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CHALLENGES OF ACCESSING BANK LOANS BY SMEs IN TANZANIA

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ABSTRACT

Purpose: This study assesses the challenges faced by Small and Medium Enterprises (SMEs) in Tanzania in accessing bank loans.

Design/Methodology/Approach: The research was conducted in Ilala Municipality, where a structured questionnaire was administered to 80 respondents. The study employed a multistage sampling followed by stratified sampling to categorise respondents based on the banks from which they sought loans: NMB Bank, CRDB Bank, and NBC Bank. Simple random sampling was utilised to sample subjects for the study. Multiple regression models were used to examine the effect of the dependent variables on the response.

Findings: Regression analysis revealed that the characteristics of SME owners (marital status, age, education) and bank requirements for loans (interest rates and collateral) significantly affect SMEs' ability to access loans. These findings imply that the characteristics of SME owners and bank requirements play a crucial role in limiting or enabling access to financial resources for SMEs.

Research Limitation: Because of financial constraints and time limitations, the data is limited to a particular area, especially the Ilala district and not the Dar es Salaam region. Hence, the data presented does not represent the issues across the entire Dar es Salaam region.

Practical Implication: Based on these findings, the study recommends that banks consider revising their loan requirements.

Social Implication: SME owners must enhance their financial literacy, including keeping a good record of business returns, to improve their chances of securing funding.

Originality/ value: The regression approach offers a more robust statistical foundation for understanding SME financing constraints than the descriptive or qualitative methods that dominate existing literature in this field.

Keywords: *Accessibility. bank loan. capital. investment. SMEs*

INTRODUCTION

Every country's Central Bank plays a pivotal role in overseeing national economies and ensuring financial stability. It often provides loans to commercial banks at favorable interest rates to maintain liquidity within the banking system. However, these commercial banks, in turn, are given

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the power to extend credit to businesses, including Small and Medium Enterprises (SMEs), which serve as the lifeblood of many economies.

SMEs are crucial to economic development, addressing a range of family, social, and economic challenges by providing goods and services that meet local needs while fostering innovation and job creation (Surya et al., 2021). In many countries, SMEs have been considered the backbone of the economy, contributing to employment and technological advancement. According to this study, SMEs maintain revenue, assets, and several employees to maintain flexibility and innovation. SMEs create a more competitive and sound economy, assisting big enterprises (Ojwang & Shau, 2021).

In Tanzania, SMEs are key players in developing the country's economy. They help reduce the number of unemployed youths and lead to more young people entering economic activities that help them run their lives and grow the country's economy.

The central bank in every country plays a pivotal role in overseeing national economies and ensuring financial stability, often providing loans to commercial banks at favorable interest rates to maintain liquidity within the banking system. However, these commercial banks, in turn, are given the power to extend credit to businesses, including SMEs, which serve as the lifeblood of many economies. Bebczuk (2018) reported that the government of Argentina has specific subsidy programs aimed at helping small businesses raise finance. In this programme, banks that offer the lowest interest rate receive higher quotas of up to 9 percentage points on loans to the private sector. Through commercial banks, the Tanzanian government has been helping SMEs obtain loans to start and develop businesses through the Local Government Authorities. Loans to SMEs have become an essential tool because they help SMEs deliver better customer service and lead to better and lasting business relationships.

Existing literature contends that the challenges of SMEs accessing bank loans have been affecting their growth and expansion (Kasambala, 2019). SME operators fail to access bank loans due to their inability to fulfil the conditions associated with providing loans to them. Access to bank loans remains a challenge that needs further study to understand the phenomenon that will suit the SMEs' owners and operators in acquiring loans from formal sources, particularly banks.

Nevertheless, in developing nations like Tanzania, about 82% of people have trouble accessing financial credit from financial institutions due to several challenges when applying for a bank loan. Cheng (2020) determined that 79% of people in developing countries lack access to conventional financial institutions and obtain financial services through informal channels, such as borrowing from acquaintances, close relatives, and money lenders. According to the FinScope report (2023), 67% of people in Tanzania borrow from family and friends as their primary source of credit.

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Kasambala (2019) established that there are standards that must be met by banks in order to access bank loans. These prerequisites include possessing physical collateral, capital, terms, and the ability to repay the loan.

This research explores the challenges SMEs face in accessing bank loans in Tanzania, focusing on characteristics of SME owners (such as marital status, age, and education) and bank requirements for loans (interest rates and collateral). By addressing the changes grounded on these characteristics, the study will provide insights that can help policymakers and bank institutions create more inclusive financial systems that better support the growth of SMEs.

LITERATURE REVIEW

Saunders and Schmeits (2019) on the study on loan pricing, collateral and covenants in Netherland and other developed countries showed that lack of sufficient collateral makes a small business borrower to be either turned down or to fill the gap up to 50% of the loan amount, where by the borrower has to pay an upfront fee of 3% to the Government. The absence of harsh lender liability laws in the Netherlands encourages banks to continue lending to small businesses.

In Tanzania, agreements (covenants) are commonly used in banks. No specific studies have been reported so far about debt agreements. Banks use debt agreements to safeguard themselves against possible non-repayments (Rashid, 2022), emphasising the risk management of commercial banks, especially asymmetric information problems and their effects on banks' risk management.

Banks mainly use collateral in debt agreements to provide loans to clients. Haron (2019) states that many factors affect individuals' loan access. These factors include management or character, collateral, initial capital, capacity, and condition. All these factors increase the chance of loan approval and the ability to repay the loan. Therefore, this study intends to bridge the gap between banks and SMEs by screening the factors contributing to it.

Based on monetary theory, the discount rate, in particular, states that central banks charge interest rates to commercial banks, which multiplies the level of investment that individual SME owners can invest. Abebe and Kegne (2023) discovered that 65% of those who applied for bank loans had their requests rejected, while others had chosen to forego applying since they were aware that they would not be approved for a loan owing to a lack of collateral security. The study highlighted collateral security as the primary criterion for obtaining loans and demonstrated the value of loans in business improvement.

When a business is located where there are many customers, it will grow and increase its profit. However, the business location can lead to the need for more funds to meet customers'

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expectations, and the business will have to seek additional funds from financial institutions to facilitate commercial activities.

Furthermore, Masaka (2022) outlined that firm size affects SMEs' access to credit from commercial banks, with small businesses being less preferred than large ones. As a result, it is speculative if there is a relationship between SMEs' access to credit and firm size. Since tangible assets tend to affect the availability of lengthy credit when necessary, the company's size significantly impacts the credit proportion in the firm's capital structure. Size can be used to replace insolvency because large businesses typically have well-diversified operations that shake their permanency. Small businesses find it more expensive to solve and meet the financial obligations that the lenders demand. The majority of businesses in Tanzania are SMEs, which are characterised by start-up challenges and growth constraints linked to a lack of funding.

MATERIALS AND METHODS

The study employs multistage sampling to select sampling units. The first stage involves sampling of Dar es Salaam City, while the second stage samples Ilala District, and the last stage focuses on the SMEs and banks located within the District. The study employed simple random sampling to select three banks in Ilala district; ie. NMB Bank, CRDB Bank and NBC Bank. Due to the time barrier, the study examines three commercial banks performing better than others regarding the number of customers and their ability to issue customer loans. The study employed a cross-sectional research design where data were collected at one point. The design assists data collection from a large population with the same aim at a single point in time. Gender, marital status, age, education, collateral requirements, interest rates, and reading level were the predictor variables addressed during data collection. These variables were referred to as barriers to bank loan accessibility.

Data were collected from 80 SME owners located in Ilala districts, the sample size was selected based on the following formula

$n = N/1+N(e)^2$

where, n = sample size
N= Population
e = Error term
$n= 100/1+100(0.05)^2$
n=80

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Frequency tables illustrated the data. Multiple regression models examined the effect of the dependent variables on the response. This model helped to determine the relative influence of predictor variables (IVs) on the outcome variable (DV) and also helped estimate unknown parameters of the study. The Statistical Package for the Social Sciences (SPSS)—IBM-SPSS Computer software version 26.0 was used for the analysis.

The multiple regression model used is shown below.
Regression Model: $Yi = \beta_0 + \beta_1X_1 + \beta_2 X_2 + \beta_3X_{3+} \beta_4X_{4+} \beta_5X_{5+} \beta_6X_{6+} \beta_7X_{7+}\mathcal{E}$

Where; Yi (DV) = Accessibility to loans (Amount of loan taken).
β_0 = A Constant term
$\beta_{1\text{-}7}$= Coefficient or parameter for the independent variable
$X_{1\text{-}7}$ = independent variables (socioeconomic characteristics)
$\mathcal{E}$ = error term

Validity and Reliability

Several references back up the theoretical study in the paper to confirm its validity and trustworthiness. To ensure reliability, the study standardises the measurement for all respondent categories to reduce external sources of variation such as boredom and biases.

Ethical Consideration

The study obtains data directly from individuals through face-to-face interviews and questionnaires. The researchers ensured confidentiality to protect sensitive information obtained from individuals.

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RESULTS AND DISCUSSION

Descriptive statistics

It represents the demographic of the respondents.

Table 1: Characteristics of owners of SMEs (n=80)

Social-economic factors	Categories	n	%
Gender	Female	47	58.7
	Male	33	41.3
Age	18-28	15	18.7
	29-38	28	35.0
	39-49	17	21.3
	50-59	17	21.3
	Above 60	3	3.7
Marital Status	Single	31	38.8
	Married	34	42.5
	Widow	13	16.3
	Divorced	2	2.4
Education	No formal	3	3.7
	Primary	17	21.3
	Secondary	22	27.5
	College	38	47.5
Collateral Requirements	Yes	71	88.7
	No	9	11.3
High Interest rate			
High		69	86.1
Normal		11	13.9

Results in Table 1 concerning gender show that 58.8% of respondents were female and 41.3% were male. A high percentage of women are seen because, compared to men, women are more likely to take risks when starting small businesses. The second issue is capital, and generally

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speaking, women tend to have less capital than men do. Also, the fact that most of the study's respondents (SME owners) were between 18 and 49 illustrates how youth are most involved in SMEs' productivity. Due to their involvement in various businesses, initiatives, and investments, youths are also the most active in obtaining loans. This encourages them to look for loans in order to achieve their goals.

However, according to the results in Table 1, 38.8% of the population were single, and 42.5% of the respondents were married. On the other hand, 16.3% were widows, and 2.4% were divorced. In contrast, the results indicate that most respondents were married. The number of widows and divorced people is lower than the number of single and married people.

The finding that most respondents had some level of education, with 21.3% completing primary school, 27.5% completing secondary school, and 47.5% completing college, suggests that education plays a crucial role in employment eligibility and financial access. This aligns with several studies that have examined the relationship between education levels, employment opportunities, and financial access. For instance, Sztyber (2020) supports that higher education levels significantly increase employment rates.

The study found that graduates with higher education are more likely to transition into stable employment, as opposed to individuals with lower educational attainment, who face higher unemployment risks. This aligns with the findings that 47.5% of respondents completing college are likely to have better employment opportunities. Another study by Desdemona (2018) found a strong correlation between higher education levels and access to financial services, such as bank loans and credit facilities. The study highlighted that individuals with higher education are more financially literate and, therefore, have better access to banking services and credit. This supports the claim that educated individuals in SMEs are more eligible for loans and financial support.

However, a contrasting study by Civelek (2024) found that educational status alone does not necessarily impact financial access, but financial performance and industry experience play a more significant role. This suggests that while education is beneficial, practical business experience and strong financial records are equally important for securing financial support. The literature broadly supports the study findings, confirming that higher education enhances employment prospects and financial access. However, financial performance and experience also play critical roles, meaning that education alone is not always sufficient to secure economic stability.

Further, the study findings indicate that 88.7% of respondents agreed that collateral requirements impact loan accessibility, while 86.1% believed interest rates were high, discouraging borrowing. These findings align with multiple studies on SME financing, emphasising the significant barriers that collateral and high interest rates create for small businesses. A scholarly article by Prihantoro

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and Nuryakin (2020) found that collateral negatively affects loan accessibility among micro, small, and medium enterprises. Their study highlighted that many businesses struggle to provide collateral, limiting their ability to secure funding. This supports the finding that most respondents acknowledged the role of collateral in loan accessibility.

On the other hand, Qubbaja (2019) studied women-owned SMEs in Palestine and found that collateral requirements significantly restrict access to finance. The study recommended that financial institutions reduce collateral requirements to improve access to credit, aligning with the suggestion that loan conditions should be made more flexible. Nevertheless, Jrad and Tadjeddine (2020) argue that collateral is necessary to manage loan risks and that financial institutions tighten collateral requirements when interest rates rise. They suggest that collateral policies should be sector-specific; for example, SMEs in manufacturing may have different collateral needs than service-based SMEs. The literature supports the finding that collateral requirements limit loan accessibility for SMEs, though some studies argue that collateral is essential for risk management.

Multiple Regression Analysis

Table 2: R and R-square table

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.756[a]	.538	.520	5.65498

R–square indicates how the explanatory variables have explained the observed effect on the response variable. From table number 2, R- square value of 53.8 % indicated morw than half of the effect on the responding variable has been attributed to the independent variables.

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Table 3: The ANOVA table

ANOVA[a]						
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
	Regression	3196.628	6	1047.105	31.237	.001[b]
	Residual	3068.122	89	31.231		
	Total	6264.750	95			

a. Dependent Variable: loan taken
b. Predictors: (Constant), collateral requirements, interest rates, literacy level, individual characteristics (Age, Gender, Marital status and Level of Education)

The ANOVA table shows how the regression equation fits the predictors and the dependent variable. The table shows that the model predicts the dependent variable (loan taken) significantly at P<0.001, thus indicating the regression model statistically predicts the outcome variables. Hence, it fits the data.

Table 4: Amount of loan taken by respondents

Characteristics of owners of SMEs	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	2.275	1.398		8.142	.001	.669	1.107
Age	.012	.132	.466	2.267	.000	.912	1.163
Gender	-.067	.127	-2.123	-2.116	.010	.687	1.189
Marital status	.289	.128	.114	1.087	.003	.556	1.165
Level of Education	.290	.178	.384	3.005	.009	.423	1.118
Collateral Requirements	.119	.165	.103	1.047	.000	.768	1.104
Interest Rates	-.263	.124	-.437	-5.742	.010	.567	1.117
Literacy Level	.265	.165	.134	2.564	.004	.367	1.123

The multiple regression model estimated the effect of explanatory factors such as gender, marital status, age, education, collateral requirements, interest rates, and literacy level on the ultimate loan size demanded by SMEs. Variables were statistically significant at P<0.01.

Several studies support the findings that education, age, and marital status significantly influence access to bank loans. For instanc**e,** Fatoki and Asah (2011) found that higher levels of education improve financial literacy, making SMEs more capable of navigating the loan application process, thereby increasing their chances of obtaining financing. Similarly, Coleman (2007) reported that

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educated entrepreneurs are more likely to secure larger loans due to their ability to present strong business cases to banks.

Regarding marital status, Carter and Shaw (2006) argue that married business owners tend to have better financial discipline and stability, which makes them more attractive to lenders. This aligns with the finding that banks view married SMEs as lower-risk borrowers, often leading to higher loan approvals.

The role of age in accessing bank loans is also well-documented. Levesque and Minniti (2006) suggest that younger entrepreneurs face more challenges securing loans due to a lack of credit history and collateral. This supports the notion that older SMEs, when they apply, request more significant loan amounts. However, Hansen and Hamilton (2011) challenge this view, noting that older entrepreneurs may have alternative financing sources, making them less reliant on bank loans.

The sex of small business owners influences the amount of loans taken. This indicates that women are more likely to ask for loans because, unlike men, they are more likely to take risks when starting a small business. Additionally, some industries, including the food vending, are classified as gender-specific enterprises.

Recent studies continue to support the significant influence of collateral, financial literacy, and interest rates on the loan amounts obtained by SMEs; for example, Attrams and Tshehla (2022) examined the collateral capabilities of SMEs in Ghana and found that financial institutions predominantly require landed property as collateral. However, SMEs often possess personal guarantees, limited savings, and equipment, leading to a mismatch that hampers their ability to secure financing. The study suggests that financial institutions should consider alternative collateral forms to enhance SMEs' access to credit. This study cements the findings that collateral requirements are a pivotal factor influencing SMEs' access to and utilisation of bank loans.

The findings in Table 4 indicate a VIF of 1, which falls within an acceptable range and suggests that multicollinearity is not an issue in the data. This aligns with prior research, which states that a VIF value below 5 is generally acceptable, whereas a VIF exceeding 10 suggests a need for corrective measures (Hair et al., 2021). Studies have also shown that VIF values closer to 1 indicate an ideal regression scenario where predictor variables are independent, leading to more reliable estimates (Daoud, 2017).

In statistics, heteroscedasticity occurs when a variable's standard errors vary throughout a specific period. Nevertheless, since the p-value for the chi-square test statistic with the degree of freedom of the number of predictors is smaller than a certain significance level (P=.05), we conclude that

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heteroscedasticity is present. The findings in Table 5 showed no heteroscedasticity because the significance threshold is P = 0.09.

Table 5: Breusch-Pagan Test for Heteroscedasticity

chi-square	df	Level of Significance
4.048	1	0.09

a. Dependent variable: Amount of loan taken

CONCLUSION AND RECOMMENDATIONS

The results showed that business owners depend on loans to start and expand their enterprises. The findings also indicate that most SMEs turn to banks, private institutions, trade unions, and family and friends for loans. Loans are typically the primary source of finance for SMEs' operations. The results also show that when a loan is used appropriately for business purposes, it can assist an entrepreneur in making income that can be used for various social and economic activities to improve the individual's and the nation's economy.

Furthermore, the results demonstrate that SME owners' challenges when applying for loans are influenced by individual characteristics and bank conditions associated with loan acquisition, such as age, gender, marital status, level of education, collateral requirements, interest rates and financial literacy. The uniqueness of this study lies in its comprehensive analysis of the interplay between individual characteristics and institutional factors affecting SME loan acquisition. Unlike previous research focusing on demand-side factors (entrepreneurial characteristics) or supply-side factors (banking conditions), this study integrates both perspectives to provide a holistic understanding of SME financing.

Additionally, the study highlights the role of financial literacy as a crucial determinant in loan accessibility and utilisation, an area often overlooked in traditional credit risk assessments. It also underscores the significance of marital status in loan acquisition, suggesting that banks may perceive married entrepreneurs as lower-risk borrowers due to their household responsibilities.

Moreover, by emphasising how loan utilisation impacts social and economic development, this research extends beyond financial performance metrics and explores the broader socio-economic contributions of SME financing. These findings provide valuable insights for policymakers and financial institutions in designing more inclusive and effective credit policies tailored to SME needs.

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The study recommends raising awareness to make the public understand the economics of SMEs and thus to consider these SME owners as potential business owners in advancing economic development. There is a need to expand loan services in the informal sector so that they can graduate from formal ones. This calls for other credit providers to engage in the credit market to improve and increase the provision of credit to eligible SME owners. More banks and other financial institutions need to be established to cater to the credit requirements of SME owners and provide easy access to credit facilities from a specified and legal source. Banks and other financial institutions are important sources of finance for SME owners.

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