

**THE EFFECT OF EXCHANGE RATE ON BANK LOANS IN UGANDA:  
A CASE OF CENTENARY RURAL DEVELOPMENT BANK**

**BY**

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND  
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## DECLARATION



I declare that this research report is my original work and to the best of my knowledge, it has never been submitted before for any academic work or published at any university or any institution of higher learning

Signature..........Date.....20<sup>th</sup>/02/2019.....

**KATO JOHN MARY**

## APPROVAL

This is to certify that the submitted research report for the purpose of examination has been under my supervision.

Sign.......... Date..........

**DR. KIRABO K. B. JOSEPH**

## **DEDICATION**

I dedicate this work to my family, Mr. Katusabe Joachim, Nabanoba Gertrude, friends, fellow students and my supervisor who have offered me indescribable moral support in my pursuit of this dream. Without their incessant encouragement, reaching this level would have been a nightmare.

God bless you.

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## LIST OF ACRONYMS

BOU	-	Bank of Uganda
CA	-	Credit Assessment
CBR	-	Central Bank Rate
CBR	-	Central Bank Rate
CERUDEB	-	Centenary Rural Development Bank
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
KCB	-	Kenya Commercial Bank
OPEC	-	Organization of Petroleum Exporting Countries
US	-	United States Dollar

## ABSTRACT

*The study examined the effect of exchange rate on bank loans in Centenary bank, Kampala branch. Its objectives were to identify the bank specific factors, customer specific factor that cause default on loans payments and find out possible solutions to help reduce on the loan default rate in commercial banks. Sample sizes of 57 respondents out of a population of 72 staffs were used and it comprised of the credit staffs that included loans processors, loans officers, and credit administrators. Findings showed that the customer specific factors for loan default included, multiple borrowing, the inadequate information flow amongst the loans officers and the customers and the high rate of business failures. Bank specific factors included inadequate motivation of the credits staffs in terms of incentives, the inadequate working tools to ease loan recovery e.g the motor bikes and understaffing in the credit department. The study recommended the use of top up loans facilities instead of multiple borrowing, routine supervision and regulation of the banking activities by bank of Uganda, provision of adequate working tools to the loans officers to enhance recovery of loans and the use of existing technology platforms to keep the customers up to date of information concerning their loans.*

## **CHAPTER ONE**

### **1.0 Introduction**

This chapter gives a presentation of the background to the study, statement of the problem, and purpose of the study, research objectives, research questions, scope, significance of this study and the conceptual framework.

### **1.1 Background to the study**

#### **1.1.1 Historical Perspective**

According to Saurina (2005), interest rate is a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. In general, interest rates rise in times of inflation, greater demand for credit, tight money supply, or due to higher reserve requirements for banks. A rise in interest rates for any reason tends to lessen business activity because credit becomes more expensive and the stock market because investors can get better returns from bank deposits or newly issued bonds than from buying shares (Saurina, 2005).

Lending represents one of the main services that universal banks perform. It is the means by which banks fulfill their financial intermediation function: that is to exchange funds between surplus and deficit economic units. In the process of carrying out this primary task, banks have found themselves performing a number of functions which include; the mobilization of savings and money transfer services. In performing these roles, universal banks must consider the principles which guide their business, which are profitability, liquidity and solvency (Felicia, 2011) posits that, the ability of universal banks to ensure its liquidity and survival, which contributing towards promoting the growth and development of the economy depends on their effective handling of lending operations. This requires that transaction on loans and advances are carried out with trust and confidence devoid of lending risks. This requires safe and sound banking, lending practices which involves taking into cognizance the regulatory requirements and internally entrenched factors affecting loans and advances (Felicia, 2011).

Banks are observed to operate with high net interest margins. Mensah and Abor (2011) explain that the net interest margin is a measure of the social cost banking imposes on the economy. This is because when net interest margins are lower, social welfare increases through the effects of reduced lending rates, and access to credit facilities. As it may be observed, high interest rate do not inure to the socioeconomic welfare of the country. According to Mensah and Abor (2011), the high lending rate tends to discourage savings due low returns on deposits and reduces

demand for credit facilities due to the high cost of capital leading to a cut-down in investment in productive activities. In essence high interest rate lead to a reduction in economic growth (Mensah, 2011).

Ribinson (2002) explains that the lending rates charged by banks are set such that they cover the risk premium, and the interest rate paid to depositors. Thus a rise in risk premium or interest rates on deposits could also cause a rise in the interest rate spread of banks. Aboagye et al (2008) commented that interest rate spread can be best defined as interest rate received minus the interest rate paid out to the depositor divided by total assets of the bank. Because this is the one that can best be estimated from bank income statement (Aboagye, 2008).

### **1.1.2 Theoretical Perspective**

The study utilized Portfolio theory by Markowitz (1952), the theory suggests that investment tries to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although Portfolio Theory is widely used in practice in the financial industry and several of its creators won a Nobel Prize for the theory, in recent years the basic Portfolio Theory have been widely challenged by fields such as behavioral economics.

### **1.1.3 Conceptual Perspective**

Dumba (2011) defines Exchange rate as the price of a nation's currency in terms of another currency. Thus, an exchange rate has two components, the domestic currency, and a foreign currency, and can be quoted either directly or indirectly. In a direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency.

According to Mensah, (2011), a bank loan as the most common form of loan capital for a business. A bank loan provides medium or long-term finance. The bank sets the fixed period over which the loan is provided (e.g. 3, 5 or 10 years), the rate of interest and the timing and amount of repayments

### **1.1.4 Contextual Perspective**

According to Ddumba (2011), ever since Bank of Uganda increased the Central Bank Rate to a staggering 23% from 13% in 2010, banks have taken advantage of the situation and hiked their prime lending rates accordingly. Business Sense has exclusively learnt that Stanbic Bank increased its lending rate to 34%, Centenary Bank from 19% to 23%, Crane Bank from 23% to 28%, dfcu bank from 23% to 27%, Standard Chartered from 18% to 34%, Barclays Bank from 17.5% to 30% and KCB from 18% to 28%.Centenary Rural Development Bank is a commercial

bank that offers economically disadvantaged people- the enterprising poor, not the poorest of the poor, in Uganda a full range of financial services, comprising savings, credit and money transfer. The reason for Choosing Centenary Rural Development Bank was due to the fact that it is the largest Micro finance bank with a customer base of over 420,000 customers and borrowers numbering about 50,000 (The New Vision, 2004).

The bank has 39 branches and 78 ATM's country wide. The banks mission is to provide appropriate financial services especially microfinance to all people in Uganda, particularly in rural areas, in a sustainable manner and in accordance with the law. Established with the major objective of providing financial services to all Ugandans with a special focus on the rural poor, the bank has grown rapidly into a fully-fledged commercial bank and not only does it provide a micro loan to rural poor, but has also diversified its operations into the commercial and corporate sector. It is important to study Centenary Bank Kampala Branch because the prevailing interest rates, arrears management and loan loss prevention are crucial factors in its lending policies since such factors have an impact on cost covering interest rates, outreach and profit. Because Centenary bank measures arrears in terms of portfolio-at-risk: the outstanding balance of loans with late payments over loans outstanding as one of the stringent measures, the single most important element in its financial technology is a system of daily loan tracking backed by the staff and customer incentives. Functionally tied to the incentive system, it is one of the most impressive features of Centenary bank (BoU, 2014).

Centenary Rural Development Bank is a commercial bank in Uganda that provides deposit, credit and money transfer services. Established by the Catholic Church of Uganda as a trust fund in 1983, it developed strength in savings mobilization and as a result Centenary Rural Development Trust was transformed into a commercial bank in 1993 with a mission of providing appropriate financial services to all Ugandans in a sustainable manner. The study specifically looks at the possible causes of high default rates on loans of Centenary Bank irrespective of the policies and procedures put in place to ensure minimal loan default rate. Commercial Banks in Uganda play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, they create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth. Uganda has 26 licensed commercial banks with a total of over 500 branches countrywide providing banking services to a population of about 37 million people (BOU Annual report 2012).

Despite, the crucial role played by the commercial banks in economic development, these banks face serious challenges when trying to recover some of the money they lent out their customers. The commercial banks loan default rates still remain high as indicated by The Independent

Magazine dated 04<sup>th</sup> May 2014. KCB's bad loans written off rose to 3.2 billion from 2.1 billion in the same period. DFCU wrote off bad debts amounting to shs. 15.65 billion from shs. 8.73 billion in 2012 while its provision for bad and doubtful debts grew to 13.7 billion from 11.78 billion the year before. Crane bank's net profits went down to shs. 47 billion in 2013 from shs. 80 billion in 2012. The bank's bad debts written off grew to shs. 29 billion from shs. 26 billion in 2013 and 2012 respectively (BOU Annual report 2015).

## **1.2 Problem Statement**

It is accepted that the quantity or percentage of non-performing loans (NPLs) is often associated with bank failures and financial crises in both developing and developed countries. In fact, there is abundant evidence that the financial/banking crises in Sub-Saharan African countries were preceded by high non-performing loans. In spite of this apparent association between banking crises and Non-Performing loans, the literature on the causes of non-performing loans has focused on the macroeconomic determinants and less on the influence of interest rate (Mugwe, 2013).

Haneef and Karim (2012) found the accumulation of Non-Performing loans to be attributable to economic downturns and macroeconomic volatility, terms of trade deterioration, high interest rates, excessive reliance on overly high-priced interbank borrowings, insider lending and moral hazard. Kigen (2014) analyzing determinants of Non-Performing loans in Uganda and found that following interest rate liberalization, there is high implicit costs with tight monetary policy through increased reserve and cash ratios and declining non-performing loans. Adano (2013) investigated the loan performance in commercial banks and found that loan performance as measured by loan default is negatively related to lending rate and total loans advanced.

Loans are a main source of revenue for banks as are customer deposits on which they levy bank charges. The loan portfolio is typically the largest asset and the predominate source of revenue. It constitutes on average 75-80% of the total bank income. When banks fail to meet targets on these two revenue heads, the stakeholders get very worried. The independent Magazine dated 04<sup>th</sup> May 2014, pointed out that one of the causes of Uganda Revenue Authority's shs. 270 billion revenue shortfalls for the period up to Jan 2013 were partly due to the poor performance of the banking industry. This is because commercial banks were chalking off billion worth of bad debts which drastically affected their profitability and the banks posted deficits due to the reduction in demand for new loans and higher default rates on existing ones (International Credit Manual, 2003). This research therefore aims at establishing the effect of exchange rate on bank loans in Uganda with specific examples from Centenary Rural Development Bank.

### **1.3 Purpose of the Study**

The purpose of the study is to establish the effect of exchange rates on bank loans in centenary development bank, Kampala Town Branch. .

### **1.4 Specific Objectives**

- i. To examine the changes in the lending rates by the centenary bank from 2004-2018.
- ii. To establish the changes in exchange rates (American dollar and British pound) from 2004-2018 in centenary bank.
- iii. To determine the effect of lending rates on exchange rates from the period of 2004-2018 in centenary bank.

### **1.5 Research Questions**

The study will attempt to find answers to the following questions:

- i. What is the level of lending by CERUDEB 2002-2018?
- ii. What are the changes in exchange rates (Us Dollar and British pound) from 2004-2018?
- iii. What is the relationship between lending in CERUDEB and exchange rates between 2002 -2018?

### **1.6 Hypotheses**

Ho<sub>1</sub> There is no relationship between lending rates in CERUBED and time period of the loan.

Ho<sub>2</sub> Time has no effect on exchange rates over time

Ho<sub>3</sub> There is no relationship between lending by CERUBED and variations in exchange rates.

### **1.7 Scope of the study**

#### **1.7.1 Content scope**

This study was limited to exchange rates (i.e exchange rate policy in Uganda, components of exchange rates, and determinants of exchange rates) and bank loans (i.e credit assessment, collateral security, interest rate etc).

#### **1.7.2 Time scope**

The study looked at a period of 10 years that is from December 2002 - December 2018.

#### **1.7.3 Geographical Scope**

The study was carried out in Kampala district. It boards Wakiso and East Masaka in the western part.

### **1.8 Significance of the Study**

The findings of the study will be useful or important in many different ways and to many different persons or groups of people. It will add to the stock of knowledge concerning factors affecting exchange rates and the performance of lending rates in the bank of Uganda and commercial banks and will help policy makers come up with appropriate measures that can help improve loan performance in the country.

### **1.9 Operational Definition**

**Bank;** A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets.

**Exchange rate;** an exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency.

**Loan;** a loan is the lending of money by one or more individuals, organizations, or other entities to other individuals, organizations etc.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter reviews literature related to the objectives of the study in order to enable the researcher to support the findings. Literature will be reviewed through the use of secondary sources such as newsletters, research reports, dissertations, journals and the Internet.

#### 2.1 Theoretical Review

The study adopted the Portfolio theory by Markowitz (1952), later advanced by Sharpe (2014). Portfolio theory of investment tries to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although Portfolio Theory is widely used in practice in the financial industry and several of its creators won a Nobel Prize for the theory, in recent years the basic Portfolio Theory have been widely challenged by fields such as behavioral economics (Markowitz 1952).

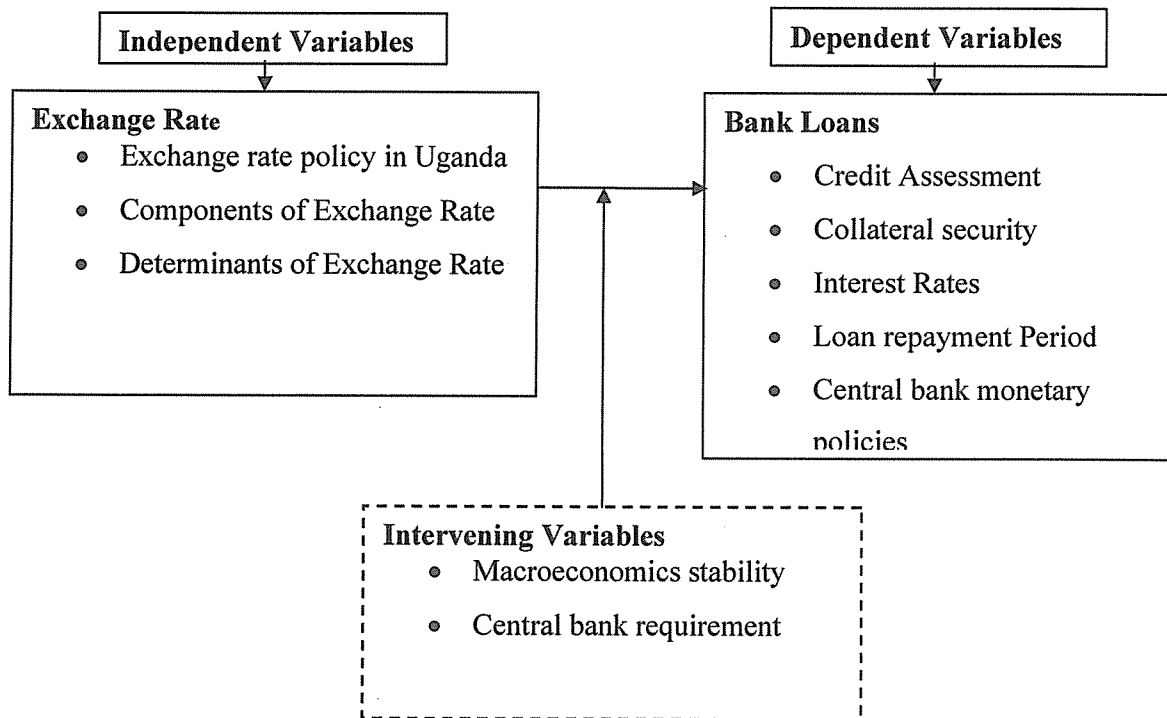
Portfolio theory is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. That this is possible can be seen intuitively because different types of assets often change in value in opposite ways. For example, when prices in the stock market fall, prices in the bond market often increase, and vice versa. A collection of both types of assets can therefore have lower overall risk than either individually. But diversification lowers risk even if assets' returns are not negatively correlated indeed, even if they are positively correlated (Markowitz, 1952).

More technically, portfolio theory models assets return as a normally distributed (or more generally as an elliptically distributed random variable), define risk as the standard deviation of return, and model a portfolio as a weighted combination of assets so that the return of a portfolio is the weighted combination of the assets' returns. By combining different assets whose returns are not perfectly positively correlated, portfolio theory seeks to reduce the total variance of the portfolio return. Portfolio theory also assumes that investors are rational and markets are efficient. (Sharpe 2014).

Portfolio theory was developed in the 1950s through the early 1970s and was considered an important advance in the mathematical modelling of finance. Since then, many theoretical and practical criticisms have been levelled against it. These include the fact that financial returns do

not follow a Gaussian distribution or indeed any symmetric distribution, and those correlations between asset classes (Micheal, 2014).

## 2.2 Conceptual Framework



**Source: Researcher modification from BoU (2012)**

From the foregoing literature review, this study has developed the following conceptual model within which to understand issues regarding interest rates and loan portfolio performance. The independent variables were studied in terms of regulatory environment .i.e. Central bank rates (BOU), monetary policy, and credit reference bureau. The dependent variable was studied in terms of; bank safety and soundness, risk management, profitability, loan applications, number of clients on loans, timely payment of loan installments, and provision of non-performing loans. The intervening factors were considered in terms of Client ethical considerations, bank credit policy, economic situation, committed loan officers, and loan assessment system

## **2.3 Review of Related Literature**

### **2.3.1 Exchange Rates**

According to O'Sullivan and Sheffrin (2013) exchange rate refers to the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in terms of another currency. Frenkel (2016) explains that a market-based exchange rate will change whenever the values of either of the two component currencies change. A currency will tend to become more valuable whenever demand for it is greater than the available supply. It will become less valuable whenever demand is less than available supply (this does not mean people no longer want money, it just means they prefer holding their wealth in some other form, possibly another currency).

Taylor (2015) notes that increased demand for a currency can be due to either an increased transaction demand for money or an increased speculative demand for money. He explained that the transaction demand is highly correlated to a country's level of business activity, gross domestic product (GDP), and employment levels. The more people are unemployed, the less the public as a whole will spend on goods and services. Central banks typically have little difficulty adjusting the available money supply to accommodate changes in the demand for money due to business transaction.

According to Rankin (2008) speculative demand is much harder for central banks to accommodate, which they influence by adjusting interest rates. A speculator may buy a currency if the return (that is the interest rate) is high enough. Rankin explains that the higher a country's interest rates, the greater will be the demand for that currency. Taylor (2015) argues that such speculation can undermine real economic growth, in particular since large currency speculators may deliberately create downward pressure on a currency by shorting in order to force that central bank to buy their own currency to keep it stable. (When that happens, the speculator can buy the currency back after it depreciates, close out their position, and thereby take a profit).

### **2.3.2 Evolution of exchange rate policy in Uganda**

The most noticeable side of Uganda's adjustment efforts has been in the area of trade policy, foreign exchange market reforms and liberalisation of current account transactions. Key in the policy framework has been the need to eliminate distortions, which meant increased reliance on market mechanisms to guide resource allocation. During the period 1987-1993, Uganda made several attempts to unify the multiplicity of exchange rates that prevailed in the exchange market. The policy objective was to eliminate the overvaluation of the Uganda Shilling and to

establish a unified market based rate that would provide a uniform price, which would promote efficiency in allocation of resources, growth and development (Musinguzi and Rweikiza, 2016). After authorizing full retention of all non-coffee export proceeds in early 1990, Government in July 1990 legalised the parallel market by licensing foreign exchange bureau. The bureaus were permitted to conduct spot transactions at freely determined exchange rates and to satisfy most private sector demand for foreign exchange to finance visible and invisible payments in a bid to address popular concern about capital flight. The policy aimed to alleviate pressure on the official channel for foreign exchange and to provide further incentives to non-coffee exports. Surrender requirements on export proceeds, except coffee, were abolished and inflows could be converted at the market based bureaux rates. In other words, the move towards a market-based system was driven by the need to enhance export viability. More importantly, the reforms aimed at increasing the efficiency of the foreign exchange allocation processes and at the encouragement of foreign capital flows through an open and competitive exchange rate payments system (Musinguzi, 2016).

## **2.4 Empirical Review**

### **2.4.1. Causes of High Lending Rate in Kampala**

The higher lending rate has negative impact on the individual, business community and the economy as a whole. In Kampala it has been observed that high rate of universal banks is caused by the following: It has been observed that the high cost of operation is one of the major contributing factors that lead to high cost of funds of the universal banks in Kampala. Gockel and Mensah (2006) suggest that, operating costs of universal banks in Kampala are the largest contributor to interest rate. Poghosyan (2012) state that banks who are less efficient in their operation exhibit higher operating costs and are characterized by higher interest. And for banks to stay in business they must pass this cost to the borrower in the form of high lending rate. According to Demirguc-Kunt and Huizinga (2008) banks pass their overhead and operating cost to their customers in form of high interest rate.

Another contributing factor of high lending rate in Kampala is heavy borrowing by government from the domestic market to finance its budget deficit and high expenditure that the government made during election years in order to win power also contributes significantly to high rate of lending in the country. Looney and Frederiken (2007)

High treasury bill rate in the country has become the benchmark for which universal banks base their rate to it. This is because it comes with the risk free rate, have also contributed to the high rate. Ngugi (2001) state that treasury bill rate has asymmetric response with the treasury bill rate where lending rates increase with the treasury bill rate.

Macroeconomic instability is another cause that leads to the high lending rate in the country for example, J. K Kwakye Senior Economist with the Institute of Economic Affairs – Kampala state that with double digit inflation, there is nothing that banks must do to cover their cost of operation than to charge the higher rate to enable them stay in the business. Kwakye (2010).

Another factor which causes the lending to rise is the depreciation of cards against the dollar, which is the major trading currency in Kampala. Currently the value of dollar to Kampala Cedis is around GH¢3. 50/ \$ in this situation, banks have to charge high to keep space with the appreciation of the dollar against the Kampala . (Alfaro et al 2003, Lindgren et al, (1996), Ransford Quarmyne Churchill, Collins Owusu Kwaning, Owusu Ababio ( 2014).

High risk of borrowing of borrowing, which emanate from a lack of collateral and credit reference by the borrower are also contribute result to the high default rate, which lead to banks to make a provision of high default rate and factor it in the rate of charging their customer have also caused lending rate to increase Bawumia et al (2005).

Head of the Economic Division of the institute of statistics, Social, Economic and Research (Kampala) state that bank of Kampala must also be blamed for high rates of lending in Kampala. With the current policy rate of 21%, no bank will lend to its customer below this rate. Because this is the rate that a universal bank borrowed from BOG. And for the universal banks to add their operating cost and risk premium of the borrower, the rate will automatically be high. According to Folawewo and Tennant (2008), the policy rate rate is positively correlated with banking sector interest rate.

Inflation is proxy by the Consumer Price Index (CPI). This variable is an indicator of the cost of doing business in an economy. Inflation is an increase in the general price level and is typically expressed as an annual percentage rate of change. Inflation depreciates the value of money. When inflation increases, banks also increase their cost of credit to keep the space with inflation, which will result in increased lending rate in the country. In the works of Aboagye et al.(2005) and Bawumia et al. (2005) find a positive relation between inflation and universal banks interest rate suggesting that the government should improvements in the macroeconomic environment in terms of lowerinflation rates translate to lower net interest margins

#### **2.4.2 The impact of higher lending rate for the repayment of loan.**

The Association of Kampala Industry, (AGI) United Trade Association of Kampala (UTAG) and Kampala Chamber of Commerce have called on the banks and government to work towards reducing the high level of lending rate in the country. The higher lending rate has an adverse impact on the repayment of the loan and the following are the some of the adverse impact:

Stightz (2009) and Basely (2014) state that the higher lending rate lends to wrong selection of loan applicants and those who take a high risk to get their loan from the universal banks are those with high level of default rate in the banking industry. This is because with the rate on the loan the borrowers will not be able to invest it and get return which can pay the loan, for example, in Kampala, lending rate is around 32%, this means that if you borrow at this rate, you are to invest it and get return more than 32% other than that you will not be able to pay for the loan.

Another problem with higher lending in relation to loan repayment is that, the high lending rate will induce the borrower to use the money borrowed to pay for the previous loan rather than investing the money in what it's intended for (Aryeetey et al, 2010). The higher rate on loans will lead to high cost of operation for the investor which will result in the high price of the output of their product, influx of imported goods on the domestic market, which is of cheaper price, because of the low rate that investors borrowed to produce such goods, people will not patronize that local goods which are of high cost thereby resulting in revenue loss to the investor. In such situation the investor will not be able to honour his obligation of paying the loan.

#### **2.4.3 How Credit risk is considered in pricing, loan rate**

The risk that associates with lending rate is a very important issue for universal banking sector. And for them to operate efficiently banks must understand and be able to eliminate it when setting rates on their loan according to the nature of the risk of the borrower. In the study of Altman and Sauder (2007) credit risk of the borrower is measured in three ways. These are subjective analysis, which is also called the banker expertise, accounting based credit scoring system and the method for measuring credit risk is a market analysis model.

The first method which is the subjective analysis method is used to value credit risk of corporate loan. Under this method credit manager in the bank used information about the borrower. Characteristic such as borrower character, capital and volatility of his earnings is used to assess him whether to grant the loan and at which rate to grant it. The next method for assessing the borrower in the banking sector is accounting based credit scoring system. In this method the credit manager used key accounting ratio to rate the borrower for example, using a multivariate model, the key accounting variables are combined and weighted to assess the probability of the creditor default. The following are method used to develop a multivariate credit scoring system: The linear probability model, log its model, the profit model and the discriminate analysis model. The last method that is used to value credit risk capital market model which focus on bankruptcy of the default, this model uses capital market base model such as risk of run model option, pricing and the mortality rate model to assess the borrower and knows his level of credit default. In the work of Fama (2015) , Diamond (2014) and Thakor (2015) state that banks can also use

information generated through banking interaction with the borrower to evaluate the risk level of the borrower which can enable them in setting the rate.

Bensanko and Thakor (2007) are also of the view that banks can use the collateral system to induce the borrower to show his hidden risk. They do this to differentiate between customer or borrower who is ready to accept collateral requirement and the one who is not ready to accept the collateral requirement. Their theory state that the borrower who is ready to accept the collateral requirement is of low risk default and therefore must be given low rate and the one who refuse to accept the collateral requirement is of high level of risk of default and must therefore be given higher rate.

#### **2.4.4 Exchange Rate Determination and Trends in Uganda**

In a standard analysis free floating system the fundamental value of a country's currency should closely mirror its current account and international investments position and developments (Rankin, 2008). In Uganda though, there are some other dynamics that may influence movement of the exchange rate. These include donor resource flows and disbursement patterns given that about half of government spending is donor funded. There are also noticeable seasonal patterns that seem to influence short term exchange rate movements. These emanate from various sources such as the seasonal nature of Uganda's agricultural exports and remittances from Ugandan's living abroad that tend to coincide with the festive calendar seasons of Easter and Christmas and the beginning of school terms (Ating-Ego and Egesa, 2003). Seasonal patterns in exchange rate movement have also been noted at those times of the year when profit and dividend payments to parent companies from their Ugandan subsidiaries are being made. Such patterns are without doubt disruptive.

The influence of speculators on the market can in some cases have considerable and destabilizing influence on short term exchange rate movements most especially if they are reacting to surprising information (Rankin, 2008) since their positions last for just a few hours or days. It is perhaps the destabilizing effects these traders can have on the market that the Bank of Uganda has always threatened to take measures to ensure that the exchange rate is not a one way bet (Mutebile, 2011).

There has also been a substantial increase in inflows following liberalisation of the capital account in 1997. These have mainly taken the form of foreign direct investment (FDI). Of late, there has also been an increasing interest in Uganda shillings denominated assets by foreign fund managers. This has tended to create transitory but potentially disruptive variability tendencies in the exchange rate. Off the trend depreciation tendencies have coincided with times of high oil

prices. A few appreciation tendencies have also been noted at times of relatively strong export performance.

## **2.5 Research Gap**

Studies on Non-Performing Loans (NPLs) have over the years focused on macroeconomic and bank-related factors. Factors which fall in between these two categories have as a result been given limited attention. Borrower characteristics, though very vital in predicting the risk factor of a loan, have not been directly examined as it influences the non-performance of a loan. There is increasing need to understand exactly how lending procedures determine the probability of a loan becoming non-performing. Regulatory guidelines for commercial banks differ from one country to another. Even with this difference in practice, what all countries have in common is the endeavour to establish good lending practices, and have proper guidelines that will lower the risk factor of loans and improve on their performance.

Though, as shown in the literature, several studies have been conducted on NPLs across the world, Kenya included. None of the studies in Kenya, however, have specifically focused on the linkage between interest rates and NPLs. The studies conducted so far do not provide an integrated and holistic view on the problem of non-performing loans in the commercial banking sectors. So much of the literature has not drilled down to specific causes. They dwell more on the symptoms and the problem specifically provide applicable remedies to address.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents a research methodology of the study, shedding light on the Research design, population, sample and sampling procedures, instrumentation, pilot study, data collection procedures and data analysis.

#### **3.1 Research Design**

The researcher used a case study research design, a descriptive survey technique and used questionnaires as tool for data collection. The questionnaires used were both closed and open ended to capture other opinions of the respondents that are not in the Likert scale. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Orodho and Kombo, 2002).

#### **3.2 Area of study**

The study was carried out within Kampala Town and was focused at identifying the causes of high loan defaults rates at Centenary Bank.

#### **3.3 Population of Study**

The population for this study consisted of 120 Centenary Bank staffs from 14 Centenary Bank branches i.e. Namirembe road branch (15 staffs), Nakivubo Branch (13 staffs), Rubaga branch (5 staffs), Kikuubo branch (4 staffs), Natete Branch (10 staffs), Najjanakumbi branch (5 staffs), Ntinda Branch (5 staffs), Mapeera branch (14 staffs), Kireka branch (5 branches), Kabalagala branch (5 staffs), Makerere University branch (2 staffs), Bwaise Branch (8 staffs), Lugogo branch (3 staffs) and Entebbe Road branch (26 staffs).

#### **3.4 Sample size**

Samples that were used for this study consisted of all the loans officers and head of loans for selected Centenary bank branches in Kampala District. The selected branches are those with high Non-performing loans (NPL) which is a measure for loan default rates. It covered 7 branches namely Kireka Branch (5 staffs), Kabalagala Branch (5 staffs), Bwaise Branch (8 staffs), Entebbe road branch (26 staffs), Ntinda branch (5 staffs), Natete branch (10 staffs) and

Najjanakumbi branch (5 staffs). The sample size was composed of approximately 50% (7 branches) of the total Centenary Bank branches within Kampala Capital city with a total of 57 loans officers and head of loans. This enabled the researcher obtain reliable and fairly accurate information from all the levels of respondents and to avoid bias.

### **3.5 Sampling Procedure**

The researcher used a non probability sampling procedure where the sample from the population was selected randomly. Convenience Sampling involves choosing respondents at the convenience of the researcher. This procedure was employed by the researchers because it helps reduce the time and cost of collecting information.

### **3.6 Study Procedure**

The study were carried out by use of both questionnaires and where it necessitated, clarifications were done. Both closed and open ended questionnaires were used. The researcher used quantitative methods to study and analyse the data.

### **3.7 Research variables**

The research variables consisted of the loan defaults rates being an independent variable.

### **3.8 Data Collection**

#### **3.8.1 Sources of data**

The data required for this research was collected from the loans officers and credit administrators of selected branches of Centenary Branches.

#### **3.8.2 Tools of Data collection**

Data for this study were collected by use of questionnaires. A structured questionnaire with both closed and open ended questions were used for the data collection and were administered personally to the various branches of Centenary Bank. Each questionnaire consisted of two sections, section one, and consist of personal information of the respondents. Section two contains questions relating to causes of loan default in banks.

Questions designed were brief, simple and straight to the point to ensure the meaning is not ambiguous. Secondary data obtained from books, journals and the internet were also used.

### **3.9 Data quality control**

The designed questionnaire were pretested 3 times to ensure errors were detected and tested to ensure the questionnaire produced data required to meet the required objectives for the research.

The researcher also used a large sample from the population so as to collect as much information as possible for the research.

Data quality control was checked by use of questionnaires both with closed and open ended and request for respondent's opinion whenever it was required.

### 3.10 Data Analysis and presentation

Data collected was analyzed using a computer Statistical Package called Stata and arranged in a meaningful form, into tables of frequencies, graphs and Charts for easy interpretation. The data was also summarised using the loan performance index.

#### 3.10.1 The Index

Following Sutanto (1999) and Mawejje and Lakuma (2014) the loan performance index is computed based on the staff perception on bank specific indicators such as bank operations and policies and the ability for banks to supervise and evaluate its staff, and customer specific factors such customer service and the lending interest rate . For each of the evaluation indicators, bank staffs perceptions are weighted on a Likert scale as follows: "strongly agree", "agree", "disagree", "strongly disagree" or "not sure". These responses are coded as 5, 4, 3, 2 and 1 respectively. For example, if a staff member strongly agrees that Centenary bank integrates loan risk with the value of a customer's collateral; such a response would be coded 5. If a staff member "disagrees" with the indicator, it will be coded 3.

The scores of all staffs in the sample are then summed up to arrive at the total score (Ts) for a variable. A diffusion index of a particular variable ( $I_v$ ) is achieved by dividing total score by the number of firms (N) and multiplying by 100 percent.

$$I_v = \frac{T}{N} * 100$$

#### 3.10.2 Weighting

Based on the bank staffs perception indicators explained earlier, the loan performance index is then computed as the weighted arithmetic and seasonally adjusted mean of individual bank staff evaluation indicators (Ece et al. 2005). The choice of optimal weight was guided by an equal weighting criterion (Nilsson, 2000). The general formula for the loan performance Index is given as:

$$I = \sum w_v \frac{I_v}{n}$$

Where:

I = the loan performance Index

$w_v$  = The weight attached to a variable

$I_v$  = Diffusion index of a variable

$n$  = Number of observations

### 3.10.3 Reliability of the survey:

Since the questionnaire follows the Likert scale, we shall apply the Cronbach  $\alpha$  coefficient to test for the reliability of the data from the survey. First proposed by Cronbach(1951), the coefficient lies between 0 and 1. The test is interpreted as reliable when  $0.70 \leq \alpha \leq 1$  and not quite reliable when  $0 \leq \alpha < 0.7$  (Cortina, 1993).

### 3.10.4 Interpretation of the loan performance Index

The indices range from 0 to 100. The interpretation of the Index is such that scores above 70 point to the likelihood of loan recovery. Scores below 70 imply the likelihood of a loan default. Following Sutanto (1999), we provide a matrix of proxy interpretation of the index magnitude below:

Index (I) value	Interpretation
$70 \leq I \leq 100$	If the index fall within this band it represents a high likelihood of loan recovery
$I < 70$	Loan performance is worse: There is a high likelihood of loan default

The index does not consider the magnitude of change in the data but considers the general direction of movement in the key indicators. As such, the index is sensitive to the direction as opposed to the magnitude of loan default. Intermittent increases or decreases in the index should not be interpreted as indications of expansion or contraction of the economic activity (Mawejje and Lakuma, 2014).

### 3.11 Ethical Consideration

Given the sensitivity of the information, the researcher ensured confidentiality of whatever information were collected from the respondents. This ensured the respondents opened up during questionnaires answering so that data collected fairly represented their opinion.

The research was done with values like integrity involved and the researcher ensured originality in the overall work hence avoiding the practice of plagiarism.

During the distribution of questionnaires, the researcher requested for permission from the necessary authorities and the respondents' consent to sacrifice their valuable time in filling the questionnaires.

Privacy of the respondents was also taken into consideration so as not to offend any of the respondents through avoiding questions that may offend the respondents.

### **3.12 Limitation**

Due to financial limitations the research was carried out within the Branches of Centenary Bank in Kampala Capital City.

With time being a limiting factor, the study was carried out within a sample of Centenary bank's Kampala branches prioritizing those with high loan default rate.

The research was also limited to the staffs of the centenary bank only because of the challenge of identifying the Centenary bank loan customers and also to avoid bias response from the customers at point of loan application.

## **CHAPTER FOUR**

### **PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS**

#### **4.0 Introduction**

This chapter presents the research findings, analysis and interpretation in accordance to the study objectives. Data presentation has been divided into three sections, each dealing with an objective of the study. The objectives were; to examine the Bank specific factors causing high default on loans, to establish the customer specific factors causing loan default and suggest possible solutions to reduce on the loan default rate.

#### **4.1 Data and Sampling design**

The data used in computing the loans performance index were collected from 57 bank staff sampled from 120 staff of Centenary Bank Kampala in 2014. The probability proportional to size sampling technique was used to select bank staff into the sample.

The different departments were treated as sampling strata. The credit departments were automatically selected to ensure that the staffs who deal directly with loans are significantly represented in the sample.

The staffs employed in Credit department in their various positions like Loans processors, SMEs Loans officers, credit administrators, commercial loans officers and salary loans officers were selected using the simple random sampling within each stratum. The variations of the sampled staffs are presented on Table 1.

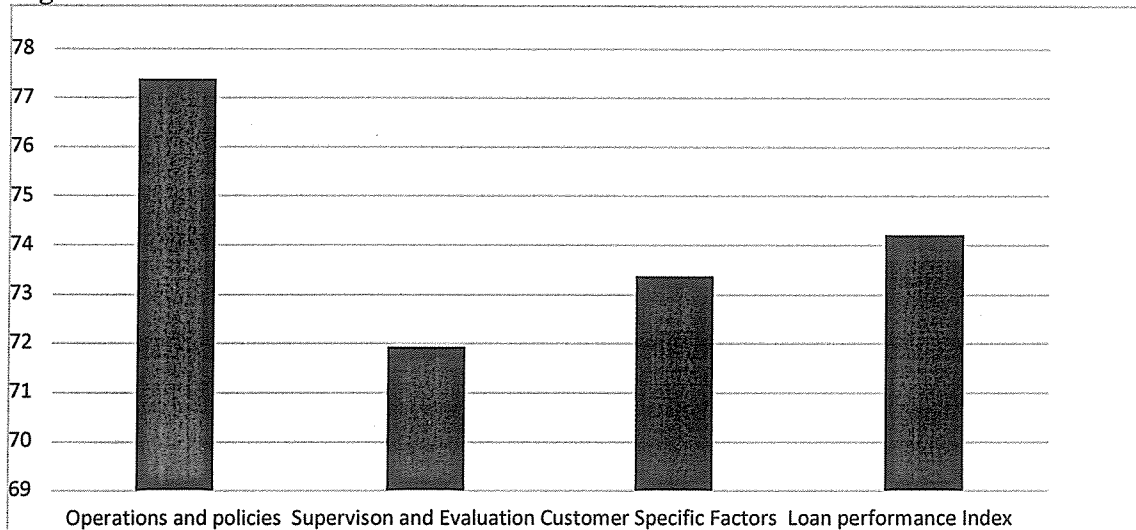
**Table 4.1: Bio Data**

	<b>Credit administrator (%)</b>	<b>Commercial loans officer (%)</b>	<b>SME Loans officers (%)</b>	<b>Loans Processor (%)</b>	<b>Salary Loans officer (%)</b>
<b>Gender</b>					
Female	3.8	1.9	13.5		3.8
Male		11.6	46.2	3.8	15.4
<b>Education</b>					
Degree	3.6	15.8	52.6	3.5	22.7
Master's degree			1.8		
<b>Duration of employment</b>					
Under 2 years		1.8	12.3		9.3
2 - 5 years		1.8	28.1	2.8	7
Over 5 years	3.5	8.8	12.3	1.8	10.5
<b>Age</b>					
20 – 30			15.8	20.8	6.5
31 – 40	3.5	1.8	19.3	18.3	10.5
over 40			3.5		

Source: *Field Data, 2018*

## 4.2 Research Findings

**Figure 4.1: The Loan Performance Index Assessment**



**Source:** *Field Data 2018*

Results indicate that the overall staff perceptions on loan performance in centenary bank are favorable. Thus, on average, there is high likelihood of loan recovery. The loan performance index is 74.2. The staffs perceive that the index was mainly driven by operations and policies of the bank (the index was 77.4 percentage points). The general perception is that the bank has sufficient infrastructure to integrate loan risk and the value of the customer's collateral. This ensures that a loan default is recovered by disposal of collateral thus shielding the bank against risk. The staffs of Centenary bank are also of the opinion that the success in loan performance is largely explained by the ability of the bank to identify asses and prioritize loan customers in line with the risk appetite and ease of loan recovery. It is also a general perception within centenary bank that the processes to identify and asses emerging gaps and opportunities in the loan disbursement. Ultimately, it is widely believed amongst centenary bank staff that the credit department has enough technical experienced and knowledgeable.

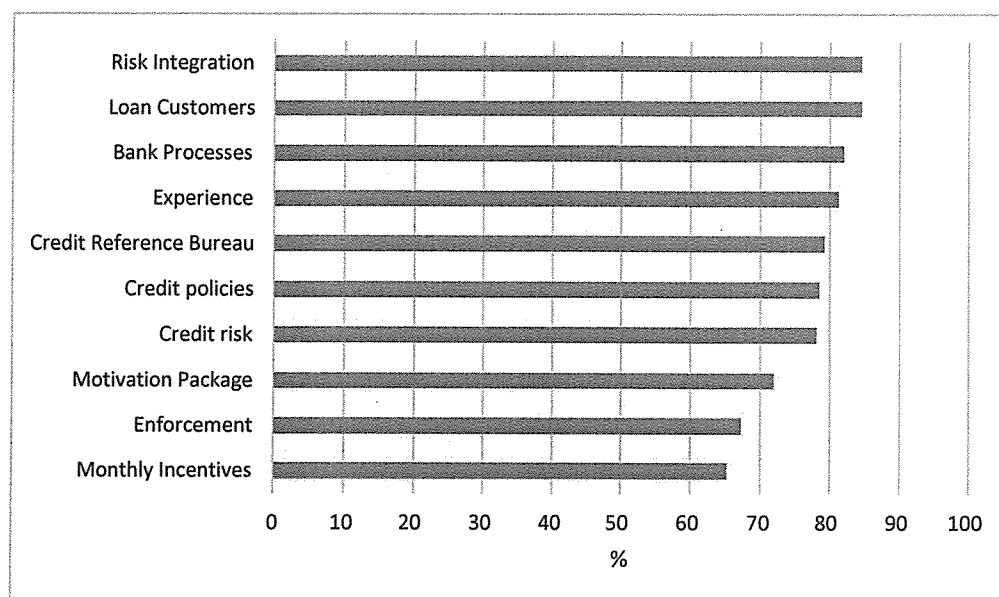
The Loan performance Index was also driven by customer specific factors (the index was 73.4 percentage points). For example, the centenary bank staffs are of the opinion that improved customer service within the bank was significant in ensuring that loan customers pay all the installment owed to the bank promptly. The staffs appreciate the effect of inconsistent interest rates on the ability of customers to repay their loan. It is also widely believed, by bank staff, that tight information technology controls ensure security of bank systems thus minimizing mistakes and unlawful practices such as entering of incorrect data, changing of data, deleting of data, destruction of data, crashing of systems and holding of data hostage.

#### **4.2.1 Causes of loan default as measured by the Loan performance index Loan Operations and Policies**

The general perception by Centenary bank staff is that the staffs are not satisfied with the calculation of the monthly incentive package and this could erode the staffs' ability and by extension the bank's ability to monitor and administer loans. From figure 2, the index on sufficiency of monthly index was 65.4. It is also widely perceived that the bank staffs do not have sufficient capacity to enforce timely loan repayment. This include the human resources, equipment used for recovery like the motor bikes, vehicles etc. The index on enforcement infrastructure scored 67.4.

Nevertheless, positive staff perceptions on loan performance dominate the index (see figure 2). The overall index on loan operation and policies is favourable at 77.4 percentage point. The positive perception is driven by factors such as existence of Credit reference Bureau (CRB) which enables decision making by giving information on customer credit history. Centenary bank is also perceived by its staff to have the bank processes which identify and asses emerging gaps and opportunities in loan disbursement. The staffs of the bank also appreciate the existence of a credit risk management system (78.3) which minimise the likelihood of loan default.

**Figure 4.2: Indices on Loan Operations and Policies**



**Source:** *Field Data 2018*

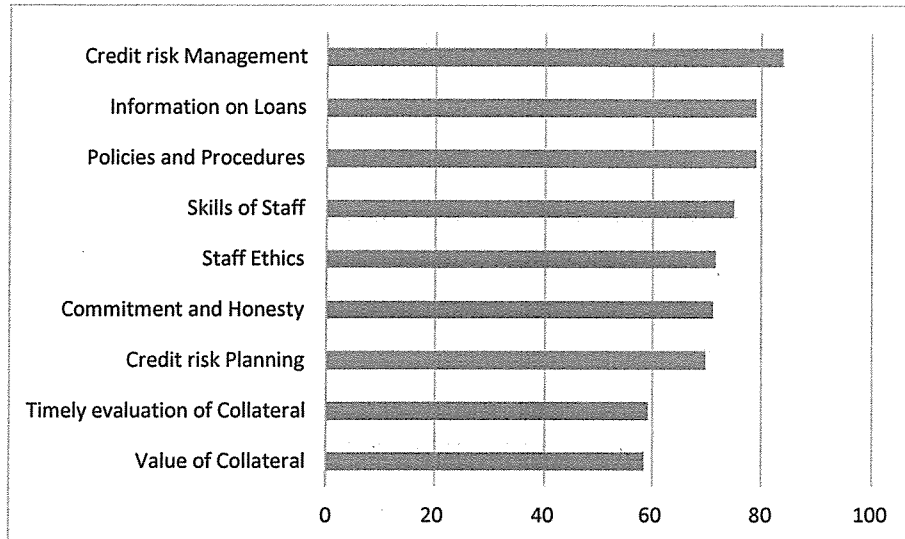
### **Loan Supervision and Evaluation**

Centenary Bank staffs do not agree with level of supervision on auctioneers and bailiffs. Thus, one can infer that the proceeds from the sale of collateral may not reflect the true value of the (collateral) assets confiscated. Also, the bank is perceived by the staff to have inadequate capacity to evaluate collateral in a timely and satisfactory manner. This is because the evaluation of the collateral is done by third parties who aim at satisfying their own interest. They at times connive with the Bank customers to over value the collaterals. The above evaluation indicators are perceived by staff as potential risk which may exacerbate the rate of centenary bank loan default.

However, the negative perception on loan perception and evaluation is counterweighted by the large effects of positive perceptions. The overall index on loan supervision and evaluation is 71.9 percentage points. These indexes suggest that centenary bank is cushioned from perceptions of any potential default in loan repayment. The positive staff perception is driven by the opinion that centenary bank staffs integrate credit risk management into planning at all levels (83.9 percentage points) (See figure 4.3). Figure 3 shows that the index reinforced by the sufficient information concerning credit operations amongst staff members (79 percentage points). On average, centenary bank staff are perceived by their colleagues to adhere to loan policies and procedures (78.9). There is a perception that on average the level of training on causes and measures of loan default are adequate among staff members in centenary bank (75.1). In

addition, the staff members consider themselves to be committed, honest and ethical in all their action including execution of loans (71.6) (see figure 3).

**Figure 4.3: Indices on Loan Supervision and Evaluation**



Source: Field Data 2018

#### 4.2.2 Customer specific factors

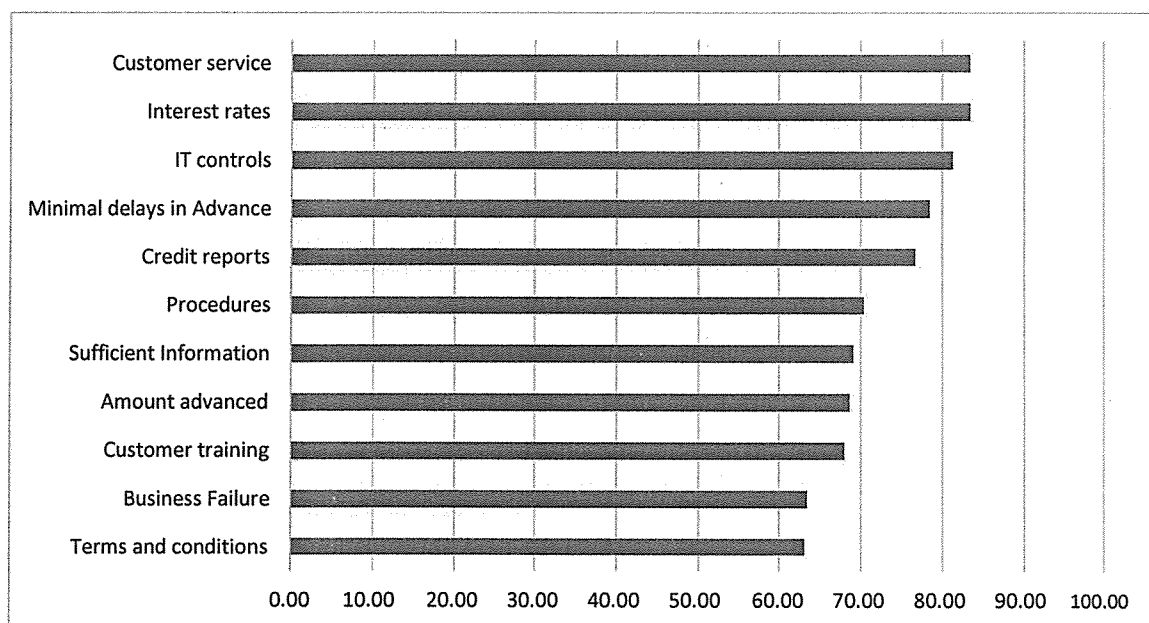
The Staffs of centenary bank perceive the customer specific contribution to loan default to be driven mainly by frequent changes in the terms and condition of loan acquisition and payment (63.2 percentage points) (see figure 4.4). One can infer that, changing of terms and conditions without notifying customers in a timely manner affect planning and expose many customers to the likelihood of defaulting on a loan. The increase in business failure is widely believed, by centenary bank staff members, to be a major driver of likelihood of defaulting on a loan by centenary bank customers (63.5). The business failure is thought to be driven significantly by financial illiteracy, multiple borrowing of money from different financial institutions and the insufficient training of customers offered by centenary bank (68.1). This is exacerbated by inadequate information and explanation from the bank staff about the amount of loans advance to them (68.8). Also, at times either the amount advanced is not sufficient for business purposes and it act as loan default push factor (68.8).

Nonetheless, the negative sentiment on the customer specific factors influence on loan default is mitigated by the activities of centenary bank which promote the loan repayment rate. The overall index on customer specific factor is 73.4 percentage points. The favourable index is influenced by upbeat perception about centenary bank's ability to provide customer service (83.5 percentage points). Arguably, customer service is essential in ensuring that loans payments are made in

time. It is widely believed among staff members at centenary bank that interest rate on loan charged by the bank are lower than competitors and this speeds up the rate of loan repayment (83.5).

The staff members of centenary bank are of the view that the information technology systems at the bank minimises the rate of loan default by ensuring timely automatic recovery from the customer accounts, providing daily reports on the loan performance and exercising tight controls which assures the security of the system thus minimising the rate of system crash, incorrect data entry, and changing, deletion and destruction of data (81.4). Centenary Bank has also ensured that delays in advancement of loan are kept at the minimum because this may lead to delays in repayment or increase the likelihood of loan default (78.6). The staffs of centenary bank are also of the opinion that the provision of timely, reliable, accurate, meaningful and easy to use credit reports has helped in monitoring of loan performance and aided decision making by customers and the bank (76.8 percentage points).

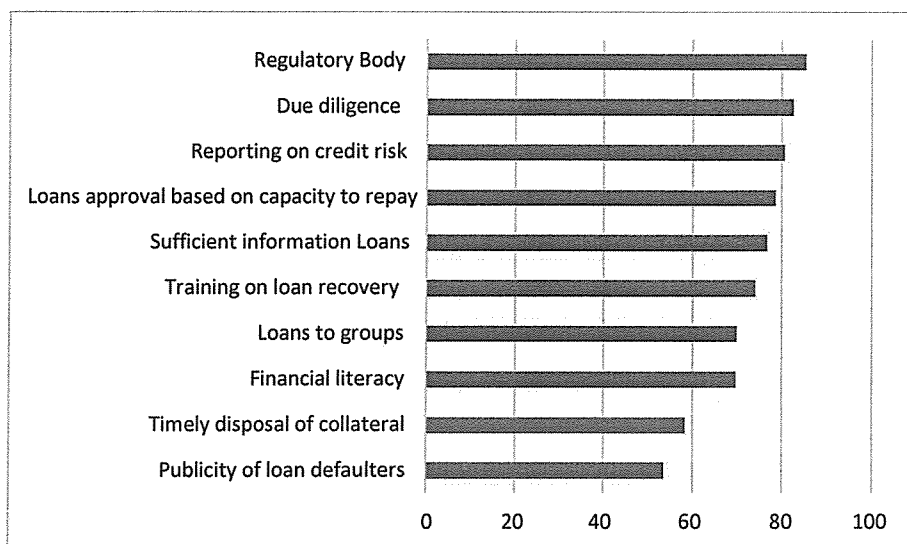
**Figure 4.4: Indices on customer specific factors**



Source: *Field Data 2018*

### 4.2.3 Possible Solutions to reduce high rates of loan default

**Figure 4.5: Indices on Possible solution**



**Source:** *Field Data 2018*

From figure 4.5 the staff members of Centenary bank, the best solution to reduce loan defaults is through increased supervision of bank by the central bank to minimize the rate on non-performing loans. It is perceived by staff members that frequent performance of due diligence during loan appraisal enhances centenary bank's credit risk management system. As such, the credit risk reporting system needs to be adequate. It is widely agreed among the staff that customers should be provided with enough information pertaining the loans they acquire from the bank and amounts advanced should either be conditional on a customer's ability to repay the principle and interest Or loans should be disbursed to a group as opposed to an individual because the collective responsibility has be shown to have less loan default rates within the centenary banking system. There is also need to continuously train not only the Centenary bank staff on loan recovery and management. But also, the centenary banks customers on financial literacy. However, methods such as timely disposal of a customer's collateral to cover for loan default and publication of information on loan defaulters in the media to expose and shame them are viewed as less effective in reducing the rate of defaulters at centenary bank and may compromise customer service thus scaring away potential customers. (Figure 4.5).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents a summary of the major findings of the study; provide recommendations and areas for further research. Revelations of both the theoretical and Empirical issues that underline the causes of high loan default in commercial banks were made in the proceeding chapters. None the less, a summary is presented hereunder.

#### **5.1 Summary of Findings**

The study examined the causes of the high loan default within Centenary Bank, Kampala. Its specific objective were to identify the customer specific factors, the bank specific factors that are causing the high rate on loan default and possibly suggest possible ways of mitigating the problem. The findings were gathered from the credit staffs of the Centenary bank by used of both closed and open ended questionnaires.

##### **5.1.1 Bank specific factors causing the high default on loans.**

According to the findings, the existing bank credit policies and procedures exist to mitigate the high default on the loans. This was supported by 77.4% of the respondents. However the lack of close and constant supervision of the credit staffs provides loopholes for default on bank loans. This is because the ratios of the credit supervisors to the credit officers are insufficient. For example the ration of credit supervisors to loan officers is 1 to 20.

65.4% of the respondents pointed to inadequate motivation in terms of performance incentives to the credit staffs as a cause to high default on loans. The existing incentive scheme is not well understood by the credits staffs and they are also insufficient as compared to the efforts and the risks the credit officers take to recover the loans. This lead to the credit staffs soliciting for bribes from the Bank customers.

The problem of understaffing in the credit department and equipment to facilitate recovery hinder the timely recovery of the loans. The bank has very many customers yet there are few loans officers to serve them, also the branch service coverage is relatively wide to be easily covered by the few credit staffs.

### **5.1.2 The customer specific factors**

The findings point to multiple borrowing as one of the key causes of loan default. Customers get more than one loan from the same bank. This is because they have various types of loans for various purposes. For example a customer can get a salary loan and a home improvement loan at the same time. This has been encouraged because of the existing cut throat competition amongst the financial institutions and the requirement to meet the monthly and annual loan disbursement targets.

There is also no close supervision of the Property valuers contracted to value customer collaterals on behalf of the bank. These valuers are third parties and tend to satisfy their selfish needs instead of that of the bank. There are instances where collaterals have been overvalued, Loans being given to land titles of a road reserve etc., and such customers tend to be relaxed to pay their loans. This brings in the challenge of disposing off the collaterals.

Information flow between the loans officers and customers in terms of loan-term changes, interest rate etc. has been inadequate. Bank customers are kept unaware of certain changes on the loan term e.g. an increase in the interest rate. These have direct impact on the financials of the customers.

Failures in businesses have also been figured out to cause the customers to default on the bank loans. This was supported by 67.4% of the respondents. This may be due to poor financial management or diversion of funds to non-economic activities.

### **5.1.3 Solutions that can help reduce on the high default rate on loans**

The credit staffs of centenary bank suggested the following as measures that can help curb on the ever increasing default rate on the bank loans.

There should be proper motivation of the credit staffs as they are key to the bank's performance. This should be supported by adequate staffing of the credit division and availability of equipments used for appraisal and recovery like the Motor cycles, Bank vehicles etc. This should be adequate enough.

The problem of multiple borrowing within the same bank can be mitigated by in-depth appraisal systems and the use of Top up loans as a replacement for multiple borrowings. In a top up loan a customer is given a lump sum bigger loan from which the balance from the outstanding loan is recovered. Multiple borrowings resulting from other banks can be reduced strict emphasis and

supervision on the use of the Credit reference bureau, it was found out that some loans were disbursed without consulting the credit reference bureau. This was due to system failure of Compuscan, the company contracted to provide credit information to the banks. Such problems resulting from failures can be reduced by liberalization of the service to ensure that the Banks have alternatives in case of failure from one company.

## **5.2 Conclusion**

In view of the findings of this study and given the implications of loan default on the commercial banks and the financial sector as a whole the government through its ministries should set up stringent term and monitoring tools to ensure that the default rates on loans are curbed down. It should invest in training the youth and adults in financial literacy and loan defaulters should be apprehended and imprisoned for longer terms exceeding 10years, this will instill some discipline on the citizens who borrow money and don't want to refund.

Licenses of companies and property Valuers who connive with bank customers to give false information in terms of property valuation should be cancelled so that they work in line with the banks interest and not their own interests.

The Commercial banks should be closely regulated and supervised more frequently to ensure that they are following procedures for Loans disbursement. Due to the stiff competition in the sector, other banks may be tempted to relax on their terms and procedures of borrowing which may impact negatively on their ability to recover the loans.

## **5.3 Recommendations**

Centenary bank commits a lot of resources to Loans as it is one of the major sources of income to the bank. From the findings the study makes the following recommendations,

Bank specific factors that can lead to customers defaulting can be reduced by the effective and routine supervision of the commercial banks by their regulators to ensure that they have all necessary requirements to enhance their performance and to ensure that they are operating according to the set regulations and procedures.

The banks should also provide adequate working tools like the motorbikes to enhance timely recovery of the loans from those far distance customers. The staffing of the branches should also be increased and should be proportional to the banks customers within those areas.

Customer Specific factors that may lead to default on loans; the study recommends the following to help reduce on the loan default rates;

Information flow amongst bank staffs and their customers should be improved especially with the existence of technology that facilitates faster delivery of information to customers this information may pertain the changes in the loan contract terms, interest rate changes, informing the customer that their loans have been approved or rejected etc.

The challenge of multiple borrowing can be mitigated by use of Top up loans as a replacement for multiple borrowings. In a top up loan a customer is given a lump sum loan from which the balance from the outstanding loan is recovered. Multiple borrowings resulting from other banks can be reduced through strict emphasis and supervision on the use of the Credit reference bureau.

Business failures amongst bank customers can be mitigated by frequent training on financial literacy by both the bank and the government. This will enhance the management of loan money for such businesses and increase the life span of the businesses.

From the study we recommend the following as other measures that can be used to reduce on the high default rates these are;

Avoid giving loans to repeat defaulters especially those with no genuine reasons.

For customers with genuine reasons for default, the loans can be rescheduled so as to give them a flexible payment term as compared to the previous.

The interest rates should be aligned with the macro economic factors like the inflation rates. Banks feel more comfortable increasing the interest rates during the high inflation rates but are reluctant to reduce in case the inflation rates fall.

#### **5.4 Areas for further research**

The following areas are recommended for further research.

- i) Assessment of Credit reference Bureau in the reduction of loan default rates.
- ii) Impact of changes in Bank loan interest rates on the borrowers

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**APPENDIX 1**  
**QUESTIONNAIRE**

Dear Respondent,

My name is Kato John Mary, a student at Kampala International University pursuing a Bachelors of Business Administration. I am carrying out research entitled “Effect of Exchange Rate on Bank Loans in Uganda, the case of Centenary Bank”. Please spare some time and answer the questions that follow. Your response will be kept strictly confidential and will only be accessed by the research team. The information provided will only be used for academic purposes in this study. Thank you very much for your time and cooperation.

**SECTION A:**

**Personal Data**

**1. Gender**

Male ☐                      Female ☐

**2. Highest level of education attained**

Certificate level ☐

Diploma ☐

Degree ☐

Other (Please specify).....

**3. ~~Department~~.....**

**4. Duration with organization/department**

**Age of respondent**

Under 2 years ☐

20 to 30 ☐

2 to 5 years ☐

31 to 40 ☐

Over 5 years ☐

Over 40 ☐

## SECTION B:

Tick in the boxes against the statement in line with your opinion

### Bank specific Factors causing high default on loans

Key: 5 Strongly Agree (SA), 4. Agree (A), 3. Not sure (NS), 2 Disagree (D) and 1 Strongly Disagree (SD)

	Operational and policies	SD	D	NS	A	SA
1	The existing bank credit policies are sufficient enough in assessing core risks and gaps that may encourage customers to default on loans payment.					
2	The department also identifies, assesses and prioritizes loan customers of the bank in line with the risk appetite and ease of loan recovery					
3	The bank has set up processes to identify and assess emerging gaps and opportunities in the loan disbursement					
4	The bank tries to integrate loan risk with the value of the customers collaterals					
5	The credit department has enough technical, experienced and knowledgeable staffs					
6	My organization has an effective credit risk management system in place					
7	The existing credit reference bureau (CRB) has been very effective in giving information on customer credit history for decision making					
8	There is proper motivation packages inform of incentives for loans officers who excel in loan recoveries.					
9	staffs are satisfied with the calculation of the monthly incentives for the credit team					
10	The credit department has all the resources to ensure that customers pay their loans timely					
	<b>Supervise &amp; Evaluate</b>					
11	The credit staffs of the bank are always ethical in the execution of their duties					
12	The evaluation of collaterals is done timely and in a satisfactory manner					
13	Management is always involved and are cooperative in ensuring customers receive their loans in time.					

14	There is always information flow concerning credit operations amongst staff					
15	Bank auctioneers are closely supervised to ensure the give true value of the collaterals					
16	Staff are usually trained on causes and measures to reduce customers defaulting on loans					
17	Staff always adhere to the approved credit policies and procedures					
18	The credit staffs of the bank are always committed and honest in all their actions					
19	Staffs always integrate credit risk management into planning at all levels					

#### Section D: Customer specific factors

Key: 5 Strongly Agree (SA), 4. Agree (A), 3. Not sure (NS), 2 Disagree (D) and 1 Strongly Disagree (SD)

		SD	D	N	A	SA
1	Loan customers are given enough information and explanations concerning the loans disbursed to them at all times					
2	The changes in the bank interest rates has some impact on the loans customer payments					
3	Customer service is essential in ensuring that the loan customers pay their installments timely.					
4	The bank ensures that the customers get the amount he or she request for especially for business purposes					
5	Bank System provides us with timely, reliable, accurate, meaningful and easy to use credit reports for checking on loan performance of customers and for proper decision making					
6	System has tight IT controls assuring the security of the system (entering incorrect data, changing data, deleting data, destroying data, crashing systems, holding data hostage)					

7	Procedures for acquiring loans are long, hectic and may cause delay in giving out loans to customers					
8	Delay in giving out loans to a customer who needs money urgently e.g for a contract may lead to delay in payments of the installment					
9	Customers are always made aware of any changes in the terms and conditions of their loans payment in a timely manner					
10	The rate of business failure especially those financed through loans are on the increase					

**What are the possible causes of the default on loans from the customers perspective.**

.....

.....

.....

.....

### **SECTION III: Possible solutions to reduce high default rates on loans**

Key: 5 Strongly Agree (SA), 4. Agree (A), 3. Not sure (NS), 2 Disagree (D) and 1 Strongly Disagree (SD)

No.		SD	D	N	A	SA
1	Having a regulatory body for banks help monitor their activities and performance					
2	Customers have enough information pertaining the loans they acquire from the bank					
3	There is usually adequate reporting on credit risk related activities at the bank					
4	The staff of CB continuously trained in line with loans recovery and management					
5	Infrequent performance of due diligence during loan appraisal compromises the bank's credit risk management					

6	Disbursing loans to a group reduces on the risk of default compared to that disbursed to an individual customer					
7	Management is committed to publicizing information on loan defaulters in the media to expose them					
8	Customer collaterals are sold timely and used to pay off the loan if customer fails to pay the loan.					
9	The bank routinely trains its customers on financial literacy					
10	A customer is given one loan at a time depending on his/her capacity to pay					

What measures can be implemented to help banks reduce on the high default rates on loans by the customers

.....

.....

.....

.....

.....

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.....

.....

.....

**Thank you very much for your time and support.**



## DECLARATION

I hereby declare that this research report is my original work, it has never been submitted by any student of higher institution of learning more so at Kampala International University.

KATEME OLIVIA

Signature.....

Date.....15<sup>th</sup>/08/2019.....

## **DEDICATION**

This report is dedicated to my father, Mr. Mukembo Michael and my mother, Ms. Naisumba Harriet for the great love and parental guidance and my uncle Lubaale Moses for the nurture he rendered to me. I have no doubt that; it is because of your support that has enabled me to reach this far.

God bless you

## APPROVAL

This research report has been under the supervision of my supervisor Mr. Besigye Rowland and ready to be submitted to the department of education at KAMPALA INTERNATIONAL UNIVERSITY in partial fulfillment of the requirements for the award of Bachelor's Degree in Human Resource Management.

### SUPERVISOR

**MR. BESIGYE ROWLAND**

Signature.....

Date.....

## **ACKNOWLEDGEMENT**

I would like to acknowledge my supervisor, Mr. Besigye Rowland. He has been an ideal report supervisor. His consistent advice, insightful criticism and patient encouragement have enabled me to write this report in innumerable ways.

My classmates especially Alinaitwe Brian, Akullo Berinda and Anguzimallon, for the valuable comment and suggestions. Ssekibule Robert for the consistent advice and facilitating me with the PC, Ssegawa Lawrence for the motivation and assistance in gathering the information and Hon.Mubito J. B. for the financial support and encouragement towards my academic progress.

Finally I extend my sincere thanks to my beloved parents, Mr. Mukembo Michael and Ms. Naisumba Harriet and my uncle Mr. Lubaale Mosses for your parental care and guidance and above all I thank the Almighty God for the gift of Knowledge and wisdom during the writing of this report.

## ABSTRACT

Katabi Town Council has been experiencing an increasing poor performance of government employees in terms of delay in service delivery which could be as a result of lack of training and professional development strategies. Therefore, the objective of this study was to find out how professional development, on-job training and training in ethics influence the performance of employees in Katabi Town Council, Wakiso district. The study employed a correlational research design to found out the relationship of these different variables on employees in this Town Council. The data was collected from a sample of 100 respondents out of 135 government employees in Katabi Town council using questionnaires plus secondary data which was collected from other documents.

There was a high positive relationship between training and employee performance in Katabi town council, Wakiso district ( $r=0.71$ ;  $p=0.01$ ) significance level, 0.05). This implies that training positively influences the performance of employees in Katabi town council. It was also found out that training in ethics also positively influences the performance of employees in Katabi town council Wakiso district ( $r=0.002$ ,  $p=0.002$ ) however no significance between professional development and employee performance where  $p=0.57$  and a weak positive relationship between them ( $r=0.3$ ) this was revealed that 12% of the employees in Katabi town council receive professional development opportunities implying that majority (88%) are denied these opportunities. Furthermore, 43% of the respondents strongly agreed that on job training is mostly used by the town council and 66% of employees agreed that training on work ethics leads to improved employee performance and none of the respondents strongly disagreed with the statement. Based on the results of this study, training strategies should be implemented to eliminate employee performance gaps and enable the employees to meet the trending social and market demands

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## **CHAPTER ONE**

### **1.0. Introduction**

This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, research hypothesis, scope of the study, significance of the study, Conceptual framework and definition of operational terms.

### **1.1. Background of the Study**

There are different ways of defining the term training. It may be defined as a systematic development of the knowledge, skills and behavior required by employees to do adequately on confirmed task or job.

A wide range of HRM practices such as training and development, performance appraisal, employee compensation, information sharing, team work and employee engagement among others have been proved to boost the firms productivity (Bockerman 2015).

Local government environments change from time to time in terms of employee lay off and community demands which calls for continuous upgrading of government employee skills and capabilities to improve on their job performance, growth and the ability to adapt to the rapidly changing social and economic environments for the government to remain competitive (Adams, 2003).

In European countries like France, Germany, Denmark and Sweden, next to schooling is human capital accumulation after entry into the labour market is considered key to social and economic performance at both the micro and the macro level.

The development of the desired knowledge, skills and abilities of the government employees, to perform well on the job, require effective training programs that may also affect employee motivation and commitment (Amin, 2005)

In United States of America, scholars like Elnanga and Imra (2013) further argue that in order for the government to prepare its workers to perform as desired, it provides training so as to optimize the employees' potentiality.

Armstrong, 2006; note that most of the governments apply long term planning, invest in building new skills by their workforce, enabling them to cope with the uncertain conditions that they may face in future, thus, improving government employee performance through superior level of motivation and commitment.

In African countries like Chad, Malawi, Guinea Bissau, Ivory Coast and Niger, Uganda the effects of training on local government employee performance may be both direct and indirect where direct training involves on the job training and indirect training is concerned with off the job training, but the condition for training are not all that well stated, which evoked the researcher to carry out on the relationship between job training and performance of employees.

The role of training programs is seen as a measure of improving local government employee capabilities that is to say when the government invests in improving the knowledge and skills of its employees, the investment is returned in the form of more productive and effective employees (Cartier, 2001).

In East African countries like Tanzania, Kenya and Uganda, government employee training is seen as employees' willingness and ability to help their governments succeed, largely by providing discretionary effort on a sustainable basis and this is affected by many factors which involve both emotional and rational factors relating to work and the overall work experience (Banda, 2004).

In Katabi Town council, the performance of government employees has been very low this is signified by delay in service delivery and lack of technical knowhow and this has greatly affected the socio-economic development of the town council. Therefore, this study aims to find out the effects of training on performance of local government employees. And this has made the researcher to pick interest about the area so as draw the recommendations on how the performance gaps can be bridged. A case study of Katabi Town.

## **1.2. Statement of the Problem**

Katabi Town Council has been experiencing an increasing poor performance of government employees in terms of delay in service delivery which could be as a result of lack of training and professional development strategies. Between 2013 and 2014 the poor performance of

government workers was 37.8% and in 2015-2016 poor performance increased to 43.5%. This shows that poor performance of government employees in Katabi Town Council has been increasing tremendously (Katabi Town Council Information Office). In a view of this discrepancy, it becomes imperative for the researcher to carry out the research so as to establish the influence of training on employee performance on local government, a case study of Katabi town council.

### **1.3. Objectives of the study**

#### **1.3.1. General objective**

The general objective of the study was to establish the relationship between training and performance of local government employees in Katabi Town Council.

#### **1.3.2. Specific objectives**

- (i) To find out how professional development influence employee performance in Katabi Town Council, Wakiso district.
- (ii) To find out how on-the-job training influences the employee performance in Katabi Town Council, Wakiso district.
- (iii) To find out how training in ethics influences employee performance in Katabi Town Council, Wakiso district.

### **1.4. Research Questions**

- (i) How does professional development influence the performance of employees in Katabi Town, Wakiso district?
- (ii) How does on-the-job training influence the performance employees in Katabi Town Council, Wakiso district?
- (iii) How does training in ethics influence the performance of employees in Katabi Town Council?

### **1.5. Research hypothesis of the study**

- (i) Professional development significantly influences the employee performance in Katabi town council, Wakiso district.

(ii) On-job training significantly affects employee performance in Katabi town council, Wakiso district.

(iii) Training in work ethics has significant effect on the performance of the employee in Katabi town council, Wakiso district.

## **1.6. Scope of the Study**

### **1.6.1. Content scope**

This study focused on professional development, on the job training and training in ethics as a basic construct under training. It also looked at timely reports, attention to clients and submission of reports in time as key employee performance indicators.

### **1.6.2. Geographical scope**

The study carried out in Katabi Town Council which is in Wakiso District. Katabi is bordered by Entebbe in the East, kajjansi in West, Lyamuundwe in south and Kampala in south East.

It is comprised of 5 parishes and these are Nkumba, Lugala, Kisubi, Kitala, Kabale and 103 villages. The main reason for opting for this area was because it was near the researchers' resident so it was easy to gather information from the samples.

### **1.6.3. Time scope**

The researcher started to carry out research on local government in Katabi town council from 2018 to 2019 on establishing the relationship between job training and employee performance.

### **1.6.4. Theoretical scope**

The human capital theory asserts that it is more profitable to invest in individual's education and training than in machines and factories, the return on investment is higher in the long term. This theory further asserts the fact that workers who have had higher education, have know how cultural knowledge and intellectual capacity. Therefore, guided by theory this study investigated the effect of investment in employees' education and training on the employee performance in Katabi Town Council, Wakiso district.

### **1.7. Significance of the Study**

To Ugandan government, the findings of this study will be useful in view of National Labour Policy and setting up strategies that promote performance of government workers in Katabi Town Council.

The findings of this study will therefore be useful to Ministry of Planning, Ministry of Labour, Gender and Social Development and Katabi Town Council to set further strategies for increasing and improving the performance of government workers in the country.

The findings of the study will be useful to Non – Governmental Organizations (NGOs) and International Communities like United Nations, European Union and World Bank to review their activities and policies regarding employees' performance.

The findings of this study will help the private sector and the communities involved in employee performance training and development to make informed decision regarding employee performance management.

The findings of the study will provide a basis for human rights advocacy in terms of labour, gender, social and economic development

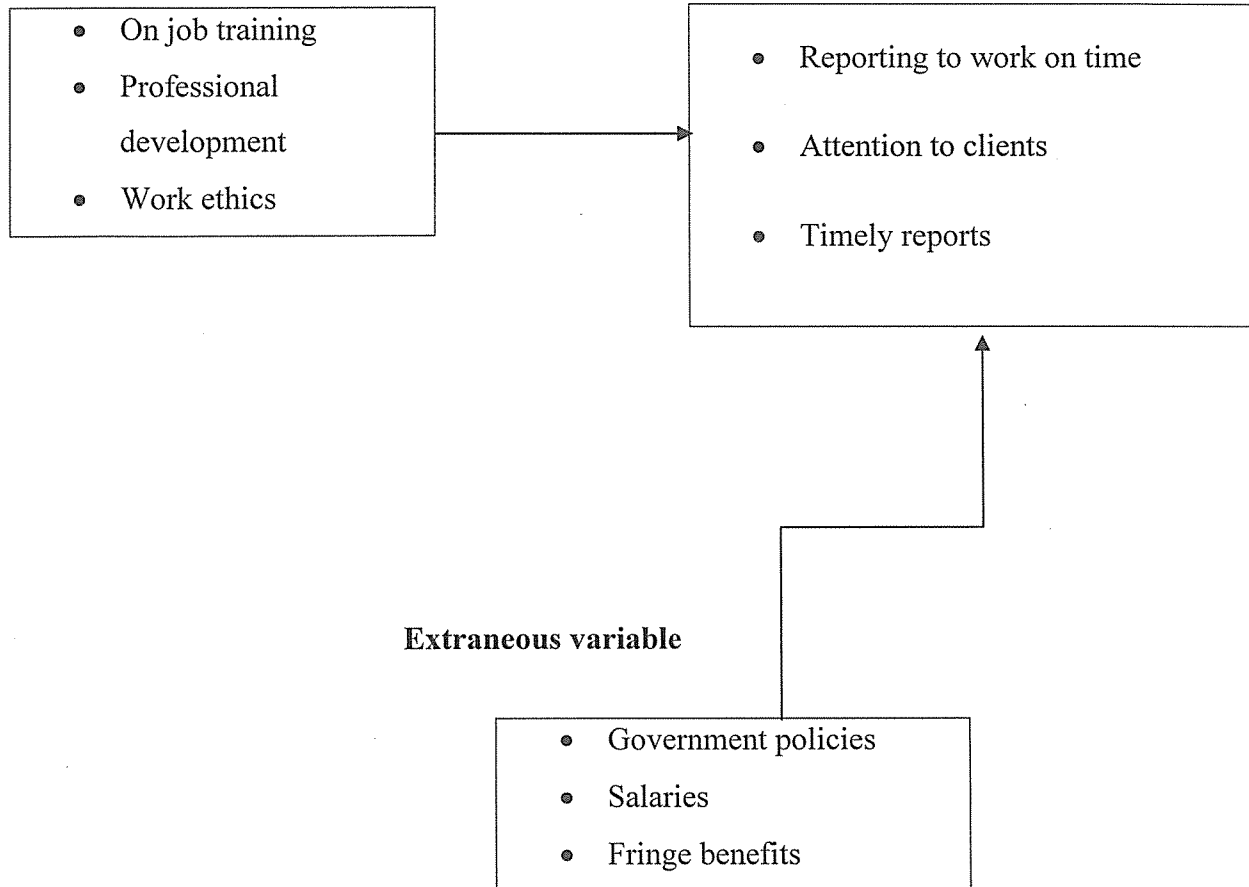
## 1.8. The Conceptual Framework

### Independent variable

Employee Training

### Dependent variable.

Employee performance.



**Source:** Hameed A and Waheed A: Employee Development and its Affect on Employee Performance (2011).

The study investigated the influence of on job training, professional development and training in ethics (independent variable) on employee performance (dependent variable) as measured by employee's response towards reporting to work on time, attention to clients and release of timely reports. However, employee performance can also be influenced by extraneous variables such as

government policies, salaries and fringe benefits, therefore these were kept constant during the study.

### **1.9. Operational Definition of Terms**

**Employee Training:** In this study means enabling employees acquire more skills and knowledge for increased performance in an organization.

**Employee Performance:** In this study means the skills, knowledge, competencies and experiences employees possess to increase efficiency, effectiveness and productivity.

**On-the-Job Training:** In this study means acquiring new skills to increase performance among employees.

**Professional Development:** In this study means imparting practical skills, knowledge and experience to workers / employees with an aim of increasing effectiveness, efficiency and productivity.

**Work Ethics:** In this study means sticking to professional values, dignity and morals to regulate the behavior of employees with a focus on achieving the Vision and Mission of an organization or institution.

**Reporting to Work on Time:** In this study means arriving at work as earlier as possible.

**Attention to Clients:** In this study means working towards meeting client's needs.

**Timely Reports:** In this study means giving information and feedback on an organization's project status and performance or on activities that have been or being carried out by an organization or institution.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0. Introduction

This chapter presents a review of relevant literature on the subject matter of the study. It will be presented in accordance with the major objectives of the study. It presents the findings on the relationship between Training and Performance of Government Employees in Katabi town council, and identified problems and bridges the gap for the attainment of Socio-Economic Development.

#### 2.1. Definition review

**Training** is a formal and systematic modification of behavior through learning which occurs as result of education, instruction, development and planned experience (Michael Armstrong, 2000). Because of the practical implications of training, it is important to have training that is effective.

**Professional development** is a long term education training process utilizing a systematic and organized procedure by which managerial personnel learn conceptual and theoretical knowledge for general purpose. According to Campbell (1971) professional development implies an individual growth and self-realization in a brand base. Cole (1990) suggests a broader view of knowledge and skills acquisition training. He suggests that he is more concerned with employee potential than immediate skills and views employees as adaptable resource aiming at personal growth and realization of potential of an employee (Davidson, 2001).

**Career development** it is an ongoing process and that progress is made over time and this fits also with the emphasis on long life learning and achievement (Kabandize, 2004).

**Work ethics** can be referred to as a cultural norm that advocates people to hold accountable and responsible for the work they done based on the belief that work has intrinsic value to the individual (Cherington, 1980).

A corporate code of ethics is a statement of corporate principles, ethics, and rules of conduct, code of practice or company philosophy regarding responsibility to employees, shareholders,

consumers, the environment or any other aspects of society external to the company (Langlois and Schlegelmilch, 2010).

## **2.2. Theoretical Review**

Human capital theory: This theory was formulated by Adam Smith in the early 1960s. The human capital theory asserts that it's more profitable to invest in individual's education and training than in machines and factories, the return on investment is higher in the long term. According to Adam Smith people contribute to economic growth. In fact workers who have had higher education, have know how cultural knowledge and intellectual capacity. They are therefore more productive and innovative which enhances their effectiveness.

Therefore human capital theory should be applied by Katabi town council so as to enhance employee performance through employee training and this will lead to improved employee effectiveness hence increase in productivity.

Expectancy theory (Vroom, 1964) suggested that job performance (P) is the result of the interaction of two components, force (F) and ability (A), with ability representing the potential for performing some task. The force to perform an act is the algebraic sum of the products of the valences of all outcomes (E) and the valence or rewards of those outcomes (V). People with high commitment and job satisfaction would be more likely to exert effort to transfer. Noe and Schmitt (1986) investigated the relationship between training transfer and trainees' attitudes concerning jobs, careers and participation in the training program and observed that there was positive relationship. Therefore, provision of training to employees with right job attitude is important since the knowledge and skills obtained will most likely be used to improve job satisfaction hence improved employee performance.

## **2.3. On-The-Job Training and Performance of Local Government Employees**

It is widely acknowledged that human beings are one of the most important resources for development in most of developed countries such as Britain, Japan, China and United States of America. Therefore, given the rich natural resource potential Uganda possesses, and sufficient financial support, Uganda can also attain this economic success if the needed attention is given to the training and development of human resource (Rhoades, 2001).

Organizations are facing increased competition due to globalization, changes in technology, political and economic environments (Evans, Pucik and Barsoux, 2002) and therefore prompting these organizations to train their employees is one of the ways to prepare them to adjust to the increases above and thus enhance their performance. It is important not to ignore the prevailing evidence on growth of knowledge in the business corporate world in the last decade.

This growth has not only been brought about by improvements in technology nor a combination of factors of production but increased efforts towards development of organizational human resources. It is, therefore, in every organizations responsibility to enhance the job performance of the employees and certainly the implementation of training and development as one of the major steps that most companies need to achieve this. As is evident that employees are a crucial resource, it is important to optimize the contribution of employees to the company aims and goals as a means of sustaining effective performance.

This therefore calls for managers to ensure an adequate supply of staff that is technically and socially competent and capable of career development into specialist departments or management positions (Afshan et.al, 2012).

The management of human resources in Africa in general and Uganda in particular is rather challenging as most organizations have difficulties finding proper human resources. This may partly be a result of such problems as political instability, corruption, bureaucracy, poor infrastructure, low levels of education and purchasing power, diseases and famine known to prevail in the African business context (Usman, 2010).

According to Ocquaye (2004), this is exemplified by the provision of professional and tertiary institutions, vocational training institutes and colleges, secondary and technical schools, as well as the reforms in education. All these facilitate the acquisition of skills and knowledge to ensure workplace effectiveness and efficiency.

Almost everyone now recognizes the significance of training on the success and growth of organizations. Employees are however a very crucial and expensive resource to every organization. There are significant changes today in terms of the value of the employee.

Training is therefore necessary to enhance the knowledge, skills and attitude of employees. It will also make it easier for employees to acquire further knowledge based on the foundation gained from the training and further effect changes in other co-workers (Mitchell, 2005).

According to Zheng (2009) a significant relationship was found between the employees training and their resultant performance in accomplishing different tasks. It was found that those employees who have taken training were more capable in performing different task advice versa.

Training has direct relationship with the employees' performance. Basically training is a formal and systematic modification of behavior through learning which occurs as result of education, instruction, development and planned experience (Michael Armstrong, 2000). Because of the practical implications of training, it is important to have training that is effective. Studies have proven that more costly but effective training can save money that is wasted on cheap but inefficient training (Ginsberg, 1997). Therefore, training has acquired a strategic value for hotels since service quality depends on employee customer care effectiveness (Davidson, 2001).

The main purpose of on-the-job-training is to acquire and improve knowledge, skills and attitudes towards work related tasks. It is one of the most important potential motivators which can lead to both short-term and long-term benefits for individuals and organizations.

There are so many benefits associated with training. Cole (2001) summarizes these benefits as below: High morale –employees who receive training have increased confidence and motivations; Lower cost of production –training eliminates risks because trained personnel are able to make better and economic use of material and equipment thereby reducing and avoiding waste; Lower turnover –training brings a sense of security at the workplace which in turn reduces labor turnover and absenteeism is avoided; Change management –training helps to manage change by increasing the understanding and involvement of employees in the change process and also provides the skills and abilities needed to adjust to new situations; Provide recognition, enhanced responsibility and the possibility of increased pay and promotion; and help to improve the availability and quality of staff (Matsoga, 2003).

Armstrong (2000) contends that trained employees often work better as teams because everyone is aware of the expectations and can achieve them together smoothly. He adds that trained

employees are also more confident in their performance and decision-making skills. In addition, employees who receive regular training are more likely to accept change and come up with new ideas. Employees who learn new skills through training make good candidates for promotions because they have shown their ability to learn, retain and use information. Reliable, skilled employees can also be empowered to train other employees, the fact that reduces pressure for the management team.

On-the-job-training plays a significant role in the development of organizations, enhancing performance as well as increasing productivity, and ultimately putting companies in the best position to face competition and stay at the top. This means that there is a significant relationship between organizations that train their employees and organizations that do not (Evans, 1999). Every organization that is committed to generating profits for its owners (shareholders) and providing quality service for its customers and beneficiaries must invest in the on the job training for its employees to customize skills and knowledge (Bewley, 2005).

Many researchers have carried out studies on various social issues in Katabi Town Council Uganda, and no one so far has carried out the study on how on- the- job- training influence the performance of local government employees in this area. Therefore, there is need for this research to be carried out in Katabi Town Council

#### **2.4. Professional Development and Performance of Local Government Employees**

Professional development through training influences the performance of local government workers in many countries across the globe. The alignment of local government employee performance and development efforts enables them to the government's mission, goals and objectives. Professional development improves employee performance in achieving their personal and organizational goals and setting expectations for working objectives and competencies. It also enables the government to develop a better understanding of its employee's professional goals, strengths, and development needs, enabling employees take personal responsibility and accountability for their professionalism, acquiring or enhancing the skills they need to stay current in their roles (Armstrong, 2000).

One of the keys to successful government employees is retaining top talent that the government has trained and developed over the months and years. Furthermore, this retention not only affects local government's bottom line, but other team and organizational dynamics, including professional development training programs that happen during and after on boarding.

It's important for the government to look into their current training programs and see what immediate and long-term changes need to be made so overall employee retention doesn't suffer (Chelliah, 2010).

To make training and professional development of government employees useful, it should be well planned and systematically implemented Rao and Nair, (2000). The capacity local government employees influence the ability to achieve the desired targets particularly in performance driven programs, projects, plans and activities. Human resource is recognized as a critical resource for success. In order to sustain performance of the government, it is important to optimize the contribution of employees towards achievement of the aims and goals of the local government (Gr&nroos, 2000). According to Armstrong, (2001) training provides the basis for formal and systematic modification of behavior through learning, which occurs as a result of education, instructions and career development and planned experience. Professional development through training equips the local government employees with the necessary knowledge, skills and attitude to tackle the job responsibilities.

Training and Career Development improves the government employee's competence in order to create a competitive advantage and contribute to governmental success. Training and development is also a means for the government to address its employees 'needs. By offering the training and career development opportunities the government helps employees develop their own competitive advantage and ensure long term employability, Jackson (2008).

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Training and Development basically deals with the acquisition of understanding, know how, techniques and practices. In fact, training and development is one of the imperatives of human resource management as it can improve performance at individual, collegial and organizational levels. As the process of 'increasing one's capacity to take action, organizations are now increasingly becoming particular with organizational learning and therefore collective development. Organizational learning, on the other hand, refers to the "efficient procedure to process, interpret and respond to both internal and external information of a predominantly explicit nature.

According to Easterby-Smith (1999), the emergence of the concept of organizational learning is central on the hitherto idea that prior advocacies of learning are tended to its commercial significance and are lacking of empirical information on learning processes.

Basically, the objective of training and development is to contribute to the organization's overall goal.

Closing the skills gap is now a critical area of human resource development for organizations to continuously penetrate the market. Skills gap basically threatens the productivity and competitiveness both in organizational and operational levels. This requires that human resource management professionals should start the cultivation of the workforce from there cruitment period. However, this is not easy considering that there are specific works which require customization of skills and that not all newly hired employees acquire social skills aside from the basic skills. In responding to the challenges of the skills gap and skills deficiency,

Human Resource professionals have to develop programs that will address the problem (Sims, 2006).

Building the organization hence is an imperative for the existence and survival of modern organizations. Consistently, companies are investing on their internal customers or employees thus taking advantage of the human capital management. Sense of ownership is also important, requiring Human Resource Professionals to develop strategies that will ensure superior Knowledge, skills and experience to settle within the workforce. Learning activities shall put skills enhancement and development assignments at its core as well as empowerment and career development. This is lifelong learning which guide the organizations particularly human resource department to make an ongoing investment with organizational members and help them build their competencies (Sims, 2006).

Basing on this literature review, many researchers have conducted studies on how professional development contributes to performance of government employees in other parts of the world. None has ever carried out the same study in Katabi Town Council, Wakiso district Uganda in the year 2019. Therefore, there is need for this study in this area.

## **2.5. Work Ethics and Performance of Local Government Employees**

Ethics are one of the most critical issues in business and specifically in human resource management. The good ethical culture in an organization will provide direction and guidance in various areas in order to build united, harmonious and ethical employees indicator of organization commitment in accepting the need for ethical behaviors and implementing it, which in turn contribute to employee performance (Wood, 2000).

Work ethics can be referred to as a cultural norm that advocates people to hold accountable and responsible for the work they do based on the belief that work has intrinsic value to the individual (Cherington, 2000).

A corporate code of ethics is a statement of corporate principles, ethics rules of conduct, code of practice or company philosophy regarding responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company (Langlois and Schlegelmilch, 1990).

Employees' perception of their organization's ethical climate is found to be related to job satisfaction, organizational commitment, and organizational performance (Kim & Miller, 2008;

Pettijohn, Pettijohn & Taylor, 2008). Performance ratings by supervisor and peer is one of the method in measuring job performance in which performance is mostly viewed from human behavior with evaluative aspects (Newman, Kinney & Farr, 2004). Employee's behavior displayed at work is not necessarily related to job specific aspects but mostly on how well someone performs at their work (Jex, 2002). This is consistent with the definition of work ethics where individual are accountable to the work they do according to the acceptable ethical behavior.

In order to study work ethic within the context of Max Weber's original ideas, it must be disentangled from other work-related concepts. The measure, Multidimensional Work Ethic

Profile (MWEP), has seven Weber-associated dimensions: Self-Reliance, Morality/Ethics, Leisure, Hard Work, Work Centrality, Wasted Time, and Delay of Gratification (Miller et. al., 2001). The Self-Reliance dimension consists of striving for independence in one's daily work. Second is Morality/Ethics dimension consists of believing in a just and moral existence. Third, Leisure dimension consists of premeasured attitudes and beliefs in the importance of no work activities. Fourth, Hard Work dimension consists of belief in the virtues of hard work. Fifth,

Work Centrality dimension consists of belief in work for work's sake and the importance of work. Sixth, Wasted Time dimension consists of attitudes and beliefs reflecting active and productive use of time. And lastly, Delay of Gratification dimension consists of orientation toward the future; the postponement of rewards.

Scholars and the theorists from the past have been stressing upon. The substantial affect of ethics for the followers and the leaders to control the supremacy in organization. Though ethics has been a burning question for the world, still it is like a hot cake to be explored for the researchers and business society. One apparent cause for the augmented awareness in the field of ethics is the ethical contravention which has-been discovered in the modern corporate humiliation (Manz et al., 2008; Revell, 2003; Mehta, 2003; Treviño and Brown, 2004). In this world, there are leaders, called "lethal leaders" who search out the loopholes in the administration system, and use them for their personal benefit at the cost of the company and its workers (Padilla et al 2007; Schaubroeck et al., 2007).

Employee performance is the vital element of any organization and the most important factor for the success of the organization and its performance. It is true that most of the organizations are dependent on its employees, but one or two employee cannot change the organization's destiny. The organization "performance is the shared and combined endeavor of all of its employees. "Performance is the key multi character factor intended to attain outcomes which has a major connection with planned objectives of the organization" (Mwita. 2000).

The managers and the employees of any rank must contribute their performance and contribution and construct utmost utilization of their capabilities to achieve organizational goals and objectives. The organizations have also some expectations from their managers and employees. So, in many situations the employees try to fulfill these expectations, but in some cases, they are dependent on their bosses or the management for proper guideline. Therefore, the employees must be trained so well to show performance by accomplishing their tasks and responsibilities artistically. Here, a question comes in mind that how an employee can be competent and efficient for improving the productivity, modernism and performance for an organization. An efficient leadership plan can be a strong weapon for support to assist in discovering and polishing leadership characteristics between the employees of the organization.

Among the studies carried out in Katabi Town Council exclude how work ethics can influence the performance of local government employees in the area. This calls for this research to be carried out.

## CHAPTER THREE

### METHODOLOGY

#### 3.0. Introduction

This chapter presents the procedures and techniques to be used to collect data. It will cover the research design of study, sample size, sampling technique, data collection methods, data gathering, data processing, statistical method of data collection and analysis, report writing and format.

#### 3.1. Research Design

The study employed correlation research design to determine the relationship of three variables on the job training, professional development and training in ethics on the employee performance in Katabi Town Council Wakiso district using appropriate statistical tools.

#### 3.2. Study Population

The study was conducted in Katabi sub county Wakiso district. The population in the sub county is 25854 people. The respondents were selected in different areas for example Katabi town council, Nkumba ,Kitala, Kisubi, Kabale and Lugala parish. The researcher chose this area because she believed that the targeted population has knowledge and information on the relationship between training and employee performance

**Table 1: Showing the area of the Study Population**

Area	Population
Katabi town council	54
Nkumba parish	20
Kitala parish	13
Kisubi parish	18
Kabala parish	16
Lugala parish	14

### 3.3. Sample size

A sample of 100 employees was obtained from a total number of 135 government employees in Katabi town council using the Slovene's formula of determining sample size from a selected sample population as indicated below:

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

n= sample size, N= Total population

e= deviation of sampling (degree of errors at 0.05 level of significance)

**Table 2: Showing population figures from where samples were obtained.**

Study area	population	Sample size
Katabi town council	54	40
Nkumba parish	20	15
Kitala parish	13	13
Kisubi parish	18	10
Kabale parish	16	12
Lugala parish	14	10
<b>Total</b>	<b>135</b>	<b>100</b>

### 3.4. Sampling Technique

The sample of the study was achieved by stratified and simple random sampling techniques. In stratified sampling, respondents were divided into sub groups according to age, gender, education level and marital status. This method was used in order to obtain the different responses by the individuals in different sub groups as a way of measuring whether there are no differences in the opinions provided by the different categories of individuals. Simple random sampling was used to obtain the representative respondents within each sub group. This was done by writing the names of individuals within each sub group, assigned them numbers which

were used to randomly choose the representatives in each sub groups. This method was used because it reduces on the bias during sampling, is simple and straight forward technique.

### **3.5. Sources of data collection**

#### **3.5.1. Primary data collections**

The primary data as one of the sources of data was collected from the field using questionnaires. The researcher set questions relating to the objectives of the study and sent them to the respondents to write the answers promptly.

#### **3.5.2. Secondary data collection**

Secondary data was collected from documents like textbooks from the library, newspapers, journals, survey and on the internet. The gathered data was analyzed with the reference to the research questions guiding the study. This kind of data collection was so relevant to the study especially in the literature review.

### **3.6. Data Collection instruments**

This contains data of the various instruments that the researcher opted to apply during the process of gathering data in the field.

### **3.7. Questionnaire**

Questionnaires were written set of questions given to respondents to fill with their answers as far as the topic was concerned. Questionnaires used were close ended with five point likert scale. These questionnaires were considered because they enabled the respondents to give hidden information which they would not freely disclose through an open interview.

The researcher used this method by using formulated lists of questions that were answered by the respondents in the field. This is because majority of the respondents were literate, therefore they could easily interpret the information.

### **3.8. Validity of the research instruments**

The research instruments used were questionnaires and their validity was achieved through the use of expert judgment. The questionnaires were presented to my supervisor and other lectures for some corrections before being used for data collection. Expert judgment was used because supervisors and lecturers have experience and knowledge to guide the study and this helped to avoid bias in the questionnaires.

### **3.9. Measurement of variables**

To identify the relationship between variables, the researcher made a clear understanding of the objectives a need to compare them for a conclusion. The researcher determined whether there was a significance relationship between training and employee performance and then made a conclusive remark.

### **3.10. Reliability of the research instruments**

The reliability of the research questionnaires was tested by test retest method. The questionnaires were taken into the field twice and the responses produced consistent results.

### **3.11. Data processing and analysis**

Quantitative data was presented using frequency tables and percentages. The raw data obtained was edited to ensure that the data was accurate and consistent with the gathered facts. The significance of relationship between training and employee performance was determined by Pearson's correlation coefficient (r-value) and P-value. The significance level of 5% ( $p \leq 0.05$ ) was used.

### **3.12. Ethical considerations**

An introductory letter was obtained from the faculty dean that authorized the researcher to conduct the research. Permission was sought from relevant authorities in the divisions where the research was conducted. The research ensured voluntary participation of every respondent in the study, consent of the respondents was sought before every data collection session. It was also

stipulated before the respondents that their information will be treated with utmost confidentiality, only to be used in compiling of an academic report.

### **3.13. Limitations of the study**

The researcher faced the following limitations during the study;

Some respondents kept the questionnaires for so long time and some misplaced them hindering the accomplishment of the study in its speculated time range. However, new questionnaires were presented those who had placed the previous ones and completed them successfully.

Some respondents seemed unwilling to participate in the study since they took the information to be confidential for their job security. However, presenting the introductory letter from the University, department of economics and management increased the participation rate.

Labor turns over occurred to some respondents during the course of the study and this affected the targeted sample size of the study. To solve this, other questionnaires were presented to the newly recruited employees.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.0. Introduction

This chapter gives the details on the effects of training on performance of local government employees. A case study of Katabi Town Council Uganda. This chapter is also guided by the objectives which were set for better accomplishment of the research project as seen in chapter one.

#### 4.1. Response rate

There was a positive response from respondents (90%) of the questionnaires though some seemed unwilling to disclose their information as they considered it to be confidential for their job security.

#### 4.2. Findings on demographical features

The demographical features of the respondents included age, sex, marital status and level of education of the respondents. The main purpose of investigating respondent's background was to investigate bio-data's effects on the responses of the relationship of training and performance of government employees: A case study of Katabi Town Council.

**Table 3: Demographical features of respondents**

		<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender</b>	Male	58	58
	Female	42	42
<b>Age</b>	18-25	12	12
	26-35	30	30
	36-45	38	38
	46 and above	20	20
<b>Education level</b>	Certificate	22	22
	Diploma	46	46
	Degree	32	32
	Masters and PhD	02	02
<b>Marital status</b>	Single	25	25
	Married	62	62
	Divorced	03	03

n=100

Source primary data, 2019

The majority of the respondents in the sample were male with the total number of 58 (58%) as compared to females who were 42 (42%) hence signifying that there was a slight gap between male and female respondents in Katabi town council. Regarding age, it was revealed that, the respondents who aged 18-25 were 12 (12.0%), 26-35 were 30 (30.0%), 36-45 were 38 (38.0%) and those 46 and above were 20 (20.0%). This implied that most of the respondents were in age category of 36-45. The majority of the respondents in sample were married (62.0%), followed by those who were single (25.0%) and the divorced had the least number (03.0%). Most of the respondents were diploma holders (46%), followed by degree holders (32%), then certificate holders (22%) and a very small number of those who had Masters and PhD (2%). (Table 1.2)

#### 4.2. Findings on training of employees

**Table 4: Showing the results on on-the Job Training**

	SA (%)	A (%)	D (%)	SD (%)	NS (%)
The sub county uses delegation as a training tool	43	27	16	06	08
I have acquired knowledge, skills and abilities through job rotation	14	21	35	30	06
There is mentoring and coaching services at the sub county	39	22	13	07	19

According to the responses in table 1.3, on-the- job training was mainly contributed by delegation of authority (SA=43%, A=27%), followed by mentoring and coaching services (SA=39%, A=22%) and acquired knowledge, skills and abilities through job rotation had the least contribution (SA=0, A=21%) and this meant that there was a good Employer-employee relation which could lead to a better employee performance. Job rotation had least contribution to on-job-training probably because each job has a different description which requires specific professional knowledge. There was a high contribution of delegation of authority and mentoring and coaching services probably because this could reduce on the workload of the employers and also gives opportunities employees to learn more on how to exercise their abilities.

**Table 5: Showing results on the profession development**

	SA (%)	A (%)	D (%)	SD (%)	NS (%)
I have ever been assigned by the sub county to under take Post graduate studies	07	13	53	22	05
There is a tuition re-imburement scheme at the sub county.	04	16	61	11	08
There are scholarships and sponsorships for employees at the sub county.	07	23	38	21	01

Table 5: shows that there is a limited professional development program offered by the sub-county. Majority of the respondents disagreed with the statements of presence of tuition re-imburement scheme to undertake post graduate studies (D=61%, SD=11%), followed by those of who disagreed with the statement of being assigned by the sub county to undertake post studies (D=53%, SD=22%) .This could be attributed to limited sources of funds available to facilitate employees to go for further studies. This limited professional development of employees may lead to insufficient employee performance due to inadequate knowledge and up to date skills to meet the changing trends in the labour market. Therefore, this call for government intervention to support professional development programs enhances productivity and effectiveness of the employees.

**Table 6: Showing results on work ethics**

	SA	A	D	SD	NS
There is an ethical training program at the sub county	28	66	16	–	–
Employees are given orientation on the rules and procedures on ethical issues of the work at the sub county.	58	36	05	–	01
There is maximum maintenance of discipline among employees at the work	31	54	08	–	07

**Source, Primary data 2019**

Data in table 6 shows that there is high level of ethical maintenance due to strong positive responses from the respondents concerning the relationship of work ethics and employee performance, for example 66% and 28% agreed and strongly agreed respectively on existence of ethical training programs, 36% and 58% agreed that employees are the orientated on rules and procedures concerning ethical issues and 54% and 31% agreed that there is maximum maintenance of discipline among employees at the work within Katabi town council. This may reduce on the conflicts at workplace and also lead to improved performance.

#### 4.4. Findings on employee performance

**Table 7: Showing the results on employee performance**

PERFORAMCE	SA (%)	A (%)	D (%)	SD (%)	NS (%)
<b>REPORTING TO WORK ON TIME</b>					
• Punishments are administered upon failure to report at work in time	06	11	58	23	02
• There are mechanisms put in place to capture late coming workers	20	48	22	03	07
• There is monitoring of employee attendance lists at the work place	17	67	11	—	05
<b>ATTENTION TO CLIENTS</b>					
• There is good customer care relations at the work place	57	33	07	—	03
• There is attention given to clients complaints		61	12	01	04
• There is satisfaction in service delivery of government workers to the public	33	52	09	04	02
<b>TIMELY REPORTS</b>					
• There is regular release of employee performance report in Katabi town council	34	36	17	08	05
• Top management supports on timely report do exist at Katabi town council.	08	24	47	21	—

It was revealed that reporting for work on time in Katabi town council is highly emphasized by different mechanisms such as arrival books, since 68% of the respondents agreed with the statement. Monitoring of employee attendance lists at the work place in Katabi town council is also highly effective (SA=17%, A=67%). However, administering of punishments upon those who fail to report at work on time is not so much considered (58% disagreed and 11% agreed). Little emphasis on punishment of workers who report at work late may result into laziness and late service delivery by the employees.

There is much advocacy for attention to clients at Katabi town council since the majority of the respondents agreed with the statements for example 61% agreed that attention is given to clients' complaints and 85% agreed that Satisfaction in service delivery is articulated.

Workers revealed that there is regular release of employee performance reports (SA=34%, A=36%) while majority of respondents (68%) disagreed with statement that support from top management on timely report exists.

#### 4.5. The relationship between professional development, on-job training and training in ethics with employee performance.

**Table 8: Showing relationship between Training and employee performance.**

Variable correlation	r p value	Decision
On job training and employee performance	r=0.71 p=0.01	Agree
Profession development and employee performance	r=0.3 p=0.57	Disagree
Training in ethics and employee performance	r=0.82 p=0.002	Agree

**Significance level of 0.05 ( $p \leq 0.05$ )**

There was a strong positive relationship between the on job training and employee performance ( $r=0.71$ ,  $p=0.01$ ) in Katabi town council, Wakiso district. This implies that the on job training which is provided to employees in Katabi town council contribute to the observed high performance of the workers in the town council. It was also observed that there was a strong

positive relation between training in ethics and employee performance ( $r=0.002$ ,  $p=0.002$ ). However, there was no significant relationship between profession development and employee performance ( $p=0.57$ ) and a weak positive relationship between them ( $r=0.3$ ). It was observed that most employees consented that professional development was not highly prioritized in Katabi town council, yet majority of them agreed with the existence of high performance of the employees in this town council. This does not necessarily mean that professional development does not lead to employee performance but it may indicate that there are other factors such as job training and training in ethics other than profession development leading to improved employee performance in this town council.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0. Introduction**

This chapter includes the findings on the relationship between training and performance of employees in Katabi town council, Wakiso district. It contains the Conclusion and recommendations followed by the study objectives and study hypothesis.

#### **5.1. Summary**

The research examined the relationship between training and employee performance at Katabi town council Wakiso district.

To find out how professional development influence the performance of employees in Katabi Town Council, Wakiso district and results revealed that most employees at Katabi town council are denied opportunities to professional development, whereby 12% receive these opportunities. This is in line with Rao and Nair (2000) who said to make training and professional development of government employees useful, it should be well planned and systematically implemented

To find out how on-the-job training influences the performance of employees in Katabi Town Council, Wakiso district. On this objective, results revealed that 43% of the respondents strongly agreed that on job training is mostly used by the town council to train workers. This is in line with Zheng (2009) who said a significant relationship was found between the employees training and their resultant performance in accomplishing different tasks. It was found that those employees who have taken training were more capable in performing different tasks.

To find out how training in ethics leads to performance of employees in Katabi Town Council, Wakiso district and research revealed that 66% of employees agreed that training on work ethics leads to improved employee performance and none of the respondents strongly disagreed with the statement. This is in line with Wood (2000) who said ethics are one of the most critical issues in business and specifically in human resource management. The good ethical culture in an organization will provide direction and guidance in various areas in order to build united, harmonious and ethical employees indicator of organization commitment in accepting the need for ethical behaviors and implementing it, which in turn contribute to employee performance.

## **5.2. Conclusion**

Based on the results of the study training strategies should be implemented to eliminate employee performance gaps and to enable the employees to meet the trending social and market demands

## **5.3. Recommendations**

To fully improve the performance of employees in Katabi Town Council, Wakiso district the following should be implemented by the government:

In order to improve professional development, employees should be given equal opportunities by the government to go for further studies. This will enable employees to perform to the organization expectations and also will lead to improved service delivery. Also the government should put loan schemes for employees to facilitate those interested to go for further studies since most of them fail to go for further studies as a result of lack of funds.

On-Job-Training should be encourage through coaching, delegation of authority and mentoring to enable the employees improve on their skills and abilities to perform their tasks effectively and also to improve on the employer-employee relations

To improve work ethics, ethical rules and regulations should be put forward to guide employee at their respective work places. This will help employees to know what's expected of them. Also appropriate punishments should be given to employees who display unethical behaviours at work places as a measure of regulating workers' behaviours and more training for government employees in work ethics should be provided.

## **5.4. Areas for further study**

A longitudinal study where a group of employees can be comprehensively followed up for a long period of time to establish the relationship between employee training and employee performance should conducted.

A study should also be carried out to establish the possible alternatives that can be used to effectively minimize employee poor performance such as supervision from government, fringe benefits and remuneration.

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**APPENDICES**  
**QUESTIONNAIRES**

Dear respondents I am KATEME OLIVIA a third year student of Kampala international university carrying the research on the topic of training and employee performance in Katabi town council in Wakiso district Uganda. Your positive response is highly appreciated and information given shall be considered with the high degree of confidentiality so feel free to give me the correct information.

**SECTION A**

**DEMOGRAPHIC INFORMATION**

i) Name (optional).....

ii) Gender: Male ☐ Female ☐

iii) Age bracket

18-25 ☐ 26-35 ☐ 36-45 ☐ 46 and above ☐

iv) Education level

Certificate ☐ diploma ☐ Degree ☐

Masters and PhD ☐

v) Marital Status: Single ☐ Married ☐ Divorced ☐

For this section use

**SA-** Strongly Agree, **A-** Agree, **D-** Disagree, **SD-** Strongly Disagree, **NS-** Not sure for answering the questions.

## SECTION B

### ON-JOB-TRAINING

Effects	SA	A	D	SD	NS
The sub county uses delegation as a training tool					
I have acquired knowledge, skills and abilities through job rotation					
There is mentoring and coaching services at the sub county					

## SECTION C

### PROFESIONAL DEVELOPMENT

	SA	A	D	SD	NS
I have ever been assigned by the sub county to under take Post graduate studies					
There is a tuition re-imbursement scheme at the sub county.					
Scholarship and sponsorships are available for all employees at the sub county.					

## SECTION D

### WORK ETHICS AND EMPLOYEE PERFORMANCE

WORK ETHICS	SA	A	D	SD	NS
There is an ethical training program at the sub county					
Employees are given orientation on the rules and procedures on ethical issues of the work at the sub county.					
There is maximum maintenance of discipline among employees at the work					

## SECTION E

### EMPLOYEE PERFORMANCE

PERFORMAMCE	SA	A	D	SD	NS
REPORTING TO WORK ON TIME					
<ul style="list-style-type: none"><li>Punishments are administered upon failure to report at work in time</li></ul>					
<ul style="list-style-type: none"><li>There are mechanisms put in place to capture late coming workers</li></ul>					
<ul style="list-style-type: none"><li>There is monitoring of employee attendance lists at the work place</li></ul>					
ATTENTION TO CLIENTS					
<ul style="list-style-type: none"><li>There is good customer care relations at the work place</li></ul>					
<ul style="list-style-type: none"><li>There is attention given to client complaints</li></ul>					

<ul style="list-style-type: none"><li>• There is optimal service delivery of government workers to the public</li></ul>					
<b>TIMELY REPORTS</b>					
<ul style="list-style-type: none"><li>• There is regular release of employee performance report in Katabi town council</li></ul>					
<ul style="list-style-type: none"><li>• Top management supports on timely report do exist at Katabi town council.</li></ul>					