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**INVESTIGATING CONSTRAINTS FACING SMES IN PRIVATE
HEALTHCARE SECTOR IN ACCESSING FINANCE FROM
BANKS IN LUSAKA, ZAMBIA.**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF
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BUSINESS ADMINISTRATION IN FINANCE.**

BY

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The Declaration Page

I hereby declare that this dissertation is my original work and conforms to copyright, academic writing rules, and the University of Lusaka's research ethics.

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Dedication Page

This work is dedicated to my family, friends, and mentors, whose unwavering support has made this journey possible.

To my dear mother, Edna Matondo, your unconditional belief in my abilities has been my greatest motivation. Your love, encouragement, and support have been the foundation of my perseverance—thank you for always being my pillar of strength.

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List of Acronyms/Abbreviations

- SMEs: Small and Medium Enterprises
- HPCZ: Health Professions Council of Zambia
- BOZ: Bank of Zambia
- SPSS: Software Package for Social Sciences

Abstract

The study was to investigate the constraints faced by small and medium-sized enterprises (SMEs) in the private healthcare sector of Lusaka, Zambia. Recognizing the pivotal role that private healthcare sector SMEs play in providing essential services and enhancing community health outcomes, the research delved into both demand side and supply side challenges that hinder them from accessing finance. Online questionnaire was used to collect data from SMEs in the private healthcare sector and semi structured interviews for the banks. Utilizing a mixed-methods approach, a total of 304 responses from private healthcare SMEs and 13 responses from the bank officials managing SME portfolios as well as Credit Risk Managers. This helped in gathering comprehensive data. Thematic analysis was used to analyse supply side data, while Software Package for Social Sciences (SPSS) was used to run regression analysis of demand side data. The findings indicated that Financial Literacy, Business Plan, Financial Statements, Loan Conditions when considered in light of economic conditions are significant factors affecting access to Finance for SME in the private healthcare sector.

These barriers contribute to an environment where private healthcare SMEs often hesitate to seek formal financing, opting for less reliable alternatives instead. At the same time, supply side factors included risk perceptions, lack of sector training programs, bundling of the sector with others and conservative lending practices by financial institutions. These challenges limit the availability of tailored financial products that meet the specific needs of healthcare SMEs.

In light of these findings, the study underlines the urgent need for policy reforms aimed at fostering a more inclusive financial ecosystem. Recommendations include enhancing financial literacy among SME's, promoting customised financial solutions in banks, and encouraging greater engagement between financial institutions and private healthcare stakeholders.

By addressing these constraints, the findings aim to enhance the ability of private healthcare SMEs to access necessary funding, ultimately contributing to improved healthcare service delivery and outcomes in Zambia.

1 Introduction

1.1 Background

Small and medium enterprises (SMEs) play a significant role in the economic development sector worldwide. In emerging markets, SMEs represent over 90% of all businesses with a global workforce representation of approximately 50%. According to Algan N 2019, formal SMEs give up to 60% of total employment and up to 40% of GDP in emerging economies and these numbers are much higher when informal SMEs are added. In Zambia, SMEs account for 97% of all firms, 88.7% of jobs, and 70% of GDP (Chilembo, 2021; The International Trade Centre, 2017). Their contributions encompass more than just economic benchmarks, they are essential for driving innovation, generating employment, and advancing overall socio-economic development.

In Lusaka, Zambia, small and medium-sized enterprises in the private healthcare sector provide essential healthcare services, effectively addressing significant deficiencies in the public healthcare system. Private healthcare SMEs address the inadequacies of public health institutions, particularly in underserved regions, thereby facilitating access to essential medical services and enhancing community health indicators. These businesses offer a wide range of medical services and significantly contribute to community health outcomes, improve healthcare delivery quality, and generate employment opportunities.

Regardless of the private healthcare SMEs' critical role, access to finance poses as a significant obstacle to the growth and sustainability of the SMEs. Financial institutions frequently categorise these businesses as high risk borrowers because of the unstable characteristics of the healthcare sector, regulatory complications, and the perceived absence of dependable financial records. These perceptions lead to cautious lending practices, with banks implementing strict requirements that are frequently unattainable for numerous SMEs. These financing challenges restrict private healthcare SMEs from investing in essential resources, including modern medical equipment, skilled personnel, and necessary infrastructure improvements.

This study examined the constraints encountered by SMEs in the private healthcare sector in Lusaka with regards to accessing financial resources from banks. The research was motivated by among many other factors, the significant absence of sector specific studies focused on SMEs, especially in the private healthcare sector. The sector is overlooked in current literature despite its significant contribution to national development and economic growth. Preliminary research through stakeholder interactions revealed a significant lack of motivation among financial institutions for developing customised financing solutions specific to the healthcare sector. Unlike in the case of the agricultural and technological sectors, which have access to tailored financial products, private healthcare SMEs lack suitable financial instruments to facilitate their operations.

The variation in financing options among sectors exacerbated the need for research that addresses the particular challenges faced by private healthcare SMEs in obtaining financing. Therefore, this study analysed barriers encountered by the SMEs in order to provide insights that may bridge gaps in academic literature, policy decisions and practical financial services, thus fostering a supportive environment for the growth and sustainability of healthcare SMEs in Zambia.

1.2 Definition of Key Terms and Concepts

- SMEs (Small and Medium Enterprises): Businesses that fall within a specific size range in terms of employees, revenue, or assets, often characterized by their limited resources compared to large corporations (Etuk, G. R., & Michael, B. 2014).
- Private Healthcare Sector: The segment of the healthcare industry that is owned and operated by private entities, as opposed to being government-funded or managed (Kumar, S. 2015).
- Access to Finance: The ability of businesses to obtain financial resources, such as loans or credit, from financial institutions to fund their operations or growth (Karlan, D., & Morduch, J. 2010).
- Constraints: The challenges, barriers, or limitations that hinder SMEs in the healthcare sector from accessing finance (Hashi, I. 2001).

- Banks: Financial institutions that offer a range of services, including loans, credit, and other financial products, which are critical to the financing needs of SMEs (Song, H., Yu, K., & Lu, Q. 2018)
- Lusaka, Zambia: Capital city of Zambia, the geographical location where the study is focused, and the context in which the research is conducted.
- Demand-Side Constraints: Challenges faced by SMEs themselves, such as lack of financial literacy, poor credit history, high interest rates or insufficient collateral, which affect their ability to access finance (Wajebo, T. W. 2022).
- Supply-Side Constraints: Challenges faced by banks and financial institutions, such as risk assessment, regulatory requirements, and policies, which affect their willingness or ability to provide finance to SMEs (Ekpu, V. U., 2016).
- Financial Literacy: The knowledge and understanding of financial concepts and practices that enable SME owners to make informed financial decisions (Eniola, A. A., & Entebang, H. 2016).
- Collateral Requirements: The assets or guarantees that banks require from SMEs as security before extending a loan (Rahman, A., Rahman, M. T., & Ključnikov, A. 2016).
- Interest Rates: The cost of borrowing money, which can be a significant factor influencing SMEs' ability to access finance (Osano, H. M., & Languitone, H. 2016).
- Documentation Requirements: The paperwork and formalities that SMEs must complete to qualify for a loan, which can be a barrier to accessing finance (Munro, D. 2013)
- Strategic Recommendations: Proposed solutions or actions that aim to improve the access to finance for SMEs in the healthcare sector (Horgan, D., van Kranen, H. J., & Morr , S. A. 2019).

1.3 Statement of the Problem

Small and Medium Enterprises (SMEs) are continuously contributing significantly to the economic development such as job creation and economic growth (Chalwe, 2020). SMEs in the private healthcare sector of Lusaka,

Zambia, play a critical role in delivering essential health services, complementing public healthcare facilities, and supporting the local economy. Despite their importance, these SMEs face many obstacles in accessing financial resources from banks, which restrains their growth, hinders sustainability, and limits their capacity to enhance healthcare service delivery.

The challenges faced by these SMEs come from both demand-side and supply-side factors. On the demand side, high interest rates, strict collateral requirements, complicated documentation processes, absence of financial statements, limited operational history, lack of prepared business plans and low levels of financial literacy among SMEs. All these factors impede their ability to secure financing. Singh et al. (2021) highlights how demand-side barriers, including insufficient collateral and gaps in financial literacy, interact with supply-side constraints like risk perceptions, lending policies and regulatory hurdles, creating a challenging financing environment for private healthcare SMEs. These factors lead banks to be extra careful when dealing with the loan applications from private healthcare SMEs as their creditworthiness and capacity to fulfil the eligibility criteria would have diminished.

Looking at the supply side, financial institutions most often classify healthcare SMEs as high risk borrowers due to the sensitivity nature of the industry and its regulatory complexities. Furthermore, as noted by Kauffmann (2005), banks often perceive these SMEs as high risk due to insufficient reliable financial documentation and collateral. This forces banks to impose strict lending requirements that include high collateral demands, sector specific risk assessments, and in the end lose the zeal to come up with tailored financial products. Additionally, regulatory frameworks, such as the capital adequacy and risk management guidelines established by the Bank of Zambia, further shape lending practices, creating additional barriers for SMEs seeking financing (Bank of Zambia, 2021).

This financing gap severely limits the ability of private healthcare SMEs to expand operations, purchase modern medical equipment, enhance service delivery, and attract qualified healthcare professionals. Addressing these

constraints is important to fostering the growth and sustainability of private healthcare SMEs. This will then lead to jobs being created and improve healthcare accessibility and quality in Lusaka.

The study aimed to investigate the specific constraints facing SMEs in the private healthcare sector regarding access to financing from banks, analysing both demand-side barriers within the SMEs themselves and supply-side limitations being faced by financial institutions. Overcoming these challenges is of great importance for facilitating the sustained growth of small and medium enterprises within Zambia's private healthcare sector (OECD, 1996). The findings of the research will provide valuable insights for SMEs in the private healthcare sector, policymakers, financial institutions, and organizations that support SMEs, promoting the development of strategies that enhance financial access and foster growth within the private healthcare sector.

1.4 Research Objectives

1.4.1 Main Objective

To investigate the constraints affecting SMEs in the private healthcare sector in Lusaka, Zambia in accessing finance from banks, addressing both supply side and demand side factors.

1.4.2 Specific Objectives

1. To assess the demand side barriers that prevent SMEs in private healthcare sector from accessing bank financing.
2. To analyse supply side constraints faced by banks in providing finance to SMEs in the private healthcare sector.
3. To propose recommendations to enhance access to finance for SMEs in the private healthcare sector in Lusaka.

1.5 Research Questions

1. What are the primary demand side factors that hinder SMEs in private healthcare sector from accessing bank finance?

2. What supply side challenges do banks face in providing loans to SMEs in the private healthcare sector?
3. What strategies could improve access to finance for SMEs in the private healthcare sector?

1.6 Research Hypotheses

1. Demand-Side Constraints Hypotheses:

H₀: There is no significant relationship between demand-side factors (such as financial literacy, collateral requirements, and credit history) and the ability of SMEs in the private healthcare sector to access finance from banks.

H₁: Demand-side factors, including financial literacy, collateral requirements, and credit history, significantly hinder SMEs in the private healthcare sector from accessing finance from banks.

2. Supply-Side Constraints Hypotheses:

H₀: Banks do not face significant challenges, such as high credit risk, regulatory constraints, and lack of tailored products, in providing loans to SMEs in the private healthcare sector.

H₁: Banks face significant challenges, including high credit risk, regulatory constraints, and lack of tailored financial products, which limit their ability to provide loans to SMEs in the private healthcare sector.

N.B. This hypothesis was developed based on themes emerging from initial qualitative interviews, which suggested that banks face challenges in providing loans to SMEs in the private healthcare sector.

1.7 Research Variables

- **Dependent Variable:** Access to Finance from Banks.
- **Independent Variables:** Constraints faced by SMEs, categorized as demand-side and supply-side factors.

- **Moderating Variables:** Economic Environment (Inflation rate) : The overall economic stability and performance key macroeconomic variables in the country has an impact on both the demand and supply of credit. In this case , Inflation rate was considered.

1.8 Significance of the Study

This study is of great importance as it sheds light on the various challenges faced by small and medium-sized enterprises (SMEs) in the private healthcare sector when accessing essential financial resources. In the Zambian context where health outcomes are influenced by the effectiveness and availability of healthcare services, the role of SMEs becomes increasingly important. Access to finance is a primary component in enhancing the provision of quality healthcare services by private healthcare providers. The study addresses a specific gap in SME financing within the healthcare sector, which is underexplored compared to general SME finance research. Through the findings of this research, a deeper understanding of these constraints will equip the SMEs themselves, policymakers, financial institutions, and other relevant stakeholders with vital information to design effective interventions aimed at facilitating the growth and sustainability of SMEs within the health sector. Here below are some of the pointers of how significant the study is:

Economic Contribution

SMEs contribute greatly to the country's GDP and national revenue generation by broadening the tax base. As identified by Qureshi and Herani (2011), the growth and financial stability of SMEs lead to increased tax compliance and collections, which subsequently support government revenue streams. Improved access to financial resources empowers SMEs to invest in their operations, expand business activities, and achieve higher profitability which in turn does not only improve their competitive standing within the market but also enables them to make substantial contributions to national treasury through paying of taxes.

Moreso, the increased financial health of SMEs can result in a more dynamic economic environment. As these enterprises grow, they tend to innovate and create new products and services, thereby stimulating economic activity. In reality, the economic ripple effect of a thriving SME sector can lead to increased consumer spending, job creation, and a stimulated local economy. Therefore, this study underscores the importance of financial access as a cornerstone for the broader economic development of Zambia.

Healthcare Service Delivery

With the nature of the healthcare sector where massive capital investments are necessary for purchasing medical equipment, hiring qualified staff, and expanding service offerings, access to financial resources is particularly critical. By highlighting the constraints faced by healthcare SMEs in accessing finance, this study aims to inform strategies that can enhance healthcare service delivery.

In Zambia particularly Lusaka, where public healthcare systems are often overburdened because of high population and underfunded, private healthcare providers play a vital role in supplementing these services. Improved financing options can enable healthcare SMEs to enhance their service quality and reach underserved populations. This, in turn, leads to better health outcomes and improved overall public health, further contributing to national development goals.

Employment provision

In emerging markets, SMEs serve as key drivers of employment, in addition to their economic contributions. Giving SMEs in the private healthcare sector the ability to access adequate financial resources allows them to invest in workforce expansion and staff development, ultimately creating new job opportunities. The ability to generate employment is key to promoting social mobility, reducing unemployment rates and overall socio economic welfare.

As SMEs thrive in an economy, they not only create direct employment opportunities but also generate indirect jobs through their various suppliers and partners. This multiplier effect is advantageous to the community as it improves standard of living and provide a sense of economic security to households. Furthermore, this study recognizes their potential to significantly improve employment levels and contribute to economic stability and resilience, particularly in vulnerable communities by equipping SMEs with the necessary funding,

Formal Economic Activities

Challenges such as tax evasion, poor working conditions, and lack of access to legal protection for workers is often prevalent in an informal economy operating outside the regulatory framework. Improving access to finance for SMEs in the healthcare sector therefore helps in the reduction of informal economic activities. When accessing financing, SMEs are expected to formalise their operations. And thus, addressing the financial barriers that SMEs face promotes the formalisation of businesses.

When SMEs transition into the formal economy, they are more likely to adhere to labour laws, health regulations, and tax responsibilities, which are important in creating a fair and competitive business environment. Formalisation therefore leads to increased regulatory compliance and improved revenue collection for the government. This formalisation further contributes to a more transparent and accountable economic landscape, benefiting both the businesses and the communities they serve.

Policy considerations

Eventually, the findings of this study provide a critical foundation for developing strategies that support SME growth, enhance healthcare service delivery, and contribute to the broader economic development of Zambia. Policymakers can be guided in coming up with targeted financial programs and incentives that address the specific needs of healthcare SMEs through the insights gleaned from this research.

Moreover, financial institutions can benefit from understanding the unique challenges that these SMEs face, customising their products and services to meet the demands of the healthcare sector more effectively. This collaboration among stakeholders can foster a more supportive environment for private healthcare providers and promote a flourishing SME sector.

In a nutshell, the significance of this study extends beyond pinpointing the constraints faced by private healthcare SMEs, rather it highlights the critical role these businesses play in economic development, employment generation, and service delivery improvements. By addressing the financial challenges at hand, stakeholders have the potential to create a more vibrant and resilient healthcare sector that contributes meaningfully to Zambia's socio-economic ecosystem.

1.9 Scope of the Study

The study focused on SMEs operating within Lusaka's private healthcare sector and registered with the Health Professions Council of Zambia. To ensure credibility, relevance, and focus for the study, SMEs in the private healthcare sector that are registered with the Health Professions Council of Zambia (HPCZ) were chosen for the study. The study focused on demand side and supply side constraints to financial access and the impact on SMEs' growth and healthcare service provision. The research covered four types of healthcare businesses: clinics, hospitals, pharmacies, and diagnostic centres.

1.9.1 Geographical Scope:

Lusaka being the capital city and economic centre of Zambia, houses a significant proportion of private healthcare SMEs. The study focused on SMEs in Lusaka, Zambia, based on the city's pivotal role in the private healthcare sector. Lusaka serves as a central hub for healthcare services and facilities, making it a critical area for understanding the dynamics of SMEs in the healthcare industry. These enterprises play an essential role in delivering healthcare services to a diverse population. The city's strategic position ensured that the findings of the research

are relevant to a wide range of stakeholders, including policymakers, financial institutions, and healthcare providers. Other reasons for choosing SMEs in Lusaka included:

- **Accessibility:** Because of Lusaka's accessibility to key stakeholders, including financial institutions, regulatory bodies, healthcare organizations and advanced infrastructure, conducting research in this location made it ideal. These factors ensured that data collection is efficient and comprehensive, enhancing the reliability and depth of the study.
- **Urban Challenges:** As an urban centre, Lusaka presented unique challenges to SMEs, such as increased operational costs, strict regulatory requirements, and high competition levels. Studying SMEs in this context offered highlights into how these factors influence access to finance.
- **High number of SMEs:** Lusaka holds a higher concentration of private healthcare SMEs compared to other regions in Zambia. This density provided a rich pool of data, enabling a detailed analysis of the challenges these enterprises face in accessing finance.
- **Zambian Economy:** SMEs in Lusaka's private healthcare sector contribute substantially to both the healthcare and economic landscape of the country as a whole. Understanding their financing challenges provided a basis for addressing national constraints and fostering sustainable development. Therefore, the choice of Lusaka positioned it as a focal point for understanding broader national issues.
- **Massive Growth:** The private healthcare sector in Lusaka is undergoing growth, driven by increasing demand for quality healthcare services. Nonetheless, financial constraints remain a significant barrier to this growth. By studying these challenges in Lusaka, this research identified opportunities for promoting the sector's sustainable development and improving healthcare delivery.

- **Strategic Relevance:** Lusaka being the administrative capital of Zambia, is a home to policymakers, regulators, and financial institutions who play critical roles in shaping the healthcare and financial sectors. Research findings derived from Lusaka-based SMEs are well-positioned to influence policy decisions and strategic interventions, addressing the financial constraints faced by healthcare SMEs.
- **Diverse Demographics:** The population in Lusaka spans various income levels and healthcare needs. This difference allows the study to examine how financial constraints impact SMEs' ability to serve different demographic groups, shedding light on disparities in access to healthcare services.

1.9.2 Sectoral Scope:

The study focused on private healthcare sector SMEs. This sector included clinics, hospitals, diagnostic centres, and pharmacies. In research, the healthcare sector is underrepresented despite its critical importance. Furthermore, interactions with stakeholders revealed a notable lack of motivation from financial institutions in offering financial solutions for the healthcare sector, prompting the need to investigate and better understand the reasons behind this behaviour. This broad scope allowed for a full analysis of the financial challenges faced by SMEs in different private healthcare segments. Other justifications for the health sector include the following:

- **Unique Constraints Specific to Healthcare SMEs:** Healthcare SMEs face unique financial barriers, such as: High initial capital requirements for equipment and facility development. Limited availability of tailored financial products from banks. A high-risk perception by financial institutions due to the specialized nature of healthcare services. Addressing these constraints directly aligned with the research objective of proposing actionable recommendations to enhance access to finance for SMEs in the private healthcare sector.

- **Alignment with Development Goals:** The research aligned with Zambia's broader developmental goals, including the improvement of healthcare access and the promotion of SME growth. Strengthening the financial capabilities of healthcare SMEs supports the national agenda for better healthcare outcomes and economic advancement.
- **Underrepresentation in Research:** Although SMEs have been widely studied, there is limited academic research focused on SMEs within the private healthcare sector. This underrepresentation in academic literature leaves critical gaps in understanding the unique financial and operational challenges faced by healthcare SMEs. By addressing this gap, this study contributes to a more nuanced understanding of the sector and informs evidence-based policies.
- **Critical Role in Healthcare Delivery:** SMEs in the private healthcare sector serve as essential providers of healthcare services, particularly in areas where public healthcare systems are insufficient or overwhelmed. These enterprises fill critical gaps, ensuring access to quality healthcare for underserved populations. Their contributions to societal well-being and public health emphasize the necessity of understanding and addressing the financial constraints they face.
- **Economic Contribution:** SMEs in the healthcare sector are a significant component of the economy, generating employment, fostering innovation, and contributing to national economic development. In Zambia, these SMEs are particularly vital in driving economic growth, especially in urban centers like Lusaka, where they address both economic and healthcare needs.
- **Potential for Policy and Practical Impacts:** Improved Healthcare for all is one of the global Sustainable Development Goals(SDGs) which are an urgent call for action by all countries. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce

inequality, and spur economic growth. As such, findings from this study provide actionable insights for policymakers, financial institutions, and other stakeholders.

1.9.3 Dimensional Scope:

This study explored the constraints facing SMEs in Lusaka's private healthcare sector in accessing finance from banks, focusing on both demand-side and supply-side factors. The supply side assessment analysed regulatory requirements, the availability of sector customised financial products and banks' perceptions of risk. The demand side on the other hand examined issues such as loan application requirements, financial literacy, availability of collateral, and business formalization among SMEs. The study excluded non private healthcare SMEs and informal healthcare providers to maintain a robust focused analysis of the formal private healthcare sector.

1.10 Limitations of the Study

Several key limitations must be acknowledged in as much as the study provides valuable insights into the constraints faced by small and medium-sized enterprises (SMEs) in the private healthcare sector of Lusaka, Zambia.

1.10.1 Data Availability:

The availability of reliable data on credit to SMEs in the private healthcare sector from banks posed a notable challenge throughout the research process, due to confidentiality concerns and because the healthcare sector is not a focus area for banks as such, they do not have dedicated data base. As a result, officials could not provide detailed information of their lending to the sector, which information would have helped inform the study on the extend of the exact extent of the challenge.

The shortage of primary data may hinder the depth and accuracy of understanding the specific financial limitations faced by healthcare SMEs.

1.10.2 Limited Range of Financial Barriers:

While the study aimed to identify various financial barriers faced by healthcare SMEs, it may not have captured the full range of factors affecting their access to finance. The focus on specific aspects of financial constraints might overlook other socio political and economic factors, such as broader economic conditions, exchange rate, and changes in governmental policies that can also significantly influence SMEs' financial landscape.

1.10.3 Generalizability:

Looking at the unique regulatory cultural, socio economic, cultural, and regulatory environments in various locations, the experiences of healthcare SMEs in Lusaka may differ significantly from those in other cities or rural settings. The findings of this study are context specific to Lusaka and may not be directly applicable to other regions of Zambia or in different sectors. Consequently, while this study offers valuable insights within Lusaka's context, caution should be exercised when generalising the results to the broader population of SMEs across Zambia or beyond.

1.10.4 Sampling Bias:

This study specifically targeted private healthcare SMEs that are registered with the Health Professions Council of Zambia. As a result, there is a possibility that unregistered private healthcare SMEs were excluded from the research. This exclusion could lead to sampling bias, as unregistered SMEs may represent a significant portion of the healthcare sector. These unregistered businesses often operate in a volatile regulation environment, potentially facing different challenges that may not be captured in this study. As a result, the conclusions drawn may not reflect the complete landscape of private healthcare SMEs in Lusaka.

1.10.5 Subjectivity in Data Collection and Analysis:

The possibility of bias in data collection and analysis must also be considered. The qualitative nature of some data gathered may include

subjective perspectives, which could have influenced the interpretation of results. Moreover, the analytical framework utilised in interpreting the data, while systematic, may still reflect certain subjective interpretations. To mitigate this effect, efforts were made to mitigate these risks by employing scientific methods of data analysis, but the risk of bias cannot be entirely eliminated.

2 Literature Review

2.1 Empirical Literature

Small and Medium Enterprises (SMEs) are recognised as vital contributors to economic growth across a number of nations. They create more employment opportunities, bring more goods and services to the market place through innovation, create wealth for many people and are the drivers of national economic prosperity. SMEs also contribute to the improvement of the country's revenue base (Qureshi and Herani, 2011). The substantial impact of SMEs on the economies of emerging nations is further emphasized by Beck et al. (2005), who highlight their crucial role in fostering economic activities and facilitating development. SMEs contribute to a diverse range of sectors, including manufacturing, services, and agriculture, which collectively form the backbone of the economic structure in many countries.

Despite their critical importance, SMEs often face substantial barriers in accessing financial resources, which are vital for their establishment, growth, and long-term sustainability (Singh & Wasdani, 2016). Traditional financial institutions, such as banks and non-bank financial organizations, play a central role in providing the necessary funding for SMEs. However, these institutions frequently demonstrate reluctance to fully finance SMEs, particularly startups, due to concerns regarding elevated financial risks, poor credit ratings, and inadequate collateral (Gitman, 2003; Kauffmann, 2005). The necessity for collateral often obstructs SMEs' ability to secure loans, further compounding their financial challenges.

The requirement for collateral is underscored by Nguyen, S. and Wolfe, S(2016), who identify it as a significant barrier to accessing funds. The difficulty

in providing collateral can be particularly problematic for emerging SMEs, which may lack sufficient physical assets. Gangata and Matavire (2013) emphasize that such collateral requirements can hinder the establishment and growth of these enterprises. Etemesi (2017) also highlights the absence of legal frameworks and regulatory support as critical obstacles to obtaining financial resources, making it difficult for SMEs to navigate the complex lending landscape.

In addition to these barriers, information asymmetry poses a real challenge to SMEs in securing financing. This situation arises when one party lacks sufficient information about the other, leading to difficulties in assessing the creditworthiness of the borrower (Becchetti, L. and Conzo, P., 2011). Such information gaps can result in heightened uncertainty for financial institutions, causing them to impose stringent lending conditions. As highlighted by Beck, T. and Cull, R., 2014, both banks and SMEs face limitations stemming from a variety of factors, including risk assessments, high administrative costs, and inadequate legal protections in the face of loan defaults.

The sustainability and credibility of traditional funding sources are further jeopardized by issues such as high-interest rates, complex application processes, and regulatory uncertainties. These challenges signify a broader systemic issue within the financial sector that can severely limit the growth potential of SMEs. Consequently, understanding the intricacies of these barriers at a global level is essential for formulating solutions that enhance financial access for SMEs.

According to Beck and Cull (2014), over 25% of SMEs in Africa view the availability and cost of funding as critical barriers to their expansion, especially in countries characterized by weak financial markets. Particularly in nations where formal employment opportunities are scarce, SMEs are often pivotal in driving economic diversification, boosting innovation, and creating jobs. However, they frequently encounter substantial challenges in accessing capital necessary for growth and operation.

Additionally, transaction costs for SMEs seeking financial assistance can be disproportionately high, often taking a more significant toll on smaller enterprises than on larger firms due to scale inefficiencies. Balling, M., Bernet, B. and Gnan, E. eds., (2009) notes that SMEs are often subjected to risk premiums that lead to increased borrowing costs, which can further deter their engagement with traditional financial institutions. These factors create a negative feedback loop because without access to affordable financing, SMEs struggle to grow, leading to an even more significant reluctance from banks to lend. This cycle perpetuates the existing barriers and maintains the status quo of limited financial inclusion.

The presence of knowledge gaps regarding available funding sources also plays a role in restricting SMEs' ability to engage with financial institutions. Kumar and Rao (2015) argue that many entrepreneurs lack awareness of opportunities for financing, resulting in missed chances to secure the necessary resources for their businesses. Furthermore, the challenge of information asymmetry between SMEs and lenders creates additional hurdles, leading to creditworthiness assessments that may be unfavourably skewed against SMEs (Mahmood, S 2022).

In acknowledging the difficulties in funding, the African Development Bank and other regional organizations have initiated programs aimed at improving access to finance for SMEs, emphasizing the need for capacity building, financial literacy programs, and the development of credit guarantee schemes (Leo, B., 2011). Programmatic efforts that focus on providing training and resources to SMEs can significantly enhance their financial access and sustainability. However, these initiatives require ongoing support and engagement from government entities, financial institutions, and development agencies to ensure their effectiveness.

In Zambia, SMEs are indispensable to the national economy, accounting for a significant share of the country's gross domestic product (GDP) and employment. According to the Etuk, R.U., Etuk, G.R. and Michael, B (2014), SMEs represent around 70% of the employment in the private sector and contribute substantially to national economic development. However,

regulatory challenges, inadequate infrastructure, and limited access to finance continue to impede the growth of SMEs within this economy.

The Zambian government has recognized the vital role of SMEs in economic development and has implemented several measures to facilitate their growth (Nuwagaba, A., 2015). Initiatives include the establishment of the Zambia Development Agency (ZDA), which plays a crucial role in promoting and coordinating the development and growth of SMEs by creating a favourable environment through policy formulation and implementation. The ZDA aims to enhance access to information, knowledge, and opportunities for SMEs while providing support programs that assist in legal registration, financial literacy, and capacity building.

Despite these initiatives, private healthcare SMEs specifically face additional challenges in accessing financial resources. The regulatory landscape for the healthcare sector in Zambia can be complex, and financial institutions often perceive healthcare SMEs as high-risk due to their unique regulatory requirements, the nature of their products and services, and the potential for fluctuating demand. Furthermore, the lack of reliable financial documentation and clear business planning can hinder the loan application process, making it even more challenging for healthcare SMEs to secure funding.

Additionally, there exists a notable gap in the availability of targeted financial products designed explicitly for SMEs in the healthcare sector. Unlike sectors such as agriculture and technology, which benefit from tailored financing solutions, private healthcare SMEs often find that traditional loan products do not align with their specific operational needs (Osano, H.M. and Languitone, H., 2016). This mismatch can exacerbate the difficulties faced in securing necessary funding for essential medical equipment, staff training, and facility upgrades.

Barriers such as high collateral demands, elevated interest rates, and long approval timelines frequently discourage healthcare SMEs from pursuing financing altogether, limiting their growth potential and ability to innovate. As noted by the Chilembo, T (2021), addressing these barriers through targeted

policy interventions and the development of sector-specific financing products is crucial for unlocking the potential of healthcare SMEs.

In summary, the literature reveals a complex landscape concerning the challenges faced by SMEs globally, across the African continent, and specifically in Zambia. According to Chilembo, T (2021), while SMEs play a crucial role in economic development, their access to finance remains a significant barrier that necessitates targeted strategies and interventions. The understanding of these challenges provides a useful framework for policymakers, financial institutions, and stakeholders to collaborate effectively in creating an enabling environment that supports the growth and sustainability of SMEs in the healthcare sector.

2.2 Critique of the Literature Review

The literature reviewed for this study explored the constraints faced by SMEs in accessing finance, with a focus on both demand-side and supply-side barriers. While the reviewed studies provided valuable insights into SME financing challenges, a critical analysis reveals certain limitations in terms of research design, sample selection, instrumentation, data analysis, and generalizability that need to be addressed.

This section discusses empirical studies that examine the access to finance among small and medium-sized enterprises (SMEs). The aim is to evaluate their methodologies, extract relevant findings, and assess the validity and reliability of their conclusions.

1. Study by Qureshi and Herani (2011)

- Purpose: To analyse the impact of financial access on the performance of SMEs in Africa.
- Hypotheses: Access to financial resources positively impacts the operational performance of SMEs.
- Research Design: A quantitative correlational design was employed to examine the relationship between financial access and SME performance.

- Sample: The study surveyed 150 SMEs across various sectors in three African countries.
- Instrumentation: A structured questionnaire was used to measure variables associated with financial access and performance metrics such as sales growth and profit margins.
- Data Analysis: Descriptive statistics and regression analysis were utilized to analyse the data and establish correlations.
- Findings: The study found a significant positive correlation between access to finance and SME performance, suggesting that increased access to financial resources leads to better operational outcomes.
- Validity: While the sample size was adequate for statistical analysis, the generalizability of findings might be limited due to regional focus. Moreover, the reliance on self-reported data could introduce biases.

Threats to Internal Validity:

- Selection Bias: The sample might not have represented all sectors equally, particularly those facing distinct challenges in accessing finance.
- Self-Reporting Bias: Responses may have been biased due to the tendency of respondents to overstate improvements to demonstrate success.
- Mitigation Suggestions: Implementing random sampling methods and cross-verifying self-reported data with actual performance metrics could enhance validity.
- Weaknesses and Improvements: Although the study effectively highlights the correlation between access to finance and performance, it could benefit from a qualitative component, such as interviews, to capture deeper insights about the challenges SMEs face.

2. Study by Kauffmann (2005)

- Purpose: To investigate the financing obstacles faced by SMEs in developing countries and assess how these affect business operations.

- Hypotheses: SMEs face significant barriers in accessing finance due to conservative lending practices of financial institutions.
- Research Design: A mixed-methods approach was applied, combining both quantitative surveys and qualitative interviews.
- Sample: The study included 200 SMEs from various sectors in a selected number of developing countries.
- Instrumentation: A combination of surveys and semi structured interviews was utilised to gather data.
- Data Analysis: Quantitative data were analysed through statistical methods, while qualitative data were thematically analysed for common patterns.
- Findings: The results indicated that risk aversion among lenders, coupled with high collateral requirements, significantly limits SMEs' access to finance.
- Validity: The mixed-methods approach enhances the validity by providing a comprehensive view of the issues at hand, though the contextual differences across sectors can limit generalizability.

Threats to Internal Validity:

- Confounding Variables: External factors affecting SME performance, such as market conditions and economic policies, were not controlled.
- Interviewer Bias: Qualitative interviews might reflect biases if the interviewer influences responses.
- Mitigation Suggestions: Accounting for confounding variables in the analysis phase and employing multiple interviewers to minimize interviewer bias could improve internal validity.
- Weaknesses and Improvements: The study may have overlooked sector-specific challenges. Future research could introduce more granular analyses by focusing on specific industries, like healthcare, to draw more targeted conclusions.

3. Study by Beck and Cull (2014)

- Purpose: To examine the impact of financial barriers on the growth of SMEs in Africa.
- Hypotheses: Financial barriers impede the growth of SMEs, particularly in regions with fragile financial markets.
- Research Design: A quantitative survey based approach was employed.
- Sample: The study surveyed over 1,000 SMEs across various African countries.
- Instrumentation: Structured questionnaires were used to assess financial access and growth indicators.
- Data Analysis: The data were analysed using econometric techniques to establish relationships between financial barriers and growth outcomes.
- Findings: The study concluded that over 25% of African SMEs identified financial barriers as a significant impediment to their expansion.
- Validity: While the large sample size lends itself to generalizability, the focus on a broad range of sectors may dilute insights specific to any one sector.

Threats to Internal Validity:

- Attribution Bias: Respondents may attribute growth issues solely to financial barriers, overlooking other critical operational factors.
- Causation: The study establishes correlation but may struggle to demonstrate direct causation between financial barriers and SME growth.
- Mitigation Suggestions: Including longitudinal data to assess causation over time and utilizing control groups to refine the findings could enhance the robustness of the study.
- Weaknesses and Improvements: Although the study provides a broad overview of financial access challenges for SMEs across Africa, it lacks depth in exploring sector-specific experiences, particularly regarding healthcare SMEs. Future research could delve deeper into

particular industries to provide actionable insights tailored to sector needs.

The generalizability of these findings is limited, given the varying socio-economic environments, cultural factors, and regulatory frameworks across different countries and sectors. For example, while high collateral demands are a common barrier, the degree to which this impacts SMEs may differ significantly between the agricultural and healthcare sectors.

Threats to Internal Validity

Moreover, the studies discussed have certain internal validity threats that scholars must acknowledge:

- **Selection Bias:** In many cases, SMEs that are successfully accessing finance are more likely to participate in surveys, thus skewing results toward positive outcomes. Conversely, those facing challenges may be less likely to respond.
- **Self-Reporting Bias:** Many studies rely on self-reported data, which can be influenced by respondent bias, leading to overstated success stories or understated challenges. Additionally, variance in respondents' understanding of financial terms may cause inconsistencies in the data collected.
- **Confounding Variables:** External market conditions and government policies could significantly influence SMEs' access to finance and performance. Failing to control for these variables could misrepresent the relationship between financial access and SME growth.
- **Causation vs. Correlation:** Many studies establish correlations without adequately demonstrating causation. For instance, while poor financial access can be linked to low SME performance, it may not be the sole contributing factor.

To address the internal validity threats identified, the following suggestions could be implemented in future research:

- **Random Sampling:** Employing random sampling techniques can help mitigate selection bias. Ensuring that samples are representative of the entire population of SMEs could improve the generalizability of results.
- **Comprehensive Instrumentation:** Utilizing mixed methods that combine quantitative surveys with qualitative interviews can enrich data quality and provide a more nuanced understanding of barriers faced by SMEs.
- **Longitudinal Studies:** Implementing longitudinal studies can clarify causation by observing changes over time and how they relate to shifts in financial access.
- **Control Variables:** Incorporating control variables that account for external factors, such as economic conditions or industry-specific regulations, can provide more robust findings.

Weaknesses of the Studies and Suggested Improvements:

While the studies mentioned contribute valuable perceptions to the understanding of SME financing challenges, the following are the weaknesses:

- **Lack of Sector-Specific Focus:** Most studies do not differentiate between sectors, missing out on industry specific challenges faced by SMEs, especially in the healthcare sector.
- **Limited Sample Sizes:** Although some studies include substantial sample sizes, focusing on more targeted subsets can reveal critical perceptions into smaller, underserved markets, such as healthcare SMEs.

To improve future studies:

- **Sector-Specific Research:** Future research should focus on specific sectors to identify unique challenges and opportunities for SMEs within critical domains. This will help financial institutions and

policymakers design more effective support frameworks tailored to each sector.

- **Broader Data Sources:** Researchers should consider using a combination of primary and secondary data sources, including governmental and industry reports, to enhance the reliability of findings.
- **Expanded Geographical Scope:** Studies should aim for a broader geographical representation, extending beyond urban areas to include rural SMEs, which often face different financing challenges.

In conclusion, while substantial progress has been made in understanding the financial access challenges faced by SMEs, further research is needed to refine these insights and provide tailored recommendations for specific sectors, particularly within Zambian healthcare. Through addressing these limitations and focusing on targeted interventions, future studies can significantly contribute to strengthening the financial landscape for SMEs and enhancing their roles in economic development.

2.3 Theoretical Framework

Theoretical perspectives provide valuable frameworks for understanding the dynamics of SME finance and the constraints they face in accessing funding. Three prominent theories relevant to the financing of small and medium-sized enterprises (SMEs) are the Pecking Order Theory, the Credit Rationing Theory, and Agency Theory. Each of these theories offers unique insights into the challenges faced by SMEs in obtaining financial resources and informs policymakers and financial institutions in developing strategies to enhance SME access to capital.

a) Pecking Order Theory

The Pecking Order Theory, introduced by Myers and Majluf in 1984, explains the decision-making processes of organizations, particularly SMEs, regarding their financing sources. According to Myers and Majluf

(1984), firms exhibit a hierarchical preference for financing, favouring internal sources over external ones. Specifically, SMEs are inclined to utilize retained earnings or personal savings before resorting to debt or equity financing. This preference arises from the information asymmetry inherent in financial transactions, where business owners often possess more information about their firm's performance and risks than potential investors or lenders.

Internal financing is considered more cost-effective and less risky for SMEs than external financing, which typically requires disclosure of sensitive information and compliance with rigorous lending standards (Myers & Majluf, 1984). Consequently, the Pecking Order Theory suggests that SMEs facing challenges in obtaining external funding, such as insufficient collateral, limited financial history, and perceived elevated risks by lenders, tend to prioritise internal financing options. They may also consider more affordable external sources, like trade credit or supplier finance, to fulfil their financial requirements.

For instance, when confronted with the necessity for capital, an SME might first seek to utilise its retained earnings before considering bank loans or attracting equity investors, thereby minimising the associated costs and risks. Furthermore, this theory can explain why many SMEs remain undercapitalised; they may opt for internal financing even when external financing could potentially facilitate growth.

b) Credit Rationing Theory

The Credit Rationing Theory, primarily developed by Joseph Stiglitz and Andrew Weiss in 1981, posits that financial institutions may restrict the supply of credit to borrowers, even when these borrowers are willing to pay higher interest rates. The core of this hypothesis lies in the information asymmetry between lenders and borrowers, which creates uncertainty and perceived risks.

Adverse selection is a critical concept within Credit Rationing Theory, as higher interest rates may attract riskier borrowers, ultimately increasing the likelihood of loan defaults. Moreover, moral hazard arises when borrowers engage in riskier behaviour after securing loans, further elevating the risk profile for lenders (Stiglitz & Weiss, 1981). To mitigate these risks, banks may ration credit by extending less funding than requested or denying loans altogether, particularly to high-risk borrowers such as SMEs within vulnerable sectors.

This theory highlights the challenges faced by SMEs in accessing financing. Given their often limited credit histories and perceived higher risk profiles, SMEs may find themselves systematically disadvantaged when seeking loans. Consequently, even when SMEs exhibit strong business fundamentals, they may still face credit rationing due to the reluctance of financial institutions to take on perceived risks.

c) Agency Theory

Agency Theory, developed by Jensen and Meckling in 1976, examines the dynamics between principals (shareholders or owners) and agents (managers or lenders) within organizations. The premise of this theory is that conflicts of interest can arise between these parties, which can affect decision-making and performance within SMEs.

In the context of SME financing, Agency Theory explains issues stemming from ownership and control dynamics. When owners delegate decision-making authority to managers or rely on lenders, conflicts of interest may manifest. For instance, managers might prioritise their interests over those of shareholders, leading to decisions that do not necessarily align with maximizing shareholder value. Moreover, lenders may impose restrictive agreements that limit the operational flexibility of SMEs to mitigate agency risks.

The financial challenges that SMEs face can also be understood through Agency Theory. Moral hazard issues may arise when financial institutions

perceive that borrowers will engage in riskier behaviour, knowing that lenders will absorb the bulk of any losses. Adverse selection issues can further complicate the financing landscape, as lenders often struggle to assess the creditworthiness of SME borrowers, exacerbating the financing constraints for these enterprises.

In summary, the Pecking Order Theory, Credit Rationing Theory, and Agency Theory collectively offer valuable insights into the financing challenges faced by SMEs. These theories illuminate the complexities surrounding SME access to finance, helping to identify barriers and inform the development of strategies to enhance financial viability. Policymakers and academics can utilize these theoretical frameworks to address the constraints that hinder SME growth and promote a healthier economic ecosystem.

By recognizing the relationships outlined in these theories, financial institutions can tailor their lending practices and products to better suit the unique needs of SMEs. Furthermore, with a deeper understanding of internal and external financing dynamics, stakeholders can implement targeted solutions to foster an enabling environment that encourages the growth and sustainability of SMEs across various sectors.

2.4 Conceptual Framework

A conceptual framework is a system of concepts, assumptions, expectations, beliefs and theories that supports and informs research (Ngulube, P et al 2015). The conceptual framework of this study is rooted in the following representation of the relationship between the dependant variable i.e. access to finance and the independent variables being, constraints facing SMEs in the private healthcare sector both demand side and supply side.

Dependent Variable- Access to Finance

Access to finance refers to the ability of SMEs to obtain financial resources necessary for their operations and growth. This variable encompasses

various forms of financing, including bank loans, trade credit, equity investment, and government grants. Within the context of this study, assessing access to finance involves evaluating the barriers SMEs encounter when seeking funds, such as stringent lending criteria, high-interest rates, and the requirement for collateral. A limited ability to access finance directly impacts SMEs' capacity to invest in essential resources, expand operations, and enhance service delivery in the healthcare sector.

Independent Variables-Demand Side

The following demand side variables are described under this section and are key in understanding the constraints faced by private healthcare small and medium-sized enterprises (SMEs) in accessing finance. Each variable plays an important role in determining the capacity of SMEs to secure financial resources.

- 1) Loan Conditions – Loan conditions such as interest rates, collateral requirements, and other conditions banks set as financing conditions have obvious implications on SME access to finance from commercial banks. It goes without saying that easy conditions allow more SMEs to access finance while, strict conditions mean that very few SMEs can meet them.
- 2) Number of Years of Operation - The number of years of operation is a measure of the experience and sincerity of an SME within the healthcare sector. This variable is important because it often correlates with a business's financial track record, credibility, and stability in the eyes of potential lenders. For established SMEs, having been in operation for a longer duration, may have a more substantial financial history and stronger relationships with financial institutions, potentially easing access to funding. Conversely, newer SMEs may face additional challenges, such as skepticism from lenders regarding their viability and sustainability.
- 3) Financial Literacy - Financial literacy refers to the understanding and ability of SME owners and managers to make informed financial decisions. This includes knowledge of financial concepts such as

budgeting, financial forecasting, investment analysis, and debt management. High levels of financial literacy can empower SMEs to prepare attractive business proposals that can help them negotiate effectively with lenders. Limited financial knowledge among SME owners prevents hinders their ability to manage finances, develop solid business plans, and understand available financing options. This leads to poorly prepared loan applications and a reluctance to seek credit due to the perceived risks.

- 4) **Formal Business Plan** - A formal business plan is a comprehensive document outlining the strategic objectives, operational plans, financial projections, and market analysis of an SME. This variable is critical because a well-structured business plan can enhance the credibility of an SME when seeking financing. Lenders often require a solid business plan as part of the loan application process, as it provides insights into the SME's viability, potential for growth, and purpose for the requested funds. The existence of a formal business plan is indicative of an SME's preparedness and ability to execute its strategies effectively, thereby influencing lenders' perceptions and decisions.
- 5) **Financial Statements** - Financial statements, including income statements, balance sheets, and cash flow statements, are essential tools for evaluating an SME's financial health and performance. These documents provide an overview of the business's revenue, expenses, assets, liabilities, and cash flow. Lenders typically rely on these statements to assess the creditworthiness of an SME, as they reflect the enterprise's financial stability and ability to repay loans. The availability, accuracy, and comprehensiveness of financial statements can significantly impact an SME's ability to secure financing, as lenders require transparent and reliable information when making lending decisions.

Independent Variables - Supply Side

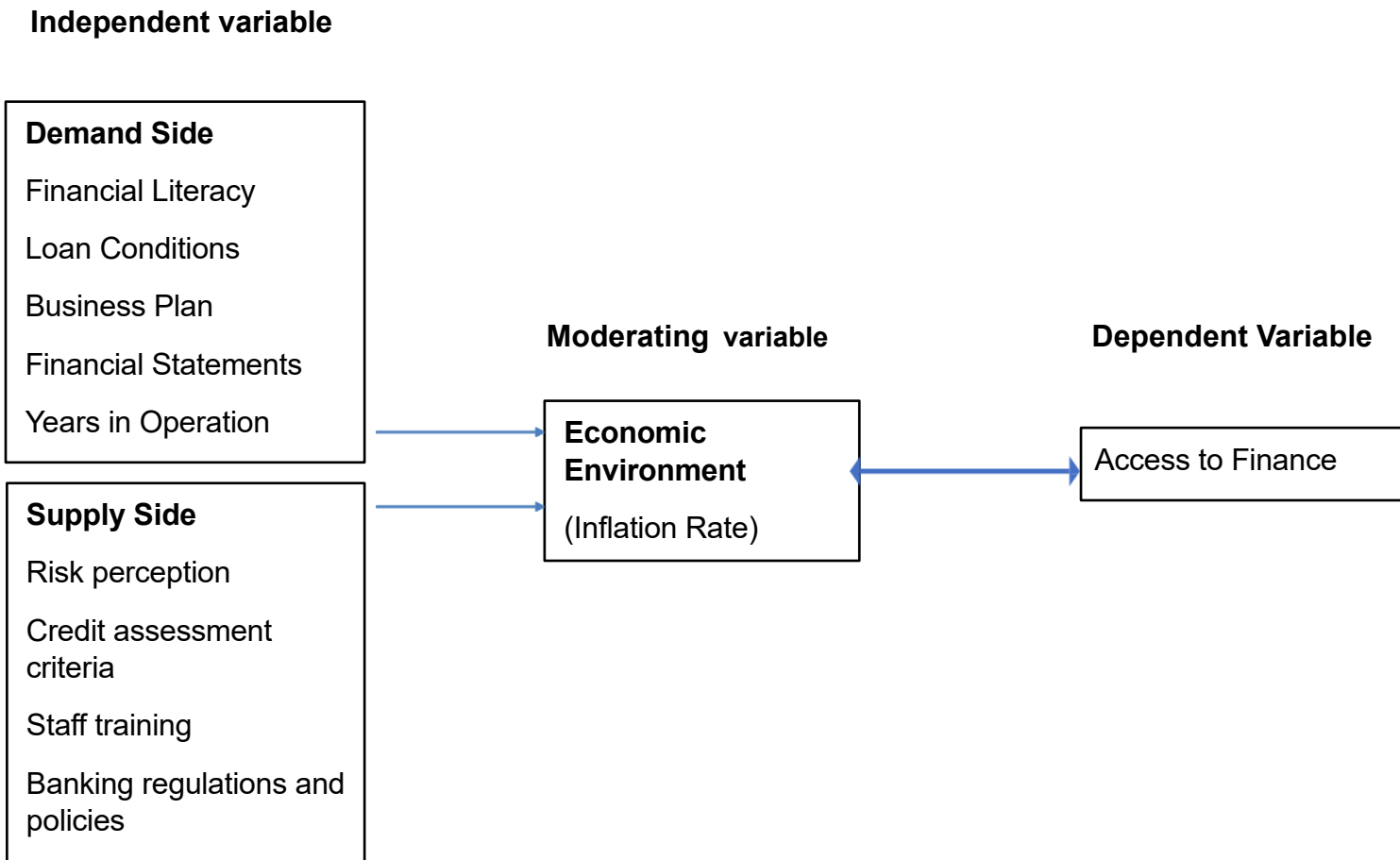
The following variables are essentially themes emerging from initial qualitative interviews with bank officials, on the main constraints banks face in lending to SMEs in the private healthcare sector.

- 1) Risk Perception: The perception by banks that SMEs in the private healthcare sector are high risk can impact SMEs' access to finance, leading to higher borrowing costs, stricter lending criteria, and limited financing options due to regulatory uncertainties, market volatility, and healthcare-specific challenges.
- 2) Tailored Financing Products for Healthcare SMEs: The lack of tailored financing products dedicated to the health sector can influence access to finance, as its likely that a peculiar sector like health is bundled together with other sectors and gets over shadowed.
- 3) Banking Regulations and Policies: restrictive regulatory policies could hinder banks from financing SMEs in certain sectors.
- 4) Representation of Healthcare SMEs in Institutional Portfolios
- 5) Credit Assessment Criteria: they do not differentiate their evaluation processes. This uniform approach underscores a widespread trend among financial institutions that may fail to fully comprehend the unique attributes of healthcare businesses.
- 6) Staff Training: indicated that they do not provide any training specifically aimed at understanding the unique financing needs of healthcare SMEs, while only 5 institutions reported offering such training.

Moderating Variables

- 1) Economic Environment (Inflation rate): Commercial bank lending policy is crafted within the context of prevailing economic conditions like inflation. The overall economic stability and performance of key macroeconomic indicators in the country is likely to have an impact on access to finance for the private sector.

Figure 2.4 – The conceptual framework



The framework outlines the various factors affecting SMEs' finance access in the private healthcare sector, suggesting collaboration between policymakers, financial institutions, and SMEs to improve access, promote entrepreneurship, and foster sustainable growth.

3 Methodology

This chapter outlines the research approach, design, and methods employed to investigate the constraints facing small and medium-sized enterprises (SMEs) in Lusaka's private healthcare sector in accessing financial resources from banks. It details the processes used for data collection, analysis, and interpretation to address the research objectives while ensuring the study's validity and reliability.

3.1 Research Approach

The study adopted a mixed methods approach combining both quantitative and qualitative methodologies. This approach was selected to provide a comprehensive understanding of the challenges faced by healthcare SMEs in accessing finance. According to Creswell and Plano Clark (2011), mixed-methods research enhances the validity and reliability of findings by triangulating data from multiple sources, thus capturing both measurable trends and contextual insights.

- **Quantitative Component:** Survey structured questionnaires were distributed to SMEs for collection of data, focusing on critical factors including financial literacy, collateral availability, financial statements preparation, business plan availability and loan accessibility. This part of the research captured variables that reflect the experiences of SMEs in their quest for financial resources.
- **Qualitative Component:** This component involved collection of data from bank officials who manage SME portfolios and the Credit Risk Managers. Semi structured interviews were conducted with bank officials who manage SME portfolios and Credit Risk Managers. This qualitative aspect explored deeper insights into the challenges banks face in lending to SMEs in the private healthcare sector.

By integrating both quantitative and qualitative data, the study enriches understanding and provides nuanced perspectives on the financing constraints faced by healthcare SMEs.

3.2 Research Design

The study employed a combined descriptive and exploratory research design, enabling an investigation into both the nature and extent of financing constraints faced by SMEs in the healthcare sector.

- **Descriptive Design:** This design was utilised to quantify the prevalence of identified constraints such as limited financial literacy, collateral

limitations, and loan rejection rates. By measuring these variables, it was possible to determine their impact on SMEs' access to financing.

- Exploratory Design: The exploratory design facilitated an in-depth examination of the reasons behind the lending behaviors of banks. Qualitative insights from financial institutions provided a deeper understanding of the operational and strategic factors influencing their decisions regarding SME lending.

This dual design approach allowed for robust analysis, enabling both numerical measurements and in-depth exploration of the research problem. The methodology involved:

- Surveys: Structured questionnaires were distributed to SMEs to collect quantitative data on financial accessibility and constraints.
- Semi structured interview questions were administered to selected banks to explore deeper insights into risk perceptions, lending policies, staff training and regulatory barriers that affect banks' decisions regarding SME financing.

3.3 Study Population and Sample

3.3.1 Demand Side Sample

The target population for this study consisted of private healthcare SMEs in Lusaka Zambia that are registered with the Health Professions Council of Zambia (HPCZ). According to the Health Professions Council of Zambia 2022 statistics, the private health sector in Lusaka was made of a total of 1250 private healthcare facilities, comprising of hospitals, clinics, pharmacies and diagnostic centres.

In this case the target population is finite and known. To accurately analyse this population, an appropriate sample size was determined to provide valid results. The procedure of determining sample size of a finite population entails numerous essential elements that will inform our computations. The first step is to determine the sample size of an infinite population and then apply a factor to determine the sample size

of a finite population. We employed the Cochran's formula below to determine the required sample size:

Step one:

$$n_0 = \frac{Z^2 * p * (1 - p)}{E^2}$$

Where;

- **Desired confidence level (Z):** For this study, a confidence level of 95% was used, which corresponds to a Z value of 1.96. This level indicates a high degree of certainty in the results obtained from the sample.
- **Margin of error (E):** A margin of error is typically set at 5% (0.05) in social research. This reflects the maximum acceptable difference between the sample estimate and the actual population parameter.
- **Estimated proportion (p):** In cases where the proportion is unknown, a conservative estimate of 50% (0.5) is often utilised to ensure maximum variability. This approach helps in obtaining a sample size that is adequate for capturing the diversity within the population.

$$n_0 = \frac{(1.96)^2 * 0.5 * (1 - 0.5)}{(0.05)^2}$$

$$n_0 = \frac{3.8416 * 0.5 * 0.5}{0.0025}$$

$$n_0 = \frac{0.9604}{= 0.0025} = 384.16$$

Step Two

$$n = \frac{n_0}{1 + \frac{n_0 - 1}{N}}$$

Where the parameters are defined as follows:

- n is the sample size of a finite population
- n_0 is the sample size of an infinite population determined above.

- **Population size (N):** The total number of healthcare SMEs in Lusaka registered with the Health Professions Council of Zambia is 1,250.

Having calculated the sample size required for an infinite population, the sample size for finite population is found as below. We apply the finite population correction:

Therefore:

$$n = \frac{384.16}{1 + \frac{384.16 - 1}{1250}}$$

$$n = \frac{384.16}{1 + \frac{383}{1250}} = \frac{384.16}{1 + 0.3065} = \frac{384.16}{1.3065} = 294$$

A sample size of 294 SMEs was determined using the Cochran's formular.

3.3.2 Supply Side Sample

Interviews were conducted with 13 banks from the total population of 15 banks operational in Zambia to ensure sufficient diversity while keeping data manageable. These were selected using purposive sampling on account of having SME banking departments and their roles within the SME sector.

3.4 Data Collection Instruments

An online questionnaire using the Google Form platform was utilized to capture and collect detailed quantitative data while for qualitative data an interview guide was used.

- **Demand Side Questionnaire:** This instrument gathered information on financing challenges from the perspective of SMEs. It included questions on financial literacy, the types of financing sought, perceived barriers to accessing finance, and the impact of these barriers on business operations.
- **Supply Side Interview guide:** This instrument explored banks' perceptions of private healthcare SMEs. It assessed the lending criteria, risk

assessment processes, and insights into the banks' experiences with healthcare sector clients.

- Document Analysis: In addition to the survey and interviews, a number of documents were analyzed. This included reviews of relevant regulatory and internal policies that could influence lending decisions.

3.5 Data Analysis

- Quantitative Data: The quantitative data was analyzed using the Statistical Package for the Social Sciences (SPSS). Descriptive and inferential statistical methods were employed to identify trends and relationships among variables, such as financial literacy and loan access.
- Qualitative Data: Thematic analysis was performed on the responses obtained from structured questions administered to bank officials. This analysis focused on identifying recurring themes regarding financial barriers, risk assessments, and lending behaviors towards healthcare SMEs. The thematic approach allowed the research to convey rich narratives that reflect the complexities of the financing landscape.

3.6 Ethical Considerations

Ethical approval was secured from the University of Lusaka's Research and Ethics Committee. This was to ensure the study adhered to well established ethical standards. All participants were made aware of their rights and purpose of the research prior to collecting data from them. Thus, informed consent was obtained. The confidentiality and anonymity of respondents were strictly maintained to protect their privacy and sensitive information.

4 Presentation and Analysis of Results

This chapter analysed the quantitative and qualitative data collected from Small and Medium-sized Enterprises (SMEs) in the private healthcare sector in Lusaka, Zambia, as well as from commercial banks. This analysis sought to identify the primary constraints that SMEs encounter in obtaining bank financing and to suggest demand side measures to enhance their access to financial resources.

The study further aimed to identify the primary constraints that prevent commercial banks from financing SMEs in the healthcare sector and to propose measures to improve the situation.

This research examined the difficulties encountered by private healthcare SMEs in Lusaka in obtaining bank financing. Data was collected using a questionnaire and a semi structured interview guide administered to SMEs and banks respectively. These addressed various aspects of access to finance for SMEs, operations, financial management practices, financing sources, and perceptions of the banking environment.

4.1 Demand Side Descriptive Insights

A total of 304 SMEs participated in the study. Although all types of health facilities were targeted within the healthcare industry, only clinics and pharmacies provided responses.

Table 4.1a.: The table below shows the outcomes of the variables

Variable	Category	Frequency	Percentage
Type of Healthcare Facility	Pharmacy	106	35%
	Clinic	198	65%
Years of Operation	1-3 years	39	13%
	4-6 years	70	23%
	More than 6 years	195	64%
Financial Literacy	Poor	100	33%
	Fair	176	58%
	Good	28	9%
	Excellent	0	0%
Formal Business Plan	Yes	131	43%
	No	173	57%

Healthcare Facility Classification: 65% of respondents were clinics, whilst 35% were pharmacists. Other facility categories, such as laboratories, did not provide any response.

Duration of Business: A significant majority of respondents, 64%, indicated having operated their business for over six years. This consistency may be beneficial in finance, as it indicates that the business is a going concern and has dependable income. Thirteen percent of SMEs in operation for 1-3 years constitute a group that is new in the market and may still encounter financial

challenges. New businesses sometimes have difficulties in establishing an adequate track record for lenders, as survey findings reveal that several SMEs face limitations pertaining to their operational history.

Financial Literacy: Collected data about financial literacy indicated a worrying trend, with 33% of firms assessing their financial literacy as inadequate. This gap may significantly contribute to their failure to write convincing business proposals and create persuasive loan applications or financial statements and thus may further limit their access to financing.

Additionally, the absence of a written business plan was cited by 57% of respondents, as a hindrance in accessing credit. This accounts for more than half of SMEs, indicating a serious obstacle for them. And unfortunately, a written business plan is crucial for obtaining financing from the majority of the banks.

Q: Have you applied for a bank loan or financing in the last three years?

Table 4.1b: Loan Application	No	Yes	Total
Applied for a Bank loan	204	100	304

Less than 50% of respondents have tried to apply for a bank loan in the last three years. That is quite telling and could be responsible for the low access among SMEs in this sector.

Q: If No, what prevented you from applying? (Select all that apply)

High interest rates; Complex documentation requirements	19
Inadequate collateral; High interest rates; Complex documentation requirements	17
Inadequate collateral	31
Inadequate collateral; High interest rates; Complex documentation requirements;	21
High interest rates	97
Complex documentation requirements	19
Total	204

Table 4.1b shows that a total of 204 respondents said that they had not applied for a loan, each identifying one or more obstacles that prevented them

from applying for financing. The analysis of replies identified many significant obstacles.

From the 204 respondents who had never applied for a loan ,97 cited high interest rates as the main reason for not trying, while 31 cited collateral challenges, and 21 said it as a combination of all the factors as shown in the table above.

The consolidated data reveal that many SMEs fail to pursue financing from the banks because of the combination of several obstacles. Most of the respondents identified high interest rates, insufficient collateral, and complex documentation as key factors contributing to their reluctance to pursue loan applications.

Table 4.1c: Loan Application Status The table shows the proportion of SMEs that applied for a loan and those that got approved.

9. If Yes, was your loan application approved?			
	Yes	No	Total
	14	86	100

Table 4.1c above indicates that among the SMEs who seek bank financing, just 14% receive approval, whilst 86% are denied. The data indicate a concerning rate of loan application rejections, demonstrating that the hurdles faced by SMEs are significant.

The low approval percentage indicates the difficulties that the SMEs have in the loan application process. This may be from the strict lending criteria, complex documentation or other perceived risks associated with healthcare sector.

Table 4.1d: Perceived Support from Bank Policies for Healthcare SMEs

12. How supportive do you find bank policies and loan criteria for SMEs in healthcare?	Frequency	Percentage
Not supportive	133	44%
Not sure	125	41%
Supportive	46	15%
Total	304	100%
Invalid	0	0
Total	304	100%

Table 4.1d above demonstrates that the majority of SMEs in the healthcare industry regard commercial banks as unaccommodating to their requirements. This corresponds with prior findings and clearly spells a significant lack of confidence between healthcare SMEs and banks, maybe leading to the hesitance of these SMEs to seek bank financing.

The categorisation of financial institutions as unsupportive can be attributed to many factors affecting the relationship between banks and healthcare SMEs. A significant number of SMEs expressed dissatisfaction with the lack of tailored financial products that adequately address their particular operational needs. Unlike other sectors with more advanced financing alternatives, healthcare SMEs often face a standardised method of bank lending. As a result, SMEs may take it as inadequate assistance and be prevented from pursuing financing.

Furthermore, SMEs expressed a sense of perceived lack of enthusiasm from banks about their specific concerns, such as regulatory compliance requirements and the need for specialist equipment financing like the famous credit facility called vehicle financing.

The complex and often rigid application processes required by banks trigger a sense of unsupportiveness.

Table 4.1e: Financial Challenges and External Factors

15. What are the main financial challenges affecting your facility's operations?	Frequency	Percentage
Cash flow;Inventory/equipment financing;Expansion needs	91	30%
Inventory/equipment financing	49	16%
Inventory/equipment financing;Expansion needs	42	14%
Cash flow	37	12%
Cash flow;Payroll funding;Inventory/equipment financing;Expansion needs	26	9%
Cash flow;Payroll funding;Expansion needs;	24	8%
Cash flow;Inventory/equipment financing	21	7%
Expansion needs	14	5%
Total	304	100%
Invalid	0	0%
Total	304	100%

Table 4.1e shows the major challenges cited by the SME's. Most cited being cashflow, inventory, equipment and expansion challenges, with 30% indicating this as a major challenge.

Table 4.1f: Financial guidance needed

18. What type of financial guidance or resources would benefit your facility most?	Frequency	Percentage
Financial literacy workshops;Business planning support;Cash flow management tools;Advisory services for loan applications	126	41%
Cash flow management tools	70	23%
Financial literacy workshops;Business planning support;Cash flow management tools	44	14%
Financial literacy workshops;Business planning support;Cash flow management tools;Advisory services for loan applications;	25	8%
Business planning support	24	8%
Financial literacy workshops	15	5%
Total	304	100%
Invalid	0	0%
Total	304	100%

Table 4.1f presents the specific types of support identified by SMEs in the healthcare sector as crucial for improving operational efficiency and access to finance. A number of SMEs, comprising 41% of respondents, expressed a requirement for thorough training in financial literacy, business planning, cash flow management, and advisory services.

The focus on financial literacy training emphasises the need to equip healthcare SMEs with critical knowledge and skills for managing financial complexities effectively. Understanding key financial concepts is important for SMEs as this helps in facilitating informed decision-making in budgeting, investment, and

financial forecasting. Enhancing financial literacy allows businesses to engage more effectively.

The demand for business planning and financial literacy indicates the necessity for SMEs to adopt structured and strategic operational approaches.

Effective business planning allows SMEs to define objectives, develop actionable growth strategies, and create compelling cases for financing to attract potential investors or lenders. This systematic approach improves the internal operations of SMEs and strengthens their credibility in transactions with banks.

The emphasis on cash flow management demonstrates a comprehensive understanding of the financial elements influencing the sustainability of healthcare SMEs. Effective cash flow management is crucial for businesses to meet short-term obligations and plan for long-term investments. Training in this area will improve SMEs' comprehension of cash flow patterns, enable the forecasting of variations, and assist in informed decision-making to maintain liquidity.

Finally, the demand for advisory services indicates the importance that SMEs attribute to external expertise. Access to knowledgeable advisors offers customised guidance for addressing industry-specific challenges, implementing best practices in financial management, and enhancing operational efficiency. This support is especially advantageous in a dynamic and frequently complicated healthcare environment.

The findings from Table 4.1f highlight the key areas in which healthcare SMEs identify a need for further support to improve their financial viability and operational capacity. Targeted training programs and advisory services can enhance the financial literacy and management capabilities of healthcare SMEs for stakeholders. This will enhance access to finance, resulting in improved service delivery and better health outcomes in the communities served.

4.2 Demand side factors that hinder SMEs in private healthcare sector from accessing bank finance

This analysis attempted to determine the relationship between the independent variables and the dependent variable, access to finance. Understanding these relationships provides insights into how different factors contribute and affect access to bank finance for SMEs in the healthcare sector.

Methodology

A multiple regression analysis was conducted to assess the impact of several independent variables, including loan conditions (high interest rates, collateral requirements), Years of operation, Business Plan, Financial Statements, and Financial Literacy. The model estimates were derived from standard statistical software, and significance levels were evaluated at a threshold of 0.05.

$$Y = B_0 + B_1 + B_2 + B_3 + B_4 + B_5 + B_6 + \varepsilon_t$$

Where the variables are defined as follows;

- Y is the dependent variable, SME access to finance from banks in Lusaka
- β_0 is the model constant or intercept.
- β_1 related to the independent variable Loan Conditions
- β_2 related to the independent variable Number of years in operation
- β_3 related to the independent variable availability or possession of a business plan.
- β_4 related to the independent variable on preparation of Financial Statements
- β_5 related to the independent variable on the level of Financial Literacy of the owner of the business
- β_6 relates to the moderating variable, Economic conditions represented by the inflation rate
- ε_t related to the error term

Overview of Results

The regression results are summarized in the following table:

Table: 4.2a: Regression Analysis

Variable	Standardized Coefficients (Beta)	Std. Error	t	Sig. (p-value)
const	14.3169	22.6918	0.6309	0.5297
Loan_Conditions	0.6241	0.3374	1.8497	0.0676
Ops_Yrs	(0.2328)	1.1382	(0.2045)	0.8384
Financial_Statements	0.4397	0.1931	2.2771	0.0251
Financial_Literacy	0.0845	0.0807	1.0466	0.2981
Business_Plan	0.0938	0.0799	1.1744	0.2433
Econ_Condition	(3.4663)	4.7951	(0.7229)	0.4716
Interaction_Loan_Conditions	0.1866	0.0690	2.7036	0.0082
Interaction_Ops_Yrs	0.5187	0.2294	2.2608	0.0262
Interaction_Financial_Statements	0.2749	0.0386	7.1156	0.0000

Interpretation of Results

a) Constant - Beta: 14.317, t-value: 0.631, p-value (Sig.): 0.530

- The constant depicts the expected outcome when all independent variables are at zero.
- Given the $p > 0.05$, the constant is not statistically significant. This means that it does not contribute meaningful explanatory effects to the regression model.
- This is as expected in regression models, because the constant alone is not the focus of analysis.

b) Loan Conditions - Beta: 0.624, t-value: 1.850, p-value (Sig.): 0.068.

- In the absence of the moderating variable, this variable has a positive coefficient (0.624) suggests that better loan conditions are associated with higher access to finance.
- The p-value is slightly above the 0.05 threshold. However, when this variable interacts with the moderating variable (inflation rate) loan condition as a variable becomes statistically significant with a p-value of 0.0082.

- This result may indicate that loan conditions, such as interest rates and loan tenor when considered in light of inflationary pressure, become very important as shown by the very low p-value of 0.0082.
- c) Years in Operation: Beta: -0.233, t-value: -0.205, p-value (Sig.): 0.838.
- The coefficient is negative, meaning that more years in operation slightly reduce access to credit, though this is not statistically significant.
 - The p-value is way above the 0.05 threshold, However, when this variable interacts with the moderating variable (inflation rate) Years in operation as a variable becomes statistically significant with a p-value of 0.0262.
 - This result indicates that years in operation when considered in light of inflationary pressure become very important as shown by the very low p-value of 0.0262.
- d) Business Plan: Beta: 0.0938, t-value: 1.1744, p-value (Sig.): 0.2433.
- The coefficient is positive, though very low, meaning that an SME posing a business plan slightly increases their chances of accessing credit, though this is not statistically significant.
- e) Financial Statements: B: 0.44, t-value: 2.277, p-value (Sig.): 0.025
- The positive coefficient (0.440) indicates that better financial statement practices significantly improve financial performance.
 - The low p-value ($0.025 < 0.05$) confirms statistical significance at the 5% level and therefore we reject the null hypothesis.
 - This means that maintaining well-documented financial statements plays a crucial role in SMEs access to finance from banks.
- f) Financial Literacy: Beta: 0.084, t-value: 1.047, p-value (Sig.): 0.298
- A positive coefficient (0.084) shows that the financial literacy level of the SME owner improves chances of accessing credit from banks.
 - This means that financial literacy when interacting with the moderating variable predicts financial success.

g) Moderating Variable: Inflation Rate (Economic Condition)

The data was tested for the effect of inflation rate (Economic Conditions) on the independent variables.

- The results show positive effects on independent variables and that the effects are statistically significant across all three variables tested.
- This means that inflation impacts the way other financial factors (like loan conditions and financial statements) affect access to finance for SMEs in the private healthcare sector in Lusaka.
- This indicates that economic conditions, particularly the inflation rate, have a significant impact on the strength of factors affecting access to finance, which is consistent with expectations.

Model Summary

The regression analysis results are presented in the following summary table:

Table 4.2b: Regression analysis results

Model	R	Adjusted R ²	Std. Error of the Estimate	df1	df2
Regression Model	0.932	0.9298	10.495	3	300

- R = 0.932: This R value shows a strong positive link between independent variables and the dependent variable. An R value near 1 indicates that a large part of the variation in the dependent variable is explained by the independent variables.
- This shows a very strong model fit, suggesting that the independent variables and their interaction with inflation play a major role in predicting financial performance.
- Adjusted R² = 0.9298: This adjusted R² gives a better evaluation of how well the model fits by considering the number of independent variables in the model. With the Adjusted R-squared (0.9298) being very close to R-squared (0.932), meaning that the model is not overfitting. This suggests that most of the independent variables included in the model are good estimators of an SMEs ability to access finance.

- And only a very small portion of the variability is due to irrelevant predictors.
- The standard error of the estimate is 10.495, which shows the average difference of observed values from the regression line.
- Future studies could add more variables or look at how the factors considered in this study change over time or in different settings.

Based on the results from the regression analysis, the independent variables have a substantial impact on the dependent variable. With a high R-value and Adjusted R², the model demonstrates a good fit. The statistical significance of various predictors indicates the importance of operational years, financial reviews, and the presence of a business plan in influencing the dependent variable. Future research may incorporate additional variables or investigate the impact of these factors over time or in different contexts.

4.3 Supply Side challenges banks face in providing loans to SMEs in the private healthcare sector

This part of the study explains the findings from the interviews conducted with representatives of Commercial banks on the factors that cause banks to not offer loans to SMEs in the private health sector. The main themes arising from the interviews include major issues such as how institutions operate, and views on risk. A total of 13 financial institutions were interviewed.

The results are arranged to directly align with the main research goals, using both statistical and thematic approaches, along with graphs and tables that help clarify trends, distributions, and connections in the data.

From the survey conducted among 13 financial institutions, a staggering 76.9% indicated that they do not offer tailored financing products designed for SMEs within the healthcare sector. Only 23.1%, equating to three institutions, confirmed the availability of such tailored products. This indicates a significant gap in the provision of sector-specific financial services for healthcare SMEs, as illustrated in Table below.

Table 4.3a: Tailored Financing Products

Response	Count	Percentage	
Yes	3	23.10%	
No	10	76.90%	

When asked about the proportion of SME clients from the healthcare sector, the responses indicated a spread distribution:

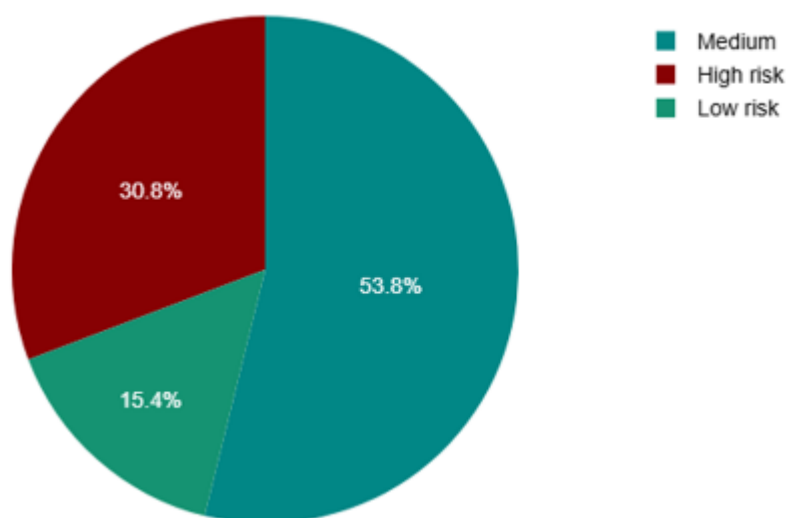
The representation of healthcare SMEs within institutional portfolios is as follows:

- 53.8% of institutions reported that healthcare SMEs make up less than 5% of their clientele.
- 30.8% indicated these SMEs constitute between 5% and 10% of their portfolio.
- Only 15.4% reported higher involvement, with 10%-20% of their SME clients from the healthcare sector.

This distribution suggests an underrepresentation of healthcare SMEs, pointing to an underserved sector that may not be strongly prioritized by financial institutions.

Financial institutions' perceptions of the risk associated with lending to healthcare SMEs vary.

Figure 4.3b: Risk perception



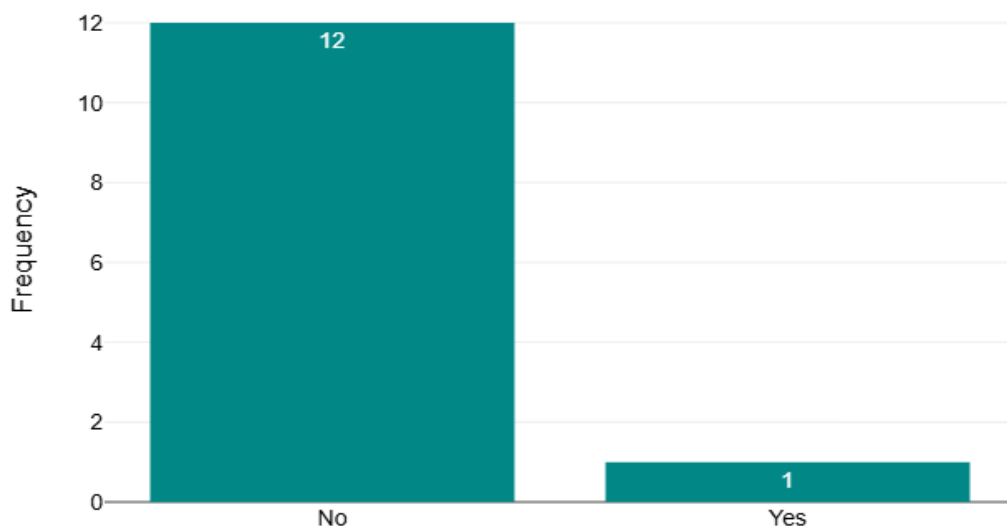
The interview responses show a complex view of how financial institutions see the risk in lending to small and medium-sized healthcare enterprises (SMEs). This view greatly affects lending methods, the types of products available, and the overall financial help for these businesses.

- Medium Risk (7 Institutions): Most institutions consider lending to healthcare SMEs to be medium risk. This view reflects an understanding of the special issues in healthcare, like inconsistent cash flows, regulatory challenges, and changes in patient populations. Even with these issues, institutions often see the chance for profit and positive social effects. However, being labeled medium risk may make institutions more careful, leading to higher interest rates or stricter collateral demands for healthcare SMEs. This careful stance might discourage SMEs from seeking loans, as they may find the terms not as good as those offered to other sectors.
- High Risk (4 Institutions): A smaller yet notable number of institutions see healthcare SMEs as high-risk borrowers. This view could come from rising operational costs, the risk of non-repayment during tough economic times, and worries about the financial strength of small healthcare providers. Institutions that categorize them as high risk might set strict loan criteria, limit the credit amount, or refuse to provide funding altogether. This can greatly restrict healthcare SMEs, hindering their growth and capacity to deliver important services.
- Low Risk (2 Institutions): Just two institutions consider healthcare SMEs to be low-risk borrowers. This indicates these banks have a strong grasp of the healthcare sector's issues and trust the creditworthiness of their applicants. Institutions that see low risk could offer better loan terms, such as lower interest rates and more flexible repayment options. This supportive view can motivate healthcare SMEs to seek funding to grow their businesses or make essential upgrades.

Does your institution use different credit assessment criteria for healthcare SMEs compared to other sectors?

When asked if there are different credit assessment criteria for healthcare SMEs, nearly all institutions (12 of 13) said they do not use distinct measures. This shows a standard method that might not address the specific needs of the healthcare industry.

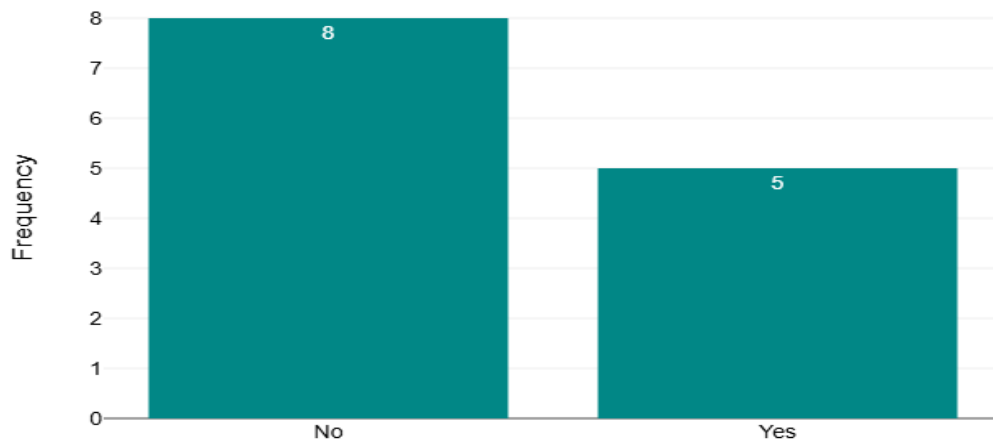
Figure 4.3c: Credit assessment criteria



In surveying institutions on whether they apply different credit assessment methods for healthcare SMEs versus other sectors, a notable 12 out of 13 said they do not. This consistent approach points to a general trend in how financial entities view and assess healthcare firms, but it brings up important concerns.

Regarding training programs for staff on assessing loans for healthcare SMEs

Figure 4.3d: Training programs for staff



In the 13 banks looked at, 8 said they don't give specialised training to staff for the special needs of healthcare SMEs, while 5 said they do offer this training. This shows a lack of focused training that might help in better understanding and supporting financing for healthcare SMEs. These responses about training programs for staff who assess loans for healthcare SMEs reveal a clear shortfall in the readiness of these banks to properly support the sector.

5 Discussion of Findings

5.1 Demand-Side Descriptive Insights

5.1.1 Healthcare Facility Classification

The study included a total of 304 SMEs in the healthcare sector, with responses exclusively from clinics (65%) and pharmacies (35%). Other healthcare facilities, such as laboratories, did not participate, which may indicate either a lack of interest or other industry-specific barriers to engagement in financial studies.

5.1.2 Business Duration and Sustainability

A significant proportion (64%) of SMEs reported operating for over six years, suggesting stability and potential reliability in revenue generation. This operational longevity is advantageous for financial institutions as it indicates lower default risks. However, 13% of respondents had been in operation for

only 1-3 years, highlighting a subset of SMEs that may struggle with financial stability and establishing a credit history, which are key considerations for lenders.

5.1.3 Financial Literacy and Business Planning

The study revealed critical gaps in financial literacy, with 33% of SMEs acknowledging inadequate financial knowledge. This deficiency may contribute to difficulties in preparing persuasive loan applications and business proposals, ultimately restricting access to credit. Additionally, 57% of respondents admitted to not having a written business plan, further limiting their ability to secure financing. Since banks often require structured business plans, the lack of this documentation presents a significant challenge for SMEs.

5.1.4 Loan Application Trends

Less than 50% of respondents had applied for a bank loan in the past three years. Among the 204 SMEs that did not apply, the primary reasons included high interest rates (97 responses), inadequate collateral (31 responses), and complex documentation requirements (19 responses). A combination of these factors was cited by 21 SMEs. These findings indicate that perceived financial barriers deter many SMEs from seeking formal financing, resulting in limited financial inclusion within the sector.

5.1.5 Loan Application Success Rate

For the 100 SMEs that applied for bank financing, only 14% were successful, with 86% experiencing loan rejections. This high rejection rate underscores the stringent lending criteria and regulatory requirements that SMEs struggle to meet. The findings suggest that financial institutions may not be adequately accommodating the unique operational and financial characteristics of healthcare SMEs.

5.1.6 Perceived Bank Support for Healthcare SMEs

The study found a significant perception among SMEs that banks do not cater to their financial needs. Many SMEs expressed dissatisfaction with the lack of tailored financial products. Banks were viewed as rigid and unresponsive to the operational constraints of healthcare providers, particularly concerning

regulatory compliance and specialized equipment financing. These perceptions contribute to a lack of trust and reluctance among SMEs to engage with banks for financial support.

5.1.7 Financial Challenges and Need for Advisory Services

The most prevalent financial challenges reported by SMEs included cash flow management, inventory procurement, equipment acquisition, and business expansion, with 30% highlighting these as major concerns. Additionally, 41% of SMEs identified a strong need for financial literacy training, business planning, and cash flow management support. The demand for external advisory services suggests that healthcare SMEs require more structured financial guidance to navigate banking procedures and improve financial management.

5.1.8 Regression Analysis Findings

A multiple regression analysis was conducted to determine the impact of various factors on access to finance. Key findings include:

- **Loan Conditions (Interest Rates and Collateral Requirements):** The result indicate that years in operation when considered in light of inflationary pressure, become very important as shown by the very low p-value of 0.0082. The coefficient (0.624) suggests that better loan conditions are associated with higher financial access, but the p-value (0.068) indicates only marginal statistical significance. This suggests that while interest rates and collateral requirements are barriers, SMEs often turn to alternative lenders despite higher costs.
- **Years in Operation:** The negative coefficient (-0.233) and high p-value (0.838) indicate that the number of years in operation is not a strong predictor of access to finance. However, the result further indicates that years in operation when considered in light of inflationary pressure, become very important as shown by the very low p-value of 0.0262
- **Business Plan Availability:** A positive but weak coefficient (0.0938) and suggest that having a business plan slightly improves credit access, especially when interacting with the moderating variable.

- Financial Statements Preparation: This variable was statistically significant (B=0.44, p=0.025), indicating that SMEs maintaining well-documented financial records have better chances of accessing finance.
- Financial Literacy: The coefficient (0.084) suggests a positive impact on credit access.
- Economic Conditions (Inflation Rate): The results showed that inflation significantly influences the strength of other financial factors affecting SME access to finance.

5.2 Supply-Side Challenges in SME Lending

5.2.1 Limited Tailored Financial Products

Interviews with 13 financial institutions revealed that 76.9% of banks do not offer tailored financial products for healthcare SMEs, with only 23.1% providing sector-specific solutions. This lack of customized financial support may explain why healthcare SMEs struggle to secure bank financing.

5.2.2 Underrepresentation of Healthcare SMEs in Banking Portfolios

The study found that healthcare SMEs represent a small proportion of bank clients:

- 53.8% of institutions reported that healthcare SMEs constitute less than 5% of their SME clientele.
- 30.8% indicated a range of 5-10%.
- Only 15.4% reported a 10-20% involvement.

This underrepresentation suggests that healthcare SMEs are not a priority for banks, potentially leading to reduced access to financial services.

5.2.3 Risk Perceptions Among Banks

Most financial institutions categorized healthcare SMEs as medium-risk borrowers, citing factors such as regulatory compliance, operational costs, and inconsistent cash flow. Four institutions classified them as high-risk due to concerns over financial sustainability, while only two banks perceived them as low-risk borrowers. This risk perception influences lending policies and results in stricter requirements for healthcare SMEs.

5.2.4 Standardized Credit Assessment Criteria

12 out of 13 banks reported using the same credit assessment criteria for healthcare SMEs as for other sectors. This standardized approach may not fully account for the unique financial dynamics of healthcare businesses, potentially disadvantaging SMEs that require sector-specific evaluation metrics.

5.2.5 Lack of Specialized Training for Bank Staff

The study found that 8 out of 13 banks do not provide specialized training for staff in assessing healthcare SME loan applications. The lack of industry-specific knowledge among loan officers may contribute to the reluctance of banks to lend to healthcare SMEs and reinforces perceptions of inadequate financial support.

6 Conclusion and Recommendations

6.1 Conclusions

So, to sum up, this study shows big problems with money access for small and medium-sized healthcare businesses in Lusaka. On the demand side, data points out a clear gap due to high interest rates, issues with collateral, complicated paperwork, and low financial understanding when interacting with the moderating variable. These problems make healthcare businesses unsure about getting formal loans and they might pick less reliable or more expensive options instead. To fix these issues, there is need for major policy changes so that finance becomes more available for everyone. Creating better financial solutions and training programs to help the SMEs in the healthcare sector learn how to get loans.

Also, the results point out important supply side issues that slow down growth in Lusaka's healthcare businesses. It has been noted that Banks often lend carefully because they see healthcare businesses as risky. This view means there are few suitable loan options for them which limits their funding chances. To tackle this problem, banks must think outside the box and design special loan products that match what healthcare businesses actually need. It's also very important for banks, healthcare providers, and government officials to

partner up in a way that meets the unique financing needs of these businesses.

Moreover, getting stakeholders involved through regular talks among banks, healthcare companies, and regulators can create teamwork in solving financial problems in health care. By building these connections, everyone can help make a system that not only fixes immediate money issues but also supports long-term growth in health care.

In the end, following these suggestions will improve access to good healthcare for people in Lusaka and help overall health outcomes too. When healthcare businesses have better access to funds, they'll be able to invest in new medical technology, hire skilled staff, and grow their services to meet more demand. By focusing on improving financial access for healthcare companies, Zambia can better its citizens' health while boosting economic stability. If strategies from this study are successfully put into action, it will strengthen healthcare companies' roles in offering quality services while addressing urgent community health needs effectively over time.

6.2 Recommendations

Given the constraints faced by Small and Medium-sized Enterprises (SMEs) in the private healthcare sector in Lusaka, Zambia, here below are some recommendations:

6.2.1 SME Recommendations:

- **Boosting Financial Know-How and Management Skills:**
 - **Focused Financial Know-How Training:** Put together specific training that fits what healthcare businesses need, covering things like budgeting, credit management, and investment.
 - The training should cover banks as well to empower the banks with knowledge of how the 'perceived high risk sector' works which they come to appreciate to not being that risky at all.
 - **Mentorship and Peer Help Groups:** Start mentorship setups where experienced SMEs team up with newer SMEs to share knowledge and give practical tips.

- Get Better at Business Planning and Financial Keeping
 - Business Plan Help: Give support for SMEs to create strong business plans or link them with advisors who can help craft strategies for growth and keeping the business alive.
 - Better Financial Record-Keeping: Train on how to keep financial records correctly so that SMEs can make smart choices that appeal to lenders.
- Get Access to Info and Resources
 - Central Info Hub: Build an online space where financing options, government aid programs, and bank needs are all in one place for easy access by SMEs.
 - Advisory Support: Allow access to finance experts who can assist SMEs through loan applications, clarify bank needs, boosting chances of getting loans.
- Tackle Specific Problems:
 - Collateral Alternatives: Look into promoting alternatives like microloans or loans backed by the government instead of strict collateral rules that many SMEs find hard.

6.2.2 Flexible Loan Products:

- Get banks to come up with loan options with flexible payment terms that fit the ups-and-downs of the cash flows within the healthcare sector like grace periods or adjustable interest rates.
- Banks should also consider rolling out products like Equipment Financing or Asset Financing as it has indicated from the study that the majority of respondents seek financing for purchasing equipment. These are some of the similar products that banks are offering to the other sectors like agriculture-farming equipment loans.

6.2.3 Bolstering Bonds with Banks

- Ongoing Stakeholder Meetings: Hold regular meetups or sessions combining SMEs, bank reps, and policy makers to talk about

problems, swap stories, and work jointly on solutions for accessing funds.

6.2.4 Acknowledgment Programs for Supportive Lending Institutions:

- Set up programs rewarding banks showing they care about helping healthcare SMEs via special loan products and support services. This is to encourage more SMEs to access loans like the current Agriculture Loans being offered by the government and administered through banks.

6.2.5 Feedback Systems for Ongoing Adjustments:

- Create Feedback Routes: Set up ways for SMEs to share thoughts on their dealings with banks so lenders can tweak their offers based on what clients say.

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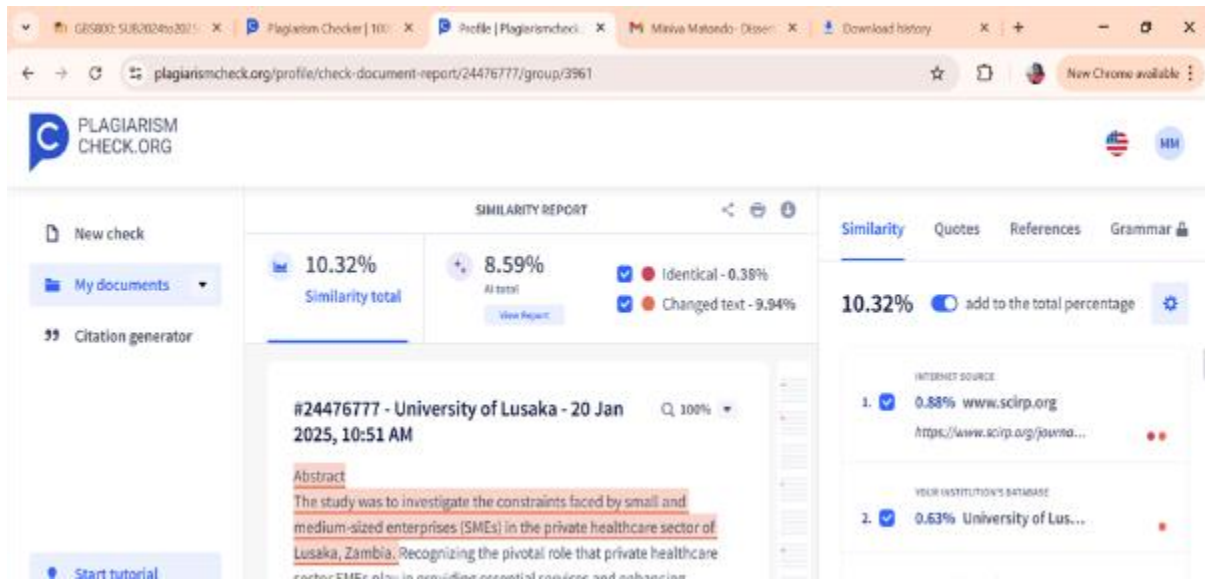
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<https://sdgs.un.org/goals>

8 Appendices

8.1 Similarity Report



The screenshot displays a web browser window with the URL plagiarismcheck.org/profile/check-document-report/24476777/group/3961. The page title is "SIMILARITY REPORT". The main content area shows a similarity score of 10.32% (Similarity total) and a breakdown of 8.59% AI total. The breakdown includes: Identical - 0.38%, Changed text - 9.94%, and a "View Report" link. The document being checked is titled "#24476777 - University of Lusaka - 20 Jan 2025, 10:51 AM" with a search depth of 100%. The abstract text is highlighted in red, indicating a match: "The study was to investigate the constraints faced by small and medium-sized enterprises (SMEs) in the private healthcare sector of Lusaka, Zambia. Recognizing the pivotal role that private healthcare sector SMEs play in providing essential services and addressing". The right sidebar shows a list of sources: "INTERNET SOURCE" with 1. 0.88% from www.scrip.org and "YOUR INSTITUTION'S DATABASE" with 2. 0.63% from University of Lusaka.

8.2 Demand side questionnaire

Constraints facing SMEs in the Private Healthcare Sector in accessing Finance from Banks in Lusaka

Dear Respondent,

My name is Miniva Matondo, a student at the University of Lusaka pursuing a master's degree in business administration in Finance under the School of Postgraduate Studies. I am conducting academic research on the constraints faced by SMEs in the private healthcare sector in accessing finance from banks in Lusaka, Zambia.

The primary objective of this questionnaire is to gather information on the demand-side constraints that hinder SMEs in the private healthcare sector from securing financing from banks within Lusaka.

I sincerely appreciate your time and effort in responding to the questions. Please be assured that all your responses will be kept confidential and used solely for academic purposes.

Thank you for your valuable time and support.

SECTION ONE: General Information

1. Type of your healthcare facility?
 - o Clinic
 - o Hospital

- Pharmacy
- Diagnostic Centre
- 2. How many years has your facility been operational?
 - Less than 1 year
 - 1-3 years
 - 4-6 years
 - More than 6 years
- 3. How many employees does your facility currently employ?
 - 1-5
 - 6-15
 - 16-30
 - More than 30

SECTION TWO: Financial Literacy and Planning

- 4. How would you rate your knowledge of financial management (e.g., cash flow, loans, investments)?
 - Excellent
 - Good
 - Fair
 - Poor
- 5. Do you have a formal business plan or strategy for accessing external financing?
 - Yes
 - No
- 6. Do you prepare Financial Statements for your business?
 - Yes
 - No
- 7. If yes to Question 6, How often do you review your financial records?
 - Monthly
 - Quarterly
 - Annually
 - Rarely

SECTION THREE: Access to Financial Products

8. Have you applied for a bank loan or financing in the last three years?

- Yes
- No

9. If No, what prevented you from applying?

- Lack of knowledge about financial options
- Lack of collateral
- High Interest rates
- Complex Documentation

10. If yes, was your loan application approved?

- Yes
- No

11. What were the primary challenges in accessing bank financing?

(Select all that apply)

- Lack of collateral
- High interest rates
- Short repayment periods
- Documentation requirements

12. How do you currently finance your operations

- Personal funds
- Bank loans
- Family or friends
- Microfinance institutions

SECTION FOUR: SME Perception of Banks

13. How supportive do you find bank policies and loan criteria for SMEs in healthcare?

- Supportive
- Not sure
- Unsupportive

14. What improvements in bank financing services would be benefit your r healthcare facility?

- o Reduced collateral requirements
- o Lower interest rates
- o Longer repayment terms
- o Sector-specific loan products
- o Simplified documentation requirements

SECTION FIVE: Operational Constraints and Cashflow Management

15. How often do you face cash flow challenges, such as insufficient funds for the day-to-day operations of your healthcare facility?

- o Never
- o Sometimes
- o Most of the time

16. What are the main financial challenges affecting your facility's operation?

(Select all that apply)

- o Cash flow management
- o Inventory/equipment financing
- o Payroll funding
- o Expansion needs

SECTION SIX: Regulatory and Economic environment

17. Do you believe the regulatory environment supports SME in accessing financing?

- o Agree
- o Not sure
- o Disagree

18. What external factors most impact your ability to access financing?

(Select all that apply)

- o Economic conditions (inflation, exchange rates)
- o Government policies
- o Low demand for healthcare services

SECTION SEVEN: Recommendations and Future Needs

19. What type of financial guidance or resources would benefit your facility most?

(Select all that apply)

- o Financial literacy workshops
 - o Business planning support
 - o Cash flow management tools
 - o Advisory services on loan applications
20. How likely are you to seek bank financing in the future?
- o Likely
 - o Not sure
 - o Not likely

21. Please share any additional feedback on challenges or opportunities for accessing financing in the healthcare sector:

Thank You

Your responses will provide valuable insights to address financial challenges and help improve access to financing for SMEs in the private healthcare sector.

8.3 Supply side Interview guide

Dear Respondent,

My name is Miniva Matondo, a student at the University of Lusaka pursuing a Master of Business Administration in Finance under the School of Postgraduate Studies. I am conducting academic research on the constraints faced by SMEs in the private healthcare sector in accessing finance from banks in Lusaka, Zambia.

The primary objective of this interview is to collect information on supply-side constraints that limit banks' ability to provide financing to SMEs in the private healthcare sector.

I sincerely appreciate your time and effort in responding to the questions. Please be assured that all your responses will be kept confidential and will contribute to identifying practical solutions to improve access to financing for SMEs in the healthcare sector.

Thank you for your valuable time and support.

SECTION ONE: Institutional Profile

1. Does your institution currently offer tailored financing products for SMEs in the healthcare sector?

.....

2. What percentage of your SME clients are from the healthcare sector?

.....

SECTION TWO: Lending Policies and Practices

3. How would you describe your institution's lending policies for SMEs in the healthcare sector?

.....

4. What are the primary challenges your institution faces when lending to SMEs in the healthcare sector? (Select all that apply)

- Lack of financial records
- Lack of collateral
- High perceived risk of the healthcare sector
- Regulatory and compliance requirements
- Other (please specify): _____

5. What is the most common reason for rejecting SME loan applications from the healthcare sector? (Select all that apply)

- Lack of financial records
- Lack of collateral
- High risk of default
- Non-compliance with bank lending criteria
- Incomplete or inaccurate documentation
- Lack of sector-specific understanding by the bank
- Other (please specify): _____

SECTION THREE: Risk Perception and Credit Assessment

6. How does your bank perceive the level of risk in lending to SMEs in the healthcare sector compared to other sectors?

.....

7. What specific factors contribute to the perceived risk of lending to SMEs in the healthcare sector? (Select all that apply)

- Collateral limitations
- Unclear business models, complicating risk assessment
- Insufficient lending experience in the sector
- Other (please specify): _____

8. Does your institution use different credit assessment criteria for healthcare SMEs compared to other sectors?

.....

9. If YES, please specify the additional or modified criteria applied to healthcare SMEs

.....

SECTION FOUR: Regulatory and Economic Factors

10. How do current regulations affect your ability to lend to SMEs in the healthcare sector?

.....

11. How do economic factors such as inflation or currency fluctuations impact your institution's willingness to lend to healthcare SMEs?

- Collateral requirements mandated by regulatory bodies
- Central bank-imposed interest rate caps
- Sector-specific compliance and reporting obligations
- Other (please specify): _____

12. Does your institution have specific training programs for staff on assessing loans for healthcare SMEs?

.....

SECTION FIVE: Institutional Capacity and Awareness

13. What are the key barriers to developing sector-specific loan products for healthcare SMEs?

.....

14. Would you consider sector-specific partnerships (e.g., with healthcare associations or government bodies) to improve financing for healthcare SMEs?

.....

SECTION SIX: Recommendations and Future Opportunities

15. What measures could help reduce the perceived risk of lending to healthcare SMEs? (Select all that apply)

- Government-backed loan guarantees
- Improved financial literacy among SME owners

- o Increased access to reliable market data for healthcare SMEs
- o Specialized credit assessment tools for healthcare SMEs
- o Other (please specify): _____

16. What types of sector-specific financial products would you consider offering for healthcare SMEs?

.....

17. Please provide any additional insights or suggestions for improving access to finance for SMEs in the healthcare sector

.....

Thank You

Your insights are crucial to understanding and addressing supply-side constraints in financing SMEs within the healthcare sector in Lusaka.

8.4 Ethical clearance letter

