



TRANSACTION COSTS AND COMMERCIAL BANKS CREDIT BUSINESS IN TANZANIA

Heriel Emanuel Nguvava

Institute of Tax administration, Mikocheni B, Light Industrial Area,

P. O. Box 9321, Dar es salaam, Tanzania

hnguvava@yahoo.com

Orcid: <https://orcid.org/0009-0008-6116-6801>

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Abstract

The purpose of this study is to investigate the transaction costs that commercial banks in Tanzania experience in extending credit to borrowers outside of the established urban markets. Using Transaction Cost Economics as a theoretical framework, a positivist paradigm and cross-sectional survey design was undertaken, utilizing questionnaires that were distributed to 204 credit officers from banks throughout Tanzania. Statistical analyses of these questionnaires included descriptive statistics, correlation analyses, and regression analyses to determine which of the transaction costs associated with lending to these bank customers were the most significant. Results indicated that time-related costs were the most significant contributor to the transaction costs of commercial banks in Tanzania ($\beta = .876, p < .001$), followed by lawyer fees ($\beta = .216, p < .001$). These two costs accounted for 79.5% of the total transaction costs of commercial banks in Tanzania. Furthermore, these costs indicate the challenges that banks in Tanzania experience in identifying and lending to borrowers in rural areas. To reduce the transaction costs that commercial banks in Tanzania experience in lending to these borrowers, it is recommended that the banks improve their information systems, mobile and agent lending channels, and regulate regional lending costs.

Keywords: *Transaction Costs, Commercial Banks, Credit Operations, Financial Inclusion, Transaction Cost Economics*

JEL Classification: G21, R1, E4

1. Introduction

A commercial bank is a profit-seeking business firm that deals in money and credit. It takes deposits from the public and creates credit by advancing money to individuals who need it. Banks act as a means of mobilizing the savings of the economy. However, credit is not equally distributed throughout the nation. A few large commercial banks dominate the banking industry and earn large profits from the interest on loans that they make to borrowers. Those banks typically lend most of their credits to clients who reside in urban areas of the nation. Transaction costs theory holds that if the cost of performing a certain transaction is too high, that transaction will not occur. Williamson (2000, 2001) explains in his research that if the transaction costs of performing a transaction are too high, the organization will not perform the transaction. Coase (1992) explains that firms can absorb high transaction costs. These ideas apply to the banking industry in Tanzania, where only a few large commercial banks exist, and they serve only the urban areas of the country.

Following the liberalization of banking in 1991 with the Banking and Financial Institutions Act, private banks entered the market and credit was no longer monopolized by the state after 1967

nationalizations. Despite banking liberalization, the majority of commercial banks are located in urban areas and do not lend to the rural areas of the country, where two-thirds of Tanzanians live. There is a demand for loans in rural areas. The cost of providing loans to these customers, however, is too high for most commercial banks. As a result, rural citizens are not able to access the banking services that the country's commercial banks offer. According to a FinScope Tanzania survey, while the number of Tanzanians who use financial services increased from 2017 to 2023 (reaching 65% of the population), the number of rural citizens who access formal financial services is lower than the urban population, and that the number who have access to formal credit is especially low (Financial Sector Deepening Trust, 2023).

The Tanzanian banking sector consists of over 40 commercial banks (Bank of Tanzania, 2023). However, only three of these banks offer significant banking and lending services to the rural areas of the nation: CRDB, NMB and NBC. The other commercial banks primarily serve urban clients who are salaried employees and corporate clients. Consequently, rural citizens in Tanzania resort to informal lenders whose loans charge as high as 72% interest per year, compared with the maximum interest rates from commercial banks of around 25% per year. Numerous factors contribute to the high transaction costs in providing loans to the rural areas. Many of the rural population are financially illiterate and do not have strong numeracy. Poor road networks make it costly for bank officers to travel to rural clients. Additionally, the government does not maintain an identification system for citizens. There is no credit system for the country to determine if an individual has debts elsewhere. These factors all contribute to the high transaction costs of providing loans to the rural areas.

In an effort to better understand the banking sector of Tanzania, two research questions will be answered by this proposed research study. What are the relative transaction costs of the various segments of transaction costs for commercial banks in Tanzania? Furthermore, what are the factors that impact those transaction costs? The purpose of answering these questions will help to reveal the nature and determinants of transaction costs in the credit operations of commercial banks in Tanzania, and to suggest structures that may reduce those transaction costs and expand credit operations to areas of the nation that currently do not receive banking services. This study will contribute to the existing literature regarding Tanzania's banking sector, which has been underexplored in previous research studies. Furthermore, the study will help extend Transaction Cost Economics theory by revealing the factors that impact transaction costs in the Tanzanian commercial banks, factors that relate to the country and its development.

2. Literature Review

Conceptual Clarification

Transaction costs are the expenses incurred when parties engage in an economic exchange. In the context of credit markets, they include the costs of searching for potential borrowers, gathering and verifying information, negotiating loan terms, preparing contracts, monitoring borrower behaviour, and enforcing repayment. These costs are not part of the interest rate but add to the total cost of lending. When transaction costs are high, lenders either charge higher interest rates or avoid certain borrower segments altogether. A commercial bank's credit business involves the mobilization of deposits and the extension of loans to individuals, businesses, and other entities. The credit process typically includes loan origination, underwriting, disbursement, and collection. Each stage generates transaction costs. Origination and underwriting require time and effort to assess creditworthiness; disbursement may involve legal and administrative fees; and

collection and enforcement consume resources when borrowers fail to repay on time. In developing economies like Tanzania, where information is scarce, infrastructure is weak, and formal identification systems are underdeveloped, these costs can be disproportionately high, making rural credit markets particularly difficult to serve.

Theoretical Framework

The theoretical framework used for this study is the Transaction Cost Economics theory developed by Oliver Williamson. According to this theory, all economic transactions have production and transaction costs associated with them. Williamson assumes that economic agents are both bounded in their ability to fully consider all aspects of a transaction and that they may act with guile during negotiations. Due to these characteristics, transactions with high transaction costs are best executed through a hierarchical governance structure rather than through market transactions. Thus, in the Tanzanian banking sector, transactions with prohibitively high transaction costs will either not occur between the commercial banks and borrowers in those areas, or the banks will have to bear the costs of establishing such a hierarchical governance structure in place to lend to those borrowers. Consequently, this study focused on the transaction costs that are associated with the credit operations of commercial banks, and in what ways those costs can be reduced.

Empirical Review

The empirical studies that have investigated transaction costs in commercial banking, one of the most notable is the study by Nyanzu and Asongu (2023), which investigated the effect that the sharing of credit information between banks and borrowers in Sub Saharan Africa had upon the costs of commercial bank lending in those regions. The authors found that the presence of a credit registry in a country was associated with a reduction in the number of non-performing loans in banks, and a reduction in the costs that banks had to bear in screening loan applicants for eligibility to receive loans from the commercial bank. Similar results were reported by Abor et al (2024) in their investigation of the operating costs of commercial banks in eight countries in West Africa. The authors attributed high transaction costs in lending to rural populations to the distances between those banks and those borrowers, the lack of identification systems for residents of those countries, and the lack of information regarding borrowers' credit histories.

In addition to an analysis of the impact of information sharing between banks and borrowers on the costs of commercial bank lending, other studies have investigated the impact of technology on those costs. Authors Mbiti and Weil (2022) reported that the introduction and growth of mobile money applications in East Africa had led to a reduction in the costs of commercial banks of providing loans to their customers through mobile-based lending programs. These digital lending programs reduced the costs of providing commercial bank loans to small borrowers by as much as 40%. Furthermore, authors Kipkemboi and Ochieng (2025) discovered in their investigation of the operations of Kenyan commercial banks that the implementation of digital banking platforms led to a reduction in the costs of providing commercial bank services to customers in remote areas. However, those cost savings were offset by the increase in the costs of protecting the banks' digital banking systems against cyberattacks.

Other studies on credit transaction costs have examined the perspective of the borrowers of commercial bank loans. Authors Osei Assibey and Akudugu (2021) discovered that smallholder farmers in Ghana experienced most of their borrowing costs from transaction costs related to

transportation costs to purchase farming tools, the time required to complete borrowing paperwork, and fees for using third parties to act as loan guarantors. Furthermore, the authors found that the level of literacy of these farmers had a major impact upon their transaction costs, as did the distance of their loan applications from the nearest commercial bank branch. Finally, authors Fanta and Mutsonziwa (2023), who utilized data from the FinScope survey of six countries in Southern Africa, discovered similar results to those by Osei Assibey and Akudugu (2021) - that borrowers from rural areas of those surveyed countries experienced higher transaction costs than those who borrowed from commercial banks in urban areas of those countries.

Despite scarcity in the available literature on Tanzania's commercial banks, some studies have examined the transaction costs within Tanzania specifically. The FinScope survey of 2023 in Tanzania revealed that, the adults that lived within rural areas of Tanzania, nearly 40% of those individuals stated that the reasons that they did not have a loan account with any commercial bank was due to the distance that those individuals had to travel to access a bank branch, and the documentation that was required to open a loan account within a commercial bank (Financial Sector Deepening Trust, 2023). Additionally, Mwizarubi et al (2024) conducted a study on the level of transaction costs of commercial banks in Tanzania, specifically CRDB Bank and the NMB, both of which have established branches in rural areas of the country. The authors discovered that enforcement costs were the largest portion of transaction costs for these banks, followed by information costs. As a result, these authors recommended the use of alternative channels for lending to small borrowers in these rural areas, which often share documentation and lending structures with other small loan groups within the regions.

Thus, based upon this review of the literature on transaction costs among commercial banks within Sub Saharan Africa, three main findings emerge from these studies. First, that the transaction cost associated with lending to rural populations is the major obstacle to providing loans to those borrowers. Second, reducing information costs and improving the methods of lending to borrowers digitally can reduce transaction costs of banks' lending to these borrowers. Third, that the costs of enforcing loans against borrowers without any form of collateral are major costs of these banks for lending to such borrowers. These findings lead to the questions that will be investigated in this study: how costly are each of these segments of transaction costs among commercial banks within Tanzania, and how can those costs be reduced.

3. Methodology

Research Philosophy and Design

The positivist paradigm was adopted for this research study. Data for the research study was analysed, organized and presented by using quantitative and statistical techniques. In addition, the research design was based upon collecting the data using commercial bank credit officers (as sampling unit) from all commercial banks in Tanzania at one point in time (cross-sectional survey).

Data and Data Collection Methods

The primary data was collected for this study. The primary data was collected through the administration of a questionnaire that was designed to gather information regarding the various components of transaction costs to commercial bank credit officers. The aspects of transaction costs that were measured through the questionnaire included transport costs, cost of time, local

authority fees, lawyer fees, food and refreshment costs during field visits, costs associated with business viability assessments, contract breaching costs, case filing costs, third party enforcement costs, meeting facilitation costs, and tips and other incidental charges.

Sampling Technique and Sample Size

The population for this study was the group of credit officers that work for the commercial banks in Tanzania. According to the Bank of Tanzania, there are over 40 commercial banks registered in the nation by February 2026. Using an estimated average of ten credit officers per commercial bank, the size of the population for this study is 400 credit officers in total. In determining the size of the sample from this population, Yamane's sample size formula was used at a 5 percent level of precision. Based upon this calculation, a minimum sample size of 200 was determined. In order to ensure that there would be enough credit officers who would complete and return the questionnaire forms, the sample size was increased to 204 credit officers. A purposive sampling technique was used to select the participants for the study. Only credit officers who had at least two years of experience in the commercial bank credit department were included in the sample. This type of sampling procedure was used due to the nature of the information that was required for the study.

Method of Data Analysis

The data collected from the questionnaire was analysed using descriptive statistics, the correlation analysis method, and the Ordinary Least Squares method. Descriptive statistics was used to summarize the data collected from the credit officers regarding the various components of transaction costs. The correlation analysis method helped to determine the relationships between the various transaction cost components. Finally, the Ordinary Least Squares method helped to determine the relationship between the independent variables and the dependent variable of total transaction costs for commercial bank credit officers. The model used for the Ordinary Least Squares analysis is as follows:

$$TTC = \beta_0 + \beta_1(\text{Time}) + \beta_2(\text{Lawyer}) + \beta_3(\text{Meeting}) + \epsilon$$

This formula is based upon the work of Nalukenge (2003) as well as Shankar (2007) who investigated the concept of transaction costs within the commercial banking system of Tanzania. The use of these variables in the model was determined through the results of the correlation analysis between each of the transaction cost components. Components that exhibited very high correlations ($r > 0.75$) with each other were eliminated to avoid potential problems caused by multicollinearity within the data set. The cost of time was the only component that was included in each of the transaction cost components categories. In addition to the cost of time, the other two components that were included were those with relatively lower correlations with each other and with the cost of time.

4. Results and Discussion

Determinants of Total Transaction Costs (TTC)

The descriptive statistics for the various components of transaction costs (in Tanzanian shillings) are presented in Table 1. The cost deviations for each component indicates the variation in costs among the commercial bank credit officers within Tanzania. The average total transaction costs among the banks in the sample was TZS 20.8 million, with a standard deviation of TZS 10.6 million. Individual components of transaction costs include transport costs, cost of time, case filing costs, third party costs, and tips and other charges that average above TZS 1 million. Costs

of time was the highest among these components at an average of TZS 2.13 million. The other components of transaction costs included lawyer fees and meeting facilitation costs that are below TZS 1 million on average.

Table 1: Descriptive Statistics of Transaction Cost Components (TZS)

Variable	Mean	Std. Deviation
Transport costs	1,412,000	1,205,000
Cost of time	2,130,000	1,460,000
Local authority fees	1,350,000	1,234,000
Lawyer fees	825,000	332,000
Food and refreshment costs	234,000	158,000
Business viability assessment	385,000	188,000
Contract breaching costs	1,470,000	1,366,000
Case filing costs	1,484,000	1,440,000
Third party costs	1,217,000	1,131,000
Meeting facilitation costs	228,000	155,000
Tips and other charges	1,572,000	922,000
Total transaction costs	20,800,000	10,600,000
Variable	Mean	Std. Deviation

Source: Author (2026)

A preliminary correlation analysis (not tabulated here) revealed that many cost components were highly intercorrelated, with Pearson coefficients exceeding 0.75. To avoid severe multicollinearity in the subsequent regression, cost of time was retained as the primary predictor because it is theoretically embedded in every stage of the credit transaction process (search, negotiation, and enforcement). Lawyer fees and meeting facilitation costs were retained because they exhibited weaker correlations with cost of time ($r = 0.249$ and $r = 0.491$ respectively) and with each other ($r = 0.149$), thus providing additional independent explanatory power. The remaining highly correlated variables were not entered into the regression model to protect the reliability of the coefficient estimates.

Table 1 shows that cost of time recorded the highest mean among all transaction cost components, averaging TZS 2.13 million per credit transaction, followed by tips and other charges (TZS 1.57 million), case filing costs (TZS 1.48 million), and contract breaching costs (TZS 1.47 million). Meeting facilitation costs and food and refreshment costs were the smallest components on average. The large standard deviations across all variables indicate substantial variation in the cost structures reported by different credit officers and banks.

Because many of the cost components were strongly correlated with one another, a single representative variable was selected for the regression analysis to avoid multicollinearity. Cost of time was chosen as the primary predictor because it is inherent in every stage of the credit process, from borrower search through negotiation to enforcement. Lawyer fees and meeting facilitation costs were retained as additional predictors because they capture distinct aspects of contract negotiation and are less tightly linked to the time variable. All other cost components were excluded from the regression model to preserve the reliability of the coefficient estimates.

Table 2: Correlation Analysis of Selected Predictors of Total Transaction Costs

	TTC	Cost of time	Lawyer fees	Meeting costs
TTC	1.000	.859	.413	.318
Cost of time	.859	1.000	.249	.491
Lawyer fees	.413	.249	1.000	.149
Meeting costs	.318	.491	.149	1.000

All correlations are significant at the 0.01 level (1-tailed).

Source: Author (2026)

Table 2 presents the correlation matrix for the three selected predictors and total transaction costs. All correlations are significant at the 0.01 level for the one-tailed test. Cost of time exhibits a strong positive correlation with total transaction costs at $r = 0.859$, confirming its central role across all transaction cost categories. Lawyer fees and meeting facilitation costs show weaker but still positive relationships with total transaction costs at $r = 0.413$ and $r = 0.318$ respectively. The relatively low correlations among the three predictors (ranging from $r = 0.149$ to $r = 0.491$) confirm that each variable captures a distinct dimension of transaction costs and that multicollinearity is not a concern for the regression analysis. The remaining cost components were excluded from the model because of their high inter-correlations with the cost of time variable, as noted earlier.

Preliminary Analysis: Reliability and Validity

Before estimating the regression model, it was necessary to assess the measurement instrument that would be used in the analysis. Cronbach’s alpha was used to determine if the eleven items related to transaction costs tended to move together as one scale; the alpha for the eleven items was 0.84, indicating that they were reliably measuring a single concept. Furthermore, each of the three sub-dimensions of the costs (information search, negotiation and enforcement) had alphas of 0.78, 0.76 and 0.82, respectively, which are all above the accepted cut-off of 0.70.

In addition to determining the reliability of the items with Cronbach’s alpha, exploratory factor analysis was used to determine the validity of the items as a measuring tool. The Kaiser-Meyer-Olkin measure was 0.86, indicating that the sample was appropriate for performing factor analysis, and Bartlett’s test of sphericity returned a statistically significant result ($\chi^2 = 1,876.4$, $df = 55$, $p < 0.001$). Thus, three factors were extracted using the information search, negotiation and enforcement costs, and each of the items loaded onto their factor measurements with a loading of at least 0.50. Furthermore, the construct validity of the items was determined through reviewing the questionnaire by three credit managers within the bank, and two academic researchers of finance.

After determining the reliability and validity of the items within the questionnaire, the regression analysis was performed. The results of the regression analysis are reported in Tables 3 to 5.

Table 3: Multiple Regression Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.892	.795	.792		4,809,360

a. Predictors: (Constant), Total meeting facilitation costs, Total lawyer fees during credit contract negotiation, Total cost of time.

Source: Author (2026)

Table 3 indicates that the three selected predictors were jointly accepted in the regression model. The R-square value of 0.795 means that cost of time, meeting facilitation costs and lawyer fees explain 79.5 percent of the observed variation in total transaction costs.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1796000	3	598800	258.883	.000 ^a
	Residual	462600	200	2313		
	Total	2259000	203			
a. Predictors: (Constant), Total meeting facilitation costs, Total lawyer fees during credit contract negotiation, Total cost of time						
b. Dependent Variable: Total transaction costs						
Source: Author (2026)						

The ANOVA results further show that the overall model is statistically significant ($p < 0.001$), meaning that the selected predictors collectively and accurately explain total transaction costs.

Table 1: Coefficients for TTC Predictors

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4806000	1636000		2.938	.004
Total cost of time	7.362	.315	.876	23.338	.000
Total lawyer fees	9.232	1.411	.216	6.543	.000
Meetings facilitation costs	-11.150	2.837	-.144	-3.930	.000

Source: Author (2026)

Table 5 provides the estimated coefficients for the predictors of total transaction costs. The cost of time has the largest coefficient ($\beta = 0.876$) among the predictors in Table 5. This coefficient indicates that the costs incurred because of time used to search and screen borrowers or time used to negotiate, monitor and enforce credit contracts are the single largest component of transaction costs. The lawyer fees coefficient is second in magnitude ($\beta = 0.216$). These costs are a major component of transaction costs. Finally, the cost of facilitating meetings with borrowers has a relatively small negative coefficient ($\beta = -0.144$). This coefficient indicates that the cost of these meetings is relatively small compared to the other components of transaction costs.

The negative coefficient for meeting facilitation costs, while statistically significant, is relatively small in magnitude ($\beta = -0.144$). This counterintuitive finding may reflect the fact that banks that invest more in face-to-face meetings and relationship building with borrowers may actually reduce other transaction costs over time through improved information flow and trust. This interpretation aligns with the banking literature which suggests that soft information gathered through personal interactions can reduce information asymmetry and monitoring costs.

Discussion of Findings

The results of this study can be discussed individually to reveal their importance to the understanding of credit transaction costs in commercial banks in Tanzania. The cost of time emerged as the strongest determinant of transaction costs for Tanzanian commercial banks, with a standardized coefficient of 0.876 ($p < 0.001$). The next strongest factor was lawyer fees, with a positive and statistically significant coefficient of 0.216 ($p < 0.001$). Meeting facilitation costs had a smaller but still statistically significant negative coefficient of -0.144 ($p < 0.001$). These three factors accounted for 79.5% of the variation in total transaction costs for commercial banks in Tanzania. Furthermore, each of these coefficients can be discussed individually to reveal their specific meanings for the commercial banking sector within the country of Tanzania.

The strong coefficient for the cost of time is reflective of the assumptions of Transaction Cost Economics regarding the bounded rationality of the agents within a transaction. For example, Williamson (2000, 2001) posits that the costs of bounded rationality are among the major cost components of a transaction. In Tanzania's current banking system, this refers to the amount of time that bank officers spend searching for information about potential borrowers, verifying the identities of those borrowers using nationwide identification system which is not effectively functioning, and transport costs for visiting most borrowers situated in rural part of the country with poor road system. Thus, the cost of time is, in part, a manifestation of the bounded rationality of banks' lending officers and the information asymmetry between banks and borrowers.

The positive coefficient for lawyer fees is reflective of Transaction Cost Economics theories of the costs of enforcing a contract. For Tanzanian commercial banks, high lawyer fees indicate that the banks are engaged in a process of enforcing contracts with borrowers who may not be able to meet their loan commitments to the bank, or who may not have assets to pledge as collateral. These costs are an expected part of the transaction cost of providing loans to borrowers who are considered to have a high risk of defaulting on their loans to the commercial banks.

The negative coefficient for meeting facilitation costs is intriguing, but also reflective of Transaction Cost Economics theories of the information and trust asymmetry between banks and borrowers. For example, if bank officers take the time to interact face to face with the borrowers of commercial bank loans, this soft information that is gathered between the two parties reduces the information asymmetry that exists between the bank and its borrowers. This relationship between banking officers and borrowers reduces the need for the bank to enforce loans or to monitor the loans of those borrowers as closely, which are costly activities for banks. Thus, this negative coefficient indicates that there is a benefit to the face to face interaction between bank and borrower.

The findings of this study are echoed in a number of recent studies on commercial bank lending costs throughout Africa. For instance, Mwizarubi et al, (2024) performed a study on commercial banks within Tanzania that also found that the cost of enforcing loans (I,e lawyer fees) were the dominant cost component within commercial bank lending. Furthermore, the importance of cost of time is reflected in findings by Abor et al, (2024) who performed a similar study on commercial banks within West Africa and found that distance of commercial bank borrowers from the bank (which is correlated with the time required to travel to the bank to obtain loans) and the weak implementation of an identification system are among the major cost components for those banks

of West Africa. Furthermore, a survey of Tanzanian rural populations (Financial Sector Deepening Trust, 2023) also confirmed that long distances to banks and cumbersome paperwork in loan applications is cited by the majority of rural Tanzanians as the major barrier to establishing loans from formal commercial banks.

5. Conclusion and Recommendations

Based on the findings, Tanzania's credit market for rural small borrowers is still an underserved market, despite the liberalization of the banking sector in 1991. This study was conducted to determine the determinants of transaction costs for commercial bank loans in Tanzania, and to determine which of those determinants are the strongest. Results indicate that the cost of time is the dominant component of transaction costs for Tanzania's commercial banks, with a coefficient of 0.876 and a p-value that is less than 0.001. Additionally, lawyer fees have a positive and significant coefficient of 0.216 for commercial bank lending, and meeting facilitation costs have a negative and significant coefficient of -0.144 for transaction costs for commercial bank loans. Each of these three components account for 79.5% of the total transaction costs of commercial banks in Tanzania. Furthermore, each of these findings lead to a number of recommendations for the country and its banks.

- i. It is recommended that Tanzania's regulatory authorities for commercial banks (I.e The BOT) permit the banks to apply specific interest rates to loans according to the region in which the loans are made. Because the cost of time is the dominant cost component of lending to rural borrowers in Tanzania, but because the cost of time varies between different regions of the country, it is likely that different interest rates could be applied to loans made to borrowers in different regions of the country. Thus, permitting region specific interest rates will allow commercial banks in Tanzania to accurately reflect the true cost of lending money to borrowers in different parts of the nation.
- ii. It is recommended that commercial banks in Tanzania continue to implement technologies that reduce the time required to lend money to borrowers. Examples of such technology that could be implemented include agent banking, mobile banking applications, and partnerships with organizations that offer commercial bank loans to small borrowers (such as co-operatives). Agent banking structures, in particular, would allow banks to leverage the local knowledge of rural areas to reduce the time required to perform identification of borrowers and their creditworthiness.
- iii. It is recommended that the government of Tanzania work towards making the Credit Reference Bureau of Tanzania and the National Identification System of Tanzania 100% operational within the country. As discussed above, information asymmetry between banks and borrowers results in increased costs of time and lawyer fees for the banks. By having a full operational and effective credit reference system and national identification system, banks will be able to reduce these increased costs of time and lawyer fees for borrowers.
- iv. It is recommended that both the banks and the government of Tanzania provide financial and business management training to small borrowers in rural Tanzania. As discussed above, the negative coefficient for meeting facilitation costs indicates that spending time with a borrower can lead to a reduction of other transaction costs for commercial banks.

Thus, by improving the financial literacy and business management skills of those borrowers, the banks will reduce the costs that relate to enforcing loans (due to misunderstandings between bank and borrower), and costs for defaulted loans.

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