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A Study on the Impact of High Interest Rates on the Growth of Retail Outlet Businesses in Chipata District, Eastern Province of Zambia

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ABSTRACT

It has generally been acknowledged the world over that high interest rates have an adverse effect on small and medium size enterprises (SMEs) and in my case the focus is on businesses in Zambia and Chipata District in particular. The purpose of this research is to find out the factors affecting the impact of high interest rates on the growth of retail outlet businesses in Chipata district, Eastern Province of Zambia.

This study examined some factors that affect Small and Medium Enterprises (SMEs) access to finance. It was done in order to further understand the constraints facing SMEs in accessing finance in Zambia generally. The study intended to achieve the following objectives: -

To examine the extent to which collateral requirements affect SMEs access to finance,

To examine the extent to which interest rates affect SMEs access to finance and to examine the extent to which other factors affect SMEs access to finance.

The study research questions were formulated to find out the extent to which collateral and interest rates affect access to finance and what other factors do SMEs consider as affecting their access to finance. The study used a mixed method approach (Qualitative and Quantitative research methods) in order to come up with the study findings. The study shows a positive correlation between lack of collateral assets and rejection of credit ($r = 0.727$) and interest rates ($r = 0.202$) variables. In view of the study findings, the study recommends that SMEs make use of practical and unconventional means of alternative sources of finance, given the challenges faced with traditional sources of finance. Crowd funding has been recommended as it comes in many forms. Specifically, a form of crowd funding called "Village Banking" can be leveraged on by SMEs. The study also recommends group partnering of SMEs in order for them to create a critical mass for their operations and in order for them to enjoy economies of scale for their businesses. In addition to the above, SMEs are encouraged to improve on their business record keeping such as cash flows and income statements in order for them to attract potential sources of finance such as venture capital investors and/or angel investors. Further research should focus on strategies of how SMEs can finance their operations without entirely depending on borrowing from financial institutions. The study would combine both qualitative and qualitative methods in measuring causality of the associated factors and how they influence SMEs performance by carrying out more sophisticated analysis using statistical software.

The Central Bank usually increase interest rates when inflation is predicted to rise above their target. Higher interest rates tend to moderate economic growth. They increase the cost of borrowing, reduce disposable income and therefore limit the growth in consumer spending The main aim of this study is to investigate the effects of increased interest rates on selected small and medium size enterprises (SMEs) particularly Retail outlets within Chipata district. In carrying out this study I will endeavor to gather as much data as possible from the cross section of people, co-operates, and businesses falling in this category and seek to come up with mitigation measures in order to guarantee the growth of such businesses. I intend to gather data from 110 respondents using the various methods of research methodology among which questionnaires will be used and various sampling methods like random sampling, stratified sampling, interviews, case studies, surveys etc. This study seeks to bring to the fore the mitigation measures the businesses must endeavor to put in place in order for businesses to be able to cope with such policy measures pronounced by the Central Bank from time to time which are inevitable.

1. INTRODUCTION

A Retail Outlet is a store that sells smaller quantities of products or services to the general public. A business that operates as a retail outlet will typically buy goods directly from manufacturers or wholesale suppliers at a volume discount and will then mark them up in price for sale to end consumers. Most of the Retail Outlet get credit from financial institution to start or/and to sustain their business. Credit is borrowed money. Many small firms depend on credit such as bank loans and overdrafts to help finance their business activities. The cost of borrowing is always affected by the changes in the interest rate. Interest is the reward for lending and the cost of borrowing. The interest rate is the percentage rate charged on a loan or paid on savings. The interest rate does change in each and every economy depending of the performance of the economy and Zambia isn't an exceptional. As such this research intends to study the impact of high interest rates on the retail outlets in Chipata District of Eastern Province in Zambia. (www.businessdictionary.com/definition/retail-outlet.html)

1.1 BACKGROUND OF THE STUDY

The The impact of a change in interest rates varies from business to business. **Firms that make luxury goods are hit hardest when interest rates rise**. This is because most customers cut back on non-essentials when their incomes fall as a result of interest rate rises. As such, some businesses are able to survive while other can even be force to shut operations.

Access to finance is very critical to the growth and performance of Small and medium enterprises (SMEs). Despite their recognised importance, most SMEs however find it difficult to obtain finance from financial institutions (Pandula, 2015). Kumar and Rao (2015) confirmed that lack of access to finance posed as an obstacle to the success of SMEs. They attributed this to the demand and supply gap in information. The capacity for SMEs to explore their potential depends largely on access to finance (Pandula, 2015). Beck and Cull (2014) however observed that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle to their growth, while Schiffer and Weder (2001) posited that accessing finance in Africa for SMEs is more challenging than for large enterprises.

SMEs play a vital role in the economy of Zambia. They produce goods and services, create employment and are a source of income for thousands of people. According to the International Trade Centre (ITC) Survey (2018), SMEs in Zambia represent 70 percent of Gross Domestic product (GDP), 88 percent of employment and contribute 97 percent of all businesses in the economy. These business activities range from Barber shops and hair salons, business centres, construction, goods and public transport, metal fabrication, wood processing, and restaurants, amongst many other activities. The importance of the critical role SMEs play in the economy of Zambia can therefore not be undermined.

The Financial Sector Deepening (FSD) report (2017) has observed and recognised the importance of SMEs as economic drivers for employment creation, notably for low-income people and that they act as a critical route to financial inclusion. The report observes that the SME sector is estimated to account for 97 percent of all businesses in Zambia. However, the report bemoans that 9 out of 10 SMEs operate in the informal sector and Nuwagaba (2015) has the same observation and argued that this makes it difficult for government to support this sector.

Given the important role SMEs play in the economy, and in embracing financial inclusion with the resulting wealth creation, it has been observed that it is vital that financial service providers devise appropriate and affordable products and services which take into consideration the needs of the SMEs as they are considered to be the main drivers of the economy (Gondwe, 2012). This however, has not been the case and most SMEs have been at micro level since their formation. This stagnation has been caused by many factors and prominent among them is lack of access to finance. Deressa (2014) observes that the reason for this is due to the fact that MSME operators have little knowledge about the basic principles of commercial bank lending and borrowing practices.

It is against this background that this study aims to examine the extent to which collateral requirement, interest rates and other factors affect the access to finance by SMEs in Lusaka. The study is intended to look for solutions that can help to remove the constraints that hinder the promotion of access to finance by SMEs. The solutions are expected to allow SMEs improved access to finance.

In recent years, the business environment in Lusaka has been very dynamic and there has been an upsurge of many business start-ups in form of SMEs. As a result of this, there is an increased demand for SMEs to access finance from financial institutions. However, the chances to access finance by many SMEs is still elusive. This study intends to further investigate the factors that are considered as constraints and the extent to which they affect access to finance and provide recommendations that will improve access to finance by SMEs. To examine these factors will help the study to further understand the problems at hand, and this is expected to contribute to the field of study and help the growth and survival of SMEs in Zambia.

The report is organised into thematic sections based on the purpose of the study. Part one covers the introduction and background to the study. Part two presents various literatures that were reviewed in order to give the research more insight on the topic of the study. Part three covers the research methodology. Part four covers the data analysis component. Part five brings out the research findings and discussion of the findings made from the study and finally, conclusion and recommendations and limitations of the study. The last section contains references.

1.2 STATEMENT OF THE PROBLEM

The International Monetary Fund (IMF), in its October 2015 World Economic Outlook (WEO) Update revised global growth downwards to 3.1% in 2015, 0.2 percentage points lower than the July WEO Update. Growth prospects remain uneven as output in advanced economies is expected to pick up slightly while activity in emerging markets and developing economies is projected to further slowdown, maintaining the deflationary pressure on commodity prices.

Typically, higher interest rates do reduce investment, because higher rates increase the cost of borrowing and require investment to have a higher rate of return to be profitable. As such most of business are strangling to survive especially the retail outlets. Interest rates are one important determinant of investment. However, it is not the only factor, other factors include investor confidence, economic growth, the willingness of banks to lend, accelerator theory, and state of technology.

SMEs mostly complain that their growth and competitiveness are limited by lack of access to financing and the high cost of credit (Kumar and Rao, 2015; Beck and Cull, 2014). SMEs access to finance is also constrained by what is viewed as high risk sector by financial institutions and that lenders are faced with lack of reliable information on borrowers (Kauffmann, 2005).This scenario is not uncommon for SMEs operating in Zambia. It has been observed that a large number of SMEs in Lusaka are still in the informal sector and this makes it difficult for them to access finance from the formal financial institutions. Even for those SMEs which operate in the formal sector, access to finance still come with it many challenges. So, regardless of their business categorization, access to finance from banks and non-bank financial institutions is still a major challenge for both sectors of SMEs. It is

evident that different academicians in Zambia have examined some of the factors that lead to these constraints to access finance. However, this study further attempts to contribute to the body of knowledge by examining the factors that limit the access of finance by SMEs in Zambia.

1.3 RESEARCH OBJECTIVES OF THE STUDY

Higher interest rates increase the cost of borrowing, reduce disposable income and therefore limit the growth in consumer spending. Higher interest rates tend to reduce inflationary pressures and cause an appreciation in the exchange rate. Therefore these fluctuations need to be monitored in order to establish the real effect on businesses and their growth prospects.

1.3.1 PRIMARY OBJECTIVE

The primary objective of the study is to find out how the high interest rates are impacting Retail businesses in Chipata District of Eastern province of Zambia.

1.3.2 SECONDARY OBJECTIVES

1. To assess the negative/positive impact of high interest rate.
2. To assess the strategies used by Retail Outlet to respond to high interest rates.
3. Establish the impact of high interest rate on Retail Outlet employees.
4. To establish the impact of high interest rates on the consumers.
5. To examine the extent to which collateral requirement affect SMEs access to finance.
6. To examine the extent to which interest rates affect SMEs access to finance.
7. To examine the extent to which other factors affect SMEs access to finance.

1.4 RESEACH QUESTIONS

1. How does the high interest rate affect your business performance?
2. What strategies do you use to respond to the impact of high interest rate?
3. How do high interest rates affect retail outlet employees?
4. How do consumers get affect by the high interest rate?
5. How does the high interest rates affect the overall economic outlook of a country ?
6. How does it affect the employment prospects of citizens ?
7. To what extent does collateral requirement affect SMEs access to finance?
8. To what extent do interest rates affect SMEs access to finance?
9. What other factors do SMEs consider as affecting their access to finance and to what extent?

1.5 SIGNIFICANCE OF THE STUDY

There is a growing recognition of the important role that SMEs play in the economic development of many countries. They create more employment opportunities, bring more goods and services to the market place through innovation, create wealth for many people and are the drivers of national prosperity by contributing to Gross Domestic Product (GDP) of countries. SMEs also contribute to the improvement of the countries revenue base through the expansion of the tax base (Qureshi and Herani, 2011; Dhliwayo & Radipere, 2014). Despite their recognised importance however, SMEs still face many challenges in accessing finance from bank and non-bank financial institutions due to a number of factors. The purpose of this study is to examine and understand the extent to which these factors affect the access to finance by SMEs in Lusaka. SMEs will continue to play an important role in the economy of Lusaka through the creation of employment and improved income for people. SMEs will also continue to provide a wide range of goods and services in Lusaka. Their success is therefore beneficial to entrepreneurs and society as a whole. SMEs have however continued to face many challenges in accessing finance from both banks and non-bank financial institutions despite their importance in the economies of many countries. It thus becomes important to examine the factors that retard their performance and growth in order to get a better understanding of these constraints. The study is intended to look for solutions that will help to remove the constraints that hinder the promotion of access to finance by SMEs. The solutions are expected to allow SMEs improved access to finance.

1.6 SCOPE OF THE STUDY

1.6.1 RESEARCH QUESTIONS

1.   How does the high interest rate affect your business performance?

2.   What strategies do you use to respond to the impact of high interest rate?

3.   How do high interest rates affect retail outlet employees?

4.   How do consumers get affect by the high interest rate?

5.   How does the high interest rates affect the overall economic outlook of a country ?

6.   How does it affect the employment prospects of citizens ?

1.6.2 DEFINITION OF UNFAMILIAR TERMS

These example sentences are selected automatically from various online news sources to reflect current usage of the word 'unfamiliar.' These seeks to clarify certain terms for a clear understanding of the context in which the narrative is put to highlight.

1.6.3 STUDY LIMITATIONS

✓   Due to the sensitivity of the topic, there is a high likelihood that some respondents will conceal certain information relevant to this research.

✓   Due to resource constraints (Financial), the sample size is condensed to 110 which may be too small to accurately represent the whole district.

✓   The problem of getting most appropriate interviewees to answer the questionnaires willingly was a challenge.

✓   Only selective material i.e. Journals, News papers and Articles have been put to use because of the time factor.

✓   The business owners interviewed were not willing to answer in depth questions about their businesses. One reason for this unwillingness might have been that they did not want to disclose what they considered was business confidential information which could be used against them by other business competitors.

✓   Due to the sensitivity of the topic, there is a high likelihood that some respondents will conceal certain information relevant to this research.

✓   Due to resource constraints (Financial), the sample size is condensed to 60 which may be too small to accurately represent the whole district.

✓   The problem of getting most appropriate interviewees to answer the questionnaires willingly was a challenge.

✓   Only selective material i.e. Journals, News papers and Articles have been put to use because of the time factor.

✓   The business owners interviewed were not willing to answer in depth questions about their businesses. One reason for this unwillingness might have been that they did not want to disclose what they considered was business confidential information which could be used against them by other business competitors.

2. LITERATURE REVIEW INTRODUCTION

SMEs play an important role in the economic development of many countries. They create more employment opportunities, bring more goods and services to the market place through innovation, create wealth for many people and are the drivers of national economic prosperity.

2.1 LITERATURE REVIEW

SMEs also contribute to the improvement of the country's revenue base (Qureshi and Herani, 2011, Dhliwayo & Radipere, 2014). Beck et al. (2005) state that SME activity is important because of the relatively large share of the SME sector in most developing nation's economies.

Access to Finance is critical to the formation, growth and survival of SMEs. According to Singh and Wasdani (2016) the primary sources of finance available to SMEs include loans from banks and non-bank financial institutions. It is however unlikely that these institutions will fully fund SMEs, especially start-ups, so called Greenfields, given the high financial risk associated with them and, the general unviable perception of SMEs businesses by most banks reflected in low credit ratings. Gitman (2003) studied the relationship between collateral requirements and access to finance and found that there was a positive relationship. Kauffmann (2005) attributes this to the perceived high credit risk by SMEs. Obaji and Olugu (2014) posited that the biggest hindrance to SMEs access to finance is the collateral required to be pledged against loan application.

2.2 THEORETICAL REVIEW

This requirement acts as a constraint to the formation of new SMEs and to the development of existing ones. Gangata and Matavire (2013) looked at challenges facing SMEs in accessing finance and concluded that SMEs are usually unsuccessful in obtaining loans from financial institutions as they fail to meet credit requirements which include collateral requirements. Etemesi (2017) discovered that lack of tangible assets to act as security when applying for loans and the inappropriate legal and regulatory framework as the major causes. Kihimbo et al. (2012) looked at collateral requirements and observed that financial institutions demanded for both personal and private assets and/or documents as collateral in order to access credit.

Despite the foregoing, the growth and survival of SMEs largely depend on the ease with which they can access finance in form of bank loans from the banks and other alternative sources which in many instances the cost of finance is usually high due to high interest rates. The high interest rates makes the cost of borrowing high. In many countries however, it has generally been observed that lack of access by SMEs to finance their operations negatively affect the formation, performance and growth of SMEs. Many factors have been attributed to this scenario. Awani (2020) suggests that SMEs play a vital role in the economic development of the Africa economies as they are considered as an engine of growth. In spite of this, access to finance has been observed to be the main challenge for their growth with risk premiums on their borrowing and elevated transactions costs as main obstacles. Kumar and Rao (2015) concluded that the lack of access to finance faced by SMEs was due lack of information on the accessibility to sources of finance and the unwillingness of banks to extend credit to SMEs was a major constraint.

Lack of information can be a major constraint when accessing credit by SMEs. According to Aabi (2014), constraints in accessing finance by SMEs can be attributed to information asymmetry. This typically occurs when one party to the potential transaction has little information about the other party. Pandula (2015) examined the challenges faced by SMEs access to finance and discovered a number of constraints faced by both banks and SMEs. The banks faced the limitations of risk assumption, prohibitive administration costs, lack of information for SMEs and poor legal systems in the event of default. For SMEs, their main challenges manifested themselves in lack of collateral demanded by financial institutions, complex application procedures and the high cost of loans. Ambrose (2012) identified some barriers that act as a constraint for financial assistance to SMEs. These include lack of collateralised security and lack of proper regulatory framework. These factors will weigh down on the sustainability and reliability of traditional sources of finance. Dhliwayo & Radipere (2014) attributed the lack of access to finance by SMEs to the banks' lack of understanding of SMEs needs, banks' risk adverse behaviour, cumbersome administrative procedures and high lending rates. Beck and Cull (2014) observed that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle to their growth, which further leads into a business growth obstacle more especially in countries with shallow financial markets. High interest rates were observed to be the main reason for low access to loans. Collateral requirements were also observed to be a huge obstacle to the access of loans.

2.3 CONCEPTUAL REVIEW

SMEs in Zambia play a vital role in the production of goods and services, promotion of employment creation and income generation for the majority of people. SMEs represent 70 percent of GDP, 88 percent of employment and 97 percent of all business are in the form of SMEs (ITC Survey, 2018). Acknowledging the importance of SMEs, the government under its Seventh National Development Plan (2017-2021) emphasizes the creation of a credit guarantee scheme for issuance of low interest, long-term loans to Zambian SMEs. In view of this, it has put in place initiatives to accelerate informal sector formalisation, to foster skill development, create urban industrial clusters, strengthen value-chain linkages and provide business development to services. At institutional level, the Zambia Development Agency (ZDA) was created through an act of parliament in 2006 and amended in 2014. The mandate of ZDA is to promote an efficient, effective and coordinated private sector led economic development strategy. The agency has a mandate to facilitate the development of micro, small and medium enterprises through the creation of an enabling business environment for SMEs. The agency is also tasked with the formulation, co-ordination and implementing policies and programmes designed to promote and develop micro and small business enterprises in Zambia

3. RESEARCH METHODOLOGY INTRODUCTION

An accomplished research requires several things. In this view, the researcher will endeavor to use a number of techniques that were necessary to carry out the research successfully and resourcefully. Consequently, the research methodology seeks to elucidate the variety of methods and techniques that the researcher used in order to gather suitable information, sampling procedures and data analysis. The chapter starts with the chosen research purpose, research approach and research strategy. Afterwards, the sample selection and data collection methods will be presented followed by a discussion around the validity and reliability of the study.

3.1 RESEARCH DESIGN

According to Robson (2002), the three methods of conducting research are generally the following: descriptive, explorative and explanative. Descriptive research is characterised as the depicting of accurate profiles of people, events or situations. Explorative research is characterised as the seeking of new insights, the 'looking around', and the asking of questions or the bringing of some phenomenon into light. Lastly, the explanative aims at gaining an explanation of specific situation or problem, generally in the form of casual relationships (Robson, 2002).

To some extent, this research was also explorative in the sense that the purpose of this study was to gain an understanding of how effective public sector how high interest rates affect the growth of small scale businesses in fulfilling their mandate. According to Saunders, Lewis and Thornhill (2007), explorative research is practical when the aim is to clarify one's understandings of a specific problem

The proposed study design for this research is non-experimental investigation. This is for the simple reason that the research will be conducted in the natural and uncontrolled setting. A survey approach will be used to elicit information from respondents pertaining to the impact of high Interest rates on the growth of Retail outlet businesses in Chipata District. In this study there will be no manipulation, this entails that there will be no need to introduce a stimulus or an intervention. An attempt will be made to make this study as descriptive as possible.

A survey of 60 entrepreneurs who conduct business in Chipata district. The survey was conducted by the use of a self-administered questionnaires which contains open ended questions.

3.2 POPULATION DEFINITION

In research, population refers to the totality of all the individual people or objects that possess the characteristics or qualities that are of interest to the research at a hand (Liu et al., 2014). It refers to all the subjects that the researcher wants to investigate or study. All possible subjects of investigation such as events, people and objects that combine to form a given known completely constitute what is referred to as the population.

The study population will be drawn from urban and peri-urban areas of Chipata District. The District was selected based on considerations that it was recently declared a City and it has attracted a lot of small scale economic activities. The District is also easily accessible to the researcher. The District was selected based on considerations that, it is a provincial headquarterS of Eastern Province which is one of the Provinces with high poverty rate in Zambia, which, according to (The Mast Newspaper Journal "Poverty has escalated in Zambia dated 25th March, 2018) was standing at 70%. The District is also easily accessible to the researcher.

3.3 SAMPLING PROCEDURE

Sample: a portion of the entire group (called a population) • Sampling procedure: choosing part of a population to use to test hypotheses about the entire population. Used to choose the number of participants in a research, interviews, or work samples to use in the assessment process. used, e.g. random or stratified sampling.

3.4 SAMPLE SIZE

Since it is not feasible to include each and every person in the study, a representative sample will be used. The sampling unit will be all the retail outlet business. The respondents will be selected using cluster sampling, this is for the simple reason that we do not have a sampling frame.

A total of 110 retail outlets owners and 10 money lending institution representatives will be interviewed for the whole research.

3.5 SAMPLING AREA

Chipata Town is the provincial capital of the Eastern Province of Zambia. Having a central government administration, markets, a Hospital, Shopping Mall and a number of Schools. Chipata is a business and administrative hub that serves the region. The town boasts of a Four Star Hotel (Protea Hotel), a Golf course, an Airport, Churches and Mosques.

Chipata is a District in Eastern Province of Zambia. According to census 2010, the district had a population of 455,783 people. Chipata Town Centre is located about 600 kilometres from Lusaka, the capital city of Zambia, while only 110 kilometres from

3.6 ECONOMIC ACTIVITIES

The economy of Chipata is agriculture based with groundnuts, soya beans, sunflowers, maize, cotton and tobacco being the major cash crops, most of which are intended for the local and international market. Chipata district has also a large number of the growing informal sector supported by entrepreneurs as well as commercial trading and production agro-based industries. Most if not all of them need money as start up capital or conduct their businesses to ensure production of different products for the local and export market

3.7 SOURCES OF DATA COLLECTION

Data is a collection of measurements and facts and a tool that help an individual or a group of individuals to reach a sound conclusion by providing them with some information. It helps the analyst understand, analyze, and interpret different socio-economic problems like unemployment, poverty, inflation, etc. Besides understanding the issues, it also helps in determining the reasons behind the problem to find possible solutions for them. Data not only includes theoretical information but some numerical facts too that can support the information. The collection of data is the first step of the statistical investigation and can be gathered through two different sources, namely, primary sources and secondary sources

- **Government Publications:** Government publishes different documents which consists of different varieties of information or data published by the Ministries, Central and State Governments in India as their routine activity. As the government publishes these Statistics, they are fairly reliable to the investigator. Examples of Government publications on Statistics are the Annual Survey of Industries, Statistical Abstract of India, etc.

- **Semi-Government Publications:** Different Semi-Government bodies also publish data related to health, education, deaths and births. These kinds of data are also reliable and used by different informants. Some examples of semi-government bodies are Metropolitan Councils, Municipalities, etc.

- **Publications of Trade Associations:** Various big trade associations collect and publish data from their research and statistical divisions of different trading activities and their aspects. For example, data published by Sugar Mills Association regarding different sugar mills in India.

- **Journals and Papers:** Different newspapers and magazines provide a variety of statistical data in their writings, which are used by different investigators for their studies.

- **International Publications:** Different international organizations like IMF, UNO, ILO, World Bank, etc., publish a variety of statistical information which are used as secondary data.

- **Publications of Research Institutions:** Research institutions and universities also publish their research activities and their findings, which are used by different investigators as secondary data. For example National Council of Applied Economics, the Indian Statistical Institute, etc.

3.7.1 COLLECTION OF DATA

In order to achieve the objectives of the research, two types of data were collected, that is, primary and secondary data.

3.7.2 PRIMARY DATA

Primary sources data was collected using a self-administered questionnaire (Appendix I). The questionnaires contained Close-ended questions. Questionnaires were distributed to contact persons of the selected businesses. O'leary (2010) said " Surveys and Interviews put the researcher in charge. " Apart from questionnaires the researcher also interviews and observations to assass the situation.

3.7.3 SECONDARY DATA

The secondary data collected constituted reviewing existing literature in form of Published Books and other Researchers on the Internet, journals, magazines and any other published materials.

Quantitative data will be collected using semi-structured questionnaires and qualitative data will be obtained through focus group discussions with key respondents.

3.7.4 METHODS OF DATA COLLECTION

3.7.5 SAMPLING TECHNIQUES

Convenience sampling was used to collect data from entrepreneurs in Chipata district.

3.7.6 CONVENIENCE SAMPLING

The researcher chooses the sampling unit on the basis of convenience or accessibility. It is called accidental samples because the sample unit enters by accident. This is also known as a sample of the man in the street i.e., selection of units where they are sample units are selected because they are accessible.

3.7.7 STATISTICAL TOOLS USED

The data was analyzed mainly by using the percentage method. Preference of the respondents towards entrepreneurs in different business sectors has been analyzed using ranking method

This is an analysis where the percentage of a particular factor with different categories is calculated, in order to help one get fair idea regarding the sample and thereby that of the population.

3.8 TOOLS OF DATA COLLECTION

Data collection tools refer to the devices/instruments used to collect data, such as a paper questionnaire or computer-assisted interviewing system. **Case Studies, Checklists, Interviews, Observation sometimes, and Surveys or Questionnaires** are all tools used to collect data.

3.9 DATA PROCESSING AND ANALYSIS

The data collected using semi-structured questionnaires will be checked for uniformity, consistency and accuracy. Quantitative data will be processed using Epi-data 3.10 software. This program is ideal for quantitative data since it has an advantage over other program in that it permits skip instructions for filter questions. The raw data will then be exported to the Statistical Package for Social Sciences Software (SPSS) for analysis. Frequency tables and

cross tabulations will be produced. Bivariate analysis will be performed on certain variables to establish existence of relationships. Contingency tables will be used to facilitate presentation of findings. Qualitative data obtained from focus group discussions will be transcribed and then manually analysed using themes. This is an analysis where the percentage of a particular factor with different categories is calculated, in order to help one get a fair idea regarding the sample and thereby that of the population.

3.10 STUDY LIMITATIONS

✓   Due to the sensitivity of the topic, there is a high likelihood that some respondents will conceal certain information relevant to this research.

✓   Due to resource constraints (Financial), the sample size is condensed to 152 which may be too small to accurately represent the whole district.

✓   The problem of getting most appropriate interviewees to answer the questionnaires willingly was a challenge.

✓   Only selective material i.e. Journals, News papers and Articles have been put to use because of the time factor.

✓   The business owners interviewed were not willing to answer in depth questions about their businesses. One reason for this unwillingness might have been that they did not want to disclose what they considered was business confidential information which could be used against them by other business competitors.

3.11 ETHICAL CONSIDERATION

The topic under investigation is quite sensitive as it borders on personal confidentiality. Therefore, the study will ensure that all information collected remain in privacy. Thus, namelessness will be taken into consideration.

4. DATA ANALYSIS INTRODUCTION

The data collected using semi-structured questionnaires will be checked for uniformity, consistency and accuracy. Quantitative data will be processed using Epi-data 3.10 software. This program is ideal for quantitative data since it has an advantage over other program in that it permits skip instructions for filter questions. The raw data will then be exported to the Statistical Package for Social Sciences Software (SPSS) for analysis. Frequency tables and cross tabulations will be produced. This is an analysis where the percentage of a particular factor with different categories is calculated, in order to help one get a fair idea regarding the sample and thereby that of the population.
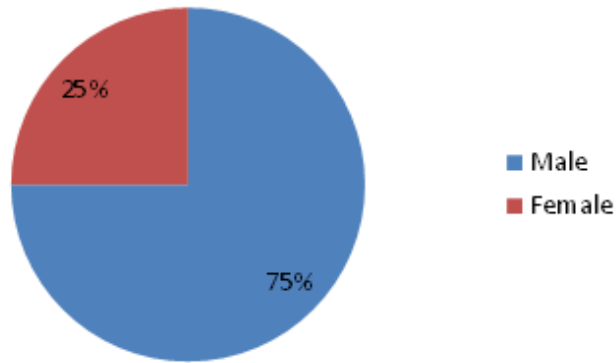
4.1 DATA ANALYSIS AND INTERPRETATION
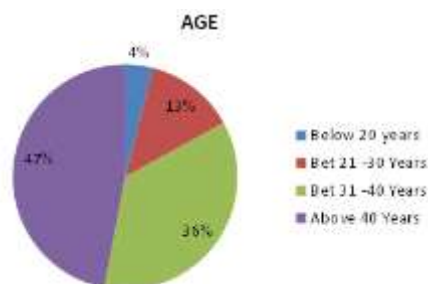
Among 110 samples 4 (4%) are below 20 years 14 (13%) are between 21 years and 30 years 40 (36%) are between 31 years and 40 years 52 (47%) are above 40 years.

AGE RANGE	FREQUENCY	PERCENTAGE %
BELOW 20	4	4%
21 – 30 YEARS	14	13%
31 – 40 YEARS	40	36%
ABOVE 40 YEARS	52	47%
	110	**100%**

GENDER

Among 110 samples 83 (75%) are Male and 27 (25%) are Female.

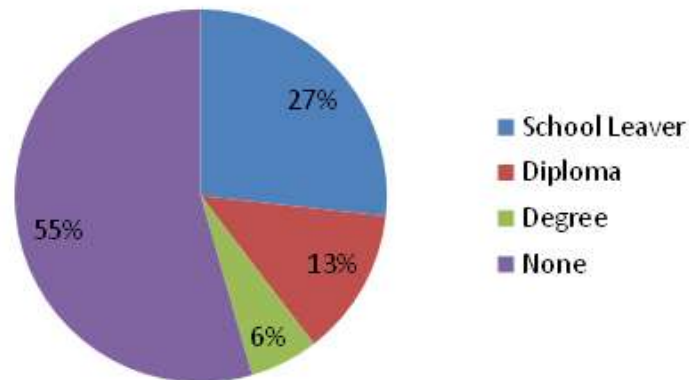| GENDER	FREQUENCY	PERCENTAGE
MALE	83	75%
FEMALE	27	25%
TOTAL	**110**	**100%**

MARITAL STATUS
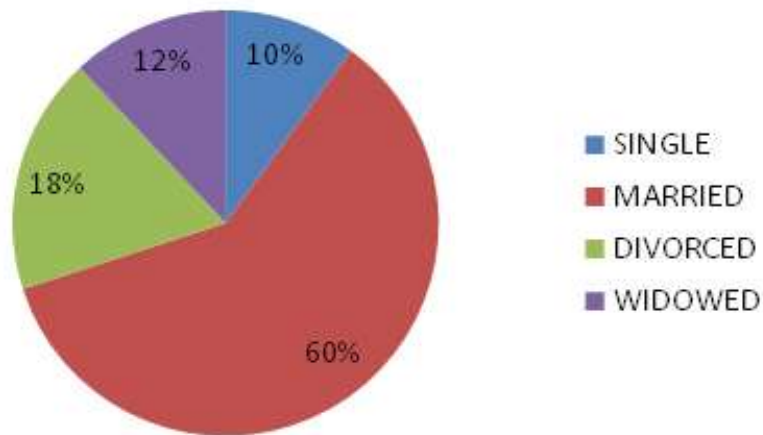
Among 110 samples 11 (10%) are Single, 66 (60%) are Married, 20 (18%) are Divorced, 13 (12%) are Widowed.

MARITAL STATUS	FREQUENCY	PERCENTAGE
SINGLE	11	10%
MARRIED	66	60%
DIVORCED	20	18%
WIDOWED	13	12%
TOTAL	**110**	**100%**

EDUCATION LEVEL

Among 110 samples 60 (55%) do not have any formal education of any kind, 30 (27%) are School leavers, 14 (13%) are Diploma holders and 6 (6%) are Degree holders

EDUCATION LEVEL	FREQUENCY	PERCENTAGE
SCHOOL LEAVER	30	27%
DIPLOMA	14	13%
DEGREE	6	6%
NONE	60	55%
TOTAL	**110**	**100%**

BUSINESS REGISTRATION
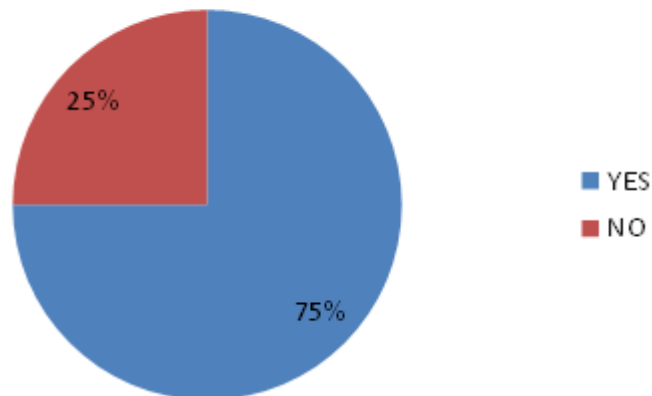
Among 110 samples 83 (75%) are formally registered businesses and 27 (25%) are not registered businesses

BUSINESS REGISTRATION	FREQUENCY	PERCENTAGE
YES	83	75%
NO	27	25%
TOTAL	**110**	**100%**
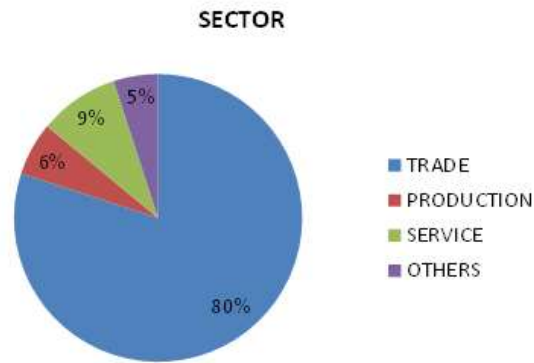
SECTOR

Among 110 samples 88 (80%) are into Trading, 6 (6%) are in Production, 10 (9%) are into Service provision.

| SECTOR	FREQUENCY	PERCENTAGE
TRADE	88	80%
PRODUCTION	6	6%
SERVICE	10	9%
OTHERS	6	5%
TOTAL	**110**	**100%**

NUMBER OF EMPLOYEES
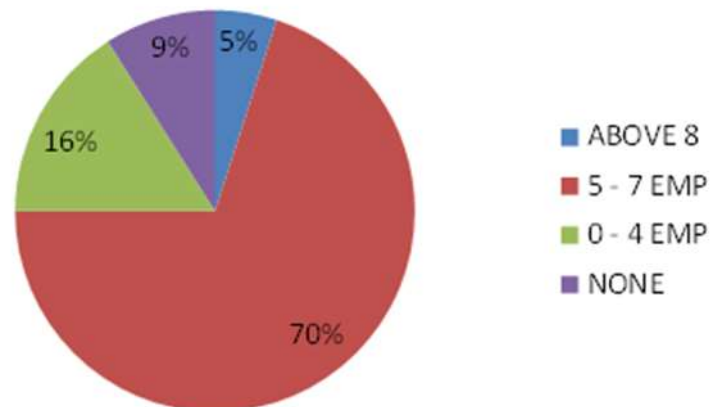
Among 110 sample size 6 (5%) have employed above 8 employees, 77 (70%) have employed between 5 to 7 employees and 17 (16%) have employed between 0 to 4 employees.

NUMBER OF EMPLOYEES	FREQUENCY	PERCENTAGE
ABOVE 8 EMP	6	5%
5 – 7 EMP	77	70%
0 – 4 EMP	17	16%
NONE	10	9%
TOTAL	**110**	**100%**

OPERATING DURATION

- 1-6 MONTHS
- 7 - 12 MONTHS
- 13 - 18 MONTHS
- ABOVE 19 MONTHS
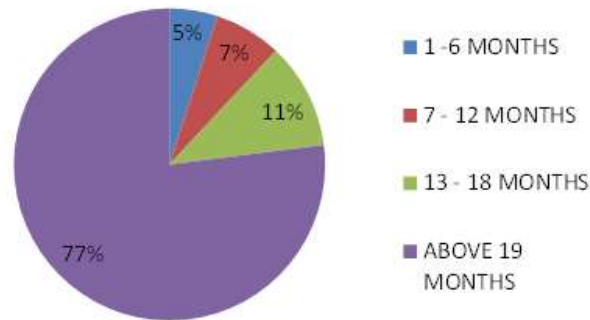
Among the 110 sample size 85 (77%) have been operating for 19 Months and above, while 12 (11%) have been operating for between 13 to 18 Months, 8 (7%) have been operating between 7 to 12 Months and 5 (5%) have been operating between 1 to 6 Months.

DURATION OF OPERATION	FREQUENCY	PERCENTAGE
1 – 6 MONTHS	5	5%
7 – 12 MONTHS	8	7%
13 -18 MONTHS	12	11%
19 MONTHS & ABOVE	85	77%
TOTAL	**110**	**100%**

OWNERSHIP

- SOLE TRADER
- JOINT VENTURE
- FAMILY BUSINESS
- OTHERS
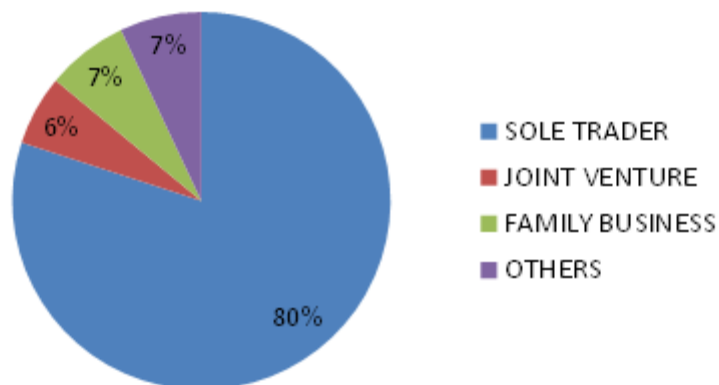
Among the sample 110, 88 (80%) are Sole Traders, 6 (6%) are Joint Ventures, 8 (8%) are Family businesses.

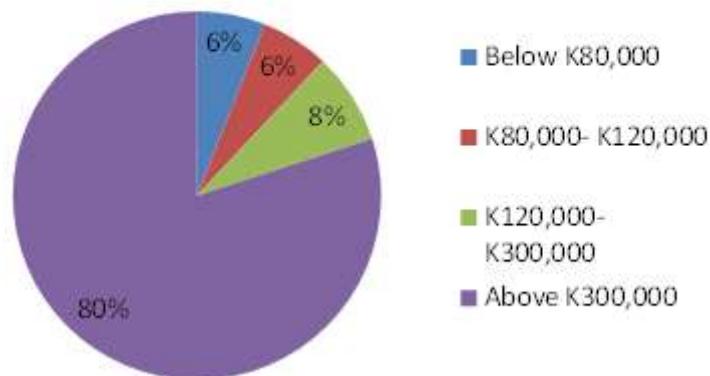| OWNERSHIP	FREQUENCY	PERCENTAGE
SOLE TRADER	88	80%
JOINT OWNERSHIP	6	6%
FAMILY BUSINESS	8	7%
OTHERS	8	7%
TOTAL	**110**	**100%**

SOURCE OF FUNDING
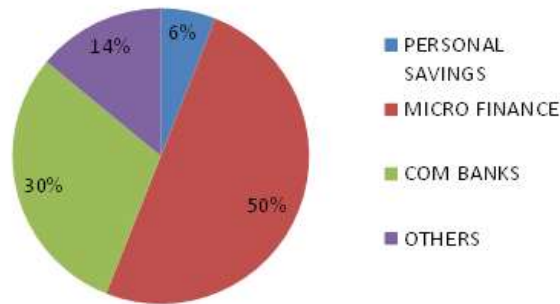
Among 110 sample , 55 (50%) have Micro Finance institutions as their source of funding, 33 (30%) have Commercial Banks as a source of Finance, 16 (14%) have other sources of finance and 6 (6%) have personal savings as their source of finance.

| SOURCE OF FUNDING	FREQUENCY	PERCENTAGE
PERSONAL SAVINGS	6	6%
MICRO FINANCE	55	50%
COMM BANKS	33	30%
OTHERS	16	14%
TOTAL	**110**	**100%**

ANNUAL TURNOVER

Among 110 sample, 77 (80%) have a Turnover of above K 300,000 per Annum, 15 (8%) have a Turnover of between K 120,000 to K 300,000, 12 (6%) have a Turnover of between K80,000 to K 120,000

ANNUAL TURNOVER	FREQUENCY	PERCENTAGE
BELOW K80,000	6	6%
K80,000 – K120,000	12	6%
K120,000 – K300,000	15	8%
ABOVE K300,000	77	80%
TOTAL	**110**	**100%**

TAX BRACKET
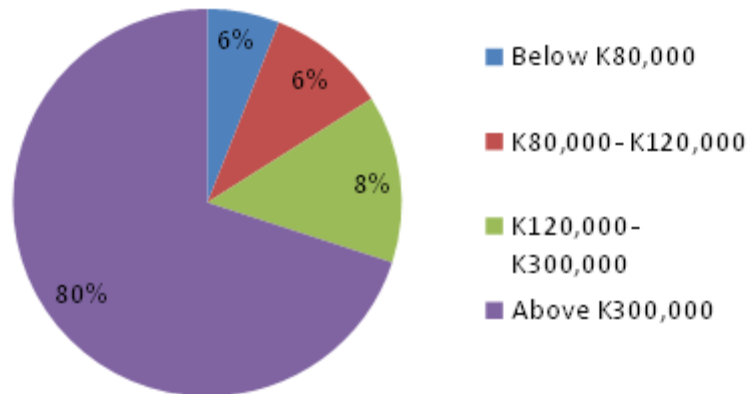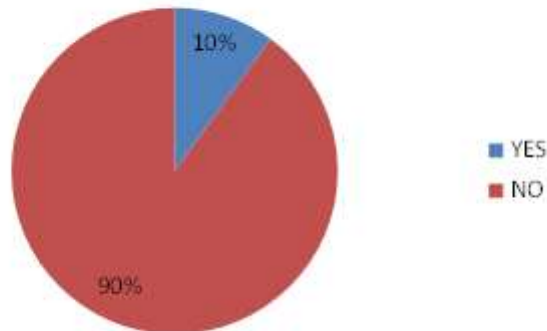

Among 110 sample,   88 (80%) fall in a
Tax bracket have above K 300,000 per Annum, 9 (8%) fall in a Tax bracket between K 120,000 to K 300,000, 6 (6%) fall in a Tax bracket between
K80,000 to K 120,000 and 6 (6%) fall in a Tax bracket below K 80,000 per Annum

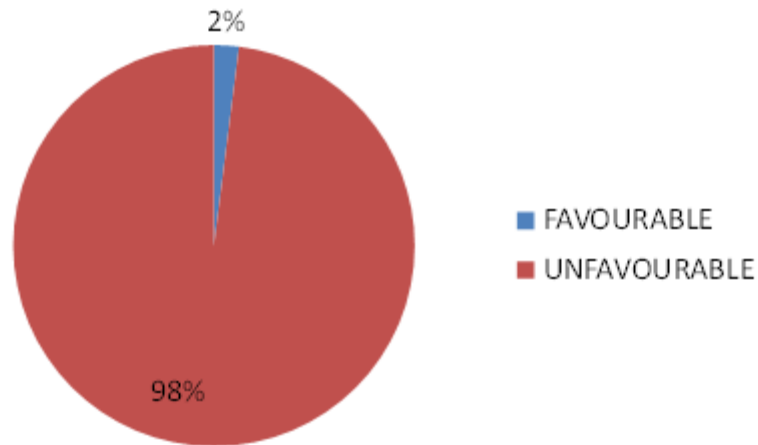| TAX BRACKET	FREQUENCY	PERCENTAGE
BELOW K80,000	6	6%
K80,000 – K120,000	6	6%
K120,000 – K300,000	9	8%
ABOVE K300,000	89	80%
TOTAL	**110**	**100%**

SUBSIDIES

Among 110 sample, 99 (90%) have not benefited to any form of Subsidy while 11 (10%) have benefitted from subsidies

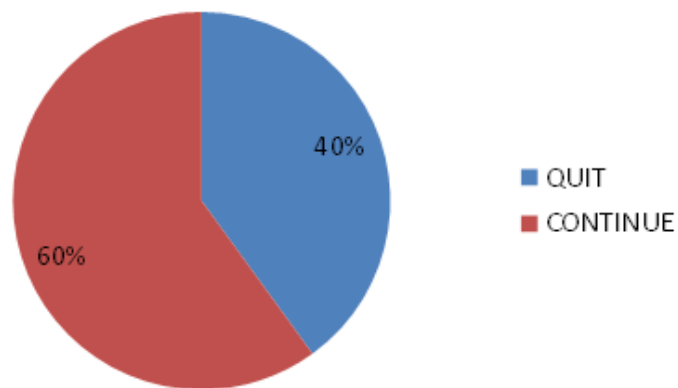| SUBSIDIES	FREQUENCY	PERCENTAGE
YES	11	10%
NO	99	90%
TOTAL	**110**	**100%**

HIGH INTEREST RATES

Among 110 sample, 108 (98%) of the respondents indicated that High Interest Rates were adversely affecting their businesses and 2 (2%) were not being affected in any way.

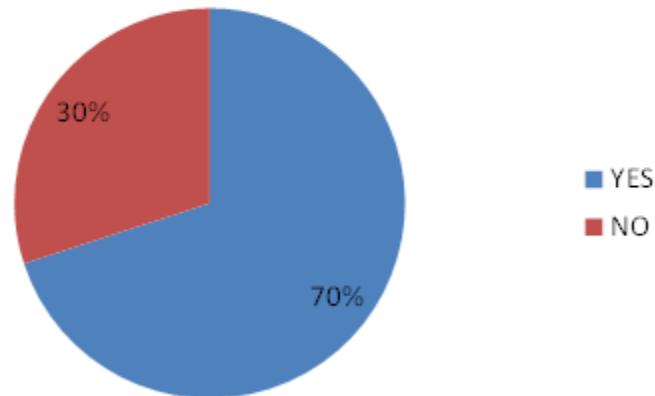| HIGH INTEREST RATES	FREQUENCY	PERCENTAGE
FAVOURABLE	2	2%
UNFAVOURABLE	108	98%
TOTAL	**110**	**100%**

BUSINESS DECISION

Among 110 samples, 44 (40%) of the respondents indicate that they need to quit and 66 (60%) wished to continue operating by simply adjusting/ adapting

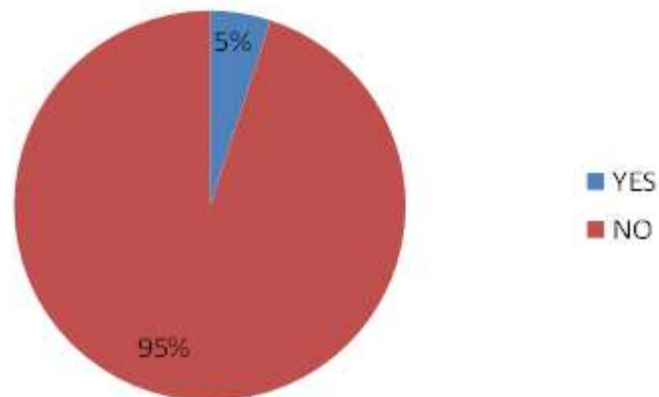| BUSINESS DECISION	FREQUENCY	PERCENTAGE
QUIT	44	40%
CONTINUE	66	60%
TOTAL	**110**	**100%**

AVAILABILITY OF LOANS

Among 110 samples, 77 (70%) of the respondents indicate that "YES " Loans were available while 33 (30%) of the respondents says " NO " were not available to be accessed.

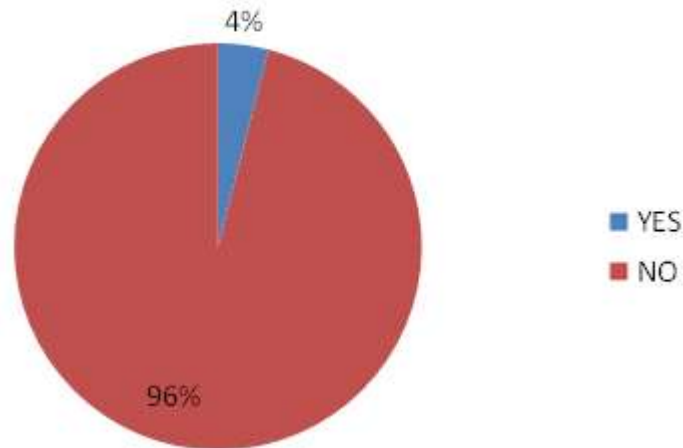| AVAILABILITY OF LOANS	FREQUENCY	PERCENTAGE
YES	77	70%
NO	33	30%
TOTAL	**110**	**100%**

ACCESSED LOANS

From the sample of 110, 104 (95%) of the respondents says they do not have access to these Loans while 6 (5%) says they have access to these Loans.

| ACCESS TO LOANS	FREQUENCY	PERCENTAGE
YES	6	5%
NO	104	95%
TOTAL	**110**	**100%**

ACESSED LOANS CHEAPLY ?

From the 110 respondents 106 (96%) indicate that these Loans were not cheaply accessed while 4 (4%) indicated that these Loans were being offered at a high cost of borrowing

| ACCESS TO LOANS CHEAPLY	FREQUENCY	PERCENTAGE
YES	4	4%
NO	106	96%
TOTAL	**110**	**100%**

EFFECTS OF HIGH INTEREST RATES ON A BUSINESS
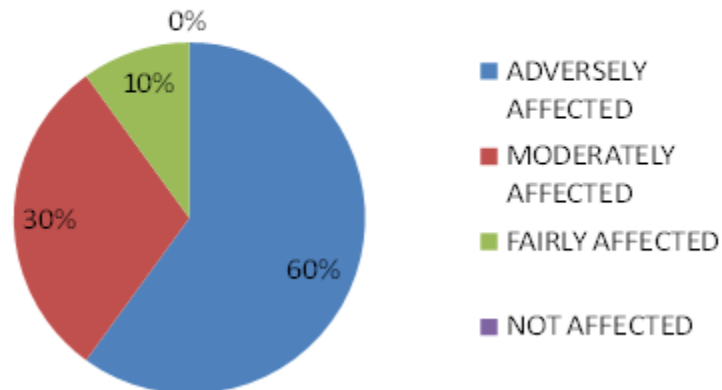
From the 110 respondents 66 (60%) indicate that they were adversely affected by the high interest rates, 33 (30%) says that they were moderately affected , 11 (10%) were fairly affected .

EFFECTS OF HIGH INTEREST RATES ON A BUSINESS	FREQUENCY	PERCENTAGE
ADVERSELY AFFECTED	66	60%
MODERATELY AFFECTED	33	30%
FAIRLY AFFECTED	11	10%
NOT AFFECTED	0	0%
TOTAL	**110**	**100%**

FACTORS WHICH AFFECT WOMEN ENTERPRENUERS
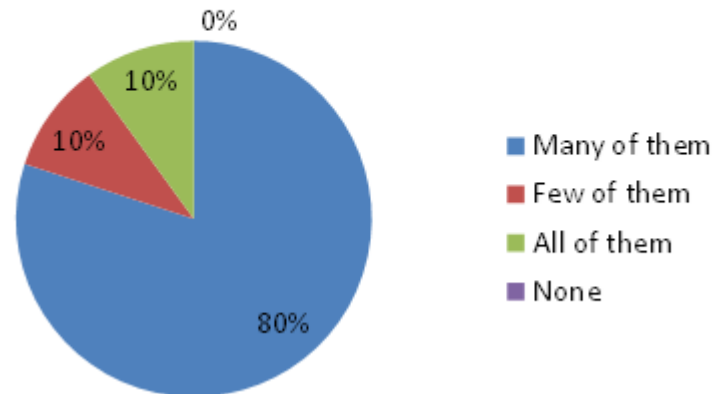
From the 110 respondents 88 (80%) indicated that there were a number of factors that affected women entrepreneurs , 11 (10%) indicate that there were few factors which affected women entrepreneurs and 11 (10%) indicated that all the factors affected the women entrepreneurs

FACTORS WHICH AFFECT WOMEN ENTERPRENUERS	FREQUENCY	PERCENTAGE
MANY OF THEM	88	80%
FEW OF THEM	11	10%
ALL OF THEM	11	10%
NONE	0	0%
TOTAL	**110**	**100%**

5. FINDINGS

The findings are pointing to the fact that despite the foregoing, the growth and survival of SMEs largely depend on the ease with which they can access finance in form of bank loans from the banks and other alternative sources which in many instances the cost of finance is usually high due to high interest rates. The high interest rates makes the cost of borrowing high. In many countries however, Zambia inclusive, it has generally been observed that lack of access by SMEs to finance due to high interest rates has negatively affected the formation, performance and growth of SMEs. Many factors have been attributed to this scenario. It has been established that high interest rates increase the cost of borrowing hence creates difficulties in accessing finance from lending institutions it also creates slow growth prospects, unemployment and low revenue collections from an economy of a country.

In spite of this, access to finance has been observed to be the main challenge hampering growth, with risk premiums placed on their borrowing and elevated transactions costs as main obstacles. Kumar & Rao (2015) concluded that the lack of access to finance faced by SMEs was due lack of information on the accessibility to sources of finance and the unwillingness of banks to extend credit to SMEs was a major constraint.

Lack of information can be a major constraint when accessing credit by SMEs. According to Aabi (2014), constraints in accessing finance by SMEs can be attributed to information asymmetry. This typically occurs when one party to the potential transaction has little information about the other party. Pandula (2015) examined the challenges faced by SMEs access to finance and discovered a number of constraints faced by both banks and SMEs. The banks faced the limitations of risk assumption, prohibitive administration costs, lack of information for SMEs and poor legal systems in the event of default. For SMEs, their main challenges manifested themselves in lack of collateral demanded by financial institutions, complex application procedures and the high cost of loans. Ambrose (2012) identified some barriers that act as a constraint for financial assistance to SMEs. These include lack of collateralised security and lack of proper regulatory framework. These factors will weigh down on the sustainability and reliability of traditional sources of finance. Dhliwayo & Radipere (2014) attributed the lack of access to finance by SMEs to the banks' lack of understanding of SMEs needs, banks' risk adverse behaviour, cumbersome administrative procedures and high lending rates. Beck & Cull (2014) observed that more than 25 percent of SMEs in Africa consider rate availability and cost of finance as the most critical obstacle to their growth, which further leads into a business growth obstacle more especially in countries with shallow financial markets. High interest rates were observed to be the main reason for low access to loans, sluggish economic growth rate, low revenue collections, high cost of living and high poverty levels.

6. CONCLUSION

There is empirical evidence that high interest rates impact negatively on small scale businesses not only in Zambia but all over the world. Investment and the cost of debt are very heterogeneous across companies; at any point in time, some companies are investing while others are not. And, for those that are investing, they all face different interest rates. This paper highlights the importance of accounting for this heterogeneity when analysing the relationship between the cost of finance and investment.

These findings have important implications for monetary policy. In particular, the low level of both the cash rate and average business lending rates may not have translated to lower borrowing rates for all companies. First, it is unclear whether our results generalize beyond a sample of listed companies with debt to the broader corporate population. Multiple imputation techniques suggest that the relationship may be weaker for companies without debt and that other studies fail to properly account for sample selection when focusing purely on firms with debt. A relaxation of lending standards leads to lower interest rates (for a given company profile), which encourages more investment

These new providers of finance have less of a competitive advantage as market interest rates move up. Banks have access to retail deposits whose interest rates are relatively insensitive to changes in the cash rate. When market interest rates are low, the benefit of the retail deposit base is small and, as a result, spreads at the margin tend to be higher. As market rates rise, the benefit gained from the retail deposits increases. This allows banks to reduce the spread between loan rates and money-market rates and, in doing so, put more competitive pressure on the new entrants who rely much more heavily on funds that attract money-market rates.

Nevertheless, in the medium term, if new entrants have lower operating costs than the traditional providers of housing finance, lending margins should continue to narrow over time, as the new lower-cost firms attract an increasing market share. The challenge for the traditional institutions is to reduce their operating costs, so that their return on equity can be maintained despite the narrowing of margins. Ways to do this include removing cross-subsidies between lending and payments functions and implementing more efficient fee structures. In the medium-term, the entry of new institutions that directly link their loan rates to money-market interest rates, can also make it more difficult for intermediaries to provide loans whose variable-rate interest rates do not move closely with money-market rates.

SME's if well supported has the potential to create wealth for the country by contributing highly to it's tax revenues ie (PAYE from employee's income and Corporate tax from SME's. SME's must be supported at all costs as there is empirical evidence that they form 80% of the tax payers below K 80,000 p.a. which means that if well supported can be a source of employment for the citizens, can also provide innovative products to the economy which government cannot otherwise provide. SME's may also help to bring down poverty levels in a country and contribute to the country's GDP.

RECOMMENDATIONS

In view of the study findings, the study recommends that SMEs make use of practical and unconventional means of alternative sources of finance, given the challenges faced with traditional sources of finance.. The study also recommends group partnering of SMEs in order for them to create a critical mass for their operations and in order for them to enjoy economies of scale for their businesses. In addition to the above, SMEs are encouraged to improve on their business record keeping such as cash flows and income statements in order for them to attract potential sources of finance such as venture capital investors and/or angel investors. Further research should focus on strategies of how SMEs can finance their operations without entirely depending on borrowing from financial institutions

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