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An Investigation into the Impact of Interest Rate Fluctuations by Financial Lending Institutions on Small and Medium Enterprises' (SMEs') Loan Repayment among Selected Lusaka-Based Firms

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ABSTRACT: This study purposed to investigate the impact of interest rate fluctuations by financial lending institutions on small medium enterprises' (SMEs') loan repayment Among selected Lusaka based SMEs. The issue of high interest rates charged by financial institutions is a significant concern for SMEs in Zambia. The study was guided by three research objectives; to examine the challenges SMEs face in repaying financial credit gotten from financial lending institutions; to find out the effect of interest rate fluctuations on loan repayment among SMEs operating in Lusaka City and to propose a policy framework amenable for stable and affordable interest rate by financial lending institutions operating in Lusaka City. The target population for this research was one hundred (100) SMEs registered and operating in Chilenje market in Lusaka city. This study employed a descriptive design and a mixed-method approach, combining qualitative and quantitative data collection to leverage the strengths of both methodologies. The research population was well-defined and complete for simple random and purposive sampling methods. The research paradigm was rooted in pragmatism, focusing on empirical data to explore the relationship between interest rate fluctuations and SME loan repayment behavior in Lusaka, using a sample size of 53 SMEs from Chilenje market. Data collection involved administering questionnaires with both open and closed-ended questions and interview schedules. This research study successfully established the effect of interest rate fluctuations on loan acquisitions among SMEs operating in Lusaka city. It demonstrated that SMEs are sensitive to changes in interest rates, with the majority indicating that their decision on loan acquisitions is affected by fluctuating interest rates. This underscores the importance of interest rate stability for SMEs in making informed borrowing decisions and managing financial risks. The study advocates for a framework which promotes transparency and market efficiency, implementing regulatory measures to mitigate risk and encourage competition, and facilitating access to credit information and alternative financing options. By comparing these findings with existing research, the study underscores the complex nature of SME loan repayment behaviors in response to interest rate fluctuations and emphasizes the need for collaborative efforts among policymakers, financial institutions, and SME stakeholders to address challenges and promote sustainable growth within the SME sector.

KEYTERMS: Impact, Interest Rate Fluctuations, Loan Repayment, SMEs, Lusaka.

1. INTRODUCTORY BACKGROUND

Small and medium-sized enterprises (SMEs) serve as the catalyst for economic expansion, propelling innovation, employment generation, and general well-being, (Anyadike-Danes et al., 2017). According to Hapompwe, Kukano, & Sichoongwe (2021), "over the years, small enterprises have been an integral part of the majority of world's economies. Policymakers, analysts, and economists all believe that the engines of economic prosperity are small firms as well as medium-sized companies." Their prosperity hinges heavily on securing financial resources, particularly loans from financial institutions. Nevertheless, the cost associated with borrowing, as mirrored in interest rates, profoundly affects an SME's capacity to manage finances and meet loan obligations efficiently. Arising from this scenario, Sakala and Hapompwe (2023) observed that it was for this reason, among others, that SMEs would prefer equity as opposed to debt financing as a way of trying to manage the uncertainties which come with such loan conditions.

Microfinance institutions have emerged as alternative sources of funding for SMEs, filling the gap left by commercial banks. Microfinance banks, licensed by the Bank of Zambia, focus on providing financial services to the poor and microenterprises, catering to the grassroots development needs, (Mulenshi, 2017). Nonetheless, the issue of high interest rates charged by financial institutions is a significant concern for SMEs in Zambia. These rates are attributed to the high cost of administration of overdue loans and defaulters, which increase lending costs without a corresponding increase in loan turnover. Consequently, financial institutions must set risk premiums high to compensate for these risks, further exacerbating the financial burden on SMEs, (World Bank, 2019).

1.1. Problem Statement

SMEs are the backbone of many economies, playing a critical role in job creation, wealth generation, and fostering innovation, (OECD, 2021). Notwithstanding their significance, SMEs face numerous daunting challenges that hinder their ability to thrive. One of the most frequently cited obstacles is limited access to financial resources (International Finance Corporation, 2023). Besides, high interest rates associated with loans from financial institutions can be a significant barrier, making it difficult for SMEs to secure the funding they need for day-to-day operations and expansion plans. The negative impact of high interest rates on SMEs is well-documented in both academic literature and anecdotal evidence. Studies have consistently shown a correlation between high interest rates and the struggles faced by SMEs in meeting their financial obligations and achieving growth targets, (Klapper & Love, 2011). Furthermore, empirical data and industry reports overwhelmingly support the assertion that high interest rates can stifle the creation of new SMEs and threaten the viability of existing ones, (IFC, 2023).

This study aims to bridge the existing research gap by providing a comprehensive analysis of how high interest rates impact loan repayment behaviors among SMEs in Lusaka, Zambia. Spotted studies in this sector seem not to have focused on this particular area and context. For instance, the study by Sakala and Hapompwe (2023) focused on which mode business financing is preferred by SMEs between debt and equity. On the other hand, the other study by Hapompwe, Kukano, and Sichoongwe (2021) focused on challenges faced by SMEs when obtaining loans from Citizens Economic Empowerment Commission (CEEC), all of which are related to the current study but with different focus. Furthermore, Siwale et al. (2021) did a study in 2021 but focused on the impact of financial illiteracy on SMEs' growth. Therefore, these gaps, among others, make of essence and relevance this study especially that the SME sector in countries like Zambia constitute about 97% of all businesses and cut across all sectors of the economy in providing one of the most high-volume sources of employment and wealth creation and are a breeding ground for industries (Hapompwe, Simushi, & Sichoongwe, 2021). By shedding light on this critical issue, policymakers, financial institutions, and stakeholders can formulate targeted interventions aimed at alleviating the financial burdens faced by SMEs and fostering a conducive environment for their sustainable growth.

1.2. Study Objectives

1.2.1. To examine the challenges SMEs face in repaying financial credit obtained from financial lending institutions in Lusaka City.

1.2.2. To find out the effect of interest rate fluctuations on loan repayment among SMEs operating in Lusaka City.

1.2.3. To propose a policy framework amenable for stable and affordable interest rate by financial lending institutions operating in Lusaka City.

2. LITERATURE REVIEW

2.1. Introduction

Repaying financial credit is a significant hurdle faced by SMEs in Less Developed Countries, Zambia inclusive. Stringent collateral requirements, high-interest rates, limited financial literacy, and external economic factors all contribute to this challenge. By recognizing these obstacles and implementing solutions through collaborative efforts between financial institutions, policymakers, and SMEs themselves, a more supportive financial ecosystem can be fostered, enabling SMEs to thrive and contribute meaningfully to Lusaka's economic landscape.

2.2. Empirical Review

2.2.1. Challenges Faced by SMES in Repaying Financial Credit Obtained from Financial Lending Institutions.

Small and Medium Enterprises (SMEs) are the lifeblood of many economies, driving innovation, job creation, and significantly boosting Gross Domestic Product (GDP) (Asiamah et al., 2020).

In Bangladesh, Chowdhury and Alam (2017) studied factors affecting access to Finance of Micro, Small and Medium Enterprises (MSMEs). Data was collected from a sample of 86 MSMEs from various types of businesses to investigate the problems and suggest policy recommendations. Findings revealed that the size and age of the firms, education and skills of the owners, and unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials etc. are some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institutions.

Whereas the foregoing study by Chowdhury and Alam (2017) may be similar with the current in that both are investigative in nature, the two fundamentally differ in purpose, focus, geographical location, scope SME ecosystem.

Hapompwe, Kukano, and Sichoongwe (2021) conducted a study titled 'Challenges and Opportunities for Loan Financing of SMEs through Citizens Economic Empowerment Fund (CEEC). The study was purposed to empirically analyse challenges, opportunities, and prospects for loan financing of SMEs in Lusaka through the statutory Citizens Economic Empowerment Fund. The study adopted a descriptive analytical research design incorporating quantitative and qualitative methodological paradigms with the questionnaires, focus group discussion and semi-structured interviews being the main data collection tools. The study targeted 500 (N) SMEs in selected Central Business District points of Lusaka with 50 as sample size (n). The study, among others, established that CEEC loans did not to a greater extent benefit the SMEs despite their dire need for the same. It was also ascertained that small businesses were unable to obtain loans because of strict and stringent conditions such as the need to generate equity / collateral and documentation requirements before approval of loans.

The study by Hapompwe et al., (2021) differs with the current study as it was focusing on impediments SMEs face in trying to obtain loans from CEEC and not the Impact of Interest Rate Fluctuations by Financial Lending Institutions on Small and Medium Enterprises' (SMEs') Loan Repayment as focused by the current study.

In Zambia, Nuwagaba (2015) carried out research on Enterprises (MSMEs) in Zambia. The purpose of the study was to understanding the state of the MSMEs sector in Zambia and how they contribute to the country's economic development. Both Primary and secondary data were collected using instruments such as: questionnaires, interviews and review of previous literature on the subject. The study was exploratory and qualitative. The method of analysis was tabulations especially in MS excel and MS word applications. Purposive sampling technique was used to select Entrepreneurs' financial center for this research.

The research revealed that over 90 percent of MSMEs operated in the informal sector and this made it difficult for the government to support the sub sector efficiently. MSMEs' contribution therefore, to the country's development was not very clear.

In another development, a study by Sakala and Hapompwe (2023) focused on which mode business financing was preferred by SMEs between debt and equity. From the interviews conducted, the emerging theme was SMEs preferred private equity finance to debt finance mainly in cases where the SMEs interviewed were faced with economic uncertainty, limited collateral, intended to grow quickly, and required technical assistance. However, loss of control, lack of a legal framework and unavailability of Private Equity firms in Lusaka hindered SMEs from utilizing this type of financing. This study's findings still differ with the current study in terms of focus.

2.2.2. Effect of Interest Rate Fluctuations on Loan Repayment Among SMES.

A study conducted by Hoque and Hossain (2008), which was carried out in Egypt investigated on the relationship between higher interest rates and loan defaults and they applied three different regression models. They advocated for a reduction of interest rates so as to foster the repayment capacities of borrowers thus reducing the loan default rates. Their findings entailed that loan defaulting and higher interest rates had a high positive correlation and this adds up to the borrower's debt obligations which will translate into loan defaults resulting in banks' capital reduction.

Taylor (2011) also argues that high interest rates by MFIs promotes debt trap for the borrowers which may hinder the loan repayment process. Exorbitant lending rates have also been observed to hinder the uptake of micro loans, thereby hindering the original intention of MFIs Dehejia (2012). With the global campaign for financial inclusion among the unbanked, there is a general concern that high interest rates reduce demand and uptake of microfinance services.

Furthermore, another research carried out by Asari (2011), in Ethiopia also pointed out that Non-Performing Loans and interest rates have a positive relationship. His research concluded that increases in NPL translates to a reduction of the bank's assets and in turn eats on the capital. Interest rates and their volatility are amongst the most precarious and closely monitored variables in the economy.

A study by Kashuliza (1993) using a linear regression model to analyze contributing factors of loan repayment in smallholder agriculture in the southern highlands of Tanzania had findings indicating that the perception towards repayment, education levels, farm incomes and off-farm income positively impact loan repayment and farm income was very substantial, whilst household expenditure, interest rates, age and household size have negative influence on loan repayment performance.

Mmieh and Mordi (2017) carried out a study on factors influencing the financial preferences of MSMEs in Ghana. It was a case study using entrepreneurs of MSMEs as the unit of analysis. The instruments used to collect data were in-depth interviews with entrepreneurs of MSMEs and some Key Informants in Ghana who were conversant with MSMEs in Ghana both academically and exposure to socio-economic life of Ghana. The results showed that level of education, poor energy supply, access to external finance, competition, inflation and government policies influence the financial preferences of MSMEs in Ghana. The researcher came up with various recommendations that should sustained energy supply, review of lending and borrowing regulations, favorable fiscal policies, measures to combat unhealthy competition, provision of adequate training centers to equip entrepreneurs, and regulation on land acquisition if financial preferences of MSMEs in Ghana was to be consistent.

Small and Medium Enterprises (SMEs) are pivotal drivers of economic growth across various nations. They foster ingenuity, employment opportunities, and make substantial contributions to the Gross Domestic Product (GDP), (Adomako et al., 2012). However, their prosperity is contingent upon securing financial backing, particularly through loans facilitated by financial institutions. In Lusaka, the bustling capital city of Zambia, SMEs play a crucial role in the economic fabric. Nonetheless, they encounter a significant hurdle in navigating the impact of interest rate fluctuations on their ability to repay loans.

2.2.3. Policy Framework Amenable for Stable and Affordable Interest Rate by Financial Lending Institutions.

Small and Medium Enterprises (SMEs) are the cornerstone of Lusaka's economic vitality, driving innovation, job creation, and overall growth, (Asiamah et al., 2020). However, their success hinges on access to affordable financing, particularly loans from financial institutions. In Lusaka, interest rate fluctuations pose a significant challenge for SMEs, hindering their ability to repay loans and invest in growth. This essay proposes a policy framework aimed at promoting stability and affordability in interest rates offered by lenders in Lusaka City.

The framework rests on three key pillars: promoting transparency and market efficiency, implementing regulatory measures to mitigate risk and encourage competition, and facilitating access to credit information and alternative financing options.

Firstly, fostering transparency and market efficiency is crucial. Financial institutions should be mandated to clearly disclose the components that make up their interest rates, allowing SMEs to compare loan offers effectively and make informed decisions, (Beck et al., 2016). Additionally, establishing a central repository for historical interest rate data alongside industry benchmarks would empower SMEs to negotiate for more competitive rates by fostering greater transparency and encouraging competition among lenders, (World Bank, 2023).

Secondly, regulatory measures can be implemented to mitigate risk and encourage competition. Financial institutions should be encouraged to adopt risk-based pricing models that assess individual SME creditworthiness. This approach, compared to a one-size-fits-all method, reduces the risk premium for creditworthy SMEs, leading to lower interest rates, (Adomako et al., 2012). Furthermore, policymakers can stimulate competition in the financial sector by facilitating the entry of new lenders, particularly microfinance institutions that cater specifically to SMEs (Mwanza-Muteto et al., 2017). Increased competition incentivizes lenders to offer lower interest rates as they vie for SME borrowers.

Thirdly, facilitating access to credit information and alternative financing options is essential. Strengthening credit bureau infrastructure and encouraging information sharing among lenders can improve risk assessment and reduce information asymmetry, (Beck et al., 2016). This allows lenders to offer lower interest rates to SMEs with a positive credit history. Additionally, the government can establish loan guarantee schemes that partially mitigate risk for lenders, incentivizing them to offer loans to SMEs at lower interest rates, (Love and Ziso, 2016).

The successful implementation of this framework requires a dedicated regulatory body. This body would oversee lending practices, ensure compliance with disclosure requirements, and collect data to assess the framework's effectiveness. Regular reviews and adjustments based on the collected data would ensure continuous improvement.

By promoting transparency, encouraging competition, and facilitating access to credit information and alternative financing options, this policy framework can create a more stable and affordable interest rate environment for Lusaka's SMEs. This will ultimately lead to improved loan repayment performance, increased access to finance, and a more vibrant and resilient SME sector, significantly contributing to Lusaka's economic growth and prosperity

2.3. Research Gaps

The importance of SMEs has no doubt been articulated by many researchers in the role they play in an economy of any country be it developed or underdeveloped. While their importance has been acknowledged in many empirical researches, a collection of factors affecting the financing of MSMEs financial preferences have equally been brought to light. These challenges have been found in different parts of the world and did not include Lusaka in Zambia in their studies. The environment of Lusaka in Zambia is different from Nigeria, Zambia in general, Kosovo or many other parts of the world. Lusaka town is unique in that the town has grown extensively for the last five years and many SMEs have come up on board, hence the study on impact of interest rate fluctuations on SMEs' loan repayment is of paramount import and timely.

2.4. Theoretical Framework

This research will be anchored on the **fisher's theory of interest**. Fisher's theory of interest, proposed by American economist Irving Fisher in his work "The Theory of Interest" (1930), is a significant contribution to understanding the economics of interest rates. Though it has been criticized by others (Fisher, 1974), the following are its main assumptions. Firstly, Fisher argued that interest arises from people's time preference—that is, the preference for consuming goods and services sooner rather than later. This reflects the idea that people generally value present consumption more than future consumption due to uncertainty about the future and the opportunity cost of waiting. Secondly, the theory also weighs in on productivity of capital. Investments and capital formation enable the production of goods and services, generating returns (profits). The interest rate compensates for the time value of money and the risk associated with investing capital. Thirdly, Fisher emphasized the role of money in facilitating transactions over time. Money enables people to exchange goods and services across different time periods. Interest rates help balance the supply and demand for money by influencing saving and borrowing decisions. Fourthly, Fisher distinguished between nominal interest rates (the stated rate of interest) and real interest rates (adjusted for inflation). Real interest rates are crucial in determining the true cost of borrowing and the actual return on savings after accounting for inflation. Fifthly, Fisher identified several factors influencing interest rates, including the supply and demand for savings and investment capital, inflation expectations, and government monetary policy. Finally, Fisher believed that interest rates adjust to balance the supply and demand for savings and investment. Changes in any of the factors affecting interest rates can lead to adjustments in the equilibrium interest rate.

Overall, Fisher's theory of interest provides a framework for understanding why interest rates exist, how they are determined, and their role in allocating resources over time in an economy. It also helps in understanding the effect of interest rates on loan repayment as propagated by this study. It remains influential in economic theory, and policy discussions related to monetary policy, investment decisions, and financial markets.

3. CONCEPTUAL FRAMEWORK

In the context of our study, the choice of a conceptual framework is crucial for delineating the factors that influence loan repayment through interest rates. Drawing from the work of Deaton and Cartwright (2018) on causal inference in social research, the study's conceptual framework was informed by the variables identified in the literature review. In the realm of financial institutions, grasping the factors that influence how well borrowers repay loans (loan repayment performance) is critical to upholding the steadiness and profitability of lending activities. This framework explores the impact of three key independent variables – business challenges, interest rate fluctuations, and policy framework with loan repayment performance as a dependent variable.

In terms of operationalization of these variables, loan repayment performance (dependent variable) is the gauge of borrowers' ability to fulfil their debt obligations in a timely manner. High loan repayment performance indicates a low rate of defaults, which is essential for the financial health of lending institutions. Factors such as a borrower's creditworthiness, economic conditions, and the terms of the loan all play significant roles in determining repayment performance, (Zhang & Liao, 2021). Business challenges encompass diverse operational and strategic hurdles faced by borrowers that can hinder their capacity to repay loans. These challenges can include rivalry within the market, inefficiencies in operations, and economic slumps. The financial well-being of a business directly affects its cash flow and, as a result, its ability to repay loans. Recent studies emphasize that economic crises and downturns specific to certain industries significantly affect how borrowers behave when it comes to repayment, (Chilambo, 2020). Interest rate fluctuations are variations in borrowing costs, or interest rate fluctuations, refer to the changes in the price of borrowing money, typically influenced by central bank policies and market conditions. Higher interest rates make loans more expensive, potentially leading to a rise in defaults as borrowers struggle to meet the increased repayment amounts. Conversely, lower interest rates can ease repayment pressures but might incentivize excessive borrowing, which could lead to repayment issues if rates rise again, (Zhang & Liao, 2021). Policy framework is the regulatory environment encompassing the rules and institutional policies that govern lending and borrowing activities. Effective policies can lessen risks by ensuring thorough evaluations of creditworthiness and fostering financial literacy among borrowers. Policies that promote transparent and fair lending practices are crucial for maintaining strong loan repayment performance. Studies indicate that robust regulatory frameworks and supportive financial policies enhance loan repayment rates by providing a stable lending environment, (Arora & Kumar, 2018).

In summary, understanding the intricate interplay between business challenges, interest rate fluctuations, and the regulatory framework is essential for predicting and improving loan repayment performance. By addressing these independent variables, financial institutions can develop strategies to strengthen their lending portfolios and minimize the risk of defaults. Figure 1 below reflects the study's conceptual.

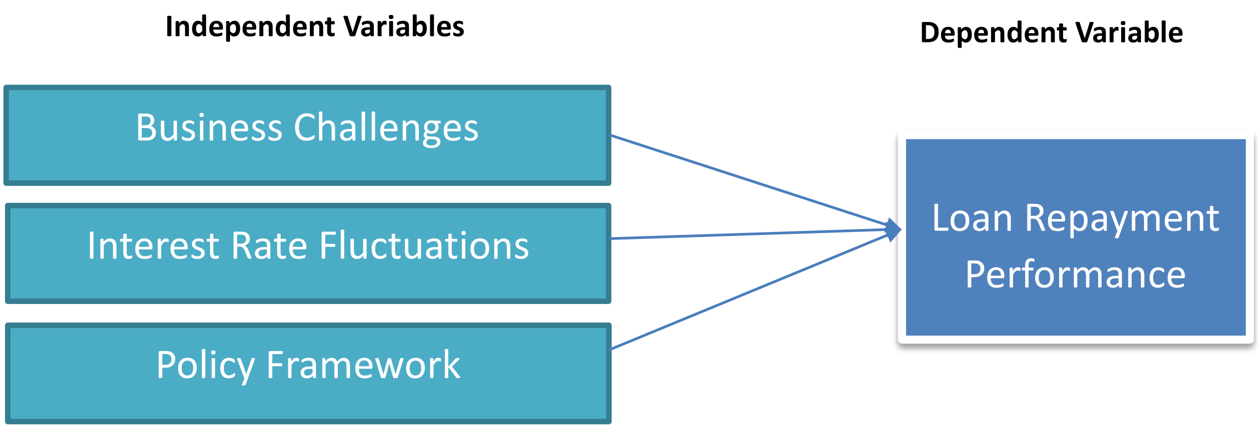

Figure 1: Conceptual Framework
Source: Author's Construction (2024)

4. METHODOLOGY

Research design are the procedures that are used for collecting, analyzing, interpreting, and reporting data in research studies, (Bliesmer, 2014). The importance of research design is that it enables the researcher to proceed in the right direction without any deviation from the tasks. This study employed a descriptive design and a mixed-method approach, combining qualitative and quantitative data collection paradigms to leverage the strengths of both methodologies. A research paradigm refers to the set of basic beliefs, assumptions, and methodologies that guide a particular field of research, (Creswell, 2018). The research strategy or paradigm for this study was a mixed-methods approach. This approach combines both quantitative and qualitative methods to provide a comprehensive understanding of the research topic. By adopting a mixed-methods approach, the researcher was able to triangulate findings from different sources, enhancing the validity and reliability of the study. It would also allow for a more comprehensive exploration of the research topic, capturing both quantitative trends and qualitative insights. The target population for this research was one hundred (100) SMEs registered and operating in Chilenje market in Lusaka city. The research population was well-defined and complete for simple random and purposive sampling methods. The research paradigm was rooted in pragmatism, focusing on empirical data to investigate the relationship between interest rate fluctuations and SME loan repayment behavior in Lusaka, using a sample size of 53 SMEs from Chilenje market. Data collection involved administering questionnaires with both open and closed-ended questions and interview schedules.

5. FINDINGS AND DISCUSSION

Examining the preferred sources of finance among SMEs in Lusaka reveals a reliance on debt financing (94%), primarily from banks and microfinance institutions. This finding resonates with research by Coleman (2017) and Levie et al. (2019), which have highlighted SMEs' challenges in accessing formal financing sources and their dependence on external debt for business operations. The significant reliance on internal funds (56.6%) also underscores the multifaceted nature of SME financing strategies, as noted by Wachira et al. (2018) and Wincent et al. (2019).

The data further illuminates SMEs' sensitivity to interest rate fluctuations, particularly in the context of loan acquisitions from microfinance institutions. The majority of respondents (94%) indicated that their decision on loan acquisitions is affected by fluctuating interest rates, aligning with findings from Brush et al. (2020) and Coleman (2017), which have highlighted SMEs' awareness of the financial implications of interest rate changes. Fluctuating interest rates can influence borrowing costs, loan affordability, and overall financial risk, shaping SMEs' financing decisions and loan repayment behaviors.

However, the research findings also reveal concerns regarding the dynamic nature of interest rates on microfinance loans, with 85% of SMEs indicating that interest rates change over time. This finding highlights the potential challenges faced by SMEs in predicting and managing the cost of borrowing, especially in environments characterized by interest rate volatility. Similar challenges have been observed in studies by Brush et al. (2020) and Levie et al. (2019), which highlight the impact of interest rate fluctuations on SMEs' borrowing costs and loan affordability. Understanding the implications of interest rate dynamics for SME loan repayment behaviors is crucial for designing effective risk management strategies and financial products that mitigate the impact of interest rate volatility on SMEs' financial stability.

Moving on to SMEs' perceptions of loan repayment to microfinance institutions, the research findings indicate a mixed sentiment among SMEs regarding loan repayment practices. While a significant proportion of SMEs agreed that loans are repaid promptly as scheduled with lending institutions (47%) and clients are made aware of their due dates in advance (83%), there are also concerns regarding loan default rates and repayment delays. A notable percentage of SMEs disagreed that default rates are fair compared to standards set (18%), indicating dissatisfaction with the consequences of loan defaults. Additionally, a substantial portion of SMEs indicated that loans repaid by clients are delayed due to high interest rates charged (57%). These findings align with studies by Brush et al. (2020) and Coleman (2017), which highlight the challenges faced by SMEs in meeting loan repayment obligations amidst interest rate fluctuations and financial uncertainties. Addressing these challenges requires a holistic approach that considers not only the cost of borrowing but also factors influencing SMEs' cash flow management and financial capacity.

Turning to SMEs' awareness and understanding of microfinance operations and the implications of accessing credit, the research findings suggest a need for improved education and transparency among SMEs in Lusaka. A significant portion of SMEs strongly disagreed that their firm was aware of the operations of microfinance lending firms relating to financial needs (69.8%), as well as the costs and benefits of accessing credit from microfinance institutions (69.8%). Similarly, the majority of SMEs (83%) strongly disagreed that they had the ability to correctly calculate interest rates on loan payments. These findings underscore the importance of financial literacy and access to information in empowering SMEs to make informed financial decisions and manage loan repayment obligations effectively. Studies by Wachira et al. (2018) and Levie & Hart (2021) emphasize the role of financial education and awareness-building initiatives in enhancing SMEs' capacity to navigate the complexities of financial markets and credit markets.

Furthermore, the research findings highlight the reliance on internal funds and self-financing strategies among SMEs in Lusaka, with a significant majority (90.6%) strongly agreeing that they use internal funds for their business financing needs. This reliance on internal resources reflects limitations in accessing external financing or concerns about the terms and conditions of formal credit sources. Similar trends have been observed in studies by Bennett & Wiebe (2019) and Naldi et al. (2020), which highlight the challenges faced by SMEs in accessing formal financing sources and the importance of alternative financing strategies in supporting business growth. Encouraging entrepreneurship and fostering an enabling environment for SMEs to access finance from a diverse range of sources is essential for promoting inclusive economic development and sustainable growth.

6. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

Firstly, the study successfully established the effect of interest rate fluctuations on loan acquisitions among SMEs operating in Lusaka city. It demonstrated that SMEs are sensitive to changes in interest rates, with a majority indicating that their decision on loan acquisitions is affected by fluctuating interest rates. This underscores the importance of interest rate stability for SMEs in making informed borrowing decisions and managing financial risks.

Secondly, the research identified the problems and challenges SMEs face in repaying financial credit obtained from lending institutions in Lusaka city. These challenges include concerns regarding loan default rates, repayment delays, and the perceived fairness of interest rates. Addressing these challenges requires a holistic approach that considers factors influencing SMEs' cash flow management, financial capacity, and access to information.

Thirdly, the study identified policies that could facilitate stable and affordable interest rates by financial lending institutions operating in Lusaka city. By comparing the research findings with existing literature on SME financing and interest rate dynamics, policymakers, financial institutions, and SME stakeholders can develop targeted interventions to promote financial inclusion, resilience, and sustainable growth within the SME sector.

6.2 Recommendations

The comparative analysis of the study's findings with existing research highlights the multifaceted nature of SME loan repayment behavior in response to interest rate fluctuations, shaped by factors such as gender, age, and educational background. By contextualizing these findings within the broader literature on SME dynamics, policymakers, financial institutions, and SME stakeholders can develop targeted interventions and support mechanisms to promote financial inclusion, resilience, and sustainable growth within the SME sector.

Moreover, the analysis of the research findings with existing literature underscores the interconnectedness between SME financing strategies, interest rate dynamics, and loan repayment behaviors within the Lusaka-based SME sector. By understanding these dynamics and their implications for SMEs' financial resilience and sustainability, policymakers, financial institutions, and

SME stakeholders can design targeted interventions and support mechanisms to promote SME growth and development amidst economic uncertainties.

While the research findings provide valuable insights into SMEs' awareness, perceptions, and capacity regarding accessing credit and managing loan repayment obligations, they also highlight the challenges and opportunities for enhancing SMEs' financial resilience and sustainability. Addressing these challenges requires a comprehensive approach that combines targeted policies, financial education initiatives, and stakeholder collaboration to support SMEs in accessing finance, managing risks, and fostering growth.

Finally, the study advocates for a framework which promotes transparency and market efficiency, implementing regulatory measures to mitigate risk and encourage competition, and facilitating access to credit information and alternative financing options, in incorporating some proportion of Fisher's Theory of Interest.

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