THE BANK INTEREST RATES AND PERFORMANCE OF BUSINESS ENTERPRISES IN UGANDA. CASE STUDY OF NAKUMATT SUPERMARKET, KAMPALA - UGANDA

BY

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A RESEACH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULLFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELORS DEGREE IN BUSINESS ADIMINSTRATION, OF KAMPALA INTERNATIONAL UNIVERSITY

JULY, 2013

DECLARATION

I **Nabaasa Crispus,** declare that this report is my original work and has never been presented anywhere for any award of any other university.

Signature:...................................... Date..03 07 2013..

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APPROVAL

This is to certify that this report has been done under my supervision and submitted to the college of economics and management sciences for examination with my approval.

Signed:...

DR.GEORGE STANLEY KINYATA (supervisor)

Date...

DEDICATION

This report is dedicated to my beloved parents Mr. Katensa John and Mrs. Lydia Katensa and my siblings for the love and feel of belongingness, the courage they have bestowed to me which has elevated me to the completion of this course.

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Whereas a report is an individual task, I still believe however without any support it is impossible to accomplish successfully. I would therefore acknowledge the almighty God for the strength, wisdom and understanding granted to me in completion of my research report.

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ABSTRACT

The purpose of the study was to determine the impact of interest rates on the performance of business enterprises in Uganda, the case study of Nakumatt Supermarket, Kampala, Uganda. The study was based three objectives which are;

i. To ascertain the effects of high interest rates on the performance of business enterprises in Uganda.
ii. To ascertain the effects of low interest rates on the performance of business enterprises in Uganda.
iii. To determine the different types of interest rates that affect business enterprises.

The researcher used purposive sampling to select the respondents from whom to obtain valid information about the study. This was through the issue of questionnaires and interview supplement tools while gathering the information.

Findings of the study revealed that there are two major forms of interest rates which include high interest rates and low interest rates. Within these, others are embedded; they include nominal interest rates, real interest rates, market interest rates and default interest rates. However, from all of the above, market interest rates are most evident compared to others. Findings have revealed the above interest rates (high interest rates) to have the following impact on the performance of enterprises: Speculative investments rather productive activities, skyrocketing prices and wages. More so, low interest rates have enhanced borrowing hence improved purchasing power of customers, and long-term plans and investment's for enterprises.

The researcher recommends that the central bank should curb high interest rates by increasing the central bank rate which will help to reduce lending by commercial banks, hence curbing down the level of liquid cash from the public and lowering down interest rates. Also, the company should invest in projects like research and development to develop innovations within the market. It should also carry out processes and procedures to evaluate their performance in different economic conditions and be able to speculate in the near future.

CHAPTER ONE

1.0 Introduction

This research was based on the topic "the bank interest rates on the performance of business enterprises in Uganda. Case study Nakumatt supermarket.

Interest rates defined.

According to Brownbridge (1978), it is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate". When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher.

This chapter includes the back ground of the study, statement of the problem, objectives of the study, research questions, significant of the study, limitations of the study, how to overcome the limitations, the scope of the study and conceptual frame work of the study. This study will be carried out to establish variation of interest rates and determine their positive and negative impact on the businesses' performance, determine the degree of impact and suggest possible solutions to the minimize the negative effects on businesses in Uganda and ascertain the polices that are employed by the central bank to control interest rates in the economy.

1.1 Background of the Study

Nakumatt is one of the largest private retail companies in east Africa. Nakumatt is a wholly Kenyan, privately held company, owned by the Atul Shah family and Hotnet Limited.
This company was founded in 1987 in Kenya Nairobi and has established many branches all over East Africa., In June 2009, the first Nakumatt store in Uganda opened on Yusuf Lule Road on Kololo Hill, in central Kampala, the capital city which is the case study. In November 2010,

Nakumatt expanded its footprint in Kampala by acquiring Payless Supermarket, a Ugandan supermarket chain with two stores in the Kampala suburbs of Bugoloobi and Bukoto, bringing the number of stores in Uganda to three. Nakumatt prides itself in delivering quality, value, service, variety and lifestyle enhancing products. The retail chain conducts its business with honesty and integrity, ensuring high standards in all areas that ultimately improve the economy of the region and the country.

The company boasts a dynamic management team committed to getting the best possible results so that the accumulated benefits can be passed on to consumers via access to a broader range of quality, affordable products and excellent services. The payoff line "You need it, we've got it!" indicates Nakumatt's commitment to providing the largest variety and highest quality of local and international brands at reasonable and uniform prices. This, coupled with unmatched service from warm, friendly and always helpful staff in modern facilities, sets the tone for the ultimate shopping experience. Nakumatt's goal is to create a chain of superstores in strategic locations delivering quality, value, service, variety and lifestyle, with convenient opening hours giving everyone the opportunity to shop at any of its stores countrywide. To ensure a clear focus of quality across the organization and direct employee activities

towards quality, customer focus and continual improvement, Nakumatt's top management is committed to a Quality Policy Statement, which reads: "Nakumatt Holdings Limited is committed to providing a variety of affordable, quality brands as well as excellent and superior quality service to our customers."

Nakumatt deals in general retail merchandise which includes wide range of products from furniture, bicycles, toys, clothes, carpets. They also have a bakery, wines, electronics, beds and also books among others. So this is a must visit for shopping lovers.

1.2 Statement of the Problem

There is need to determine the negative and positive effects of interest rates on the performance of a business entity and how these interest rates affect an enterprise through borrowing. An interest rate is the rate at which interest is paid by borrowers for the use of money that they borrow from a lender (banks). For example, if Nakumatt borrows capital from a bank at a high interest rate or low interest rate to buy new assets for its business, in return the lender will receive interest at a predetermined interest rate for deferring the use of funds. Interest rates are normally expressed as a percentage of the principal for a period of one year.

In this regard the researcher will pick interest to discover the impact of high or low interest rates given an entity borrowing. In this case pricing, insurance expenses, tax, can employees remuneration can be determined or affected by interest rates.

1.3 Objectives of the Study

1.3.1 General Objectives

To determine the impact of interest rates on the performance of business enterprises in Uganda.

1.3.2 Specific Objectives

iv. To ascertain the effects of high interest rates on the performance of business enterprises in Uganda.

v. To ascertain the effects of low interest rates on the performance of business enterprises in Uganda.

vi. To determine the different types of interest rates that affect business enterprises.

1.4 Research Questions

i. What are the different types of interest rates that affect business entities in Uganda?

ii. What are implications of high interest rates on the performance of business enterprises in Uganda?

iii. What are implications of low interest rates on the performance of business enterprises in Uganda?

iv. What is the relationship between interest rates and performance of the business enterprises in Uganda?

1.5 Scope of the Study

1.5.1 Contents scope

The study was intended to cover the impact of interest rates in the performance of business enterprises in Uganda. The study was also intended to focus on the availability and reliability of the information or data collected on the effect of interest rates on the performance of business enterprises.

1.5.2 Geographical Scope

The study was to be carried out in Nakumatt supermarket in Kampala - Uganda. The study was to be conducted in the departments of finance, marketing and operations which cover a wide scope of the enterprise.

1.5.3 Time Scope

The study was to cover only information within three years from 2010 to 2013, basing on the most recent data prospects on the impact of interest rates on the performance of business enterprises

1.6 Significant of the Study

The primary significance of this study was to;

Benefit a wide range of people among who include; the researcher himself, the organization / business entity in question, other academicians who ought to do research in the same field of study, the government and entire public.

Provide measures and develop structures which business enterprises can adopt to determine; the risk-free cost of capital, Inflationary expectations, the level of risk in the investment and the costs of the transaction.

Bring more knowledge and be used as a tool for formulation of financial and managerial policies that will assist in the proper running of the business enterprise.

Finally the research was aimed at helping the researcher to fulfill the education award of a degree in business administration in Kampala International University.

1.7 Conceptual Frame work

Independent variable

Interest rates

High interest rates

Simple interest
Nominal interest
Cumulative interest or return
Market interest rates
Default interest

Low interest rates

Dependent variable

Performance of Enterprises

- Speculative (rent seeking) investments rather than productive activities.
- Skyrocketing of prices, wages, to protect themselves
- Loss of business confidence due to uncertainty.
- Significant decline in sales due to high prices imposed on goods.
- Reluctance to investment due to limited borrowing by businesses.

- Improved purchasing power of customers.
- Enhanced long-term plans and investment.
- Prosperity of business in periods of stable prices
- Businesses assume long term plans.
  Increased sales turnover due to high purchasing power of customers

In above conceptual frame work represents the relationship between the independent variable and the dependent variable.
The independent variable is interest rates and the dependent variable is performance of business enterprises.

From the above conceptual frame work high interest rates hinders an enterprise' performance since high interest rates reduce borrowing. Enterprises find a big challenge funding their under takings through borrowing loans on which heavy interest rates are to be paid in return.
The conceptual frame work also relates how business enterprises perform relatively better given under low bank interest rates since this enhances funding through borrowing. With low interest rates firms are able to acquire enough finances which is cost effective in due of the company both in the short run and long run.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter carries out a review of the existing literature on the effects of interest rates on the performance of business enterprises in Uganda. It covers the implications of both high and low interest rates in an economy.

This chapter also includes the overview of how interest rates affect customers' ability to borrow which in turn cuts down aggregate demand. It will also show the different types of interest rates and how they are predetermined by authorities through monetary policy by the central government.

2.2 Definition of Interest Rates

According to Brownbridge (1978), this is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate. Interest is charged by lenders as compensation for the loss of the asset's use. In the case of lending money, the lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset should they have decided to use it themselves.

According to Timothy H. Hannan. (1989). rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. Interest rates often change as a result of inflation and Federal Reserve Board policies. For example, if a lender (such as a bank) charges a customer shs90 in a year on a loan of shs1000, then the interest rate would be 90/1000 *100% = 9%.

From a consumer's perspective, the interest rate is expressed as annual percentage yield (APY) when the interested is earned, for example, from a savings account or a certificate of deposit. When the interest is paid, for example, for a credit card, a mortgage, or a loan, the interest rate is expressed as annual percentage rate (APR).

Interest is a fee paid by a borrower of assets to the owner as a form of compensation for the use of the assets (Acemoglu, D, 2005). It is most commonly the price paid for the use of borrowed money, or money earned by deposited funds.

2.3 Types of Interest Rates

2.3.1 Simple Interest

Simple interest is calculated only on the principal amount, or on that portion of the principal amount that remains unpaid.

The amount of simple interest is calculated according to the following formula:

$$I_{simp} = r \cdot B_0 \cdot m_t$$

Where r is the period interest rate (I/m), B_0 the initial balance and m_t the number of time periods elapsed.

To calculate the period interest rate r, one divides the interest rate I by the number of periods m_t.

There are two complications involved when comparing different simple interest bearing offers.

1. When rates are the same but the periods are different a direct comparison is inaccurate because of the time value of money. Paying \$3 every six months costs more than \$6 paid at year end so, the 6% bond cannot be 'equated' to the 6% GIC.
2. When interest is due, but not paid, does it remain 'interest payable', like the bond's \$3 payment after six months or, will it be added to the balance due? In the latter case it is no longer simple interest, but compound interest.

A bank account that offers only simple interest that money can freely be withdrawn from is unlikely, since withdrawing money and immediately depositing it again would be advantageous.

2.4 Composition of Interest Rates

2.4.1 Nominal Interest

In economics, interest is considered the price of credit; therefore, it is also subject to distortions due to inflation. The nominal interest rate, which refers to the price before adjustment to inflation, is the one visible to the consumer (*i.e.*, the interest tagged in a loan contract, credit card statement, etc.). Nominal interest is composed of the real interest rate plus inflation, among other factors. A simple formula for the nominal interest is:

$$i = r + \pi$$

Where i is the nominal interest, r is the real interest and π is inflation.

This formula attempts to measure the value of the interest in units of stable purchasing power. However, if this statement were true, it would imply at least two misconceptions. First, that all interest rates within an area that shares the same inflation (that is, the same country) should be the same. Secondly, that the lenders know the inflation for the period of time that they are going to lend the money.

One reason behind the difference between the interest that yields a treasury bond and the interest that yields a mortgage loan is the risk that the lender takes from lending money to an economic agent. In this particular case, a government is more likely to pay than a private citizen. Therefore, the interest rate charged to a private citizen is larger than the rate charged to the government.

The calculation for cumulative interest is (FV/PV)-1. It ignores the 'per year' convention and assumes compounding at every payment date. It is usually used to compare two long term opportunities.

2.4.2 Market Interest Rates

There are markets for investments (which include the money market, bond market, as well as retail financial institutions like banks) set interest rates. Each specific debt takes into account the following factors in determining its interest rate:

Opportunity Cost

Opportunity cost encompasses any other use to which the money could be put, including lending to others, investing elsewhere, holding stock (for safety, for example), and simply spending the funds.

Inflation

Since the lender is deferring consumption, they will *wish*, as a bare minimum, to recover enough to pay the increased cost of goods due to inflation. Because future inflation is unknown, there are three ways this might be achieved:

- Charge X% interests 'plus inflation' many governments issue 'real-return' or 'inflation indexed' bonds. The principal amount or the interest payments are continually increased by the rate of inflation. See the discussion at real interest rate.
- Decide on the 'expected' inflation rate. This still leaves the lender exposed to the risk of 'unexpected' inflation.
- Allow the interest rate to be periodically changed. While a 'fixed interest rate' remains the same throughout the life of the debt, 'variable' or 'floating' rates can be reset. There are derivative products that allow for hedging and swaps between the two.

However interest rates are set by the market and it happens frequently that they are insufficient to compensate for inflation: for example at times of high inflation during e.g. the oil crisis; and currently (2011) when real yields on many inflation-linked government stocks are negative.

2.4.3 Default Interest

Default interest is the interest that a borrower would pay if the borrower will not fulfill the loan covenants, Demirguc-Kunt, (2001). The default interest is usually much higher than the original interest since it is reflecting the aggravation in the financial risk of the borrower. The default interest compensates the lender for the added risk.

Banks tend to add default interest to the loan agreements in order to separate between different scenarios.

Deferred Consumption

Charging interest equal only to inflation will leave the lender with the same purchasing power, but they would prefer their own consumption sooner rather than later. There will be an interest premium of the delay. They may not want to consume, but instead would invest in another product. The possible return they could realize in competing investments will determine what interest they charge.

Length of Time

Shorter terms often have less risk of default and exposure to inflation because the near future is easier to predict. In these circumstances, short term interest rates are lower than longer term interest rates (an upward sloping yield curve).

2.5 Government Intervention

Interest rates are generally determined by the market, but government intervention - usually by a central bank - may strongly influence short-term interest rates, and is one of the main tools of monetary policy. The central bank offers to borrow (or lend) large quantities of money at a rate which they determine (sometimes this is money that they have created *ex nihilo*, i.e. printed) which has a major influence on supply and demand and hence on market interest rates.

According to Nicholson Joseph, Interest rates represent the cost of borrowing, or the cost of obtaining money. Though central banks can influence interest rates by adjusting their benchmark interbank overnight lending rate, the most important interest rates are set in open markets. From such benchmarks, the actual rates paid by most businesses and consumers are determined. High interest rates affect business because they influence both their own direct costs and the ability of their customers to borrow and spend.

2.6 Immediate Effects

Changes in interest rates have a gradual effect on the business enterprises over time. The types of businesses most immediately impacted are those that require frequent borrowing. As businesses are forced to renegotiate the terms of their loans, their fixed costs increase. The ultimate effect on the business will be determined by its pricing power, whether it can pass these costs on to consumers or is forced to absorb them. Unfortunately, many of these capital-intensive businesses have the least price elasticity and are least able to offset increased borrowing costs with higher prices.

2.7 Mid-term Effects

As rates increase, consumers find their cost of borrowing goes up as well. This is evident in the cost of financing (or refinancing) large purchases with home mortgages or car loans, down to the annual percentage rate (APR) on their credit cards. Higher interest rates act as a disincentive to carry a balance, which ultimately curbs consumer spending. While this decline in the velocity of money is often a direct aim of central bank rate hikes, it has the consequence of dampening revenue forecasts for retail business.

2.8 Longer-term Effects

Many businesses, of course, are not dependent on end consumers for their profits. These companies are better insulated from high interest rates, but not immune. Ultimately, a slowdown in the rate of growth in the economy causes a build of inventories at the retail level, which leads to a reduction in durable goods and manufacturing orders. Thus, producers, many of whom felt the initial effects of higher borrowing costs, eventually feel the effects of prolonged high interest rates as a decline in demand as well.

2.9 Savings

Another consequence of high interest rates is that it makes saving more attractive. Consumers receive a higher return on their savings accounts and cash-like investments (money-market accounts). The combination of high costs to borrow and high return on savings are an effective deterrent to spending disposable income on nonessential items. Most savvy consumers are willing to earn high rates on savings and spend when rates are low. Businesses also must reevaluate the utility of investing money, and the margin of return they can receive from doing business, against the risk-free return of holding cash.

2.10 Margins

The slowing of production as a result of high inventories causes businesses to postpone capital expenditure, that is, reinvestment of profits back into the business for purposes of expanding. When end demand among consumers is declining, most businesses will find it an unpromising time to increase their spending. Rather, businesses are more likely to try approaches that increase productivity and cut costs in an attempt to meet profit forecasts in a lower-revenue, lower-margin environment. Retailers, by lowering prices, can attempt to make up for the loss in margins through increased volume, capitalizing on the consumer's likely shift to lower-priced goods.

2.11 Uganda's current Interest Structure

Commercial banks have been urged to lower their lending interest rates

Governor Tumusiime Mutebile said "a lot of loans are going bad bsecause of high interest rates"

Despite insisting "there are now signs that economic growth has picked up slightly and will continue to do so in 2013," Mutebile confirmed the central bank had "found out that 4.2% of loans have been declared bad."

He quickly adds "the situation isn't as bad as some would have us believe." Releasing the Monetory policy statement at a press conference in Kampala, Mutebile said the "recovery of shilling based commercial loans remains muted. The bank of Uganda executive director research, Dr Adam Mugume, confirmed fears of a deteriorating situation, saying the "private sector credit overall is growing about 12% annually but this is mostly foreign exchange loans, shilling loans are declining."

He added: "shilling loans are usually personal loans or other small scale loans, whereas manufacturing and construction borrow in foreign exchange."

While bank of Uganda has been painting a picture of a booming economy the high interest rates in commercial banks have discouraged borrowing which has led to stagnation in growth of business.

Such a situation usually leads to fewer investments collapse of business and high levels of un employment since employers can only afford to maintain a small labor force.

Without enough capital to spur growth of businesses, tax revenues shrinks leading to slow economic growth and development.

According to Dr Mugume, both banks and borrowers contribute to subdue borrowing through interest rates and reduced demand respectively.

He further advises that a low CBR of 12 % means banks can afford to get all the liquidity they need. "We expect banks to lower their rates because they can get all the liquidity they need within the we have set," said Dr Mugume, adding "we asked commercial banks what their prime lending rates would be, they said we would see a slight reduction.

On economic growth, Dr Mugume projected: "we expect lending rates would have reacted much faster to CBR, but man shocks squeeze over like the GDP in America are falling.
Regarding efforts taken to stabilize the exchange rate Dr Mugume observed: "you can't really predict the trend of the exchange rate otherwise you would make a lot of money."

He said bank of Uganda was giving the market the amount of liquidity so that interbank rate is not volatile.
Meanwhile, the governor said the inflation picture in January 2013 was mixed.
While annual headline inflation declined to 4.9% from 5.3% in December 2012, annual core inflation rose to 5.6% from 4.6% in December 2012, an increase of 1% point.
Whereas headline inflation declined, largely as a result of food crops that declined on average by 5.7% in the last two months, core inflation increased on average by percent month on month.

Following the stance of monetary easing that has already taken place, there are now indications that subdued growth rates of 2012, albeit at a slow pace.
However, recovery in shilling denominated loans to the private sector remains muted.

2.12 INFLATION (UGANDA)

According to Mutebile, turning to the near term outlook for economic activity, economic growth momentum is expected to pick up slightly in the reminder of 2013.
"However, the down side risk to economic outlook is the projection for continued subdued private sector spending decisions," he maintained.

The overall outlook is for subdued domestic demand and persistence of excess capacity into the next financial year.
Mutebile said the priority of monetary policy remains holding future average inflation around 5% target, while at the same time supporting continued recovery of the economy. The recent upward of the movement of core inflation is temporary and the medium term policy target rate of 5% per annum.

However, there are risk to higher inflation which includes commodity price shocks and exchange rate depreciation pressures given the current account balance. This is balanced by continued weakness in domestic demand.

Given the largely unchanged macroeconomic prospects for the medium term BoU will maintain the CBR at 12%, said the central bank boss.

To reduce volatility in the short term interest rate, the band around the CBR is reduced to +/-2 percentage points from +/-3 percentage points. The rediscount rate and the bank rate for February 2013 will be 15% and 16%, respectively.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was adopted in the study and the technique used in data collection. It includes the study population, data collection instruments, processing instruments, processing and analysis methods, and limitations.

3.2 Research Design

The researcher employed both qualitative and quantitative methods of data collection analysis.

3.3 Target Population

The population constituted 50 employees of Nakumatt supermarket who included; financial officers, department managers, cashiers, accountants, operations managers, accountants in inventory management and book keeping and other employees in the enterprise.

3.4 Sample Size

The survey was aggregated on 44 respondents who are employees of Nakumatt supermarket especially from finance and accounting departments, marketing departments and who were to be determined by use of Slovenes formula as illustrated below.

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

Where n = number of samples

N = Population size

e = error torelence

1 = constant

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

$$n = \frac{50}{1 + 50(0.05)^2}$$

$$n = 44$$

3.5 Sampling Design

The researcher used purposive sampling to select the respondents from whom to obtain valid information about the study. This was through the issue of questionnaires and interview supplement tools while gathering the information.

3.6 Data Collection Instruments

The researcher synchronized use of the interview guide and the questionnaires to gather the relevant facts. The records critically inspected the information gathered and carefully put it on both research instruments that is, the questionnaire and the interview guide from the response thereafter the findings.

3.6.1 Observation

This was conducted during the time of interview to examine and observe the variation of interest rates in a period of three years and its contribution or effect to the performance of the enterprise.

3.6.2 Questionnaires

These were designed in a way that respondents were able to give a single answer among other alternatives on the question paper.

The respondents were approached and availed with questionnaires which they were asked to fill answers of different outlooks.

3.6.3 Interviews

These involved interpersonal talk between the researcher and the various respondents in order to obtain useful information about the bank interest rates on the performance of the enterprise. Respondents will involve the clients, managers and heads of departments.

3.7 Research Procedures

The researcher obtained an introductory letter from Kampala international university, college of economics and management sciences which was showing his intentions in the organization /

enterprise and showed that he was supported by the university to carry out the research for a significant implication.

3.8 Data Analysis and Presentation.

This section deals with the organization / enterprise and interpretation of the collected data. The researcher used data analysis to examine the data collected in the survey and. Data collected was analyzed by use of quantitative techniques where simple quantitative techniques such as graphs, frequency tables and frequency distribution curves among others were employed.

3.9 Limitation of the Study

The researcher expected to finish the research effectively however within a couple of challenges throughout as described below;

The time allocated be was not enough to complete the research given a period of only one month to finalize with the research report. This was a hindrance to finding and conveying detailed facts about interest rates and their impact on the enterprise.

The researcher being a student had limited resources which involved finances among others in accomplishing the research with less friction. Materials involved included; stationary, transport costs, typing and photocopying costs, communication costs, including other academic responsibilities at the university.

3.10 How to overcome the Limitations

To overcome the problem of communication with respondents, the researcher made sure that, the objectives of the study were very clear to the respondents and this helped him in acquiring the necessary information about the study.

On the problem of time the researcher tried to adjust his time table to suit with the time that was convenient to the respondents he was able to obtain the necessary information.

On the problem of finances, the researcher used the resources sparingly and made sure that his project is was finished successfully.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter presents the findings and disclosures of the study from the data obtained from the field. This was aimed at availing answers to the research questions and an interpretation of these findings prior research questions and interpretation of the relevant findings of the research objectives. Throughout frequency tables, figures, and other statistical tool were used.

4.2 Findings on the demographic characteristics of respondents

Out of the 44 questionnaires distributed to respondents, all were returned giving respondent rate of 100%.

Table 1: Showing distribution of respondents by gender.

Category of respondents	**frequency**	**Female**	**male**	**Percentage (%)**
Financial officers	3	2	1	6.8
Sales managers	10	4	6	22.7
Cashiers	6	4	2	13.6
Accountants	4	1	3	9
Operation managers	8	3	5	18.2
Inventory managers	13	3	10	29.5
Total	**44**	**17**	**27**	**100**

Source: primary data

From the table above approximately 38.6% of the respondents were female and 61.4% were male. This implies that majority of respondents were males thus Nakumatt company employs a greater number of male than female.

Table 2 above shows that for the 44 respondents, who participated, 29 were male and 15 were which 65.9% of the total respondents whereas 15 were female giving 34.1% of the total respondents. However the statistics indicate gender balance is not key in the organization since the percentage of male response greatly out numbers that of females with a difference of 31.8%.

Table 2: Showing the age of the different respondents within the organization.

Age group(years)	**Tally**	**Frequency**	**Percentage (%)**
Below 25	~~IIII~~	5	11.4
26-35	~~IIII~~ ~~IIII~~ ~~IIII~~ ~~IIII~~	20	45.5
36-45	~~IIII~~ ~~IIII~~ ~~IIII~~	15	34.1
46-above	IIII	4	9
Total		44	100

Source: primary data

Table 3: Shows that respondents within the age group of 25 and below were 11.4%, 26-35 formed 45.5% which is the highest, 36-45 formed 34.1% which is the second highest and them between 46 and above with the lowest percentage of 9%.

Table 3: showing the education back ground of the respondents.

Duration of employment	Financial officers	Sales managers	Accountants and cashiers	Operation managers	Inventory managers	frequency	Percentage (%)
O' level	0	0	0	0	0	0	0
A level	0	0	0	1	5	6	13.7
Diploma	1	4	3	2	7	17	38.6
Degree	2	6	7	5	1	21	47.7
Total	3	10	10	8	13	44	100

Source: primary data

According to the statistics from research, from the table above the company does not employ o'level leavers in any of the above significant positions of employment. However of the total respondents 13.7% are A'level leavers, 38.6% are diploma holders, and 47.7% are degree holders. This implies that Nakumatt supermarket employs technical people, degree holders with the highest percentage followed by diploma holders.

Table 4: showing the duration of employment of respondents in the organization.

)uration of mployment	Financial officers	Sales managers	Accountants and cashiers	Operation managers	Inventory managers	Frequency	Percentage (%)
3elow 5	3	10	10	8	13	44	100

Source: primary data

From the table above 100 % of the respondent employees are below 5years duration of employment. This is because Nakumatt Company is a new company that has only established in Uganda for only 4years since June 2009.

Table 5: Showing the marital status of respondents

Marital status	Frequency	Percentage (%)
Single	10	22.7
Married	30	68.2
Separated	3	6.8
Divorced	1	2.3
Widowed	0	0
Total	44	100

Source: primary data

From the table above the frequency of respondents who are single is 10 giving a percentage of 22.7%, married employees are 30 giving a percentage of 68.2%, employees who are separated are 3 giving a percentage of 6.8%, 1 of them is divorced giving a percentage of2.3% and there are no any who are widowed.

Table 6 showing how interest rates affect organizational performance in Nakumatt supermarket.

Sex of respondents	No. of respondents	Percentage (%)
Male	29	65.9
Female	15	34.1
Total	44	100

Source: primary data

From the above table, results show that male employees who responded to the effect of interest rates outnumber the female respondents by 31.8%. This is an implication that Nakumatt employs more male employees than female employees.

Table 7: showing the respondents to the different types of interest rates affecting the organization.

Interest rates	**Tally**	**frequency**	**Percentage**
Nominal interest rates	~~HH~~ III	8	18.2
Real interest rates	~~HH~~ ~~HH~~ II	12	27.3
Market interest rates	~~HH~~ ~~HH~~ ~~HH~~ I	16	36.4
default interest rates	~~HH~~ III	8	18.1
Total		44	100

Source: primary data

From the table above employees who respond to nominal interest rates are 8 giving are a percentage of 18.2%, employees who respond to real interest rates are 12 giving a percentage of 27.3%, them that respond to market interest rates are 16 giving a percentage of 36.4%, and default interest rates are 8 giving a percentage of 18.1%. This implies that market interest rates most influencing in the economy.

Table 8: Showing the respondents to the average level of interest rates and their impact on business performance that have prevailed over the last three consecutive years.

Sex of respondents	Tally	frequency	Percentage (%)
Male	~~IIII~~ ~~IIII~~ ~~IIII~~ ~~IIII~~ ~~IIII~~ IIII	29	65.9
Female	~~IIII~~ ~~IIII~~ ~~IIII~~	15	34.1
Total		44	100

Source: primary data

From the above table a greater number of male employees which is 29 that is, 65.9% of the total respondents, while female employees are 15 that is, 34.1% of the total respondents.

4.3 Effects of interest rates on the performance of Nakumatt super market in Uganda.

The research revealed that there is a greater effect on to the performance of Nakumatt super market in Kampala city (Uganda).

Like any other business Nakumatt not operating in a vacuum quite a number of interest rates have influenced its operations which were proved evident from the research carried out that is nominal interest rates, real interest rates, market interest rates and default interest rates.

Due to the impact of interest rates the company has been subjected to the economic scale which is unpredictable. This has called the need for, to review its human resource staff and making decisions to employment of experts that are able to predict and account for the economic resources of the company. These technical personnel have included professional accountants, operation managers and marketing managers. Therefore this exercise has costed the company so dearly increasing expenditure on labor employment and reducing the hitherto profit margin of the company.

Research has found that Changes in interest rates are creating a gradual effect on the business enterprises over time as it also requires some borrowings to meet short and long term budgets.

Nakumatt as a business are forced to renegotiate the terms of their loans, their fixed costs increase. It's been found that the ultimate effect of interests on the business will be determined by its pricing power, whether it can pass these costs on to consumers or is forced to absorb them. Unfortunately, Nakumatt as an intensive business has the least price elasticity and are least able to offset increased borrowing costs with higher prices.

As rates increased during the aftermath of the Uganda presidential elections, Consumers found their cost of borrowing going up as well. This was evident in the cost of financing (or refinancing) large purchases with their endowment, down to the annual percentage rate (APR) on their credit cards. Higher interest rates have acted as a disincentive to carry a balance, which ultimately curbs consumer spending. While this decline in the velocity of money is often a direct aim of central bank rate hikes, it has the consequence of dampening revenue forecasts for the company business.

Nakumatt Company in Uganda, of course, is not dependent on end consumers for their profits. In this case the company is better insulated from high interest rates, but not immune. Ultimately, a slowdown in the rate of growth in the economy has caused a build of inventories at the retail level, which has led to a reduction in durable goods and manufacturing orders. Thus, as accompany, it has felt the initial effects of higher borrowing costs, eventually this may result to effects of prolonged high interest rates as a decline in demand as well.

4.4 Different interest rates that have caused significant effects on the company.

Nominal Interest rates.

According to Avery, R. B., Calem, P in their book Consumer credit scoring,

The nominal interest rate, refers to the price before adjustment to inflation, is the one visible to the consumer (*i.e.*, the interest tagged in a loan contract, credit card statement, etc.). Nominal interest is composed of the real interest rate plus inflation, among other factors.

Therefore due to the direct impact of the high cost to the consumers, this has cut down the purchasing power of some consumers of their products since the entire cost is embedded in the products and therefore drawn back to the consumer cut down average sales of the company itself.

Market interest rates.

These are interest rates that are set by financial institutions as banks (central bank) and even through commercial banks.

From the prior periods 2010 to 2012 following the oil crisis, Uganda faced a challenge in its economy through the economic market and pulling forces of demand and supply in the global market which also stretched to home business. In the same situation central bank of Uganda adjusted the lending rates when Governor Tumusiime Mutebire said "a lot of loans are going bad because of high interest rates. In this case research has found that Nakumatt as accompany dealing in general merchandise was greatly affected by this pull in the market with rising costs of products that also extended to increased costs to transportation, labor, welfare of employees, employee benefits and general operations of the company to the cutting down of their profit margin.

However the above is completely different as in the case of low interest rates, borrowing is enhanced and the company is able to meet its short and long term obligations. In this situation 2009 to 2010 the level of interest rates was average, the company ably lifted up its competitive edge despite it was new in the market. This showed that there was high demand to consumption and increase in the volume of sales. This enabled the company to make a quick shift in the market beside with its giant threat Uchumi supermarket.

In this very situation the company had an enormous level of stock turnover throughout its trading periods and this is an implication of the discrepancy between these phenomena of interest rates that is, high interest rates and low interest rates as they both affect this company.

Throughout the three consecutive years with the experience of both high interest rates and low interest rates the average level of interest rates is trotting ranging from 15% to 20% in the economy of Uganda.`

4.5 The various measures that Nakumatt supermarket has put in consideration to mitigate the impact of bank interest rates on the company.

Employment of technical staff.

Research has revealed that Nakumatt Company has employed technical personnel who include professional accounts that are to plan, budget for operations and the overall expenditures of the company. This is to enable proper accountability of the company's resources in order to avoid wastage and increase profitability of the firm. Finally this will increase reserve capital which can finance such unpredictable economic variances.

Negotiations

The company also has been in position to negotiate for the best loans with low interest rates to avoid big burdens during repayment.

Ensuring quality products and services.

The company also has banked serving the best quality services and product to induce customers to buy irrespective of economic influences. This has enabled the company to survive all economic differences.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter basically summarizes major findings of the study, conclusions, recommendations, and importance for future researchers.

According to Brownbridge (1978), in his book "financial regulation in developing countries", interest rates is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate. Interest is charged by lenders as compensation for the loss of the asset's use. In the case of lending money, the lender could have invested the funds instead of lending them out. Brownbridge further emphasizes that with lending a large asset, the lender may have been able to generate income from the asset should they have decided to use it themselves.
According to Timothy H. Hannan. (1989) in his book "review of economics and statistics", interest rate is that rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. Interest rates often change as a result of inflation.

From a consumer's perspective, the interest rate is expressed as annual percentage yield (APY) when the interest is earned, for example, from a savings account or a certificate of deposit. When the interest is paid, for example, for a credit card, a mortgage, or a loan, the interest rate is expressed as annual percentage rate (APR).

This also agrees with the above two definitions that interest is a fee paid by a borrower of assets to the owner as a form of compensation for the use of the assets (Acemoglu, D, 2005). It is most commonly the price paid for the use of borrowed money, or money earned by deposited funds.
The general objective of the study was to determine the impact of interest rates on the performance of Nakumatt supermarket Kampala-Uganda. And more specific objectives were to; To ascertain the effects of high interest rates on the performance of Nakumatt supermarket

To ascertain the effects of low interest rates on the performance of Nakumatt supermarket and finally to determine the different types of interest rates that affect Nakumatt supermarket.

Findings from the research study show that nakumatt has experienced both high and low interest rates. From 2009-2010 nakumatt was operating in stable economy which facilitated its faster move into the market. This was backed up with proper managerial strategies as marketing strategy, operations, technical planning.
However this was disproved by the economic crunch prior 2010 through 2012 following the oil crisis. This skyrocketed interest rates which increased expenditure of the company in its operations and even to its profit margins. However this has been stabilized by forces of demand and supply within the economy.
From the study, it has revealed that the government has tried to reduce the effects of inflation through monetary policy and tools of monetary policy. The central bank working with commercial banks has curbed inflation reducing interest rates through reduced lending out of loans to the public. And this has reduced liquid cash from the public.

5.2 Conclusions

From the study it was evident that there are two major forms of interest rates which include high interest rates and low interest rates. Within these others are embedded, they include nominal interest rates, real interest rates, market interest rates and default interest rates. However of all these market interest rates are most evident compared to others.

Despite the economic highways, the company should seek more opportunities to stand amidst of challenges in a perfect market. More so the company's technical staff should be able to plan, budget, estimate and speculate, implement even to mitigation of negative economic implications.

The organization should also involve in major aspects as research and development. This will enable the company to come out with new innovations in the business world and out compete its competitors.

5.3 Recommendations

Central bank

Considering speculative investments and loss of business confidence due to uncertainty of the market conditions, the central bank should curb high interest rates by increasing the central bank rate.

This will help to reduce lending by commercial banks, hence curbing down the level of liquid cash from the public and lowering down interest rates. This will help to create a stable economy for business enterprises to run effectively.

The government

The researcher recommends the government to continue working with the central bank through monetary policy to stabilize the economy. However the government should avoid printing of more money as has been a case during elections. Throughout the study it has shown that much money was printed in the year 2010 which is thought to have been an intension to finance election period in the year 2011.

The general public

From the study carried out interest rates can increase depending on the power of the operating forces of demand and supply. In this scenario, the researcher recommends the general public to observe or reduce their levels of borrowing for consumption. That is, the public should change their borrowing motive, from holding money for consumption to holding money for investment which is non inflationary.

Human resource management of the company

The human resource management of the company should dearly maintain their technical employees who include accountant and operation managers among others since they have been able plan for the company to be a going concern even among economic difficulties. However as the economy is not predictable of its growth I would recommend that the management should train build and maintain its employees for a better future.

Finance managers of the company

From the study evidence, finance managers have been able to plan, budget and produce financial reports annually keeping the good reputation of the company. They should also be in position find the most cost effective means of raising capital like use reserves instead of loans and be able to define how the funds are going to be raised. More so they have to acquire more skills through training to be equipped for other economic advances in the future.

Marketing managers

From the research ,findings show that the company's marketing team is competent and have made the company popular in the city Kampala, however they should find the most cost effective means in launching a given marketing campaign. This may reduce risks to borrowing by the company hence avoiding such unfavorable interest rates attached to loans.

5.4 General recommendation.

In general I would recommend that the company should invest in projects like research and development to develop innovations within the market. Also should carry out processes and procedures to evaluate their performance in different economic conditions and be able to speculate in the near future.

5.5 Area for future researchers

Future needed to put more focus on covering the major intervening variable that bring about high levels of inflation most especially in developing countries like Uganda. They should also come out with solutions of how different business enterprises can sustainably survive in an economy that is worse off.

Future researchers also needed to identify the relationship between interest rates and business performance in a given economic setting. They should be able to identify how they relate or reconcile to each other to culminating to either positive or negative effects in a given economic environment.

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENTS

(a) **Questionnaire**

STUDY QUESTIONNAIRE ON THE IMPACT OF BANK INTEREST RATES ON THE PERFOMANCE OF BUNESSES ENTERPRISES IN UGANDA ACASE STUDY NAKUMATT IN KAMPALA CITY NEAR GARDEN CITY AND CENTENARY PARK.

Dear respondents,

This questionnaire is designed for the above study and the information you provide will help the researcher understand it better because you are the one who gives me the correct picture frankly and in good conscience. It is a Kampala university requirement for students to undertake academic research in partial fulfillment on their course (bachelors of business administration program). Thus it is my humble appeal that you commit some time and complete this questionnaire. Your response will strictly be confidential and solely use for only study purposes. Thank you for your time and corporation.

Please tick in the appropriate box

General information

Position ____

Sex

Male ☐

Female ☐

Age

Under 25 ☐

25-35 ☐

35-45 ☐

45-above ☐

Level of education

O' level ☐

A' level ☐

Diploma ☐

Degree ☐

Other training ______________________________

Duration of employment with Nakumatt supermarket

Below 5 years ☐

5 – 10 ☐

10 – 15 ☐

15-above ☐

Marital status

Single ☐

Married ☐

Separated ☐

Divorced ☐

Widowed ☐

Interest rates

Is the business entity affected by interest rates?

Yes ☐ No ☐

The business is affected by the following form of interest rates; please tick in the appropriate cell.

Interest Rates	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
Nominal interest rates					
Real interest rates					
Market interest rates					
Default interest					

What level of interest rates has prevailed over the last three consecutive years?

2011	Very high	Average	Very low

2012	Very high	Average	Very low

2013s	Very high	Average	Very low

Business performance

High interest rates have hindered productivity levels within the business

Strongly agree ☐

Disagree ☐

Agree ☐

Strongly disagree ☐

Not sure ☐

High interest rates have accelerated prices of goods and services within the business enterprise

Strongly agree ☐

Disagree ☐

Agree ☐

Strongly disagree ☐

Not sure ☐

Low /average interest rates have enhanced the purchasing power and increased turnover of sales over time.

Strongly agree ☐

Disagree ☐

Agree ☐

Strongly disagree ☐

Not sure ☐

Low / average interest rates enhance flexibility through business activities

Strongly agree ☐

Disagree ☐

Agree ☐

Strongly disagree ☐

Not sure ☐

What are measures / procedures adopted by the organization to minimize the adverse effects of interest rates on the organization? (3)

1) ____

2) ____

3) ____

Thank you for being such a corporative respondent, your contribution to this study is greatly appreciated.

Sign……………………………………………………..

Date………………………………………………………..

(b) Interview guide

1. Is the organization affected by interest rates?

2. How has high interest rates affected the business borrowing routines?

3. How has low interest rates affected the business borrowing routines?

4. Has the level of sales returns been affected by the level of interest rates?

5. How has the level of interest rates affected the level of stock turnovers?

6. How are variations in interest rates affecting the customers' purchasing power?

7. What is the average level of interests rates in the last three years expressed as a Percentage?
8. What are some of the measurements/steps taken by the business entity to reduce the impact of varying interest rates over time?

APPENDIX II: TIME FRAME FOR RESEARCH PROJECT

ACTIVITY	DURATION
Proposal writing	MARCH - APRIL
Data collection	APRIL - MAY
Data analysis and presentation	MAY
Submission	MAY
TOTAL TIME USED	**TWO MONTHS**

APPENDIX III: THE PROPOSED BUDGET

Serial no	Items	Unit Quantity(Shs)	Amount(Shs)
1	1ream of duplicated	12000	12000
2	papers	500	1500
3	3pens	20000	20000
4	Communication costs	30000	30000
5	Transport costs	15000	15000
6	**Sub total**	**77500**	**78500**
7	Meals	50000	50000
8	Photocopy	20000	20000
9	Printing	50000	50000
10	Binding costs	60000	60000
11	Miscellaneous	50000	50000
12	**Sub total**	**230000**	**230000**
13	**Grand total**	**307500**	**308500**