

Assessing Bank-Specific Challenges to SMEs Financing: Evidence from Commercial Banks in Lusaka

Leeroy Vaghera; and Maboshe Mashekwa

Graduate School of Business, University of Zambia, Zambia.

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Abstract

This study examines the banking challenges faced by Small and Medium Enterprises (SMEs) in Lusaka, Zambia, in securing financing from commercial banks. The study aims to identify key barriers, assess their impact on SMEs financing, and propose actionable solutions to overcome these obstacles. Using a mixed-method approach, data were collected through surveys and semi-structured interviews from 65 participants representing 10 commercial banks in Lusaka. The results revealed that stringent collateral requirements, perceived credit risks, and inadequate financial documentation were the primary barriers to SMEs financing. Specifically, 69.2% of respondents reported high collateral demands as a severe obstacle, while 55.4% highlighted credit risk perceptions as significant. The study also found that financial documentation was crucial for securing loans, with 26.2% of respondents rating its impact as severe. A regression analysis confirmed a positive relationship between the likely impact of these challenges and the identification of solutions, with an R-Square value of 0.176, highlighting the predictive power of these challenges on the solutions proposed. The research applies Asymmetric Information Theory and Credit Rationing Theory to explain how these barriers limit SMEs access to bank loans. Recommendations include the implementation of credit guarantee schemes, streamlining loan application processes, and enhancing financial literacy programs for SMEs.

Keywords: SME Financing, Commercial Banks, Challenges, Collateral, Financial Documentation, Banking Barriers, Zambia.

Introduction

SMEs are universally recognized as critical drivers of economic development, innovation, and employment. In Zambia, they contribute approximately 70% to the national GDP and account for about 88% of formal employment, underscoring their centrality to the economy (Central Statistical Office, 2020). SMEs play a pivotal role across various sectors, including manufacturing, agriculture, retail, and services, providing the economic diversity necessary to reduce the nation's heavy reliance on mining (Zambia Development Agency, 2021). This diversification not only strengthens economic resilience but also fosters entrepreneurial activity and job creation in both urban and rural areas. The growth and expansion of SMEs are crucial for achieving broader economic goals, such as poverty reduction and increasing exports. However, despite their acknowledged importance, SMEs in Zambia remain chronically underfunded. The majority face formidable obstacles in accessing finance, particularly from commercial banks. This persistent challenge undermines their ability to

scale operations, invest in innovation, or weather financial shocks, thereby restricting their overall contribution to sustainable economic growth.

The problem of limited access to finance among SMEs is deeply rooted in structural and institutional inefficiencies within Zambia's financial sector. According to the (International Finance Corporation 2019), more than 60% of SMEs in Zambia report experiencing serious difficulties in securing external funding. Key barriers include high collateral requirements, lack of proper financial documentation, stringent loan application procedures, and perceived credit risk by banks (Beck & Demirguc-Kunt, 2006). Compounding these issues is the high non-performing loan (NPL) ratio among SMEs, estimated at 15%, more than double that of large firms, which sits at 7% (Bank of Zambia, 2019). Such figures highlight the reluctance of commercial banks to extend credit to SMEs due to concerns over default risk and the inability of many small businesses to meet traditional lending criteria. Despite various policy efforts, including the establishment of loan guarantee schemes, these constraints continue to plague the SMEs sector, especially in urban centers like Lusaka.

Ideally, commercial banks should be able to offer accessible, affordable, and adequate financial products to SMEs, fostering their growth and contribution to the economy. In theory, commercial banks, with their ability to assess risk and provide financing, should play a pivotal role in supporting these businesses by offering loans and other financial products. However, the reality is that commercial banks in Zambia face persistent challenges when lending to SMEs, primarily due to high perceived credit risks, lack of collateral, and insufficient financial documentation (Kira, 2013). As a result, commercial banks often implement stringent lending policies that exclude a significant number of SMEs from accessing credit. This leads to widespread credit rationing, where many SMEs, despite meeting basic eligibility criteria, are either denied loans or are offered to them under unfavorable conditions (Mwanza & Tembo, 2021).

The consequences of these barriers are profound for the SMEs sector and the broader economy. Over 60% of SMEs in Zambia report difficulties in securing external financing, a situation that stifles their ability to innovate, expand, and contribute to job creation (IFC, 2019). This financial exclusion limits the potential for SMEs-driven growth and economic diversification in Zambia. The research gap, however, lies in the insufficient exploration of how commercial banks perceive and manage these risks, particularly the credit risk associated with SMEs lending. While much of the existing literature highlights the challenges faced by SMEs (Abe, Troilo, & Batsaikhan, 2015), there is a lack of in-depth understanding of the bank's internal processes and decision-making criteria when dealing with SMEs. This study aims to bridge this gap by investigating the specific banking challenges in SMEs financing from the perspective of commercial banks, offering insights into the internal dynamics that shape their lending practices.

Statement of the Problem

Despite the critical role that Small and Medium Enterprises (SMEs) play in Zambia's economic development, their growth remains severely constrained by persistent

challenges in accessing finance from commercial banks. Although several studies have highlighted the barriers SMEs face in securing credit, such as high collateral requirements and lack of financial records, there is limited research examining the issue from the perspective of commercial banks themselves. The high rate of non-performing loans among SMEs and bank's perceived credit risk has led to stringent lending criteria and widespread credit rationing, which further exclude a significant proportion of SMEs from formal financial services.

This study addresses a critical research gap by shifting the focus from SMEs challenges to the internal constraints and risk perceptions within commercial banks that hinder effective SMEs financing. Understanding how banks assess, perceive, and manage credit risks related to SMEs is essential to designing more inclusive financial policies and products. By exploring these internal banking challenges, the study contributes significantly to the discourse on financial inclusion and economic development, offering practical recommendations for aligning banking practices with the financing needs of Zambia's SMEs sector.

The general objective of this study was to investigate how commercial banks assess, manage, and react to the risks associated with SMEs lending. Specifically, the research seeks to:

- i. examine the key challenges faced by commercial banks in financing SMEs in Lusaka;
- ii. assess the likely impact of these challenges on SMEs access to finance; and
- iii. propose practical solutions to overcome these obstacles. These objectives provide a structured roadmap for the study and ensure alignment with both academic and policy concerns.

Literature Review

Key Challenges Faced by Commercial Banks in Financing SMEs

Commercial banks globally face significant challenges when financing SMEs, primarily due to perceived high risks associated with lending to smaller businesses. Internationally, the lack of collateral, unstable cash flows, and insufficient financial documentation remain prevalent barriers (Love & Peria, 2020). These challenges are further exacerbated by information asymmetry, where banks have less knowledge about the creditworthiness of SMEs compared to larger enterprises, often leading to credit rationing and higher lending costs for SMEs (Karim et al., 2020). In Africa, similar issues prevail, with many commercial banks adopting a conservative lending approach due to high default rates and limited access to accurate financial data from SMEs (Mirović et al., 2019). Studies show that banks in sub-Saharan Africa, including Zambia, are often reluctant to extend credit to SMEs without substantial collateral, which many SMEs do not have (Fatoki & Asah, 2011). Locally, in Zambia, commercial banks face a dual challenge of operating in an environment with relatively underdeveloped financial infrastructure while also dealing with SMEs frequent

lack of formal financial records and collateral (Kira, 2013). In addition, (Bank of Zambia, 2019) reports a higher non-performing loan ratio for SMEs compared to larger firms, reinforcing the reluctance of banks to lend to SMEs due to the perceived higher risk. Additionally, Zambia's commercial banks often impose stringent lending conditions, resulting in limited access to credit for SMEs, particularly those in the informal sector or with inadequate financial management skills (Zambia Development Agency, 2021).

Impact of Banking Challenges on SME Access to Finance

The impact of banking challenges on SMEs access to finance is a significant concern globally, as SMEs often struggle with high borrowing costs, limited loan approvals, and unfavorable terms due to stringent banking requirements. Internationally, the lack of adequate financing restricts SMEs ability to expand and innovate, leading to lower economic growth and job creation (World Bank, 2020). In Africa, the challenges are particularly severe, with many SMEs facing financial exclusion due to the perceived high risk by banks, resulting in SMEs being forced to rely on informal financing sources like microfinance institutions or personal savings (Mirović et al., 2019). In Zambia, the situation is similarly challenging, where over 60% of SMEs report difficulties in accessing formal finance, exacerbating the barrier to growth and innovation (IFC, 2019). The (Bank of Zambia, 2019) highlights that the lack of collateral and inadequate financial records hinder SMEs ability to qualify for loans, thereby limiting their potential to scale operations. This financial exclusion not only stifles individual SMEs growth but also hampers Zambia's broader economic development, underscoring the urgent need for more inclusive financial systems.

Solutions to Overcome Banking Challenges in SME Financing

To overcome banking challenges in SMEs financing, several solutions have been proposed across different contexts. Globally, the implementation of credit guarantee schemes and the development of tailored financial products have been identified as effective solutions to mitigate the risks faced by banks when lending to SMEs (OECD, 2021). Additionally, the adoption of financial technologies such as fintech platforms has provided SMEs with more accessible, flexible, and lower cost financing options, improving financial inclusion (World Bank, 2020). In Africa, regional solutions like financial literacy programs and the creation of SMEs-focused credit lines have been suggested to help SMEs meet bank requirements and manage their finances more effectively (Mirović et al., 2019). In Zambia, local initiatives, such as the government-backed Citizens Economic Empowerment Commission (CEEC), aim to reduce financing barriers by providing guarantees and funding for SMEs, though implementation challenges remain (ZDA, 2021). Further, increasing financial literacy among SMEs owners and improving the transparency of financial data can enhance SMEs ability to secure bank loans (Fatoki & Odeyemi, 2010). These solutions, while varied, indicate a growing recognition of the need for more inclusive financial systems to support SMEs growth both globally and within Zambia.

Empirical Review

(Mirović *et al*, 2019) examined barriers to SMEs financing, focusing on high collateral requirements, insufficient financial documentation and SMEs being perceived as high-risk borrowers. Using a mixed-methods approach, the study surveyed 120 SMEs and 40 banks across developing economies. The key findings showed that stringent collateral demands, and lack of financial transparency were major obstacles, with SMEs struggling to meet bank requirements. While microfinance institutions and fintech solutions helped, traditional banks still posed a significant bottleneck. A critique of the study is its limited exploration of regional variations and alternative financing options in underserved areas. Despite this, the study provided valuable insights into systemic issues in SMEs financing and conservative lending practices.

(Aristei *et al*, 2024) aimed to investigate the impact of entrepreneurs' financial knowledge on borrower discouragement among Italian micro-enterprises. Utilizing novel survey data, the study analyzed responses from a sample of 500 micro-business owners. The key finding revealed that entrepreneurs with lower financial literacy were more likely to be discouraged from seeking external financing due to anticipated high application costs and a perceived likelihood of rejection. This self-rationing behavior suggests that enhancing financial knowledge could mitigate credit market imperfections. A critique of the study is its focus solely on Italian micro-enterprises, which may limit the generalizability of the findings to SMEs in other regions or countries with different financial environments.

(Quartey *et al*, 2017) aimed to examine the constraints to SMEs financing within the Economic Community of West African States (ECOWAS). They utilized data from the World Bank's Enterprise Survey, analyzing both subjective and objective measures of access to finance across multiple countries in sub-Saharan Africa. The study found that firm size, ownership structure, legal rights strength, depth of credit information, export orientation, and managerial experience significantly influenced SMEs access to finance. However, notable differences were observed at the country's level, suggesting that contextual factors play a crucial role in financing accessibility. A critique of the study is its reliance on cross-sectional data, which limits the ability to draw conclusions about causality or observe changes over time.

(Abor, Quartey, and Turkson, 2024) investigated the impact of collateral requirements and the gender of SMEs owners on access to credit across 41 African countries. Employing cross-country data from 13,783 manufacturing SMEs, the study utilized empirical analysis to understand how collateral security, its value, and the owner's gender affect credit accessibility. The findings indicated that stringent collateral demands and gender biases in financial markets significantly hindered SMEs ability to obtain credit, leading to involuntary financial exclusion. This exclusion undermined the economic and social contributions of these businesses. A critique of the study is its focus on manufacturing SMEs, potentially overlooking challenges faced by SMEs in other sectors.

(Sakala, 2024) aimed to explore the financial strategies that Micro, Small, and Medium Enterprises (MSMEs) in Zambia use to stay resilient amidst economic instability. Using case studies and empirical data from Zambia and comparable economies, the study found that financial literacy and capacity building are essential for SMEs to navigate economic challenges. Entrepreneurs with better financial knowledge were more equipped to manage risks. However, the study lacked detailed demographic information about the SMEs and did not specify sample sizes, limiting the generalizability and statistical significance of its findings.

(Mwanaumo *et al*, 2025) investigated the factors influencing financial access for SMEs in Zambia's construction sector. They surveyed 78 SMEs and identified that high collateral requirements, interest rates, and short repayment periods were the primary barriers to financing. The study also found a positive link between financial literacy and access to finance, suggesting that improving financial knowledge could help SMEs secure loans. However, the study's narrow focus on the construction sector limits its applicability to other industries, such as retail or agriculture, which may face different challenges.

(Chilembo, 2021) examined the factors affecting SMEs access to finance in Lusaka, Zambia, focusing on collateral requirements and interest rates. The study found a significant correlation between the lack of collateral and credit rejection, with high interest rates also acting as a major barrier. Despite its valuable insights, the study did not provide detailed demographic information about the SMEs or specify the sample size, making it difficult to assess the robustness and generalizability of the findings. Further demographic analysis could improve the study's applicability across different types of SMEs.

Theoretical and Conceptual Framework

This study is grounded in two economic theories Asymmetric Information Theory (Akerlof, 1970) and Credit Rationing Theory (Stiglitz & Weiss, 1981) which explain the persistent challenges SMEs face in accessing finance. Asymmetric Information Theory highlights the imbalance in knowledge between SMEs and commercial banks, where lenders often lack sufficient information about SMEs operations, increasing perceived risk and resulting in demands for collateral or detailed documentation (Karim *et al.*, 2020). Credit Rationing Theory builds on this by explaining why banks may still deny loans even to willing borrowers due to adverse selection and moral hazard risks leading to selective lending practices that favor larger, well-documented firms over riskier SMEs (Fatoki, 2014). These theories provide a lens for analyzing how risk perceptions, documentation gaps, and lack of transparency contribute to SMEs financing constraints in Zambia.

The study's conceptual framework in Figure 1 below links three independent variables collateral requirements, credit risk, and financial documentation to the dependent variable, SMEs financing. Collateral acts as a security measure for banks but excludes many asset-poor SMEs (Beck *et al.*, 2008). Credit risk perceptions further deter banks from lending to SMEs, which are viewed as unstable or prone to default due to limited financial histories (Ghosh, 2019). Additionally, the absence of adequate financial documentation makes it

difficult for SMEs to prove creditworthiness (World Bank, 2020). Collectively, these barriers restrict SMEs’ access to bank financing, underscoring the need to address institutional and informational constraints within commercial banks to foster greater financial inclusion.

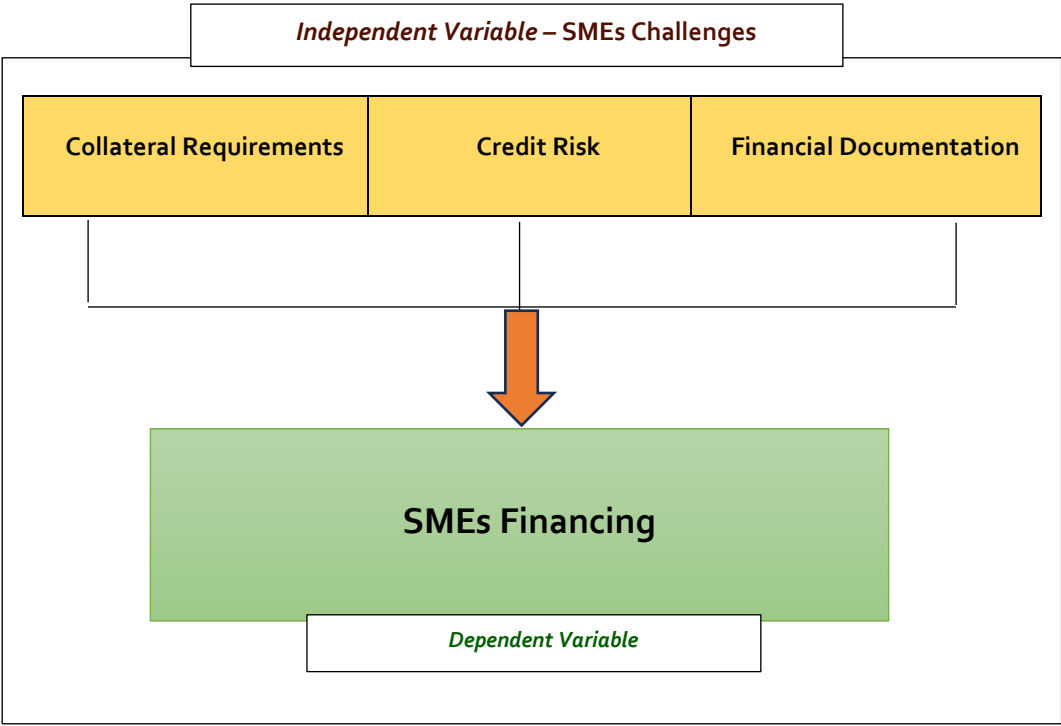


Figure 1: Conceptual Framework

Source: Author’s Compilation, 2025

Research Methodology

The study was grounded in a pragmatic research philosophy, which is oriented toward solving practical problems through a combination of both qualitative and quantitative methods. This approach is particularly well-suited for exploring the complex and multifaceted challenges faced by SMEs in Lusaka, Zambia, as it allows for the integration of numerical data with deeper contextual insights (Creswell & Creswell, 2018). Pragmatism as a research philosophy emphasizes the use of multiple methods to address research questions in a practical manner, making it a suitable choice for studying the barriers SMEs face when seeking financing. By combining qualitative interviews with quantitative surveys, the study captured both the depth of individual experiences through semi-structured interviews and the breadth of common challenges across a larger group of respondents. This methodological diversity provided a holistic understanding of the issues SMEs encounter in the banking sector and ensured that the research findings were not only statistically significant but also contextually rich.

The study involved a sample of 65 respondents drawn from 10 commercial banks located in Lusaka. This selection provided a broad representation of the banking sector, ensuring that

the perspectives and challenges identified were relevant across different banking institutions. By including both larger banks and smaller financial institutions, the study was able to offer a comprehensive view of the financing challenges that SMEs face when approaching commercial banks in the city. The use of surveys allowed the researchers to gather quantitative data, capturing patterns and trends in responses from a wide range of respondents (Mugenda & Mugenda, 2003). In contrast, the semi-structured interviews provided more qualitative insights, offering in-depth perspectives from key personnel in the banks. Together, these methods allowed for a nuanced understanding of the barriers to SMEs financing, such as high collateral requirements, perceived credit risks, and complex loan application processes, as well as potential solutions for overcoming these challenges (Creswell & Plano Clark, 2018).

To ensure reliability and validity, the survey instrument was pre-tested with a small group of respondents from non-participating banks and refined based on feedback to improve clarity and relevance (Kumar, 2011). The quantitative data was collected using stratified random sampling, which allowed for proportional representation from different categories of commercial banks, local and foreign-owned, large and small. For the qualitative interviews, purposive sampling was employed to deliberately select bank managers and credit officers (10 respondents) with direct experience in SMEs lending (Patton, 2015). Although the sample size of 65 offered rich and valuable insights, it presents a limitation in terms of statistical generalizability. As noted by (Saunders *et al*, 2019), small sample sizes in case studies can limit external validity, especially in studies focused on specific geographical contexts. Given that all data were collected from banks in Lusaka, the findings may not comprehensively reflect the financing conditions of SMEs in rural or peri-urban areas across Zambia. Nonetheless, the insights gained provide a strong foundation for understanding urban SMEs financing dynamics and may guide future research aimed at broader national representation.

To analyze the data, the researchers employed both descriptive and inferential statistical techniques, including regression analysis, which enabled them to identify relationships between various factors influencing the accessibility of bank financing for SMEs. Descriptive statistics helped summarize the key trends and patterns in the survey responses, while regression analysis allowed for deeper exploration of the potential causal relationships between factors such as collateral demands, interest rates, and the likelihood of loan approval. This approach facilitated a robust examination of the research objectives, ensuring that the findings were grounded in both empirical evidence and theoretical frameworks, while also enabling hypothesis testing and determining the statistical significance of observed relationships, thereby enhancing the study's analytical depth and reliability.

Ethical considerations played a crucial role throughout the study. Informed consent was obtained from all participants, ensuring that they understood the purpose of the research and the voluntary nature of their involvement. This was particularly important given the sensitivity of the data being collected, which involved personal experiences and

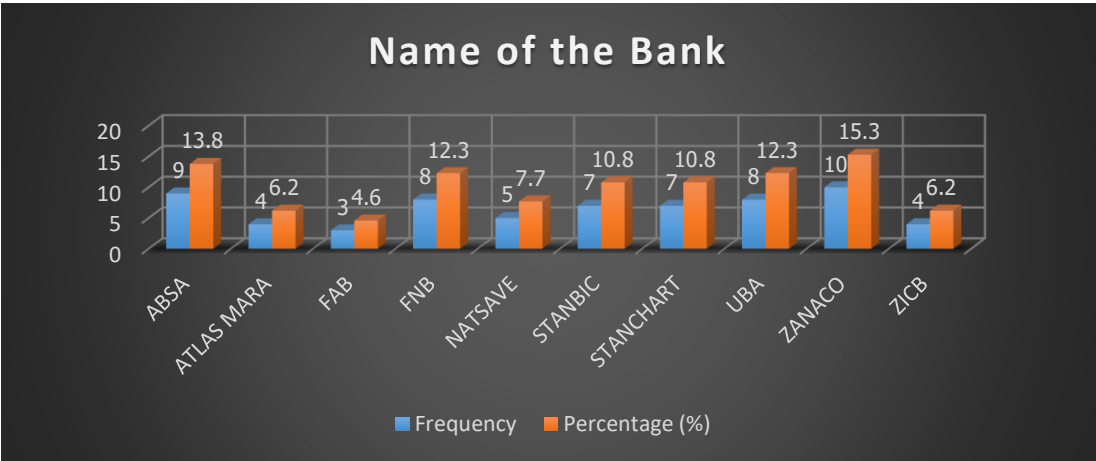
institutional insights into financial practices. The confidentiality of all participants was maintained, with careful handling of both qualitative and quantitative data to protect their identities and institutional affiliations. Furthermore, the researchers were committed to minimizing any potential biases in data collection and analysis, ensuring that the responses were treated objectively. This ethical approach helped to preserve the integrity of the study and foster trust with the respondents, ensuring that the findings reflected accurate and honest perspectives on SME financing challenges in Lusaka.

Research Results

Demographic Characteristics

Table 1 illustrates the distribution of respondents across ten commercial banks in Lusaka, providing a broad representation of the banking sector involved in SME financing. Zanaco Bank had the highest participation with 10 respondents, accounting for 15.3% of the total sample. This was followed closely by ABSA, which contributed 9 respondents (13.8%), and UBA and FNB, each with 8 respondents (12.3%). Stanbic and Standard Chartered both had 7 respondents (10.8%), reflecting a solid representation from major banks in Lusaka. NATSAVE had 5 respondents (7.7%), while Atlas Mara and ZICB had 4 respondents each (6.2%). FAB had the lowest representation with only 3 respondents (4.6%). This distribution ensures a diverse range of perspectives, representing both larger and smaller commercial banks in Lusaka, which is crucial for understanding the challenges and solutions to SME financing across different banking institutions.

Table 1: Name of the Bank



Source: Survey Data, 2025

As shown in Table 2 below, majority of respondents held senior or relevant positions directly involved in SMEs financing. Credit Managers formed the largest group, with 17 respondents (26.2%), followed by Loan Officers with 15 respondents (23.1%), and Relationship Managers with 14 respondents (21.5%). Supervisors and Private Bankers each

contributed 5 respondents (7.7%), while Accounts Officers, Credit Analysts, and Credit Monitoring Officers each had 3 respondents (4.6%).

Table 2: Respondent's Position at Work

Position	Frequency	Percentage (%)
Accounts Officer	3	4.6
Credit Analyst	3	4.6
Credit Manager	17	26.2
Credit monitoring officer	3	4.6
Loan Officer	15	23.1
Private Banker	5	7.7
Relationship Manager	14	21.5
Supervisor	5	7.7
Total	65	100.0

Source: Survey Data, 2025

The respondents' work experience varied significantly, as shown in Figure 1, indicating a diverse mix of perspectives on SMEs financing challenges. The largest group, comprising 22 respondents (33.8%), had between 1–3 years of experience, suggesting that newer employees are well-represented in the study. Following this group, 15 respondents (23.1%) had 7–10 years of experience, and 11 respondents (16.9%) had more than 10 years of experience, bringing valuable insights from seasoned professionals. Additionally, respondents with less than 1 year (8 respondents, 12.3%) and 4–6 years of experience (9 respondents, 13.8%) added further diversity. This broad range of experience levels provides a comprehensive view of the challenges faced by SMEs in Lusaka, ensuring that both new and experienced professionals contributed to the understanding of SMEs financing barriers.

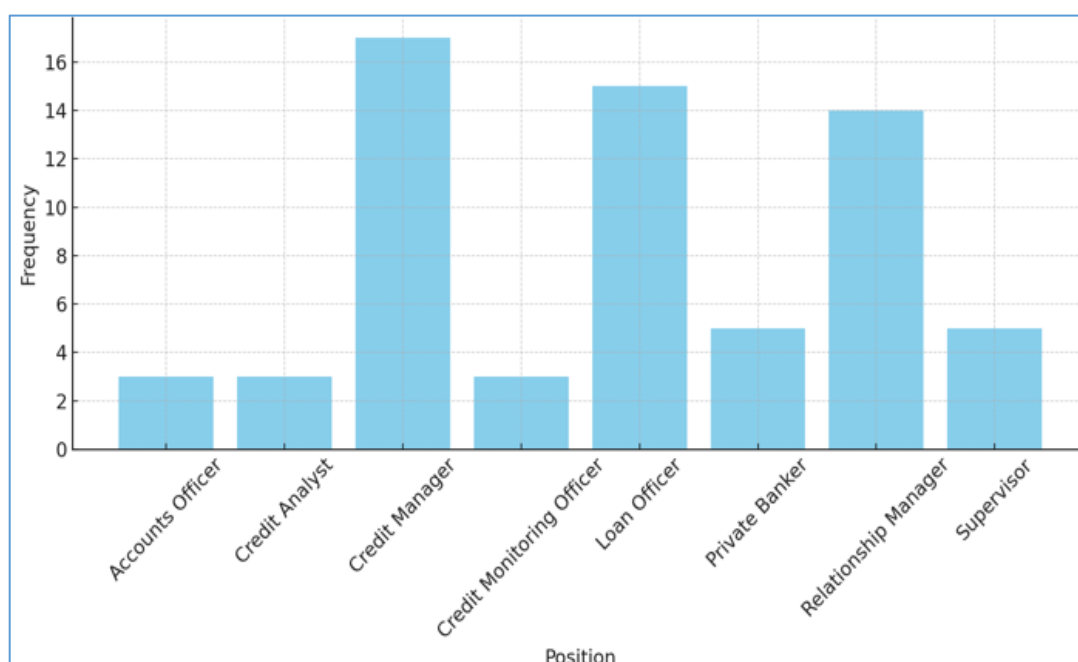


Figure 1: Distribution of Respondent number of years worked

Source: Survey Data, 2025

General Challenges in SMEs Financing

The results in Table 3 below highlights the primary challenges faced by SMEs in Lusaka when seeking financing, with high collateral requirements identified as the most significant barrier. A large majority of respondents (69.2%) rated this challenge as very significant, and 16.9% considered it significant, resulting in a high mean score of 4.42. This strong consensus indicates that collateral requirements are a major obstacle limiting SMEs access to finance. Similarly, credit risk assessment was also cited as a critical challenge, with 55.4% of respondents rating it as very significant and 38.5% as significant, yielding a mean score of 4.40. The relatively high standard deviations of 1.088 and 0.915 suggest some variation in individual responses but confirm the overall importance of collateral and credit risk as key barriers in securing loans for SMEs.

On the other hand, challenges such as the complexity of loan application procedures and high-interest rates elicited more diverse responses. The loan application process received a mean score of 3.43, indicating that while it is a challenge, it may not be as universally significant as collateral requirements. A notable portion of respondents rated the application process as neutral, suggesting that its impact varies depending on the institution or specific SMEs. High-interest rates also received a moderate rating with a mean score of 3.32, reflecting mixed perceptions of their severity. Additionally, information asymmetry, such as the lack of proper financial documentation, was widely acknowledged as a significant barrier. With 55.4% of respondents rating, it was very significant and 30.8% as significant, it garnered a mean score of 4.32, further illustrating how inadequate financial records can complicate SMEs ability to secure loans.

Table 3: General Challenges in SMEs Financing

How significant do you believe the following challenges are in financing SMEs?	Response	Frequency	Percent	Mean	Std. Dev.
High Collateral Requirements	Not Significant	3	4.6	4.42	1.088
	Slightly Significant	3	4.6		
	Neutral	3	4.6		
	Significant	11	16.9		
	Very Significant	45	69.2		
Credit Risk Assessment	Not Significant	3	4.6	4.40	0.915
	Slightly Significant	0	0.0		
	Neutral	1	1.5		
	Significant	25	38.5		
	Very Significant	36	55.4		
Complexity of Loan Application Procedures.	Not Significant	5	7.7	3.43	1.075
	Slightly Significant	4	6.2		
	Neutral	24	36.9		
	Significant	22	33.8		
	Very Significant	10	15.4		
High-Interest Rates	Not Significant	5	7.7	3.32	1.187
	Slightly Significant	9	13.8		
	Neutral	25	38.5		
	Significant	12	18.5		
	Very Significant	14	21.5		
Information Asymmetry (e.g., lack of financial records)	Not Significant	3	4.6	4.32	0.986
	Slightly Significant	0	0.0		
	Neutral	6	9.2		
	Significant	20	30.8		
	Very Significant	36	55.4		

Source: Survey Data, 2025

Likely Impact of Challenges of SMEs Financing

Table 4 below shows the results of a likely impact of challenges of SMEs Financing. The challenge of financial documentation emerged as a highly significant factor, with 26.2% of respondents rating its impact as severe and 52.3% as significant. Only 21.5% of respondents considered its effect to be moderate, and no respondents rated it as slight or no impact. This resulted in a mean score of 4.05, emphasizing the critical role that proper financial documentation plays in securing SMEs financing. The relatively low standard deviation of 0.694 further highlights a strong consensus among respondents, suggesting that financial documentation is universally regarded as a key determinant in the financing process. In contrast, the impact of loan approval processes was more mixed. While 7.7% of respondents rated the impact of loan approval procedures as severe and 29.2% as significant, a larger portion (36.9%) considered it a moderate issue, with 21.5% rating it as slight and 4.6% perceiving no impact. The mean score of 3.14 indicates that, although loan approval procedures are still seen as a challenge, they are considered less significant compared to

documentation issues. The standard deviation of 0.998 reflects a wider range of opinions, suggesting that different banks may experience varying levels of procedural efficiency in loan approval processes.

Table 4: Impact of Challenges on SMEs Financing

Please rate the extent to which the following factors influence your bank's decision to finance SMEs	Response	Frequency	Percent	Mean	Std. Dev.
High Collateral Requirements	No Impact	3	4.6	4.03	0.770
	Slight Impact	3	4.6		
	Moderate Impact	3	4.6		
	Significant Impact	11	16.9		
	Severe Impact	45	69.2		
Credit Risk Assessment	No Impact	0	0.0	4.00	1.016
	Slight Impact	10	15.4		
	Moderate Impact	3	4.6		
	Significant Impact	29	44.6		
	Severe Impact	23	35.4		
Financial Documentation	No Impact	0	0.0	4.05	0.694
	Slight Impact	0	0.0		
	Moderate Impact	14	21.5		
	Significant Impact	34	52.3		
	Severe Impact	17	26.2		
Loan Approval Processes	No Impact	3	4.6	3.14	0.998
	Slight Impact	14	21.5		
	Moderate Impact	24	36.9		
	Significant Impact	19	29.2		
	Severe Impact	5	7.7		

Source: Survey Data, 2025

The results in Table 5 highlight several proposed solutions to overcome the challenges SMEs face in securing financing. Among the most prominent solutions, simplifying loan application processes was highly recommended, with 16 responses, representing 13.4% of the total responses and cited by 24.6% of respondents. This suggests that streamlining procedures would significantly improve SMEs access to loans by reducing bureaucratic hurdles. Another frequently suggested solution was improving data sharing and reducing information asymmetry, with 15 responses (12.6%) and 23.1% of respondents identifying it as a critical measure. This reflects the need for transparent, accessible information systems that can help reduce credit risk and build trust between banks and SMEs. Additionally, lowering collateral requirements was identified by 12 respondents (10.1% of responses), with 18.5% of respondents supporting it as a way to facilitate greater financing for SMEs. Other solutions received relatively less emphasis. For instance, providing guarantees or insurance for SMEs loans garnered only 4 responses (3.4%) from 6.2% of respondents,

indicating that it is not seen as a primary solution. Developing tailored financial products for SMEs was suggested by 5 respondents (4.2%) and noted by 7.7% of respondents, reflecting a need for more customized financial services. The least cited solution was offering financial literacy training to SMEs, with only 2 responses (1.7%), indicating that while important, it is not perceived as the most immediate solution to financing challenges. Interestingly, 54.6% of responses fell under the "Other" category, suggesting that respondents may have identified additional, less conventional solutions that were not explicitly listed in the survey options. This emphasizes the variety of potential strategies for improving SMEs financing access.

Table 5: Solutions to Overcome SMEs Challenges

		Responses		Percent of Cases
		N	Percent	
Solutions to Overcome Challenges	Simplifying Loan Application Processes	16	13.4%	24.6%
	Offering Financial Literacy Training to SMEs	2	1.7%	3.1%
	Lowering Collateral Requirements	12	10.1%	18.5%
	Providing Guarantees or Insurance for SMEs Loans	4	3.4%	6.2%
	Developing Tailored Financial Products for SMEs	5	4.2%	7.7%
	Improving Data Sharing and Reducing Information Asymmetry	15	12.6%	23.1%
	Other (Please Specify)	65	54.6%	100.0%
<i>Total</i>		119	100.0%	183.1%
a. Dichotomy group tabulated at value 1.				

Source: Survey Data, 2025

Multiple Regression Model Analysis

The interpretation of the regression coefficients from Table 7 below reveals a significant and meaningful relationship between the independent variables Likely Impact of Challenges on SME Financing (COSF) and General Challenges SMEs Face (GCSF) and the dependent variable, Solutions to Overcome SME Challenges (STOC). The positive unstandardized coefficient for COSF ($B = 0.902$) and the standardized Beta value of 0.525 suggest that as the perceived severity of financing challenges increases, SMEs are more likely to engage in solution-seeking behaviors. This could manifest in the form of advocacy for policy reforms, seeking alternative financing mechanisms such as microfinance or venture capital, and investing in financial literacy. The statistically significant p-value ($p < 0.05$) confirms that this relationship is not due to chance, thus reinforcing the conclusion that targeted challenges in financing spur proactive measures from both SMEs and financial institutions.

In contrast, the negative coefficients observed for GCSF ($B = -0.469$, Beta = -0.338) highlight a different dynamic. These results suggest that the more SMEs are burdened with generalized business challenges such as poor infrastructure, regulatory complexities, or lack of skilled labor the less likely they are to focus on implementing financing solutions.

This inverse relationship implies that when SMEs are overwhelmed by systemic or structural constraints, their capacity to prioritize and address financing issues is diminished. It is possible that these broader challenges consume critical managerial time, financial resources, and attention, reducing the bandwidth needed to identify and pursue financing alternatives. This insight is particularly important for policymakers, as it emphasizes the need to address cross-cutting operational barriers alongside financial ones to empower SMEs comprehensively.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		Durbin-Watson			
1	0.420 ^a	0.176	0.150		0.779		1.848		
Model		Sum of Squares		df	Mean Square	F	Sig.		
	Regression	8.043		2	4.022	6.634	0.002 ^b		
	Residual	37.583		62	0.606				
	Total	45.626		64					
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta				Tolerance	VIF
	(Constant)	2.063	0.779			2.646	0.010		
	COSF	0.902	0.248	0.525		3.638	0.001	0.637	1.569
	GCSF	-0.469	0.200	-0.338		-2.340	0.023	0.637	1.569
a. Dependent Variable: STOC									
b. Predictors: (Constant), GCSF, COSF									

Source: Survey Data, 2025

Qualitative Analysis

The study identified several key challenges faced by commercial banks in Lusaka when financing SMEs. One major barrier was high collateral requirements, which were consistently highlighted by respondents. This theme, *"High Collateral Requirements,"* emerged as the most significant obstacle to SMEs financing, with many banks emphasizing that loans cannot be approved without sufficient collateral. *"Collateral is a major requirement. Without it, it's nearly impossible to approve an SMEs loan."* – Credit Manager, Zanaco Bank. Another critical challenge was the lack of reliable financial documentation, which contributed to the theme *"Credit Risk and Information Asymmetry."* Banks perceive SMEs as high-risk borrowers due to the absence of proper financial records. *"Without proper financial records, we can't trust that the business can repay its loan."* – Loan Officer, ABSA. Additionally, the complexity of loan applications and high-interest rates were mentioned, forming the themes *"Complexity of Loan Application,"* and *"High-Interest Rates."* While these challenges were not as significant as collateral and documentation issues, they still affect SMEs access to financing.

The impact of these challenges is profound, particularly regarding the theme *"Financial Exclusion."* Many SMEs are financially excluded due to their inability to meet collateral demands and provide the required financial documentation. Respondents acknowledged that SMEs without adequate collateral often struggle to secure loans. *"For many of our clients, the lack of collateral means they cannot access the funds they need."* – Credit Analyst, Stanbic. Smaller and newer businesses are particularly disadvantaged, as the theme *"Risk Perception in Newer SMEs"* emerged, where banks prefer lending to established businesses with proven track records. *"Banks prefer businesses with established histories. Newer businesses are at a disadvantage."* – Supervisor, StanChart. Additionally, high-interest rates further exacerbate this issue, making it difficult for SMEs to afford loans, thus limiting their potential for growth.

In response to these challenges, respondents proposed practical solutions, which were categorized into several themes, such as *"Simplified Loan Application Processes," "Reducing Collateral Requirements,"* and *"Improving Financial Literacy."* They suggested simplifying loan application processes and reducing collateral demands, which could increase SMEs' access to financing. *"If we could simplify the loan application process, SMEs would find it easier to apply and be approved."* – Credit Manager, Zanaco. Additionally, respondents recommended the introduction of loan guarantees or lower collateral requirements and emphasized the importance of *"Financial Education"* for SMEs. *"Offering financial literacy training would help them understand what's needed to secure financing."* – Loan Officer, Stanbic. These solutions reflect the need for streamlined processes, improved data sharing, and increased financial transparency, which could significantly enhance SMEs access to finance in Lusaka.

Discussion of Results

The results of this study provide valuable insights into the key challenges that commercial banks in Lusaka face when financing SMEs. The findings align closely with global literature that highlights high collateral requirements as a significant barrier to SME financing. According to (Mirović et al, 2019), collateral remains a major obstacle for SMEs worldwide, and in Lusaka, 69.2% of respondents identified it as the most significant challenge, reflecting the global trend where SMEs often cannot meet collateral demands, which limits their access to financing. This finding is echoed by (Fatoki, 2021), who also identified collateral as a major constraint in accessing finance for SMEs. The theme of *"High Collateral Requirements"* resonates strongly with the responses from Lusaka, where commercial bank representatives pointed out that without adequate collateral, loans are rarely approved, confirming the consistency with global studies. As one Credit Manager noted, *"Collateral is a major requirement. Without it, it's nearly impossible to approve an SME loan."* This highlights the broader issue that SMEs, particularly those with limited assets or formal financial records, face significant challenges when trying to secure funding.

Credit risk assessment, another challenge highlighted in this study, is consistent with (Stiglitz and Weiss's, 1981) information asymmetry theory, which suggests that banks view

SMEs as high-risk borrowers due to insufficient reliable financial data. In Lusaka, 55.4% of respondents identified credit risk assessment as a significant challenge, aligning with the findings of (Aterido et al, 2013), who emphasized the importance of formal financial records in improving the creditworthiness of SMEs. The theme *"Credit Risk and Information Asymmetry"* reflects a lack of trust in the financial stability of SMEs due to incomplete or missing financial documentation, a problem that impedes the flow of credit to these businesses. Respondents frequently noted the difficulty of assessing risk without adequate financial records. As one Loan Officer stated, *"Without proper financial records, we can't trust that the business can repay its loan. The risk of default is too high."* This aligns with (Berger and Udell's, 2006) assertion that transparent financial documentation is essential for bridging the financing gap for SMEs, underscoring the importance of improved financial literacy and record-keeping within the SME sector.

In response to these challenges, the study proposed several solutions that are in line with the best global practices, such as simplifying loan application processes, reducing collateral requirements, and improving data sharing between banks and SMEs. These solutions align with the findings of the International Finance Corporation, (2020), which highlighted that access to digital financial services could help overcome barriers in SMEs financing. The proposed theme *"Simplifying Loan Application Processes"* resonates with the suggestion that streamlining application procedures would make it easier for SMEs to apply for loans. As one Credit Manager mentioned, *"If we could simplify the loan application process, SMEs would find it easier to apply and be approved."* Additionally, respondents emphasized the need for reducing collateral requirements and improving data sharing. These practical solutions align with the (World Bank's, 2018) recommendations for flexible, inclusive financial products that accommodate the unique needs of SMEs.

The findings from Lusaka suggest that these measures could improve access to finance for SMEs, fostering a more inclusive financial system that supports the growth and sustainability of SMEs in Zambia. The findings, therefore, underscore the need for reforms that simplify lending processes, increase transparency, and reduce reliance on traditional collateral, enabling SMEs to thrive within the Zambian economy. By adopting solutions that streamline loan procedures, improve financial literacy, and create more accessible financing options, both banks and SMEs can work together to overcome the barriers that currently limit SMEs growth and expansion in Lusaka. These solutions are crucial in fostering a more inclusive financial system that will ultimately contribute to the economic development of Zambia.

Conclusion and Recommendations

This study aimed at exploring challenges faced by commercial banks in Lusaka when financing SMEs, assessing the likely impact of these challenges on SMEs access to finance, and propose practical solutions to overcome these barriers. The findings indicate that the most significant challenges for SMEs in Lusaka are high collateral requirements, credit risk

assessments due to inadequate financial documentation, and complex loan application processes. These challenges align with global literature, which highlights collateral and information asymmetry as persistent obstacles for SMEs seeking finance. As a result, SMEs, particularly those that are smaller or newer, face significant difficulties in accessing loans, limiting their ability to grow and contribute to the economy. The study also revealed that banks' perceptions of SMEs as high-risk borrowers, due to poor financial records and lack of collateral, further exacerbate this issue.

The analysis of the likely impact of these challenges shows that many SMEs are excluded from the formal financial system, deepening their financial exclusion. High collateral requirements and poor documentation hinder their access to finance, leading to a vicious cycle where SMEs are unable to grow due to a lack of funding, and without growth, they cannot meet the stringent financial criteria set by banks. Despite these challenges, the study identified several practical solutions, such as simplifying loan application processes, reducing collateral requirements, and improving data sharing between banks and SMEs. These solutions align with best practices in global financial inclusion and have the potential to significantly improve access to finance for SMEs in Lusaka, fostering an environment that supports their growth and sustainability.

Recommendations

Based on the findings and discussions, and with reference to the finding on Table 5, the following recommendations are proposed to address the financial challenges faced by SMEs:

- i. *Simplify Loan Application Processes*: Banks should streamline application procedures by reducing documentation and making forms more user-friendly to accommodate SMEs with limited financial knowledge.
- ii. *Improve Data Sharing and Collaboration*: Banks and SMEs should collaborate by sharing financial information to improve credit assessments and foster a trust-based relationship, reducing information asymmetry.
- iii. *Reduce Collateral Requirements*: Financial institutions should explore alternative collateral options or offer government-backed guarantees to lessen the burden on SMEs while maintaining security for banks.
- iv. *Enhance Financial Documentation and Transparency*: SMEs should be encouraged to maintain accurate financial records, and banks could provide financial literacy training to improve transparency and reduce perceived credit risk.
- v. *Promote Digital and Alternative Financing Solutions*: Banks should adopt digital financial services and fintech solutions to provide flexible, cost-effective financing options that meet the needs of SMEs.

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