IMPACT OF CREDIT ON THE DEVELOPMENT OF MICRO ENTERPRISE.

A COMPARATIVE

STUDY OF PRIDE AND FINCA

BY

LUSAJO, GWAKISA

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN AGRICULTURAL ECONOMICS AND AGribusiness of SOKOINE UNIVERSITY OF AGRICULTURE, MOROGORO, TANZANIA.

2007
ABSTRACT

Demand for credit to finance micro enterprises is increasing throughout the world especially in least developed countries including Tanzania. Many entrepreneurs are emerging nowadays in different areas of the country especially Dar es Salaam, Kilimanjaro, Arusha, Mbeya, and Mwanza. So far, small enterprises have become the main source of income to many peoples in the country.

Apart from the efforts made to the financial institutions, there is little empirical evidence to show that, the performance of micro enterprises is influenced by credit provided by different Micro-Finance Institutions (MFIs), and this was the core of this research.

Primary data were collected using structured questionnaire, and analysed using SPSS. Results indicate that, enterprises which acquired credit get higher gross profit than their counterparts which did not access credit. From the findings it is concluded that, provision of credits to small enterprises has a significant effect in performance of SMEs. It is further suggested that tax reduction, review off economic policies on SMEs and provision of business knowledge and skills would improve the performance of micro enterprises in the country.
ACKNOWLEDGEMENTS

The successful completion of this dissertation has been made possible through valuable assistance of several individuals who often went beyond the call of their duty to assist patiently and bring this dissertation to a successful completion. I therefore wish to express my heartfelt gratitude to the following individuals who made this study a success;

First and foremost, I thank the Almighty God who made it happen, and from whom I got all the strength to carry on through my studies. Secondly, I would like to express my heartfelt thanks to my supervisor, Dr. Gabagambi D. M. for his guidance and support from the beginning of this work to its end. I appreciate very much his job and kind of supervision he made to me. I will always remain thankful and indebted to my lovely wife Lawrancia and our first born Henry, my parents Mr and Mrs R. O. Gwakisa, my loving sister Emmy, my loving brother Mr Joshua and his wife Lillian from USA, my young brother Mr Tumaini, Lugano, Andrew, Tutindaga, Tulinagwe, and Tupokigwe without forget my uncle Emmanuel for their support and encouragement during the entire period of my studies and my life as well.

Moreover, I would not forget to acknowledge the love and moral support I acquired from PRIDE staff including Ms. Vick Bishubo, director, Kariakoo Branch, Miss Haigath Kitala, branch manager-Magomeni, and her Assistant Abel Mwaisela. Above all, I wish to extend my sincere gratitude to my friends who always made me believe that I can make it happen.
However, I remain solely liable and responsible for all the errors and omissions that may be found in this dissertation.

DECLARATION

I, Lusajo, Gwakisa, do hereby declare to the Senate of neither Sokoine University of Agriculture that this dissertation is the result of my own original work and has never been submitted nor concurrently being submitted for a degree award in any other University.

__________________________  _________________
Lusajo, Gwakisa                Date
(MSc. Candidate)

The above declaration is confirmed

__________________________  _________________
Dr. Gabagambi      D. M.            Date
(Supervisor)
COPYRIGHT

No part of this work may be reproduced, stored in any retrieval system or transmitted in any form or by any means without prior written permission of the Author, or Sokoine University of Agriculture on that behalf.
DEDICATION

This work is dedicated to my parents Mr and Mrs R. O. Gwakisa, my wife Lawrancia and my son Henry.
CHAPTER ONE
INTRODUCTION

1.1 Background. ...........................................................................................................1

Tanzania’s economy has traditionally been propelled by small and medium sized enterprises (SMEs). Therefore, the county’s economic marginalization invariably means the marginalization of SMEs and SME sector (Mabele and Msambichaka, 1974). Since Tanzania attained her independence in 1961 efforts have been directed towards integrating people in the financial system in order to readdress the colonial system whereby Africans had no access to credit facilities. At independence, the accessibility to credit for small scale borrowers was very low (Mabele and Msambichaka, 1974). Likewise studies show that the pre-reform formal agricultural credit, supplied by the Cooperative and Rural Development Bank (CRDB), excluded the majority of the small peasant farmers (Hyuha, et al 1993; Ndashau, 1994). ..........................................................1

1.2 Problem statement and Justification.................................................................3

1.3 Objectives of the study.......................................................................................5

1.3.1 General objective........................................................................................5

1.3.2 Specific objectives.......................................................................................5
1.3.3 Hypothesis.................................................................5
i. There is a significant difference between interest rate charged by PRIDE and FINCA........................................5
1.3.4 Significance of the study.........................................6
1.4 Organisation of the dissertation................................6

CHAPTER TWO........................................................................8
LITERATURE REVIEW.........................................................8
2.1 Overview........................................................................8
2.2 The micro, small and medium enterprises concept........9
   2.2.1 Importance of micro-enterprises.............................11
2.3.1 The need for micro-finance.......................................14
2.4 The need for credits.....................................................15
2.5 Access of micro, small and medium enterprises to financial Institutions..........15
2.6 Savings and development............................................17
   2.6.1 Place of savings in economic development..............18
   2.6.2 Theory of savings behaviour................................18
   2.6.3 Mobilization of domestic savings..........................21
   2.6.4 Empirical studies on domestic savings..................22
2.7 Considerations on interest rate....................................25
2.8 The problem of credit defaults...................................27
2.9 Group-lending methodology........................................30

CHAPTER THREE.....................................................................33
MATERIALS AND METHODS................................................33
3.1 Overview.......................................................................33
3.2 Description of the study area....................................34
3.3 Sampling procedures................................................35
   3.3.1 Preliminary survey..............................................35
   3.3.2 Sampling frame................................................35
The target population of the study included all groups of entrepreneurs in the study area who had ever received credit from FINCA and PRIDE. From the identified population a representative sample was drawn for this study. ........................................................................................................35
3.3.3 Sampling and sample size.................................................................35
3.4 Sources of data and collection..............................................................36
  3.4.1 Primary data................................................................................36
  3.4.2 Secondary data............................................................................36
3.5 Data collection..................................................................................36
3.6 Data analysis....................................................................................37
  3.6.1 Model of analysis........................................................................37

CHAPTER FOUR....................................................................................39
RESULTS AND DISCUSSION....................................................................39
  4.1 Introduction....................................................................................39
  4.2 Description of the operations of FINCA and PRIDE (L) Tanzania........39
    4.2.1 PRIDE Tanzania........................................................................39
      4.2.1.1 Funding Sources for PRIDE..................................................40
      4.2.1.2 Historical financial performance of PRIDE.........................41
      4.2.1.3 Lending model....................................................................42
      4.2.1.4 Eligibility for borrowing......................................................42
      4.2.1.5 Screening process...............................................................43
      4.2.1.6 Incentive to repay...............................................................44
      4.2.1.7 Loan access.........................................................................46
      4.2.1.8 Strategies for loan repayment..............................................47
    4.2.2 FINCA Tanzania.........................................................................47
      4.2.2.1 Portfolio quality.................................................................51
      4.2.2.2 Organization and management............................................51
      4.2.2.3 Governance and strategic positioning..................................53
      4.2.2.4 Comparison of some features of FINCA and PRIDE............54
  4.4 The amount and frequency of borrowing money.................................54
  4.5 Characteristics of respondents..........................................................55
  4.6 Age of respondents........................................................................51
  4.7 Age of enterprise............................................................................62
  4.8 Characteristics of enterprises.............................................................62
  4.9 Technical skills of entrepreneurship................................................64
  4.10 Source of start up capital.................................................................65
LIST OF TABLES

Table 1: Categories of enterprises in Tanzania.................................................................10
Table 2: Historical Financial Performance of PRIDE (TShs) 2002-2006...............41
Table 3: Loan conditions for various loan sizes in PRIDE........................................43
Table 4: Key performance indicators five years projections (Tshs) in PRIDE
   Tanzania........................................................................................................................46
Table 5: Key performance indicators of FINCA for two years.................................49
Table 6: Summary of credits scheme policies used by FINCA and PRIDE.......54
Table 7: Amount borrowed category with times money have borrowed.............55
Table 8: Sex of respondents from PRIDE and FINCA..............................................56
Table 9: Sex of respondent with education level n = 70........................................57
Table 10: Respondent marital status and nature of enterprise n = 70.................58
Table 11: Respondent marital status........................................................................58
Table 12: Age of respondents.....................................................................................62
Table 13: Age of the Enterprises.................................................................................62
Table 14: Classification of enterprises........................................................................63
Table 15: Technical skills of entrepreneurship.........................................................65
Table 16: Technical skills and sex of respondents n = 70......................................65
Table 17: Source of start up capital............................................................................66
Table 18: Family size with Initial capital category n = 70......................................68
Table 19: Employment creation by micro-enterprises.............................................69
Table 20: Family size and employment in enterprises n = 70...............................70
Table 21: Unpleasant loan conditions.......................................................................72
Table 22: Worth of enterprise....................................................................................72
Table 23: Regression analysis output for the assessment of worthiness of SMEs
   .................................................................................................................................73
LIST OF CHARTS

Figure 1: Characteristics of respondents ................................................................. 56
Figure 2: Respondent level of Education ................................................................. 60
Figure 3: Education and Credit scheme ................................................................. 61
Figure 4: Family size of respondent ..................................................................... 67
LIST OF APPENDICES

Appendix 1: Questionnaires for Small Entrepreneurial Borrowers from (PRIDE/FINCA).................................................................................................................92
Appendix 2: Checklist for PRIDE and FINCA OFFICIALS........................................97
Appendix 3: Regression modal output.........................................................................99
### LIST OF ABBREVIATION AND ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Cs</td>
<td>Capital, Collateral, Capacity and Characters</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>BDS</td>
<td>Business development Services</td>
</tr>
<tr>
<td>BC</td>
<td>Borrower Cost of Credits</td>
</tr>
<tr>
<td>BOT</td>
<td>Bank of Tanzania</td>
</tr>
<tr>
<td>BRI</td>
<td>Bank Rakyat Indonesia</td>
</tr>
<tr>
<td>CRDB</td>
<td>Cooperative and Rural Development bank</td>
</tr>
<tr>
<td>EOTF</td>
<td>Equal Opportunity Trust Funds</td>
</tr>
<tr>
<td>FINCA</td>
<td>Foundation International Cooperative Agency</td>
</tr>
<tr>
<td>FY</td>
<td>Finance Years</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>LCH</td>
<td>Life Cycle Hypothesis</td>
</tr>
<tr>
<td>LDCs</td>
<td>Low Development Countries.</td>
</tr>
<tr>
<td>MFC</td>
<td>Microfinance Company</td>
</tr>
<tr>
<td>MIS</td>
<td>Management information system</td>
</tr>
<tr>
<td>NBC</td>
<td>National Bank of Commerce 1997</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Government Organisation</td>
</tr>
<tr>
<td>NI</td>
<td>Nominal Interest</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>NMB</td>
<td>National Micro-finance Bank</td>
</tr>
<tr>
<td>PRIDE</td>
<td>Promotion of Rural Initiative and Development Bank</td>
</tr>
<tr>
<td>PTF</td>
<td>President Trust Funds</td>
</tr>
<tr>
<td>SACCOS</td>
<td>Savings and Credits Co-operative Society</td>
</tr>
<tr>
<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SNAL</td>
<td>Sokoine National Agriculture Library</td>
</tr>
<tr>
<td>STD</td>
<td>Standards</td>
</tr>
<tr>
<td>TC</td>
<td>Borrower Transaction Cost</td>
</tr>
<tr>
<td>UN</td>
<td>United National</td>
</tr>
<tr>
<td>URT</td>
<td>United Republic of Tanzania</td>
</tr>
<tr>
<td>US$</td>
<td>United State Dollar</td>
</tr>
<tr>
<td>VETA</td>
<td>Vocational Education Training Authority</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.1 Background.
Tanzania’s economy has traditionally been propelled by small and medium sized enterprises (SMEs). Therefore, the county’s economic marginalization invariably means the marginalization of SMEs and SME sector (Mabele and Msambichaka, 1974). Since Tanzania attained her independence in 1961 efforts have been directed towards integrating people in the financial system in order to readdress the colonial system whereby Africans had no access to credit facilities. At independence, the accessibility to credit for small scale borrowers was very low (Mabele and Msambichaka, 1974). Likewise studies show that the pre-reform formal agricultural credit, supplied by the Cooperative and Rural Development Bank (CRDB), excluded the majority of the small peasant farmers (Hyuha, et al 1993; Ndashau, 1994).

Credit has been observed as an important tool for channeling funds in rural and urban development projects. This importance is demonstrated by the many efforts that have been made throughout the developing countries to strengthen credit systems. A credit is expected to enable increased productivity through increased use of modern inputs and technological packages. Hence credit schemes were developed to redress the problems associated with low level of saving and investment, exploitative nature of informal lenders and provision of credit services with regard to smallholder farmers demand (Jabati, 1994; Qureshi, 1995; Khandker, 1998). Therefore, credits was found
useful as it plays a role in innovation process as advocated by demand-lending finance concept (Von pischke, 1991).

Tanzania Development vision foresees that, by the year 2025, Tanzania should have created a strong, diversified, resilient and competitive economy, that can effectively cope with the challenges of development and that can also easily and confidently adapt to the changing market and technological condition in the regional and global economy. The challenge is therefore to mobilize human and resources towards that goal. It is estimated that about a third of the GDP originates from the SME sector. According to the informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted more than 1.7 million persons that was, about 20% of the Tanzania labor force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy. Given the fact Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SMEs. This is again an opportunity for SMEs development.

In assisting Small and Medium Enterprises, a number of programmes have been initiated by both Government and Non-governmental (NGO) microfinance institutions, for assisting entrepreneur to access credit and initiate income generating activities. Examples of such institutions for low-income people include, Promotion of Rural Initiative and Development Enterprise (PRIDE), President Trust Fund (PTF), Foundation for International Community Assistance (FINCA Tanzania Limited), Small Enterprises Development Agency (SEDA) and Equal Opportunity Trust Fund (EOTF). To what extent these institutions have enabled operators in the SME sector
to access finance and improve their performance is not widely documented. This study attempts to fill this gap.

1.2 Problem statement and Justification

Since Small and Medium Enterprises (SMEs) tend to be labour-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour forces every year. About 500,000 of these are school leavers with little marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the underemployed reserve (URT, 2003). Most of these persons end up in the SME sector, and especially in the informal sector. SME sector is the best option to address this problem.

Tanzania has many SMEs that are likely to become large companies in the future. However, SME sector is facing numerous problems which include heavy costs of compliance resulting from their size, insufficient working premises, lack of services related to entrepreneurship, business training, marketing, technology development and information. In addition, operators in the sector have rather low skills, there is no umbrella association for SME, the institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector.
Of all the constraints limiting development of SME, inability to access credit to expand their business is the main one. Many private and government credit institutions have been established to address this problem and act as development instruments by supporting small and medium scale enterprises (SMEs). These provide loans to the clientele with some conditions differing from one institution to another. Despite the objectives above there is no clear information on whether, they really support entrepreneurs or exploit them. It is further not known whether the customers are satisfied with the terms and conditions of the loans. Literature indicates that although in absolute values, there is a visible increase in credit, savings and investments, the semi-formal sector still appears unstable. Financial services remain polarized in the main urban areas strongly constraining rural development especially agro enterprises (Carbon, 2001).

This study therefore aims at exploring the issues raised above by carrying out a comparative study of PRIDE and FINCA with a view of identifying strengths and weakness in approaches used by each of the two institutions. The study uses Kinondoni and Ilala District (Dar es Salaam) as examples. Results of this study have potential contributing to formulation of better credits-finance policies that could enable provision of better credits services for development of Small and Medium Enterprise sector in Tanzania.
1.3 Objectives of the study

1.3.1 General objective

The broad objective of the research is to carry out a comparative study of two credit institutions namely PRIDE and FINCA in order to identify strengths and weaknesses of the two institutions in supporting the SMEs in Tanzania.

1.3.2 Specific objectives

In order to accomplish the above general objective, the study will focus on the following specific objectives:

i. To describe the operations of FINCA and PRIDE (L) Tanzania in enhancing credit access to SME in Tanzania.

ii. To examine the impact of both FINCA and PRIDE credits on the performance of enterprises in Kinondoni and Ilala District.

iii. To examine the interest rate charged by PRIDE and FINCA.

iv. To compare the transaction costs for borrowers from PRIDE and FINCA.

v. To recommend a suitable approach in credit services to SME in Tanzania.

1.3.3 Hypothesis

i. There is a significant difference between interest rate charged by PRIDE and FINCA.

ii. There is significant difference between the impacts of PRIDE and FINCA on the performance of SME.
iii. The performance of SMEs is determined by Education level of micro-enterprises, amount of start up capital, amount of loan invested into micro-enterprise and the number of people depending on micro-enterprise owner in terms of present value of micro-enterprise.

iv. Transaction costs for accessing credit from FINCA is higher than that of PRIDE.

1.3.4 Significance of the study.

The findings of this study will support the government effort to solve the rampant problem of unemployment in the country. The findings will enable the providers of financial support services including government agencies or non government organisation (NGOs) to identify the areas of improvement in serving the SME sector in Tanzania. The study will as well enable the SME managers understand the strategic issues involved in the running of their businesses in order to ensure better performance and survival of their enterprises under competition.

1.4 Organisation of the dissertation

This study is organized in five chapters. Chapter One presents the introduction and Chapter Two presents literature reviews on important issues pertinent to this study. These include micro-enterprises concept, important of micro-enterprise, need for micro-finance, need for credits, important of domestic savings and issues on interest rates, problems of credit defaults and group liability. Chapter Three discusses the study methodology. It gives a brief description about data requirements and sources, manner of identifying respondents, location of the study, and the tools of analysis.
Chapter Four presents a discussion on the impact of credits, describes features of PRIDE and FINCA Tanzania Ltd. Chapter Five presents a discussion on the results and findings emanating from primary data as collected from credit clients. Conclusion and recommendations drawn from the study are presented in this chapter. A list of references cited in the text is given at the end of this work.
CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

The review of literature has contributed to this study’s agenda on the following main areas. First, it has managed to describe the micro-enterprise sub-section in this country, traced the effort towards its support and its contribution to the overall national economy. Second, it has presented an insight into micro-finance development in Tanzania up to its present status.

Third, it has documented the problem of access of credits of micro-enterprise to micro-finance; assessed prominent problems hindering access and discussed ways used in comprehending the problems. Fourth, it has also discussed why the mobilization of domestic saving and the use of commercial interest rates are of primary importance to both development of SMEs and sustenance of MFIs. Most important however, the arguments presented above and the emerging financial policy reforms and their implications will guide the design of study, analysis of data collected, discussions and the recommendations for improvement and self-sustenance of the Tanzania micro-finance sub-sector.

Contrary to the credit demand –led concept, entrepreneurial in urban areas especially in Africa are faced with problems of having poor access to formal financial services (Kitchen, 1986; Riedinger, 1994; Temu, 1995; Quresh, 1995; Featherstone, 1996; Yaqub, 1996; Kashuliza et al, 1998; Satta, 2000). Despite dramatic expansion of
urban credit programs, only 5% of entrepreneurial in Africa and 15% of entrepreneurial in Asia and Latin America had access to formal credit (Braver man and Guasch 1986, cited by Riedinger, 1994). Many explanations have been given as causes for this poor access. The problems mentioned by formal credit institutions include: Fluctuations in agricultural based urban economy, high administrative and transaction costs, poor infrastructure and liberalization of financial institutions (Mbata, 1991; Kashuriza et al 1998; Yaqub, 1996; ICA, 2001; Ponte, 2002).

In Tanzania, about 20% of the population reside in urban areas and depend on Small and Medium Enterprises. Accessibility to financial services in urban areas is necessary for them to move out of poverty trap through investments and access to other economic opportunities (Satta, 2000; Ponte, 2002). This is only possible if there are properly functioning financial institutions designed to benefit the urban majority.

2.2 The micro, small and medium enterprises concept

Micro, small and medium enterprises are very small production or service units, involving relatively little amount of investment and operational capital, often utilizing family labour and operate using low levels of technology (Yankson, 1983 and Bagachwa, 1995). In the national micro-finance policy paper for Tanzania (BOT, 2000), SMEs is nomenclature used to mean Micro, Small and Medium Enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce, and services.
Micro, small and medium enterprises are often described within a broader category of micro and small-scale enterprises (SMEs). In terms of employment; micro-enterprises are those small enterprises, employing less than 10 workers. The rest, which have up to 30 workers (Yankson, 1983) or 50 workers (Mead, 1994) are termed as small enterprises. Micro-enterprises may be considered the same as informal enterprises (Planning commission, 1991). There are alternative ways of dividing the large group of small enterprises. Micro-enterprises, basing on the small number of employed labour, and informal enterprises, basing on the enterprise are registered or pay taxes as shown in table 1 below.

**Table 1: Categories of enterprises in Tanzania**

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital investment (Tsh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1-4</td>
<td>Up to 5mil</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5-49</td>
<td>Above 5 mil to 200 mil</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>50-99</td>
<td>Above 200 mil to 800 mil</td>
</tr>
<tr>
<td>Large enterprise</td>
<td>100+</td>
<td>Above 800 mil</td>
</tr>
</tbody>
</table>


Tanzanian National Informal Sector survey (1991) describes the informal sector as being constituted of rural and urban, non-farm small scale, and self employed activities, with or without hired labour. Typically, they operate with low level of organization, low capital and low technology and often on temporary premises. They are usually not supported by formal financial institutions and are not usually measured in official government statistics. Many informal sector or small enterprise survey reports have revealed that the sector is dominated by micro-enterprises because majority of SMEs consists of only one person working alone. Those with 10 to 50 workers constitute less than 2% of the businesses, virtually in all the surveyed countries in Africa (Mead and lieldholm, 1998).
Micro, small and medium enterprises are limited to the private sector and exclude all
government or parastatals establishments, registered co-operatives, enterprises which
demand continuous use of high technology. The Tanzania National Informal Sector
Survey also excluded professional type of activities, which usually have formal
characteristics, large or wholesale shops and speciality shops e.g. electrical or
pharmacy. It also excludes large restaurants with modern premises, furniture and
cooking arrangements

The definition of micro-enterprises also includes activities such as agriculture,
fishing, mining and quarrying, information technology (IT), community and personal
services provided they employ a few workers and is mostly done for commercial
purposes (Planning Commission, 1991)

2.2.1 Importance of micro-enterprises

Micro-enterprises have been recognized as a source of employment and income in
many countries of the third word. It increases the GDP of the country. Detailed
surveys in a number of countries suggest that as many as quarter of all people of
working age are engaged in micro-enterprise activities (Mead and lied Holm, 1998).

Micro-enterprise is believed to be a fast expanding sector and the total population
engaged in such activities is growing over time. Mead (1994), Daniels and Mead
(1999) have argued that even in United States, a developed country, eight out of ten
new jobs in recent years have come from small businesses. Employment in SMEs
expands as a result of new enterprises starting up and through expansion of existing enterprises.

Contribution of informal sector to employment is important, as unemployment now has been one of social disasters of modern times worldwide. The growth of the labour force primarily as a result of population growth far surpasses the number of new openings in large enterprises. In many countries the growth in employment in the public sector has been sharply restricted, partly as an effect of structural adjustment programmes. As the absorptive capacity of the agricultural sector is limited, a substantial number of new jobseekers have turned to micro-enterprises as a source of livelihood (Mead 1994). A study by Daniels and Mead (1999) in five countries of Sub-Sahara Africa estimated that SMEs provided employment to over 40% of the total increase in labour force in these countries. The contribution of the informal sector to national output GDP is important in both qualitative and quantitative terms. It is qualitative in the sense that the sector provides basic goods and services which are cheap and therefore appropriate and easily accessible to the majority of the low-income earners (Bagwachwa, 1991). According to ILO estimates in 1985, the average share of informal sector output in total GDP for sub-Saharan Africa was 20% while for Tanzania the estimate was 10 3% (Aboagye, 1989). Informal sector has increased to 32% of GDP, and the total sector output is higher than the parastatal sector (Planning Commission, 1991).

However, Mead (1994), Daniels and Mead (1999) pointed out that expansion of the micro-enterprise sector may be a sign of economic failure because the mainstream
economy has failed to provide employment and hence people undertake these as survival activities only because no better alternatives exist. But micro-enterprise sector has contributed to the income and welfare of societies even in richer countries such as Italy, Germany (Pyke and Sengenberger 1992)

2.3 Micro finance

Microfinance is often considered one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on the massive scale necessary to respond to the urgent needs of those living on less than $1 a day, the World’s poorest.

Microfinance consists of making small loans, usually less than $200, to individuals, usually women, to establish or expand a small, self-sustaining business. For example, a woman may borrow $50 to buy chickens so she can sell eggs. As the chickens multiply, she will have more eggs to sell. Soon she can sell the chicks. Each expansion pulls her further from the devastation of poverty.

Microfinance, the Grameen way, includes several support systems that contribute greatly to its success. Microfinance institutions offer business advice and counseling, while clients provide peer support for each other through solidarity circles. For example, if a client falls ill, her circle helps with her business until she is well. If a client gets discouraged, the support group pulls her through. This contributes substantially to the extremely high repayment rate of loans made to microfinance entrepreneurs.

An equally important part of microfinance is the recycling of funds. As loans are repaid, usually in six months to a year, they are re-loaned. This continual reinvestment multiplies the impact of each dollar loaned.

Microfinance has a positive impact far beyond the individual client. The vast majority of the loans go to women because studies have shown that women are more likely to
reinvest their earnings in the business and in their families. As families cross the poverty line and micro-businesses expand, their communities benefit. Jobs are created, knowledge is shared, civic participation increases, and women are recognized as valuable members of their families and communities.

2.3.1 The need for micro-finance

The need for micro-finance arises due to the fact that low-income people have a few assets or resources to meet the requirement for traditional collateral as demanded by formal financial institutions. Micro-finance is provision of financial services in consideration of the economic and environmental characteristics of the low-income clients.

Geographically, the majority of low-income earners are isolated from urban centres where formal financial services are found: most often the areas lack communication services like roads, telephones and newspapers. Poor people have low education and hence little exposure to the outside modern world and hence lack self-confidence on the use of modern facilities such as Automated Teller Machine, (ATM), VISA, etc. Although poor people may lack collateral security in form of valuable assets they have friends, neighbours and relatives who are sure of their will and ability to repay loans. They are also able and willing to save part of their income, provided micro-finance services are rendered on consideration of low-income earners situation. This includes safety of deposits, liquidity, convenience and fairness (Rhyne and Otero, 1997).
2.4 The need for credits

On the credit side, promptness in obtaining loans is the most important criteria (Temu, 1988; Kuzilwa, 1997). Many providers of micro-finance services are motivated by the need to reach people who otherwise could not be reached by formal financial institutions and reduce the social injustice arising as poor people are exploited by unscrupulous money lenders who charge exorbitant rates of interest. Some public programmes offer micro-finance as a means of developing the informal sector, which has a significant contribution to the overall national economy (Daniel and Mead, 1998)

For the majority of Tanzanians, whose incomes are very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protecting households against risks, provision for the future and taking advantage of investment opportunities for economic returns. For households, financial services allow higher standards of living to be achieved with the same resource base while for enterprises and farmer’s financial services can facilitate the pursuit of income generation growth (BOT).

2.5 Access of micro, small and medium enterprises to financial Institutions

Lack of capital is mentioned by many scholars as being the most limiting factors in development of micro, small and medium enterprises. Lack of capital has been ranked high in Tanzania and in other developing countries by Bagachwa (1993) and Kuzilwa et al (1997) Steel and Webster (1991) ranked capital as a major constraint in Ghana. Sow et al (1992) and Buckley (1997) have shown that lack of credit has constrained
micro-enterprise development in Kenya. Access to formal finance by micro-enterprises is constrained by many factors including the fact that most formal financial institutions still insist on traditional characteristics of borrowers some of which being capital, collateral, capacity and character (the 4 Cs) which excludes most of the would-be borrowers. Most micro enterprise owners are poor and so have few valuable assets they can offer as collateral security against loans. The spread of formal micro-financial institutions is limited to urban centres. Rural areas where majority of poor live are left without such services (BOT, 2000).

Many studies have shown that the majority of micro small and medium enterprise owners depend on informal sources of finance in order to start up or improve their micro enterprises, these include own savings out of paid employment or sale of assets, loans from relatives, friends, neighbours, traders or employers. Unlike Asia, in Africa informal loans are often interest free or with very low interest rates (Kuzilwa and Mushi, 1997). This is so because loans are given with a primary purpose of meeting social obligations rather than for earning interest. Most people are poor to the extent that they can not start their own enterprises, is for the same reasons, credit schemes can not entrust these people of their ability to repay the loans therefore can not provide them with loans. It follows therefore that starting a micro-enterprise with own saving or good informal financial sources is a demonstration of good character towards money (Buckley, 1997).

The above discussion, which seemingly dismisses the importance of improving access to formal micro-finance services aim at showing that attention, is also needed
on other factors. These include mobilisation of domestic savings, improvement of informal financial sources, and training on entrepreneurial skills in order to develop micro-finance services that have impact to the poor people. Lack of access to capacity by poor people has motivated NGOs, donor agencies, and the government to undertake special credit programmes for low-income people. Most often the good intentions of these organisations were betrayed by lack of sustenance due to, among other things, issuing of “cheap” credit, poor loan recovery, operational losses and high inflation rates (Adam and Vogel, 1986).

Micro-finance advocates contend that the new micro-finance approach has the potential of doing to finance what the green revolution has done to agriculture, that is, provide access on a massive scale to poor (Rhyne and Otero, 1994).

2.6 Savings and development

This section attempts to set a basis for analysing the status of micro-finance by exploring general theoretical and empirical literature on the role of savings in development. Most development programmes targeting poverty alleviation through finance have in the past focused more on the side of credit and much less in the area of savings. Presently, there is substantial degree of knowledge on effective methodologies for accessing the poor with credit and the institutional framework under which such methodologies work best. However, much less is known with regard to use of saving mobilization among the poor in poverty alleviation. It’s out of this skewed nature of the knowledge of the two that much emphasis is made to focus on the literature on savings.
2.6.1 Place of savings in economic development

Development theorists and practitioners have for a long time perceived the amount of savings as a critical factor in determining the pace at which economies can grow. The argument normally posed is that domestic savings provide the assets for investment in future production without which the economy cannot grow unless alternative external sources are sought. It is on the basis of the foregone that many developing countries have since the 1960s earnestly attempted to design strategies aimed at raising the level of domestic savings (Krep, 1997).

2.6.2 Theory of savings behaviour

The savings behaviour of individuals (households, individuals firms) can generally be looked at from two theoretical perspectives: The theory of savings/consumption and the theory of demand for money

2.6.2.1 Theory of savings

The theory of savings identifies savings as part of an individual’s disposable income that is not spent immediately but is put aside for future consumption. It primarily regards supply factors as being more important in determine the level and propensity of savings. There are four prominent savings theories: The Keynesian absolute income hypothesis; the Ando-Modigliani-Brumbery life cycle hypothesis; Friedman’s permanent income hypothesis; and Duesenberrys relative income hypothesis. These theories identify three main factors that influence savings as follows

(a) The level of income: The theories seem to be in agreement that an individual’s level of income is important in determining the ability to save. The general
hypothesis is that the higher an individual income the higher is the ability of that individual to save.

(b) The amount of wealth: This is a proxy in Friedman’s permanent income hypothesis that decisions to save are based on their permanent (expected) income. This hypothesis argues that savings is positively associated to wealth.

(c) The age of the saver: This is also termed as the life cycle hypothesis (LCH). It hypothesises that people are likely to save more at middle age, than when they are young (with low income) or when they are old (less productive)

### 2.6.2.2 Theory of demand

The theory of demand for money identifies factors that entice individuals into converting part of their money balances into interest earning asserts (savings). They regard demand side factors as being more crucial in influencing the savings behaviour of individuals. Among the prominent theories on the demand for money, Keynes liquidity preference theory seems simple and most relevant in understanding the savings behaviour of individuals. Keynes identifies three motives why people demand (keep) money: the transaction motives, the precautionary motive and speculative motive.

#### (a) Transaction demand

This is the demand for money to meet routine day-to-day transactions (purchase of commodities) while extra money is left in the interest earnings accounts. The balancing arises from the need to smoothen differences between income and
expenditure streams. As such individuals seek to find an optimal combination of transactions that will minimize costs and yet maximize the interest earned on the bonds or savings. As such the theory identifies the demand for money for transaction motive as determined by:

\[ S = f(Y, I, N, Pr, E, C) \]

Where; 
- \( Y \) = Level of income
- \( I \) = Rate of return on deposits
- \( N \) = Number of times transactions are made
- \( Pr \) = Proximity of bank to customers
- \( E \) = Efficiency of bank in cutting down waiting times
- \( C \) = Bank charges related to making transaction
- \( S \) = Savings

It can be noted that individual’s level of income does not determine the inclination (propensity) to save but the amount to be saved. As such it points out that, individuals regardless of their level of income have a need to save and if provided with requisite conditions their rational decisions will dictate them to save

(b) The precautionary demand

This is the demand for money to finance unforeseen contingencies and arises from uncertainties regarding income receipt and expenditures. As such the precautionary need for keeping money balances identifies three factors that will determine savings (including demand deposits). These are the cost of being caught illiquid; the
probability of unforeseen contingencies occurring and; the rate of return on deposit accounts.

**(c) The speculative demand;**

This is the demand for money because money is a better asset, can be changed to any other asset with substantial gains from the transaction. Factors associated with this theory are:

a. The rate of return on savings (bonds): when the interest rate is high the demand for money will be low.

b. Liquidity: the ease with which people can withdraw money from bank and take advantage of deals.

c. Probability of such deals arising.

d. Availability of other services at the bank that are effectively demanded by customers (e.g. credits and overdrafts).

2.6.3 Mobilization of domestic savings

There are three broad reasons why it is important for strategies to be adopted to mobilize savings among poor households.

The first reason is that saving is a base of rural development. The poor have numerous resources, which are saved in non-financial forms and hence never enter the formal financial sector. The formal financial institutions are ill equipped to stimulate savings among the poor partly because of the structural shortcomings and bottlenecks and partly because of national policies that discouraged savings. But the
propensity to save of poor people can be increased substantially by group-based micro finance programmes and the poor improve resource allocation by diverting funds from consumption and channelling it into productive activities (Krep, 1997).

**Secondly, savings is a sustainable source of capital to Micro finance institution (MFI)**

The major goal of micro finance development programmes of self-sufficiently reaching large numbers of poor with financial services is many times thwarted by weaknesses in the financial base of such institutions. Mobilization of savings enables institutions to increase their liquidity, develops a sense of trust and ownership among clients and creditworthiness among the commercial community. These will in turn raise the repayment rate of loans, attract more loans clients and access more loan capital or investment funds from commercial sources.

Thirdly, saving is an important factor for SMEs development. Some studies have shown that savings are equally important as credit for enterprise development (Bhalla, 1978). Savings programmes enable poor clients to establish a capital base for business start up or expansion capital. Interaction of the poor with a bank is a capacity building process as the poor develop the discipline of saving and the decision making process on how to use or invest the savings.

**2.6.4 Empirical studies on domestic savings**

The importance of mobilizing domestic savings to finance the development of micro-enterprises and the economy as a whole cannot be overemphasized. Domestic savings
are a primary determinant of capital formation (Temu, 1988). It has been common
notation that poor people are unable or unwilling to save and hence the unavoidable
need for external financing. But several studies have shown that in spite of their
poverty, majority of households in rural communities (96%) always save a portion of
their income (Planning Commission, 1991).

Poor people have a higher propensity to save (Rahman, 1991) than people at higher
income levels. To them accumulation of savings may make major differences at times
between survival and otherwise; socially or physically because the threat of frequent
droughts or ill-health to most poor communities is severe. People also save for other
purposes and reasons including: meeting plans for future investment requirements,
purchase of enterprise inputs, foreseen consumption needs such as school fees and in
some instances for the direct need to earn extra income through interest (Bhalla,
1978; Biseth, 1987; Temu, 1987)

showed only less than 10% of respondents had no savings at all although majority
kept their savings in non-cash forms. The study further indicated that 59% of
respondents had no cash savings, 76% did not keep a bank account and 78% owned
livestock. It was obvious that livestock and crops is the most popular way of saving
amongst poor rural people.

However most households are dissatisfied with modes of savings which fall outside
financial systems and would wish to save more through financial institutions if
available and easily accessible. So the characteristics of saving services being sought ought to include a good combination of easy accessibility, liquidity, safety convenience and fair returns (Rhyne and Otero, 1997). These conditions together with some promotion can induce people to save an increasing proportion of their income and save more in financial forms (Kuzilwa and Mushi, 1997; Temu, 1988).

The importance of encouraging savings in micro-finance is four fold: first, financial intermediaries need to mobilize substantial savings (deposits) in order to gain sustenance in delivering financial services in form of loans (Rahman, 1997). This will reduce dependence on donor funds or other external funding agencies. Secondly, savings are by far the major source of capital for starting up micro-enterprises (Mead and Liedholm, 1998). And thirdly, growth of micro-enterprises towards graduating into recognition by formal financial institutions requires repeated cycles of savings and re-investment. Ability to save even small amounts of income is evidence of a responsible attitude towards money and credit institutions such people are likely to treat credit responsibly (Boonma, 1988). And fourthly savings with credit schemes provides a convenient alternative method of securing loans against defaults or an easy way of providing security (collateral) for obtaining a loan. Slangen et al (1989) point out that savings provide the lending organization with better information on the financial position of borrowers and this can improve loan appraisal and supervision.

The importance of savings mobilization cannot be overemphasized because people are able and are willing to save and hence develop locally funded sustainable financial institutions (Rahman, 1997). Such institutions are of paramount importance
if a country aims at providing widespread financial services a task which is too enormous and complicated to urban based formal or informal financial institutions (Ramli, 1988; Slangen, 1989; Biseth, 1987 and Kashuliza, 1998). Nevertheless in order to accumulate enough savings to meet loan amount needed savings should not be limited to compulsory periodical members contributions only but rather the savings service provided ought to incorporate ample incentives for both members and non-members to make substantial amount of voluntary savings (Hulme and Mosley, 1996). This is possible if the service is easily accessible; enables prompt withdrawal of some cash in case of emergence and then it offers competitive rates of returns.

A successful example is given by a state-owned commercial bank in Indonesia- the bank Rakyat Indonesia (BRI). The Bank has designed a voluntary saving scheme which mobilizes considerable amounts of savings and loans are fully financed by these deposits (Rahman, 1997).

2.7 Considerations on interest rate

Interest is the proportion paid on top of the amount of money saved /borrowed as the price for not using the saved or lent money. Usually interest on borrowed or saved money is paid annually or semi-annually. On real terms interest rates may be able to cover for all costs and provide some margin. Low, positive interest rates occur when the interest charged is able to return the value of money and maintain the lending ability of an institution. Low nominal interest rates may become negative in real terms when they are adjusted for some expected price index change in the economy (Kashuliza, 1986; Temu, 1989).
Before the 1980s, many rural financial institutions provided credit at concessionary interest rates. The rate charged remained low in nominal terms and became negative in real terms (Kashuliza, 1986). Arguments that supported the use of concessionary rate include the fact that because of their low economic status poor people could not afford credit unless it was subsidized. Also there was a need to release poor borrowers from exploitation and domination by the informal money lenders who charge exorbitant prices. Thirdly, subsidized rates were viewed as a convenient instrument of transferring income to the low-income categories of people. Kashuriza (1986) when discussing positive effects of subsidizing rates on small-scale farmers argued that they enable adoption of new production techniques and can make farmers live better life through retaining more income. Low interest rates have negative effects on savings because depositors receive lower interest; hence a few people are encouraged to save.

For Tanzania the major issues that need to be addressed are still in the conditions for self-sustenance of the financial system and increased domestic resource mobilization. To this end, the relevance of positive interest rates is irreproachable. Some crucial points to consider when formulating an interest rate policy include the fact that:

i. High interest rates (on deposits) encourage saving in financial forms rather than in no-financial forms.

ii. Low and negative interest rates on loans are synonymous to net wealth transfers to loan receivers at an expense of shareholders of the financial
institutions. Perhaps, when public institutions performed much of the financial intermediation it was plausible to use low interest rates as a way of transferring wealth from the richer population to the poor.

iii. Low interest rates fail to reflect the opportunity cost of capital creating excess loan demanded necessitating credit rationing instead of allocation of resources by market forces (Boonma, 1988).

iv. Low interest rates result into resources being channelled to less efficient producers and bring about unfair competition in the economy (Hulme and Mosley 1996)

v. Allocation of cheap credits has always benefited the high-income groups (World Bank, 1989; Basu, 1997)

Hence, low interest rates have resulted into underdevelopment of rural financial markets and contributed to the collapse of many financial intermediaries in developing countries (Adams, 1984). New principles of micro-finance require market-based approach to interest rates determination while maintaining quality service in credit delivery. The underlying assumption is that for small borrowers’ convenience and access to credit is more important than then level of interest rate charged (Sugiano, 1997).

2.8 The problem of credit defaults

The majority of small credit programs have been affected by serious defaults, such as high default rates ranging from 50% to as high as 80% have been reported in small credit programs in Africa, Asia and Middle East (Sanderatne, 1978; Kashuliza, 1986).
Literature is rich in explaining the extent of default problem. Some of the reasons put forward cite the point that poor clients operate in environments with high general business risk and lack practice in the rules of formal finance or even because their moral character is dubious. Thus, high delinquency rates in credit programs for the poor were often blamed on weather, poor market structure, economic recession, and deficient business practices or clients misallocation of loan funds into consumption activities (Zeller, 1998).

Some clients consider credit as government grants due to widespread excessive generous debt forgiveness (Sanderatne 1983; and Donald 1976). It is important to note that, the above mentioned factors are interrelated and as such a farmer or entrepreneurs may fail to repay the loan for more than one reason (Kashuliza, 1986). Default in organisation of credit schemes have been blamed for poor loan repayment. For instance, high rates of defaults have been linked to an overly ambitious expansion of credit facilities with inadequate follow up by the authority responsible for collection (Lele, 1975 and Bottomley, 1975).

Stover et al (1985), report that one of the essential elements in any lending decision is the character and ability of the borrower. Furthermore the authors indicate that irrespective of financial strength no rational lender is eager to lend to a dishonest person. Estimates of delinquency rates for credit institutions in many parts of the world conducted by the World Bank (1975) and Donald (1976) showed that many rates were greater than 50% while only a few registered less than 10% delinquency on
loan values. In a study of differences between defaulters and non-defaulters in El-
Salvador, Tinnermeier (1981) reported that the type of the programme (credit in kind
or cash) and the degree of loan supervision were identified as important factors for
prediction of prepayment performance.

Apart from the negative impacts of delinquency on financial viability of lending
institutions, Tinnermeir (1981) concluded that delinquency might also lead to further
income inequalities in rural areas if those getting access to credit are already
relatively well off economically. Further, high rates of default reduce both the
number of credit-worthy borrowers and ability of the credit programme continues as
an aid to rural development (Sanderatne 1983). Ramli (1988) is of the view that a
high loan repayment rate is not necessarily a good thing. He argues that a 100%
repayment rate may mean that the lending organisation is playing it safe and not
giving out loans to risky clients or plays it too tough. Modern micro-enterprises credit
programmes have demonstrated that loan repayment depends fundamentally on
factors within the control of the credit institutions. These factors include the
following:

i. Reliability and quality of service e.g. early disbursement, relatively larger
   loans, and prospects for future loans

ii. Convenient setting and clear communication of the repayment obligations

iii. Administrative efficiency in terms of progress in loan repayment

iv. Consideration of the nature of clients, enterprise and household needs,
   strengths and weaknesses (Christen, 1997).
Thus, instead of emphasizing the traditional collateral security, character-based policies are proving to be more effective in enhancing high repayment rates. These may include compulsory savings, progressive loan sizes, more frequent repayment circles and group liability.

### 2.9 Group-lending methodology

Group lending began in the 1970s, mainly for the purpose of reaching more poor people with multiple small loans without which it could be unprofitable to deal with because of the excessive individual loan transaction costs. Also because many financial institutions realized that individual loans are associated with high default rates (Zeller, 1998). Between the two, probably the most important rationale for group lending is the collective responsibility towards loan repayment (World bank, 1975). In “group lending” one large loan could be issued to a group for a common project, or redistributed to members for individual projects. Zeller (1998) continue to argue that the joint liability incites members to perform various functions, including screening of loan applicants; monitoring the individual borrower’s efforts, fortunes and shocks and enforcing repayment through peer pressure.

Traditionally, banks and financial institutions have worked with conditions, which include among others capital, capacity, collateral and character (4Cs). These conditions deprived majority of micro-enterprises access to bank loans because, micro-enterprises are owned and operated by poor people who cannot fulfil these conditions (Malima, 1997). This is accomplished through effective screening by of fellow loan applicants regarding reputation, indebtedness, and wealth. They also
monitor repayment efforts and institute social sanctions on wilful defaulters or shoulder the social obligation of assisting defaulters on idiosyncratic reasons (Zellar, 1998).

Another rationale for group lending is the information and monitoring advantages that member-based financial institutions at the community level have compared to individual contracts between bank and borrower. Stiglitz (1990) discusses these perceived advantages of collective action. He argues that, compared to socially and physically distant bank agents, group members obtain information regarding the reputation, indebtedness and wealth of the loan applicant and about his or her effort to ensure the repayment of the loan at a lower cost. They can also employ social sanction to compel repayment. Zeller (1998) shows that members of formal groups similar to informal lenders consider the “peers” indebtedness in the informal market as major determinant of credit rationing. Thus group members are able to obtain sensitive information to the same extent as informal lenders.

He continues to argue that the efficiency of group lending approach depends on the formation, structure, and conduct of the group, which in turn can be determined by the underlying credit policies. During repayments, group members are asked to collect repayments from all members before handling full amount to the credit officer representing the credit organisation in a public place. Fellow members are supposed to contribute for other members who have failed to remit repayments. If a member fails to accumulate enough income to meet the repayment amount needed, he could obtain an advance of money from a local insurance fund. If a group member defaults
on the loan group members have many options to compel repayment from delinquent borrowers, can potentially employ social sanctions or seize physical collateral of defaulter (Besley and Coate, 1995).

In many rural societies non-resident bank agents have little leverage in actually going to a household and collateral (Sharma and Zeller, 1997). Weaknesses of group lending approach are said to include, albeit occasionally, collusion of all members to default hence detracting even the would be good payers. Zeller (1998) argues that repayment incentives of a good borrower will vanish under joint group liability when the expectation is that a significant number of peers will default. Bratton (1986) in his analysis of credit groups in Zimbabwe showed that group loans performed better than individual loans did in years of good harvest but worse in drought years. He further urged that, borrowers tend to exploit economies of risks by borrowing for riskier projects under group liability than in individual contracts. The formation of groups is influenced by regulations externally stipulated by the credit organisation. These include regulations that govern the formation and composition of the groups such as size and member eligibility and regulations that influence the conduct of the group such as attendance to group meetings, loans sizing and enforcement of payment.

The issue of homogeneity of group members has received a great attention from scholars (Bratton 1986; Besley and Coate, 1995). Some scholars argue that groups should have homogeneity in capital and economic activities among group members so that the costs of monitoring members decrease if they undertake the same trade as their peers (Stiglitz, 1990). This argument is countered by Zeller, (1998) who
emphasizes social cohesion as the most determinant factor in obtaining information than similarity in profession.

Social cohesion is manifested by social class, ethnic group, neighbourhood, friendship, or kinship. Social cohesion is positively correlated to group performance, and the reciprocal or unconditional help among socially cohesive individuals supports this. Among people who care for each other, an individual gains utility by helping somebody else even if no claim to future assistance is created. Conversely, defaulters in socially cohesive groups may incur substantive utility losses because of social sanctions by group members and loss of reputation. Social empathy or what is also described as “the ability to imagine one in the shoes of others” may explain the unconditional help for other group members (Bardhan, 1980).

CHAPTER THREE

MATERIALS AND METHODS

3.1 Overview

This part describes the methodology used in the study area. It covers the study location, sampling procedures and techniques, maps, sources of data, data collection methods and data analysis techniques used in the study and the limitations encountered during the survey are also be discussed
3.2 Description of the study area

The study was carried out in Dar-es-salaam Region particularly in Kinondoni and Ilala Districts. The region is located in eastern part of Tanzania and is made up of three municipals or district namely Kinondoni, Ilala and Temeke with a population of about 2,487,288 millions (URT, 2002 Census). It is surrounded by other regions such as Arusha and Tanga to the north. To the west, Morogoro and Pwani and Ruvuma and Lindi to the South. The region has been selected due to the following reasons.

i. The number of micro-enterprises reached by credit institution in the region is higher than in the other regions in the country.

ii. The fact that it has a larger number of credits schemes undertaken by the government departments, public financial institutions or non-government organisation.(NGOs)

iii. The planning commission (1991) estimates Dar es Salaam region alone to have 13% of the Tanzanians employed in the informal sector.

The study was conducted on two credit institutions located in Kinondoni and Ilala Districts with the population of about 1,083,913 millions. These are FINCA and PRIDE Tanzania (PRIDE). The selection of these organisations was based on their performance in terms of size and outreach, loans repayment, organisation structure, default rate, interest rate, problems and effort towards commercialisation.
3.3 Sampling procedures

3.3.1 Preliminary survey

Before intensive field work started, a preliminary survey was carried out, in the study area. The preliminary period of fieldwork was important in order to acquire familiarity with the study area. The preliminary survey helped to identify basis for deciding what information to collect, and how quantitative and qualitative data should be organised.

3.3.2 Sampling frame

The target population of the study included all groups of entrepreneurs in the study area who had ever received credit from FINCA and PRIDE. From the identified population a representative sample was drawn for this study.

3.3.3 Sampling and sample size

According to the credit models used by PRIDE and FINCA borrowers form small groups of 5 – 10 people, and groups form a larger group comprising of 30 to 50 members. Groups were stratified into two classes based on the two credit schemes of PRIDE and FINCA. The respondents were randomly selected from a list of clients supplied by the credit institutions. Gender balance was given due consideration. The study was limited to 70 members; 35 from each stratum (credit scheme). The study concentrated in two Districts of Kinondoni and Ilala.
3.4 Sources of data and collection.

3.4.1 Primary data

The Primary data were obtained from respondents by means of a structured questionnaire. The information was collected on household characteristics, micro-enterprise characteristics and credits characteristics. Data collected provide information on daily family, income, age of respondent, and source of family income, loan conditions (if too difficult or unpleasant to clients) and knowledge of loan terms. Before the actual survey, pre-testing of the questionnaires was done to check the quality of questions in terms of relevance and comprehensiveness. Appropriate modification was made accordingly.

3.4.2 Secondary data

Secondary data were collected in order to complement primary data. They were collected from the following source: planning commission, ILO offices in Dar es Salaam, Bank of Tanzania (BOT), CRDB Bank, NMB, SEDA and the two Micro finance institutions in the case study (PRIDE, and FINCA). Other information was obtained from Sokoine National Agriculture Library (SNAL) and several web sites on the Internet including www.worldbank.com and www.undp.com

3.5 Data collection

Data collection refers to both the selection of sampled units and the way data was collected. There are several methods of data collection, however, in this study only one type of data collection methods was used. The study used structured questionnaire designed for household characteristics. The questionnaire consisted of both open and closed-ended questions.
3.6 Data analysis

Statistics such as means, t-test, frequencies and percentages were used to analyse household characteristics, micro-enterprise performance and credits conditions based on objectives and hypotheses of study.

3.6.1 Model of analysis

Regression analysis was used to test hypothesis number three that “The worth of SMEs is determined by the Education level of the owner, age of the owner, amount of start up capital, amount of loan invested into the Small and medium enterprise and the number of people depending on the owner of the small and medium enterprise. A linear regression equation of the following nature was used to test the hypothesis.

\[ \text{WRTHFENTP}_i = a + b_1 \text{LNAMT}_i + b_2 \text{CAPSTAT}_i + b_3 \text{EDULEV}_i + b_4 \text{AGENTER}_i + b_5 \text{NODEPN}_i + e_i \]
Where;

<table>
<thead>
<tr>
<th>S/No</th>
<th>Variable</th>
<th>Code</th>
<th>Units</th>
<th>Nature</th>
<th>Expect Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enterprise worth</td>
<td>WRTH</td>
<td>Tsh</td>
<td>Dependent</td>
<td>Positive</td>
</tr>
<tr>
<td>2</td>
<td>Amount of loan received by SMEs</td>
<td>ATLR</td>
<td>Tsh</td>
<td>Independent</td>
<td>Positive</td>
</tr>
<tr>
<td>3</td>
<td>Amount of initial capital</td>
<td>AMIC</td>
<td>Tsh</td>
<td>Independent</td>
<td>Positive</td>
</tr>
<tr>
<td>4</td>
<td>Education level of SMEs owner</td>
<td>EDLV</td>
<td>Years</td>
<td>Independent</td>
<td>Positive</td>
</tr>
<tr>
<td>5</td>
<td>Age of SMEs Since established</td>
<td>ASMEs</td>
<td>Years</td>
<td>Independent</td>
<td>Positive</td>
</tr>
<tr>
<td>6</td>
<td>Number of dependants (family size)</td>
<td>NDPN</td>
<td>-</td>
<td>Independent</td>
<td>Positive</td>
</tr>
</tbody>
</table>

\(e_i = \text{Random error term.}\)

\(a = \text{Regression constant}\)

\(b = \text{Regression coefficients}\)
CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the research findings. The analysis is based on the two Credits scheme, PRIDE Tanzania and FINCA. Primary data were gathered from the field through interviewing the owner-managers and spouses of SMEs. The cross-sectional profile of the sampled respondents is represented. The hypotheses were tested and their results provided. Frequency distributions of some of the parameters are provided.

4.2 Description of the operations of FINCA and PRIDE (L) Tanzania

4.2.1 PRIDE Tanzania

Promotion of Rural Initiatives and Development Enterprises (PRIDE) Limited was incorporated in Tanzania in May 1993 under the Companies Ordinance CAP 212 (Now Act No.12 of 2002) as a company limited by guarantee, not having share capital. The company is commonly referred to as PRIDE Tanzania (PTz NGO). The main objects of the company are focused on the provision of access to financial services to the micro enterprises and low income households in Tanzania.

Thus the mission statement of PRIDE is. “To create a sustainable financial and information services network in order to stimulate business growth, enhance income and create employment in Tanzania”. It is important to note that PRIDE Tanzania’s
Memorandum of Association restricts the distribution and use of company wealth for the benefits of an individual or group of individuals, thus limiting its use to maintenance of the mission for which PRIDE Tanzania was established.

4.2.1.1 Funding Sources for PRIDE

PRIDE Tanzania operations are mainly financed through grant funding from NORAD under the bilateral agreement between the Governments of the United Republic and the Kingdom of Norway, (The Bilateral Agreement). The initial funding covered a two year pilot phase schedule for September 1993 to August 1995, followed by a five- year programme expansion phase from September 1995.

Further financial support was received from other agencies including Seda, Plan international and Hellen Keller Foundation. The donor funding supported three specific areas namely, loan portfolio, operating deficit including capital expenditure and technical support services (TA). While operational funds were expenses, loan portfolio funding was capitalized and classified as donated equity. Therefore, the total amount recorded on PRIDE Tanzanians balance sheet as donated equity amounts to US$ 2,745,864.

PRIDE Tanzania has operated without financial support since year 2001. The operations have been financed by a combination of internally generated funds, commercial department and the loan insurance fund (Representing compulsory deposits from clients) while recognizing the initial donor support, it is important to
recognize the shift in the interest of the Government and its development partners towards sectoral rather than institutional support.

**4.2.1.2 Historical financial performance of PRIDE**

PRIDE Tanzania is structured on corporate best practice to ensure effective distribution of responsibilities, exercise of authority and accountability at all levels. PRIDE Tanzania has registered good performance backed by positive growth in terms of outreach, profitability, efficiency and productivity. Since attaining break-even point in the year 2001, PRIDE Tanzania has continued to register annual profits over the four year period 2002 to 2005 amounting to TShs. 310mil, 800mil, 728mil and 570mil. This is also reflected in the favourable ratings- e.g. the ACCIONs CAMEL review in the year 2000 and Micro Rates institutional rating in the year 2005 as shown in table 2 below.

**Table 2: Historical Financial Performance of PRIDE (TShs) 2002-2006**

<table>
<thead>
<tr>
<th>Five years</th>
<th>December 2002</th>
<th>December 2003</th>
<th>December 2004</th>
<th>December 2005</th>
<th>December 2006 projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3 314 430 099</td>
<td>5 049 873 351</td>
<td>5 694 480 753</td>
<td>6 518 089 518</td>
<td>7 397 221 097</td>
</tr>
<tr>
<td>operating income</td>
<td>3 004 485 992</td>
<td>4 249 752 079</td>
<td>4 952 818 994</td>
<td>5 947 898 398</td>
<td>6 613 976 483</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>operating expenses</td>
<td>309 994 107</td>
<td>800 121 272</td>
<td>741 661 759</td>
<td>570 191 120</td>
<td>783 244 614</td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (PRIDE Tanzania: Loan Manual 2005)
4.2.1.3 Lending model

PRIDE Tanzania applies a group lending methodology which has evolved overtime. Clients are advised to form groups of five with other members who are not closely related such that: they have no blood relationship; they don’t live in the same house; they don’t have “Landlord and tenant” relationship. Groups of five are formed on basis of acquaintance, love and trust, free from interference by credit officers, the group has a function of providing joint liability for members within the group, and to advice assists the operations of member projects. Other functions include monitoring loan use and loan repayment by group members and to advise or expel members in case of misconduct. Six to eight groups of five forms a federation of groups called a Centre. A centre has the following functions; providing security to each group of five, advising and guiding the conduct of each “group of five”, and supervising the operations of the groups in terms of projects performance and loan repayment. The centres conduct meetings for all members once every week. The agenda for the meetings includes; attendance, loan repayment and savings, and discussions on performance of projects undertaken by members.

4.2.1.4 Eligibility for borrowing

PRIDE loans are directed towards borrowers, who have no permanent employment; who can form groups with other borrowers having similar income levels. PRIDE also issues small loans (1st loan =50 000/=Tsh, largest loan =10 000 000/=Tsh). Loans are charged an interest rate of 30% on top of other fees. This is slightly higher than the prevailing market lending rate. All borrowers are supposed to attend in person, all weekly meetings at a centre close to them, and co-guarantee other members in the
same group. Members are also supposed to visit the residence and ME of the other fellow members for the purpose of screening, monitoring, and appraisal for loans. The above conditions are cumbersome; hence make the well-off clients unattracted. In spite of these conditions poor people are still attracted because, they have few alternative sources (if any) of capital hence these conditions make PRIDE loans accessible to poor people.

4.2.1.5 Screening process

PRIDE applies the solidarity group methodology for the purpose of screening in good borrowers. The screening process begins at group formation. Group accepts members who have good reputation and character. The group can dispossess any member who becomes a source of trouble in the group. So over time, groups become more homogenous in character as bad elements are eliminated during early loans. PRIDE generally charges an interest rate of 30% per month as commercial lending rate as shown in table 3 below.

<table>
<thead>
<tr>
<th>Loan size</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance (Tsh)</td>
<td>1 500</td>
<td>1 500</td>
<td>1 500</td>
<td>1 500</td>
</tr>
<tr>
<td>Interest (%)</td>
<td>30</td>
<td>30</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Repayment per week (Tsh)</td>
<td>25</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Loan repayment per week (Tsh)</td>
<td>4 000</td>
<td>5 000</td>
<td>10 000</td>
<td>20 000</td>
</tr>
<tr>
<td>Interest (Tsh)</td>
<td>15 000</td>
<td>75 000</td>
<td>140 000</td>
<td>280 000</td>
</tr>
<tr>
<td>Interest per week (Tsh)</td>
<td>600</td>
<td>1 500</td>
<td>2 800</td>
<td>5 600</td>
</tr>
<tr>
<td>Total repayment per week (Tsh)</td>
<td>6 100</td>
<td>8 000</td>
<td>14 300</td>
<td>27 100</td>
</tr>
</tbody>
</table>

Source: PRIDE Tanzania Loan Manual 2005

PRIDE aims at reaching the following categories in the society; Micro-enterprises of different kinds e.g. production, repair, maintenance, and other services, which
contribute to economic development of the community; Micro-enterprise owners who want to benefit from the training facilities provided by PRIDE and; other people who live in areas served by PRIDE.

PRIDE is operated both commercially and cooperatively. Commercially because PRIDE requires borrowers to “repay today” so that “tomorrow” it will be able to give more credits to the same or others in the community. Cooperative spirit is developed because PRIDE believes in advancement of individual members; as such PRIDE provides seminars and other trainings alongside credits. PRIDE operates two kinds of credit facility. These are solidarity lending technique and individual loans approach. In the beginning PRIDE emphasized on group based loans but over time it has shifted towards provision of individual loans. This study examined PRIDE basing on its individual-lending model.

4.2.1.6 Incentive to repay

PRIDE Tanzania uses many ways for ensuring high loan repayment rates. These includes the following. Close loan monitoring and supervision. Credit officers ensure that no group is allowed to leave the meeting centre if one of its members has failed to repay the required instalment. Default is declared after two delinquency instalments. Then, processes for loan collection begins by deducting the remaining loan amount from the defaulter’s savings, and from EG or MEC savings subsequently until the outstanding amount is fully recovered.

Peer pressure is also applied to enhance better repayments. Group members are obliged to repay for the defaulter either through on the spot contributions or through
group savings. These inconveniences invite group members to execute immediate remedial measures against the defaulting member. The effect of all this amounts to a negligible amount of defaults. PRIDE offers progressively large loans upon good repayment behaviour. Less than best repayment is “rewarded” by missing a larger loan or results in total expulsion from the group. Clients are required to deposit a minimum of Tsh 1 000/= per week as compulsory saving. The result of all this is a good record of Performance as shown in table 4 below.
Table 4: Key performance indicators five years projections (Tshs) in PRIDE Tanzania

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of active loans Total outstanding</td>
<td>79 187</td>
<td>95 790</td>
<td>105 321</td>
<td>109 870</td>
<td>116 116</td>
</tr>
<tr>
<td>loan balance (Tshs)</td>
<td>15 264 832 877</td>
<td>19 906 340 278</td>
<td>26 377 313 936</td>
<td>32 601 763 733</td>
<td>35 621 810 404</td>
</tr>
<tr>
<td>Average loan balance (2/1) (Tsh)</td>
<td>191 248</td>
<td>207 813</td>
<td>250 447</td>
<td>296 730</td>
<td>306 777</td>
</tr>
<tr>
<td>Number of voluntary savings Total balance of voluntary savings accounts (Tshs)</td>
<td>90 257</td>
<td>148 040</td>
<td>200 531</td>
<td>248 040</td>
<td>297 246</td>
</tr>
<tr>
<td>Loan loss rate (Tsh)</td>
<td>20</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Delinquency rate (portfolio at risk &gt; 30 days (%))</td>
<td>0.10</td>
<td>0.15</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>efficiency (%)</td>
<td>37.4</td>
<td>37.4</td>
<td>35.1</td>
<td>29.1</td>
<td>26.8</td>
</tr>
<tr>
<td>Portfolio yield (%)</td>
<td>45.8</td>
<td>42.1</td>
<td>38.2</td>
<td>34.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Operational self-sufficiency (%)</td>
<td>121.7</td>
<td>133.2</td>
<td>152.4</td>
<td>179.3</td>
<td>205.0</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>7.4</td>
<td>9.1</td>
<td>12.4</td>
<td>14.4</td>
<td>14.8</td>
</tr>
<tr>
<td>Per capita gross domestic product (Tshs)</td>
<td>325 000</td>
<td>344 500</td>
<td>366 893</td>
<td>392 575</td>
<td>420 055</td>
</tr>
</tbody>
</table>


4.2.1.7 Loan access

PRIDE applies various ways for ensuring that only serious borrowers gain access to the individuals loan programme as follows:

i. Borrowers are supposed to be operators of micro-enterprises, which are located in Permanent structures for ease of tracing them.

ii. PRIDE charges a 30% interest rate per week on top of other fees paid before getting a loan.
iii. Loans are given in amounts between Tsh 100 000/= and 1 000 000/= which is a relatively small amount to attract well-off borrowers.

iv. Borrowers are supposed to participate in a one-week seminar where prospective borrowers are introduced to the aspects of PRIDE loan programme and given lessons on management of micro enterprise operations.

v. Borrowers contribute 1 000/= daily, during the seminar as part of the 20% of the loan amount they are supposed to offer as insurance deposit.

vi. Borrowers should be over 25 years of age: holders of business license for the past two years; live and work in the target area.

4.2.1.8 Strategies for loan repayment

PRIDE provides several strategies for loan repayment. They all provide progressively larger loans for good loan repayers. PRIDE Tanzania charges a slightly lower interest rate on larger loan (from Tsh 2.0 mil and above). Some punitive measures used in other countries such as the use of local leaders and announcing defaulters publicly (K-REP, 1993) are not applied by these organisations in Tanzania. The above discussion has aimed at illustrating the fact that these credit programmes operated by these organisations are well designed to attain financial successes.

4.2.2 FINCA Tanzania

FINCA Tanzania (“FT”) started operations in October 1997 as a branch of Foundation for International Community Assistance FINCA International. The institution was originally based in Mwanza, but later moved its headquarters to Dar es Salaam in order to position itself in the largest microfinance market in the country.
and to improve its access to skilled labour. FINCA Tanzania is now a locally registered company limited by guarantee, wholly controlled by financial institutions, which mainly makes group loans using the village banking methodology.

The institution also offers a solidarity group loan product in particular areas and has recently started pilot testing individual micro leasing loans, which it hopes to roll out in 2004. The three Micro Rate evaluations conducted of FINCA Tanzania since 2001 chronicle an institution in rapid transition from being a fully donor-supported microfinance program to becoming a financially viable intermediary specializing in financial services for Tanzania’s poor. Although growth in these loan products has been high, group loans (based on the traditional village banking methodology) remain the institution’s primary product. In the Financial Year 2004, the loan portfolio grew to $3.7 million with an active client base of over 35,000 as shown in table 5 below.
Table 5: Key performance indicators of FINCA for two years

<table>
<thead>
<tr>
<th>Years</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross portfolio (&quot;000&quot;) ($)</td>
<td>1 789</td>
<td>3 703</td>
</tr>
<tr>
<td>Number of active borrower</td>
<td>27 449</td>
<td>35 732</td>
</tr>
<tr>
<td>Portfolio yield (%)</td>
<td>92.9</td>
<td>78.5</td>
</tr>
<tr>
<td>Portfolio at risk (%)</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Operating expense ratio (%)</td>
<td>88.9</td>
<td>74.3</td>
</tr>
<tr>
<td>Average loan size ($)</td>
<td>66</td>
<td>104</td>
</tr>
<tr>
<td>Borrower per staff</td>
<td>-</td>
<td>193 192</td>
</tr>
</tbody>
</table>


The microfinance industry in Tanzania is mainly comprised of Savings and Credit institutions (SACCOs) and NGOs. FINCA Tanzania is one of these NGOs and whilst many MFIs tend to be regionalized, they have grown to become one of the largest in the country. Demand for micro-credit in Tanzania is high and competition among MFIs is growing. At the moment, PRIDE is FINCA Tanzania’s ("FT") main competitor, but competition from smaller institutions like SEDA and the Presidential Trust Fund ("PTF") is expected to increase. In addition, the microfinance industry will have to compete with some commercial banks, which have begun to move downscale. Most notable entrants are National Microfinance Bank ("NMB") and Akiba Bank. Nevertheless, the microfinance landscape in Tanzania is set to change. A Microfinance Bill was passed in April 2003 and it is hoped that the regulations will be introduced in the first half of 2005. MFIs hoping to mobilize deposits, and therefore become true financial intermediaries, will have to apply for a Microfinance Company (MFC) license. Both FINCA Tanzania and PRIDE are well positioned for transformation and are expected to apply for licenses during the course of this year. As the head of the microfinance division in the Central Bank also sits on the Board of PRIDE, it is felt that PRIDE has a significant advantage over the other would be
MFCs. In general, transformation is a massive task and will take much effort on management’s part. Loan groups are self formed, with an average of 30 women. Groups are trained, during which time an Executive Committee is elected. Clients continue to save during the loan cycle (these are deposited weekly into an account with a commercial bank). The minimum loan size for members of village banking groups is $40. The village banking product has also been modified for a small group of clients (known as a Progressive loan) offering higher minimum loan amounts (roughly $130) to groups of 10-14 members. Whilst FINCA Tanzania has made considerable effort to improve its products (for example, flexible payment periods), client attrition remains unacceptably high at 60%-65%.

Historically, the MFI has focused on group loans, which has resulted in a low average outstanding loan size when compared to Micro Rate’s average for similar African MFIs ($156). Individual loans were designed to complement the product portfolio and given their success in boosting portfolio growth, the average outstanding loan size increased sharply, from $66 to $104 in FY 2004. The rollout of the Micro-leasing product (only available for individuals) has been successful and has grown to almost 10% of the loan portfolio. This is used to purchase a productive asset, such as a car, stove, fridge etc and is based on a cash flow analysis of a client. Leases range from $500 to $5,000, with bi-weekly repayments over a maximum of 24 months. It is noted that compared to other MFIs (rated by Micro Rate in Africa) offering similar products, the effective interest rate is relatively low. Notwithstanding competitive forces, if FINCA Tanzania were to raise this rate, it would lead to a welcome increase in portfolio yield. Clients have to pay a 20% deposit upfront and as FT owns the
assets until the last instalment is paid, the loan is heavily collateralized. The loan approval process is still centralized and all applications (including those for group loans) are approved by the Managing Director.

4.2.2.1 Portfolio quality

Although portfolio at risk (30 days) deteriorated slightly from 1.2% to 1.8%, the quality of the loan portfolio remains good and well above the Micro Rate average for similar MFIs (Balance: 3.4%). This being said, Micro Rate is concerned that the deterioration is largely concentrated in the new individual loan products. This suggests that the lending methodologies employed by FINCA Tanzania need to be improved. Doing so is imperative since high growth rates tend to dilute bad loans and hence reduce balance. FINCA Tanzania does not refinance any of its loans and nor were any loans written off during the year. Whilst this reinforces the quality of the portfolio, it should be noted that the management information system MIS cannot track repayment histories of Individuals within groups. For this reason, the underlying balance at the client level is bound to be higher. Despite the declining trend in provisioning since FY 2000, loan loss provisions continued to cover over 100% of portfolio at risk. Micro Rate is comfortable with this, but FINCA Tanzania would be ill advised to reduce it further, especially since balance is understated by not tracking loan repayments at the individual level.

4.2.2.2 Organization and management

FINCA Tanzania is headquartered in Dar es Salaam and operates through a network of 5 branches and 5 sub-branches. Over the last 4 years, FINCA Tanzania’s loan officer efficiency has been fairly erratic. In Financial Year 2004, the number of
clients per loan officer declined to 321, from 361 previously. Whilst this is still a satisfactory level of efficiency, it is below Micro Rate’s average of 360 for similar MFIs in Africa. This drop can be attributed to the significant rise in the number of loan officers (from 76 to 111 in FY 2004) to meet the growing demand for loans. With the ratio of loan officers proportionally much higher than other staff, the challenge is to continue growing the portfolio, whilst keeping staff growth in check. Overall, the number of borrowers per staff remained above Micro Rate’s average (170) at 192. Since FY 2001, FT’s operating expense ratio has consistently declined to 74.3% in FY 2004. This improvement was mainly achieved by increasing the average outstanding loan size over the past 3 years. Whilst this is positive, FINCA Tanzania’s operating expenses relative to the loan portfolio remain too high. In efficient Village banking operations rated by Micro Rate, operating expenses typically amount to around 40% of the average gross portfolio. FT still has a long way to go before such levels are reached, particularly given their methodology of servicing widely dispersed rural clients. Reducing the operating expense ratio is only going to become increasingly urgent, especially as the MFI starts to incur savings mobilization costs. As such, streamlining other areas of operations will be essential. As the portfolio continues to grow, so FINCA Tanzania will yield more economies of scale. However, a better indication of efficiency is the average operating costs per borrower. This increased to almost $65 in Financial Year 2004 (FY 2003: $57), compared to an average Micro Rate’s comparative African sample of $60. This demonstrates that FINCA Tanzania’s efficiency is actually fairly good, but the low loan sizes typical of village banks drive up the operating expense ratio. FT hopes to achieve its dual goals of poverty alleviation and self sustainability by offering a wide
range of loan products, from small village banking loans to high individual loans. FT has a senior internal auditor who reports quarterly to the FINCA International Audit Committee. He is assisted by 4 people, of whom 1 is permanently based in the Lake Zone. Generally the level and reliability of internal controls is good.

4.2.2.3 Governance and strategic positioning

FINCA Tanzania is a company limited by guarantee and is wholly controlled by FINCA International. The institution is headed by a Board consisting of three FINCA International representatives, the Managing Director (Ugandan), a Tanzanian businessman and two American nationals. As mentioned earlier, in order to comply with regulations of becoming a regulated MFI, FINCA Tanzania will have to convert to a company limited by shares. This will require FINCA International to reduce its shareholding and accordingly, would demand a revision of the Board. Once FINCA Tanzania becomes regulated, the intermediation of clients’ savings will bring with it many new risks, which need to be carefully managed. This will require FINCA Tanzania to put in place stricter policies and procedures (e.g. asset and liability matching) so that savings can be mobilized on a large scale. FINCA Tanzania has taken big steps to widen its product range with Individual loans. This has been necessary to maintain a good market position and also in boosting average loan sizes. However, as there is a limit on the value of individual loans that can be disbursed (40% of the loan portfolio), FINCA Tanzania must continue to develop credit products (particularly for group clients) which suit demand.
4.2.2.4 Comparison of some features of FINCA and PRIDE

**Table 6: Summary of credits scheme policies used by FINCA and PRIDE**

<table>
<thead>
<tr>
<th>Type of policy used by credit scheme</th>
<th>PRIDE</th>
<th>FINCA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access methods</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compulsory attendance</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Small loan size</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Direct methods</td>
<td>√</td>
<td>*</td>
</tr>
<tr>
<td><strong>Incentive to repay</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rewards and bonuses</td>
<td>√</td>
<td>*</td>
</tr>
<tr>
<td>Progressive lending</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Compulsory saving</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Intensive supervision</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Incentive to staff</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

Note:

I. (√) The method is used by credit scheme

II. (*) The method is not used by credit scheme

4.4 The amount and frequency of borrowing money.

The table below explain the number of times and total amount of money have been borrowed by small entrepreneurial from the credit scheme of PRIDE and FINCA. The results shows that majority of respondents are found to be borrow in PRIDE compare to FINCA. There about 7 respondents who received once a loans of about Tsh 50 000/= from PRIDE while in FINCA only 2 respondents who receive the same amount. There about 12 respondents who received three times the loans range between Tsh 200 000-300 000/= from PRIDE while from FINCA only 6 respondents received the same range amount of loans. The larger group of 24 respondents received loans from PRIDE of about more than Tsh 600 000/=, while from FINCA
only one respondent get that amount of loan. This shows that there is cheap transaction cost or less unpleasant condition, followed by low rates of interest found in PRIDE compare to FINCA as shown in the table 7 below.

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>Frequencies of borrowing money</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>Four</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE</td>
<td>Tshs. &lt;100 000/=</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Amount 100 001-200 000/=</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Borrowed (Tsh) 200 001-300 000/=</td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>600 000/=</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7</td>
<td>5</td>
<td>12</td>
<td>26</td>
<td>50</td>
</tr>
<tr>
<td>FINCA</td>
<td>Tsh &lt;100 000/=</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Amount 100 001-200 000/=</td>
<td>0</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Borrowed (Tsh).200 001-300 000/=</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>. 600 000/=</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2</td>
<td>11</td>
<td>6</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

4.5 Characteristics of respondents

The Figure 1 represents a summary of the characteristics of respondents. A total of 70 respondents were interviewed in this study. The owners were the main target. Most of them were not available, their spouses or managers were interviewed. During interviews, two credits scheme were used PRIDE and FINCA. Out of this respondent, 71% from PRIDE and 29% from FINCA respectively. The presentation of the characteristics is summarized in the figure 1 below:
Out of the 70 respondents interviewed, 65.7% of them were females who own the enterprises and 34.3% of the respondents were males. The target group were the owners of the enterprises. The reasons may be because of their commitment and in-depth understanding of the needs and weakness of the enterprises as shown in the table 8 below.

**Table 8: Sex of respondents from PRIDE and FINCA**

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>46</td>
<td>65.7</td>
<td>65.7</td>
</tr>
<tr>
<td>Male</td>
<td>24</td>
<td>34.3</td>
<td>100.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>70</td>
<td>100.00</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)
Most of the respondents interviewed were not very active and eager to answers the questions. Also the respondents interviewed above with their level education and the type of credit scheme involved, from PRIDE there were 50 respondents whereby 31 clients had primary level of education, 13 clients had ordinal level of secondary education, only one client had vocation training level and 5 clients with Diploma. From FINCA there were 20 respondents whereby 10 clients had primary level of education, 7 clients had ordinary level of secondary education, a single client had vocation training level and 2 clients had a Diploma as shown in a table 9 below.

Table 9: Sex of respondent with education level n = 70

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>Education level</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years</td>
<td></td>
<td>7</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>16</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>15</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>31</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>FINCA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>10</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

Furthermore the credit scheme were cross tabulated with nature of enterprises and found that 50 respondents were interviewed from PRIDE and results shows that 18 clients deal with cooked food vending, single client deals with animal husband, 12 clients deal with food processing, 9 clients deals with green vegetable (whole seller), 7 deal with chick processing, 2 deal with gardening and only one deal with floriculture. The second group was from FINCA whereby total of 20 clients were interviewed and found that 7 clients deal with cooked food vending ,5 deal with animals husband, 3 deal with food processing, 2 deal with selling green vegetables,
single client deal with chick processing, gardening mchicha, and floriculture as shown in the table 10 below.

Table 10: Respondent marital status and nature of enterprise n = 70

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>Cooked food</th>
<th>Animal husbandly</th>
<th>Food processing</th>
<th>Green vegetable</th>
<th>Chick processing</th>
<th>Gardening</th>
<th>Floriculture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>8</td>
<td>0</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Married</td>
<td>8</td>
<td>1</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>Widow/widower</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Divorced</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>1</td>
<td>12</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>FINCA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Married</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Widow/widower</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

As regards the marital status of the respondents, large % of the owners was married. The 61.4% of the owners interviewed were married, 31.4% were single. About 4.3% of the respondents were widower/widow and 2.9% were divorced as shown in table 11 below.

Table 11: Respondent marital status

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Number of respondent</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>43</td>
<td>61.4</td>
<td>61.4</td>
</tr>
<tr>
<td>Single</td>
<td>22</td>
<td>31.4</td>
<td>31.4</td>
</tr>
<tr>
<td>Widowed</td>
<td>3</td>
<td>4.3</td>
<td>97.1</td>
</tr>
<tr>
<td>Divorced</td>
<td>2</td>
<td>2.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The study reveals that, out of the 70 respondents interviewed, 58.6% the respondents in this study had attained at least primary level education, 28.6% of respondents had attained secondary level of education, 10% of respondents had attain vocation training and 2.9% respondent had attained at most diploma level of education. Almost all of the respondents interviewed could read and write. This simplified the study as each respondent interviewed was able to fill the questionnaire effectively without assistance. The questionnaire was designed to accommodate people who had at least minimum intellectual capacity. However, the study shows that respondents interviewed did not attain University level of education as shown in figure 2 below.
Also the respondent interviewed above with their level education and the type of credit scheme involved, from PRIDE there were 50 respondents whereby 31 respondents with standard seven level of education, 13 respondents with ordinary level of education, only 1 respondent with level of vocation training, and 5 respondents with advance level of secondary education. From FINCA, 10 respondents with standard seven level of education, 7 with ordinary level of education, only one with level of vocation training, and 2 respondents with advance level of secondary education as shown in figure 3 below.

**Figure 2: Respondent level of Education**
4.6 Age of respondents

Majority of respondents, 61.4% were middle aged between 30 and 44 years old. 31.4% of respondents fall in the group of less than 30 years of age. The two groups are working group whereby majority of respondents have power to produce and work. Respondents aged between 45 and 64 years form 5.7% and those of 65+ years of age form 1.4% of respondents. The group represents people who are leaders and administrators. They are located in Kinondoni and Ilala District. This indicates that both district have potential entrepreneurial required to get loans services to the maximum as shown in the table 12 below.

**Figure 3: Education and Credit scheme**
### Table 12: Age of respondents

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 – 29</td>
<td>22</td>
<td>31.4</td>
<td>31.4</td>
</tr>
<tr>
<td>30 – 44</td>
<td>43</td>
<td>61.4</td>
<td>92.9</td>
</tr>
<tr>
<td>45 – 64</td>
<td>4</td>
<td>5.7</td>
<td>98.6</td>
</tr>
<tr>
<td>65+</td>
<td>1</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

### 4.7 Age of enterprise

The majority of micro-enterprises in the study areas had been in existence between 1 to 5 years (67.1%). MEs with 6 to 10 years (21.4%) occupy the second position. In general micro-enterprises in the study show sustainability for having operated in the same trade for a considerable number of years without collapsing. Most of these enterprises interviewed were less than 15 years. The reasons may be due to ongoing economic reforms and trade liberalizations which go hand with privatization of parastatal organisations and the growth of local private establishments as shown in the table 13 below.

### Table 13: Age of the Enterprises

<table>
<thead>
<tr>
<th>Years established</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5</td>
<td>47</td>
<td>67.1</td>
<td>67.1</td>
</tr>
<tr>
<td>6- 10</td>
<td>15</td>
<td>21.4</td>
<td>88.6</td>
</tr>
<tr>
<td>11 – 15</td>
<td>8</td>
<td>11.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

### 4.8 Characteristics of enterprises

The study also aimed at finding out the sectoral classifications of enterprises in terms of manufacturing and selling oriented, services oriented of the agriculture products.
The type of enterprises which manufacture and sell their products comprise of cooked food vending 35.7%. Enterprises which offer food processing comprises of 21.4%, Animal husbandry 8.6%, Green vegetable (whole sales) 15.7%, chicks processing 11.4%, gardening mchicha 4.3%, and floriculture 2.9% of the total number of sample interviewed as shown in table 14 below.

**Table 14: Classification of enterprises**

<table>
<thead>
<tr>
<th>Nature of enterprise</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooked food vending</td>
<td>25</td>
<td>35.7</td>
<td>35.7</td>
</tr>
<tr>
<td>Animal husbandry</td>
<td>6</td>
<td>8.6</td>
<td>44.3</td>
</tr>
<tr>
<td>Food processing</td>
<td>15</td>
<td>21.4</td>
<td>65.7</td>
</tr>
<tr>
<td>Green vegetable (wholesale)</td>
<td>11</td>
<td>15.7</td>
<td>81.4</td>
</tr>
<tr>
<td>Chicks processing</td>
<td>8</td>
<td>11.4</td>
<td>92.1</td>
</tr>
<tr>
<td>Gardening mchicha</td>
<td>3</td>
<td>4.3</td>
<td>97.1</td>
</tr>
<tr>
<td>Floriculture</td>
<td>2</td>
<td>2.9</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

It was found that, total respondents interviewed with their marital status, single were 22 whereby 11 single respondents are involved with cooked food vending, 2 single respondents are involved with animal husbandry, 5 single respondents are concerned with food processing, 2 single are dealing with green vegetable (whole sales), 2 single are chicks processor and there is neither single respondent who is deals with gardening nor floriculture activities. Also total respondents interviewed who are married was 43 whereby 12 married respondent involved in cooked food vending, 4 married respondents deal with animal husbandry, 10 married respondents deals with food processing ,8 married respondents green vegetable (whole sale), 4 married respondents deal with chicks processing,3 are dealing with gardening, 2 married respondents deals with floriculture enterprises. There were only 3 respondents
interviewed who, are widowers whereby 1 deal with green vegetables and 2 deal with chicks processing. There were 2 respondents interviewed are divorced and only 2 are involved in cooked food vending.

4.9 Technical skills of entrepreneurship

Statistical data shows that 91.4% of the respondents have not attended any course or seminar related to small entrepreneurship. It follows that only a small proportion 8.6% of respondents have attended a course or seminar on some technical skills relating to their micro-enterprises from the credit scheme. These skills have been obtained formally from credit scheme or informally. Informal education implies obtaining skills through experience or training away from classroom environment. The study indicates the importance of assisting micro-entrepreneurs obtaining the necessary skill of their trade. It also means that the potential of micro-enterprises is not well tapped. Through education, mind-set of micro enterprises can contribute more towards poverty alleviation of individual household and the nation GDP as shown in table 15 below.
Table 15: Technical skills of entrepreneurship

<table>
<thead>
<tr>
<th>Course attend</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>6</td>
<td>8.6</td>
<td>8.6</td>
</tr>
<tr>
<td>No</td>
<td>64</td>
<td>91.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

Likewise, interviews were based on respondents’ technical skills and sex. The total numbers of 46 female respondents were interviewed. There were only 5 female respondents who have attended course related to small entrepreneurship course and 41 female respondents who have not attend course related to small entrepreneurship. Sum of 24 male respondents interviews. Only one male respondent attended a course related to small entrepreneurship and 23 male respondents did not attend course related to entrepreneurship as shown in the table 16 below.

Table 16: Technical skills and sex of respondents n = 70

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>Have you attended course related to small entrepreneurship</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>%</td>
</tr>
<tr>
<td>PRIDE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>4</td>
<td>15.4</td>
</tr>
<tr>
<td>Male</td>
<td>1</td>
<td>4.2</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>10.0</td>
</tr>
<tr>
<td>FINCA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

4.10 Source of start up capital

The survey results show that 62.9% of micro-enterprise owners used their own savings to start their micro-enterprises. Other substantial source of start up capital was grant & own saving (30%), credit schemes (5.7%) and outreach 1.4%. Micro-
enterprises started using the hard-earned savings of the owner or their relatives have higher chances of survival than those started simply from credits. To support this argument, Buckley (1997) is of the opinion that, such MEs start with very small capital and owners experience grows as the MEs grow. The majority of enterprises (17%) have been started by capital of 50 000/= as start up capital as shown in the table 17 below.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own savings</td>
<td>44</td>
<td>62.9</td>
<td>62.9</td>
</tr>
<tr>
<td>Grant and own</td>
<td>21</td>
<td>30.0</td>
<td>92.9</td>
</tr>
<tr>
<td>Savings credits</td>
<td>4</td>
<td>5.7</td>
<td>98.6</td>
</tr>
<tr>
<td>Outreach</td>
<td>1</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

4.11. Number of dependants (family size)

Majority of respondents (43%), have small size family which range from one to two people. The second largest group has (30%) which has medium sized family range people from three to five people. Respondents with at least six dependants form 27% of respondents. The modal group with 43% have more probability of having more children (or dependants) in the future because they have an average of two dependants per family. The more dependants the more money needed for family needs. It follows that more money could be taken from the businesses, taxes that could be reinvested for expansion of the micro-enterprises as shown in figure 4 below.
In the same way the family size was compared with initial capital of the enterprises. The total number 30 small size family were interviewed. Only 15 small size family respondents whose initial capital start with Tsh 50 000/=, 9 small size family respondents whose initial start-up capital range between Tsh50 000-100 000/=. No family size respondent with initial capital range from Tsh 100 001-150 000/=. Only 2 small size family respondents with initial capital range Tsh 151 000-200 000/=, One small size family respondent with initial capital range Tsh 200 001-250 000/=, and other with Tsh 251 000-300 000/=, and 2 small size family respondent with initial capital range Tsh 300 000/=.

Likewise a total of 21 respondents with medium size family were interviewed. Only 10 medium size families whose initial start up capital was Tsh 50 000 /=, 5 medium size families whose initial start up capital range from Tsh 50 001-100 000/=, single
medium sized family whose initial start up capital from Tsh 100 001-150 000/=, 3 medium sized family whose initial start up capital range from Tsh 150 001-200 000/=, single family with initial start capital range from Tsh 200 001-250 000/= and other with Tsh 250 001-300 000/>. No medium family with initial start up capital range from Tsh 300 000 and above as shown in the table 18 below.

**Table 18: Family size with Initial capital category n = 70**

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>Tshs &lt;50 000/=</th>
<th>Tshs 50 000 – 100 000/=</th>
<th>Tshs 100 000 – 150 000/=</th>
<th>Tshs 150 000 – 200 000/=</th>
<th>Tshs 200 000 – 250 000/=</th>
<th>Tshs 250 000 – 300 000/=</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE Small family</td>
<td>12</td>
<td>7</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Medium family</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Large family</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>.2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>13</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>FINCA Small family</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Medium family</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Large family</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

**4.12 Employment creation by MEs**

It was hypothesized that credit to MEs has an effect of increasing the capacity of MEs to employ more labour (i.e. more people for the same number of hours or more hours for the same number of people). That would mean that micro-enterprises with credit would employ relatively more labour than MEs without credit and for the same credit beneficiary there will be an increase in employment of labour after the MEs obtain
and utilize credit. Results of the study show that most of micro-enterprises have created an employment to the people, 45.7% of enterprises have employed 2 employees, while 27.1% of micro-enterprises show that have employed 3 employees. Only 10% of micro-enterprises show it employs 4 employees and 15% of micro-enterprises had employed only 1 employee. The rest of micro-enterprises have created no employment to people as shown in the table 19 below.

**Table 19: Employment creation by micro-enterprises**

<table>
<thead>
<tr>
<th>Employees</th>
<th>Frequency (MEs)</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 – employees</td>
<td>19</td>
<td>27.1</td>
<td>27.1</td>
</tr>
<tr>
<td>2 – employees</td>
<td>32</td>
<td>45.7</td>
<td>72.9</td>
</tr>
<tr>
<td>4 – employees</td>
<td>7</td>
<td>10.0</td>
<td>82.9</td>
</tr>
<tr>
<td>1 – employees</td>
<td>11</td>
<td>15.7</td>
<td>98.6</td>
</tr>
<tr>
<td>0 – employees</td>
<td>1</td>
<td>1.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

As MEs create employment to most of individuals, the variable employment creation was cross tabulated with the families’ size and the results were as follows. A total number of 30 small size was responded whereby 6 families of small size create employment for 3 peoples, 16 family of same group of small size category create employment for 2 peoples, 7 family create only one employment, and single families create self-employment. The second category of medium size interviewed, whereby total of 21 families interviewed. Only 6 families of medium size category created 3 employment to the peoples, 10 families of the same category created 2 employment, 3 family created 4 employment to the peoples, 2 families of the same category create single employment and the third category of large size families interviewed. 7 families created 3 employments, 6 family created 2 employment, 4 family created 4
employment, and 2 families created single employment as shown in the table below.

**Table 20: Family size and employment in enterprises \( n = 70 \)**

<table>
<thead>
<tr>
<th>Credit scheme</th>
<th>3 employers</th>
<th>2 employers</th>
<th>4 employers</th>
<th>1 employers</th>
<th>Self employers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small family</td>
<td>5</td>
<td>16</td>
<td>0</td>
<td>1</td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Medium family</td>
<td>2</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Large family</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>27</td>
<td>5</td>
<td>4</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>FINCA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small family</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Medium family</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Large family</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

**4.13 Record keeping**

The study shows that large proportions of respondents did not keep any written records of their businesses. However, the records kept involves recording only daily transaction such as purchase of sales in the case of traders, and input and output or product for the case of micro-enterprise dealing in production. This level of records keeping is insufficient especially when the records are not used (say at the end the of month) to compute profits and losses of the transactions.
4.14 Factors of change in performance of micro-enterprises

The study has identified factors which have contributed to the worth of micro-enterprises in the study “Experience” in operating the MEs and “Credit” has been mentioned as the important factors by many respondents. Reinvestment out of other personal savings was mentioned by respondents. Some factors were said to negatively affect micro-enterprise worth. These are consumption and poor economy. “Consumption” is a reason in the sense that, money taken from micro-enterprises for consumption by MEs owners’ family withdraws MEs capital. Poor economy is associated with lack of market, poor prices, and low demand as a result of little amount of money circulating in the economy. However, credit has contributed positively to better worth of the micro-enterprises as mentioned by respondents.

4.15 Difficult or unpleasant loan condition

The study shown that respondents consider high rates of interest rates as the most difficult and unpleasant condition followed group liability. Other conditions which were assumed by the study to be undesirable, received very little response. These include intensive repayment duration; time is too short & poor business performance, lack of loan management, short grace periods, and small first loans and short loan duration. However, respondents did not consider the loan conditions to be too difficult or very unpleasant as the question asked. Clients seem to realize and appreciate the rationale behind most of the major conditions. This might be a result of education sessions conducted by loan officers or through dealing with fellow members who default as shown in the table 21 below.
Table 21: Unpleasant loan conditions

<table>
<thead>
<tr>
<th>Unpleasant loan condition</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time is too short and poor business</td>
<td>15</td>
<td>21.4</td>
<td>21.4</td>
</tr>
<tr>
<td>Interest rate is high</td>
<td>37</td>
<td>52.9</td>
<td>74.3</td>
</tr>
<tr>
<td>Poor business performance</td>
<td>8</td>
<td>11.4</td>
<td>85.7</td>
</tr>
<tr>
<td>Lack of loan management</td>
<td>3</td>
<td>4.3</td>
<td>90.0</td>
</tr>
<tr>
<td>All of them</td>
<td>7</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)

4.16 Worth of enterprise

The worth of enterprise shows how much the enterprise is worth at the present 18.6% of respondents have micro-enterprise worth between 251 000-300 000 Tsh, 15.7% of enterprises are worth 401 000-450 000 Tsh, 14.3% of the enterprises are worth 351-400 000, Tsh 12.9% of the enterprises are worth 200 000-250 000 Tsh. 11.4% of the enterprises are worth about 451 000-500 000 Tsh and about 18.6% of the enterprises are worth more than 500 000 Tsh as shown in the table 22 below.

Table 22: Worth of enterprise

<table>
<thead>
<tr>
<th>Value (Tsh)</th>
<th>Frequency</th>
<th>Valid %</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>200 000 – 250 000</td>
<td>9</td>
<td>12.9</td>
<td>12.9</td>
</tr>
<tr>
<td>251 000 – 300 000</td>
<td>13</td>
<td>18.6</td>
<td>31.4</td>
</tr>
<tr>
<td>301 000 – 350 000</td>
<td>6</td>
<td>8.6</td>
<td>40.0</td>
</tr>
<tr>
<td>351 000 – 400 000</td>
<td>10</td>
<td>14.3</td>
<td>54.3</td>
</tr>
<tr>
<td>401 000 – 450 000</td>
<td>11</td>
<td>15.7</td>
<td>70.0</td>
</tr>
<tr>
<td>451 000 – 500 000</td>
<td>8</td>
<td>11.4</td>
<td>81.4</td>
</tr>
<tr>
<td>&gt; 500 000</td>
<td>13</td>
<td>18.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field survey study (2006)
The regression model already explained in Chapter Three subsections 3.6.1 has given the following result

Hypothesis:

Null: Ho; U=0, ....................................................... (1)

From Ho; the worth of SMEs is determined by Education level of micro-enterprises, amount of start up capital, amount of loan invested into micro-enterprise and the number of people depending on micro-enterprise.

Worth of SMEs = C+β₁x₁+β₂x₂+β₃x₃……………βₙxₙ……………………… (2)

F-Ratio =5, Significant.0.000…………………………………………. (3)

Then, Reject the Null: Accept Hi = U ≠ 0…………………………….. (4)

Hence, the worth of SMEs does not necessary depends on Education level of micro-enterprises, amount of start up capital, amount of loan invested into micro-enterprise and the number of people depending on micro-enterprise since the F- ratio was significantly different from 0 at 5%, then we reject the Null hypothesis. SMEs worth is determined by marital status, education level, and age of enterprises, amount of money borrowed, and frequency of borrowing and family size. \( R^2 \) 34%. The model for variable is expressing 34%; explain the variation in worthiness of SMEs and 66% fail to explain. However, the \( R^2 \) was smaller. The smaller the value of \( R^2 \) (0.342) probably would have improved if other variables like management skills of enterprises, risk altitude, consumption etc. were included in the model equation

Table 23: Regression analysis output for the assessment of worthiness of SMEs
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std</th>
<th>t</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.285</td>
<td>1.215</td>
<td>2.704</td>
<td>0.09</td>
</tr>
<tr>
<td>Marital Status</td>
<td>0.594</td>
<td>0.344</td>
<td>1.728</td>
<td>0.89</td>
</tr>
<tr>
<td>Education level</td>
<td>-0.60</td>
<td>0.238</td>
<td>-0.251</td>
<td>0.803</td>
</tr>
<tr>
<td>Age of enterprises</td>
<td>-0.26</td>
<td>0.062</td>
<td>-0.411</td>
<td>0.683</td>
</tr>
<tr>
<td>Amount borrowed</td>
<td>0.000</td>
<td>0.000</td>
<td>3.643</td>
<td>0.01**</td>
</tr>
<tr>
<td>Frequency of borrowing</td>
<td>-1.113</td>
<td>0.543</td>
<td>-2.048</td>
<td>0.045*</td>
</tr>
<tr>
<td>Family size</td>
<td>-0.15</td>
<td>0.284</td>
<td>-0.54</td>
<td>0.957</td>
</tr>
</tbody>
</table>

R^2 = 0.34, ........................................ (5)

Adjusted R^2 = 27.9............................. (6)

F-ratio = 5.46 ................................. (7)

F –significance = 0.000,........................ (8)

SEE = 1.764,................................. (9)

n = 70,......................................... (10)

Dependent variable: Worth of enterprises or working capital

Note

*=Significant at 10%

**=Significant at 5%

***=Significant at 1%

The following individual’s prediction variables;

1. **The marital status** were positively (+) and significant at 10% level.

   This means that either married or single both can affect. For married entrepreneurial he/she can be more responsible and accountable to the
enterprises by not spending much money roughly. For single entrepreneurial, he/she can have few accountability and very discipline to the business.

ii. **Education level** is negative relationship and not significant. This is explained as education level of entrepreneurial increases, and then reduces the worthiness of enterprises, by not participating fully to the enterprises activities at all.

iii. **Age of enterprise** is negative and not significant. This also explain as the age of enterprises increases the entrepreneurial changes the direction of the business and shift to the other activities hence the enterprises collapse or loses its performance.

iv. **The amount of money borrowed** have positively (+) and significant at 1% level.

v. **Frequency of borrowing money** have negatively and significant at 5% level.

vi. **Family size** have negatively (-) and not significant.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

The general objective of this research was to analyse the financial services (credits) offered by credit institutions namely PRIDE and FINCA for development of SMEs operating in Dar es Salaam particular Kinondoni and Ilala Districts. The study suggests necessary improvement in the national micro-finance policies and design of programmes. The literature reviewed found no documented work that had studied this area in Tanzania. The specific objectives of the research were to describe the operations of PRIDE and FINCA Ltd. Tanzania in enhancing credit access to SMEs, to examine interest rate charged by both credit schemes, to compare the transaction cost of borrower between PRIDE and FINCA and lastly to recommend a suitable approach in credit services to SMEs in Tanzania. Three hypotheses were formulated on the basis of the specific objectives above. Due to times and financial constraints, the study concentrated on SMEs located in Dar es Salaam region particular in Kinondoni and Ilala Districts. Both secondary and primary data were collected and used for study.

5.2 Findings of the research

Earlier research on SMEs sector conducted by others, concentrated on various problems of SMEs, for example issues of finance, general management and policy environments, input constraints, less established of firms, difficult relation with their lender/etc. This study however, concentrated on perception of SMEs owner-managers
on the relevance of financial support services (credit) offered to them for development of their business, the degree to which these services provided to them accordingly to their need and how the services influenced the growth of their business. It was based on the hypotheses that, there is a significant different between interest rate charged by PRIDE and FINCA, the impact of PRIDE and FINCA services on SME performance is significantly different and the worth of SMEs is determined by Education level of micro-enterprises owner, amount of start up capital, amount of loan invested into micro-enterprise and the number of people depending on micro-enterprise owner and age of enterprises since started. The study found that, financial support services provided by credit scheme (PRIDE or FINCA) is not much helpful to them and their enterprises respectively in terms of technical support so as to influence the growth of their business.

5.3 Conclusions

5.3.1 Role of credit on employment and income generation.

Results from this study have shown (Table 22 & 23) that credit has a positive relationship with increase in both employment and income generation of micro-enterprises. Results show that credit contributes more to productivity or quality of micro-enterprises than quantity of production or employment. Mead (1994) in his study of the contribution of small enterprises to employment growth found out that, expansion of micro-enterprises contribute little to employment growth. New enterprises have a relatively greater impact on employment than enterprise expansion.
5.3.2 Accessibility of poor borrowers to credit

Assessing accessibility of poor borrowers to credits provided by micro-finance was one of the major aims of this study. This study has shown that, loan conditions imposed by micro-enterprise are favourable to poor borrowers than those who are relatively well off. The study has shown that majority of respondents consume less than 1,000/= per day; Hence the majority of respondents can be classified as poor because they live below the international poverty line of 1 US $ a day per person (www.worldbank.org)

Respondents consider group liability and interest rate as difficult conditions. As mentioned above, these conditions are not too difficult to hinder accessibility of poor borrowers to credit schemes operated by micro-finances in this study. Although it can be concluded that improvements on these conditions can enhance more accessibility.

Access of micro enterprises to micro-finance is of vital importance because lack of capital and high interest rate ranked highest amongst constraints inhibiting expansion of micro-enterprises. However, as the amount of loan increases, operations of micro-enterprise are constrained by market availability. Lack of market for micro-enterprises products becomes the most limiting factor

5.3.3 Factors which determine worth of micro-enterprises

The worth of micro-enterprise was hypothesized to be positively correlated with initial capital of micro-enterprise, amount of loan obtained, education level of micro-enterprise owner, number of years since established of micro-enterprises, and family
size. Education level of enterprises owner was considered to have a negative relationship to micro-enterprise worth. The results from this study have revealed that marital status and amount of money borrowed have a statistically significant positively relationship with the worth of micro-enterprise, whereas level of education attained by owner of micro-enterprise, frequency of borrowing, and age of enterprise had show to add negatively to the worth of enterprises.

The subsequent conclusions can therefore be drawn from these results

i. The worth of micro-enterprise is improved by larger loans. Micro-enterprise with large loans has more capital than micro-enterprise with no loans. This shows that larger parts of credits taken are full utilized into micro-enterprise operations, hence credits from micro-enterprise in the study are not used to different activities or consumed.

ii. The education level attained by micro-enterprise owner had showed a negative relationship to the worth of micro-enterprise and not significant to the worth of enterprises. It is negative to the previous assumption. This result indicates that micro-enterprise require more physical effort than academic qualifications. Act with less education performs better, maybe because they have fewer opportunities than others who are more educated. Hence micro-enterprise is appropriate and convenient undertaking for the majority of people who have small education
5.4 Recommendation

The following recommendations can be made from the conclusions drawn above.

5.4.1 Addressing constraints in management, technologies and market knowledge (for small and medium scale enterprise)

Financial institution should strengthen management and business development services by: strengthening governance and leadership; financial management; production and distribution methods and technologies; and research. Help to create a better-trained workforce. Improve market knowledge, communication and institutional linkages by: integrating larger enterprises vertically with smaller enterprises; deepening market activity, trade, and knowledge from big business down to small enterprise (e.g. involving ecommerce and new information and communication technology).

5.4.2 Improving the legal and regulatory enabling environment for enterprise (at all levels)

Raise public awareness of the economic importance of micro-enterprises; engage public and private sectors to create better, pro-poor enterprise policy; simplify and improve business regulation, licensing and other legal requirements.
5.4.3 Developing financial markets, institutions and instruments to support enterprise growth (Particularly for micro, small and medium scale enterprise).

Strengthen trade capacity of micro-finance institutions by: further development of financial sustainable savings, credit, leasing and insurance services that reach more clients, and advance the institutions providing these services towards full commercial viability; deepen penetration by mainstream capital markets to micro-finance institutions and small and medium scale enterprises; encourage the use by donors of non-grant-based support mechanisms (which minimize subsidy and market distortion) such as convertible loans, guarantees, asset leasing and equity instruments).

5.5 Limitation and areas for further research

5.5.1 Limitations.

This study experienced both time and financial constraints. As a result, data were collected through interviews at places where MEs operate. The owners were the main target. Most of them were not available, their spouses or managers were interviewed. Therefore the surveyor could not make certain faithfulness of responses by respondents.

The researcher has applied various ways to ensure collection of accurate information, which include crosschecking questions and frequent computations. However data and information given by respondents depended heavily on memory recall. In this situation some discrepancies are unavoidable.

Although the study involved major MFI in the country, the number of MFIs in the study is small. A broader survey would reflect a more accurate situation.
5.5.2 Areas for further research

In view of the aforementioned limitations there are several areas in which other researchers can undertake the study further. MFIs experience a substantial proportion of client dropout for reasons not properly documented. There is a need therefore to collect data and information from this category to ascertain the reasons for give up. Such a study can reveal some weakness in the micro finance programmes or other limitations hindering the development of micro finance sector. A time series survey of MEs is vital important to trace and ascertain the trend or phenomena of MEs development.
REFERENCES


Carbon, (2000). Financial and Monetary Aspects in the process of Economic Recovery: A Case of Mozambique In; Africa Review of Money Finance and Banking (Edited by Mauri, A) Felie Tambusi, Milan


Donald, G. (1976): Credit for small farmers in developing countries. A west view special studies, political and economic studies in social, political and economic.


Miller, Leonard F (1915): Agricultural credit and Finance in Africa


PRIDE Tanzania, Service to the working poor (2006), Annual Report, 2006. Pg 2-9


APPENDICES

Appendix 1: Questionnaires for Small Entrepreneurial Borrowers from (PRIDE/FINCA)

This questionnaire is seeking information on the impact of credits on development of small and medium Enterprises (SMEs). I kindly request your response to the following questions as honestly as you can. Nowhere is your identity sought and the data will not be used for any other purpose

A. Small Enterprise Basic Information

Put a tick or circle to the correct answer provided

1. Name of respondent………………………………

2. Marital status……………………………………
   a) Single
   b) Married
   c) Widower/widow
   d) Divorced
   e) Others (specify)

3. Nature of enterprises
   a) Food vending
   b) Animals husband
   c) Food processing
   d) Other (specify)
4. Location of enterprises
   a) Magomeni
   b) Sinza
   c) Mwenge
   d) Mburahati
   e) Others (specify)

5. Age of enterprise

6. Ethnic group

7. Age of respondent

8. Education level

9. Have you ever been employed?
   a) Yes
   b) No

10. Are you now employed?
    a) Yes
    b) No

11. How big your family is?

12. How many are?
    a) Below 18 years
    b) Above 60 years

B. Technical, Management and market

13. What was your initial capital or start up capital?

14. How many times have you borrowed money?
    a) Once
    b) Twice
c) Thrice

d) Others (specify)

15. What amount of money have you borrowed at first…?

16. How long does the organisation provide time to pay debt?
   a) One month
   b) Two month
   c) Three month
   d) Others (specify)

17. After getting loan, when did you suppose to pay back…?

18. Did managed to pay on due time? ………………….
   a) Yes
   b) No

19. If no, how many days exceeded?
   a) One week
   b) Two weeks
   c) One month
   d) Others (specify)

20. What was the interest rate your were supposed to pay…

21. How many days were effectively used to get money…?

22. Did you spend some amount of money during processing loans?
   a) Yes
   b) No

23. If yes, how much did you spend…?
24. Apart from normal way, is there any way used to get the loans faster?
   a) Yes
   b) No

25. If yes, how?
   a) Through bribe
   b) Tribalism
   c) Pay in kind
   d) Others (specify)

26. Do you think the loans helped to improve your enterprise?
   a) Yes
   b) No

27. If no, what are the possible reasons?
   a) Time is too short
   b) Interest is high
   c) Poor business performance
   d) Lack of loans management
   e) Others (specify)

28. At what percent do you think your enterprise has increased…?

29. Estimate the change in income since you have taken the loan…

30. What was the source of your start up capital?
   a) Own saving
   b) Grants
   c) Credits
   d) Outreach
31. Did you manage to pay accordingly?
   a) Paid fully in time
   b) Paid partially or late
   c) Fail to pay it
   d) Other (specify)

32. What do you consider to be the main reasons for your arrears or no arrears?
   a) ……………………………
   b) ……………………………

33. How did you manage to clear your repayment obligation?
   a) Enterprise income
   b) Own savings
   c) Friends/relatives
   d) Group members
   e) Others (specify)

34. Have you taken any course related to small entrepreneurship?
   a) Yes
   b) No

35. Do you think that the performance of the business helped you to purchase things
    that you didn’t manage to purchase before?
   a) Yes
   b) No

36. If yes, explain…………………………?

37. How many people have you employed in your enterprise? Give the numbers.

38. Give or estimate the working capital of your enterprise when started up to now?

39. Do you have business licence in your enterprises?
Appendix 2: Checklist for PRIDE and FINCA OFFICIALS

A research seeking information on the impact of credits on development of Small and Medium Enterprises (SMEs). I kindly request your response to the following questions as honestly as you can. Nowhere is your identity sought and the data will not be used for any other purpose.

A: Organisational aspects

i. What is FINCA/PRIDE?

ii. What are the FINCA/PRIDE objectives?

iii. The organisation structure of FINCA/PRIDE.

iv. The geographical distribution of FINCA/PRIDE Services

v. Any recent publication e.g. annual reports, study findings.

vi. Corporate strategic plan of FINCA/PRIDE.

B. Operations of FINCA/PRIDE

i. How a credit is processed, from application up to issuing?

ii. Any success stories off trend in customer members of FINCA/PRIDE?

iii. Does the objective of FINCA/PRIDE being met?

iv. What types of credits does the FINCA/PRIDE offers?

v. What technical assistance is provided to the customers?

vi. Total number of FINCA/PRIDE customers-nationally and district.

vii. How customers classified?

viii. Which class of customers takes large share of loans?
C. Financial Viability and Sustainability Information

i. What Collateral requirement that the borrowers must fulfil before servings credits?

ii. Mention credits modalities used to ensure effective repayment?

iii. What incentives are used to encourage more credits to the FINCA/PRIDE?

iv. Indicate interest rate charged for different type of credits?

v. Default rate in the last five years.

vi. Is there any variation across years?

vii. Do you think FINCA/PRIDE can proceed without more donor grants?

viii. What do you think ought to be improved in the overall operations of credits?

ix. How many customers have failed to pay back in the last five years?

x. How much do you consider being bad debt in the last five years?

xi. What are the challenges and opportunities in carrying out your operations?

Thanks for your corporation
Appendix 3: Regression modal output

Regression

Variables Entered/Removed\(^a\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Variables Entered</th>
<th>Variables Removed</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Size of family, How many times have you borrowed money?, Education level, Age of enterprises, Marital status, What is the total amount of money borrowed from the credit scheme? (T shillings)</td>
<td>a. All requested variables entered.</td>
<td>Enter</td>
</tr>
</tbody>
</table>

ANOVA\(^b\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>102.058</td>
<td>6</td>
<td>17.010</td>
<td>5.461</td>
<td>.000(^a)</td>
</tr>
<tr>
<td>Residual</td>
<td>196.242</td>
<td>63</td>
<td>3.115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>298.300</td>
<td>69</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), Size of family, How many times have you borrowed money?, Education level, Age of enterprises, Marital status, What is the total amount of money borrowed from the credit scheme? (T shillings)

\(^b\) Dependent Variable: Working capital of enterprises (Classified)
Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.285</td>
<td>1.215</td>
<td>2.704</td>
</tr>
<tr>
<td></td>
<td>Marital status</td>
<td>.594</td>
<td>.344</td>
<td>.188</td>
</tr>
<tr>
<td></td>
<td>Education level</td>
<td>-.060</td>
<td>.238</td>
<td>-.027</td>
</tr>
<tr>
<td></td>
<td>Age of enterprises</td>
<td>-.026</td>
<td>.062</td>
<td>-.044</td>
</tr>
<tr>
<td></td>
<td>What is the total amount of money borrowed from the credit scheme? (T shillings)</td>
<td>.000</td>
<td>.000</td>
<td>1.023</td>
</tr>
<tr>
<td></td>
<td>How many times have you borrowed money?</td>
<td>-1.113</td>
<td>.543</td>
<td>-.570</td>
</tr>
<tr>
<td></td>
<td>Size of family</td>
<td>-.015</td>
<td>.284</td>
<td>-.006</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Working capital of enterprises (Classified)