

An Analysis of Barriers to Finance for Young Entrepreneurs in Lusaka and Kitwe, Zambia

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Abstract: *This study analysed barriers to finance faced by young entrepreneurs (18-35 years) in Lusaka and Kitwe, Zambia, and assessed how these barriers affect enterprise growth and sustainability. Using a mixed-methods, descriptive cross-sectional design, the research combined a survey of youth entrepreneurs (n=140), focus group discussions (n=40), and semi-structured interviews with entrepreneurs and key stakeholders (n=20). Results show that lack of collateral (45%) and high interest rates (35%) are the most frequently reported barriers, while limited financial literacy (15%) and complex application procedures (5%) remain important constraints. Although half of respondents used commercial banks, rigid lending criteria and documentation requirements were widely perceived as exclusionary, particularly for women. Microfinance institutions were rated more effective (mean=3.8/5) than government programs (3.5/5) and commercial banks (2.9/5). Youth entrepreneurs increasingly prefer alternative models such as crowdfunding, peer-to-peer lending, and digitised community savings pools, signalling demand for cash-flow-based and trust-enabled finance. The paper recommends reforms to youth financing architecture, including alternative credit scoring, streamlined government funding processes, strengthened consumer protection in digital lending, and integrated financial capability support to improve inclusion and business outcomes.*

Keywords: *Youth entrepreneurship; access to finance; collateral; interest rates; financial literacy; alternative finance; Zambia.*

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I. INTRODUCTION

Youth entrepreneurship is increasingly central to Zambia's economic transformation agenda, particularly amid high youth unemployment and rapid demographic growth. A large proportion of the population is below 35 years, and youth-led enterprises represent an important pathway for innovation, job creation and poverty reduction (ILO, 2020; African Union, 2015). Lusaka and Kitwe are key urban economic nodes, hosting diverse youth-owned micro, small and medium enterprises (MSMEs) across services, retail, light manufacturing and value chains linked to urban consumption.

Despite policy recognition of the role of youth enterprise, limited access to finance remains a binding constraint on start-up, survival and scaling. Formal lenders typically require fixed-asset collateral—often land titles—while youth are less likely to possess such assets due to structural inequalities and restrictive property ownership pathways (Tembo, 2022). High borrowing costs further reduce affordability and elevate repayment risk for early-stage businesses (Beck & Demirguc-Kunt, 2006; Ngoma, 2021). As a result, many young entrepreneurs rely on informal mechanisms or high-cost lenders, which can trap firms in debt cycles and constrain productive investment.

Zambia has implemented initiatives intended to improve access to finance for youth entrepreneurs, including empowerment and public funding schemes. However, evidence frequently points to implementation gaps such as delays, limited awareness, politicisation and weak monitoring, resulting in exclusion of intended beneficiaries (Chisanga & Mulenga, 2018; Ndhlovu, 2023). Digital finance and fintech are often presented as solutions, but they can reproduce exclusion where infrastructure, literacy and regulation are weak (Mader, 2018; World Bank, 2023).

This study analyses financial barriers affecting youth entrepreneurs in Lusaka and Kitwe and proposes practical financing approaches aligned to youth enterprise realities.

Objectives. The study aimed to (i) identify key financing barriers, (ii) evaluate the perceived effectiveness and inclusivity of available support systems, and (iii) propose youth-oriented financial models that enhance access to finance and business sustainability.

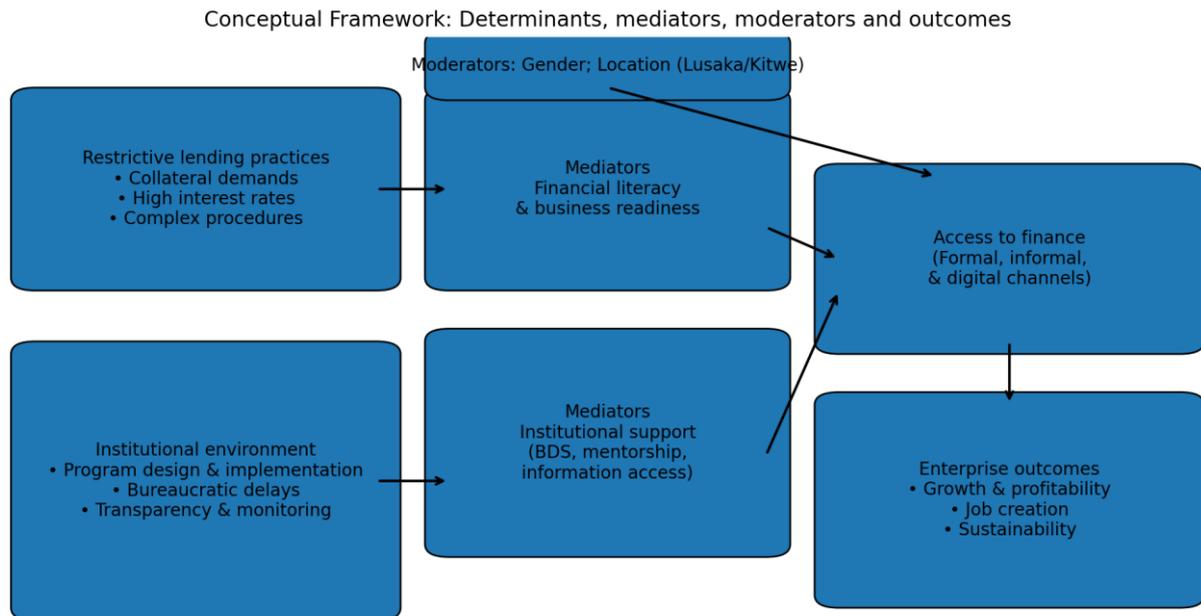


Figure 0: Conceptual framework linking determinants of access to finance, mediators, moderators and enterprise outcomes.

II. METHODOLOGY

The study adopted a descriptive cross-sectional design using a mixed-methods approach integrating quantitative and qualitative techniques to capture both measurable patterns and lived experiences (Welman & Kruger, 2002). The study sites were Lusaka and Kitwe, selected as major urban economic centres with concentrations of youth-led MSMEs.

The total sample size was 200 participants: 140 youth entrepreneurs completed structured questionnaires, 40 youth entrepreneurs participated in focus group discussions (eight groups of five participants), and 20 semi-structured interviews were conducted with youth entrepreneurs and key stakeholders (financial institution representatives and policymakers). Stratified random sampling was used for the survey, while purposive and convenience approaches were applied for interviews and focus groups.

Quantitative data were coded and analysed using SPSS (descriptive statistics and cross-tabulations). Qualitative data were analysed using thematic analysis, coding transcripts into themes aligned to the research objectives. Ethical considerations included informed consent, confidentiality and voluntary participation.

III. DISCUSSION

The findings suggest that youth financial exclusion is driven primarily by structural financial system design rather than a lack of entrepreneurial potential. Under Credit Rationing Theory, lenders respond to uncertainty by raising collateral thresholds and restricting credit to groups perceived as high-risk (Stiglitz & Weiss, 1981). This study's evidence of collateral-driven rejection indicates that risk is managed through asset screening rather than cash-flow assessment.

Institutional Theory helps explain the gap between policy intent and programme delivery. Although empowerment initiatives exist, delays, opaque procedures and reported rent-seeking practices raise transaction costs and discourage uptake, particularly for smaller and first-time applicants (Meyer & Rowan, 1977; Ndhlovu, 2023).

Digital finance shows mixed outcomes. While it can reduce distance and paperwork, opaque pricing and punitive penalties can create adverse inclusion, reinforcing distrust and limiting adoption (Mader, 2018; World Bank, 2023). At the same time, youth reliance on peer networks and community savings pools reflects the role of social capital in overcoming exclusionary formal systems.

IV. FINDINGS

Table 1: Demographic profile of respondents (n=200)

Attribute	Category	Frequency	Percentage
Gender	Male	114	57%
Gender	Female	86	43%
Age group (years)	19-24	80	40%
Age group (years)	25-30	60	30%
Age group (years)	31-35	60	30%

Table 2: Common financial barriers faced by youth entrepreneurs

Financial barrier	Frequency	Percentage
Lack of collateral	90	45%
High interest rates	70	35%
Insufficient financial literacy	30	15%
Complex application processes	10	5%

Figure 1: Reported financial barriers among youth entrepreneurs (n=200)

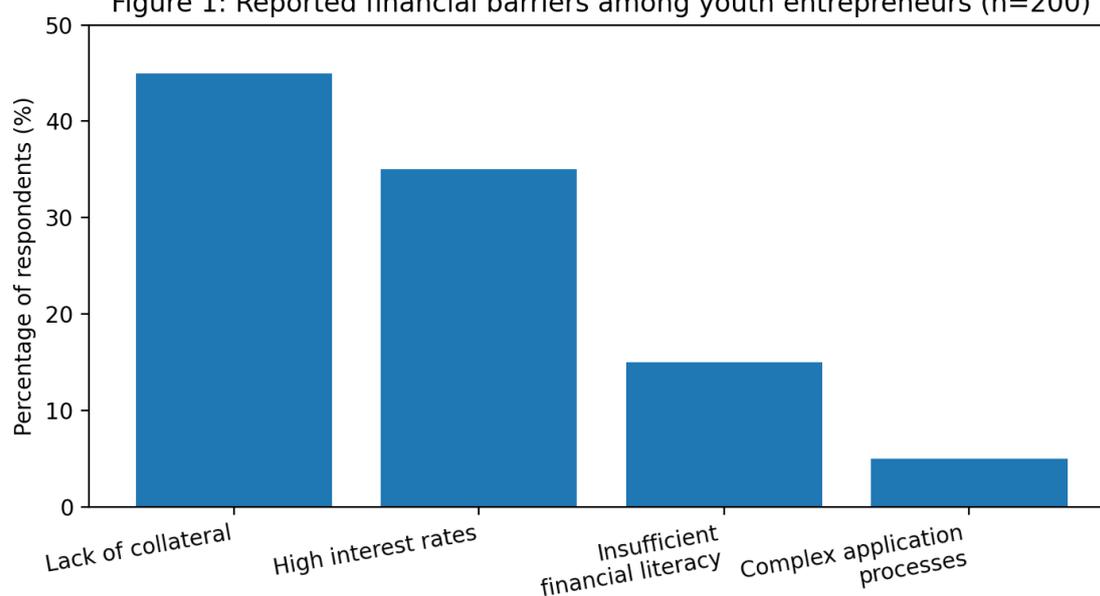


Figure 1: Proportional distribution of reported financial barriers (n=200).

Table 3: Perceived effectiveness of financial support systems (mean rating 1-5)

Institution/program	Mean rating
Microfinance institutions	3.8
Government programs	3.5
Commercial banks	2.9

Financial literacy results show uneven proficiency: budgeting (55%), credit management (50%), business taxation (40%) and investment principles (35%).

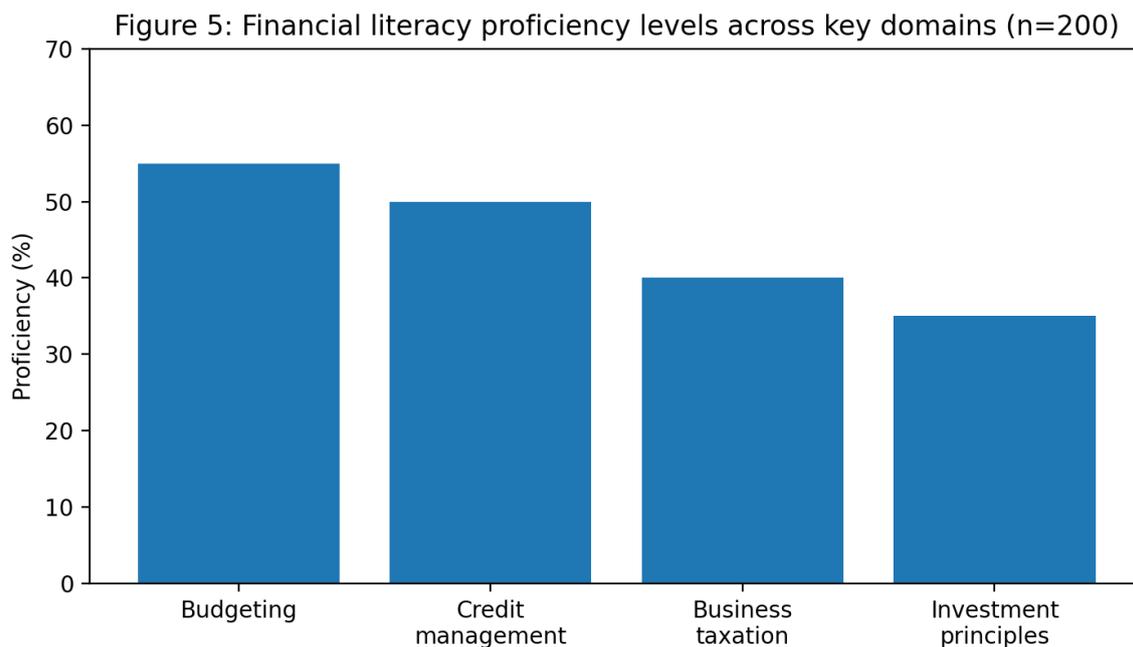


Figure 5: Financial literacy proficiency levels across key domains (n=200).

Qualitative evidence emphasised collateral and documentation barriers, with respondents noting that business plans alone were insufficient to secure credit. Female entrepreneurs reported additional procedural burdens and discriminatory practices, including requests for male guarantors. Government programs were commonly described as slow and unpredictable, increasing opportunity costs for applicants.

V. CONCLUSION

The study concludes that youth entrepreneurs in Lusaka and Kitwe face persistent barriers to finance dominated by collateral requirements and high borrowing costs, compounded by institutional inefficiencies and uneven financial capability. While microfinance and informal networks partially address financing needs, they remain insufficient for scaling youth enterprises sustainably.

Policy and practice reforms should prioritise youth-tailored products (cash-flow-based lending and revenue-sharing), streamlined and transparent public funding processes, strengthened consumer protection for digital lending, and integrated financial literacy (taxation, investment and digital credit comprehension). Gender-responsive approaches are essential to address documented exclusion in lending and program access.

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