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Rising Commercial Rents and Small Business Sustainability in Urban Tanzania: The Mediating Role of Coping Strategies and the Moderating Effect of Policy Environment

Zacharia Elias Lema
Institute of Finance Management (IFM)
Tanzania
zacharia.lema@ifm.ac.tz

Steven Shekiondo
Institute of Finance Management (IFM)
Tanzania
steven.shekiondo@ifm.ac.tz

Abstract

This study examines the effect of rising commercial rental costs on small business sustainability in Dar es Salaam, Tanzania. Specifically, it investigates the mediating role of coping strategies, the moderating influence of the policy environment, and the social consequences associated with declining business sustainability. Drawing on Urban Economic Theory, the study employed a quantitative cross-sectional design and analyzed data from 384 valid responses obtained from small business operators. Structural Equation Modeling (SEM) using AMOS 26 was employed to test the hypothesized relationships. The findings reveal that rising rental costs exert a significant negative effect on business sustainability. Rental costs also significantly influence the adoption of coping strategies, which positively affect business sustainability, confirming their mediating role in mitigating rental-related pressures. Furthermore, the policy environment significantly moderates the relationship between rental costs and business sustainability, indicating that supportive institutional conditions can weaken the adverse effects of escalating rental burdens. The results further show that declining business sustainability generates negative social consequences, including household financial hardship, reduced educational opportunities, and disruptions to local economic networks. The study extends the application of Urban Economic Theory by demonstrating that the relationship between rental costs and business sustainability is shaped not only by direct economic pressures but also by entrepreneurial adaptation mechanisms and institutional conditions. The findings underscore the need for policy interventions aimed at improving commercial tenancy conditions, expanding affordable business spaces, strengthening business support services, and enhancing the resilience of small enterprises in rapidly urbanizing environments.

Keywords: *Commercial rental costs; Small business sustainability; Coping strategies; Policy environment; Urban Economic Theory; Tanzania.*

1. Introduction

Urban commercial spaces play a critical role in fostering entrepreneurship and economic growth, particularly in developing economies. In Tanzania, commercial rental spaces known as *business frames* are widely used by small and medium-sized enterprises (SMEs) to conduct business. These structures, which are often located along the roads, provide business owners with a strategic advantage in attracting customers. However, the cost of renting these spaces has notably been rising and eventually creating financial challenges for business sustainability. Entrepreneurs often invest substantial capital to secure these spaces, only to face financial distress due to high rental fees and limited revenue generation (Croffie, 2025). Consequently, many businesses fail within a short period, leading to financial losses and, in some cases, debt burdens for business owners (Kehoe, 2024).

The issue of rising rental costs and business sustainability is widely recognized in urban economic studies. According to Feige et al. (2013), high urban rental prices can create economic barriers for small businesses and thereby reduce their ability to invest in growth and innovation. Similarly, Cooper (2025) asserts that, commercial rental costs in African cities have become a major constraint for entrepreneurs and eventually limit their competitiveness in the market. In Dar es Salaam, unofficial evidence suggests that a significant number of businesses shut down within their first year due to rental expenses that exceed their income. Since rental payments are typically made in advance for six months or one year, businesses that do not generate sufficient profits quickly end up exhausting their capital before becoming sustainable. Despite the importance of small businesses in job creation and economic development, there is limited empirical research that shows how commercial rental costs impact small and medium business sustainability in Tanzania. Most previous studies in Tanzania and other developing economies have extensively examined access to finance, market competition, and regulatory barriers as determinants of SME sustainability (Badi & Ishengoma, 2021; Hamidu & Munishi, 2022; Lyatuu, 2025; Sakijege, 2024). Limited attention has been paid to commercial rental costs as a structural constraint on business survival. Existing studies rarely examine how rental pressures interact with entrepreneurial coping strategies and policy environments to influence sustainability outcomes. Furthermore, evidence on the broader social consequences of rental-induced business closures remains scarce, particularly within rapidly urbanizing African cities such as Dar es Salaam.

To address this gap, this study aims to empirically assess the extent to which rising rental costs affect small business sustainability in urban settings, how entrepreneurs adapt to these pressures, and the broader implications for local economies and community well-being. Specifically, the study seeks to: (1) examine the effect of rising commercial rental costs on small business sustainability; (2) assess the mediating role of coping strategies; (3) evaluate the moderating effect of the policy environment; and (4) investigate the social consequences associated with reduced business sustainability.

The study is grounded in Urban Economic Theory, which explains how spatial and rental market dynamics influence business location decisions, operating costs, and firm performance (Fujita, 1989). The theory suggests that increasing demand for strategically located commercial spaces in urban areas drives rental costs upward, creating competitive pressures that disproportionately affect resource-constrained small businesses. Guided by this theoretical perspective, the study focuses on five interrelated constructs: rental cost pressures, coping strategies, policy environment, business sustainability, and social consequences. These factors are particularly relevant in the Tanzanian context, where rapid urbanization, limited access to affordable commercial space, and increasing rental costs continue to shape entrepreneurial decisions and business survival.

While Urban Economic Theory provides a useful explanation of how rental market dynamics influence business outcomes, it pays limited attention to the adaptive responses of entrepreneurs and the institutional conditions that may shape these outcomes. To address this limitation, the present study extends the theory by incorporating coping strategies as a mediating mechanism and policy environment as a moderating factor. This extension enables a more comprehensive understanding of how rental-induced pressures affect business sustainability and generate broader social consequences within rapidly urbanizing environments.

The study focuses on small business operators occupying rented commercial premises in Dar es Salaam, Tanzania. Data were collected through a structured questionnaire administered to small business operators. Using Structural Equation Modeling (SEM) with AMOS 26, the study empirically examines the relationships among rental costs, coping strategies, policy environment, business sustainability, and social consequences.

Empirical results from this study indicate that rising commercial rental costs significantly undermine the sustainability of small businesses in urban Tanzania. The findings further suggest that the effects of rental pressures are shaped by entrepreneurial coping strategies and the policy environment, which respectively mediate and moderate the relationship between rental costs and business sustainability. Beyond firm-level outcomes, declining business sustainability was found to generate broader social consequences, including household financial distress, reduced educational opportunities, and weakened local economic networks. These findings highlight the importance of supportive institutional environments and affordable commercial spaces in promoting both business resilience and community well-being.

The study contributes to the literature by extending application of Urban Economic Theory to incorporate entrepreneurial adaptation and institutional conditions as important mechanisms through which rental pressures influence business sustainability. Practically, the findings provide evidence to inform policies aimed at improving commercial tenancy conditions, strengthening business support services, and fostering a more inclusive urban business environment for small enterprises.

2. Literature Review

2.1 Theoretical Foundation: Urban Economic Theory

Urban Economic Theory provides a useful framework for understanding how spatial market dynamics influence business performance and survival in urban environments. The theory argues that the value of commercial space is determined by location-specific advantages, including accessibility to customers, proximity to suppliers, transportation infrastructure, and agglomeration economies (Duranton & Puga, 2015; Fujita, 1989). Consequently, businesses operating in high-demand urban locations are often required to pay higher rents in exchange for greater market access, consumer footfall, and productivity advantages associated with urban agglomeration (Drennan & Kelly, 2011; Glaeser, 2008).

While large firms may absorb occupancy costs through economies of scale and stronger financial capacity, SMEs frequently operate under resource and liquidity constraints that limit their ability to accommodate sudden increases in fixed operating costs (Beck & Demirguc-Kunt, 2006; OECD, 2023). Rising rental costs therefore represent more than a routine operating expense; they constitute a structural pressure capable of reducing profitability, limiting reinvestment, constraining expansion opportunities, and increasing the risk of business exit among resource-constrained firms (Beck & Demirguc-Kunt, 2006; Blackburn et al., 2013).

In contexts where planning systems are weak, commercial tenancy arrangements are poorly regulated, or speculative land markets dominate, rental prices may increase faster than productivity gains and become detached from the underlying performance of local businesses (Duranton & Puga, 2015). Such conditions disproportionately affect SMEs because they possess fewer financial buffers and more limited access to external finance, reducing their capacity to absorb rising occupancy costs (Beck & Demirguc-Kunt, 2006). As a result, entrepreneurs may adopt adaptive responses such as downsizing, relocating, sharing premises, or shifting to informal business arrangements to remain operational.

Accordingly, Urban Economic Theory provides an appropriate theoretical lens for examining how commercial rental costs influence the sustainability of small businesses in urban environments. While the theory primarily explains how location-based market forces and urban spatial dynamics shape land values, rental prices, and business location decisions, the present study extends its application by incorporating entrepreneurial coping strategies as a mediating mechanism and the policy environment as a moderating factor. This integrated framework moves beyond the conventional focus on the direct effects of rental costs and offers a more comprehensive explanation of the pathways through which rental market pressures influence business sustainability. By doing so, the study contributes to both the urban economics and small business sustainability literature by demonstrating how firm-level responses and institutional conditions jointly shape business outcomes and their associated socioeconomic implications in rapidly urbanizing cities such as Dar es Salaam.

2.2 Empirical Review and Hypotheses Development

2.2.1 Rising Rental Costs and Business Sustainability

The sustainability of small businesses is influenced by a complex interaction of financial, institutional, and market-related factors. Among these, commercial rental costs have increasingly emerged as a critical concern in rapidly urbanizing economies where competition for strategically located business premises continues to intensify. For many small enterprises, rental expenditure represents one of the largest fixed operational costs, directly affecting profitability, liquidity, reinvestment capacity, and long-term business viability (Kath et al., 2012).

A substantial body of empirical literature suggests that rising rental costs negatively affect small business performance and sustainability. Studies conducted in Australia, South Africa, and Kenya consistently report that increasing rental obligations reduce business profitability, constrain growth opportunities, and increase the likelihood of business closure (Charman et al., 2017; Kath et al., 2012; Njihia, 2024). In highly competitive urban environments, entrepreneurs frequently allocate a substantial proportion of their revenues to rent payments, leaving limited resources available for inventory expansion, technology adoption, workforce development, and business innovation.

Evidence from Sub-Saharan Africa indicates that these challenges are particularly severe for micro and small enterprises operating in informal or semi-formal commercial environments. Charman et al. (2017) found that rental costs constituted one of the most significant operational constraints facing township retailers in South Africa, while Njihia (2024) reported that frequent rental increases contributed to business relocations and operational instability among urban enterprises in Nairobi. Similar observations have been reported in Tanzania, where commercial rental costs in prime urban locations consume a substantial share of business revenues and limit entrepreneurial capacity for growth and expansion (Lyaruu & Alananga, 2023). Nevertheless, despite the growing evidence from South Africa, Kenya, and other developing economies, empirical evidence from Tanzania remains scarce. Existing studies have largely focused on broader SME challenges such as access to finance, taxation, regulatory compliance, and market competition, with limited attention given to commercial rental costs as a distinct determinant of business sustainability.

Despite this growing body of evidence, scholars remain divided regarding the relative importance of rental costs as a determinant of business sustainability. Some researchers argue that internal business capabilities, including managerial competence, innovation capacity, access to finance, and entrepreneurial orientation, exert greater influence on long-term business survival than external cost pressures (Liedholm & Mead, 2013). According to this perspective, rental expenses represent only one among several challenges confronting small enterprises and may not independently determine business success or failure. However, more recent studies suggest that this view may underestimate the structural nature of rental pressures in urban economies. Kholodilin (2024) argues that rental costs often interact with other business constraints and amplify existing vulnerabilities. Enterprises facing limited access to finance, weak market positions, or unstable tenancy arrangements are particularly susceptible to rental shocks because they possess limited financial reserves to absorb unexpected increases in operating expenses. Consequently, rental costs may function as a catalyst that accelerates business decline rather than merely acting as an isolated cost burden.

Moreover, from an urban economic perspective, commercial rents function not merely as operational cost inputs but also as mechanisms of spatial exclusion and stratification (Morton, 2007). Businesses that are unable to afford high-rent locations are often displaced to peripheral or informal areas and consequently face reduced market access, customer footfall, and commercial visibility. Such spatial displacement may further isolate enterprises from supportive infrastructure, supplier networks, and institutional services necessary for growth and long-term competitiveness.

Despite growing evidence linking commercial rental costs to business performance, important gaps remain in the existing literature. Most studies have focused primarily on the direct economic effects of rental pressures, with limited attention to the mechanisms through which entrepreneurs adapt to these pressures and the institutional conditions that may either amplify or mitigate their effects. Furthermore, empirical evidence from Tanzania remains limited despite the rapid urbanization and increasing commercial rental pressures characterizing cities such as Dar es Salaam. Addressing these gaps is important for developing a more comprehensive understanding of how rental costs influence SME sustainability within rapidly changing urban environments.

Building on the theoretical arguments and empirical evidence presented above, the following hypothesis is proposed:

Hypothesis 1: *Rising rental costs are negatively associated with small business sustainability.*

2.2.2 Coping Strategies for High Rental Costs

As commercial rental costs continue to rise, small business owners are increasingly compelled to adopt various coping strategies to sustain their operations and remain competitive. Coping strategies refer to the adaptive actions undertaken by entrepreneurs to manage financial pressures, reduce operational costs, and maintain business continuity under challenging conditions. In urban business environments characterized by increasing rental burdens, such strategies often become essential for short-term survival and long-term sustainability (Saebi et al., 2017).

Empirical studies indicate that small enterprises respond to rising rental costs through a variety of adaptive mechanisms, including downsizing business operations, sharing premises with other businesses, relocating to lower-cost locations, shifting to informal trading arrangements, and reducing labor costs. For example, Olufemi and Azeezah (2020) found that many SMEs in Lagos adopted shared commercial spaces as a means of reducing rental expenses, while Hamidu & Munishi (2022) observed that traders in Dar es Salaam increasingly relocated to informal business locations following evictions and rising occupancy costs. Similar patterns have been documented in other developing economies where rental pressures have intensified competition for affordable commercial spaces (Korber & McNaughton, 2018).

While these strategies may provide immediate financial relief, their effectiveness remains subject to considerable debate. Some studies suggest that adaptive responses enhance business resilience by allowing firms to adjust to changing economic conditions and preserve cash flow during periods of financial stress (Fu, 2020). Under this perspective, coping strategies function as important entrepreneurial capabilities that enable businesses to survive external shocks and maintain operational continuity. Businesses that successfully adapt their cost structures may therefore improve their chances of sustaining profitability and avoiding closure. Conversely, other scholars argue that many coping strategies merely postpone business decline rather than resolve the underlying structural challenges facing entrepreneurs. Bourletidis & Triantafyllopoulos (2014) contend that strategies such as downsizing, relocation, and informalization often reduce operating costs at the expense of business visibility, customer accessibility, and long-term growth potential. Similarly, Matari (2024) notes that informal business arrangements may expose entrepreneurs to regulatory uncertainty, insecure tenure, and limited access to financial and institutional support. Consequently, coping strategies may generate both positive and negative outcomes depending on the broader business environment within which they are implemented.

From a theoretical perspective, coping strategies can be viewed as adaptive mechanisms through which entrepreneurs respond to external pressures generated by urban rental markets. Urban Economic Theory suggests that when rising rental costs increase operational burdens, businesses are forced to modify their behavior in order to maintain viability (Waldron, 2024). These adaptive responses represent an important intermediary process linking environmental pressures to business outcomes. Consequently, the impact of rental costs on sustainability may not be entirely direct but may occur partly through the coping strategies adopted by entrepreneurs.

Despite growing recognition of entrepreneurial adaptation within the SME literature, important gaps remain. Existing studies have documented a variety of coping strategies adopted by entrepreneurs facing financial and operational pressures, yet limited attention has been given to the role of these strategies as mechanisms through which commercial rental cost pressures influence business sustainability. Furthermore, empirical evidence remains scarce regarding how entrepreneurs in rapidly urbanizing African cities such as Dar es Salaam respond to escalating rental costs and the extent to which such responses affect long-term business sustainability.

To address these gaps, the present study conceptualizes coping strategies not merely as reactive responses to financial pressures but as intermediary mechanisms through which rental cost pressures influence business sustainability. Accordingly, the following hypotheses are proposed:

***Hypothesis 2**: Rising rental costs are positively associated with the adoption of coping strategies.*

***Hypothesis 3**: Coping strategies mediate the relationship between rental costs and business sustainability.*

2.2.3 Moderating Role of the Policy Environment

The policy environment constitutes an important institutional context within which small businesses operate. It encompasses the legal, regulatory, and administrative frameworks that shape business activities, define property rights, regulate commercial tenancy arrangements, and influence access to support services. As noted by Braunerhjelm & Henrekson (2024), a supportive policy environment can enhance business stability by reducing uncertainty, strengthening contractual protections, and improving access to mechanisms that help firms manage operational challenges.

Existing literature suggests that institutional and regulatory support can significantly influence the resilience and sustainability of small enterprises. Measures such as transparent leasing regulations, accessible dispute resolution mechanisms, tenant protections, and targeted SME support programs have been found to reduce business vulnerability and improve long-term performance (Akaabre et al., 2018). In several developed and emerging economies, government interventions aimed at improving the business environment have enhanced entrepreneurial confidence and strengthened the capacity of SMEs to withstand market-related shocks (Cheang, 2025).

However, evidence from many developing countries indicates that weak regulatory systems, limited policy enforcement, and inadequate tenant protections often expose small businesses to heightened risks. Research on commercial leasing and tenant protection suggests that weak tenancy governance can contribute to insecure lease arrangements, heightened uncertainty regarding occupancy costs, and weaker bargaining positions among small business tenants (Ahlinder, 2017). Under such conditions, entrepreneurs often face difficulties planning for the future, making long-term investments, and maintaining stable business operations. Furthermore, inadequate legal protections and dispute-resolution mechanisms may exacerbate business vulnerability by limiting the ability of small firms to manage rental-related risks effectively (Braunerhjelm & Henrekson, 2024b).

From a theoretical perspective, the policy environment can be understood as a contextual factor that shapes how businesses experience and respond to rental cost pressures. While rising rental costs may directly undermine business sustainability, the magnitude of this effect is likely to vary depending on the quality of institutional support available to entrepreneurs (Braunerhjelm & Henrekson, 2024b). For instance, businesses operating within supportive policy environments may have greater access to legal protections, formal lease agreements, dispute resolution mechanisms, and government support programs that enable them to better absorb or manage rental-related pressures. Conversely, in weak policy environments, rental increases may impose a greater burden on businesses due to limited protection against arbitrary rent adjustments, insecure tenancy arrangements, and inadequate institutional support.

Based on the foregoing theoretical and empirical arguments, the business policy and regulatory environment is expected to play a moderating role in the relationship between rental costs and business sustainability by influencing the security, predictability, and fairness of commercial leasing arrangements. Accordingly, the following hypothesis is proposed:

> ***Hypothesis 4****: Policy environment moderates the relationship between rental costs and business sustainability, such that a supportive policy environment weakens the negative effect of rental costs on business sustainability.*

2.2.4 Social Consequences of Business Closures

The social implications of business closures extend far beyond individual entrepreneurs to impact household livelihoods, community cohesion, and broader urban welfare. In many developing countries, particularly within urban informal and semi-formal economies, small businesses serve as primary sources of income, employment, and social support for entrepreneurs, employees, and their families (Charman et al., 2017). Their collapse, therefore, has multiplier effects that could disrupt not only economic activities but also the intricate social networks that sustain urban life.

Existing literature demonstrates that business failure often generates significant social consequences. Studies indicate that the closure of small businesses frequently leads to household financial distress, reduced educational opportunities for children, increased vulnerability to poverty, and weakened employment prospects (Eze & Lose, 2023; Lose et al., 2024). In addition, business closures may disrupt local supply chains and reduce access to affordable goods and services, particularly within low-income urban communities where small enterprises play a central role in everyday economic activities (Young & Crush, 2020).

Research conducted in Tanzania further highlights the social importance of small businesses. Nkwabi and Mboya (2019) observed that declining business performance is often associated with increased household vulnerability, including difficulties in meeting educational, healthcare, and basic consumption needs. Similar findings have been reported among female-headed households and youth-owned enterprises, where business failure frequently translates into broader social and economic hardships (Nziku & Struthers, 2018).

Nevertheless, scholars acknowledge that business closures may result from multiple factors, including managerial deficiencies, market competition, inadequate financing, and broader economic shocks (Nkwabi & Mboya, 2019). As such, not all adverse social outcomes can be attributed solely to rental pressures or declining business sustainability. However, recent studies suggest that structural constraints such as escalating operating costs may intensify business vulnerability and increase the likelihood of closure, particularly among resource-constrained enterprises operating in competitive urban environments (Eze & Lose, 2023; Faruquee et al., 2025).

Despite the growing recognition of the socioeconomic importance of SMEs, limited attention has been given to the broader social consequences of rental-induced business distress. By examining the link between business sustainability and social outcomes, the present study extends existing understanding of how rental market pressures affect urban communities in developing-country contexts. Along this background, we hypothesize that:

***Hypothesis 5**: Reduced business sustainability due to rising rental costs is associated with increased negative social consequences.*

Taken together, the literature suggests that commercial rental costs influence business sustainability both directly and indirectly through entrepreneurial coping strategies, while the policy environment shapes the extent to which businesses can withstand rental-related pressures. Declining business sustainability may, in turn, generate wider social consequences for entrepreneurs, households, and urban communities. Based on these theoretical and empirical relationships, a conceptual framework is developed to illustrate the hypothesized linkages among the study variables. The framework is presented in the following section.

2.3 Conceptual Framework

The conceptual framework (Figure 1) integrates Urban Economic Theory to model the relationship between rising rental costs and the sustainability of small businesses. It positions rising rental costs as the central independent variable influencing business sustainability outcomes (profitability, longevity), with coping strategies acting as mediators. The policy environment is treated as a moderating factor, while social consequences represent downstream effects of sustained business closures.

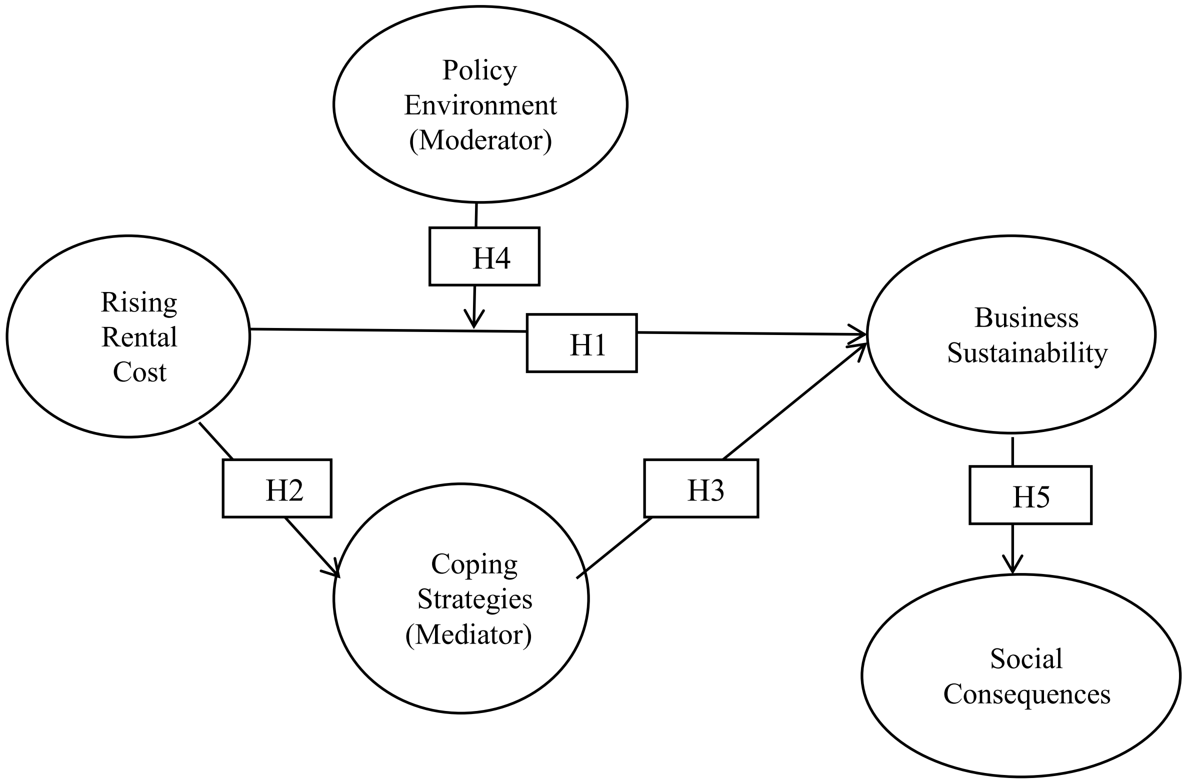

Figure 1: Conceptual Framework

To operationalize the above conceptual model, the studied variables and their corresponding measurement items gathered from the literature are summarized in **Table 1 below:**

Table 1: Operationalization of Study Variables

Variable	Role in Model	Measurement Items / Indicators	Source
Rising Rental Costs	Independent Variable (IV)	- Monthly commercial rent amount - Rent as % of total business income - Frequency of rent increase (per year) - Perceived burden of rent	Adapted from Charman et al. (2017)

Coping Strategies	Mediating Variable	- Downsizing business space or operations - Sharing premises with other businesses - Shifting to informal premises/mobile vending - Reducing staff to cut overhead	Adapted from Chiruka et al. (2025); Hamidu & Munishi (2022); Lyatuu (2025)
Business Sustainability	Dependent Variable (DV)	- Profitability trends over the past 12 months - Number of years in operation - Ability to retain staff - Ability to reinvest or expand - Business continuity plan availability	Adapted from Li et al. (2021); Sakijege (2024)
Policy Environment	Moderating Variable	- Awareness of government support for SMEs - Access to legal mechanisms for rent disputes - Existence of written lease agreements - Satisfaction with policy protections	Adapted from Msangi (2025); Nyarku & Oduro (2018)
Social Consequences	Outcome Variable	- School dropout in business owner's household - Increased dependence on social networks/aid - Relocation/migration due to business closure - Disruption of local supply chains - Loss of access to affordable goods in the neighborhood	Adapted from Eze & Lose (2023); World Bank (2023); Zuilkowski et al. (2024)

3. Methodology

3.1 Research Design

This study employed a quantitative cross-sectional research design to examine the effect of rising commercial rental costs on small business sustainability in Dar es Salaam, Tanzania. The study further investigated the mediating role of coping strategies, the moderating effect of the policy environment, and the social consequences associated with declining business sustainability. Given the complexity of these relationships, Structural Equation Modeling

(SEM) was adopted as the primary analytical technique. SEM was preferred over multiple regressions because the study involved multiple latent constructs measured through several indicators, simultaneous estimation of direct and indirect relationships, mediation analysis, moderation testing, and correction for measurement error (Hair et al., 2022).

Data were collected from six major commercial areas of Dar es Salaam, namely Kariakoo, Mwenge, Buguruni, Sinza, Tandika, and Ubungo. These locations were purposively selected due to their high concentration of small businesses and observable variations in commercial rental costs. The target population comprised small business owners operating in rented commercial premises across the selected areas. To ensure adequate representativeness across sectors and locations, a stratified random sampling approach was applied. The strata were based on geographic location and business type. Using Cochran's (1977) formula for large populations, a sample size of 384 businesses was determined at a 95% confidence level and 5% margin of error. The sample was drawn proportionally across the six neighborhoods. This sample size was deemed sufficient for SEM analysis, including the testing of mediation and moderation effects with latent constructs (Lowry & Gaskin, 2014).

3.2 Data Collection Instrument and Procedures

Data were collected using a structured questionnaire that was self-administered by respondents under the supervision of researchers. The instrument contained items measuring rental costs, coping strategies, business sustainability, policy environment, and social consequences. The measurement items were adapted from previous empirical studies and refined to suit the Tanzanian business context. Prior to the main survey, the questionnaire was piloted with 20 small business owners from non-sampled locations to assess clarity, relevance, and contextual appropriateness. Feedback obtained during the pilot exercise was used to improve the wording and structure of the instrument.

A total of 560 questionnaires were distributed, of which 408 were returned, yielding a response rate of 72.85%. Following data screening, 384 questionnaires were retained for analysis, while 24 questionnaires were excluded due to incomplete responses and missing data. Participation in the study was voluntary. Respondents were informed about the purpose of the research and were assured that their responses would be treated confidentially and used solely for academic purposes. To ensure the quality of the measurement instrument, reliability and validity assessments were subsequently conducted using Cronbach's alpha, Confirmatory Factor Analysis (CFA), and other relevant measurement diagnostics prior to estimating the structural model.

3.3 Data Analysis Techniques

Data were screened and analyzed using SPSS for preliminary analysis and AMOS 26 for Structural Equation Modeling (SEM). Confirmatory Factor Analysis (CFA) was first conducted to assess the adequacy of the measurement model. Reliability was evaluated using Cronbach's alpha and Composite Reliability (CR), while convergent validity was assessed using standardized factor loadings and Average Variance Extracted (AVE). Discriminant validity was examined using the Fornell-Larcker criterion.

Following the validation of the measurement model, the structural model was estimated to test the hypothesized relationships among the study constructs. Mediation analysis was performed using a bias-corrected bootstrapping procedure with 5,000 resamples. The moderating effect of the policy environment was examined through a latent interaction term between rental costs and the policy environment.

All statistical tests were conducted at the 95% confidence level. Prior to model estimation, assumptions of normality, linearity, and multicollinearity were assessed to ensure the robustness of the parameter estimates.

4. Results

4.1 Demographic Characteristics of Respondents

Table 2 presents the demographic characteristics of the respondents. Female respondents constituted 56.3% of the sample, while males accounted for 43.7%. The majority of respondents (61.5%) were between 26 and 40 years old, followed by those aged 41 years and above (23.1%) and those aged 18-25 years (15.4%). Regarding educational attainment, 38.8% had completed secondary education, 29.2% possessed a diploma or vocational certificate, 20.1% had primary education, and 11.9% held a university degree. This range of educational attainment indicates that small business ownership in urban Tanzania spans across varying levels of formal education.

In terms of business experience, 47.4% of respondents had operated their businesses for 3 to 7 years, while 28.6% had less than three years of experience and 24.0% had more than seven years of experience. With respect to business premises, 64.6% operated from rented permanent structures also called "*business frames*", whereas 35.4% used informal or semi-permanent structures such as kiosks, containers, or mobile vending units. Monthly rental payments varied considerably, with 52.1% paying between TZS 200,000 and 500,000, 31.3% paying less than TZS 200,000, and 16.6% paying more than TZS 500,000.

This demographic profile indicates that Tanzania's urban small business sector is characterized by gender diversity, moderate education levels, and varying degrees of business maturity and formality.

Table 2: Demographic Characteristics of the Respondents

Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	168	43.7
	Female	216	56.3
Age Group	18–25 years	59	15.4
	26–40 years	236	61.5
	41 years and above	89	23.1
Education Level	Primary Education	77	20.1
	Secondary Education	149	38.8
	Diploma/Vocational Certificate	112	29.2
	University Degree	46	11.9
Business Experience	Less than 3 years	110	28.6
	3–7 years	182	47.4
	More than 7 years	92	24.0
Business Premise Type	Rented Permanent Structure	248	64.6
	Informal/Semi-permanent Structure	136	35.4
Monthly Rental Cost (TZS)	Less than 200,000	120	31.3
	200,000 – 500,000	200	52.1
	Above 500,000	64	16.6

4.2 Measurement Model Assessment

The adequacy of the measurement model was assessed using Confirmatory Factor Analysis (CFA). As shown in Figure 2, the results indicated a satisfactory model fit (χ^2 = 863.45, df = 512, CFI = 0.941, TLI = 0.933, RMSEA = 0.047, and SRMR = 0.042), suggesting that the proposed measurement model adequately represented the observed data. In terms of indicator reliability, all indicators loaded significantly on their respective latent constructs, with factor loadings ranging from 0.68 to 0.81. These values exceeded the recommended minimum threshold of 0.50, indicating satisfactory indicator reliability.

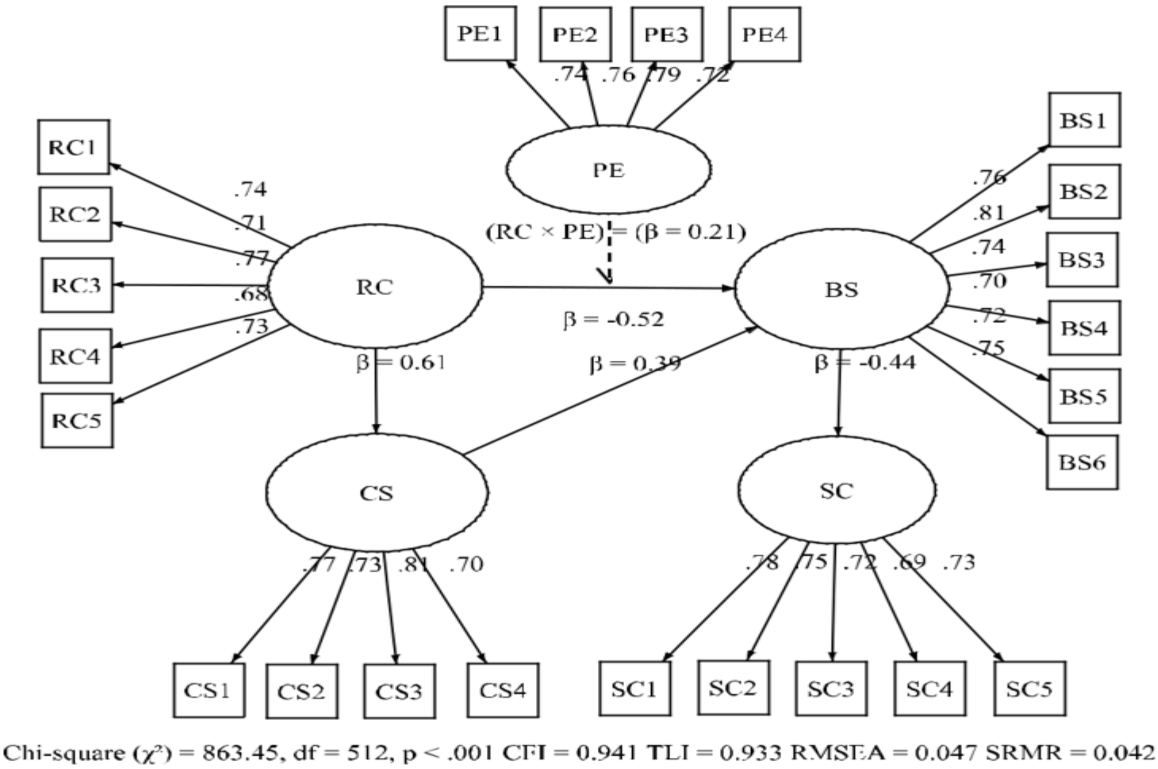

Figure 2: CFA Measurement Model

The reliability and convergent validity of the constructs were further assessed using Composite Reliability (CR) and Average Variance Extracted (AVE). As shown in Table 3, CR values ranged from 0.839 to 0.883, exceeding the recommended threshold of 0.70. Similarly, AVE values ranged from 0.537 to 0.629, surpassing the minimum acceptable threshold of 0.50 (Lowry & Gaskin, 2014). These findings confirm satisfactory internal consistency and convergent validity across all study constructs. Discriminant validity was assessed using the Fornell & Larcker (1981) criterion. As shown in Table 4, the results indicated that the square root of the AVE for each construct exceeded its correlations with other constructs, confirming adequate discriminant validity. Collectively, these results demonstrate that the measurement model possesses satisfactory reliability and validity and is therefore appropriate for subsequent structural model analysis.

Table 3: Reliability and Convergent Validity Assessment

Construct	Number of Items	Composite Reliability (CR)	Average Variance Extracted (AVE)
Rental Costs (RC)	5	0.848	0.537

Coping Strategies (CS)	4	0.840	0.577
Policy Environment (PE)	4	0.839	0.624
Business Sustainability (BS)	6	0.883	0.594
Social Consequences (SC)	5	0.854	0.579

Table 4: Discriminant Validity Assessment

Construct	RC	CS	PE	BS	SC
Rental Costs (RC)	**0.733**				
Coping Strategies (CS)	0.596	**0.759**			
Policy Environment (PE)	0.041	0.038	**0.790**		
Business Sustainability (BS)	-0.327	0.209	0.092	**0.770**	
Social Consequences (SC)	0.142	-0.081	-0.026	-0.459	**0.761**

4.3 Structural Model Evaluation and Hypothesis Testing Results

Following the assessment of the measurement model, the structural model was estimated to test the hypothesized relationships among the study variables. As shown in Figure 3, the structural model demonstrated a satisfactory fit to the data (χ^2 = 863.45, df = 512, CFI = 0.941, TLI = 0.933, RMSEA = 0.047, and SRMR = 0.042), indicating that the proposed theoretical model adequately represented the observed relationships.

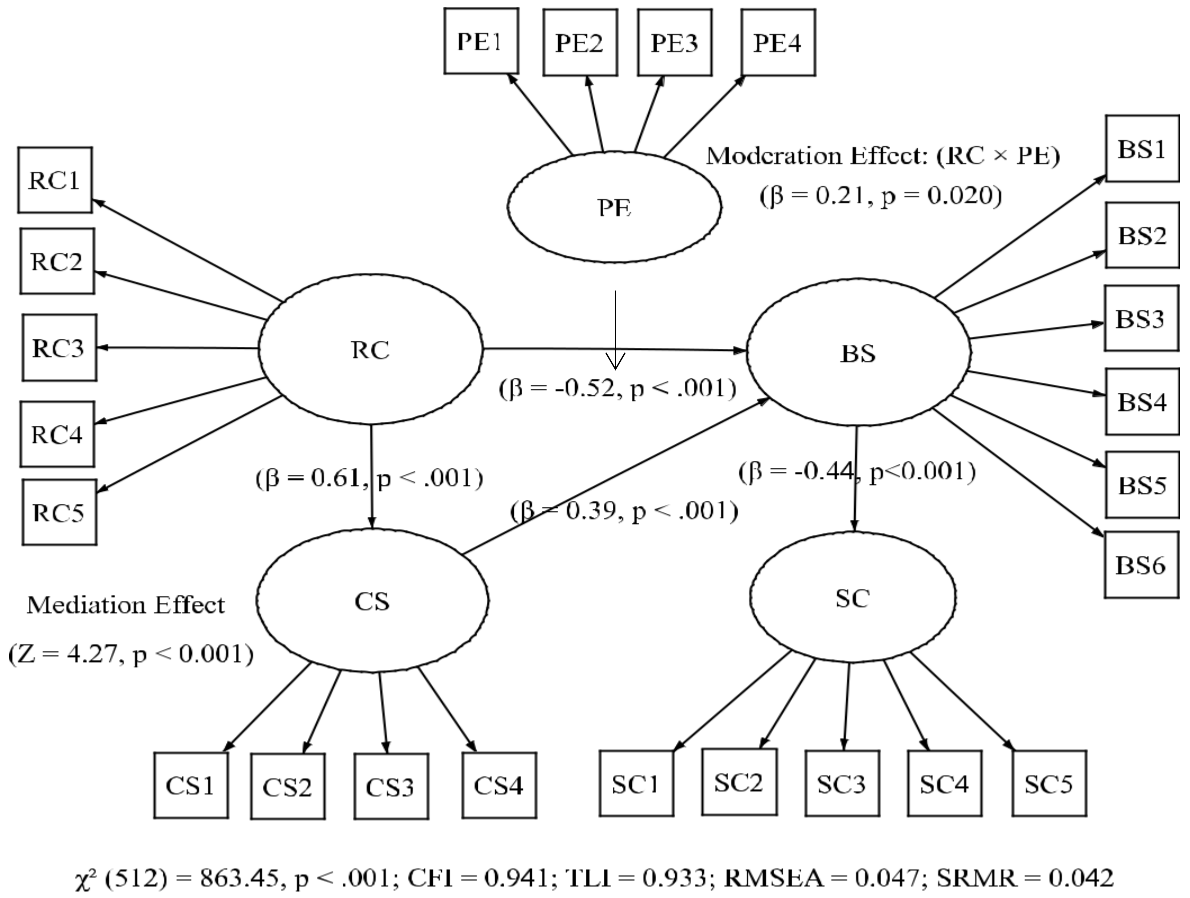

Figure 3: SEM Structural Model

Table 5 presents the results of the structural model analysis. Rising rental costs exerted a significant negative effect on business sustainability (β = -0.52, p < 0.01); hence, H1 is supported. Rental costs also had a significant positive effect on coping strategies (β = 0.61, p < 0.01), supporting H2. Furthermore, coping strategies positively influenced business sustainability (β = 0.39, p < 0.01); hence, H3 is supported.

Table 5: Structural Model Path Coefficients

Hypothesis	Path	Estimate	S.E.	C.R.	Result
H1	RC → BS	-0.52***	0.08	-6.50	Supported
H2	RC → CS	0.61***	0.07	8.71	Supported
H3	CS → BS	0.39***	0.06	6.50	Supported
H4	RC × PE → BS (Moderation)	0.21**	0.09	2.33	Supported
H5	BS → SC	-0.44***	0.07	-6.29	Supported

RC = Rental Costs; CS = Coping Strategies; BS = Business Sustainability; PE = Policy Environment; SC = Social Consequences; S.E. = Standard Error; C.R. = Critical Ratio. *, **, and *** represent significance levels of 0.10 (or 10 per cent), 0.05 (or 5 per cent), and 0.01 (or 1 per cent), respectively.

The interaction between rental costs and policy environment was positive and statistically significant (β = 0.21, p < 0.05), indicating that the policy environment moderated the relationship between rental costs and business sustainability. Therefore, H4 was supported. Finally, business sustainability had a significant negative effect on social consequences (β = -

0.44, $p < 0.01$), supporting H5. Overall, the findings provide empirical support for all hypothesized relationships proposed in the conceptual framework.

4.4 Common Method Bias Assessment

Since all variables were measured with a single questionnaire administered to the same respondents, Harman's single-factor test was conducted to assess potential common method bias. The first unrotated factor accounted for less than 50% of the total variance, indicating that common method bias was unlikely to pose a significant threat to the validity of the study findings.

5. Discussion

The findings of this study provide empirical support for the proposition that rising commercial rental costs constitute a significant challenge to the sustainability of small businesses in urban Tanzania. Consistent with H1, rental costs exerted a significant negative effect on business sustainability ($\beta = -0.52$, $p < 0.001$). This finding suggests that increasing rental obligations reduce the financial flexibility of small enterprises by limiting reinvestment capacity, constraining business expansion, and reducing overall profitability. In highly competitive commercial areas such as Kariakoo, Mwenge, Buguruni, Sinza, Tandika, and Ubungo, rental expenditure represents a substantial operational burden that can undermine long-term business viability. This finding is consistent with previous studies that identified rental costs as a major constraint to SME sustainability in developing urban economies (Abor & Quartey, 2010; Charman et al., 2017). The result also supports the central proposition of Urban Economic Theory that location-related costs play a critical role in shaping business performance and survival.

The study further found that rising rental costs significantly influenced the adoption of coping strategies ($\beta = 0.61$, $p < 0.001$), while coping strategies positively affected business sustainability ($\beta = 0.39$, $p < 0.001$), supporting H2 and H3 respectively. These findings suggest that entrepreneurs actively respond to rental pressures through adaptive measures such as downsizing operations, sharing business premises, relocating to lower-cost locations, and adjusting operating expenses. Such responses appear to partially cushion businesses against the adverse effects of rental pressures. This finding aligns with Urban Economic Theory, which views entrepreneurial adaptation as a rational response to changing spatial and economic constraints. It also supports previous studies that have documented the importance of adaptive strategies in enhancing SME resilience under adverse operating conditions (Bourletidis & Triantafyllopoulos, 2014). However, while coping strategies may improve short-term resilience, they do not eliminate the underlying structural pressures associated with rising commercial rents.

The findings further suggest that coping strategies constitute an important mechanism through which rental pressures influence business sustainability. The significant positive effects of rental costs on coping strategies and of coping strategies on business sustainability indicate that entrepreneurs actively respond to rising rental burdens through adaptive measures aimed at maintaining business continuity. In this regard, the study reinforces the tenets of Urban Economic Theory, which posits that firms operating under spatial and economic pressures adjust their behavior to survive (Fujita, 1989). Strategies such as co-renting, downsizing operations, and relocating to lower-cost or less formal premises were commonly adopted responses to escalating rental costs. While these measures may enhance short-term resilience, they often involve trade-offs, including reduced visibility, a smaller customer base, and increased exposure to regulatory risks. These findings are consistent with Charman et al.

(2017), who documented similar survival strategies among township businesses in South Africa. However, the present study extends existing literature by suggesting that such adaptive responses are better understood as temporary coping mechanisms rather than long-term solutions to rental-induced business pressures. This highlights the importance of addressing the structural factors that contribute to rising commercial rental costs.

The moderating effect of the policy environment was also found to be significant ($\beta = 0.21$, $p = 0.020$) in support of H4. This result indicates that supportive institutional conditions can reduce the negative impact of rental costs on business sustainability. Businesses operating in environments characterized by greater awareness of lease agreements, accessible dispute resolution mechanisms, and available support services appear better positioned to withstand rental-related pressures. This finding is consistent with institutional perspectives emphasizing the role of enabling regulatory environments in fostering entrepreneurial resilience (Archer et al., 2014). The result further suggests that the consequences of rental pressures are not determined solely by market conditions but are also shaped by the broader policy environment within which businesses operate.

Finally, the study found a significant negative relationship between business sustainability and social consequences ($\beta = -0.44$, $p < 0.001$), supporting H5. This finding implies that declining business sustainability is associated with increased social vulnerabilities among entrepreneurs, households, and communities. Given the central role of micro and small enterprises in generating household income and employment in urban Tanzania, business decline or closure may contribute to financial hardship, reduced educational opportunities, and disruptions to local economic networks. This result supports previous studies highlighting the broader social importance of SME sustainability in developing economies (Eze & Lose, 2023; Nkwabi & Mboya, 2019).

Taken together, these findings suggest that rising rental costs affect small businesses not only through direct economic pressures but also through their influence on entrepreneurial adaptation, institutional interactions, and broader social outcomes. The study therefore highlights the interconnected nature of urban commercial dynamics and emphasizes the importance of addressing rental pressures as part of broader efforts to promote sustainable urban entrepreneurship.

6. Conclusion and Recommendations

This study examined the effects of rising commercial rental costs on the sustainability of small businesses in urban Tanzania, with particular attention to the mediating role of coping strategies, the moderating influence of the policy environment, and the broader social consequences of declining business sustainability. The findings demonstrate that rising rental costs significantly undermine business sustainability by reducing profitability, constraining reinvestment capacity, and increasing operational vulnerability. Although entrepreneurs adopt various coping strategies to manage rental pressures, these measures often provide only temporary relief and may not adequately address the underlying structural challenges confronting small businesses.

The study further demonstrates that the impact of rental costs on business sustainability is influenced by the broader institutional environment. Specifically, supportive policy conditions, including access to formal lease agreements, legal protections, and dispute resolution mechanisms, help to reduce the adverse effects of rental pressures on small businesses. However, many enterprises, particularly those operating informally or with limited resources, remain excluded from these institutional safeguards and are therefore more vulnerable to rent-related shocks.

Beyond business performance, the findings reveal that declining business sustainability has important social implications. Given the central role of micro and small enterprises in supporting household livelihoods and local economic activity, business decline or closure may contribute to financial hardship, reduced educational opportunities, and weakened community economic networks. These findings highlight the broader developmental significance of business sustainability within a rapidly urbanizing environment.

The study contributes to Urban Economic Theory by demonstrating that the relationship between rental costs and business sustainability is not solely direct but is also shaped by entrepreneurial adaptation and institutional conditions. By integrating rental costs, coping strategies, policy environment, business sustainability, and social consequences within a single analytical framework, the study provides a more comprehensive understanding of the challenges facing small businesses in a developing urban economy.

Based on these findings, the study recommends that commercial rental conditions be recognized as an important component of urban economic policy. Policymakers could consider strengthening tenancy protections, improving rent dispute resolution mechanisms, and promoting greater transparency in commercial leasing arrangements. Efforts to expand affordable commercial spaces through municipal initiatives and public-private partnerships may further enhance business stability and accessibility for small enterprises. In addition, strengthening business support services, including legal awareness, financial literacy, and risk management training, may enhance entrepreneurs' capacity to adapt to changing commercial environments. Finally, urban planning processes should more explicitly incorporate the spatial and infrastructural needs of small businesses in recognition of their contribution to employment creation, service provision, and local economic development.

Overall, addressing the challenges associated with rising commercial rental costs is essential not only for enhancing business sustainability but also for promoting inclusive urban development and socio-economic resilience.

7. Limitations and Suggestions for Future Research

Despite its contributions, this study has several limitations. First, the findings are based on self-reported data collected from small business operators, which may be subject to response bias. Second, the cross-sectional design limits the ability to draw strong causal inferences regarding the relationships among the study variables. Third, the study focused on selected commercial areas within Dar es Salaam, which may limit the generalizability of the findings to other regions and contexts.

Future research may address these limitations by employing longitudinal designs to examine how rental pressures and business sustainability evolve over time. Comparative studies across different cities, regions, and business sectors would also provide a broader understanding of commercial rental dynamics in developing economies. In addition, future studies could incorporate the perspectives of landlords, urban planners, policymakers, and financial institutions to develop a more comprehensive understanding of the institutional and market factors shaping commercial rental conditions. Further research may also explore the effectiveness of specific policy interventions to improve business sustainability amid rising rental costs.

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