

Why Tanzanian women entrepreneurs don't apply for formal loans

By [Vanessa Naegels](#)

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With an annual [GDP growth of 7%](#) since 2013, Tanzania is one of the fastest growing economies in sub-Saharan Africa. Much of this economic growth is driven by small and medium sized enterprises, more than half of which are [owned by women](#).



Image source: [UNDP Tanzania](#)

But, women-owned businesses in emerging economies like Tanzania often can't grow because of a lack of financing.

The most important financing source for small businesses worldwide is debt. However, [research](#) shows that many women entrepreneurs in emerging economies don't hold formal loans such as bank and microfinance loans. Traditionally the assumption has been that this is caused by a lack of supply. But data points to a different answer.

A 2013 [survey](#) among women entrepreneurs in Tanzania showed that more than 80% of bank loan applications and more than 90% of microfinance loan applications had been approved. At the same time, only 18% of women entrepreneurs applied for bank loans and 28% for microfinance loans.

This suggests that a lack of demand instead of a lack of supply is to blame for the limited use of formal loans by Tanzanian women entrepreneurs. This is the result of borrower discouragement: women have negative beliefs with respect to bank and microfinance loans, which discourages them from applying.

In our [study](#) we set out to identify women entrepreneurs' beliefs about bank and microfinance loans. We also explored where these beliefs originated from and exactly how they discourage women from borrowing. We interviewed 29 women entrepreneurs from Dar es Salaam, Tanzania's largest city and economic capital.

We found that there are many different reasons why women entrepreneurs don't apply, many of them interrelated.

Lack of trust

Most women we spoke to said they didn't believe that loan officers discriminated against women. But they complained about the unattractive borrowing terms offered by banks. We heard stories of extremely high interest rates (up to 20% or even 30% annually) and collateral requirements.

Many women told us that they had no collateral. They either didn't own a house or land or didn't have their husbands' permission to use them as collateral.

In addition, those who could use their houses as collateral didn't want to risk losing them in the event of defaulting.

Entrepreneurs mentioned that high taxes as well as adverse economic and political conditions reduced their profits.

As a result, many feared that they would fail to pay back their loan and would then face harassment or abuse by loan officers.

Apart from unattractive borrowing terms and default risk, many argued that application processes were long and costly. One informant told us she couldn't provide the extensive financial information required because she didn't keep accounts.

And loan officers often requested bribes to speed up the process or bend requirements.

The women also complained about various types of inappropriate behaviour from loan officers. Two women mentioned that loan officers asked for sexual favours in exchange for a loan. Others blamed them for exploiting entrepreneurs' lack of financial knowledge.

For example, women who do end up applying for loans don't know that payments increase if they are late in paying back their loans, or that the bank has the right to sell their collateral.

We also heard stories of loan officers who visited women entrepreneurs in their businesses or even at home to convince them to take out a loan. One informant claimed that loan officers purposefully sought out entrepreneurs with valuable assets in the hopes of seizing them in case of default.

Painful experiences

Two mechanisms shape women entrepreneurs' beliefs: personal experiences and stories from others.

Some informants applied for loans in the past and were rejected; others had trouble reimbursing their loan or experienced other problems such as corruption. Even if they'd had these experiences taking out informal loans, it nevertheless affected their beliefs about formal loans.

Stories of other people's negative experiences with both formal and informal loans also shaped their beliefs. These stories either come from within the entrepreneur's personal network or were passed on within the community.

Women entrepreneurs' negative beliefs about formal loans give rise to negative attitudes. Some mentioned that getting a loan would reduce their freedom to run the business and use the money as they saw fit.

Because of their negative attitudes most women entrepreneurs said they didn't intend to apply for a loan any time soon. One said that a bank or microfinance loan would be the last thing she would do to access money for her business.

What needs to be done

In the past policymakers have tried to address women-owned businesses' lack of financing by increasing the supply of finance. But our research shows that this is addressing the wrong problem. In Tanzania women entrepreneurs aren't deterred by a lack of supply. They don't apply for formal loans for a host of reasons – most of them negative beliefs.

This is what needs to be changed. But that's easier said than done.

Often, entrepreneurs' beliefs are rooted in legitimate issues such as loan officers' inappropriate behaviour. So it's imperative that policymakers tackle problems such as corruption, harassment and abuse.

In other cases negative beliefs are probably the result of entrepreneurs' lack of knowledge and low financial literacy. This can be mitigated by educating women entrepreneurs on how to keep accounts, how to invest loans and explanations on the relationship between interest and risk.

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