

INTEREST RATES AND COMMERCIAL BANK LENDING

A CASE STUDY OF EQUITY BANK KABALAGALA

BRANCH KAMPALA UGANDA

BY

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BBA/31406/102/DU

**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND
MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF A BACHELOR 'S
DEGREE IN BUSINESS ADMINISTRATION OF
KAMPALA INTERNATIONAL
UNIVERSITY**

SEPTEMBER, 2012

DECLARATION

I, Kyasanku Siraj, declare that this report is my original work and has never been presented to any other institution of higher learning. I solemnly bear and stand to correct any inconsistencies

Signatures



Kyasanku Siraj

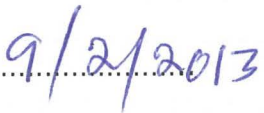
Date..11th/02/2013

APPROVAL

This is to acknowledge that this report has been conducted under my supervision and it is now ready for submission to the academic board of Kampala international university for examination with my approval.

Signature.....

Dr.Kinyata Stanley (Supervisor)

Date.....

DEDICATION

To all teachers of pmm Girl's school jinja and all lecturers of Kampala international university plus all that seek knowledge to serve humanity; this work is dedicated to you

ACKNOWLEDGEMENTS

First and for most I would like to extend my sincere appreciation to my supervisor Dr Kinyata Stanley for his patience, guidance and precious time he spared supervising me until the completion of this report.

Also my gratitude goes to my parents, sisters, brother, friends, and my course mates for their moral and encouragement in enabling me to complete this research.

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TABLE OF CONTENT

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENT	v
LIST OF TABLES	ix
LIST OF FIGURES	x
ABSTRACT	xi

CHAPTER ONE

INTRODUCTION

1.0. Introduction	1
1.1 Background of the Study	1
1.2 Problem Statement	2
1.3 Purpose of the Study	3
1.4 Objectives of the Study	3
1.5 Research Questions	4
1.6 Hypothesis of the Study	4
1.7 Scope of the Study	4
1.7.1 Geographical scope	4
1.7.2 Content Scope of the Study	5
1.7.3 Time scope.	5

1.8. Significance of the Study.....	5
1.9 Conceptual Frame work	6

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction	7
2.1 Theoretical Reviews.....	7
2.3 Review of Related Literature	8

CHAPTER THREE

METHODOLOGY

3.0 Introduction	16
3.1 Research Design.....	16
3.2 Research Population	16
3.3 Sample Size	16
3.4 Sampling strategies/Sampling Techniques.....	17
3.5 Research Instruments.....	17
3.6 Validity and reliability of the instruments.....	18
3.6.1 Data Quality	18
3.6.2 Reliability of the instruments	18
3.7 Data gathering (Collection) Procedures	18
3.8 Data Analysis	19
3.9Limitation of the study	19
3.10 Confidentiality	20

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF DATA

4.0 Introduction	21
4.1 Age of respondents	21
4.2 Respondents work experience	22
4.3 Clients or customers	23
4.4 Level of education.	25
4.5 Marital status.	26
4.6 The significant cause of the level of success of equity bank lending Causes of success of equity bank lending.....	27
4.7 The attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda.....	29
4.8 Relationship between central bank rate and equity bank rate and lending	30

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 Introduction	32
5.1 Summary of findings.....	32
5.2 Conclusions.....	33
5.3 Recommendations	34
5.4 planning, testing and monitoring	34
5.5 limitations of the study	34
5.6 Area for Further Research	35

REFERENCES	36
APPENDICES	37
APPENDIX 1 RESEARCH INSTRUMENTS.....	37
(a)Questionnaire	37
(b)Interview Guide	43
APPENDIX II STUDY BUDGET	44
APPENDIX III TIME FRAME.....	45

LIST OF TABLES

Table 1: Age of respondents	21
Table 2: Respondents work experience.....	22
Table 3: Clients or customers.....	23
Table 4: Level of education	25
Table 5: Marital status.....	26
Table 6: The significant cause of the level of success of equity bank lending Causes of success of equity bank lending	27
Table 7: showing the attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda.....	29
Table 8: Showing the Relationship between central bank rate and equity bank rate and lending.....	30

LIST OF FIGURES

Figure 1: Age of respondents	22
Figure 2: Respondents work experience	23
Figure 3: Clients or customers	24
Figure 4: Level of education	26
Figure 5: Showing the Marital status.	27
Figure 6: showing the significant cause of the level of success of equity bank lending with its frequency	28
Figure 7: showing the attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda.....	29
Figure 8: showing the relationship between central bank rate and equity bank interest rate	30

ABSTRACT

The study was to assess the effect of interest rates on commercial bank lending ,acase study of equity bank kabalagala branch in makindye division Kampala Uganda.

Equity bank kabalagala branch was selected to form basis of the research study. The main objectives was to find out the effect of interest rates on commercial bank lending ,to determine the level of success of equity bank lending and to determine whether there is a significant difference between interest rates and success of equity bank lending in makindye division kampala Uganda.

The findings of this study revealed that lending rates vary between banks and between customers. Central bank sets its own policy interest rates called central bank rates ,which is intended to influence the marginal cost of funds for commercial banks to guide short term interbank rate. It is noted that interest rates charges are determined by forces of demand and supply and also by inflation rates. The findings also shown that there is no a significant difference between interest rates and commercial bank lending.

The researcher recommended that equity bank kabalagala branch kampala Uganda should put forward strategies to give out loans to customers and should consider the kind of customers ,should also establish adequate insurance coverage, insurance providers should be consulted to confirm adequate coverage for bank lending.

CHAPTER ONE

INTRODUCTION

1.0. Introduction

This chapter shows the background, problem statement, purpose, objective, research question, hypothesis, scope and significant of the study

1.1 Background of the Study

Bank of Uganda has taken the struggle to have commercial bank reduce lending rate to the court of public option. The central bank increased the rediscount rate from 21% and 22%. The bank published prime lending rate in the market a sensitive issue that many banks in Uganda hated to see in the public domain. The financial expert said that there intended to send a strong message to commercial banks to either reduce their interest rate or do risk losing customers.

Juma walisinbi, the director of commercial banks of Uganda said that his reason behind publishing interests' rates is put to pressure on the banks to respond to his reduction on interest rates that the central bank announced on March 2nd 2009, bank of Uganda cut down the bank rate by 3.4 % points. This was after the central bank had increased the bank rate a month earlier.

According to Weygand Kieso (2003) financial accounting, 4th edition interest rate is the rate at which interest is paid by borrower for the use of money that they borrow from a lender.

In this study interest a rate is a rate at which equity bank borrow money from central Bank and at which equity Bank lend money to customers to meet their expectations, expectations include high profits.

Bank of Uganda on the monetary policy on Tuesday October 4th 2011 with a 4% point like in the central Bank rate aimed at feigning in high inflation.

Bank of Uganda raised the commercial bank rate to 25% from 16 % in September and pledged to tighten policy further if needed. Currently much of commercial banks are carrying out lending at a high interest rate which hinder most customers to go for money in Banks

History of Equity Bank

Was first incorporated in 1984, as equity Building society, Equity Bank is a financial service provider, headquartered in Nairobi, Kenya. It is one of the forty four commercial banks licensed by the central Bank of Kenya, the national banking regulate. As of October 2012, equity Bank had the largest customers' base in Kenya with the 5.7 million. It is a large financial services group in East Africa with an asset base estimated at over us \$1.5 billion and share holders equity in excess of Us \$ 237 million.

The bank provides banking services to individual and to small and medium business enterprises. Equity bank (Uganda) was created in 2008 when the equity group purchased Uganda micro finance ltd.

1.2 Problem Statement

In Uganda 70% of commercial banks including equity bank fail to carry out lending successfully mainly because of some hinderous like High interest rates charged by banks, high discount rates from central banks and inadequate capital. Failure of equity bank lending was indicated by failure in lending out money, high rates from central Bank, failure to expend, increase acquisition of banks by other banks. The problem of commercial bank (equity bank) lending failure was likely to result in to, high unemployment rate, low economic growth, losses in Banks and high level of poverty. Factors that are responsible to the failure of bank Lending includes lack of trust worthy customers, destruction by the central bank, lack of collateral security, poor economic conditions like inflation and effect of interest rates. Many studies investigated many causes of banks lending failure and no single study was conducted on interest rates. That is why the study hoped to investigate on the relationship between interest rates

and commercial a bank lending a case study of equity bank Kabalagala branch in Makindye Division Kampala Uganda.

1.3 Purpose of the Study

The purpose of this study was to establish the relationship between the interest rate and commercial a bank lending (equity bank) in Makindye division Kampala Uganda. It was also to prove how interest rate affects commercial Bank lending in Makindye division Kampala Uganda.

1.4 Objectives of the Study

The general objective was to determine the relationship between interest rate and commercial bank (equity bank) lending in Makindye division Kampala Uganda.

To determine the profile respondents in terms of financial status, gender (males or female), age, education level.

To determine the level of interest rate among equity bank lending in Makindye division Kampala Uganda

To determine the level of success of equity bank lending in Makindye Division Kampala Uganda.

To determine whether there is a significance difference between interest rates and success of equity bank lending in Makindye division Kampala Uganda

To determine whether there is a significant relationship between the level of interest rate and success of equity bank lending in Makindye division Kampala Uganda.

1.5 Research Questions

What is the profile of equity bank lending in Makindye Division Kampala Uganda

What is the level of success of equity bank lending in Makindye division Kampala Uganda.

What is the level of interest rate among equity bank lending in Makindye division Kampala Uganda.

Is there a significant relationship between the level of interest rate and success of equity bank lending in Makindye division Kampala Uganda?

Is there a significant difference between the level of interest rate and success of Equity bank lending in Makindye division Kampala Uganda?

What is the relationship between interest rate and commercial bank lending in Makindye Division Kampala Uganda.

1.6 Hypothesis of the Study

There was no significant difference between the level of interest rate and success of equity bank lending Makindye division Kampala Uganda.

1.7 Scope of the Study

1.7.1 Geographical scope.

This study was conducted from Makindye division Kampala District specifically at equity Bank. Makindye division was chosen because it has variety of commercial bank. Including Bank of Africa, equity bank, stanbic, orient bank, Micro finance , UBA, tropical and Bank of Baroda in Kansanga and Kabalagala location. It consists the biggest number of banks among the divisions in Kampala.

The study also was carried out at equity bank Kabalagala branch to determine the impact of interest rates to its lending system.

1.7.2 Content Scope of the Study

The study was limited to the level of interest rate in terms of prime rate and rediscount rate, prime rate, the study was limited to short term prime rate and long term prime lending rate.

Rediscount rate was limited to short term rediscount rate and long term rate . The study was to examine relationship of interest rate and success of equity bank lending in Makindye division Kampala Uganda.

1.7.3 Time scope.

The research took place between the month February and March

1.8. Significance of the Study

The study was significant to the number parties in the future and theses include:

Findings of the study was to help the government to understand how interest rate can help to manage the economy

The study was to help the community to understand how interest rate affects lending in bank and borrowing of money by customers.

The study was also to help the organization to understand how interest rate will affect the amount of money to be borrowed in Equity bank

The study was also to help equity bank to identify how the level of interest rate on borrowing and saving affect their profit.

The findings of the study was to help you or bank at initial stage to understand the effect of interest rate

1.9 Conceptual Frame work

Interest rate. This is the rate which is added when someone/ organization borrows money. In this study, interest rate was a rate at which equity bank lend money to people and at which Equity bank borrows money from central bank.

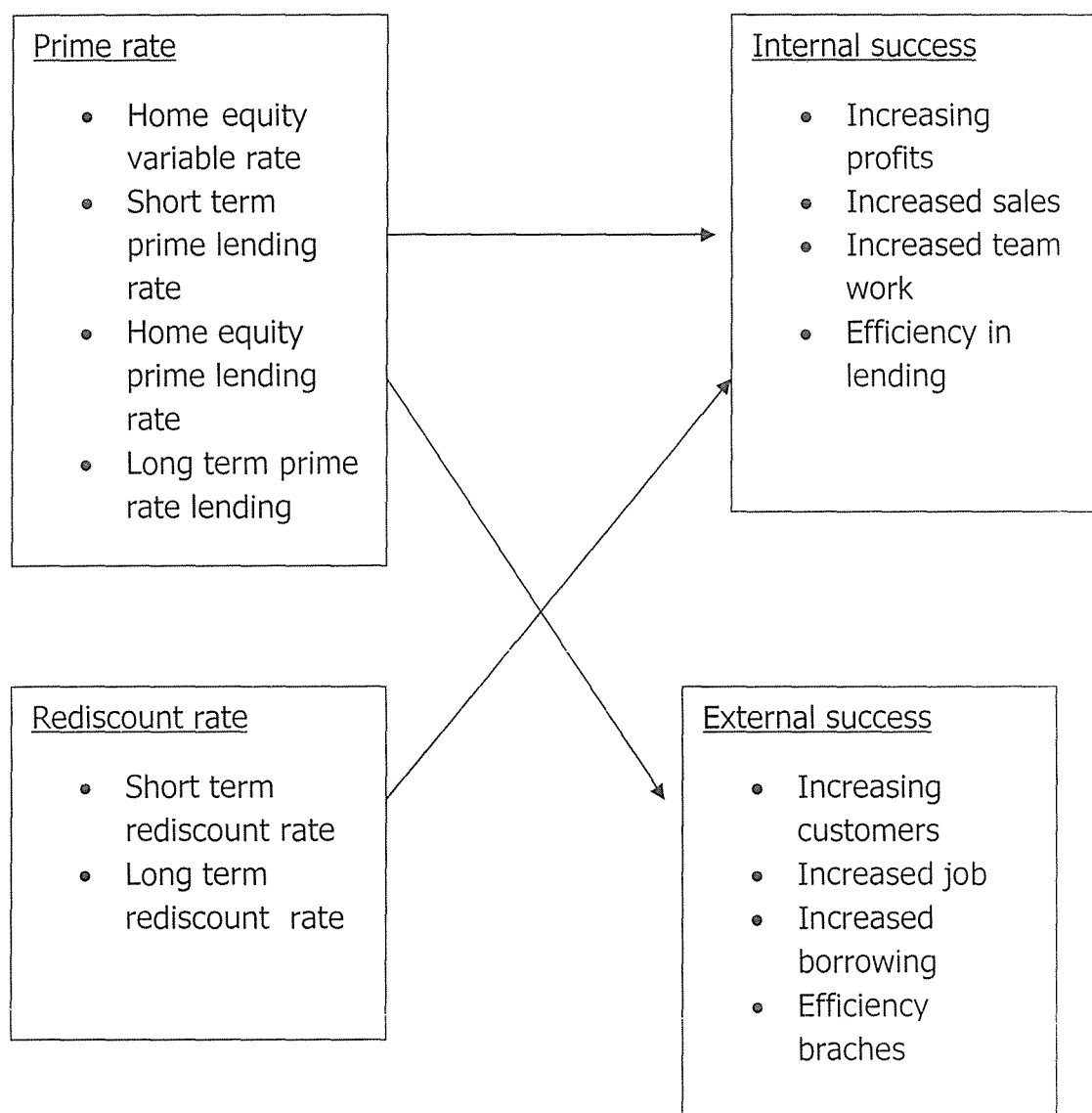
Success of Equity bank lending, this is when equity bank obtain the lending objectives and meet their customer expectation

INDEPENNT VARIABLE

Interest Rates

DEPENDENT VARIABLE

commercial bank lending.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical review, and review of literature related to the study objective

2.1 Theoretical Reviews

The study was based on the marketing segmentation theory of interest rate and classical theory of interest rate. Interest rate theory includes classical theory, expectation, liquidity preferences, theory and marketing segmentation theory which this study will concentrate on.

The study I concentrated on marketing segmentation theory proposed by Richard constant 11/10/2011, got from [www.geogle.com](http://www.google.com)

The theory states that supply and demand focus to create equilibrium in each maturity segment

In this study, it was to show how interest rate by central Bank is distributed to commercial banks including equity bank and how this demand and supply force of loans from central bank and equity bank is affected by interest rate and how does it result to success/ failure of equity bank lending in Makindye division Kampala Uganda.

Another, theory of interest rate was classical theory. As the classical thesis the rate of interest is ascertained by the supply of and demand for capital.

The supply of capital is administered by the time preference and output of capital is based on saving waiting or thrift. The theory is hence also known as the supply and demand thesis of saving .The theory was applied by Tutor.

2.3 Review of Related Literature

Prime rate and commercial bank lending (equity bank) in Makindye division Kampala Uganda. Prime rate this is the rate at which commercial banks lend money to customer. According to David Mugabe and Sammuel Sanya New vision in the rediscount rate is a rate at which central bank lends money to commercial banks. Commercial banks like Chartered Bank as cited by Charles Katongole, head of assets and liability management said that the bank increased its profit through short term prime lending rate which indicated success of commercial banks. Short term rediscount rate and success of commercial bank lending

Rediscount rate, it is also defined as a rate at which central bank lends money to commercial banks. According to Kasekende the bank of Uganda deputy governor said that rediscount rate is the rate at which the central bank charges commercial banks for loans has been set at 21% and 22% when borrowing against eligible collateral.

The aim of central bank to curb the growth in bank credit which has expanded rapidly over the last 12 months it is noted that increase in rediscount rate which reduce the level of commercial bank lending; decrease of the rate was to increase the level of commercial bank lending. Long term rediscount rate this is when the central bank gives commercial banks loans that is to be paid in long run, it is noted that commercial bank which get long term Loan have liquidity to lend out which leads to the success. It is noted that most commercial banks have increased their prime lending rates at least once, with some have increased their rate twice in the last three months to march an increases by central bank. It is noticed by Godfrey Ssali a policy officer at the Uganda manufacturing association. That the benchmark rate that is supposed to guide commercial bank Lending rate has been on the rise, starting out 13% in July 2010 rising to 14% before hitting 16% in September.

The release of the latest commercial bank lending, Louis Kasekende, the Bank of Uganda deputy governor said the rediscount rate. The rate at which central bank

charges commercial bank for loans has been at 21 % and 22% when borrowing against eligible collateral.

The bank of Uganda is raising interest rates in order to curb the growth in Bank credit, which has expanded rapidly over the last 12 months, to encourage higher level of saving and to provide more support to the exchange rate on the September 9th 2011 standard chartered banks raised its base lending rates from 20.5% to 23.5% and this has reduced the customers to borrowing because of high lending rate. It is noticed that an increase in central bank rate to commercial banks has reduced the level of the lending because of the high interest rates on loans charged by commercial banks due to high bank rate from the central bank. This has scared away most of people to secure loans from commercial banks.

In equity bank, it gives out an interest on saving. In that when one withdraw and also saves on his account but having minimum balance of 10,000 shillings he/ she earns an interest of 1%

Specifically, the interest rate is a percentage of principal paid at some rate. Interest rates are normally expressed as a percentage of principal for a period of one year.

Interest rate targets are also vital tool s of monetary policy, are taken in to account when dealing with variables like inflation, investments and unemployment.

Although most of the assumptions and expectations made by central banks or reserve banks by countries, that by technically lowering interest rates would produce the effects of increasing investment and consumptions, however low interest rate in macro – economic policy is also risky and would also lead to creation of massive economic bubbles.

Equity bank has become Kenya's most expensive lender after the merchants around interest rates rate increments.

The cost of borrowing from the bank which was announced that it had increased, spelling hard time for borrowers, most of who are in small and medium

Though the advertisement on Wednesday 9th November 2011 the bank raised its interest rates to 25 percent up from 14% with effects from November 15th. The advertisement said the economy continued to be affected by raising inflation caused by a surge in oil and food price global economic melt- down, depreciating and weakening shilling, which contributed to the prevailing high interest rate environment

The monetary policy committee last month of October 2011 raised central bank rates to 16.5% to rein inflation and weakening of the shilling which led to banks increasing their interest rates

Types of Interest Rates

Prime interest rate; this is the interest rate charged by banks, to their most credit worthy customers. (Usually the most prominent and stable business customers). The rate is almost always the same amongst major banks. Adjustments of prime rate are made by banks at the same time. It does not adjust on any regular

Nominal interest rate, this is the interest rate before adjustment for inflation.

Depending on its application, an inflation and risk premium must be added to the real interest rate in order to obtain the nominal rate.

Nominal interest rate = Real interest inflation premium + risk premium

There is **simple interest rate** and **compound interest rate**. Simple interest is calculated on principal account

$SI = (p \cdot i \cdot n)$ whereby SI means simple interest

P is a principal

I is the percentage interest

n is number of years or time period.

Simple interest rate is one calculated towards the principal amount that is unpaid. This type of interest is basically the opposite of the compound interest rate, it is not charged on a daily basis and the debt can be paid in a most effective manner.

Compound interest rate that is charged on daily basis. This type of interest rate keeps going and going. This is the type of interest rate that most customers are on the problem with this interest is that it is extremely hard when trying to find how to pay off debt because most of the customers minimum payment go towards the interest rate each month and not the principal balance. Most creditors offer this type of interest rate for obvious reasons. If at all possible steer clear of this type of interest rate

Fixed interest rates If you have a fixed interest rate it is an interest rate that is basically locked in for the duration of the agreement. Fixed interest rates can be beneficial but make sure that the agreement is read thoroughly, some of these agreements, many state that after a few months, the rate will increase

Introductory interest rates, this is an interest rate that is given in the beginning of the offer for the time stated on the agreement. It is very important not to get sucked in to an agreement because the initial sign up looks great but after the introductory rate, the rates go up and you now owe on top of your balance interest rate fees.

Particularly a fixed interest rate that allows the customer to pay partial interest on one part of the loan and variable interest on the other. This type of rate is given a guideline from the creditors.

Variable interest rate, a variable interest rate is just as it sounds. It varies depending on the changes in cash rate or other charges made by your provider. These interest rates basically flip-flop at any given time due to the provider.

Comparison Interest Rates

In order to help you compare the true cost of borrowing all lenders are required by law to use the comparison rate, when advertising interest rate for consumer credit loans, such as personal loans and car loans. Most people just use the loan interest rate to compare different loans. Although this is a good start. It does not take in to account other costs such as establishment fees, approval fees, any upfront or ongoing fees.

How comparison ratio calculated

Comparison rates are calculated in accordance with a standard formula which takes in to account the following.

The amount of the loan

The terms of the loan

The repayment frequency

The interest rate and

The fees and charges connected with the loan

Comparison rate do not include

Government charges (e.g. stamp duty or mortgage legislation fees) as these charges will be the same regardless of which finance or loan product the customer chooses.

Fees and charges which cannot be ascertained at time that the comparison rate is calculate.

Fees and charges which may or may not be charged, because they depend on same event which may not occur (for example, fees, or early terminations)

Reasons for interest rate charges

Political short term gain lowering interest rate can give the economy a short term run best, under normal conditions, most economists think a cut in interest rate will only give short term gain in economic activities.

Differed consumption, when money is loaned, the lender delays spending the money on consumption goods. Since according to time preference theory. People prefer goods now to goods later, in free market; there will be positive interest rates.

Inflationary expectations, most economics generally exhibit inflation meaning a given amount of money buys fewer goods. In the future that will involve the borrower need to compass the lender by paying an interest.

Alternative investment. The lender has choice between using this money in different investments if he chose one; he forgoes the returns from all others.

Risk of instrument, there is a risk that the borrower will go bankrupt.

Liquidity preference, people prefer to have their resource available in a form that can immediately be exchanged rather than a firm that takes time or money.

Taxes, because some of the gains from interests may be subjected to tax, the lender may insist on a higher rate to make up for this loss.

Current interest rate

Lending rates in Uganda was last reported at 21.83% in 2011. According to a world Bank report published in 2012 lending interest rates is the rate charged by Banks, on a loan's to prime customers.

This includes historical data chart news and fire cost for lending interpreted rates in Uganda. Uganda is one of the world's poorest countries in spite of high GDP growth rates recorded in recent years, most of the population lives in poverty.

Agriculture is the most important sector of the economy, employing over 80% of the work force, with costs being the main source of foreign trade. The high interest rate has affected all of the above mentioned activities.

27th May 2009 the bank of Uganda took its struggle to have Commercial Banks reduce lending rates to the court of Public opinion. For the first time in recent history, the central bank published prime lending rates in the market a sensitive issue that many banks in Uganda hate to see in the public domain.

The move, finance experts say, is intended to send a strong message to commercial banks to either reduces their interest or risk losing customers.

Juma Walusimbi, the director of communication of Bank of Uganda said that the reason behind publishing the interest rates is to put pressure on the banks to respond to the reduction on interest respond to the reduction on interest rates that the Central bank announced.

On March 2nd 2009 Bank of Uganda cut down its bank rates by 3.4% points. This was after the Central Bank had increased the bank rate a month earlier.

But instead of Commercial banks following suit by reducing their lending rates many simply maintained their rates while some even increased theirs. A part from Stanbic Bank, even those that have reduced have not matched the 3.4% reduction by the Central Bank when pricing their loans Commercial Banks peg their interest rates on the Central Bank's rates on top of any other risk in the markets.

According to Lamin Majang the Chief executive officer at Standard Chartered Bank, pointed out that "there was an error in the Bank of Uganda publication as they had reduced their Base lending rate (BLR) from 19.5% to 19%, with effect from May 1st, 2009"

He was reacting to the Bank of Uganda Statement that praised Stanbic bank, for reducing its prime lending rates from 18.8% to 15%.

The Central Bank also highlighted Cairo Bank's interest rate the second lowest in the markets at 16%.

Annual interest rates as at May 8th 2009

Stanbic Bank	15%
Cairo bank	16%
Bank of Baroda	18%
Housing Finance	18%
Tropical Banks	18%
Kenyan Commercial Bank	18%
DFCU	19%
Standard Chartered	19%
Diamond Trust Bank	20%
Bank of Africa	21%
Crane Bank	22%
Equity Bank	24%

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the plan and tools that was used in the study, research population, research design, sample size, sampling strategies, research instruments, validity and reliability, data gathering procedure, data analysis and limitation of the study.

3.1 Research Design

This research used qualitative and quantitative research design in collecting, organization and presenting data. Correctional design and comparative design was used by researcher when the analysis was based on the relationship between the interest rate and commercial Bank lending (Equity Bank) in Makindye Division Kampala Uganda.

3.2 Research Population

The target population of the study was all the customers and employees of Equity Bank Kabalagala Branch in Makindye Division Kampala Uganda. There are over 100 customers and 50 employees of Equity Bank in Makindye Division Kampala Uganda, Kabalagala town, Kansanga, Nsamby, Kibuli to mention but a few. It was from this population of 150 that the sample size was selected.

3.3 Sample Size

From the population of 100 and 50, a sample size was determined using Sloven's Formula to come up with appropriate sample size that was used in the study.

Solven's Formula states that, given a population, the minimum Sample size is given by:

$$n = \frac{N}{1 + N(e^2)}$$

Where N is the known Population

e is the level of significant which is fixed at 0.05, basing in the formula the minimum sample size will be.

$$n = \frac{150}{1 + 1150(0.05^2)}$$

$$n = \frac{150}{1 + 150(0.0025)}$$

$$n = \frac{150}{1 + 0.375}$$

$$n = \frac{150}{1.375}$$

$$n = 109 \text{ Respondents}$$

A sample size of 109 respondents was selected to participate in the exercise.

3.4 Sampling strategies/Sampling Techniques

The Research was concentrated on one sampling technique and that is Cluster sampling which involved sampling according to geographical boundaries or borders. The research was only to sample Equity Bank's customers and employees in Makindye Division Kampala Uganda.

3.5 Research Instruments

This is a method of data collection where the researcher is to ask questions from the respondents through the demand and gets answers. In this study, questionnaire was distributed amongst respondents to collect data. The questions was to be designed in such a way that general information on the effect of interest rate on success of Equity Bank lending Kabalagala branch in Makindye Division Kampala Uganda, was to be

general from various respondents, describe the existence of interest rates and evaluate the effectiveness of the interest rate on commercial bank lending (Equity Bank).

3.6 Validity and reliability of the instruments

3.6.1 Data Quality

The researcher was required to use quality checks such as the use of Mythological triangulation. Is the use of several research mythologies in the research.

The researcher was also to test the research instrument such as the questionnaire before actually taking the questionnaires to the field. This was to make sure that the quality of data collected by the questionnaires is of great quality.

The researcher was to ensure that the respondents fully participate in this research and dropout rates was to be fully minimized. The researcher was to ensure that there a good presentation across age, gender and other variability which should be put into consideration in choosing the sample population.

3.6.2 Reliability of the instruments

The questionnaire was administered to six people in one week and after two weeks; it was re-administered to the same. The person correlation co-efficient (r) was used to correlate results of two tests. Then the minimum re-value of 0.745 was used to declare the instrument reliable.

3.7 Data gathering (Collection) Procedures

The researcher was to prepare a proposal with detail and steps that was to be followed; the researcher was to obtain an introduction letter from Kampala International University College of Economics and Management Sciences. To access the research area before designing the research instruments. The researcher was to embark on data collection process. The researcher was to make the required copies of questionnaire

and select research assistants to assist the distribution, administration and collection of the questionnaire. After all questionnaires are back, the researcher was to organize the work by summarizing all responses and compute statistics such as mode, median and mean ,the frequencies and percentage distribution. After computation, the researcher was to prepare the final reports for submission in the faculty of business and Management under the College of Economics and Management Sciences in Kampala International University. Interview guide was also used by asking or interviewing respondents directly and get answers.

3.8 Data Analysis

Data was analyzed using descriptive statistics; qualitative data was analyzed using master streets. Quantitative data was analyzed from tables, charts and graphs by relating the dependents and independent variables in order to get answers for research questions fully to establish cause effects relationship of the study. Data was supplied, edited and analysis was to be done by the researcher and cross checked, referencing and as well as data comparison information was to be collected, sorted and organized using computer packages like Microsoft Word and printed out.

3.9Limitation of the study

Time factor

The study was to be very exhaustive because of time factor and also being part of the requirement for the study to be produced within a specific time. This was to be overcome by the researcher using his time adequately and effectively.

Limited Financial Resources

The study was costly and yet the resources are inadequate. This limitation was to be overcome by the researcher soliciting funds from other sources such as relatives, business partner's and other parties who were willing to give help.

3.10 Confidentiality. Some of the information was very confidential in that it was not be allowed to be linked outside the company and this was to be overcome by promising the company managers that the data was to be used only for educational purpose.

CHAPTER FOUR

ANALYSIS, PRESENTATION AND INTERPRETATION OF DATA

4.0 Introduction

This chapter deals with the analysis of the data as given in the questionnaire and the interview guide. The research findings were based on sample size comprising of customers and employees of Equity Bank kabalagala branch makindye division kamala Uganda. The respondents were managers and employees plus clients or customers of equity bank kabalagala branch. The summary for each factor is presented by the use of table to give a clear picture of the score of responses that were gathered as shown below

4.1 Age of respondents

The result of the held study on age respondents from selected respondents, on 109 respondents, 68.9% were male and 31.1% were female. Male respondents were above 30years and female respondents were below 30year. This is an indication that men are more than female in things concerning bank lending and also indicates that young women are spear heading the growth of bank lending since more young women entrepreneur are coming up. The result is illustrated in the table bellow

Table 1: Age of respondents

Age	Frequency	%Age
Below20	20	18.3
20-30	14	12.8
30-40	40	36.7
40 and above	35	32.1
Total	109	100

Source: Primary source

Figure 1: Age of respondents



4.2 Respondents work experience

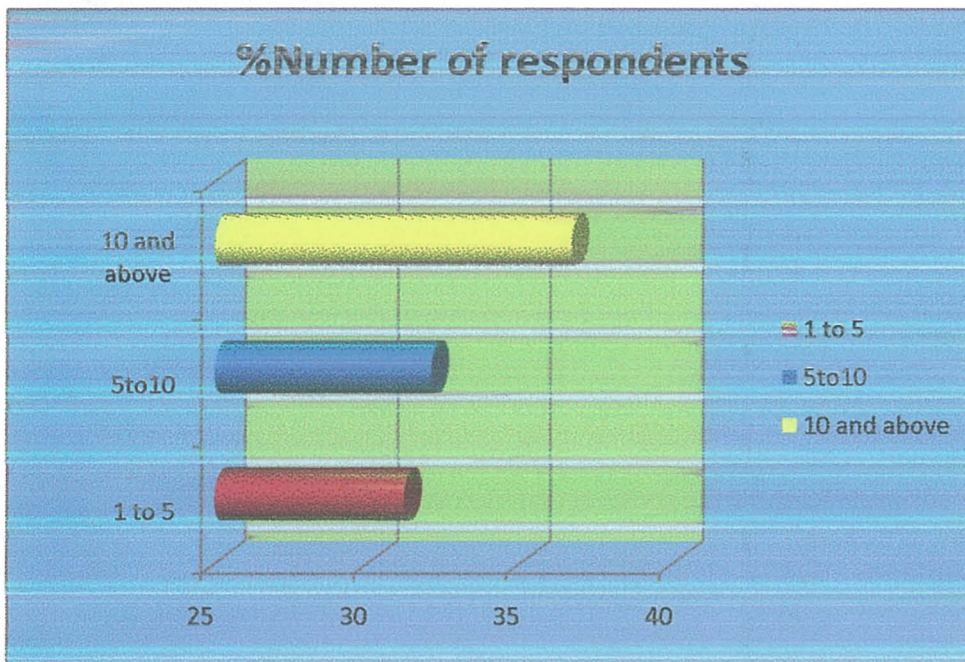
The results of the field study on years of work experience showed that 31.2% of the respondents ranged between 1-5 years and 32.1% of the respondents had 5-10 years while 36.7% had 10 years and above. This signifies that information was collected from customers, employee with long term experience, were represented by 79% of the sample.

Table 2: Respondents work experience

Years	Number of respondents	%Number of respondents
1 to 5	34	31.2
5to10	35	32.1
10 and above	40	36.7
Total	109	100

Source primary source

Figure 2: Respondents work experience



3 Clients or customers

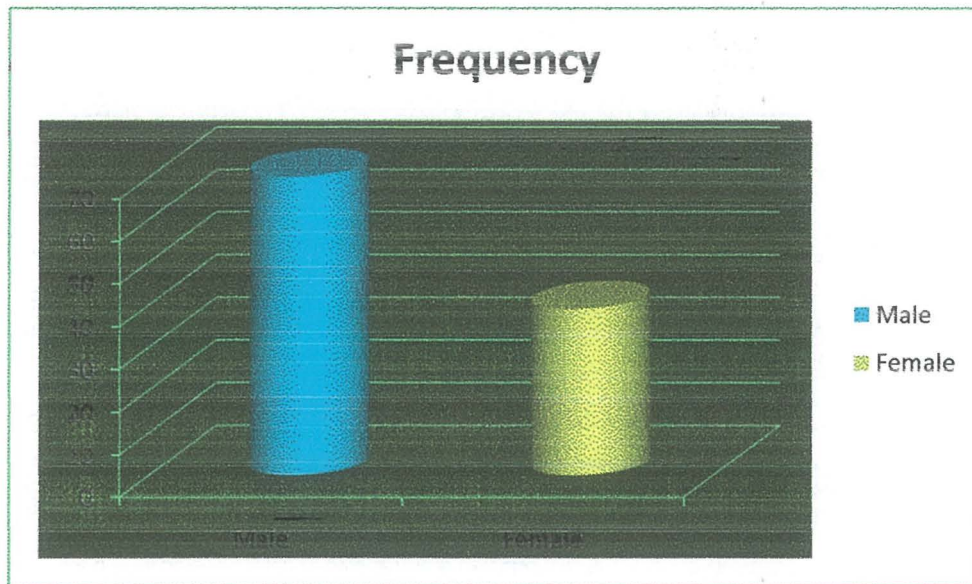
People who responded were 109. The researcher said that this helped him to get adequate and sufficient data that was used in analyzing and presenting the information as show below

Table 3: Clients or customers

Gender	Frequency	Percentage
Male	70	64.2%
Female	39	35.8
Total	109	100

Source: primary source

Figure 3: Clients or customers



Source:

primary source

from table 3, above the research realized that the Male respondents are more affected by interest rates on loans since they are more conversant on interest rates than female.

from the field study the research also noted that males are more involved in business than female and that is why they are affected by interest rates than female.

4.4 Level of education.

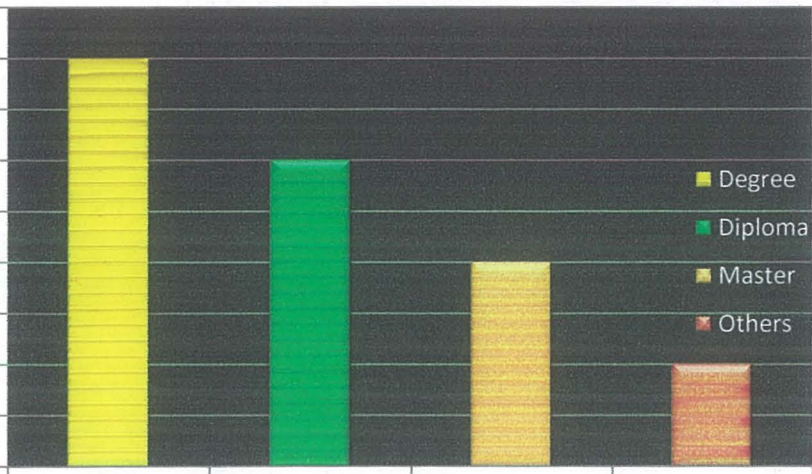
Table 4: Level of education

Level of education	Percentage
Degree	40
Diploma level	30
Master	20
Others	10
Tota	100

It is noted that most of respondents hand degrees, followed by diploma then masters, and other had certificates or high school certificates

The level of professionalism of respondents was as follow, degree level was 40%, Diploma level 30%; Masters was 20% in equity bank and others where 10%, this represents both customers and employees of equity bank. This means that in equity bank and its customer's majorities are educated and also people who borrow in this bank majority are educated

Figure 4: Level of education



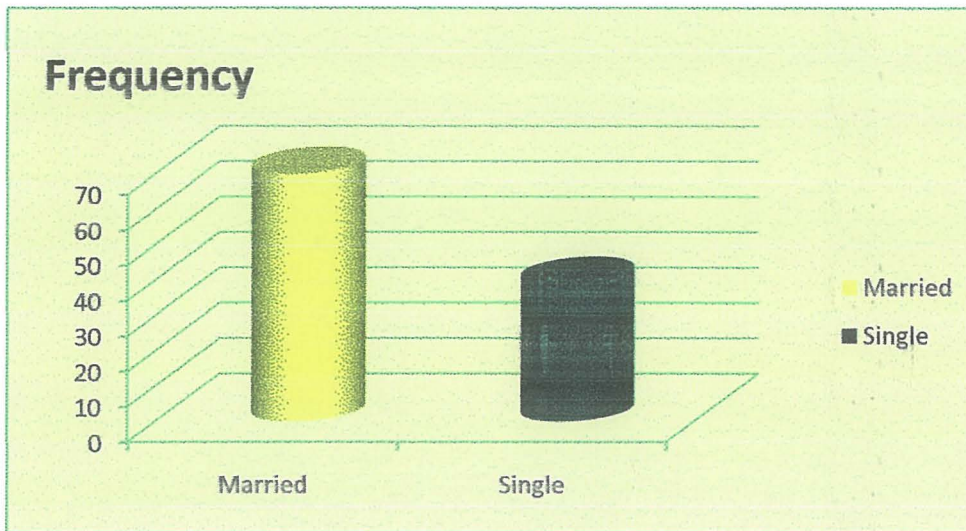
4.5 Marital status.

Table 5: Marital status.

Marital status	Frequency	Percentage
Married	70	64.2
Single	39	35.8
Totals	109	100

PRIMARY SOURCE

Figure 5: Showing the Marital status.



Married respondents were 68% and Single respondents were 34%

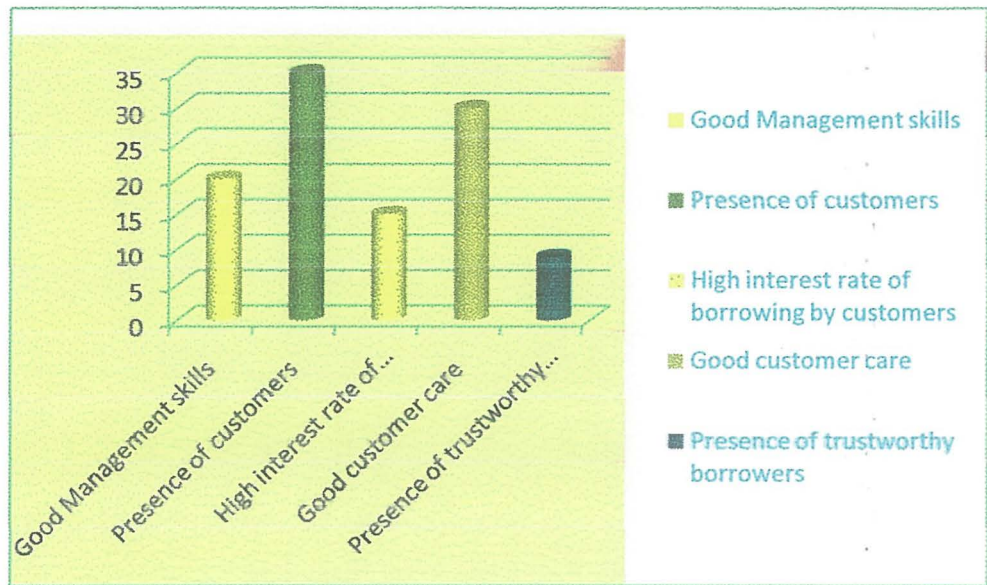
4.6 The significant cause of the level of success of equity bank lending Causes of success of equity bank lending

Table 6: The significant cause of the level of success of equity bank lending

Causes of success of equity bank lending

Causes	Frequency	Percentage
Good Management skills	20	18.3
Presence of customers	35	32.1
High interest rate of borrowing by customers	15	13.7
Good customer care	30	27.5
Presence of trustworthy borrowers	9	8.3
Total	109	100

Figure 6: showing the significant cause of the level of success of equity bank lending with its frequency



It is noted from the above graph the most significant cause of the level of success of equity bank lending is presence of customers, followed by good customer care, good management skills like assets liability management , high interest rates , and presence of trust worth borrowers.

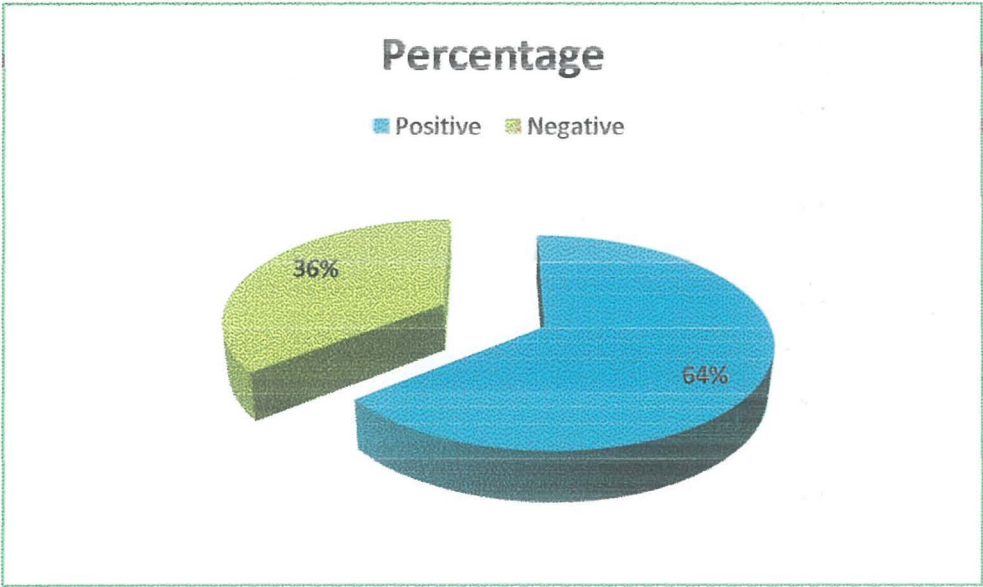
High interest rates was among the last because equity bank charges high interest rates on borrowing, but it has a very good management team, good customer care which gives it competitive advantage against other banks via lending

4.7 The attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda

Table 7: showing the attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda

Attitude	Frequency	Percentage
Positive	70	64.2
Negative	39	35.8
Total	109	100

Figure 7: showing the attitude of employees towards the management of equity bank lending Kabalagala branch Kampala Uganda



The above pie chart shows that most of employees had appositive attitude towards the management of equity bank lending.

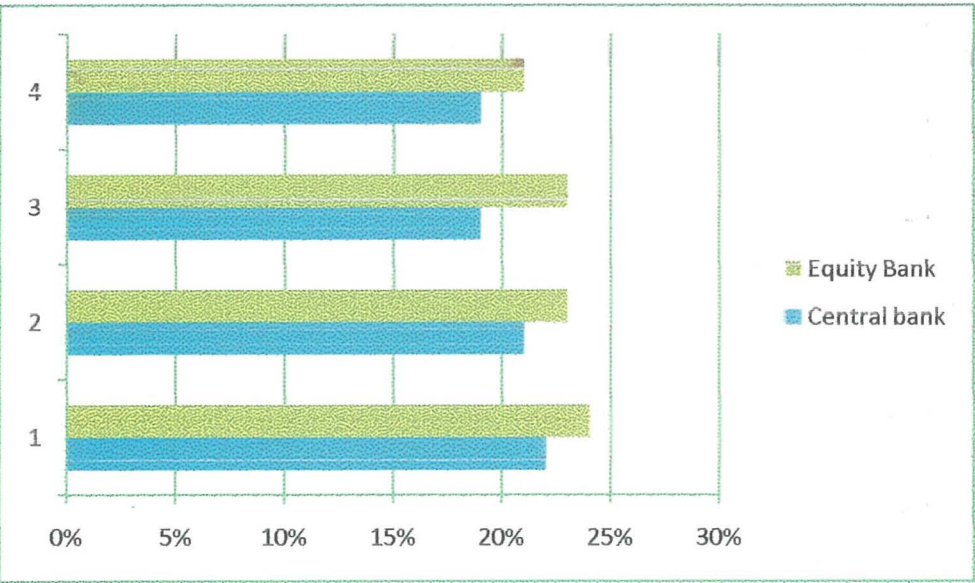
4.8 Relationship between central bank rate and equity bank rate and lending

Table 8: Showing the Relationship between central bank rate and equity bank rate and lending

Year	Central bank	Equity Bank
2009	22%	24%
2010	21%	23%
2011	19%	23%
2012	19%	21%

Source, primary data.

Figure 8: showing the relationship between central bank rate and equity bank interest rate



The above graph shows that a reduction on central bank rate also affects the equity bank lending rate to reduce and the increase of central bank rate also affects the equity bank rate to increase

In conclusion

The above findings concluded that there is a strong relationship between interest rate and bank lending

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 Introduction

This chapter involves the limitation of study, conclusions, recommendation and areas for further research

5.1 Summary of findings

According to results got from equity bank employees and customers, shown a high interest rate charged by equity bank. This shows that many customers are scared to get loans from equity bank because of bureaucratic tendencies and high interest rate.

It was noted that customers who keep their money above 10,000 shillings with equity bank, on saving account, they earn an interest of 1% every month and that is known as interest rates on saving.

It was also noted that lending rates vary between banks and between customers. Central bank sets its own policy interest rate called Central bank rate, which is intended to influence to the marginal cost of funds for commercial banks to guide short term interbank lending rate.

The result of relationship between interest rate and equity bank lending shows that high interest rates charged by central bank also forced the banks to increase its rate on loans or on borrowing. Therefore, central bank should charge low interest rates to commercial banks which can make also commercial banks to reduce their lending rate.

It was discovered that high interest rates on savings or deposits, it attracts more customer to come and save their money.

The findings of the study also shown that interest rate changes are determined by supply and demand, and also by inflation rate. An increase in demand for credit, also

increases the interest rates and a decrease in demand for credit, decreases the interest rate on the other hand higher the rate of inflation the more interest are charged

There is a prospect in future that equity bank will reduce its lending rate.

Building consumer confidence remains critical for the banks to deal with if business with local clients is to grow. In general majority of banks are trying to reduce their lending rates to assist micro business.

In 2009 all commercial banks made their rate to hike or increase because of increase in central bank rate and changing economic condition like inflation.

Currently almost all banks in Uganda like equity and many plus co-operatives and consolidated banks are increasing the saving rate to encourage customers to save and to borrow money.

5.2 Conclusions

The overall purpose of the study was to find out the relationship between the effect of interest rate and success of equity banks lending. The main method of collecting data was purposive and questionnaires were structure to get the primary data. The findings got from equity banks are important to many citizen of Uganda plus the government agencies which are being affected with interest rates.

The study confirmed that interest rate affect the level of equity banks lending as it was discovered by equity bank during the research

The researcher also said that the financial trends and ratios affects the level of interest rate on equity bank lending .This is seen especially on debtors days, the days taken by debtors to pay back the money to the equity bank, interest cover which shows the level of interest rate to be paid on money borrowed.

The study also suggested the establishment of affixed interest rate by central bank on loans given to equity bank which can led to successful operation of equity bank.

According to result got and the use of reference checks was seen as the better method to fight interest rates.

5.3 Recommendations

Equity banks should provide adequate training to the staff, it should be educated how manage the loan and how charge interest rate and they should also form asset liability committee.

Equity bank should also establish adequate insurance coverage; insurance provider should be consulted to confirm adequate coverage for bank lending.

Equity bank also should also put forward strategies to give out loans to customers and they should consider the kind of customer

Equity bank also should also ask central bank to reduce on the level of bank rate on loans given to commercial banks so that they can also charge low interest rate.

5.4 planning, testing and monitoring

Financial institutions should evaluate the risk associated with lending and implement interest rate control management and board should implement a comprehensive program to manage the interest risk prior to implementation of lending activities.

Planning testing and monitoring equity bank lending activities should be conducted as part of the system development methodology and risk management process interest rate and lending involves an open and dynamic environment that requires continuous testing and monitoring

5.5 limitations of the study

The research was subjected to various problems ranging from

Lack of enough financial resources to carry out the research adequately

The time factor was not in adequate owing to the bulky information needed.

Obtaining information from the banks involved was different due to fear that information might be leaked to their competitors

5.6 Area for Further Research

Due time problem, the project could not reflect the issues of interest as relates to all banks in the banking industry, hence there is need for further research.

The following are further research topics

1. Accounting for interest rates and success of bank lending
2. Interest rates level and development of financial institutions
3. Investigation on interest rates and bank lending. between central bank interest rate and Commercial banks interest rates
4. Contribution of interest rate and the growth of bank lending
5. Relationship between Central bank rate and Commercial banks rate

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APPENDICIES
APPENDIX 1 RESEARCH INSTRUMENTS

(a)Questionnaire

I am a student of Kampala International University undertaking a Bachelor's Degree of Business Administration and I am carrying out a research study on the effect of interest rates and Equity bank lending in Makindye Division Kampala Uganda. This questionnaire intended to collect data on the above matter. This questionnaire is for study purposes and therefore requests you to feel this questionnaire properly in spaces on options given.

(Tick where Applicable)

Section A

Profile of respondents

1. Name.....

2. Gender

(a)Male

(b)Female

3. Marital Status

(a)Married

(b)Single

4. Age

(a)Below 20

(b) 20-30

(C) 30-40

(D) 40 and above

5 .Highest education level attained

(a)Primary

(b)University

(c)Masters

(d)PhD

6. Categories of the organization

(a)Merchandise

(b)Service section

7. Business form

(a)Sole proprietorship

(b)Partnership

(c)Co-operation

8 .Number of employees

(a)Below 10

(b)10-20

(c)20-30

(d)30-40

(e)40 and above.

9. Number of years in the business

- (a) Below 5 years
- (b) 5-9 years
- (c) 10-14 years
- (d) 15 and above

SECTION B

10. Equity bank lending interest rate is

- (a) Very high
- (b) High
- (c) Low
- (d) Very low

11 .How effective is the interest rate in Equity Bank lending

- (a) Very effective
- (b) Effective
- (c) Less effective

12. Prime rate is low in Equity Bank

- (a) Yes
- (b) No

13. Interest rates change after a month in Equity Bank

- (a)Yes
- (b)No
- (c)Not sure
- (d)May be

SECTION C

The level of success of Equity Bank lending

- (a)Causes
- (b)Good Management Skills
- (c)Presence of Customers
- (d)High interest rate of borrowing by customers
- (c)Good customer care
- (e)Presence of trustworthy borrowers.

14. What do you consider to be a cause of success of Equity Bank lending Kabalagala Branch Makindye Division, Kampala Uganda?

- (a)1
- (b)1 and 2
- (c)2 only
- (d)2, 5 and 3

15. What is the attitude of employees towards the management of Equity Bank lending Kabalagala Makindye Division Kampala, Uganda?

(a)Negative

(b)Positive

16.Do you consider the answer in question 15 to have a significant effect on Equity Bank?

(a)Yes

(b)No

(c)Not sure

17. Short term Prime Rate lending leads to success of Equity Bank lending.

(a)Somehow

(b)True

(c)Very true

(d)False

18.The rate at which Equity Bank is lending is?

(a)Low

(b)High

(c)Very high

(d)Very low

19. High Rediscount rate (Bank Rates) leads to success of Equity Bank lending?

- (a) True
- (b) False
- (c) Somehow

20. How do you relate interest rate and Equity Bank lending?

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APPENDIX II STUDY BUDGET

The following are expenditure that incurred during the preparation of the report.

Items	Qty	Amount
Papers	1 ream	10,000/=
Pens	6	3000/=
Typing		40000/=
Internet Surfing		10000/=
Binding		50,000/=
Total		113000/=