

# **Effect of borrowing constraint on household investment and income in Tanzania**

**Emiliana Paschal Assey**

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This research study examined the effect of borrowing constraint on household investment by comparing the outcome effect between the entrepreneur that had acquired startup capital from formal financial institution, categorized as “the unconstrained households” and those who acquired capital in informal institution, categorized as “the constrained households”. The Propensity Score Matching (PSM) method used in the study showed that those households that acquired capital in the formal financial institution was more likely to succeed compared to the borrowing constrained households. Also using probit regression in determining the propensity score it was revealed that location in the urban area, female gender, net income, highly educated household and access to mobile money (M pesa) had an incremental influence on the individual’s investment. The findings emphasize importance of access of financial services to the rural and urban households in Tanzania; and also, among others, underscore importance of some demographic characteristics in determining investment at the household level. Further and probably more detailed study is required to validate the result of this study.