KAMPALA INTERNATIONAL UNIVERSITY

"THE ROLE OF COMMERCIAL BANKS IN THE ECONOMIC DEVELOPMENT OF UGANDA" CASE STUDY COMMERCIAL BANKS IN NTUNGAMO SUB-COUNTY

BY

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A RESEARCH REPORT SUBMITED TO THE FACULTY OF SOCIAL SCIENCE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BARCHELOR OF ARTS IN ECONOMICS OF KAMPALA INTERNATIONAL UNIVERSITY.

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DEDICATION

This work is dedicated with profound affection and gratitude to my parents Mr. Kashaija Augustine and Mrs. Twesime Josephine Kashaija who together have shown me great love since my child hood and laid a good foundation for my life and for reaching this level.

I also dedicate this work to all family members that originate from our great grand father, late Rutabagana Pociano and to all my friends and my wife to be that always prayed for my success.

DECRARATION

I Niwagaba Alex do declare that the following research is an original and that where other people's text has been used or other wise it is clearly indicated.

That the work presented in this report has never been presented for any other degree in any other university.

Signed ..NIWAGABA ALEX..............

NIWAGABA ALEX

APROVAL

This research report has been under my supervision as a University supervisor.

Signed

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NAMANJI STERA

DATE…29/08/09………………………………..

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ABSTRACT

It's the aim of the study to show the role of commercial banks in the economic development of Uganda considering the case study of Stanbic bank and Centenary bank in Ntungamo town.

The study undertakes to find out how commercial activities and agriculture in particular has been supported by the existence of Stanbic bank and Centenary Bank in Ntungamo to ensure that people acquire loans which in turn they use to develop their domestic incomes.

Chapter one handled the back ground of the study, statement of the problem, the purpose of the study, scope of the study among others.

Chapter two discussed the literature review, sitting of the importance and purpose of Stanbic and Centenary bank on the economic development of Uganda Ntungamo District being the case study.

Chapter three discussed the methodology, research design, study area and population of the study, sample size and selection.

Chapter four discussed research findings, while chapter five covered summary, conclusions, and recommendations of the findings.

ABREVIATIONS

GDP-	Gross Domestic Product
GNP-	Gross National Product
Pg-	page
HID-	Human Development Index
%-	Percentage

ACKNOLEDGEMENT

My gratitude first goes to almighty God who has given me the strength and courage to undertake this research.

I also owe a lot of appreciation to all those who assisted me in carrying out this research. Am grateful to my supervisor Madam. **Namanji Stera**, who tirelessly went through my work and inspired me to go deeper into the core of the work, her kind criticism, patience and understanding, assisted me a great deal.

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Finally I would like to thank all my respondents and those within a short notice helped me without which this work would not have been possible.

GOD BLESS YOU ALL

CHAPTER ONE

1.1 INTRODUTION

The study is about the role of commercial banks in the economic development of Uganda in general and Ntungamo district in particular.

Commercial banks are profit making financial institutions which are either owned by private individuals or by the government. how ever in Ntungamo dicstrict they are owned by private individuals.
Unlike the central bank, commercial banks deal directly with the public and they are known of their capacity to create credit through lending money to the public.
Commercial banks have many roles which include accepting deposits; transfer funds on behalf of customers, store valuable documents mobilize savings, and credit creation among others.

Ntungamo district is located in south western Uganda with three counties of Ruhaama, Kajara, and Rushenyi. It is surrounded by Mbarara, Bushenyi, Kabare, Rukungiri, isingiro districts. Ntungamo also has international boundaries with Rwanda and Tanzania.

Ntungamo district is dominated by different tribes of people which include Banyankole, Bakiga, Bahororo, and some Banyarwanda whose economic activity include agriculture, trade and fishing that is carried out in small scale mostly in swamps.

In this research, the researcher took a study on the level of development before the introduction of commercial banks and opportunities created by commercial banks in the economic development in the area of study and then made a conclusion.

1.2. BACK GROUND OF THE STUDY

In the case of Uganda, the issue of the importance of improving access to the poor was identified as a key development strategy right from the 1960s. The formal banks that were inherited from the colonial government were judged to be serving the trade sector and neglecting the agricultural sector that was the back borne of Uganda's economy employing over 80% of the total population especially in the rural sector.
This motivated the government to set up state owned banks like the former Uganda Commercial Bank limited (UCB) whose mandate included among others to provide credit to the rural sector including agriculture credit.

This was under the policy of sectoral allocation of credit and controlled interest rates which were administratively fixed by the central bank (Muwanga, 2000). The credit to the poor who were engaged in agriculture were extended mainly in kink through the supply of productive inputs like fertilizers, high yielding seeds, and tractor hire services under special bank schemes like Rural Farmers Scheme. The recovery performance of these credit schemes was poor partly because of the lack of the linkage between production and marketing. There were however concerns that this directed credit was not reaching the poorest of the poor as it were the non-poor with good political connections who mainly accessed this credit.

The co-operative movement which emerged in the 1950s was also geared to providing financial services to the agricultural rural sector to boost their productivity. However the mismanagement which engulfed the cooperatives in Uganda led to their corupse in the 1990s.

The controlled interest rate policy and the credit allocation policy were later dubbed as financial repressive policies contributing to the inefficiency of the financial sector (McKinnon, 1973) and the financial sector reforms which were implemented in 1990s were intended to address these problems. The financial sector reforms included liberalization of interest rates, removal of all forms of credit allocation, the privatization of state owned banks, and design of appropriate banking laws (Financial Institutions Statute, 1993), strengthening the independence and capacity of Bank of Uganda (The Bank of Uganda act, 1993).

The consequences of the financial sector reforms was the closure of some distressed banks, the closure of loss making rural branches of the re-structured public sector banks (UCB) which ultimately created a financial services gap especially in the rural areas (Bategeka, 1999).

1.3. STATEMENT OF THE PROBLEM

To find out the impact of commercial banks in the economic development of Uganda. With the existence of many commercial banks in Uganda providing services ranging from giving loans, financial advice, provide information in the market, and carry out development projects, the economy of the country is still under developed with very big income gap especially between the rural and urban sectors.

With the presence of commercial banks which are completely demand following, Ugandan population remains one of the poorest in the world., it is estimated that 40% of Ugandan population live bellow the poverty line therefore one wonders what role the commercial banks have played as far as poverty reduction is concerned. This report intended to establish how commercial banks have helped in poverty reduction and hence economic development.

1.4. THE PURPOSE OF THE STUDY

The purpose of the study was to establish the best way possible for commercial banks to stimulate economic development in Uganda and Ntungamo district in particular

1.5. OBJECTIVES OF THE STUDY

- ✓ To find out the way in which commercial banks can stimulate development.
- ✓ To examine services offered by commercial banks to the public.
- ✓ To find out the interest rate charged by commercial banks on loan services.
- ✓ To examine the impact of commercial bank on economic development.
- ✓ To establish the criteria used by commercial banks in giving out loans.

1.6. RESEARCH QUESTIONS

1) What kind of services that are offered by commercial banks?
2) What is the eligibility for an individual to access a loan facility in commercial banks?
3) What is the interest rate charged on a loan?
4) How has the commercial banks helped you in your economic development?
5) What should commercial banks do to stimulate economic development?

1.7. SCOPE OF THE STUDY

1.7.1. SIGNIFICANCE OF THE STUDY

The study will help in the following ways;

- ❖ It will suggest the solutions to the problems faced by commercial banks in the economic development of Uganda.
- ❖ The study will help decision makes, Bankers in making decisions towards client's expectations.
- ❖ The study will add literature to the existing one.
- ❖ The study once completed will help other researcher to get the base of starting their research.

1.7.2. LIMITATIONS OF THE STUDY

The researcher encountered the following challenges;

- Access to data in selected case studies since some information needed review of official documents which was not easy to access.
- Language problem since some data needed to be translated from Runyankole to English.
- Limited finance that delayed the completion of the research because of the distance that was covered.
- Some people refused to be interviewed and some who accepted gave wrong answers assuming that the researcher was a government official investigating on how to tax them.
- Limited time as the researcher needed to travel to distribute and collect the instruments.

1.7.3. SUBJECT SCOPE

The study mainly focused on Stanbic Bank and Centenary Bank Ntungamo branches as the independent variable and economic development as the dependent variable and the role of commercial banks as the instrument for economic development in terms of services to the population.

1.7.4. GEOGRAPHICAL SCOPE.

The focus of the study was commercial banks in Ntungamo district and most especially Stanbic Bank and Centenary Bank.

This was on institution services to clients, on record and any other relevant records which may be available and some members of their clientele.

1.7.5. TIME SCOPE

The study started in January 2009 with the selection of research problem and proceeded to February when the research proposal was written. The data was collected in April and analyzed in June and July and then presented in July 2009

NO	TIME (MONTHS)		ACTIVITY
1	January- February	2009	Selecting a research problem
2	February- April	2009	Writing a research proposal
3	April- June	2009	Data collection
4	June- July	2009	Data analysis
5	July- August	2009	Data presentation/ dissertation

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. INTRODUCTION

The economic development refers to quantitative and qualitative increase in the level of out put accompanied by the actual transformation necessary to improve the standard of living of the society.

In economic development, par capita income increases as well as improvement in the quality of living of the population.
Economic development is a mast-dimensional process that covers economic, political, social, and cultural aspects of the society.

Economic development aims at a fair distribution of income. It examines how the entire population shares the national income, a reduction in poverty levels so that the majority of the people are able to obtain the basic needs of life.

Economic development not only considers the increase in the volume of goods and services but also the type and quality of things that people want, that is quality of life and happiness, good environment with less pollution and an improvement in the economic institutions.

The term development according to the traditional economic point of view is the capacity of a national economy, whose initial economic condition has been more or less static for a long period of time (Gingan 1999), to generate and sustain an annual increase in the Gross National Product (GNP) at rates of perhaps 5%- 7% or more.

small loans to small and medium scale enterprises. According to Wright and Rippey, over 45% of the potential small businesses lending markets are unranked.

2.4. THEORETICAL LINKS BETWEEN COMMERCIAL BANKS AND DEVELOPMENT

Poverty, measured by the proportion of the population living bellow the poverty line, is observed to be declining over time in Uganda. the percentage of the poor people living bellow the poverty line fell from 56% IN 1992 TO 44% IN 1997 AND 35% IN 2000 but rose to 38% in 2002. Poverty in Uganda is normally a rural phenomenon, with 96% of the poor living in rural areas in 2000. Poverty continues to be regionally concentrated, with the North and the East, having the largest proportions of poor population. However, income inequality has worsened with Gini coefficient rising from 35% in 1997 to 38% in 2000 (MFPED, 2001).

To reduce the rural urban income gap (inequality), the poverty eradication Action Plan (PEAP) emphasizes among other things the strategic improvement of access to credit by the poor through commercial banks.

Production

Credit is considered to be an essential input to increase agricultural productivity, mainly land and labor. It is believed that credit boosts income levels, increase employment at the household level and hereby causing economic development in the long run.

Credit enables poor people to overcome their liquidity constraints and undertake some investments, especially in improved farm technology and inputs, thereby leading to increased agricultural production (Adugna and Hiedhues, 2000). Further more credit helps poor people to smooth out their consumption patterns during lean periods of the year (Binswanger and Khandker, 1995). By so doing, credit maintains the productive capacity of poor rural households (Hiedhues, 1995. world Bank (1989) also observed that improved consumption is an investment in the productivity of the labor force.

According to Navajos et al (2000), the professed goal of a bank loan is to improve the welfare of the poor as a result of access to loans. Diagne and Zeller (2001) argues that lack of adequate access to credit for the poor may have negative consequences for various household level of outcomes including technology adoption, agricultural productivity, food security, nutrition, health and overall welfare. Access to credit therefore also affects welfare outcomes by alleviating the capital constraints on agricultural households, hence enabling poor households with little or no savings to acquire agricultural inputs. This reduces the opportunity costs of capital intensive assets relative to family labor, thus encouraging the adoption of labor-saving, higher-yielding technologies therefore land and labor productivity

Access to credit in addition increases the poor households risk – bearing ability, improves their risk-copying strategies and enables consumption smoothing over time. By so doing, commercial banks are argued to improve the welfare of the poor. Rhyme and Otero (1992) argued that financially sustainable commercial banks with high outreach have a greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor.
Financial sustainability on the other hand measures the extent to which the commercial banks cover its operational and financial costs internally generated revenues (interest and commissions).

Credit is not an effective tool for helping the poor to enhance their economic condition and that the poor are poor because of other factors (such as lack of access to markets, price shocks, and inequitable land distribution) but not lack of access to credit. Adams and Von Pischke (1992). Mosley and Hulme (1998), in their study of 13 financial institutions in seven developing countries concluded that household income tended to increase at a decreasing rate, as the debtors income and assets position improved.

Apart from policy action and district-and community-level characteristics that determine the formation of formal and informal financial institutions and therefore the supply side, the household's access to financial services is also influenced by its physical, human and social capital. Physical and social capital serves as loan collateral. All this three forms of capital determine the repayment capacity and therefore the creditworthiness of households or individuals. Moreover, households owning more of this three forms of capital have a higher capacity to bear risks. As pointed out by Eswaran and Kotwal (1985), access to credit can further increase the risk-bearing capacity.

One of the principle effects of access to financial services is that – through the provision of credit and savings services – households can raise finance to enhance the level of the household's productive capital. With the provision of credit, the costs of (capital-intensive) technology and assets will be reduced relative to family labor. For example, instead of growing low- yielding local crop varieties with a low low level of mineral fertilizer, access to credit may allow to use more improved seeds and fertilizers and produce a higher crop out put per unit of labor and land (feder, Just, and Zilberman 1985). Of course, savings services which enable the accumulation of assets serve the same purpose of providing capital for future investment and income generation, technology adoption and the level of production. Investment increases with risk-bearing capacity (Eswaran and Kotwal, 1985), the provision of financial services for consumption smoothing can have an indirect and positive effect on ex-ante income generation.

Consumption.

Transitory income shocks should not affect consumption patterns and consumption should therefore not track current income (Murdoch, 1995). An increasing number of studies as for example discussed in Alderman and Paxson (1992) and Murdoch (1995) show, however, that households, in particular the poorer ones, are not able to adequately protect their consumption in the face of income shocks. Foster shows that however the households confront severe events such as the Bangladesh floods in 1988, the nutrition status of children in poorer households severely suffers as a result of insufficient informal coping mechanisms and access to credit. Similarly, in a study in Peru, Jacoby (1994) found that during adverse circumstances, credit constrained parents tended to withdraw children from school and put them into income earning jobs, essentially substituting present consumption over future consumption.

Improved access to commercial bank credit may decrease the level of credit obtained at a higher cost from informal sources, and reduce the occurrence óf distress sales of productive assets at a low price. Thus, a sell-off of productive assets (land, livestock, and seeds) may be avoided. However, such a substitution of formal for informal credit will only occur if the formal credit and savings services are useful for the purpose of consumption smoothing.

Loans that are approved only after considerable waiting time that carry high transaction costs for loan application, or that are specifically given for production purposes and thereby tightly monitored are of limited use for consumption smoothing. In the same vain, savings deposits that can only be withdrawn after a longer waiting period or that are- as it is very common in the majority of credit-focused micro-finance schemes- a fixed percentage of the loan amount and held as obligatory deposit until the loan is paid, are of no use for those who wish to save for precautionary motives.

In the real-life presence of imperfect financial markets, households, hold precautionary savings to self-insure as best as possible so as to retain the capacity for future consumption smoothing. While the literature discusses precautionary savings that are held as monetary or physical capital, it is important to recognize that such savings can be in principal also held in form of human social capital. In the following I give examples for each of the four forms of precautionary savings.

First, households may hold buffer stocks in form of assets that can be liquidated in the event of transitory income shocks (Deaton, 1992). Common physical and monetary assets used for precautionary savings in developing countries are money under the pillow, livestock and food. These formal forms of savings are exposed to a number of risks, such as inflation, animal disease, and theft.

The second just as other firms do, households may choose not to fully utilize their available credit limits but to preserve the option to borrow for "worse" times. The credit limit is omitted in the conventional balance sheet of a firm or household, but nonetheless can be considered a specific form of a monetary capital.

Diagne, Zeller and Sharma (1998) show that rural households were found to credit constrained during the current period so that the holding of credit reserves came at the expense of current income for improving the household's ability for smoothing future consumption. It was estimated that half of each additional Kwacha of formal credit line improved to the household is borrowed at the margin; the other half is preserved for improving future access to credit. Diagne et al., however found for Bangladesh that households borrowed all of marginal increases in their formal credit limit. This unexpected result appears to be caused by the fact that loan product of the NGOs-supported group credit programs in Bangladesh did not allow the borrower to choose the amount of credit taken within the bounds of the credit limit. Subject to past loan repayment, increases in credit limit are a function of years of membership with the credit program, and the borrower is given a choice to borrow all of the that increase or drop out of the program. This finding also points out that quasi-automatic loan increases may not be optimal even in the case of credit-constrained households. Giving the choice to borrowers of how much to borrow within the bounds of their creditworthiness enables them to hold credit reserves for future consumption smoothing.

Third, precautionary savings can be also held in form of human capital, for example by having more children so as to meet unexpected future shortages in household family labor.

Fourth, and last,, precautionary savings can be held in form of social capital, for example by investing in personal relationships and membership in social and other institutions at the community level. That such social capital can have an impact on production and consumption has been shown by Grootaert (1998). It is not unreasonable to expect that social capital, just like any other form of capital, can be used more intensively in future periods when transitory income shocks occur. The culture of reciprocal gift giving is deeply embedded in any society. Having more social capital can increase ones (insurance) claim towards society.

As all four forms of precautionary savings enable to hold reserves for future consumption smoothing, they can in principal act as substitutes. The degree of substitution is an empirical matter that is not explored at all. Kazarosian (1997) findings, derived from panel data for U.S. households, suggest that families significantly save less in monetary and physical capital if they have a higher number of children, and explain this by the fact that children can reduce income uncertainty during old age.

In developed countries, and for formal sector employees in developing countries, health insurance is usually provided by specialized large- scale private or public insurance institutions that are not part of the financial sector. Yet, commercial banks can provide precautionary savings services and consumption credit to indirectly address these risks. Village banks that follow the FINCA model (Nelson et al, 1996) or the model developed the French NGO Centre International de Development et de Recherché (CIDR) (Chao-Beroff, 1996) raise funds for internal on-lending to their members. The village bank model allows the members to decide on interest rates for savings deposits and for internal loans. For example, the village banks supported by CIDR in Madagascar set savings rates between 24 and 36% per annum, and on-lending rates at 36 to 48% per annum, although the formal lending rate of the agricultural banks was only 14%. The lending rates decided by the village banks is much higher than the one for loans from friends and relatives, but less than the lending rate of about 60% that socially distant money lenders charge on personal consumption loans (Zeller, 1998). In many banks in villages, the members explicitly allowed for on-lending of funds for consumption purposes, and some village banks provide interest "subsidies" to members that need consumption loans.

Health risks can also be addressed by the provision of precautionary savings services.
For health risks that occur relatively frequently and demand immediate response, the costs and time for withdrawal must be minimal. A current account at a village bank or a nearby bank branch offers such features, or a term deposits that can be withdrawn at a short notice with a penalty.

Many methods have been advanced by different economists for measuring the level of economic development in any given economy, these include the following among others;

Fist, Gross Domestic Product (GDP). It is the most common way of assessing development in many countries, economic development is defined in terms of increase in per capita real income or out put.

These is a process where by real per capita income increases over a long period of time a number bellow the absolute poverty line does not increase and the distribution of income does not become more unequal.

GNP per capita=GNP/Total population.

This means that GNP per capita is the ratio of national out put to the national population. Therefore if per capita GNP increases over time then economic development is perceived to be occurring.

Second, Human Development Index (HDI). This method looks into life expectancy at birth, adult literacy rate, combined gross enrolment ratios, and GDP per capita.

For example, consider the following hypothetical figures, Human Development Index can be calculated as follows;

ITEM	MINIMUM VALUES	MAXIMUM VALUES
Life expectancy at birth	25 years	85 years
Adult literacy	0%	100%
Combined gross enrolment ratio	0%	100%
Real GDP per capita	$100	$40000

Table (1)

In order to get HDI for the above country's information in the table (1), a dimensional index is constructed.

It is given by actual value-minimum value/ maximum value-minimum value.

a) A country has life expectancy of 70 years.

70-25/85-25

Life expectancy=45/50

=0.75 as the life expectancy at birth in that country.

b) education index of 88%

to calculate the real education index, it can be calculated as follows,

88-0/100-0

Education index=88/100

=0.88. Which means that 88% of the population accessed school?

c) gross enrolment ratio of 75%

75-0/100-0

=75/100

=0.75

We then add education index and gross enrolment ratio to get education index.

2/3[0.88]+1/3[0.75]

=0.587+0.25

Education index =0.837. This means that 83% of the total population attained education.

d) income index 2215

Income index is given by

Log2215-log40000-log100

log2215=7.703007682

log100=4.605170186

log40000=10.59663473

Therefore income index=

7.703007682/10.59663473-4.605170186

Dimensional index for income=0.51704178 and this means that an individual gets $51.7 as his personal income.

In general HDI = 1/3(income index)+ 1/3(Educational index) +1/3(life expectancy)
=0.517 + 0.837 + 0.7/3
=2.104/3
HDI= 0.701

According to UNESCO Institute for statistics estimates, the higher the HDI, the higher the level of development in that particular country.

Developed countries have HDI ranging from 0.932 to 0.927 and these countries included Canada and USA, middle developed countries range from 0.786 to 0.560 and they include among others Mexico, Malaysia, and China while low developed countries had HDI ranging from 0.463 to 0.404 and included Nepal, Nigeria, Tanzania, Uganda among others. This was in 1997.

Third, physical quality of life index. This considers the standards of living of people in the country. It considers what people eat, working hours, life expectancy at birth, level of education, and many others. The higher the standard of living in the country the higher the level of economic development in that country.

Many economists have advanced different theories of economic development and they stated one by one as follows;

Adam Smith as the foremost Classical economist. His monumental work, an enquiry into the nature and causes of the wealth of nations (1776), was primarily concerned with the problem of economic development. Though he did not expound any systematic growth theory, yet a coherent theory has been constructed by later day economists which is explained bellow;

Taking institutional, political, and natural factors for granted, Smith starts from the assumption that a social group (a nation) will experience a certain rate of economic growth that is accounted for by the increase in the numbers of savings. This induces widening of market which in turn increases division of labor and thus increases productivity...

In this theory the economy grows like a tree. This theory is not doubt exposed to disturbances by external factors that are not economic,... but in a uniquely determined way, and the individuals who acts combine to produce each situation acts individually for no more than the individual cells of a tree. According to smith, this process of growth is cumulative. When there is prosperity as a result of progress in agriculture, manufacturing industries and commerce, it leads to capital accumulation, technological progress, increase in population, and expansion of markets, division of labor, and rise in profits continuously. All this happens I Smiths progressive state which "is in reality the cheerful and the hearty state to all the different orders of the society."

But this progressive state is not endless. It ultimately leads to a statutory state. It is the scarcity of resources that finally stops this growth.
In such opulent state, the competition for employment would reduce wages to the subsistence level and competition among businessmen would bring profits as low as possible. Once profits fall, they continue to fall. Investment also starts declining and in this way the end result of capitalism is the stationary state.
When this happens, capital accumulation stops, population becomes stationary, profits are at the minimum, wages are at subsistence level. There is no change in per capita income and production, and the economy reaches the state of stagnation. Smith (1779), the statutory state is dull, the declining melancholy.

Smith's theory is explained in figure 1 bellow where time is taken on the horizontal axis and the rate of accumulation, dk/dt, on the vertical axis. The economy grows from k to s during time path T, the economy reaches the stationary state linked to S where further growth does not take place because wages rise so high that profits become zero and capital accumulation stops.

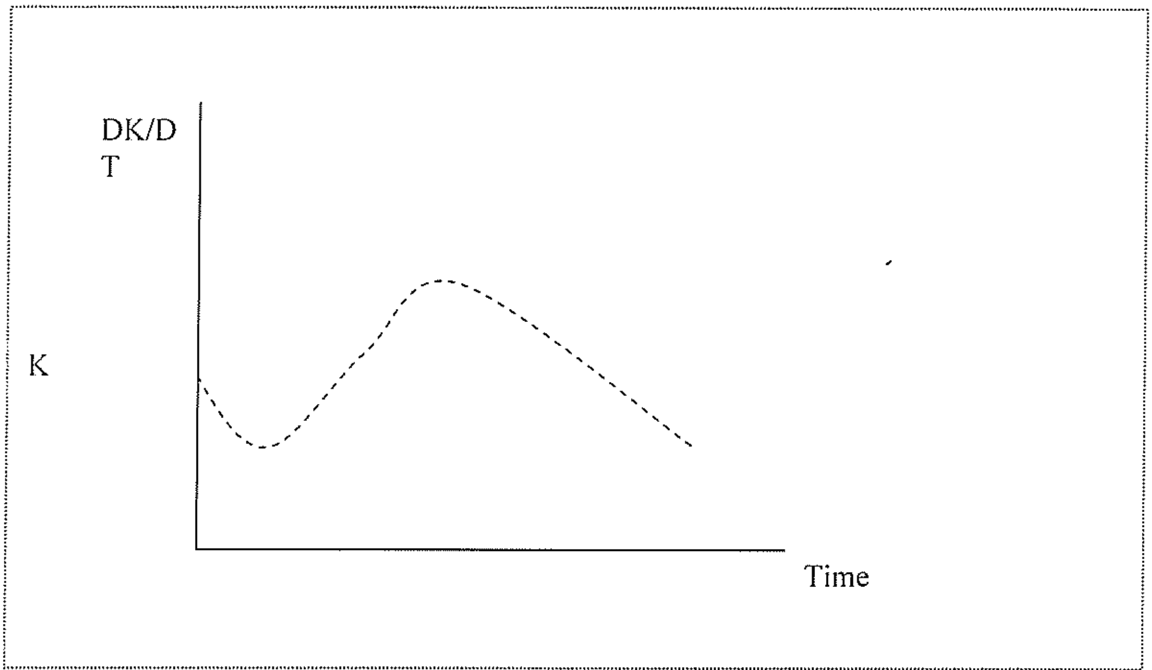

Figure I source (Gingan)

According to Adam Smith (1770), he belied in the doctrine of "natural law" in economic affairs. He regarded every person to be the best judge to himself interest who should be left to peruse it to his own advantage.

Therefore he opposed to any government intervention in industry ,and commerce. He advocated the policy of "laissez-faire" in economic affairs.

In his theory of division of labor was the starting point of economic growth. Division of labor would lead to increase in dexterity of very worker, savings to invention of large number of labor- saving machines. Division of labor however depends on the size of the market. One of his famous sayings that "the division of labor is limited by the extent of the market".

The Malthusian theory. Malthus did not regard the progress of economic development as automatic, Ruther it required consistent efforts on the part of the people. He did not conceive of any moment towards the statutory state but emphasized that the economy reached the slump many times before attaining the optimum level of development. Thus for him, the process of development was one of ups and downs of economic activity rather than smooth.

Malthus was concerned with the "progress of wealth" of a country. By the progress of wealth he meant economic development which could be achieved by increasing the wealth of a country. The wealth of a country depended partly upon the quality of produce obtained by its labor, and partly upon the valuation of this produce. 'But the wealth of a country does not always increase in the value may sometimes take place under an actual diminution of commodities."

In his principle of political economy (1976), Malthus was more realistic in his analysis of population growth in the context of economic development than in his Essay of Population. According to him, population growth by itself is not sufficient enough to bring about economic development. Ruther, it is the result of development process.
As Malthus wrote: "an increase in population can not take place with out proportionate increase of wealth." As the rate of capital accumulation increases, the demand for labor also increases. This encourages population growth. But mere population growth does not increase wealth. Population growth increases wealth only if it increases effective demand. And it is increase in effective demand which leads to increase in wealth.

According to Malthus, the size of potential gross national product depends up on land, labor, capital, and organization. When these four factors are employed in right proportion, they maximize production in the two major sectors of the economy viz., the agriculture and the industrial sector. It is the accumulation of capital, the fertility of soil and technological progress that leads to increase in both agriculture and industrial production. Besides these, Malthus also emphasized the importance of non economic factors in economic development which come under the head of politics and morals.
They are the security of property, good constitution and excellent laws properly administered; and hard working and regular habits and general rectitude of character.

Adam smith (1971), he believed in the doctrine of "natural law" in economic affairs. He regarded every person to be the best judge of his own interest who should be left to pursue it to his own advantage.
Therefore, he opposed to any government intervention in industry and commerce for economic development. He advocated the policy of "laissez-faire" in economic development affairs.

In his theory, division of labor was the starting point of economic growth. Division of labor would lead to increase in dexterity of every worker, savings to invention of large number of labor-saving machines. Division of labor however depends on the size of the market. one of his famous sayings that the division of labor is limited by the extent of the market.

j. Vernon etal (1994), commercial banks have been credited in fighting the persistent poverty through income maintenance programs designed to alternate the current poverty by providing cash, welfare programs, and social security and in kind benefits such as food, school lunch among others.

According to Roys (2000), commercial banks have encouraged transaction and information. thus from the above statement, he quoted to have said "... a little reflection will show that there is beyond question a body very important but unorganized knowledge of a particular circumstances of time and peace. It is with respect to this that every individual has some advantage over all others in that he posse a unique information of which beneficial use might be made". When this is exploited with the use of commercial banks, economic banks, economic development is evident.

Commercial banks have enhanced economic integration through automated teller machines with VISA programs. Wilson. B etal (1998), he had this to tell "most examples of economic integration are actually among the less developed countries not the developed ones, with more of them in Africa and Latin America than else where."

In addition commercial banks and stanbic bank in particular have been able to earn a living and more so invest in developmental activities.

Conclusion

The available literature suggested that commercial banks have an influence on economic development. In instances where expansion of lending services are observed and recorded to be strong, it is discovered that per capita incomes are very low.
the available literature indicates that economic development can only be guaranteed where lending services are accessed with out collateral securities like land tittles that are scarce for the majority poor. The scholars indicated that it's easy to determine people's incomes on the amount of disposable incomes at hand. The available literature never exhaustively brings out the employment of commercial banks to influence economic development hence giving the researcher basis to carry out the study.

CHAPTER THREE

3.0 METHODOLOGY

3.1. INTRODUCTION

This chapter looked at the techniques used in collecting data for the study. It covered the research design, study population, sample selection and size, data collection, and data analysis.

3.3. SURVEY POPULATION.

The survey population consisted of staff and clients of commercial bank agencies from Ntungamo town in Ntungamo district and development officials in the district. The survey population consisted of 90 members.

3.4. SAMPLE SIZE

The element of the study obtained from the survey population. Consisted of 15 officials from each branch, 4 tellers, 2 managers, 3 customer attendants and 6 branch clients.

3.5. SAMPLING DESIGN AND PROCEDURE

The study employed purposive sampling techniques to select the respondents. This is because the selected respondents thought to have prior knowledge on the topic. After selecting the respondents and ensuring that the data collection tools are ready, the researcher obtained a letter of introduction from the faculty of social sciences, Kampala International University. This was presented to managers of commercial banks in Ntungamo town specifically Stanbic bank and Centenary development bank that allowed the researcher carry out the data collection process.

3.6 DATA COLLECTION.

3.6.1 SOURCE OF DATA

Data was collected from both the primary and secondary sources. The primary sources provided first hand information from the respondents through interviews, questionnaires and observation, while the secondary sources provided second hand data from the available bank records.

3.7 DATA COLLECTION METHODS AND INSTRUMENTS.

Different methods were used during the study in collecting data as discussed bellow.

3.7.1. QUESTIONNAIRE METHOD

The questionnaire instrument was by hand delivered to the respondents and completed questionnaires were collected after three days. The instrument of data collection helped the researcher in getting crucial independent data for the study.

3.7.2. INTERVIEW METHODS

The study also used interview guides. This instrument of study was used where the respondents preferred face to face interviews. This instrument of data collection helped the researcher to get directly involved in discussion with the respondents. Through this instrument, the researcher was able to get more first hand information.

1.7.3. OBSERVATION METHOD.

The researcher through this method was able to collect data from the field which was used in compiling the report.

3.7.4. DOCUMENTARY REVIEW

The researcher further use documentary review to gather data for the study. This was more especially used for secondary data. In this method, the researcher reviewed both the published literature from different texts and bank records.

3.8. DATA ANALYSIS

The data was collected and was arranged and edited to reduce errors, ensured accuracy, and relevancy. It was then coded to allow the use of frequencies and percentages as units of measurement and then presented using frequency tables.

CHAPTER FOUR

Presentation, interpretation and discussion of the findings

4.0 INTRODUCTION

This chapter discusses the presentation, interpretation, and discussion of the research findings. Results are presented in tables and in form of frequency counts and percentages.

4.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

Sex of respondents

During the survey 30 male respondents were given the instruments, while 30 female respondents (50%) were given the instruments. The selection aimed at fair gender coverage. Out of 60 instruments distributed, 26 were returned by males giving 86.6% while females returned 18 which gave 60% as illustrated by table two bellow.

Table 2: Distribution of respondents by Sex

Sex	Respondents	Percentages
Males	26 out of 30	44
Females	18 out of 30	30
Total	44	74

Source: fieldwork (2009)

4.2 IMPACT OF COMMERCIAL BANKS ON HOUSEHOLD WELFARE

The impact of commercial banks was manifested in education, financial assistance, financial information, and savings mobilization. One of the components of the program was to save on a regular basis. The clients were asked if they save with commercial banks apart from forced savings

The figure bellow reflects that the majority of the clients (75%) responded to have personal savings while 25% had no savings with commercial banks.

Also clients were asked whether their savings were increasing in last 6 months and the response was that 70% of the respondents their savings were reducing and the reason was because of increasing costs of living in the region and also increase on school fees as the majority of the respondents had children in schools.

The respondents were also asked whether commercial banks have rely helped them in saving for development and the response was that commercial banks accepts savings but the rate of interest is too low compared to other properties like land, cattle, and buildings and therefore most people (80%) save with commercial banks in small periods and then transfer savings to other properties

4.3 COMMERCIAL BANKS AND INCOME GENERATION

The generation of income is another ingredient and the majority of the clients interviewed responded positively that they had registered 77% increment in incomes while 11% noted a decrease and 5% never answered to this question and gave another answer.

The clients were asked if their incomes had increased, decreased, remained the same or any other; the majority responded that their incomes increased. Businesses like traders have high incomes than for example those farming due loans from commercial banks

4.4 COMMERCIAL BANKS AND HEALTH

Health is an important ingredient in protecting the productivity of the household's effective use of the household resources. It is evident that most clients interviewed took health as a crucial issue for their continued well being.

At least some of the households had a sick person in last 4 weeks of the interview and the most prevailing disease was Malaria. Some of the clients could afford to visit health centre, clinics, and hospitals and also could afford to pay the medical expenses every time a member of the household gets sick.

A question was asked whether commercial banks has helped them in health, and the response was that commercial banks have limited response in health and gave a reason that even if you get sick when you are supposed to pay a loan, the bank has no mercy on you. Others said that the bank can only give advice in common diseases but however 100% responded that they are able to clear their medical bills.

4.5 COMMERCIAL BANKS AND RURAL EMPOWERMENT

The rural poor clients were asked whether participation in commercial bank programs has empowered them. The majority who answered this question felt that their positions financially in the family has not been strengthened by commercial banks because of high interest charged on loans when they compare them selves with other people from Microfinance institutions

4.6 COMMERCIAL BANK LOANS REDUCE VULNERABILITY AND RISKS

Risks and shocks are the quantifiable likelihood of less-than-expected returns. These are common features in many undertaking. Therefore the poor house holds have to deal with these challenges. It is in this vain that a question was asked to the clients how they respond to this shocks and if they had faced any major unexpected challenge within the household in last 12 months that led to a financial burden in the household. The clients affected by shock were 38% of which 33% used commercial bank loans to deal with the crisis, 7% used savings,5% borrowed from relatives, 2% sold their assets, and 15% gave no answers.

Table: 3. Strategies to cope with Risks and Shocks

(Total Clients=60)

Clients affected by loss	23	38%
Used loan	20	33%
Used savings	4	7%
Borrowed	3	5%
Sold assets	1	2%
Others (never answered)	9	15%
Total	60	100%

Source: Fieldwork (2009)

CHAPTER FIVE

5.0 SUMMARY, CONCRUSIONS, AND RECOMMENDATIONS

5.1 SUMMARY OF THE MAJOR FINDINGS

The first objective sought to find out the way in which commercial banks can stimulate development. The findings revealed that commercial banks can stimulate development through providing small loans to the poorest with reduced securities which the poor mostly lacks. It was also found out that in order for commercial banks to stimulate development, it should provide financial information to its clients in order to reduce risks by clients.

The second objective thought to examine services offered by commercial banks to the public. The findings revealed that commercial banks accepts deposits from the public, provides loans, gives financial advice, stores important documents, transfers money, employs people, and

The third objective thought to examine the impact of commercial bank on economic development. The findings revealed that commercial banks have positively affected development in the area as it improved people's incomes and savings.

The fourth objective thought to establish the criteria used by commercial banks in giving out loans. The findings revealed that the client apply for a loan with a security worth the loan needed.

5.3 RECOMMENDATIONS

The following are the recommendations for improving the effectiveness of commercial banks in economic development of Uganda. They are distilled primarily from the findings of this study.

Commercial banks should target poorest people than dealing with those who are rich because the most poor does not have enough securities to help them get commercial bank loan. According to the findings commercial banks give big loans which are not needed by the poor, therefore the poor are neglected and they are the majority who needs to be considered for economic development.

Commercial banks should reduce the rate of interest in order to encourage more people get loans from commercial banks for investment.

There is need for more research that must focus on a deeper understanding of rural setting and the challenges faced in development process since commercial banks are only treating the symptoms than attacking the real causes. The critics of commercial banks have emphasized the view that commercial banks are only a drop of water in the sea bearing in mind the pervasive degree of poverty levels mainly in rural Uganda.

Finally, it should be noted that increasing loanable funds is not a sufficient condition to bring about economic development and improve productivity and income. Therefore additional intervention that goes hand in hand with commercial banks should be imprimented. I.e. Securing workplace for informal operators, markets for their products, health, educational services, training and skill development, how to develop effective and efficient business are needed.

5.4. LIMITATIONS OF THE STUDY

The researcher encountered the following problems;

Access to data in banks since some information needed review of official documents

Limited finance that delayed the completion of the research.

Language since the data needed to be translated into English from Runyankole.

THE END

APPENDIX B: TIME FRAME OF THE STUDY

Activity	Time In Months			
	1	2	3	4
Proposal writing				
Data collection				
Data analysis				
Submission				

APPENDIX C: BUDGET OF THE STUDY

Item	Amount (U.shs)
Stationery – Papers - Pens	50,000/=
Transport Phone calls	100,000/= 100,000/=
Internet	30,000/=
Typing and printing	50,000/=
Miscellaneous	200,000/=
Total	530,000/=

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