Barriers to Accessing Bank Loans: An Analysis of Causes and Impacts on Low-Income Citizen in Tanzania.

Abstract

This study aims to explore the barriers that prevent low-income citizens in Tanzania from accessing bank loans, with the focus of identifying the underlying causes and evaluating the socio-economic impacts. Using a mixed-methods approach, the research combines survey of 200 low-income individuals and interviews with bank officials to gather both qualitative and quantitative data. The findings reveal that major barriers include stringent collateral requirements, high interest rates, limited financial literacy, and a general mistrust of formal financial institutions. These factors contribute to widespread financial exclusion limiting opportunities for personal and business development. The study limitation lies in its focus on urban areas, which may not fully represent the rural experience. Practical implications suggest that policymakers and banks should revise loan conditions, promote financial literacy, and explore alternative credit scoring models to foster greater financial inclusion. Socially, the research emphasizes the need for inclusive financial policies to reduce economic inequality and empower marginalized communities. This study offers unique insights into the financial challenges faced by low- income citizens in Tanzania, contributing valuable knowledge to the broader conversation on financial inclusion in Africa.

Keywords: Bank loans, Low-income citizens, financial exclusion, Tanzania.

Introduction

Access to financial resources plays a vital role in improving the socio-economic conditions of individuals, especially in developing economies. For low-income citizens, securing loans from formal financial institutions, particularly banks, can serve as a critical pathway for personal empowerment, business development, and poverty alleviation. However, despite the potential benefits, may low-income individuals in Tanzania face significant barriers that prevent them from obtaining bank loans. These challenges are Mult-dimensional, spanning financial, social, and institutional factors. In addition to these individual barriers, the institutional and policy frameworks in place often do not sufficiently address the unique needs of low-income individuals. Munishi, Mng'ong'o, and Luwaga (2021) argue that the traditional banking system tends to favor larger businesses and individuals with established credit histories, while neglecting the informal sector, which is where a significant proportion of low-income citizens operate. Without targeted financial products or policies that cater to the needs of this segment, the cycle of financial exclusion continues.

Despite the recognition of these challenges, the question remains as to how these barriers can be effectively mitigated. Some scholars propose the establishment of more inclusive credit systems and the development of alternative credit scoring models, which could potentially offer better access to loans for low-income individuals. Mangasini (2007) suggests that microfinance institutions, which are more flexible than traditional banks, could serve as intermediaries in providing affordable loans to underserved communities.

A significant body of research has identified the difficulties low-income individuals encounter when attempting to access financial services. According to (Malisa, 2011) one of the primary barriers is the stringent collateral requirements that are often required by banks. Many low-income citizens lack the assets necessary to meet these conditions, leaving them excluded from formal financial systems. In a similar vein, Shao (2009) emphasizes the role of high interest rates as another deterrent, which increases the cost of borrowing and makes it unaffordable for low-income individuals to access the financial resources they need for economic advancement.

Moreover, the issue of financial literacy plays a crucial role in this exclusion. (Isanga, 2018) found that the lack of understanding regarding financial products, loan application processes, and credit management exacerbates the problem for low-income borrowers. This gap in financial literacy often leads to poor decision-making and misunderstandings, further distancing them from formal banking systems. This challenge is compounded by the widespread mistrust of banks, especially among those with little to no previous experience with formal financial institutions.

The social implications of this exclusion are far-reaching. Without access to formal loans, many low-income individuals are forced to rely on informal lending sources, which often come with high-interest rates or exploitative conditions. Shao (2009) asserts that the absence of bank loans severely limits the ability of low-income individuals to invest in education, healthcare, and small businesses, perpetuating the cycle of poverty. Moreover, the inability to access financial resources reduces social mobility, thus widening the income inequality gap between the rich and the poor.

Given the growing recognition of these barriers, this study seeks to analyze the causes and impacts of restricted access to bank loans for low-income citizens in Tanzania. By examining both individual and institutional factors, the research aims to provide a clearer understanding of the systemic challenges that hinder financial inclusion. Additionally, this study will explore potential solutions and policy recommendations to enhance access to financial services for the underprivileged, thus contributing to broader efforts to reduce poverty and promote economic development in Tanzania. Through this research, the goal is to not only highlight the economic implications of financial exclusion but also to address the broader social impact, offering recommendations for inclusive financial policies that can support the socio-economic integration of low-income citizens into the formal financial system.

Literature Review

Access to formal financial services, particularly bank loans, is pivotal for the economic empowerment of low-income individuals. In Tanzania, despite efforts to enhance financial inclusion, a significant portion of the population remains unbanked or underbanked. Various studies have identified multiple barriers that hinder low-income citizens from accessing bank loans, including stringent collateral requirements, high interest rates, limited financial literacy, and systemic distrust in financial institutions. Understanding these barriers is essential for formulating effective policies and interventions aimed at promoting inclusive economic growth.

Msangi and Kasambala (2025) One of the primary obstacles faced by low-income individuals in accessing bank loans is the requirement for substantial collateral. Many lack tangible assets to pledge, making it challenging to meet banks' lending criteria. This issue is compounded by high interest rates, which increase the cost of borrowing and deter potential borrowers. Research indicates that these financial barriers disproportionately affect small and medium enterprises (SMEs) and individuals in the informal sector, limiting their ability to secure the necessary funding for business expansion or personal development.

Financial literacy plays a crucial role in enabling individuals to make informed decisions regarding financial products and services. In Tanzania, low levels of financial literacy among the population have been identified as a significant barrier to accessing bank loans. Many individuals lack understanding of loan application processes, interest calculations, and repayment obligations, leading to apprehension and avoidance of formal financial institutions. (Msangi and Kasambala, 2025) This knowledge gap also contributes to poor financial management practices, increasing the risk of default and further discouraging banks from extending credit to this demographic. In the absence of accessible formal credit, many low-income Tanzanians rely on informal lending mechanisms, such as borrowing from family, friends, or community savings groups. While these sources provide immediate relief, they often lack the regulatory oversight and consumer protection of formal financial institutions.

A pervasive lack of trust in formal financial institutions has been observed among low-income Tanzanians. (Shawaqfeh, 2019) Past experiences of unfavorable loan terms, perceived discrimination, and complex bureaucratic procedures have fostered skepticism towards banks. This mistrust is exacerbated by reports of unethical practices by loan officers, including demands for bribes or inappropriate behavior, particularly towards women applicants. Such experiences deter individuals from seeking bank loans, pushing them towards informal lending sources that may be more accessible but less secure.

Msangi (2023) Socioeconomic status, education level, gender, and geographic location significantly influence access to bank loans. Studies have shown that individuals with higher education levels and stable incomes are more likely to be financially included. (Qubbaja, 2019) Conversely, women and rural residents often face additional challenges due to cultural norms, limited mobility, and lack of tailored financial products. These disparities highlight the need for targeted interventions that address the unique needs of diverse demographic groups.

Shih and Fang (2006) demonstrated that the advent of mobile banking and financial technology (fintech) solutions has the potential to bridge the gap in financial inclusion. Mobile money services have expanded rapidly in Tanzania, offering convenient and accessible financial services to previously unbanked populations. However, the adoption of these technologies is hindered by digital literacy challenges and limited infrastructure in rural areas. To maximize the benefits of fintech, concerted efforts are needed to enhance digital literacy and expand technological infrastructure.

The Tanzanian government has implemented various policies aimed at promoting financial inclusion, such as the National Financial Inclusion Framework. Despite these efforts, challenges persist due to inadequate coordination among stakeholders, limited enforcement of regulations, and insufficient support for marginalized groups. (Haddad, 2006) said on his research strengthening the policy environment requires a collaborative approach involving government agencies, financial institutions, and civil society organizations to ensure that initiatives effectively address the barriers faced by low-income citizens.

Materials and Methods

The study uses multistage sampling to identify sampling units. The first stage involved sampling of Tanzania citizens, while the second stage samples Dar es Salaam city, and the last stage focuses on banks around the city. The study employed simple random sampling to select the respondents.

Data were collected from 200 low-income individuals; 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

$n = 400/1+400(0.05)^2$

n = 200

Frequency tables were used to illustrate the data of low-income individuals. Multiple regression models examined the effect of the dependent variables on the low-income individuals. The Statistical Package for social Science (SPSS) – IBM-SPSS Computer software version 26.0 was used for the analysis.

Validity and Reliability

To ensure validity of this research, the study design, instruments, and data collection methods were carefully developed to align with research objectives and questions. Regarding reliability, the consistency of research instrument was measured through internal checks and standardized administration procedures.

Ethical Consideration

The study obtains data directed from low-income individuals through face-to-face interviews and questionnaires. The researcher ensured confidentiality to all information collected from the individuals.

Results and discussion

Table 1: Sample demographic characteristics

Demographics	**Categories**	**n**	**%**
Sex	Male	72	36
	Female	128	64
Age	<20 years	17	8.5
	21-30 years	35	17.5
	31-40 years	95	47.5
	>40 years	53	26.5
Marital status	Single	55	27.5
	Married	142	71
	Divorced	3	1.5
Level of Education	Primary	23	11.5
	Secondary	59	29.5
	College	118	59
Collateral Requirements	Yes	157	78.5
	No	43	21.5
Interest Rates	High	172	86
	Normal	28	14
Trust of formal financial institutions	Yes	59	29.5
	No	141	70.5

Results in Table 1 revealed that 64% of the respondents were female while only 36% were male. This notable gender imbalance points to a critical dynamic in the context of financial inclusion and accessibility to bank loans among low-income citizens in Tanzania. The predominance of female in the sample indicates that female constitute a significant portion of the population actively seeking financial assistance, particularly credit facilities from banking institutions. This is consistent with broader economic realities in Tanzania where female are heavily involved in small-scale businesses, informal trade, agriculture, and other micro-level economic activities that often require capital injection for growth and sustainability. Despite their active economic engagement, female encounter more barriers than male in accessing formal financial services, primarily due to institutional, structural, and socio-cultural limitations.

The age distribution of respondents in this study reveals insightful patterns regarding the demand for bank loans among low-income citizens in Tanzania. The findings indicate that 8.5% of participants were below the age of 20, 17.5% were between 21-30 years, 47.5% fell within the 31-40 age group, and 26.5% were above the age of 40. The most notable observation from this data is the dominant representation of the 31-40 age group, which accounted for nearly half of all respondents. This suggests that individuals in their early to mid-adulthood are the most active in seeking bank loans, likely due to their heightened economic responsibilities, entrepreneurial ambitions, or investment in family development, such as education, housing, or small businesses. The high representation of youth in this study signals an urgent need for inclusive financial reforms and youth-targeted financial product. Commercial banks, microfinance institutions, and policymakers should consider creating youth-friendly loan packages that feature relaxed collateral requirements, lower interest rates, and mentorship or training programs to build creditworthiness and financial responsibility.

The data collected from the study regarding marital status reveals that 715 of respondents were married, 27.5% were single, and only 1.5% were divorced. This distribution strongly indicates that married individuals constitute the majority of those engaging with financial institutions in the pursuit of bank loans among low-income citizens in Tanzania. The dominance of the married demographic in this context may not be incidental but rather a reflection of the perceived and actual advantages that married people hold in accessing financial credit. The findings suggest that marital status plays a significant role in shaping access to credit within the banking sector.

The study findings on education background reveal a strong correlation between an individual's level of education and their engagement with financial institutions in seeking bank loans. According to the data collected, 11.5% of respondents had only primary education, 29.5% had completed secondary education, while the majority of 59% had attained college-level education. This significant representation of individuals with high education levels points to the crucial role that education plays in determining access to credit facilities. Education, especially financial literacy, is a fundamental factor that influences an individual's ability to navigate the complexities of formal financial systems.

Also, the study findings reveal that a substantial 78.5% of respondents believe that banks impose excessively high collateral requirements when applying for loans, making it difficult for low-income citizens to qualify for credit. In contrast, only 21.5% view the collateral demand as reasonable and manageable. This suggests that most low-income citizens face significant entry barriers due to the assets-based conditions set by financial institutions. Additionally, 86.5% of respondents stated that the interest rates charged by banks are unreasonably high, which hinders their ability to repay loans and discourages loans uptake. Conversely, a mere 14% perceive the interest rates as fair and affordable. These findings indicate that both collateral requirements and interest rates are among the most critical financial barriers preventing access to bank loans for low-income citizens in Tanzania. Addressing these issues is essential for promoting inclusive financial service and ensuring equitable access to credit.

However, the study revealed that only 29.5% of respondents expressed trust in formal financial institutions, while a significant 70.5% reported a lack of trust in these entities. This overwhelming lack of confidence highlights a critical barrier to accessing bank loans among low-income citizen in Tanzania. Many respondents indicated that, due to distrust in banks and other formal lenders, they prefer to seek financial support from informal sources such as family members, friends, or community lending groups. This mistrust stems from several factors, including negative experience, lack of transparency in loan agreements, poor customer service, hidden charges, and the perception that banks prioritize profit over the well-being of low-income clients. Additionally, complex loan application procedures and limited financial education further alienate potential borrowers from formal credit systems

Table 2: loan demanded by low-income citizens in Tanzania

Characteristics of low-income individuals	**B**	**Std. error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
(Constant)	3.253	1.287		7.132	.001	.651	1.119
Sex	-.011	.123	.389	-2.126	.010	.932	1.176
Age	.057	.112		1.175	.000	.553	1.154
Marital Status	.215	.123	2.145	1.099	.004	.745	1.108
Level of Education	.236	.167	.117	2.106	.002	.365	1.112
Collateral Requirement	.115	.145	.237	1.007	.000	.768	1.127
Interest rates	-.248	.130	-.376	-.4.655	.001	.687	1.114
Trust of formal financial institutions	.279	.175	.146	1.983	.000	.912	1.116

The multiple regression model estimated factors such as sex, age, gender, marital status, level education, collateral requirements, interest rates and trust of formal financial institutions on the ultimate loan sized demanded by low-income citizens. The variables were statistically significant at $P<0.01$.

The study reveals that there is a critical need for financial institutions and policymakers to recognize the gender nature of credit access and design financial products that are inclusive, flexible, and accessible to both male and female. Initiatives such as group lending, reducing collateral requirements, and financial literacy programs tailored specifically for borrowers could play a pivotal role in bridging the gap. Also, the high representation of youth in this study signals an urgent need for financial reforms and youth-targeted financial products.

Conclusion and recommendations

this study has examined the critical barriers affecting access to bank loans among low-income citizen in Tanzania. The finding indicates that factors such as high collateral requirements, excessive interest rates, limited financial literacy, and mistrust of formal financial institutions significantly hinder access to formal credit. Female and younger individuals merged as the most active group seeking loans, yet they also face the greatest structural and financial challenges. Furthermore, married individuals and those with higher education levels were more likely to access credit due to greater financial stability and understanding of loan processes. However, the widespread mistrust in banking institutions forces many citizens to rely on informal lending networks, limiting their access to sufficient and sustainable financial support.

These insights underscore the urgent need for inclusive financial reforms and client-centered approaches by banks and policymakers. Without deliberate interventions to remove these obstacles, a significant portion of the population will remain financially excluded, thereby undermining national efforts towards economic growth, poverty reduction, and social inclusion.

The study recommends financial institutions should develop inclusive loan products that specifically cater to vulnerable groups such as youth and women, by offering reduced collateral requirements and more flexible repayment conditions. Alongside this, there is a need to enhance financial literacy through targeted education campaigns, particularly in rural areas, to ensure citizens understand loan processes, interest rates, and responsible credit management. Restoring public trust in banks is also essential; this can be achieved by simplifying loan application procedures, ensuring transparency in terms and conditions, and improving customer service. Moreover, banks should consider adopting alternative credit assessment models such as group lending, business potential evaluations, and community guarantees to support those without formal employment or assets. The government and financial regulators must also play a proactive role in enforcing fair lending practices and promoting policies that prioritize financial inclusion. Finally, integrating entrepreneurship training with access to credit will empower borrowers to make productive use of loans, ultimately enhancing their economic resilience and reducing reliance on informal lenders.

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