

# Why Tanzanian women entrepreneurs don't apply for formal loans

**W**ith 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.

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

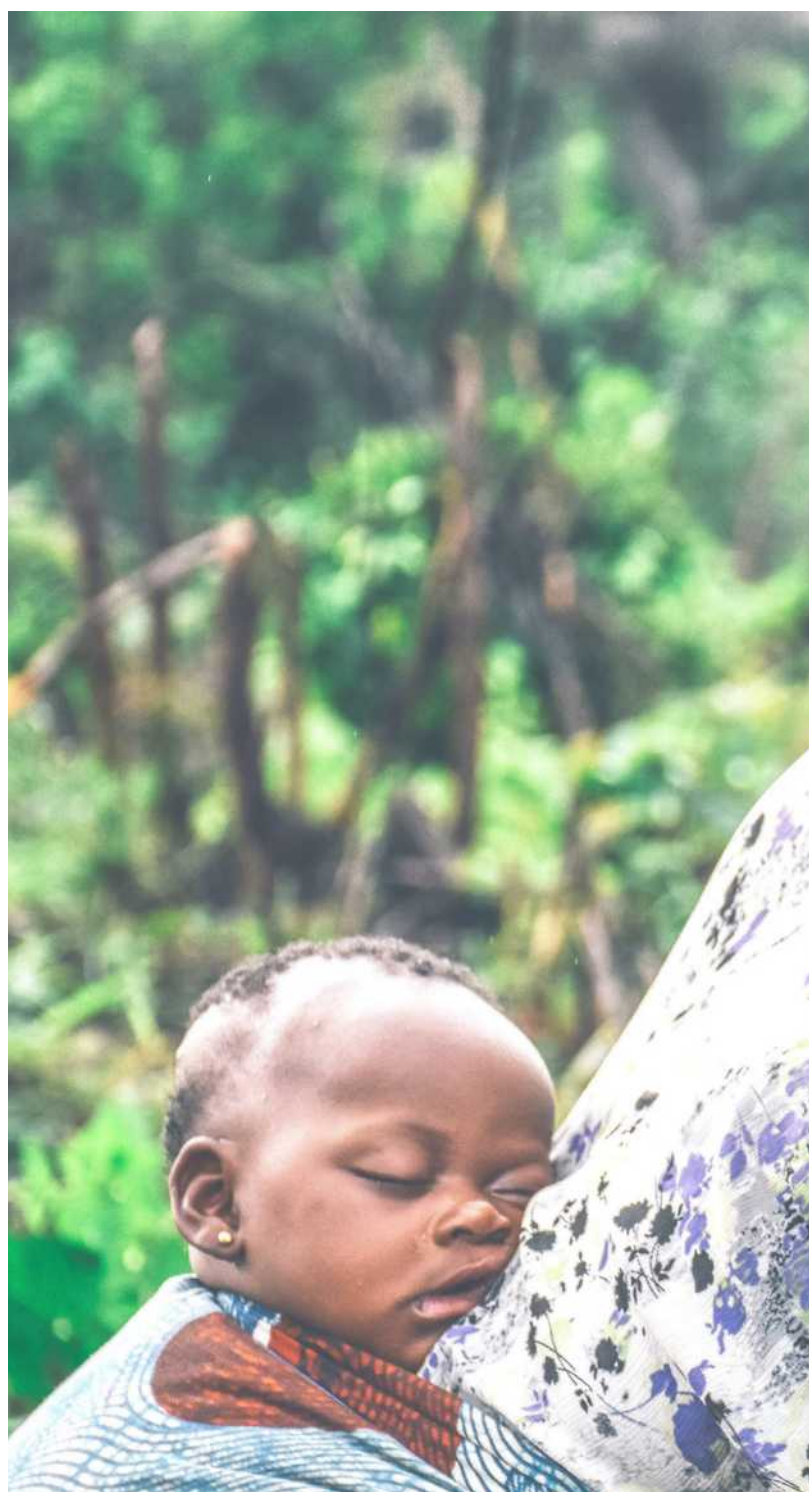
The most important financing source for small businesses worldwide is debt. However, research shows that many women entrepreneurs in emerging economies don't hold formal loans such as bank and microfinance loans. Traditionally the assumption has been that this is caused by a lack of supply. But data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



## 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 hus-