

**THE ROLE OF MICROFINANCE ON ENTREPRENEURIAL
DEVELOPMENT: A CASE OF DAR ES SALAAM CITY**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of
the Degree of Master of Science in Accounting and Finance (MSc-A&F) of
Mzumbe University**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University, a dissertation entitled **The Role of Microfinance on Entrepreneurial Development: A Case of Dar es Salaam City**, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe University

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DEDICATION

This dissertation is dedicated to my lovely family who inspired me very much in my academic pursuit and tolerated my absence till accomplishment of my studies. Indeed all the family members contributed immeasurably and untiringly in destining support and encouragement in my entire period of course study.

ABBREVIATIONS AND ACRONYMS

CRDB	-	Cooperative and Rural Development Bank
EPR	-	Economic Recovery Program
FINCA	-	Foundation for International Community Assistance
ILO	-	International Labour Organization
IMF	-	International Monetary Fund
MFI(s)	-	Micro Finance Institution(s)
MSE(s)	-	Micro and Small Enterprises (s)
MSME(s)	-	Micro Small and Medium Enterprises (s)
NGO(s)	-	Non Governmental Organizations
PRIDE	-	Promotion for Rural Initiatives Development Enterprises
ROSCAs	-	Rotation for Savings and Credit Cooperatives Society
SACCOs	-	Savings and Credit Cooperative Society
URT	-	United Republic of Tanzania

ABSTRACT

The study assessed the role of microfinance on entrepreneurial development. The study was conducted in FINCA and PRIDE, Dar es Salaam. The objectives of the study were: to identify barriers impede entrepreneurial development; to determine constrains facing micro entrepreneurs and to find out challenges facing microfinance institutions in providing services to micro entrepreneurs.

A sample of 120 respondents was taken from FINCA and PRIDE. Primary data were collected by using questionnaires and in depth interview. Data were presented by using tables and figures.

The study found that MFIs play significant role in enhancing micro entrepreneurs. MFIs provide loan services, consultation, training and business monitoring services. The study found that majority of the respondents (51.67%) identified that high interest rate is the strong barrier in impede entrepreneur development. Also, the study found that majority of the respondents (60%) identified high interest rate is a major constrains facing micro entrepreneurs. Moreover, the study the study found that majority of the respondents (58.3%) revealed that poor management is the strong challenge for microfinance institutions in providing loans to micro entrepreneurs.

The study concludes that MFIs play significance role in enhance micro enterprises operations. The study concludes that there are various barriers impede entrepreneurs' development. The major challenges involve, lack of collateral, high loan interest rate and lack of registration. The study recommended that Microfinance institutions in Tanzania also need to review their policies on the maximum amount of loans to micro entrepreneurs to reflect the market demands. At the moment, new micro entrepreneurs should not have much hope of getting finance sufficient assistance from most of the microfinance institutions.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.0 Introduction

This research aims at exploring the impact of micro-finance on micro-entrepreneurial activities in Dar es Salaam city. This chapter presents the background to the study, statement of the problem and the purpose and significance of the study. It also briefly provides the description of methodology. It further gives the scope of the study and definition of the key terms to be used in this study.

1.1 Background to Study

The nature and evolution of entrepreneurship in Tanzania has in so many years shaped by nation policies. After independence in 1961, the state of Tanzania formulated socialist policies which had great influence on the development of informal and micro-enterprise sectors in general. The state discouraged the formation of groups and associations especially those with an economic motive. Moreover private initiatives, Non Governmental Organizations (NGOs), cooperatives including SACCOS were discouraged. All financial institutions were controlled by the state. The government wanted to build and control the economy from a powerful and centralized public sector. Social services including health and education were provided free by the state.

In 1967, the state conceded the Arusha Declaration which made Tanzania pursue socialist policies, rural development and build a self-reliant nation (Maliyamkono and Bagachwa, 1990). The crisis of the 1970s to 1980s exacerbated a shift of direction from communal to focus on income generating activities that are from depending on formal income to informal activities. The informal sector became important in Tanzania the reliance of household members on formal wage earnings was replaced by informal income generating activities (Tripp, 1996). The rapid growth was initiated by the

informal entrepreneurs themselves as a means of survival following the failure of the state to deliver (Maliyamkono and Bagachwa , 1990; Rutashobya and Olomi, 1999; Tripp, 1996).

Most micro-enterprises in Tanzania fall under the informal sector. Micro-entrepreneurs are engaged in “traditional” activities which have low turn-over. Traditional economic activities include vending such as street food vendors. Other activities include tailoring, and as retailing mostly consumable goods.

Micro-entrepreneurs have been constrained by many factors especially limited access to financial services from formal financial institutions due to the small business sizes and circumstances their businesses operate in.

Capital is one of the major barriers to social-economic development and success for micro-enterprise initiatives (ILO, 1998; ILO, 2003). Due to the small sizes of the businesses and the lack of resources available especially capital to small enterprises, small entrepreneurs need micro-financial services in order to start, grow and service their businesses. However, due to insufficient mechanisms and inadequate information in Tanzania on credit markets, banks are discouraged and unwilling to lend to micro-enterprises (URT, 2002).

Although the demand for micro-finance by small scale business is high, banks believe that lending small loans to low income people is not a profitable activity for them. For example a study conducted by ILO (2003), reported that two-thirds (67.2%) of small entrepreneurs used their own savings to start businesses, 32.8% received assistant from micro-finance institutions, 3.9% got credit from family and friends, only 8.6% borrowed from moneylenders. These results suggests that limited access to funds by small enterprises from commercial banks has in many ways constrained the emergence and growth of small scale enterprise

1.3 Statement of the Problem

Despite growing number of policies and programs to support entrepreneurial activities, the government placed more effort to entrepreneurial activities by enacted laws to support entrepreneurs' economic and social well-being. Also the Government has made an effort to include entrepreneurs in decision-making, entrepreneurs still facing serious problems in accessing microfinance institutions (Randhawa and Gallardo, 2013). Micro entrepreneurs face dual challenges in accessing financial resources from microfinance institutions such as SACCOs, the reasons for this could be either micro entrepreneurs lacks resources, poor government policy, or due to socio cultural factors, micro entrepreneurs have little access to education, with high household demand, which together with the business demand, impacts their ability to solely focus on their businesses and by implication their ability to seek loan finance.

In Tanzania, entrepreneurs face strong barriers in accessing Microfinance services (Olomi, et al, 2008). Among the obstacles related to entrepreneurs, are identified as the lack of knowledge regarding the possibilities of obtaining financial resources from the microfinance institutions, the lack of awareness regarding the consulting institutions, the development of business plans that do not meet the requirements of the microfinance institutions as a lenders or investors, the reduced negotiating skills in relation with capital suppliers and the insufficient guarantees available (Nangia and Vaillancourt, 2013).

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. The Core Principles for Microfinance involves. The poor needs access to appropriate financial services, the poor

has the capability to repay loans, pay the real cost of loans and generate savings, Microfinance is an effective tool for poverty alleviation (Randhawa and Gallardo, 2013).

Microfinance institutions are considered to be important in the development of small business in Tanzania as they are one of the main sources of capital of small businesses. The need of micro finance by both formal and informal sectors has been increasing and their importance in provision of finance to small entrepreneurs in the development of their business. Microfinance institutions can provide micro loans to poor people in an efficient and financially sustainable way. Thus the question on whether microfinance improves or worsens entrepreneurial development is still worthy of further research such as the one being undertaken under this study.

1.4 Objectives of the Study

1.4.1 General Objective

Generally, the study investigated the role of microfinance on entrepreneurial development in Dar es Salaam.

1.4.2 Specific Objectives

- i. To identify the role of microfinance institutions
- ii. To determine constrains facing micro entrepreneurs
- iii. To find out challenges facing microfinance institutions in providing services to micro entrepreneurs

1.5 Research Questions

The specific research questions to address the research problem are:

1. What are the roles of microfinance institution?
2. What are the constrains facing micro entrepreneurs?
3. What are the challenges facing microfinance in providing services to micro entrepreneurs?

1.6 Significance of the Study

1. The study itself has a fundamental role as requirement for partial fulfillment for master's degree.
2. The study will not remain as shelf findings but its impact will become the catalyst to improvement on micro-entrepreneurial activities.
3. The study will present the role of micro-entrepreneurial activities thus earmark the common demand.
4. The study enlightens the microfinance practice, challenges, and possible threats but also searching and advices that will create value.
5. Despite of formal theoretical knowledge on issues related finance and real life practices, the study will expose the researcher to norms and life experiences.
6. The study will be taken by other researcher, readers and others whom in need of material on different requirements.

1.7 Delimitation and Scope of the Study

The study was conducted at dare s salaam city and focused on small business owners who have been receiving loans from micro- finance organization specifically FINCA and PRIDE Tanzania. The study was limited to micro-entrepreneurs who operate their business enterprises for at least two years.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covered literature review of the study. The chapter contains theoretical literature review inline with the objectives of study, empirical literature review provides conceptual frame work and finally provides research gap.

2.1 The Roles of Microfinance Institution

In developing countries there are nearly 90 percent of the people which have lack of access to financial services from the institutions, either for credit or saving purpose. Especially for the poor who already have lack assets this situation become more critical for them. In microenterprises generally there is need for small capital but it is still difficult for the poor people to manage even that small quantity of capital. Resultantly, these lacks of capital hinder the growth of microenterprise (Gibb, 2005).

Entrepreneurship is one of the commonly terms used in business, management, economics and other related fields. Entrepreneurship means innovation, creativity, leadership, profit maximization or start of a new business. Entrepreneurship helps in the process to increase economic growth, employment gene ration, increase national income and also creating innovation (Robbins and Coulter, 1999).

Two schools of thought mainly discuss about entrepreneurship as: Schumpeter's theory of entrepreneurship and Austrian theory of entrepreneurial discovery. The Schumpeter theory explains entrepreneurship as innovation with a combination of tool and forces and the different methods to produce new innovative products as for the Austrian theory of entrepreneurship, entrepreneur anticipating market and need of customers exactly and correctly and produce more cheaply than competitor and earn profit (Mondal, 1998)

In addition to that, microcredit program is based on unique mechanism such as group lending, social collateral and distinctive payment methods. It isn't based on checking credit history, income sources and bank balances but works on character based lending and thus managed to give loans to those who lacking credit histories. They are also denied of access to conventional finance. Formally establishes a Grameen bank which is a milestone in the development of the microfinance industry. The objective of this bank is to give small loans at affordable rates to poor people, especially to women. The high number of clients and extremely high repayments rates is an impressive achievement for the bank (Davidsson, 2004).

Microfinance is one of better tools to reduce poverty, increase economic growth and development in the economy. Asian Development Bank (ADB) defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low income households and, their microenterprises (ADB, 2000).

Microfinance has three types of sources formal institutions such as rural banks and co operatives, semi formal institutions, such as nongovernment organizations (NGOs) and informal sources such as money lenders and shopkeepers. Microfinance provides two types of services financial services and non financial services. Financial services include saving, microcredit, money transfer, micro insurance etc. Non financial services include training, counseling, education, health etc. In both microfinance and micro entrepreneurship the common object is the creation of employment opportunities for the poor people and also indicts decrease poverty (Bradford, 1993).

Microfinance institutions support two types of micro entrepreneurs: one is potential micro entrepreneur and the second is existing micro entrepreneur. The micro entrepreneurs mean the creation and the existing entrepreneurs mean the expansion of that entrepreneurship (Bradford,1993).

Microfinance Institutions assist potential micro entrepreneurs by providing financing and training to enable them to start a business activity. This help to potential micro entrepreneurs is for pro poor mostly. The objective of targeting the poor is to make them able to start their own business and enabling them to increase their revenues and to reduce their level of poverty. Microfinance institutions also provide services to existing micro entrepreneurs (Segrado, 2005).

Other financial services available to the existing micro entrepreneurs are money transfer using mobile banking to facilitate their transfers and other financial operations, micro insurance to insure their business operations and the unexpected that affect the smooth functioning of the business like the sickness or the death of the micro entrepreneur. The microfinance institutions also offer non financial services to existing micro entrepreneurs enabling them to expand and develop their activities, their skills and to empower them. The nonfinancial services supply to existing micro entrepreneurs is managerial training, technical assistance, and analysis of the sector of activity (Swedberg, 2000).

Micro finance is being promoted as a source of capital especially for small business owners. In developing countries, people from low income communities may have innovative idea for their business, even as shop keeper or house hold products manufacturer, however they have no financial resources to implant their ideas as a result they have remained in a state of economic inactivity or low activity. (Ledgerwood, 2000). This low economic activity in low income communities due to lack of financial resources lead them to ore poverty and poor standards of living.

Generally financial services cover servings and credit activities which are same concept about MFIs. However according ledgerwood, (2000) MFIs work for general financial services with this they provide insurance and payment services to their clients. The important aspect of MFIs is not only its role as financial intermediation and social

services to their clients (ADB, 2008). Social management development and financial literacy activities, Furthermore, many MFIs get together experienced people to guide others in many aspects of business such as offering useful suggestions, tips and other tactics for successful development and sustaining their business. Therefore microfinance is providing financial services with social services, these social services are not applicable in general banking system. So, microfinance is not simply banking system but development tool, combining both financial and social intermediation (Ledgerwood, 2000). The following subsections discuss different services provided by MFIs.

Economic activities are upon sellers and buyer and their capacity to keep the market vibrant. Sellers, before market their product, look at buyer intention and capacity. On the other hand, banking activities depend on both sellers and buyers because their revenue is generated through interest charged on loaned money. Leander's (financial institutions) finance both sellers and buyers for their activities. Commercial Banks invested in projects at large scale while with this, banks invested in consumer finance also. While MFIs usually don't invest in consumer finance, they however give finance only for micro enterprise. MFs encourage people to lift up their standards by doing businesses and earning from them and this is a consistent and sustainable way. According (Lidgerwood, 2000) there are many activities and characteristics of micro finances. Some terms are;

2.3 Constrains Facing Micro Entrepreneurs

In identifying constraints on the business operations of micro-enterprises, the idea is to ascertain the variables that are perceived to be of importance for daily operations of firms, for staying in business and making a living or turning a profit. The focus is thus on the current viability of the firms, rather than on variables that constrain the future expansion of the business through investment.

Generally, SMEs are confronted with unique problems including heavy costs of compliance resulting from their size. Other constraints include insufficient working premises and limited access to finance (Davidson, 2004). In addition, business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available. On the other hand, SME operators lack information as well as appreciation for such services and can hardly afford to pay for the services. As result, operators of the sector have rather low skills. Also, there is no umbrella association for SMEs, at the same time, the institutions. (URT, 2002)

Liedholm and Mead, (1998) found access to capital to be a major challenge to enterprises. Their further study discriminates according to type of capital. Cost of capital covers the price of the capital and interest rate to acquire the capital

The corruption variable simply captures whether having to pay bribed is perceived as a significant constraint on business. As noted by Svensson, (2003) bribes are significant cost to firms, which motivates to inclusion of this variable. In addition, we revisit Svensson's result that incidence of corruption differs between firms, according to their interaction with public officials and their profitability.

In terms of infrastructure constraints, this research will focus on public infrastructure, and in particular utilities. A distinction is drawn between the quality of utilities and the cost of utilities. Our study in this manner complements that of Liedholm and Mead, (1999) which include transport as its sole infrastructure variable, a variable they find to be important only to small subset of firms.

Today, with the rapid development of our society, entrepreneurship has become one of the most dynamic forces in the economy. It is driving the technological boom, which in its turn is driving much of the world's economic growth. This aspect makes

entrepreneurship very important from a macro economic perspective. As the globalization of business becomes even more widespread, this impact will be felt even more deeply (Davidsson, 2004).

The scope of what entrepreneurship involves, will continue to change and evolve because environment in which entrepreneurship operates, is constantly changing and evolving too. Therefore, companies must learn to think and act in this dynamic equilibrium. Since, entrepreneurship is an established field with a wide range of issues at all stages, promoting and nurturing it raises several challenges for today's organizations. Fostering entrepreneurship means channeling entrepreneurial drive into a dynamic process, which takes advantage of all the opportunities that economy can provide. Entrepreneurship requires an entrepreneur to be a person of superior ability who pursues his or her goals despite of obstacles, opposition, setbacks, and failure. He or she must persist in the face of adversity, confront unknown challenges, risks and learn from failures, have confidence in his or her capacity to deal with the world, and take practical rational steps in the pursuit of the goals. The successful entrepreneur tends to be a visionary, competent, independent, action oriented, passionate, confident, and virtuous person who uses reason to focus his or her enthusiasm on reality in the efforts to attain the goals (Davidsson, 2004).

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 of more than 1.7 million businesses engaging about 3 million persons that was, about 20% of Tanzanian labour 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. (URT, 2002)

Since 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 force every year. About 500,000 of these are school leavers with their marketable skills. (URT, 2002)

The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 60,000 to join the unemployment or the underemployment reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given that situation and the fact Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem. (URT, 2009)

It is also said that non traditional sector is among which absorbing the labour force especially the Youth, it includes all forms of non traditional sectors like entrepreneurs, handcrafts, Herds, Creative activities. Food processing, sports, publishing and exhibition, /mining (small miners), music industry which employ a total of 10.1 % of the labour force. (URT, 2002)

SMEs tend to be more effective in utilization of local resources using simple and affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources (Adam and Pischke 1992)

In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small and localize markets due to their lower overheads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation. (URT, 2002)

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements, (Huppi *et al.*, 1990). A strong and productive industries structure can only be achieved where SMEs and large enterprises not only coexist but also function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are very weak in Tanzania. SME Development Policy, therefore, creates the potential for enhancing linkages with the economy. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations (URT, 2002).

Definitions based on size of the small firms sector vary in a great deal, whether measured in terms of fixed investment, or turnover or the number of employees. For purposes of access to finance, micro enterprises (MEs) may be restricted to the band of enterprises employing less than 10 persons, though this should not be taken as a rigid boundary for it is in the nature of MEs that their variation renders rigid thresholds in any one measure both unhelpful and misleading (Bradford, 1993). Many MEs highlight certain common problems: undercapitalization and low ability to command loan finance due to insufficient collateral, track records or financial expertise, lack of broad-based management skills, inadequate understanding of cash flow management and heavy dependence on local markets and a limited number of customers (Bradford, 1993)

For the purpose of this research, MEs may, however, be distinguished from medium enterprises. MEs are legally not required, like medium enterprises, to register under government legislation. They operate in unregulated and competitive markets characterized by free entry and exit, and many engage extensively in sub-contracting activities (Bradford, 1993)

MEs rely largely on indigenous resources, and use labour-intensive and adapted technology with skills mostly acquired outside formal schooling. In household-based

units, a large number of part-time and piece-rate workers are women, on contract for large factories or middlemen. The micro-enterprise also contains self-employed women, in such business as tailoring, leather working, traditional cosmetics and print shops (URT, 2002)

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium (MSMEs). The SMEs mostly cover non farm economic activities mainly manufacturing, mining, commerce services. There is no universally accepted definition of SME. Different countries use various measure of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover (ILO, 1998)

In context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs 5 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs 5 million to Tshs 200 million. Medium enterprises employ between 50 and 90 people or use capital investment from Tshs 200 million to Tshs 800 million (URT, 2002)

The Small Industries Development Organization (SIDO) classifies small scale industries as those establishments which employ people not exceeding 50 while micro enterprises are those projects which employ 10 people or less. Informal sector projects also are small units but not officially registered. In addition, these have no working premises and are not in official records (URT, 2002)

Over the past fifteen years, Tanzania has embarked on an ambitious and long process of economic, social, and political reforms to improve the business environment and to increase economic growth and reduce poverty. In the past five years, despite adverse

weather conditions and deteriorating terms of trade, the economy of Tanzania has been growing at an annual average rate of more than 4% (UNDAF, 2006). For example in 2003, the economy grew by 5.6% in real terms. Inflation had been reduced to 4.6% by March, 2004 (Kirzner, 1997).

The balance of payments position has also improved substantially with foreign exchange reserves rising and maintained at a sustainable level (Kirzner, 1997). Despite all these success stories, the challenge facing the government of Tanzania is to translate these achievements into tangible human development. The depth and extent of poverty is still high with 50% of the population living below poverty line (ibid). The task of reducing poverty and improving the living standards of the Tanzanian population is huge.

The rate of growth of national economy has not been high enough to generate the number of jobs required. That brings up the issue of the majority to enter into private sector in the form of entrepreneurship and small business, thus expanding the private and informal sector of the economy from 23.9% in 1971 to 79.6% in 1996 (Svesson, 2003). Small Business Entrepreneurship has been seen as a hub in generating income for the majority of urban dwellers with no formal paid employment.

2.4 Challenges facing Microfinance Institutions

The Microfinance Institution is growing with an incredible speed changing the lives of the poor. Besides the good things, below are some challenges faced by MFIs (Kirzner, 1997). Limited outreach particularly for women (Befekadu, 2007). lack of adequate whole sale funding possibilities (guarantee facility), operating and financing expenses are high. Illegal government and NGO operations which spoiled the market and high turnover of MFI staff consequently deteriorating the skills based in the industry, lack of knowledge about microfinance services.

Microfinance is regarded as poverty alleviation among the most stricken led to the creativity of making small informal microfinance. When microfinance was started in the

1990s, the aim was to alleviate people against the effect of low income. Since then, they have either achieved their aim or are still working on it facing related challenges (Kirzner, 1997).

The Microfinance institutions help the poor to start their own initiatives and to build assets for their economic security. Conventional financial institutions such as banks fail to lend money to the poor for many reasons. Hence, the poor rarely have a chance to get financial support from them. As a means of getting rid of poverty, Muhammad Yunus from Bangladesh created the formal microfinance concept in 1990s (Davidsson,, 2004).

Before the creation of the microfinance concept, there have been different microfinance institutions some of them very informal. Microfinance institutions have long existed in most developing countries but in a more traditional way and under different names depending on the country (Davidsson,, 2004).

The sources of fund for micro-enterprise are very important for their development and so accessibility is important. Poor people are not able to access loans from commercial banks normally because of lack in guarantee and collateral (Ledger, 1999). But there are many other reasons also involved for which commercial banks were not willing to finance micro-entrepreneurs. These reasons are included that micro-entrepreneur have less education, no proper experience and training, high expenses on transactions of small loans and lower rate of profit. Therefore limited option to access loan leads to push them in more poverty. This situation resulted in emerging the idea of micro lending and microfinance. Microfinance, therefore, a common way to finance people, those have no collateral or any property for guarantee. Microfinance is a way of financing poor their business, to alleviate their poverty, empowering them, giving social benefits on sustainable way.

According to Agion & Morduch, (2005) due to microfinance, many possibilities have emerged including extending markets, reducing poverty and fostering social change. However there is wide spread confusion that microfinance is just lending loan to poor but as we mentioned that microfinance is no more only loans but covering the issues of poverty alleviation, putting social impact on poor and educating poor to savings, Therefore, MFIs, today, not only NGOs but searing as a complete banking system.

According to Ledger wood, (2000) “Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term microfinance refers to the provision of financial services to low –income clients, including the self employed.” While ADB, (2008) refers Microfinance to as the provision of a broad range of finances such as deposits, loans, payment services, money transfers, and insurance to poor and low – income households and, their micro enterprises. These statements suggest that microfinance is a financial service but designed specifically for micro entrepreneurs to improve their business in a sustainable way.

2.5 Risk facing Micro entrepreneurs

The entrepreneur takes the initial responsibility to cause a vision to become a success. Risks; Entrepreneurs take prudent risks. They assess costs, market/customer needs and persuade others to join and help. An entrepreneur is usually a positive thinker and a decision maker (Patrick, 2008).

Education, Entrepreneurs is often prevented from running competitive businesses by their relatively low education and skill levels, which generally limit their access to various support services. If they are given the right support, they can be part of the collective process of enterprise development and improve their success rates (Davidsson, 2004). At the same time, the multiple roles of women in the family put a brake on their risk-taking. In many African countries entrepreneurs spend most of their income on the

household, particularly on food and education for their children. Therefore, many of them are afraid to invest their limited funds into a business for fear of failure.

It is argued that Africa has enormous unexploited potential, especially the potential of women. Specifically, it pointed out that women comprise one of Africa's hidden growth reserves, providing most of the region's labor, but their productivity is hampered by widespread inequality in education as well as unequal access to land and productive inputs. The report concluded that gender equality can be a potent force for accelerated poverty reduction (Davidsson, 2004).

Gender inequality plays a significant role in accounting for Africa's poor growth and poverty reduction performance. Recent review of available evidence indicates that gender inequality in education may limit growth; that inequalities in access to land and productive inputs reduce agricultural productivity, investment, and modernization; and that inequalities in time burdens, long side high demographic growth rates, all contribute to reducing women's ability to participate effectively in, and to benefit from, economic growth (Kirzner, 1997).

Further, although entrepreneurs' enrolment in higher learning institutions has increased, the ratio between women and men remains unbalanced. Opportunities for higher education for micro entrepreneurs in Tanzania are limited compared to those of men. Girls' performance in both ordinary and advanced level secondary education is poorer than that of boys. According to Kirzner,(1997), the average failure rate of girls at 'O' level in 1999 Q2 was 86 per cent compared to 69 per cent for boys. Given their high failure rate, very few girls qualify for higher level education in colleges and universities. Moreover, discrimination, in terms of subject specialization forces micro entrepreneurs in into home economics oriented courses.

Advancements in technology, particularly in information and communication technologies (ICTs) have introduced new opportunities that fundamentally alter the way business is conducted globally (Davidsson,2004). However, in many economies micro entrepreneurs in face serious obstacles in accessing new ICTs due to inequalities in education and training often resulting in a gender imbalance within different industries

Work Place, Given the micro entrepreneurs poor educational background, they lack the qualifications needed to compete with men in the labour market. Consequently, they are underrepresented in government and the professions. Entrepreneurs dominate the rural/agricultural sector, largely producing food for subsistence. By 1988, approximately 87 per cent of micro entrepreneurs in Tanzania lived in rural areas, working in peasant agriculture and earning very low incomes compared to hours they worked (Mondal, 2000).

The number of micro entrepreneurs engaged in wage/salary employment has been increasing at a slow pace. Women are mainly employed and clustered in female stereotyped occupations such as nursing, midwifery, typing and machine operating. These activities attract minimum pay. In urban areas, about 40 per cent of women are involved in some way in the labour market (Davidsson, 2004). However, due to the ongoing retrenchment measures in the civil service this percentage is expected to fall.

Davidsson, (2004), argues that micro entrepreneurs in operating in the informal economy lack the ability to accumulate the savings required for the start-up process. Micro entrepreneurs in with poor levels of education are less likely to have accumulated savings from previous employment. They therefore lack access to working capital and credit and, as a result, have low profits to reinvest in their firms.

Tanzanian women, as is the case with women entrepreneurs in many countries throughout the world, are reported to be “risk adverse” with limited capacity to absorb

the cost of failure (Segrado, 2005). Micro credit key informants reported that micro-financing is readily available and that high percentages of their clients are women. However, their assessment is that women need to be better informed about financial services, the correlation between debt and growth, and how to deal with lending institutions. Tanzania's women entrepreneurs quite often lack technical and business knowledge about their small businesses.

Legal and Policy Framework, Until recently, micro entrepreneurs faced strong barriers to enterprise development in the prevailing laws and regulations (Segrado, 2005). Obtaining licenses, registering the business in their own name, and applying for loans were nightmares they had to live with. It is therefore argued that an appreciation of gender issues is important when considering strategies to improve Africa's competitiveness in the world and ways to promote private-sector development.

There are three main reasons why gender matters should effectively be considered. First, micro entrepreneurs are major players in the private sector, particularly in agriculture and in informal businesses. It is estimated that micro entrepreneurs businesses account for over one-third of all firms, and they are the majority of businesses in the informal sector, particularly in African countries (Davidsson, 2004).

Legal and regulatory environment is a core element in the investment climate, and is also critical for competitiveness. In particular, property rights, labor laws, personal security, the performance of the judiciary, and the time and cost required to register, license, and operate a business all affect competitiveness and the dynamism of the private sector (Mondal, 2000). This core element affects men and women differently, particularly because in many African societies laws and customs impede women to a greater extent than men in obtaining credit, productive inputs, education, training, spatial mobility and information needed to start and operate businesses.

Although in some cases there may be gender-specific legal and administrative barriers, for the most part, the regulatory environment will be “gender-neutral” in principle, but with possibly gender-differentiated outcomes in practice (Mondal, 2000). For example, women may be less able than men to afford long and expensive registration procedures. For these reasons, women may be more disadvantaged than men in starting-up and managing enterprises.

Socio Cultural Issues, Although equality of all citizens, men and women, is guaranteed by constitutions of most countries, in reality, women are often considered inferior to men. Further, traditionally, the duties of men and women differ. Women are stereotypically seen and expected to do household chores, and therefore other activities, particularly their independent economic activities, face much resistance, especially when done far from their home places.

In most places, women have been socialized to be subordinates to men. In many traditions, women are raised to see their ultimate role in life as that of wife and mother. They are socialized to be non-argumentative, passive and easy to accept defeat. This may have significantly affected their self-confidence, achievement-motivation and even their willingness to take risks; qualities that are closely linked to success in business (Bradford, 1993).

According to Davidsson, (2004) MSE sector face a number of serious obstacles. These include among others, gender-blind or gender-insensitive macroeconomic policies; complex tax policies and compliance procedures; gender-based inequalities in employment policies and regulations; complex business registration and licensing procedures for the smallest micro-enterprises (where the majority of women are found); and lack of cultural acceptance for the role of entrepreneurship.

Institutional Support, The use of entrepreneurial talent for productive purposes depends very much on the institutional support to which entrepreneurs can gain access. The institutional framework defines a number of costs and incentives in entrepreneurial activity, particularly production costs (Patrick, 2008). Heavy bureaucratic requirements, complex and costly business plans, costly information, high collateral requirements for credit and difficult access to technology are some apparent obstacles, which influence the decision to create an enterprise, production costs and, the allocation of resources to unproductive activities rather than to the business itself (Kirzner, 1997).

Corruption and bureaucracy makes matters worse especially for women, who do not have the same opportunities as men to meet and negotiate with (bribe) predominantly male, public officials (Svesson, 2003). Indeed, there is no information as to how the very few women, whose enterprises develop from informal activities at the micro-level to small and medium enterprises, manage to achieve this transition in such a difficult environment.

Finance, entrepreneurs often lack the ability to develop viable business plans acceptable by financial Institutions. Many businesswomen are too shy to approach a loan officer, possibly because they usually cannot provide any collateral for credit. In most cases, women entrepreneurs need only a small credit amount, the administration of which the banks consider too costly and most women lack the information and contacts necessary to obtain credit (Segrado, 2005).

While trade plays a traditionally important role, a private industry culture does not yet exist in Ethiopia. Most educated and skilled Ethiopians would rather strive for government employment than venturing into private businesses. Consequently, the essential entrepreneurial skills and orientation are not well developed. This is especially true for women entrepreneurs operating small-scale and low-income level enterprises. ME operators in Tanzania have rather low business skills and seem not to appreciate the

importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries (Kirzner, 1997).

Technology, Technology for micro entrepreneurs is often implicitly equated with simple technologies. These may contribute to rudimentary income-generation activities but not very much to the improvement and growth of manufacturing businesses of micro entrepreneurs. This concept leads to a narrow approach on the part of support institutions or donors in the design and development of technologies for women (Mondal, 2000).

Rapid changes in technology should be responded by the SMEs to find alternative ways to sustain their competitive advantage by deploying new process and new growth methods. Technology may play an important role in this respect. In this context, technology has a close relationship with improvement of production process. Previous study has revealed that lack of equipment and outdated technology are among hindrances of SME development (Mondal, 2000).

Information, Micro entrepreneurs face problems in accessing information on technologies and markets, both national and international. In Morocco, for example, apart from bulletins of a general nature distributed by women's associations, there is no systematic distribution of information regarding technologies, markets, partnership opportunities, and so forth that would target women entrepreneurs.

In general, urban businesswomen are better placed in terms of accessing information than those operating in the rural areas. Observations indicate that in the rural areas, even where top positions are held by women, most development projects or new ideas coming into the areas are targeted at men. Men are expected to attend meetings and to participate in training courses within or outside their localities, gaining easy access to information

in the process. Often, women are not easily capable to travel and are left out of these activities and therefore marginalized further (Bradford, 1993).

2.6 Theories of Entrepreneurship

Entrepreneurship has different meaning to different people. Some use it to mean innovation, some use for creativity, risk taking, leadership, and profit maximization or in social context, and some consider it as start up of business, new production methods and many other different meanings. Davidson, (2000) describes Entrepreneurship as a phenomenon which makes it a resourceful field. There are several schools of thoughts that have major role in defining the term.

Under Schumpeter school of thought (Swedburg, 2000). Entrepreneurship is about innovation and motivation in organization process, thinking up new combination, entrepreneurial behavior and motivation of entrepreneurs. The other school of thought led by Gartner Thornton, (1999) Entrepreneurship is about creation of new organization or new startup, creating values and entrepreneur mean owner-manager. In Krizner's view entrepreneurship is searching opportunities and exploiting them so it reflects towards the alertness capability of entrepreneur toward profit opportunities.

Bengtsson and Peterson, (2008) described different component of entrepreneurship and named them entrepreneurial process. His model emphasizes three entrepreneurial components which are opportunity, resources and the team.

Opportunity

Where there are more imperfect market there will be more opportunities to exploit. "The great the rate of change, the discontinuities, and the chaos, the great is the opportunity..." Entrepreneur will have more room to exploit prevailing opportunities. So important task

is to search for those opportunities and capitalize them. This is a core characteristic of entrepreneur that he/ she should opportunistic in orientation.

Resources

Resources are not always first priority of entrepreneur, innovative business idea is at top of his/ her priority list. No doubt, new business always need lot resources but if there will be no business idea then this money is useless (Reisman, 2004). Entrepreneurs have the strength to stand up and result if he/she feels problem even in the form of resources. If entrepreneur have problem to access financial resource from bank then he/she may have capabilities to seek alternative ways to access resources.

Team

Team in a firm always stands with organizational objective. It is also core characteristic of entrepreneur and important factor of entrepreneurship, that entrepreneur make up team and utilize team strengths to achieve firm's overall objective. This is teamwork, which works in uncertainty provides solidarity in times of adversity.

2.6.1 Schumpeter theory of Entrepreneur

Schumpeter's theory of Entrepreneur is evolved while contributing knowledge in theory of economic development by Joseph Schumpeter. According to Schumpeter (Swedburg, 2000) innovation is about combining materials and forces, which are under reach, with different method or with new combination to produce a new innovative products. By this definition, it is important to consider that Schumpeter emphasize innovation rather invention. According to (Mondal, 2000), "Schumpeter's model works through the transformation of production function. A production function is the technological relationship between inputs and out puts". Further to elaborate innovation and resulted products, in following there are five forms: (1) the introduction of new good for users or new quality of good (2) the introduction of new method of production-handling production system in new way (3) the opening of new market-where company do not

entered before, even existing or new market (4) the conquest of a new source of supply of raw material (5) the carrying out of the new organization of any industry, like the creation of monopoly organization. These all steps indicated a kind of innovation by combining sources, materials and function and producing a new product or service.

Other major contribution of Schumpeter theory also discusses motivation of the entrepreneur. First, it discusses about the desire and will of entrepreneur to establish an organization where entrepreneur can work independently and enjoy power. Second, that he/she has will to become successful in his/her business. And third is joy and satisfaction on reaching his/ her goals (Swedburg, 2000).

According to Mondal (2000), that when we think about entrepreneurship, there are many factors attached with it like economic, personal and sociological variables and their combination. Personal characteristics also attached as entrepreneurial behavior and these characteristic include need of achievement, risk taking propensity, locus of control, beliefs about wealth and material gain and business growth.

2.6.2 Theory of Entrepreneurial Discovery - Austrian perspective

Austrian Theory of Entrepreneurship (Swedburg, 2000) entrepreneur anticipating market and need of customers exactly and correctly, produce more cheaply than competitor and earn profit. Entrepreneur makes it useful for customers and hence as it will be more useful, entrepreneur can earn more. This idea is directly indicating to earning profit while anticipating market and customer needs in advance. By this theory, it is showed that successful entrepreneur will be that who can earn more profit.

Entrepreneurial discovery emerged in Austrian economics by evolving two elements. One, market is act as entrepreneurially driven process and other is knowledge which can be increase by market interaction (Kirzner, 1997). Austrian entrepreneurial discovery theory has three main concepts which are entrepreneurial role, the role of discovery and

rivalries competition. From discussion, it can be perceived that Austrian approach emphasize entrepreneurship with economic activity and market process. Entrepreneurial discovery emerged in Austrian economics by evolving two elements. One, market is act as entrepreneurially driven process and other is knowledge which can be increase by market interaction (Kirzner, 1997).

Austrian entrepreneurial discovery theory has three main concepts which are entrepreneurial role, the role of discovery and rivalries competition. In summary Austrian approach emphasize entrepreneurship with economic activity and market process while Schumpeter theory is a cocktail of tactics relating to economic, Personal and sociological aspects. Both theories have different and similar aspects on entrepreneurship. Different authors have different approaches on entrepreneurship; this may be due to their research, the environment in which they are working.

In general innovation, risk taking and creativity are almost essential part of both theories. Schumpeter's theory mainly emphasizes on innovation, emphasizing to redefine and regroup resources to produce new product or service. Innovation always has risk with itself. By producing new product, accessing new market, adopting new production system, all lead to risk. In case of Austrian theory of Entrepreneurship, anticipating market and customer needs is somewhat innovative idea and it also leads to risk. According to Boettke Coyne, (2002) "As compared to Schumpeter's characterization of the market process as creative destruction, Krizner emphasized that markets tend continually... towards equilibrium, as consequence of continually-stimulated entrepreneurial discoveries". So Schumpeter emphasize on creative destruction while Austrian approach argue towards market knowledge which priory unknown.

2.6.3 Micro-Entrepreneurship

Microfinance is emerging tool for economic development, poverty alleviation, empowering of low income communities and contributing a new role in micro-entrepreneurship (Mondal ,1998). It has gained a prominent role in developing countries. Most of researches on micro financing have addressed the issue of poverty alleviation and empowering of poor but there is little research on Micro enterprise and Micro-entrepreneurship. This study will examine how micro financing is contributing in entrepreneurship. Do entrepreneurship and entrepreneurial abilities and activities exist in owner and in business? If study will reflect answer 'yes', then in what ways micro financing is contributing to entrepreneurship? And if answer will be 'no', then what can be done to boost its potential.

According to Mondal , (1998) there are two types of microfinance borrowers; one is Micro borrower and other Micro entrepreneur. Micro borrower has mind like capitalist who is aiming to earn profit while doing business. So micro borrower get finances from MFIs, after paying back, again they will get finances but their only motive is to generate profit but not any entrepreneurial achievement. On the other hand, micro entrepreneur financed their business and brings innovation, creativity and doing something different from others. This is the area that this research aims to examine.

2.7 Microfinance Theories/ Models

In spite of having innovative ideas for business, if there is no access to financial resources, these ideas go in vain (Bradford, 1993). Microfinance can change whole Scenario and reach out poor to enable them materialize their ideas and get financial benefits. Sengupta, (2008) noted that, there are now nearly 70 million poor people in the world who are getting benefits from 2500 MFIs in over 100 countries by microfinance.

Conditions of poverty are different in different countries in world. These conditions are related to social, ideological and political issues (Weiss and Montgomery, 2004).

Therefore, there are some distinctive differences between approaches and motive of microfinance. Two approaches, one is very famous Grameen Model, originated from Bangladesh and other is Banco Sol, in Bolivia.

2.7.1 Grameen Model of Microfinance

In Grameen Model, primary unit to whom lending fund is a group of 5 members that organize and apply for loan. In first loan is granted for two members to invest in their business. If these two members become successful to repay amount, then four to six weeks later, next two members are granted for loan. Last one member will be eligible for loan if previous two repay loan successfully. Repayment of loan open door for next loan and then go on if all members repay loan successfully. If anyone of group member will default in her loan, whole group will disqualified for further loan. So instead of financial collateral it is the social collate involved. This is the concept of revolving funds within the group, is seen to be more successful and it puts the onus on the members to be serious and responsible.

Under Grameen Model, Each group has its own president and secretary to coordinate all activities among their own group and to communicate and coordinate with other groups. Eight groups are then organized at center level, by which a bank officer deal with these all eight groups. This center of eight groups has its own center chief and center group leader (Khan and Rehman, 2007). According Sengupta and Aubuchon, (2008) first time, bank granted loan \$100 and bank required repayment of 10 percent per annum but on weekly basis. This repayment ensures to user for loan security, and also encourages them for savings. Along with five percent of loan deposited in group account for emergency and social need. For example, in case of need of health care of any one member, this five percent deposit will be used to cover related expenses.

In Grameen model, the unique and innovative approach to group lending is used. As Sengupta and Aubuchon, (2008) described that group lending have many benefits. First,

group usually organizes members who are neighbors to each other, those can understand each other well and recognizes members who are neighbors to each other, and those can understand each other well and recognize their collective needs. Second, if anyone of group member will not present in group meetings, leader or other member can pay its installment on absentee's behalf. We can say that there is a kind of mutual understanding between all members. Third, in South Asia generally, and in Bangladesh specially, there are social pressures among members of society with social bindings with them. If one member of group will not pay even one installment, social pressure will be levied from all eight groups on this member. Ultimately she/he will try to pay installments. This leads to the reduction of risk of risk default.

2.7.2 Progressive leandin-Banco Sol Model

Grameen model of microfinance emphasizes lending to villagers and keep loan lending on in smaller amount. The other core concept of model is formation of groups and these groups are eligible to take loan, no option of loan for individuals is available. The idea of progressive lending (Agion and Morduch ,2003) was introduced to provide loan to individuals with group lending. Amount of loan will increase after completion of every repayment schedule. But other characteristics of Grameen Model (Group lending) are included in this method, like targeting poor, women, group formation, and public payment. This progressive lending is an extension of group lending (Grameen Model) and now many MFIs are adopting this approach because of its high success rate.

According to Weiss Montgomery , (2004) Microfinance in Latin America developed under quite different conditions. In Bolivia, a collapsing populist regime led to widespread unemployment. Banco Sol, a pioneering microfinance institution in the region, developed to address the problem of urban unemployment and provide credit to the cash-strapped informal sector. The notion of commercial profitability was embraced relatively early in this approach". Thus different versions of microfinance landing model

can be developed along the unique needs of the target groups, so there is no one grand model for the situation.

2.7.3 Microfinance-Interest Free (Islamic Microfinance)

Most of MFIs are providing micro lending on more than 20 percent interest even reaching 30 percent which is higher than commercial banking. The reason for these higher rates is of high institutional cost, giving loan on door steps, small loan amount and higher number of customer therefore increased expenses to maintain all operations and risk factors. This high interest ratio puts pressure on loan borrowers which can affect the overall success of their businesses (Dhumale and Sapcanin, 2008).

There is now new and emerging approach to lending which has introduced interest free microfinance (Islamic Microfinance). As in Islam, charging interest (Riba) on liquid cash is prohibited because according to Islamic teachings, money is not an asset for earning profit (Dhumale and Sapcanin, 2008). Sharia principle of Islam emphasizes on social, ethical, moral factors for distribution of wealth and guide towards social and economic justice (Segrado, 2005). Under sharia principles interest is substantial to sharing profit to the principle because earning profit evolves productive activity and involve in profit and risk sharing between lender and borrower (Dhumale and Sapcanin 2008). Basic motive behind this approach is more than profitability, repository of wealth but collective wisdom of development of business, sharing profit and loss and collective struggle for business development. So the final gain from this approach is social benefit rather than profit gain and profit maximization which is helpful to microfinance and micro entrepreneurship. Microfinances with interest free can be handled in many ways but discussion there will be centred on three famous methods which are Mudaraba, Musharaka and Murabahah (Segrado, 2005).

2.8 Empirical Literature Review

Some studies in Tanzania show that micro-enterprise operators' particularly women have benefited from accessing microfinance. For example in study conducted by Terry (2006) in Temeke Dar es Salaam in assessing impact of microfinance on women entrepreneurs revealed that the majority of the women experienced positive change in their lives through micro finance loans offered by FINCA Tanzania. Nevertheless, women entrepreneurs experienced such risk associated with loan lack of economic opportunities due to the deep rooted tradition and cultural barriers. This study seeks to look at both male and female micro entrepreneurs at different micro-finance institution.

In another Tanzanian study by Mbilinyi, (1995) he pointed out that some female entrepreneur who after applying microfinance loan into their business accumulated personal assets.

This asset-building perspective is useful for three reasons. First, if microfinance programs help participants in to build assets, then they not only help them to start and strengthen small businesses but also to build capacities useful in wage jobs and indeed in all areas of life. Second, while loans are one way to build assets, they are not the only way, and they are certainly not the most common way, especially for start-up ventures.

Third, looking at asset-development beyond loans suggests new ways to support microenterprise, in particular via savings services and assistance in building networks of social capital. Clients requires assets in the form of human capital (education, experience, and entrepreneurship), financial capital (loans or savings), and social capital (networks and personal support. Source <http://www.microfinance.com>)

2.9 Conceptual Framework

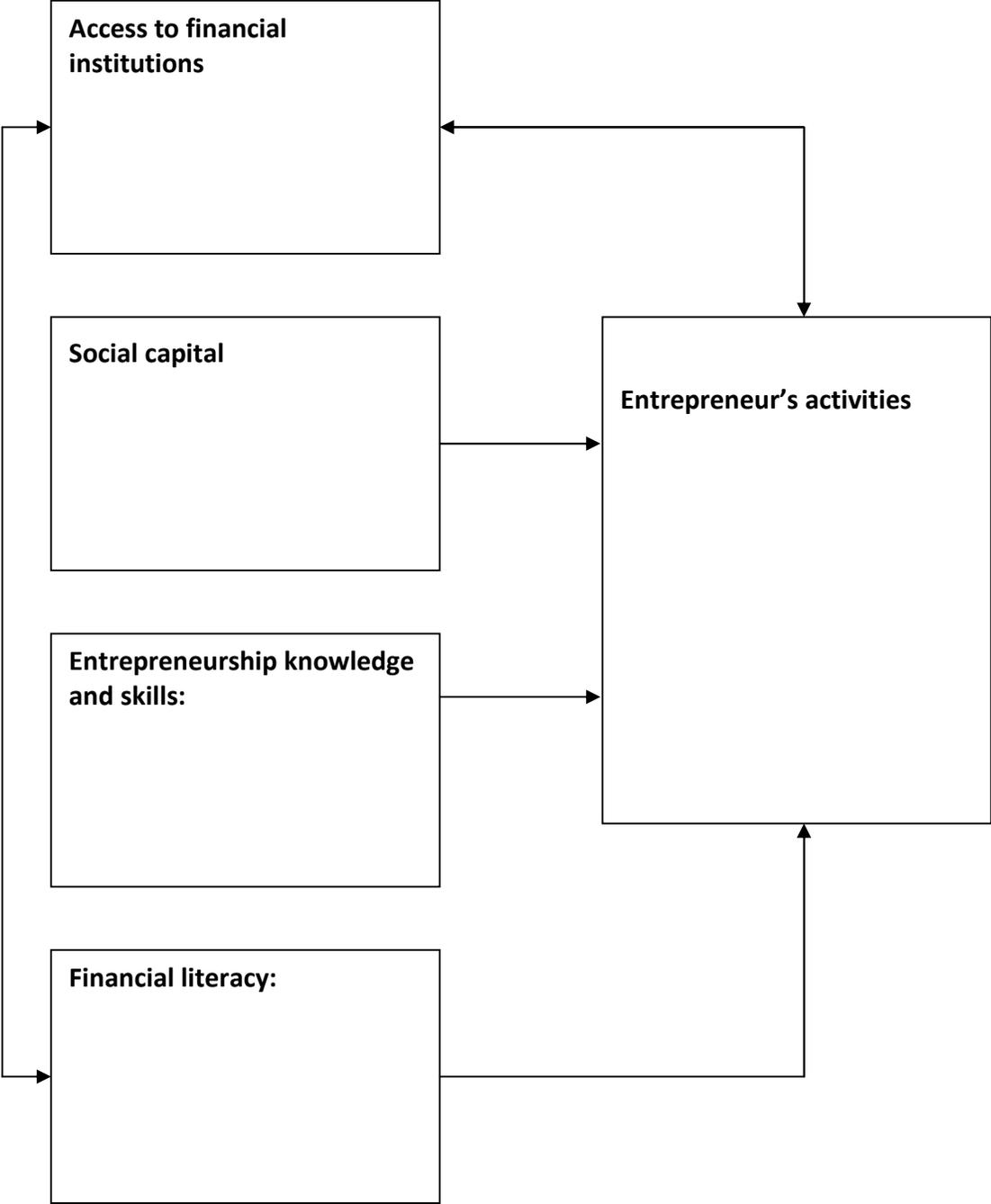
For purpose of making this study to be easy understood the researcher develop two variables, that is dependent variable in this study so called entrepreneurs activities and

independent variable called factor which contributes development activities. These two variables depend on each other.

Entrepreneurship activities in order to be success will depend on the following factors

- i. **Access to financial institutions:** Community members, especially the poor, face considerable hardships in accessing finance. In particular, they are outside the radar of formal financial institutions, despite several Government instructions to open up for the marginal clients.
- ii. **Social Capital:** Adequate social network among member of micro entrepreneur will stimulate activities of micro entrepreneurs to develop successful on other side lack of social capital, that is poor people do not have the social networks and this deprives the target groups of a key linkage with business partners which could otherwise have provided valuable assistance regarding different aspects of business development.
- iii. **Entrepreneurship knowledge and skills:** Availability of adequate skills and knowledge about entrepreneurship to individual will boost development of entrepreneurs' activities. While if most of peoples do not have enough skills in using and mobilizing resources for developing their entrepreneurial skills and this often leads to serious gaps in the fields of managerial skills, strategic planning, etc. which are vital for meeting the challenges of the marketplace hence hinder development of entrepreneurs' activities.
- iv. **Financial Literacy:** MFI fails to provide training services on financial to micro entrepreneurs, this will contribute to the fails of micro entrepreneurs' activities growth. Problems of financial illiteracy, which will affects record keeping and financial decision-making ability of borrowers hinders activities of micro entrepreneurs to develop successful.

Figure 2.2 Conceptual Framework



Source: www.reopabd.org;

Gaps in Literature

There are virtually no empirical studies in Tanzania, which examine the role of microfinance enterprises in providing the credit services and in providing the training services to micro-enterprises and at the same time linking it to the measurement of technical efficiency. Also more importantly there is also lack of studies on the impact of providing comprehensive micro financial services on the micro entrepreneurs development. These literature gaps hinder the objective of relationship between micro finance enterprises and micro entrepreneur which are poverty reduction, empowerment and sustainable development which lead the need to be studied further. Therefore, my study will intend to measure if the micro entrepreneurship activities will be influenced by access to financial institutions, social capital, entrepreneurship knowledge and skills and financial literacy from microfinance institution.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter focuses on the methods to be adopted and used for this study to address research objectives. The chapter explains the research design, sampling techniques, and data collection methods and data analysis. Furthermore, this section discusses reliability and validity of data and finally the ethical consideration.

3.1 Research Design

Research design is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The objective of this study was to assess the impact of microfinance on the development of micro entrepreneurial activities. The case study design was used to the fact that, the study based at one place. Case study was used because it allows the use of various data collection methods. Also, it was cheaper and less time consuming due to limited of resources, it also gave a researcher the possibility of having much focused study

3.2 Geographical Study Area

The study area was Dar es Salaam city which is located in Eastern part of Tanzania. This study was conducted in Kinondoni Municipal.

3.3 Sample and Target Population

The population of the study was all micro entrepreneurs. The study comprised of micro-entrepreneurs that have taken loan from PRIDE and FINCA branch offices located in Kinondoni Municipal. That is the study was looking at micro-entrepreneurs who have been in business for at least two years ago and have received loans from PRIDE and

FINCA. To be able to reach the micro entrepreneurs for the study, the PRIDE and FINCA offices in Dar es Salaam city were contacted.

The target population was estimated to be about 10,000 clients for PRIDE and FINCA respectively. The researcher chooses PRIDE and FINCA Kinondoni Municipal to be the case study of this research because of the possibility of getting required data and is near to researcher place of work.

3.4 Sample Size

A sample size is a portion of the study population (McDaniel and Gates 2003). In order for the results to be reliable the sample should be representative of the population. There are several methods used for determining sample size and these include use of formula and statistical tables (Kotrik and Higgins 2001). A sample of 120 respondents was taken from FINCA and PRIDE.

3.5 Sampling Techniques

3.5.1 Simple Random Sampling

This sampling technique provides equal opportunity of selection of each element of the population. It is a procedure in which all the individuals in the group of borrowers from FINCA and PRIDE have an equal and independent chance of being selected as a member of the sample

3.5.1 Purposive Sampling

The sampling method is non probabilistic method, purposely targets an individual that believed to be reliable for the study. The power of purposive sampling lies in selecting information rich cases for in-depth analysis related to the central issues being studied. In this procedure the researcher targeted 20 groups of loan officers who have dealt with micro-entrepreneurs and are good source of reliable information for the study about microfinance loans.

3.6 Types and Sources of data

The study intended to identify constrains; challenges and barriers impede entrepreneurial development. Therefore, the study used both primary and secondary data, however the information primarily gathered from the respondents whom respond from the research questionnaires and interview that were organized and conducted by the researcher.

The secondary data were taken from documents that related to the subject area of the research study. The material source related books, journals, research that already done by others on related issue, internet information and material prepared by Village Community Bank showing the trend on financial services.

3.7 Data collection methods

According to Ndunguru, (2007) data collection design method involves providing reliable and valid answers to investigate questions of a study. Investigative questions in social science research focus on describing, explaining, and/or correlating phenomenal social aspects. There are two modes of gathering primary data, namely, observation mode (aspects or things we can measure by observing) and communication mode (for aspects we can measure by communicating with people). The study gathered through the use of communication mode, and the following are the method were used

3.7.1 Interview

The researcher prepared the list of questions. Unstructured questions (not rigid pre-set), both open ended and closed ended questions were asked then observe the kind of response, 20 respondents were part of the interview process.

The researcher prepared the interview guide questions in connection to research questions. The technique was used because, sample controlled more effectively, more information and that too in greater depth can be obtained, also the technique associated

with greater flexibility, therefore the researcher have the opportunity to restructure questions so as to reach the research objectives.

3.7.2 Questionnaire

Questionnaires are kind of questions that the respondents fill the answers in form and the researcher will collect the forms with the completed information. Ndunguru portrayed “A well focused questionnaire is a one whose questions asked cover adequately and in sufficient detail all the various aspect of research problem and that such question are relevant to the research problem” (Ndunguru ,2007). This technique is chosen because does not exerting pressure to the respondents. The researcher prepared questionnaire, structured and unstructured questionnaires. Structured questionnaires are those questionnaires in which there are definite, concrete and pre-determined questions. When characteristics are not present in a questionnaire, it can be termed as unstructured (Saunders and Thornhill, 2009). The use of questionnaire is of advantage because of economy, influencing interview’s bias and the possibility of anonymity.

3.7.3 Document Review

This method includes the related textbooks discussed the subject of the study, journal, internet sources to related issues, data prepared by microfinance institutions showing the trend on financial services and credit application and uses by participants.

Document review consists of analyzing the contents of documentary materials such as company’s policy, company performance reports and the contents of all other verbal materials, which can be either spoken or printed. Thus, reading company’s reports and then reporting on the content, as in a book review, is not document review. This study reviewed a number of documents in relation for the problem reviewed necessary for adding up information obtained from questionnaires and interview method.

3.8 Data Analysis Method

According to Kothari, (2004) data analysis is a process, which implies editing, coding, classification and tabulation of collected data. Both quantitative and qualitative analysis was used for different types of data. Qualitative data were analyzed using content analysis technique. Quantitative data were coded, and frequencies were calculated and presented in tables. Microsoft Excel was employed in the process of data entry, cleaning, and analysis. The analysis involved the use of frequencies, percentages, means, and mode.

CHAPTER FOUR:

PRESENTATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter put down presentation and discussion of the findings. The first section of the chapter gives identify barriers impede entrepreneurial development while constrains facing micro entrepreneurs are discussed in section two. The last section of the chapter contains challenges facing microfinance institutions in providing services to micro entrepreneurs

4.2 Background Characteristics of the Respondents

4.2.1 Age of the Respondents

The age of respondents were asked in order to establish whether it has any influence on role of microfinance on entrepreneurial development in Dar es Salaam city. The study found that majority of the respondents (55.83%) was aged between 25 – 34 yeras. Also, the study found that only (4.16%) of the respondents were aged 55 and above, as presented in Table 4.1. This suggest most of the entrepreneurs in Dar es Salaam are aged between 25 to 34 years

Table 4. 1: Age of the Respondents

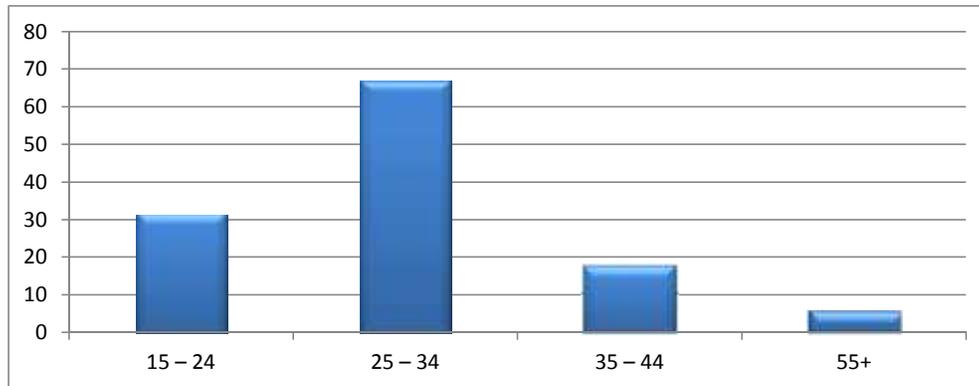
Responses	Frequency	Percentage
15 – 24	31	25.83
25 – 34	67	55.83
35 – 44	17	14.17
55+	5	4.16
Total	120	100.00

Source: Field Data, 2014

Table 4.1 show the ages of the respondents, majority of the respondents (55.83%) were aged between 25 and 34 years, this implies majority of the respondents were capable to provide relevant information, also this suggest that most of the entrepreneurs in Dar es

salaam, were aged between 25 to 35 years. Table 4.1 is well summarized in Figure 4.1 below

Figure 4. 1: Age



Source: Field Data, 2014

Figure 4.1 presents age of the respondents. The study found that the large number of the respondents was aged between 25-34 years.

4.2.2 Gender of the Respondents

The study was interested to examine gender of respondents in order to establish whether it has any influence on role of microfinance on entrepreneurial development. The study found that majority of the respondents (60.2%) were females and minority of them (39.2%) were males, as presented in Table 4.2

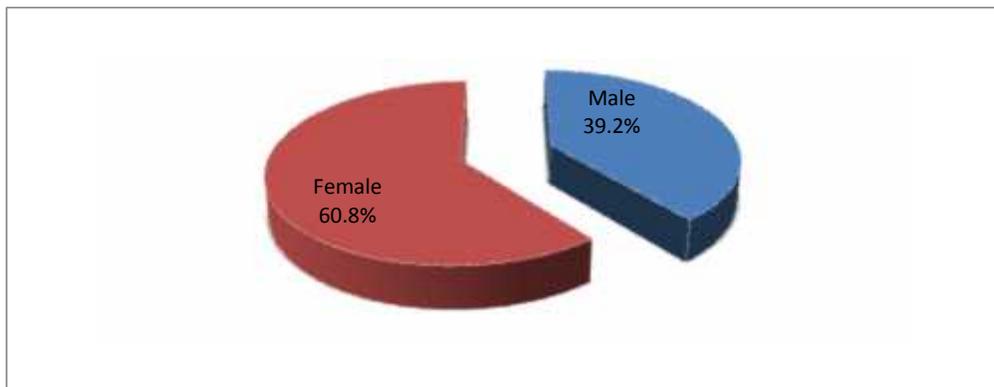
Table 4. 2: Gender

Responses	Frequency	Percentage
Male	47	39.2
Female	73	60.8
Total	120	100.0

Source: Field Data, 2014

Table 4.2 show gender of the respondents, majority of the respondents (60.8%) were females,. Insignificant number of respondents (39.2%) was male as illustrated in Figure 4.2 below

Figure 4. 2: Gender



Source: Field Data, 2014

4.2.3 Occupation

Occupations of the respondents were identified in order to ensure all respondents are coming from the targeted group. Respondents were asked to identify occupations, in their replay the study found that majority of the respondents (88.33%) were micro entrepreneurs, fallowed by (10%) of the loan officers as presented in Table 4.3

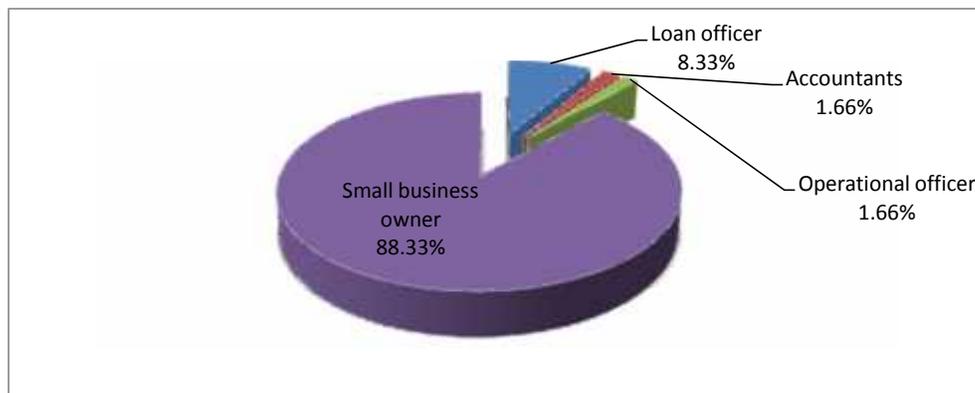
Table 4. 3: Occupation

Responses	Frequency	Percentage
Loan officer	10	8.33
Accountants	2	1.66
Operational officer	2	1.66
Entrepreneur	106	88.33
Total	120	100.00

Source: Field Data, 2014

Table 4.3 show occupation of the respondents, majority of the respondents (88.33%) were micro entrepreneurs, minority of them (11.67%) were loan officers, accountants and operation officers

Figure 4. 3: Occupation



Source: Field Data, 2014

4.2.4 Level of Education

The study was interested to assess the level of education of the respondents in order to determine if it has any influence on role of microfinance on entrepreneurial development, the study found that majority (62.5%) of the respondents have secondary education, as presented in Table 4.4

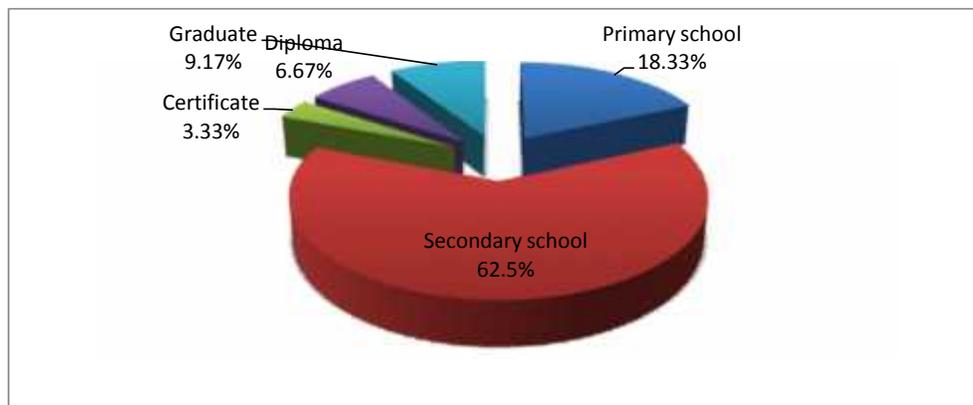
Table 4. 4: Level of Education

Responses	Frequency	Percentage
Primary school	22	18.33
Secondary school	75	62.50
Certificate	4	3.33
Diploma	8	6.67
Graduate	11	9.17
Total	120	100.00

Source: Field Data, 2014

Table 4.4 show levels of education of the respondents, majority of the respondents (62.5%) have secondary education, followed by (18.33%) of the respondents have primary school education, this implies that most of the micro entrepreneurs have secondary school education, as presented in Figure 4.4

Figure 4. 4: Level of Education



Source: Field Data, 2014.

4.3 The Role of Microfinance Institutions

The study examines the role of microfinance institution. The study indicated there are different roles of microfinance institutions. Majority of respondents (35.83%) identified provides loan services as a major role of microfinance institutions. Table 4.5 presents responses on the role of microfinance institutions. This is similar to the study made by Mondal, (2000), the study found that MFIs play significance role in providing loans services to micro enterprises. Small enterprises which require relatively large sums of money have difficulties in obtaining bank loans because they lack the collateral and capacity to underwrite loan proposals (Rutashobya, 2010). This situation tends to impact harder on micro entrepreneurs. There is need to explore and popularize models that have the potential to be used by the small businesses. If such models do not exist, new ones should be developed.

Table 4. 5: The Role of Microfinance Institutions

Responses	Frequency	Percentage
Provide loan services	43	35.83
Provide consultation	23	19.16
Provide training	35	29.16
Business monitoring services	19	15.83
Total	120	100

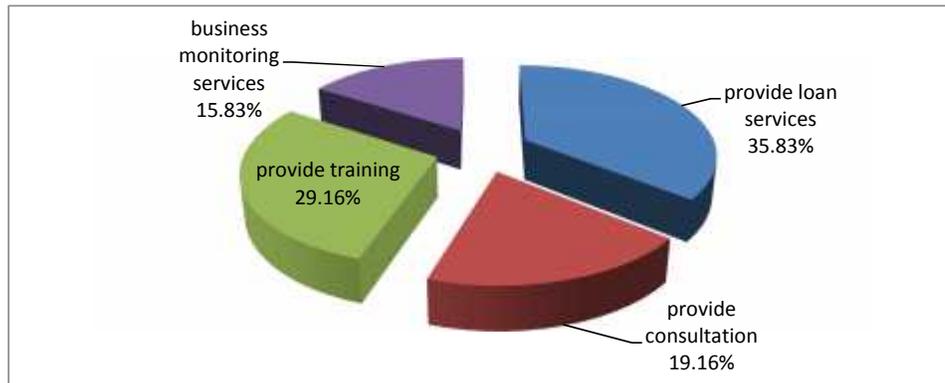
Source: field data, 2014

Table 4.5 presents role of microfinance institutions. The study found small number of respondents (15.83%) identified business monitoring services as the role of microfinance institutions. This is similar to the study conducted by Segrado, (2005), the study found that MFIs provide business monitoring to its customer. Given the micro entrepreneurs' poor educational background, they lack the qualifications needed to compete in the labour market. Consequently, they are underrepresented in government and the professions.

Also the study found that out of 120 respondents 35 (29.16%) suggested provide training as the role of microfinance institutions. Microfinance institutions plays significant role in enhancing micro entrepreneurs operations. This is similar to the study made by Svesson, (2003), the study found that Microfinance institutions provide training to micro entrepreneurs. Almost all the micro entrepreneurs interviewed admitted that they needed professional assistance to keep their accounts. micro entrepreneurs operators in Tanzania have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries

Moreover, the study found small number of the respondents (19.16%) revealed that provide consultation as the role of microfinance institutions as presented in figure 4.5. this is similar to the study made by Agion and Morduch, (2003), the study found MFIs provide consultant services to micro entrepreneurs. Also, the government has put in place some new support institutions and mechanisms focusing on the development of micro entrepreneurship. At the same time, the limited experience and knowledge of micro entrepreneurs in the preparation of business plans do not allow them to obtain the necessary finance to start a business

Figure 4. 5: The Role of Microfinance Institutions



Source: Field Data, 2014

Majority of the respondents (35.8%) identified provide loan services as a role of micro financial institutions

Moreover the study was interested to examine barriers impede entrepreneurial development, loans officers (relationship officers) and micro entrepreneurs were asked to indentify the barriers impede entrepreneurial development in Tanzania, in their replay the study found that majority of the respondents (51.67%) identified that high interest rate is the strong barrier in impede entrepreneur development. Table 4.5 presents barriers impede entrepreneurial development.

Table 4. 6: Barriers that Impede Entrepreneurial

Responses	Frequency	Percentage
Non Registration	14	11.67
Lack of Collateral	12	10.00
Lack of Business Experience	4	3.33
Improper Accounting Record Keeping	10	8.33
Lack of Knowledge	5	4.17
Bureaucracy	3	2.50
Cumbersome loan Procedures	2	1.67
High loan Interest Rate	62	51.67
Lack of Government Support	3	2.50
Lack of Financial Training	5	4.17
Total	120	100.00

Source: Field Data, 2014.

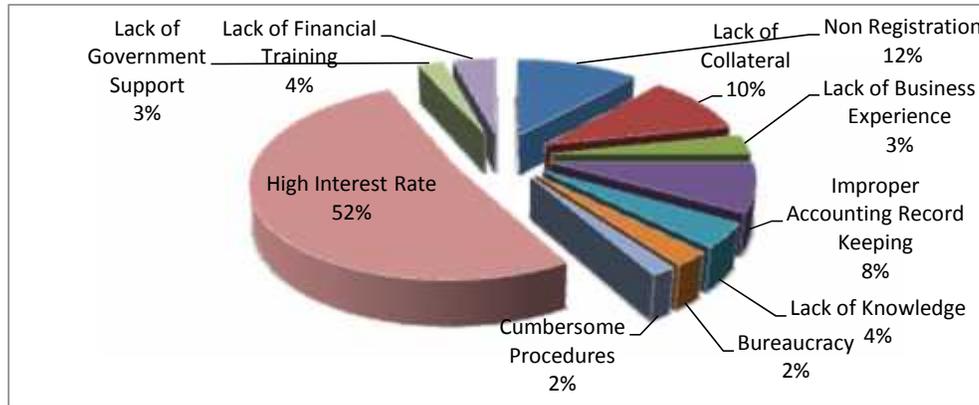
Table 4.6 shows barriers that impede entrepreneurial, majority of the respondents (51.67%) identified high interest rate is the barrier that impede entrepreneurs' development. This is similar, to the study made by Mondal, (2000), the study found that, interest rate in most of the MFIs in high. This impedes the development of micro entrepreneurs.

Also, significant number of respondents (11.67%), (10%) and (8.33%) identified non registration, lack of collateral and improper accounting records respectively. This implies that most of the micro entrepreneurs fail to access loans from microfinance institutions due to high interest rate, improper accounting records and lack of registered businesses, this is similar to responses obtained during interview, one of the relationship officers (loans officer) revealed that:

Our interest rate range between 21- 28%. But for small loans, the rate of interest is 28% due to risk associated in servicing the loans granted. But for women customers who take large loans the rate of interest is 21% depending on the size of the loans.

Also the study found that minority of the respondents (28.33%) identified the micro entrepreneurs barriers involves, lack of financial training, lack of government support, lack of business experience, lack of knowledge, bureaucracy and cumbersome procedures, as illustrated in Figure 4.6. Corruption and bureaucracy make matters worse especially for micro entrepreneurs, who are more vulnerable to physical pressure from corrupt officials. At the broader macro environment level, the main barrier to the performance of owned enterprises is a cultural environment that makes it more difficult for micro entrepreneurs to start and run enterprises due to their perceptions about traditional reproductive roles. Micro entrepreneurs are obliged to divide their time between their family and community roles and running the business. By and large, existing literature on micro entrepreneurs in the MSE sector has focused mainly on those operating informal microenterprises, and it tends to generalize the issues and problems to all business. In reality, the incidence and impact of these constraints may vary significantly from one size category of the MSE sector to another. No systematic research has been done to capture these differences, in particular with regard to women involved in growing and expanding business (ILO,2003).

Figure 4. 6: Barriers that Impede Entrepreneurial



Source: Field Data, 2014.

Majority of the respondents (52%) identified high interest rate is a barriers that impede entrepreneurial development; this implies that the interest rate is high in Tanzania. Also lack of collateral, Non registration of the business and improper accounting record keeping are other major barriers Impede Entrepreneurial development. Previous studies show that micro entrepreneurs in Africa generally have no to some primary school education, while women running large-scale firms usually have secondary or even some college education. Those in between, running small- or medium sized businesses, have usually completed secondary school, some even collage (Swedberg, 2000).

4.7 Constrains Facing Micro Entrepreneurs

The study examine constrains facing micro entrepreneurs, all respondents were as asked to identify the constrains facing micro entrepreneurs, in their replay the study found majority of the respondents (60%) identified high interest rate is a major constrains facing micro entrepreneurs as presented in Table 4.7 below

Table 4. 7: Constrains Facing Micro Entrepreneurs

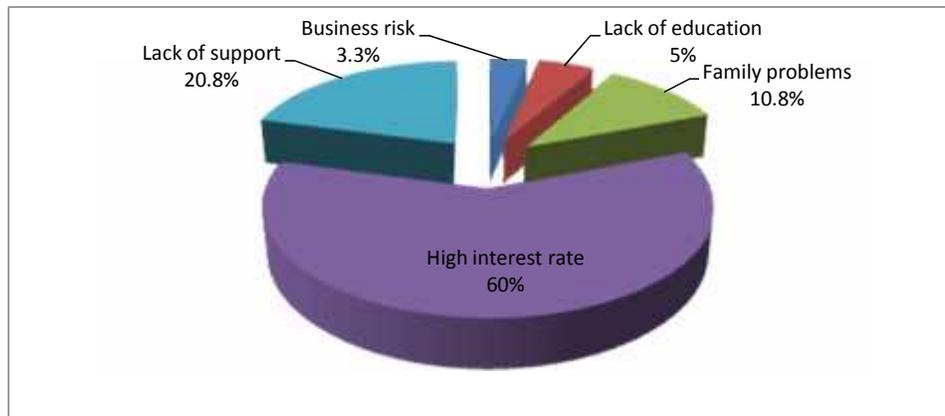
Responses	Number of Respondents	Percentage
Business risk	4	3.33
Lack of education	6	5.00
Family problems	13	10.83
High interest rate	72	60.00
Lack of support	25	20.83
Total	120	100.00

Source: Field Data, 2014.

Table 4.7 shows constrains facing micro entrepreneurs, majority of the respondents identified high interest rate is a major constrains facing micro entrepreneurs, also significant number of respondents (20.83%) identified lack of support. This is similar to the study made by Segrado, (2005), the study found micro entrepreneurs lack support due to poor legal framework. Micro entrepreneurs faced strong constrains to enterprise development in the prevailing laws and regulations. Obtaining licenses, registering the business in their own name, and applying for loans were nightmares they had to live with. It is therefore argued that an appreciation of gender issues is important when considering strategies to improve Africa's competitiveness in the world and ways to promote private-sector development. Also, Spring, (2009), argues that operating in the informal economy lack the ability to accumulate the savings required for the start-up process. Micro entrepreneurs with poor levels of education are less likely to have accumulated savings from previous employment. They therefore lack access to working capital and credit and, as a result, have low profits to reinvest in their firms.

Small number of respondents identified business risk and lack of education the major constrains, as presented in Figure 4.7

Figure 4. 7: Constrains Facing Micro Entrepreneurs



Source: Field Data, 2014.

Moreover, the study found small number of the respondents (10.8%) identified family problems as a constrains facing micro entrepreneurs. This is similar to the study made by Mead, and Liedholm, (1998), the study found that majority of the micro entrepreneurs' are facing family problems. This is more common for women entrepreneurs. In all countries around the world, women continue to be primary caregivers for their children and other family dependants, whether they work outside the home or not. Moreover, in developing countries, women are often the sole breadwinner of the family, and are therefore forced to seek paid employment outside the home, alternatively to start a business. Thus, it might not be surprising that a frequent theme in previous research on women's entrepreneurship is that women run their business in relation to their family situation, which is not the case when looking at research on men's entrepreneurship (Berglund 2007).

Women often have a number of dependants to provide for, except husband and children, there are often aged parents, siblings and extended family members to care for, putting additional burdens on the women

4.5 Challenges Facing Microfinance Institutions in Providing Services

The study was interested to identify the challenges facing microfinance institutions in providing services to micro entrepreneurs, in the reply the study found that majority of the respondents (58.3%) revealed that poor management is the strong challenge for microfinance institutions in providing loans to micro entrepreneurs, as presented in Table 4.8

Table 4. 8: Microfinance Institutions Challenges in Providing Services

Responses	Frequency	Percentage
Budgetary limitation	16	13.3
Lack of experts	12	10.0
Technology	19	15.8
Lack of government support	6	5.0
Poor Management	67	58.3
Total	120	100.0

Source: Field Data, 2014.

Table 4.8 show microfinance institutions challenges in providing services, majority of the respondents (58.3%) poor management as a major challenge facing MFIs.

Also, the study found that, minority of the respondent (15.8%) identified, technology as a challenge facing MFIs in provision of services. this is similar to the study conducted by Bradford, (1993) the study found that, Technology for micro entrepreneurs is often implicitly equated with simple technologies. These may contribute to rudimentary income-generation activities but not very much to the improvement and growth of manufacturing businesses. This concept leads to a narrow approach on the part of support institutions or donors in the design and development of technologies for micro enterprises.

The problem is further compounded by the existence of industrial support institutions which are weak and do operate in isolation without focusing on the actual requirements of the SME sector. Furthermore, technologies available are not disseminated to the potential clients. In addition, SMEs cannot afford the services provided by the relevant institutions.

Also, the study found that budget and government policy as a challenge. The responses in table 4.8 are well illustrated in Figure 4.8. This is similar to the study made by Mondal, (2000), the study found MFIs are facing budgetary limitations. This hinders the provisions of services to micro entrepreneurs. MFI schemes in Tanzania were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure

Moreover, the study found small number of the respondents (5%) identified lack of government support as a challenge facing most of the MFIs. The regulatory frameworks for microfinance institutions (MFIs) and cooperative financial institutions (CFIs) are still in process of being enacted into pertinent laws and corresponding implementing regulations. There is need for a clearly defined strategy on how to integrate SACCOs and NGOs into the emerging microfinance regulatory framework, and what policy environment, resource and capacity requirements will be required not only by the institutions but also by the regulatory bodies

Figure 4. 8: Microfinance Institutions Challenges in Providing Services



Source: Field Data, 2014.

Figure 4.8 presents challenges facing Microfinance institutions in providing services in provision of services. The study found majority of the respondents (58.3%) identified poor management is major challenge.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study, conclusion and recommendations of the study. The first part of the chapter discusses summary while conclusion and recommendations are explained in section two and section three respectively. The last part of the chapter put down areas for further studies.

5.1 Summary of the Study

The investigated the role of microfinance on entrepreneurial development. The study was conducted in FINCA and PRIDE, Dar es Salaam. The objectives of the study were: to identify barriers impede entrepreneurial development; to determine constrains facing micro entrepreneurs and to find out challenges facing microfinance institutions in providing services to micro entrepreneurs.

A sample of 120 respondents was taken from FINCA and PRIDE. Primary data were collected by using questionnaires and in depth interview. Data were presented by using tables and figures.

The study found that MFIs play significant role in enhancing micro entrepreneurs. MFIs provide loan services, consultation, training and business monitoring services. The study found that majority of the respondents (51.67%) identified that high interest rate is the strong barrier in impede entrepreneur development. Also, the study found that majority of the respondents (60%) identified high interest rate is a major constrains facing micro entrepreneurs. Moreover, the study the study found that majority of the respondents (58.3%) revealed that poor management is the strong challenge for microfinance institutions in providing loans to micro entrepreneurs.

The study concluded that MFIs play significance role in enhance micro enterprises operations. The study concluded that there are various barriers impede entrepreneurs' development. The major challenges involve, lack of collateral, high loan interest rate and lack of registration. The study recommended that Microfinance institutions in Tanzania also need to review their policies on the maximum amount of loans to micro entrepreneurs to reflect the market demands. At the moment, new micro entrepreneurs should not have much hope of getting finance sufficient assistance from most of the microfinance institutions.

5.2 Conclusion

The study concluded that there are various barriers impede entrepreneurs' development. The major challenges involve, lack of collateral, high loan interest rate and lack of registration. Also, the study concluded that, micro entrepreneurs face a number of challenges. These include business risk, lack of education, family problems, high interest rate and lack of support.

Despite the existence barriers for micro entrepreneurs in accessing microfinance services, among others, several Micro entrepreneurs have got their businesses growing. This suggests that there might be some factors or opportunities that have enabled some micro entrepreneurs to overcome the above mentioned constraints and make their businesses prosperous. This could be because of their hardworking spirits, having understanding and supportive family members and skills and know how obtained by being persistent in the business. Finally the study conclude that lowering interest rate will improve loan provision to micro entrepreneurs in Tanzania, It was established that microfinance institutions are skeptical in giving loans to not only very risky businesses but also new businesses. They are keen when assessing the creditworthiness of businesses while dealing with asymmetric information problems.

5.3 Recommendations

Based on the findings of the study, the following recommendations are made;-

The government of Tanzania in collaboration with the higher learning institutions should work towards the provision of entrepreneurial skills and knowledge on business management. Entrepreneurial skills and knowledge on business management are important in making business organization a success.

It is therefore recommended that entrepreneurs be encouraged to attend the open trainings on entrepreneurial skills and to be informed on the available opportunities particularly on trainings on entrepreneurship matters. The government on the other hand should intervene to promote entrepreneurial culture amongst women.

The government of Tanzania should establish a coordinating office for outreach services for micro entrepreneurs. It is recommended that a coordinating office be established to facilitate access to financial resources and education for entrepreneurs. This could take the form of a network of women's enterprise centers in various regions across the country, or the appointment of a dedicated women's officer in government regional offices.

Microfinance institutions in Tanzania also need to review their policies on the maximum amount of loans to micro entrepreneurs to reflect the market demands. At the moment, new micro entrepreneurs should not have much hope of getting finance sufficient assistance from most of the microfinance institutions.

The financial institutions are argued to promote micro entrepreneur by giving them loans and setting low (affordable) interest rates. This will help to encourage more micro entrepreneur to get involved in entrepreneurial activities and those who are already doing business will get the chance to expand their businesses further.

The efforts of Tanzanian microfinance institutions should be streamlined to meet the set standard. A critical look at the interest rate of these FIs generally shows a high rate and this does not augur well for effective expansion and job creation. Also the high interest rate is serving as a disincentive to micro entrepreneurs.

It should be noted that, extending credit alone is not sufficient condition to reduce micro entrepreneurs' challenges and improve productivity and income for small business owners in Tanzania. Therefore, additional intervention that goes hand in hand with micro financing should be implemented. By this the reference is on securing work place for informal operators, markets for their products, health and educational services, training and skill development, how to develop effective and efficient businesses are all needed and should be given a thought.

Microfinance institutions should inculcate the habit of training and developing their management and staff in order to build capacity for meeting the challenges of the time and embrace and take advantage of developments in information and telecommunications technology and other technological areas

Government should take measures that will reduce the risks and transaction costs of lending to increase competition in the financial sector and strengthen the capabilities to serve women businesses. The government will provide seed capital and other financial resources for women

Finally, training institutions should continue educating micro entrepreneurs relevant aspect that are of important to lenders and. Lastly, the Government should consider providing guarantee to those micro entrepreneurs perceived as too risky by Banks just like the ongoing initiatives in the agriculture sector.

5.4 Area for Further Studies

Impeding studies should involve the entire country instead of concentrating in one region. Future studies can further investigate how to tackle insufficient capital among micro entrepreneurs, low entrepreneurial and management skills. Future studies can further investigate how to tackle insufficient capital among micro entrepreneurs, low entrepreneurial and management skills. Furthermore, future studies can also look into how fashion changes, scarcity of products, and low quality of products affect microentrepreneurs who rely on getting their products locally.

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APPENDICES

Appendix 1: Questionnaire

1. Age

- a) 15 – 24 []
- b) 25 – 34 []
- c) 35 – 44 []
- d) 55+ []

2. Gender

- a) Male []
- b) Female []

3. Occupation

- a) Loan officer []
- b) Accountants []
- c) Operational officer []
- d) Entrepreneur []

4. Level of education

- a) Primary school
- b) Secondary school
- c) Certificate
- d) Diploma
- e) Graduate

5. What are the barriers impede entrepreneurial development

- a) Non Registration []
- b) Lack of Collateral []
- c) Lack of Business Experience []
- d) Improper Accounting Record Keeping []
- e) Lack of Knowledge []
- f) Bureaucracy []
- g) Cumbersome loan Procedures []
- h) High loan Interest Rate []

What are other barriers impede entrepreneurial development? Please mention

6. What are Constrains Facing Micro Entrepreneurs?

- a) Business risk []
- b) Lack of education []
- c) Family problems []
- d) High interest rate []
- e) Lack of support []

7. Apart from the above, identify other constrains facing micro entrepreneurs

8. What are the challenges facing microfinance institutions

- a) Lack of experts []
- b) Technology []
- c) Lack of government support []
- d) Poor Management []

9. Apart from the above, identify other challenge facing microfinance institutions

Appendix 2: Interview Guide

4. What level of loans do micro-entrepreneurs get from microfinance institution?
5. How the microfinance develop entrepreneurs?
6. What are the challenges facing microfinance in providing services to micro entrepreneurs?
7. Do the micro-entrepreneurs use the loans for business activities?