublished documents agency reports, news papers, articles, internet sources, proposal books, among others was used to obtain the relevant information needed.

6 The Instruments of Data collection

The researcher used the following instruments to obtain the data.

6.1 Questionnaire

This was to help the researcher to obtain the most accurate information about the topic, this questionnaire included both closed ended and open ended questions to avoid self-biasness from the respondents and were given to employees and clients of Centenary Rural development Bank, Mbale branch who know how to read and write.

6.2 Interview guide

These guides helped the researcher not to go irrelevant from the problem of study and during the interview session with the respondents. The interview guide enabled the researcher to get additional information needed which correlates with interest rates and borrowing of loans.

.7 validity and reliability of the instrument

Validity of the instrument was ensured by giving the questionnaire to qualified experts to check on the relevant questions. Reliability was ensured by use of test-re-test method to ensure that instruments give consistent results each time the instrument is used to measure the variables. (Amins 2005)

.8 Data gathering (collection) procedures.

After the proposal has been approved by the supervisor, the researcher will make the required copies of questionnaires and select relevant research assistants to assist in the distribution, administration and collection of questionnaires, and after all the questionnaires are back, the researcher will summarize all the responses and compute the relevant statistics such as frequencies and percentage distribution, means among others. After these computations, the final report will be compiled for submission. This summary will be of what is going to do during data gathering.

.9 Data Analysis

The data collected was analyzed by the use of percentages, ratios, and means to analyse the traits of the respondents of Centenary Rural development Bank Kabalagala branch and standard deviation was used to analyse interest rates and borrowing of loans in centenary rural development bank Kabalagala branch.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.0 Introduction

This chapter presents the presentation of data, analysis and interpretation. The presentation and analysis of data was based on the major two objectives under study respectively. The objectives of the study were to determine, the relationship between interest rates and borrowing of loans from commercial banks, the types of interest rates used by centenary bank while giving loans to clients. Therefore below is the presentation analysis and interpretation of the research findings.

4.1 establishing the relationship between interest rates and borrowing of loans by commercial banks (questions to management)

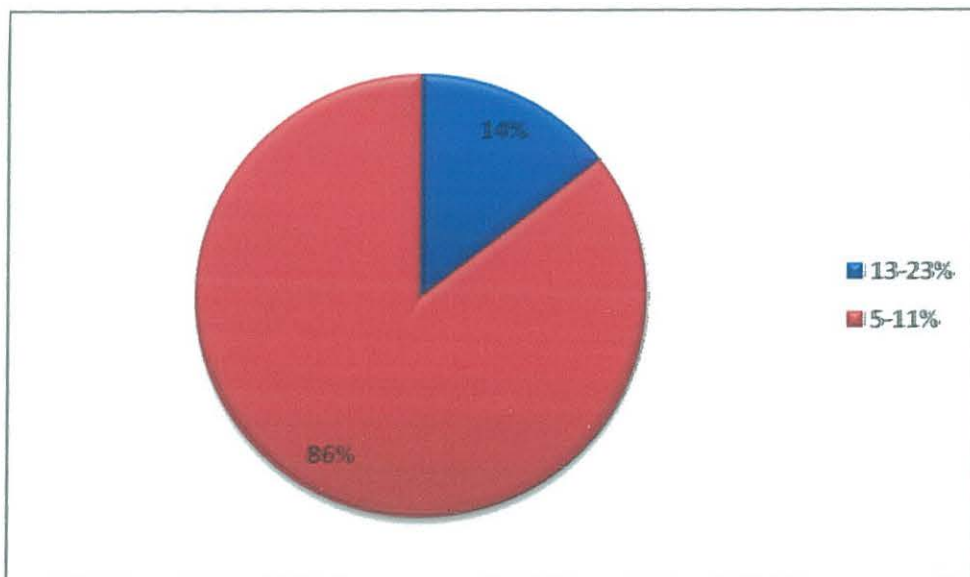
This objective thought to assess the impacts of interest rates on borrowing loans to both the management and the clients of centenary rural development bank. The information this variable got by using the questions in the questionnaire and responses were tabulated in the tables below.

4.1.1 Rate of interest from central bank between 2011/2012

Rate of interest	frequency	Percentage (%)
3-23%	34	94.4%
-11%	2	5.6
total	36	100%

Source: primary data

Figure 1: rate of interest from the central bank between 2011/2012



Source: primary data

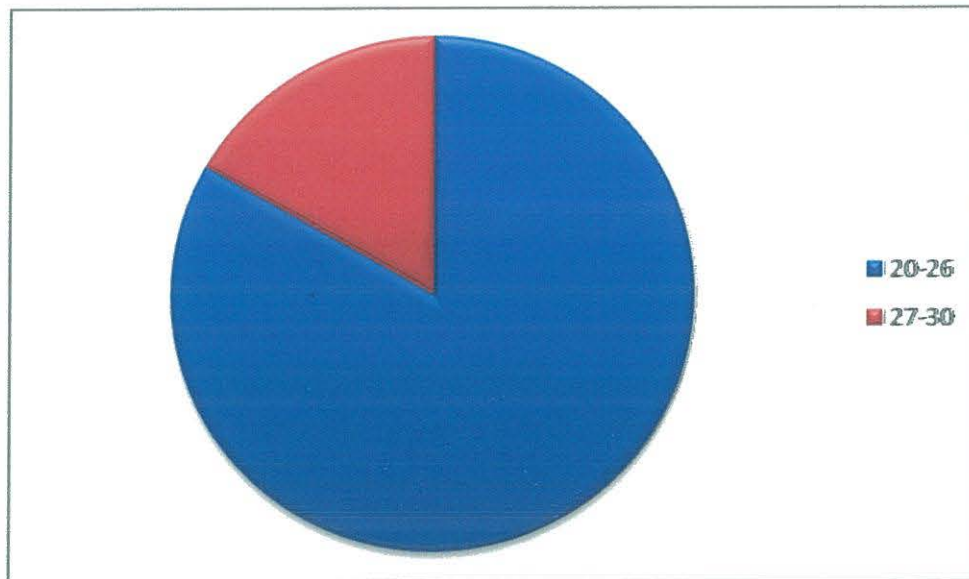
In table 4.1.1, it shows that management response on the interest rate at which they got loans shows that 34 or 94.4% said that they obtained loans between 13-23% interest rate for the year 2011/2012 and 2 or 5.6% said that they obtained the loans from the central between 5-11% interest rate. Therefore this shows that centenary rural development bank kabalagala branch obtained loans from the central bank at the interest rate of 13-23% since it's the one with the highest number of response.

Table 4.1.2 Prime lending rate to trusted and worthy customers

Responses	Frequency	Percentage (%)
20-26%	30	83.3%
27-30%	6	16.7
total	36	100%

Source: primary data

Figure 2 prime lending rate to trusted and worthy customers



Source: primary data

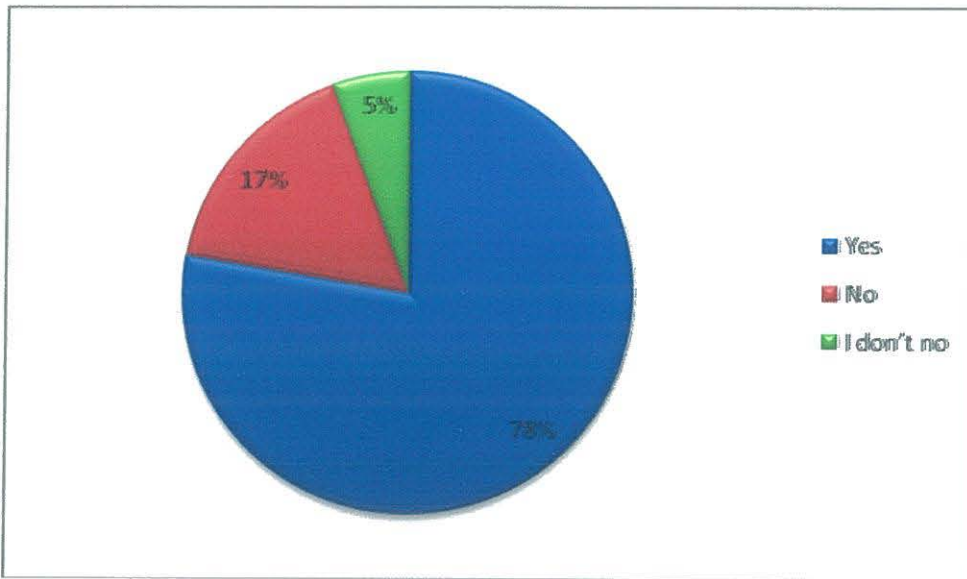
In table 4.1.2, it portrays that 30 or 83.3% said that the prime lending rate to their trusted and worthy customers is 20-26% while 6 or 16.7% said that the rate is 27%-30, this attributes to the fact that centenary rural development bank offers loans at an interest rate of 20-26% to its trust worthy customers.

Table 4.1.3 whether interest rate fluctuations affect their borrowing from the central bank

Response	Frequency	Percentage (%)
Yes	28	77.8%
No	6	16.7%
I don't no	2	5.6%
total	36	100%

Source: primary data

Figure 3 whether interest rate fluctuations affects their borrowing from the Central Bank.



Source: primary data

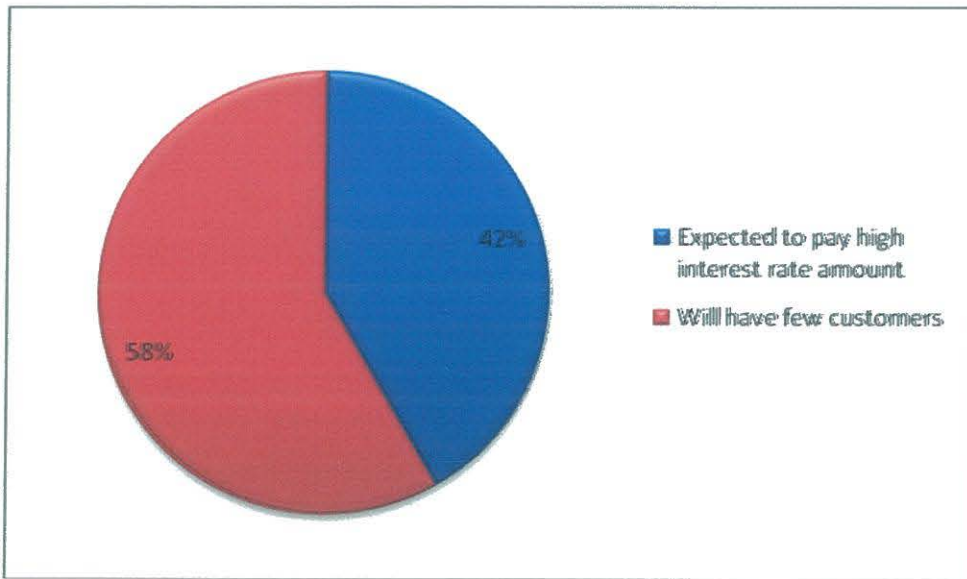
In table 4.1.3 25 or 77.8% say that interest rate fluctuations affects their borrowing, 6 or 16.7% said no and 2 or 5.6% said that they don't know. Thus this shows that interest rate fluctuations affect the borrowing of centenary bank from the central bank.

Table 4.1.4 if yes, why it affects their borrowing

Responses	frequency	Percentage (%)
Expected to pay high interest rate amount	15	41.7%
Will have few customers	21	58.3%
total	36%	100%

Source: primary data

Figure 4: why it affects their borrowing



Source: primary data

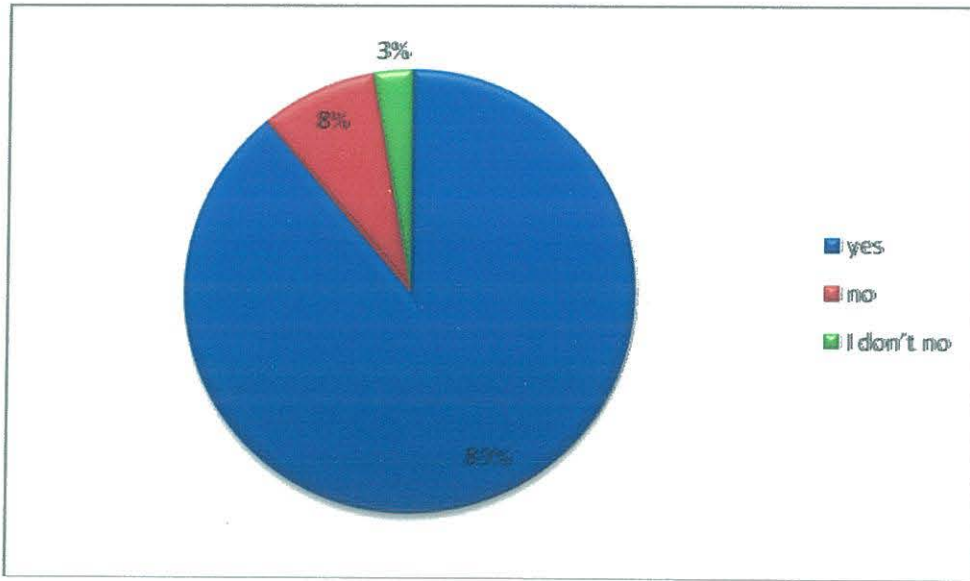
In table 4.1.4 the findings show that 15 or 41.7% said that interest rate fluctuations affects their borrowing from the central bank because at times they are expected to pay high interest rate amount while 21 or 58.3% said that they will have few customers, this shows that if interest rate fluctuate normally commercial banks are expected to pay high amounts as interest rate to the central bank on the funds borrowed.

Table 4.1.5 whether they transfer the effects to customers

Responses	Frequency(f)	Percentage (%)
yes	32	88.9%
no	3	8.3%
I don't no	1	2.8%
total	36	100%

Source: primary data

Figure 5 whether they transfer the effects to the clients



Source: primary data

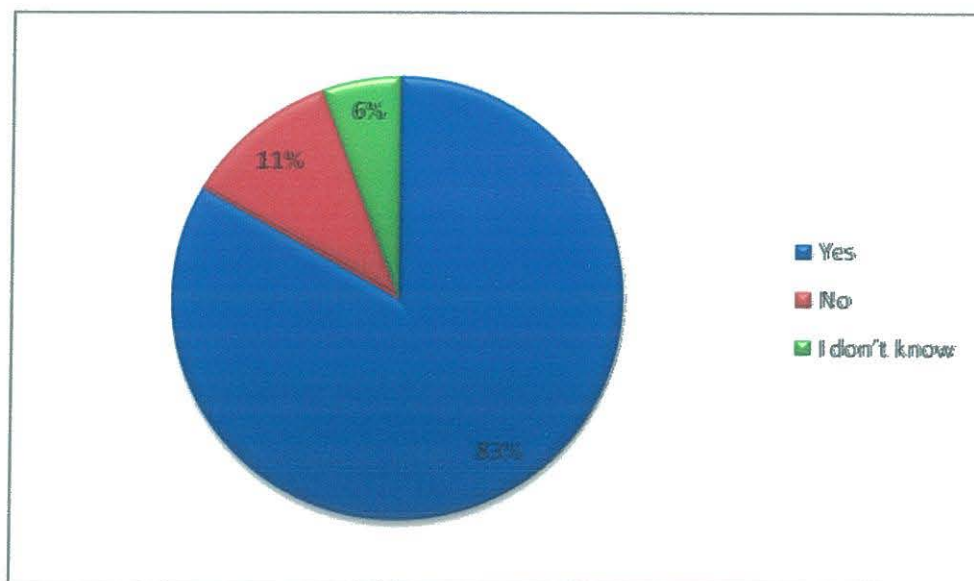
In table 4.1.5 the findings show that 32 or 88.9% accepted that they transfer the effects to the customers by ticking yes, 3 or 8.3% said no and 1 or 2.8% said that they don't know implying that centenary rural development bank transfers the effects of interest rate fluctuations to their customers.

Table 4.1.6 whether the transfer affects the volume of conducting business with clients.

Response	frequency	Percentage (%)
Yes	30	83.3%
No	4	11.1%
I don't know	2	5.6%
total	36	100%

Source: primary data

Figure 6 whether the transfer affects the volume of conducting the business with the clients



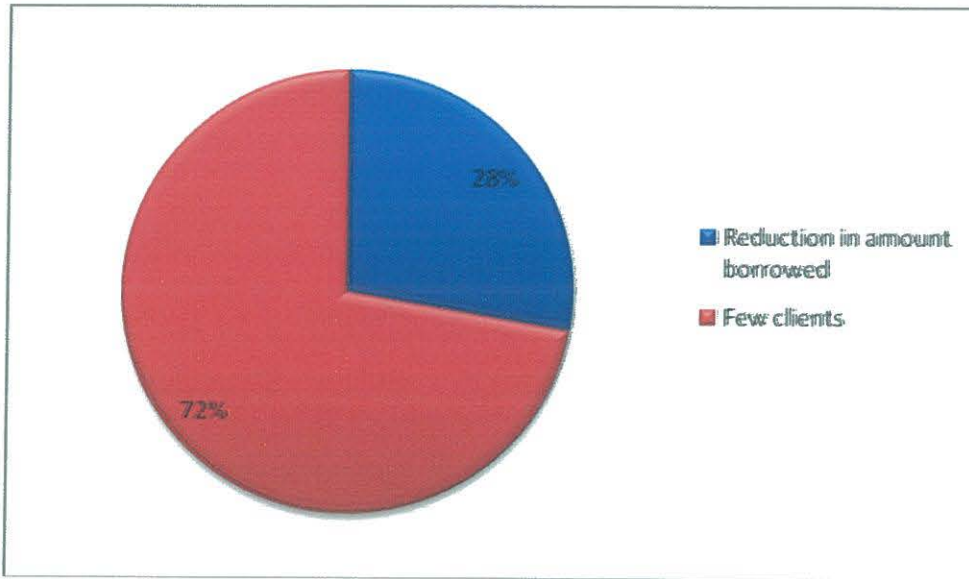
In table 4.1.6 illustrates that 30 or 83.3% said that the transfer of the effects to customers affects the bank's volume of conducting their business, 4 or 11.1% said it does not affect and 2 or 5.6% said that they don't know, hence this shows that the transfer of effects affects centenary rural development bank's volume of conducting business with the clients.

Table 4.1.7: How it affects their business with the clients

Response	Frequency	Percentage (%)
Reduction in amount borrowed	10	27.8%
Few clients	26	72.2%
total	36	100%

Source: primary data

Figure 7 how it affects their business with the clients



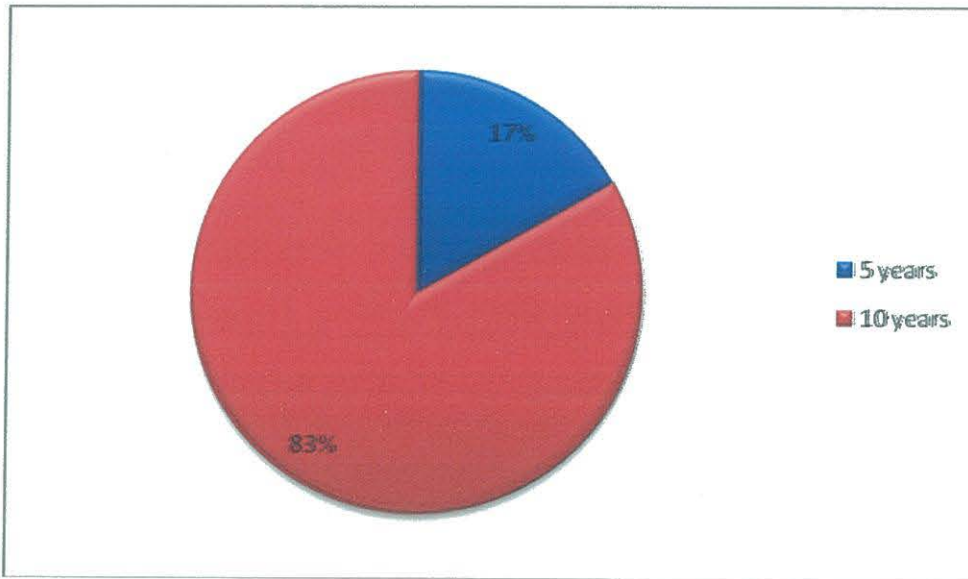
In table 4.1.7, 10 or 27.8 % it portrays that 10 or 27.8% said that it leads to a reduction in the amount borrowed and 26 or 72.2% management response was that it leads to few customers. This attributes to the fact that when they transfer to the effects to customers it affects the bank because few will go for the loans.

Table 4.1.2.1: How long customers have been borrowing from the bank

Response	Frequency	Percentage (%)
5 years	6	16.7%
10 years	30	83.3%
Total	36	100%

Source: primary data

Figure 4.1.2.1 how long customers have been borrowing from the bank



In table 4.1.2.1 6 or 16.7% of the clients said that they have been borrowing for 5 years while 30 or 83.3% said that they had borrowed for 10 years. This shows that centenary rural development bank, kabalagala branch has been in existence for quiet long since majority of the clients represented by the above population said that they had borrowed for 10 years

Table 4.1.2.2: Whether they have ever experienced

Response from respondents	frequency	Percentage (%)
Yes	34	94.4%
No	2	5.6%
Total	36	100%

Source: primary data

Table 4.1.2.2 shows that 34 or 94.4% of the clients have ever experienced the changes in the interest rates charged to them, 2 or 5.6% of the clients said that they don't experience the changes in interest rates charged to them. This implies that if any change is their then the clients experience it

Table 4.1.2.3 whether the changes have affected their borrowing capacity

Response from respondents	frequency	Percentage (%)
Yes	24	66.7%
No	10	27.8%
I don't know	2	5.6%
Total	36	100%

Source primary data

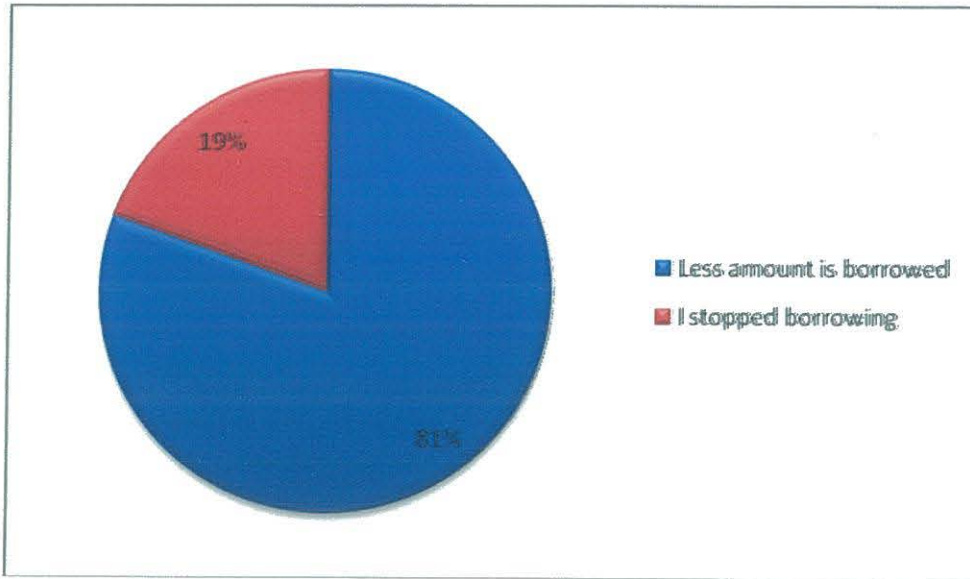
Table 4.1.2.3 indicates that 24 or 66.7% said that interest rates affects their borrowing capacity, 10 or 27.8% said no and 2 or 5.6% said that they don't anything thus this attributes to the fact that changes in interest rates affects their borrowing capacity.

Table 4.1.2.4: How it has affected their borrowing

Response	Frequency	Percentage (%)
Less amount is borrowed	29	80.6%
I stopped borrowing	7	19.4%
Total	36	100%

Source: primary data

Figure 4.1.2.4: how it has affected their borrowing



Still in table 4.1.2.4 it indicates that 29 or 80.6% of the clients accepted that changes in the interest rates affects their borrowing in the way that it makes them to borrow less amount of money, 7 or 19.4 said that they stopped borrowing. This explains the fact that when interest change makes people to borrow less or even borrow nothing as indicated by the percentages above in the table.

Table 4.1.2.5 whether they will continue to borrow despite of the increased interest rate charged

Response from respondents	Frequency	Percentage (%)
Yes	1	2.8%
No	34	94.4%
I don't know	1	2.8%
total	36	100%

Source: primary data

In table 4.1.2.5 shows that 1 or 2.8% of the clients said that they continue to borrow. 34 or 94.4% said no and 1 or 2.8% said that they don't know. Hence this confirms the fact that people will not continue borrowing despite the increased interest rate charged. This is because of the big percentage or number of clients who said no.

Table 4.1.2.6: How they feel when interest rate is decreased

Response from respondents	Frequency	Percentage (%)
Good	35	97.2%
Bad	1	2.8%
Total	36	100%

Source: primary data

Table 4.1.2.6 indicates that 35 or 97.2 of the clients feel good when the interest rate charged on the loans decreases and 1 or 2.8% of the clients said that they feel bad. This only proves that majority of the clients of centenary rural development bank feel good when interest rate charged on loans reduces as it is the one with the big number of client's response.

Table 4.1.2.7 whether decrease in interest rate motivate them to increase on the amount they borrow

Response	Frequency	Percentage (%)
Yes	32	88.9%
No	2	5.6%
Don't know	2	5.6%
Total	36	100%

Source primary data

Table 4.1.2.7 32 or 88.9% of the respondents accepted that decrease in interest rate motivates them to increase on the amount they borrow by ticking .2 or 5.6% said no and 2 or 5.6% said that

they don't know. Therefore basing on those responses, most of the clients are motivated to increase on the amount they borrow when the interest rate charged decreases.

Table 4.1.2.8 If yes why they do so

Response from respondents	Frequency	Percentage (%)
We expect to pay less interest amount	34	94.4%
Make more returns	2	5.6%
Total	36	100%

Source primary data

Table 4.1.2.8 shows 34 or 94.4% of the clients said yes because they expect to pay less amount of interest rates on the borrowed funds while 2 or 5.6 of clients said yes because they are expect to earn more returns on the borrowed funds. This indicates that when interest rates charged reduces they are motivated to borrow more in order to earn some good returns.

4.2 Types of interest rates charged by the bank

Table 4.2.1: Why the bank charges interest on loans

Response	Frequency	Percentage (%)
Make profits	30	83.3%
Sustain itself	4	11.1%
Pay employees	2	5.6%
Total	36	100%

Source: primary data

In table 4.2.1 above it shows that 30 or 83.3% of the respondents (management) said the bank charges interest rates in order to make profits, 4 or 11.1% said in order for the bank to sustain self and 2 or 5.6% said in order to pay their employees. Therefore basing on 30 or 83.3% banks charge interest rates in order to make profits.

Table 4.2.2 whether the bank charges the same rate of interest

Response	Frequency	Percentage (%)
Yes	2	5.6%
No	33	91.7%
don't know	1	2.8%
Total	36	100%

Source: primary data

As per table 4.2.2 2 or 5.6% of the respondents said that the centenary rural development bank, abalagala branch charges the same rate of interest. 33 or 91.7% of the respondents said no and 1 or 2.8% said that they don't know. The response of 33 or 91.7% only proves that the bank charges different interest rates.

Table 4.2.3 various types of interest rates the bank offers to clients

Response from respondents	Frequency	Percentage (%)
Prime interest rate	30	83.3%
Discount rate	4	11.1%
Fixed interest rate	2	5.6%
Total	36	100%

Source: primary data

Table 4.2.3 illustrates that 30 or 83.3% of the respondent said that prime interest rate is charged which the rate charged to the most trusted and worthy, 4 or 11.1% said discount interest rate and finally 2 or 5.6% fixed interest rate. This indicates that centenary rural development bank charges different interest rates to different customers.

Table 4.2.4 why the bank does not charge the same interest rate to clients

Response from respondents	Frequency	Percentage (%)
Riskiness of the loan	30	83.3%
Variation in amount borrowed	6	16.7%
Total	36	100%

Source: primary data

From table 4.2.4, 30 or 83.3% of the respondents said that it is due to the riskiness of some loans that they charge different interest rates and 6 or 16.7% said that it is because of variations in the amount borrowed that makes centenary rural development charge different interest rates.

CHAPTER FIVE

DISCUSSIONS, SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter contains the discussions of the findings, summary, conclusions and recommendations. It presents the discussions based on the major findings of each study as stated in the research objectives.

Secondly the conclusion was drawn from the findings of the study, lastly the researcher brought conclusions to the management of centenary rural development bank, kabalagala branch.

5.1 objective one: the relationship between interest rates and borrowing loans

The objective of this study were rotating between interest rates and borrowing of loans to both the management and clients of centenary rural development bank especially kabalagala branch as seen in the section A of the questionnaire.

The study illustrated that for the year 2011/2012 centenary rural development bank obtained loans from the central bank at an interest rate of between 13-23%, and the study also showed that the prime lending rate was 26%.this shows that the prime lending rate depends on the rate charged by the central bank while giving the loans to the commercial banks.

In addition to the above still the study showed that majority of the workers (management) of centenary rural development bank accepted that interest rate fluctuations affects their borrowing from the central and also it affected their borrowing in the way that there was a reduction in the amount borrowed and few clients who could come for the loans.

Still the study showed that majority of the respondents accepted that they transfer the effects to their customers and a small number of the employees denied that they don't transfer the effects. This still shows that incase the rate at which centenary rural development bank obtains loans from the central bank is high, the customers will also have to suffer the consequences.

Furthermore the study revealed that a number of the people under management observed that when they transfer the effects which occur as a result of interest rate fluctuations, their volume of conducting business with their clients is also affected.

For study still illustrated that it affected business with the clients in the way the number of clients for loans reduces. This is in line with Peter.S. Rose (1997). Which says that consumers who demanded for loanable funds to purchase a wide variety of goods and services reduced and others were not responding to the interest rate charged totally.

A number of respondents as illustrated in (table 4.1. 2.1), indicated that (30 or 83.3%) of the respondents said that they had borrowed from centenary bank for 10 years. This proves that fact that the bank has been lending to its clients for quite a long period of time. However, only a small number of people had borrowed for five years (6 or 16.7%).

The majority of the respondents (clients) that is (34 or 5.6%) as shown in (table 4.1.2.2), also shows that they have ever experienced changes in the interest rate charged to them, furthermore a big number of the clients (24 or 66.7%) said that these changes affects their borrowing capacity.

However these respondents represented by (29 or 80.6%) also mentioned that the changes affected their borrowing capacity in the way that they end up borrowing less amount of money and others stopped borrowing due to interest rate changes. Therefore the analysis shows that the more the commercial banks keep on changing interest rates, the customers withdraw from borrowing and even they end up not borrowing completely.

Analysis of the findings reveal that (34 or 94.4%) of the respondents acknowledged that they don't borrow loans from commercial banks when interest rate charged is increased, and besides that about (35 or 97.2%) of the respondents feel good when interest charged decreases.

Finally the analysis of the findings shows that (32 or 88.9%) of the respondents are motivated to increase on the amount of money they borrow because (34 or 94.4%) said that it is because of the reason that expect to pay less interest rate amount.

2 objective 2: types of interest rates charged by the bank

Where the respondents investigated that there are several reasons as to why the bank charges interest on loans but the analysis indicated that a total of the (30 or 83.3%) in table 4.2 linked their interest to profits being the major reason as to why banks charge interest on loans.

Still 33 or 91.7% of the respondents (table 4.2) indicated that the bank does not charge the same interest rates: this is in line with Dr.D.M.Mithani (2001) which gives several interest rates such as prime interest rate, interest on market securities among others

Lastly the analysis of the findings in this objective reveals that (30 or 83.3%) of the respondents acknowledged that it is due to the riskiness of some of the loans that banks tend not charge the same interest rates.

3.3 summary and conclusion

The main purpose of this study was to show the relationship between interest rates and borrowing of loans from commercial banks especially in Centenary Rural Development bank, abalagala branch. the results of this study were astonishing in that they yielded an overwhelming positive response towards interest rates and borrowing of loans from the respondents. In the study, majority of the respondents that is to say both the management of the bank and the clients get so much frightened and worried when the interest rate on borrowed funds from the central bank are increased and hiked. On the other hand the respondents feel so much joy and motivated to even borrow more when interest rate charged on loans is decreased.

In their response to the study, the respondents desire to obtain loans at a low or favorable interest rate in order for them to continue borrowing. Therefore from this I can conclude that the central bank should set a favorable commercial bank rate in order for the commercial banks more so Centenary Rural Development bank to set a fair prime interest rate to its trust worthy customers. This perspective should be undertaken in order for financial institutions to survive in this global financial business competition.

4 Recommendations

Commercial banks should operate basing on the interest rate set by the central bank in order to avoid many complaints from customers. Centenary Rural Development bank should attempt to set interest rate for loans basing at the commercial bank rate in order to attract many customers for the loans. By doing this several clients with different businesses will go their loans since this clients will have known that it aim is give loans at a favorable rate.

Centenary rural development bank should ensure that they invest a lot in securities like treasury bills which can be easily converted into money. This will help the bank to sell off these securities in case of financial crisis and use the money to offer loans to customers other than going to obtain loans from the central bank where they end up transferring the effects of high charges to the customers.

The government should also intervene in the issue of interest rate through the central bank. This will help in the maintenance of same and favorable interest rates for loans other than leaving for some commercial banks to set interest rates themselves.

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APPENDIX 1

RESEARCH QUESTIONNAIRE FORMAT

Dear respondents,

I am a student of Kampala international university carrying on a study about **interest rates and borrowing of loans from commercial banks especially Centenary Rural Development Bank Kabalagala branch** as my topic states. Therefore you are kindly requested to answer the following questions by providing the most relevant information and to the best of your knowledge on issue sought by the questions below. The information being sought is purely for academic reasons and will be treated with utmost confidentiality.

Please tick/write where appropriate)

SECTION A: To establish the relationship between interest rates and borrowing of loans: by commercial banks (questions to management)

1) At which rate of interest did you obtain funds from the central bank (discount interest rate) between the years 2011/2012?

.....
.....

2) What is your prime lending rate to your trusted and worthy customers?

.....
.....

3) Does interest rates fluctuations affect your borrowings from the Central Bank?

- (A) Yes (B) No (C) I don't know

4) If yes why does it affect your borrowings?

.....
.....
.....
.....

) Do you transfer the effects to your customers/clients?

- A) Yes
- (B) No
- (C) I don't know

) If yes does this transfer affect your volume of conducting businesses with your clients?

- A) Yes
- (B) No
- (C) I don't know

If yes how does it affect your business with the client?

.....
.....
.....

How does your institution handle the issue of fluctuations in interest rates and loan borrowing?

.....
.....
.....

Objective (1)

Questions to the bank clients

How long have you been borrowing from the bank?

.....
.....
.....

Have you ever experienced changes in interest rates charged to you?

- A) Yes (B) No (C) I don't know (D) I don't care

If yes, has the change affected your borrowing capacity?

- A) Yes (B) No (C) I don't know

If yes, how has it affected your borrowing?

.....
.....
.....

Will you continue borrowing despite the increased interest rates charged?

- A) Yes (B) No (C) I don't know

How do you feel when interest rates charged is decreased?

.....
.....
.....

Does decrease in interest rate motivate you to increase the amount you borrow?

- A) Yes (B) No (C) I don't know

If yes, why do you do so?

.....
.....
.....

ection B

bjective (11) types of interest rates charged by the bank

) Why does the bank charge interest on loans to clients?

.....
.....
.....

) Does the bank charge clients the same interest rate?

) Yes (B) No (C) I don't know

) If no, what are the various types of interest rates the bank offers to its client?

.....
.....
.....

) If no in question 2 above, why does the bank do so?

.....
.....
.....

APPENDIX 2 PROPOSED BUDGET

fo	Item	Cost
	2 rims of papers	30.000=
	Printing(3 books)	32.000=
	Hard cover binding (3 books)	40.000=
	Questionnaire (36 copies)	15.000=
otal		117,000=