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Challenges Being Faced by Small and Medium Enterprises in Accessing Credit Facilities in Lusaka Province, Zambia

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Abstract

The study was specifically designed to identify challenges that small and medium enterprises face in accessing credit facilities from financial and non-financial institutions in Lusaka province of Zambia. The study adopted a descriptive analytical research and, incorporating quantitative and qualitative methodologies, the study made use of data collection tools, such as questionnaires and structured interviews. The study targeted 100 SMEs from the central business district and a total number of 80 as a sample size(s). The criteria used was based on arranging SMEs in various categories, such as restaurants, saloons, barbershops, computer services and poultry farming, most SMEs are facing challenges in accessing financial support from financial institutions, such as banks and microfinance institutions, hence, explored more to find out what the challenges are and how these challenges can be mitigated to ensure that all SMEs have equal opportunities to financial services at national or provincial level. The samples will be randomly collected and will analyse data using excel and content analysis tools. The research focuses on achieving the following objectives: 1. identifying challenges that SMEs face in Lusaka when accessing financial support from financial institutions within the town, and 2. establishing ways on how these challenges can be mitigated at town level.

Key terms: challenges, SMEs, accessing credit facilities in Lusaka

JEL Classification: G20, O23, H81

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1. Introduction

■ Background

Small and medium enterprises (SMEs) play a very prominent role in the economy of Zambia, as they supply goods and services, create employment and are a source of income for the central government and thousands of people. In reference to International Trade Centre (ITC) Survey (2018), SMEs in Zambia represent 70 percent of gross domestic product (GDP), 88 percent create employment and contribute 97 percent of all businesses in the economy. Business lines range from barbershops and hair salons, business centers, construction, goods and public transport, metal fabrication, wood processing and restaurants, among many other activities. The important role played by SMEs in Zambia can therefore not be undermined. The Financial Sector Deepening (FSD) report (2017) observed and recognized economic roles that SMEs play in the economy, as they are economic drivers for employment, especially for those low-income earners, and they act as a route to financial inclusion. The report also indicated that SMEs account for 97 percent of all the business in Zambia. However, the report bemoans that 9/10 SMEs operate in the informal sector, and Nuwagaba (2015) has the same observation and argued that this arrangement makes it difficult for the government to support the sector. Due to the important roles that SMEs play in the economy, financial institutions have been encouraged to develop products and services that are affordable and that take into consideration the needs of SMEs, as they are main drivers of the economy (Gondwe, 2012). However, this has not been the case for the SMEs in Lusaka.

Due to the above background, the study aims to examine the extent to which collateral requirement, interest rates and other factors have direct impact on the access to finance in Lusaka. The study intends to find solutions that can help in removing the bottleneck of accessing finances by SMEs.

■ Statement of the problem

Most SMEs complain that their growth and competitiveness are limited due to lack of access to financing and the high cost of credit (Kumar & Rao, 2015; Beck & Cull, 2014). Financial institutions also view SMEs as a high risk sector due to lack of reliable information on the borrowers (Kauffmann, 2005). This is not only uncommon for SMEs operating in Lusaka. It has been observed that many 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 comes with many challenges. So, regardless of their business line, access to finance from banks and non-bank financial institutions remains a major challenge for both sectors of SME. It is evident that different academicians, such as Kukano (2021) and Hapompwe (2021) did a study that focused on the challenges that small and medium enterprises face when accessing credit facilities from Citizen and Economic Empowerment Fund at country level, hence the need to conduct study that will focus on the challenges SMEs face in Lusaka province, taking into consideration other financial institutions in the province. The study further attempts to contribute to the body of knowledge by examining factors that limit access to finance by SMEs.

■ Theoretical framework

Small and medium enterprises face a lot of problems when accessing funding from formal financial institutions, despite their importance in the economic development of national economies. According to Mate (1999), no financial institution had the capacity to provide financial support to the SMEs sector, the failure to access financial services arises due to supply or demand. The supply side may fail when there are no appropriate sources of finance available, while the demand side may fail when SMEs do not make use of the financing opportunities that exist due to lack of information, collateral or by the poor presentation of their case finding. To overcome the bottlenecks, both sides of the equation need to be addressed. According to Cattani (2002), accessibility to finance by SMEs is still a major problem, particularly in the developing countries. In general, banks refuse to lend to SMEs because they are regarded as a risky and unproductive sector. Access to finance in most Latin American countries is restricted to large companies who have a long history of borrowing. This situation is also common in African countries and the rest of the developing countries. The financial moneylenders seem to have forgotten one cardinal point that even the large companies were once small, and their development is due to the financial assistance which they received from some persons or an organization.

Therefore, the study is important because it will identify some of the challenges that SMEs face accessing financial support from financial institutions, and not only through the Citizen and Economic Empowerment Fund, which is a government institution, but also a private sector financial institution. There is a research gap because the researches that were conducted on the same topic focused mainly on the challenges that SMEs face accessing credit facilities from government institutions – Citizen and Economic Empowerment Fund at country level. However, this study will focus on Lusaka and both private and public financial institutions have been considered for this research.

■ Significance of the study

The study is important to upcoming SMEs and to firms that are already SMEs in two ways, one is to highlight the problems SMEs are likely to face when sourcing funds from the financial institution for the operation of the business and how the problems can be solved effectively. Financial institutions to be helped in understanding the problems/challenges that SMEs face in accessing loans, this will be of help to them in designing loan schemes that respond to the challenges faced by SMEs.

■ Research questions

1. To what extent does the challenges affect SMEs access to finance?
2. What has been the experience from financial institutions when SMEs applies for loan?
3. What other factors do SMEs consider as hindrances to their growth when seeking external finances?

■ General objectives

The general objective of the study was to explore the challenges that small and medium enterprises face in accessing credit facility in Lusaka province.

■ Specific objectives

The specific objectives of this study are:

1. Identifying factors that hinder SMEs in Lusaka from obtaining funds from financial institutions for various business.

2. Establishing ways of mitigating challenges for the betterment of SMEs.

■ Research hypothesis

H0: Lusaka SMEs are struggling to raise finances for business expansion.
H1: Financial institutions do contribute to failures of SME.

■ Study variables

Two types of study variables were used, independent variables and dependent variables. For the sake of this study, the size of SMEs is classified as an independent variable, because the size of the firm will determine if the loan will be fully paid off or they will be in default, while the loan interest rate will be classified as a dependent variable. This is due to the rate of loan to be charged based on the risk the firm is likely to be subjected to.

2. Literature review

■ Introduction

This chapter looks at the research that has been done by other researchers on the challenges of accessing credit facilities from financial institutions by small and medium enterprises at global, regional and local level in Zambia. It examines what the challenges are and impacts they have had on the operations of the SMEs at a global, regional and at a national. Small and medium enterprises create employment for the people, they is still a challenge for most of the SME to obtain financial support from financial institution (Bharti & Shylendra, 2011). Similarly, Simtowe and Phiri (2007) and Muktar (2009) stated that credit facility is a means of business growth for the entrepreneurs.

■ Theoretical background

Small and medium enterprises do face a lot of challenges in accessing credit facilities from formal financial institutions around the world, despite the importance the sector plays in the national economy development (Mate, 1999). Access to finance is still a major problem, particularly in the developing countries. Generally, most banks refuse to lend to SMEs, as they are perceived to be a risky and unproductive sector of the economy (Cattani, 2002).

■ Theories related to small and medium enterprise financing

The following are the theories that support the research about challenges that small and medium enterprises face when accessing credit facilities from financial institutions around the world.

✓ *Macmillan Gap Theory*

In 1900, the world recognized the difficulties faced by many SMEs in accessing finances from financial institutions. It was at this time when the Macmillan Gap Theory was brought up by Macmillan in 1929 during the economic crisis, he was given the responsibility to look at the matters of SMEs financing at the time when he was heading a finance committee. He surveyed different industries and business, and based on the findings of the survey, Macmillan submitted a report to the government recommending them to take matters in their own hands – regarding the financing issues for SMEs. The theory highlighted the important matter of SMEs being provided relaxation when it comes to long-term capitals, it was also noted that SMEs with capital less than 250,000 GBP faces challenges in accessing financial support from financial institutions.

✓ *Credit Rationing Theory*

According to Stiglitz and Weiss (1981), the theory describes the behavior of lenders and borrowers in a market which is characterized in a credit market with excess demand and restricted supply of credit facilities. There are three main items which banks mainly consider with respect to the extension of credit to potential borrowers, interest rates, the amount of the loan, the collateral required or the "stake" which a bank demands from a potential borrower to invest some "skin in the game". Depending on what rate is set for loans, it may have an adverse selection of the borrower. Interest rates can be used as a screening mechanism which differs, depending on the risk level of a potential borrower. It is a common practice among banks to request a collateral for securing most loans.

Therefore, this research was necessary because it has assisted in identifying challenges that are faced by small and medium enterprises in Zambia, particularly those that operate in Lusaka province of Zambia. The research will discuss various remedies that are required to revamp the sector and how the sector can be well-supported to grow the economy of the country at large.

■ Empirical review

✓ *Funding challenges by SMEs*

Access to finance in most Latin American countries is restricted to large companies who have a long history of borrowing. This situation is also common in African countries and the rest of the developing countries. The formation, growth and survival of SMEs depend on the access to finance. According to Singh & Wasdani (2016), the primary source of finance for SMEs is through loans from the banks and non-financial institutions. However, it is unlikely that SMEs will be fully funded particularly for the startups, this is because the sector is perceived as highly risky. Gitman (2003) studied the relationship between the access to finance and the requirement of collateral, the studies indicated that there is a positive correlation between the two. Kauffmann (2005) attributed limited access to finance due to perceived high risk associated with SMEs and collateral requirement at the loan application stage. Obaji & Olugu (2014) indicated that the biggest hindrances to accessing finances by SMEs is the requirement of collateral and in most cases small and medium enterprises are not able to provide the said requirement, as they do not have the capacity to do so, and the requirement is always a constraint for the formation of the new SMEs. Gangata & Matavire (2013) did a study on the challenges that SMEs face when accessing financial support from the financial institution, and it was discovered that unsuccessful loan application was due to the failure to meet loan application requirements, such as collateral by SMEs. Etemesi (2017) also discovered that lack of tangible assets to act as security when applying for loan and the inappropriate legal and regulatory framework contributes to failure in obtaining credit services from the financial institution. Kihimbo *et al.* (2012) discovered that financial institutions demanded collateral in the form of assets and/or documents as security to access credit, which is applied to both the personnel and for the company's loan applications.

However, it has been observed in many countries that the formation, performance and growth depend on the financial stability of SMEs. According to Awani (2020), SMEs play a pivotal role in the economic development of the African economies, as they are deemed as the engine of growth. Despite this, access to credit has been noted to be the main challenge for their growth, with a high-risk premium placed on their borrowing and huge transactions costs as main obstacles. Kumar & Rao (2015) concluded that the lack of credit facilities is the main challenge that SMEs face in most jurisdictions, this is because there is no available information on the accessibility to source finances and the banks are unwilling to extend credit facilities to SMEs. The lack of information by SMEs is considered a constraint (Aabi, 2014), constraint in the sense that one party to the transaction has little to no information about the other party. Pandula (2015) observed that there are many challenges faced by the financial institutions when dealing with SMEs, as they intend to access finances. Some of the challenges are assumptions of risk, prohibitive administration costs, lack of information for SMEs and poor legal systems in the event of default. For SMEs, their main challenge is a lack of collateral demanded by financial institutions, unfriendly application procedures and the high cost of loans. Ambrose (2012) identified barriers that act as a constraint for financial assistance to SMEs, these include the lack of security in the form of collateral and the lack of a proper regulatory framework. These factors pull down sustainability and reliability of traditional sources of finance for most businesses. Dhliwayo & Radipere (2014) states that failure to access finance by SMEs is due to a lack of understanding of the need for SMEs by the financial institution, banks' risk adverse, high interest rates and administrative procedures that are cumbersome for the applicant. Beck and Cull (2014) states that more than 25 percent of SMEs in Africa consider high interest rates as a critical challenge to their growth and sustainability, hence, resulting in business growth challenges, especially in countries with shallow financial markets.

In Zambia, SMEs represent a very important sector, due to the role it plays in the production of goods and services, creation of employment and income generation for most people. SMEs represent 70 percent of the gross domestic product, 88 percent of employment and 97 percent of all businesses in the country are classified as SMEs (ITC Survey, 2018). Due to the importance of SMEs, the government, under the Seventh National Development Plan (2017-2021), emphasized the need for the creation of a credit guarantee scheme that specifically deals with low interest and long-term loans to Zambian SMEs. For this purpose, the government has put in place initiatives that will support the acceleration of the informal sector formalization, to enhance skill development programs, create urban industrial clusters, strengthen value-chain linkages and provide business development opportunities. At institutional level, the Zambia Development Agency (ZDA) was created through an act of parliament in 2006 and amended in 2014. The ZDA's mandate is to promote an efficient, effective and coordinated private sector and to lead an economic development strategy.

Literature review in the above paragraphs indicates that there are a lot of challenges that small and medium enterprises face when accessing financial support from financial institutions, not only in African countries, but even in the European countries. Therefore, it explores the challenges that SMEs face in the central business of Lusaka, and how these SMEs can be helped to boost the sector.

■ Research gap

There are quite several studies that have been conducted on the challenges that small and medium enterprises face at regional level (Africa) when obtaining credit facilities from financial institutions. However, there is no study conducted specifically for the Lusaka province of Zambia, hence the need for this study, to highlight challenges that small and medium enterprises face when obtaining credit facilities from financial institutions.

3. Methodology

■ Introduction

This chapter outlines methods to be used for gathering and analysing data and coming up with measures on how challenges faced by small and medium enterprises in Lusaka can be mitigated when accessing funding from financial institutions for the sole purpose of their operations expansion. The chapter will also outline the source of the data and the criteria to be used for selecting the sample size.

■ Research design

The research design employed in this study is the descriptive design. The type and the source of data will be determined by the objective of the project. The information collected was used to determine the challenges that small and medium enterprises face in accessing financial support from financial institutions within the Lusaka province. Therefore, the purpose of the study was to determine factors that prevent SMEs in Lusaka to secure funding from financial institutions and to establish measures on how the factors can be mitigated.

■ Study site

The study was conducted in the central business of Lusaka province of Zambia and focused on small and medium enterprises in the same locality.

■ Population/study frame

Population is defined as a universe of units from which samples are selected. The population of interest for this study consists of 100 small and medium enterprises, the SMEs to be considered are those registered with patents and the companies' registration agency (PACRA) and operate from within the Lusaka province of Zambia.

■ Sample size determination and sampling

In determining the sample size, we have made use of simple random sampling (SRS), using the consulting technique. This will enable all members of the population to have an equal chance of being selected into the sample unit. The sample size refer to the number of items to be collected from the universe to constitute a sample, a sample size of 80 SMEs will be used, we adopted the Taro Yameni (1967) formula to calculate the sample size.

$$n = N/(1 + N \text{ x } (e)^2)$$

Where:
n = Sample size
N = Population of the study (100)
1 = Unit (Constant)
(e) = Level of significance

(e) = 0.05 (95% confidence level)

$n = 100/(1 + 100 \text{ x } 0.05^2)$

Sample size = 80

■ Inclusion exclusion criteria

The inclusion criteria are the small and medium enterprises that are in the business of grocery trading, stationery suppliers, printing, restaurants, mobile money business, car wash and cleaning services and are within the Lusaka province. Small and medium enterprises that are involved in the business of lodges, farming and manufacturing are excluded from this study.

■ Data collection approach/procedures

Data were collected using various methods, which are interviews and questionnaires. To enhance reliability and validate data, both primary and secondary data collection methods were used. The methods are as follows:

✓ ***Interview method.*** This is a method where questions were asked to the respondents verbally and they responded verbally. This is done personally or by means of telephone interviews. Both structured and unstructured questions were asked to the respondents. The questions were asked to all selected firms and directed to the owners of small and medium enterprises.

✓ ***Questionnaire method.*** This is the most common method of collecting data, especially in the case of inquiry. In this method, a questionnaire was sent to the concerned person, with a request of answering to questions and returning the questionnaire. A questionnaire consisted of printed questions.

■ Data management, processing and data analysis

The data to be collected were both qualitative and quantitative in nature, however, data processing and analysis included computation, classification and tabulation, this helped to analyse data well. Quantitative data will be presented using descriptive statistics methods, including charts and tables, while narrative analysis will be used to analyze qualitative data from the views of the respondents.

■ Ethical considerations

There is a risk that respondents will not provide the information that is needed for this research due to the fear of being intimidated by other people, however, before any data is collected from the respondents, we will seek permission from either the Town Clark or the Councilor. After the councilor has given us a go ahead, then we will be able to approach the business owners for the data collection and we will also give them an assurance that the information to be collected will be used solely for the purpose of research and shall be kept confidential. We will also highlight to them that once the research is completed; they are likely to see some changes in the policy development to favour them in terms of accessing loans from financial institutions. Consensus will be sought for the research and interviews before data collection is undertaken.

4. Presentation of findings

■ Introduction

This chapter presents data based on major results of both statistical and descriptive information derived from questionnaires gathered from various business individuals. An interview guide was used to collect data from business owners that they applied or not for a loan, and other various SMEs owners who conduct business within the coverage of the study site. The results and outcomes of the research are disclosed wisely. It is a chapter that answers the research question and objectives from various interviewed entrepreneurs.

■ Characteristics of SMEs that are the object of the study

All the respondents are SMEs located in Lusaka province of Zambia, with a labour force between 1 and 30 employees, with some professionals in the management of the business.

All the following tables are based on field data.

■ Frequency distribution of the nature of participants

Nature	Frequency	Percentage (%)
Private limited company	25	50
Public limited company	0	0
Partnership	8	16
Sole proprietor	15	30
Family owned	2	4
Total	**50**	**100**

As the above tabulation shows, most of the respondents are registered as private limited company, representing 50% of the 50 respondents. None of the respondents were registered as public limited company. 16% represent the SMEs that are in partnership, 30% of the respondents are sole proprietors and 4% are the SMEs that are registered as family business.

- **Frequency distribution of the forms of the business**

Nature	Frequency	Percentage (%)
Retail	18	36
Export	2	4
Manufacturing	0	0
Services	30	60
Real estate	0	0
Total	**50**	**100**

The data also indicates that out of the 50 SMEs that responded to our interviews and questionnaires, 36% of the SMEs are in the retail business, 4% in the exporting business, not in the manufacturing business, 60% of the total number represents the services industry and none of the SMEs are in the real estate. This clearly indicates that most of the small and medium enterprises are in the services delivery.

- **Frequency distribution of the period of operating**

Period	Frequency	Percentage (%)
Less than one year	18	36
1 year to 5 years	21	42
6 years to 10 years	4	8
11 years to 15 years	7	14
Over 15 years	0	0
Total	**50**	**100**

The table above indicates the number of years each respondent has been in the business. Most of the SMEs have been in the business for less than 15 years, this is because there are very few people who ventured in entrepreneurship. Out of the respondents, 36% of the SMEs have been in the business for less than one year, 42% have been operating between 1 to 5 years, this indicates that people have realized the importance of the business, 8% have been in existence between 6 to 10 years, those in the business between 11 to 15 years are represented by 14% and none of the respondents have been in the business for more than 15 years.

- **Frequency distribution of the average monthly income of respondents (SMEs)**

Amounts	Frequency	Percentage (%)
Less than K10,000	19	38
K10,000-K20,000	11	22
K20,000-K30,000	8	16
K30,000-K40,000	6	12
Above K40,000	6	12
Total	**50**	**100**

The table above shows that most of the respondents have an average monthly turnover of less than K10,000, this is represented by 38% of the total respondents, 22% indicate 11 SMEs who have an average income between K10,000 and K20,000, 16% representing K20,000 and K30,000 and those with an average monthly turnover between K30,000 and K40,000 represent 12% and those above K40,000 represent 12%. This clearly shows that SMEs must expand their business operation to maximize monthly income generation, and eventually maximize the profitability level of the business.

- **Frequency distribution of SMEs granted or denied loans**

Status	Frequency	Percentage (%)
Granted	18	36
Denied	32	64
Total	**50**	**100**

Out of the 50 respondents, some of the business owners applied for a loan, 18 SMEs were granted a loan, representing 36%, and 32 SMEs from those who responded were not granted a loan, representing 64% of the total applicants. This entails that SMEs face challenges when accessing loans from the financial institutions. The challenges highlighted are the requirement for the collateral and statement of cash flows, which most of the SMEs do not have, hence the denied loans.

- **Frequency distribution of the main reason for failure to acquire loan by participants**

Factors	Frequency	Percentage (%)
Default on previous loan	0	0
No security to pledge	29	58
Too small equity base	4	8
Lack of experienced management	0	0
Others	17	34
Total	**50**	**100**

The above data outlines the reasons why loan applications were not successful. The majority of respondents indicated that they never had security (collateral) to pledge against the loan before a loan can be granted, this is represented by 58%, others also indicated that their application could not go through because of the small equity base by the applicant, which is represented by 8% of the respondents. Other reasons are that most of the firms are in the early stage of operation (less than a year), hence they are considered as high-risk applicants, as the probability of the firms defaulting is perceived to be high.

- **Frequency distribution of the level of interest on the loan**

Interest rate	Frequency	Percentage (%)
Extremely high	35	70
High	15	30
Acceptable	0	0
Low	0	0
Total	**50**	**100**

The table above shows the reaction of the respondents for the interest charged on loans. 70% of the respondents stated that the interest rates are extremely high and 30% stated that the interest rates are high. This clearly shows that the interest rate increases the cost of borrowing and increases very much the cost of running a business, hence the SMEs are not generating enough monthly turnover due to the limitation of loan acquisition, as SMEs pay double the principal amount as interest.

- **Frequency distribution of information requested for at the loan application stage**

Requirement	Frequency	Percentage (%)
Collateral	24	48
Cash flow statement	11	22
Total assets	11	22
Audited financial statements	2	4
Business plan	2	4
Total	**50**	**100**

The table above indicates the list of participants with responses for the information requested at the loan application stage by the financial institution, 48% indicated that 24 SMEs were requested to pledge collateral on the loan amount, 11 SMEs were asked to submit a cash flow statement on how the business has been generating and spending money, representing 22% of the participants, 11 participants were requested to submit a list of total assets the business owns, to act as a risk management measure, representing 22%. 2 SMEs were requested to submit an audited financial statement, this was a challenge, as most SMEs do not have qualified personnel (accountants) to keep books of accounts for auditing purposes, this requirement represents 4% of the participants, and, last but not the least, the business plan that the financial institution were requesting for a loan to be granted as a prerequisite, representing 2% of the respondents.

5. Data analysis and findings

Introduction

This chapter will address some of the key findings of the study and briefly provide an analysis of the significance to the study in line with the research question and objective.

Analysis of major findings

Ascertaining the difficulties that SMEs face in accessing bank loans, a descriptive statistic was used, as it was found to be an ideal analysis technique. The technique was aided by the tabulation of data extracted from a closed-ended questionnaire; it was very easy to understand the issues identified by the respondents. Also, to help answer the question whether SMEs have challenges in accessing credit in Lusaka as contained in the objective in Chapter one.

Based on the turnover ranges that were provided by the respondents, it was concluded that there was no doubt that the respondents were all SMEs, as supported by the definition of SMEs, which means that a SME is a business whose total investment is less than K10 million and whose annual revenue does not exceed K80 million, with a maximum of 30 employees.

It was also found that among the problem faced by SMEs in the operation ranging from the competition, high utility tariffs and the SMEs saw the lack of credit facilities for most of them as the major constraints. It suffices to say that for SMEs, financing is one of the major challenges that the sector faces, despite having several commercial banks and the non-banking financial institutions. This was also highlighted in the findings for Schiffer and Weder (2001), who found that small firms tend to have difficulties compared to larger firms, that have been active for many years.

The study also found that some of the major factors contributing to SMEs constraints were the inability of SMEs in Zambia to readily have access to credit from the financial institutions, which can be attributed to the high transaction cost that the banks go through in performing credit appraisal on them before granting credit to these SMEs.

One of the key findings indicated that the lack of collateral or security hindered many of these SMEs from securing a loan to grow their business, among other factors. Last but not least, the issue of extreme high interest rates on loans also played a detrimental role in hindering these SMEs from accessing loans for the growth or expansion of their business.

6. Conclusion

■ Introduction

This chapter will summarize the key findings of the research study in relation to the research aims and the research question, as well as the contribution. The chapter will also review the limitations of the study and the proposal for the future research.

■ Summaries of key findings

The study aimed to investigate the challenges that small and medium enterprises face when accessing credit facilities from the financial institutions. The results indicate that the high interest rate and the demand for collateral by the financial institutions are the many challenges in accessing financial support from the financial institution and that leads to the constraint for business expansion. Furthermore, there has been a bad relationship between the SMEs and the financial institutions, which, to some extent, has a negative effect on the access to financial support from the institutions.

■ Contributions

The research has identified challenges that the sector faces in accessing loans from financial institutions, such as banks, and non-financial institutions, such as microfinance institutions. The challenges will then be analyzed and forwarded to the relevant authority for further deliberation, so that a special loan scheme can be designed specifically for small and medium enterprises for the growth of the sector, and eventually the creation of employment and increasing the tax base for the government.

■ Limitations

During the research we have had some challenges, and some of them are:

1. Lack of responses from the participants. Despite sending questionnaires to the participants, some of them declined to provide the information that was required.
2. Bad Internet connection, especially for the respondents that were sending their questionnaires by e-mail.
3. Time constraints: the time allocated for collecting data from participants was not enough.

■ Recommendations for future research

This study focused on the challenges that small and medium enterprises face in obtaining credit facilities from financial institutions in Zambia, with the assumption that the data collected from Lusaka will provide the same results as the data drawn from other parts of the country. However, the study recommends that further studies should be considered in the following areas.

1. The effect of information technology on SMEs when accessing credit facilities from the financial institutions.
2. The challenges of small and medium enterprises that are in the mobile money business.
3. Effect of COVID-19 on the profitability of SMEs in other provinces of the country (Zambia).

■ Recommendations

The government of the Republic of Zambia, the banks, the non-governmental organizations and the microfinance institutions are key facilitators to growing SME credit and, therefore, consideration towards increasing their efforts of spreading information on the importance of SMEs finance should be executed. Furthermore, collateral needed by small and medium enterprises must be reduced to a lower and attainable standard; there should be harmonization in facilitated loans to SMEs by lenders. This way it will ensure that finance is availed to SMEs with little or no collateral at an affordable price (interest rate).

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