CREDIT AND ENTREPRENEURSHIP DEVELOPMENT:

CASE STUDIES OF ENTREPRENEURS RECEIVING CREDIT FROM PRIDE, MEDA, CREW AND SIDO IN TANZANIA

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ABSTRACT: This paper discusses some preliminary findings from a study of four case studies (4) selected from a survey done in three regions in Tanzania. The paper attempts to discuss the role of credit in the development of entrepreneurship. The survey was done in Tanga, Mbeya and Arusha regions. The cases are based on the justifications so far given for advancing micro loans to small-scale entrepreneurs. These justifications are economic development and growth, poverty alleviation and women empowerment. The last justification is not a concern in this chapter. In discussing the cases, various reasons for entrepreneurs to seek for credit are examined. The use of credit loans on performing different functions of small businesses is discussed using two successful case studies sampled from PRIDE and MEDA, credit schemes in Arusha and Mbeya Regions respectfully. On the other hand, two unsuccessful case studies have also been drawn from CREW in Tanga region. The objective of making this simple comparison is to show how credit loans can contribute to entrepreneurship development; while it can at the same time be a problem to the borrowers.

A cross case analysis is done basing on the differences and an assessment of the loans given. The analysis is further based on why entrepreneurs start businesses, the source of initial capital, and the role of credit loans on the development of their businesses, and performance indicators from the point of view of the owner managers. The conclusion is based on the two justifications for credit for small businesses so far developed from the role of micro finance and small-scale development theories. The case studies are also discussed basing on the assumptions that, credit loans can only promote entrepreneurship development if the borrowers demand the loans from their own felt needs; and second if they have a pre conceived business idea which they strive to attain using the credit loans.

INTRODUCTION

The importance of micro finance and finance in general has been taken as a catalyst in the economic development and has received a lot of attention from various economic development scholars. These scholars have always been divided on the issue of financing small businesses especially when it comes into assessing the effect of the credit on the development of the small scale businesses.

The first school of thought comprises those who consider credit as a panacea for development (Buckley, 1997; Holme and Mosley, 1999). Similarly, other scholars have contended that there is still room to develop a better model for credit lending (Chijoriga and Cassimon, 1997). Such a model makes credit loans more effective in developing small-scale businesses. Trulson 1997, Chijoriga *et al* (1997: 283-306) have attempted, for example, to search for a best model for financing small businesses after the failure of formal institutions to do so for various reasons. Buckley (1997) for one argues that, lack of finance for small business development could be a result of poor management of the economy prior to the introduction of micro financing and informal sector development.

The other school comprises of those who advocate that lack of credit has been a hindrance to the development of entrepreneurship (Ndanshau, 1987; Bagachwa, 1994; Kuzilwa and Mushi, 1997; Shao 1995). Still there is the other contention that there are some businesses that have been very successful without credit injection. Various micro finance and small business development proponents have suggested that in

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order for small businesses to succeed and survive; they need both starting and working capital (Churchil and Lewis, 1983; Kirin, 1996; Ndanshau, 1997; Kuzilwa *et al*, 1997 and Chijoriga 1999).

The emphasis on micro-financing and specifically micro enterprise financing has received a lot of attention for the past three decades. Buckley for instance, argues that an ernoumous amount of capital through the popularly known credit provision has been injected into the informal sector for the purpose of expanding the small-scale sector. However, he doubts whether credit injection can be a solution to the problems of small-scale businesses. According to him, lack of finance for small-scale businesses could be a result of misdirected development priorities and poor management of the economy.

He views the attention currently being given to the informal sector as a false path toward development resulting from the previous denial of access to the right education system, health services and other civic rights to those struggling to join the informal sector.

Parallel to this, the small scale sector has also been receiving a lot more attention for the past two to three decades. This is because of the important role it is playing in the economic growth of the developing countries in terms of employment creation, reduction of income disparity, poverty alleviation as well as a source of taxation.

It has been contended that it is hard enough to create a business but it is even harder to keep it running smoothly and performing profitably (Soedjede, 1995). Some of the obstacles that have been facing Sub-Saharan growing informal economy include African culture itself, family solidarity, confusion between social success and business creation and the mistaken notion of credit.

Lambden and Target (1993) have suggested two factors that determine success or failure of a business. These are the potential for the business to produce profit and sufficient cash at the right time in the business cycle.

Taking into consideration the emphasis on the role of credit in the development of small scale businesses; and the criticism which have been raised concerning the reality in utilization of credit loans; this paper attempts to assess the use of credit loans on the small businesses in terms of their usefulness in performing different functions of a businesses.

Case studies of entrepreneurs receiving credit in Arusha, Tanga and Mbeya regions have been used to elaborate on the need for credit for small businesses development. The discussion is be based on the role of credit in performing various functions of MSEs. The functions refereed to here are those of purchasing raw materials, production of goods and the function of advertising the produced goods and selling.

The role of loans in performing these functions shall be obtained from case studies data that was collected from entrepreneurs receiving credit loans from the following institutions. Promotion of Rural Initiatives and Development of Entrepreneurs (PRIDE), a credit scheme for women income generating activities in Tanga region (CREW) and the Mennonite Enterprises Development Agency (MEDA).

THEORETICAL FRAMEWORK

Before going into the details of whether credit has any role to play in entrepreneurship development it is important to look at theoretical work on the two concepts credit and entrepreneurship development which are going to constitute the main part of this paper.

Credit is defined as a mechanism that enables economic units to spend out of phase with their income. Credit has also been defined as a means through which transactions are made to acquire commodities against promise to pay later (Furness, 1983). Credit enables producers as well as consumers to bunch or postpone their major capital goods. According to Schumpeter (1993) access to credit is essentially the creation of purchasing power for the purpose of transferring it to the entrepreneur. Credit does not simply transfer power to the entrepreneur; it also gives him or her access to a social stream of production of goods thus entrusting him/her with productive forces.

There are two types of credit so far identified. These are consumer and producer credit. Consumer credit is given and is used for easing seasonal cash shortages especially in pre- harvest periods. Such credit is used for purchasing food, paying for education and health services. Production credit is used for easing seasonal shortages of cash required for recurrent business inputs such as raw materials, labor charges and improvement of business premises.

Schumpeter's definition of credit was based on the relationship that existed between the merchants and the capitalists in industrializing Austria (Schumpeter, 1912). For him it was only through the injection of credit from the capitalists that merchants could develop their trades.

Access to credit loans has been considered a constraint to SMEs. The owners of businesses preparedness for using the loans can constitute a bigger evil to the business performance when it comes to sustainability of the business as well as entrepreneurship development (Lambden and Target, 1993). Yunus (1982) started the Grameen Bank that is currently being used as a model by some of the Sub-Saharan African countries (SSA). The Grameen Bank was started with the objective of assisting the rural poor to start income generating activities for the purpose of improving their living standards.

Justification so far given for credit supply for entrepreneurship development is two folds: First it is for economic development purposes that will later on lead to growth, and secondly, credit is supposed to assist in income generation and hence reduce poverty in low-income households. These two discourses according to Rutashobya (2000) have just been used to justify the best model for financing small businesses in Africa South of Sahara. However there is a need for inquiring into whether such justifications are valid.

Micro and Small Business

There have been two major changes in the trend of thinking towards the development of the economy in Sub-Saharan Africa (SSA). First there is the idea that growth alone cannot alleviate poverty, and second there is the general acceptance that the development of the informal sector may be a better model for mobilizing business resources for the development of the economy compared to the use of the public sector. It is this trend of thinking that has promoted the justification for financing small-scale businesses in SSA.

Micro and small enterprises (MSEs) are hereby defined because they are the units for which credit is applied. They are going to be used to analyze the use of credit loans. It is through their performance that we are going to know whether credit loans are a panacea for development or not as various development activists (Otero and Ryne, 1994, Buckley 1997).

There is no a universally accepted definition of a small business. However, there has been a tendency of mixing small businesses and entrepreneurial ventures in the third world countries. Wickham (1998) has distinguished the two by using three characteristics. Unlike a small business, the author argues that an entrepreneurial venture is usually based on a significant innovation. This may be a technological, market or a new product innovation.

A small business on the other hand, is involved in production of an established product, giving service and trading. Secondly, the two differ in their potential for growth. Whereas an entrepreneurial venture has a great potential for growth, a small business may not have such a potential.

Finally, a small business differs from and entrepreneurial venture in the sense that an entrepreneurial venture always goes beyond a small business because it has some set strategic objectives which involve among other things growth targets, market development, market share as well as market position (ibid).

It should be noted that, there is no clear cut demarcation between the two because a small business may also develop into an entrepreneurial venture and that, not all business have a potential of developing into an entrepreneurial venture.

Vesper and Drucker (1990; 1995) differentiate the two using indicators such as innovative, motivation, growth and strategic practices of the firms. Ryne and Otaro have defined a small business using the following characteristics: Small starting capital, operation on a short planning horizon and often on daily or weekly basis, their life span is short lived, they require short term financing and finally the financial needs of an individual owner are often inseparable from the needs of the businesses (Ryne and Otaro, 1982).

In Tanzania a small enterprise employs 11 to 50 workers while a micro-enterprise has less than 10 workers. Such undertakings involve risk taking and are subjected to threats of survival and hence the need for entrepreneurs who are driven by a strong desire to succeed. These enterprises are very small and depend on the owner and his or her family members. The enterprises are not started out of choice but for survival. According to Harper (1998), in many developing countries women own micro enterprises. Very few of them evolve into small enterprises. The majority remain at the same level of activity or fail all together.

While we agree that there is no universal definition of a small enterprise, there are some common practices or trends, which brings all the small enterprises to a convergence. These similarities include the number of employees, capital invested, level of technology, size of the business premise sales turn over, number of share holders, composition of owner managers and their competence, innovative behavior as well as management practices.

DEMAND FOR CREDIT BY MSE OWNERS

Individual motives for starting a business

This section deals with the entrepreneurs' demand for credit. This has been brought here to assist us to elaborate on the contention that credit is not a solution to small scale business development despite its in the role development. It is been argued that, despite the fact that some credit proponents have argued that credit is more a problem to entrepreneurship development; it is still demanded by entrepreneurs for various reasons. Before looking at why entrepreneurs seek for credit it is worth discussing why entrepreneurs start businesses.

Based on the entrepreneurship theories, business owners start businesses for various motives. McCleland (1961) once argued that, the need for achievement is the core of the entrepreneurship spirit. He describes this need for achievement as a psychological quality ("n-ach") that differs depending on the environment where a business is started. Hagen (1962, 1971) went further arguing that, two psychological qualities play a crucial role in creating an entrepreneur, these are: the high need for achievement as per McCleland's theory, and second is the individual's desire for autonomy. The author also considered the openness to experience a s a motivating factor for creating an entrepreneur. Mackie (1992) considers alienation factors such as those which drove the Jews in Europe, Levantines in Latin America, the Chinese in South East Asia as well as Indians in East Africa as enough motive to make one go into business. Santarelli and Pesciarelli (1990) argue that credit can also be a motivating factor for an individual to become an entrepreneur especially where social and cultural barriers to change are high thus denying an individual to haveaccess to the factors of production. According to the authors credit if obtained makes an individuals to start a business irrespective of their social rank.

The earliest literature on the demand for credit includes that of Streissler (in Schumpeter, 1934) when he writing about the role of credit in innovation and entrepreneurship in Vienna. He had borrowed some of his ideas from Schumpeter[2]. In Schumpeter's Economic Theory, three main ideas are presented. These are the cyclical nature of development, the role of the innovating entrepreneur and the importance of credit for development and furthering innovation in entrepreneurship.

Complementing the work of Schumpeter, Ausch (1968) added that, banks have a very crucial role in developing entrepreneurship. This is because awarding or denying credit to an entrepreneur determines what the author calls the fate of the enterprise and even the fate of the whole sector of industry. Schumpeter believed that demand for credit arose out of development processes taking place in the economy. He argues further that, stationary economies do not have an essential need for credit (Schumpeter, 1912). Wieser (1914) later cited demand for credit for creative entrepreneurship arguing that the rise of effective entrepreneurs and hence selection of leading persons in the realm of property is advanced by credit in the highest degree.

Various studies conducted in Tanzania, Tunis, Niger, Thailand and Botswana on credit and entrepreneurship development have observed that, more than 60% of entrepreneurs thought that lack of credit was the major constraint to starting and operating small businesses (Solignac and Oudin, 1996; Kashuliza, 1992; Trullison, 1997). The studies did not however relate credit directly with development of entrepreneurship.

The main objective of an entrepreneur seeking credit is to cover for deficit in planned investment expenditure (Kiiriya, 1996). Borrowing could also be caused by the need for working capital. According to Dondo and Tomeko (1992) an estimated total of demand for credit for SSEs in Kenya in 1992 was approximately about 2.8 million Kshs.

Research and development (R & D) is very crucial to enterprise development. One can however argue that most of MSEs in Tanzania hardly pass through this stage because as argued earlier, MSEs in Tanzania are started merely for survival. Very few other motives like profit making are considered by entrepreneurs at the initial stage. According to Churchil and Lewis there is a need for financing MSEs at this crucial stage (see annex 1). It determines the survival and hence growth of an enterprise. The same is also reflected in the Arusha studdy where more entrepreneurs cited lack of finance as constraint to innovation and businessstart-up. This can further be elaborated using the following case of an entrepreneur receiving credit from PRIDE in Arusha region.

[2] Chapter 4 on Schumpeter's *Vienna and the Role of Credit in Innovation*

CASE NO. ONE
Msangi Quality Products

Mr Msangi the owner of the Msangi Quality Products in Arusha was a secondary school teacher for seven years before he joined the Prime Minister's Office where he also worked very briefly. He had longed all this time to attain a Bachelor of Commerce degree from The Umversity of Dar es Salaam. He had applied for admission but due to communication breakdown between him and Dar es Salaam he missed the chance. He said he decided to start a business instead.

His first business was making and selling of pillowcases. The initial capital was derived from savings made from his previous employment at the Prime Ministers' Office. This amount according to Mr. Msangi was just a peanut when compared to other business owners in Arusha. He obtained the handlooms using the same amount of savings. The equipment was made using very crude technology.

At the time of our visit, he was making bedsheets using two handlooms that were sometimes giving him technical problems because he did not have money to repair them and second he also needed money to increase the number of the looms from two to five. One of the indicators for measuring performance of his business was chance of networking with successful handloom owners. On this indicator he had this to say:

> If am given a chance to learn from qualified hand loom owners in Arusha town I could do a more profitable business. After that I can even increase the number of the hand looms in my factory up to five and this will enable me to make more bedsheets.

He insisted that he had started his business without making any reference to successful hand loom owners. In addition he wanted to travel to Arusha Municipality to network with other handloom owners on how to raise the quality of his product. The idea of networking and entrepreneurship development was an important concern of Mr Msangi. Ruzibuka (1998) also raised such a concern in her paper on networking and enterpreneurship development. The author argues that, networking in the case of Indian owned firms has assisted in the provision of venture capital. Access to working capital was another indicator of business performance and hence development. In 1994 he got information from his apprentice in his pillow business that he could get credit from PRIDE in Arusha. He decided to attend PRIDE meetings. He wanted to learn more on how to make handlooms from anybody operating in Arusha so that he could expand the pillow business and hence the reason for taking the loan.

As a result of the loan from PRIDE amounting to Tshs 500,000, he now owned a handloom enterprise where he was manufacturing bed sheets.

Availability of markets for finished products was mentioned to be anther indicator of a healthy and business performing well. His market is a low-income population residing outside Arusha municipality especially the Masai occupied areas. He said he would increase the handlooms so that he could have 5 handlooms hence produce more bed sheets. Current production was 10-20 bed sheets and given a third hand loan he could add up to 30 bedsheets per day. The owner of this business obtained his starting capital from his previous employment retrenchment benefits. At a certain point in his business he was short of capital. This was noted in his complaint that he could no longer repair the looms, he had no bus fare to travel to the Masai occupied areas to sell the few bedsheets he was producing with difficulty.

Credit and Entrepreneurship Development in Small Businesses

Before discussing on the role of credit in entrepreneurship development, it is important to discuss very briefly what entrepreneurship development is. This will enable us to relate it to the role of credit in the development of the same. It has been observed that, most credit delivery models have been more pre-occupied with loan requirements than the entrepreneurs' diligence (Abuodha, 1996).

What the author was implying here when talking about entrepreneurs diligence is the borrower's conception of business idea and how to use the loans to realize profits and hence success of the firm. Arguing on the idea of business success and survival Lambden and Target (ibid. 79) observed that the question of sufficient cash for running a business is important.

It has further been noted from almost all cases studied that credit was demanded for various reasons such as seasonal trading, factoring and purchase of capital assets (ibid. 75).

According to Cole (1965) entrepreneurship is defined as purposeful activity to initiate, maintain and develop a business oriented activity. Sawyer further stretched the definition by saying that enterpreneurship can be found in a whole range of functions from "The purely innovative function to purely routine activities. This does not only apply in business but also in other organizations where decisions concerning change are made.

Entrepreneurial activity has been defined as an implementation of a new idea/venture through events which include initiative taking, consolidation of resources, attaining a relative autonomy and risk taking (Alange, 1980; Lewis and Morris, 1995). The process of entrepreneurship development involves the entrepreneur or small-scale business owner who organizes resources and gives way to the produce.

As long as entrepreneurship is perceived from a business approach, business people who assemble resources and take some risk and show some initiative or exhibit some independence of action can be refereed to as entrepreneur. We on the same ground argue that an entrepreneur is synonymous with "business person." One can therefore are conclude that enterpreneurship is all about organization of productive resources, risk taking in the process of organizing the resources and the motive for making profits.

Most entrepreneurs whose main objective is rooted in success, start with small businesses. If they do not succeed then they may start searching for factors that hinder their success. Business success is determined by various factors. They can be qualitative or quantitative. How ever, among the most important factors for f are the entrepreneur's strengths and weaknesses. Here the question of education and social cultural factors may apply.

Success of a business has also been associated with the amount of initial capital and working capital involved in running a business (Roberts, 1972; Mayor and Goldenstein, 1961; Lamont 1969; Ndanshau 1996; Malima, 1997; Kuzilwa *et al* 1997; Chijoriga, 1999). Despite their differences in discussing the role of credit in small busineses success, the authors have argued at different levels that both starting and working capital gives new firms longer period in which to work out their liquidity problems. They have at the same time cited credit as one of the sources of this capital.

In other circumstances like in case of CREW credit recipients who were mostly women were starting businesses because credit officers and community development officers were mobilizing them to take loans. It is therefore argued that, in this case women were advanced loans for the purpose of earning them incomes from income generating activities for poverty alleviation (Makombe *et al*, 1999).

If we refer to the case study of oil pressing in Mbeya region the owner entrepreneur narrated to us how his wife had lost her employment as a nurse with the former Regional Trading Company (RTC). He struggled to seek for credit from Small Industries Development Organization (SIDO) so that he could get a way of employing his wife. SIDO supplies credit in an equipment form. The couple had obtained an oil-pressing machine as a loan from SIDO.

Venture capital is very important for a business start up In a situation where an entrepreneurial activity is well established, venture capital may not be a problem. Networks in entrepreneurship have in most cases provided such a capital as in the cases of Indian firms cited by Ruzibuka (ibid). It has been observed that there have been continuous venture capital sources and that the suppliers of such capital have been from entrepreneurs themselves.

Cooper (1970) observed that some of then derived their venture capital from firms they previously worked for as in the case of Msangi Quality Products cited earlier and the following case of Oil Pressing Enterprise in Mbeya region.

CASE NO.2
MWANDOSYA OIL PRESSING ENTERPRISE IN MBEYA

Mwandosya and his wife were the owners of the Mbeya Oil Pressing Enterprise that we visited in 1999. During our visit the husband who was an employee of TANESCO was not at home.. His wife was busy at their factory collecting oil cakes (a by-product from oil pressing) that she said they were selling to dairy cattle keepers.

She had meanwhile sent some one to call her husband from the office. When he came he started to explain the problem he had in obtaining the seeds from Iringa farms during the harvest period. He indicated that it was cheaper to buy the seeds from the farmers during the harvest period. For to him it was not possible because the amount of money he had was only enough to purchase ten bags that he argued was not enough to carry the production through to the next harvest. He was citing the case of his fellow Indian traders who were buying all the seeds from the farmers during the harvest at a very low price.

> By the time I finish selling these cans of oil, the price of the oil seeds will have doubled and they may not be in the markets at all because the rich manufactures buy all the seeds during harvests when the prices are low. I will have to go to buy from them depending on when I get the money" Mwandosya complained.

One thing that was observed about business premises was that, all the manufacturing and storage of raw materials and the by-products was done in the residential area making the place very crowded and not so clean. This it was noted can be very detrimental to the health of the oil consumers. The owner was concerned with this and insisted on the fact that if he gets the loan he was processing with MEDA he would improve the situation.

An enterprise can decide to limit its need for finance to the capacity of its cash flow, but generally the potential for investment in an enterprise will exceed the internally generated financing capacity (Jong and Kleiterp, 1991). The author ascribe the demand for finance to working capital, so that an enterprise continues to have a degree of independence from suppliers (as in the case of Mwandosya); and customers as well as being able to continue producing for the market on a continuous basis (Jong and Kleiterp, 1991).

Small business financing enables the entrepreneurs to carry stock in the form of raw materials to finished products. Another use of credit is ascribed to machinery and tools that will enable production. In this, the question of buildings and other fixed assets also calls for a demand of credit. The case of Mwandosya can also be applied here because he had the pressing machine fixed at his residential house, and the raw materials as well as the waste product (oil cakes) stored in his house. Given some more loans he could build a separate factory for his activities.

CASE NO. 3

Ashura Maize Stall Muheza

Ashura was a married woman with two children during the study in 1997\1998. Her husband's name was Shemndolwa. Ashura had received credit from CREW amounting to three hundred thousands (300,000) Tanzanian Shillings. CREW[3] unlike other schemes in Tanzania, requires the borrower to start repayment one month after the date of receiving the loan. Ashura was engaged in buying and selling maize at a market stall in Muheza town. Muheza is a small town in Tanga region situated on the left side along the highway to Tanga municipality.

After receiving the loan, she used to travel to Morogoro and Iringa where the price of maize was cheaper, and bringing the maize to Muheza and selling at a very reasonable profit margin.

After some six months the business was performing so well that Ashura started to diversify into other small businesses. She started buying smoked fish from Nyumba ya Mungu Dam in Kilimanjaro region and bringing them to Muheza for sale, again at a very good profit margin. The two businesses prospered using the loan money from CREW. One day Shernndolwa cheated Ashura that he had been robbed all the money on the way to Kilimanjaro. As time passed Ashura was now failing to make the monthly loan repayments. This was the time that the business deteriorated to an extent that, Ashura was now hiding every time she saw the loan officers.

Actually when we arrived at her stall with the loan officer she ran away. The loan officer had to use some tricks to get her to answer our questions. The husband had squandered all the money. Ashura' s business was coming to an end . During the interview she complained that she was not even able to pay for the trading premises and hence was in danger of loosing the premise.

It has often been argued that the financial reforms in the financial sector in Tanzania since 1985 have improved MSE financing. If one looks at the rationale of a country like Tanzania to under take such a measures, one will argue that it was for purposes of giving more chance to the informal sector to grow by exposing it to micro financing. Results of the financial reforms are currently been realized by the - exists in Tanzania (Mlambiti et al 1992, Hyuha 1993, Kiirya 1997 and Ndanshau 1997). Ndulu and Msambichaka (1982) have demonstrated that institutional arrangements for credit supply to farmers liberated them from exploitative moneylenders. Financial reforms in Tanzania have to some extent alleviated the borrowers from such exploitation.

As such, they have resulted in the development of informal source of credit lending (ISC) in the country. The implementation of the reforms have in turn shifted the orientation from state intervention in financing small businesses into social market approaches for financing small scale business in Tanzania.

Critiques of the various uses of credit loans for enterpreneurship development have in most cases been divided. Research done on the credit lending for small holder farmers in Tanzania observed that rural credit left the farmers with more debts than before the loan (URT, 1985). It has further been noted that, if given proper

3 CREW (Credit Scheme for Productive Activities of Women in Tanzania) is a credit scheme operating in Tanga region and Zanzibar.

handling institutionally, credit can act as a catalyst for development. Another study done in Ismani on the impact of the then Cooperative and Rural Development Bank (CRDB) on small holders found that, credit was more of a burden to farmers rather than a catalyst to their development. Mohele (1975) in his study on the impact of financial institutions on the rural sector and particularly on the small and medium ones found that the villages surveyed did not indicate any changes which one can say are a result of credit injection.

The output and incomes of farmers who received credit increased only marginally. The farmers believed that this was a result of credit loans. In real terms the farmers did not take into considerations other costs like interest rates, the costs of processing the loans as will as increasing prices of farm inputs (Mohele, 1975: 252).

Unlike the case of institutional arrangements, reasons given for poor performance of CRDB loans to small holders was the attitude of the borrowers in the sense that they perceived the loans as a gift given the government. On the other hand in a study done on rural credit in Iringa by Ones (1989), it was observed that extension of credit to small holders had brought along innovation among the small holders and an increased use of modern technologies with the objective of increasing production. However, Ones does not indicate the type of technologies he meant in his study.

Kashuliza (1986) noted that the smallholder credit delivery model whereby the small holders had to pay for inputs in cash because the village governments would not risk default proved to be more enterprising because of the increase in output resulting from the loans. However, the author noted that, more than 80% of the loans in Iringa had gone to large-scale tobacco farmers and hence it is difficult to associate this delivery to entrepreneurial development for small farmers.

Kuzilwa (1997) also cautioned that provision of credit to the poor does not necessarily make them entrepreneurial if the recipients will not undertake entrepreneurial activities. This can be supported by one CREW case in Korogwe (Mashewa) narrated below:

CASE NO.4

Mwanahamisi Buns Business - Korogwe

An elderly lady aged around sixty years by the name of Mwanahamisi in Kwamndolwa village is the owner of the business. She was making rice cakes commonly known as "vitumbua" in the Swahili language. When we arrived at her residence she was not very happy and was actually about to refuse to talk to us because she thought we were loan officials coming to collect loan retirements.

Before asking her any question she started to register her complaints to us. First she said she was working for CREW and that she was not making any profit. Asked why she felt that she was working for CREW, she said that she had borrowed only Tshs 50,000. She had by the time of our visit used only Tshs 10,000 to buy rice and cooking oil for her business. The rest of the money was according to the owner hidden under her pillow as she claimed so that she can repay the loan whenever required by the loan officials. *"Naogopa kufungwa jela inabidi nijifiche wakija tu niwape,"* she was lamenting in kiswahili meaning that she was scared of being imprisoned if she failed to repay the loan. When we asked her to tell us the factors that have influenced the success of her business, she said it was the easiness of getting the raw materials especially during harvesting time because the price of rice was very low.

This was also mentioned as an inhibiting factor because most people had rice at their homes and that most women were engaged in the same business. This situation created saturated the market. The impact of the loan was almost not mentioned except its impact of making the borrower so miserable and scared.

CROSS CASE ANALYSIS

So far we have presented some empirical observations from four case studies on the use of credit loans on entrepreneurship development. The situation is such that small businesses use credit loans for various functions of their firms. At least the demand for credit was there and the entrepreneurs expressed their readiness meet such demand as discussed below:

Reasons for Starting the Business

Different entrepreneurship theories have advanced the reasons why entrepreneurs start businesses (McCleland, 1961; Hagen, 1962; Santarelli and Pesciarelli, 1990; Mackie, 1992). In the surveyed cases, the following were the reasons for starting the businesses. These reasons vary across cases. Msangi started his business after failing to secure a chance to go for further studies at the University. He wanted to study commerce subjects so that he could become more conversant with commercial issues. He thought this could help him to become a more successful businessman. Mr. Mwandosya, the oil-processing owner had taken the machine loan from someone so that his wife could be employed after being retrenched from a nursing job. Ashura had taken the loan because the loan was meant for low-income groups. CREW's intention was to enable women to start income generating activities so as to raise their standards of living. Reasons for starting the budsiness therefore vary from employment creation to poverty alleviation. One can also argue that, the case of Santarrelli *et al* (ibid.) may apply in the case of Ashura's and Mwanahamisi's businesses. This is because the two women had started their businesses after they got information from their friends that there was a loan scheme specifically for women.

Source of Initial Capital

Most of the small businesses in SSA are started from informal sources that include own funds, loans from relatives and friends, rotating savings among peer groups and women religious groups. The owners of businesses in the case studies obtained their starting capital from various sources. The Mwandosya oil-processing factory obtained its capital from the savings and retrenchment befits of Mrs. Mwandosysa who was retrenched as a nurse. The maize stall business got its initial capital from the loan. These are the types of businesses that are started because a loan scheme has been advertised. The same applies to Mwanaharnis's bun making business. Mr. Msangi had acquired initial capital from savings from his previous employment that enabled him to start making pillowcases. He later bought one handloom for manufacturing bed sheets. When he learnt about PRIDE loans he used the first and second loans loan to increase the number of handlooms to three. He was processing a third loan that he said he would use for opening a place for selling his products in Arusha town. During the survey he was selling the bedsheets from the factory's premises. This trend, he said, was not earning him enough customers as he wished.

Entrepreneur's Performance Indicators

Theoretical literature on the performance of an enterprise have emphasized on use of both qualitative and quantitative measures as indicators for measuring the performance of businesses and hence their success or failure (Andersson, 1987; Storey *et al*, 1987, Keasy and Watson, 1987; Hall and Watshaw, 1987). According to most of these authors, performance, productivity and efficiency have been used interchangeably to explain achievement or success in business. Performance in the surveyed cases indicates the "path that the businesses have gone through from the time they were stared to the time of the survey." This determines the success or failure and hence development or non-development of the same. According to Msangi Quality Products, the business was performing well because he had managed to increase the number of the hand looms from one to three. This had in turn increased the number of bedsheets produced per day from ten to thirty. Indicators here were therefore measured in terms of increased working equipment /machines as well as output of products.

Wickham (1998) used social indicators to measure performance of a business and its failure or success. He suggested that, the firm's ability to satisfy the owner's perceived needs and the society's expectations from the business are enough signs that the business is doing well. Considering the maize stall closely, one may argue that, at the on set of the business the owner's expectations were being met. This is because she was getting money for fulfilling family requirements such as education and medical services and other social needs. The same could apply to other cases except for the buns business whereby the owner did not use the loan except for retirement purposes.

Credit Use for Entrepreneurship Development

Two justifications are given by Rutashobya for credit disbursement in SSA (Rutashobya, ibid: 22) These were growth and poverty alleviation. To some extent Ashura's business had started to sustain her family in terms of payment of education and health services that are part of poverty alleviation indicators. In a study done in four districts in Tanga region in Tanzania, CREW loans were found to be problematic than a solution to the income generation motive for which the scheme was set for. (Makombe et al. 1999: 50). On the other hand, the maize stall and buns businesses surveyed for this paper are in line with these arguments on credit being a problem than a solution to entrepreneurship development. This may be due to the external factors that interfered in the process of loan use for enterprise development.

In a study on credit use for entrepreneurship development (USAID, 1993), it was observed that, while credit had played an important role in reducing short term economic hardships through enhanced incomes, there was very little evidence of an ongoing accumulation based on improved productivity and employment creation. The survey further noted that the enterprises grew only a little and maintained their operation at a constant level 1996).

Mwandosya's oil-pressing factory qualifies for growth justification although the owner did not specify that he was experiencing such a change. Consideration the two discourses for micro financing and development of entrepreneurship pointed out earlier; it is difficult to alienate the poverty alleviation logic/rationale from the economic development discourse in as far as development of entrepreneurship is concerned in SSA (Hulme and Lewis, 1999).

It has also been revealed in the case of oil pressing. In this case, there are some elements of entreprenuership development because there is a combination of resources and skills as well as capital to produce end products (Schumpeter, ibid.). It can further be argued that, there is employment creation as well as the combination of productive factors such as buying of raw materials from the agricultural sector and processing them to get a new product. There is complimentality between two economic sectors.

On the other hand, income accrued from the sales was used for poverty alleviation. This so because the situation of the factory indicates that there was no re-investment of capital derived from the sales. Even the complains that the owner was not able to meet the required amount for purchasing seeds from Iringa could be another evidence that there was no re-investment.

It usually argued that credit given without demand can be a problem to the recipients (Buckley, ibid; Chijoriga and Cassimon, 1999.) Taking the case study of buns making discussed above Mwanahamisi had entered the credit scheme because it was a scheme initiated from above. This lady was not conscietized on the relationship between the loan and her business. In a study on the influence of credit loans on women empowerment and poverty alleviation using CREW loans, Makombe *et al* (1999) recommend that constant sensitization and conscietization of credit recipients should be undertaken. Such efforts will make the credit recipients to be aware of the need of using the loans for business development as well as retirement of the loans.

CONCLUSION AND FUTURE RESEARCH AREAS

This paper has attempted to contribute to the existing knowledge on micro finance and entrepreneurship development particularly in SSA. It has selected only four case studies of entrepreneurs who are using credit for their business development. The chapter is however not exhaustive in as far as credit use is concerned. It has been observed that, credit can be both a solution to entrepreneurship development as well as in poverty alleviation. Credit has enabled some owners to increase their incomes as in the case of Ashura, Mwandosya and Msangi. Taking credit from the Schumpeterian economic argument, credit has also enabled some entrepreneurs to combine productive forces to produce new products as in the case of Msangi Quality Products and Mwandosya Oil- Pressing. The importance of the entrepreneur's preparedness for credit in terms of business idea and how to use the loans for the development of the same has also been observed as in the case of Mwanahamis's business. Poverty alleviation and economic development are the justifications so far given for the need of financing small businesses in SSA.

There is also the question of women empowerment that was not dealt with in this paper. The previous two justifications have to some extent been attained in the cases discussed. It is recommended that further research be done on the relation ship between the two and how they can be combined to accelerate economic growth. More important is a research on how the small-scale business owners can use credit loans entrepreneurship development without sacrificing the issue of poverty alleviation. Lastly it is also worth researching on those successful businesses that do not use loans to know their sources of finance.

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