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The Effect of High Interest Rates on Community Capital Access among Microfinance Borrowers in Dar es Salaam, Tanzania

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Abstract

High interest rates remain a barrier to community capital access, possibly preventing borrowers from obtaining affordable, adequate credit from microfinance institutions in Tanzania. This study looked at how high interest rates affect community capital access for microfinance borrowers in Dar es Salaam, concentrating on credit availability, affordability, and adequacy. Using Credit Rationing Theory and Institutional Theory as guides, the study used a method and a cross-sectional design. Data came from questionnaires filled out by 369 respondents. The data were examined with statistics, correlation, and ordinary least squares regression in SPSS. The results showed a significant negative link between high interest rates and community capital access ($B = -0.186$, $\beta = -0.187$, $t = -3.653$, $p < 0.001$). The model was statistically significant ($F = 13.344$, $p < 0.001$). It explained only 3.5% of the changes in community capital access ($R^2 = 0.035$). The study concludes that high interest rates are a financial barrier, though other factors also shape access to capital. It recommends that interest-rate disclosure be transparent, that lending practices be responsible, that regulatory oversight be stronger, and that credit arrangements be affordable all to boost inclusion and community economic development.

1 Introduction

Access to credit is essential for enabling micro-enterprises and households to invest, expand business activities, and withstand economic shocks (Dako et al., 2024; Mohan & Agilesh, 2025). However, high interest rates can increase borrowing costs, reduce borrowers' income, and limit their ability to access adequate capital. Although digital lending and microfinance have expanded inclusion, concerns persist about expensive credit and the financial risks low-income borrowers face (CEGA, 2024; Kueredza, 2024). Evidence from digital-credit markets also indicates that borrowers experience difficulties meeting repayment schedules, particularly when loan conditions do not correspond to borrowers' income patterns (Binaluyo et al., 2024; Hundekar & Munshi, 2025). Across Africa, access to credit is still a key need for micro-enterprises, small businesses, and household economic activities. High interest rates can make borrowing more expensive, reduce how affordable loans are, and stop people from getting the capital they need for productive investments. Even though mobile money and digital lending have helped bring people into the financial system in sub-Saharan Africa, concerns remain about repayment struggles, hidden fees, and whether credit is truly affordable (CEGA, 2024; Kueredza, 2024). For example, in Nigeria, a consumer survey by Innovations for Poverty Action (2024) found that people who used credit often faced repayment problems and unexpected charges. This shows how some lending practices can create difficulties for borrowers. In Kenya, research has shown that frequent repayment schedules can strain the cash flow of businesses (Murage, 2021). These findings suggest that just having more credit available does not mean access is truly affordable or sufficient. This aligns with Credit Rationing Theory, which says that when interest rates are too high, borrowers whose expected returns from business activities cannot cover the cost of borrowing may choose to stay out of credit markets (Stiglitz & Weiss, 1981). High interest rates can in effect keep people from getting the loans they need.

In Tanzania, especially in the economic hub (Dar es Salaam), high interest rates are a big issue in the microfinance and digital-lending world. According to Mesofinance Media (2024), some digital lenders charged interest rates as high as 20% every month before regulators stepped in. Also, the Bank of Tanzania took action against digital lending apps in 2024 because of problems like not clearly showing the terms and fees of the loans (BOT, 2024; Daily News, 2024; TanzaniaInvest, 2024). These kinds of lending practices can make it more expensive to borrow money. They can also make people not want to apply for loans. They can limit how much money borrowers can get for their businesses or other activities. Even though there are financial services now, there is still a need for real research that shows exactly how high interest rates affect the ability of people in Dar es Salaam to get the money they need. Therefore, this study examines the effect of high interest rates on community capital access among microfinance borrowers in Dar es Salaam, Tanzania.

2 Literature Review

Credit Rationing Theory

Credit Rationing Theory, first described by Stiglitz and Weiss (1981) in their article “Credit Rationing in Markets with Imperfect Information,” explains why banks sometimes limit loans even when borrowers are willing to pay higher interest rates. Credit Rationing Theory says that the gap in knowledge between lender and borrower creates worry about whether the borrower can repay (Stiglitz & Weiss, 1981). Because of that worry, Credit Rationing Theory says lenders may set rules or refuse a loan instead of just raising the rate. Raising the rate can pull in borrowers and lead to bad investment choices, which Credit Rationing Theory calls adverse selection and moral hazard. Credit Rationing Theory has guided studies on how interest limits and loan rules affect microfinance in places like Tanzania, such as the study by Charles (2022). The main strength of Credit Rationing Theory is its explanation of how lender risk checks and loan costs can cut off capital. This makes Credit Rationing Theory useful when looking at rates, short repayment windows, collateral demands, and extra fees that microfinance lenders impose. Credit Rationing Theory mainly focuses on knowledge gaps and risk between lender and borrower and does not discuss much the wider institutional, legal, or social forces that shape loan practices. Despite this gap, Credit Rationing Theory still provides a solid base for this study because it explains how lenders respond to perceived risk and how borrowers try to meet loan conditions, shaping how community members in Dar es Salaam, Tanzania, can access capital.

Institutional Theory

At the first time the Institutional Theory was developed by Meyer and Rowan (1977) and later expanded by DiMaggio and Powell (1983), shows how the way organizations act and make choices is shaped by rules, professional habits, social expectations, and the need to follow norms. Institutional Theory tells us that microfinance institutions do not set their lending terms by looking at borrower risk or information gaps; they also feel the pull of regulations, industry habits, governance structures, and common social values. In this study, Institutional Theory works with Credit Rationing Theory to explain how the wider

environment can affect the interest rates, loan lengths, collateral demands, and extra fees that borrowers face and how those conditions change the community's access to money. The great thing about Institutional Theory is that it widens the view beyond lender–borrower information problems to include the rules and organizational setting that guide lending choices. Institutional Theory alone does not give a detailed picture of how each loan price decision changes a borrower's readiness or ability to get credit. That is why combining Institutional Theory with Credit Rationing Theory gives a picture: Credit Rationing Theory explains lending choices that come from information gaps and perceived risk, while Institutional Theory shows how rules, organizational forces, and social pressure shape lending habits and borrowers' chances of getting affordable and enough capital.

Empirical Review

Longo et al. (2023) studied how microcredit affects the performance of micro, small, and medium enterprises (MSMEs) in Iringa Municipality, Tanzania. They used a method to look at how microcredit details, such as loan amounts, interest rates, and initial capital, relate to enterprise performance. The results showed that loan amounts and initial capital had an effect on MSME performance, while interest rates did not have a significant effect. The study said that having credit and initial capital matters for enterprise performance. The study looked only at business performance, not at how borrowers directly get capital, especially its availability, affordability, and adequacy. So this new study fills that void by looking at how high interest rates affect community capital access for microfinance borrowers in Dar es Salaam, Tanzania. While, Lubinza et al. (2024) looked at how microfinance interest rates affect the performance of businesses in Moshi Municipality, Tanzania. The study used a mixed-methods approach. They used questionnaires and interviews with key people to get both numbers and stories about how interest rates relate to business performance. The results showed worries about the money burden that comes with borrowing and the need for information about interest rates. The study suggested that there should be flexible loans and better ways to help small businesses avoid too much debt. The study said that the conditions for lending need to be improved to help businesses longer. However, the study focused on business performance in Moshi Municipality and did not look directly at how interest rates affect how easy it is for people to get money. This new study fills that gap by looking at how high interest rates affect how much money microfinance borrowers can get, how much it costs them, and whether it is enough. Charles (2022) looked at how interest-rate ceilings impact the sustainability of microfinance institutions in Tanzania. The study focused on how rules about interest rates affect the way microfinance organizations operate and make loans. Based on the information provided earlier, the researcher collected data from 53 people and conducted in-depth face-to-face interviews with 10 microfinance professionals. The results showed that setting the interest-rate limits for institutions with different sizes and business models can change lending choices. It can also lead to hidden fees and make lenders avoid borrowers seen as high risk. The study concluded that interest-rate policies should balance keeping microfinance institutions sustainable while protecting borrowers from costs. However, it mainly focused on the sustainability of microfinance institutions and the effects of interest-rate ceilings, not on how interest rates affect community access to capital. That is why the current study is important. This

study fills this gap by looking at how high interest rates influence credit availability, how affordable loans are, and how well the loan amounts meet the needs of borrowers in Dar es Salaam, Tanzania.

3 Methodology

The study took place in Dar es Salaam, Tanzania, which is the country's main commercial and financial hub. It includes the districts of Ilala, Kinondoni, Temeke, Ubungo, and Kigamboni (Dar es Salaam City Council, 2024; URT, 2022). The location was chosen because it has a number of microfinance institutions, small businesses, and informal-sector entrepreneurs who rely on microfinance to get working capital and meet other financial needs (Financial Sector Deepening Trust, 2023). A cross-sectional research design and a quantitative method were used to look at the connection between loan rules known as "*Kausha-Damu*" and how easily people in the community can access capital at one point in time (Creswell & Creswell, 2018; Kothari, 2016). The group being studied was borrowers and loan applicants from selected licensed Tier II microfinance service providers in Dar es Salaam who had faced lending conditions. Since the total number of people was not known, Cochran's (1977) formula for large or unknown populations was used to figure out the initial sample size. This was done with a 95% confidence level, a 5% margin of error and a population proportion of 0.50.

$$n_0 = \frac{Z^2 pq}{e^2} \qquad (1)$$

Where: $n_0 =$ required sample size, Z = standard normal value at 95% confidence level = 1.96, $p =$ estimated proportion of the population possessing the characteristic = 0.50, $q = 1 - p = 0.50$; e = acceptable margin of error = 0.05. Substitution gives:

$$n_0 = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} n_0 = \frac{3.8416 \times 0.25}{0.0025} = \frac{0.9604}{0.0025}$$

$$= 384.16 \approx 384$$

To account for an anticipated 10% non-response rate, according to Qing and Valliant (2025), the sample was adjusted as follows.

$$n_{adjusted} = \frac{n_0}{1 - r} = \frac{384}{1 - 0.10} = 427.78 \approx 428 \qquad (2)$$

Accordingly, the study targeted 428 respondents to allow for non-response. The study used a multistage sampling technique that combined purposive selection of microfinance institutions, stratification of eligible borrowers by their institutions, and simple random sampling from borrower and applicant lists (Lelissa, 2018). The study collected data using a structured self-administered questionnaire that was built from the study's objectives and from relevant literature. The questionnaire used a five-point Likert scale from 1 (disagree) to 5 (strongly agree) to measure high interest rates, short repayment periods, collateral requirements, hidden and additional fees, and access to community capital. The study carried

out a pilot test to check the clarity, relevance, and consistency of the questionnaire before data collection. Data were analyzed with the Statistical Package for the Social Sciences (SPSS) Version 28. Descriptive statistics such as frequencies, percentages, means, and standard deviations summarised respondents' characteristics and responses. Cronbach's alpha assessed internal consistency. The Kaiser–Meyer–Olkin (KMO) measure and Bartlett's Test of Sphericity evaluated the suitability of Data for factor analysis. Pearson's correlation analysis examined the direction and strength of associations between study variables. The study used an Ordinary Least Squares (OLS) regression model to look at how high interest rates affect access to community capital for borrowers at Tier II microfinance institutions in Dar es Salaam, Tanzania. The empirical model was set up as:

$$\mathrm{CCA} = \beta_0 + \beta_1 \mathrm{HIR} + \epsilon \qquad (3)$$

Where CCA represents community capital access, HIR denotes high interest rates. The intercept is represented by β_0, while β_1 is the regression coefficient, and ϵ_i is the error term. The coefficients were estimated using ordinary least squares (OLS), which minimizes the sum of squared residuals:

$$\min \sum (\mathrm{CCA_i} - \widehat{\mathrm{CCA}_i})^2 \qquad (4)$$

The model's ability to explain the data was checked using the coefficient of determination, which is R-squared. The overall regression was tested for importance using the F-test. All tests were judged at the 5% significance level, meaning alpha was set at 0.05. The null hypothesis was stated as H_0: β_1 equals zero ($H_0 : \beta_1 = 0$), which means high interest rates do not have a significant effect on community capital access. The alternative hypothesis was H_1: β_1 does not equal zero ($H_1 : \beta_1 \neq 0$), meaning there is a significant effect. This setup directly matches the study's goal. To find out how high interest rates affect community capital access for microfinance borrowers in Dar es Salaam. Instrument validity was supported by assessment of content and construct validity; reliability was measured with Cronbach's alpha, and a coefficient of at least 0.70 was considered acceptable (Middleton, 2020; Surucu & Maslakci, 2020). Ethical requirements included consent, voluntary participation, confidentiality, anonymity, secure data storage, and accurate reporting of findings.

4 Findings and Discussion

Response Rate

Table 1 shows the response rate of the respondents who took part in the study about loan terms, called "*Kausha-Damu*" and community capital access among microfinance borrowers in Dar es Salaam. Out of the 428 questionnaires that were sent out, 369 were filled in. Returned, giving a response rate of 86.2%. The remaining 59 questionnaires, which equal 13.8% were not returned because a few chosen respondents decided not to join the study. The response rate of 86.2% is enough for analysis because most of the targeted respondents gave useful information. The high response rate also shows that the study captured borrowers and loan applicants who had experience with microfinance services and with strict loan conditions.

Table 1
Response Rate

Attributes	Frequency	Percent (%)
Valid Response	369	86.2
Missing Response	59	13.8
Total (Targeted Respondents)	428	100.0
Source: Study Field (2026)		

Table 2 presents the descriptive statistics for the dimensions of stringent loan terms "*Kausha-Damu*" and community capital access based on 369 valid responses. The analysis uses the standard deviation (SD) to assess respondents' perceptions, where higher mean values indicate stronger agreement with the statements. The findings show that respondents generally perceived interest rates charged by microfinance institutions as high with the mean of 4.0163 and SD = 1.1655.

Descriptive Statistics

Respondents also agreed that interest charges make microfinance loans difficult to afford with Mean of 3.7588 and SD of 1.0315. However the statement that high interest charges substantially increase the cost of borrowing recorded a comparatively lower mean of 3.3279 and SD = 1.3324. Overall the results suggest that high interest rates constitute a stringent loan condition, particularly because they reduce the affordability of credit and increase the financial burden associated with borrowing.

Table 2
The Dimensions of Stringent Loan Terms

High Interest Rates	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
The interest rates charged by microfinance institutions are high	369	1.00	5.00	4.0163	1.16552
Interest charges make microfinance loans difficult for me to afford	369	1.00	5.00	3.7588	1.03148
High interest charges substantially increase the overall cost of borrowing	369	1.00	5.00	3.3279	1.33242
Community Capital Access (Dependent Variable)					
Availability of Credit	369	1.00	5.00	2.7823	.96459
Affordability of Credit	369	1.00	5.00	2.9702	1.11642
Adequacy of Capital Obtained	369	1.00	4.67	2.1274	1.25940
Source: Survey Data (2026)					

And the results about the dependent variable show that access to community capital is limited. The availability of credit had a mean of 2.7823 (SD = 0.9646). The affordability of credit had a higher mean of 2.9702 (SD = 1.1164). The lowest mean was for the adequacy of capital received (M = 2.1274, SD = 1.2594). This means that people were especially unhappy with the amount of money they actually got compared to what they needed. Overall the low means, across the three areas show that people had trouble getting affordable microfinance capital. The descriptive results therefore give a sign that strict loan rules may stop people from getting the capital they need an issue that is looked at more closely through deeper analysis.

Distribution of the Data

Table 3 shows how the study variables are distributed normally using skewness and kurtosis. Checking for normality with skewness and kurtosis is important in social science research as it helps to find out if the responses are spread out around their averages. It also helps to see if the data fit the requirements for using methods like Pearson correlation and multiple regression. Skewness tells how much and in which direction the distribution is not symmetrical. Kurtosis tells if the distribution is very sharp or very flat. Values between − 2.00 and + 2.00 are usually seen as okay for showing that the data is roughly normal.

Table 3
Normality Distribution of Data

		Statistic	Std. Error
The High Interest Rates	Mean	3.7010	.04778
	Skewness	-1.105	.127
	Kurtosis	1.269	.253
Community Capital Access	Mean	2.6266	.04755
	Skewness	.159	.127
	Kurtosis	-1.177	.253
Source: Survey Data (2026)			

The results show that high interest rates have a skewness of − 1.105 and a kurtosis of 1.269. These values fall within the ± 2.00 range, meaning the distributions of the variable dimensions do not deviate significantly from normality. The variable community capital access has a skewness of 0.159 and a kurtosis of − 1.177. These values are also within the acceptable range. So, all the study variables show skewness and Kurtosis values that are acceptable. This means the data are normally distributed. This confirms that the dataset is suitable for the Pearson correlation and multiple regression analyses that follow. These analyses are used to look at the relationship and effects of loan terms on community capital access.

Reliability and Validity

Table 4 shows the results of the validity and reliability tests for the study instruments. Reliability was checked using Cronbach's alpha. Construct validity and whether the data were suitable for factor analysis were evaluated using the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity. These tests helped confirm whether the questionnaire items consistently measured what they were supposed to measure and whether the items were sufficiently correlated.

Table 4
Validity and Reliability Statistics

Variables	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
High Interest Rates	.741	.753	3
Community Capital Access	.879	.878	9
KMO and Bartlett's Test			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.741	
Bartlett's Test of Sphericity	Approx. Chi-Square	6801.763	
	df	210	
	Sig.	.000	
Source: Survey Data (2026)			

The results show that high interest rates had a Cronbach's alpha of 0.741. Community capital access had a reliability coefficient of 0.879 across its nine items. All Cronbach's alpha values are above the accepted threshold of 0.70. This means the internal consistency of the items measuring each construct is satisfactory to high. The standardized alpha values, which range from 0.753 to 0.878, support the idea that the measurements are consistent. The KMO value of 0.741 shows that the sample size is enough for factor analysis because it is higher than the minimum of 0.50. The KMO value also demonstrates that the data are ready for analysis. The Bartlett's Test of Sphericity was statistically significant ($chi^2 = 6801.763,\ df = 210\ p < 0.001$). The Bartlett's Test result indicates that the correlations among the questionnaire items differ markedly from zero and that the items share common variance. Therefore, the KMO and Bartlett's Test results provide evidence that the data are suitable for assessing the underlying structure of the study constructs. Overall, the findings confirm that the measurement instrument demonstrates reliability and construct validity, supporting its use in subsequent correlation and regression analyses.

In addition to validity, the study also considered content validity and face validity during the questionnaire development. Content validity was ensured by creating questionnaire items from the study

objectives, conceptual framework, and relevant empirical literature on microfinance lending conditions and community capital access. The instrument was also reviewed to ensure that the items adequately represented the dimensions of loan terms and community capital access. Face validity was established through a pilot test with respondents who had characteristics similar to those of the target population, which helped assess the clarity, relevance, wording, and comprehensibility of the questions. Feedback obtained during the pilot study was used to refine the questionnaire before administering it to the respondents. These procedures complemented the KMO Bartlett's test and Cronbach's alpha results. Strengthened the overall validity and reliability of the research instrument.

Correlation Analysis

Table 5 shows the Pearson correlation analysis that was carried out to look at the direction, strength, and statistical significance of the links between loan terms and community capital access.

Table 5
Correlations

		Community Capital Access	The High Interest Rates
Community Capital Access	Pearson Correlation	1	− .187**
	Sig. (2-tailed)		.000
The High Interest Rates	Pearson Correlation	− .187**	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Survey Data (2026)

Pearson correlation was the tool used to see how strongly the independent variables line up with the dependent variable before doing multiple regression analysis. A correlation coefficient (r) can vary from − 1 to + 1. A negative value indicates that the variables move in opposite directions, while a positive value indicates that the variables move together. The results show that high interest rates had a meaningful negative connection with access to community capital ($r=-0.187$, $p < 0.001$). This means that when interest rates were higher access to community capital was lower. The finding suggests that when borrowing is costly people may find it harder to get or use credit. Overall, these correlation findings give a foundation for moving forward with multiple regression analysis. This will help determine how interest rates as loan-term factors affects community capital access individually.

Diagnostics Test

Linearity Test

ANOVA of linearity was carried out to see if a straight line relationship existed between interest rates and community capital access for microfinance borrowers in Dar es Salaam. The findings in Table 6 show that the linearity part is statistically significant $(F = 36.547,\ p < 0.001)$, meaning that high interest rates and community capital access share a straight-line trend. The deviation from linearity is also statistically significant (F = 59.015, p < 0.001), showing that the link between high interest rates and community capital access does not follow a pure straight line.

Table 6
ANOVA test of linearity

			Sum of Squares	df	Mean Square	F	Sig.
Community Capital Access * The High Interest Rates	Between Groups	(Combined)	202.117	12	16.843	57.143	.000
		Linearity	10.772	1	10.772	36.547	.000
		Deviation from Linearity	191.345	11	17.395	59.015	.000
	Within Groups		104.933	356	.295		
	Total		307.050	368			

Source: Survey Data (2026)

Hence even though high interest rates and community capital access have a linear component the large deviation tells us that the assumption of linearity is not fully met by this ANOVA test alone. Therefore the researcher should look at a scatterplot and residual plots to examine the link between interest rates and community capital access more closely before using an ordinary least squares regression model. If the data reveal a nonlinearity between high interest rates and community capital access, a suitable transformation or nonlinear model will be needed.

Heteroscedasticity Test

The heteroscedasticity assumption was examined with a scatterplot that plotted regression standardized residuals against regression standardized predicted values. In this plot, community capital access was the variable, and high interest rates served as the independent variable. In the scatterplot in Fig. 1, the residuals appear on both sides of the zero line. There is no funnel shape, nor is there a systematic increase or decrease in their spread as the predicted values shift. Although some variations in the distribution are visible, there is no visual pattern that indicates major changes in residual variance.

Source: Survey Data (2026)

The fitted line shows an R^2 value of zero (3.331×10^{-16}), which means there is almost no linear association between the predicted values and residuals. However, this fact alone does not prove that residual variance is constant. Thus, the scatterplot gives no visual evidence of serious heteroscedasticity. This suggests that the homoscedasticity assumption is likely satisfied for the regression model that looks at the link between interest rates and community capital access.

Multicollinearity Test

The study performed a multicollinearity test to check if the independent variables were closely related before running the multiple regression analysis.

Table 7
Multicollinearity

Model		Collinearity Statistics	
		Tolerance	**VIF**
a	The High Interest Rates	.759	1.317
a. Dependent Variable: Community Capital Access			

Source: Survey Data (2026)

When multicollinearity is high it becomes hard to tell how much each predictor contributes on its own. It can also lead to regression coefficients that change a lot with changes in the data. To evaluate this, the study looked at Tolerance and Variance Inflation Factor (VIF) values. A Tolerance value greater than 0.10 and a VIF value less than 10.00 suggest that multicollinearity is not a serious problem in the model. Table 7 shows the test results for multicollinearity when high interest rates are used as the independent variable that affects community capital access. The test gives a tolerance of 0.759 and a VIF of 1.317. The tolerance value is above the recommended minimum of 0.10, and the VIF is below the usual maximum of 5. These numbers show that multicollinearity is not a problem in this regression model. Because the model has only one independent variable multicollinearity between independent variables is not an issue. Therefore, the regression model is ready to be used as long as the study checks the other regression assumptions.

Regression Assumptions

Model Summary

Table 8 shows the model summary for the regression analysis that looks at how high interest rates affect community capital access.

Table 8
Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.187[a]	.035	.032	.89850
a. Predictors: (Constant), The High Interest Rates				
b. Dependent Variable: Community Capital Access				

Source: Survey Data (2026)

The R-value is 0.187, which points to a connection between high interest rates and access to community capital. The R-squared value is 0.035 meaning that high interest rates account for 3.5% of the changes in community capital access. After adjusting for the number of predictors the adjusted R-squared is 0.032, so the model still explains around 3.2% of the variation. The rest, about 96.5%, comes from factors not in the model and from random variation. The standard error of the estimate is 0.89850, which tells us how off the predictions are on average in the units of the dependent variable. Overall, the model summary suggests that high interest rates alone do not explain much of the variation in community capital access. To know if this relationship is meaningful, the study needs to check the ANOVA table and the regression coefficients before making any final conclusions about the hypothesis.

Analysis of Variance

Table 9 shows the ANOVA results for testing the statistical significance of the regression model that looks at how high interest rates affect community capital access.

Table 9
ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.772	1	10.772	13.344	.000[b]
	Residual	296.278	367	.807		
	Total	307.050	368			
a. Dependent Variable: Community Capital Access						
b. Predictors: (Constant), The High Interest Rates						

Source: Survey Data (2026)

The findings show that the model is statistically significant with F(1,367) =. P < 0.001. This means that high interest rates are strongly linked to community capital access among the people surveyed. As a result, the null hypothesis stating that high interest rates have no effect on community capital access is

rejected. Instead, the alternative hypothesis is supported. However, the model summary in Table 8 shows that high interest rates only account for 3.5% of the changes in community capital access. Although the model is significant, it explains little of the variation. To understand the direction and size of the effect, the study needs to look at the regression coefficients.

Regression Coefficients

Table 10 shows the regression coefficients that describe how high interest rates influence community capital access. The results show that high interest rates are significantly and negatively associated with community capital access (B = − 0.186, β = − 0.187, t = − 3.653, p < 0.001). This means that for every one-unit increase in the high interest rates score, the community capital access score falls by 0.186 units on average. The negative standardized coefficient (β = − 0.187) also shows that perceived interest-rate burdens are linked to lower community capital access for the respondents. This finding suggests that high interest rates may lower borrowers' ability to secure credit and enough capital from microfinance institutions. Consequently, the null hypothesis that high interest rates have no significant relationship with community capital access is rejected and the alternative hypothesis is accepted. However, this result should be considered with the model summary in Table 8, which indicates that high interest rates explain only 3.5% of the variation in community capital access.

Table 10
Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.317	.195		17.045	.000
	The High Interest Rates	− .186	.051	− .187	-3.653	.000
a. Dependent Variable: Community Capital Access						

Source: Survey Data (2026)

The estimated regression equation for the study from Eq. 3 is expressed as:

$$CCA = 3.317 - 0.186\,(HIR)$$

The intercept of 3.317 means the predicted community capital access score when the high-interest-rate score is zero. The coefficient of − 0.186 shows that a one-unit rise in the high-interest-rate score is linked to a 0.186-unit drop in the predicted community capital access score on average. This negative coefficient means there is a connection between high interest rates and community capital access. The regression coefficients were calculated using the ordinary least squares (OLS) method, which finds the coefficient values that make the sum of squared differences between actual and predicted community

capital access scores as small as possible. By substituting the estimated intercept and regression coefficient into the OLS minimization function, Eq. 4 is expressed as follows:

$$min \sum_{i=1}^{369} [CCA_i - (3.317 - 0.186HIR_i)]^2$$

Where CCA_i represents the observed community capital access score for respondent i, while $3.317 - 0.186HIR_i$ represents the predicted score obtained from the estimated regression equation. The summation runs across the 369 valid respondents. The OLS procedure selects the regression estimates that minimize the total squared prediction errors. The findings in Table 10 further show that the coefficient for high interest rates is statistically significant $(B = -0.186,\ \beta = -0.187,\ t = -3.653,\ p < 0.001)$. Therefore, the null hypothesis that high interest rates have no statistically significant relationship with community capital access is rejected. However, as indicated in Table 8, the model explains 3.5% of the variation in community capital access $\left(R^2 = 0.035\right)$. Thus, although the relationship is statistically significant, high interest rates alone have limited explanatory power, suggesting that other factors also contribute to differences in community capital access. Since the study uses cross-sectional data, the results should be interpreted as evidence of a statistically significant negative association rather than definitive proof of causation.

Discussion of the Findings

The results of this study show that high interest rates have a negative link to community capital access for microfinance borrowers in Dar es Salaam, Tanzania. High interest rates make borrowers feel a burden, and as that burden grows, borrowers report that they can access less capital. These results fit Credit Rationing Theory by Stiglitz and Weiss (1981) which says that the cost of lending and hidden information shape how credit is given and how borrowers can get loans. High interest rates lower the affordability of credit. Keep borrowers from getting enough capital for their needs. These results also connect to Institutional Theory, developed by Meyer and Rowan (1977). Expanded by DiMaggio and Powell (1983) because lending practices depend not just on borrower risk but also on rules and practices inside institutions that set the conditions for giving credit.

Regarding existing research, the result differs somewhat from Longo et al. (2023), which studied microcredit and MSME performance in Iringa Municipality, and found that interest rates did not have a big effect on enterprise performance. This difference may come from the dependent variables as their study looked at business performance, while this study looks at community capital access. Interest rates may be closely linked to borrowers' ability to get affordable and sufficient credit than to enterprise performance, which can also rely on business management, market conditions and the amount of capital invested. Thus, this study adds a borrower-access view to the discussion of microfinance interest rates in Tanzania. The results also match well with Lubinza et al. (2024), studied in Moshi Municipality which raised concerns about the financial burden of borrowing and the need for clear interest-rate information. Even though that study focused on business performance and used methods its findings support the idea that borrowing costs matter to microfinance clients. This study goes further by giving

proof that high interest rates are linked to lower community capital access in Dar es Salaam. In particular the results show that the cost of borrowing must be considered when deciding if microfinance services give borrowers capital that's easy to obtain and affordable. Similarly, the findings connect to Charles (2022) who studied how interest-rate ceilings affect microfinance institution sustainability in Tanzania. That earlier study looked at sustainability and lending policy and how interest-rate rules might change lending. In contrast this study looks at borrowers' access to capital. Together, these views show that it matters to think about both microfinance institution sustainability and how easy it is for borrowers to get loans. However, because the details of have not been confirmed this comparison should stay only after the original paper is verified. Overall, the study adds to the literature by showing that high interest rates are strongly and negatively linked to community capital access for microfinance borrowers in Dar Salaam. The model explains only 3.5 percent of the variation in community capital access, showing that interest rates alone give limited explanation. Other factors may also affect how much capital people can get. Because the study uses data the results show an association, not a clear cause. These findings therefore underline the need to look at interest rates, with other financial and institutional conditions when trying to make microfinance credit more available, affordable and suitable.

5 Conclusion and Recommendations

Conclusions

The study concludes that high interest rates are a financial barrier to community capital access for microfinance borrowers in Dar es Salaam, Tanzania. The findings show that high borrowing costs can stop microfinance borrowers from getting enough credit to meet their financial needs and support their economic activities. Credit Rationing Theory backs this conclusion, explaining how lending costs and perceived borrower risks shape credit allocation. Institutional Theory also supports it, showing how rules practices and industry norms influence microfinance lending decisions and the conditions in which microfinance borrowers can get credit. Together these theories show that community capital access depends not on the relationship between lenders and borrowers but also on the institutional environment that governs lending practices. Therefore microfinance institutions and regulators should promote interest-rate disclosure, responsible lending, and fair pricing while protecting institutional sustainability. Ultimately, sustainable financial inclusion requires more than the availability of microfinance loans; it needs lending practices and institutional arrangements that let communities get affordable and adequate capital, for real economic empowerment.

Recommendations

The study recommends that microfinance institutions in Dar es Salaam review their interest rate policies to promote borrowing while protecting institutional sustainability. Microfinance institutions should ensure disclosure of interest rates and all loan charges so that borrowers can make informed financial decisions. The Bank of Tanzania and other regulatory authorities should strengthen oversight of lending

practices to promote pricing, responsible lending and protection for borrowers. Financial literacy initiatives should be enhanced so that borrowers can understand borrowing costs and compare loan options. Microfinance institutions should also consider developing products that respond to borrowers' capital needs and financial circumstances. Future researchers should examine factors that influence community capital access, such as collateral requirements, repayment periods, additional loan charges, and borrower characteristics, using broader geographical coverage and longitudinal research designs. Ultimately, coordinated efforts among regulators, microfinance institutions and borrowers are essential to ensure that microfinance provides not access to loans but also affordable and adequate capital that supports sustainable community economic development.

Declarations

Author Contribution

The first author (1st) was responsible for conceptualizing and writing the manuscript, developing the research methodology, collecting data, conducting the research activities, analyzing and interpreting the findings, and preparing the manuscript for publication.The second author (2nd) provided research supervision, funding support, methodological guidance, and technical assistance with data analysis and interpretation. Both authors reviewed the manuscript, contributed to its refinement, and approved the final version for publication.

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Figures

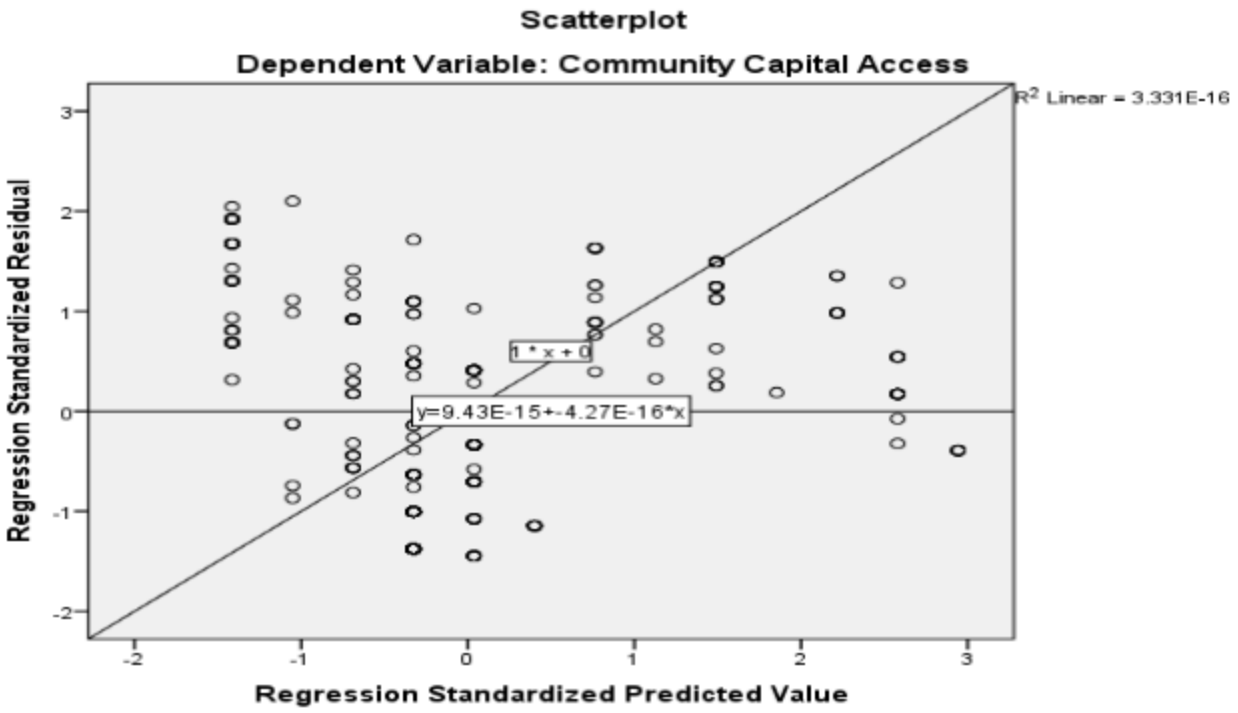


Figure 1

Heteroscedasticity Test

Source: Survey Data (2026)