

Investigating Factors Limiting Access to Finances for Micro, Small and Medium-Sized Enterprises (MSMEs). A Case Study of Chibombo District in Zambia

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Abstract

Micro-Small-Medium- Enterprises (MSMEs) in Zambia contribute significantly to the socio-economy of the country, contributing to over 70 percent of Gross Domestic Product (GDP), 88 percent of employment, and 97 percent of business. According to the Bank of Zambia, three out of five business fail within months of operation and other remain stagnant for a long period of time without any significant growth. One of the causes of failure of MSMEs has be attribute to lack of finance. Several reports have indicated lack of access to finance such as credit facilities from lending institutions has led to most of the failures. The study aimed at establishing the reasons for lack of access to credit facilities with objectives of understanding accessibility to credit facility for MSMEs in Chibombo district, specific reasons for failure to access credit facilities by MSMEs in Chibombo district and also establishing solutions to failure to accessibility of loans in Chibombo district. The study involved a mixed method approach, Qualitative and Quantitative approach, with a sample size of 30 respondents from major MSMEs categories across Chibombo district, who were interviewed in line with research objectives. A thematic approach was used to analyze qualitative and percentages of respondents who had access to credit facilities was computed for qualitative data. The results indicated that 20 percent (6/30) of the sampled MSMEs had access to finance through loan from a Microfinance. A significantly low percentage. The results also indicated collateral requirements, high interest rates, lack of aware and politicization of government schemes as barriers to credit facilities accessibility.

Keywords: *Collateral, Credit, Enterprises, Interest, MSMEs.*

Introduction

Chibombo District is a peri urban area sharing boundaries with Zambia's capital city, Lusaka to the south, Kabwe to the north, Chongwe and Chisamba to the east, Mumbwa and Shibuyunji to the west, Kapiri-Mposhi and Ngabwe to the northwest, and Mkushi Districts to the north. The main economic activity in Chibombo district is agriculture; with farmers mainly grow maize, cotton and wheat and a few other vegetables [13]. There are several

business activities in the district that support this agriculture sector; this includes agricultural businesses, farming inputs suppliers, and other enterprises such as Poultry.

According to [2], Micro, Small and Medium Enterprises (MSMEs) are vital economic agents that contribute to poverty reduction and the improved economic wellbeing of individuals as well as households through employment and wealth creation. MSMEs are classified according to the turnover threshold, the table 1 below illustrates the classification.

Table 1. Enterprise Classification

Enterprise	Annual Turnover	No. of Employees
Micro	K1 - K800,000	0 - 10
Small	> K800,000 ≤ K5,000,000	> 10 ≤ 50
Medium	> K5,000,000 ≤ K10,000,000	> 50 ≤ 100

Source: Bank of Zambia - BOZ

The MSMEs account for 97 percent of all businesses contributing 70 percent to GDP growth and 88 percent to employment creation in Zambia [11].

Despite this huge contribution to the Zambian economy, MSMEs significant challenges when trying to access finance, primarily due to stringent lending requirements from banks, including a lack of collateral, high interest rates [4]. Other factors are complex application processes, limited financial literacy, and the perception of SMEs as high-risk borrowers, often forcing them to rely on personal funds or informal financing options instead of traditional loans.

According to [2], statistics indicate that three out of five Micro, Small and Medium scale Entreprises fail within the first few months of operation. This equally applies to Chibombo district, most MSMEs do not last for over five years, and those that last, are usually stagnant

According to [2], The most prominent barrier to growth of MSMEs in Zambia is the limited access to finance on account of

structural constraints such as high collateral requirements, high levels of informality and inadequate tailor-made credit products.

In its report the BOZ further states other barriers as the low levels of financial literacy, inadequate management and record keeping skills, as well as lack of information among MSMEs on where to source finance and lack of awareness about alternative sources of funding such as, venture capital, private equity, crowd funding and capital markets.

According to [4], most MSMEs have low start-up capital ranging ZMW 10,000 – ZMW 2 0,000 (USD 357 – USD 714), which leads to demand for further financing as they expand and explore innovation within their businesses.

According to the [2] Survey; the main source of loans for MSMEs was from micro-finance institutions (36 percent) followed by commercial banks (17.8 percent). Less than one percent of MSMEs accessed loans from Government schemes. The table 2 below show the main sources of finance for MSMEs in Zambia according to the BoZ report.

Table 2. Sources of Finance as per above Survey

Source	Percentage (%)
Micro-Finance	36.0
Money Lender	17.8
Cooperative	13.0
Bank	12.3
Other	8.0
Family/Friends	7.0
Village bank/saving group	3.9
NGO	1.3
Government scheme	0.7

Source: BoZ, 2022 Survey

Scope of Study

There are two types of possible factors that are barrier to access to credit facilities. There are demand-side factors; factors beyond the control of the borrower, and the supply-side factors, factors within the control of the borrowers. The study focused on the demand-side barrier to access to credit facilities; factors that are beyond the control of the prospective borrower or external to the business of the prospective borrower in Chibombo district of Central province, Zambia.

Significance of Study

MSMEs contribute to the growth of an economy through employment, tax contribution, foreign exchange earning through product and service export, Gross Domestic Product (GDP) and social well being of the citizenry. One of the barriers to growth of the MSMEs in Zambia is lack of access to finance which has been attributed to stagnation and failure of most MSMEs, hence depriving the nation of the full capacity contribution on the MSMEs to national development. The study highlights challenges that MSMEs face when financing their businesses and also recommend solution to these barriers. There has been a gap of literature with regards to the topic in Chibombo district and therefore the study adds to the body of knowledge with respect to the district. The findings of the study can be extrapolated to other districts in Zambia.

The study will aim at establishing the specific barriers to financial access that affect MSMEs in Chibombo district.

Study Aim

To establish barriers to financial access to loans and other credit facilities that affect MSMEs in Chibombo District.

Study Objectives

1. To establish accessibility to credit facilities in Chibombo district.
2. To establish reasons for failure to access credit facilities
3. To establish solutions to barriers to access credit facilities

Materials and Methods

The study was done in Chibombo district and basically employed a mixed method approach using both qualitative and quantitative data. The qualitative data was collected to establishes the barriers and solutions; whereas quantitative data was collected to establish the percentage of MSMEs that had financial access to loans and other credit facilities.

Data was collected from primary and secondary sources. Primary data was collected from businesses from various categories. Interviews were conducted for the sampled businesses. Secondary data was collected from Local and Central government websites, and also from quasi government institutions such as the Bank of Zambia and Zambia Statistical Agency.

For both qualitative and quantitative, non-probabilistic sampling will be used; implying that respondents will be picked without a predefined system. Samples were evenly picked from the from the major categories of MSMEs in across Chibombo district. See the table 3 below on proposed sample sizes.

Table 3. Sample Sizes

Business Type	Sample Size
Agricultural	10
Farming Input	5

Retailers	10
Construction	5
Total	30

Source: Author – personal compilation

Results

The aim of the study was to establish barriers to financial access to loans and other credit facilities that affect MSMEs in Chibombo District. The results are presented according to the study objectives. The results in this chapter have been presented in accordance with the objectives outlined in chapter one. The results are based on information collected through interview of the members of MSMEs in Chibombo district.

MSMEs Accessibility to Credit Facilities

The study through interviews of MSMEs established that only 20 percent (6/30) had access to finance through loan from a Microfinance 3.33 Percent (1/30), 6.66 percent (2/30) from Family and Friends and 10 percent (3/30) from Government schemes such as the Constituency Development Funds (CDF). The sources of credit facilities for Chibombo district are outline in the table 4 below.

Table 4. Sources of Finance as per Results Analysed

Source	No. Respondents out of 30	Percentage
Micro-Finance	1	3.33%
Cooperative	0	0%
Bank	0	0%
Family/Friends	2	6.66%
Village bank/saving group	0	0%
NGO	0	0%
Government scheme	3	10.00%

Source: Author's compilation

Failure to Access Credit Facilities

The study through the responses from the sampled MSMEs performed a thematic analysis for reasons for failure to access credit facilities. The study indicated that 83 percent (25/30) of respondents stated that high collateral requirement was a barrier to access credit facilities from lending institution. The

study further indicated that 50 percent (15/30) of respondents stated that high interest rates were a barrier to access to credit facilities. 66.6 percent (20/30) stated that the available government scheme was highly politicized, hence facility only being available to individuals that a members of the ruling party. The thematic table 5 is shown below.

Table 5. Reason for failure to Access

Reason	No. Respondents out of 30	Percentage
High collateral requirements	25	83%
High interest rates	15	50%
Politicized government credit facilities	20	66.6%

Source: Author's compilation

Solutions to Barriers to Access Credit Facilities

The study through the interviews with respondents enquired on perceived solutions to the barriers to access to loans and credit facilities. 66.6 percent (20/30) of respondents suggested the introduction of collateral free

loans, 33.3 percent (10/30) suggested introduction of low interest financing and 66.6 percent suggested Depoliticizing of government scheme credit facilities,

The proposed solutions were analyzed thematically. The thematic table for proposed solutions is shown in the table 6 below.

Table 6. Proposed Solutions

Solution	No. Respondents out of 30	Percentage
Introduction of collateral free financing.	20	66.6%
Introduction of low interest rate financing	10	33.3%
Depoliticizing of Government Credit facilities	20	66.6%

Source: Author's Data analysis compilation

Discussion

The results of the study as discussed in the preceding were in response to the study objectives outlined in chapter 1 of this study.

MSMEs Accessibility to Credit Facilities

The study through interviews of MSMEs established that only 20 percent (6/30) had access to credit facilities. This is a significantly low figure owing to the fact that MSMEs contribute significantly to the socio-economical status of the nation. This implies that 80 percent of MSMEs are deprived of the much-needed resources to grow their businesses and positively contribute to the growth of the nation.

Among several sources of credit finance, only 3 sources offered finance to the sampled MSMEs; these were Microfinance 3.33 Percent (1/30), 6.66 percent (2/30) from Family and Friends and 10 percent (3/30) from Government schemes such as the Constituency Development Funds (CDF). None of the banks offered credit facilities to the Sampled MSMEs. This is highly questionable as banks are supposed to be leaders in providing credit facilities to MSMEs. The leading lending institution is the government scheme through revolving funds from CDF; however, this is not a reliable source of finance for MSMEs as

government policy may change and the fund may not be available in future. According to the respondents who had access to CDF, and the authors review of the CDF loan terms; CDF was the most accessible because its conditions were manageable by borrowers, more especially that it required no collateral, favourable payment terms and interest charge was as low as 5 percent.

The findings in study indicate that the major source of finance in Chibombo district is through government scheme, contrary to the finding by BoZ, which had Micro-Finance (36%). The difference could be attributed to the scope. The BoZ covered the entire nation, including both urban and rural areas, whereas this study covered Chibombo, which is mostly rural. Urban areas are likely to present different results compared to rural setup, in case of operation and financing of MSMEs. According to [3], A Study of the Factors that Affect Agribusiness Financing in Zambia: A Case Study of Smallholder Farmers in Chibombo District) proximity to financial institution also plays a key role in accessing credit facilities, and most lending institutions are in urban areas. Therefore, the results from this study can only be extrapolated to districts that are mostly rural.

Reasons for Failure to Access Credit Facilities

High Collateral Requirements

The study indicated that 83 percent (25/30) of respondents stated that high collateral requirement was a barrier to access credit facilities from lending institution. This is consistent with the study by F. Zulu (2024) (Factors Affecting Access to Finance for Small and Medium Scale Enterprises (SMEs) in Zambia – A Case Study of Chilanga District's Central Business District (CBD)) whose findings were that collateral is the single most impeding factor going by the 93% of SME respondents who affirmed. [4], (A Study of the Factors Affecting Small and Medium Enterprises (SMEs) Access to Finance. A Case of Lusaka Based SMEs) also found that main reason of failure to access credit facilities was lack of collateral, 52.9 percent of respondents affirmed to that, and a correlation analysis that was performed in the same study, indicated a positive coefficient between reason for failure to access credit and lack of collateral of 0.727, indicating a very strong relationship between the two variables.

As a culture of lending institutions usually request for collateral from the borrower as a guarantee for repayment and usually the collateral is in immovable asset for such as property title deeds. In Chibombo district, most of the land is customary (under traditional leadership), hence most business having no title deeds or any formal document to present to lending institutions as collateral. The few with title deeds were not interested in offering their property as collateral for fear of losing their property to lending institutions. There is belief among residents in Chibombo that once the lending institution has your titles, you will definitely fail to repay the loan and end up losing your property. There is also a perception that the value of the property they are requested to submit as collateral is way to high compared

to the loan amount they are offered by the lending institution.

High Interest Rates

The study indicated that 50 percent (15/30) of respondents stated that high interest rates were a barrier to access to credit facilities. This is consistent with [11], (An Investigation on the Factors Influencing the Growth of small and Medium Enterprises a case Study of Kabwata Constituency, Lusaka District (2014-2018)), where 42 percent of respondent stated that high interest rates were a barrier to access to finance. According to BoZ, the average lending rates from commercial banks was 28.34 per annum, and according to Small businesses report an average profit margin of 40%, while medium businesses report an average profit margin of 36%. [17]. This profit is before tax, and tax charge for medium business is 30 percent of the profit and for small business is 5 percent of the revenue, leaving the business with a loss or just break-even if an interest of 28 percent is to be charged. This has discouraged many borrowers from accessing credit facilities. Further, the BoZ base lending rate has been volatile in 2024; increasing every quarter of the year. This has made it difficult for the borrowers to plan for borrowing and repayment of the loans.

Politicized Government Scheme

CDF is the most accessible credit facility in chibombo district; out of the 30 sampled respondents, 6 had access to credit facilities and 3 of the 6 (50 Percent) had access to CDF. However, respondent stated that this government scheme was highly politicized and members of the ruling political party. Respondent further stated that some beneficiaries to this government scheme allocated to Chibombo district were not residents of the district. Some respondent stated that they were not aware of the availability of such a credit facility from CDF. CDF credit facility attracts a very low interest rate of 5 percent, compared with other lending

institutions that are charging an average of 30 percent per annum.

Solutions to Barriers

Introduction of Collateral Free Financing

The barriers to credit facilities has been a problem for rural areas for decades now. 66.6 percent (20/30) of respondents proposed introduction of collateral free credit facilities. Collateral-free financing, is unsecured financing, that doesn't require the borrower to pledge assets as security but lenders evaluate the borrower's creditworthiness and other factors to determine eligibility. MSMEs are considered high risk businesses, by lenders without individually analyzing each lender. This holistic approach typically deprives MSMEs with the capacity to repay the credit, the resources for growth and expansion.

As a solution to the collateral barrier, the government established and operationalized the Zambia Credit Guarantee Scheme in 2017 aimed at providing partial credit guarantees to enable viable MSMEs with inadequate collateral have increased access to affordable financing. Zambia Credit Guarantee Scheme (ZCGS) is a limited company that was incorporated on 13th September 2017 under the Company's Act Cap 388 and is wholly owned by the Government of the republic of Zambia through the Ministry of Finance. The company acts as a guarantor for MSMEs wishing to access credit facilities from lending institutions. However, most all respondents were not aware about the existence of such a government institution, implying that the institution has not reached out to the MSMEs.

Introduction of Low Interest Rate Financing

33.3 percent (10/30) of respondents suggested introduction of low interest financing. Interest rate in Zambia are considered vary high, with an average rate of 30 percent per annum. High cost of credit definitely hinders the growth of MSMEs as

their profit margins are as well low. However, according to [7], Low rates may pressure lending institutions to reduce costs, increase loan sizes, withdraw services from areas where it is expensive to operate, or exit from the market altogether; therefore, should be set at rates that cover operational cost of lending institutions. The lowest interest rates are from the government schemes such as CDF with interest of 5 percent per annum and Citizen's Economic Empowerment Commission (CEEC) with rate of 12 percent per annum. However, most respondents were not aware of such credit facilities.

Depoliticizing Government Scheme

CDF accounted for 50 percent (3/6) of the respondents who had access to credit facilities, and this would have been higher owing to the fact that interest rate was very low. However, some respondents stated CDF was highly politicized hence not interested in applying for the loan.

Conclusion

MSMEs contribute significantly to the socio-economy of Zambia and need to be promoted by basically resolving their challenges. Among their many challenges, is lack of access to credit facilities that is much needed for enhancing growth and expansion. Among many reasons for failure to access credit facilities the common ones are lack of collateral by the borrower, high interest rates and politicized government that have been established as reasons for failure to access credit facilities by MSMEs in Chibombo district. It is critical that the identified challenges are addressed. Further, there is need for sensitizing the MSMEs on the availability of low interest rate credit facilities through government schemes and other form of financing that do not attract interest such as equity financing.

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