The Invisible Walls of Credit and the Institutional Determinants of Microfinance Access among Small-Scale Borrowers in Tanzania

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Abstract

This study examined the influence of institutional barriers on access to microfinance loans among small-scale borrowers in Kilombero District, Tanzania. The study was guided by a positivist research philosophy and employed a quantitative research approach with a cross-sectional research design. The target population comprised 1,378 small-scale borrowers, from which a sample was determined using the Yamane formula, and 299 valid responses were obtained. Primary data were collected using structured questionnaires. Data were analysed using Ordinary Least Squares (OLS) regression. The findings revealed that institutional barriers have an important role in explaining access to microfinance loans. Complex procedures had a negative influence on access, while weak institutional outreach also negatively and significantly influenced access. Limited product diversity showed a positive and statistically significant relationship with access, whereas weak regulations and rigid group lending did not have statistically significant effects. The study concludes that improving access to microfinance requires financial institutions to simplify lending procedures, strengthen outreach, and develop diverse and borrower-responsive financial products. The study recommends greater collaboration between microfinance institutions and local government authorities to improve financial awareness and facilitate small-scale borrowers' access to appropriate financial services, particularly in rural communities.

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1. Introduction

Access to financial services has long been recognized as an important component of economic development, particularly for individuals and small-scale economic actors who lack sufficient capital to finance productive activities (Msangi, 2025). The development of microfinance was partly motivated by limitations within conventional financial systems, where lending decisions are often affected by information asymmetry, uncertainty, and the perceived risk of lending to borrowers with limited assets and unstable income (Boiquaye et al., 2026). Mori and Charles (2026) explain that imperfect information in credit markets can lead financial institutions to ration credit even when potential borrowers are willing and able to repay. This theoretical perspective helps explain why the availability of financial institutions does not automatically translate into equal access to credit. Over time, microfinance emerged as an alternative mechanism for extending financial services to underserved populations, particularly low-income households, small-scale entrepreneurs, and rural communities (Ndwiga et al., 2026). The broader importance of microfinance has subsequently been associated with poverty reduction, livelihood improvement, and the financing of small economic activities (Chikwira et al., 2022).

As microfinance systems have developed, attention has increasingly shifted from merely providing credit to ensuring that financial services are accessible, appropriate, and responsive to the circumstances of disadvantaged borrowers (Mwombeki & Magwana, 2023). Access to microfinance may be influenced by the institutional arrangements governing loan provision, including eligibility conditions, documentation, collateral or guarantor requirements, credit appraisal, repayment procedures, and other administrative conditions (Tefera, 2022). These arrangements are necessary for financial institutions to manage credit risk and maintain sustainable lending operations, but they may also become barriers for borrowers with limited financial and physical resources. The importance of appropriate financial access is particularly relevant in agricultural and rural economies, where financing is often required to support seasonal production and small-scale enterprises. For example, Areebahoona et al. (2024) emphasize the importance of access to credit for smallholder agricultural households, while Alessa et al. (2025) highlight the role of microcredit characteristics in financing agricultural entrepreneurial activities. More recently, the development of digital financial solutions has introduced new possibilities for improving financial inclusion, although access to such innovations may itself depend on institutional and technological conditions (Anane-Donkor & Dei, 2026).

Moreover, microfinance and other forms of formal and semi-formal financing have become increasingly relevant to small-scale economic activities, including agriculture, entrepreneurship, and household enterprises (Ullah et al., 2024). Tanzania's rural economy contains a large number of small-scale borrowers whose financial needs may vary according to the nature and seasonality of their economic activities. Kilombero District is particularly relevant to this discussion because agricultural activities constitute an important part of the local economy, with seasonal agricultural dynamics influencing rural household livelihoods (George & Filbert, 2023). Although the expansion of microfinance services provides opportunities for small-scale borrowers to obtain productive capital, access may still be affected by the institutional conditions attached to lending. The continuing concern about financial barriers in Tanzania, including barriers affecting access to formal loans among low-income groups (Msangi, 2025), demonstrates the importance of examining how financial institution’s structure access to credit. Therefore, this study focuses on institutional barriers and access to microfinance loans among small-scale borrowers in Kilombero District, Tanzania, with particular emphasis on understanding how institutional requirements and lending arrangements may facilitate or constrain borrowers' ability to obtain microfinance loans.

2. Review of Related Literature

Theoretical review

This study is grounded on Institutional Theory, which explains how institutions, rules, norms, values, and established practices shape the behaviour and decisions of individuals and organizations. The theory has its intellectual roots in the work of early institutional scholars such as Thorstein Veblen, while its modern organizational perspective is strongly associated with Meyer and Rowan (1977) and DiMaggio and Powell (1983). Meyer and Rowan (1977) emphasized that organizations operate within institutional environments that establish formal structures and procedures that organizations are expected to follow, while DiMaggio and Powell (1983) explained how institutional pressures influence organizational structures and practices. Institutional Theory therefore advocates that the behaviour and decisions of organizations and individuals cannot be fully understood without considering the institutional environment in which they operate, including formal rules, regulations, norms, expectations, and established procedures (Eitrem et al., 2024).

A major strength of Institutional Theory is its ability to explain how institutional arrangements influence access to resources and opportunities. The theory recognizes that rules and procedures may be established to promote accountability, legitimacy, efficiency, and risk management, but such arrangements can also create constraints for individuals who have limited capacity to comply with them (Moradi & Jahanbakht, 2026). This perspective is particularly relevant to financial institutions, which operate under established policies and procedures governing loan provision. Microfinance institutions may require borrowers to provide collateral, guarantors, financial documentation, proof of income, and other information before loans are approved (Visconti, 2009). They may also apply specific credit appraisal procedures, repayment conditions, and administrative requirements. Although these institutional arrangements are intended to control lending risks and ensure responsible financial management, they may create difficulties for small-scale borrowers who have limited assets, irregular incomes, inadequate documentation, or limited financial capacity (Yang et al., 2023). The strength of Institutional Theory in this study therefore lies in its ability to explain how institutional rules and practices can influence the opportunities available to different categories of borrowers.

Institutional Theory is closely aligned with this study because it provides a basis for examining how institutional arrangements influence access to microfinance loans among small-scale borrowers in Kilombero District, Tanzania. Specifically, the theory enables the study to examine how collateral requirements, guarantor conditions, documentation requirements, loan application procedures, credit appraisal practices, and repayment conditions may facilitate or constrain borrowers' ability to obtain microfinance loans. From the perspective of the theory, access to microfinance is not determined only by borrowers' financial needs or willingness to borrow, but also by their ability to comply with the institutional requirements established by microfinance providers. Therefore, Institutional Theory provides an appropriate theoretical foundation for assessing the extent to which institutional barriers affect small-scale borrowers' access to microfinance loans and for identifying institutional practices that may need improvement to promote more inclusive access to financial services in Kilombero District.

Empirical review

Empirical studies have established that institutional and credit-related factors significantly influence access to microfinance and other formal financial services among small-scale borrowers. Areebahoona et al. (2024), in their study of smallholder agricultural households in Uganda, found that access to bank credit was influenced by household and institutional characteristics,

demonstrating that formal lending requirements can affect the ability of rural households to obtain credit. Similarly, Hoque et al. (2016) examined credit rationing among small and medium enterprises in Bangladesh and established that imperfect information and borrower characteristics contributed to credit rationing. These findings are consistent with the credit rationing argument of Stiglitz and Weiss (1981), which explains that information asymmetry may cause financial institutions to restrict lending even when potential borrowers are willing to borrow. In Tanzania, Msangi (2025) found that low-income citizens faced several barriers to accessing bank loans, while Msangi and Kasambala (2025) identified challenges affecting SMEs' access to bank financing. Collectively, these studies indicate that lending procedures, information requirements, eligibility conditions, and institutional lending practices can create barriers to formal credit access. However, most of these studies focus on bank credit or SMEs rather than microfinance loans among small-scale borrowers in rural districts.

Other empirical evidence demonstrates that the conditions and procedures imposed by microfinance institutions can determine whether small-scale borrowers successfully obtain and utilize loans. Domanban et al. (2023), examining clients of microfinance systems in Ghana, found that borrower and institutional factors influenced the choice of credit source, indicating that the characteristics of available lending institutions matter in borrowers' financing decisions. Dayo et al. (2025) similarly identified several challenges and opportunities affecting microfinance development in Pakistan, suggesting that institutional practices can either facilitate or constrain financial inclusion. In Tanzania, Komba and Komba (2024) examined access to microfinance services among people with disabilities and identified barriers affecting their participation in microfinance, while Kamugisha et al. (2025), in their study of smallholder paddy farmers in Mvomero, further examined barriers affecting agricultural credit accessibility. These findings are particularly relevant to the present study because Kilombero, like other predominantly rural agricultural areas, contains small-scale borrowers whose access to finance may be affected by institutional requirements, loan procedures, collateral or guarantor conditions, repayment arrangements, and other lending practices.

The literature also shows that the benefits of microfinance depend considerably on borrowers' ability to overcome institutional and financial constraints. Chikwira et al. (2022) found that microfinance institutions can contribute to poverty alleviation, demonstrating the potential importance of microfinance in improving the socioeconomic conditions of financially constrained households. In Tanzania, Kim et al. (2025) found that microfinance factors were associated with poverty reduction among youths in Kyerwa District, while Mbunda (2024) reported that savings and credit cooperative services contributed to the socioeconomic empowerment of women in Temeke Municipality. Mwombeki and Magwana (2023) further established that financial literacy influences micro-credit accessibility among rural households in Tanzania, suggesting that borrowers' capacity to understand financial products can affect their ability to access credit. Alessa et al. (2025), in Sudan, also examined social and microcredit characteristics in relation to financing small agricultural entrepreneurial projects and emphasized the importance of credit characteristics in financing outcomes. Although these studies confirm the importance of microfinance and related financial services, they tend to emphasize their socioeconomic effects, financial literacy, or credit characteristics rather than providing a comprehensive assessment of institutional barriers that prevent small-scale borrowers from accessing loans in a particular rural district.

Recent studies provide further evidence that changing financial systems and institutional practices continue to shape financial inclusion. Anane-Donkor and Dei (2026) examined the adoption of emerging digital financial solutions in Ghana and highlighted the role of financial innovations in

improving financial inclusion, while Irene et al. (2025) examined the role of financial institutions in addressing the financing gap among women entrepreneurs in Sub-Saharan Africa. Maliro et al. (2025) investigated determinants of microfinance credit access among SMEs in the Democratic Republic of Congo, and Manjunatha (2025) examined barriers to microfinance access among MSMEs in Bengaluru. These studies demonstrate that institutional practices, borrower requirements, financial products, and the structure of financial services remain important determinants of credit access across different contexts. However, there is a contextual and empirical gap because relatively limited evidence focuses specifically on small-scale borrowers in Kilombero District, Tanzania. Existing Tanzanian studies have concentrated on bank loans, agricultural credit, financial literacy, specific borrower groups, or other districts. Therefore, the present study seeks to address this gap by empirically examining the institutional barriers influencing access to microfinance loans among small-scale borrowers in Kilombero District, with particular attention to the lending requirements, procedures, conditions, and institutional practices that may facilitate or constrain borrowers' access to microfinance services.

3. Methodology

The study was conducted in Kilombero District, Tanzania, which served as the study area. The study adopted a positivist research philosophy, which emphasizes the use of observable and measurable facts to generate objective findings. The study employed a quantitative research approach because the researcher intended to collect numerical data and analyze them statistically. A cross-sectional research design was used, whereby data were collected from the respondents at a single point in time. The target population comprised 1,378 small-scale borrowers in Kilombero District. The list of small-scale borrowers was obtained from the District Business Officer, which provided the sampling frame for the study. The study employed random sampling to give eligible respondents an equal opportunity of being selected to participate in the study. Primary data were collected directly from the selected respondents using structured questionnaires. Prior to the actual data collection, a pilot study and mock interviews were conducted to assess the clarity, relevance, consistency, and suitability of the research instruments and to make necessary improvements before the main fieldwork.

The formula is expressed as follows:

$$n = \frac{N}{1 + Ne^2} = \frac{1378}{1 + 1378\ (0.05^2)} \approx 310$$

Therefore, the study selected 310 small-scale borrowers as the sample for the main data collection. Ethical considerations were ensured throughout the study by obtaining a data collection permit from Mzumbe University, followed by authorization from the Kilombero District authorities to conduct the study. The researcher worked closely with respondents in their respective villages with the assistance of Village Executive Officers (VEOs) and Ward Executive Officers (WEOs). Respondents were informed about the purpose of the study, their participation was voluntary, and confidentiality and privacy of the information provided were maintained throughout the data collection process.

Table 1: Description, and measurement of variables used in the study

Variable	Description	Measurement	Source
Access to Microfinance Loans	The extent to which small-scale borrowers are able to obtain and successfully utilize microfinance loans when needed.	Measured using five indicators: (i) loan application success, (ii) loan approval status, (iii) timeliness of loan disbursement, (iv) adequacy of loan amount received, and (v) frequency of successful loan access. Items can be measured using a Likert scale and/or categorical responses depending on the questionnaire.	Domanban et al. (2023); Areebahoona et al. (2024); Kamugisha et al. (2025); Malo et al. (2025); Wanzala & Obokoh (2025).
Loan Application Success	Refers to whether a borrower who applies for a microfinance loan is successful in obtaining the requested loan.	Measured by whether the respondent's loan application was successful/approved or unsuccessful/rejected.	Domanban et al. (2023); Hoque et al. (2016); Areebahoona et al. (2024).
Loan Approval Status	Refers to the outcome of a borrower's loan application after assessment by the financial institution.	Measured as approved, rejected, or pending/under review.	Hoque et al. (2016); Domanban et al. (2023); Areebahoona et al. (2024).
Timeliness of Loan Disbursement	Refers to the speed with which an approved loan is released to the borrower after approval.	Measured according to whether the loan was received on time, delayed, or significantly delayed, or by the number of days between approval and disbursement.	Komba & Komba (2024); Mori & Charles (2026); Kamugisha et al. (2025).
Adequacy of Loan Amount Received	Refers to the extent to which the amount of loan received is sufficient to meet the borrower's intended financial or business needs.	Measured by comparing the amount requested with the amount received, or by respondents' assessment of whether the amount received was adequate/inadequate.	Alessa et al. (2025); Tefera (2022); Areebahoona et al. (2024); Malo et al. (2025).
Frequency of Successful Loan Access	Refers to how often a borrower has successfully obtained microfinance loans over a specified period.	Measured by the number of successful loan applications/loans obtained during a defined period, such as the previous three years.	Domanban et al. (2023); Chikwira et al. (2022); Kim et al. (2025).
Institutional Barriers	Institutional conditions and practices within financial institutions that may make it difficult for small-scale borrowers to access microfinance services.	Measured through four indicators: (i) complex procedures, (ii) weak regulations, (iii) weak institutional outreach, and (iv) limited product diversity. Items can be measured using a five-point Likert scale ranging from strongly disagree to strongly agree.	Mbogo (2023); Msangi (2025); Msangi & Kasambala (2025); Manjunatha (2025); Wanzala & Obokoh (2025).
Complex Procedures	Refers to complicated, lengthy, or burdensome requirements and processes involved in applying for and	Measured using respondents' perceptions of the complexity, documentation requirements, number of procedures, and time required to obtain a loan, using a five-point Likert scale.	Hoque et al. (2016); Mbogo (2023); Msangi (2025); Manjunatha (2025).

Variable	Description	Measurement	Source
	obtaining microfinance loans.		
Weak Regulations	Refers to inadequate, unclear, ineffective, or poorly implemented regulatory arrangements governing microfinance lending and borrower access.	Measured using respondents' perceptions of the clarity, effectiveness, consistency, and implementation of lending regulations, using a five-point Likert scale.	Mbogo (2023); Msangi (2025); Wanzala & Obokoh (2025); Moradi & Jahanbakht (2026).
Weak Institutional Outreach	Refers to inadequate efforts by financial institutions to reach, inform, educate, and provide services to potential borrowers, particularly in rural areas.	Measured through the perceived availability of information, proximity/contact with institutions, awareness campaigns, borrower education, and institutional engagement, using a five-point Likert scale.	Irene et al. (2025); Mwombeki & Magwana (2023); Anane-Donkor & Dei (2026); Wanzala & Obokoh (2025).
Limited Product Diversity	Refers to the limited range of loan products and financial services available to meet the different needs of small-scale borrowers.	Measured by respondents' perceptions of the availability, variety, flexibility, and suitability of loan products, using a five-point Likert scale.	Alessa et al. (2025); Domanban et al. (2023); Kusuma & Jaya (2015); Anane-Donkor & Dei (2026).

The independent variable, institutional barriers, was measured through five indicators, namely complex procedures, weak regulations, weak institutional outreach, limited product diversity, and rigid group lending. The dependent variable, access to microfinance loans, was also measured through five indicators, namely loan application success, loan approval status, timeliness of loan disbursement, adequacy of the loan amount received, and frequency of successful loan access. Moreover, all indicators for both the independent and dependent variables were captured using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree, to assess respondents' perceptions of the respective statements (*see* Table 1 for further details).

Analytical modeling

Institutional barriers were measured through five indicators: complex procedures (CP), weak regulations (WR), weak institutional outreach (WIO), limited product diversity (LPD), and rigid group lending (RGL), such that:

$$IB_i = f(CP_i, WR_i, WIO_i, LPD_i, RGL_i)$$

Replacing IB_i in the single-construct form of equation, $AML_{\mathrm{i}} = \beta_0 + \beta_2 IB_{\mathrm{i}} + \varepsilon_{\mathrm{i}}$, with its five observed indicators produces the fully specified institutional barriers model:

$$AML_i = \beta_0 + \beta_1 CP_i + \beta_2 WR_i + \beta_3 WIO_i + \beta_4 LPD_i + \beta_5 RGL_i + \varepsilon_i$$

Here, β_1 through β_5 represent the effects of complex procedures, weak regulations, weak institutional outreach, limited product diversity, and rigid group lending on access to microfinance loans respectively, each estimated while holding the remaining four institutional indicators constant. This specification allows the study to determine which specific institutional conditions are statistically associated with small-scale borrowers' access to microfinance loans, and the direction of that association. The corresponding composite-score version of the model, obtained by substituting the mean institutional barriers score, IB_{i}, directly into equation, is:

$$AML_i = \beta_0 + \beta_2 IB_i + \varepsilon_i$$

4. Results

Results in Table 2 presents the characteristics of respondents, and it shows that males constituted the majority of respondents, with 207 (69.2%), while females accounted for 92 (30.8%), indicating that the study was predominantly represented by male small-scale borrowers. Regarding age, the largest proportion was aged 26-35 years, with 123 (41.1%), followed by those aged 36-45 years at 89 (29.8%), 18-25 years at 47 (15.7%), 46-55 years at 32 (10.7%), and above 55 years at 8 (2.7%). This suggests that most respondents were within the economically active age groups. In terms of marital status, 155 (51.8%) were single, 120 (40.1%) were married, 13 (4.3%) were widowed, and 11 (3.7%) were divorced, indicating that single and married respondents constituted the majority. Regarding education, 106 (35.5%) had secondary education, 75 (25.1%) had certificate/diploma qualifications, 57 (19.1%) had primary education, 34 (11.4%) had a bachelor's degree or above, while 27 (9.0%) had no formal education. This indicates that most respondents had at least some formal education, which could facilitate their understanding of financial and business-related matters.

Table 2: Characteristics of respondents

Variables	Category	Frequency	Percent
Sex	Male	207	69.2%
	Female	92	30.8%
	Total	**299**	**100.0%**
Age levels	26-35 years	123	41.1%
	36-45 years	89	29.8%
	18-25 years	47	15.7%
	46-55 years	32	10.7%
	Above 55 years	8	2.7%
	Total	**299**	**100.0%**
Marital status	Single	155	51.8%
	Married	120	40.1%
	Widowed	13	4.3%
	Divorced	11	3.7%
	Total	**299**	**100.0%**
Education level	Secondary Education	106	35.5%
	Certificate/Diploma	75	25.1%
	Primary Education	57	19.1%
	Bachelor's Degree or Above	34	11.4%
	No Formal Education	27	9.0%
	Total	**299**	**100.0%**
Occupation	Small Business/Trade	86	28.8%
	Other	86	28.8%
	Livestock Keeping	67	22.4%
	Farming	60	20.1%
	Total	**299**	**100.0%**
Employment status	Self-Employed	261	87.3%
	Employed	26	8.7%
	Unemployed	12	4.0%
	Total	**299**	**100.0%**
Working experience	1-5 years	170	56.9%
	6-10 years	69	23.1%
	Less than 1 year	39	13.0%
	More than 10 years	21	7.0%
	Total	**299**	**100.0%**

With respect to occupation, small business/trade and other occupations each accounted for 86 (28.8%) respondents, followed by livestock keeping with 67 (22.4%) and farming with 60 (20.1%), demonstrating that respondents were engaged in diverse economic activities. Employment status shows that the majority, 261 (87.3%), were self-employed, while 26 (8.7%) were employed and 12 (4.0%) were unemployed, suggesting that self-employment was the dominant source of livelihood among the respondents. Finally, regarding working experience, 170 (56.9%) had 1–5 years of experience, 69 (23.1%) had 6–10 years, 39 (13.0%) had less than one year, and 21 (7.0%) had more than 10 years of experience. Overall, the findings indicate that the respondents were largely male, relatively young, predominantly single, had moderate levels of education, were mainly self-employed, and had between one and five years of working experience, characteristics that provide useful background for understanding the small-scale borrowers included in the study.

Construct Reliability and Validity Testing

Reliability was assessed using Cronbach's alpha and split-half (Spearman-Brown corrected) reliability. Validity was assessed using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, Bartlett's test of sphericity, and communalities/factor loadings extracted from a one-factor principal component solution for each construct.

Institutional Barriers

Table 3 presents the reliability and validity results for the institutional barriers construct. The five indicators complex procedures, weak regulations, weak institutional outreach, limited product diversity, and rigid group lending recorded mean scores ranging from 3.09 to 3.33, indicating that respondents generally perceived these factors as moderate to relatively significant institutional barriers. Weak institutional outreach had the highest mean score (3.33), followed by rigid group lending (3.31) and limited product diversity (3.28), while weak regulations recorded a mean of 3.15 and complex procedures had the lowest mean of 3.09. The item-total correlations ranged from 0.641 to 0.697, which are above the acceptable threshold of 0.30, indicating that all items were strongly related to the overall institutional barriers construct. The factor loadings ranged from 0.774 to 0.818, while communalities ranged from 0.600 to 0.670, demonstrating that each indicator made a substantial contribution to measuring the underlying construct.

Table 3: Construct reliability and validity for the institutional barriers

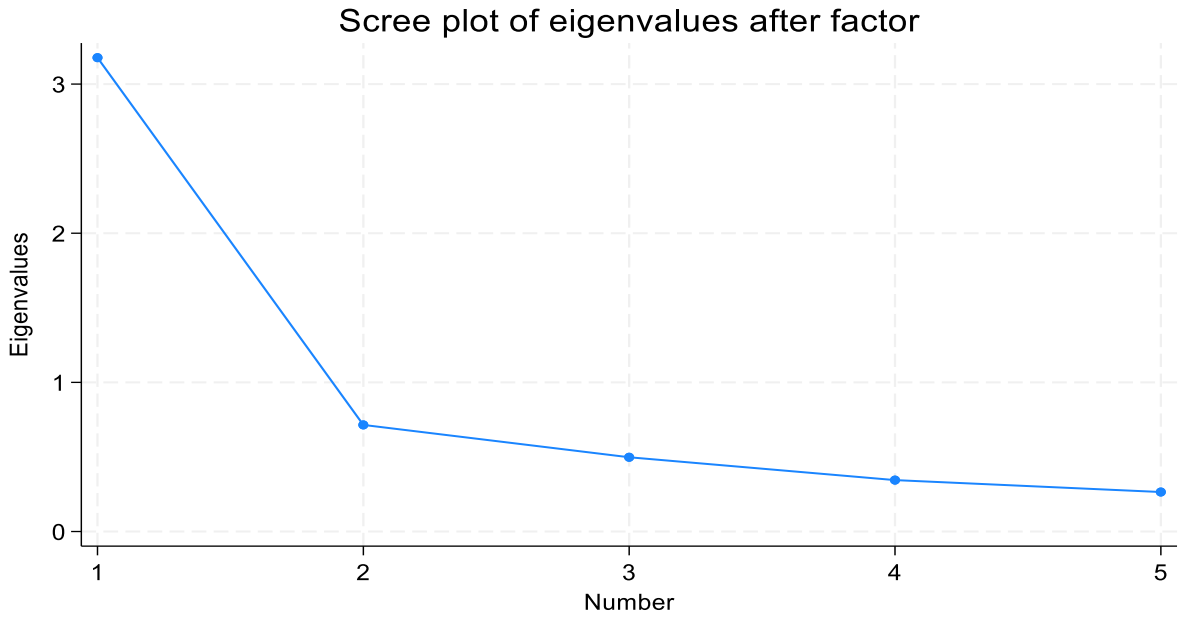
Code	Item	Mean	SD	Item-total r	α if deleted	Communality	Loading
CP	Complex procedures	3.09	1.15	0.641	0.834	0.600	0.774
WR	Weak regulations	3.15	1.18	0.697	0.820	0.670	0.818
WIO	Weak institutional outreach	3.33	1.13	0.676	0.825	0.642	0.801
LPD	Limited product diversity	3.28	1.21	0.667	0.828	0.630	0.794
RGL	Rigid group lending	3.31	1.20	0.673	0.826	0.636	0.797

Summary			
Cronbach's α	0.856	KMO	0.790
Split-half r	0.776	Bartlett's χ^2	670.59
Spearman-Brown corrected	0.874	Eigenvalue (PC1)	3.177
Degree of freedom (p value)	10 (0.001)	Variance explained	63.54%

The overall reliability and validity statistics indicate that the institutional barriers scale was highly reliable and suitable for further analysis. Cronbach's alpha was 0.856, demonstrating strong internal consistency among the five indicators, while the split-half reliability coefficient of 0.776 and the Spearman-Brown corrected coefficient of 0.874 provide further evidence of satisfactory reliability. The KMO value of 0.790 indicates adequate sampling suitability for factor analysis,

while Bartlett's test of sphericity was statistically significant ($\chi^2 = 670.59$, df = 10, p = 0.001), confirming that the correlations among the items were sufficiently strong to justify factor analysis. Furthermore, the first principal component had an eigenvalue of 3.177 and explained 63.54% of the total variance, meaning that the five indicators collectively accounted for a substantial proportion of the variation in institutional barriers. The results confirm that the measurement instrument demonstrates good reliability, construct validity, and factorability and can therefore be confidently used in subsequent analysis of institutional barriers affecting SMEs' access to loans.
The scree plot for Institutional Barriers (Figure 1) shows that the first component has an eigenvalue of approximately 3.18, the highest among the four constructs, followed by a steep decline to Component 2 (≈ 0.72) and a gradual downward slope thereafter, reaching approximately 0.27 at Component 5. The clear elbow after Component 1 indicates that a single factor adequately captures the shared variance among the five institutional barrier indicators: complex procedures, weak regulations, weak institutional outreach, limited product diversity, and rigid group lending. This represents the strongest single-factor structure among the four constructs and is consistent with its comparatively high internal consistency (α = 0.856) and the largest proportion of variance explained by the first component (63.5%).

Figure 1 Scree plot of eigenvalues after factor for Institutional Barriers



Access to Microfinance Loans

Table 4 presents the reliability and validity results for the construct measuring access to microfinance loans. The five indicators like loan application success, loan approval status, timeliness of disbursement, adequacy of the loan amount received, and frequency of successful loan access recorded mean scores ranging from 3.67 to 3.87, suggesting that respondents generally reported a relatively positive level of access to microfinance loans. Frequency of successful loan access had the highest mean score (3.87), followed by adequacy of the loan amount received (3.77), timeliness of disbursement (3.70), loan approval status (3.68), and loan application success (3.67). The item-total correlations ranged from 0.444 to 0.684, indicating acceptable to strong associations between the individual indicators and the overall construct. The factor loadings ranged

from 0.624 to 0.830, while communalities ranged from 0.389 to 0.689, demonstrating that the indicators generally contributed meaningfully to the measurement of access to microfinance loans. However, frequency of successful loan access recorded the lowest loading (0.624) and communality (0.389), indicating a comparatively weaker contribution than the other indicators.
The overall reliability and validity statistics indicate that the access to microfinance loans scale was sufficiently reliable and suitable for further analysis. Cronbach's alpha was 0.791, indicating acceptable internal consistency among the five indicators, while the split-half reliability coefficient of 0.693 and the Spearman-Brown corrected coefficient of 0.819 provide additional support for the reliability of the measurement scale.

Table 4: Construct reliability and validity for the access to microfinance loans

Code	Item	Mean	SD	Item-total r	α if deleted	Communality	Loading
LAS	Loan application success	3.67	1.17	0.572	0.753	0.549	0.741
LASt	Loan approval status	3.68	1.05	0.569	0.752	0.542	0.736
TLD	Timeliness of disbursement	3.70	1.07	0.684	0.714	0.689	0.830
ALAR	Adequacy of loan amount received	3.77	0.99	0.591	0.746	0.575	0.758
FSLA	Frequency of successful loan access	3.87	0.97	0.444	0.789	0.389	0.624

Summary			
Cronbach's α	0.791	KMO	0.747
Split-half r	0.693	Bartlett's χ^2	437.86
Spearman-Brown corrected	0.819	Eigenvalue (PC1)	2.742
Degree of freedom (p value)	10 (0.001)	Variance explained	54.85%

The KMO value of 0.747 indicates adequate sampling adequacy for factor analysis, while Bartlett's test of sphericity was statistically significant ($\chi^2 = 437.86$, df = 10, p = 0.001), confirming that the correlations among the indicators were sufficiently strong to justify factor analysis. Furthermore, the first principal component had an eigenvalue of 2.742 and explained 54.85% of the total variance, indicating that the five indicators collectively captured more than half of the variation in the underlying access-to-microfinance-loans construct. The findings demonstrate that the measurement instrument has acceptable reliability, construct validity, and factorability, making it appropriate for subsequent analysis of factors influencing SMEs' access to microfinance loans.

The influence of institutional barriers on access to microfinance loans among small-scale borrowers in Kilombero District.

Table 5 presents the OLS regression results examining the influence of institutional barriers on Small Scale borrowers' access to microfinance loans based on 299 observations. The model explains 63.65% of the variation in access to microfinance loans, as shown by the R^2 of 0.6365, while the adjusted R^2 of 0.6196 indicates that approximately 61.96% of the variation is explained after adjusting for the number of predictors. The results show that complex procedures had a negative coefficient (β = -0.1928, p = 0.067), implying that an increase in complex procedures is associated with a decrease in access to microfinance loans, although the relationship is statistically significant only at the 10% level. Weak regulations had a positive but statistically insignificant effect (β = 0.0256, p = 0.658), suggesting that weak regulations did not significantly influence access to microfinance loans. Weak institutional outreach had a negative and statistically significant effect (β = -0.2128, p = 0.014), indicating that inadequate institutional outreach significantly reduces borrowers' access to microfinance loans. This suggests that limited contact, information dissemination, or support from financial institutions may constrain borrowers' ability

to access loan services. In contrast, limited product diversity had a positive and statistically significant effect (β = 0.1540, p = 0.004), indicating that the variable is positively associated with access to microfinance loans. Finally, rigid group lending had a negative but statistically insignificant effect (β = -0.0970, p = 0.148), implying that although rigid group lending arrangements tend to reduce access, the observed effect is not statistically significant.

Table 5: OLS Regression Results on Influence of Institutional Barriers on Access to Microfinance Loans

Indicator	**Coef.**	**Robust SE**	**t**	**p**
Intercept	-3.5711	0.1704	-20.958	0.001 ***
Complex procedures	-0.1928	0.0135	2.876	0.067**
Weak regulations	0.0256	0.0577	0.444	0.658
Weak institutional outreach	-0.2128	0.0672	-2.191	0.014 **
Limited product diversity	0.1540	0.0299	7.013	0.004***
Rigid group lending	-0.0970	0.0669	-1.450	0.148
Model Summary				
Observations	299			
R squared	0.6365			
Adjusted R^2	0.6196			
F-statistic	F(5, 293) = 1.593			
Model p-value	0.001***			

The findings demonstrate that institutional barriers do not have uniform effects on access to microfinance loans. Complex procedures and weak institutional outreach show negative relationships with loan access, with weak institutional outreach emerging as a statistically significant barrier. Weak regulations and rigid group lending were not statistically significant, suggesting that these factors may not independently explain variations in access among the respondents. Limited product diversity was statistically significant but positive, indicating that greater variation in available financial products may be associated with improved access, contrary to its conceptualization as a barrier. The reported overall model is statistically significant at p = 0.001, suggesting that the institutional-barrier variables jointly explain variation in access to microfinance loans. The results therefore suggest that improving institutional outreach and simplifying loan procedures could potentially enhance Small Scale borrowers' access to microfinance services.

Table 6: Diagnostic Tests on indicators of Institutional barriers

Multicollinearity (VIF)		
Indicator	**VIF**	**Tolerance**
Complex procedures	1.947	0.514
Weak regulations	2.279	0.439
Weak institutional outreach	1.974	0.507
Limited product diversity	2.168	0.461
Rigid group lending	2.027	0.493
Mean VIF	**2.079**	
Other Diagnostic Tests		
Test	**Statistic**	**P Value**
Breusch-Pagan (heteroscedasticity)	5.53,	0.355
Shapiro-Wilk (normality)	0.9212	0.001
Residual skewness	-0.873	
Kurtosis	0.108	
Durbin-Watson	1.668	

Table 6 presents the diagnostic tests conducted to assess the suitability of the regression model examining the influence of institutional barriers on Small Scale borrowers' access to microfinance loans. The multicollinearity results indicate that there is no serious multicollinearity among the institutional barrier indicators. The VIF values range from 1.947 for complex procedures to 2.279 for weak regulations, with a mean VIF of 2.079, all of which are well below the commonly accepted threshold of 5.00. Similarly, the tolerance values range from 0.439 to 0.514, exceeding the minimum acceptable threshold of 0.10. These results suggest that the independent variables are not excessively correlated with one another and that each indicator provides sufficiently distinct information for inclusion in the regression model. The findings therefore support the reliability of the estimated regression coefficients with respect to multicollinearity concerns.

The Breusch-Pagan test produced a statistic of 5.53 with a p-value of 0.355, which is greater than the 0.05 significance level. This indicates that the null hypothesis of constant error variance cannot be rejected, suggesting that there is no statistically significant evidence of heteroscedasticity in the residuals. Thus, the variance of the regression errors can be considered reasonably constant across the observations. However, the Shapiro-Wilk test was statistically significant ($W = 0.9212$, $p = 0.001$), indicating that the residuals do not perfectly follow a normal distribution. The residual skewness of -0.873 indicates moderate negative skewness, while the kurtosis value of 0.108 suggests that the residual distribution does not exhibit substantial excess kurtosis. Although the normality assumption is not fully satisfied, the departure is primarily reflected in skewness rather than extreme kurtosis, and the use of robust standard errors helps provide more reliable inference in the presence of certain distributional irregularities.

The Durbin-Watson statistic of 1.668 indicates a reasonably acceptable level of independence among the residuals, although it is slightly below the benchmark value of 2. These diagnostic results suggest that the institutional barriers regression model does not suffer from serious multicollinearity or heteroscedasticity, and there is no strong indication of problematic autocorrelation. The statistically significant Shapiro-Wilk result indicates some departure from normality, which should be acknowledged when interpreting the regression results. Nevertheless, given the 299 observations and the use of robust standard errors, the model remains generally suitable for examining the relationship between institutional barriers and SMEs' access to microfinance loans, while the residual non-normality should be considered a limitation of the analysis.

4.1 Discussion

The findings can be understood from the perspective that institutional arrangements and lending procedures shape the ability of small-scale borrowers to engage with formal financial institutions. Complex procedures can create administrative and informational burdens, particularly for borrowers who may have limited financial and business management capacity. This argument is consistent with Stiglitz and Weiss (1981), who explain that imperfections in credit markets can result in credit rationing because lenders rely on screening mechanisms to manage information asymmetry and credit risk. Similarly, Hoque et al. (2016) demonstrate that institutional and borrower-related conditions can contribute to credit rationing among small and medium enterprises. In the Tanzanian context, Msangi (2025) and Msangi and Kasambala (2025) also emphasize that cumbersome requirements and institutional conditions can constrain access to formal loans. Therefore, simplifying application procedures, improving transparency of lending requirements, and providing appropriate assistance to prospective borrowers could make microfinance services more accessible to small-scale borrowers.

Institutional outreach is also important because access to finance depends not only on the existence of financial products but also on whether potential borrowers are adequately informed and reached by financial institutions. Weak outreach can limit awareness of available loan products, eligibility requirements, application procedures, and repayment conditions, thereby creating a gap between the supply of financial services and the population that needs them. Irene et al. (2025) argue that financial institutions have an important role in bridging financing gaps, particularly for underserved entrepreneurs in Sub-Saharan Africa. This perspective is further supported by Mwombeki and Magwana (2023), who demonstrate the importance of financial knowledge and related capabilities in facilitating micro-credit accessibility among rural households in Tanzania. More recently, Anane-Donkor and Dei (2026) emphasize the importance of effective delivery mechanisms and digital financial solutions in expanding financial inclusion. For rural borrowers, however, institutional outreach should extend beyond digital platforms to include community-based financial education, village-level sensitization, and regular engagement with borrowers.

The finding concerning limited product diversity can be interpreted in relation to the need for microfinance institutions to design products that reflect the heterogeneous financial circumstances of small-scale borrowers. Borrowers differ in terms of income patterns, business activities, loan purposes, repayment capacity, and the timing of their financing needs. Consequently, financial services that are standardized may not adequately respond to the circumstances of agricultural producers, traders, livestock keepers, and other small enterprises. Alessa et al. (2025) highlight the importance of social and microcredit characteristics in financing small agricultural projects, while Domanban et al. (2023) show that characteristics of borrowers and credit sources influence choices within microfinance systems. Similarly, Areebahoona et al. (2024) demonstrate that access to formal credit among smallholder households is influenced by several household and institutional characteristics. These arguments suggest that microfinance institutions should provide differentiated products, including appropriately structured loan amounts, repayment schedules, and financing arrangements, rather than relying heavily on one standard product.

The lack of a strong influence from some institutional arrangements can also be viewed through institutional theory, which emphasizes that formal structures, rules, and organizational practices may exist without necessarily producing the same practical effects across different contexts. Meyer and Rowan (1977) argue that formal institutional structures can become institutionalized as accepted organizational practices, while DiMaggio and Powell (1983) explain how organizations may adopt similar structures because of institutional pressures. Eitrem et al. (2024) further demonstrate the relevance of institutional theory for understanding how organizational practices are shaped by broader institutional environments. In microfinance, therefore, the mere presence of regulations or group-lending requirements does not necessarily guarantee improved access; their effectiveness depends on how they are implemented and how well they correspond with borrowers' circumstances. This is particularly important in rural settings such as Kilombero, where economic activities are diverse and livelihoods may depend on seasonal agricultural dynamics (George & Filbert, 2023). Overall, improving access to microfinance requires institutions to move beyond formal lending structures toward borrower-responsive procedures, stronger outreach, and financial products that are suited to the socioeconomic realities of small-scale borrowers.

5. Conclusion

The study concludes that institutional factors play an important role in shaping small-scale borrowers' access to microfinance loans in Kilombero District. In particular, cumbersome lending procedures and inadequate institutional outreach can create difficulties for potential borrowers by

increasing the time, information, and administrative requirements associated with accessing financial services. The study therefore concludes that improving the accessibility of microfinance requires financial institutions to develop borrower-friendly institutional arrangements that respond to the circumstances of small-scale borrowers.

Based on these findings, microfinance institutions are recommended to simplify loan application and approval procedures by reducing unnecessary documentation, clearly communicating lending requirements, and providing assistance to borrowers during the application process. Financial institutions should also strengthen institutional outreach, particularly in rural villages, through financial education, community sensitization, and regular engagement with potential and existing borrowers. Furthermore, microfinance providers should diversify and tailor their loan products to accommodate different economic activities and income patterns, including agriculture, livestock keeping, and small businesses, while designing repayment schedules that reflect borrowers' cash-flow and seasonal conditions.

The study further recommends that Kilombero District authorities work closely with microfinance institutions, Village Executive Officers, and Ward Executive Officers to improve awareness and facilitate linkages between small-scale borrowers and formal financial service providers. Microfinance institutions should also regularly assess borrowers' experiences and use such feedback to improve their lending procedures and products. Future studies may examine other factors that influence access to microfinance loans, including financial literacy, interest rates, collateral requirements, digital financial services, and borrower characteristics, in order to provide a broader understanding of financial inclusion among small-scale borrowers in rural Tanzania.

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