THE EFFECTS OF INTEREST RATES ON THE PERFOMANCE OF AFRO PLAST COMPANY LUZIRA

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR'S DEGREE IN BUSINESS ADMINSTRATION (ACCOUNTING AND FINANCE) OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I Kamulegeya Arthur declare that this research report is my original work and has never been submitted to any other institution of higher learning for a similar award.

SIGNATURE .... **DATE** 9th. Sept. 2019

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APPROVAL

 hereby certify that this report by Kamulegeya Arthur has been done under my supervision and s ready for submission to the College of Economics and Management of Kampala International Jniversity, with my approval.

ЅIGNATURE …………………………….. **DATE……………………..........**

Mr. Masembe Muzamil

University Supervisor)

DEDICATION

This report is dedicated to parents, friends and siblings for the financial support you have continuously rendered to me throughout my studies may the almighty award you abundantly.

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I acknowledge the works of my Lord Jesus Christ for the Life that He has granted me at all times especially during my studies and social life.

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ABSTRACT

The purpose of this study was to examine the effects of Interest rates on the performance of Afro Plast Company Luzira. The objectives of the study were to evaluate the effect of interest rates on business performance, to analyze the effect of interest rates on the loan acquisition by businesses and to examine the relationship between the level of interest rates and business performance. The study used both primary and secondary data in its analysis and the researcher used descriptive modes of analysis using mainly quantitative and qualitative methods to capture data. The study findings on the effect of interest rates on business performance revealed that 40% strongly agreed, 38% agreed, 10% were neutral , 4% disagreed while the remaining 8% strongly disagreed with the statement that nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive, similarly 38% strongly agreed , 36% agreed, 6% were neutral, 10% disagreed and 10% strongly disagreed with the statement that when interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current. Similarly the findings on the effect of interest rates on the loan acquisition by businesses revealed that the coefficient (0.001) from the chi-square table implied that since the P-value (0.001) is less than 0.05 the confidence level we reject the null hypothesis and conclude with the alternative that there is a significant effect of interest rate on the acquisition of loans. The implication here is that when the interest rate increases, many people will not obtain loans from financial institutions to expand their businesses hence affecting the performance and expansion of these businesses. The study recommends that the central bank should use the necessary tools to control the level of the interest rates since it affects the performance of the small scale businesses and the Government should provide finances in terms of loans to the entrepreneurs of the small businesses at reduced interest rates compared to the interest rates given by the commercial bank.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter contains the background of the study, statement of the problem, purpose of the study, research objectives, research questions, scope of the study, significance, and operational definitions of terms.

1.1 Background of the Study

When interest rates rise, banks charge more for business loans which means that businesses must use more of their earnings to pay interest on their loans which in the end affects the performance of the business by reducing the profits (Aghionet, 2008). Some business owners may decide not to start new projects or expansions during periods of high interest rates which hampers the growth of the company or the business at large.

According to (Mangeli, 2012), when interest remains low, businesses may borrow more readily and use the borrowed capital to expand the business. Low-interest loans can fund business growth and increase profitability because businesses can earn enough off of new ventures to pay for the loan interest and have money left over for profits.

Customers have to pay interest on their personal loans, home loans and car loans. the higher the interest, the less money in customers' pockets. This can reduce their ability to buy products and services, so businesses may suffer from a decrease in sales. When interest rates remain low, customers have more cash after they pay their loan payments, and they can spend this cash with businesses. This principle applies whether your customers are the public or other businesses. Both have to pay interest on their loans, so the lower the interest, the more they can buy (Veginina, 2011).

According to Lacoviella (2009), Businesses can invest their excess cash in interest-bearing accounts to make more money. During periods of high interest rates, businesses earn more from these investments. When rates are low, businesses may be more likely to use their cash for new equipment and plant improvements. While this can be good for equipment sellers and construction firms, banks lose out. Banks make their money from providing loans. When they don't get business investments to boost their assets, they can't make as much money because they have less to loan out.

The interest rates banks charge are their income after expenses. When banks don't see an opportunity to make a reasonably-high interest rate on their money, they become less likely to take risks on loans. Businesses therefore cannot borrow money for start-up and expansion expenses. Business can slow down to a crawl because there's no way to fund innovation. In addition, short-term loans to cover cash-flow problems can be hard to come by. This could cause businesses to be unable to deliver goods and services to their customers because they don't have the cash to continue operating (Kevin, 2010).

According to Denitsa (2005), Small businesses tend to operate with limited cash flow, so when interest rates rise, the additional cash needed to repay loans can be scarce. In addition, short-term loans to cover cash flow gaps may be difficult to qualify for or too pricey to afford. This could cause a host of issues. Business owners may have to delay paying their receivables, or put off investment and expansion plans, which can further slow the growth of the company.

Changing customer spending habits triggered by rising interest rates may also reduce cash flow, when consumers have to pay higher interest on personal loans, including mortgages and auto loans, they have less disposable income to buy goods and services. In a rising rate environment, consumer-driven businesses often see a reduction in sales, further squeezing cash flow. In addition, higher interest rates make it more attractive for both consumers and businesses to save excess cash rather than spend it. All that said, rising interest rates are not all bad news for small businesses. The Fed raises rates when it is confident that the economy is robust, which is of course the best overall scenario for businesses and consumers (Aghionet, 2008).

1.2 Statement of the Problem

Higher interest rates tend to moderate economic growth. They increase the cost of borrowing, reduce disposable income and therefore limit the growth in consumer spending. Higher interest rates tend to reduce the rate of economic growth and inflationary pressures. An increase in interest rates can likely have an impact on an owner's ability to grow a business. When interest rates rise, banks charge more for business loans. While small business owners with fixed rate loans may not be affected immediately when interest rates rise, company owners with loans that have fluctuating interest rates may find their loans more difficult to repay. Higher loan payments may lead to a reduction in profitability, which can make securing future funding more difficult. Without these loans, businesses may be forced to rededicate their resources away from innovation and reinvestment (Kim, 2015). Therefore higher interests have led to liquidation of many businesses in Uganda, this is because the money they would use to carry out innovations in their businesses is directed towards services the loans with high interests. Therefore it is against this background that this study intends to investigate the effects of high interest rates on the performance of businesses.

1.3 Objective of the Study

The objective of the study was to examine the effects of high interest rates on the performance of businesses.

1.4 Specific Objectives

The study was guided by the following objectives;

i. To evaluate the effect of interest rates on business performance
ii. To analyse the effect of interest rates on the loan acquisition by businesses
iii. To examine the relationship between the level of interest rates and business performance

1.5 Research Questions

The study seek to answer the following questions:

i. What are the effect of interest rates on business performance?
ii. What is the effect of interest rates on the loan acquisition by businesses?
iii. What is the relationship between the level of interest rates and business performance?

1.6 Scope of the Study

1.6.1 Content Scope

This study was discussed the effect of interest rates on business performance, the effect of interest rates on the loan acquisition by businesses and the relationship between the level of interest rates and business performance.

1.6.2 Geographical Scope

The study was carried out in Afroplast Company located in Luzira along port-bell road in Kampala district.

1.6.3 Time Scope

The study focused on the time framed 2012-2018 because this is the period that provided information that is current, and the study was carried out between February to August 2018.

1.7 Significance of the Study

The study will be important to the organization where it is carried from since it will reveal the effects of high interest rates on the performance of businesses, therefore they will use the study findings to improve on their business performance.

The study findings will be important to the policy makers, since they will base on these findings to set laws governing financial institutions lending rates so as to protect the businesses from liquidating.

The study findings will be of importance to the future researchers since they will use the study findings as the literature especially while carrying out research on a similar topic.

The study will equip the researcher with knowledge concerning the effect of high interest rates on business performance.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.0 Introduction

This review of literature is intended at giving an explanation of the effects of interest rates on the performance of Afroplast Company Luzira. The literature reviewed will relate on the effect of interest rates on business performance, the effect of interest rates on the loan acquisition by businesses and the relationship between the level of interest rates and business performance.

2.1 Related theoretical framework

2.1.1 The Expectations theory of Interest Rate

The expectations theory of the term structure of interest rates gives an explanation on the relationship between the yield and maturity for money and capital market investments. (Lutz, 1940). This theory explains the correlation between short and long-term interest rates. The theory states that the expected return from holding a long term money or capital market investment (from now investments) until maturity is equal to the expected return from rolling over a series of short term investment with a total maturity equivalent to that of the long term investment.
The underlying assumption of the expectations theory is the rational expectations hypothesis. The hypothesis states that investors form their expectations of future interest rates rationally. This implies that: (1) there is a stable economic environment. (2) Investors understand this environment and are able to make predictions about future interest rates, that (3) are not systematically wrong and (4) are formed using all public information available at that time. This means that market participants do not systematically over- or under-valuate the current and future interest rate (Cook & Hahn, 1990).

2.1.2 Keynes Theory of Interest rate

According to Keynes, the market interest rate depends on the demand and supply of money. It is the price which brings into balance the willingness to hold wealth in the form of cash with the supply of cash. The author of the General theory of Employment, Interest and Money puts forward the rate of interest as „the reward for parting with liquidity for a special period of time (Keynes, 1960). According to Keynes, the key variable determining the interest rate is the form in which the command over future consumption is reserved, i.e. the fact whether an individual wishes to hold it in a liquid form (cash), or if he or she is ready to part with control of cash for a specified period of time.

2.3 The effect of interest rates on business performance

Kevin Johnston (2018) In his study findings in south Africa revealed that No matter how well the business functions, it depends on the economic environment to be healthy and prosperous. Economic influences such as interest rates can help company's or hold it back. In addition, he added that once the firm understands the context for running the business, it can adjust to interest rate moves to protect themselves from negative effects and take advantage of positive ones.

Business Profitability; Broadhurts (2014) in his study revealed that when interest rates rise, banks charge more for business loans. This means the firm will need to use more of the earnings to pay interest on their loans, which decreases profits. The firm might decide not to start new projects or expansions during periods of high interest rates, which hampers the growth of the company. When interest remains low, businesses can borrow more readily. Low-interest loans can fund business growth and increase profitability because businesses can earn enough off of new ventures to pay for the loan interest and have money left over for profits. Customers have to pay interest on their personal loans, home loans and car loans. Similarly, Cargill (2009) adds that the higher the interest, the less money in customers' pockets. This can reduce their ability to buy products and services, so businesses may suffer from a decrease in sales. When interest rates remain low, customers have more cash after they pay their loan payments, and they can spend this cash with businesses. This principle applies whether your customers are the public or other businesses. Both have to pay interest on their loans, so the lower the interest, the more they can buy.

Interest rates on Loans; Bernstein (2012) in his study on the usage of funds in United Kingdom revealed that a certain sum of money paid or received is known as interest rate. Creditor receives interest when they lent money and debtor pays interest when he borrows. The amount of interest that a creditor receives is a percentage of the amount of money he lent and in the same way, the amount of interest that a borrower pays is a percentage of the total amount he borrowed. Businesses obtain loans from a person which requires them to pay interest (Broadhurts, 2014). Typically, it is the job of bank to provide the loans and accept the deposits from the business undertaking, here question arise that to provide loans, from where bank obtain money? Banks encourage the public to deposit their money by offering interest rates which motivate the public to make deposits by opening their different accounts with the banks and banks use their funds for making loan to other people. Practically, when bank makes loan to a customer it charges higher rate but pays lower rates to the depositor. With this difference of interest rates bank makes profit in return of giving these services. To earn much profit bank charges higher interest rate as much as it is possible and on the other hand pays lower rate as much as possible. However, to attract the same borrower and depositor banks are competing to each other which maintain the interest rates in comparable range (Buckley, 2010).

Due to the competition among the banks interest rates to businesses remains in a comparable range. For tracking and managing the significant development interest rate is to be addressed a significant economic problem (Broadhurts, 2014). On the other hand, in the profit and loss statement interest rate also engage in managing the interest component entirely (Bernstein, 2012). In addition, the interest rate also summarizes the way of whole business debt summary, including the receipt of debt, excellence of the debt, expectations of visions participation proportions and fixed floating mixture of the debt (Avery, 2011).

Interest rates are applied in various shapes like there are different interest rates for saving account and for taking loan. Central bank sets the interest rate to control the interest rate that transforms the interest rates to control the lively of financial system. But the results of the variation in the interest rate are not constantly the projected results (Cargill, 2009). Central bank plays many important roles in the economy but the major task of it is to regulate the interest rates which affect the financial system. For instance, this can be completed by regulating the interbank loan rate. The rates that businesses' present for saving and lending are influenced by interbank interest rates and banks as result present their rates which are below or above from the interbank rate in certain percentage. In this way businesses earn their profit (Broadhurts, 2014).

The Economic environment; According to Cargill (2009), No matter how well a business functions, it depends on the economic environment to be healthy and prosperous. Economic influences such as interest rates can help your company or hold it back. Once you understand the context for running your business, you can adjust to interest rate moves to protect yourself from negative effects and take advantage of positive ones. Interest rates can be a signal to either expand your business or pull it back.

Josephine (2015) asserts that the cost of borrowing affects the performance of any business undertaking. When interest rates rise, banks charge more for business loans. This means a firm need to use more of its earnings to pay interest on loans, which decreases profits. A firm might decide not to start new projects or expansions during periods of high interest rates, which hampers the growth of the company. When interest remains low, businesses can borrow more readily. Low-interest loans can fund business growth and increase profitability because businesses can earn enough off of new ventures to pay for the loan interest and have money left over for profits.

Firms have to pay interest on their loans and car loans. The higher the interest, the less money in firm's pockets. This can reduce their ability to buy products and services, so businesses may suffer from a decrease in sales. When interest rates remain low, customers have more cash after they pay their loan payments, and they can spend this cash with businesses. This principle applies whether your customers are the public or other businesses. Both have to pay interest on their loans, so the lower the interest, the more they can buy (Harev, 2015).

Fabozzi (2008) asserts that businesses can invest their excess cash in interest-bearing accounts to make more money. During periods of high interest rates, businesses earn more from these investments. When rates are low, businesses may be more likely to use their cash for new equipment and plant improvements. While this can be good for equipment sellers and construction firms, banks lose out. Banks make their money from providing loans. When they don't get business investments to boost their assets, they can't make as much money because they have less to loan out.

According to Fabozzi (2008), The interest rates banks charge is their income after expenses. When banks don't see an opportunity to make a reasonably-high interest rate on their money, they become less likely to take risks on loans. Potentially, that might mean you'll have trouble borrowing money for start-up and expansion expenses. Business can slow down to a crawl because there's no way to fund innovation. In addition, short-term loans to cover cash-flow problems can be hard to come by. This could cause businesses to be unable to deliver goods and services to their customers because they don't have the cash to continue operating.

Interest rate is a price that relates to present claims on resources relative to future claims on resources. It is the price a borrower pays in order to be able to consume resources now (Gitman, 2014). Correspondingly it is therefore the price that a lender receives to forge current consumption in order to take advantage of consumption of resources at some point in future. In he real world, price changes are anticipated and this anticipation is part of the process that determines interest rates (Gitman, 2014).

According to Dolde (2006) interest rates represent the cost of borrowing capital for a given period of time. Due to the fact that borrowing is a significant source of finance for many firms, prevailing interest rates are of much concern to many firms because of indexing of interest rates in some borrowing arrangement; interest rates continue to affect a firm for the whole period that the borrowing arrangement is outstanding (De cleene & Wood, 2014).

In Kenya the mortgage debt to GDP ratio is 2.48% which is low by international standards (CBK Mortgage Finance, 2010). This is characterized by low level of incomes on the majority population thus they are unable to meet the threshold to access mortgages, which means that only a small portion of the population has mortgages. Due to the low levels of income, the mortgages in the market tend to be mainly of high value to tend to the small high income bracket (Kilongosi, 2011). Currently to access a mortgage facility one requires attains a certain level of salary threshold. With the average loan size at 4.4.milion this would indicate that one would require a net salary of KSH 100,000 net to service the mortgage for 15 years at 20% interest. (Central Bank of Kenya Mortgage Finance Survey 2010). This is way beyond what an average professional earns which means they cannot qualify even for the most basic mortgage product, thus eventually having an impact on the number of people who take up mortgages and in turn volume of the mortgage market (Kilongosi, 2011).

All investors when making investment decisions are concerned on how inflation will affect investment returns, more so mortgage firms who have long term investments. The rate of inflation is of particular importance to investors and lenders making or purchasing loans made at fixed rate of interest over long periods of time. Hence when deciding whether or not to make such commitments, lenders and investors must be convinced that interest rate commitments are sufficiently high to compensate for any unexpected loss in purchasing power during the period that the investment or loan is outstanding; otherwise, an inadequate real return will be earned (Ndirangu, 2014).

2.2 The effect of interest rates on the loan acquisition by businesses

According to Kilongosi (2011), to check the effect of changes in interest rate on businesses profitability in Pakistan, number of studies has been conducted in the past decades. In this section researchers will describe the profitability of businesses and interest rate with the review of previous literature on this topic. Interest rate is described the certain amount of cash compensated by someone on the utilization of funds for a specific time period. Moreover when a debtor compensates to creditor with the amount of cash for the utilization of creditor's funds for a specific time period, is called interest rate (Jegadecsh, 2013).

Creditors charge the interest rate as percentage of the sum of funds lent. Similarly, the institutions like bank for the utilization of money pays interest rate to the depositor. Profitability of bank is described as income by interest or non-interest and after tax profits which are computed as a amount of income (both interest & non-interest) after the subtraction of provisions and operating costs (Jegadecsh, 2013).

In our routine life, interest rate plays an important function. It can considerably influence purchasing power of people. Therefore, as depositor it is essential to focus on these trends in interest rate because the common trends in interest rate can have a major influence on savings of people. The major variation in these trends makes it essential to examine the existing investment opportunities and potential opportunities. The changes in interest rate have significant impact on banks. The major part of bank's revenue comes from the difference in the interest rate that it charges from and pays to customers. Previously, in the businesses' operations interest rates have become slight element. To accomplish the stability in the overall economy by managing foreign trade rates and by controlling the inflation, the SBP uses interest rate as a tool (Ndirangu, 2014).

According to Ndirangu (2014)., An interest rate is based on the amount of money a lender, such as a bank, lends to a borrower. In most instances, the interest rate is calculated as an annual percentage based on the outstanding loan. Many aspects of the U.S. economy are judged based on the prevailing interest rate. If you're a business owner, you must understand the major ways in which interest rates affect and influence how your company operates.

According to (James, 2010), When interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current, the less disposable income they will have to spend on products and services. If you own a business that deals in luxury products or services, you may be hit harder by a rise in interests rates than a company providing basic staples, because luxury items are usually the first thing consumers eliminate when they have less disposable income (Ndirangu, 2014).

Nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive. Typically, these are long-term debts that are going to take years for you to pay off, so any increase in the interest rate on those loans means you're going to carry the debt longer and pay more money. In addition, higher interest rates mean it will be more difficult to take out new short-term loans to help pay for unexpected expenses or to expand your business when necessary. This can short-circuit the growth of your company for months or even years (Ndirangu, 2014).

According to Kilongosi (2011), When interest rates are low, consumers tend to borrow more money, and they put that money back into the economy by spending more on products and services. Lowered interest rates mean the cost of paying back a loan is less than it used to be, and then the savings people gain creates more disposable income. For the past few years in the U.S., low interest rates have helped homeowners refinance their mortgages to more beneficial rates. This allows them to pay less per month for their house loan, freeing up money to buy more products and services from local businesses.

Low interest rates can spur business expansion and growth. Low interest rates make it much more beneficial for you to take out new loans to invest in the expansion of your business. Locking in a lower interest rate means your loan will cost you less in the long run. You may also be able to refinance some of your outstanding loans during a period of sustained low-interest rates, helping to stabilize your debt load. When rates are low, it also means you can take the available cash your business generates and place it in high-yield accounts (Ndirangu, 2014).

Interest rates affect all businesses, large and small, and interest rates typically fall during a recession. There are several reasons for this. One is that the United States Federal Reserve uses its financial tools to nudge the rates down. Theoretically, the basic law of supply and demand also kicks in. Ultimately, it is the consumers and business borrowers who determine how much interest they are willing to pay to borrow money (Kilongosi, 2011).

One tool used to drop the interest rate is the Federal Funds Target Rate. This rate, referred to as the FFTR, is set by a branch of the Federal Reserve called the Federal Open Market Committee. The FFTR is the rate that financial institutions, such as banks, charge when lending to each other in the overnight market. When the committee wants to increase spending and stimulate the economy, it lowers this rate. Conversely, the Fed raises interest rates to cool down an overheated economy, says Chris Costanzo, a Houston-based chartered financial analyst (Kilongosi, 2011).

Similarly Jegadecsh (2013) asserted that Another tool the Fed uses to drop interest rates is the buying of United States Treasury Securities, such as bonds. By increasing its purchases of bonds and other securities, it drives up the demand for these products and pushes up the price. Lee McPheters, a research professor and director of W.P. Carey School of Business at Arizona State University has said that when the price of securities increases, the fixed return as a percent will be lower.

2.3 The relationship between the level of interest rates and business performance

According to Harev (2015), the long and the short of the interest rate rise is that businesses on the whole will be more stretched. The cost of borrowing, and therefore business loans, will be higher. Businesses will also be under growing wage pressure, as the theory behind the interest rate rise is to slow down inflation, which in turn should increase wages. In terms of recruitment, it could mean that companies are more hesitant to make new hires. This is especially the case if they're worried that output will be down. However, many companies will have anticipated this rise ahead of time. Those businesses that looked ahead and forecasted the rise should therefore have budgeted, or amended their business plans, accordingly (Harev , 2015).

According to Del Boca (2011), For those businesses that look ahead and amend their business plans accordingly, there will still be room within the budget for investment, recruitment and growth. Many businesses are also saying that the impact at the moment is minimal, and that they can plan ahead for subsequent rises which are scheduled to take place between now and coming years. To make businesses stable requires stable macroeconomic environment which adds to efficient and effective growth of savings and investment decision. The performance of businesses particularly in the areas of monetary policy, transparent fiscal policy and financial stabilization should be supported by macroeconomic measures (Del Boca, 2011). State bank of Pakistan plays an important role in the efficient and effective growth of economy by providing guidelines to the financial institutions thus facilitating the investors and mobilizing the resources of the economy for development in the country. The capability to predict and to avoid the risk to fulfil the losses due to the arisen risk is essential for the success of banks. The cheapest source of funding for competitive banking institution is profit and it is the major requirement of a banking institution. The rising competition in financial market makes it necessary for the success of banking industry. These key facts are the reasons to focus on the present issue of banks profitability. These key facts are influencing the efficiency and effectiveness of banks to handle their portfolios like assets and liabilities to attain profitability and discover the areas where it might have potential room for increasing their profitability.

De cleen Wood, (2014) asserts that mainly in operations of businesses, banks plays an important role and their efficiency can also influence the economic growth performance of the businesses. As banks provide financial services to its customers who are different from other firms and as a reward banks charge interest. Conversely most funds are provided by depositors and they also receive interest. During the last decade there has been an increasing trend. The borrower or depositor or both would be affected by an increase in the spread. The shortage of alternative opportunities of financial intermediation intensifies the bad impact of spread. For example, based on monetary policy if the state bank of Pakistan changes interest rate then the changes in the interest rate will influence the cost of capital and as a result the investment decision and level of consumption will be affected hence affecting business performance (Crosbie, 2013).

Ndirangu, (2014) adds that when the interest rates to depositors decrease and due to that if spread increases then it will discourage the savings and on the other hand, if interest rate to depositor increases then it will badly affect the investment by different business me. That's why there are important implications of these changes in the interest rate on the economy. In the banking system the impact of interest rate changes on the profitability has been a significant issue. As compared to other institutions banks are more sensitive to the changes in the interest rate. In participating, the investment crisis and saving the experience of bank to interest rate risk has been argued the significant issue.

Study's by Nyandemo (2012), revealed that, the fee paid by someone for the use of someone else's money is known as interest. It is received when money is lent and paid when money is borrowed. When the borrower pays off the loan, he has to pay the principal amount he borrowed as well as the amount of interest occurred on that principal. Moreover, when someone gives up the right to someone to spend his money and as reward received some compensation is called interest. By ignoring the interest, investors wouldn't be interested to postpone their spending as well as lender to lent money. According to (De cleene & Wood ,2014), Usually interest rate is expressed in annual percentage. For example for one year someone borrows Rs. 100 and interest rate is Rs. 10 percent on annual bases. It mean when he pays off the loan he has to pay the principal amount Rs.100 and extra Rs. 10 as an interest. It's very easy to compare the Interest rate charged on different kinds of loans and even the rates that are used in different countries because interest rates are usually expressed as annual percentage.

2.4 Summary of the Literature

In summary on the literature reveals that no matter how well the business functions, it depends on the economic environment to be healthy and prosperous. Economic influences such as interest rates can help company's or hold it back. In addition, he added that once the firms understand the context for running the business, it can adjust to interest rate moves to protect themselves from negative effects and take advantage of positive ones. Similarly there is a relationship between interest rate and performance of businesses since when the interest rate is high the costs of borrowing also increase which affects the performance of businesses in any economy.

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter explains the methodology that was used in the study thus it presents the research design, area of study, population of study and sampling procedure, Quality control of instruments of data collection , Research procedure, Reliability of instruments of data collection, Validity of the instruments of data collection, data collection methods, presentation and analysis.

3.1 Research Design

This study used a case study research design using a descriptive and analytical method. The quantitative approach was used to quantify incidences in order to describe current conditions and to assess the objectives under study. The qualitative approach was used to explain the events and describe findings using interview guide and documentary analysis. All this enabled the researcher to gain in-depth information that was used to find solutions for the research questions of the study.

3.2 Population of the study

Amin (2005) defined Population as all cases targeted for the study. The study group included the Afroplast managers, accountant, marketiers and other staff members who were selected to participate in the study making a total population of 100 people from which a sample of 50 people were selected.

3.3 Sampling Design

3.3.1 Sample size and Determination

The study comprised a sample of 50 respondents who were selected using purposive sampling technique. A sample of 50 respondents was selected to represent the views of the entire population using the formula below by brewer (2003).

Respondents

Where,

n = the sample size,

N = the sample frame

α = the margin of error (10%)

3.3.2 Sampling Techniques and Sampling methods

The respondents were selected using different sampling techniques and methods as shown in the table below.

Table 3.1: showing Sampling Techniques and Sampling methods

Respondent	Population	Sample	Sampling Technique
Managers	4	4	Purposive sampling
Accountants	3	3	Purposive sampling
Marketiers	33	23	Simple Random sampling
Other staff	50	20	Simple random sampling
Total	100	50	

Source: Researchers Own Construction

3.4 Data Source

The study contained both qualitative and quantitative data from primary and secondary sources.

3.4.1 Primary Data

Primary data was obtained using questionnaires which were given to the company's managers, accountant, sales executives and other staff members , since they have information that suites the study and this mainly captured qualitative data.

3.4.2 Secondary Data

Secondary data was got from published documents, magazines and the reviewed literature by other researchers and this mainly included quantitative data.

3.5 Data Collection Methods

3.5.1 Interview Guide

Kothari (2004) defined an interview guide as a list of questions the researcher asks the participants during the interview. The interview guide was given to the study participants. The interview guide was used because it provides a researcher with detailed information concerning the topic under study.

3.5.2 Questionnaires

According to Amin (2005), a questionnaire refers to a set of printed or written questions with a choice of answers, devised for the purposes of a survey or statistical study. The researcher employed structured questionnaires to all the study participants. The questionnaire was used because they save time for interaction with the respondents since it contains closed ended questions.

3.6 Research Instruments

3.6.1 Questionnaires

The researcher administered semi-structured questionnaires to each respondent. The researcher designed a questionnaire with both open and closed ended questions. Self-administered questionnaires were given to respondents. This was used to generate both quantitative and qualitative data on the selected specific objectives. Questionnaire method was employed because it saves time of interaction between respondents and the interviewer and the respondents give precise and concise answers because of the closed ended questions.

3.6.2 Interview guide

Structured face to face Interviews with individual workers and some clients was used as a tool of data collection because it provides the researcher with first hand and relevant information from preferred groups of respondents. Secondary data was got from text books and from the internet. It was used because it allows respondents to describe what is important to them and useful for gathering quotes and stories as supported by (Amin, 2005).

3.7 Data Quality control

3.7.1 Validity of the Instrument

Validity is the ability of the instrument to produce findings that are in agreement with theoretical or conceptual values (Mugenda and Mugenda, 2003). According to Haughes (2013), validity refers to appropriateness of the instrument. Content validity measures the extent to which the content of the instrument corresponds to the content of the theoretical concept it is designed to measure, the content validity index of the instruments was determined by giving a list of objectives, research questionnaires and interview guides to the university supervisor to evaluate each item in the questionnaire and interview guide on a scale ranging from very relevant, quite relevant to relevant. It was then calculated using the formula as follows:

$$CVI = \frac{VR+QR+R}{N}$$

Where CVI is 'Content Validity Index', VR is 'Very Relevant', QR is 'Quite Relevant', R is 'Relevant' and N is the total number of items in the questionnaire. When the CVI is 70% it implies that the instrument is capable of providing information which can answer about 70% of the research questions. The minimum deterministic value is 50% for the instrument to be considered fit and valid. The purpose of pre-testing the instruments is to identify deficiencies in the instrument, limiting the researcher's bias and minimizing vagueness.

3.7.2 Reliability of the Instrument

According to Norland (2009), reliability refers to random error in measurement. It indicates the accuracy or precision of the measuring instrument. The researcher pre-tested the instrument to determine its consistency in terms of the likely duration of time that could be taken while answering the questionnaire, clarity of the questions, test of logical flow and whether the questionnaire could be reliably self-administered. The researcher used one respondent from each of the categories of the study population.

After pre-testing the instrument, the researcher run the statistical test using SPSS to obtain the Cronbach coefficient Alpha (a) to determine the reliability of the instrument and if the Cronbach coefficient Alpha is greater than 0.5 (Alpha >0.5), it implies a high level of reliability of the instruments (Amin, 2005). The respondent selected for this test will not be used for data collection.

3.8 Research Procedure

The researcher obtained an introductory letter from school of management and entrepreneurship requesting Afroplast company Luzira to allow the researcher to use the company as a case study. The researcher had a university identification card to ensure the respondent that he is a university student of Kyambogo University.

Then the researcher received a letter of acceptance from Afroplast and then after appointment with respective respondents were made.

ıen the researcher designed questionnaires and took them to the respondents for data collection.

9 Data analysis, Interpretation and Presentation

.9.1 Qualitative Data analysis

he qualitative data from the interview responses and from documentary review were analyzed sing the thematic procedures. This involved organizing the statements and responses (through ummaries, coding and testing out main study themes, data displays through graphs, charts and ext) and useful conclusions and interpretation were generated basing on patterns and xplanations of the study findings and research objectives (Trochim, 2006).

3.9.2 Quantitative Data analysis

Quantitative data was analyzed in three stages thus; univariate, bivariate and multivariate stages. The univariate analysis was carried out to generate information about demographic and socio-economic variables in the study. The information was presented in form of descriptive statistics (i.e. frequency tables, charts and graphs).

3.10 Ethical Consideration

The researcher was bearing a university identity card during data collections which were used to introduce the researcher before the respondents. The researcher did not ask the names of the respondents but instead gave them numbers to distinguish them from one another.

The researcher informed the respondents of the confidentiality of the information they give. And the information given was to be strictly used for study purposes.

The researcher was bearing an introductory letter from the school of management to introduce him to the concerned authorities.

3.11 Limitations and Delimitations to the Study

The researcher found a challenge of some respondents refusing or declining to answer some questions or all the questions especially for fear of disclosing the firm's information, this is because many organizations treat their data confidential. But to overcome this challenge, the researcher informed the respondents that all the data given was to be treated confidential.

The researcher found a challenge of not finding some of the respondents who were included in the study but to overcome this challenge, the researcher gave the questionnaires to the staff that was found at the workplace.

The researcher found a challenge of inadequate funds to be used in carrying out this process of data collection but to overcome this challenge, the researcher solicited some funds from the parents.

CHAPTER FOUR

PRESENTATION, INTEPRETATION AND DISCUSSION OF THE FINDINGS

4.0 Introduction

This chapter presents the interpretation and discussion of the findings as reviewed in the literature and specific objectives. It summarizes the key issues from literature, identifies any new inferences and insights.

4.1 Response Rate

Table 4. 1: Showing Response rate

	Questionnaire		
Respondents	**Issued**	**Received**	**Percentage**
Managers	18	9	18
Accountants	25	15	30
Marketiers	17	10	20
Other staff	40	16	32
Total	**100**	**50.0**	**100.0**

Source: Primary Data (2019)

The table above indicates that of the 50 questionnaires which were given to the respondents, all the questionnaires were re turned and analyzed.

4.1 Bio Data characteristics of respondents

4.1.1 Age of the Respondent

The study involved people of different ages, since the age of the respondent determines the validity of responses and arguments on different issues. The respondent's age are given in the table below.

Table 4.2, age of the respondent

Age of the respondent	Frequency	Percent
20 - 29	21	42.0
30 - 39	10	20.0
40 - 49	6	12.0
50 - 59	13	26.0
Total	50	100.0

Source: Primary Data (2019)

Table 4.2 shows that of the 50 respondents who participated in the study, 42 % were of the age between 20– 29 years, 10 (20%) were of the age between 30 – 39 years, 6 (12%) were of the ages between 40 – 49 years, 13 (26%) were of the ages between 50 - 59. The observation here is that a larger proportion was of the age between 20 – 29 years.

4.1.2 Gender of the respondent

The researcher was interested in knowing the gender of the respondents that participated in the study and the results are shown in the chart below.

Table 4. 3, respondent's sex

Sex	Frequency	Percent
Male	28	56.0
Female	72	44.0
Total	50	100.0

Source: Primary Data (2019)

Table 4.3 indicates that of the 50 respondents, who participated in the study, 56% were males and the remaining 44 % were females. The observation here is that a larger proportion of the respondents were males. This is because many organizations prefer employing males to females because females are susceptible to maternity leave which affects the normal operation of the hospital.

4.1.3 Education level of the respondent

The researcher was interested in establishing the education level of the respondent because the higher the education level of an individual, the higher and intelligent a person is in arguing on different issues. The results on education level are shown in the table below.

Table 4.4, Education level of the respondents

Education level of the respondent	Frequency	Percent
Diploma level	15	30.0
Masters level	13	26.0
Degree level	12	24.0
Phd level	10	20.0
Total	50	100.0

Source: Primary Data (2019)

Table 4.3 Portrays that of the 50 respondents involved in the study, 30 %(15) were diploma holders, 13% (26) were of Masters level, 12% (24) were of degree level while the remaining 10% (20) were Phd holders. The observation here is that a larger percentage of the respondents were of diploma level and the least were of Phd holders implying that a bigger percentage of the respondents were educated thus knowledgeable enough to fill the questions that were in the questionnaires and they would reasonably argue on the topic under study.

4.1.4 The respondents marital Status

The researcher wanted to know the marital status of the respondents who participated in the study and the results are shown in the chart below.

Table 4.5, the responses on the respondent's marital status

Education level of the respondent	Frequency	Percent
Single	22	44.0
Married	13	42.0
Separated	12	10.0
Widowed	2	4.0
Total	**50**	**100.0**

Source: Primary Data (2019)

Table 4.5 indicates that of the 50 respondents, 44% of them were single, 42% were married, and 10% were separated while the remaining 4% were widowed. The observation here is that a larger proportion of the respondents were single and the least were those who were widowed.

4.1.5 The Respondents Department

The respondents in this study were falling in different departments and the researcher was interested in establishing the departments were most people were from and the results are shown in the table below.

Table 4.6: Category of respondents

The Respondents Department	Frequency	Percent
Administration Department	11	22.0
Store controllers	16	32.0
Procurement	18	36.0
Human Resource department	5	10.0
Total	**50**	**100.0**

Source: Primary Data (2019)

The table 4.3 above shows that 22 %(11) were from Administration department, 32% (16) were from the store controlling departments, 36% (18) were from the Procurement department while he remaining 10% (5) were from the Human resource department. The observation here is that a arger proportion of the respondents were from the procurement department and the least were from the Human Resource department.

.1.6 Period the respondent has spent working in the hospital

The researcher wanted to know the period the respondent had spent working or dealing with Afroplast. This is because the longer the period one spends in a company, the more nowledgeable about the issues that happens inside the organization and therefore the responses n the time period is shown below.

Table 4. 7: the responses on the period spent by the respondents working with the Hospital

Period spent by the respondent Working with the organization	Frequency	Percent
1 – 2 years	4	8.0
2 - 3 Years	11	22.0
4 -6 Years	19	38.0
7 Years and Above	16	32.0
Total	50	100.0

Source: Primary Data (2019)

Table 4.5 shows that of the 50 respondents, 8% had worked in the company for a period between 1 – 2 years, 22% (11) had worked with the company for a period of 2-3 years. In addition to the above 38% (19) had worked with Afroplast for a period between 4-6 years while the remaining 32% (16) had worked with the company for a period of 7 years and above. The observation here is that a larger proportion of the respondents had worked with Afroplast for a Period between 4-7 years and the least had worked with the company for a period of 1 – 2 years and these were making a negligible percentage of 8%. Implying that most of the respondents had stayed long working with the company and so they were equipped with adequate information that suite the study.

4.2 The effect of interest rates on business performance

The table below shows the responses on the effect of interest rates on business performance

Table 4. 8: The effect of interest rates on business performance

ITEMS RATED	SA		A		N		D		SD		Total
	f/50	%	*f/50*	%	*f/50*	%	*f/50*	%	*f/50*	%	
Nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive.	20	40	19	38	5	10	2	4	4	8	100
When interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current.	19	38	18	36	3	6	5	10	5	10	100
High Interest Rates Make it difficult for Businesses to Obtain Loans since it increases the costs of operation.	31	62	12	24	6	12	-	-	-	-	100
Higher interest rates mean it will be more difficult to take out new short-term loans to help pay for unexpected expenses or to expand the business when necessary	23	46	10	20	6	12	7	14	4	8	100

Source: Primary Data (2019)

From table 4.8 above, 40% strongly agreed, 38% agreed, 10% were neutral , 4% disagreed while the remaining 8% strongly disagreed with the statement that nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive, similarly 38% strongly agreed , 36% agreed, 6% were neutral, 10% disagreed and 10% strongly disagreed with the statement that when interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current. It was also discovered that 62% strongly agreed, 24% agreed while 12% were not sure on the statement that High Interest Rates Make it difficult for Businesses to obtain Loans since it increases the costs of operation. Similarly 46% strongly agreed, 20% agreed 12% were not sure, 14% disagreed while the remaining 8% strongly disagreed with the statement that higher interest rates mean it will be more difficult to take out new short-term loans to help pay for unexpected expenses or to expand the business when necessary. The observation here is that a larger proportion of the respondents were strongly agreeing with the statements.

4.3 The effect of interest rates on the loan acquisition by businesses

The researcher was interested in establishing whether there is a significant effect of interest rates on the acquisition of loans and this effect was measured using chi square test which was run in SPSS as shown below.

Table 4. 9, Chi square test the effect of interest rates on the loan acquisition by businesses

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.734[a]	3	.001
Likelihood Ratio	13.420	3	.004
Linear-by-Linear Association	.004	1	.950
N of Valid Cases	70		
a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is 1.83.			

Source: Primary Data (2019)

Explanation of the output

The coefficient (0.001) from the chi-square table implies that since the P-value (0.001) is less than 0.05 the confidence level we reject the null hypothesis and conclude with the alternative that there is a significant effect of interest rate on the acquisition of loans. the implication here is that when the interest rate increases, many people will not obtain loans from financial institutions to expand their businesses hence affecting the performance and expansion of these businesses.

4.4 The relationship between the level of interest rates and business performance

The researcher wanted to establish the relationship between the level of interest rate and business performance and the results were seen in the correlation table below.

Ho: There is no significant correlation between the interest level rates and the performance of Businesses

Ha: There is a significant correlation between the interest level rates and the performance of Businesses.

Table 4.10: Relationship between the level of interest rates and business performance

Variables	**Statistics**	Interest rate level	Business Performance
Interest rate Level	Pearson Correlation	1	.614**
	Sig. (2-tailed)		.001
	N	50	50
Business Performance	Pearson Correlation	.614**	1
	Sig. (2-tailed)	.001	
	N	50	50
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data (2019)

Interpretation of the correlation table

The correlation coefficient is (0.614) implies that there is a strong positive correlation of 61.4% between the interest rate level and performance of businesses. Similarly since the P-value (0.001) is less than 0.05 the confidence level, we reject the null hypothesis and conclude with the alternative that there is a strong significant positive correlation between the level of interest rate and performance of businesses. The observation here is that the interest rate level greatly determines the performance of businesses.

CHAPTER FIVE
SUMAMRY, DISCUSSION, CONCLUSSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the critical observations from the findings, Discussion of the findings, conclusion and recommendations in line with the objectives of the study.

5.1 Summary of Findings

5.1.1 The effect of interest rates on business performance

The findings on the effect of interest rates on business performance revealed, 40% strongly agreed, 38% agreed, 10% were neutral , 4% disagreed while the remaining 8% strongly disagreed with the statement that nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive, similarly 38% strongly agreed , 36% agreed, 6% were neutral, 10% disagreed and 10% strongly disagreed with the statement that when interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current. It was also discovered that 62% strongly agreed, 24% agreed while 12% were not sure on the statement that High Interest Rates Make it difficult for Businesses to obtain Loans since it increases the costs of operation.

5.1.2 The effect of interest rates on the loan acquisition by businesses

Findings on the effect of interest rates on loan acquisition by businesses in the chi – square test revealed that the coefficient (0.001) from the chi-square table implies that since the P-value (0.001) is less than 0.05 the confidence level we reject the null hypothesis and conclude with the alternative that there is a significant effect of interest rate on the acquisition of loans. The implication here is that when the interest rate increases, many people will not obtain loans from financial institutions to expand their businesses hence affecting the performance and expansion of these businesses.

5.1.3 The relationship between the level of interest rates and business performance

It was also found out that the correlation coefficient is (0.614) implies that there is a strong positive correlation of 61.4% between the interest rate level and performance of businesses. Similarly since the P-value (0.001) is less than 0.05 the confidence level, we reject the null hypothesis and conclude with the alternative that there is a strong significant positive correlation between the level of interest rate and performance of businesses. The observation here is that the interest rate level greatly determines the performance of businesses.

5.2 Discussion of the findings

5.2.1 The effect of interest rates on business performance

From table 4.7 above, 40% strongly agreed, 38% agreed, 10% were neutral , 4% disagreed while the remaining 8% strongly disagreed with the statement that nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive, similarly 38% strongly agreed , 36% agreed, 6% were neutral, 10% disagreed and 10% strongly disagreed with the statement that when interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current. It was also discovered that 62% strongly agreed, 24% agreed while 12% were not sure on the statement that High Interest Rates Make it difficult for Businesses to obtain Loans since it increases the costs of operation. Similarly 46% strongly agreed, 20% agreed 12% were not sure, 14% disagreed while the remaining 8% strongly disagreed with the statement that higher interest rates mean it will be more difficult to take out new short-term loans to help pay for unexpected expenses or to expand the business when necessary. The observation here is that a larger proportion of the respondents were strongly agreeing with the statements. These findings are in line with Broadhurts (2014) who in his findings revealed that due to the competition among the banks interest rates to businesses remains in a comparable range. For tracking and managing the significant development interest rate is to be addressed a significant economic problem. On the other hand, Bernstein (2012) asserted that in the profit and loss statement interest rate also engage in managing the interest component entirely. In addition, the interest rate also summarizes the way of whole business debt summary, including the receipt of debt, excellence of the debt, expectations of visions participation proportions and fixed floating mixture of the debt (Avery, 2011). Interest rates are applied in various shapes like there are different interest rates for saving account and for taking loan. Central bank sets the interest rate to control the interest rate that transforms the interest rates to control the lively of financial system. But the results of the variation in the interest rate are not constantly the projected results (Cargill, 2009). Central bank plays many important roles in the economy but the major task of it is to regulate the interest rates which affect the financial system. For instance, this can be completed by regulating the interbank loan rate. The rates that businesses' present for saving and lending are influenced by interbank interest rates and banks as result present their rates which are below or above from the interbank rate in certain percentage. In this way businesses earn their profit (Broadhurts, 2014).

5.2.2 The effect of interest rates on business performance

The coefficient (0.001) from the chi-square table implies that since the P-value (0.001) is less than 0.05 the confidence level we reject the null hypothesis and conclude with the alternative that there is a significant effect of interest rate on the acquisition of loans. the implication here is that when the interest rate increases, many people will not obtain loans from financial institutions to expand their businesses hence affecting the performance and expansion of these businesses. These findings are in line with Jegadecsh, (2013) who in his findings asserted that creditors charge the interest rate as percentage of the sum of funds lent. Similarly, the institutions like banks for the utilization of money pays interest rate to the depositor. He adds that profitability of banks is described as income by interest or non-interest and after tax profits which are computed as a amount of income (both interest & non-interest) after the subtraction of provisions and operating costs which means banks are supposed to keep a minimum interest rate so as to capture a larger number of borrowers. to support these findings, Ndirangu (2014) asserted that In our routine life, interest rate plays an important function. It can considerably influence purchasing power of people. Therefore, as depositor it is essential to focus on these trends in interest rate because the common trends in interest rate can have a major influence on savings of people. The major variation in these trends makes it essential to examine the existing investment opportunities and potential opportunities. The changes in interest rate have significant impact on banks. The major part of bank's revenue comes from the difference in the interest rate that it charges from and pays to customers. Previously, in the businesses' operations interest rates have become slight element. To accomplish the stability in the overall economy by managing foreign trade rates and by controlling the inflation, the SBP uses interest rate as a tool.

5.2.3 The relationship between the level of interest rates and business performance

The correlation coefficient is (0.614) implies that there is a strong positive correlation of 61.4% between the interest rate level and performance of businesses. Similarly since the P-value (0.001) is less than 0.05 the confidence level, we reject the null hypothesis and conclude with the alternative that there is a strong significant positive correlation between the level of interest rate and performance of businesses. The observation here is that the interest rate level greatly determines the performance of businesses. These findings are in line with De Cleen Wood (2014) who in his study asserted that mainly in operations of businesses, banks plays an important role and their efficiency can also influence the economic growth performance of the businesses. As banks provide financial services to its customers who are different from other firms and as a reward banks charge interest .Conversely most funds are provided by depositors and they also receive interest. During the last decade there has been an increasing trend. The borrower or depositor or both would be affected by an increase in the spread. The shortage of alternative opportunities of financial intermediation intensifies the bad impact of spread. For example, based on monetary policy if the state bank of Pakistan changes interest rate then the changes in the interest rate will influence the cost of capital and as a result the investment decision and level of consumption will be affected hence affecting business performance. Also Ndirangu (2014) adds that when the interest rates to depositors decrease and due to that if spread increases then it will discourage the savings and on the other hand, if interest rate to depositor increases then it will badly affect the investment by different business me.

5.3 Conclusion

The following conclusions were drawn as a result of the research work carried out on the effects of Interest rates on the performance of Afro Plast Company Luzira

In conclusion therefore, the effect of interest rates on business performance revealed that nearly every small business has outstanding loans and when interest rates rise, those loans become more expensive, when interest rates rise, consumers with debts are going to pay more interest to lenders which have a negative effect on their spending habits because they have to pay more money to keep their loans current.

Similarly the effect of interest rates on loan acquisition by businesses revealed that the chi – square test revealed that the coefficient (0.001) from the chi-square table implies that since the P-value (0.001) is less than 0.05 the confidence level we reject the null hypothesis and conclude with the alternative that there is a significant effect of interest rate on the acquisition of loans.
Also the findings on the relationship between the level of interest rates and business performance discovered that the correlation coefficient (0.614) implies that there is a strong positive correlation of 61.4% between the interest rate level and performance of businesses.

5.4 Recommendations

Basing on the study findings and the conclusions, the researcher derived the following recommendations

The researcher recommends that the central bank should use the necessary tools to control the level of the interest rates since it affects the performance of the small scale businesses

The researcher recommends that the Government should provide finances in terms of loans to the entrepreneurs of the small businesses at reduced interest rates compared to the interest rates given by the commercial bank..

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear respondents;

My name is Kamulegeya Arthur a student of Kampala International University pursuing a Bachelors of Business Administration Accounting and Finance carrying out research on the effect of interest rates on the performance of Small Scale Businesses. The study is purely for academic purposes and all the information provided

SECTION A (Demographic Information)

Put a tick on the right option

1. Age of the respondent

20 -29 30-39 40- 49 50-59

2. Gender of the respondent

Male Female

3. Respondent's level of education

Primary Phds

Degree Diploma

4. Marital status of the respondent?

Married Single

Widowed Divorced

5. For how long have you been working with Afroplast?

1 – 2 months 2 – 3 years

4 – 6 Years 7 years and above

6. Which department do you belong to?

____

Section B

(The effect of interest rates on business performance)

6. You are to respond to the following statements on the effect of interest rates on business performance, your response as to your level of agreement or disagreement is given below.

Strongly agree = 1 Agree = 2 Disagree = 3 Neutral = 4 Strongly disagree = 5

Statement	1	2	3	4	5
Nearly every small business has outstanding loans, and when interest rates rise, those loans become more expensive.					
When interest rates rise, consumers with debts are going to have to pay more interest to lenders. This typically has a negative effect on their spending habits because the more money they have to pay to keep their loans current.					
High Interest Rates Make It Difficult for Businesses to Obtain Loans since it increases the costs of operation.					
Higher interest rates mean it will be more difficult to take out new short-term loans to help pay for unexpected expenses or to expand the business when necessary					
The interest rate when are high can lead to closure of some businesses since they cannot borrow					

7. Any other comment on the effect of interest rates on business performance?

____

____

Section C

(The effect of interest rates on the loan acquisition by businesses)

8. Have you ever obtained a loan in this business?

Yes No

9. If yes, to what extent have these loans improved the performance of the business?

To a lesser Extent Higher extent Medium Extent No extent at all

10. If No, please give reasons below;

____

____

11. Does the interest rate level affected loan acquisition by this firm?

Yes No

12. If yes, how does this interest rate affect acquisition of loans from financial institutions by this business?

____

____

13. Any other comment on the effect of interest rates on the loan acquisition by businesses?

____

____

SECTION D

(The relationship between the level of interest rates and business performance)

.4. Do you think the rate of interest rates has a relationship to business performance?

Yes No

.5. If yes, is the relationship positive or negative?

Positive Negative

.1. If yes, is the relationship of harm to the society?

....

....

l2. Any other comment on the relationship between youth unemployment and crime.

....

....

END

Thank you for your cooperation