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The Influence of Socio-economic and Financial Factors on the Uptake of Predatory Loans: Evidence from Kausha Damu in Dar es Salaam City-Tanzania

Yohana Mayenga,[1] Juma Parutu,[1] and Bupe Mwakyusa[2]

[1]Department of Accounting and Finance, Institute of Finance Management, Dar es Salaam, United Republic of Tanzania
[2]Department of Banking and Financial Services, Institute of Finance Management, Dar es Salaam, United Republic of Tanzania

Abstract
This study investigates the influence of socio-economic and financial factors on individuals' borrowing from predatory lenders in Dar es Salaam City, using data collected from 300 respondents. Socio-economic attributes included age, gender, marital status, education, and income status. Financial factors were indicated by financial knowledge, financial inclusion, and individuals' borrowing behaviour. Logistic regression analysis was employed to determine the effects of socio-economic, economic, and financial factors on borrowing from predatory lenders. The findings indicate that age, gender, education, and financial knowledge negatively influence loan uptake from predatory lenders, suggesting that older individuals, males, individuals with higher levels of education, and financially literate individuals are less likely to borrow from predatory lenders. Income and marital status appear to have no significant influence. Conversely, financial inclusion, measured by bank account ownership, and specific borrowing behaviours are positively associated with the likelihood of borrowing from predatory sources. While some socio-economic attributes and financial factors appear to be consistent in their influence on individuals' borrowing from predatory lenders, the findings on financial inclusion are inconsistent with the expectations of the study. This implies that financial inclusion may inadvertently lead some individuals to borrow from predatory lenders, underscoring the need for targeted financial inclusion to enhance financial well-being. This research contributes to understanding predatory lending dynamics in emerging urban settings and emphasises the importance of enhancing financial literacy to mitigate the risks of borrowing from predatory lenders.

Keywords: Kausha damu, predatory lending, loan shark, financial literacy, financial inclusion, demographic attributes

Introduction

It is without dispute that access to credit is very important in households' lives, as it helps them cope with various life shocks and financial needs such as illness, financing education, unemployment, paying rent for a home/accommodation, financing business, and other related needs. The empirical literature extensively documents the importance of credit for social and economic well-being (see, for example, Levine, 2005; Beck et al., 2009; Karlan and Morduck, 2010; Bocher et al., 2017; and Kumar et al., 2020). Unlike the expectation that credit is essential and would be praised for supporting the lives of individuals and households, recently in Tanzania, there has been an uproar of many voices, through newspapers and online media, speaking out against a particular kind of credit, famously known as Kausha damu in Tanzania. Kausha Damu (Swahili phrase meaning 'to dry blood') is a term used to describe a loan characterized by exorbitant interest rates, small amounts, frequent repayments (including daily repayments), and harsh/coercive treatment of borrowers upon failure to repay on the due date. This kind of loan is considered globally as a loan offered by loan sharks. A loan shark is a person who - or an entity that - loans money at extremely high interest rates and often uses threats of violence to collect debts (Oti, 2024). Similarly, Nugget (1941) described loan sharks as those who lend small sums at a higher rate than the law allows. In this paper, the terms Kausha Damu, predatory lenders, and loan sharks are used interchangeably. As mentioned earlier, Kausha Damu is an exceptional phenomenon in Tanzania; however, loan sharks are a global phenomenon, and there is substantial research and literature on them elsewhere. For instance, in Vietnam, loan sharks operate via mobile apps, and there is a clear definition of loan sharks in its penal code, and the government pays special attention to usury (Nguyen et al., 2021). In South Africa, similar loans are known locally as "Mashonisa" (Mashigo, 2012). Meanwhile, loan sharks are referred to as "Shylocks" in Kenya (Mutie, 2023), and they operate in a similar way as payday lenders in the US, whose loans are characterized by being generally short-term credit with a limited amount and high charges (Trinugroho et al., 2017).

Individuals and households borrow from loan sharks for various livelihood-related purposes. For instance, Engel and McCoy (2008) report that American minority households, due to a failure to pay their mortgage, borrow funds from loan sharks to support rent payments and/or mortgage payments. In one way or another, they manage to relieve themselves of their debt to the landlord or mortgage holder by taking on a loan from loan sharks on the due date. Moreover, Saunders (2021) reports that the majority of households in the UK borrow from loan sharks for regular living costs such as household bills, car repairs, health or funeral costs, and celebration events such as Christmas. Similarly, in Tanzania and other African countries, individuals and households appear to borrow from loan sharks/informal lenders for

household needs, including health costs, late payment of benefits, paying off other debts, education costs for their children and for making ends meet (Ndanshau, 2004; Kaberia and Muathe, 2022; Biseko, 2023; FSDT, 2023).

There are extensive reports documenting the negative impacts resulting from loan sharks. Pratiwi et al. (2023) indicated that borrowing from loan sharks carries a capital, but, on the contrary, creates social pressure on borrowers if they cannot pay their existing obligations. Vella and Mintoff (2023) point out that the increase in loan sharks/ usury loans leads to strengthening of the hidden economy and the consequent weakening of productivity that may ultimately lead to greater economic instability and unsustainability, which is contrary to the expectation that credit is essential for increasing productivity and fueling economic well-being (see, for example, Kumar et al, 2020). In Tanzania, there are widespread complaints and negative reports from individuals and households resulting from borrowing from loan sharks. For instance, there are complaints about exorbitant interest rates: a person can borrow TZ 100,000 at a 30% interest rate per month, against collateral such as a Television, which might be four or more times the value. With such a high interest rate, the loan becomes so expensive that the borrower's business fails, leading to default and, eventually, the television is sold (Mwananchi, 23 July 2023). In some instances, borrowers run away from their families, and some are exposed to health problems as a result of the coercive actions of loan sharks.

Moreover, evidence of the negative effects of loan sharks can be found in numerous warnings from government and political leaders in the media, calling on individuals and households to take care and refrain from borrowing from loan sharks (Simtowe, 2023; Chilongola and Simtowe, 2022). Although research on the impacts of Kausha damu loans in Tanzania is scarce, Saunders (2019) documents that users of loan sharks are at increased risk of poor physical and mental health, a worse quality of life, and exposure to other prolonged stressors. Despite the negative aspects of loan sharks worldwide, people still borrow from them. For instance, Saunders (2019) reports an increase in the number of people indebted to loan sharks in the UK from an estimated 165,000 in 2006 to at least 310000 people in 2019 (Saunders, 2019). Horowiz (2015) reports that, as of 2015, about 12 million Americans took similar loans each year, with interest rates averaging over 400%. In Tanzania as well, there are substantial cases of loan sharks (Kausha damu) in almost all regions, as reported by various media (Simtowe, 2023; Chilongola and Simtowe, 2022).

Moreover, there has been a wave of condemnation from government leaders, religious organizations, and other influencers against borrowing from loan sharks. For instance, the Bank of Tanzania cautioned the public against borrowing from unlicensed entities (BoT, 2022). The negative impact of loans from loan sharks includes paralyzing businesses and weakening productivity

(Pratiwi et al., 2023; Vella and Mintoff, 2023). Despite the warnings, many people still borrow from loan sharks. The question is: What are the factors that influence people to take up Kausha damu loans despite government initiatives that support increased bank financing and stern, repetitive warnings from various parties? To answer such a question, this paper examines the influence of socio-economic and financial factors on borrowing from Kausha Damu loans. The specific research objective is to examine the influence of demographic, socio-economic attributes, financial knowledge, borrowing behavior, and financial inclusion on borrowing from loan sharks.

The rest of the paper is organized as follows. The next section reviews the theoretical background and prior empirical literature on predatory loan experiences and uptake. Thereafter, the paper presents the research methodology, research findings, discussion and conclusion.

Theoretical and Empirical Literature Review

There is an extensive literature documenting various aspects of borrowing from loan sharks, including the reasons people borrow from them, the effects of borrowing from them, and the characteristics of individuals who borrow from them. Individuals' engagement in borrowing from loan sharks can be explained by Life-Cycle Theory and Information Asymmetry Theory. Life-Cycle Theory holds that individuals plan their consumptions and savings over their lifetimes, and thus their consumption is influenced by life stages (Deaton, 2005; Fernandez-Lopez et al., 2022). In addition, the Information Asymmetry Theory arises from inadequate information sharing between parties (Clarkson, 2007). Borrowers may lack information from lenders for various reasons, including limited financial knowledge and experience with financial services.

Moreover, the empirical literature documents the factors associated with the uptake of predatory loans as follows. In their study, Pratiwi et al. (2023) employed a qualitative research strategy to investigate the influence of financial behaviour and financial literacy on borrowing from loan sharks in Indonesia. Their study aimed to investigate the distinguishing behaviors that can drive some people to borrow from informal lenders rather than from formal or licensed lenders. Despite the findings that economic perspective and educational background are the primary factors influencing borrowing behavior, they also indicate that financial behavior and financial literacy matter for borrowing decisions. They documented that irrational thoughts stemming from financial illiteracy are among the biased behaviors that drive people to borrow from predatory lenders. Mutie et al. (2023) examined the factors influencing borrowing from predatory lenders in Kenya. Their findings indicate that income level significantly influences loan uptake from predatory lenders. Individuals with lower income, who live in a community with a high level of poverty, were found to be most likely to take a loan from predatory lenders. Similarly, Gathergood and Guttman-Kenney (2023), in their study on

hidden sharks in modern industry, report that income level and the high cost of living are prominent factors in the uptake of loans from predatory lenders. Consistently, using an experimental study, they tested whether predatory loans, and illegal short-term loans with high interest rates were preferable to pawnshop loans, bank loans, and household limited savings when households are confronted with financial distress. They found that lower-income groups preferred credit from predatory lenders.

According to Mustika et al. (2023), household debt to moneylenders in their study was influenced by the necessities of life, which was found to be significant at 0.017 in the logistic regression results. In other words, households have different life necessities at different times, which require different amounts of money. As households have different income levels, those who fail to meet their needs end up borrowing from moneylenders, regardless of the interest rate charged or the mode of payment. In this study, other factors found to be significant in influencing debt to moneylenders were income level and financial literacy. Witt (2021) investigated how vulnerability to loan sharks arises in the United Kingdom. Employing qualitative research, they documented several themes characterizing the victims of loan sharks. The study found that a lack of access to mainstream credit fostered parasitic behavior and poor economic skills (economic capital). Enforcement and prevention influence the uptake of loans from loan sharks. The study further acknowledges that victims of loan sharks have limited financial knowledge and/or lack economic and social capital. Anh and Quang (2021) investigated the determinants of students' intention to use loan sharks in Vietnam. Their study findings reveal that students' intention to borrow from loan sharks is mostly influenced by social influence, financial literacy, and effort expectancy. Social influence had a significant positive effect on students' behavior, and financial illiteracy was significantly and positively associated with borrowing from predatory lenders.

Consistently, findings by Lisa et al. (2011) on the one-sided marketing of Debt Consolidation Loans in America indicate that financial illiteracy is a factor driving demand for informal loans, despite the high interest rates. Financial illiteracy is one of the factors for debt consolidation. The findings are similar to those of Mustika et al. (2023), who found that financial illiteracy significantly influences household debt to moneylenders. Kamal at el. (2022) conducted a study aiming at identifying the factors for intentions of borrowers to borrow from a loan shark in Indonesia. They found that services provided by loan sharks have a major impact on people's intentions to borrow from them. These findings indicate that loan shark services influence people's intention to borrow from them. Similarly, Kartal (2019) noted that, unlike the conditions set by banks for access to credit, individuals would turn to loan sharks because they appear more accessible, offering room for human empathy and flexible arrangements.

There are also studies indicating that imperfections in the financial market influence individuals' uptake of predatory loans. Eid et al. (2024) note that imperfections in the financial market, stemming from the absence of commercial banks at the regional or district level, can impair individuals' access to financial services. Due to limited access to financial services for a large part of the community, individuals will be strongly influenced to turn to predatory lenders, whether through online platforms or other means, to obtain credit. Seluhinga (2023) conducted a study to investigate factors influencing smallholder farmers' access to formal financial services in Morogoro, Tanzania. The study documents the factors that discourage small farmers from borrowing from formal systems. Some of the factors found to be significant include age, income level, education level, interest rate level, and borrowing techniques. Based on the logistic regression, the findings showed that older individuals, individuals with lower income, and educated individuals are more likely to borrow from formal financial services than their counterparts. Therefore, the converse is true: when people cannot afford or access loans from formal systems due to their income levels, younger age, or lower education, they may be forced to opt for informal loans, mostly known as Kausha Damu, to meet their financial needs. Based on the findings of Sinclair et al. (2021), older people are perceived to be better at living within their means and when they borrow money from predatory lenders, they do so responsibly. In contrast, younger people, who are often seen as financially irresponsible and are characterized by being saddled with debt, have a higher possibility of taking loans from predatory lenders. These findings are perhaps not surprising, since older people tend to hold more negative attitudes towards credit than younger groups. Older people tend to reduce their reliance on borrowing as they enter retirement.

Several empirical studies have noted gender disparity in the uptake of predatory loans. For instance, Fishbein and Woodall (2006) report that women are more likely than men to receive subprime loans. Moreover, the likelihood of women taking up such loans is independent of income level. In other words, whether women have higher income, they are not more likely to engage in illegal activities compared to men. Similarly, Saunders (2021) examined demographic, financial, health, and behavioral data on 753 victims of loan sharks. The findings indicated that most of the victims were women rather than men. Furthermore, Rinaldi and Fatiha (2024) investigated the reasons behind women's vulnerability to illegal loans. Their study was built on the assumption that women are more vulnerable to illegal loans. Their findings confirmed women's vulnerability to illegal loans and that women are prone to take illegal loans due to burdens related to financial and domestic responsibilities.

The reviewed theoretical and empirical literature indicates that predatory borrowing is influenced by life-cycle financial needs, information

constraints, financial literacy, income, and access to formal financial services (Deaton, 2005; Clarkson et al., 2007; Pratiwi et al., 2023; Mutie et al., 2023). However, important gaps remain. Existing studies have predominantly examined loan-shark borrowing in countries such as Indonesia, Kenya, Vietnam, and the United Kingdom, while evidence from Tanzania remains limited and fragmented (Witt, 2021; Anh & Quang, 2021; Pratiwi et al., 2023; Mutie et al., 2023). Moreover, limited attention has been given to the combined influence of socio-economic and financial factors on the uptake of Kausha Damu in urban Tanzania. This study addresses these gaps by examining these factors among individuals in Dar es Salaam City.

Research Methodology

The study employed a case study research design. According to Hancock et al. (2021), case study research is potentially useful for a focus on representation. The Dar es Salaam region, including all its districts, was selected as a case study. The choice of the region was based on its inclusive population characteristics, which would efficiently provide data for the study. As it is, Dar es Salaam is the largest city in Tanzania, with the largest population of people from various backgrounds engaging in a multitude of economic activities (Toddy et al., 2019).

Moreover, Dar es Salaam is one of the leading cities in Kausha Damu cases, as reported by various newspapers, including Mwananchi (16 August 2023), and other media. To achieve the study's objectives, primary data was collected through survey questionnaires administered to 300 respondents selected through purpose sampling. The sample size was based on the rule of thumb that a sample size between 30 and 500 is suitable for most research (Sekaran and Bougie, 2016). The use of primary data was considered appropriate given the scarcity of information and the lack of secondary data on the topic. Primary data provided the researchers with an opportunity to explore the topic deeply. According to Hox and Boeije (2005), in primary data collection, the researcher has full control over participants, offering greater opportunities to collect and manage data in line with the study's objectives. The questionnaires were used to collect information on demographic and socio-economic factors, financial literacy, and financial inclusion. The suitability of using questionnaires is based not only on their ability to collect large amounts of data in a short period of time but also on their capacity to accommodate standardized responses, which are crucial for enhancing consistency and eliminating researcher bias in data collection (Sekaran and Bougie, 2016).

The reliability of the data collection instrument was assessed through a pilot test conducted before the main study, during which about 20 questionnaires were administered. Consistent with Bujang et al. (2024), the pilot test focused on evaluating the clarity, comprehension, and

appropriateness of each question, ensuring that respondents interpret and answer the questionnaires consistently. Feedback from the pilot test was used to refine the questionnaire, enhancing its reliability and suitability for collecting valid data in the main study. Given the nature of the data on factors influencing individuals' use of loan sharks as a source of credit, with the dependent variable borrowing from Kausha Damu (loan sharks) as binary variables, logistic regression was used to analyze the data. Logistic regression is a widely used predictive model for binary dependent variables (Menard, 2010). Thus, we estimate the following model:

$$Logit\ (p) = ln\left(\frac{p}{1-p}\right) = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_9 X_9$$

Where p is the probability of borrowing from predatory lenders, ln denotes the natural logarithm, and $X_1 ... X_9$ represent the predictors corresponding to respondents' demographic and socio-economic characteristics, borrowing behaviour, financial education, and financial inclusion. Specifically, the predictors are age, gender, marital status, education, monthly income, employment, borrowing behaviour, financial education, and financial inclusion (bank account ownership). The term β_0 represents the intercept, while β_1–β_9 represent the corresponding regression coefficients.

Logistic regression analysis was conducted following the descriptive statistical analysis of demographic and socio-economic characteristics, financial knowledge, and loan-shark borrowing. Table 1 presents the variables and their measurements; Table 2 presents the descriptive statistics; Table 3 presents the associations between the independent variables and the dependent variable; and Table 4 presents the logistic regression results.

Results and Discussion

Respondents' Information and Description of Variables

The study included respondents of various ages, ranging from 15 (the youngest) to 72 (the oldest). The respondents' ages were classified into three groups: youth, adults, and elders. The youth ranged from 15 to 35 years; the adult range was 36 to 60 years; and the older adults were 60 years or older. The youth made up the majority of the population, with 184 (61.33%), followed by adults with 110 (36.67%) and, lastly, elders with 6 (2%). Of the 300 respondents, only 2 were below 18. The composition of the respondents by age levels enhances the reliability of the findings, given the legal standpoint based on maturity age. We also included those below 18 in line with the National Youth Policy 2007.

The study involved both male and female respondents, selected at random. Among 300 respondents, 164 (64.7%) were females, and 136 (35.3%) were males. The respondents were of different education levels ranging from

those with no formal education (18 respondents, 6%), those with primary education (107 respondents, 35.7%), secondary education both ordinary and advanced level (103 respondents, 34.3%), certificate and ordinary diploma level (34, 11.3%), and lastly, those with bachelor degree and beyond (38 respectively, 12.7%). In terms of marital status, the study included about 117 (39%) who had never married, 149 (49.7%) who were married, 16 (5.3%) who were separated, 8 (2.67%) who were divorced, and 10 (3.33%) who were widowed. For analysis purposes, marital status was categorised into two groups: not married and married. The not-married category included respondents who had never married, were divorced, or were single, comprising 135 respondents (45%). The married category included respondents who were currently living with their spouses and those who were separated, as they remained legally married, comprising 165 respondents (55%).

Association of Socio-Economic and Financial Factors with Predatory Loan Uptake

This section presents findings on the association between demographic and socio-economic attributes, financial knowledge, financial inclusion, and loan uptake from predatory lenders. The aim is to examine whether there is any association between the specified factors and borrowing from predatory lenders.

Table 1: Demographic Characteristics of Respondents

Variable	Description	Frequency (N)	Percentage (%)
Age	15-35	184	61.3
	36-60	110	36.7
	60+	6	2.7
Gender	Male	136	35.3
	Female	164	64.7
Education	No formal education	18	6
	Primary Education	107	35.7
	Secondary Education	103	34.3
	Certificate /ordinary Diploma	34	14.3
	Bachelor's Degree and above	38	12.7
Marital Status	Never Married	117	39
	Married	149	49.7
	Separated	16	5.3
	Divorced	8	2.7
	Widowed	10	3.3

Source: Authors' computations based on survey data (2024).

Table 2: Description of Variables

Variable	Description and Measurement
Age (years)	Categories based on 15-35years=1, 36-60years=2 and 60+years = 3
Gender	Male=1, Female 0
Education Level	No formal education=1, Primary education=2, Secondary education=3 and above secondary = 4
Married	Being married = 1, otherwise = 0
Employment	Employed (salaried employee) =1, self-employed=2, housewife =3, unemployed = 4, retired =5
Income categories (Tsh.)	Below 65,000 =1, 65,000-150,000 =2, 151,000-300,000=3,301,000-500,000=4, 501,000-900,000=5 and 901,000+ =6
Borrowing behaviour	Borrowed from any other money lender at the rate above 3.5% per month = 1, otherwise it is 0
Financial knowledge	financial knowledge measured by 4 constructs, with a score of 0 to 4
Bank account	Having a bank account = 1, not having= 0
Borrowed from a loan shark	Response to question: Have you ever borrowed from Kausha Damu: Yes=1, No=0

Source: Authors' compilation based on theoretical and empirical literature review (2024).

As presented in Table 3, about 25.7% of participants responded yes to the question of whether they had ever borrowed from Kausha Damu, while 74.3% responded no. One would consider the proportion of those who had ever borrowed and those who have not borrowed. Such a proportion, if no measures were taken, would have detrimental effects not only in the lives of individuals and their households but also to the community and the economy of the country. Pratiwi et al. (2023) indicated that borrowing from loan sharks carries significant risks, to the extent that it can paralyze businesses that could otherwise increase capital and instead create social pressure on borrowers if they cannot pay their existing obligations. In the same study, borrowing from loan sharks was found to motivate people to work and earn more money. Similarly, Vella and Mintoff (2023) point out that the increase in loan sharks leads to strengthening of the hidden economy and the consequent weakening of productivity that may ultimately lead to greater economic instability and unsustainability. This is contrary to the expectation that credit is essential for increasing productivity and fueling of economic well-being (see, for example, Kumar et al, 2020).

Table 3: Association of Socio-Economic and Financial Factors with Predatory Loan Uptake

	Information	Code	Borrowed from Kausha Damu, N=77	Not borrowed from Kausha Damu N=223	All N=300
Age (years)	15-35	1	42 (54.5)	137 (61.4)	179 (59.7)
	36-60	2	35(45.5)	80(35.9)	115(38.3)
	60+	3	0(0.0)	6(2.7)	6(2.7)
Gender	Male=1, Female 0	0	50(64.9)	113(50.7)	163(54.5)
		1	27(35.1)	110(49.3)	137(45.7)
Education Level	No formal education	1	4(5.2)	4(1.8)	8(2.7)
	Primary education	2	41(53.2)	66(29.6)	107(35.7)
	Secondary education	3	20(26.0)	93(41.7)	113(37.7)
	Above secondary	4	12(15.6)	60(26.9)	72(24)
Married	Being married = 1, otherwise = 0	0	31(40.3)	123(55.2)	154(51.3
		1	46(59.7)	100(44.8)	146(48.7)
Employment	Employed (salaried employee)	1	13(16.9)	64(28.7)	77(25.7)
	Self employed	2	53(68.8)	107(48.0)	160(53.3)
	Home maker	3	5(6.5)	19(8.5)	24 (8)
	Unemployed	4	4(5.2)	27(12.1)	31(10.3)
	Retired	5	2(2.6)	2(0.9)	4(1.3)
	Other	6	0(0.0)	4(1.8)	4(1,3)
Income categories (Tsh.)	Below 65,000	1	11(14.3)	44(19.7)	55(18.3
	65,000-150,000	2	18(23.4)	26(11.7)	44(14.7)
	151,000-300,000	3	23(29.9)	68(30.5)	91(30.3)
	301,000-500,000	4	12(15.6)	36(16.4)	48(16.0)
	501,000-900,000	5	9(11.7)	35(15.7)	44(14.7)
	901,000+	6	4(5.2)	14(6.3)	18 (6.0)
Borrowing behavior	Borrowed = 1, otherwise is 0	0	15(19.5)	175(78.5)	190(63.3)
		1	62(80.2)	48(21.5)	110(36.7)
Financial knowledge	4 constructs having a score of 0 to 4	0	3(3.9)	4(1.8)	7 (2.3)
		1	12(15.6)	26(11.7)	38(12.7)
		2	27(35.1)	57(25.6)	84 (28)
		3	24(31.2)	90(40.4)	114(38)
		4	11(14.3)	46(20.6)	57(19)
Bank account	Having a bank account = 1, not having= 0	0	41(53.2)	137(61.4)	178(59.3)
		1	36(46.8)	86(38.6)	122(40.7)

Source: Authors' computation based on survey data (2024).

In terms of age, it can be noted that 54.5% of borrowers are of youth age 15-35years, and 45.5% are of adult age 36-60years. This means that more youths borrow from predatory lenders than adults do. In this study, the genders were male and female, with males accounting for 35.3% and females for 64.7% of

the total sample. In terms of gender, the majority of borrowers from predatory lenders were females: 64.9% of respondents who had ever borrowed from loan sharks were women. Meanwhile, about 35.1% of the respondents who have ever borrowed from loan sharks were men. This finding is in line with Schmitz's (2014) findings, which indicated that females (65%) were mostly affected by loan sharks. Education background of borrowers: 53.2% had primary education, 5.2% had no formal education, 26% had secondary education, and 15.6% had higher education. This finding aligns with those of Mustika et al. (2023), who found that 85% of respondents who borrowed from money lenders had an elementary school education, 2% had a diploma, 8% had a high school education, and 6% had a lower high school education.

In terms of marital status, married individuals had a higher proportion of predatory loan engagements than unmarried individuals. As shown in Table 1, about 59.7% of individuals who had ever borrowed from loan sharks were married, compared with 40.3% among their counterparts. The employment status of borrowers from predatory loans shows that the majority were self-employed, as indicated in Table 3: 68.8% were self-employed, 16.9% were employed as unpaid domestic workers, 6.5% were unemployed, and 2.6% were retired. Income is measured by monthly income. The majority of borrowers earned below the average income of TZS 416,927 (refer to HBS 2017/2018 for average income). The majority of the borrowers' income falls below TZS 301,000; cumulatively, more than 60% of respondents fall within that range.

Another interesting variable is borrowing behavior. It is observed that not only were borrowers from predatory loans vulnerable to predatory loans or to a single source of credit, but they also appeared to be involved in multiple borrowings from multiple sources. About 80% of borrowers reported borrowing from loan sharks other than their current lender. On the other hand, financial literacy remains a problem among the respondents. Overall, the majority failed to score correctly on the four financial knowledge constructs. The financial knowledge constructs included a sharing/division question, interest calculation, knowledge about risk and return, and knowledge about inflation, as employed by the OECD Survey (OECD, 2023). Overall, only 19% of respondents got all 4 constructs, while the rest scored: 38% scored 3 out of 4, 28% scored 2 out of 4, 12.7% scored 1 out of 4, and 2.3% scored 0 out of 4. This finding is consistent with documented surveys and the literature, which indicate that low financial literacy remains a problem in the country. Nevertheless, more than half of the respondents who had borrowed from predatory lenders scored 2 out of 4 on the financial constructs.

The study also explored whether the respondents were banked. The respondents were asked whether they had a bank account at the time the questionnaire was administered. This question was developed to assess respondents' financial inclusion. Of 300 respondents, 122 (40.67%) reported

having bank accounts, while 178 (59.33%) reported not having bank accounts. This result indicates that financial inclusion remains low, as more than 50% of respondents did not have bank accounts. Similarly, the level of financial inclusion among individuals borrowing from predatory lenders was low, with 53% lacking a bank account.

Results of Factors Influencing Borrowing from Predatory Lenders

A bivariate logistic regression test was conducted. According to Wang et al. (2017) and Bursac et al. (2008), a bivariate analysis is important for examining the relationship between each independent variable and a binary outcome variable before controlling for other factors. As presented in Table 4, bivariate logistic regression analysis showed that gender, education level, marital status, employment status, borrowing behavior, and financial knowledge were significantly associated with the uptake of predatory loans ($p < 0.05$ and $p < 0.1$). These variables were included later in the multivariate model.

Although age, income, and financial inclusion were not statistically significant in the bivariate analysis, they became significant in the multivariate logistic regression model (see Table 6) after controlling for other socio-economic factors. Accordingly, it is contended that variables should not be excluded solely on the basis of bivariate insignificance, particularly when they are confounders that are theoretically justified (Hosmer et al., 2013; Greene, 2018). This finding suggests the presence of confounding or suppression effects, indicating that the variable plays an important role when analyzed within a broader context. Consequently, as in the current study, the model specification prioritized theoretical relevance and potential confounding effects over reliance on bivariate screening procedures.

Table 4: Bivariate Analysis

Borrowing from Predatory Lenders	**Odds Ratio**	**P>z**
Age	1.000	0.401
Gender	0.555	0.031***
Education	0.521	0.000***
Marital Status	1.825	0.025***
Employment status	1.825	0.097*
Income	0.943	0.514
Borrowing behavior	15.069	0.000***
Financial knowledge	0.747	0.026***
Financial inclusion	1.399	0.208

Source: Authors' binary regression estimates (2024)

Notes: *** = Significant at 1%, **= Significant at 5%, *=Significant at 10%

In addition, as shown in Table 5, multicollinearity among the independent variables in the final model was assessed using the Variance Inflation Factor (VIF). According to Hair et al. (2019), multicollinearity can be diagnosed using the VIF, which quantifies the extent to which correlations among predictors inflate the variance of estimated regression coefficients. All VIF values were well below the commonly used threshold of 5, and tolerance values were well above 0.2, indicating no evidence of problematic multicollinearity among the predictors. The test result suggests that the estimated coefficients in the logistic regression model are reliable and that the independent variables do not overlap excessively in explaining variation in the uptake of predatory loans.

Table 5: Multicollinearity test

Variable	VIF	Tolerance (1/VIF)
Age	2.36	0.42
Have a bank account	2.34	0.43
Income category	1.39	0.72
Employment status	1.36	0.74
Education level	1.2	0.83
Marital status	1.18	0.84
Gender/sex	1.13	0.89
Financial knowledge	1.09	0.92
Ever borrowed	1.06	0.95
Mean VIF	1.46	-

Source: Authors' estimates (2024).

Table 6 presents logistic regression results on the factors influencing individuals' borrowing from predatory lenders. The results are presented as odds ratios and coefficients. It can be observed that age, gender, education, and financial knowledge significantly decrease the probability of borrowing from predatory lenders. Age has an odds ratio of 0.902, gender has an odds ratio of 0.440, education has an odds ratio of 0.480, and financial knowledge has an odds ratio of 0.573; all are significant (p-values < 0.05). Meanwhile, borrowing behavior (odds ratio = 23.634) and financial inclusion (odds ratio = 10.197) appear to significantly increase the probability of borrowing from predatory lenders. However, marital status, employment status and income appear to be insignificant in influencing the borrowing from predatory lenders.

The results presented in Table 7 indicate a good model fit, with Prob > chi^2 of 0.637 for the Hosmer-Lemeshow test and 0.886 for the Pearson test, both well above the significance threshold of 0.005. These results confirm the model's reliability in capturing the factors influencing borrowing from predatory lenders.

Table 6: Logistic regression on the factors influencing the uptake of loans from predatory lenders

Borrowing from Predatory Lenders	Coefficient	Odds Ratio	P>z
Age	-0.103	0.902	0.001***
Gender	-0.820	0.440	0.031***
Education	-0.735	0.480	0.002***
Marital Status	0.380	1.462	0.314
Employment status	0.599	1.821	0.256
Income	-0.150	0.860	0.281
Borrowing behavior	3.163	23.634	0.000***
Financial knowledge	-0.557	0.573	0.003***
Financial inclusion	2.322	10.197	0.000***
Constant	3.324	27.773	0.007

Source: Authors' logistic regression estimates
Notes: *** = Significant at 1%, **= Significant at 5%, *=Significant at 10%

Table 7. Goodness of fit of the model

Hosmer-Lemeshow		Pearson	
Number of observations	300	Number of observations	300
Number of groups	10	Number of covariate patterns	295
Hosmer-Lemeshow chi2(8)	6.09	Pearson chi2(285)	256.6
Prob > chi2	0.637	Prob > chi2	0.886

Source: Authors' logistic regression estimates (2024).

Age is negatively associated with odds, with an odds ratio of 0.902, significant at the 1% level. The results show that increased age decreases the likelihood of borrowing from predatory lenders. Similarly, Sinclair et al. (2021) noted that older people are perceived as better at living within their means, and when they do borrow, they do so responsibly. This argument contrasts with younger people, who are often seen as financially irresponsible and saddled with debt. This finding is perhaps not surprising, since older people tend to hold more negative attitudes towards credit than younger groups. Moreover, this observation is consistent with Seluhinga's (2023) findings, which showed that aging increased the likelihood of using formal financial services rather than the informal ones. The gender variable is observed to influence the uptake of predatory loans. The results show a negative coefficient ($\beta = -0.862$) and an odds ratio of 0.440, which is strongly significant at $p < 0.05$. These results imply that being male decreases an individual's likelihood of borrowing from predatory lenders. The opposite is that being a female increases the likelihood of taking up loans from predatory lenders. The findings are consistent with the findings from the available literature that women are more vulnerable to predatory loans than men (Fishbein and Woodall, 2006; Rinaldi and Fatiha, 2024).

In terms of education, the respondents were grouped into the following categories: those with formal education, those with primary education, those with secondary education (ordinary & advanced), those with a certificate or ordinary diploma, and, lastly, those with a bachelor's degree and beyond. The findings indicate that education level may influence the uptake of predatory loans. As presented in Table 4, education level decreases the likelihood of taking predatory loans, with a negative coefficient of -0.735 and an odds ratio of 0.480 at the 1% significant level. The implication is that individuals with higher education are less likely to borrow from predatory lenders. The results are consistent with Morgan's (2007) findings that less educated individuals and households are more vulnerable to predatory loans than highly educated individuals. Sohn and Jombo (2022) document that most households with tertiary education still obtain more credit from commercial banks (21.15%) than from loan sharks (2.13%) or relatives (4.74%), compared with households with lower education. This finding is consistent with the current research indicating that education level significantly influences borrowing from predatory lenders; the variable has a p-value of 0.006, and education level positively influences borrowing rates. The current findings are also in line with those of Mustika et al. (2023), who found that 85% of respondents who borrowed from money lenders had elementary education, 2% had diploma education, 8% had high school education, and 6% had lower high school education.

The variable 'not married' was found to be insignificant (P-value = 0.314). However, it was seen to positively influence borrowing from Kausha Damu, as shown in Table 4, with an odds ratio of 1.462 and a coefficient of 0.380. On the other hand, the income variable was found to be insignificant in influencing the uptake of predatory loans. The finding implies that income level does not influence borrowing from predatory lenders. This finding differs from some other studies, for example, Mustika et al. (2023); and Trinugroho et al. (2017), which document income as a key factor in borrowing from predatory lenders. The existing literature indicates that low-income people are most likely to be involved in predatory lending. Alternatively, the current findings might be relevant. It is observed that even people with high incomes borrow from Kausha Damu when they face an urgent need.

Employment status was among the variables found to have an insignificant influence on borrowing from Kausha Damu, with a p-value of 0.256, which was greater than 0.05. This finding means that employment category does not matter in relation borrowing from Kausha Damu. However, these findings contradict those in South Africa (Mashigo, 2006; Saunders, 2021) but agree with those of Oti (2024), who found that an individual's employment status does not influence their borrowing from predatory lenders.

As shown in Table 4, the borrowing behavior variable was found to be one of the most significant variables as it has a p-value of 0.000 and it highly

influences the rate of borrowing from Kausha Damu by a 23.634 odds ratio, which means higher rate of borrowing from other money lenders. The respondents have 23.634 times greater chance of borrowing from predatory lenders. This implies that having debt from different lenders influences borrowing from Kausha Damu. The main reasons can be repayment of the Kausha Damu loan and, sometimes, individual borrowing behavior. If a person has failed to repay a loan, they may be forced to take another loan to cover the previous debt, creating a vicious cycle. These findings also agree with Witt (2021), who found that most predatory lending victims have other loans from other lenders.

Financial knowledge, as an independent variable measuring financial literacy, is negative and significant (p-value = 0.003), with a coefficient of -0.557 and an odds ratio of 0.573. This indicates that the higher an individual's financial knowledge, the lower the likelihood of borrowing from predatory lenders. This result is consistent with the findings of Ahn and Quang (2021) and Mustika et al. (2023), who concluded that individuals with a high level of financial knowledge do not borrow from predatory lenders. It is disappointing that financial inclusion, as measured by bank account ownership, is positively and significantly associated with loan uptake from predatory lenders. The result was indicated by a coefficient of 2.322 and an odds ratio of 10.197, which was significant at the 1% level. The results indicate that having a bank account increases the likelihood of borrowing from loan sharks. These findings contradict the phenomenon and initiatives to enhance access and use of formal financial services relative to informal financial services (see, for example, Demirgüç-Kunt and Klapper, 2012). Zewdie (2015) contends that financial inclusion, constrained by access to credit, worsens the plight of individuals borrowing from informal and/or painful sources of credit. Nevertheless, due to limited financial services, many community members will be strongly influenced to turn to predatory lenders, whether through online platforms or other means, to obtain credit.

Conclusion

The findings reveal a multifaceted relationship between socio-economic attributes and financial behaviors in borrowing from predatory lenders. Specifically, age, gender, education, and financial knowledge were found to negatively influence loan uptake from predatory lenders. The findings suggest that individuals with higher education and financial literacy are less likely to engage with such lenders, potentially because they have a better understanding of the risks involved. Conversely, financial inclusion, as indicated by bank account ownership and specific borrowing behaviors, positively correlates with the uptake of loans from predatory sources. This inconsistency highlights that while financial inclusion typically aims to empower individuals economically, it can also expose them to predatory practices if they lack

adequate financial knowledge and support. To address these issues, policymakers should implement targeted financial education programs that enhance borrowers' understanding of their options and the risks of predatory lending, especially for those who are financially included but lack the knowledge to make informed credit decisions. It is important to identify the financial capacity gap among the financially included and fill it with relevant strategies. Moreover, future research should employ qualitative methods to investigate the behavioral factors that drive borrowing from predatory lenders.

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Corresponding author

Yohana Mayenga can be contacted at: yohana.mayenga@ifm.ac.tz