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The Financial Infrastructure for Entrepreneurship in Tanzania

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The Financial Infrastructure for Entrepreneurship in Tanzania

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ABSTRACT

Whilst industrialization will likely be the main catalyst for the transformation of the Tanzanian economy and the generation of sustainable growth, it is widely believed that entrepreneurship will play a key supporting role. This paper aims to assess the financial infrastructure in Tanzania for entrepreneurs and consider measures to get around problems in sourcing finance for entrepreneurship. The report is based largely on secondary research, with interviews with Tanzania entrepreneurs and NGOs supplementing findings from existing literature. The paper focuses on three key sources of finance: informal lending practices, microfinance and mobile financial services, with an emphasis on microfinance. Both primary and secondary research point to a lack of awareness of available sources of finance for entrepreneurs and small loan sizes limiting how far a start-up can go. There are underlying issues which can only be addressed with strong political will. We focus on potential measures outside policy intervention and recommend a two-pronged approach of helping entrepreneurs build connections and training them in various skills crucial for securing finance.

1. Introduction

CDI's work in promoting entrepreneurship has primarily been focused on the improvement of the individual - developing enabling competencies that allow individuals to bring themselves to the next stage of their entrepreneurial journey. However, it was noted early on in the project that Dar es Salaam is a "hostile environment" for young, inexperienced entrepreneurs (Simpson and Rwezahura 2019). Taken broadly, this points to insufficient support being provided by the environment to nurture individual development and build successful businesses. As such, CDI has made steady progress in developing individual capacity for entrepreneurship, it is vital to consider how conducive the environment is for growing new businesses and how best CDI can contribute in such an environment.

A key aspect of the business infrastructure in Dar es Salaam that we need to consider is finance. The MSME National Baseline Survey (2012) highlights that around 50% of micro, small and medium enterprises (MSMEs) in Dar es Salaam are financially excluded. This is worrying as finance is crucial for the development of businesses, particularly in the early stages, with potentially high start-up costs to purchase fixed capital. Furthermore, the Global Competitiveness Report 2019 ranked Tanzania 133rd out of 141 assessed nations in the cost of starting a business (Schwab 2019). It is thus worthwhile to consider the available sources of finance, the access to these sources and their effectiveness in promoting entrepreneurship in Tanzania.

It is clear that poor access to finance is a barrier to MSME growth that is not unique to Tanzania. In a 2012 World Bank study, 45% of all surveyed firms in Sub-Saharan Africa cited access to finance as a major constraint to growth (Demirgüç-Kunt and Klapper 2012). As well as directly preventing entrepreneurs from purchasing the assets needed to operate their businesses on a daily basis, difficulties in acquiring financing can also constrain entrepreneurs' attitudes towards innovation and their willingness to invest in the development of new products and services (Hughes and Mustafa 2016).

This paper will evaluate microfinance and informal lending practices by reviewing existing literature, drawing on the latest data and circumstantial evidence from surveys. Keeping in line with CDI's work in Dar es Salaam, this paper will focus on the environment in urban Tanzania; It is necessary to acknowledge that conclusions drawn about rural finance and finance in urban areas such as Dar es Salaam could be very different.

2. Entrepreneurship

The Schumpeterian idea of creative destruction points to entrepreneurship as a disruptive force that generates economic growth through technological progress. Schumpeter's (1947) hypothesis suggests that entrepreneurship is vital to the long-term economic growth of a country. Endogenous growth theories today point to human capital accumulation leading to entrepreneurship and innovation, which sustains economic growth (Romer 1986; Lucas 1988).

Within the context of a developing country, much of the literature draws a distinction between necessity-driven entrepreneurs and opportunity-driven entrepreneurs. The former refers to self-employment that results from a lack of other employment opportunities and generally involves work on a micro scale that is aimed at subsistence. The latter involves the creation of businesses that have the capacity for significant growth.

Opportunity-driven entrepreneurs aligns with what Schumpeter had in mind, where business ideas are pursued with a longer-term outlook and at a larger scale. As noted in the Global Entrepreneurship Monitor report, opportunity entrepreneurship is a much more effective way of growing a nation's economy and lifting populations out of poverty than necessity entrepreneurship (Bosma and Keeley 2019).

2.1. Economic and Entrepreneurial Landscape

In order to provide a targeted evaluation of the sources of finance in Tanzania, it is important to understand Tanzania's background. It is necessary to be clear of the structure of its economy, the composition of MSMEs, the entrepreneurial ecosystem and access to finance.

Like many developing countries, Tanzania's workforce (and naturally, its economy) is largely agrarian and the CIA World Factbook (2017) puts the proportion of the workforce in the agriculture sector at 66.9%, which is roughly in line with the rural-urban split of 66-34. (Mushi *et al.*, 2017) This industry breakdown is similar to other economies in the region, with nearby neighbours Uganda and Kenya having 61.1% and 71% of their labour force in work related to agriculture. Despite its predominance in Tanzania's economy, the agricultural sector's growth has been insipid due to poor land use and the slow uptake of modern technology.

Outside of agriculture, around 12% of the population run an informal small business not directly related to agriculture, with an additional 2% trading agricultural goods (Mushi *et al.* 2017). Olomi and Mori (2015) noted that there are 3.16 million MSMEs in Tanzania, of which 97.1% were considered micro (employing 1 to 4 people). Despite the sheer number of MSMEs, they only contribute to around 27% of Tanzania's GDP. This is likely due to the fact that many of the MSMEs are necessity-driven (Mwasalwiba *et al.* 2012) and therefore operate on a very small scale, purely for the sake of subsistence.

In fact, Tanzanian's culture has been wired to discourage entrepreneurship. Shortly after independence, then-President Julius Nyerere introduced the concept of *Ujamaa* which broadly translates into familyhood, reciprocity, and oneness in the community. Pratt (1999) argued that the *Ujamaa* concept was used to discourage local private entrepreneurship in favour of government-owned, community-based ventures and cooperatives under Nyerere's socialist rule.

With this characterisation, it is no wonder why the Global Entrepreneurship Index (2018) ranked Tanzania 115th out of 137 countries evaluated while the World Bank's Ease of Doing Business Survey (2019) put Tanzania at rank 141. The state of entrepreneurship in Tanzania leaves much to be yearned. While Tanzania may not provide the best environment for the growth of MSMEs, the government is championing a push for agribusiness given that agriculture remains the mainstay in its economy. Schwab (2019) reports the business environment is average compared to similarly affluent countries with agrarian economies in sub-Saharan Africa. The report further ranks Tanzania 60th out of 141 countries for entrepreneurial culture due to strong scores in “entrepreneurial attitudes towards risk” and the “strong growth rate of its innovative companies”. This agrees with Mwasalwiba’s *et al.* (2012) characterisation of a growing trend of opportunity-driven entrepreneurs, despite the odds stacked against them. It appears that there is a strong drive in Tanzania for opportunity-driven entrepreneurship and what it lacks is an environment to nurture the drive.

2.2. Access to Finance

To be clear of the terms delineating different financial institutions, we can refer to the Bank of Tanzania’s regulatory framework. The Bank of Tanzania distinguishes Commercial Banks, Regional Unit Commercial Banks, Non-bank Financial Institutions, Microfinance Companies (MFCs) and Financial Cooperatives (FICOs) in a descending order of minimum capital requirements (Triodos-Facet 2007). We will refer to the first three broadly as formal financial institutions and the latter two as microfinance institutions (MFIs).

With a per capita income of US$1,050, Tanzania ranks 154th in the world and is arguably one of the poorest countries in the world (World Bank 2018). The corollary to this would be that there is hardly enough to save outside of living expenses. Indeed, Mushi *et al.* (2017) reported that only 43% of Tanzanians saved in the last 12 months, of which only 6% was saved for business-related expenses. In other sub-Saharan countries, access to finance also represents the dominant constraint to MSME growth as reported by the firms themselves. For instance, in Burkina Faso and Benin, it was cited to be the major barrier to expansion by more than 70% of surveyed firms, and in Malawi, more than 50% believe it is their biggest barrier to progress (Triki and Faye 2013).

In 2016, the Ease of Doing Business Survey ranked Tanzania near its bottom and despite its rise to 67th in 2019, finance remains a key obstacle for many businesses. Crucially, the study assesses the sharing of credit information and the legal rights of borrowers and lenders and while Tanzania made in-roads by expanding borrower coverage and distributing credit data from retailers, thereby leading to its rise in rankings, there remain obstacles which continue to limit how much finance entrepreneurs have access to.

Broadly speaking, whether entrepreneurs are already operating an MSME or looking to start one, they are heavily limited in what they can do as they have very limited collateral and a general lack of identification and credit history. Mushi *et al.* (2017) found in its survey that only 37% of Tanzanian adults have sole ownership of the land they stay on and only 10% have some documentation of land ownership. More alarmingly, 16% of Tanzanians remain without any form of identification. While 83% of Tanzanians have voter IDs, possession for all other forms of identification are close to none, and the reliance on voter IDs as the sole form of identification means that some young people may have to wait up to 5 years to receive any form of identification. Furthermore, formal financial institutions in Tanzania have strict requirements which many entrepreneurs in Tanzania are unable to satisfy. For instance, voter IDs are more difficult to verify under KnowYourCounterparty requirements (Mushi *et al.* 2017). Even with identification, loan requirements are still restrictive. Following BOT regulations, unsecured loans to a single borrower cannot exceed 5% of the licensed institution’s capital, and acceptable collateral is limited to cash or near-cash securities. As Calice *et al.* (2012) noted, despite 75% of licensed banks having dedicated SME units, MSMEs continue to lack access to finance from formal financial institutions. Indeed, Mushi *et al.* (2017) noted that even with 44% of Tanzanians making a loan in the last 12 months, only 11% of them borrowed for business-related expenses.

Outside of formal financial institutions, Tanzanian entrepreneurs generally have access to three broad forms of finance – microfinance Institutions (MFIs), mobile financial services (MFS) and informal credit (which is not regulated and therefore not defined by the Bank of Tanzania). While these forms of finance are more accessible than formal banks, there still exist gaps which limit their effectiveness in promoting entrepreneurship. The next three sections will explore the nature of these sources of finance.

3. Informal Lending Practices

Informal lending practices broadly refer to borrowing from private moneylenders, family members, business leaders, religious organisations amongst others. These practices are usually poorly regulated.

From the perspective of the lender, there is greater incentive to lend than from the perspective of formal institutions. Charles and Modi (2016) notes that informal lenders are generally able to gather information on a borrower's character and reliability through his peers, personal guarantors, other references or the lender's own personal relationship with the borrower. Indeed, informal lending practices are generally founded on existing personal relationships, whether direct or through two or three degrees of separation.

From the perspective of the borrower, turning to an informal lender allows quick access to capital while avoiding the administrative hassle and prohibitive requirements present when borrowing from formal institutions. This usually comes at the cost of higher interest rates. Banerjee and Duflo's (2007) expository work on the economic lives of the poorest point to credit from informal sources being expensive. These high interest rates are viewed as the result of high costs of contract enforcement. While with strong personal relations, informal lenders may be able to screen and monitor more easily and charge lower interest rates, the risk of providing a loan to unsecured individuals with little credit history may still warrant high interest rates. In fact, Banerjee and Duflo (2007) notes that informal lenders may be reluctant to lend to people they do not know at all as screening and monitoring would be cost-prohibitive and there are little potential profits from lending small amounts to the poor. As such, informal lending practices should not be seen as a viable and scalable practice outside of personal relationships.

3.1. Informal Lending Practices in Tanzania

Mushi *et al.*'s (2017) data shows that informal lending is the main source of finance for Tanzanians, with 73% of those who borrowed in the last 12 months borrowing informally (i.e. from family, friends, moneylenders, employers, religious organisations). This borrowed money tends to be used to address cash flow issues and cover daily expenses and the sums involved are very small compared to the costs of starting or expanding a business. While the exact numbers differ, the Living Standards Measurement Survey (LDMS) (2015) reflects a similar trend.

When we consider those who did not borrow money in the last 12 months, Mushi *et al.* (2017) reports that 40% would borrow from family/friends if they were to have an unexpected expense the next day. Other responses point to self-reliance. These statistics can be interpreted as reflecting a broad reliance on informal sources for its flexibility and quick turnover. There is a strong reliance on personal connections, but this tends to be for urgent matters and may not necessarily apply in entrepreneurial activities.

3.1.1. Evaluation

Informal lending is regarded as the final option for those without access to other forms of finance and the predominance of it as the main source of borrowing reflects its accessibility.

That said, the potential of informal lending in a developing country with one of the lowest GDP per capita in the world is limited as one is unable to mobilise significant loans as easily from other individuals. Data from LDMS (2015) points to a significant difference between the loans from formal sources (average of TZS 4,473,831) compared to loans from informal sources (average of TZS 1,506,884) and this is reflective in the stark difference in lending power between the two sources.

Fortunately, the Tanzanian government has recognised the importance of financial inclusion and much work has been done to improve accessibility to formal financial institutions. As such, even as informal lending is always accessible, Mushi *et al.* (2017) notes that only 6.7% of its respondents rely completely on informal services (i.e. by circumstance and not by choice). This number has steadily fallen from 29% in 2009 and 16% in 2013.

4. Microfinance Institutions

Microfinance is widely proposed as a mechanism to overcome the limitations of traditional formal banking and informal lending (Morduch 1999). Broadly, microfinance is defined as a category of financial services of much smaller scale than conventional banking, primarily targeting poor clients and small businesses.

Over time, with the growth of microfinance across the developing world, there has been some characteristics commonly associated with, but definitive of, microfinance institutions.

Firstly, lending tends to be done in a whole group (i.e. joint liability) and this means that in the event of default, the entire group is penalised. Crucially, this allows for self-selection, positive assortative matching and peer monitoring which helps to get around information problems in conventional banks.

Secondly, microfinance credit contracts are characterised by regular repayment schedules with the first payment within weeks of disbursement which serves to screen out undisciplined borrowers. This means that rather than lending against one's credit history, MFIs are lending against the household's steady, diversified income stream.

Thirdly, future loans are contingent on past repayment performance. This dynamic lending process allows individuals to rapidly build up greater creditworthiness to secure better credit.

Fourthly, MFIs tend to be less strict on the need for collateral and many take a looser definition on what can serve as collateral, allowing for loose substitutes.

Lastly, branches tend to be smaller to ensure that loan officers get to know clients better. This allows MFIs to take advantage of local information that are at the heart of local enforcement mechanisms. As microfinance grew, there were more and more institutions which do not require group lending as information gaps could be bridged without necessarily depending on group lending.

Given these characteristics, MFIs have become the mainstay for formal, regulated finance provision in the developing world. The efficacy of microfinance in delivering measurable change for its recipients is a hotly debated topic (Westover 2008). It is often claimed that 'microfinance lies at the heart of Africa's efforts at delivering inclusive socioeconomic development' (OSAA 2013). Yet, microfinance tends to create more necessity entrepreneurs. A lot of energy is spent on businesses that are too small and undifferentiated from each other. Furthermore, large capital investments are often needed to make significant operational improvements to businesses. In the following subsections, we will analyse the effectiveness of microfinance in Tanzania.

4.1. Microfinance Institutions in Tanzania

Tanzania's experience with microfinance and similar initiatives was not all smooth sailing. Post-independence Tanzania saw the emergence of savings and credit cooperatives but these cooperatives were not of much help due to political interference (Nyamsogoro 2010). As such, up till the 1980s, Tanzanians could only draw on the mainstream banking system for banking services. However, given the barriers for using such services (which exist today), the poor were only exposed to informal money lenders.

The Tanzanian government enacted financial reforms in the 1980s, which liberalised interest rates, eliminated administrative credit allocation and most crucially, allowed the entry of private financial institutions. Privatisation of the National Bank of Commerce and the Cooperative and Rural Development Bank (now known as CRDB Bank) led to the closure of 78 branches throughout the country and NGOs in Tanzania stood in to plug the supply gap. As such, even today, NGO-MFIs continue to dominate the microfinance industry in urban and peri-urban areas. Broadly speaking, MFIs in Tanzania can be classified into three groups:

NGO-MFIs

MFIs operated by non-governmental organisations (NGO-MFIs) generally operate through group-lending. They are generally registered as companies limited by guarantee, societies or trusts (Triodos-Facet 2007) and can only provide credit without mobilising savings. Nyamsogoro (2010) notes that loans are largely used for the purposes of businesses although no loans are given to start a new business. Most operate a progressive lending system commonly found across MFIs.

Key examples include the Foundation for International Community Assistance (FINCA), Promotion of Rural Initiative and Development Enterprises (PRIDE), Small Enterprises Development Agency (SEDA), Bangladesh Rural Advancement Committee (BRAC), Micro Enterprise Development Agency (MEDA).

Formal Financial Institutions

These comprise a mix of microfinance companies as defined by the Bank of Tanzania and mainstream banking institutions which offer small-scale financial services as well. These MFIs have the ability to mobilise savings and credit and they target both MSMEs and small savers. Nyamsogoro (2010) points out that an interesting product they offer to get around the need for collateral are credit facilities where employers act as guarantors, allowing employment benefits to serve as loan insurance. However, this is of no help to self-employed entrepreneurs.

Key examples of such institutions include the National Microfinance Bank (NMB), Akiba Commercial Bank (ACB), CRDB Bank and the Kilimanjaro Co-operative Bank (KCB).

MB-MFIs

Member-based MFIs, well-exemplified by savings and credit cooperatives (SACCOs) and savings and credit associations (SACAs) operate through pooling together funds in a group. Entry into an MB-MFI requires compulsory saving but this also allows access to loans from the pooled funds. Nyamsogoro (2010) observes that members are generally allowed to borrow up to twice their savings and that the purpose of loans are more wide-ranging.

Key examples of SACCOs and SACAs include Dunduliza Ltd, Umoja wa SACCOs Wakulima and Jozani Savings and Credit Association (JOSACA).

Crucially, MB-MFIs are more prominent in rural areas and therefore less relevant to our study on provision of finance for entrepreneurship in urban areas such as Dar es Salaam. The following subsections will evaluate MFIs in Tanzania by looking at three broad areas – financial sustainability, accessibility and size of loans.

4.1.1. Financial Sustainability

Financial sustainability is important as it "allows the continued operation of the microfinance provider and the ongoing provision of financial services to the poor" (CGAP 2004). Even with a good outreach and impact, MFIs that are not financially sustainable can only effect very short-term outcomes. As such, it is crucial that we first determine how sustainable MFIs are in the first place before considering how accessible they are.

To provide a metric for financial sustainability, we can measure the operational self-sufficiency (OSS) of the MFIs.

$$OSS = \frac{\text{total financial revenue}}{\text{financial expense} + \text{operating expense} + \text{loan loss expense}}$$

Bogan *et al.* (2007) defines financial self-sufficiency (FSS) as OSS while accounting for the cost of capital (i.e. the institution's ability to maintain the value of equity despite inflation).

$$FSS = 110\% * OSS$$

Nyamsogoro (2010) provides a comprehensive study of financial sustainability across all forms of MFIs based on 4 years of primary and secondary data prior to 2010. While his study focused on the determinants of financial sustainability of MFIs, we will focus primarily on his conclusions on financial sustainability itself.

Nyamsogoro's (2010) sample consists of 80.2% MB-MFIs and 19.8% NGO-MFIs and formal financial institutions based on stratified sampling. Crucially, Nyamsogoro reports that 79.5% of his sample was FSS, split between 77.9% for MB-MFIs and 85.7% for the other two groups, which broadly indicates that MFIs in Tanzania are financially sustainable, particularly amongst NGO-MFIs and formal financial institutions.

4.1.2. Accessibility

Even with MFIs that are financially sustainable, however, it could be a problem if they are not accessible to their target audience.

Mwasalwiba *et al.* (2012) interviewed 10 entrepreneurs in Tanzania to seek insights of their entrepreneurial experiences. Most pointed to getting start-up capital as a major hurdle in their experience. While it is possible to secure very small loans, entrepreneurs are often unable to secure what is necessary to kickstart their business. While microcredit is generally accessible, entrepreneurs have to work within its limitations to build their business. One interviewee explained that entrepreneurs in Tanzania tend to divide their businesses into several small businesses to secure small loans from MFIs.

However, even as Mwasalwiba *et al.* (2012) suggests that micro-credit may be broadly accessible, Mushi *et al.* (2017) points to several concerns Tanzanians have with MFIs. The biggest issues they have are that the interest on loans is too high (23% of respondents) and the fees/charges are high (9% of respondents). Some potential clients also find that they have insufficient income to become an MFI customer. As such, this suggests that there are monetary barriers for using MFIs.

More surprisingly, the key barrier to MFI uptake was stated to be a lack of awareness of how MFIs operate and where they are located (32%) and this suggests a need to bring information about MFIs to potential users.

In terms of administrative work, it seems that this is not a key barrier for MFI uptake. Based on the responses to Mushi *et al.*'s (2017) survey, only 2% find the main barrier to be not knowing how to open an account and 1% not having the documentation required. That said, the administrative barrier could come in registering a business itself, which would be necessary to secure more loans. Drawing on his own experience in starting a business while at university, one of our interviewees said, "the process of registering a business in Tanzania is not easy, it takes time for one's business to be registered and you have to go through tons of processes, which at some point may discourage you." Unfortunately, the administrative chore as well as the difficulty in securing finance eventually led to him giving up on his venture.

4.1.3. Size of Loans

As the anecdotal evidence in Mwasalwiba *et al.* (2012) work shows, even though MFIs remain broadly accessible to the entrepreneurs they interviewed, the loans provided by MFIs may be insufficient to drive opportunity-driven entrepreneurship. There is a trade-off between the potential size of one's business and the size of loans.

In fact, another entrepreneur we interviewed said that the current trend in Tanzania is that start-ups are only supported if they have begun operation, pointing to the difficulty for entrepreneurs to start from scratch with MFIs (or any other form of finance).

"For start-ups, it is not easy to access finance and this is due to trust issues as well as the difficulty in convincing someone to believe in the future promise of the business when he/she can't see the vision in it."

Furthermore, even though loans could be substantial, the repayment schedule could be unreasonable, meaning that on average, entrepreneurs are unlikely to hold onto a good amount of credit for long.

"The agreement was for us to get a loan in the form of machines that will be used to manufacture and produce the pads that we were to pay immediately after we started the production of the pads."

To make matters worse, opportunity-driven entrepreneurs in Tanzania are generally competing with foreign importers who have access to better technology and credit to build their business and presence in Tanzania more efficiently than local entrepreneurs. As such, to many locals, running a business purely on the back of microfinance is also an uphill task (Mwasalwiba *et al.* 2012).

4.1.4. Overall Evaluation

Using microcredit to bring about an increase in productivity seems like a logical way of improving the fortunes of entrepreneurs by allowing them to borrow against their future earnings in a more hassle-free manner. The associated sustained increased production then allows loan to be repaid.

That said, some economists claim that if saving was possible, we would not see the need for microfinance (Munger 2011). They argue that microcredit when used for operating expenses is just an inefficient method of saving. The money is spent initially and then entrepreneurs save afterwards to pay off a small loan in instalments with a high interest rate. Yet, saving is a non-trivial issue due to one's obligations to others in the community – savings for oneself can wait whereas obligations to family and members of the community are real and immediate. Recognising that saving may be a more efficient solution than microfinance to financing certain operational expenses, the Gates Foundation reinvested US$100 million that had been pledged to microcredit into subsidising the creation of local banks. (Gates Foundation 2010). In the next section, we will evaluate mobile financial services and how they help to promote savings.

5. Mobile Financial Services

Mobile money has boosted account ownership in many parts of Sub-Saharan Africa. These mobile money accounts allow people to store money and to send and receive electronic payments. Mobile money has the potential to extend credit to MSMEs using novel methods of credit risk assessment. In addition to the repayment history, they use combinations of non-traditional data including mobile call data records, user location and movement patterns, psychometric data, bill payments, Internet browsing patterns, and social media behaviour to assess the risk of lending to their customers (CCAF 2018).

Perhaps the most famous mobile money platform is MPESA which has its origins in neighbouring Kenya. MPESA, in collaboration with KCB Kenya's largest commercial bank, provides banking services to 30 million Kenyans, 10 million of which are credit worthy (Mboya 2019). The average loan size on the platform is around US$45 and credit is extended at 5% monthly interest rates with the option to roll over the loan for one additional month.

5.1. Mobile Financial Services in Tanzania

Mobile financial services are becoming commonplace in Tanzania; it was estimated that 60% of Tanzanian adults owned an account in 2017 (Demirgüç-Kunt *et al.* 2018). One institution, M-Pawa, was created in 2014 in Tanzania and had lent US$17.9 million worth of loans to entrepreneurs by 2016 (GSMA 2016). While M-Pawa is only available to registered and active Vodacom members, there are alternative, less restrictive choices such as Branch, which currently offers the ability to take out loans of up to US$500. The growth of app-based FinTechs like Branch seems inevitable with the penetration of smartphones throughout Sub-Saharan Africa predicted to rise to 66% by 2025, a 27% increase from 2018.

5.1.1. Evaluation

One study performed by CGAP and McKinsey in 2015 demonstrated that using alternative data for credit scoring can reduce the cost of lending by 30% in Tanzania. (Chen and Faz 2015). This has the potential to change the landscape of MSME financing if any of this cost reduction is passed on to the borrower. A study performed in Tanzania showed that women encouraged to save with the mobile financial service M-Pawa and given formal business training were able to earn an approximately TZS4,000 extra in monthly profits. The study also found that savings accounts provide a safe and private platform allowing women to spend a larger fraction of the money earned from their businesses (Bastian *et al.* 2018).

It is crucial to note that, at present, mobile money is generally used to handle small transactions, much like microfinance and it is unable to provide the large capital injection necessary to drive opportunity-driven entrepreneurship. That said, it has the potential to circumvent existing problems in other forms of finance, namely the lack of identification and credit history. Its availability on a digital platform also makes it easier to raise awareness of new services and circumvents issue with physical accessibility of finance. As such, despite the caveat of its inefficacies in promoting opportunity-driven entrepreneurship, it has much potential in the long run.

6. Recommendations

Many of the problems that exist in the financial landscape require committed policy change to strengthen the overall infrastructure. Still, taking the perspective of a student-run NGO, we recognise that initiatives of a smaller-scale can and should be pursued to work within the existing system in order to maximise what entrepreneurs can achieve with limited resources.

6.1. Building Connections

Across all forms of finance, the key reason for high barriers is a lack of trust. Banks and MFIs are reluctant to give out large loans to individuals due to a lack of confidence in the potential of small businesses run by people without a proven track record of success.

As such, a plausible mode of action would be to increase the perceived legitimacy of entrepreneurial ideas. This can be done by leveraging the credibility of existing players promoting entrepreneurship in Tanzania. Enabling Outcomes Ltd (2017) noted that there are actually many such players, including CDI itself. Improving the coordination across the many initiatives could be a way to promote entrepreneurship. Whilst this could be done on a policy-level, it could also be pursued as a ground-up initiative. CDI's work can extend beyond inculcating skills with entrepreneurs but also providing them with the right contacts to guide them in navigating through the business world. For instance, through networking events with incubators, accelerators and even international NGOs or funding platforms, potential entrepreneurs will be able to find the help they need. A non-exhaustive list of potential partners is listed below:

Incubators and accelerators

- The Agribusiness Innovation Center of Tanzania
- ANZA
- Dar Teknohama Business Incubator (DTBi)
- EQWIP (especially for women)
- KIJANA JIAJIRI
- Reach for Change (social enterprises)
- SIDO Business and Technology Incubator
- Twende Tanzania
- Obuntu hub(Arusha)
- Starfly Accelerator
- TDH Youth Network
- Mara Space
- Jenga Hub
- Kilihub (Anza)
- Kiota Hub
- AMCEThub
- Buni Hub
- Kinu Co-creation Hub
- Ndoto Hub

International NGOs

- Energy 4 Impact (energy)

- The Gatsby Trust
- Swisscontact
- TechnoServe

Funding Platforms

- Access to Capital for Rural Enterprises
- Human Development Innovation Fund

By leveraging on connections with these programmes, budding entrepreneurs may have better credibility when seeking out funding from MFIs and banks alike, or even receive some form of seed funding through participating in incubator/accelerator programmes or funding programmes.

6.2. Education and Training

The specific problems in the financial landscape point towards areas in which education and training could be helpful in preparing potential entrepreneurs for what they are to face.

The available sources of finance, including microfinance are generally expensive, demanding and may not amount to much, it is important to point towards the importance of saving. Indeed, with a good track record of savings, potential entrepreneurs may then be able to secure better loans at better rates.

That said, we recognise that many entrepreneurs may not have a steady income and may jump straight into starting a business immediately out of school. As such, some external help may be necessary to support them in their venture. CDI thus may have a place in assisting them in navigating the challenges associated with starting and scaling a business. There are several key areas in which CDI could add value:

6.2.1. Idea Generation

CDI's key focus would be to help budding entrepreneurs develop an innovative and sustainable business idea. It would be futile to invest time and capital into an idea that fails to address the needs of individuals or the community. To do so, it could be helpful to continue engaging successful Tanzanian entrepreneurs to speak and share their experiences in generating ideas, testing out ideas and making ideas come to life. Rather than introducing a didactic approach to entrepreneurship which is likely to be unrealistic and forceful, getting a range of entrepreneurs to share their individual experiences could provide some inspiration to all budding entrepreneurs in how they could approach generating ideas and making a business out of these ideas.

At the same time, CDI could facilitate discussions between budding entrepreneurs and community stakeholders to brainstorm certain community problems to address and potential products or services to address them. These problems could involve issues that CDI is tackling itself, such as the broad themes of education, health, water, sanitation and hygiene (WaSH). Crucially, these discussions serve as a platform to bring to the table a multitude of ideas, in hopes that the exchange of perspectives could breed truly innovative ideas. These discussions need not be one-off and could be ongoing to serve as a platform for participants to share their ideas and help one another refine their ideas.

6.2.2. Pitch Delivery

With a good business idea, the next challenge to secure loans or finance in general would be in the delivery of the idea. As raised in our primary research, convincing potential investors or banks and trying to get the buy-in from them is not easy. It is thus crucial to ensure that potential entrepreneurs are well-trained and can articulate their vision clearly and convincingly.

While a didactic approach to idea generation and running a business may constrain innovation, there are best practices in pitch delivery that can help bring budding entrepreneurs to a minimum standard. Drawing inspiration from an article in Harvard Business Review, we can enact the following strategies:

Framing the Story

The key focus here is to help entrepreneurs develop a narrative structure to draw the audience's attention. A narrative structure also makes it easy for the audience to follow – from identifying a problem to describing the search for a solution and eventually finding an effective solution. CDI could train budding entrepreneurs in doing so by providing briefs of existing business ideas and having participants work to develop a narrative structure in presenting the idea.

Planning the Delivery

Here, we are focusing on making the overall presentation memorable and effective. It is important to identify one thing that the audience can remember and construct the presentation around that one idea. In elaborating on an idea, speakers should focus on keeping it short by capitalising on concise and impactful statements. Once again, this could be practiced by using existing business ideas.

Develop Stage Presence

This would involve the physical act of giving a presentation onstage – from maintaining a confident body posture to using appropriate hand gestures to maintaining eye contact. It is important to build a confident presence, and this could be coached by having participants rehearse speeches.

Planning the Multimedia

Many business presentations involve the use of PowerPoint and it is important to drive home the idea of using the slides as a visual tool rather than as a script for the audience or the speaker to follow. Many successful start-ups make use of consistent graphic designs, impactful pictures or data visualisation and big words to drive home the essential ideas of their presentations. CDI could refer to these pitch decks, which are freely available online to guide participants in creating their own presentations.

6.2.3. Administrative Work

Concurrently, it is also important that entrepreneurs are aware of the processes for registering a business and getting a loan and be adequately prepared for what is to come. As raised in our primary research, the process could be daunting for people without prior experience and making clear the processes and requirements could help to ease off the stress and difficulty. CDI could do this either by acquainting themselves with the relevant processes and forms to be filled in or bring in people with the right experience to guide them along.

6.3. Monitoring and Evaluation

It is important to recognise that fostering entrepreneurship is a long-term process and even if the budding entrepreneurs CDI interacts with already have feasible ideas, they may not always succeed on the first try. As such, it would be difficult to evaluate CDI's effectiveness solely based on the long-term objective.

Rather, with the conviction that the process is right – that helping budding entrepreneurs to draw connections, and training them to generate ideas and better deliver their ideas would be helpful, we can evaluate the achievement of these short-term goals. This could be done by having participants complete a pre-programme and post-programme survey evaluating their own competencies in the relevant areas. In fact, in the aspect pitch delivery, participants could also evaluate one another both before and after intervention.

7. Conclusion

While the paper generally focused on Tanzania's financial landscape as it is, it is important to recognise the strides the country has made in improving access to financial services. Mushi *et al. 's* (2017) work across the last decade has pointed towards an improving trend across most indicators and there is a strong trajectory for continued progress.

However, we also recognise that we cannot simply extend trends by induction and continued work needs to be done for continued improvement. In particular, given the paper's focus on finance for entrepreneurship, we have noted clearly the issues that remain to be addressed in finance provision in urban areas. It is likely most of these will be rectified with continued policy intervention, as has been the trend in Tanzania in the last decade or so but small-scale initiatives are still plausible and desired at the ground level to make the best out of the existing situation.

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