

**Mzumbe University - Agder University College
Collaboration**

**ENTREPRENEURSHIP AND SMALL BUSINESS
DEVELOPMENT RESEARCH PROGRAMME**

RESEARCH REPORT

**THE DYNAMICS AND POWER OF
MICRO ENTERPRISES AT THE
HOUSEHOLD LEVEL**

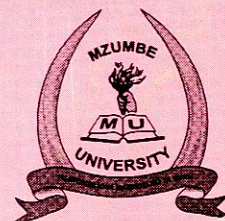
**The Experience of Pride Customers in
Morogoro - Tanzania**

Josephat Stephen Itika

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TANZANIA**

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RESEARCH REPORT

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Title: The Power and Dynamics of Micro Enterprises at the Household Level: The Experience of Pride Customers in Morogoro –Tanzania

Author: Josephat S. Itika, Senior Lecturer, Mzumbe University

Abstract: *This work is a result of a case study conducted in Morogoro Municipality in Tanzania from July 1999 to November 2001. The objective was to find out the dynamics and power of PRIDE financed micro enterprises at the household level. A structured self-administered questionnaire was used to solicit opinion from 146 PRIDE customers, the majority being women. Semi structured interviews, focus groups discussions, observations and documentary review were used to explore the nature and dynamics of the enterprise's empowerment processes. Simple statistics were complemented by qualitative content analysis. PRIDE credit scheme, which is a replica of Grameen- Bank micro finance model, does empower households though the nature and characteristics of such enterprises cannot form the basis for economic growth without macro economic polices that promote substantial investments for employment creation.*

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Key Words: Micro Enterprise, Household, Empowerment, Credit, Group Collateral

8/22

ISBN Tanzania 9987-617-40-9

Date: 2002

ISBN Norway 82-7117-459-2

Order From: Mzumbe University, DRPS, P.O.Box 1 Mzumbe, Fax: +2552326004382, Tanzania
and Agder University College, Serviceboks 422, N-4604 Kristainsand, Norway
Tel. +47381000, Fax:+47381001

7/24
7/25



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List of Acronyms

EG	Enterprise Group
LIF	Loan Insurance Fund
MEC	Market Enterprise Committee
NORAD	Norwegian Agency for Development
PRIDE	Promotion of Rural Initiatives and Development Enterprise
REDI	Regional Enterprise Development Institute
TShs.	Tanzanian Shillings

Acknowledgement

Successful accomplishment of research work is not an easy task. It requires efforts, commitment, tolerance and understanding of many people. First of all I am highly indebted to the UAC/IDM ESD Research Cluster Coordinators for providing me with an opportunity to conduct this study. Secondly, I would like to thank PRIDE Tanzania Arusha headquarters for accepting my request to conduct the study at Morogoro branch, and much more for providing secondary data. They also accepted my questionnaire for clients without hesitation. I am particularly indebted to Mr. Obama the then PRIDE Tanzania operations manager and Mr. Tarimo (a trainer) for useful inputs in this report. Thirdly, I wish to express my sincere gratitude to the then Morogoro PRIDE Branch manager Ms Hilda for initial advise and discussions during the administration of questionnaires to different clients.

Fourth, my gratitude is also extended to Ms Candida, and Mr. Hatari (Loan Officers), for accepting my disturbance and do the physical distribution of questionnaires. Indeed without them my task would have been terribly difficult.

Focus group discussions would have been almost impossible without advice and physical participation of the now branch manager Mr. Okeng'o and the loan officer Ms Kavishe. They were critical in the process of groups as well as individual clients sampling. Please receive my sincere gratitude.

Fifth, are all women and men who had to spare their precious time to do the boring job of filling questionnaires and answering what might have been senseless questions during interviews and discussions. To all of you I say thank you very much.

Lastly but not least, are my wife Voyness, my son Divine and daughters Gladys and Neema for bearing with me when I had to spend long hours in my computer preparing the report. Thank you for the concern and care.

SUMMARY

This report presents research findings on the dynamics and power of PRIDE supported micro enterprises at the households. In the context of the study, Power was defined as ability to exert influence in the life pattern of individuals and households for the better. In this case, empowerment is a process of creating opportunities and motivation for seeking and sustaining better life for households. The report is based on a study conducted in Morogoro municipality for PRIDE financed micro entrepreneurs from July 1999 to November 2002. Despite various use of the word entrepreneur (Schumpeter, 1934, Shapero and Sokol, 1982), the word entrepreneur is used to imply any person who owns and manages a micro enterprise or income generating activity. This definition is useful in our analysis due to an obvious reason. In a third world context, most of the micro enterprises are so small and more of a hand to mouth oriented such that it is extremely difficult to consider such enterprises as entrepreneurial; although there are some kind of crude levels of entrepreneurial elements. These elements might be available and indeed very difficult to notice or measure. Such elements and levels include the extent of innovation, profit seeking behaviour and the thirsty for achievement.

The indicators of empowerment were assessed in terms of a comparison between those who had employment before the credit and after the credit, categories of enterprises owned, income before and after credit, categories of expenditures, and problems encountered in the process of loan application, management of enterprises and repayments. Initially, a sample of 146 customers out of 1500 population was studied through self- administered questionnaire. An interview was also conducted for PRIDE officials. At a later stage five focus groups and 6 independent cases were considered useful in unearthing the dynamics of groups formation and interactions, loan acquisition and enterprise management.

The findings indicated that PRIDE programmes empower households through employment creation, better income, education, health, acquisition of assets and accommodation, though there were also comparatively few cases of disempowerment. The limitation of credit was that the empowerment process seemed to be non -

CHAPTER ONE

1.0 AN OVERVIEW OF PRIDE AND THE PROBLEM AREA

1.1 An overview of PRIDE

PRIDE is a short term for PROMOTION OF RURAL INITIATIVES AND DEVELOPMENT ENTERPRISES. It is a Non Governmental Organization established to promote rural initiatives through credit facilities. PRIDE uses the basic principles of Grameen Model (Yunus, 1989) to provide credit to small businesses and income generating activities. Grameen Model is a micro financing system and a bank for small enterprises that was initiated, developed and managed by a Professor of economics – Mohammad Yunus of Bangladesh in 1976. The model depends on group self discipline and peer pressure as collateral. It employs new orthodoxy paradigm in both theory and practice. “That is let the market forces” allocate credit to micro entrepreneurs contrary to conventional practices of dishing out cheap credit. Individuals who need credit are assumed to have established their own small businesses and credit is only needed for “putting power where it is not enough” and NOT to “initiate power” from powerless individuals. Therefore entrepreneurs who are ready for credit organise themselves into groups of five and appoint their own leadership. Ten different groups of five form a federation with a central leadership. After initial training on loan management, they apply for a loan. Initial disbursements go to only two members in each of the five groups. The loan is serviced weekly and it is only when there is no default that is when other members can borrow. Leaders of the groups form the last batch to receive loan. Assets owned are also used as collateral.

PRIDE Tanzania was a branch of PRIDE Africa that started to operate in 1989 in Baringo Kenya and a branch was opened in Arusha, Tanzania in 1993. PRIDE was supported by Norwegian Agency for Development NORAD on the behalf of the Dutch Royal Government and the government of Tanzania (though now self sufficient). The main objectives of PRIDE by then were to:

sustainable because the types of businesses and income earned were just for survival. Although micro enterprise promotion initiatives were vital for survival of multitudes of poor people, they cannot be a foundation for a strong economy at least in the foreseen future because most of them were just for mere survival and hence highly unreliable because of lack of sustainable basis. We need more substantive investments that could create better employment opportunities.

During the study, PRIDE Tanzania was providing services to only urban centers. There is a room for research aimed at finding out an appropriate institutional framework for extending credit to the rural areas. One such option could be through collaboration with other financing agents in the rural areas in order to reduce multiplication of efforts. Such types of researches are even more important as PRIDE was shifting its role from a micro financing NGO to a full commercial bank.

The report starts by looking at the overview of PRIDE and problem area followed by the literature review. Chapter three is the methodology while chapter four is the presentation and discussion of the findings. The last part is a summary, policy implications and areas for further research.

- Develop the institutional capacity of a Tanzanian Non Governmental Organisation (NGO) to deliver credit to the informal sector,
- Create a mechanism for future resource flows to the lower end of financial market
- Initiate the building of regional intermediaries
- Increase incomes and employment for informal sector entrepreneurs and develop a culture of saving (PRIDE, 1993:2)

PRIDE Tanzania model involved five (5) members who formed an Enterprise Group (E.G.) who form a federation of a bigger group called a Market Enterprise Committee (MEC). Each MEC was formed by (10) Enterprise Group. Therefore each MEC had 50 members. Each E.G. had a chairman and secretary for the group. The chairpersons and secretaries of ten EGs formed an executive committee for the MEC. The MEC executive committee elected the management team that coordinated their MEC with the PRIDE credit officer for registration and formal involvement in credit application processes.

The following were loan acquisition procedure;

- Step 1:** The first week was used to train MEC members on the principles and good practices of PRIDE model.
- Step 2:** In the second week after registration each member started paying Tshs. 1000 as Loan Insurance Fund (LIF). This amount had to be paid during weekly meetings without default as a security throughout the membership period.
- Step 3:** Continuous training in the third week
- Step 4:** The third week was also used for inter group visits. Members visited each other to familiarise with each others' enterprises and assess their viability.
- Step 5:** In the sixth week, twenty (20) members filled loan application forms.

Step 6: Loan appraisal by credit officers in the seventh week.

Step 7: The first loan amounting of fifty thousand Tanzania Shillings (50000) was disbursed to the 20 members, 2 from each EG in the eighth week.

Step 8: Ten (10) Secretaries of the MEC and other ten (10) members filled loan application form in the tenth week.

Step 9: Loan appraisal by credit officers in the eleventh week

Step10: Loan disbursement to 20 members in the twelfth week.

Step11: Chairpersons of MEC and ten remaining members filled loan application forms in the thirteenth week.

Step12: Loan appraisal in the fifteenth week.

Step13: The last batch in the MEC received loan

The process started again but after nine months of successful operations the responsibility of managing all financial transactions remained in the hands of EG chairpersons and MEC met only once in a month. The PRIDE Credit Model had undergone continuous modification under the support of the Regional Enterprises Development Institute (REDI). The institute was established in Arusha in 1994 to provide training for all levels of micro finance personnel and to develop computerized systems for credit delivery and loan tracking. Through REDI PRIDE Tanzania developed modalities for extension of credit ceiling to three million Tanzanian Shillings. PRIDE customers have been growing exponentially over years. For example in Dar es Salaam, by 1998, there were **29411** individuals who received loans amounting to **2,323,200,000 TShs.** where by, the then

maximum upper ceiling for loan disbursement to an individual was **one million TShs**. Due to increasing demand for loan and excellent repayment rate close to 100% PRIDE raised its loan level ceiling from **one million to three million TShs**. The figures seemed to suggest that these micro entrepreneurs did make a difference in their lives as individuals or households, and perhaps some on a sustainable basis and others just at temporary level. Making a difference in ones life meant engaging in a process of getting opportunities and motivation to seek for and maintain a better life. This is all about empowering. Therefore, better health, education, accommodation, group and family harmony, and business growth were the fundamentals or indicators of increasing empowerment. PRIDE could assume that as long as more people were applying for credit and loan repayment default rate was 100%, then the loan programmes were empowering individual households. While this could be true there was lack of specific evidence on what was happening at the ground level. What was not uncovered was the dynamics of engaging in micro enterprises through credit and the ultimate disaggregated impact to the household in terms of employment, earnings and patterns of expenditures as a process of empowering.

The purpose of the research was to assess the extent to which PRIDE credit facility that was typical of Grameen Bank Model empowered households through the dynamics of micro enterprises. Empowerment was considered in terms of the types of businesses operated, size of employment creation, money earnings, patterns of household expenditures and business and plans for business expansion/diversification in Morogoro Municipality.

1.2 The Background of PRIDE Morogoro

PRIDE Morogoro started to operate on the 4th, July 1996. The first batch of credit amounting to Tshs. 950, 000 to 19 members was issued on the 24th September, 1996. The number of customers by then was 350 people. By the end of May, 2000, PRIDE Morogoro had 2000 members receiving credit sizes ranging from 50,000 to 3million Tanzanian Shillings. Repayment had improved from 99% to

100%. PRIDE Morogoro had six (6) employees. The branch manager, four credit officers, and two support staff.

1.3 Objectives of the Study

The Objectives of the research were to:

- Identify occupational status of micro entrepreneurs before credit
- Identify income levels before and after credit
- Identify categories of businesses
- Find out how incomes were used at the household level
- Find out plans for business expansion
- Identify problems facing entrepreneurs.

1.4 Research Questions

The following were the research questions:

- What were the occupations of micro entrepreneurs before applying for loans?
- What were the categories of enterprises dominating micro enterprise sector?
- What was the difference in average income levels before loan and after loan?
- How was the income distributed across different types of expenditures?
- What were problems facing micro entrepreneurs?

CHAPTER TWO

2.0 THEORETICAL BACKGROUND

2.1 Macro Policy Thinking and Trends – From Conventional to New orthodoxy

Initiatives to improve income for the poor through creation of employment opportunities and provision of holistic packages like cheap credit and training have been fashionable in the 1960s and early 70s. These development interventions were initially state and donor driven. Modernisation discourses of the time (Brett, 1979, Todaro, 1985) and the success stories of western economies were part and parcel of theoretical foundation for massive state supported programmes in poor countries. For example, the government of India established various small scale industries with the objective of creating employment and income for the poor (Chuta and Sethuraman, 1984, and Suri 1988). More tangent efforts to improve incomes of the poor were the establishment of employment guarantee schemes during slack periods (Gaina, 1996).

These development interventions started to face serious constraints particularly from 1970s onwards due to, among others, the world economic crisis. The collapse of development programmes and projects and increasing population meant less employment and income for the poor. Employment and income outside the formal sector became a potential area for improving welfare of the increasing unemployed people particularly in urban centers. The phrase 'informal sector' appeared in small enterprise discourses where little investment could earn a living (Hart, 1973). This called for a better policy understanding of the role of small enterprises by then referred as "informal sector" in framing employment creation policy. The ILO mission to Kenya to explore opportunities for small enterprise promotion, was partly the result of the Ghana urban studies carried out by Hart in the 1970s in which work outside the wage sector was seen to be a

viable area of employment and income generation (ILO, 1972). The search for employment and hence income from the informal sector was taken to be a sign of weakness of the modernisation theory in guaranteeing economic growth and welfare for the majority of the population. Modernisation was replaced by Neo liberalism. That is advocacy in market driven allocation of resources in the economy and rolling back of the role of the state in direct economic intervention.

2.2 A Shift to the New Orthodoxy – The Birth of Hard Nosed Small Enterprises Intervention Practices- The Grameen Orientation

Within the above wave of economic theories and crisis, ameliorative measures were taken in terms of a process of gradual shift from the conventional development assistance for the poor to what is commonly referred to as the "New Orthodoxy" Approaches to Small Enterprise Promotion" (Panayiotopolous and Gerry, 1991, 1995, 1997). That is in addition to governments and Donors, NGOs emerged strongly to collaborate and facilitate strategies towards support for and creating enabling environment for entrepreneurial and institutional development rather than often uncoordinated massive development Programmes (Ibid.). This called for pushing hard in the direction of creating an enterprise culture and sustainable institutions to cater for the needs of the poor through the arm of the market.

Therefore the market determines the nature of the enterprise, individuals or groups to be supported in economic endeavours. These ideas correlate closely with "ten tentative statements" put forward by Harper (1990) on letting the market allocate credit than dishing out free or cheap money to micro entrepreneurs who were in most cases "unaccountable entrepreneurs". It is in this context that the promotion of small enterprises began to change and parallel neo liberal thinking (New Orthodoxy). World Bank, IMF, Bilateral Donors and NGOs became more concerned with promoting market based potential entrepreneurs and indigenous institutions (Panayiotopoulos and Gerry, 1997, Harper, 1990, World Bank, 1993). Where credit was provided the criteria was increasingly becoming on the ability

to meet market conditions and not otherwise. There are strong arguments for the new orthodoxy and widely supported by aid agencies and NGOs across the world like encouraging individuals or group initiatives and accountability for resource use. Today there are thousands of small and micro credit institutions operating as a result of embracement and celebration of new orthodoxy paradigm in facilitating income generation activities after initial successful Grameen Bank Credit Model for lending to the poor. Although in theory, and empirical evidence suggest that New Orthodoxy approach to small enterprise promotion is doing a good job, there is also skepticism about its impact on empowerment and future sustainability (Panayiotopoulos and Gerry, 1997, Goetz and Gupta, 1990, Montgomery, 1995, Kane, 1996, Hulme and Mosley, 1997). Many criticisms center on the limited power of tiny businesses and income on general economic growth and increasing tension and conflicts among individuals involved in the business and even among members of the family. The question is whether these shortfalls are necessary evils.

2.3 Economic Hardships, Policy Trends and the Growth of Small Enterprises in Urban Centers in Tanzania.

The policy trend on small enterprise development traces back to the time before independence but the most striking and important period on the evolution of contemporary small enterprises in Tanzania is from 1974 onwards. From 1974 the Tanzania economy experienced a downward trend in its economic growth as it were for other countries. There was famine that reduced crops for food and export. High costs of running integrated rural programmes, falling prices of exports, increasing prices of imports especially oil and the collapse of the East African Community were other major factors (Mulokozi, et al. 1989, Ndulu, 1987). The war with Uganda (1978-1979) came at a time when the country needed every single penny for development. The cost of the war amounted to about 4 billion Tanzanian Shillings and that was equivalent to one years export earnings excluding other costs such as production disruption (Ndulu, 1987:11).

As a result of growing hardships, and scarcity, the few who had established small enterprises strengthened their positions while many others joined them. The increasing shortages of goods forced prices up reducing the value of real wages and consumer incomes. Reacting to the crisis, the government introduced "The Price Commission" with the objective of controlling prices of goods in the country. This strategy did not make things better. Bagachwa and Malyamkono (1990) and Tripp (1990) have observed that price controls accelerated the hoarding of goods and their sale through informal channels that appeared as the latent second economy. Small enterprises were mushrooming in every corner of the country particularly in the urban centers. Along streets and illegal premises one could see people producing and selling soap, kerosene lamps, furniture and food stuff. Due to economic hardships many people were migrating from rural areas to town centers in anticipation of getting better life opportunities. The increasing number of people in cities and towns without jobs was an embarrassment to the ruling party and government. In 1983 the government enacted "The Penal Code Amendment Act" which banned from the cities all "idle and disorderly" persons (Shahid, in Tripp, 1995:57). This act was followed by "Human Resources Deployment Act" that made it an obligation for all workers to be registered and be given identity cards. Other people without formal jobs were categorised as loiterers because had no formal working identity cards. The late President Nyerere ordered the late Prime Minister Edward Sokoine to deal with the matter seriously or as he put it; "if we do not disturb loiterers they will disturb us"(Tripp, 1990:57). It is interesting to note that the ruling party and the government tried to avoid the problem of shortages and unemployment by pushing people to rural areas where they would be out of sight. Unfortunately even those with gainful activities like shoe shiners, cart pushers and food vendors were also included in the group of "loiterers" and expelled.

2.4 Macro Economic Measures adopted to Address the Crisis and The Revamping of Small Enterprises

The recognition that macro economic environment constituted part of the Tanzania economic crisis called for macro policy measures from 1982 onwards (Kazaura, 1995). Structural Adjustment Programmes were introduced in 1982/83-84/85) and evolved as Economic Recovery programme 1 (ERP1; ILO/UNDP, 1992). At this initial stage, some of the measures adopted were:

- Partial external trade liberalisation, through the own - funded imports scheme aimed at boosting the availability of incentive and intermediate goods to induce increased production.
- Decontrol of prices and the reduction of restrictions particularly for imported goods in order to allow traders to address scarcity and to operate on free market basis.
- To raise and sustain agricultural real producer prices (Ndulu, 1995:9- 10).

The fruits of these policies started to appear in 1983/84 when the country was flooded with imported goods particularly second-hand clothes and luxurious items. It was only after the coming to office of the second government in 1985 that a more positive attitude towards small enterprises developed especially after the adoption of the International Monetary Fund adjustment packages in 1986. This was the year that marked a second phase of adjustment programmes (ERP2 1986-1989) that led to the implementation of series of measures including:

- liberalisation of prices
- liberalisation of exchange rate
- increase interest rate
- removal of subsidies
- investment promotion and institutional reforms (Kazaura, 1995: xii).

Although small enterprise sector has been operating within these difficulties as a general comment they have been growing exponentially. According to a survey conducted in Tanzania by ILO (1991), 95% of the informal businesses were survival activities with limited growth potential, but surprisingly they contributed about 32% of GDP with average return on investment of 330%(Schulz, 1995:5). The explanation for this was that although they contributed 32% to the GDP they were actually only meaningful when taken in totality. The analysis of cash incomes based on the 1969 and in 1976/77 household budget surveys, the 1979/80 ILO survey, and Collier et al, survey of 1982/83 compiled by Brink (1993) display important findings to note. The proportion of non farm cash incomes per house hold rose from 25% in 1969 to 33% in 1977, then 38% in 1980 and 47% in 1983 (Brink, 1993: Table, 150). From the findings the authors were also able to conclude that about 87% of all households had some cash income from micro enterprises. The magnitude of informal enterprises was found in a study conducted in 1991 by the United Republic of Tanzania with support from the UNDP and ILO. In that study, it was estimated that the total number of small enterprises were 1,154,136 employing 1,419,277 persons that accounted for about 60% of total mainstream employment. In fact many of the "small" enterprises were self - employment activities. Further to that a more recent study (URT, 1993a) showed that one out of four had at least one person who was self - employed. Some of the reasons for the growth of the small enterprises were serious collapses of formal sources of income and goods during the encroachment of the economic crisis that made people look for other means of survival. A tremendous growth of the micro enterprises was also an effect of the economic policies adopted from the 1982 which according to Bagachwa, in Msambichaka, 1995:26) opened the doors for enterprising culture.

Apart from the beautiful face of small enterprise development, there were also criticisms that market led programmes were not always seen to be good by the customers. A research conducted in the Coastal Region in Tanzania revealed that when potential women were told to come up with proposals so that they could be

given loans, many reacted negatively (Ogola, 1986). There was apparent fear of going to jail for failing to repay the loans or losing their little property they had acquired after a long time of hardship. Their fear should not be totally dismissed because there were also experiences like in Bangladesh (BRACCA) where group pressure for loan repayment that included confiscation of property and social isolation were detrimental to the very poor to which the programme was expected to save (Montgomery, Op. Cit.). But at household level they were tiny for any significant impact or substantial growth.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Choice of Morogoro

The choice of Morogoro was based on a number of reasons. First, Morogoro was initially one of the industrial giants in the country. A substantial number of Agro-Industries were built in Morogoro as part of industrialisation process in the country in the 1970s. The industries attracted many people from other places as job seekers. Like in many other developing countries which failed to manage state owned organisations most of these industries collapsed with massive layoffs of labour force. Most of the ex- employees engaged in micro enterprises and small - scale agriculture in the nearby villages. With extremely limited source of capital, PRIDE intervention should have come at the right time. It was therefore important to find out whether PRIDE was making a difference in lives of the increasingly pool of micro entrepreneurs.

3.2 Phase I of the Study - Questionnaire Survey

The population of the study was 1500 customers but the sample size was one hundred and fifty (150) customers. It was only one hundred and forty six (146) people who responded to the questionnaire. This was a reasonable sample because as it was said earlier on the aim was to establish pointers on the empowering process and areas for further studies that could be initiated to cover a larger sample. Others who were involved in the study were the Morogoro branch manager and two (2) credit officers out of four (4). The sample of 150 customers was obtained mainly through randomization process though there were few cases in which some respondents could not fill –in the questionnaire. In this case a replacement was made purposefully. Simple random technique was important to obtain equal chance of representation of each respondent, but in the case of PRIDE officials basing on their positions and knowledge on specific issues they had to be targeted purposely.



Table I: Sample Size and Composition by Sex

SEX	NO	%
Male	61	41.7
Female	85	58.3
TOTAL	146	100

Source: Extracted from Questionnaire

Data were collected from the customers through Kiswahili written self-administered questionnaire. The researcher visited the PRIDE office in Morogoro where the customers met for their weekly installments and training on how to manage their loans. With the assistance of PRIDE credit officers and support staff, questionnaires were distributed to different MEC members. Questionnaire was important in this type of study because it was almost impossible to get opportunity to interview a significant number of customers during their meetings. It was also unworkable to trace individual customers and their enterprises because they were scattered and not fairly accessible. Some had no business premises and still others did not do business at all. It was alleged by some PRIDE officials that some customers took loan purporting to use for business purposes but had no business, and they used other means to service their loans like support from their spouses. Still others were registered, as doing business "A" but the truth was that they were doing business "B". Therefore it was impractical given the limit of resources to use interview (with an exception of PRIDE staff) to supplement questionnaire for soliciting information from the customers.

The questionnaire focused on Sex, Age, initial occupation, size of income, business type, revenue per month, net profit after deductions for loan servicing, income use, problems experienced in the business and opportunities for growth and expansion. Interview was used to get general information from the PRIDE officials. The type of information was the general background of PRIDE Morogoro, entries, exits and their reasons, and the role of credit in improving

customers' welfare or expansion of their businesses. Documents were also used. These were speeches, reports, leaflets and weekly Loan Portfolio files. These were used to gather information on registration, loan application procedures, The PRIDE Model, loan disbursements and recoveries.

3.3 Phase II of the Study. In- depth Interviews for Cases and Focus Groups Discussions

The study aimed at using the following methodology

- Conduct focus group discussions and interviewing individual entrepreneurs as cases.
- Conducting interviews for PRIDE officials in Morogoro and Arusha.

There were 5 focus groups discussions and 6 independent cases. At the beginning it was thought that the sample should be purposefully chosen to obtain among others successful, average and less successful groups for comparative purposes. This did not work because it was realised in the process that success or otherwise was a question of individuals than groups. Even comparing individuals was not feasible because no objective criteria of judging success could be established. For example judging success in terms of business turnover could not work because not only that reliable data was hardly available but also just survival or being able to meet family commitments were more important to some businesses than others and hence a success as well. Again it was thought that we could compare groups that were formed and joined PRIDE in 1996 when the programme started to operate with groups that joined the programme more recently but such groups did not exist. It was a question of individuals joining groups at different times, exiting and rejoining again in the same group or a different one or leaving the programme altogether. Therefore more than ¾ of the group members were not founders of the groups. The criteria that best suited the choice of the sample were.

- Choosing groups based on gender. We had 5 groups. 2 groups Females alone, 1 group Males alone, and 2 groups mixed – Males/Females. Each group had 5 people. The chairperson, secretary and 3 members. Out of the 5 groups 2 groups had 4 members only who participated in the discussion. Two members were absent due to family problems.
- Choosing groups that had members who were at their highest, middle as well as lowest levels in the credit scheme
- Choosing groups that had members who represented as much as possible diverse business initiatives.
- Choosing groups that represented different Micro Enterprise Groups as much as possible
- For the case of individual entrepreneurs the choice was similar except that we had 3 females and 3 males ranging from those applying for a loan of 3million TShs (Highest level) to 200,000 TShs. It was thought that it was not very useful to include members below 200,000 because they had a limited experience to learn from. Some individuals were drawn from the above focus groups and others were from groups that were not involved in the discussion as a purpose of data control.

The selection of the group was done through the assistance of the Branch Manager Mr. Okeng'o and credit officers MS Kavishe and Tesha because they were more knowledgeable with the groups characteristics. They also assisted to organise for a comfortable room where the discussions were held. We started with group discussions followed by individual interviews and discussions.

The researcher was interested to get the "facts" from the "horse's mouth" as objective as possible. So the respondents were requested to speak out their minds

as freely as possible and confidentiality was assured. However one member who was targeted to be among the six cases refused to talk about his business and therefore a replacement was made.

As stated from the beginning, the objective was to explore the dynamics in the process of joining and working through groups, application and loan acquisition, business processes, and limitations of the scheme and businesses and future plans. Therefore, a simple interview- guide for the purpose of focusing the discussion guided the researcher. It had the following items.

- Name of the EG, MEC and members, age of the group, how was formed, entries exists and explanations
- Each individual was asked to narrate the whole process of how she/he joined the group, year, reasons, type of business/es, age, day to day activities, employment creation, strengths, areas of improvement, the use of loan, strengths and limitations of using the group as a collateral, the strengths and weaknesses of PRIDE credit model, achievements and future prospects
- After the completion of narration by each member a discussion was held to clarify/confirm some of the issues raised by individual members. There was limited interruption to allow continuity of the story. The same approach was used for individual entrepreneurs except that it was more probing on the part of the researcher.

The discussion for each group took a minimum of 80 minutes. For other groups/individuals, it took 2 and 1/2 hours. The same was the case for individual entrepreneur discussions.

CHAPTER FOUR

4.0 BUSINESS DYNAMICS AND EMPOWERMENT

4.1 QUESTIONNAIRE FINDINGS

4.1.1 On the Previous State of Employment

The previous state of employment was categorised into three types: Formal employment, self - employment and none.

Table II: Previous State of Employment

PREVIOUS STATUS	NO	PERCENTAGE
Formal Employment	56	40
Self Employment	24	17
None	60	43
TOTAL	140	99*

* Six responses were spoiled.

Source: Computed from Questionnaire Responses.

In the first category from the table the majority of the respondents were teachers and office secretaries. Others were employees but later they were retrenched. The Self- employed included those identified themselves as micro entrepreneurs and farmers. The last category that formed the majority of the respondents (43%), they either failed to state their previous employment or classified themselves as housewives and therefore failed even to state their monthly incomes. Therefore although they might not necessarily be idle people, the fact is that credit support must have made a significant difference in their lives in terms of better employment and or more income.

4.2 On the Type of Small Enterprises

There were 31 different types of enterprises. Most of them were tiny income generating activities.

The majority of the businesses were in the service sector rather than production. Therefore their contribution to the economic growth in terms of additional input was minimal. Out of the 39 micro enterprises only 5 were involved in production though with an insignificant impact. These were Brick Making (1), Furniture (1), Carpentry (4), Poultry (10), and Dairy (2). The remaining were service oriented. Kiosks took the upper hand (26) being followed by a vendor stall "Genge" (16). "Genge" is local terminology used to refer to a situation whereby goods for sell are arranged on a simple table in a market place, along a street or in front of the owner's house. In most cases you will find various types of goods arranged in piles in the same table though there are also cases in which only one type of good is sold like oranges, bananas etc.

4.3 Income Levels Before and After Credit

Customers without or who could not state previous income levels were 31 out of 146 but were substantially well off financially after the loan. Seven customers were worse off. In general the percentage of the income generated which was returned to PRIDE (interest, loan insurance and savings ranged from 5% to more than 100%. This did not mean that the income was generated by the loan from PRIDE alone because it was difficult to establish due to poor record keeping. As a general observation the additional capital from PRIDE should have played a significant role in the realisation of better revenues. Again it does not mean that the entrepreneurs were able to save the money from the business up to the end of the month for accounting purposes. Some or all the revenue generated might have been used for many other expenses including running costs of the businesses. The amount of revenue accrued to households also depended on the percentage of revenue that went to debt servicing. Although that amount included savings for

the entrepreneur, if it was only a small amount that remained for general expenditure and business growth, the chances that the household could suffer and even affect the sustainability of the business should be high.

Table III: DEBT SERVICING AS A PROPORTION OF THE INCOME GENERATED FROM THE ENTERPRISES*

This item looked at whether the customers were working for PRIDE rather than empowering themselves.

CLASS INTERVAL*	FREQUENCY	PERCENTAGE**
0-10	5	4
11-20	33	23
21-30	28	20
31-40	23	16
41-50	17	12
51-60	9	6
61-70	9	6
71-80	3	2
81-90	8	6
91-100	1	0.007
101- Above	7	5
TOTAL	143	99.99***

* Indicates class average percentages as part of the revenue generated in a month that goes for loan servicing, interests, insurance and savings

** Means the percentage number of people who fall under that category of class interval.

*** 3 responses were spoiled

Source: Computed from Questionnaire

4.4 Distribution of income across different categories of expenditure

The leading question was “what categories of expenditure did the households manage to meet only and only because they had taken loan from PRIDE for promoting their enterprises?”

Responses indicated that incomes were spent on different categories of expenditures. Forty four percent (44) of the respondents indicated that they would not have been able to afford meals without the micro enterprises, being followed by education 18.5%. Others were acquisition of permanent assets 7%, health 7% and ability to pay rent 5.9%. Almost all the respondents showed ambition to expand their businesses in terms of size or shift to a different type of business. Perhaps as one should have expected strategies for business expansion and or diversification were based on the expectation to acquire more credit than savings from the current business. There was only one person who indicated frustration and planned to quit the PRIDE programme because of inability to manage business and meet PRIDE conditionalities.

Table IV: Patterns of Household Expenditures

	Consumption	Permanent Assets*	Education	Health	Rent	Expansion**
N0	112	18	47	17	15	145
%	44	7	18.5	7	5.9	99.9

Assets*: Residential Houses in the process of construction and acquisition of farm plots.

Expansion**: Plans to expand or diversify their present businesses. All of them depended on applying for more loans and **NOT** out of capital accumulation and growth.

Source: Computed from Questionnaire

4.5 Problems Faced by the Customers

To answer this question the researcher used both questionnaire and interview methods of data collection. Both respondents (customers – through questionnaire and officials through an interview) gave answers falling into several categories:

- limited capital,
- too strict weekly installments,
- failure to run businesses profitably,
- lack of commitment from some of the group members,
- extended families,
- healthy problems,
- death.

These were typical problems experienced elsewhere in the literature and other empirical studies in small enterprise financing. However, what emerged and indeed out of expectation was the magnitude of social problems at family and group level. Contrary to Montgomery's argument (OP. Cit.), which was based on a study conducted in Bangladesh that Peer pressure, confiscation of property and social isolation was a serious problem on group lending models, most customers did not feel that family and group based problems were significant threats to their businesses. It was only 5.9% of customers who felt that they were experiencing problems from the members of their groups. About 11% of the respondents indicated that family problems were seriously affecting their businesses making a grand total of 16.9% of the sample.

4.2 FINDINGS FROM FOCUS GROUPS AND INDIVIDUAL CASES

4.2.1 ISSUES EMERGING FROM THE GROUP DISCUSSIONS

Table V: Groups Characteristics

Group	Composition	Year of Entry Range	Previous Employment	Loan Sizes
1	MEN	1, -1998, 1,- 1999, 2,- 2000 and 1 just started	Self Employed in agriculture, poultry, petty trade, tailoring	1million, 500,000, 200,000, 50,000, Not yet
2	MIXED	1, -1997, 1,- 1999, 1,- 2000, 2, -2001	2 formally employed, 1 driver of own car, housewife	1 million, 200,000, 100,000, Not yet
3	WOMEN	1, -1996, 1,- 1999 and 3, - 2000	1 formally employed. Others had petty trade	1, 3 million, 2, 200,000, 1, 150,000 and 1, 100,000
4	MIXED	1, -1998, 2,- 1999, 1,- 2000, 1, -2001	1 formally employed, the rest had petty trade	500,000, 300,000, 200,000 100,000 and 1 not yet
5	WOMEN	1,-1997,4,-1998	2 teachers, the rest self employed	1 million, 200,000, 150,000

Table VI: Sources of business Idea, Capital and Nature of Business

Group	Source Of Initial Business Idea*	Source Of Initial Capital	Business Diversity**
1-5	Relative, friends, husband	Formal employment, Husband, Relatives and Friends	Grocery, poultry, dairy, Daga Fish, confectionery, whole sale of Banana outside Morogoro, Carpentry, second hand clothes, Furniture, Salon, Milling, Bar

More than 90% of business ideas were generated from observation of relatives and friends businesses. It was more of imitation of what others were doing forced by the need to earn a living than own creative innovation

** No single respondent had only one type of business. Several businesses were managed simultaneously in order to diversify risks and increase interdependence and the total marginal profit

4.2.2 BUSINESS DYNAMICS AND EMPOWERMENT

Table VII: Summary of Empowerment, Limitations and Future Prospects

Group	Empowerment	Limitations	Future Plans
1	3 Employment for family members 2 Supplementary Jobs Income generation Supplement income for employed School fees Health care etc Socialization, Learning and Networking Additional capital	High interest rate Deposit of 1000 for every 100,000 taken as loan Lack of motivation to repay loan early enough Contributions for defaulters Frequent Drop outs Market	Expand business Start new ones
2	Employment for themselves, wife and children 10 job creation outside members of the family Meeting family commitments Additional capital	No grace period No freedom to invest in medium and long terms projects Deductions of 1000 Tshs for every 100,000 taken as loan Recent system of paying 8% bonus. The calculations were not clear. Where the money had been going for years? Defaults and drop outs Difficult to dispose off members assets. No support from the court, police or PRIDE Unfaithful relatives Small capital No worth – assets to sell for recovering members defaults Contributions for defaulters Illness	DO

Group	Empowerment	Limitations	Future Plans
3	Self employment, employment of family members	Initial Loan – too small Deductions of 1000 for every 100,000 taken as loan Increasing competition from formally employed people	DO
4	Personal and family employment 6 extra employment Building a house Building own Kiosk Supplementary income	Defaulters. Some members were not serious Frequent entries and exits Difficult to sell assets of defaulters Payment of 1000 for every 100,000 issued as loan Fear to pay for defaulters. Some decided to exit the group although they were good customers Member absenteeism during meetings. Decisions cannot be made. Need to contribute money for his/her installment. Risk of group cancellation	DO
5	Self employment and family 4 other employment Business expansion Household assets Taking care of relatives	Keeping business records High interest rate Unfaithful customers	DO

4.2.3 LEARNING FROM INDIVIDUAL CASES ON THE PROCESSES OF EMPOWERMENT

CASE NO1

BARAKA PETRO – DAGAA BUSINESS

Introduction

Baraka was born in Musoma region in 1964. Her father had dagaa business in Musoma. After completing form four she was taken to Morogoro by her uncle for the purpose of helping him in his dagaa business in 1989. Later there were misunderstandings with the uncle and therefore she had to go to live with her sister, but now she had no job. After some time there were differences with her sister which again led to shifting to her brother. It did not take long before she was employed by her pastor to work in a local church. Out of savings from her salary she managed to start her own dagaa business in 1991 through support from friends who were selling dagaa before she was terminated from the uncle's business. The cost of managing her business was fairly low because she used old friends to buy dagaa from Mwanza as part of their own consignment for a nominal charge. The same friends sold her dagaa in their own premises in Morogoro central market, again for a small charge. For some reasons she lost her job in the local church. This gave her an opportunity to concentrate on selling dagaa, but she still used friends to bring her dagaa from Mwanza. Later she was married. In 1994 she applied for loan from Presidential Trust Fund which was a micro credit scheme targeting only women. She secured a loan of 150,000TShs. In 1996 she dropped the programme after clearing her loan balance and joined PRIDE Tanzania. Some of the reasons that made her to quit the programme were high interest rate, biased criteria for issuing loan like ignoring the customer's history in the business. Therefore she felt that there were higher risks of servicing loan through groups managed in the way the Presidential Trust Fund did.

Baraka was the chairperson in her group and she thought that she was very successful in the business. Her loan size from PRIDE was at the tune of 3million Tanzanian Shillings,

Employment

She had employed one person for a salary of TShs 15,000 for a month. She also gave her husband a job in the business "*Mzee naye amepata kazi. Yeye kazi yake ni kufuata dagaa Mwanza*". When she was asked how it came that she trusted her husband she said that initially it was a trial but later she realised that she was trust- worth and she was thankful for that.

Achievements

She built modern house with modern fittings, owned undeveloped plot, a big store and educated her child who was by then in form three let alone meeting social commitments without difficulties. She had opened a branch in Mang'ula where her sisters' daughter also sold dagaa.

Limitations of the Credit Model

The major problem was lack of seriousness in some of the group members.

She observed that there were some group members who joined PRIDE without any intention to do business seriously. After taking big loan they failed to manage it. Some people saw her success and decide to join PRIDE with expectations that they would equally become successful without any serious plan. Since 1996 there were 7 dropouts and 3 out of 7 managed to rejoin the group. Two of them had to service their loans through contributions from group members amounting to 200,000 under the agreement that the money had to be repaid to the group members gradually. At the end of the day Baraka was paid a Barrel instead of cash. The other problem was lack of grace period from the time loan is taken to the start of repayment process. She also felt that the 1000 TShs deducted from every 100,000 TShs issued as loan to a customer.

Future Plans

She was planning to open another office in Mahenge through the support of her brother in law who was an engineer and owned several business units in the market. There are no operating costs because Baraka acted just like a supplier rather than owner. Therefore her sister's daughter also made profit like any other independent businessperson.

CASE NO2

JOHNSON NDEGA.- VARIOUS BUSINESSES

Introduction

Johnson came from Kilosa District. After finishing his primary school in 1964 he started agriculture in a smallholding. In 1972 he learned tailoring from a friend in the village. Later his brother who was working with Sisal Estates in Kilosa bought him a tailoring machine. In 1974 he went to Morogoro for a course in tailoring through the support of his brother. He went back to his village to continue with tailoring and at the same time selling cloths for tailoring in the same premise. In 1979 he returned to Morogoro to look for tender to supply tailoring services. He sold tailored clothes to other businessmen for sale to different markets including Gairo. Through support and advice from the same brother they jointly applied for a bank loan from CRDB in 1991. In the same year they received 2 million TShs. The loan was used to purchase a Milling Machine. He was supervising the milling machine while his brother continued to work. The loan was cleared 3 years later. The profit was shared after deducting all operating costs. Mr. Ndega joined PRIDE in 1998 and the current loan size was 1million Tshs. He used the loan to open a multipurpose shop – Whole selling of beer and soda plus retail sale of other items.

He also did the following businesses;

- Purchases old houses for repair and sell.
- Purchases plots for construction and sell
- He is a farmer – growing maize and rice

Employment Creation

He created employment for his wife and children who work together in the shop. He also employed 1 person for selling beer and soda for a salary of 17,500 TShs per month plus a bonus of 5000 up to 7000 Shillings depending on the volume of sales.

Issues and Problems on Loan Conditions

Ndega felt that although he benefited from the PRIDE credit model things could have been better as he said that high interest rate was not considered a problem. The main problem was small size of loans and immediate weekly repayments. What was even seen unfair was the condition that every 100,000 TShs taken as loan, 1000 TShs. had to remain with PRIDE for unclear reasons. Therefore if a customer applied for 1 million TShs, the actual money received was only 990,000 and yet the interest was paid for 1 million and in regardless of how soon the money was repaid. For example if a customer could repay the money within 20 weeks instead of 50 weeks as given in the loan conditions still had to pay interest rate for the 50 weeks. The other irony was that since PRIDE started operating in 1996, they were paying 1500 as loan insurance every week without receiving any interest despite-of the fact that PRIDE used the same money to

give loans to other customers who were also paying interest. It was only in the year 2001 that they were told that they would be paid 8% after every 6 months as interest on the money deposited every week as loan insurance fund.

He also complained that this practice was inappropriate and unfair because even full commercial banks were not doing that. He gave an example of the CRDB that was offering bigger loan sizes for longer repayment periods. Reasonable loan sizes and repayment periods were seen important because it allowed the choice of longer terms projects with better profits. Citing his own experience he said that he took a loan of 2 million TShs from CRDB for a milling machine. He was supposed to finish repayment within 4 years but he managed to clear the debt within 3 years. He was surprised that PRIDE had no motivation to encourage customers to clear their debts as early as possible.

Future Plans

In the year 2001 he had planned to purchase crops immediately after harvest for storage and sell for higher prices in the future. Otherwise efforts were directed towards strengthening the existing businesses.

CASE NO 3

DONASIAN MAKASA- VARIOUS BUSINESSES

Introduction

Makasa lived in Kichangani as a retired teacher from Msamvu primary school in 1998 but joined PRIDE in 1996. Initially he had a vendor stall "Genge" where he sold various items including rice, beans, maize flour, fruits etc. Part of the initial capital was his own salary and later it was from his pension that again most of it went to building a house where he was living with his family. The business was doing well, but in Dec. 1999 a neighbour had a problem and because of their intimate relationships he gave him a loan of TShs 100,000 in anticipation that the money was to be returned immediately. It did not work as expected and that was the beginning of disaster in his business. By then his loan size was TShs 300,000. He decided to balance his accounts and quit the programme. *"Because the manager knew me very well allowed me to rejoin the group in the following week and instead of waiting for 6 weeks it only took 4 weeks to receive loan"*. He was also allowed to start with a loan of 100,000 Tshs. instead of 50,000 that was a principle and procedure.

He joined Kichangani Youth Agriculture a community-based organisation, which owned land and other vegetable production support facilities on rental basis. He managed to get 5 plots for growing "mchicha". Other facilities were watering pipes and Jerry Cans – for 1500 per month. Manure was obtained free of charge from Morogoro Tobacco Processing Industry (tobacco remains) as well as from a neighbour. The rest was his bicycle and labour. It took 21 days from the time of sowing seeds to harvesting, and each plot he could produce 200 batches and each batch was sold for 30 Tshs. in Sabasaba market making a total earning of 6000 TShs per plot and 30,000 for 5 plots.

He also sold nuts. A container of about 4 litres in volume was sold for 1700 Tshs but after preparation the same amount was sold for 2500 Tshs taking a maximum of 2 selling days. After deducting costs for charcoal i.e 150 Tshs the remainder was assumed to be profit because the product was sold along other items and family labour was not considered because it was thought that it would have been idle without the business anyway.

Employment

A boy was employed on part time terms to sell vegetables in the market using Makasa's bicycle. He was paid 250 Tshs. for the job. Some of the vegetables were sold in a genge by himself and the family.

Limitations of Credit through Groups

Some of the problems experienced were to do with individuals, groups and PRIDE itself. For example there were frequent member drop-out due to various reasons

- One member who was a government employee was transferred
- The other was a teacher and due to restrictions from his job she could not cope
- The third one was not well prepared and failed in the initial stage of the loan
- The fourth said that he had problems. He decided to balance his accounts and left the group.

"Wiki iliyopita nilikuwa ninamtafuta na kwa bahati nikamuona kituo cha police lakini sikuweza kujua alikuwa na matatizo gani".

Meaning that a week before he was looking for him and fortunately he saw him at the police station but he could not establish what was the problem.

Lack of business education and careless expenditures were also cited as problems.

Apart from dropouts the group had a problem of ensuring maximum attendance to group meetings for the purpose of sharing experiences and helping each other. The major cause was that after drop outs they had to get new members. It was not possible to get them in Kichangani where Mzee Makasa lived. Two members came from Chamwino and hence communication was a serious barrier.

Other problems were thought to do with PRIDE itself.

- No support was given when a member faced genuine problems like illness or death. He thought that he could use his loan insurance to cover such risks but it was not allowed. The money was used to cover risk of the loan or returned to the member who terminated or was terminated from the group after clearing the accounts.
- High interest rate was also a concern though he acknowledged the importance of the credit scheme in that it was not easy to borrow money from other sources including individuals.

Achievements And Future Plans

Makasa was proud that the family was getting basic needs including clothes and school fees for 2 children of his diseased young brother.

He had a plan to expand his business after receiving his 200,000 loan. He wanted to improve his *genge* and if possible start a grocery.

IRINE SIMON – VARIOUS BUSINESSES**Introduction**

Irine lived in Kilakala. She joined PRIDE in 1997. By May 2001 her loan size was 2 million TShs. She was a local councillor (Special Seats), Manager, later secretary and founder member of TUKE Consumers Cooperative Society. The society was involved in a whole and retail sale but after privatisation the only business was buying and selling of coffee and in this year (2001) the society was growing as well as buying sunflower for sale after the decline of coffee market. She was managing a Bar and Wholesale of beer and soft drinks. She had also other businesses, as we shall see later. She decided to enter in this business in 1993 because she thought that it was easier to control sales and profits.

Employment

She employed 2 bar maids and one boy responsible for wholesaling. Each was paid a wage of 20,000 Tshs. "but they received something" on top as motivation if the business was doing well. An "accountant" was also employed on part time basis and he was paid depending on the volume of work. Initially she used relatives to help her in the business but they were unfaithful. There was a special boy for selling water in retail at the Msamvu Coach Station as part of the business

Business Processes and Dynamics

Irine was getting supplies from a wholesaler in town and she could get a profit margin of 200 Tshs. per crate of soda/beer. Increased competition and theft forced her to shift to another business site. Competition came from her neighbour who was getting supplies directly from manufacturers and hence he could reduce price by 50 TShs per crate. Before her neighbour started selling beer she could sale up to 60 crates of beer through whole sale and 6 others through retail. But sales dropped to 15/20 crates a day of beer and 2/5 crates of soda. She was paying 40,000 as rent per month before securing a new premise (still under preparation) at a rent of 300,000, per year. She also paid 70,000 and 60.000 per year as license and income tax respectively. She managed the costs and still made profit because she was making a profit of 1000 to 1600 Tshs. per crate depending on the season. During the farming season sales were at the lowest levels. In the bar she was also selling other types of drinks.

Commenting on theft she said that the children of the landlord broke her shop through the ceiling board during the night and everything was stolen. She took the suspects to the court but because there was no enough evidence she decided to withdraw the case. One of the children of the landlord did also still her mobile phone and on the same day when this interview was conducted she reported to the court for hearing but she was told that the magistrate was ill. However despite of the difficulties she was still doing fine in

the business because she took a loan of 500,000 from Mgeta Ward Bank where she was a member after inheriting shares from her diseased father. She had also other businesses that support each other.

She sold medicines as a member of GNLD a South African Company dealing with distribution and sales of various medicines and food supplements covering diseases like Blood Pressure, Sugar, HIV induced illness etc. Although she could not tell the profit size, she appreciated that it was a lucrative business. She advertised the products through television and seminars as a part of promoting the business.

She had also a mining site in Mgeta for precious stones where labourers were employed for a wage. Due to unfaithfulness of the labourers she decided to abandon the mining business and especially when her project proposal requesting for loan from the CRDB bank was turned down. She changed her business from mining to buying and selling but she made a loss of 450,000 TShs. that concluded the chapter on gemstones.

The "Pride" of PRIDE

She was grateful that PRIDE made a big difference in her life. Specifically she was able to do the following;

- Buy 50 crates of empty bottles of soda
- Buy 30 crates of empty bottles of beer
- Running campaigns for councillorship including hiring vehicles, food and drinks for the close supporters.
- Campaigning for a position in the Tanzania Federation of Cooperatives

Areas for Improvement in the Pride Model

Although Irine appreciated the good job done by PRIDE she thought that there were areas for improvement. These were:

- Provide grace period of at least 30 days before starting repayment. She said that the Mkata Ward Bank was giving a month grace period and there was no problem. Repayment was made monthly rather than weekly and there was no problem
- To allow members to borrow money to cover for contingencies. Mgeta Bank allowed a member to borrow a maximum of 50,000 TShs for general problems and if it was illness a member was given 10,000 TShs.

Problems at Group Level

At the level of Enterprise Groups she had an opinion that some people were not serious. She pointed out that at one time she quitted her group and the programme but she was requested by PRIDE officials to

come back to join a better group because it was a loss to PRIDE to lose a good customer. She accepted the advise.

Future Plans

She had a plan to start a new business and improve her bar. Preliminary studies had shown that she could buy dagaa from Mwanza and sell to a Chick Mash Factory in Dar es Salaam. She had already obtained an LPO from Eagle Factory to supply 5 tones of dagaa per day. Five tons was equivalent to 150 bags. The cost of each bag to Dar es Salaam was about 25,000 TShs. She could get a marginal profit of 3000 to 4000 per bag. The total cost of supplying 5 tones of dagaa to Dar es Salaam was estimated to be 3,750,000TShs. She was expecting to get 3 million loan from PRIDE for that purpose but she also thought that she could inter into partnership with other women in order to consolidate capital. She had relatives who were also buying dagaa from Mwanza for sell in Dar es Salaam and were ready to assist her. She had also a plan to expand the Bar business because she felt that apart from profit, it was a place where she could meet different customers and clients for networking. The expansion was to include sale of chicken, goat meat and food.

CASE NO 5

ABDALLAH ALLY – CARPENTRY

Introduction

Abdallah lived in Sabasaba area. He was a carpenter since 1968. His main job was furniture making for sell based on orders from different customers. In 1992 he requested for loan from CRDB but he was not successful. In 1995 he decided to make his own **Wood – Working Machine** through support from SIDO workshop in Morogoro. He bought electric motor for powering the machine for 150,000 which was money saved out of remittances from his children as housekeeping support.

He had no any other capital. All the materials for making furniture were obtained from the customer as advance payments. He was not paying for rent because he was using an open space that was no mans land. The major cost was electricity that was shared with a friend. They were paying electricity bill to the landlord every month but the landlord did not pay TANESCO and as a result the bill accumulated to 1,030,000 TShs that was unmanageable. As a result TANESCO disconnected the electricity and therefore they could not work. They went to negotiate with TANESCO officials to be allowed to pay in installments which was accepted.

Employment

Abdallah was working with his child. There was no specific amount of money paid to the child as wage because they lived in the same house sharing the good as well as the bad times as a family.

Comments on Pride Credit Model

He felt that the model was good except that the starting loan size should have been higher in order to be able to do better business. A baseline of 150,000 TShs.- was recommended. He confessed that he did not remember how he spent the first loan of 50,000 TShs. He was also concerned about the requirement that for every 100,000 loan applied for and accepted it was only 99,000 TShs was issued. He suspected that he could be working for PRIDE and TANESCO rather than for himself. There was no problem in getting loan through his group.

Future Plans

- Buy another motor in order to be able to manage more work
- Apply for his own electricity service line in order to avoid dependence on other people.

CASE NO 6

TINA KARO – VARIOUS BUSINESSES

Introduction

Tina was a housewife living in Kihonda. His husband had a furniture factory. Her first experience in business was in 1992 when she started by selling decorating cloths and then a grocery. She obtained initial capital of 40,000TShs from her husband who was retrenched from Morogoro Polytex Mill. Due to unfaithfulness of the sales girls and her ill health she closed the grocery in 1997 and shifted to poultry, dairy, ice cream and charcoal. She had 3000 chicken, 20 bags of charcoal and 4 cows. She joined PRIDE in 1997 but due to pregnancy and associated blood pressure she resigned in 1998 and rejoined in 1999. Her current loan size was 1,000,000.

She was also a good farmer for maize and rice. She won Ward Prize during the 2000 "NANENANE CELEBRATIONS"- (farmers' day). She was awarded a certificate, 14,000 Tshs. and a hand hoe.

The Role of Pride

PRIDE helped her to increase her poultry from 100 to 300.

She was able to start "Waxy Vitenge" business. She was getting supplies from The Democratic Republic of Congo. The cost of 1 set (2 pieces) was 13,500 TShs and she sold on cash for 18,000 TShs. Selling on credit had the following conditions. 1 set of Kitenge was sold for 20,000 TShs if the credit duration was 1 month, while for 2 months it was sold for 25,000 TShs. The risk of loss was not high as she said that for a year the loss was a maximum of 10,000TShs only. During the time of interview the cost per 1 set was 17,000 and selling at 25,000 for cash. She could sell 8 sets a day

Employment

She had employed 3 people. 1 boy for taking care of cows. 1 boy for taking care of chicken and selling ice cream and 1 house girl. The one for the cows was paid 12,000 a month, the other boy and the girl were paid 5000 per month each.

Problems

- Marketing is a major problem particularly during farming and rainy seasons because many people were spending more money on farming
- Lack of grace period led to concentration on short term projects rather than long term ones with better profits

- Unlike many other respondents she did not find interest rate as a problem. The problem was the timing. She thought that it was unfair to pay for interest on the money that might have already been returned through bigger size installments ahead of the schedules.
- Working in groups was not seen to be a big problem

Future Plans

Tina and 3 friends were planning to start an Association of Farmers and Livestock Keepers. They have already started the groundwork of mobilisation in order to get enough members. They attend different workshops organised by Morogoro regional government departments dealing with agriculture and livestock development

4.2.4 EMERGING ISSUES FROM INTERVIEW WITH PRIDE OFFICIALS

The available literature and discussions with PRIDE officials suggest that group lending models of the Grameen Bank type are still the best in ensuring that the “moderate poor” get access to credit when efficiency and low risk criteria are used. PRIDE Model is one of the best success stories. Until June 2001, 50, 119 clients in 74 branches in 16 regions in the country with 242,640 loans ranging from 50,000 to 5m – all repaid. Sixty eighty percent of the clients were women.

Successful as PRIDE looks, it has no intention to continue providing credit to the poor through group collateral leaving alone fulfilling the original mission of providing credit facilities to the needy in rural areas. Efforts are underway to register PRIDE as a Limited Bank though nobody could give the secret behind this new move, anecdote information show that PRIDE is now capable of self financing by 80% and the rest is support from NORAD and SIDA through the government. This could be one of the reasons why PRIDE would like to be independent and venture into a new business. If PRIDE becomes a bank like any other commercial bank, it is anybody’s guess of what will be the fate of the thousands of the clients.

While PRIDE is planning to quit from supporting micro and small enterprises (to adopt classical banking approach), different government statements through various instruments speak forcefully on the need to support the sub sector because of the role in creating employment, and generate income for the increasing unemployed labour force. Some of the speaking instruments include Poverty Reduction Strategy Paper 2000, National Employment Policy 2000, National Micro Finance Policy 2000 and Small and Medium Enterprises Development Policy 2001-2011 recognise the power of micro and small enterprises in the economy and the need for strategic support to this sector.

Research findings support the thesis that New Orthodoxy Lending Models of PRIDE type do empower rather than constrain household welfare. However, the road to empowerment is tricky, dynamic and at times involving “politics”. The same study concludes that loan through group collateral might be the best way to reach the unbankable entrepreneurs and hence the need to encourage and support institutions that promote group based entrepreneurs through financing.

CHAPTER FIVE

5.0 EMERGING ISSUES, POLICY IMPLICATIONS AND FURTHER RESEARCH

5.1 EMERGING ISSUES

First, the policy trend from conventional to new orthodoxy approaches to small enterprise financing has shifted from supporting large masses of poor through “give away” credit to those who can afford competitive market demands. The same objective of improving welfare of the poor has remained the central focus in the new orthodoxy approaches though the poorest of the poor have always been ignored. Empowerment through credit has taken the feature of increased employment, more income and expenditures on consumption, education, health etc while few families were worse-off.

Secondly, few cases of worse off situations at individual and household levels are normal and acceptable in a competitive market environment.

Thirdly, whether the empowering is through their small enterprises, is something that we are not certain. We find an ambiguity particularly when there were tremendous successes of few households, which have been able to construct family houses. Some PRIDE officials had an opinion that some individuals seemed successful but they were not genuine micro entrepreneurs in that sense of how they identified themselves when applying for loans. Some people seemed to have no businesses at all. The PRIDE officials gave an example that if a person needed a residential plot and he/she could not accumulate enough money to buy one he/she could join PRIDE, but use the loan to buying a plot. Other means like salaries were used to service the loan because it was easier to make little savings every week. When there was enough to clear debts one could just quit the group, and that is the end of the contract. Others claimed to be food vendors but they just needed a very small capital. Therefore a sizeable amount of loan was used for

purchasing fixed assets. Therefore to assume that every successful micro “entrepreneur” is doing the actual business is misleading.

Fourth, for the case of losers the leading cause was not clear. For example was it the problem of the PRIDE lending policy or family, group, type of business one was doing, personality weaknesses or what? So far we have hints that it was a multiplication of several factors. The PRIDE officials acknowledged that there were some members whose assets were sold in order to recover credit but this was an extreme case. This happened because one family pretended to be a group of independent members. The children squandered the money including payment of dowry. When the problem was critical the wife had to run away, while other children disappeared as well. The only way out was to auction family property. It was also noted that group members had considerable sympathy for genuine difficulties of their colleagues. In some other cases group members decided to shake off a member who they felt that was not accountable to the group. The easy way was to retire from PRIDE membership, and in the following week another member is recruited to fill the gap and registered as a new group. Therefore it was very difficult to know the real dropouts and new entrants to the programme but in average the number of entrants was almost twice as much of the number of the exits.

Fifth, although we found out that customers apply for loans and make repayments it was difficult to know what was going on at the ground level in terms of empowering from the time when credit is secured to the actual business transaction, repayment and exits. What we noted was the output – i.e. better or worse life.

Sixth, there is also the question of sustainable empowerment. There were three dimensions in this area:

- Types of businesses. As seen from the data most of the enterprises were tiny service provision oriented, with limited growth and expansion. This suggested that most of the micro entrepreneurs might not be able to expand their businesses for vibrant economic growth. They were vulnerable to extreme poverty if faced with just normal health or economic hardships.
- The pattern of expenditure. Our data indicated that 112 households could not have managed their normal meals without their micro businesses. Therefore most of the income was spent on consumption that again left insignificant amount for saving although better consumption is also part of empowerment.
- Expanding businesses. All the entrepreneurs felt that PRIDE had to provide credit for expansion. This was a dangerous thinking because it encouraged dependency and stifled thriftiness that is necessary for business growth.
- Interdependence of businesses. The findings indicated that all the entrepreneurs had more than one type of business. The implication is that even the loan taken was split to cover various businesses contrary to what was applied for and officially known to the PRIDE officials. Similarly loan servicing was coming from different sources of revenue. This is an indicator for survival nature of micro enterprises and limited chances for specialization, upgrading and growth.
- The power of networking at the level of group formation, management and loan recovery. We have concluded that even informal networks and good will do even influence decisions not only among group members but also PRIDE officials. Therefore building trust is critical in success of micro entrepreneurs because trust seem to have power of circumventing formal barriers in group formation and loan acquisition.

5.2 POLICY IMPLICATIONS

First, Empowering households through credit based policy similar to what PRIDE is doing although seemed to be empowering, is just a palliative solution to the real economic problems. We need stronger poverty alleviation and general economic growth policies alongside credit facilities including job creation for employment in order to raise peoples' purchasing power.

Secondly, although the current policy trend dictates marginal role of the state in job creation but we still need at least protective policies for relatively large local manufacturers and businessmen who can create employment. That is;

1. Protective policies will enable local manufacturers to be more competitive and therefore employ more people which will increase peoples' income and hence more money circulation.
2. Protected industries will create market opportunities for other local manufacturers and service providers including micro entrepreneurs.

Thirdly, PRIDE was registered, as an NGO for promoting rural initiatives but ironically it did not establish any branch in rural areas mainly due to high overhead costs. It is thought that banking on good experience PRIDE and other micro financing NGOs could team up to develop mechanisms for extending credit to the millions of needy people in rural areas. Fortunately or unfortunately, PRIDE is on the way to start operating like any other full-fledged commercial bank. We do not know yet what is going to be the impact of this decision on the thousands of micro entrepreneurs who rely on the well-established loan scheme. Whatever might be partnership with non-banking institution aimed at linking the poor and the bank is a feasible and viable future of micro credit schemes based on group collateral. Supportive institutional framework on the part of the government is necessary. An environment that facilitates the working of the "rule of the law" need not be overemphasized.

5.3 AREAS FOR FURTHER RESEARCH

First, the research findings lead us into a critical area of study in poverty alleviation through micro and small enterprise development based on group collateral. That is how to ensure effective work groups. It is hypothesized that we could improve micro and small enterprises that are financed through group-lending models if we can improve groups' performance through the understanding of group dynamics. Therefore, there is room for research on group dynamics.

Secondly, there is a need of finding out an institutional framework set up for providing credit without duplicating efforts through unnecessary and costful multitudes of credit interventions. This could mean developing some kind of partnership between different micro credit institutions and other intervention agencies like community based organizations

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APPENDIX: I

NET INCOME FROM THE ENTERPRISES

It was difficult to distinguish capital from PRIDE and self capital. But if combining different sources of capital made them better of then it was empowering. The amount is in Tanzanian Shillings.

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
1	50000	284800	320000	35200
2	-	2800	16000	13200
3	70000	4800	40000	35200
4	23000	172000	280000	108000
5	-	46800	60000	13200
6	43000	144000	200000	56000
7	70000	66800	80000	13200
8	10000	43600	60000	16400
9	20000	95200	120000	24800
10	20000	175200	200000	24800
11	50000	95600	112000	16400
12	100000	55200	80000	24800
13	-	20000	40000	35200
14	-	84400	100000	15600
15	30000	124400	140000	15600
16	5000	66800	80000	13200
17	45000	7200	32000	24800
18	-	66800	80000	13200
19	50000	14800	28000	13200
20	-	47200	72000	24800

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
21	50000	75200	100000	24800
22	30000	-	-	-
23	50000	80800	116000	35200
24	-	26800	40000	13200
25	-	35600	52000	16400
26		46800	60000	13200
27	-	11600	28000	16400
28	50000	224800	260000	35200
29	41000	4800	40000	35200
30	60000	135200	160000	24800
31	30000	66800	80000	13200
32	30000	14600	30000	16400
33	-	44800	80000	35200
34	-	88800	120000	31200
35	27500	24800	60000	35200
36	100000	94800	108000	13200
37	45000	18800	28000	9200
38	10000	66800	80000	13200
39	26000	184000	240000	56000
40	16000	29600	100000	70400
41	35000	18800	54000	35200
42	-	52000	160000	108000
43	70000	66800	80000	13200
44	80000	-7200	6000	13200
45	80000	26800	40000	13200
46	20000	8800	22000	13200
47	19000	84000	108800	24800

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
48	12000	55600	72000	16400
49	30000	35200	60000	24800
50	7000	24000	80000	56000
51	30000	64800	100000	35200
52	80000	15200	40000	24800
53	75000	23600	40000	16400
54	-	244800	280000	35200
55	4000	32800	46000	13200
56	27000	32400	48000	15600
57	130000	43600	60000	16400
58	45000	3600	20000	16400
59	47000	11600	28000	16400
60	40000	23600	40000	16400
61	9200	4800	20000	24800
62	60000	-	-	-
63	50000	14800	28000	13200
64	30000	42800	56000	13200
65	45000	15200	40000	24800
66	-	-	-	-
67	1500	87200	112000	24800
68	22000	87600	104000	16400
69	35000	66800	80000	13200
70	50000	44800	80000	35200
71	-	11600	28000	16400
72	60000	44800	80000	35200
73	34000	2800	38000	35200
74	30000	-1200	12000	13200

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
75	15000	34800	48000	13200
76	30000	26800	40000	13200
77	-	156800	192000	35200
78	-	-8800	16000	24800
79	45000	66800	80000	13200
80	38000	7600	20000	12400
81	-	25200	50000	24800
82	40000	11600	24000	12400
83	-	59200	84000	24800
84	18000	144400	160000	15600
85	43000	86800	100000	13200
86	40000	47200	72000	24800
87	90000	86800	100000	13200
88	42000	14800	28000	13200
89	120000	59200	80000	20800
90	30000	32800	68000	35200
91	32000	73400	80000	26400
92	30000	66800	80000	13200
93	80000	95600	112000	16400
94	-	59200	84000	24800
95	12500	72400	88000	15600
96	-	14800	28000	13200
97	45000	303600	320000	16400
98	37500	25600	42000	16400
99	-	55200	80000	24800
100	10000	66800	80000	13200
101	20000	- 4800	20000	24800

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
102	-	43600	56000	12400
103	-	23600	40000	16400
104	-	59200	80600	20800
105	60000	43600	60000	16400
106	30000	46800	40000	13200
107	30000	-	28000	24800
108	9000	43200	68000	13200
109	30000	66800	80000	24800
110	25000	3200	28000	24800
111	35000	35200	60000	35200
112	70000	-	28000	13200
113	80000	24800	60000	13200
114	-	26800	40000	13200
115	20000	14800	28000	24800
116	50000	46800	60000	16400
117	60000	95200	120000	16400
118	30000	43600	60000	9200
119	30000	31600	48000	13200
120	10000	50800	60000	24800
121	50000	66800	80000	4000
122	30000	31200	56000	24800
123	40000	76000	80000	4000
124	10000	35200	60000	24800
125	40000	36000	40000	4000
126	30000	46800	60000	13200
127	10000	186800	200000	13200
128	10000	6800	20000	13200

RESEARCH GUIDE/INSTRUMENT FOR SOLICITING INFORMATION FROM PRIDE OFFICE AND MOROGORO

NO	MONTHLY INCOME BEFORE LOAN	NET INCOME	GROSS MONTHLY INCOME	AMOUNT PAID FOR SERVICING LOAN
129	14000	87200	112000	24800
130	1200	46800	60000	13200
131	20000	6800	20000	13200
132	1800	26800	40000	13200
133	20000	- 5200	8000	13200
134	-	- 4400	12000	16400
135	45000	46800	60000	13200
136	30000	34800	48000	13200
137	45000	3600	20000	16400
138	30000	18800	32000	13200
139	35000	3600	20000	16400
140	-	- 800	24000	24800
141	-	3600	20000	16400
142	5000	32000	140000	108000
143	150000	70800	84000	13200
144	45000	26800	40000	13200
145	-	123600	140000	16400
146	2000	452000	560000	108000

- Data was not available

1.0 GENERAL INFORMATION TO BE PROVIDED BY PRIDE OFFICIALS

(The Manager and 1 Loan/Operations Officer)

- 1.1 Customer size in numbers and loan ranges
- 1.2 Number of MECs
- 1.3 Growth and drop rates for 2000/2001
- 1.4 Performance trends in loan recovery for 2000/2001
- 1.5 Developments/improvements/Changes in the PRIDE operations 2000/2001
- 1.6 Problems and future plans

2.0 INFORMATION OBTAINED FROM FOCUS GROUP

DISCUSSIONS/INTERVIEWS

- 2.1 Group Backgrounds, composition loan sizes, types businesses, other inputs in the business
- 2.2 Business initiative and management process. Owner, previous jobs, current jobs, employees, pay mechanisms.
- 2.3 Income generated and expenditure patterns, loan servicing, consumption, health, education, rent, development, business expansion and savings
- 2.4 Influence of husband/wife, children, relatives, friends on the performance of the business
- 2.5 Problems, possible solutions and future prospects (particularly leaders of EGs and MECs)

3.0 SAMPLE/RESPONDENTS CATEGORIES

- 3.1 3 Male member Enterprise Groups. 1 most successful, 1 average and 1 poorly performing
- 3.2 3 Female “ “ “ “
- 3.3 3 fairly mixed male/female represented groups “ “ “

4.0 FACILITIES

One room was used to accommodate the discussion

5.0 DURATION OF THE FOCUS GROUP DISCUSSION

20 Minutes for each group

6.0 LEADERS OF THE 9 EGs was also met separately for 15 Minutes

7.0 MECs Leaders from which the EGs were drawn were met separately as well for 15 Minutes

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