THE EFFECTS OF INTEREST RATE ON BORROWING AND INVESTMENT TO THE LOW INCOME EARNERS
(A CASE STUDY OF STANDARD CHARTERED BANK KAMPALA)

BY

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF
BUSINESS AND MANAGEMENT IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF A
BACHELORS DEGREE IN BUSINESS
ADMINISTRATION OF KAMPALA
INTERNATIONAL
UNIVERSITY

JULY, 2010

DECLARATION

I, **OJIAMBO EDWIN OBANDA, REG. NO: BBA/ 17549/71/DU,** hereby declare that this is my original piece of work and it has never been submitted for any award of a diploma or a degree in any institution of higher learning.

Sign ....

OJIAMBO EDWIN OBANDA

Date ....

APPROVAL

This is to certify that this report "The effects of interest rate on borrowing and investment to the low income earners", a case of Standard Chartered Bank Kampala was done under my supervision and approved as the candidate's own work.

Sign ....

MS. KATUMBA SARAH

Date ......15/8/10.........

DEDICATION

I dedicate this work to in the loving memory of my Grand Father Mzee Ojiambo Simoki, the late Alphaxad Bwire Wandera and the Ismael Ojiambo Obanda, the late Elizabeth Auma.

More dedication goes to Mzee Chango Machyo "wo" Obanda and Auntie Grace Maloba, late chief (Omwami) Serwano Obanda, auntie Hope Nasubo, and Walter Adeny (London UK).

ACKNOWLEDGEMENT

I am deeply grateful to my supervisor Ms. Sarah Katumba for his words of wisdom and encouragement, his endless support and guidance and I pray that God will reward you for your generosity. I would like to express my deepest appreciation to the following persons for their support; my Auntie Hope Nasubo and Walter Adeny for financial and moral support to my education, My Aunt, Grace Maloba for saving my life I will always remember you in the whole of life and treasure you, my lovely grand mother Mrs. Blandina Rose Machyo for bring me up as hard working young boy, my late cousin Moses Ongweko you words of encouragement I will never forget them rest in peace. My sisters Judith. Nabwire, Nabwire Linet, Auma rosemary. My only brother Kennedy Kwire. My mother Nekesa Pamela and Aunt Edisa Okidi, Nafula Florence for the support.

Management of Busia District Local Government especially the Director of medical Services, Dr. Oundo

I also take this opportunity to thank my grandfather Mzee Chango Machyo "wo" Obanda without you, I wouldn't have reached to university I will cherish you name, for the moral, financial support. and friends Wandera Sam, Mugeni Awori, Sanya Godfrey Samanya Rogers, Dembe Victor, Daudi Egessa time they spared to see me through this research. Without your support I would not have gone this far.

My Uncles Obanda Wanyama, Chango Mangeni, the late Bagume Wycliffe Barasa amos Weguli, Vincent Ouma Ongweko,

May the almighty God reward you!

Okenda kala youla abunyolo

Notula soluyua ....

Chira chaya habamo ahayo

ALUTE CONTINUER

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ABSTRACT

The study was carried out in Kampala district to investigate the effects of interest rate on Borrowing and investment by the low income earners in Standard Chartered Bank. In the study, relevant data was obtained from the libraries such as Kampala International University, Kyambogo University, Makerere University Business School and the internet. Primary data was obtained through questionnaires and study guides. All the respondents that took part in the study were randomly selected so as to give equal chances to other respondents and the data collected was quantitatively analyzed using tables and qualitatively analyzed using value judgment.

In the study, the sample size were forty respondents and it included twenty small micro-enterprise owners, fifteen individual clients and five bank staffs and found out that most of the low income groups of people don't save with standard Chartered Bank and not all clients borrow from their bank (Standard Chartered Bank) because of the high interest rate when saving and the low interest rate when borrowing from Standard Chartered Bank and thus if these factors are not mitigated, many of the low income earning groups will not invest and their small enterprises will not grow.

Basing on the findings of the study, a number of policy recommendations have been suggested for example, the government should set up a minimum interest rate for savings and borrowing in all the financial institutions in Uganda in order to encourage the low income earners to save and borrow from any financial institution including Standard Chartered Bank hence facilitating their investment.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the study

Interest is defined as the earning of capital or the price which has to be paid for the services of capital.

In a monetary economy, it may be regarded as the price, which has to be paid for funds that are required to purchase capital equipment. Loans are demanded however for other purposes other than the purchase of capital and it would be more realistic to describe interest as payment for the use of money. In order to create the supply of loans, people with the necessary financial resources have to be persuaded to lend. In normal circumstances, loans can only be obtained when lenders are offered some reward for the sacrifices, risks and troubles involved. This reward is the rate of interest.
(Burntmill, Harlowt, 1983).

One suggested solution to the problem is to liberalize the financial sector by allowing nominal interest rates to rise to market clearing levels. This would cause real interest rates to rise to positive levels and thus remove the explicit interest rate subsidy accorded to preferred borrowers who are powerful enough to gain access to the rationed credit. Higher real rates of interest should also generate more domestic savings and investments and permit some borrowers to shift from the unorganized to organized money market. (Michael. P. Todaro, 1992).

In Uganda, following the lifting of the moratorium on the licensing of banks, Bank of Uganda approved five new private Commercial Banks to start operations.

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The entry of new banks has stimulated competition in the sector resulting in the expansion of the branch network from 160 branches in December 2006 to 213 branches by end of March 2008.

The deposit base of banks increased by 26% from Shs 3,175 billions in March 2007 to Shs 4,014 billion in March 2008. In the same period the total banking sectors advances or loans grew by 49% from Shs 1,703 billions to Shs 2,542 billion. (Daily Monitor, 13th June 2008)

However, much as this has been a positive trend, it should be known that this only resulted in the increase in the number of banks and getting on board new customers in such new banks and their branches, but not increasing real numbers of borrowers. This law number of borrowers is said to be attributed to real interest rate remaining high in such lending Commercial banks. Such trends warrant an investigation to establish its full impact to the borrowing community particularly in Standard Chartered Bank.

1.1 Statement of the problem

The role of interest rates in economic development of a country is to facilitate financial intermediation through promotion of mobilization and efficient allocation of resources. The level and stability of interest rate is therefore a vital concern of the borrowers and investing public. (Kihangire 1998)
In Uganda due to structural constraints in the economy, lending interest rates have remained high.

This is said to be brought by factors among others like; High operational costs, absence of long term finance, High risks of borrowers, high litigation costs for contract enforcement, inefficiencies in land and company registries and a few banks controlling a large share of the market. (Daily Monitor 13th June — 2008). It is against this background that small farmers and other low income groups have no recourse, but to seek loans from un organized money markets

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which is not readily available and un reliable and hence is said to have affected the volume of borrowing and investment. Therefore it is against this background that the research is prompted to establish the cause, effects and possible remedies to this problem particularly in Standard Chartered bank making it distinct from other banks.

1.2. Objectives of the study.

1.2.1 General Objective

The researcher sought to find out how the level and stability of interest rate impacts on borrowing and investment among the low income clients of Standard Chartered bank.

1.2.2 Specific Objectives of the study

The research was based on these objectives;

  i.   To identify how the level of interest rate influence investments of low income earners
 ii.   To identify how the level and stability of interest rate affects borrowing in Standard Chartered.
iii.   To assess the relationship between interest rate on borrowing and investment among low income clients of Standard Chartered Bank.

1.3. Research questions

The study was based on the following research questions

  i.   Does the level of interest rate affect investments?
 ii.   To what extent does the rate of interest determine savings and borrowing in Standard Chartered Bank?
iii.   Is there any positive linkage between borrowing and investment (GDP) among low- income clients of Standard Chartered Bank?

1.4. Significance of the study

The study helped the clients in revealing how a high and low interest rate influences the volume of savings, borrowing and the real gross domestic product or investment among the borrowers of Standard Chartered Bank.

The study helped the clients to gain a lot of knowledge in understanding how the variables of savings, interest rate and investment are interlinked in the money market.

The research was significant to the researcher in that was able gain research skills after completion of the task and this helped him to make research on other topics since it was of paramount importance in human life. In addition, it inspired future readers and interested researchers who liked to use this information for further references

1.5 Scope of the study

The study's scope was limited to the effects of interest rate on savings and how interest rates determine borrowing and investment of the low income earners of Standard Chartered Bank.

The study was carried out from Standard Chartered Bank Kampala main branch and the examination was done within Kampala area.

The time scope of study was within the time period of two months.

1.6 The conceptual frame work

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┌─────────────────┐       ┌─────────────────┐       ┌─────────────────┐
│ Independent     │       │ Intervening     │       │ Dependent       │
│ variable        │───────│ variables       │───────│ variable        │
└────────┬────────┘       └─────────────────┘       └────────┬────────┘
         │                                                    │
         ▼                                                    │
┌─────────────────┐   ┌──────────────────────────┐  ┌────────┴────────┐
│ Interest rates  │──▶│  − High interest rates   │─▶│ Borrowing       │
│                 │   │  − Low interest rate     │  │                 │
└────────┬────────┘   │  − Low borrowing         │  └────────▲────────┘
         │            │  − Bank regulations      │           │
         │            │  − Installment           │           │
         │            │    payment               │           │
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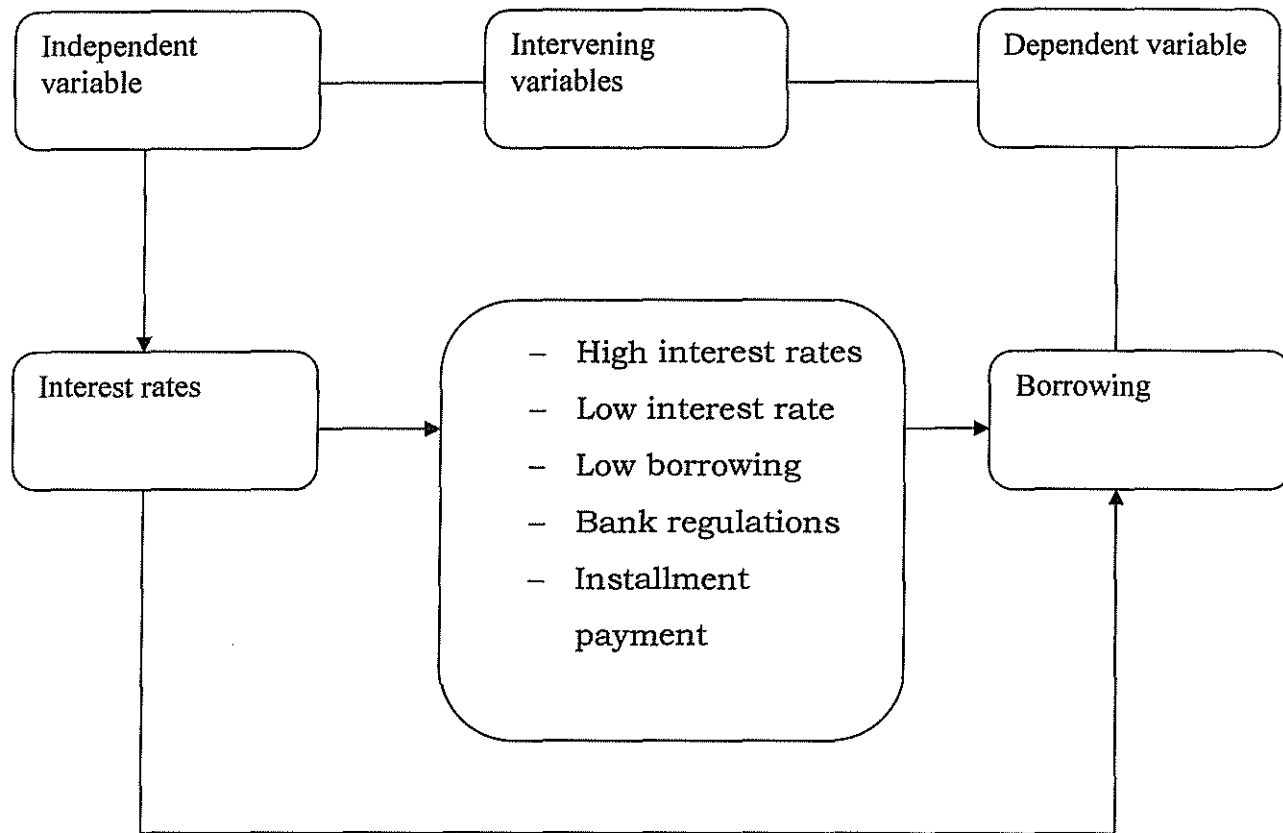
Source: Primary data

Due to the high interest rate, borrowing rate will be low and due to low interest rate, there will be high borrowing. The bank borrowing also depends on the regulations laid by the banks. The amount borrowed is always paid in installments plus the interest.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter of Literature review has majorly dealt with researched work and other relevant articles and publications regarding the topic of study.

The major aim of this was to appreciate the work of previous researchers and find researchable gaps that have necessitated this study.

This section was addressing the effects of interest rate on savings in banking financial institutions, and the influence of interest rate on borrowing and investment in the economy

2.2 To identify how the levels of interest rate affect investments of the low income earners of standard chartered bank

The Low Income Measure or LIM, which is used a great deal in international comparisons, explicitly defines low income earner as one being much worse off than average, and is drawn at one half the median income of an equivalent household. Statistics in Canada regularly publishes data on the proportion of Canadians falling below three low income lines, soon to become four. The most familiar of these are the pre tax and post tax Low Income Cut-Offs (LICOs), which conceptually define a low income household as one which spends much more than an average equivalent household on the necessities of life - food, shelter and clothing - and thus has much lower absolute and relative discretionary' income than the norm. (Jackson 2010)

Many investments carry significant risk that the investor will lose some or all "of the invested capital. For example, investments in company stock shares put capital at risk. The value of a stock share depends on what someone is willing to pay for it at a certain point in time. Unlike capital invested in a savings account, the capital value (price) of a stock share constantly changes.

If the price is relatively stable, the stock is said to have "low volatility." If the price often changes a great deal; the stock has high volatility." All stock shares have some volatility, and the change in price directly affects ROI for stock investments survey by Uganda Investment Authority revealed that interest rates rank 54.8% among the barriers of investment in Uganda. The report gave other barriers as exchange rate 56.4%, corruption 55.4% and inflation 51.9%. (Wednesday Monitor, May, 24, 2006).

A stable fiscal and monetary policy; Setting with reasonable interest rates provider incentives to save and mechanisms to channel savings into investments for instance a lower tax rate on initial profits allows retaining some earnings to increase investment as appropriate.

Financial constraints limit the investment capacity of small medium enterprises and thus hamper their growths; small medium enterprise support mainly refers to subsidies credits and soft loan guarantee schemes provided by commercial and development banks. NGO credit has increased in the past years given the fact small medium enterprise in developing countries do not seem to have benefited from bank lending in general terms since lending to small medium enterprise is seen as a high risk business given that most of enterprises lack collateral. The problem does not appear to be lack of funds but rather to make them accessible to small medium enterprises available funds are often diverted to larger enterprises and only significant number of small medium enterprises seem able to attract bank financing (UN, 1993) economic commission for Africa. Commercial banks often discriminate against small medium enterprises because they are considered high risk clients with little no resources to provide collateral, for instance in Gabon, Cameroon, real interest rates on loans can go to 25% and although development banks exist, they operate like commercial banks with the same loan conditions.

In Uganda interest rates range between 22% and 27%, in Senegal business owners complain inflexibility of banks in enforcing collateral requirements for any credit they extend. In some other countries such as Nigeria, small medium enterprises access to working capital in the form of short term loans and over draft facilities is highly limited; banks and other financial institutions have no confidence is small medium enterprise as they are perceived as high risk ventures with high rate of failure. They establish prohibitive collateral conditions that most small medium enterprise cannot afford Small and medium enterprises constitute greatly to the economies of all countries regardless of there enterprises for example about 80% of the labour force in Japan and 5% of workers in Germany are employed into small medium enterprises

2.3 The effect of interest rate on savings in banking financial institutions.

According to Burnt mill & Harfow (1983), the classical economists like Alfred Marshall are of opinion that the rate of interest and savings are interlinked. They say that the rate of interest is a factor that govern the volume of savings, that the higher the rate of interest, the larger the reward for savings, the higher the propensity to save and vice-versa. Thus according to them any increase in the volume of savings means the increase in investment that results in trade, commerce and industry.

However, this classical analyst is refuted by Professor Lord Keynes a world famous capitalist economists. He declares that the volume of savings to all intents and purposes depends on the volume of investment. A high rate of interest will damp down the volume of investment made by the business public and as a result, trade, commerce and industry, as a whole will be adversely affected.

Saving depend on the money income of the people, as the per capita income of the people shrink automatically the volume of savings will be reduced. Keynes therefore regarded 3% as a reasonable rate of interest.

Kasibante (2001) puts it that, on average, the rapid growing developing countries have had higher savings rate than the slower growing ones. He says that many factors affect the savings rates of households, including the rate of income growth and attitude towards theft. He argues that although interest rates have an uncertain effect in the amount people save, their effect on the form in which people save is obvious. Higher interest rates are likely to lead to financial deepening as savers switch some of their savings from real to financial assets.

On the other hand, the negative real interest rate discourages the holding of financial assets.

Kasekende (1998) identified that while there is evidence to suggest that the poor would be willing to deposit their savings and convert real savings into financial assets without paying great attention to interest rates, there is no doubt that real interest rate have a positive impact on the level of savings that could be mobilized for borrowing.

2.4 The influence of interest rate on borrowing and investment in the economy.

The price of borrowing or capital is taken to be the current rate of interest on the funds available to purchase capital equipment.

According to Lawrence Byensi as reported by Monitor (Wednesday, May, 24, 2006). It was said that a survey by Uganda Investment Authority revealed that interest rates ranks 54.8% among the barriers of investment in Uganda. The

report gave other barriers as exchange rate 56.4%, corruption 55.4% and inflation 51.9%.

New Vision (Friday, June 15, 2007) budget speech by minister of finance, pointed out that interest earned by financial institutions on loans granted to persons engaged in agriculture be exempted from tax. It adds that expenditure, losses and bad debts to the agriculture sector be deductible for tax purposes. This all is meant to lower interest rate and encourage borrowing and investment in the agriculture sector.

Daily Monitor, Thursday (October 27, 2005) reports the director of research, Bank of Uganda, that in September (2005) the economy was stable as inflation rate, interest rate and exchange rate were generally stable. This stability resulted into an increase in the monthly average lending rate on Commercial Banks shilling dominated loans marginally from 19.6% in July 2005 to 20.6% in August 2005.

Figure 4.4.4: Effect of interest rate on investment
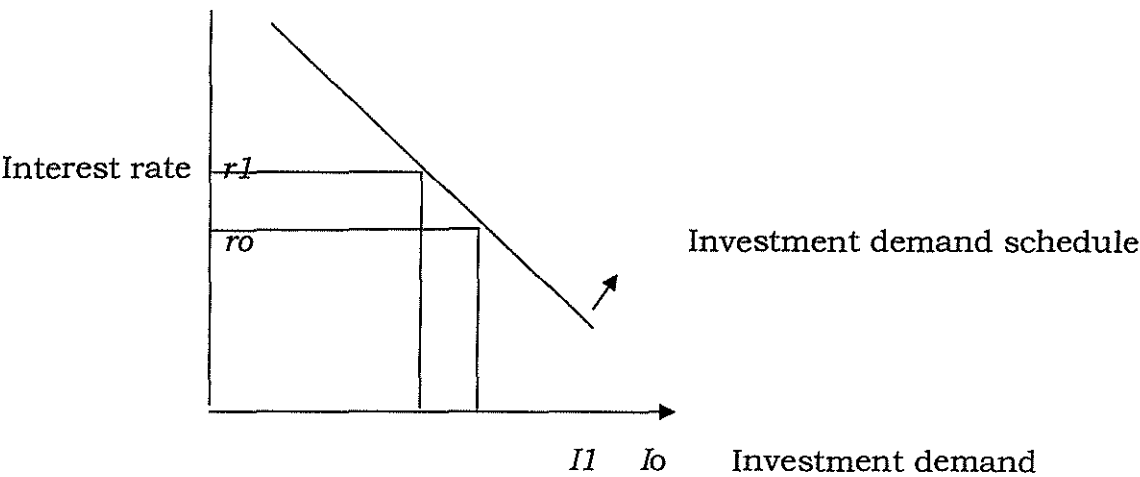
Source: David Begg, Stanley Fischer and Rudiger Dornbusch. Economics 3rd edition, pp 442. Mcgraw-Hill book, London 198

That for a given price of new capital goods and given expectations about profit streams to which new investments will give rise, a higher interest rate reduces the number of projects that can provide a return matching the opportunity cost of the funds employed. From the figure, as interest rates rise from rO to ri, desired investment falls from Jo to Il.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This section gives a description of the research methodologies that the researcher employed in undertaking this study. They may include the study design to be paid, the area of study to be selected, the description of the population and sample to be selected, the sampling techniques, the data collection instruments, the procedures of data collection, the validity and reliability of instruments and the data analysis procedures.

3.2 Study design

In the study, both quantitative and qualitative study design was employed. It therefore necessitated the use of questionnaire guide through where both analytical and descriptive studies were adopted. With the descriptive studies, the researcher undertook to establish the characteristics in the study whereas under the analytical studies the researcher undertook the causal relationship between the variables.

3.3 Study area

The area of study was Kampala district Standard Chartered Bank. This area was chosen for the study because of the help public assumption that it's a bank for the rich. So we needed to understand how it rates its interest when dealing with its low income client depositors and when they acquire loan facilities.

3.4 Data Type and Source

Both the primary and secondary data was used. The primary data was acquired through interviewing the client and official of the standard chartered banks by using a questionnaire with both open and closed ended questions.

While the secondary data were acquired from related literature like, research reports, economical journals, textbooks, Newspapers and other related reports, to fill up the gaps. The data collected included demographic data, information on interest rate, borrowing and investment.

3.5 Sample Size and Sampling

The study covered a sample frame of one bank and sample size of 40 respondents was obtained. The study on the impact of interest rate on borrowing and investment to the low-income earners was done in one phase and the following activities were carried out by the researcher; using an authority letter from the university, the researcher reached out to the respondents using simple random sampling strategy but purposively in that only clients and officials of standard chartered bank were selected since they would give reliable information. The reason for employing this technique was that not all clients borrow from this bank (Standard Chartered), so the researcher applied her knowledge in selecting sample units that she thought had the information needed. The researcher carried out the discussion with the respondents using questionnaire.

3.6 Tools and Data collection Methods

Data was collected using self-administered questionnaire. This aided other tools like Papers and pens. The researcher used face-to-face interviews using open and ended questionnaire to get information from the respondents. The researcher also used focused group discussions to get additional information to supplement the findings.

3.7 Data. Analysis

The data collected were analyzed using statistical techniques with the aid of a computer. The data was coded and tabulated through cross tabulations and frequencies generated that were used in different evaluations on variables of interest.

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CHAPTER FOUR

PRESENTATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This involves the presentation and discussion of the findings in terms of general sample characteristics and study objectives. The study is aimed at establishing 'The impact of interest rate on borrowing and investment to the low income clients of Standard Chartered Bank.

4.2 Demographic Characteristics of the Respondents

In the study, 40 respondents were selected among 5 branches of Kampala which include 8 city branch, 8 Speke road branch, 8 William Street, 8 Kikuubo and 8 Nakumatt Oasis mall branch all of which were selected randomly. The findings in this report were based on the varying views on the effects of interest rate on borrowing and investment among the low-income clients of Standard Chartered Bank Kampala district.

Table 4.2.1: Number of Respondents according to Sex

Respondents	Frequency	Percentage
Male	33	84.5
Female	7	15.5
Total	**40**	**100**

Source: primary data

From table 4.1 above, 84.5 percent of the respondents are male because most of the male respondents had something they were doing for themselves. This implies that Standard Chartered Bank is dominated by male clients while the 15.5 percent of the total sample size were female respondents because most of the female didn't have enough money for saving. This implies that there are

less female clients in Standard Chartered Bank hence Standard Chartered Bank is widely regarded as a bank for the men.

Pie chart 1

Number of respodents according to Sex
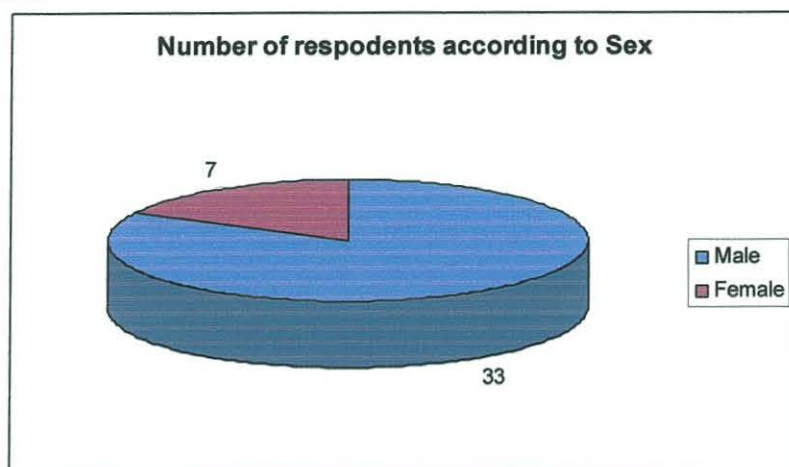
Table 4.2.2:   Showing the age of the respondents

Respondents	Frequency	Percentage
Between 18 – 25	8	11
Between 26 – 30	10	38
Between 31c – 50	17	43
Between 51 – 80	5	8
Total	**40**	**100**

Source: primary data

From table 4.2.2 above, 11 percent of the respondents were between the age of 18 and 25 because most of the people in this age group have not worked for so long in order for them to have enough money to save. This implies that less of this age group save with Standard Chartered Bank. 38 percent of the respondents were between the age of 26 and 30 because most of the people in this age group have worked for some time and therefore have enough money to save. This implies that more of the respondents in this age group save with

Standard Chartered Bank.43 percent of the respondents were between the age of 31 and 50 because most of the respondents in this age group had better jobs and so they had enough money to save. This implies that Standard Chartered Bank is dominated by adult clients between the age of 31 and 50. 8 percent of the respondents were between the age of 51 and 80 because this is an old age group which doesn't work and so don't have money to save. Those who hold accounts at this age are retired civil servants who depend on pension.

Graph 1
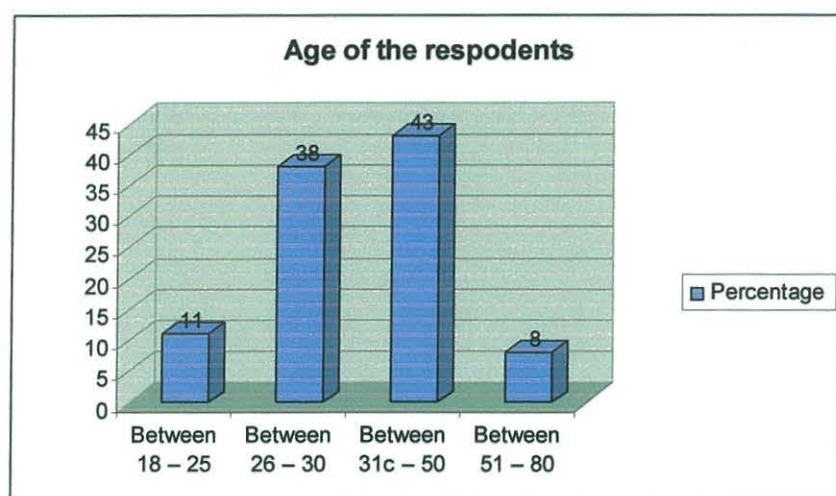
Table: 4.2.4 showing occupation of the respondents

Response	Frequency	Percentage
Employed	18	45
Self-employed	22	55
Total	**40**	**100**

Source: primary data

From the table above, 45% of the respondents who answered question are employed in the modern sectors while 55% have created jobs for themselves hence are self employed. The questionnaires showed that most of the self-employed are deal in businesses such as general merchandise, groceries,

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hardware, cloth and shoe vending, construction firms, electrical appliance among others

Pie chart 2

Occupation of the respodents

45% Employed

55% Self-employed
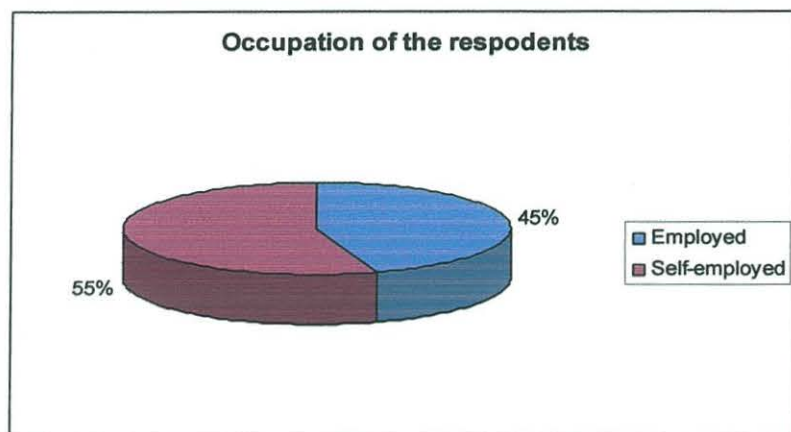
Table 4.2.3: Showing source of finance of the Respondents

Response	Frequency	Percentage
Loan from the bank	12	30
Past saving	22	55
Other resources	6	15
Total	**40**	**100**

Source: primary data

From the above table, 30 percent of the respondents acquired their capital for the business from the bank loan,55% attribute their source of finance to past saving and 15% associated their source of finance to other sources which included family funds (inheritance), charity (Zakat for Muslims), informal borrowing from friends and relative.

Pie chart 3

Source of finance of the respodents

15%

30%

55%

- Loan from the bank
- Past saving
- Other resources
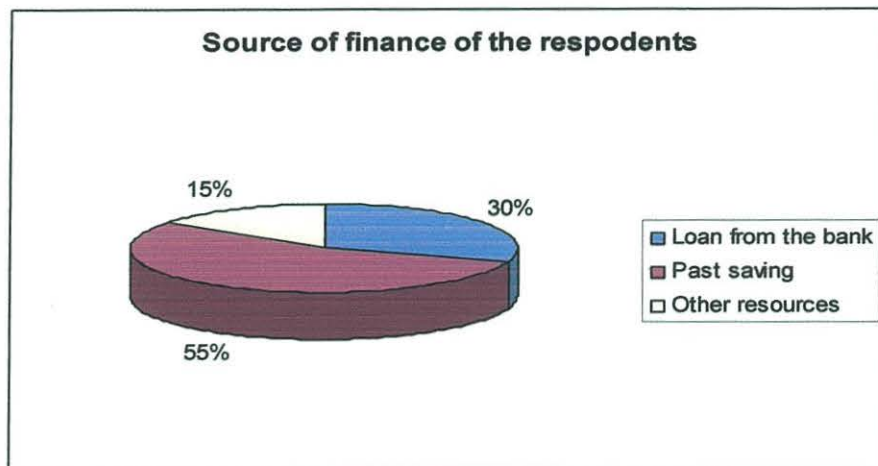
4.3   To identify the level of interest rate affect investment of the low income earners of standard chartered bank.

Response	Frequency	Percentage
High interest rate	19	45
Low interest rate	21	55
Total	**40**	**100**

Source: Primary data

High interest rates lower the business of the low income earners as customers of the Standards Chartered Bank. Low interest rates increases the business of the low income earners

Line graph 1

How level of interest rate affect investment

Percentage of low income earners

120

100

55

80

60

45

40

21

20

19

0

Frequency   Percentage

- Low interest rate
- High interest rate
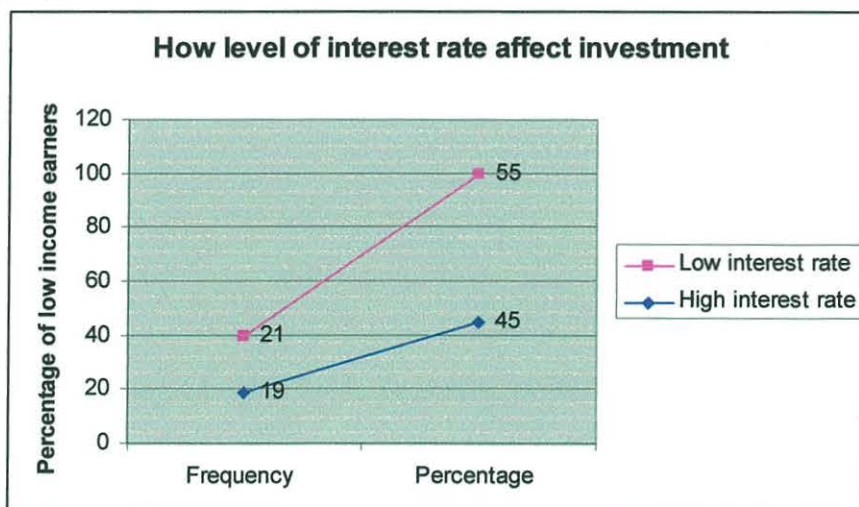
4.4 The influence of interest rates on borrowing and investment of low income earners

In order to come up with data on the interest rates both the clients and the officials of the bank were asked through the questionnaires and the interview guide respectively. The response was recorded as follows for the respective years of 2008/2009/20 10. What the levels of interest rates were in these chosen periods further they were asked to give their view about trend on affecting their borrowing and investment activities.

Table 4.4.1: Show the level of interest rate for the period 2007/2008/2009 on low income earners

Year	Interest rate
2010	18.8
2009	20
2008	22

Source: Primary data

Table 4.4.1; show that the rate of interest rate had a decreasing trend from 2008, 2009 and 2010 from 22 percent, 20 percent and 18.8 percent respectively. The interest rates however the researcher found out that these rates apply to client who borrow money below 10 million who are categorized as small business investors under small and medium enterprises (SMES). Interaction with the bank official through interview revealed that larger investment firms/companies acquire loans at a higher interest rate of 20.8% since they borrow a lot of funds and have an extended period of payment. Reaction on the rates of interest by the clients was as in the figure 4.4.2 below.

Fig 4.4.2: Perception of the interest rates on borrowing

Line chart showing respondents perception of interest rate on borrowing
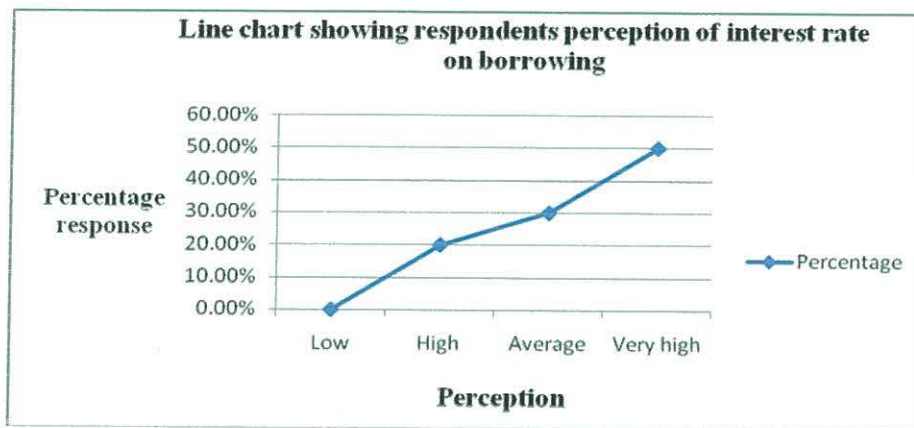
Source: Primary data

The diagram above reveals that respondents are not comfortable with the interest rates offered by standard charted bank. This is shown by a high proportionate percentage (50%) of the respondents along the curve perceive the interest rate offered on borrowing to be very high as compared to 30% and 20% for average and high respectively. No response revealed interest rates to be low.

The corresponding question on the effect of interest rate on borrowing and investment was answered in accordance to the perception response of the interest rate. It was realized that high interest rates discourages borrowing hence reducing investment as seen in table 4.4.3 below. The respondents also revealed that the pay back period for the loan was too short for them to realize good benefit from the loan. They said instead they deep down to their initial capital to pay back loan interest. Hence proposed 15% interest would be relatively fair for their investments.

Fig. 4.4.3: Reaction on the effect of interest rate on borrowing and Investment
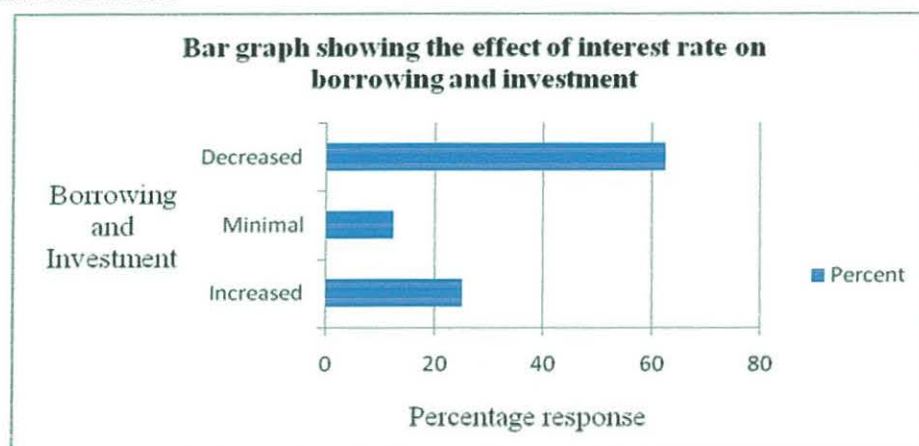
Figure 4.4.3, reveals that 62.5 percent of the respondents said that rate of interest rate reduces their borrowing capacity implying that, increase in interest rate has negative effect on the borrowing rate and subsequent investment. The implication here is that the majority of the people consider the interest rate before they take up investment loans from the bank. While 25 percent of them said rate of interest increased their borrowing rates of interest. This response could attribute to the fact that some clients are loyal in the sense that they want to expand their business despite the increasing level of the interest rate. In addition, could be because they are low-income earners and yet they have no any other alternative other than bank loan for investments. Then 12.5 percent of the respondent said that rate of interest affected them minimally implying that the effect of interest rate on borrowing and investment on these respondents is double edged. Further evidence on the effect of interest rate on investment can be shown on the figure below.

Table 4.4.4: How borrowed funds are utilized

Activity	Frequency	Percentage
Investment	36	90
Others	4	10
Total	40	100

Source: Primary data

Table 4.4.4, Show that 90 percent of the respondents used the borrowed fund for investments and these investments included business enterprises like general merchandise, groceries, hardware, cloth and shoe vending, construction firms, electrical appliance, housing estates opening up schools among others. While 10 percent of the respondents said that they used the borrowed funds for executing other duties like paying school fees among others, settling medical bills and home maintenance.

The result suggests that despite the increase in interest rate people borrow money for investments and other needs.

Bar graph 2

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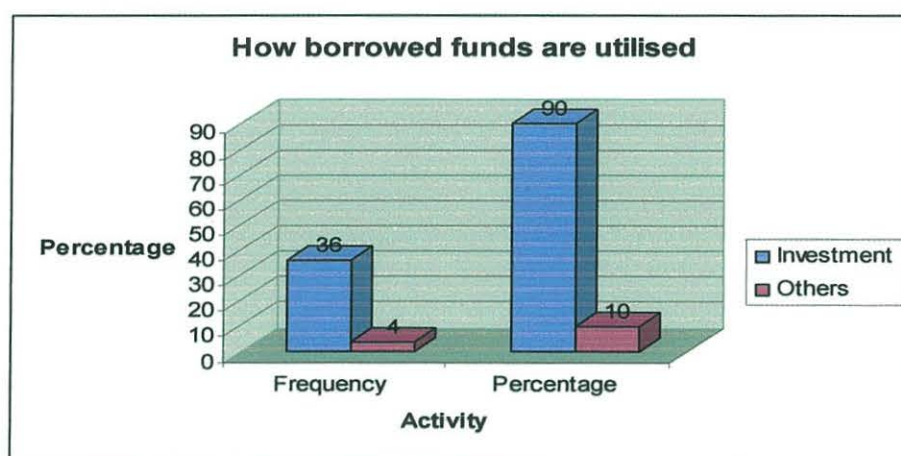
Table 4.4.5 Shows types of loans and interest rate

Types of loans	Number of customers	Interest of percentage (%)
Personal loan	15	25
Business loan	10	45
Salary loan	10	25
Other loans	5	15
Total	**40**	**100**

Source: primary data

From the field interview, it was realized that business loans offers the largest interest rates of 45% per annum compared to personal loans of 25% and salary loans, 25 % then other loans with 15% respectively. Interviews also revealed that the rate of interest rates is the factor that governs the volume of loans that the higher the interest rates, the larger the reward on the bank, the higher the propensity to give loans and vice versa. Business loans found to be higher with a high interest rate. However very few individuals go for this loan rather it is highly operated by organizations and institutions

Graph 3

A Bar Graph shgowing types of lonas and interest rates
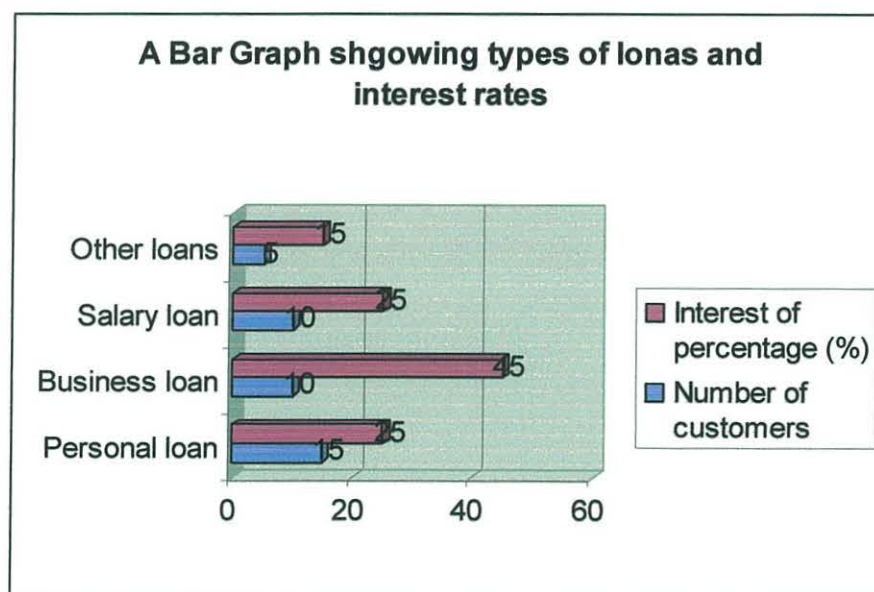
Table 4.4.6: Shows the Borrowing Capacity

Response	Number of customer	Percentage (%)
Low	20	55
Medium	15	30
High	5	15
Total	**40**	**100**

Source: primary data

From the field interview, it was realized that the borrowing capacity is high when the interest rate is low which accounts for 55% and few customers go to borrow when interest rate is medium which accounts for 30% and the borrowing capacity is low when the interest rate are high which accounts for 15%.

Pie chart 4

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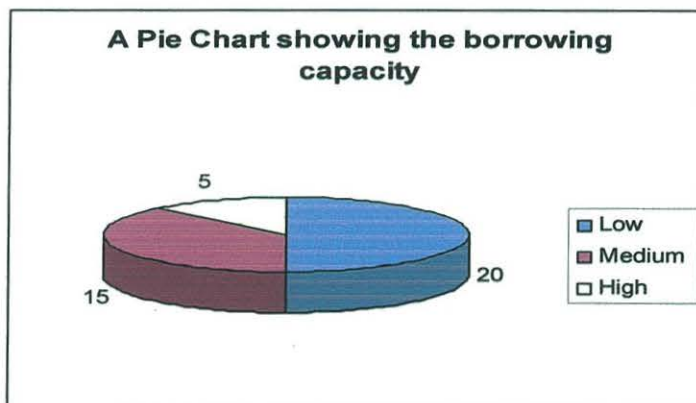
Table 4.4.7: Shows how we rate our interest rate in with those of the Market

Response	Number of customer	Percentage (%)
Low	5	12.5
High	10	25
Very high	5	12.5
Competitive	20	50
Total	40	100

Source: primary data

From the field interview, it was realized that their interest rates are highly competitive with 50% and more customers go for their loans. 12.5% said the interest rates are very high compared to 12.5% who said they are low. Then 25% said they are high.

Pie chart 5

A Pie Chart showing how we rate our interest rates with those of the Market
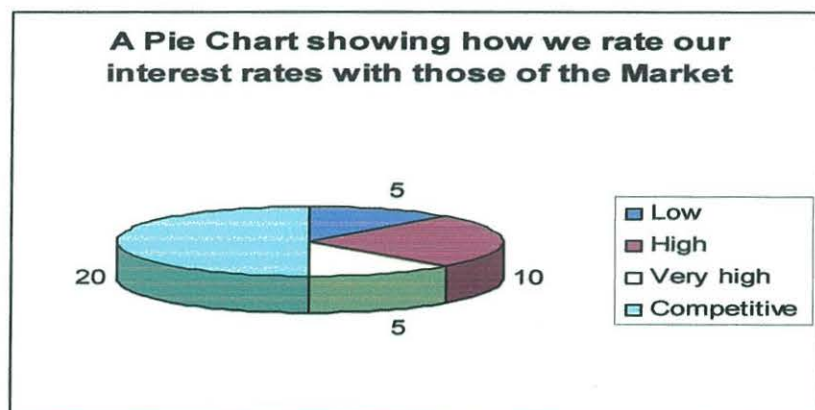
Table 4.4.8: Shows the level of recovery Standard Chartered Bank by low Income earners

Response	Number	Percentage (%)
Fairly good recovery rates	25	65
High recovery rates	10	25
Bad	5	10
Total	40	100

Source: Primary Data

From the field interview, it shows that the level of recovery by standard charted bank by low income earners is fairly good recovery with 65% compared to high recovery rates of 25%. 10% said there is bad recovery by the bank.

Line graph 3

A line graph showing the level f recovery Standard Chartered Bank by Low income earners
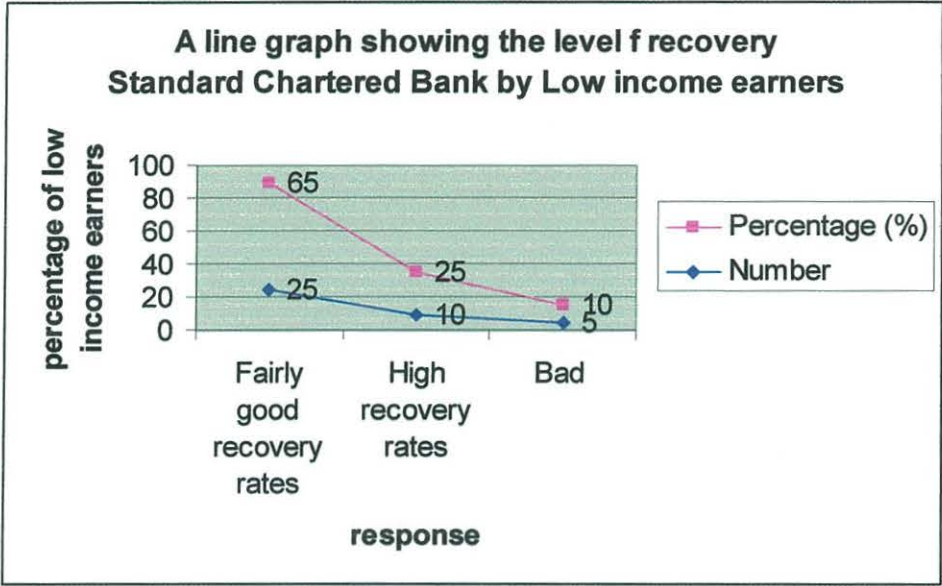
Table 4.4.9: Shows Repayment Period

Amount	Installment payment	Month
200,000	500,000 plus	4
5,000,000	500,000	10
10,000,000	500,000	20
1,500,000	500,000	25
20,000,000	500,000	30

Source: Primary Data

From the field interview, it shows that when a customer takes 200,000/= the repayment period is four months to pay a loan plus interest as amortized by the bank officials as shown in the table using reducing balancing method

compared to the customer who takes 20 million to pay the repayment period of 2 ½ years.

Graph 4

A Bar Graph showing repayment period
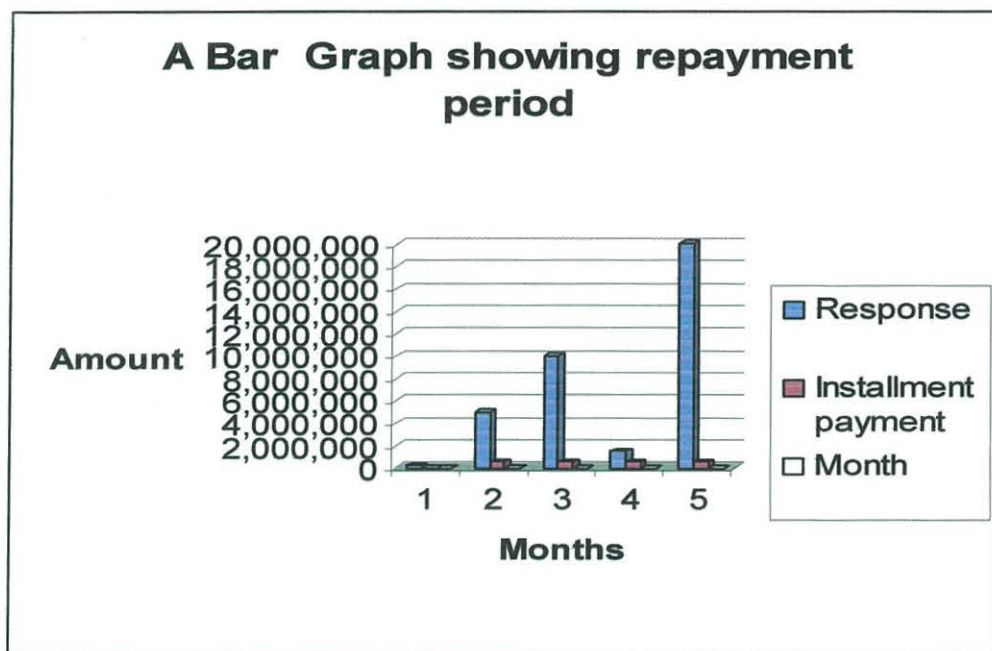
CHAPTER FIVE

SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

5.0 Introduction

In this chapter, a summary of findings, conclusion and policy recommendations were presented.

5.1 Summary of findings

The study findings revealed three major sources of funds as follows; 30 percent of the respondents acquired their capital for the business from the bank loan,55% attribute their source of finance to past saving and 15% associated their source of finance to other sources which included family funds (inheritance), charity (Zakat for Muslims), informal borrowing from friends and relative.

The study also found out that respondents are not comfortable with the interest rates offered by standard charted bank and proposed 15% interest would as relatively fair for their investments. High interest rates were realized to negatively affect investments as they reduced levels of investment by discouraging people to borrow. The study also found that people largely acquire bank loans for investment purpose.

The effects of interest rate were analyzed conclusion ached as saving is a function of interest rate, the higher the interest rate n saving the larger the marginal propensity to save and Vice versa.

5.2 Conclusion

Basing on the above findings, it is evident that there are a number of impacts of interest rate on borrowing and investment to the low income earners, specifically clients of Standard Chartered Bank. These impacts were in form of

getting the source of starting capital, the majority of the respondents had their accounts held in the micro finance institutions unlike the Standard

Chartered bank, interest rate also impacted on the people in form of acquiring loans for investment where by the majority just save with Standard Chartered bank, the other impact is that the majority run their business for customer satisfaction and the least percentage run their businesses because of the desire to expand and another impact of interest rate is that the low interest rate on borrowing encourage the majority to borrow for investment unlike the high interest rate.

These factors if noLwelliilTigated the low income earners will remain without access to loans in order for them to invest.

5.3 Policy Recommendation

Given the numerous impacts of interest rate on borrowing and investment to the low income clients of Standard Chartered Bank, after the study, the researcher came up with the following recommendations that will help the low income earners to get loans and invest in business if they are implemented.

There is need to reduce the interest rate on loans and stringent collateral security which banks require before extending their loans and also licensing more credible financial institutions that extend loans with no physical collateral security. Thus, the central Bank will be very instrumental in implementing this policy.

The government should provide the low income earners with capital through the 'Entandiikwa' scheme in order for them to start their business since they its hard for the low income earners to acquire loans from most of the banks especially Standard Chartered Bank because of the high interest rate on

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borrowing. Thus the government will be instrumental in implementing this policy.

The government should also improve on the education standards of the people by improving on the scholarship program in a way that since it implemented the Universal Primary Education, the Universal Secondary Education it should also increase on the number of scholarships at the university level in order to enable most of the people to acquire the entrepreneurial and managerial skills. The government will be instrumental in implementing this policy.

The government should also implement a minimum interest rate in the various financial institutions in Uganda in order to enable all kinds of people to acquire loans from the various financial institutions for investment hence encouraging the people especially the low income earners to develop in their businesses. The Central Bank will be instrumental in implementing this policy.

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APPENDIX A

Questionnaires

TOPIC:

THE EFFECT OF INTEREST RATE ON BORROWING AND INVESTMENT TO THE LOW INCOME EARNERS ON STANDARD CHARTERED BANK

Dear respondents,

I am pursuing Bachelors of Business Administration at Kampala International University and undertaking a research on: effect of interest rate on borrowing and investment to the low income earners on standard chartered bank, city branch

1. Gender of the respondents: Male ☐   Female ☐

2. Age of the respondents..

3. Marital status: Married ☐   Single ☐

4. Occupation...

5. Do you have business you are dealing in?   Yes   No ☐

6. If yes, what as your source of finance?

Loan from the bank   ☐

Past savings   ☐

Other source, specify...

7. If no, how do you earn a living?

....

....

8. What products do you offer?

....

....

9. How much do you earn per month?

Less than 50000

50000 — 100000

100000—200000

10. Do you require loans to provide more capital for your business?

....

11. At what interest rates does your bank lend to its customers?

....

12. How do you find the rate compared to other banks

Very High ☐   Average ☐   High ☐   Low ☐

13. Do you hold nay of the following accounts in Standard Chartered Bank?

Savings account ☐

Current account ☐

Fixed deposit account ☐

Others specify ☐

None ☐

14. In your view, do you think the level of interest rate affects borrowing of an individual?

No ☐   Yes ☐

15. If yes, how does the following level of interest rates affects borrowing?

i)   High Interest rate: High Borrowing ☐   Low Borrowing ☐

ii)   Low Interest rate: High Borrowing ☐   Low Borrowing ☐

iii) Equilibrium Rate: High Borrowing ☐   Low borrowing ☐

16. Does the prevailing interest rate encourage borrowing for your investment?

Yes ☐

No. ☐

17. Do you borrow from Standard Chartered Bank for nay other purpose apart from investment purposes?

Yes ☐

No. ☐

Thank you very much for your cooperation
Ojiambo Edwin Obanda
Candidate

INTERVIEW GUIDE FOR THE STAFF OF STANDARD CHARTERED BANK

TOPIC:

1. Which kind of accounts does your bank offer?

....

....

2. Which type of account do low income earners hold in your bank?

....

....

3. Whom do you consider s the low income earners in your bank?

....

....

4. At what rate of interest do you offer loans to your clients? (low income earners)

....

....

5. How do your clients respond to the level of interest rate while borrowing?

....

....

6. In your view, do you think the loan offered encourages the growth of business investments for the low income earners?

....

....

7. What are the main business investments for your clients?

....

....

8. Does the interest rate chosen above encourage borrowing for your investment?

No ☐   Yes   ☐

a) If yes, which one and how?

....

....

b) If no, do you mind about the level of interest rate while borrowing for investment?

No ☐   Yes   ☐

c) If yes, why?

....

....

9. Does the your bank have any special borrowing packages fit low income earners, Explain

....

....

10. What is the percentage of low income earners in your bank? (Account)

....

....

11. Do you think your bank has attended enough to the borrowing needs of low income earners?..

Explain

....

....

12. How do you rate the prevailing interest rate in the market?

Very High ☐ High ☐

Fair ☐ Extremely High ☐

13. Judging from the number of low income earners in your bank, do you think there borrowing capacity is?

Low ☐ Medium ☐ High ☐

14. To what extent have the low income earners utilized loan facilities in your bank?

Never ☐ Low Extent ☐ Great Extent ☐

15. - How would you rate your interest charges with those of the market?

Low ☐ High ☐ Very High ☐ Competitive ☐

16. What is the level of recovery in your bank by low income earners?

Bad ☐ Fairy Good Recovery Rates ☐ High Recovery Rate ☐

Thank you very much for your cooperation

Ojiambo Edwin Obanda

Candidate

APPENDIX C

BUDGET

No	Particular	Amount
1	Stationery (2 Ream Duplicating Papers)	20,000/=
2	Travel (Journey To And From Field, Movement In The Field)	100,000/=
3	Typing Charges; 50 Pages Proposal @ 500/= 80 Pages Report @ 500/=	25,000/= 40,000/=
4	Printing Charges; 50 Pages Proposal @ 100/= 80 Pages Report @ 100/=	5,000/= 8,000/=
5	Binding 3 Pcs @ 20,000/=	60,000/=
6	Subsistence Allowance 9lunch And Supper, 5,000/= For 30 Days)	15,000/=
Total	Grand Total	408,000/=

APPENDIX D

TIME FRAME

Activity	Duration
Topic Formulation and Approval	March, 2010
Preparation of the Proposal and Approval	April, 2010
Data Collection	15th April, 2010
Data Entry and Analysis	16th – 19th April, 2010
Preparation of the Report	20th April – 5th May, 2010
Binding and Submission	10th July, 2010