



Demand-Side Firm-Specific Determinants of Access to Financial Services Among Local Civil Contractors in Selected Regions of Tanzania

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Abstract

This study investigated the demand-side, firm-specific determinants influencing access to financial services among local civil contractors (LCCs) in selected regions of Tanzania. Primary data were collected from 354 LCCs using a mixed-methods approach and analysed through multiple linear regression. The study examined the influence of firm size, collateral availability, interest rates, documentation procedures, and firm age on financial accessibility. The results revealed that collateral availability ($\beta = 0.385, p = 0.000$), interest rates ($\beta = -0.217, p = 0.000$), bureaucratic documentation procedures ($\beta = -0.115, p = 0.000$), and firm size ($\beta = 0.162, p = 0.001$) significantly affect access to finance. In contrast, firm age ($\beta = 0.048, p = 0.141$) does not significantly influence credit access. Qualitative findings further support the view that high interest rates and complex documentation remain key obstacles for LCCs. The study concludes that internal firm characteristics substantially influence financial accessibility, with size and collateral acting as enablers, while interest rates and bureaucracy hinder access. Based on these findings, the study recommends that policymakers and financial institutions promote business development and formalisation of LCCs, adopt flexible collateral frameworks (such as movable assets and guarantee schemes), lower interest burdens, and streamline loan procedures through digitisation and simplification. These targeted reforms can enhance financial inclusion, thereby strengthening the capacity and sustainability of LCCs in Tanzania. The study adds to the limited literature on LCC financing in sub-Saharan Africa, offering demand-side insights to inform policy and institutional action.

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Introduction

Access to financial services is widely recognised as a catalyst for economic development, particularly in developing countries where financial inclusion remains a persistent challenge (Isaga, 2018; Mwonge & Naho, 2021, 2024). In Tanzania, the construction sector, particularly local civil contractors (LCCs), plays a vital role in infrastructure development, employment generation, and income creation (United Republic of Tanzania [URT], 2022, 2023). Despite this significant contribution, many LCCs face considerable barriers to accessing formal financial services, including credit, savings, insurance, and payment systems (Chrisostom et al., 2024; Mwonge & Naho, 2022; Kamanga & Mwaikambo, 2021; Chileshe et al., 2021; Esaiyas & Kahssay, 2020; Makenya et al., 2021). These constraints hinder their operational capacity and their potential for growth, innovation, and participation in large-scale



government and private-sector projects (Kikwasi & Escalante, 2020; Moo & Eyiah, 2020; Makoye et al., 2023).

A wide array of literature (Balogun et al., 2018; Chilembo, 2021; Mushori et al., 2020; Olanrele et al., 2020; Puci et al., 2023) has examined the supply-side constraints to financial access, such as stringent collateral requirements, high interest rates, and the limited outreach of financial institutions. However, emerging evidence suggests that demand-side factors—especially those intrinsic to firms themselves—may play an equally pivotal role in influencing financial accessibility (Mwonge & Naho, 2021). Firm-specific characteristics, such as ownership structure, managerial capacity, age of the firm, financial record-keeping practices, and legal status, directly influence how firms perceive, seek, and engage with financial services. Yet, there is a notable lack of empirical studies that systematically investigate these internal determinants, particularly within the context of LCCs in Tanzania.

LCCs often operate in a highly competitive and resource-constrained environment where their ability to secure financing depends not only on external institutional frameworks but also on their internal readiness to meet the expectations of financial providers (Chileshe et al., 2021; Makenya et al., 2021). For instance, firms with robust financial management systems, audited financial statements, and formal registration may be more likely to gain credibility and access credit facilities than informal or poorly managed firms (Kamanga & Mwaikambo, 2021). Understanding the firm-level determinants of financial access is vital for designing tailored interventions and policy frameworks that promote equitable financial inclusion (Chrisostom et al., 2024).

This study, therefore, seeks to investigate the demand-side firm-specific factors influencing access to financial services among LCCs in Tanzania. In doing so, the study aims to contribute to three key areas: (1) advancing theoretical understanding of financial inclusion through a demand-side lens; (2) identifying actionable firm-level strategies to enhance creditworthiness and financial preparedness; and (3) informing the design of inclusive financial policies and products tailored to the realities of LCCs. The findings are particularly relevant to ongoing national efforts to support SME development, promote local content in public procurement, and strengthen the role of domestic contractors in infrastructure delivery.

Theoretical framework

This research utilises Resource Dependency Theory (RDT), introduced by Pfeffer and Salancik in 1978, which suggests that organisations depend on external resources for survival and efficiency. For LCCs in Tanzania, access to financial services like credit and insurance is vital for performance and sustainability. RDT provides a framework for understanding how companies navigate external constraints and acquire necessary resources through adaptability and strategic actions. Internal factors such as size, age, legal status, and collateral enhance a firm's legitimacy and creditworthiness, helping LCCs reduce uncertainty in resource acquisition and align with institutional expectations for better financial access. Critics argue that RDT may overemphasise external factors while neglecting internal agency and innovation. In underdeveloped financial environments, a strategic position alone may not guarantee resource access. Nonetheless, RDT remains relevant for examining the interplay between internal capabilities and external economic conditions, offering a solid theoretical foundation for understanding how LCCs secure essential financial services in the construction sector.

Materials and methods

Research design

This study adopted a cross-sectional research design, which is suitable for analysing firm-specific determinants of access to financial services among Tanzania LCCs at a single time. The design



facilitated cost-effective data collection from a broad sample and enabled quantitative analysis to identify patterns and associations between firm-level characteristics and financial access.

Study area

The study was conducted in Dar es Salaam, Dodoma, Mwanza, Arusha, and Mbeya regions purposively selected for their economic vibrancy and high concentration of LCCs (URT, 2022). These areas represent diverse yet comparable construction environments, ranging from the commercial and governmental hubs of Dar es Salaam and Dodoma to the infrastructure-intensive regions of Mwanza, Arusha, and Mbeya, thereby, which enhanced its generalisability.

Target population

The target population includes key informants from financial and insurance institutions and LCCs registered with the Contractors Registration Board (CRB) in Dar es Salaam, Dodoma, Arusha, Mwanza, and Mbeya. According to the Ministry of Works and Transport (URT, 2022), these regions contain 1,662 registered LCCs. Their strategic economic roles make them ideal to investigate the demand-side firm-specific determinants of access to financial services in Tanzania's construction sector.

Sample size and sampling technique

The sample size of this study was determined using Yamane's (1967) formula. This formula is widely recognised for its simplicity and effectiveness in selecting a representative sample from a finite population with a 95% confidence level and a tolerable margin of error (Adam, 2020). The formula is expressed as:

$$n = \frac{N}{1+Ne^2} \quad (1)$$

where:

n = required sample size

N = total population size (1662 LCCs)

e = margin of error (0.05)

Substituting the values:

$$n = \frac{1662}{1+1662(0.05)^2} = 322 \quad (2)$$

To account for potential non-responses, 10% of 322 was added to the computed sample, resulting in a final sample size of 354 for the questionnaire. Additionally, 12 to 15 semi-structured interviews were conducted with representatives from financial institutions and insurance companies.

This study employed a multistage stratified sampling approach to ensure data representativeness and quality. Contractors were first grouped by zone and region—specifically, Dar es Salaam, Arusha, Dodoma, Mwanza, and Mbeya—representing major construction hubs. Firms were then classified by size using CRB registration (classes III–VII), focusing on small and medium contractors. Large firms were excluded due to their distinct characteristics and greater access to finance. Proportional sampling allocated sample sizes per region based on contractor distribution. Finally, simple random sampling was utilised within each region to select respondents, ensuring a diverse and representative sample of small and medium contractors.

The formula used for the second stage of proportional allocation was:



$$n_i = \left(\frac{N_i}{N} \right) \times 354 \quad (3)$$

where:

n_i = sample size for the region

N_i = number of contractors in region i .

N = total number of contractors in all regions (1662)

The sampling frame is presented in Table 1 below.

Table 1: Sampling frame

Region	Total Contractors	Population Proportion	Sample Size	Proposed KII
Arusha	152	0.091	32	2-3
Dar es Salaam	1068	0.643	228	4-5
Dodoma	92	0.055	19	2
Mbeya	157	0.095	33	2-3
Mwanza	193	0.116	41	2-3
Total	1662	100	354	12-15

Thus, 354 LCCs were selected to ensure that the study captured a wide spectrum of perspectives, reflecting LCCs' diverse operational contexts and firm characteristics across Tanzania.

Data type, source and collection method

This study utilised both primary and secondary data to enhance validity and analytical depth. Primary data were collected through semi-structured questionnaires—comprising open- and closed-ended questions—as well as face-to-face interviews to capture detailed and quantifiable insights. Secondary data were obtained from documentary reviews, including audited financial statements, company records, and reports from CRB-registered LCCs and relevant government agencies. These sources provided information on financial performance, compliance, and project timelines. By combining data types, the study ensured comprehensive coverage of research objectives and improved reliability, aligning with its quantitative orientation and supporting robust, evidence-based analysis (Harris, 2021; Harrison et al., 2020).

Data analysis

Data were coded, cleaned, and organised to ensure accuracy and relevance. Incomplete or inconsistent responses were removed before analysis. Valid entries were analysed using SPSS. To assess firm-specific determinants of access to financial services among LCCs, a Multiple Linear Regression (MLR) model was employed. This approach allowed for evaluating the effects of multiple independent variables on the dependent variable—Accessibility to Financial Services (AFS)—measured using a five-point Likert scale. The Likert scale enabled a nuanced analysis. MLR also facilitated the examination of interrelationships among firm attributes such as financial stability, operational scale, and profitability.

The model thus supports a multifactorial analysis by accounting for these interconnected dynamics.

The model was specified as follows:

$$Y = \beta_0 + \beta_1 CR + \beta_2 FS + \beta_3 IR + \beta_4 BP + \beta_5 FA + \epsilon \quad (4)$$

where:

Y = accessibility to financial services (AFS)

β_0 = intercept term



$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 = regression coefficients for the explanatory variables

CR = collateral availability

FS = firm size

IR = interest rate

BP = bureaucratic procedures

FA = firm age

ϵ = margin error

Results and discussion

Response rate

A total of 354 questionnaires were administered to respondents within the study area. Of these, 353 were fully completed and returned, yielding a high response rate of 99.72%. However, one questionnaire (0.28%) was deemed incomplete due to missing information and was consequently excluded from the final analysis (Schutt, 2019; Msambali & Mwonge, 2024). The high response rate strengthens the statistical validity of the sample, reducing the risk of non-response bias and enhancing the reliability and generalisability of the study findings to the broader population (Msambali & Mwonge, 2025). Additionally, all planned KIIs were completed, resulting in a 100% response rate. Thus, the qualitative data obtained through these interviews provided valuable contextual insights, complementing and enriching the study's quantitative findings.

Regression analysis

This section presents the results of the multiple linear regression (MLR) analysis conducted to examine the influence of firm-specific factors on the accessibility of financial services among LCCs in Tanzania. The model was designed to determine the extent to which internal attributes of a firm – namely, firm age (FA), firm size (FS), collateral (CR), bureaucratic procedures (BP), and interest rate (IR) – predict the level of access to financial services (AFS). These variables were selected based on theoretical and empirical evidence suggesting their critical role in shaping a firm's ability to engage with financial institutions. The regression analysis provides insights into the strength and direction of these relationships and tests the study's hypotheses regarding the significance of firm-specific characteristics in influencing financial accessibility. Table 2 presents the results.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.795 ^a	0.633	0.628	0.4556	1.776

a. Predictors: (Constant), FS, FA, CR, BP, IR

The model summary in Table 2 indicates that 63.3% of the variance in Accessibility to Financial Services (AFS) is explained by firm-specific variables – FS, FA, CR, BP, and IR – evidenced by an R^2 of 0.633. The multiple correlation coefficient (R) of 0.795 shows a strong positive relationship between the predictors and AFS. The Adjusted R^2 of 0.628 confirms the model's robustness by accounting for the number of predictors, enhancing its generalisability. Additionally, the Durbin-Watson statistic of 1.776 lies within the acceptable range of 1.5 to 2.5 (Turner, 2020), indicating no serious autocorrelation and supporting the reliability and independence of residuals in the regression analysis.

The overall statistical significance of the regression model was evaluated using an Analysis of Variance (ANOVA), as summarised in Table 3. The F-statistic was 119.594, with a corresponding p-value of 0.000, which is highly significant at the 1% level. This finding implies that the combined effect of the firm-specific variables (FS, FA, CR, BP, and IR) significantly predicts the accessibility of financial services among LCCs in Tanzania.



Table 3: ANOVA Test for Model

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.263	5	20.653	119.594	0.000 ^b
	Residual	59.923	347	0.173		
	Total	163.186	352			

a. Predictors: (Constant), FS, FA, CR, BP, IR

The results confirm that firm-specific characteristics, particularly age and size, profitability, and leverage, collectively have a substantial and statistically significant impact on LCCs' ability to access financial services in the Tanzanian context.

Further analysis of the regression coefficients, as summarised in Table 4, illustrates the relative contribution of each firm-specific factor to accessibility to financial services (AFS) among LCCs in Tanzania.

Table 4: Coefficients of Firm-Specific Determinants of Financial Accessibility

	Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.643	0.171		3.759	0.000
	CR	0.385	0.048	0.454	7.934	0.000
	FA	0.048	0.033	0.054	1.476	0.141
	IR	-0.217	0.053	0.240	-4.130	0.000
	BP	-0.115	0.027	0.171	-4.171	0.000
	FS	0.162	0.048	0.110	3.347	0.001

Firm size (FS): The relationship between firm size and financial accessibility is based on the assumption that larger firms generally have more financial stability, greater access to capital, and a wider range of resources, which collectively enhance their chances of securing external financing (Salancik & Pfeffer, 1978). In this study, firm size was found to be positively and statistically significant ($\beta = 0.162$, $p = 0.001$), indicating that, ceteris paribus, each unit increase in firm size leads to an increase of 0.162 in financial accessibility. This finding aligns with Resource Dependency Theory (RDT), which suggests that larger firms have more established reputations and improved access to resources, including financial services (Pfeffer & Salancik, 1978). RDT posits that firms with greater resources – such as an extensive track record and larger operational scale – enjoy superior bargaining power, allowing them to obtain more effective external financial support. Moreover, empirical studies also back this assertion. For example, Oh et al. (2015) found that firm size serves as a proxy for operational capacity, as larger firms typically operate on a larger scale and possess more valuable assets. Additionally, in the Italian context, Cappa et al. (2020) observed that larger firms have better access to financial services, aiding their ability to navigate financial markets and secure loans under more favourable conditions. These findings reinforce that firm size is a critical determinant of financial accessibility, particularly in contexts where limited resources or information asymmetries hinder access to external finance.

Availability of collateral (CR): Collateral plays a significant role in securing financial services, particularly loans, as it protects lenders. In the case of LCCs, the availability of collateral can enhance their chances of obtaining financial services. Most financial institutions require collateral to mitigate the perceived lending risk, especially for LCCs with limited credit histories or financial records. This



study hypothesised that the availability of collateral would positively impact financial accessibility. The study results indicate that collateral was both positive and statistically significant ($\beta = 0.385, p = 0.000$), suggesting that for each unit increase in collateral availability, financial accessibility would rise by 0.385, holding other factors constant. This aligns with existing literature (Mwonge & Naho, 2021; Akudugu, 2012; Abraham, 2014; Hananu et al., 2015), which indicates that firms with greater collateral are more likely to secure loans due to the perceived risk reduction by lenders. Moreover, in a Tanzanian context, Isaga (2018) highlighted that the lack of sufficient collateral is one of the primary barriers to credit access for SMEs. This study therefore underscores the importance of tangible assets as collateral in enhancing financial accessibility for LCCs.

Interest Rate (IR): Interest rates are a key determinant of credit accessibility. Higher interest rates can discourage firms from seeking loans or render borrowing unaffordable, particularly for LCCs with limited financial resources. The study revealed a significant negative relationship between interest rates and financial accessibility ($\beta = -0.217, p = 0.000$), suggesting that for every unit increase in interest rates, the likelihood of demanding financial products decreases by 0.217, holding other factors constant. This supports the hypothesis that high interest rates serve as a barrier to financing, as they raise the overall cost of borrowing, which is especially burdensome for LCCs. These findings align with existing literature (Ndungu, 2014; Kamanga & Mwaikambo, 2021; Mwonge & Naho, 2021), which shows that higher interest rates generally lead to reduced credit demand, particularly for firms with limited capital or high-risk profiles. Theoretically, this corresponds with the loan demand theory, which states that as the cost of capital rises, firms—especially risk-averse or capital-constrained entities—will decrease their demand for credit.

Moreover, qualitative data further reinforced this finding: several respondents described prevailing interest rates as "unrealistically high" and "discouraging," with one contractor noting that:

... even if we qualify for a loan, the interest rate is so high that it is unaffordable. Imagine taking a loan with over 18% interest – how do you repay that when your payments from government contracts are delayed for months? You find yourself working for the bank, not for your business. It's too risky.

This reflection highlights how high interest rates discourage loan uptake and contribute to financial stress and business vulnerability for LCCs. The situation is worsened by the unpredictability of contract payments, making the cost of credit disproportionately burdensome. Consequently, contractors either avoid formal financing altogether or turn to informal lenders despite their unfavourable terms. The perception that formal loans are financially unsustainable undermines the role of banking institutions in supporting enterprise development, particularly in the construction sector, where upfront capital is often essential.

Long bureaucratic procedures (BP): The documentation process is another important factor influencing financial accessibility. For small and medium-sized firms, including LCCs, the complexity and cost of meeting documentation requirements can create significant barriers to obtaining credit. The study found that the documentation process was negatively correlated with financial accessibility ($\beta = -0.115, p = 0.000$), suggesting that for every unit increase in the complexity of the documentation process, financial accessibility would decrease by 0.115, holding other factors constant. This supports the hypothesis that a simplified and streamlined documentation process would improve financial access for contractors. Empirical studies such as Gichuki et al. (2014) and Mwonge & Naho (2021) support the claim that simplified procedures facilitate greater access to credit by reducing transaction costs and information barriers. In the Tanzanian context, where many LCCs face challenges in meeting stringent documentation requirements, these findings highlight the importance of simplifying the



process to facilitate greater access to financial services. Additionally, during data collection, one of the contractors attested that:

... some banks require over ten different documents, some of which we don't even know how to prepare. They ask for audited financial statements, business registration certificates, tax clearance, project work plans, collateral documents, and even projected cash flows. We are contractors, not accountants. We end up feeling like the process is meant to push us away.

Such sentiments highlight the significant gap between the procedural expectations of lenders and the operational realities faced by small and medium-sized contractors. For many LCCs with limited administrative capacity, the process becomes increasingly complex, leading them to abandon or postpone credit applications. This limits their access to essential working capital and diminishes trust in formal financial systems. The administrative burden of document preparation effectively reduces the demand for financial services, particularly among firms that lack the technical know-how or resources to comply. Consequently, many contractors resort to informal borrowing channels despite the higher costs and risks, thus perpetuating financial exclusion in the sector.

Firm age (FA): Although firm age exhibited a positive coefficient ($\beta = 0.048$), it was not statistically significant ($p = 0.141$). This implies that the duration of a firm's operation does not significantly influence its access to financial services in this context. Nevertheless, the positive direction of the coefficient suggests that older firms may possess characteristics—such as operational stability, credit history, and stakeholder trust—that potentially enhance their creditworthiness over time. This observation aligns conceptually with Resource Dependency Theory, which states that older firms are more embedded in institutional networks and can better establish long-term relationships with financial providers (Pfeffer & Salancik, 1978). Furthermore, Cowling et al. (2018) found that older firms are often perceived as less risky due to their proven resilience.

Policy implications and theoretical contributions

Policy implications

This study's findings provide actionable insights for policymakers, financial institutions, and stakeholders aiming to enhance financial access for LCCs in Tanzania.

First, the positive link between firm size and financial access underscores the need for policies that promote the formalisation and growth of LCCs. Supporting business development services and incentivising firm expansion could enhance creditworthiness.

Second, limited access to traditional collateral necessitates reforms that accommodate alternative securities, such as movable assets, receivables, and credit guarantee schemes. These innovations would help alleviate asset constraints among emerging contractors.

Third, the negative impact of high interest rates indicates a need for reviews of lending policies. Regulatory bodies, such as the Bank of Tanzania, should promote market competition, enhance financial literacy, and develop concessional loan schemes.

Fourth, bureaucratic loan procedures obstruct access. Streamlining application processes with digital systems and simplified documentation can build trust and enhance efficiency.

Finally, while firm age showed no significant effect, balanced support across firm age categories—based on performance indicators—would guarantee inclusive and sustainable financial access within the construction sector.

**Theoretical contribution**

The theoretical contribution of the study lies in its application of Resource Dependency Theory (RDT) to understand the internal, firm-specific determinants affecting access to financial services among local civil contractors (LCCs) in Tanzania. By framing firm characteristics – such as size, age, collateral availability, and financial literacy – as strategic assets that influence a firm's negotiation capacity with financial institutions, the study extends the discourse on financial inclusion beyond traditional supply-side constraints. It highlights that firms' internal capabilities and attributes play a crucial role in shaping their ability to secure financing, thereby filling a significant gap in the existing literature regarding demand-side factors specific to construction-related small and medium-sized enterprises, LCCs, in a developing context. This perspective underscores the importance of understanding the interplay between internal firm factors and external financial systems to foster inclusive access to finance.

Conclusion

Using a mixed-methods approach, this study examined the firm-specific demand-side determinants affecting access to financial services among LCCs in Tanzania. The results revealed that firm size, interest rates, documentation procedures, and collateral availability significantly influence financial access, while firm age did not show a significant effect. These findings highlight the complex relationship between financial institutions and contractor-specific characteristics. Larger firms had greater access to financial services, indicating that scale remains a key determinant of creditworthiness. Conversely, high interest rates and burdensome documentation processes acted as deterrents, underscoring structural barriers within the financial system. The importance of collateral further revealed the disadvantage of undercapitalised contractors lacking fixed assets. The insignificance of firm age suggests that institutional longevity alone does not translate to improved financial access, pointing to the need for more comprehensive assessments of creditworthiness that consider operational performance and financial capacity. These insights call for targeted policy and institutional reforms. Priorities should include revising collateral frameworks, rationalising interest rates, streamlining lending procedures, and promoting enterprise development programmes to foster LCC growth and formalisation.

However, the study has limitations. The cross-sectional design restricts the ability to infer causality, and the exclusive focus on demand-side factors may overlook supply-side dynamics such as lender behaviour and macroeconomic conditions. Future research should adopt longitudinal designs and include supply-side analyses to provide a more holistic understanding. Comparative studies across regions or sectors could enhance contextual relevance and inform more nuanced financial inclusion strategies.

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