Encouraging Entreprepreneurship in Tanzania through Saccos, Boot-Strap Financing and Selling Airtime as Few Alternative Ways of Getting Capital

A Case Study of Educated Youths In Ilala Municipality, Dar Es Salaam - Tanzania

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Abstract

This paper discusses few alternatives for capital sourcing for educated youths in Tanzania namely: SACCOs, boot-strap financing and selling airtime vouchers. Youths in Tanzania, find it difficult to get capital from financial institutions, as they are required to provide collateral, which they lack. Instead, youths depend on own saving, families and friends as a source of capital. The objective of this study is to examine few alternative ways for youths to get capital for operating a business in Tanzania

The findings indicate that 50 per cent of respondents started their business from their own savings when they were students. This implies that students used school allowances as a source of capital as they find it difficult to get capital from financial institutions.

Key words: Entrepreneurship, Boot strapping, SACCOs

Introduction

Young entrepreneurs are often constrained from entering into a business due to the unavailability of capital. This is because the formal financial sector is yet to evolve functional models which enable them to provide services, especially to the growth-oriented section of entrepreneurs. Young entrepreneurs operate from temporary, illegal premises because there are not adequate appropriately serviced areas where they can locate and operate from (Olomi, 2006). Duffner (2003) asserted that the difficulties that entrepreneurs encounter when trying to access financing is due to an incomplete range of financial products and services, regulating rigidities or gaps in the legal framework, and lack of information on both the bank's and entrepreneur's side. As entrepreneurs cannot gain access to finance through regular systems, they may not start up a business or may simply go out of business. This is a potential loss to a country's economy. The other danger is that they will abandon the formal system altogether and operate in the informal economy, sidestepping taxes and regulations, and thus not making a full contribution to poverty alleviation.

There are many government-sponsored programs supporting young entrepreneurs in Tanzania, most are found to be bogged down by crippling bureaucracy and documentation requirements. For example, a number of entrepreneurs who prepare business plans for approval of a long term loan from various banks; the documentation require before the loan would be granted traveling long distances from their area to the municipal head quarters and to the banks many times and paying 1 per cent of the approved facility as a processing fee upfront before the letter offering the loan would be given to the applicant. The applicants must spend about 8 per cent of the approved loan on further documentations required to start using the fund. Further, (ILD, 2005 In Olomi, 2006) found out that if a poor entrepreneur throughout a 50-year business life obeys the law, it would require him/her to make cash payment of U.S. Dollar 91,000 to the Tanzanian government for the requisite licenses, permits and approvals, and spend 1,118 days in government offices petitioning for them (during which he could have earned U.S. Dollar 9,350. The same entrepreneur would have to wait another 32,216 days for administrators to resolve all his/her request, and during that time lose another U.S. Dollar 79,600 in potential income. The grand total of these costs is almost U.S. Dollar 180,000 – enough money to create 31 ventures.

The introduction and growth of venture capital funds to developing economies like Tanzania will lead to the growth of investment, especially in manufacturing, and innovative activities and to a large extent alleviate the problems of young entrepreneurs.

According to Makoni (2008), venture capital firms look to the financial gap experienced by entrepreneurs as a business opportunity which they take advantage of. To ensure the success of the venture and the safety of their investments, venture capital firms participate in the management of the firm in a style described as “hands-off”/ ”hands-on”. That is, the businesses are allowed to operate freely, but are closely watched for any problems, with the investor providing management assistance once a problem is noticed.

Venture capital finance is an ideal financing system for promoting the growth and development of an economic system, since it is a profit sharing arrangement. Venture capital supports the growth of the country’s economic hence encourages wealth creation, employment generation and increase tax revenues. In this arrangement there are two players, the investors in the venture capital and the entrepreneur. The investor offers capital, experience in running a business and wealth creation. But the investor needs an entrepreneur because they lack time or personnel to manage companies on a day to day basis. On the other hand, entrepreneurs have ideas and skills to succeed but lack capital.

The venture capital industry in Tanzania is not yet well developed. When it takes root it will fill the financial gaps and motivate university graduates to start business as they will be able to prepare sound business plans. Venture capital brings together investors and entrepreneurs. A venture capital fund is really a mutual fund; it is a profit sharing arrangement, and good for entrepreneurial development in Tanzania.

Review of related literature

The tendency to start businesses has been explained by entrepreneurship scholars in terms of psychological, sociological and environmental factors.

Psychological theories view entrepreneurial behavior as a function of in –born qualities. Individuals with high need for achievement, strong sense of independence, internal locus of control and moderate risk-taking tendency are more likely to start their own businesses compared to others. These attributes naturally drive them to starting and developing their own independent businesses. This is because the entrepreneurial career offers greater possibilities for them to realize their potentials and is more consistent with their need for freedom compared to salaried employment (Olomi, 2001).

Sociological theories suggest that entrepreneurial attitudes and intentions are socially generated and sustained. Individuals who grew up around a society or family that runs business or where business is highly valued are likely to learn and model this tendency, perceiving it to be feasible, more socially desirable and rewarding than employment (Hisrich and Peters, 2002).

Environmental factors may determine the opportunities and possibilities open to different sets of individuals. Environmental factors include socio-economic structure, the economy, and culture. The economic factors that are considered responsible in business formation are the push and pull factors. Push factors forces one to become an entrepreneur and Pull factors motivates one to be an entrepreneur. Hence, people who have greater access to other opportunities, including salaried jobs may have less interest in starting their own businesses (Mufa, 2005; Massawe, 2006, Olomi and Sinyamule, 2007).

However, in Tanzania like other developing countries, people are driven to start businesses out of economic necessity; they do not have salaried jobs and must start some income generating activity to meet basic needs. But those who start businesses because of economic necessity have passive disposition towards the future (Olomi, 2001) and are neither risk takers nor innovative (Oyhus, 1999).

Van Vuuren and Groenewald (2007) distinguished five factors, which affect the starting up of a business, and these include: social, economic, political, infrastructure development and market emergence factors. Within the social environment, the impact of networks and supports of sociopolitical elites, along with cultural acceptance are of particular importance. The economic environment studies focus on capital availability, aggregate economic indicators, economic recessions and unemployment. The political environment concerns mainly with the support of public or semi-public agencies. Infrastructure development encompasses numerous variables such as the education system, nature of the local labor market, incubator organizations, information accessibility and availability of premises. The market emergence factor integrates both concepts of niche emergence and technological innovation. Triggers and barriers influence the intention, and ultimately the decision. To start a business triggers must prevail over barriers or, to give up the idea barriers must prevail over triggers.

Statement of the problem

The Government of Tanzania has made tremendous efforts in empowering the youths. Furthermore, the government has created an enabling environment for young entrepreneurs such as: Developing the SME Policy of 2003, forming the Business Environment Strengthening in Tanzania (BEST), Federation of Informal Sector Operators in Tanzania (FISOTA). Also there are various schemes established by the government: The Small Entrepreneurs Loan Facility (SELF) under the Ministry of Finance and Economic Affairs, The Presidential Trust Fund (PTF), just to mention a few.

However, despite all the government efforts, a limited number of youths acquire loans from financial institutions to starting up their businesses. Youths in Tanzania, find it difficult to get capital from financial institutions as they are require to provide a collateral which youths lack; instead they depend on families and friends to get their start up capital this is not reliable and sustainable. There is a need to examine other source of funding.

Methodology

This is a cross-sectional study, which employed more than one strategy. The aim of this study was to examine few alternatives sources of capital to starting a business among educated youths in Tanzania. For this reason the study combined descriptive and explanatory approaches to seek answers to the study question. The population for the study included all educated youths operating business at Ukonga Division in Ilala Municipality, Dar es Salaam. Judgmental sampling was employed to select a sample of 100 educated youths from Ukonga division. The population constituted educated youths- (studying or graduated with an Advanced Diploma or first Degree) aged between 18 years to 35 years that are in business at Ukonga division.

Methods of Data Analysis

Questionnaires received from the field were subjected into five step processes namely: validation and editing, data coding, data entry, data cleaning and tabulation of data. Validation is determining with as much certainty as possible that each questionnaire was conducted in an appropriate manner. After validation process, followed editing, the editing process involved checking for interviewer and respondent mistakes, making certain that all required questions were answered and recorded properly. Upon completion of editing, the second process was data coding, thirdly data entry using the SPSS computer package, fourthly data cleaning and fifth tabulation of data.

Presentation and interpretation of findings

I: Activity before starting a business.

Respondents were asked to mention what they were doing before starting their business. Table 1 shows the results obtained from the interviews.

Table: 1. Activities before starting a business

ACTIVITY	PERCENT
Student	51.8
Employed	42.2
Doing business	5.8
Employed & doing business	0.2

Source: Survey results, 2007

The data above shows that 51.8% of the respondents were students, 42.2% of the respondents were employed, 5.8% of the respondents were doing business and those who were employed and doing business were only 0.2% of the respondents. This is so because of the age bracket of respondents selected, that is 18 years to

35 years. In Tanzania this is the age of one attending higher learning institutions.

2. Start-up capital.

Respondents were asked to explain where they got their start-up capital. Table 2 shows respondents source of start up capital.

Table: 2 Start-up capital

SOURCE	PERCENT
Own savings	50.0
Family & friends	32.6
Partners	9.8
Financial institutions	5.0
Terminal benefits	1.8
Investors	0.8

Source: Survey results, 2007

Half of the respondents (50 %) started their business from their own savings, but when asked what they were doing before starting a business, 51.8 per cent of the respondents said were students. Only 5 per cent of respondents obtained their capital from financial institutions. This could be due to the banks' stringent conditions.

This is a bad trend, depending on families to get capital is not sustainable. Most of our families are poor, living under the poverty line and under one U.S Dollar per day. Youths with such kind of capital will only be hawking. There is a danger of creating an army of hawkers (popularly known in Dar es Salaam as "machingas") who because of the nature of business they are doing can turn into pick pocketing and other kinds of hooliganism.

II: Barriers to starting and growing a business.

Respondents were asked to identify the barriers to starting and growing a business. Table 3 shows respondents barriers.

Table: 3. Barriers to starting and growing a business

BARRIERS	PERCENT
Capital	32.0
License	21.0
Entrepreneurial skills	16.0
Technological changes	14.0
Corruption	12.0
Market Competition	5.0

Source: Survey results, 2007

Capital (32%) is the major barrier to starting a business. Other areas are: business licenses (21%), entrepreneurial skills (16%), technological changes (14%), corruption (12%) and marketing competition accounts for only (5%).

As we found earlier, most of the young entrepreneurs interviewed, got their capital from own saving (50 %) and from families and friends (32.6%). These families by themselves are poor, living on a hand to mouth economic activities. Hence the businesses they start are really micro, and most of the time informal, as they can not meet the regulatory requirements.

3. Improving start-up financing

Respondents suggested three centers to improve start-up financing as shown in Table 4.

Table: 4. Improving start-up financing

METHOD	PERCENT
Alternative funding (SACCOs, boot strap and air time)	52.8
Minimize conditions for accessing finances from the banks	38.0
The Government to set up special funds for entrepreneurs	9.2

Source: Survey results, 2007

Obtaining capital through SACCOs, boot strap and airtime was suggested by 52.8% of the respondents while reducing stringent conditions from the banks was suggested by 38% of the respondents and special funds from the government was suggested by 9.2% of the respondents. A large number of respondents (52.8%) preferred alternative funding as they thought that the SACCOs, boot –strap financing and selling airtime methods are free of red tapes.

SACCOs concept as means of obtaining capital

Young entrepreneurs will be motivated to form SACCOs (Savings and Credit Cooperatives), which would function like the existing SACCOs in the rural and urban sector of Tanzania. Membership will be for young business people aged between 18 to 35 years. Members will be required to contribute an entry fee of the amount equal to Tshs. 10,000 before being eligible to apply for a funding facility.

The collateral are entrepreneurs themselves who will form groups, say of five. Members will endorse the application form for each member of a group who applies for a loan. In the case of default, members will be responsible for the loan recovery. Each member will maintain a check and balance of the others. Young entrepreneurs are much less likely to enter into business due to start-up financing; thus establishing SACCOs could be a good alternative. Education and testing on formation of groups and monthly contribution will expose young entrepreneurs to the mechanism of SACCOs and help them select their leaders under the supervision of the District Community Development Officer who deals with Civil Society Organization (CSO) registration and regulations.

Starting a business using Boot-Strap financing

By definition, boot-strapping refers to start-ups which must be small and lean, using mostly existing tools and services and plenty of bartering to start the initial cash flow. At the concept stage, a business is like an egg that has not yet hatched – and the incubation process can be expensive because of doing research, making phone calls and buying supplies. These can eat through thousands of shillings before the business is even born. Many entrepreneurs limit their risk and expense by keeping their day job and letting the ideas percolate during evenings and weekends – (Worrell, 2002). This can be done as follows: -

1) Taking advantage of work place

Entrepreneurs have an idea, but lack money. While still working, they can use any free resources available. Entrepreneurs can take advantage of the facilities at their work place. Of course, not all employers will so generously support the moonlighting activities of employees. But keeping a steady income during the planning phases of a business is the best start to bootstrapping any new venture (*ibid).*

2) Considering taking advances in a business:

Entrepreneurs in a barbeque business can talk to pig and poultry keepers who will enter into a sales contract with the entrepreneur to buy their products and pay them latter on. This can be done in all major towns where people are interested in barbeques and drinks. Young entrepreneurs can start a business with no money at all; hence there is no capital constraint. What is required is for the entrepreneur to be trustworthy and pay the farmers before taking another consignment. If this works well, farmers will have ready markets for their products while entrepreneurs will have no capital constraint.

Selling air time vouchers to students at universities.

There is a high rate of cell phones usage in Tanzania, especially in higher learning institutions. A young entrepreneur can present a simple proposal for the rate of usage to cell phone companies after doing simple research at her/his institution, e.g. by estimating demand for air time vouchers. The cell phone companies can appoint the young entrepreneur as an agent to selling air time pre-paid vouchers. There are four cell phone companies Vodacom, Zain, Tigo and Zantel.

Estimated potential

There are about 100,000 college/university students in Tanzania and each spends about Tshs. 10,000/= on buying air time per week. In a year she/he will spend Tshs. 10,000X52 = 520,000. The total amount on airtime is: 520,000X100, 000 = 52,000,000,000 Tshs. The commission on each voucher sold - say is 2%, that is: 52 billion X 2% = 1,040,000,000. There are about 50 higher learning institutions in Tanzania, which means that if one entrepreneur in each institution is interested, this will make a total potential benefit of Tshs or 20,800,000 per year to each young entrepreneur. This money will help her/him pay for the college/university fee and expand his/her business. Instead of selling airtime vouchers only, he/she can start selling handsets.

CONCLUSION

From the findings the study concludes that capital availability is the major barrier to starting a business. Young entrepreneurs interviewed, got capital from own saving, from families and friends. The families by themselves are poor, living on a hand to mouth economic activities. Hence the capital they offer their young ones is meager, as the result, the businesses youths start are really micro, and most of the time informal as they can not meet the regulatory requirements.

Capital sourcing through SACCOs, boot strap financing and selling airtime vouchers can be a solution in getting capital because the methods employed is free of red tapes, and it involve ownership of the young entrepreneur.

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