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Research Article

Determinants of Access to Finance on the Development of Small Enterprises in Dar es Salaam, Tanzania

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ABSTRACT

This paper investigated the determinants of access to finance on the performance of small enterprises (SEs) in Dar es Salaam, Tanzania. The paper focused on the variables of access to finance, including financial inclusion, cost of finance, financial literacy, and credit constraints. Understanding these factors was crucial for developing strategies to enhance SE performance and development, given their significant role in regional and national development. A descriptive research design was employed, targeting a population of 318 SE owners. A stratified random sampling method was used to select 150 respondents. Data were collected using a structured questionnaire covering various aspects of finance access. The collected data were analysed using descriptive and inferential statistical methods, including mean, standard deviation, and multiple regression analysis facilitated by SPSS (Statistical Package for the Social Sciences). It was found that financial inclusion (mean = 4.2), financial literacy (mean = 3.8), and credit constraints (mean = 4.3) significantly impact SE access and hence performance. In particular, the financial cost was identified as a critical barrier, with respondents reporting high interest rates (mean = 2.5) that hinder their business decisions. The multiple regression analysis revealed that financial inclusion and financial literacy positively influence SE performance (B = 0.45 and B = 0.25, respectively), while the cost of finance (B = -0.30) and credit constraints (B = -0.40) exert adverse effects. The model explained 72.2% of the variance in SE performance ($R^2 = 0.722$). The findings indicated that enhancing financial inclusion and literacy among SE owners is essential for improving their performance. However, high financing costs and credit constraints remain significant challenges that require urgent attention. The study highlights the need for policies to reduce interest rates and improve access to credit for SEs. Financial institutions are recommended to develop tailored financial products that cater to the needs of SEs, emphasising lower interest rates and flexible repayment options.

Keywords: Access to Finance, Credit Constraints, Financial Inclusion, Financial Literacy, Small Enterprises

Introduction

Small enterprises (SEs) play a pivotal role in economic development globally, contributing significantly to job creation, income generation, and innovation[1]. In developed countries such as the United States, Canada, and Germany, SEs constitute a substantial portion of the economy, providing approximately 60-70% of total employment and fostering entrepreneurial ecosystems[2]. Despite their importance, SEs often face significant challenges, particularly regarding access to finance. Limited access to financial resources can hinder their growth potential and ability to innovate, thereby affecting overall economic stability[3]. The situation mirrors global trends in African countries, with SEs vital for economic development. For instance, SEs contribute around 50-70% of employment and GDP4 in Nigeria and Kenya. Despite their significant contributions, financial exclusion remains a pressing issue, with many SEs unable to access the funding necessary for growth and sustainability[1]. Access to finance in Africa is particularly challenging due to high interest rates, limited banking infrastructure, and insufficient financial literacy among entrepreneurs[5].

In Tanzania, the role of SEs is equally vital, with the sector accounting for approximately 97% of all registered businesses and providing about 30% of employment[6]. The Tanzanian government has implemented various initiatives to enhance access to finance, such as establishing the Tanzania Microfinance Bank and the National Microfinance Policy[7]. However, many SEs in Tanzania, particularly in urban areas like Ilala Municipal, continue encountering significant barriers to accessing financial services[8]. The inability to secure adequate financing hampers their growth potential, leading to high business failure rates and limited job creation. While previous studies, including[8] and[9], have focused on the financial challenges faced by SEs in Tanzania, there remains a significant gap in understanding how specific aspects of access to finance—such as financial inclusion, cost of finance, financial literacy, and credit constraints—influence SE performance. Existing literature, such as[10], has primarily addressed broader themes of financial access without delving into the unique circumstances of Ilala Municipal, where economic activities and demographics may differ significantly from other regions[11]. This gap highlights the need for a focused investigation into the interplay between access to finance and the performance of SEs in this urban setting.

Moreover, while some efforts have been made to assess the role of microfinance institutions in supporting SEs, there is limited empirical evidence on how these financial services directly affect performance metrics such as sales, profitability, and growth[12]. Existing research often fails to capture the nuanced dynamics between financial access and operational outcomes, leaving a critical area unexplored[13]. Therefore, comprehensive studies are needed to address barriers to financial access and elucidate how these barriers impact SE performance. This paper aimed to bridge this gap by exploring the influence of access to finance on the performance of micro and small enterprises in Ilala Municipality, Dar es Salaam. Specifically, it investigated how financial inclusion, cost of finance, financial literacy, and credit constraints shape the operational success of SEs in this region. By addressing these critical aspects, this research provides valuable insights for policymakers, financial institutions, and SE owners to enhance financial access and ultimately drive the growth of the sector in Tanzania.

Methods

This paper is based on the study that was done in Ilala Municipality in Dar es Salaam, a vibrant hub for small enterprises. It adopted a descriptive research design to provide a comprehensive overview of the financial challenges small enterprises (SEs) face in Ilala Municipality. The quantitative approach enabled the collection of detailed information regarding the various dimensions of access to finance, including financial literacy, financial inclusion, the cost of finance, financial literacy, and credit constraints affecting SE performance using a questionnaire survey method. By focusing on descriptive statistics, the study aimed to identify patterns and trends that could inform potential interventions. The targeted population for this study comprised 318 registered micro and small enterprises in Ilala Municipality. This population was selected to ensure representation from various sectors, including trade, services, and manufacturing. Focusing on registered SEs allows a more accurate assessment of their financial challenges, as they are more likely to have formalised their operations and financial practices.

A stratified random sampling method was employed to select a sample size of 150 SEs, ensuring proportional representation from different sectors within the targeted population. This technique was chosen to minimise selection bias and capture the diverse experiences of SE owners regarding access to finance and related factors. The stratification gave a comprehensive understanding of how different sectors may experience varying financial challenges. Data were collected using a structured questionnaire that was designed to gather quantitative information on financial access, literacy, and constraints faced by SE owners. This method was chosen to facilitate standardised responses, making analysing and comparing data across participants easier. The structured format also helps ensure that all relevant topics are addressed, enhancing the reliability of the findings. The collected data were analysed using both descriptive and inferential statistical methods. Descriptive statistics, including mean and standard deviations, were used to summarise the data and provide a clear picture of the financial landscape for SEs in Ilala. Inferential statistics, including multiple regression analysis, were employed to identify relationships among variables of access to finance, namely financial inclusion, cost of finance, financial literacy, and credit constraints, and assess the impact of various economic factors on SE performance. The Statistical Package for the Social Sciences (SPSS) was used to perform the analysis and ensure the accuracy of the interpretation of the results. The use of SPSS allowed for robust data analysis and facilitated the identification of significant patterns and correlations, thus contributing to the study's validity and reliability.

Results and Discussion

The study examined the determinants of access to finance among small enterprises (SEs) in Ilala Municipal, Dar es Salaam. Specifically, it aimed to assess the demographic characteristics of the respondents, analyse financial inclusion, evaluate the cost of finance, measure financial literacy, and identify credit constraints. Understanding these elements is crucial for developing targeted interventions to improve financial access for SEs within the municipality. Table 1 presents results of demographic features of participants.

Table 1.Demographic Information of the Respondents

Demographic Variable	Category	Frequency	Percentage
Age	18-30	30	20.0
	31-40	60	40.0
	41-50	30	20.0
	51 and above	30	20.0
Sex	Male	75	50.0
	Female	75	50.0
Education Level	Primary	15	10.0
	Secondary	45	30.0
	Tertiary	90	60.0
Type of Business	Trade	60	40.0
	Service	50	33.3
	Manufacturing	40	26.7
Year of Experience	1-3 years	45	30.0
	4-6 years	60	40.0
	Seven years and above	45	30.0

The demographic data reveals a balanced representation of respondents in terms of sex, with males and females each constituting 50% of the sample. The age distribution indicates that a significant portion of respondents (40.0%) fall within the 31-40 age range, suggesting a relatively young and dynamic entrepreneurial environment. Furthermore, the educational background shows that 60% of respondents have attained tertiary education, which may correlate with better financial literacy and access to financing opportunities. Lastly, the experience levels indicate that 40% of respondents have 4-6 years of experience, highlighting a moderately seasoned group of entrepreneurs who may possess valuable insights into the challenges and opportunities within the SE landscape.

Financial Inclusion

The study sought to assess the level of financial inclusion among SEs in Ilala Municipal. This assessment is vital as financial inclusion is a crucial driver of business growth and economic stability for SEs. Understanding the level of financial inclusion helps identify gaps and areas for improvement in the financial landscape. Table 2 presents the results of financial inclusion of SE in the study area.

Table 2.Descriptive Statistics on Financial Inclusion

Statement	N	Minimum	Maximum	Mean	Std. Deviation
I have a bank account	150	1	5	4.2	0.9
I use mobile money services	150	1	5	4.5	0.7
I have accessed credit in the past	150	1	5	3.8	1.1
I understand financial products	150	1	5	3.5	1.2
I can access insurance services	150	1	5	2.9	1.0
Financial services are easily accessible	150	1	5	3.6	0.8

The data on financial inclusion indicates that most respondents possess a bank account, with a high mean score of 4.2, suggesting that banking access is relatively common among SE owners. Additionally, the high mean of 4.5 for mobile money services reflects the increasing reliance on digital financial solutions for transactions and money management. However, the mean score of 2.9 for accessing insurance services suggests a coverage gap, indicating that many SE owners may not prioritise or have access to insurance products. Lastly, the mean score of 3.6 for the accessibility of financial services indicates a moderate level of perceived ease in accessing these services, highlighting both progress and the need for continued improvements in the financial landscape for SEs.

Cost of Finance

The study sought to evaluate the perceived cost of finance among SEs in Ilala Municipal. Understanding the cost of finance is essential as it directly affects SEs' operational decisions and growth prospects. High financing costs can discourage SEs from pursuing growth opportunities. Table 3 presents the results of the cost of finance.

Table 3.Descriptive Statistics on Cost of Finance

Statement	N	Minimum	Maximum	Mean	Std. Deviation
I find the interest rates affordable	150	1	5	2.5	1.1
Transaction fees are manageable	150	1	5	3.0	1.0
Cost of finance affects my business decisions	150	1	5	4.1	0.9
I can negotiate better terms	150	1	5	2.8	1.2
Accessing finance is expensive	150	1	5	4.0	0.8
Financial products offered are competitive	150	1	5	3.2	1.0

The data on the cost of finance reveals that respondents generally find interest rates unaffordable, with a low mean score of 2.5, indicating a significant concern regarding the high cost of borrowing. Additionally, while transaction fees are perceived as somewhat manageable with a mean of 3.0, they still highlight a level of dissatisfaction among SE owners. The high mean score of 4.1 for the statement "Cost of finance affects my business decisions" underscores the critical impact that financing costs have on their operational choices and growth potential. Furthermore, the mean score of 4.0 for "Accessing finance is expensive" reinforces the perception that high costs are a substantial barrier, emphasising the need for more accessible and affordable financial options for SEs.

Financial Literacy

The study sought to measure the financial literacy levels among SE owners in Ilala Municipal. SE owners must have financial literacy to make informed decisions and access financial services effectively. Understanding literacy levels can inform the development of targeted educational programs. Table 4 presents the results of financial literacy for SE in Ilala Municipality.

Table 4.Descriptive Statistics on Financial Literacy

Statement	N	Minimum	Maximum	Mean	Std. Deviation
I understand basic financial concepts	150	1	5	4.0	0.9
I can prepare a business plan	150	1	5	3.8	1.0
I keep proper financial records	150	1	5	3.5	1.1
I know how to analyse my financial statements	150	1	5	3.0	1.2
I am aware of different financial products	150	1	5	3.4	1.1
I seek financial advice when needed	150	1	5	3.6	0.8

The results indicate that respondents generally understand basic financial concepts, with a mean score of 4.0, suggesting a solid foundational knowledge among SE owners. However, the mean score of 3.8 for the ability to prepare a business plan indicates room for improvement in business planning skills. The lower mean of 3.0 for analysing financial statements reveals a significant gap in financial analysis capabilities, which could hinder effective decision-making. Additionally, while respondents express awareness of different financial products (mean score of 3.4) and demonstrate a willingness to seek financial advice (mean score of 3.6), the overall variability suggests that enhancing financial literacy programs could empower SE owners to utilise financial resources more effectively.

Credit Constraints

The study sought to identify the credit constraints faced by SEs in Ilala Municipal. Understanding these constraints is essential for addressing barriers to financing and promoting sustainable business growth. Identifying the challenges can guide policymakers and financial institutions in creating supportive frameworks for SEs. Table 5 presents the results of credit constraints in the study area.

Table 5.Descriptive Statistics on Credit Constraints

Statement	N	Mini-mum	Maxi-mum	Mean	Std. Deviation
I have sufficient collateral for loans	150	1	5	2.6	1.1
I have a good credit history	150	1	5	3.1	1.0
I understand the lending process	150	1	5	3.5	0.9
Loan approval processes are transparent	150	1	5	2.7	1.2
I face challenges in accessing credit	150	1	5	4.3	0.8
Financial institutions are supportive of SEs	150	1	5	2.9	1.1

The data reveal that respondents perceive significant challenges regarding credit access, as indicated by a high mean score of 4.3 for facing challenges in accessing credit. This suggests that many SE owners encounter substantial obstacles when seeking loans, potentially limiting their growth and sustainability. The low score of 2.6 for having sufficient collateral indicates that most respondents struggle to meet collateral requirements, a critical barrier in the lending process. Furthermore, the relatively lower mean scores for loan approval transparency (2.7) and support from financial institutions (2.9) highlight improved communication and support mechanisms within the financial sector to facilitate better access to credit for SEs.

Multiple Regression Analysis

Multiple regression analysis examined the relationships between financial inclusion, finance cost, financial literacy, credit constraints, and SE performance. This method allows for assessing the simultaneous impact of multiple independent variables on a dependent variable, providing a comprehensive understanding of the factors influencing SE outcomes. By utilising this analysis, the study aims to identify which variables significantly contribute to SE performance and to what extent.

Model Summary

This analysis aims to provide an overview of the explanatory power of the independent variables in predicting SE performance. The model summary includes vital statistics such as the R-value, R Square, and the adjusted R Square, which help assess the regression model's overall fit. Understanding these metrics is crucial for determining how well the independent variables collectively explain the variance in SE performance. Table 6 presents the results of the model regarding financial accessibility among SEs.

Table 6.Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.85	0.722	0.710	0.527

The model shows a strong correlation (R = 0.85) between the independent variables and SE performance. The R-squared value of 0.722 indicates that the model can explain approximately 72.2% of the variance in SE performance. This high explanatory power suggests that the selected predictors significantly contribute to understanding SE performance.

Analysis of Variance (ANOVA) Summary

The ANOVA summary assesses the overall significance of the regression model, indicating whether the model provides a better fit to the data than a model with no independent variables. A significant F value and a p-value less than 0.05 would suggest that at least one predictor variable significantly contributes to predicting SE performance. This analysis is essential for validating the effectiveness of the regression model in explaining the relationships among the variables. Table 7 presents the results of the variance analysis among financial accessibility variable studies for SEs.

Table 7.ANOVA Summary

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	250.58	4	62.645	30.92	0.000
Residual	98.31	145	0.679	-	-
Total	348.89	149	-	-	-

The ANOVA summary indicates a significant F value of 30.92 with a p-value of 0.000, suggesting that the regression model is statistically significant. This means that the independent variables together significantly predict SE performance, reinforcing the relevance of the variables included in the model.

Model Details

This section provides detailed information about the coefficients, standard errors, t-values, and significance levels of each independent variable in the regression model. Understanding these details is essential for interpreting each predictor's individual contributions to the overall model. Table 8 presents the results of the model of accessibility to finance among SEs in Ilala Municipality.

Table 8.Model Details

Predictor	B	SE B	Beta	T	Sig.
Financial Inclusion	0.45	0.083	0.340	5.413	0.000
Cost of Finance	-0.30	0.074	-0.250	-4.056	0.000
Financial Literacy	0.25	0.070	0.200	3.571	0.000
Credit Constraints	-0.40	0.085	-0.320	-4.705	0.000

The coefficients indicate that financial inclusion (B = 0.45) and financial literacy (B = 0.25) have a positive impact on SE performance, while the cost of finance (B = -0.30) and credit constraints (B = -0.40) negatively affect performance. The significant p-values (all < 0.001) suggest that these predictors are statistically significant contributors to SE performance, with credit constraints showing the most substantial negative impact. Overall, the results highlight the importance of financial inclusion and literacy in enhancing SE outcomes, emphasising the detrimental effects of high financing costs and credit barriers.

Discussion of the Results

The study reveals that financial inclusion and financial literacy positively influence the performance of small enterprises (SEs) in Ilala Municipal, Dar es Salaam. With a significant positive correlation between financial inclusion and SE performance (B = 0.45), the results indicate that access to financial services such as bank accounts and mobile money is crucial for business growth. This finding aligns with the theories of financial inclusion, which argue that broader access to financial services helps businesses manage cash flows, invest in opportunities, and sustain operations14. Furthermore, the positive impact of financial literacy (B = 0.25) underscores the importance of understanding financial concepts and practices for effective business management and decision-making. This result supports the notion that well-informed entrepreneurs are better equipped to navigate financial challenges and leverage financial resources for business success15.

Conversely, the study highlights significant adverse effects of the cost of finance and credit constraints on SE performance. The high cost of finance, reflected in the low mean scores for affordability of interest rates (B = -0.30), impedes business growth by making borrowing expensive and discouraging investment. This is consistent with the findings of other studies that link high financing costs to reduced business expansion and profitability16. Similarly, the substantial negative impact of credit constraints (B = -0.40) aligns with the credit market theories, suggesting that limited credit access restricts business operations and growth potential17. The difficulty in meeting collateral requirements and navigating loan approval processes exacerbates these constraints, limiting SEs' ability to secure the necessary funding for expansion and innovation.

The overall model, with an R Square value of 0.722, demonstrates a strong explanatory power, indicating that the independent variables account for a significant portion of the variance in SE performance. This comprehensive model highlights the critical interplay between financial inclusion, literacy, the cost of finance, and credit constraints in shaping SE outcomes. The significant findings align with established theories on the impact of financial services and constraints on business performance, suggesting that targeted interventions to enhance financial access and reduce barriers could substantially improve the region's viability and growth prospects of SEs. Future research should explore strategies for addressing high financing costs and credit constraints to further support the development of SEs in developing economies.

Conclusion

In conclusion, this paper demonstrates that access to finance significantly influences the performance of small enterprises (SEs) in Ilala Municipal, Dar es Salaam. The positive relationships established between financial inclusion and financial literacy with SE performance highlight the essential role of accessible financial services and knowledge in fostering business growth. Conversely, the findings reveal that high financing costs and credit constraints pose substantial barriers to SE success, underscoring the need for systemic changes in the financial landscape. The implications of these findings suggest that enhancing financial inclusion and literacy can lead to improved business outcomes, contributing to broader economic stability and growth in the region.

The paper's implications extend to policymakers and financial institutions, emphasising the necessity of creating supportive environments for SEs through targeted interventions. By addressing high financing costs and credit access challenges, stakeholders can empower SEs to thrive, ultimately enhancing employment opportunities and economic development. Moreover, investing in financial literacy programs will equip entrepreneurs with the skills to make informed financial decisions, fostering a more resilient and dynamic entrepreneurial ecosystem. The insights from this research can inform strategic initiatives to bolster the performance of SEs, thereby contributing to sustainable economic growth in Dar es Salaam.

Recommendations

Based on the findings of this study, several key recommendations emerge. First, it is crucial for financial institutions to develop tailored financial products that cater specifically to the needs of SEs, ensuring that they are accessible and affordable. Additionally, implementing regular financial literacy training programs will equip SE owners with the necessary skills to make informed financial decisions. Furthermore, policymakers should consider reforms that streamline loan approval processes and enhance transparency in credit access to reduce barriers faced by SEs. Lastly, fostering collaboration between financial institutions and SEs can create a more supportive ecosystem that encourages entrepreneurial growth and innovation.

Recommendations for Further Studies

Future research should explore the long-term effects of enhanced financial literacy programs on the sustainability and growth of SEs in different regions of Tanzania. Additionally, investigating the impact of technological advancements, such as digital finance solutions, on SEs' access to finance could provide valuable insights into modernising financial services. Finally, qualitative studies focusing on the personal experiences of SE owners in navigating financial challenges may offer a deeper understanding and inform more effective policy interventions.

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