

An Investigation of Factors That Cause SMEs to Default on Loan Repayments

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ABSTRACT

This research study looks into the issue of loan repayment challenges faced by Small and Medium Enterprises (SMEs) in Chipata Business Area, Eastern Province of Zambia. Despite their important role, as stepping stones to economic growth in Chipata and nationwide, in job creation and innovation, livelihood income and wealth creation for their owners, and contributing to government revenues through taxes, SMEs often struggle to meet their financing obligations.

The Bank of Zambia survey conducted revealed a problem that even some of the most profitable SMEs were among loan defaulters in the first quarter of 2013 by 75% and commercial banks and micro-finance institutions were reported to have been experiencing continual loan defaults from SMEs. A report produced by **CEEC for the year 2022**, showed that 70% of the SMEs failed to pay back their loans.

For SMEs, being the vital stepping stones to economic growth and development, it is therefore justifiable for deliberate efforts to be taken to foster their sustainability and growth. This would not be easily attained without the proper comprehension of the impediments at play, and the causes of their defaulting on loans repayments, are some of these impediments.

Through a combination of quantitative and qualitative research methods, this research paper aims to bring out the underlying factors, through the set research objectives, research questions and research hypotheses, that contribute to SMEs loan repayment challenges including the influence of financial practices of SMEs' owners and managers, the impact of economic conditions, the influence of government policies, interventions and financial regulations, not forgetting the influence of financial literacy levels of the SME owners and managers.

The research philosophy that was taken was positivism which promotes objectivity, empiricism, quantification, causality, determinism and universal laws. It is a research philosophy that emphasises the use of scientific methods and empirical evidence to study social phenomena, based on the idea that the only way to truly understand the world is through objective, observable and measurable data. Positivism focuses on hypotheses testing and theory verification. The research approach was deductive which involves a logical and systematic process of developing and testing the hypotheses. It is a top-down approach which starts with a general theory or concept and then narrows down to specific hypothesis and observations. It aims to be objective and unbiased, relying on empirical evidence to support or refute the hypotheses. The research strategy adopted was a case study, which is an in-depth examination of a single case or small number of cases, often in a real world setting to gain detailed insights. The research choice was quantitative with some qualitative elements.

The sampling method that was employed was simple random sampling owing to a smaller population as recommended by Yamane 1967. Finally the sample size was 52 which was determined using the Yamane

1967 formula. Primary data collection was done through a structured questionnaire and with minimal interviews in instances where the questionnaire was delivered physically. Some secondary sources were also used for some data like actual interest rates rise. The research time horizon was cross-sectional as the research was conducted at that point in time and not over a long period of time (i.e. not longitudinal time horizon). Data processing, analysis and interpretation was done using the Statistical Package for Social Sciences (SPSS), a software package that can be used for data analysis, statistical modeling and data visualization and to answer research questions using Analysis of Variance Test (ANOVA), Regression Analyses, Chi-square test and other techniques.

By scrutinizing these dynamics, the study sought to provide insights that could inform policy interventions and practical recommendations to enhance SME loan repayment practices, thereby fostering practical and sustainable financial stability, viability and economic growth in Chipata and the nation as a whole. The could be enhanced by understanding of SMEs loan repayment factors which affected SMEs within Chipata Business Area in Eastern Province of Zambia and the nation as a whole. The research aimed at highlighting these factors and provide insights to address the challenges thereof and help SMEs owners and potential owners within Chipata and probably the whole nation.

The research focused on Chipata Business Area in Eastern Province of Zambia, which is dominated by SMEs, to highlight the challenges SMEs face when engaging with financial institutions in relation to repaying accessed loans. It is for this reason that complete generalization should take into account the time period, economic conditions and government policies prevailing at that time, place, sector, population and other necessary conditions.

Keywords: Small and Medium Size Enterprises (SMEs), loan repayment defaults, Financial Management practices.

CHAPTER 1: INTRODUCTION AND BACKGROUND

1.0 Introduction

Small and Medium Enterprises (SMEs) are the stepping stones of economic growth worldwide, including Zambia, playing an important role in job creation and innovation (UNIDO, 2020). However, they often struggle with loan repayment, raising the questions as to the cause. This study explored some factors contributing to SME loan repayment challenges. The focus was on Chipata Business Area in Eastern Province of Zambia, which was dominated by SMEs at the time of the study, to highlight the challenges SMEs faced when engaging with financial institutions in relation to repayment of accessed loans. Understanding that phenomenon was critical for both Chipata and the nation as a whole, for future policy formulation with regard to economic growth and financial stability via SMEs in Zambia.

This chapter covers the background to the study, statement of the problem, purpose of the study, the research objectives, justification of the study and the hypotheses. It also brings out the research questions framed to achieve the purpose of the study. The background section brings out information on the research interest culminating into the statement of the problem.

1.1 Background of the study

Small and Medium Enterprises (SMEs) have been asserted to be the bases of economies worldwide, including Zambia, playing a major role in economic growth. However, they often struggled with loan repayment, raising the questions why they faltered in fulfilling their financing obligations. This study

explored some of the factors contributing to SME loan repayment failures. This research focused on Chipata Business Area, which was currently dominated by SMEs, to uncover the challenges SMEs faced with regard to repaying loans to the financial institutions. Studies show that SMEs in the country, often resorted to informal financial channels due to lack of collateral to access finance from formal institutions. Even when loans were obtained, repayment remained a challenge for most SMEs. Understanding that phenomenon was crucial for future policy considerations to promote economic growth and financial stability in Zambia.

The intent of the study was not only to highlight the reasons behind SME loan repayment failures but also to propose practical recommendations to address those issues. The research was to contribute to the growth of SMEs by facilitating financial inclusion, economic growth, and prosperity. In this dispensation of connected global economic transformation, enlightenment in the area of challenges SMEs faced in repayment of hardly accessed finance, was a critical component of any economic growth, including Zambia - (World Bank, 2019). The study employed a combination of qualitative and quantitative research methods, including surveys, interviews, and data analysis, to understand the circumstances faced by SMEs in Chipata. It serves as a contributor to economic empowerment and financial stability for Chipata SMEs and similar enterprises across the nation.

1.2 Research problem statement

A research problem is a specific issue, concern, or gap in knowledge that a research study aims to address, investigate, or resolve. It's a clear and concise statement that identifies a knowledge gap or inconsistency the area of study. It also specifies the context and scope of the research and guides the research question and objectives, providing a focus for the study.

It should be noted however that a research problem is not the same as a research topic. A topic is a broad idea, while a problem is a specific and focused idea or need. In this study the research problem is brought out in the following paragraphs.

SMEs are a major contributor to the growth and sustainability of the worlds' economy, Zambia inclusive, through the creation of employment, revenue contribution to the governments through taxes, income generation and wealth creation to the owners thereby reducing poverty.

SMEs generally lack sufficient finance access for investments in profitable projects resulting in retarded growth and unviability, limiting their ability to contribute effectively to sustainable development (Wanjohi and Mugure, 2008). SMEs require access to adequate external financing to facilitate their growth in production and service provision, through innovation and technological enhancement, and consequently financial viability through profitability and liquidity. Nevertheless, SMEs are supposed to pay back these loans at an interest to the lending institutions periodically regardless of whether they are profitable or unprofitable.

Research has shown that liquidity and profitability factors were significant determinants of SMEs' loan defaulting - Fidrimuc et al (2015). Harris (2014), Mansuri (2017) pointed out that flexible repayment-schedule agreements, like weekly or monthly intervals, can significantly lower transaction costs without increasing client default. However, Armendariz and Murdoch (2018) reported a real evidence from Bangladeshi micro-finance providers that suggested that micro-finance contracts with less frequent repayments saw higher client default.

In Zambia, SMEs from the real estate and construction sector, were the most profitable sectors with good profit margins. However, a Bank of Zambia survey conducted showed that these SMEs were among the

top list of big loan defaulters in the first quarter of 2013 by 75%. In Zambia, commercial banks and micro-finance institutions were reported to have been experiencing continual loan defaults from SMEs. A report produced by CEEC for the year 2022, showed that 70% of the SMEs failed to pay back their loans. It is from the aforementioned that this study sought to investigate what factors influenced loan defaulting by the SMEs in Chipata Business Area, by engaging SMEs owners, particularly in the area of defaulting loan repayment.

1.3 Objectives of the Research Study

1.3.1 Main Objective (Aim)

The aim of this research is to investigate and understand the factors and underlying reasons that contribute to loan defaulting by SMEs owners in Zambia, particularly within the context of Chipata Business Area. The study seeks to also provide insights that can be used to encourage the growth and sustainability of SMEs by addressing these challenges.

1.3.2 Specific Research Objectives

A research objectives are specific, measurable and achievable goals that guide a research study. The research objectives clarify the purpose and direction of the research, identifies what needs to be accomplished and provide a clear focus for data collection and analysis. Research objectives help to stay focused and on track, ensure that data collection and analysis are relevant to make meaningful conclusions and make informed recommendations.

To fulfill the aim of this research, the study was designed to address the following objectives:

1. To evaluate how SMEs' financial management practices impact loan repayment.
2. To analyze the prevailing economic conditions impact on SMEs' loan repayment
3. defaults.
4. To assess the influence of government policy on SMEs' loan repayment.
5. To assess the influence of financial literacy on loan repayment.

1.4 Research Questions and Hypotheses

1.4.1 Research Questions

A research question is a specific, focused query that guides an investigation or study. It identifies the topic or issues to be explored; specifies the key variables or concepts to be investigated and indicates the relationship or phenomenon to be examined. A research question will help to design an effective methodology, collect relevant data, analyse and interpret results and draw meaningful conclusions.

To fulfill the aim of this research, the study is designed to answer the following research questions to fulfil the research aims and objectives:

1. How do the financial management practices of SMEs influence their ability to repay loans?
2. What is the impact of economic conditions on SMEs, and how do they contribute to loan repayment failures?
3. How do government policies influence the loans repayment behavior of SMEs in Chipata Business Area?
4. To what extent does the level of financial literacy among SME owners in Chipata Business Area influence their ability to meet loan repayment obligations?

1.4.2 Research Hypothesis

A research hypothesis is a clear, concise, and testable statement that predicts the relationship between vari-

ables in a research study. It's an educated guess that guides the investigation and is tested through data collection and analysis. A good research hypothesis should be specific, clearly defining the variables and their expected relationship; it should be testable through data collection and analysis; it should be falsifiable by being proven or disproven through empirical evidence; it should have relevance by aligning with research questions and objectives and it should use precise language and avoids ambiguity.

The following hypotheses were designed to answer the research questions in this research study:

H_0 represents a Null Hypothesis, and

H_1 represents an Alternative Hypothesis.

Hypothesis 1

H_0 : Financial management practices of SMEs do not have an influence on SMEs' ability to repay loans.

H_1 : Financial management practices of SMEs have an influence on SMEs ability to repay loans.

Hypothesis 2

H_0 : Economic conditions do not contribute to loan repayment failures among SMEs.

H_1 : Economic conditions have a significant impact on SMEs, contributing to loan repayment failures.

Hypothesis 3

H_0 : Government policies have no significant influence on the repayment of loans by SMEs in Chipata Business Area.

H_1 : Government policies significantly influence the loan repayment by SMEs in Chipata Business Area.

Hypothesis 4

H_0 : The level of financial literacy among SME owners does not significantly impact their ability to meet loan repayment obligations in Chipata Business Area.

H_1 : The level of financial literacy among SME owners significantly impacts their ability to meet loan repayment obligations in Chipata Business Area.

1.5 Significance of the study

SMEs are the vital stepping stones to economic growth and development. Therefore, deliberate efforts should be taken to foster their viability and growth. This would not be easily attained without the proper comprehension of the causes of their defaulting on loans repayment, which not easily accessed. Difficulties in Loans accessibility and repayments, are the two major reasons among others, which have been highlighted as the major contributors hampering their growth. Gaining insights into factors that influence loan defaulting by SMEs owners and managers, would put them in a better position to make informed financing decisions and achieve sustainable servicing of their debts. This would lead to reliable and sound business relationships between the SMEs and the lenders. More importantly, understanding these factors would help in the formulation of future government policies and financial regulations to contribute to the viability of SMEs.

1.7 Definition of unfamiliar terms

Financial Distress – A situation where the debt levels reach almost unsustainable levels whereby the business owners do not really benefit from the debt finance but almost all business profitability is for the benefit of the lenders.

Behavioral Finance - Behavioral finance is a subfield of finance that seeks to understand how psychological biases and emotions influence financial decisions, departing from the traditional assumption of rational decision-making. It examines how cognitive errors and emotions affect investors' financial ch-

oices.

Research Philosophy - A research philosophy is an overarching belief system or worldview that guides a researcher's approach to knowledge generation. It encompasses fundamental assumptions about the nature of reality, knowledge, and the research process.

Research Paradigm - A research paradigm is defined as a lens through which researchers perceive the world, interpret and make sense of the data, influencing their research approach and methodology as well as their research questions and objectives.

Positivism - A research paradigm that emphasizes the use of scientific methods to study social phenomena. It assumes that social reality can be objectively measured and quantified, and that knowledge can be acquired through observation, experimentation, and statistical analysis.

Interpretivism - A research approach that focuses on understanding social phenomena through interpretation and meaning-making. It assumes that social reality is constructed through individual experiences, perspectives, and interpretations, and that knowledge is acquired through qualitative methods like interviews, observations, and content analysis.

Realism - A research philosophy that assumes that social reality exists independently of individual perceptions or interpretations. It emphasizes the importance of objective observation and measurement to study social phenomena, but also acknowledges the complexity and depth of social reality.

Constructivism - A research approach that posits that social reality is constructed through social interactions, language, and shared meanings. It assumes that knowledge is acquired through active construction and reconstruction of social reality, and that researchers play an active role in shaping the research process and outcomes.

Pragmatism - A research philosophy that emphasizes practicality, utility, and applicability of knowledge. It assumes that knowledge is acquired through experimentation, problem-solving, and reflection, and that research should be guided by practical concerns and real-world problems.

Research Choice - A research choice refers to the decisions the researchers make when selecting a research approach and methods for their study.

Human Capital Theory: This theory views financial knowledge as a form of investment in human capital and suggests that individuals make decisions based on their financial literacy levels.

Financial inclusion - refers to the availability and accessibility of financial services, such as banking accounts (savings, checking, etc.), loans (personal, business, etc.), insurance (life, health, etc.), payments (mobile money, credit cards, etc.) and investments (stocks, bonds, etc.)

Standard deviation (SD) – A Standard deviation is a measure of the amount of variation or dispersion in a set of data values. It represents how much each data point deviates from the mean value of the dataset. A low SD indicates that the data points are close to the mean, while a high SD indicates that the data points are spread out over a wider range.

R-squared (R²) is a statistical measure that represents the proportion of variance in a dependent variable that is predictable from one or more independent variables. It's a key metric in regression analysis.

SPSS (Statistical Package for the Social Sciences) is a software package that can be used to analyze data and answer research questions. It is a popular software package used for data analysis, statistical modeling, and data visualization.

Triangulation in research refers to the use of multiple methods, data sources, or researchers to investigate a research question or phenomenon. This approach helps to increase the validity and reliability of research findings.

ANOVA (Analysis of Variance) is a tool found in SPSS which is used to determine the significant difference between the means of three or more independent groups.

Chi-Square (χ^2) is a tool found in SPSS used to determine the association between two categorical variables or to determine whether or not a categorical variable follows a hypothesized distribution or to compare the observed frequencies with expected frequencies.

Logistic regression is a statistical method used to predict the outcome of a categorical dependent variable (target variable) based on one or more predictor variables.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

This chapter explores the four key fundamental themes that have an effect on the ability of small and medium enterprises to repay loans. Each theme digs further into financial management practices, economic conditions, government policies and financial literacy, to help gain an insight into loan repayment challenges and solutions. This is achieved by literature review.

A research literature review is a comprehensive and critical analysis of existing research and scholarly writings related to a specific research question, topic, or area of study as mentioned above. Firstly, literature review Identifies, evaluates, and synthesizes relevant studies. Secondly, it examines the current state of knowledge on the topic. Thirdly, reveals research gaps and areas for investigation, inconsistencies, and debates in the existing research. The other reasons for literature review are providing research context and background for the study as well as informing the research objectives, questions, design and methodology. Lastly but not the least, provides the framework for data analysis and interpretation. It's an essential component of academic research, helping to ensure that the study builds upon existing knowledge and contributes meaningfully to the field. Therefore, Literature Review helps to establish the significance and relevance of the study - **Creswell, J. W. (2014) - Research Design. Hart, C. (2018) - Doing a literature review.**

2.1 Main Literature Review

In this study, Literature Review was conducted with regard to the following research objectives below:

2.1.1 Evaluating how SMEs' Financial Practices Impact Loan Repayment Defaults.

Research shows that effective sound financial management is the basis for the viability of SMEs and their ability to repay their loans - **Berger Allen N. and Udell Gregory F. (2006)**. The study conducted by Shin and Soenen as well as Deloof deduced that employing financial practices such as cash flow management, working capital management, liquidity and proper debt-equity mix, to mention but a few, significantly have a bearing on SMEs' financial health - (**Shin & Soenen, 1998; Deloof 2003, 2006, 2010**). As a result, strong relationships with banks will follow, enhancing access to finance and improve borrowing rates - (**Cole, 1998; Petersen & Rajan, 1994**). These findings bring to the attention of the lenders and policy makers to help formulate interventions and policies through the understanding of these fundamental principles, consequently, improving SMEs loan repayments and viability.

2.1.2 Analysing Economic Conditions Impact on SMEs' Loan Repayment Defaults

Research has found that economic conditions, such as economic downturns and booms significantly influence SMEs' ability to repay loans. During economic downturns, SMEs often experience reduced income and liquidity, leading to higher default rates. They also face increased difficulties accessing finance, (**Beck et al., 2015; Mole et al., 2017**). The reduction in income and liquidity, coupled with high

debt obligations, subsequently lead SMEs to be more prone to the negative effects of economical variations, and consequently high probability of defaulting on their loans repayments - (**Deloof Marc 2003, 2006, 2010**). By taking into account the economic factors that impact SME loan repayment defaults and putting in place appropriate interventions, would greatly benefit SMEs' financially and help them meet their loan repayment obligations and attain viability.

2.1.3 Assessing the Influence of Government Policy on SMEs' Loan Repayment Defaults

As regards government policies' influence on loan repayment among SMEs, research has established that government policies, such as high interest rates, taxes and levies, exchange rates fluctuations, high energy tariffs, and Bureaucratic red tapes, limited access to credit information and scoring systems and other regulatory frameworks have a significant bearing on SMEs' borrowing behavior and loan repayment outcomes.

Supportive and financial inclusion initiatives and policies, such as credit guarantee schemes, subsidized interest rates, and loan repayment assistance programs, economic stimulus packages, loan forgiveness programs can enhance SMEs' access to finance and improve loan repayment rates (**Beck et al., 2013, Beck et al., 2004, Nguyen et al., 2018**). Furthermore, researchers observed that transparent and stable regulatory environments foster confidence among lenders and borrowers, reducing the risk of default and improving loan repayment dynamics (**Beck et al., 2015**). In addition, observations from research show that government policies aimed at promoting business development, entrepreneurship, and job creation indirectly influence SME loan repayment behavior by fostering economic growth and enhancing SMEs' financial stability (**Beck et al., 2015**) These interventions can alleviate financial burdens on SMEs during economic downturns and periods of financial distress, thereby reducing the likelihood of loan defaults and subsequently improve borrowing rates.

Conversely, restrictive or burdensome regulations, inadequate government support or policy inconsistencies may worsen financial challenges faced by SMEs, leading to higher default rates and worsening loan repayment outcomes (**Beck et al., 2013**).

By understanding the influence of government policies on SMEs' loan repayment behavior and implementing supportive measures, policymakers can contribute to a conducive lending environment, ultimately fostering economic growth and stability.

2.1.4 Assessing Financial Literacy Influence on SME Owners' Loan Repayments Defaults

Financial literacy among small and medium enterprises owners and managers plays a crucial role in their ability to manage loan repayment obligations effectively. Financial literacy refers to the ability to understand and manage personal and business finances, including budgeting, saving and investing – **Organisation for Economic Co-operation and Development (OECD) 12 – Financial Literacy and Financial Inclusion**).

Research has shown that financial literate SME owners and managers are more likely to better understand loan terms and conditions (**Berger et al 2019**). They can also make informed decisions about borrowing and repayment (**Klapper et al 2015**). Apart from the above, they can manage cash flow and budgeting effectively (**Lusardi & Tufano 2015**). This would lead to debt reduction and creditworthiness improvement - (**Gao et Al – 2014**). On the other hand, financial illiteracy can lead to poor financial management and planning and inadequate cash flow management and budgeting (**Hastings et al 2013, Fernandez et al 2014**). This can result in difficulties in meeting loan repayment obligations (**Brown et al 2017**).

However, it is not guaranteed that literate SMES owners and managers would not default on their loan

repayments. According to behavioural finance, managers sometimes make financial decisions based on psychological biases and emotions instead of the traditional financial assumptions that are rational or expected utility theory. Behavioural finance combines insights from Psychology and finance to explain phenomena such as overconfidence and excessive risk-taking, loss aversion and risk avoidance, anchoring and mental accounting and last but not least, herding and social influence – **Kahneman D. & Tversky A. (1979) - Prospect Theory: An Analysis of Decisions under Risk. *Econometrica*, 47(2), 263-292.** **Shiller R. J. (2000) – Irrational Exuberance. Princeton University Press.**

Studies have demonstrated that government interventions such as promoting financial literacy and training programs among SME owners can result in improved financial management and repayment performance (**Van Rooij et al – 2010, Collins et al 2010**). Therefore financial literacy among SME owners is essential for effective loan repayment management. It enables them to make informed decisions, manage finances efficiently, and reduce debt. Financial literacy training programs can be beneficial in improving loan repayment performance.

2.2 Theoretical Framework

A research theoretical framework is a conceptual structure that guides a research study, providing a coherent and systematic approach to understanding and exploring a research problem or phenomenon. It consists of a set of interrelated concepts, theories, and models that shape the research design, data collection, and data analysis.

A theoretical framework typically includes concepts highlighting key terms and definitions related to the research topic. It also includes the theories that establish explanations and predictions about the phenomenon under study. Apart from the two above, a theoretical framework gives the assumptions made giving the underlying beliefs and principles that guide the research as well as the paradigm that shows the all-embracing philosophical perspective that influences the research approach e.g., positivism, constructivism, etc. It finally presents the models to aid visual representations of the relationships between concepts and variables.

Therefore the theoretical framework serves several purposes such as providing context and direction for the research study; helping to identify relevant variables and relationships; guiding the development of research questions and hypotheses; informing the selection of research methods and data analysis techniques and lastly to enhance the validity and reliability of the research findings. By using a theoretical framework, researchers can develop a deeper understanding of the research topic; ensure consistency and coherence in their research approach; connect their study to existing knowledge and literature and contribute to the advancement of theory and knowledge in their field - **Creswell, J. W. (2014), Bryman A. (2016).**

The theories related to this research topic with regard to the research objectives examined in this study are as explained below:

2.2.1 Financial Management Theory

Financial management theory, helps to have a basic understanding of how SMEs strategically manage funds. Components such as accounting information systems, fixed assets management, working capital management, investment decisions and financing, play a critical role in assessing the financial strength of an SME. This theory enlightens the importance of effective financial practices in influencing SMEs' ability to access and repay loans. The study conducted by Kilonzo and Ouma in Kenya examined working capital management by properly managing accounts payables and accounts receivables, inventory, cash

conversion cycle in relation to financial performance. The researchers used a sample of SMEs in Kenya and employed regression analysis to examine the relationship between working capital management variables and financial performance metrics such Return on Assets (ROA) and Return on Equity (ROE). The findings suggested that effective working capital management was crucial for improving financial performance of SMEs in Kenya - **Kilonzo and Ouma (2015), Kikongo (2013), Wood & Sangster 2012).**

2.2.2 Cash Flow Insolvency Theory

Cash Flow Insolvency Theory posits that a SMEs' inability to meet their financial obligations, like loan repayment defaults, stems from insufficient cash flow. Secondly liquidity crisis experienced by SMEs due to inadequate liquid assets cause them to fail to repay their loans. SMEs usually face cash flow gap – a discrepancy between cash inflows and outflows, insufficient cash buffers to absorb unexpected revenue short falls and inefficient working capital management (accounts receivables, payables and inventory), exacerbating cash flow problems. Once SMEs have access to external finance, they excessively rely on debt financing, increasing their vulnerability to cash flow insolvency, leading to loan repayment failures. This illiquidity was also examined in terms of debt-equity ratio mix by Gentry J, A. He found that there was no universal optimal capital structure that made firms to be profitable and liquid. This means that loan repayment failures was not always due to optimal debt-equity mix. The study revealed that industry specific factors, such as asset structure, and growth opportunities had an influence on profitability and cash flow management and hence the influence on loan repayment behaviour.

A study undertaken by Argenti J revealed the limitations of financial (records) reports in meeting analysts' financial needs. The study emphasized the importance of supplementary information, such as industry and market data to help the business owners make sound decisions. With regard to SMEs loan repayment challenges the financial records of owners and managers might not be solely relied upon to overcome the loan repayment challenges. Argenti's findings were that financial records users' perceptions of financial reports usefulness varied, depending on factors like report quality and company size. There it was the financial reports were found not to be a guarantee for overcoming loan repayment challenges in every business - **Argenti J 1976, Gentry J A (1993), Deloof Marc (2003, 2006, (2010).** Deloof found that efficient working capital management, and therefore better cash flow management was associated with better firm financial performance. This had a bearing on the cash flow and therefore loan repayment behaviour of SMEs.

2.2.3 Financial Distress Theory

Financial Distress Theory explains why firms in debt may prioritize short-term financing over long-term investments, even if it leads to financial distress. The theory suggests that SMEs in financial distress may prioritise short-term debt repayment over long-term investments to avoid bankruptcy, even if it compromises their long term viability. This leads to SMEs stunted growth and unviability. The key aspects here include decline in earning power, reduced creditworthiness leading to inaccessibility to loans, cash flow problems making SMEs unable to meet debt obligations, loan servicing issues like inability to pay interest and principal. A study conducted by Gordon M. J. in 1971 brought about a theoretical model that explained the process of financial distress, incorporating factors like cash flows, asset values and debt obligations. These factors affected the servicing of debt by businesses including loan repayment behaviour of SMEs. The study that was carried out by Beaver W. H. and by Altman E. I. on financial distress prediction included working capital mismanagement and illiquidity as some of the contributors to financial distress and therefore defaults on loan repayment - (**Altman E I. (1968), Beaver W H (1966). Agarwal, V & Taffler R. (2006). Gordon M J (1971).**

2.2.4 Economic Conditions Theory

Economic theory, according to research, enlightens how economic conditions impact SMEs. Economic conditions such as inflation rates, and foreign exchange rates, gross domestic product (GDP), employment levels, recession and booms significantly affect SMEs' viability. Fluctuations in these economic conditions made it more difficult for SMEs to budget, forecast their revenue and cash flows, making them more prone to loan repayment failures - **Johnson R. (2017), OECD 2019 – SME and Entrepreneurship Policy in Indonesia**. Adverse economic conditions like recessions, high interest rates, exchange rates fluctuations can hinder SMEs' growth and even lead to bankruptcy by usually affecting revenues and consequently cash flows negatively and in turn affect loan repayment capacities of SMEs and vice versa - **(Beck et al., 2005, SMEs, Growth and Poverty: Cross Country Evidence. Journal of Economic Growth. Cowling M. et al 2012 Small Business Financing and Economic Growth**. SMEs are more vulnerable to economic downturns due to limited resources, reduced bargaining power and high dependence on local markets. Therefore, economic instability can disrupt SMEs' cash flows, reduce access to further credit and increase operational costs thereby increasing the possibility of loan repayment defaults.

2.2.5 Financial Literacy Theory

Financial literacy theory claims that individual's understanding of financial concepts and practices influences their financial decisions and behaviour. In the context of SMEs, affects loan repayment behaviour by enabling owners and managers to better manage cash flows and debt obligations; make informed decisions about loan terms and interest rates and develop effective financial planning and budgeting strategies. Studies have shown that financial literate owners and managers are more likely to repay loans promptly, reducing default risk and therefore improve creditworthiness – **(Gerardi et al 2013)**. Conversely, financial illiteracy can lead to poor financial management, thereby increasing the likelihood default on loan repayments - **(Lusard & Mitchel 2011)**. However research revealed that owners and managers of small businesses do not attain the needed financial literacy levels due to their low apprehension and education levels. The education and training of managers therefore played a critical role in successfully implementing programs and policies for better business practices.

2.2.6 Behavioral Finance Theory

Behavioral finance is a subfield of finance that seeks to understand how psychological biases and emotions influence financial decisions, departing from the traditional assumption of rational decision-making. It examines how cognitive errors and emotions affect investors' financial choices. This theory suggests that financial decisions are influenced by psychological biases and emotions and not rational influence and financial literacy. However financial literacy can help individuals make more rational decisions – (Kahneman and Tversky 1979).

2.2.7 Human Capital Theory

This theory views financial knowledge as a form of investment in human capital and suggests that individuals make decisions based on their financial literacy levels).

Literate SME owners and managers appreciate strategic planning, customer relationship management, product and service timing, marketing, market and product development. They easily develop a sense of taking calculated risks, innovativeness, and pro-activeness. These contribute to management of financial resources of SMEs resulting in profitability and liquidity improvement and consequently a reduction in defaulting on loans repayment and improved financial sustainability – **(Becker 1964 - Human Capital)**.

2.3 Conceptual Framework

A research conceptual framework is a visual or graphical representation of the research problem, objectives, and relationships between variables. It outlines the key concepts, theories, and hypotheses that guide the research study. Therefore a conceptual framework identifies the research problem and objectives and specifies the key variables and their relationships. It indicates the theoretical perspectives or frameworks guiding the study and providing a clear and concise visual representation of the research design.

A conceptual framework typically includes three types of variable which are independent, dependent, and control variables. However, on this study only independent and a dependent variable were under examination. The conceptual framework also shows relationships among variables. A conceptual framework also outlines concepts with key terms and definitions related to the research topic. Relevant theories or models that inform the research are also part of the conceptual framework and also takes into consideration the assumptions highlighting the underlying beliefs and principles guiding the research. A conceptual framework also serves as a guide for data collection and analysis, a tool for communicating research design and objectives and a framework for interpreting results and drawing conclusions. Therefore a conceptual framework focuses on the specific research problem and design - **Creswell J. W. (2014)**

The conceptual framework examined with regard to the research objectives are explored below:

2.3.1 Financial Management Influence on SMEs Loan Repayment Defaults.

This aspect of the conceptual framework focuses on how financial management practices, encompassing accounting information systems, fixed assets management, working capital management, investment and financing decisions, as well as budgeting and cash flow forecasting, impact the ability of SMEs to access and repay loans (**Kilonzo & Ouma, 2015; Kitonga, 2013; Wood & Sangster, 2012**). The framework therefore examines the link between financial management practices and loan repayment trends in SMEs. A study conducted by Johnson revealed that there was a positive relationship between effective working capital management and firm performance. The study further revealed that cash conversion cycle, accounts receivables, and accounts payables have a significant impact on firm performance. However Johnson identified other moderate factors such as firm size, industry and country as moderate factors that influenced working capital-performance relationship- **Johnson (2017)**.

2.3.2 Economic Conditions impact on SMEs' Loan Repayment Defaults.

This section explores the complex relationship between economic conditions and SMEs' loan repayment failures. It considers factors such as interest rates, inflation rates, and exchange rates, Gross Domestic Product and how these economic fluctuations affect SMEs' financial plans and forecasts in terms of revenue, working capital and cash flows and expenditure, contributing to challenges in meeting financial obligations (**Johnson, 2017; Robertson & Brown, 2018; Chen et al., 2021**).

2.3.3 Government policies impact on SMEs loan repayment defaults

Government policies, such as interest rates, managed exchanged rates, taxation rates, energy tariffs, labour regulations such as minimum wages, are essential factors that influence loan repayment defaults among SMEs. They affect SMEs loan repayment differently according to firm/industry, such as access to credit and regulatory environment – (**Beck & Demircuc-Kunt, 2006**).

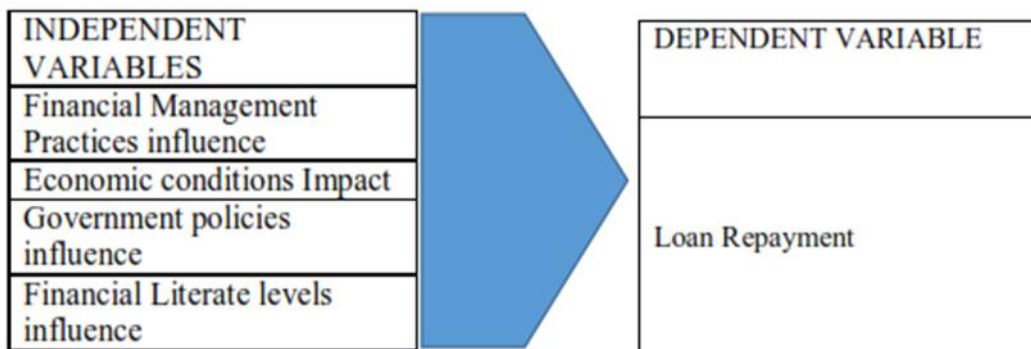
2.3.4 Financial Literacy Influence on SMEs owners' loan repayment defaults

Financial literacy of SMEs owners and managers reduce the likelihood of loan repayment defaults. Financial literacy influences firm-specific factors such as financial management and planning (**Lusard &**

Mitchel 2011. Kumar et al 2016). However, it is not guaranteed that literate SMES owners and managers would not default on their loan repayments. According to behavioural finance, managers sometimes make financial decisions based on psychological biases and emotions instead of the traditional financial assumptions that are rational or expected utility theory – **Kahneman D. & Tversky A. (1979) - Prospect Theory: An Analysis of Decisions under Risk. Econometrica, 47(2), 263-292. Shiller R. J. (2000) – Irrational Exuberance. Princeton University Press.**

This framework provides insights into the vulnerability of SMEs loan repayment to external economic factors.

Table 2.1 Conceptual Framework



Variables

2.4 Gaps in Literature

The existing literature on the financial management practices of SMEs provides valuable insights, although several notable gaps exist. Firstly, the literature leans towards individual components of financial management, such as accounting information systems, working capital management, investments and financing. However, there is a lack of holistic studies that investigate the collaborative effects of these practices on SMEs' ability to access and repay loans. Secondly, while economic conditions are acknowledged as significant influencers, subtle or detailed understanding of the specific mechanisms through which these conditions impact SME loan repayment remains under-explored. Thirdly, there is limited empirical evidence on the effectiveness of government policies, such as fiscal incentives and guarantees, in mitigating challenges faced by SMEs in loan repayment. Finally, the literature lacks an in-depth exploration of the role of financial literacy in shaping SMEs' financial behavior, particularly concerning loan repayment.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

This Chapter refers to the specific methods and steps which were taken to investigate and understand the research problem. It refers to the overall systematic and structured approach and strategy used to conduct a research. It encompasses a research approach, research paradigm, research strategy, sampling methods, data collection methods, data processing and analysis techniques and ethical considerations. In this study, the research paradigm was based on pragmatism and positivism while research approach was deductive and exploratory with some explanatory and descriptive perspectives. The research design was a mixed design (quantitative and qualitative) and the research strategy was a case study. Data processing was done through tables, charts, graphs and excel sheets while data analysis and interpretation was done through

SPSS. Thus this research investigated the causes of SMEs failure to repay their loans in Zambia, with particular focus on the SMEs operating in Chipata Business Area.

3.1 Research Design

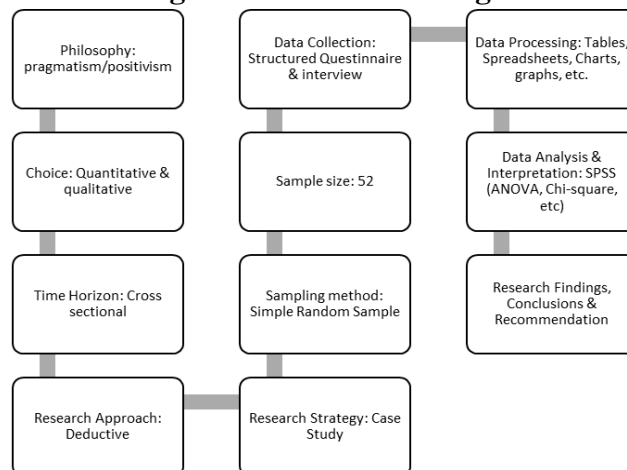
Research design refers to the overall plan and structure of a research study, including methods and techniques used to collect, analyse and interpret data to answer research questions or test hypotheses. A research design may specify the research philosophy, (positivism, interpretivism, realism, constructivism or pragmatism) and research choice (qualitative, quantitative, or mixed-methods); chooses the research approach (deductive, inductive, adductive, etc.); formulates the research strategy (survey, case study or experiment); identifies the data collection methods (questionnaire, surveys, interviews, observations, etc.); determines the sampling strategy (random, purposive, snowball, convenience, volunteer, etc.); outlines the data analysis procedures (statistical tests, coding, thematic analysis, etc.) and ensures the study's validity, reliability, and generalizability. It also takes into account the ethical issues such as informed consent and confidentiality - **Bryman and Bell, (2018)**.

In this study, a mixed research design was employed (quantitative and qualitative), comprising a combination of deductive approach as the main approach with some exploratory approaches. Exploratory study uses qualitative methods, e.g., interviews to gain in-depth insights, in this case, into financial management practices, economic conditions, government policies and financial literacy of owners.

The Quantitative Research Design comprised Correlational Research Design and Causal-Comparative Research Design. Correlational Research Design examined the relationships between variables (financial management practices, economic conditions, government policies, and loan repayment). Causal-Comparative Research Design was to compare e.g., SMEs with good financial management practices against those with poor practices in order to determine cause-and-effect relationships. - **Creswell, J. W., & Plano Clark, V. L. (2018). Designing and conducting mixed methods research. Sage Publications.** Qualitative Research Design, (e.g., interviews) explored the experiences and perspectives of SME owners and managers. This qualitative design, also had some elements of descriptive research design which aimed to highlight the characteristics of SMEs within Chipata Business Area by examining the **current state of financial management practices** among SMEs and identify the government policies affecting SMEs - **Creswell, J. W. (2014). Research design: Qualitative, quantitative, and mixed methods approaches. Sage Publications.** **Bryman, A. (2016). Social research methods. Oxford University Press.**

Shown below is the diagrammatical presentation of the research design that was employed in this study.

Figure 3.1 Research design



3.1.1. Research Paradigm/philosophy

A research paradigm is a broad framework that shapes the research process, encompassing philosophical assumptions, methodology, and methods. It serves as a lens through which researchers approach their study, perceive the world, influencing how they define problems, collect data, interpret and make sense of the data and analyze findings. In short, it influences their research approach and methodology, research questions and objectives. It is a fundamental framework or worldwide view that guides research and shapes the researcher's understanding of the world- **Guba & Lincoln (1994:105)** as cited in **Saunders et al. (2009)**. There are various research paradigms with different research perspectives. These include, Positivism, Realism, Interpretivism, and Pragmatism.

In this study, a Pragmatism paradigm was employed complemented by positivist research paradigm. Pragmatism allows for flexibility, mixed methods and triangulation approaches, putting emphasis on practical problem-solving by selecting the most appropriate approach to address the research question and derive insights from the data. Positivism focuses on objectivity, reliability, and generalizability. It emphasizes quantitative methods and statistical analysis, seeking to identify causal relationships and predict outcomes. Positivism uses experiments, surveys, and secondary data. In this study, some secondary data was also used in the analysis. Therefore, positivist paradigm particularly focused on objective analysis of data on financial management practices, economic conditions, and government policies.

3.1.2 Research Choice

A research choice refers to the decisions the researchers make when selecting a research approach and methods for their study. It involves choosing from various options to ensure that the research is conducted in a way that best addresses the research question, objectives and context. Research choice involves considering factors such as research paradigm, research approach, data collection methods, sampling strategies, data analysis techniques, and ethical considerations.

Both quantitative and qualitative research choices were used in this study. A quantitative research choice was chosen to address objectives 1, 2 and 4, which involved assessing influences and impacts from the numerical data collected from the structured questionnaire and secondary data in order to test the null and alternative hypotheses. A quantitative method is used in surveys, questionnaires and statistical analysis. Qualitative research choice was chosen to address objective 3 which involved analysing the impact of government policies and interventions using interviews to help understand how government policies affected the SMEs' loan repayment behaviour.

3.1.3. Research Approach

In this study, the deductive approach was employed, using existing theories and frameworks related to financial management, economic conditions, government policies and financial literacy, i.e., hypotheses that identified factors leading to SMEs' failure to repay loans within Chipata Business Area. A deductive approach to research is an objective methodology that involves testing the pre-existing theory or hypothesis through empirical data collection and analysis using quantitative methods such as experiments, surveys and case studies. It follows a logical and systematic process to confirm or reject the theory or hypotheses. It usually starts with a general theory or concept and then narrows down to specific hypothesis and observations, focusing on identifying cause-and-effect relationship – **Creswell J W (2014) and Trochim W M K (2006)**.

A deductive research approach was adopted since this study had specific factors to investigate, clear theories and specific hypotheses (null and alternative) formulated, which were to be tested based on existing knowledge in order to verify or falsify the hypothesized relationships between the factors and the

SMEs loan repayment behaviour. Subsequently, data was collected from the Chipata Business Area to validate or refute these hypotheses. By applying deductive reasoning, conclusions were drawn based on the empirical evidence gathered from the study participants, thus informing insights into the specific factors influencing loan repayment behavior among SMEs in the Chipata Business Area (**Burney & Saleem, 2008**).

3.1.4. Research Strategy

A research strategy is a comprehensive plan that outlines how a researcher will conduct their investigation, including the approach, methods, techniques, and procedures used to collect and analyze data. It serves as a roadmap for the research journey, ensuring a systematic and rigorous approach to answer the research questions and achieve the study's objectives. Consequently, due to the nature of this study and mixed design adopted, the case study strategy was chosen.

A case study is a research methodology that involves an in-depth examination of a single case or a small number of cases, often in a real world setting. “It examines a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not clearly defined” – **Yin (2018) and Stake (1995)**. **Robson (2002, p.178)** comprehensively defines a case study as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence. **Bryman and Bell (2011, p.63)** and **Saunders, Thornhill and Lewis (2009, pp.146-147)** state that the case study method can be applied to multiple cases and can be used to generate hypotheses, develop theories, or provide insights into complex issues. Therefore in this research project the case study method was applied to Chipata Business Area since a small number of cases were involved.

3.1.5. Time Horizon

Research can be classified in terms of time as either longitudinal or cross-sectional. Longitudinal research is the observation of a phenomenon over an extended period of time such as a decade while cross-sectional research, studies a phenomenon at a particular point in time - **Lee & Lings (2008)**. This research is cross-sectional in nature since the data that was considered was measured at a point in time.

3.3 Sampling Procedure

In a small business area like Chipata with a small population, a census would have been the most appropriate or a stratified sampling method if the population was large enough to be divided into sub-groups such as industries and business size, etc. to gain a deeper insight. This would have been complemented by a purposeful sampling method to select owners who had experienced loan default and those having varying levels of financial literacy and financial management practices. However, this was not feasible due to some obvious constraints like time and respondent apathy. Nevertheless, a probability method of simple random sampling was employed to calculate the sample in this study of factors that cause of SMEs to default on loan repayments in the Chipata Business Area. This was to endeavor to have each SME have an equal chance of being selected to make a representative sample – (**Yamane T 1967, Polonia F 2013, Aeker J 1991**). However the distribution of the questionnaire included the elements of both convenience and purposeful sampling methods, by conveniently including some accessible participants who could meet the category of medium size enterprise.

3.4 Sample Size

A Statistical method of simple random sampling design, being the simplest, cost-effective and most reli-

able dealing with small samples, was used to determine a sample size, considering the fact that the population was not large. This was based on studies conducted by **Yamane (1967)**, as cited in **Polonia (2013) and Aeker (1991)**. Since a simple random sampling design was employed, the Yamane 1967 formula that was used to get a sample could meet the minimum required quantity of 50 according to **Hair et al.**, follows:

$$n = N / (1 + (N * e^2))$$

$$n = 60 / (1 + (60 * 0.05^2))$$

$$n = 52.2$$

Where:

n = sample size

N = population size

e = margin of error (as a decimal)

Note: The formula assumes a confidence level of 95% and a population standard deviation of 5%

This statistical method was selected to ensure the sample was as accurate as possible to represent the Chipata Business Area population. With an approximate population of 60 potential and credible small and medium business in Chipata Business Area, the sample size was determined as 52 out of a population of 60. However, 50 questionnaires were distributed and only 43 questionnaires were received from the respondents.

3.5 Sampling Area

This study was conducted in Chipata, the Eastern Province of Zambia, in the Chipata Business Area. The area was dominated by small and medium enterprises and include in this category were micro businesses. The Chipata business Area comprised mainly the Town Centre, Down-shops, Kapata and the industrial area.

3.6 Sources of Data Collection

The data for this study was gathered from the field work that was conducted by visiting the Chipata Business Area which consisted of Town Centre, Down-shops, Kapata and the Industrial Area. The primary data was collected from owners and managers of the businesses while secondary data was obtained from publications from websites or institutions publications like CEEC, Small and Medium Enterprises Department and Chamber of Commerce data.

3.7 Methods of Data Collection

In this study, primary data was collected by reaching the respondents physically who were then presented with the structured questionnaires which had to be populated by ticking and partly by brief narrations. The responses were solicited in writing, supplemented by minimal interviews in some cases. Some of the primary data was however collected through WhatsApp and email address. Some of the secondary data was obtained from institutions physically and in person, like from CEEC, SMES and Chamber of Commerce and some through digital platforms.

3.8 Tools of Data Collection

A structured questionnaire was prepared and distributed to 50 respondents within Chipata Business Area. This structured questionnaire was designed to gather primary data from SME owners and managers within

Chipata Business Area, in a simple, confidential, efficient, and cost-effective manner, to ensure reliability, validity and a possible and proper generalization of data. The structured questionnaire was employed, taking into account limited time and resources, to provide a consistent framework for gathering standardized data from respondents, given the pre-defined research questions and hypotheses- **Creswell (2014), Sudman & Bradburn (1982), DeVilles (2017)**. However, there were very minimal interviews which were conducted to complement the questionnaire in some cases where respondents were not ready to fill in the questionnaire by themselves. Some secondary data however was obtained from digital platforms like google and specific websites through internet browsers.

3.9 Tools for Data Analysis

In this study, SPSS (Statistical Software Package for Social Sciences), a software package for analyzing data and answering research questions, was used to process and analyze the collected data. The multivariate tools within SPSS were employed because this research had independent multi-variables in relation to the loan repayment dependent variable - (**Murray, 2014, Miles, 2014, Salkind (2010)**). The tools within SPSS were ANOVA testing (Analysis of Variance), Chi-square testing and regression analyses. Hypothesis testing in this research was done using chi-square tool. Relationships were examined and outcomes predicted using chi-square and logical regression analysis.

Tables, graphs and pie-charts were also used to present data allowing for a clear and concise display of information. The purpose of tables was to help summarize and organize data, making it easier to understand and compare results – (**Data Visualization by Nathan Yau – 2013**).

3.10 Limitations of the Study

Sample Size

The sample that was calculated, using **Yamane 1967 formula as was cited in Polonia (2013) and Aeker (1991)**, was 52 and the responses from the distributed questionnaires were 43. The results obtained from this study results might be slightly affected negatively to be generalizable to the larger population of SMEs within Chipata Business Area. However, the valuable insights were drawn out from the 43 respondents that were obtained. Where there was no limitation of resources a bigger sample should have been obtained to give a 'perfect' result.

Other Uncaptured Factors

The study did not capture the impact of the diversity of SMEs like industry, size of a business, location of a business, age of the owners and managers, gender of owners and managers, years in business, etc. These factors could have contributed to the loan repayment behaviour of SMEs. The factors were raised in this study but could not be considered as independent variables but could be however used in future studies to gauge their impact on loan repayment.

Limited Geographic Scope and Generalizability to Other Contexts

This study was specifically conducted in a limited geographical scope of Chipata Business Area of Eastern Province of Zambia. Therefore, replication to other areas might need other factors prevailing in those areas to be taken into consideration like the education levels of the population, other supporting industries for the SMEs in those areas, etc. at the time of the study.

Self-Reported Data

The study relied on questionnaire responses obtained from owners and managers. This might lead to biased results if respondents provided inaccurate data. More secondary data should have been gathered from

financial institution if there were no limitation in time, resources and the challenge of respondent apathy to counter check the primary data gathered. In addition, a longitudinal time horizon should have given a much better result as this time was based on cross-sectional time horizon. Future research could also employ larger sample sizes, diverse data collection methods, specific sector conditions and environments and examine additional variables highlighted in this research in order to enhance the generalizability of the results. Furthermore, research could also explore the impact of specific government policies and interventions on SME loan repayment behavior in greater detail.

Hypotheses

According to the traditional financial management, SME owners and managers are assumed to be rational and make decisions based on traditional financial understanding and knowledge. However, behavioral finance indicate that business owners and managers sometimes make decisions based on psychological factors and emotions like herd instinct, risk appetite and risk averse, etc. This was not further explored in this study. This might even change the hypotheses of financial literacy influence and financial management practices influence on loan repayment if explored further.

3.11 Reliability and validity of Research Findings

Reliability of research findings refers to the consistency and dependability of the results. It indicates how likely the findings are to remain the same if the study is replicated, i.e. under same conditions. While, research findings validity refers to the extent to which a study measures what it claims to measure or provide credible conclusions and accurately reflects the phenomenon being studied. There are several ways of ensuring reliability and validity. However, in this research some of the feasible methods used were data control by checking for errors and then coding the data for input into SPSS. Another way was to verify data against the questionnaire. Since the area of study was small, a case study was considered appropriate in order to give reliable findings. A random sampling method to choose a representative sample was also used based on a statistical formula for small area study, based on studies conducted by **Yamane (1967)**, **Polonia, (2013)** and **Aeker (1991)**. The report was also subjected to expert review feedback – (**Bell & Waters- 2014**, **Sapsford & Jupp -2006** cited in **Bell & Waters -2014**). Lastly, Cronbach Alpha test was used to test for reliability and validity.

3.12 Generalizability

Research generalizability refers to the extent to which research findings can be applied to other contexts, populations, or situations beyond the specific study sample and setting. To achieve generalizability of the findings, simple random sampling was used to pick a representative sample using a recommended method of choosing a sample from a small population, based on Yamane 1967 formula, in order to increase the likelihood of more accurate results of generalization. A case study was chosen and a standard questionnaire was used to collect the data and SPSS was used to process the data - (**Bell & Waters, 2014**). However, it should be noted that this research was for Chipata Business Area so generalization elsewhere should take into account the applicable environment and time.

3.13. Ethical & Access Issues

3.13.1. Accessibility

In conducting research, there was a challenge of time and respondent apathy despite following all the necessary procedures, like introductory letter and ethical assurance – (**Creswell, 2024**). Some sites were

not easily accessible for information.

3.13.2. Research Ethics

In the conduct of this research ethical issues were taken into consideration. These were voluntary participation, anonymity and confidentiality. Voluntary participation entails that respondents take part in the study willingly and without any incentive and that respondents may decline or withdraw from the study whenever they wished. They may choose not disclose some information or decline the consent for certain information to be obtained - (Collis & Hussey, 2009).

Anonymity and confidentiality is concerned with the protection of each participant's identity and specific sensitive data related to them. This encourages participants to be at liberty to answer questions confidently and honestly - (Collis & Hussey 2009). In this research, participants needed not provide any personal information with which they could be identified. Participants were also informed of the voluntary participation, decline and anytime withdrawal.

3.14 Chapter Summary

This chapter explored some research methodologies available and justified the methodologies that were applied to this research. Chapter Four will deal with the analysis of the findings of the research.

CHAPTER 4: ANALYSIS AND INTERPRETATION

4.0 Introduction

This Chapter brings out the findings from the data collected. It involves applying statistical and analytical techniques to extract insights and meaning from processed data. The Chapter reports on how the sample responded to the questions on the structured questionnaire. The structured questionnaire was used as the research instrument to provide responses to the questions on both the questionnaire and the interview guide. The responses on the structured questionnaire were used to address the research objectives so that the aim of this research could be achieved. In short, the goal was to extract meaningful patterns, relationships, and conclusions from the data to answer research questions and test hypotheses.

The Chapter presents the findings in four key areas:

- a) Evaluate how SMEs' financial practices impact loan repayment.
- b) Analyze economic impact on SME loan repayment defaults.
- c) Assess government policies' influence on loan repayment
- d) Assess the influence of financial literacy on loan repayment

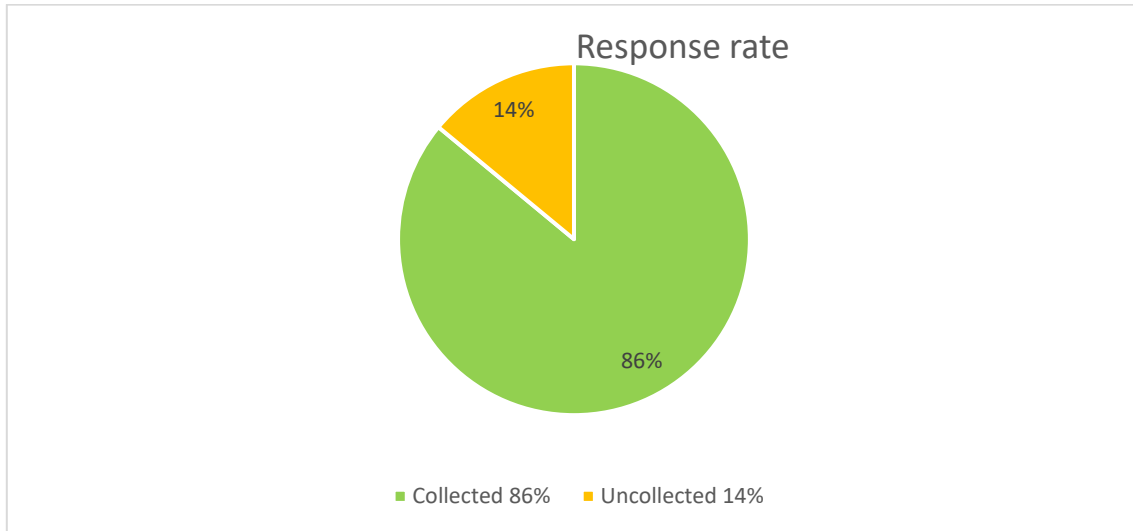
The quantitative samples were from the SMEs operating in Chipata Business Area.

4.1 Tables of Figures, Graph and Charts

4.1.1 Respondents Response Rate

The pie-chart below (figure 4.1) depicts the response received from the respondents in the field.

Figure 4.1 Response rate of repondents. Source: Field (2024).



A response rate of 86% was attained, with a total of 43 respondents gathered from an initial sample of 50 respondents. This achievement involved distributing questionnaires to businesses classified as small and medium-sized enterprises (SMEs) and conducting self-administered questionnaires. The findings and a summary of the sample's demographics are presented in the following section. This sample consisted of 43 completed questionnaires.

4.1.2 Data internal consistency and reliability test

A reliability test was conducted on the data collected using Cronbach Alpha based on standardized items. Cronbach's Alpha is a measure of internal consistency reliability, ranging from 0 to 1. Higher values indicate higher reliability.

According to **Cronbach**, a result greater than 0.91 is excellent while anything between 0.61 and 0.80 is good and acceptable (**Taber 2017, Lavrakas P 2008, Mohsen Tavakol and Reg Dennick 2011, Salkind N 2015**).

The formula for Cronbach's Alpha (α) is:

$$\alpha = (k * \bar{r}) / (k + \bar{r} * (k - 1))$$

Where:

α = Cronbach's Alpha coefficient

k = Number of items (questions or variables)

\bar{r} = Average inter-item correlation (the average correlation between all pairs of items)

Or, alternatively:

$$\alpha = (k / (k - 1)) * (1 - (\sum \sigma^2 / \sigma^2_T))$$

Where:

σ^2 = Variance of each item

σ^2_T = Total variance (the sum of all item variances)

4.1.2 Profiles of respondents

The data below shows the profiles of the respondents obtained from the field.

4.1.2.1 Age of respondents

The age of respondents is as displayed below in the following visual presentations.

Table 4.2: Age groups of 43 respondents

	Frequency	Percentage	Cumulative Percentage
Below 20 Years	4	9	9
20-29 Years	5	12	21
30-39 Years	7	16	37
40-49 Years	21	49	86
Over 50 Years	6	14	100

Source: Field survey (2024)

Figure 4.2 Age groups of respondents

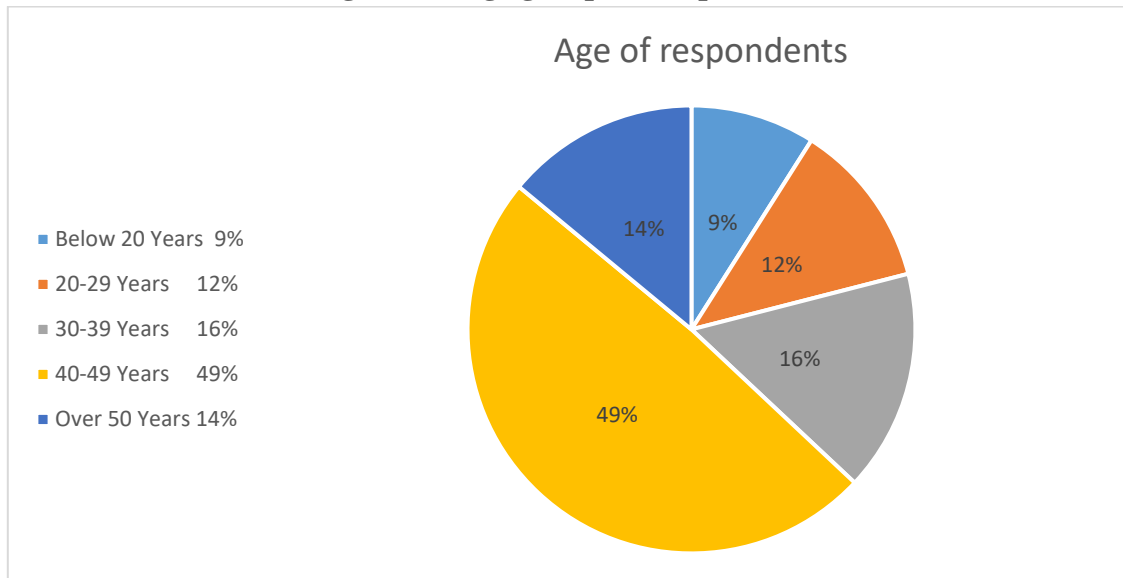
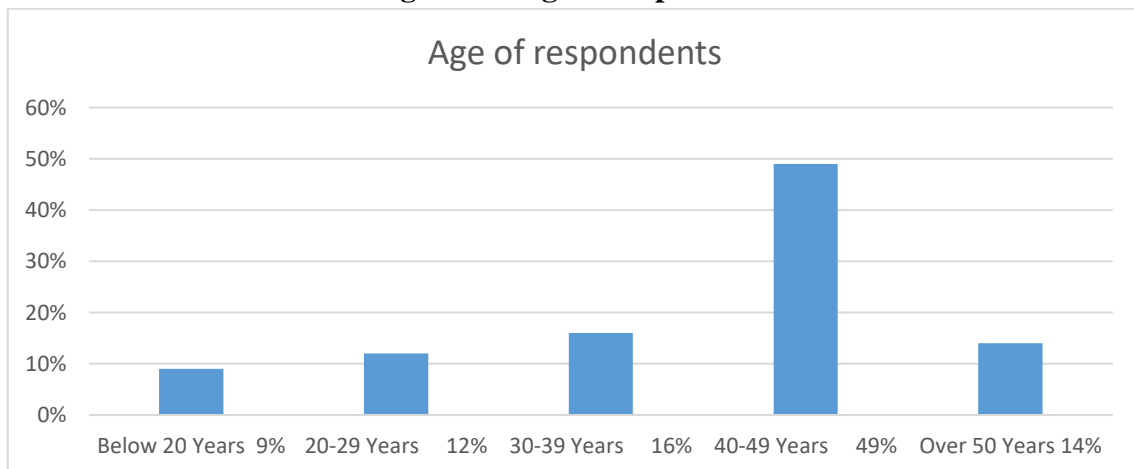


Figure 4.3 Age of respondents



Age was not examined in this study as an independent variable in relation to the dependent variable of loan repayment. However, it might be examined in other and future studies as to whether it might have an influence on SMEs loan repayment behaviour. The results of this study as shown in **Figure 4.2 and 4.3**

and **Table 4.2** above indicated that 9% of respondents were under the age of 20 years, the majority accounted for 49% between 40-49 years old, and only 6% were over 50 years old.

4.1.2.2. Gender of Respondents

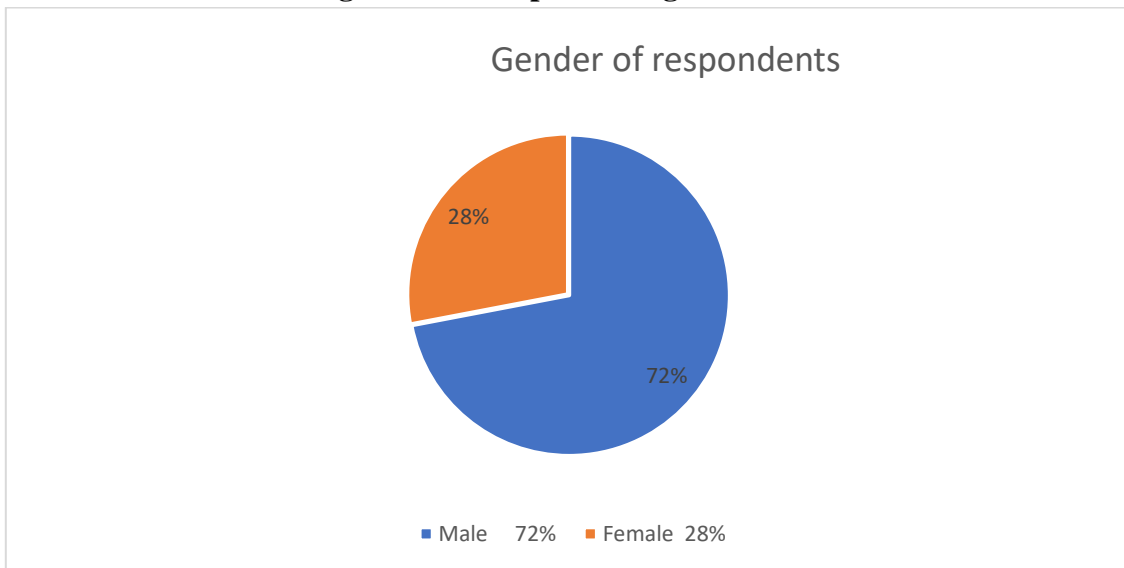
The gender of the respondents is indicated in the following **Table 4.3** and **Figure 4.4**. Gender was also not among the variables to be examined as having an influence on loan repayment but it might be also be used for other and future studies on its influence on the SMEs’ loan repayment behaviour. The respondents comprised 72% men and 28% women that responded to the questionnaire.

Table 4.3: Gender Distribution of respondents

Gender	Frequency	Percentage	Cumulative Percentage
Male	31	72	72
Female	12	28	100
Total	43	100	100

Source: Field survey (2024)

Figure 4.4 – Respondents gender data



4.1.2.3 Designations of respondents

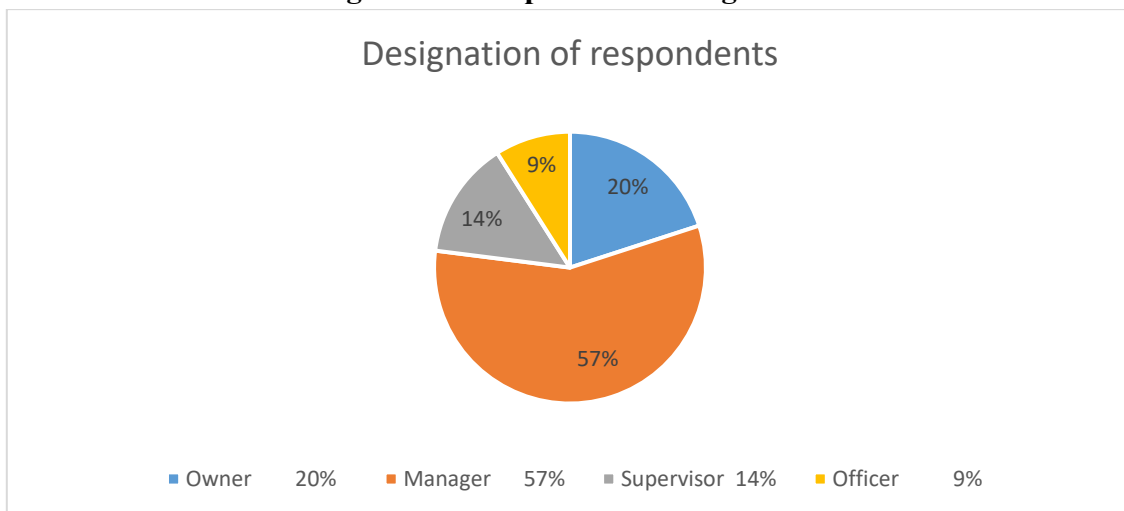
Designation of respondents was not directly examined as a variable that contributed to SMEs’ loan repayment behaviour. In future, the influence of the participants’ positions in a business on loan repayment behaviour might also be considered for future study. Nevertheless, the study conducted by **Nguyen et al (2018)** investigated the relationship between ownership concentration, innovation, and firm performance in Vietnamese SMEs. The findings indicated that while ownership concentration did not impact innovation directly, it positively affected sales growth. Additionally, innovation positively influenced firm performance and therefore the financial viability of a business. Business with sound financial viability are not likely to default on their loan repayments.

The designations of respondents as shown in Table 4.4 and Figure 4.5, depicts that most responses (57%) were obtained from the managers showing evidence of active involvement in the SMEs businesses operations probably due to some qualifications of some sort. Owners accounted for 20%, Supervisors accounted for 14% and officers accounted for 9%.

Table 4.4 Designation of respondents

DESIGNATION	FREQUENCY	PERCENTAGE	CUMULATIVE PERCENTAGE
Owner	9	20%	20%
Manager	25	57%	77%
Supervisor	6	14%	91%
Officer	3	9%	100%

Figure 4.5: Respondents’ designation



4.2 Number of employees

Although this variable was included in this study, it was not one of the variables that was being studied as a contributing factor to SMEs’ loan repayment behaviour. It was included to give a picture of the size of the businesses in the class of SMEs that were examined. Table 4.5 and figure 4.6 below showed that most of the SMEs were in the small business category. Nevertheless the size of a business may be included among the variables in possible future studies. The responses from the questionnaires showed that 16% of the SMEs had between 0 to 5 employees, 70% had 6 to 10 employees, and 7% employed between 11 to 15 and those who employed above 15% also accounted for 7%.

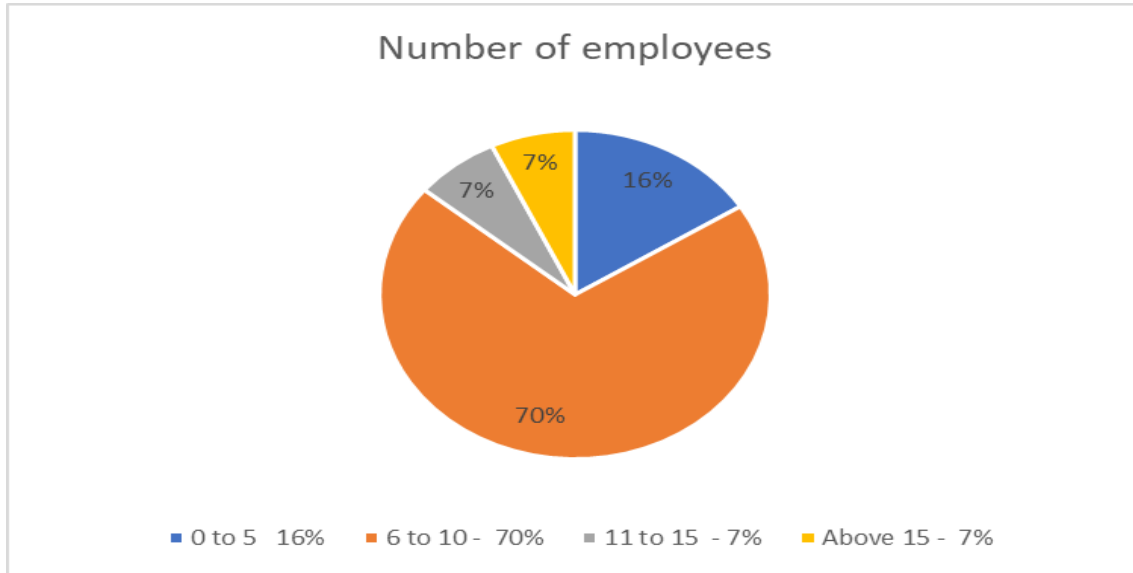
Table 4.5 Number of workers employed.

No. of employees	Frequency	Percentage	Cumulative percent
0 – 5	7	16%	16%
6-10	30	70%	86%
11 – 15	3	7%	93%

Above 15	3	7%	100%
Total	43	100%	

Source: Field Data (2024)

Figure 4.6: No. of employees



Source: Field data (2024)

4.3 Classification of Business as SMEs

The criteria for classification of a business as a Small and Medium-sized Enterprise (SME) vary depending on the country, industry, and context. According to the **Zambia Development Agency (ZDA)** and the **Ministry of Commerce, Trade, and Industry's** definitions, some of Zambia's criteria for classifying Small and Medium-sized Enterprises (SMEs) are according to the annual turnover and the number of employees of a business, based on the following thresholds:

- Micro-enterprises: - Number of employees: Less than 5; Annual turnover of less than ZMW250,000 (approximately US\$ 12,500).
- Small enterprises: Number of employees: 5 to 19; Annual turnover of ZMW250,001 to ZMW 5 Million (approximately US\$ 12,501 to US \$ 250,000).
- Medium enterprises: Number of employees: 20 to 99; Annual turnover of ZMW 5 million to ZMW 50 million (approximately US \$ 250,001 to US \$ 2.5 million) – (Ekim Namulanda, 2019 “Classification of Small and Medium Enterprises (SMEs) in Zambia” – Journal of Entrepreneurship and Business Management, Vol 7, Issue 1).

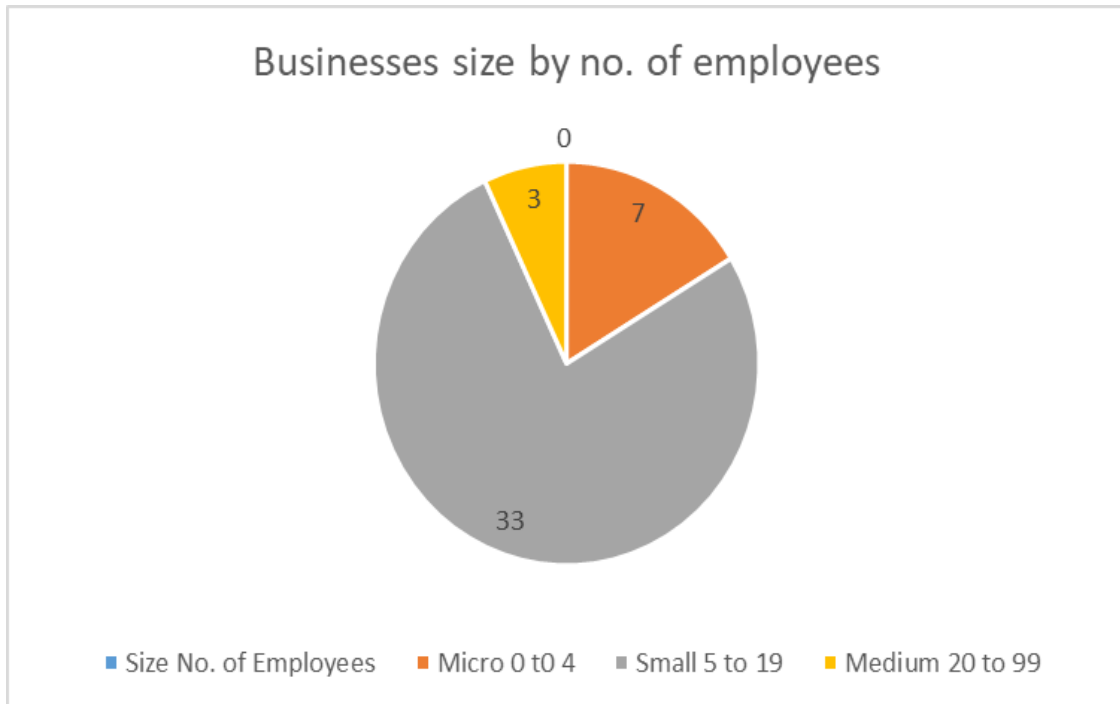
Table 4.6 Determination of business sizes by number of employees.

BUSINESS SIZE BY NUMBER OF EMPLOYEES		
Size	No. of Employees	No. of Businesses
Micro	0 to 4	7
Small	5 to 19	33
Medium	20 to 99	3
	Total	43

Source: Zambia Development Agency (ZDA) and the Ministry of Commerce, Trade, and Industry

Note: Data on number of businesses was from field work.

Figure 4.7 – determination of Business sizes by number of employees



Source: Ministry of Commerce and Trade and Zambia Development Agency

The Chipata Business Area, according to the information gathered from the 43 respondents, indicated that 7 businesses fell under the micro size and 36 business fell under the Small category. There was no business falling under the medium size category that was examined.

4.4 SMEs’ number of years in business

This variable was not examined in this study as having an influence on loan repayment but might be used for future study.

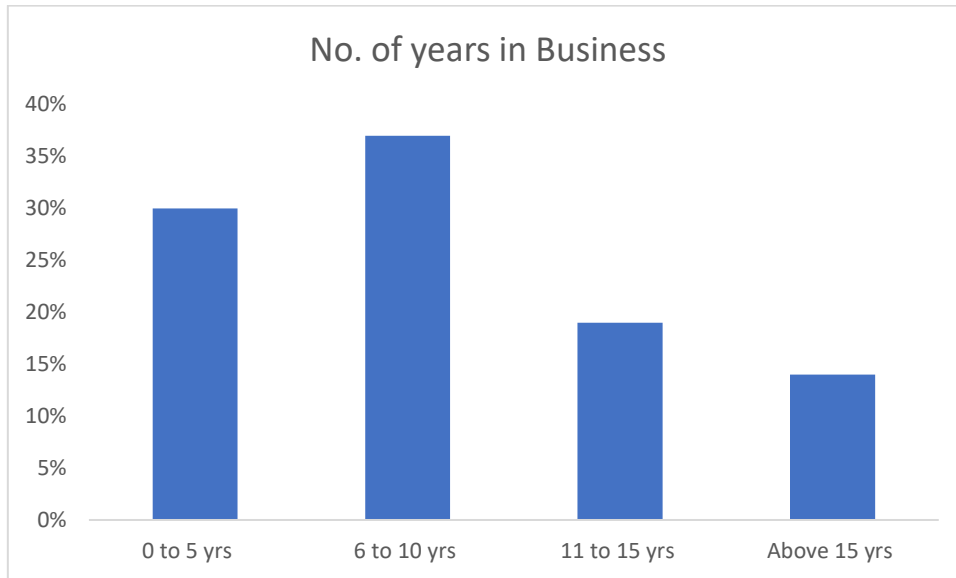
Table 4.7 Number of years in business

Period in years	Frequency	Percentage	Cumulative percentage
0 to 5	13	30%	30%
6 to 10	16	37%	67%
11 to 15	8	19%	86%
Above 15	6	14%	100%

Table 4.7 and figure 4.8 and 4.9 depicts the SMEs’ number of years of operating in Business. Sixteen (16) SMEs in the largest bracket of 37% had been operating for a period of between 6 to 10 years and in the smallest bracket of 14% were 6 SMEs which had been operating above 6 years. A good number of SMEs

at 30% (13) were in their infant stages of growth (between 0 to 5 years) with probably unstable financial viability. Those who had been operating between 11 and 15 years were 8 accounting for 19%.

Figure 4.8: Number of years in business



Source: Field data (2024)

4.5 Sector of SMEs

The influence of the sector on loan repayment behaviour was not examined in this study for hypothesis testing, but could be used in other related and future studies. Some sectors have more liquidity due to their nature of operations, services and products they provided, like those trading in smaller essential items while others rely more on bank overdrafts to supplement their liquidity due to low sales turnover like those in production on non-essential items.

Figure 4.9 SMEs sector

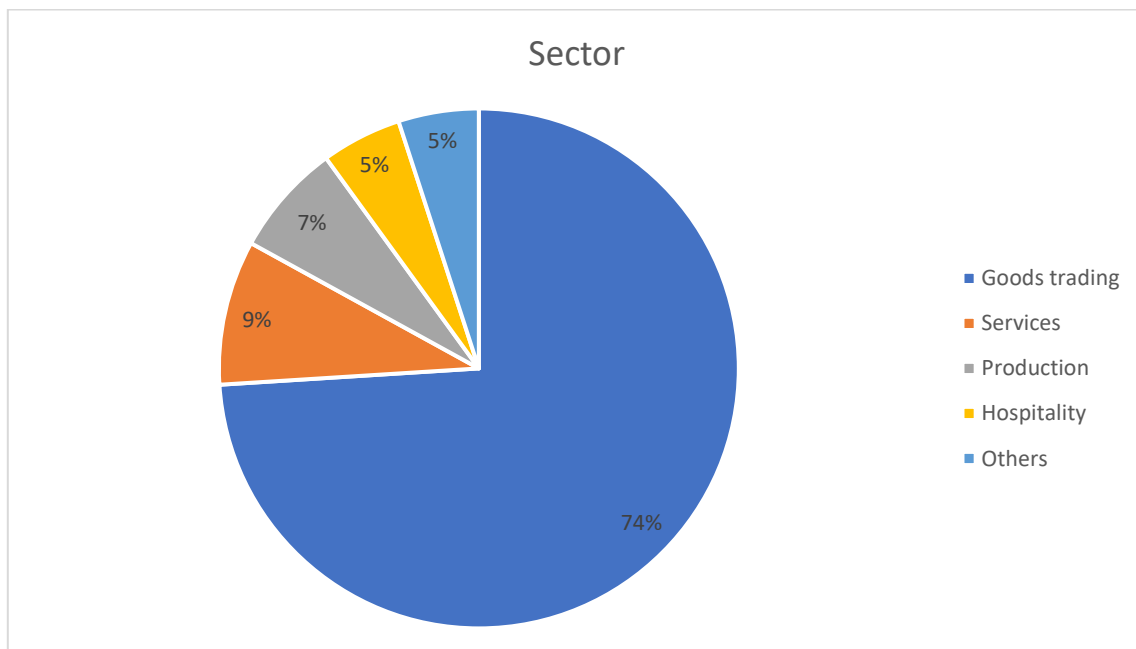


Table 4.8 Sector of SMEs

Sector	Frequency	percentage	Cumulative percentage
Goods trading	34	79	79
Services	4	9	88
Production	2	5	93
Hospitality	2	5	98
Others-metal fabric	1	2	100
Total	43	100	

The most common business among the respondents was selling of goods (34), accounting for 79%. Those who provided services were 4 at 9% and those in production were 2 at 5%, hospitality were 2 %, and metal fabrication was 1at 2%. (Table 4.6). Businesses with high sales turnover, especially cash sales are less likely to default on their loan repayments.

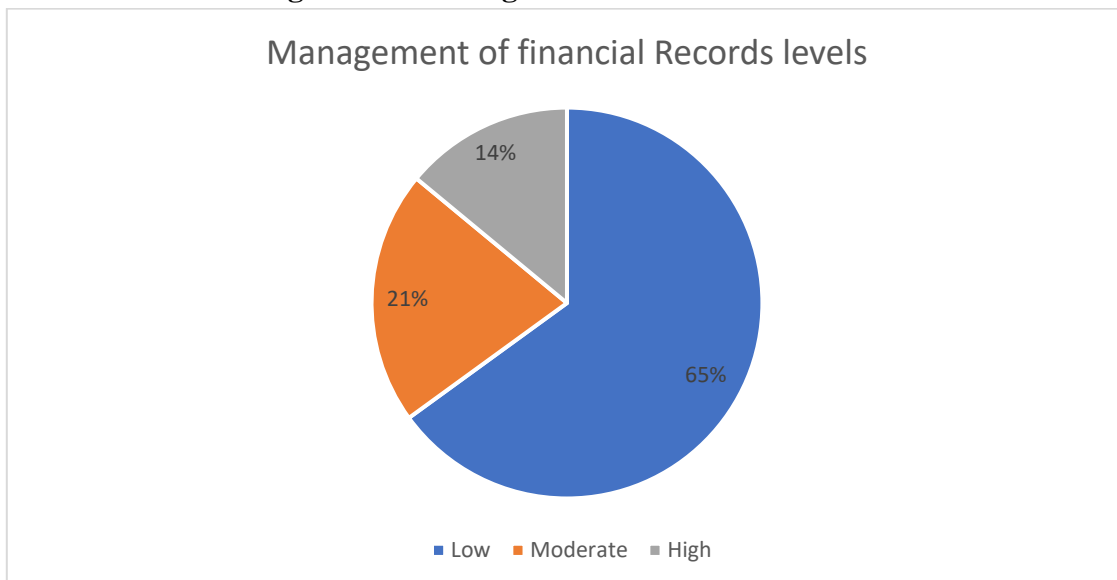
4.6 Management of Financial Records

Table 4.9 and figure 4.10 shows the level of management of financial records within Chipata Business Area. It was revealed that 65% (28) of the SMEs’ record keeping levels were low and 21% (9) were moderate while only 14% (6) expressed confidence of keeping their records to a high standard.

Table 4.9 –Level of management of financial records

Level	Frequency	Percentage	Cumulative Percentage
Low	28	65%	65%
Moderate	9	21%	86%
High	6	14%	100%
Total	43	100%	

Figure 4.10 Management of financial records



However, it was found that the following records were kept by SMEs as shown in table 4.10 below. The table revealed that all SMEs kept simple records of their debts and loans as well as cash records. Ninety-Five percent (95%) of the 43 SMEs kept purchases records but only 65% kept the sales records. Only 25% of the SMEs kept simple stores records and relied mostly on physical security and current market prices of the items. Cash flow forecast statements were the least kept by SMEs in Chipata Business Area, accounting for only 14% and only 35% prepared budgets.

The Cronbach Alpha test using SPSS was 0.744 indicating a moderate level of internal consistence in the respondents’ answers. The mean was 1.44, meaning that most respondents had a low level of proper management of financial records, with a few (9) having a moderate level and only a few (6) having a high level. The standard deviation was 0.63, meaning that the data points are spread out moderately, with most respondents having a low or moderate level of proper management of financial records.

Table 4.10 Financial Records usually prepared

S/N	Financial Records	No of companies out of 43	Percentage
1	Purchases Records	41	95%
2	Sales records	28	65%
3	Stores Records	15	25%
4	Cash Records	43	100%
5	Budgets	15	35%
6	Cash flow forecasts	6	14%
7	Debts and loans records	43	100%

Figure 4.11 – Financial records usually prepared



4.7 Impact of economic conditions on loan repayment

Table 4.11 and figure 4.12 indicated that respondent who expressed experiencing a high economic impact on loan repayment were 34 at 79%, moderate were 5 at 12% and low were 4 at 9%.

Table 4.11 Level of impact of economic conditions

Level of impact on SMES	Frequency	Percentage	Cumulative Percentage
Low	4	9%	9%
Moderate	5	12%	21%
High	34	79%	100%
Total	43	100%	

Mean was found to be approximately 2.63 indicating that the level of economic conditions on SMEs’ ability to repay loans was between moderate and high. Reliability coefficient for the data was approximately 0.72 within acceptable reliability of the data. The standard deviation was 0.83. The data shows that a significant majority (79%) of the SMEs reported a high impact of economic conditions on their ability to repay loans. This suggests that economic conditions were a significant factor in SMEs’ loan repayment behaviour according to the field data gathered and probably the major contributor to the SMEs’ loan repayment defaults.

Figure 4.12 –Level of impact of economic conditions

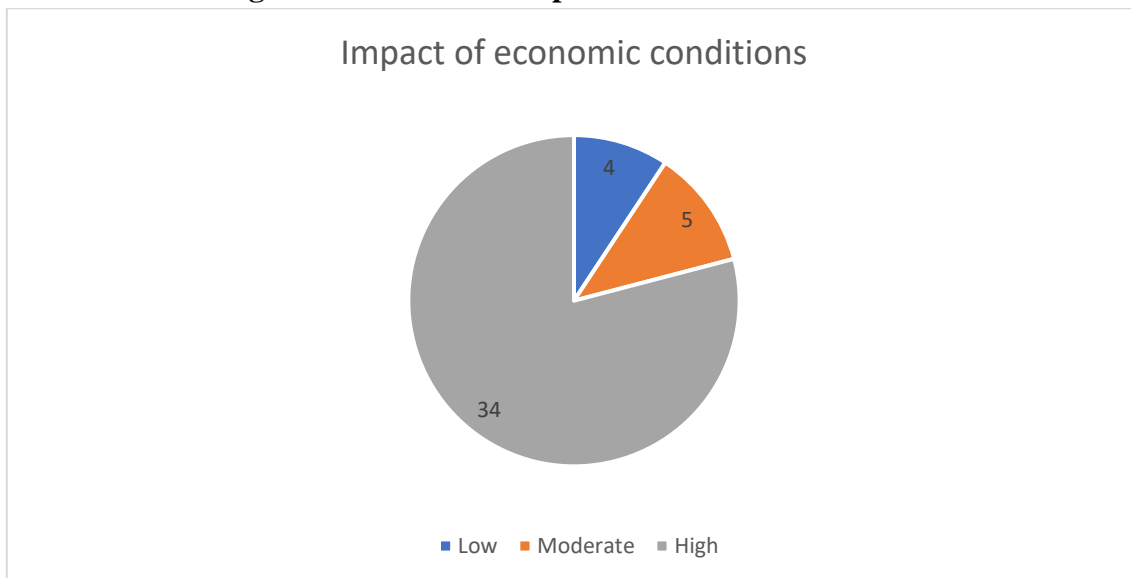
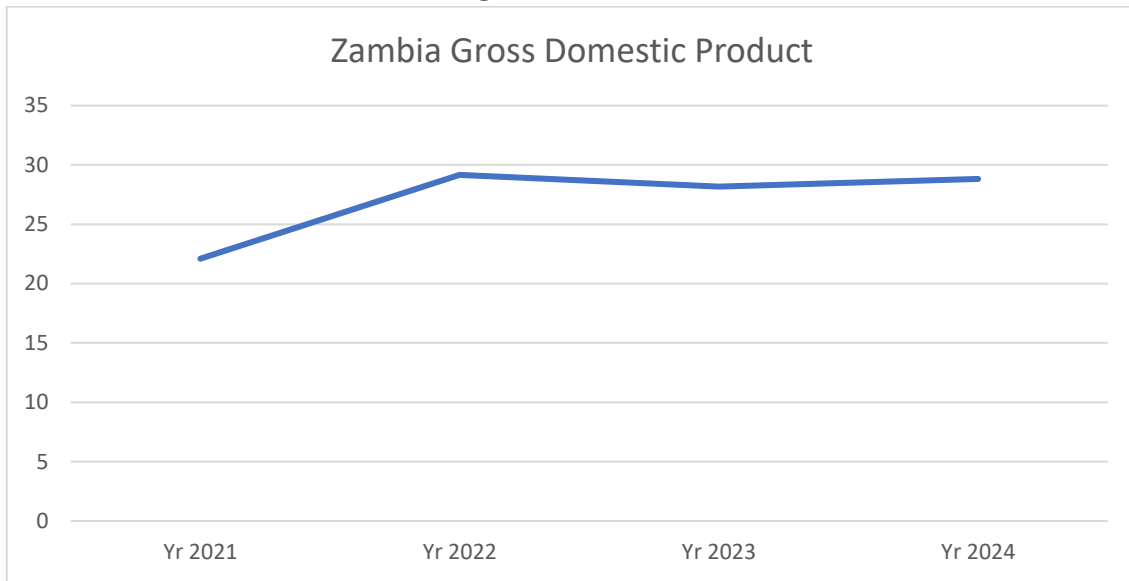


Table 4.12 and figure 4.13 revealed the trend in the Gross Domestic Product (GDP) of Zambia according to secondary data obtained. The data however showed some improvement in general economic conditions from 2020 to 2024 contrary to the field data obtained. The GDP rose by 58.5% from 2020 to 2022 and then dropped by 3.4% to 28.16 in 2023 and predicted to rise to 28.81 in 2024. This shows slight peaks and troughs in general economic performance over the period making it risky for upcoming SMEs, especially those in the micro level category. However there had been a GDP overall growth rate of approximately 9.24% from 2021 to 2023. This could have contributed to the mushrooming of SMEs that could not sustain their financing capabilities. Another viewpoint could have been the economic benefits not trickling down to the SMEs, especially those which were in infant stages of their business life cycle and in micro level category. It could also be interpreted that the growth in GDP could have been attributed to businesses in the large category.

PERIOD	GDP (\$ Billion)	INCREASE IN %
2021	22.10	20% from 2020
2022	29.16	31.9%
2023	28.16	(3.4)%
2024	28.81	2.3% (predicted)

Source: Zambia Statistics Agency 2023, Zambia Invest Feb 2023

Figure 4.13 - GDP



4.8 Understanding impact of government policy – interest rates

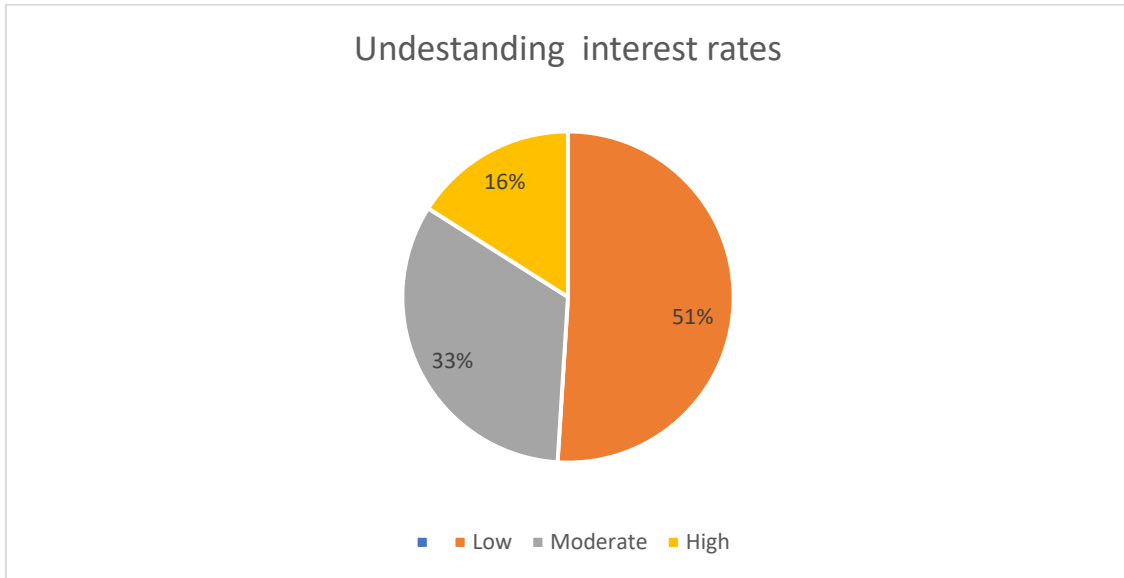
According to table 4.13 and figure 4.14 below, the data revealed that 51% of respondents did not fully understand how the interest rates, inflation rates and exchange rates interact and how they can affect their revenue and cash flows. Thirty-One (31%) showed moderate understanding and only 16% showed some adequate knowledge. It was also revealed that, according to table 4.15 and figure 4.16, 59% of the respondents felt that the interest rates rise, negatively impacted their business on a higher note and 31% moderately and only 10% felt indifferent.

Table 4.13 Understanding government policy – interest rates

Level	Frequency	Percent	Cumulative percent
Low	22	51%	51%
Moderate	14	33%	84%
High	7	16%	100%
Total	43	100%	

Mean was calculated approximately as 1.86 i.e. $((22 \times 1 + 14 \times 2 + 7 \times 3) / 43)$ and Cronbach's Alpha was 0.64, indicating acceptable reliability.

Figure 4.14 – Owners understanding of interest rates



Coefficients:

SMEs' understanding level of government policy:

Low vs. Moderate: -1.51 (p-value = 0.003)

Low vs. High: -2.83 (p-value < 0.001)

SMEs with low understanding of government policy are less likely to repay loans and those with moderate and high understanding more likely to pay interest rates respectively according to the financial literature theoretical framework and traditional financial management. On the contrary, behavioural finance theory suggest that not all financial decisions were based on rational and objective analysis of relevant financial information but on psychological and emotional bases such as readily available information (anchoring), because everyone is doing it (herd instinct), based on their beliefs such as religion, personal, cultural, etc. (confirmation bias), and by gambling that there would be a way out and that better returns would finally arise (gambler’s fallacy), etc. In the situation of this study financial literacy and financial management practices might not be a basis for loan repayment failures but might be due to instinctive diversion of loan funds to other high risk causes which might fail. Behavioural finance was not examined as an independent variable in relation to loan repayment dependent variable. It may be taken into consideration in the future for hypothesis testing.

Table 4.14 Impact of interest rates rise on SMEs

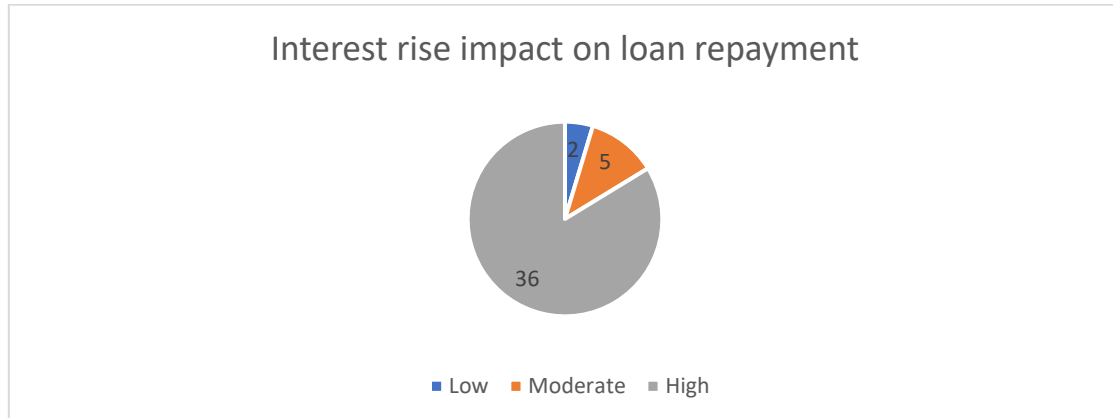
Level	Frequency	Percent	Cumulative Percent
Low	2	5%	5%
Moderate	5	12%	12%
High	36	84%	100%
Total	43	100%	

Impact of high interest rates on SMEs’ loan repayment.

Mean is approximately $(2 \times 1 + 5 \times 2 + 36 \times 3) / 43 = 2.63$

Cronbach's Alpha is 0.83 indicating a good reliability.

Figure 4.15 Impact of interest rate rise



From the above Tables 4.14 and 4.15, the mean for SMEs' understanding level of government policy is 1.86, indicating a moderate level of understanding overall.

The mean for the impact of high interest rates on SMEs loan repayment behaviour is 2.63, indicating a high negative impact. Cronbach's Alpha values indicate acceptable to good reliability for both variables. The ordinal logistic regression analysis figures are as follows: R-Square: 0.41 indicating a moderate fit of the data; Chi-Square: 30.21 (p-value < 0.001, indicating a good fit of the data.

Impact of high interest rates on SMEs:

Low vs. Moderate: 0.21 (p-value = 0.655)

Low vs. High: 1.97 (p-value < 0.001)

Table 4.15: Zambia interest Rates variations over the indicated period

PERIOD	INTEREST RATE	INCREMENT IN %
Nov 2021	9%	6.25% from 2020
Aug 2023	10%	11.1%
Nov 2023	11%	10%
Feb 2024	12.5%	13.6%
May 2024	13.5%	8%

Source: Zambia Statistics Agency 2023, Zambia Invest Feb 2023

Figure 4.16 Zambian Actual interest rate movements

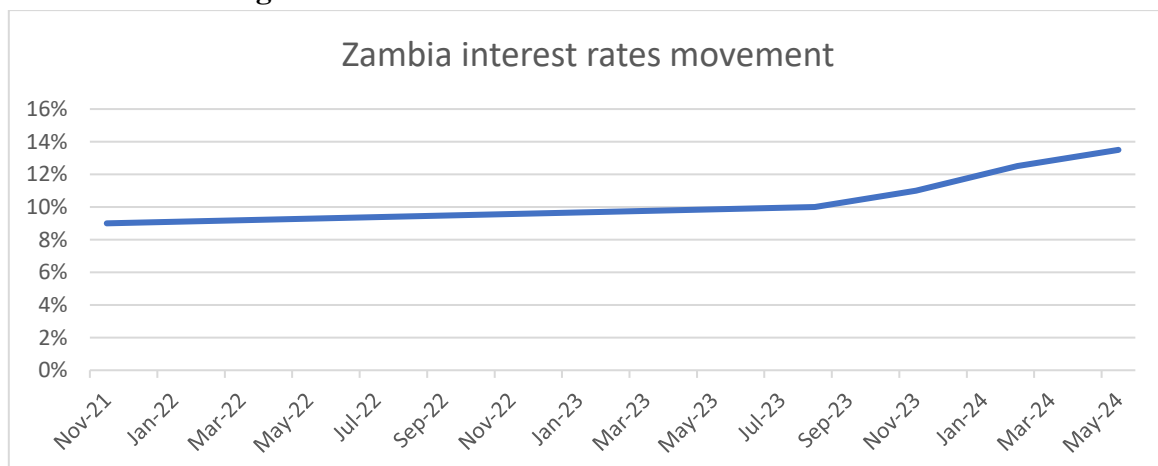


Figure 4.16 and table 4.15 shows a rising trend in interest rate movements for the period under review. The trend reveals a sharper rise from September 2023 to May 2024. This could relate to the 84% of the respondents who expressed a high negative impact of interest rates rise on their loan repayment performance. This could also explain why the growth in GDP (Table 4.12 and figure 4.13) could not impact positively on the SMEs in terms of financial performance and consequently loan repayment sustainability.

4.9 Educational level of respondents

Table 4.16 and figures 4.17 and 4.18 show the levels of education of the respondents in various businesses.

Figure 4.17 Literacy levels of respondents

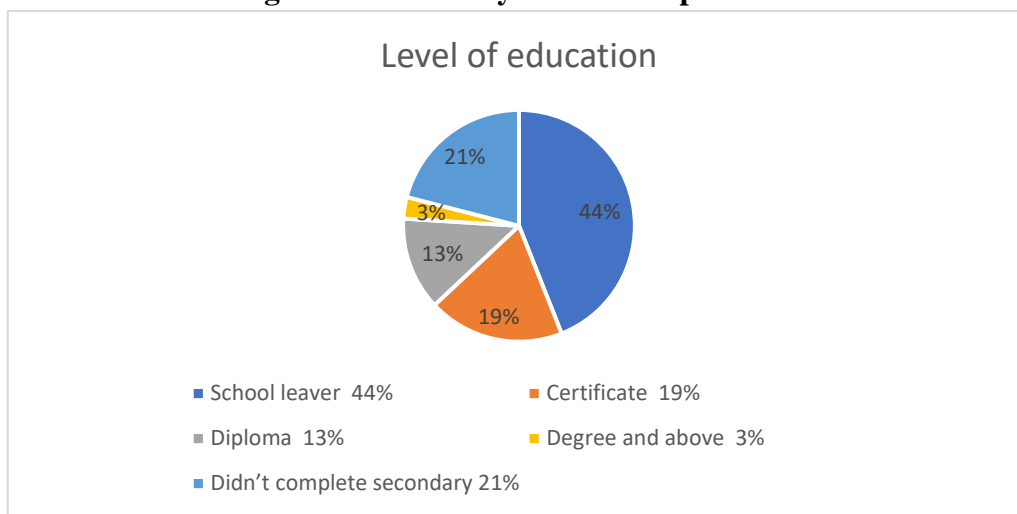


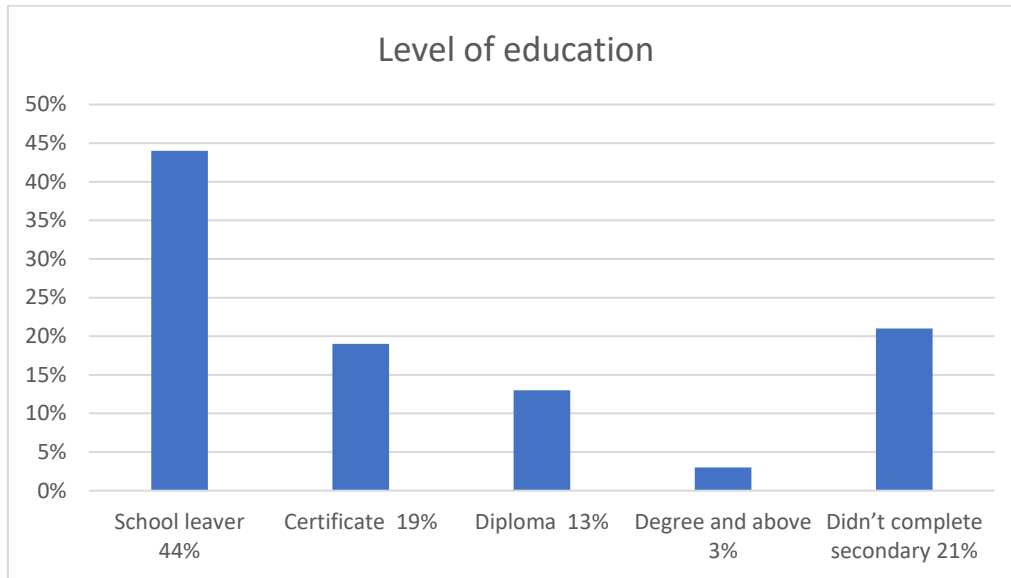
Table 4.16 Level of education of respondents

Education	Frequency	Percent	Cumulative percent
School leavers	19	44	44
Certificate	8	19	63
Diploma	6	13	76
Degree above	1	3	79
Didn't finish Secondary	9	21	100
Total	43	100	

According to the findings, the vast majority of respondents were Grade 12 School leavers (44%), seconded by respondents who entered secondary education but could not complete accounting for 21%. The respondents who entered tertiary education accounted for 35% (certificates, diplomas and degree and above). Therefore, school leavers and those who could not complete secondary education together account for 65% with little or no financial literacy. From the data, Cronbach Alpha Test was 73% indicating a moderate to high level of internal consistency in the measurement instrument, i.e. the questionnaire used to assess the owners' and managers' levels of education. A higher alpha value, i.e. closer to 1, suggested that the questionnaire effectively measure the same construct. The mean was 1.86 indicating that the average level of education among the respondents, was slightly below the degree level, suggesting that most owners and managers had some post-secondary education. The standard deviation in education level

is 1.23, indicating an amount of dispersion or variation of data from the mean. A higher standard deviation indicates more variability in the level of education among the respondents.

Figure 4.18 Educational level of respondents



Source: Field data (2024)

The results above might mean that owners and managers with lower education as was indicated by the mean of 4.86, might be more likely to experience loan repayment challenges. The moderate internal consistency as indicated by Cronbach Alpha of 0.73 and variability in education levels as indicated by standard deviation of 1.23 suggested that the education was a relevant factor, but its impact might be influenced by other variables. This analysis did not consider the behaviour finance theory.

Main Findings

5.0 Introduction

This study examined the factors that cause SMEs to default on their loan repayments with particular focus on SMEs operating within Chipata Business Area. This section summarises the results and related interpretations from collected data on the questionnaire.

5.1 Evaluation of SMEs' Financial practice on Loan Repayment

The assessment of how SMEs' financial practices impact loan repayment revealed significant insights. The results suggest that most SMEs 43 of 43, have a low level of proper management of financial records, which may indicate a higher risk of loan default. A few SMEs (9) have a moderate level, indicating some ability to manage financial records but still may face challenges in loan repayment. Only a few SMEs have a high level, indicating good financial management practices, which may result in good loan repayment ability.

Looking at table 4.7, there is transaction-based financial management emphasizing the importance of accurately recording cash, debts, purchases, and sales. This might help SMEs' ability to manage their working capital and cash flow. There is also forward-looking financial planning, highlighting the importance of budgeting, cash flow forecasting, and inventory management. The second might help the SMEs' ability to plan and prepare for future financial challenges.

Based on this analysis, it seems that SMEs that prioritize transaction-based financial management and maintain accurate records of cash, debts, purchases, and sales might be better equipped to manage their working capital and cash flow, which could positively influence their ability to meet loan obligations.

On the other hand, SMEs that focus on forward-looking financial planning and prepare budgets, cash flow forecasts, and maintain stores records might be better prepared to anticipate and manage financial challenges, which could also positively influence their ability to repay loans.

It was discovered that sound financial management practices, including effective budgeting, cash flow management, and debt management, are associated with improved loan repayments and vice versa.

5.2 Analyze economic impact on SME loan repayment defaults

The research study in the area of analysis of the economic impact on SME loan repayment defaults in Chipata Business Area uncovered some correlations. The data suggests that economic conditions were a significant factor in SMEs' loan repayment behaviour and probably the major contributor to the SMEs' loan repayment behaviour. Despite the GDP average growth rate of approximately 9.24% from 2021 to 2023, an indication of a growth in economic activities, the data revealed that the economic conditions still negatively impacted the SMEs ability to repay the loans. One of the reasons could have been the economic benefits had not yet trickled down to the SMEs, especially those which were in infant stages of their business life cycle and in micro level category. It could also be interpreted that the growth in GDP could have been attributed to or enjoyed by businesses in the large category with economies of scale and scope.

5.3 Assessment of government policy influence on loan repayment

In this research, it was found that government policies and interventions had an influence on SMEs loan repayment behavior within Chipata Business Area. SMEs with low understanding of government policy are less likely to be consistent with loan repayments and vice versa. It was therefore deduced that understanding how government policies influenced loan repayment and evaluating the policies (regulations, incentives, or interventions) and their impact on SMEs loan repayment behavior was essential for both financial institutions and policymakers.

Insights could be gained into areas where policy improvements might be necessary, formulating effective strategies to support SMEs in meeting their repayment obligations, ultimately contributing to their financial sustainability and fostering economic growth. Additionally, this examination can help facilitate the identification of best practices and areas for improvement in government support mechanisms for SMEs, leading to better outcomes for both businesses and lenders.

5.4 Financial Literacy Influence on SMEs owners' loan repayment defaults

The research has revealed that SME owners with tertiary education showed relatively better levels of financial literacy like cash flow forecasts, interest rates, and inflation rates and consequently a better loan management. Some respondents who however showed relatively lower levels of financial literacy did not default on their loan repayment showing that the loan repayment failures could have been due to other factor not examined.

5.5 Hypotheses Test

Hypothesis 1: Reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This means that

financial management practices of SMEs have an influence on their ability to repay loans.

Hypothesis 2: Reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This means that economic conditions have a significant impact on SMEs, contributing to loan repayment failures.

Hypothesis 3: Reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This means that government policies significantly influence the loan repayment by SMEs in Chipata Business Area.

Hypothesis 4: Reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This means that the level of financial literacy among SME owners somehow impacts their ability to meet loan repayment obligations in Chipata Business Area.

Overall, the analysis suggests that financial management practices, economic conditions, government policies, and financial literacy all play important roles in determining SMEs' ability to repay loans. These findings have implications for SMEs, policymakers, and financial institutions seeking to support SME growth and sustainability.

5.6 Conclusions and Recommendations

5.6.1 Conclusion:

5.6.1.1 Research Objective 1: To evaluate how SMEs' financial practices impact loan repayment.

The study revealed that the 35% of SME owners and managers possessed at least a minimum of a certificate qualification, to enable them have some basic understanding. However, 44% only had school leavers' certificates and the rest barely had any certificate with little understanding how liquidity in connection with loan repayment. This suggests that financial literacy programs tailored to SMEs' needs could be beneficial in improving their financial practices and ultimately enhancing loan repayment behavior.

5.6.1.2 Research Objective 2: To analyze economic impact on SME loan repayment defaults.

The data revealed that economic conditions, such as high interest rates and inflation, significantly impact SMEs' ability to repay loans. SMEs operating in unfavorable economic conditions are more likely to struggle with loan repayment. This highlights the importance of considering economic conditions when evaluating SMEs' creditworthiness. These findings highlight the need for financial institutions and policymakers to consider specific support mechanisms for SMEs during economic troughs. Such measures would contribute to the stability of SMEs' financial health and viability.

5.6.1.3 Research Objective 3: To assess government policies' influence on loan repayment.

The analysis indicated that government policies, such as interest rates, significantly influence SMEs' loan repayment behavior. SMEs operating in environments with supportive government policies are more likely to repay their loans. This underscores the importance of government support in promoting SME growth and sustainability.

5.6.1.4 Research Objective 4: To assess the influence of literacy levels on loan repayment.

The findings suggested that financial literacy among SME owners somehow impacts their ability to meet loan repayment obligations. SME owners with higher financial literacy levels are more likely to manage their finances effectively, leading to better loan repayment outcomes. This emphasizes the need for financial education and training programs for SME owners.

5.7 Recommendations

5.7.1 Financial Literacy Programs

Government should implement robust financial literacy programs targeted at SME owners and managers

to improve their understanding of financial practices and enhance loan repayment behavior. Moreover, identifying areas where financial training or support is needed can further enhance repayment behaviors.

5.7.2 Tailored Loan Terms

Lenders should tailor loan terms based on the economic conditions and operational characteristics of SMEs to mitigate the risk of loan defaults.

5.7.3 Government Support: Policymakers should continue to support SMEs through initiatives focused on education, loan guarantees, grants empowerments and business development to improve their financial stability and repayment capabilities.

5.7 Areas for Further Research

Industry specific factors – The industry specific challenges and characteristics of SMEs that may influence loan repayment should be taken into account.

Geographic factors – Geographical location of SMEs should also be considered how they have an impact on the performance of a business and the consequence loan repayment ability.

Loan specific factors – analysis should be carried out of loan terms, interest rates and collateral requirements on loan repayment performance.

Government policy and regulatory frameworks – Further consideration of the impact of individual government policies, regulations and initiatives on SMEs' loan repayment should be examined.

Technological adoption and digitalization – Examination should be conducted on the technological adoption and digitalization of SMEs and how they affect their financial management, business performance in connection with loan repayment.

Credit Scoring and risk assessment – Credit scoring and risk assessment tailored to SMEs' characteristics should be further investigated.

Loan repayment behaviour and psychological behaviour – Behavioural factors of managers and owners should be investigated in connection with loan repayment behaviour.

Collateral and guarantee schemes – The effectiveness of collateral and guarantee schemes should be investigated in connection with loan default reduction by beneficiary SMEs.

Longitudinal studies – Longitudinal studies should be conducted to examine the SMEs loan repayment performance over time in order to identify patterns and trends.

5.8 Conclusion

By accepting these alternative hypotheses, we can conclude that financial management practices, economic conditions, government policies, and financial literacy are all critical factors in determining SMEs' ability to repay loans. These insights can inform strategies for SMEs, policymakers, and financial institutions to promote SME growth and sustainability. Addressing these factors through targeted interventions and policies can contribute to improving loan repayment rates among SMEs and subsequently their viability.

The analysis of respondents' demographics, such as the number of years in business and the number of employees, the sector of operation can provide insights into the economic conditions of SMEs if further examined. Understanding these factors can help lenders assess the financial stability of SMEs and tailor loan terms accordingly to mitigate the risk of loan repayment defaults.

5.9 Chapter Summary

Overall, the study provides valuable insights into the factors influencing SME loan repayment behavior and offers practical recommendations for stakeholders, including SME owners, lenders, and policymakers, to enhance financial practices and support SME growth and sustainability.

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