

**THE EFFECT OF LOAN INTEREST RATES ON FINANCIAL PERFORMANCE
OF SMALL-SCALE BUSINESSES IN MUKONO MUNICIPALITY**

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**UGANDA CHRISTIAN
UNIVERSITY**

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DECLARATION

I Namono Sharifa declare that this dissertation titled ” The effect of loan interest rates on the financial performance of small-scale business in Mukono municipality” is fully my original work and where citations have been used and acknowledgement has been done.

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APPROVAL

This is to certify that this dissertation on the study of the “Effect of loan interest rates on the financial performance of small-scale business in Mukono municipality” has been compiled under my supervision and is now ready for further examination.

Signature.....  Date..... 

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University Supervisor

DEDICATION

I dedicate this research to my parents Mr. Sukie Ali and Mrs. Nagudi Pharida Ali who advised, supported and mentored me throughout my education up to university level.

ACKNOWLEDGMENT

I extend my sincerest appreciation to Allah who has enabled me come this far and for the incredible blessing for existence and imparting me with the understanding and direction to reaching this point.

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Table of Contents

DECLARATION.....	i
APPROVAL	ii
DEDICATION.....	1
ACKNOWLEDGMENT.....	2
LIST OF ABBREVIATIONS.....	8
ABSTRACT.....	9
CHAPTER ONE.....	10
1.0 Introduction.....	10
1.1 Background of the study.....	10
1.2 Statement of the Problem.....	11
1.3 Purpose of the study.....	12
1.4 Research objectives.....	12
1.5 Research questions.....	12
1.6 Scope of the study.....	13
1.6.1 Subject scope.....	13
1.6.2 Geographical scope.....	13
1.6.3 Time scope.....	13
1.7. Significance of the study.....	13
1.8 Conceptual Framework.....	14
CHAPTER TWO.....	16
LITERATURE REVIEW.....	16
2.0. Introduction.....	16
2.1 Definition of key terms.....	16
2.2. Theoretical Review.....	16
2.2.1 Interest rate theory.....	16

2.2.2 Financial intermediation theory.....	17
2.2.3 Pecking order theory.....	17
2.2.4 The theory of economic development.	17
2.2.5 Liquidity preference theory.	17
2.2.6 The cost of capital theory.	17
2.3 The impact of loan interest rates on the profitability of small-scale businesses	19
2.4 How loan interest rates influence the growth and expansion of small-scale businesses	21
2.5 The relationship between loan interest rates and the financial stability of small-scale businesses	23
CHAPTER THREE	25
RESEARCH METHODOLOGY	25
3.0 Introduction	25
3.1 Research design.....	25
3.2 Study Population	25
3.3 Sample Size.....	25
3.5 Sources of data.	26
3.5.1 Primary data.....	26
3.5.2 Secondary data.....	26
3.6 Data collection methods	26
3.6.1 Questionnaire Survey	26
3.7 Data quality control.....	26
3.7.1 Validity tests	26
3.7.2 Reliability tests	27
3.8 Procedure of data collection.....	27
3.9 Data presentation and analysis.	27
3.10. Ethical considerations.	27
3.11 Limitation of the study	27

CHAPTER FOUR.....	29
PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS	29
4.0 Introduction	29
4.1 Response rate.....	29
4.2 Biographic characteristics	29
4.2.1 Gender of the respondent.....	29
4.2.2 Age bracket of the respondents.....	30
4.2.3 Education level	31
4.2.4. Business type	32
4.2.5. Period spent doing the business.....	32
4.2.6 Source of income	33
4.3 Assess the impact of loan interest rates on the profitability of small-scale businesses	34
4.4 The influence of interest rates on the growth and expansion of small-scale businesses.....	35
4.5 The relationship between loan interest rates and the financial stability of small-scale businesses.....	38
CHAPTER FIVE	41
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS.....	41
5.1 Introduction	41
5.2 Discussion of the key findings	41
5.2.1 The impact of loan interest rates on the profitability of small-scale businesses	41
5.2.2. The influence of interest rates on the growth and expansion of small-scale businesses.....	41
5.2.3 The relationship between loan interest rates and the financial stability of small-scale businesses	43
5.3 Conclusion.....	44
5.3.1 The impact of loan interest rates on profitability.....	44

5.3.2 The Influence of interest rates on growth and expansion	44
5.3.3 The relationship between loan interest rates and financial stability.....	44
5.4 Recommendations	44
5.5 Areas Of further research	45
REFERENCES	46
APPENDICES	49
APPENDIX 1: QUESTIONNAIRE.....	49
Appendix 2: Introductory letter.....	57
Appendix 3: Field work attachments	58

LIST OF TABLES

Sample size	25
Table 1: Response rate	29
Table 2: Gender of the respondents	29
Table 3: Age bracket of the respondents	30
Table 4: Level of education attained by the different respondents	31
Table 5: Business type	32
Table 6: Period spent doing the business	32
Table 7: Source of income	33
Table 8: loan interest rates on the profitability of small-scale businesses	34
Table 9: interest rates on the growth and expansion of small-scale businesses	36
Table 10: relationship between loan interest rates and the financial stability of small-scale businesses	39

LIST OF ABBREVIATIONS

GDP - Growth domestic product

SSBs - Small scale businesses

ABSTRACT

This study investigated the effect of loan interest rates on the financial performance of small-scale businesses in Mukono Municipality, Mukono district. The study assessed the impact of loan interest rates on the profitability, evaluated how loan interest rates influence the growth and expansion of SSBs. It further investigated the relationship between loan interest rates and the financial stability of Small-Scale business.

The study focused on a sample of 80 small-scale enterprises selected through simple random sampling from a population of 100 businesses, including retail shops, hardware shops, groceries, and general merchandise dealers. The research utilized questionnaires for data collection and reveals significant insights into the influence of interest rates. High loan interest rates were found to adversely affect profitability by increasing financial burdens and reducing business performance, conversely, lower interest rates were associated with improved profitability and growth opportunities, supporting the notion that reduced borrowing costs facilitate market expansion.

However, the study found a negligible relationship between interest rates and financial stability, indicating that factors beyond interest rates, such as management practices and market conditions, are more influential. The study also found out that the impact of loan interest rates on the profitability of small-scale businesses where high interest rates reduced the profit of business. The study also found out that high-interest rate strain cash flow and financial burden due to the increased costs of paying high interest rates hence reducing the ability of small-scale businesses to invest and expand.

The study concluded that the effect of loan interest rates had a negative impact on the financial performance of small-scale businesses. Therefore, the researcher recommended policymakers and financial institution to advocate for lower interest rates in order to lower financial burdens on small scale businesses. Based on these findings, the study recommended promoting lower interest rates for SMEs, facilitating access to affordable financing, and encouraging diversification of financial resources. These measures were suggested to enhance profitability, stimulate growth, and improve financial stability of small-scale businesses in Mukono Municipality .

CHAPTER ONE

1.0 Introduction

This chapter presents the background to the study, problem statement, purpose of the study, objectives, research questions, scope of the study and significance of the study

1.1 Background of the study

Small businesses are very important for the growth of many countries, especially in places that are still developing. They contribute to job creation, poverty reduction, and a stronger economy. In Uganda, small businesses are particularly crucial in places like Mukono Municipality. However, these businesses frequently struggle to secure the funds needed for growth and success. A major issue is obtaining loans with fair interest rates. The cost of borrowing can significantly impact the performance of small businesses, making it more difficult for them to expand, invest, and compete in the market.

Small businesses are very important for the growth and development of the economy. They provide jobs, promote new ideas, and help increase a country's total economic production (GDP). In Uganda, small businesses are a major part of the private sector and are crucial for reducing unemployment and supporting overall growth (World Bank, 2021). However, these businesses often struggle with financial issues, which can hinder their growth and success.

Getting loans is really difficult for small businesses in Uganda, according to the Bank of Uganda (2022). Banks and other financial institutions are the main sources where these businesses can get loans. However, the high cost of borrowing is a major issue. A report from the Bank of Uganda (2024) shows that the average cost for business loans in Uganda ranges from 18% to 22%. This is much higher than the 3% to 7% seen in developed countries (World Bank, 2024). This significant difference in loan costs makes it very challenging for Ugandan businesses to get affordable loans, which could hinder their growth. High loan costs make it hard for small businesses to secure the funds they need to improve and expand their operations.

The success of small businesses is closely tied to the cost of borrowing money. High interest rates on loans can have several harmful effects on these businesses. First, they increase the financial pressure on businesses, reducing their profit margins and overall success. Second, high-interest loans can cause cash flow problems, as a significant portion of the business's income is used to pay off the debt. This can limit the business's ability to invest in its operations, slowing down growth and expansion (Mwangi, 2021).

Moreover, lacking access to affordable loans can force small businesses to rely on informal funding methods, such as using personal savings or borrowing from friends and family. These

informal sources often fail to provide sufficient capital, leading to insufficient funds and slow growth for the business. A study by Nkurunziza and colleagues in 2020 found that small businesses in Uganda that accessed formal loan sources performed better financially compared to those that relied on informal methods.

Banks and other financial institutions played a crucial role in providing loans to small businesses. However, the way they offer these loans can either make it difficult or easy for small businesses to obtain and afford them. The high interest rates they often charge are usually due to the perceived risk of lending money to small businesses. This risk arises because small businesses typically have little to offer as collateral, lack a long history of borrowing, and their income can be unpredictable (Kakuru, 2021).

To make lending safer, banks and other financial institutions should adopt new and improved methods for issuing loans. For instance, they can consider various factors to assess the creditworthiness of small businesses, such as mobile phone money transfers and utility bill payments. Additionally, they can provide specialized loan products with flexible repayment options that better suit the needs of small businesses.

The Ugandan government played a crucial role in improving conditions for small businesses. Policies that reduce the cost of borrowing can significantly benefit these businesses financially. For instance, setting maximum interest rates, offering loans at lower rates, and providing loan guarantees can lower borrowing costs and make it easier for small businesses to access the funds they need (Ministry of Finance, Planning and Economic Development, 2023).

Additionally, courses that educate small business owners on managing money can help them better understand finances and make wiser choices about borrowing. These courses can include topics such as how to apply for loans, negotiate interest rates, and manage debt effectively. The impact of loan interest rates on the financial success of small businesses in Mukono Municipality is an important topic to explore, which is why this study is being conducted.

1.2 Statement of the Problem

Small businesses in Mukono Municipality, Uganda, struggle with significant financial difficulties that hinder their ability to remain open and expand. Ahimbisibwe (2020) notes that insufficient funds have severely impacted these businesses, leading to many shutting down within the first six months—one of the highest closure rates globally. Moses (2021) believes this high failure rate is because of tough loan conditions, especially high interest rates between 20 and 30 percent, set by banks, which are the main source of money for these small businesses.

For small businesses that manage to stay afloat, the financial situation is still tough because they don't have enough money and have to pay high interest rates. These high rates increase their costs and stop them from growing bigger and more efficient. As a result, these businesses often use old technology and make lower-quality products, which makes them less competitive in the market. Okurut and Bategeka (2016) point out that this constant struggle has left many small businesses in a poor financial condition.

Even with these difficulties, small businesses in Mukono Municipality keep trying to get loans to help their money situation. It's strange that they borrow money to get better, but then they struggle because the cost of borrowing is so high. This needs a closer look. This study wants to find out how high loan interest rates impact the money success of small businesses in Mukono Municipality. It will also show the big money problems they have and possible ways to help them stay strong and grow.

1.3 Purpose of the study

The purpose of the study was to investigate the effect of loan interest rates on financial performance of small-scale businesses

1.4 Research objectives

To assess the impact of loan interest rates on the profitability of small-scale businesses in Mukono Municipality.

To evaluate how loan interest rates influence the growth and expansion of small-scale businesses in Mukono Municipality.

To investigate the relationship between loan interest rates and the financial stability of small-scale businesses in Mukono Municipality.

1.5 Research questions.

What is the impact of loan interest rates on the profitability of small-scale businesses in Mukono Municipality?

How does loan interest rates influence the growth and expansion of small-scale businesses in Mukono Municipality?

What is the relationship between loan interest rates and the financial stability of small-scale businesses in Mukono Municipality

1.6 Scope of the study

1.6.1 Subject scope

The subject scope of this research focused on assessing the impact of loan interest rates on the financial performance of small-scale businesses in Mukono Municipality. The independent variable in this study is loan interest rates. Under this variable, the research examined the average interest rates charged by financial institutions, the frequency of rate changes, and the terms and conditions associated with loans. The key measures we're looking at are how well small businesses are doing financially. This includes how much profit they make, how much they grow and expand, and how stable their finances are. Specifically, profitability was assessed by analyzing net income, profit margins, and return on investment. Growth and expansion were evaluated by looking at business size, market reach, and asset acquisition. Financial stability was investigated through cash flow management, debt-to-equity ratios, and the ability to meet financial obligations. By exploring these variables, the study aims to provide a comprehensive understanding of how loan interest rates affect the financial performance of small-scale businesses in Mukono Municipality.

1.6.2 Geographical scope

The study was carried out in Mukono municipality, Mukono District found in central region of Uganda about 24 kilometers from Kampala city because the area was convenient to the researcher when it comes to data collection.

1.6.3 Time scope

The study considered businesses that have been in existence for at least three years. In addition, it was carried out for a period of three months. This period enabled the researcher come up with coherent information from the respondents.

1.7. Significance of the study.

The study will help future academicians while carrying out research of the same kind in future. The study will contribute to their literature review.

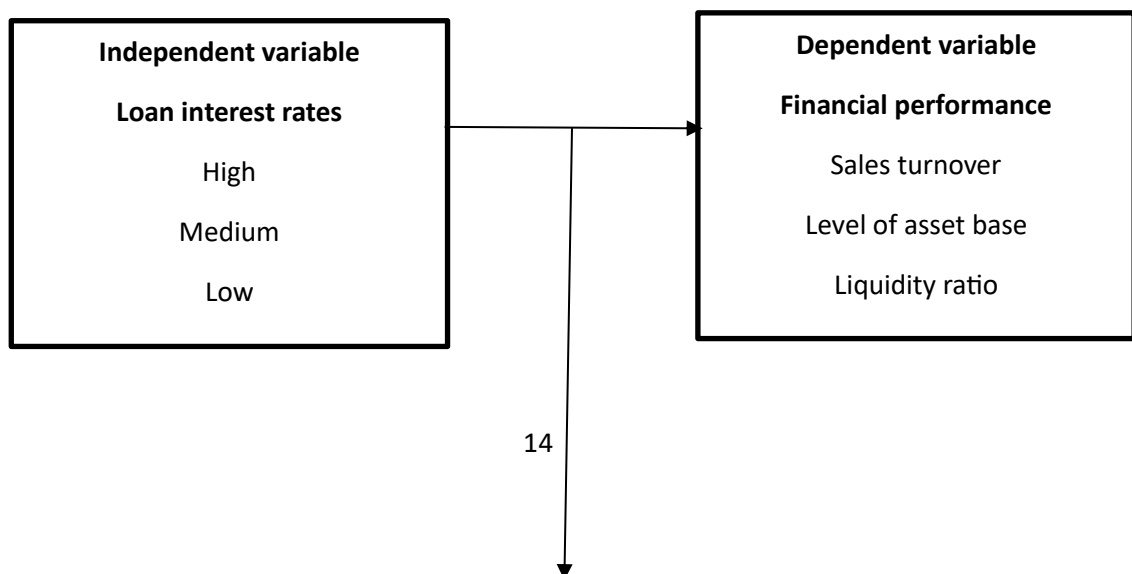
Policy makers can utilize the findings to craft more effective financial regulations and support mechanisms that foster the growth of small-scale businesses.

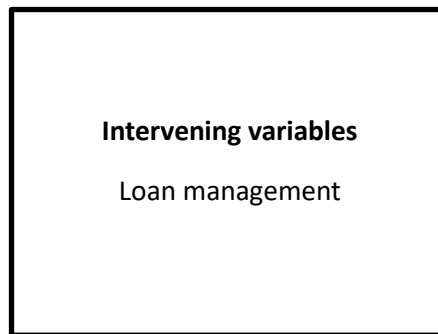
For business owners, this study will highlight the critical impact of loan interest on their financial performance. It equips them with knowledge that can inform their borrowing decisions, helping them to better manage financial costs and optimize their financing strategies.

Lending institutions can benefit from this study by gaining insights into how their interest rate policies affect small-scale businesses. This understanding can lead to the development of more

tailored loan products that meet the needs of these businesses, improving loan performance and customer satisfaction.

1.8 Conceptual Framework





Source; Nahabwe, 2019 modified by the researcher.

In this case where the rates of the interest were high, this affected the sales level. However, when the rates were moderate (neither moderate nor low), this was relatively favorable because the business after paying its taxes can still remain with something to increase their asset base. Low interest rates were very healthy to small scale businesses in that they were able to have enough cash even after meeting their tax obligations and hence their liquidity positions were good. The performance of the small-scale business was considered to be a functional outcome of interest rates on loans in relation to rising or falling rates in terms of level of sales, level of assets acquired and liquidity.

CHAPTER TWO LITERATURE REVIEW

2.0. Introduction

This chapter presents the definitions of key terms and the literature review about each objective of the study.

2.1 Definition of key terms

Interest rate. Interest rates are the cost of borrowing money or the return on investment for lending money, usually expressed as a percentage of the principal amount per year. They are a critical component of financial markets, influencing the cost of loans, savings, and investments (Mishkin, 2016)

Financial performance. According to Wanjiku (2014) defines financial performance as a measuring result of the firm financial policies and operations in terms of monetary and reflect on return on investment, return on equity, and return on investment and liquidity levels. In banks it is measured by different indicators.

Small Scale Businesses. Stephanie Faris (2018), Small scale businesses are either services or retail operations like grocery stores, medical stores, trades people, bakeries and small manufacturing units. Small businesses are independently owned organizations that require less capital and fewer workforces and less or no machinery. These businesses are ideally suited to operate on a small scale to serve a local community and to provide profits to the company owners.

UJA statutory (2019) defines a small-scale business as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. On the other hand, small scale Enterprises employ between 5 and 49 and have total assets between UGX 10 million and not exceeding 100 million.

2.2. Theoretical Review

2.2.1 Interest rate theory.

Interest rate theory provides a fundamental understanding of how changes in interest rates can affect borrowing and lending behaviors, which directly impacts the financial performance of businesses. Fisher's Theory of Interest, for example, suggests that interest rates are determined by the supply of savings and the demand for investment. High-interest rates generally increase the cost of borrowing, which can discourage small-scale businesses from taking loans, thereby limiting their ability to finance operations and growth (Fisher, 1930).

2.2.2 Financial intermediation theory.

This theory describes how banks and other financial organizations help connect people who save money with those who need to borrow it. These institutions check for risks, offer easy access to money, and lower the costs of transactions, making it simpler for companies to get loans. But the interest rates these institutions set can affect how much small businesses have to pay to borrow money. If interest rates are high, the cost of borrowing goes up, which can lower profits and make it harder for businesses to grow (Diamond, 1984).

2.2.3 Pecking order theory.

Myers and Majluf (1984) suggested that companies choose their funding sources by making it as easy as possible. They prefer using their own money first, then borrowing, and only turn to selling shares as a last option. For small businesses with limited funds, this means that higher interest rates on loans can greatly affect their choices. High rates might make these businesses either pay more for loans or miss out on growth chances because they can't find cheaper ways to get money.

2.2.4 The theory of economic development.

Schumpeter's Theory of Economic Development highlights the importance of credit for entrepreneurs. Schumpeter (1911) believed that having access to credit allows entrepreneurs to innovate, use new technologies, and improve their production methods. For small businesses, low-interest loans can be very helpful, providing the money needed to grow and improve their financial situation. However, very high-interest rates can slow down progress because they make it too costly to start new projects, limiting chances for innovation and growth.

2.2.5 Liquidity preference theory.

According to Keynes' Liquidity Preference Theory, interest rates are determined by the balance between the supply and demand for money. Both individuals and businesses usually prefer to hold liquid assets for different reasons, such as daily transactions, unforeseen needs, or to take advantage of investment opportunities. When interest rates go up, the cost of holding money also increases, encouraging businesses to look for investments that offer higher returns. For small businesses, higher loan interest rates can make borrowing more expensive than the potential profits, which can negatively impact their financial performance (Keynes, 1936).

2.2.6 The cost of capital theory.

The idea is that how much it costs to borrow money has a big impact on how a company decides to finance itself and what investments it makes. For smaller companies, controlling the cost of money is important for deciding if investment projects are worth doing. When the interest rates on loans go up, borrowing becomes more expensive, which can make businesses less likely to take on debt and look for growth options. This can hurt their overall financial well-being, as

they might pass up potentially profitable opportunities because the cost of borrowing is too high (Modigliani & Miller, 1958).

Different theories help us understand how loan interest rates affect the financial success of small businesses. High interest rates usually increase borrowing costs, make it harder to get loans, and reduce investment, which can slow growth and lower profits. By studying these theories, we can better understand the complicated connection between interest rates and the financial health of small businesses.

2.3 The impact of loan interest rates on the profitability of small-scale businesses

Small businesses play a big role in the economy by providing jobs and boosting the overall value of what is made and sold. However, their ability to stay in business and expand often relies on getting loans at fair prices. The cost of borrowing, or the interest rates on loans, is crucial for how much profit these businesses can earn. This review examines research that shows how loan interest rates impact the success of small businesses.

Obtaining credit is crucial for small businesses to expand and earn more. A study by Khandker and Koolwal (2019) demonstrated that lower interest rates benefit small businesses by reducing the cost of borrowed money, thereby increasing their profits. The research, conducted across various developing countries, revealed that businesses with access to lower-cost loans experienced higher profit margins due to reduced financial strain.

Interest rates are very important for small businesses, especially in places like Sub-Saharan Africa. Beck and Cull (2019) looked at this connection and found that high interest rates can make it hard for small businesses to make money. Their research showed that banks and other financial groups should offer better loan options to help these businesses grow. They also said that changes in interest rates can make it difficult for small businesses to stay profitable. Another study by Ayyagari, Demirgüç-Kunt, and Maksimovic (2020) found that unpredictable interest rates create uncertainty, making it harder for businesses to plan and invest. Their study, which focused on small businesses in Eastern Europe and Central Asia, showed that stable interest rates are important for long-term growth.

In South Asia, Rahman and Luo (2020) looked at how changes in interest rates affect small businesses. They found that when interest rates go up and down a lot, it puts more financial stress on these businesses. This often leads them to cut back on their activities or postpone growth plans, which hurts their profits. Additionally, Alhassan and Hoedoafia (2021) studied microfinance in Ghana and discovered that businesses that got loans with lower interest rates from microfinance organizations made more profit than those that borrowed from regular banks. This shows that microfinance is important for giving small businesses affordable loans, which helps them do better financially.

On the other hand, Kira and He (2021) looked at how commercial banks lend money in Tanzania. They found that even though these banks offer loans, the high interest rates they charge hurt the profits of small businesses. This study suggested that financial institutions should make their lending rules more flexible to help small businesses succeed.

Government decisions can greatly affect loan interest rates and, as a result, how much money businesses make. Kimani and Mwangi (2022) looked at the interest rate limits set by the Kenyan government. At first, these limits made it easier for people to get loans, but later, they made it harder because banks became more careful about giving out loans. This change hurt the profits of small businesses. Similarly, Okoth and Omondi (2022) studied the rules in Nigeria and found that good policies designed to lower interest rates and make it easier to get loans could greatly improve the profits of small businesses.

Case studies offer detailed information about how interest rates impact small businesses in different areas. For example, Mwangi and Kinyua (2023) looked at businesses in Kenya's informal sector and found that getting low-interest loans helped these businesses become more profitable and grow faster than those using high-interest informal loans. Similarly, Ndungu and Mutiso (2023) examined small agricultural businesses in Uganda and discovered that affordable loans allowed farmers to buy better supplies, which increased their productivity and income.

Overall, research shows that lower interest rates benefit small businesses by lowering their borrowing costs, which boosts their profits and helps them grow. On the other hand, high and changing interest rates cause financial strain, making it harder for businesses to expand. Banks, government rules, and local conditions all have a big impact on the lending environment, which then affects how well small businesses do and how long they last. This information is valuable for policymakers and banks that want to help small businesses grow.

2.4 How loan interest rates influence the growth and expansion of small-scale businesses

Access to finance remains a critical challenge for small-scale businesses. Higher loan interest rates can make it more difficult for businesses to obtain the necessary funds, hindering their growth and expansion. Kira and He (2019) found that high interest rates reduce the likelihood of small businesses securing loans, as borrowing becomes more costly and lenders perceive greater risk. Their study in Tanzania revealed that when interest rates are high, lenders become more selective about who they lend to, often preferring larger, more established businesses over smaller ones.

A research paper by Beck and Cull (2020) about Sub-Saharan Africa shows that getting money for small businesses is still a big problem, especially because of high interest rates. Their study found that if interest rates go up by just 1%, the chance of small businesses getting loans can drop by 2-3%. This makes it harder for these businesses to spend money on things like new equipment or growing their business.

Osei-Assibey (2020) also highlights how high borrowing costs, caused by high interest rates, directly affect the decisions of small businesses. When borrowing costs increase, the higher monthly payments strain their cash flow, often stopping them from reinvesting profits into their growth. This can slow down their efforts to expand.

Shahid and Abbas (2021) also looked at how borrowing costs affect small businesses in Pakistan. They found that higher interest rates usually make businesses less likely to borrow money. When the cost of repaying a loan is too high, small businesses often decide not to take out loans. This can slow their growth because they might miss chances to invest in better technology or expand their operations.

Investment decisions are closely tied to the cost of borrowing money, and interest rates are a major factor in this cost. Studies have shown that higher interest rates make small businesses less likely to make large investments. A study in Ethiopia by Tadesse and Kebede (2021) found that high loan rates result in less spending on both long-term and short-term needs. When small businesses face high borrowing costs, they often choose to delay or avoid investments, which slows their growth.

Additionally, a study by Gichuki and Were (2022) in Kenya showed that small businesses are highly sensitive to changes in interest rates. Their research suggested that a 1% increase in interest rates could result in a 5% reduction in small business investments. This drop in investment can impact business growth and competitiveness over time.

The success of small businesses is strongly connected to their ability to manage financial expenses, like loan interest rates. A study by Owusu and Acheampong (2021) in Ghana found that small businesses that can get loans at lower costs usually do better in terms of income and profit. In contrast, businesses with high interest rates often struggle to keep good profit margins.

A study by Masood and Younis (2022) in Pakistan showed that high interest rates hurt the profits and growth of small businesses. They noticed that companies with more debt and higher interest costs grew more slowly and made less money than those with less debt. This shows how important it is to have reasonable interest rates for small businesses to grow well over time.

Research shows that the interest rates on loans have a big impact on how small businesses grow and expand. Higher rates make it harder for these businesses to get money, raise the cost of borrowing, discourage investments, and slow down their overall progress. When creating financial products and policies, decision-makers and banks should keep this in mind to help small businesses grow. Making sure small businesses can get affordable loans is important for building a strong small business sector that can help the economy and create jobs.

2.5 The relationship between loan interest rates and the financial stability of small-scale businesses

Loan interest rates are crucial for determining how much it costs small businesses to borrow money. High interest rates can increase the cost of borrowing, reducing profits and potentially leading to financial issues. In contrast, lower interest rates can make it easier for businesses to manage their finances, aiding their growth and stability.

High loan interest rates can make it harder for small businesses to stay financially stable because they have to pay more to cover their debts. As Ayub and Iqbal (2020) pointed out, higher interest rates usually reduce the cash flow for these businesses, often causing cash shortages and a higher chance of not being able to pay back their loans. Their study on small and medium-sized enterprises (SMEs) in Pakistan showed that companies with higher interest rates typically had lower profits and a greater risk of going bankrupt compared to those that could borrow at lower rates.

On the other hand, low-interest rates can improve the financial well-being of small businesses by reducing borrowing costs and allowing them to use more money for investments and growth. A study by Kira (2021) that looked at small businesses in Tanzania found that lower interest rates were linked to business growth and higher profits. The study showed that affordable loans helped businesses buy useful assets, improve their operations, and become more financially stable.

Obtaining credit at favorable interest rates is crucial for small businesses. Various studies indicate that how banks provide loans and the overall economic situation significantly impact loan rates and the ease of obtaining credit.

The criteria banks use to decide who to lend to and the interest rates they charge are vital for the financial well-being of small businesses. A study by Kamau and colleagues in Kenya in 2019 revealed that strict lending policies and high interest rates from banks made it difficult for small businesses to secure loans. The study recommended that adjustments to lending policies, such as reducing interest rates and simplifying the credit process, could help small businesses maintain financial stability.

The overall economic situation also impacts loan interest rates, which then affects the financial health of small businesses. A study by Mwangi (2022) showed that things like inflation, government money policies, and economic growth greatly affect interest rates in Kenya. When

inflation is high and the government has strict money policies, interest rates go up. This, in turn, negatively impacts the financial stability of small businesses.

The understanding of money matters among small business owners is very important for handling loan costs and keeping their finances steady. Studies show that knowing more about finance helps these owners make better choices when taking loans and manage their debts well.

Government actions and regulations play a significant role in how loan interest rates impact the financial well-being of small businesses. Supportive policies and regulations can reduce interest rates and make it simpler for small businesses to obtain loans. Regulations that manage interest rates and enhance access to funds have benefited small businesses. A study in Ghana by Agyapong et al. (2021) examined the effects of interest rate caps on small businesses. The study found that these caps reduced borrowing costs and improved the financial stability of small businesses. The study demonstrated that effective regulations can help small businesses grow and remain stable.

Recent improvements in technology, especially in the area of lending, like fintech and mobile banking, have greatly affected loan interest rates and the financial health of small businesses. These new methods have made it simpler for many small businesses to get loans and have also reduced the cost of borrowing. For instance, fintech companies have created new lending platforms that not only offer lower interest rates but also make the process of getting a loan quicker and easier. A study by Karanja and Kamau (2022) in Nigeria showed that fintech solutions were very important in lowering borrowing costs for small businesses, which helped them stay financially stable. The study highlighted how these technological changes in lending can help small businesses get more affordable loans.

High interest rates can cause financial problems and slow down business growth, but lower rates help businesses stay stable and grow. Things like easy access to loans, knowing how to manage money, government rules, regulations, and new technologies all affect how interest rates and financial stability work together. To help small businesses do well, it's important for leaders, banks, and business owners to work together to make good interest rate choices and make it easier for businesses to get loans.

CHAPTER THREE RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the approach used during the research, including the research design, the group of people studied, the number of people chosen, how they were selected, where the information came from, how the data was gathered, the tools used for collecting data, how reliable and accurate the data is, and how the data was shown and analyzed.

3.1 Research design

The study used a cross-sectional research design. A cross-sectional study involved looking at data from a population at one specific point in time. The study also used correlation and regression analysis to determine the relationship between loan interest rates and the financial stability of small-scale businesses in Mukono Municipality.

3.2 Study Population

The study targeted population of 100 registered small-scale enterprises, which comprises of 40 retail shops, 20 hardware shops, 20 groceries, and 20 dealers in general merchandise (Mukono Municipal Council ,2023/2024 Financial Year report).

3.3 Sample Size

The small-scale business environment was too wide so there was need to choose a few manageable respondents to participate in the study. The sample size was 80 (Krejcie and Morgan' sample size table 1970).

Table 1: Sample size

TYPE OF BUSINESS	POPULATION	SAMPLE SIZE
Retail shop owners	40	32
Hardware shop owners	20	16
Grocery business owners	20	16
General merchandise business owners	20	16
TOTAL	100	80

3.4. Sampling technique.

The study used simple random sampling. This implied that all participants in the study population had equal chances of being selected.

3.5 Sources of data.

Both primary and secondary data was collected. Primary data was collected through personal interviews and questionnaires. Reason for using primary data was to get data that cannot be available in any other source. The secondary data was extracted through reviewing various documents like textbooks, journals, periodicals and other published information that were available.

3.5.1 Primary data.

The researcher used firsthand information that was collected from the respondents that was the questionnaire and interview guides from the field.

3.5.2 Secondary data.

The study comprised of data from journals and articles, financial records, newspapers, international publications.

3.6 Data collection methods

The study used a survey approach where both qualitative and quantitative data was collected. There were several survey approaches, however for the purpose of this study the questionnaires were used. The researcher obtained a letter of introduction from the school of business, Uganda Christian University Mukono to conduct research in Mukono municipality.

3.6.1 Questionnaire Survey

The questionnaire was issued to all the selected small-scale businesses in Mukono municipality. The researcher administered the questionnaires to the sample respondents. The questionnaire consisted mostly of close ended questions. The questionnaire consisted of Likert questions measuring a scale from 1-5 that is; strongly disagree 1, disagree 2, not sure 3, agree 4, strongly agree 5.

3.7 Data quality control

3.7.1 Validity tests

The validity of the instrument was tested using the Content Validity Index. This involved judge scoring the relevance of the questions in the instruments in relation to the study variables and a consensus judgement given on each variable taking only variables scoring above 0.70. The Content Validity Index was arrived at using the following formula.

CVI= Total number of items declare valid

Total number of items

3.7.2 Reliability tests

The reliability of the questionnaire instrument was assessed using Cronbach's coefficient alpha. The study instrument was pretested for its reliability on a sample of respondents from Mukono municipality. The reliability results were computed using the Statistical Package for the Social Science (SPSS) taking only variables scoring 0.70 and above.

3.8 Procedure of data collection

An accompanying letter from Uganda Christian University explaining the purpose of the study was presented by the researcher to provide further proof of the researcher's intention and to seek permission to carry out the study. Questionnaires then were distributed to the subjects and then later collected after one week for sorting, coding and data analysis.

3.9 Data presentation and analysis.

The data that will be collected will be checked for completeness, categorized, coded, and entered into a computer where it will be summarized into frequency tables edited and tabulated by using SPSS software.

3.10. Ethical considerations.

The researcher obtained an official letter from the faculty of business to introduce the researcher to the case study.

The researcher cited all the resources used in the study either in the literature or appendices and also accessed data through official channels. The researcher got approval and permission from authorities and obtain consent from respondents before proceeding to collect data.

The researcher ensured that the research design is both methodologically sound and morally defensive to all those who are involved.

3.11 Limitation of the study

The researcher experienced a problem of limited finances with respect to the study. Costs regarding this limitation include transport, printing and photocopying of relevant materials. However, the researcher will borrow money from relatives, friends and use it sparingly so as to overcome the cost constraint.

The researcher was not able to probe deeper into the subject matter because some respondents will hide some information because it is regarded as confidential. However, the researcher will assure the respondents that any information given will be treated with maximum confidentiality.

The researcher experienced a time constraint in data collection, analyzing of data and in final presentation of the report. However, the researcher overcame the problem by ensuring that the time element is put into consideration and that all appointments agreed upon with respondents will be fully met.

CHAPTER FOUR
PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the study findings of the study. The first section presented response rate, this is followed by background information about the respondents, and finally descriptive and inferential presentation and analysis of the study findings in relation to the specific objectives.

4.1 Response rate

The response rate for this research was 100 % which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results.

Table 1: Response rate

Number of questionnaires distributed to respondents	80
Number of questionnaires received back from respondents	60
Number of questionnaires not received back from respondents	20

Source: Primary data

4.2 Biographic characteristics

4.2.1 Gender of the respondent

Table 2: Gender of the respondents

		Frequency	Percent
	Male	34	56.7
	Female	26	43.3
	Total	60	100.0

Source: Primary data

The table 2 above shows that 56.7% of the respondents were males compared to 43.3% counterparts who were females. The males were many compared to females. Both male and female perspectives are represented in the study findings and this shows that small scale businesses mostly are operated by men.

4.2.2 Age bracket of the respondents.

Table 3: Age bracket of the respondents

		Frequency	Percent
	21-30 years	7	11.7
	31-40 years	21	35.0
	41-50 years	32	53.3
	Total	60	100.0

Source: primary data

The data shows the age distribution of respondents, with the majority (53.3%) falling within the 41-50 years age bracket, followed by 35.0% in the 31-40 years range, and 11.7% in the 21-30 years group. This suggests that the respondents are predominantly middle-aged individuals, which could be reflective of the target demographic's experience and involvement in the context of the study. The dominance of older respondents 41-50 years was due to their likely tenure in professional environments or businesses, contributing valuable insights into the topic being investigated. Their experience could provide more reliable data for the research's objectives.

4.2.3 Education level

Table 4: Level of education attained by the different respondents

Level of education		Frequency	Percent
	Secondary	15	25.0
	Certificate	13	21.7
	Diploma	25	41.7
	Bachelors	7	11.7
	Primary	0	0.0
	Masters	0	0.0
	Total	60	100.0

Source: primary data

The data in Table 4 shows the educational levels of respondents in the study. Among the 60 respondents, the majority, 41.7%, hold diplomas, indicating that a significant portion of the respondents have post-secondary education. A smaller percentage, 25.0%, have attained secondary education, while 21.7% have certificates, reflecting a variety of educational backgrounds. Only 11.7% of the respondents possess bachelor's degrees, highlighting that a relatively small group has attained higher education. This distribution suggests that most of the respondents have some form of post-secondary qualification, which influenced their perspectives in the study.

4.2.4. Business type

Table 5: Business type

Business type		Frequency	Percent
	Retail	35	58.3
	Hardware	5	8.3
	Grocery	13	21.6
	General merchandise	7	11.7
	Total	60	100.0

Source: Primary source

The data presented in Table 5 shows the distribution of different business types among the sample of 60 businesses. The majority of businesses are classified as retail, accounting for 58.3% of the sample. This is followed by grocery businesses, which make up 21.6% of the sample. Hardware businesses represent 8.3%, and general merchandise businesses constitute 11.7%. This distribution indicates a strong prevalence of retail businesses in the sample, with grocery and general merchandise businesses also being significant, while hardware businesses are relatively less common.

4.2.5. Period spent doing the business

Table 6: Period spent doing the business

		Frequency	Percent
	1-5 years	3	5.0
	6-10 years	18	30.0
	11-15 years	30	50.0
	16-20 years	9	15.0
	Total	60	100.0

Source: Primary source

The data in Table 6 shows that the majority of respondents have been engaged in their businesses for an extended period. Specifically, 50% of the respondents have been in business for 11-15 years, indicating a significant proportion of experienced entrepreneurs. Meanwhile, 30% have been in business for 6-10 years, suggesting a solid foundation of medium-term

experience. Only 5% of respondents have been in business for 1-5 years, while 15% have been engaged for 16-20 years. This distribution indicates that most businesses in the sample are established, with a considerable number of long-term operators.

4.2.6 Source of income

Table 7: Source of income

		Frequency	Percent
	Loans	6	10.0
	Personal savings	29	48.3
	Donations	20	33.3
	Grants	5	8.3
	Total	60	100.0

Source: Primary source

Table 6 shows where people get their money. Most people use their own savings, which is 48.3% of the answers. Donations come next, at 33.3%. Loans and grants are used less, only 10.0% and 8.3% respectively. This means that most people depend on their savings and donations for money, and not so much on loans or grants. The smaller use of loans and grants might be because of high interest rates. Relying mostly on savings and donations might mean that people need more ways to make money or get help to be more financially stable.

4.3 Assess the impact of loan interest rates on the profitability of small-scale businesses

Table 8 presents key findings on the impact of loan interest rates on the profitability of small-scale businesses. The table outlines various statements and provides statistical measures such as mean and standard deviation to quantify respondents' perceptions.

Table 8: loan interest rates on the profitability of small-scale businesses

The impact of loan interest rates on the profitability of small-scale businesses	N	Mean	Std deviation
High loan interest rates reduce the profit of my business	60	4.16	0.92
My business struggles to grow due to the burden of loan interest rates.	60	3.98	0.12
Lower interest rates would significantly improve my business's profits.	60	2.91	1.16
Repaying loans with high-interest rates negatively impacts my cash flow.	60	4.36	0.58
I am hesitant to take loans because of the high-interest rates.	60	3.33	0.91
The profitability of my business is directly affected by changes in loan interest rates	60	3.91	0.76
High-interest rates limit my ability to invest in business expansion.	60	4.16	0.41
My business would perform better if loan interest rates were more affordable.	60	4.86	0.34
Low loan interest rates give my business financial flexibility to explore new markets and opportunities.	60	4.71	0.49
The burden of high interest rates has made it challenging for my business to remain competitive.	60	4.71	1.05

Source: Primary data

Table 8 provides information about how loan interest rates affect the success of small businesses. The results show that high interest rates significantly harm business performance and profitability.

Participants strongly believe that high interest rates lower their business profits, with an average score of 4.17 and a standard deviation of 0.92. This indicates that most respondents agree that high interest rates negatively impact their financial success.

Small-scale businesses face significant growth challenges due to the burden of high-interest rates, as shown by an average score of 3.98, with a very low standard deviation of 0.13. The consistent answers show that many small businesses find it hard to grow due to high borrowing costs.

At the same time, although lower interest rates are usually seen as good, the average score of 2.92 and a standard deviation of 1.17 show that people have different opinions. Some think lower rates could greatly help profits, while others are not so sure, showing a mix of experiences and expectations.

When dealing with loans that have high interest rates, many people say it makes it harder to manage their money. This is supported by an average rating of 4.37 and a small difference between opinions of 0.58, showing that most people think high interest rates cause problems with money management, which then affects their financial security and ability to make changes as needed.

The data also shows that many people are reluctant to take out loans due to high interest rates. The average rating for this is 3.33, with a range of 0.91. This indicates that business owners are cautious and concerned about the cost of borrowing. There's a strong link between loan interest rates and a business's financial health. The average rating for this is 3.92, with a range of 0.77. This demonstrates how changes in interest rates can directly affect a business's financial success. Regarding business growth, high interest rates are said to significantly reduce the amount of money companies are willing to invest. This is indicated by an average rating of 4.17 and a narrower range of 0.42. This suggests that many businesses struggle to grow because borrowing money is costly.

Most people who took the survey really think that having lower loan interest rates would help their businesses grow. This is shown by an average score of 4.87 and a difference of 0.34. They believe that lower rates would make more money and give them more room to work. Lower loan interest rates are also important for being able to explore new markets, as shown by an average score of 4.72 and a standard deviation of 0.49. This means that lower rates are seen as very important for finding new business opportunities and expanding in the market.

4.4 The influence of interest rates on the growth and expansion of small-scale businesses.

Table 6 presents key findings on the influence of interest rates on the growth and expansion of small-scale businesses.

Table 9: interest rates on the growth and expansion of small-scale businesses.

The influence of interest rates on the growth and expansion of small-scale businesses.	N	Mean	Std deviation
I avoid taking loans due to the high interest rates offered by lenders.	60	3.22	1.03
Lower loan interest rates would encourage me to borrow more for business growth	60	4.00	0.79
The current loan interest rates limit my ability to invest in new business opportunities.	60	4.47	1.04
High interest rates on loans have negatively impacted the profitability of my business.	60	4.00	1.03
My business growth has been slowed down by the burden of repaying high-interest loans.	60	2.88	.39
Affordable loan interest rates are essential for the expansion of my business.	60	4.95	.50
I am more likely to seek alternative financing options due to the high interest rates on loans.	60	4.82	0.57
Low interest rate enables my business to increase inventory and meet customer demand.	60	4.18	5.21
High interest rates limit my access to credit funding and competitiveness in the market.	60	4.63	0.59

Source: Primary data

Table 9 provides key insights into how interest rates influence the development and expansion of small businesses, based on responses from 60 participants. The data indicates that high interest rates significantly affect financial decisions, often hindering business growth.

A notable finding is that businesses tend to be cautious about taking out loans due to high interest rates. The average rating for the statement, "I avoid taking loans because of the high interest rates offered by lenders," is 3.22, with a standard deviation of 1.03. This reflects a cautious approach, as high interest rates can impose a heavy financial burden on businesses, causing them to be reluctant to borrow money.

On the other hand, people said they would be more likely to borrow money to grow their businesses if the interest rates were lower. The comment, “Lower loan interest rates would make me want to borrow more for business growth,” received a high average score of 4.00 with a small variation of 0.79. This indicates that businesses are very sensitive to lower interest rates and view them as a way to increase borrowing and support their growth plans.

The data also shows that high interest rates decrease the chances for investing. This is demonstrated by an average score of 4.47, with a spread of 1.04, for the statement, “High interest rates make it hard for me to invest in new business ideas.” This indicates that most people agree that the cost of borrowing money stops them from growing their business or starting new ones.

Another important result is the negative effect on profitability. The comment, “High interest rates on loans have hurt my business’s profits,” got an average score of 4.00 with a standard deviation of 1.03. This shows that high interest rates are a big financial problem, reducing profits and discouraging businesses from investing in expansion.

Interestingly, businesses reported that repaying high-interest loans has a somewhat varied effect on growth, with a mean score of 2.88 and a lower standard deviation of 0.39. While loan repayment is a burden, the degree of its impact seems to differ across businesses.

Affordable interest rates emerge as a critical factor for business expansion. The statement, “Affordable loan interest rates are essential for the expansion of my business,” had the highest mean score of 4.95 and a low standard deviation of 0.50, indicating near-unanimous agreement that lower interest rates are vital for business growth.

High interest rates also drive businesses to explore alternative financing options, as seen in the mean score of 4.82 with a standard deviation of 0.57 for the statement, “High interest rates force me to seek other sources of funding.” This shows that many companies are using different ways to get money instead of dealing with high costs.

Usually, low interest rates lead to more products and more customers. But when people were asked, “Low interest rates have helped me have more products and more customers,” they gave an average score of 4.18, with a big difference between the highest and lowest scores of 5.21. This big range means people have different ideas or experiences about how low rates help with products and customers.

Lastly, high interest rates are considered a major obstacle for getting loans and staying competitive, with an average score of 4.63 and a standard deviation of 0.59. This suggests that companies find it difficult to get the money they need and stay in the game because borrowing is so expensive.

Overall, the data from Table 9 shows that high interest rates hurt small businesses, making it hard for them to grow and expand. On the other hand, lower interest rates are seen as crucial for helping businesses develop, improve their finances, and attract investment. This leads many businesses to look for other ways to get money to ease the financial strain caused by high interest rates.

4.5 The relationship between loan interest rates and the financial stability of small-scale businesses.

Table 10 presents key findings the relationship between loan interest rates and the financial stability of small-scale businesses.

Table 10: relationship between loan interest rates and the financial stability of small-scale businesses.

Correlation between loan interest rates and the financial stability of small-scale			
		Loan interest rates	Financial stability
Loan interest rates	Pearson Correlation	1	0.031
	Sig. (2-tailed)		0.816
	N	60	60
Financial stability	Pearson Correlation	.031	1
	Sig. (2-tailed)	.816	
	N	60	60

The table above presents the correlation analysis between loan interest rates and the financial stability of small-scale businesses. The Pearson correlation coefficient is used to assess the strength and direction of the relationship between these two variables, while the significance level (Sig.) indicates whether the relationship is statistically significant.

The Pearson correlation coefficient between loan interest rates and financial stability is 0.031. This value is very close to zero, which indicates that there is no meaningful linear relationship between loan interest rates and the financial stability of small-scale businesses in the sample.

A positive correlation would suggest that as one variable increases, the other also increases, while a negative correlation would imply an inverse relationship. In this situation, the correlation of 0.031 is extremely small, meaning there is almost no connection between the two variables. This shows that the link between loan interest rates and financial stability is not meaningful. In simpler terms, it's likely that the observed relationship is just a coincidence and not a real connection.

The findings indicate that there is no significant connection between loan interest rates and the financial health of small businesses. The Pearson correlation, which measures the strength of the relationship, is only 0.031, showing that changes in loan interest rates do not greatly

influence the financial stability of these businesses. A correlation of 0.031 is very weak, meaning there is almost no link between the two factors. This suggests that the relationship between loan interest rates and financial stability is not strong. In simpler terms, the observed connection might just be a coincidence and not a real association. The results show that there is no strong relationship between loan interest rates and the financial stability of small businesses. The very low Pearson correlation of 0.031 suggests that changes in loan interest rates do not have a significant impact on the financial stability of these businesses.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The discussion, findings, and suggestions of the research on how loan interest rates affect small enterprises' financial performance are presented in this chapter. An overview of the study's findings in regard to the particular goals is given in the first section. This is followed by a discussion, the study's conclusion, and recommendations in regard to its goals.

5.2 Discussion of the key findings

5.2.1 The impact of loan interest rates on the profitability of small-scale businesses

Table 8 shows results that match what current research says about how loan interest rates affect the success of small businesses. Studies often find that high interest rates hurt business performance and profits. For instance, Beck, Demirgüç-Kunt, and Maksimovic (2010) point out that higher interest rates make it harder for small and medium-sized businesses (SMEs) to manage their finances, limiting their ability to invest and expand. This matches the data, which shows that most respondents think high interest rates are a key reason for lower business profits and fewer growth chances. The high average scores and low differences in these areas show that many people agree on the financial challenges caused by expensive borrowing, which matches what research says about how high interest rates can limit financial options.

Additionally, research shows that high interest rates can cause cash flow problems and make businesses less likely to borrow money. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) discovered that small and medium-sized enterprises (SMEs) dealing with high interest rates often struggle with cash flow, which can hurt their ability to operate smoothly and stay financially stable. The data, which indicate significant negative effects of interest rates on cash flow and loan repayment, back up this idea. People surveyed clearly understand the financial strain caused by high interest rates, a concern that is widely discussed in the literature, where managing cash flow is a major issue for businesses with expensive loans.

On the other hand, lower interest rates bring many advantages for businesses, such as higher profits and more financial freedom. Louri and Stoyanova (2012) found that when interest rates go down, businesses can make more money and explore new markets because they have an easier time getting loans. The study's results show that people have different opinions about the effects of lower interest rates, but most agree that affordable loans help businesses do better and be more flexible. This agreement matches what other research says, which is that lower borrowing costs are important for growth and competition. The study also highlights how

interest rates are crucial for the success of small businesses, meaning that policies that lower borrowing costs could greatly help small and medium-sized enterprises (SMEs) grow and stay successful.

5.2.2. The influence of interest rates on the growth and expansion of small-scale businesses.

The findings in Table 9 align with other research on how interest rates impact small businesses. High interest rates make it difficult for these businesses to manage their money. For instance, studies by Beck and Demirgüç-Kunt (2014) indicate that high interest rates discourage borrowing, which matches what the people we interviewed said. They were somewhat reluctant to take out loans because of the high rates. This suggests that high borrowing costs can restrict the financial flexibility of small businesses and hinder their growth. The average rating of 3.22 for reluctance to borrow due to high interest rates supports the notion that small businesses often struggle with the added financial burden from high borrowing costs.

On the other hand, studies show that lower interest rates can help businesses grow and expand. The average score of 4.00 for the idea that lower rates would encourage borrowing is consistent with the research by Gertler and Gilchrist (2016). They found that lower interest rates reduce the cost of capital, which then increases investment and expansion opportunities for small businesses. This is supported by the respondents' strong belief that affordable loan rates are crucial for business expansion, as indicated by the highest average score of 4.95. The increased willingness to borrow at lower rates highlights the importance of accessible financing in promoting business growth and confirms that reduced borrowing costs can greatly contribute to business success.

Various views exist on how high interest rates impact a company's earnings and expansion, which align with recent research findings. For instance, research by Carbo-Valverde, Rodríguez-Fernández, and Udell (2021) indicates that high interest rates can reduce profits and hinder business growth. The average rating of 4.00 for the negative effect of high rates on profitability supports the notion that increased costs can weaken a company's financial health and investment prospects. Additionally, the high average rating for issues related to obtaining credit and maintaining competitiveness in the market suggests that high interest rates not only make borrowing difficult but also diminish a company's ability to compete effectively in the market. This reflects a broader consensus in the literature that access to affordable credit is crucial for sustaining competitive and dynamic small-scale enterprises

5.2.3 The relationship between loan interest rates and the financial stability of small-scale businesses

The findings of the correlation analysis between loan interest rates and the financial stability of small-scale businesses, which show a Pearson correlation coefficient of 0.031 and a p-value of 0.816, suggest a negligible and statistically insignificant relationship. This result is consistent with some recent literature that questions the direct impact of loan interest rates on the financial stability of small-scale enterprises. For instance, a study by Abor (2010) found that while interest rates could affect the cost of financing, their direct influence on the financial stability of SMEs was limited. More studies, like the one by Beck and Demirgüç-Kunt (2012), show that things other than interest rates, like how businesses are run, market conditions, and having different ways to get money, really affect how well small businesses do financially. The recent results agree with this idea, saying that just looking at loan interest rates isn't enough to understand why some businesses are more stable than others. This is supported by a high p-value, which means the connection we see might just be random, not a real link. Also, these results match up with newer research, like La Porta et al. (2014), which says that financial stability is affected by many things working together. They think interest rates matter, but they're usually less important than other factors like how managers run the business, the overall economy, and other ways to get funding.

5.3 Conclusion

5.3.1 The impact of loan interest rates on profitability

Examining loan interest rates shows a clear match with what research has already found. Studies consistently point out that high interest rates hurt the success of small businesses. The data confirms that high rates make it harder for these businesses to make money, which is in line with what Beck, Demirgüç-Kunt, and Maksimovic (2010) found. The high average scores and low differences among responses show that most people agree high rates harm business and limit growth. On the other hand, lower rates are seen as helpful, giving businesses more financial room to grow and make more money. This backs up research saying that lower borrowing costs help businesses expand and do better (Louri & Stoyanova, 2012). The big impact of interest rates on business success highlights the importance of financial policies that keep borrowing costs low.

5.3.2 The Influence of interest rates on growth and expansion

The research shows that interest rates have a significant effect on the growth and development of small businesses, which matches what other studies have found. Similar to what Beck and Demirgüç-Kunt (2014) discovered, high interest rates restrict small enterprises' financial alternatives and make it more difficult for them to borrow money, which deters investment and growth. This theory is supported by small enterprises' propensity to exercise caution when taking out loans at high interest rates. However, lower interest rates are associated with increased opportunities for borrowing and growth, which is consistent with the assertion made by Gertler and Gilchrist (2016) that investment prospects are enhanced by lower costs of capital. The research highlights the significance of policies that maintain low interest rates for small firms in order to support their growth and competitiveness. It also demonstrates that simple access to finance is vital for increasing business growth.

5.3.3 The relationship between loan interest rates and financial stability

The analysis indicates that there is hardly any relationship between loan interest rates and the financial stability of small businesses, and this relationship is not strong enough to be significant. This suggests that focusing only on interest rates may not be sufficient to understand financial stability. Studies have found that other factors, such as business management and market conditions, play a more crucial role in influencing financial stability (Abor, 2010; Beck & Demirgüç-Kunt, 2012). The high p-value and low correlation coefficient suggest that the small connection observed could be due to random chance rather than a true link. These findings highlight the need to consider various factors, not just loan interest rates, to fully understand and support the financial well-being of small businesses.

5.4 Recommendations

Promote lower interest rates for small and medium-sized enterprises (SMEs). To help small businesses become more successful, it's important for banks and government leaders to work towards lower interest rates. Lower borrowing costs can significantly reduce the financial pressure on SMEs, help them manage their money more effectively, and enable them to invest more. Studies show that lower interest rates can lead to business growth and market expansion. Banks could consider offering different interest rates or special loan programs for small businesses to lower the cost of borrowing.

Simplify access to affordable loans for small businesses. To help them grow, it's crucial that they can obtain loans that are not too expensive. Banks should give out loans with good conditions, like lower interest rates and longer time to pay back the money. Additionally, creating programs that support businesses in securing capital at lower costs can encourage investment and expansion, aligning with the literature's emphasis on the positive impact of lower interest rates on business growth.

Diversify financial resources. Small-scale businesses should be encouraged to diversify their sources of financial resources beyond traditional loans. Exploring alternative financing options, such as equity financing, venture capital, and crowdfunding, can reduce reliance on high-interest loans and enhance overall financial stability. By broadening their financial base, businesses can better withstand fluctuations in interest rates and maintain stability.

5.5 Areas Of further research

Future studies should be directed at assessing how loan interest rates affect the profitability, sales turnover, the influence of interest rates on the growth and expansion more so its impact on liquidity ratio. It would further investigate how to enhance profitability of small-scale businesses, its crucial for financial institutions and policy makers to advocate for lower interest rates.

One of the very important areas of future research is investigating the relationship between loan interest rate and financial stability of small-scale businesses. This should be done due to need for a broader perspective when assessing financial stability, incorporating various determinants beyond loan interest rates to better and understand and support the financial health of Small-scale businesses

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APPENDICES
APPENDIX 1: QUESTIONNAIRE
UGANDA CHRISTIAN UNIVERSITY

SCHOOL OF BUSINESS

DEPARTMENT OF UNDERGRADUATE

A questionnaire for the owners of the small-scale business in Mukono Municipality.

Dear respondent,

I am Namono Sharifa a student of Uganda Christian University conducting a research study on the “Effect of loan interest rates on financial performance of small-scale businesses in Mukono Municipality” as a partial fulfillment of the requirement for the award of Bachelor’s degree in Business Administration.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

SECTION A

Biographic Data

Please tick (✓) in the appropriate box as the most agreed answer to the following statements.

1. Gender of the respondent.

Male Female

2. Age group of the respondent.

21-30 years 31-40 years 41-50 years above 50 years

3. Martial status of the respondent

Single Married Divorced

4. Education level of the respondent.

Primary level Secondary level Certificate level

Diploma level Bachelor’s level Masters Level

Others specify.....

5. Kind of business

Retail shop Hardware Grocery business General merchandise business

Others specify.....

6. How long has the business been in existence

1-5 years 5-10 years 10-15 years 15-20 years 20 years and above

7. Sources of finances

Personal savings Loan Grant Donation Parish development model (PDM)

Others

specify.....

SECTION B

Rate your degree of agreement using a scale of 5=Strongly agree, 4=Agree, 3=Not sure, 2=Disagree and 1=strongly disagree.

	The impact of loan interest rates on the profitability of small-scale businesses	5	4	3	2	1
1	High loan interest rates reduce the profit of my business					
2	My business struggles to grow due to the burden of loan interest rates.					
3	Lower interest rates would significantly improve my business's profits.					
4	Repaying loans with high-interest rates negatively impacts my cash flow.					
5	I am hesitant to take loans because of the high-interest rates.					

6	The profitability of my business is directly affected by changes in loan interest rates					
7	High-interest rates limit my ability to invest in business expansion.					
8	My business would perform better if loan interest rates were more affordable.					
9	Low loan interest rates give my business financial flexibility to explore new markets and opportunities.					
10	The burden of high interest rates has made it challenging for my business to remain competitive.					

SECTION C

Rate your degree of agreement using a scale of 5=Strongly agree, 4=Agree, 3=Not sure, 2=Disagree and 1=strongly disagree.

The influence of interest rates on the growth and expansion of small-scale businesses.

1	High loan interest rates hinder the ability of my business to expand					
2	I avoid taking loans due to the high interest rates offered by lenders.					
3	Lower loan interest rates would encourage me to borrow more for business growth					
4	The current loan interest rates limit my ability to invest in new business opportunities.					
5	High interest rates on loans have negatively impacted the profitability of my business.					
6	My business growth has been slowed down by the burden of repaying high-interest loans.					
7	Affordable loan interest rates are essential for the expansion of my business.					
8	I am more likely to seek alternative financing options due to the high interest rates on loans.					
9	Low interest rate enables my business to increase inventory and meet customer demand.					
10	High interest rates limit my access to credit funding and competitiveness in the market.					

SECTION D

Rate your degree of agreement using a scale of 5=Strongly agree, 4=Agree, 3=Not sure, 2=Disagree and 1=strongly disagree.

The relationship between loan interest rates and the financial stability of small-scale businesses

	Loan interest rates	5	4	3	2	1
A	High loan interest rates					
1	High loan interest rates negatively impact my business's financial stability					
2	I struggle to meet my loan repayments due to the high interest rates.					
3	I consider alternative funding options due to high interest rates.					
4	High interest rates reduce my ability to respond to new business opportunities.					
5	High interest rates negatively impact my credit score and reputation.					
6	I increase my prices to compensate for the high interest rates costs.					
7	I postpone or cancel projects due to the high cost of borrowing.					
8	High interest rates reduce my cash flow and make it difficult to meet my financial obligations.					
B	Medium loan interest rates					
1	Medium interest rates allow my business to explore new markets and opportunities.					
2	My business experience steady growth					
3	I am able to maintain the pricing strategy and maintain a healthy credit score					
4	Medium interest rates allow my business to maintain a stable financial position.					

5	Borrowing costs are manageable and I can absorb the interest expenses.					
6	My business experience steady growth and medium interest rates have not hindered my progress.					
7	Medium interest rates enable me to maintain a healthy credit score.					
8	I am able to maintain my pricing strategy without passing on interest costs to customers.					
C	Low loan interest rates					
1	I am able to refinance my debt and reduce my borrowing costs.					
2	Low loan interest rates enable me expand my business and increase revenue.					
3	My cashflow improve significantly due to the low interest rates.					
4	I am able to pay off my debt faster					
5	My business is able to increase profit margins and improve bottom line.					
6	Low interest rates allow my business invest in new equipment and technology.					
7	My business experience rapid growth, and low interest interest rates is a key factor.					
8	Low interest rates enable me to improve my credit score and reputation.					
	Financial performance					
A	Sales Turnover					
1	My business experiences a decrease in turnover due to the high cost of borrowing.					
2	My financial stability is affected by the fluctuation in loan interest rates.					
3	High loan interest rates negatively impact my turnover and financial stability.					

4	I experience a significant increase in turnover due to low interest loans.					
5	When sales growth is stagnant, my business finds it challenging to meet its financial commitments.					
6	Despite high loan interest rates, my sales turnover has remains strong due to my ability to pass on increased costs to customers.					
7	Loan interest rates have a direct impact on my pricing strategy, which affects my sales turnover.					
8	High loan interest rates force me to prioritize debt repayment over sales growth initiatives, negatively impacting my sales turnover.					
B	Asset base					
1	My asset base allows me secure better loan terms and low interest rates.					
2	I use my asset base as collateral to access loans with high interest rates.					
3	Increase in my market value due to strength of my asset base and low interest rates.					
4	My asset base is diversified across multiple categories, including property, equipment and inventory.					
5	My asset base improves my creditworthiness allowing me to access lower interest rates.					
6	Asset base allows my business to pursue strategic acquisitions and partnerships.					
7	I see improvements in my financial ratios and metrics due to my asset base and low interest rates.					
8	I have a strong focus on asset utilization and optimization.					
C	Liquidity ratio					
1	Increased liquidity has allowed my business to take advantage of immediate opportunities without needing external financing.					

2	My business ability to maintain adequate liquidity levels directly impacts our capacity to meet short term financial obligations.					
3	The financial stability of my business is closely tied to maintaining a strong liquidity position.					
4	When liquidity ratios are low, my business faces challenges in covering day-to-day operational expenses.					
5	The growth in sales has significantly enhanced my business's ability to repay loans on time.					
6	The financial stability of my business is closely linked to maintaining consistent liquidity ratio.					
7	I struggle to maintain a healthy liquidity ratio due to high loan interest rates and reduced cash flow.					
8	My liquidity ratio allows me to take advantage of business opportunities and grow my business.					
D	Intervening variable: loan management					
1	Timely loan repayments improves my credit scores and increase financing options.					
2	Successful loan management enables my business to increase financial stability and reduced debt.					
3	Poor loan management harms lender relationships and limit access to capital.					
4	Poorly structured loan portfolio increases financial risks and reduce credit worthiness.					
5	Loan management allows my business to weather financial storms and economic downturns.					
6	I experience improved financial stability when I manage loans properly.					
7	I experience reduced financial stress due to proper loan management.					
8	I manage my loans to minimize the impact of high interest rates on financial performance of my business.					

Thank you

Appendix 2: Introductory letter



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

28th Aug, 2024

TO WHOM IT MAY CONCERN

Name: **NAMONO SHARIFA**

Reg. **J22B05/146**

A bachelor's student who is seeking permission from your office to collect data for her dissertation titled

The Effect of Loan Interest Rates of Financial Performance on Small Scale Businesses in Mukono. A case study of Mukono Municipality

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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Facebook: Ugandachristianuniversity Instagram: @UCUniversity, Founded by the Province of Church of Uganda, Chartered by the Government of Uganda.

Appendix 3: Field work attachments

