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The Impact of Microfinance on Female Entrepreneurs in Tanzania

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Abstract
This paper explores the effects of microfinance on the success of female entrepreneurs in Tanzania. To do so, the paper first looks at the political and economic transitions of Sub Saharan Africa during the decolonization period. I discuss use of socialist policies and the impact they had on the Tanzanian economy, leaving it impoverished to this day. Next, I examine two specific components of microfinance, membership in a Savings and Credit Co-Operative Society (SACCOS) and receipt of a microloan, which are current methods to alleviate poverty in Tanzania. Using data from the 2010-11 Tanzania National Panel Survey (TZNPS), I analyze the impact microfinance policies have had on three measures of entrepreneurial success – average monthly net income, months of business operation, and the presence of employees outside of the household. I find microfinance has a positive effect on entrepreneurs, suggesting that heightened efforts of efficient implementation would benefit the Tanzanian economy.

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Senior Thesis

The Impact of Microfinance on Female Entrepreneurs in Tanzania

By

Lucy-George Cooper

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The report of the investigation undertaken as a Senior Thesis, to carry two courses of credit in the Departments of Economics and International Relations

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This paper explores the effects of microfinance on the success of female entrepreneurs in Tanzania. To do so, the paper first looks at the political and economic transitions of Sub Saharan Africa during the decolonization period. I discuss use of socialist policies and the impact they had on the Tanzanian economy, leaving it impoverished to this day. Next, I examine two specific components of microfinance, membership in a Savings and Credit Co-Operative Society (SACCOS) and receipt of a microloan, which are current methods to alleviate poverty in Tanzania. Using data from the 2010-11 Tanzania National Panel Survey (TZNPS), I analyze the impact microfinance policies have had on three measures of entrepreneurial success – average monthly net income, months of business operation, and the presence of employees outside of the household. I find microfinance has a positive effect on entrepreneurs, suggesting that heightened efforts of efficient implementation would benefit the Tanzanian economy.

I dedicate this work to my Grandmother George whose spirit has continued to inspire my dedication to the wellbeing of others and my determination to change the world.

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Introduction

After decolonization of Sub-Saharan Africa (SSA) in the mid 1900s, socialist policies took over in an attempt to develop the continent. Regimes implemented reforms that reintroduced the "traditional African mindset" and called upon communal efforts and individual sacrifice as means to prosperity. Today in Africa, we continue to see the effects of many of these policies. Corruption throughout the countries in SSA shows the difficulties of post colonization and the implementation of socialist theory. Economic struggle continues for countries that underutilize resources and reject foreign assistance. For decades, policymakers have attempted to find a solution to turn reverse the intense poverty seen by much of the African continent. Entrepreneurial efforts all over the continent seek to empower some of the poorest people who had been victims of the oppression. New programs see to empower the people and expand economic participation. A new revolution known as microfinance provides financial services and assistance to those who are not typically targeted by banks, and further encourages self-employment and individual savings to the poor.

Tanzania is a Sub-Saharan country situated between Kenya, Uganda, Rwanda and Burundi, the Democratic Republic of Congo, and Mozambique. It includes three major lakes in Southern Africa and houses the tallest point on the continent, Mount Kilimanjaro, also a well-known tourist attraction. The eastern border falls along the Indian Ocean creating easy access to trade routes. Yet for decades this country has experienced extreme poverty, characteristic of most Sub-Saharan African countries after decolonization.

In 1919 a League of Nations mandate awarded Britain the territory of Tanganyika, now mainland Tanzania. The territory was previously a German colonial possession and transferred after World War I to Britain as a League “Mandate” territory. In 1961 Tanganyika became an independent country ruled by Julius Nyerere. Two years later, Zanzibar, an island off the cost of mainland Tanganyika, gained its independence and the two independent states merged to create current day Tanzania.

Nyerere ruled Tanzania for nearly 20 years, until in 1985. The president of Zanzibar, Ali Mwinyi, replaced him. Under Nyerere’s rule, the Arusha Declaration transformed the country into a socialist state. Socialism in Africa became a common theme among post-colonial leaders as they turned away from Western influence. The Arusha Declaration, along with many others established the reforms known as Ujamaa attempted to nationalize institutions and create a self-reliant Tanzania. Decades later, the crippling effects of Ujamaa on Tanzania’s economy are still seen. The country remains one of the poorest in the world, shows great economic gender disparity, and underutilizes major advantageous resources such as tin and ore.

The purpose of this study is to contribute to the growing literature on microfinance in developing countries. Specifically, this paper focuses on female entrepreneurs in Tanzania. Largely due to the intense poverty accelerated by the Arusha Declaration, Tanzania was also chosen because of the political and economic disparity between men and women, which still exists today. The legal prohibitions on owning land, working in the formal sector, and accessing necessary financial resources restricts women from being active participants in the formal Tanzanian economy. Microfinance policies worldwide attempt to empower women through encouraged entrepreneurial efforts and financial support. This study is set to investigate the use of microfinance in Tanzania as a tool to empower women and develop the country, and the challenges this implementation faces given the country’s poverty and socialist legacy.

It will look to the effects Savings and Credit Co-Operative Societies (SACCOS) and microfinance loans have on entrepreneurial success in Tanzania, specifically for females, as a way to combat the struggle with poverty. In addition, the study examines the characteristics of members in SACCOS and recipients of microfinance loans. It is believed that microfinance will impact female entrepreneurs more than males, and that participation will be higher for women. Understanding these effects of microfinance will aid government officials in Tanzania in implementing the most effective and efficient microfinance policies.

This thesis is organized as follows. Chapter 1 provides a theoretical analysis of socialism throughout Sub Saharan Africa, and then, more specifically, for Tanzania. It addresses the despair economies were left in after socialism turned focus towards communal prosperity and restricted the use of entrepreneurship as means to develop. The chapter also looks towards the empowerment of women and development of finance as means to rebuild the Tanzanian economy. Chapter 2 looks more closely at the evolution of microfinance and the use of it for empowerment of women both worldwide and in Tanzania. Chapter 3 discusses the data and empirical model, which uses three measures of entrepreneurial success to investigate the impact of microfinance in Tanzania. Regression results are presented in Chapter 4 before a brief discussion of the results and conclusions offered in Chapter 5 show there is a significant relationship between microfinance and entrepreneurial success in Tanzania.

I. Analysis of Socialism and Its Effects

1a. Socialist Development in Sub Saharan Africa

Since decolonization of Sub Saharan African sprung up in the mid 1900's, questions of its development have intrigued scholars worldwide. The potential for the continent's prosperity is visible through natural minerals and resources, yet unstable governments, unbearable climates, and conflict among ethnic groups has limited in its ability to flourish (Moss, 2007). While the quick exodus of Western powers left the continent in disorder, some scholars argue pre-colonial Africa was not the ideal picture painted by some leaders. Kwame Nkrumah, the first president of Ghana, acknowledged, "Colonialism deserves to be blamed for many evils in Africa, but surely it was not preceded by an African Golden Age or paradise," (Nkrumah, 1967). This thought process, contrary to many throughout history, suggests that the Western world cannot be held completely responsible for the shambles in which Africa was left after decolonization. In fact, Nkrumah suggests Africa battled its own obstacles of class and social hierarchy before the Western world began to colonize.

Nonetheless, there is no denying that decolonization of Africa resulted in a continent of ethnic battles, intense poverty, and general confusion in regards to development. As native Africans began taking leadership roles and enforcing policies, the world saw an anti-capitalist movement that attempted to stay far away from Western ideals. Decolonized SSA wanted to empower the state with its own ideas absent of Western influences. African socialism began to take shape quickly and was the favorite approach for leaders across the continent. Nkrumah describes true African socialism as encompassing the complexities of synthesizing traditional African life and "modern technical community" (Nkrumah, 1967). The idea of restructuring the African continent to be independent of its colonial powers and socialist in ideology spread from Ghana to Tanzania to Zambia. It created an identity that the region could agree upon, independent of Western influence, and dedicated to social development.

This identity relied heavily on the incorporation of pre-colonial Africa and socialist ideas rather than the capitalist theories of the Western world. Though Nkrumah suggested disorder before colonization, his words suggest the "new" Africa must be established through the use of the *spirit* of traditional African society rather than the structure itself (Nkrumah, 1967). Other socialist leaders agreed with this notion of accepting colonization and its effects and combining them with traditional Africa. Leopold Sedhar Senghor speaks similarly, though more in favor of Western influence, on his socialist theories in Senegal. Senghor recommends the incorporation of France's socialist movements on Senegal's traditional cooperative values (Tooke, 1965). Kenneth Kaunda too, found the cooperative nature of Zambia could be utilized to promote prosperity in post-colonial development. He further used the values and ethics of the country, and continent, to establish a form of socialism that values human traits (Olivier & Venter, 1993). He says, "African society has always been man-centered," and advises that in development the country must not lose that great tradition (Hatch, 1976).

All of the socialist leaders in Sub Saharan Africa had a variety of similar ideas and values, namely the intentions of taking back Africa and empowering the state. With capitalist economies in much of the developed world, and thus the colonial rulers, the push against capitalism came from frustration within the colonized world. Sub Saharan African leaders transferred power to the state, in hopes that capitalist ideas could be eliminated and focus on communal efforts reestablished. Leaders wanted to establish themselves in a socialist realm that allowed the governments of newly independent countries the ability to develop their states free of Western influence. Officials like Nkrumah, Senghor, and Kaunda felt their countries could flourish with assistance and intervention from the local government (Ayittey, 2007). Each had their own unique application of nationalization to certain markets within their economies.

Socialist programs throughout the region improved educational access, health cares systems, and rural development. They sought to create an equal playing field for all members of society and return to the traditional African community. Yet the necessity for money for programs like this was very high, and without foreign aid from the developed world effectively implementing them was found to be quite difficult. Due to the global economy's downturn around the time of decolonization, foreign states were investing less in the developing world, leaving them to fend for themselves. Moreover, the appeared success of Mao's China in turning away from foreign aid suggested there might be a way to become truly self-reliant. Countries that sought "self-reliance" partnered with neighboring countries for important necessities. Markets became intertwined and states became more dependent on each other rather than on the Western world, creating a more unified Africa that traded within the continent. However, terms of trade began to worsen as the global economy worsened, restricting exports of minerals to Europe and America, and for SSA, this meant great problems. Though they did not rely on the resources of the Western world, the SSA countries did export heavily to them either, creating income necessary for development. The countries in this region had not diversified their economic production, and for the majority of Sub Saharan Africa, fewer than four export products that created nearly 75% of export revenue (Bond & Gor, 2003). This created great hardships as SSA struggled to maintain the value of autonomy while attempting to find some sort of stability.

Additionally, the political structures of these socialist regimes were creating conflict. Many countries ended in one-party systems that restricted the voice of the people. Political pluralism became a common theme among Sub Saharan African countries, which, as we know now led to corruption and eventually conflict in many states (Ibhawoh & Dibua, 2003). Some, like Julius Nyerere of Tanzania, never meant this to be the outcome, but alas, nearly two decades of ruling under a one party system allowed little change in governing styles. These authoritarian rulers wanted to have the final say in all decisions made by the state. They implemented their own trade policies, financial reforms, and incentives for production. Some turned to force in order to see the outcomes they desired. Ibhawoh and Dibua (2003) notes that a significant problem for socialist leaders in Sub Saharan Africa was indeed the idealistic notion that policies would result in quickly visible changes of African economies. When this was found to be untrue, frustration was directed toward the people and it became common to use force to implement certain programs and policies.

Eventually, international institutions began stepping in to assist with the growing debt problems of SSA countries, and the instability of their socialized programs. However, some scholars argue this did little to help the region in any effort to alleviate poverty and promote prosperity. The increased role of the World Bank and the International Monetary Fund (IMF) allowed countries to re-schedule their repayment. This increased the power of institutions, and allowed efforts of international aid to begin again, though not quite effectively. The loans given to SSA countries to pay off earlier loans only resulted in higher interest rates, and even higher debt for the countries (Ibhawoh & Dibua, 2003). The gap between developing countries and developed countries continued to grow as banks in Europe regained their footing and improved the European economy. International organizations gained power, which led to the establishment of programs that would assist the development of this region. Structural adjustments, or small changes to government policies, were required for states that wanted to receive assistance from these organizations (Riddell, 1992). The period of structural adjustments became one more failed attempted to develop the region and alleviate poverty. There was a call for a new method of poverty reduction, which led to the creating of Poverty Reduction Strategy Papers that laid out plans for alleviating poverty. Again, this method for poverty reduction led to the increased power of international institutions and the developed countries that supported them.

Ayittey (2005) suggests the main problem with African development is lack of investment. As much as Bond and Gor (2003) discuss the decrease in foreign investment, Ayittey (2005) acknowledges the early problems with political unrest and chaos create disincentives for investment. Countries are hesitant to aid developing Sub Saharan Africa, as they are unsure their money will go towards effective programs instead be diverted to corrupt government officials. Ayittey does point out success stories throughout Africa, however, and recommends that increased faith in the countries and investment in their projects will lead to prosperity.

1b. Development in Tanzania

Like the scholars referenced above, Nyerere had his own opinions as to why Africa was not living up to its potential. He was very adamant that socialism was the only way for African countries to prosper. Early on in his regime Nyerere stated, "No underdeveloped country can afford to be anything but socialist" (Nyerere, 1962). This notion is important to understand to discuss his beliefs and policies. Some scholars believe his socialist beliefs were too strict and implementation was not effective, leading Tanzania to an even worse state than when Nyerere took office (Gerhart, 1997). In 1967, Nyerere put into place his first big program, the Arusha Declaration, that he believed would aid the Tanzanian economy and promote prosperity for all people, especially the poor. The policies that Nyerere established appeared to be a genuine attempt to develop Tanzania into something great, which cannot be said for neighboring countries' dictators (Pratt, 1976). In the end, there is no doubt many aspects of his leadership failed, but there was some good to come of it.

Bond and Gor (2003) believed colonial rulers influenced Tanzania with Western ideas, leaving the post-colonized country uninterested in it's own culture. Colonization left the country with a Western mindset that wanted individual prosperity and lacked the original African dedication to community. Nyerere (1962) explained, "The foreigner introduced a completely different concept – the concept of land as a marketable commodity." This concept, he went on, allowed Tanzanians to exploit their neighbors, something Nyerere believed to be contradictory to pre-colonial Tanzania and the establishment of a true socialist state. In the Arusha Declaration, Nyerere (1967) attempted to regain the sense of community so central to African culture through policies of socialism. The Declaration led to a program known as Ujamaa, which involved the concept of *ujamaa vijijini*. This program promoted cooperative farming and rural development. It quickly became apparent that this socialist approach for rural development in Tanzania relied on selfless cooperation among villagers and sacrifice for the good of the community. Ujamaa required collective living, local democratic leadership, and hard work from all community members. It turned rural areas into small, collective villages that worked and lived together, shared educational and health services, and relied heavily on their neighbors. However, this aspect of Ujamaa did not sit well with the rural Tanzanians. Many were reluctant to move away from their homes and into the villages pre-constructed by the state (Ergas, 1980).

One concern with implementation of this policy was the ability of Nyerere's selected officials to exploit others and the mindset some Tanzanians had to take advantage of others. To combat this, Nyerere included regulations of officials in the Declaration. In Part One, Nyerere (1967) gave the state the responsibility to,

> Prevent the exploitation of one person by another or one group by another, and so as to prevent the accumulation of wealth to an extent, which is inconsistent with the existence of a classless society.

This component of the Declaration began the transfer of power from individual institutions in Tanzania, to the state's government. It allowed Nyerere and his selected officials to run the state and oversee that Tanzania was returned to a classless society with no use of exploitation. The Arusha Declaration also required that no leader in the Tanzanian government practice exploitation or, "work off the sweat of another man". These requirements attempted to empower the state without creating a hierarchy.

However, the local leadership required in *ujamaa vijijini* allowed for certain rural inhabitants to further their own personal interests and better themselves and their families instead of focusing on the entire community (Shivji, 1974). This created an even further divide of villagers, something socialist Nyerere never wanted. Because not all people had the "socialist mindset" so essential to Nyerere's plans, some local leaders took advantage of their communities. Other rich villagers left their homes behind to move to urban areas to find more resources. It left the rural villages even worse off than they already had been and created larger separation between rural and urban areas (Brennan, 2006). Some blamed the failure of this policy on the idea that the villagers hadn't created it themselves; others attributed it to the forcefulness the administration used after villagers refrained from moving into the villages (Ibhawoh & Dibua, 2003). The failure of this program became apparently quickly, and was taken away in 1975. Even with its removal, Tanzania was an unequal state that showed a variety of classes, just the thing Nyerere was attempting to stay away from.

Much like other socialist rulers in SSA, Nyerere saw the traditional values of Tanzanian society to be essential to the future development of the country. His socialist policies suggested overcoming this mindset and the reintroduction of the original African socialist thinking was essential for the country's development. This was mirrored by the policies of Nkrumah in Ghana and Kaunda in Zambia. Both leaders also emphasized traditional Africa, but with specific focus on social cooperation. Nyerere found the value of the extended family system of Tanzania to be the most significant contribution from traditional values (Ibhawoh & Dibua, 2003). He believed the family is what truly created the mindset and attitude of an active participant in the cooperation within socialism. In 1962, Nyerere explained a true African Socialist, "does not form an alliance with the 'brethren' for the extermination of the 'non-brethren'. He rather regards all men as his brethren." These ideas require Tanzanians to believe neighbors near and far are members of their extended family. Furthermore, as all members of society are seen as family, they should be treated as such. This suggests sacrifice for family members (or community members), and cooperation, and elimination of individual business.

The elimination of individual business in Ujamaa comes from the idea that all members must share their profits and rewards (Nyerere, 1967). The base of entrepreneurship requires individual efforts and resources. In a socialist state that emphasizes collective participation, establishing entrepreneurships that could potential give one person more opportunities does not work. Thus, the policies within the Arusha Declaration restricted the establishment of self-started businesses in Tanzania. Instead, the Declaration focuses on collective use of the land of Tanzania for prosperity. Little of the declaration itself mentions development of businesses that do not develop rural areas of the country, suggesting non-agricultural entrepreneurships are irrelevant. The policies Nyerere put in place recognized the collectivization of villagers and the unity of Tanzania over the establishment of new, innovative entrepreneurships. This restriction on entrepreneurship can be seen even today in Tanzanian society, as the country struggles to develop and encourage self-employed business. The strict emphasis on collective work by Nyerere, however, has continued to hold Tanzanian people back from establishing new businesses.

Like Mao's China, Nyerere attempted to cut ties from the international world and create a self-sustaining Tanzania. Mao created regional economies, similar to what Nyerere hoped to establish through the villigization process. Furthermore, China's split from the USSR and Mao's dedication to independent self-reliance severed ties with Western trade (Tisdell, 2013). Nyerere's admiration and respect for Mao continually influence how he approached the rebuilding of Tanzania. He incorporated many aspects of Mao's self-sustaining China into the Arusha Declaration, including the lengthy discussion on reliance of money and enterprises.

Nyerere, in Part Three of the Declaration discusses the policy of self-reliance. He opens by discussing the state of Tanzania at the time (1967), addressing the poverty and oppression felt by many. Next, Nyerere argues that the problem with Tanzania is its reliance on money for development. He suggests throughout this section of the Declaration that Tanzania does not have the money, which the state has relied upon for development, but instead, it has land. Nyerere points out that leaders of development projects continue to request money, yet the country does not have that money, and in fact should not rely upon that money for development. Instead, he suggests the country rely on something it has much of, land. (From this we can see why Nyerere later introduced *ujamaa vijijini* in an attempt to utilize a large amount of land.) Later in this section, Nyerere condemns the reliance on external aid. Much like Mao, Nyerere wanted to prove an independent and prosperous Tanzania that could support itself. He suggested that accepting foreign assistance of any form would only create a reliance and indebtedness to another Western country. He believed that this reliance would take away the independence that Tanzania had fought so hard for recently (Nyerere, 1967). Finally, Nyerere argued that Tanzania had placed too much emphasis on industries. He suggested this had come from colonization, and that there needed to be a return to reliance upon the peasants and farmers for development rather than the industries. Relying on land and agriculture created reliance upon the people as a whole, and not just those that were skilled in certain areas of industry.

In order to reach this self-reliance, Nyerere incorporated a program that nationalized the banking sector and other large enterprises (Nyerere, 1967). This gave control to the government and took power out of the hands of foreign influences. Nyerere hoped this component of Ujamaa would keep money and capital within the boundaries of Tanzania. The nationalization and collectivization of sectors within the state became a common policy from socialist leaders. It promoted a self-reliant state, and the Western world feared this could spread to other African countries restricting their own gains from development (Ibhawoh & Dibua, 2003). It also sought to unify the country's production efforts and promote shared rewards of hard work. This policy of nationalization did some good for the country. It established the Bank of Tanzania which today still stands strong. It worked to diversify the influence of the financial sector and created reliance upon domestic money rather than external assistance. However, centralization of the banking sector created potential for corruption and again, a widening of the gap between the rich and poor (Moss, 2007).

Other components of Ujamaa introduced educational access to everyone in the country. This improved literacy rates greatly, which remain high even today (Ibhawoh & Dibua, 2003). By removing school fees from family's worries, more children could be educated and trained. Though not all continued on to upper level schooling, the majority of Tanzania had at least some sort of education. While this component of Ujamaa did well for Tanzania overall, it also helped further the gap between men and women because generally young girls were the ones to be held back from further schooling.

The seemingly most important contribution Ujamaa had on the Tanzanian population, however, was that of the last component in Nyerere's original plan, unity. The policies worked to reintroduce the "traditional African mindset" that placed emphasis on family membership, the need to work and share, and the ability to sacrifice for the whole. In his address in 1962, Nyerere argued,

> Our recognition of the family to which we all belong must be extended yet further-beyond the tribe, the community, the nation, or even the continent-to embrace the whole society of mankind.

This encouragement spread through the country and resulted in a unified state, something uncommon throughout SSA. Historically, there are few conflicts between ethnic groups in Tanzania since independence, which many attribute to the emphasis on unity by Nyerere shortly after independence. Some scholars argue the established national identity and unified population is what keeps the social programs functioning and improving. It is also suggested this loyalty and unity created by Ujamaa has led to the overall stability of the country, keeping it relatively peaceful even without the economic prosperity so desired (Ibhawoh & Dibua, 2003).

In the end, Ujamaa did great harm to the country in terms of furthering the extreme poverty still prevalent today. The policies led to the division of rich and poor, urban and rural. The empirical study, which follows, will show that some of these still exist, and examines ways in which the country is now attempting to close those gaps. Ujamaa did, however, have some beneficial attributes, namely the national identity and unified population that stand together still today.

1c. Empowerment of Women

While the unification of the country was significant to its identity and lack of conflict, historically structured African societies created separation between men and women. The commonality of patriarchal societies in the world provides great insight onto why women are so restricted in their ability to participate economically and politically today in many developing countries. Traditionally, the men of societies held power. This is not a new concept by any means, as we saw this in nearly every developed country at some point. Women, theoretically, by many people's standards, are not as intelligent and are meant for work within the household, not outside of it. It is no surprise that patriarchal societies within Sub Saharan Africa traditionally had little confidence in the abilities of women to actively participate in economic and political activity. Furthermore, their skills were needed in the household while men went off to work. Women were responsible for birthing and raising children, taking care of the crops for food, and cleaning. They were essential parts to running the household and teaching the children about African culture, but they were not seen as skilled enough to work in the formal labor force.

Mbilinyi (1972) suggests this may not necessarily be the case in all pre-colonized African states, however. Mbilinyi argues that the level of economic involvement of women is dependent upon the structure of the society, and that some traditional African societies actually invested a great deal of power in women. It is argued that it was actually the colonization process and introduction of capitalism that was detrimental to women in Africa. Mbilinyi suggests women had power before colonization, and even somewhat during colonization, but post colonization, the socialist policies that focused on family structure forced women to return to the stereotypical household chores with limited economic power, even if their society had not seen that pre-colonization. Rather than have involvement in household decisions, women were required to 'respect' the men of the family and become subordinates to the dominant gender. Furthermore, she suggests that mobilization of men after decolonization restricted women to the household, because not only were women taking care of the household, they were also completing the work of men that was left behind as they helped rebuild society. Even though women were now completing more work than most men did in a week, women still failed to get the recognition of importance to society because it was the men who were connected with political leaders and movements. All of this, Mbilinyi suggests, played an essential role in the development of women on the African continent (Mbilinyi, 1972).

Others, on the other hand, argue that the traditional structure of African patriarchy is the factor that continuously limits women's involvement. The requirement of men to be the natural breadwinner in the family created a cycle early on in African development. Women had little ability to speak their mind or challenge a male counterpart. Limited power was entrusted to women in these traditional patriarchal societies before colonization, and even after decolonization the restrictions continued. Women were, and in some respects still are, seen as inferior to men and only useful for the purpose of childrearing and housework. Many of the socialist policies throughout Africa promoted equality of all peoples, however, the nature of patriarchy in these societies created a strict divide. While they encouraged education of all children, this meant parents had no help around the house during the school year. The obvious choice for all households was to hold the girls out of school and teach them the roles of motherhood that they would soon be living in (Bay, 2982).

In Tanzania, Ujamaa provided hope that women would be used to assist in the development of the country, but this too was a component of the policy that failed. Ujamaa involved women based on their role in the family structure. Females were encouraged to provide families with nutrition and education while caring for the crops. Young men were used as militants to defend national security through leadership groups and military training while young women were taught how to take care of children and cook meals. Though Ujamaa the very first line of the Arusha Declaration reads, "That all human beings are equal," meaning every citizen should be an active participant in developing the nation. Nyerere's emphasis on security of the Tanzanian country through protection of national security was essential for every citizen. Lal (2010) argues that, "the true female soldier of *ujamaa* socialism was the devoted mother."

Another program through Ujamaa made sure women remained in a traditional and restrictive role in society. The operation known as Operation *Vijana* allowed young men in the Tanzanian Youth League to harass and even arrest young women that violated "traditional dress". In other words, women that wore short skirts and tight clothing, presumably influenced by colonial rule, were at the mercy of young men trying to play active roles in Nyerere's reestablishment of traditional African society (Lal, 2010). While socialist policies should theoretically create an equal playing field for everyone in the country, the patriarchal nature of Tanzanian tradition, and the focus of Nyerere's policy on traditional familial structure, left women at a large disadvantage. This component of Nyerere's policies created intense reliance on traditional norms, which greatly restricted women in Tanzania in their ability to be seen as equal roles in the development of society economically.

Furthermore, while educational reforms within Ujamaa increased literacy rates and attempted to encourage education for all, evidence shows women were largely left behind. Evidence from Mbilinyi (1972) shows that enrollment of young girls in school was nearly 30 percent less than that of males. Furthermore, during this time of Ujamaa, Mbilinyi (1972) found that even schoolgirls felt it was more beneficial for society as a whole if boys were educated instead of girls. This is important because it shows that while the educational policies of Nyerere did result in a high value on education throughout the country and high literacy rates, it was not necessarily directed to *everyone*. In fact, nearly half of the country was seen as less important in terms of getting an education, the women. Households required labor, which they typically got from their children or family members. Enrollment of girls into school left business and farms without workers. In turn, though school fees no longer existed, it was still more important to have girls stay home from school than to have them educated. This only furthered the idea that women were less important than men and that they had less to give to society other than housework and care for the food.

Today, as Tanzania continues to implement policies, which strive to overcome poverty and gender inequality, we can see that the there is some hesitancy. There is a subconscious ideology that women are better actors of society in the household and therefore should not own land, have economic power, or be highly educated. The policies of Ujamaa that restricted entrepreneurships also set up a social norm that rejects this idea. Today, entrepreneurships account for very little of the formal economy in Tanzania. Worldwide, developing countries use entrepreneurial activities to empower women and establish their utility in society. In Tanzania, however, the policies of Ujamaa and the Arusha Declaration are at odds with modern development. There will need to be an additional effort to break down the barriers put into place for women and entrepreneurs alike, and even more so female entrepreneurs.

Tanzania, like many developing countries, turned to financial reforms in the early 1990s to combat historical poverty. These new financial reforms work to incorporate empowerment of the people, specifically rural inhabitants and females, and educate them about savings and entrepreneurial efforts. First, the Bank Reforms of 1991 allowed Tanzania to privatize the financial sector, something that had not been done since its independence. The Bank of Tanzania (BoT) became the primary actor in the financial sector, and overseer of reforms. Throughout the 1990s, emphasis was placed on establishing institutions that provided financial resources to those that typically had none.

These reforms encouraged the use of co-operative societies to create community outreach and support for rural areas. In 2001, another large policy was set in place, the National Microfinance Policy (Tanzania, 2001). This further encouraged the use of microfinance as a tool to reverse the poverty seen throughout Tanzania. It required financial institutions to provide some sort of microfinance services so that all people in the area had access to these resources. Reforms throughout the 2000s served as trial and error to attempt to find what programs worked best with Tanzania. Now, Tanzania has over 200 institutions that provide financial access to people all over the country. As discussed above, the cultural background and perception of women created by Ujamaa and other programs has now left a hesitancy to accept these financial reforms, and implementation can become very difficult. Introducing entrepreneurships and empowering women are contradictory to the original ideas the Tanzanian society is built upon. The following chapters examine empirical data to show the effects financial reforms, specifically the application of microfinance, and how they impacting female entrepreneurs.

II. Microfinance

2a. History of Microfinance

In 1976, Muhammad Yunus implemented an idea that eventually revolutionized the way developing countries approach poverty alleviation. As head of the Economics Department at Chittagong University in Bangladesh, Yunus had been witness to the rising threat of poverty in his home country. He journeyed through the streets of Jobra, a village near the University, and realized the high interest rates among moneylenders only worsened the lives of the already impoverished village people. He used USD $27 to lend to 42 village people, and explained he expected repayment with no interest whenever the villagers could afford it. Yunus gathered students to track the income and spending of those that had received loans. He continued this process until, in 1983, he had enough contacts and expertise in the area of microlending that he began the Grameen Bank. Thus, the concept of microcredit was born as a means to solve the problem of poverty in Bangladesh.

Now, nearly four decades later, the Grameen Bank serves as a model for over 200 microcredit institutions worldwide, and has inspired the introduction of microfinance polices. These policies attempt to give financial access to those that were previously unable. Many microfinance policies incorporate some sort of co-operative organization that allows groups of people to support each other. Whereas microcredit is only a piece of financial empowerment of the poor, microfinance encompasses multiple aspects of financial assistance.

In Bangladesh, non-governmental organizations (NGOs) such as the Association for Social Advancement (ASA) have been established, increasing access to financial services even more. This trend of NGO assistance has spread worldwide as they partner with governments of developing countries to work toward poverty alleviation. Microfinance experiments across the globe are attempting to empower the poorest people and challenge longstanding poverty cycles.

2b. Design of Microfinance

In this study, I focus on two specific types of microfinance – co-operative membership and receipt of loans from a Microfinance Institution (MFI). While these are only two models of microfinance, they are two very important parts of the equation in understanding exactly how microfinance affects economies.

Co-operatives are one way of organizing a group for financial support. Typically used more in rural areas, they offer financial accessibility to those that do not already have it (Ellis, 2007). In most developing countries, rural areas are also the most impoverished and in need of credit opportunities. Co-ops promote saving responsibly, create access to credit, and encourage increased community values. People involved form a loyal union where each individual contributes resources and is able to apply for loans from the group funds (Armendariz & Morduch, 2010). The use of co-operatives has been extremely beneficial as it creates a sense of loyalty to the community and defaults are therefore low (Ellis, 2007). Co-operatives also generally offer other financial services, which could include educational classes and transportation services (Sizya, 2001). These services work towards breaking the poverty cycle and creating active participants in the economy.

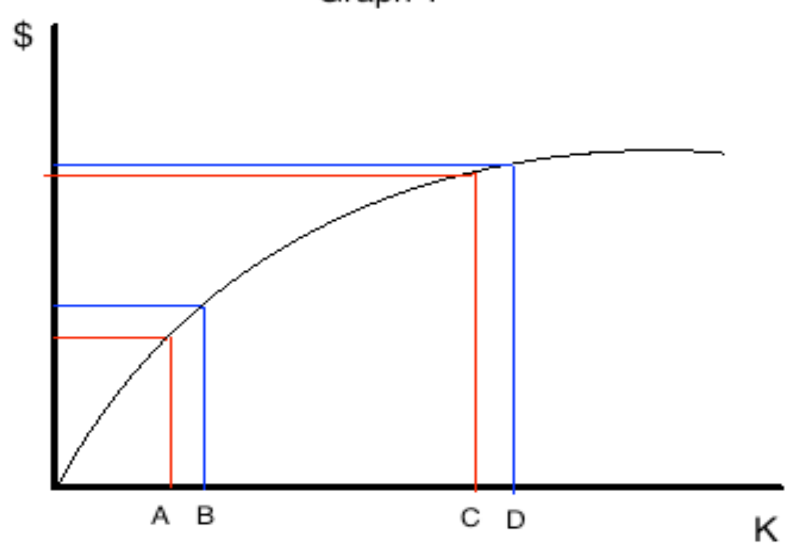
Loans from MFIs, on the other hand, are typically directed towards individuals. People can apply for a loan through a MFI by following processes similar to those of a regular banking institution. Randhawa and Gallardo (2003) found that microfinance institutions were more prevalent in better-developed regions such as cities. This difference between co-ops and loans from a MFI is essential in understanding what role they may play in the success of female entrepreneurs.

2c. The Economics of Microfinance

Today, Yunus's revolutionary idea of microfinance has spread worldwide and affects economies of all types, yet some institutions remain hesitant to lend to people who have little to no collateral to offer. Microfinance has thus prompted international research, which seeks to understand the operations and impact of institutions that focus on lending to the poor. This subsection addresses theories of how microfinance affects developing economies.

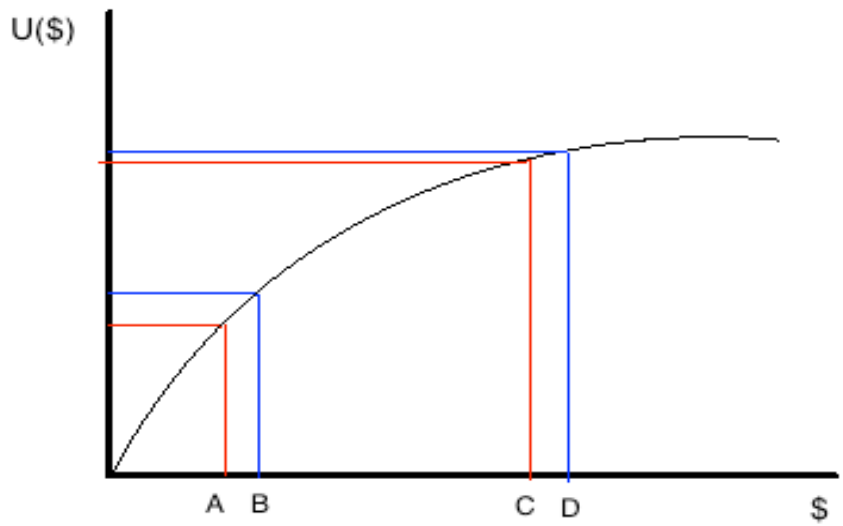
While moneylenders historically have been skeptical to lend to the poor because of the risk involved in repayment, Yunus argues that the poor are actually perfect candidates for these small loans. The Law of Diminishing Returns suggests that there is a limit to the effectiveness of increasing capital. Graph 1 shows that giving small loans to the poor yield more return (Armendariz & Morduch 2010). On the y-axis is money symbolizes production in dollars and the x-axis shows capital owned by the individual. Assuming the distance between A and B is the same as the distance between C and D (i.e. the difference in two lifetime capital levels is the same), the loan given to an individual with less capital (a poorer person) will produce a greater marginal outcome in production than a person with more capital (a wealthier person at C). This suggests small loans, in fact, are much more beneficial to impoverished persons because they increase production more than do larger loans. The theory of money utility also points to the benefits of lending to the poor.

Graph 1



Graph 2 demonstrates that person A increases her utility more than person C if they are given the same amount of money, in the form of a microloan. The high utility resulting from these loans encourages developing economies to focus their resources to the poor because it will increase not only the utility of money for individuals, but also the overall production of the economy (Armendariz & Morduch, 2010).

Graph 2



Additionally, Yunus argues that lending to the poor results in high repayment rates due to a greater incentive to repay. In particular, Yunus rejects the traditional arguments that lack of collateral and resources decrease a poor person's ability and motivation to repay a loan (Ray, 1998). Yunus and other establishers of MFIs found the cooperativeness to be essential in incentivizing repayment. If people rely on a community, one person's failure to repay a loan affects the entire group, creating a social incentive to repay. In addition, some argue that because the poor have such limited access to credit, their incentive to repay is actually much higher because defaulting results in even less access to alternative credit (Ray, 1998). These theories validate lending small loans to the poorest people.

Co-operative efforts, when successfully implemented, also provide evidence that lending to the poor is beneficial. Literature suggests that co-operatives, or group lending is an extremely effective way to implement microfinance. Armendariz and Morduch (2010) argue in *The Economics of Microfinance* that group lending negates the adverse tendencies of lenders because co-operatives have previously screened members. Therefore, moneylenders are less likely to see risk associated with these groups not only because there are multiple people to take responsibility, but there is also the social incentive discussed earlier that increases repayment rates. Moreover, Sizya (2001) suggests co-operatives, "facilitate self-employment through member owned and operated industrial enterprises". He introduces the idea that working as a co-operative also creates business skills required for entrepreneurial activities, which cannot be attained solely through receiving a microfinance loan.

On the other hand, Madajewicz (1999) and others argue the costs to the group may be greater than the overall benefits. While the cost of record keeping normally falls to the banks, within group lending it falls directly to the co-operative. This creates an extra cost for members, one that may eventually become more burdensome than helpful. Therefore, Madajewicz (1999) explains, an alternative to group lending may be more beneficial. Armendariz and Morduch (2010) point out a large difference between group lending and individual lending. They explain that microlenders that focus on individuals typically grant loans to borrowers that are better off to begin with. They typically target those with slightly more collateral in order to take on less risk. Moreover, individual microlenders are found to have fewer female clients due largely to the fact that women are typically less financially well off than men. This suggests that women would be better off with access to group lending or co-operative societies.

2d. Microfinance in Tanzania

In Tanzania, co-operatives known as SACCOS, identify "sharing, demand deposit, and savings" as the three components required to function efficiently. Members choose at least one of the three contribution methods to be a part of the co-operative and utilize its resources. The first term, "share", refers to sharing individual resources with the community. Share requirements vary for each co-operative but always demonstrate the individual's willingness to sacrifice a small share for the group. The second term, “demand deposit”, requires members to accumulate funds that will be utilized for large projects or unexpected disasters. These funds assist the members by being accessible at all times. The final term, “savings”, refers to savings within the co-operative. These funds, compiled by members of the co-op are necessary so that members may borrow small sums from the group. All components of this co-operative help create a social incentive to repay a loan for defaulting may result in the failure of the entire co-operative. This theory will be discussed later in the chapter. In addition, every co-operative encourages individual savings outside of the society. This promotes the development of the Tanzanian economy by creating a culture of individual saving and community support. Each element of SACCOS described above is necessary for the overall effectiveness of microfinance. The purpose of SACCOS is to administer financial resources to those unable to access them by other means. While microloans are typically targeted to areas within cities, co-operatives are more developed and promoted to villagers (Randhawa & Gallardo, 2003).

MFIs in Tanzania work in a slightly different way. They follow strict requirements for documentation and generally require a literacy rate to apply. MFIs are generally more individual friendly and are typically more favorable towards men. Historical policies in Tanzania that encouraged educational gender inequality significantly restrict women from even applying for loans through MFIs (Armendariz & Morduch, 2010). Though reforms have worked toward fixing this problem, discrepancies remain between men and women’s ability to receive loans and other financial services within Tanzania.

Qin and Ndiege (2013) argue SACCOS membership is more beneficial to the economy as a whole. The additional financial services provided by co-operatives increase savings and educate members on financial intelligence. In addition, the government continues to learn from previous mistakes in financial reforms, and is now creating co-operatives that function more efficiently. Qin and Ndiege (2013) further examine the difference savings and credits have on economic activity in Tanzania. Using GDP as a measure for economic growth, Qin and Ndiege (2013) find that increased savings has a larger effect than increased credit. This is important to the current study because it suggests participation in SACCOS, or co-operatives that promote savings, is more beneficial to economic prosperity than solely promoting microloans.

2e. Gender and Microfinance in Tanzania

We can already see how important it is to understand gender differences when it comes to microfinance in Tanzania. Cultural norms around the world have consistently inhibited women from playing an equal role in the economy, especially after socialist policies restricted African women to traditional household roles. Though this has been changing in many developed countries, developing countries continue to struggle with entrusting women with economic responsibility. Although men benefit from this economic preference, Kristoff (2009) argues that women utilize money in a more beneficial way than men, and therefore should have more economic power. Additionally, Hoffman & Averett (2010) show that women in developing countries spend money on necessities such as education and healthcare while men consume more luxury goods such as alcohol and prostitutes. This suggests that putting money in the hands of women is more beneficial to society, especially children, as a whole than putting money in the hands of men.

In addition, Armendariz and Morduch (2005) argue that women are safer clients for banks, because they show higher rates of repayment. They find that women are socially swayed more easily than men and therefore are more likely to be influenced by persistent bank officers requesting repayment. This creates an incentive for banks to target women. Armendariz and Morduch (2010) found that women utilize smaller loans more effectively. They suggest that men have a tendency to misuse funds and require larger amounts to produce the same outcomes women produce from smaller sums of money. All of these factors play into the significance of targeting women in implementing microfinance policies in developing countries like Tanzania.

On the other hand, lending to women may create conflicts in the household based on cultural norms. Yunus himself explained the difficulties in reaching out to women in his own community, because of their responsibilities to their husbands and children. The patriarchal societies of many developing countries require women to remain in the household with less education and little to no economic power. By allowing women to become entrepreneurs, make household economic decisions, and focus less on housekeeping, there could be an entire cultural shift away from the historical traditions so important throughout socialist Africa. The loss of respect for men and the ability of women to act independently could cause tension in the household. Thus, it is essential that policymakers be cautious in their application and that they find a balance within the cultural environment.

2f. Measuring Impact

Finally, before looking at the empirical data in this study, which measures entrepreneurial success, we must examine various tools for previous measures used to understand microfinance effects. From access to financial services to actual values of income, the impact of microfinance can be measured differently. This study uses three different methods to measuring the success of microfinance systems in Tanzania with a specific focus on the success of female entrepreneurs.

One tool for measuring the success of microfinance systems is individual expenditures. When looking at poverty-stricken regions, examining changes in income can be an effective way to measure success. Microfinance creates an income effect that makes people believe they are better off and therefore consume more. Measuring the impact in this way can show increased economic activity and empowerment of people, one of the main goals of microfinance. On the other hand, there is also a substitution effect that can be seen from microloans. Specifically, women who become a part of SACCOS and become self-employed may have less time to do the household activities such as cleaning, caring for children, and cooking. This creates external costs that were not necessary before (Armendariz & Morduch, 2010).

Another way of measuring the effects of microfinance is through subjective questioning. This allows people who participate in microfinance to self-report where they fall among impoverished people. Over time, it has been found that once a person becomes involved in microfinance operations, their subjective poverty decreases, therefore showing they consider themselves to be better off than previously thought (Morduch, 2000). Though subjective measures are typically unreliable, they provide a good idea of how microfinance can mentally affect the poor.

Because of the wide realm of possibilities for measurement and my focus on self-employed people, in this study I chose to focus on "success" in entrepreneurship. Measuring the overall success of a business that has participated in microfinance will provide some understanding of what could be changed in order to better benefit entrepreneurs. Specifically, I measure success entrepreneurship in three ways – average net monthly income, months of business operation, and presence of employees outside the household. Such a wide-ranging analysis will then allow for a policy discussion concerning the greater impact of microfinance in Tanzania.

Using regression analysis of my dependent variables, I was able to analyze how these three measures of success impacted a self-employed business in Tanzania. Based on previous research acknowledging income as one measurement of success, I included average net income of the business during months of operation. Next, I use months of business operation to understand success. Entrepreneurships last longer and are more economically developed if they are successful businesses (McClelland, 1986). The final measure is whether the entrepreneur or business employees people from outside of the household. Because of the extreme poverty and large family sizes in Tanzania, it is rare to have employees that assist in a business if they are not somehow related (Ibrahim & Henriques, 2003). This could mean this measure of success may not be as telling as the previous two. However, it was important to include this original method in order showing the variety of measurements as well as the various impacts microfinance can have on success measures.

III. Empirical Analysis:

3a. Data Description:

The data used in the present study comes from the Tanzania National Panel Survey (TZNPS) and the World Bank Living Standards Measurements Survey (LSMS). The TZNPS was administered between October 2010 and September 2011 to roughly 5,000 households throughout Tanzania. Ultimately, data was collected from over 30,000 individuals. The 2010/11 survey is the second round in a series of household surveys, which helps track the progress of poverty reduction encouraged by Mkukuta, the National Strategy for Growth and Reduction of Poverty (NSGRP), over multiple years. Divided into 39 sections, the data cover a range of questions from healthcare to finances. Table 1 shows the statistics of the entire LSMS sample. Average net monthly income and months of business operation were taken from questions asked in a sub-section of the LSMS reserved only for self-employed people, which accounts for a smaller observation size. The control variables reflect current circumstances in Tanzania such as a low average age, large household sizes, and a relatively small percentage of people educated at the high school level. Literacy represents the amount of people who are able to read and write in either Kiswahili or Kiswahili *and* English. As shown in Table 1, nearly 70% of the Tanzania population is literate according to this definition, while fewer have actually attended any type of high school (only around 20%).

As the current study focuses on entrepreneurs, only those individuals responding "yes" to having participated in non-agricultural self-employed labor sometime in the last year will be used in the regression analysis. Table 2, therefore, provides the identical descriptive statistics on Table 1, but for the selected group of entrepreneurs. Since the LSMS is a random sample of households, this subsample is a random sample of self-employed people in Tanzania. Gender specific analyses therefore, also use random samples of self-employed women and men in the country. In addition, the subsample was restricted to households with fewer than 35 members. This subsample (Table 2) of entrepreneurs is used throughout the remainder of this study.

From Table 2, we see that out of the roughly 2200 self-employed people surveyed, the average age is nearly fifteen years higher than total population due largely to the fact that all people under 15 (age of work eligibility) are omitted from the study. The absence of children also affects literacy rates and marital status in the subsample. A higher literacy rate amongst self-employed people can also be explained by the necessity to read and write in order to know and understand national entrepreneurial standards and business laws (Ellis, 2007).

3b. Microfinance Variables

Membership in SACCOS, or Savings and Credit Co-Operative Society, was chosen as a microfinance variable in order to understand the savings component of microfinance. Receipt of loans from a micro-finance institution (MFI), contrarily, accounts for the effects of solely receiving a small loan for assistance. As discussed earlier, Qin and Ndiege (2013) suggest the significance of savings in economic development. They argue microloans and cooperatives such as SACCOS are different microfinance phenomena. This argument suggests that the variables may have different effects on the dependent variables of success analyzed in this study.[1]

In Tables 2, SACCOS values of 1 indicate that the person is a member of Savings and Credit Co-Operative Societies, while 0 indicates that they are not. In Table 2, we find 10% of entrepreneurs hold membership. The microloan variable represents whether or not the individual has taken out a loan specifically from an MFI in Tanzania. This variable was based on answers from those who had acknowledged receipt of a loan from various organizations. The value of 1 represents those people receiving a loan specifically from an MFI, and 0 represents those who did not receive such a loan. Table 2 reveals that microloans were received by just around 4% of all entrepreneurs. These statistics suggest that even two decades after financial reforms began in Tanzania to promote microfinance, only a small portion of the entrepreneurs in 2010/11 receive microfinance assistance.

The first element of this two-fold analysis attempts to explain the characteristics of those involved in microfinance in Tanzania. As they are fundamentally different programs, it is expected (or at least possible) for SACCOS and microloans to be used by different people. According to Armendariz and Morduch (2005), we expect that women will be more likely to join SACCOS than to receive a microloan. It is also expected that more SACCOS members are located in rural areas. As increased education typically relates to increased income, it would be expected that those without high school

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[1] Data analysis shows that only 30 people were both members of SACCOS and had received a loan from a MFI.

education or literacy would be more likely to take part in one of the groups. Since larger families generally suggest lower education levels, we would also expect larger families to be more likely to be members of SACCOS and to have microloans.

Using demographic variables from the self-employed subsample of the LSMS, two probit regressions determine the characteristics that affect SACCOS membership and receipt of a MFI loan. Table 3 presents the results from these analyses. Contrary to expectation, and most of the literature, living in an urban area is significant and positively correlated for men and women's membership in SACCOS, and women's receipt of a microfinance loan. While this was unexpected, it is likely due to the vast abundance of financial resources in a city compared to its rural counterpart. Rubambey (2005) suggests this is one of the flaws in the Tanzania microfinance revolution: lack of actually reaching the rural areas that need support the most. This result suggests policy reforms focusing even more on rural areas would provide greater benefits to Tanzania's economy, as it would provide access to those who do not already have access to capital.

Having a high school education is also significantly related to SACCOS membership, but not for receiving microfinance loans. This is interesting as it may suggest that educated people are more inclined to join co-operatives than to apply, or receive, microloans. Qin and Ndiege's (2013) argument for increased savings, potentially through SACCOS, again suggests policies encouraging higher education and/or increased membership among the less educated could further alleviate poverty rates. For women, SACCOS membership is also significantly more likely if the enterprise is new, in this case defined as being less than ten years old. This is not surprising, because microfinance has begun to empower women and inspire more female run businesses, but only within the last decade or two.

Tabulations in Table 4 show the main occupational status of self-employed people in Tanzania. In both SACCOS membership and microloan recipients, over half of the individuals are self-employed. It became apparent that those without employees had a 1 in 8 chance of being in SACCOS and 1 in 19 of receiving a microloan where people with employees are 1 in 18 and 1 in 32 respectively. For those that are members of SACCOS, self-employment without employees is the most prevalent. This suggests that SACCOS may be more attractive to those that are solely focused on entrepreneurial activity.

Next, we look at the various uses for both microloans and loans taken out by SACCOS members from the entrepreneurial subsample. In Table 5, we can see that SACCOS loans taken out by entrepreneurs are typically put towards business inputs while microloans are used for agricultural inputs. This could suggest that non-agricultural entrepreneurs may also participate in agricultural activities for subsistence. Armendariz and Morduch (2005) support this idea by discussing that microloans are directed more towards individuals, those who may need to continue farming in order to survive.

Finally, Table 6 shows the characteristics of SACCOS members and microloan recipients based on place of business operation. Interestingly, microfinance participants were actually working in what was labeled as organized spaces. As we can see, those receiving microloans mostly work in no fixed location. SACCOS members, on the other hand, generally work in a house with some sort of office space. This shows the more organizational characteristics of SACCOS and the reliability of each society on its members. Having office (or work) space is helpful in growing the business and generating incomes.

These findings are quite relevant to the following discussion of the effects of microfinance on success variables, as understanding who is actually receiving loans provides insight into both what constitutes "success" where policies or reforms may need to be implemented.

3c. Success Variables

In order to understand how SACCOS and microfinance affect business success, we must first define success. This study's three dependent variables - average net monthly income, months of business operation, and presence of employees outside of the household - measure success. I discuss each variable and why it was chosen as a measure of success while also hypothesizing about what effects the microfinance variables have on each measure of success.

The first success variable, average net monthly income during months of operation is a monetary measure of success. In a global community where money is emphasized so heavily, this measure is the most obvious. Responses were noted in Tanzanian Shilling (TZS), which uses the conversion rate of 1USD = 1570TZS. For the purpose of this study, monetary values were divided by 1000. As seen in Table 2, the average net monthly income for entrepreneurs is TZS1648470, or roughly USD1000. I would expect membership in SACCOS to have a positive effect on average net monthly income as it encourages savings and provides community support for the entrepreneur. Receipts of microloans, on the other hand, may decrease average net monthly income due to repayment obligations. As the variable microloan accounts for those who have already received a microloan, the individual must eventually repay the loan, thus creating a negative effect on income.

The second measure of success is months of business operation. This measure assumes more successful endeavors perpetuate over longer periods of time. Historically a patriarchal society, Tanzanian women have had many fewer chances to open a business compared to men, thus restricting the length of female entrepreneurial projects and creating a selection issue with this measure. Nonetheless, I expect both SACCOS membership and microloans would have a positive effect on both female and male entrepreneurial success measured by months of business operation. The reasoning is as followers: I would expect the support and assistance of these microfinance programs to increase ability of enterprises to remain operational for longer periods of time.

The final measure of success is the presence of employees from outside of the household. Because so few entrepreneurs (only around 14 percent) in Tanzania use out of home assistance, I believe this may not be the best measure of success. The demand for employees would suggest that the entrepreneur has created a thriving business that needs more labor. Having help outside of the house also suggests that there is enough revenue for the business to support non-family employment.

In general, my hypothesis is that microfinance has positive implications for both women and men in regards to success of an enterprise. As discussed earlier, Armendariz and Morduch (2005) indicate SACCOS may have a larger effect on women's success variables than on men's. In addition, it is expected that microloans will not be as significant in their effect because the savings component of SACCOS has been found more influential than credit (Qin & Ndiege, 2013).

3d. Control Variables

In order to isolate the effect of SACCOS and microfinance loans on business success, it is important to control for other individual characteristics that affect success. *Age* measures the age of each individual in years. In Table 2 we can see the average entrepreneur's age is 37. *Numinhh* measures the number of people in each household. The unit of observations for this variable represents all members of family living in that household which could include grandchildren, nieces and nephews, grandparents, and other relatives or family friends/employees.[2] The samples average household size is nearly five people, almost one person less than the total population. *Urban* indicates where individuals live, equaling 1 if the person is living in an urban area and 0 otherwise. Fifty percent of entrepreneurs live in urban areas, suggesting there is potential for entrepreneurship in both urban and rural regions. *Married* equals 1 for all current monogamous and polygamous marriages, and 0 otherwise. *Female* indicates all females as 1 and males as 0. The value of 1 for *highschool* indicates some sort of high school education or higher, and 0 otherwise. Less than one quarter of entrepreneurs have had high school experience, suggesting low levels of education nationally, which contradicts the earlier idea of Ujamaa's improvement to education, though this could be due to many factors. Literacy, as discussed previously, shows values of 1 for all persons who are able to read and write in Kiswahili or Kiswahili and English, and 0 otherwise.

Prediction of these control variables comes from previous literature and economic theory. For instance, it is expected that age will positively affect all success levels because as age increases so does the likelihood of work experience and possibly more productivity. Having some sort of education will increase entrepreneurial success as it proves dedication and discipline while also teaching necessary skills. Typically, education level is a good predictor for economic prosperity worldwide and is included in this study. Literacy, like education, positively affects success levels based on Ellis's (2007) idea that business production in Tanzania requires legal paperwork and knowledge of business regulations, all expressed on paper. The International Labor Organization, or ILO, (Ibrahim & Henriques, 2003) suggests that urban living would have a positive influence on all levels of success as urban areas have more resources and

[2] Data originally showed a maximum number in household as 55 due to large extend families or combined family living. However, only 32 households had sizes of larger than 35 so for the present study, observations with number in household greater than 35 were dropped.

more customers than rural areas. The ILO also argues being married is more prevalent among entrepreneurs. Therefore, I expect this to have a positive influence on business success as it increases the amount of income and resources in the household. Moreover, larger families will have cheap, or more commonly, free labor to support their entrepreneurial business. This creates expectations for positive coefficients. For the success measure of self-employment with employees, I might expect negative values for the same reasoning; more children means less demand for outside labor.

Overall, theory predicts entrepreneurial success will increase with microfinance participation. Specifically, I expect females will be impacted more and that SACCOS will show more effects than microloan receipt. However, this study also seeks to find methods to improve efficiency and effectiveness of microfinance in Tanzania. The previous understanding of characteristics created a base knowledge for *who* is participating in microfinance policies and where loans go. The next section is devoted to the empirical results and analysis of what this might mean for policymakers.

IV. Results and Discussion

This analysis determines how SACCOS and microfinance loans affect all three measures of success. This first model, similar to what will follow in the second, incorporates the microfinance variables and control variables and their relationship to the success variables. The equation for this variable is as follows:

$$\text{Avgnetincm} = \alpha + \beta_0 \text{ control} + \beta_1 \text{ SACCOS} + \beta_2 \text{ microloan} + \varepsilon$$

Where β represents the vector for each control variable's coefficient of each variable and ε indicates the error. Table 7 summarizes the results of this equation for both female and male entrepreneurs from the subsample of data.

As we see, most results of the control variables have the expected effects on both men and women. The one exception is male's age, which is insignificant. Though logically it does makes sense that as men increase in age, they produce less and therefore have less income. We also see men's increased financial gain from high school experience is nearly 14 times more than for women. The monthly gain for women entrepreneurs with some high school education is TZS 519173 or about USD 98 while for men it is TZS 7324676 or around USD 4500. Finally, we see SACCOS membership is, in fact, significant and positively correlated for women but not for men. This reinforces the notion that women may benefit more from co-operatives than microloans (Armendariz & Morduch, 2005). Contrary to expectation, microloans were found insignificant for both men and women, suggesting SACCOS membership is more important to average net income than a microloan may be.

The next analysis measures the effect of microfinance variables on the second measure of success, length of business operation, and controls for the same individual differences. This model closely resembles the previous one, with change only of the dependent measure of success.

$$\text{Mbusopen} = \alpha + \beta \text{ control} + \beta \text{ SACCOS} + \beta \text{ microloan} + \varepsilon$$

Table 8 reports the results for this model and shows different levels of significance and correlation.

At first glance, we see that age is significant and positively correlated for both females and males. This is logical given that older people have likely had businesses open for longer periods of time than their younger counterparts. It is interesting to note that the number in the household is positively correlated for females and negatively for males. This is likely because children assist their mothers in self-employed activity more than they help their fathers. Lastly, the result on SACCOS was unexpected for this regression. Though significant for women in regards to income, SACCOS membership was actually significant to men in relation to months of operation. As discussed earlier, the disparities among men and women in Tanzania are great and could therefore account for longer durations of male operated businesses. Women have become targets for financial empowerment only in the last few decades on much of the African continent so lag in longevity of business operation (Ibrahim & Henriques, 2003).

Last in this series is an analysis of microfinance effects on entrepreneurs with employees. This model uses a probit regression to determine the probability of entrepreneurship with employees based on microfinance factors and controlling for individual differences. The equation reads:

$$P\ (\text{selfempw}) = \alpha + \beta\ \text{control} + \beta\ \text{SACCOS} + \beta\ \text{microloan} + \varepsilon$$

Using marginal fixed effects to determine accurate coefficients, I obtained the results shown in Table 9. From this we can see that SACCOS membership and microloan receipt had no significant effect on either men or women by this measure of success. We could conclude from this that because so few people actually have employees outside the household, perhaps it is not a good measure of entrepreneurial success in Tanzania. We see *highschool* was significantly positively correlate for both women and men, but more significant for men to have employees. This could be attributed to the idea that women rely more on family and friends than men for assistance whether they are educated or not. Urban living was found to be positively significant for men and women, though at different levels of significance, which highlights the idea that living in a city allows access to more resources and labor.

These analyses suggest there is some relationship between entrepreneurial success in Tanzania and microfinance. Using three different variables for success allowed me to understand different levels of microfinance involvement in success. One thing we can deduce from these results is that SACCOS membership is more important than microloans to both men and women's entrepreneurial success, but in different success measures. Findings in characteristics of microfinance would suggest more emphasis be put on rural areas and education the uneducated. Further research using more microfinance variables and increased sample size would provide even more insight into these effects.

Conclusion

This research has led to a number of conclusions that can be drawn from the case of Tanzanian microfinance. First, socialist policies in the early years of independence throughout Africa drastically changed the way the continent developed. Similar to the development of Russia and China in the early 1900s, Africa struggled to adequately establish socialist policies that balanced political and economic reforms and accurately reach target populations. The socialist policies set in place by Nyerere in Tanzania, though beneficial in some respect, created an extreme cycle of poverty that can still be seen today. Over time, Tanzania became poorer under Nyerere's rule compared to other African countries and especially developing countries overall, and this trend continued in the post-Nyerere decades.

Additionally, traditional ties to patriarchal society in Sub Saharan Africa, coupled with the reforms of Ujamaa, created great economic disparity between men and women. Women in the country today still struggle with holding land and playing active roles in the economic activity of Tanzania.

Worldwide, there has been a push to find a solution to the extreme poverty seen in much of the developing world. Yunus' approach of microfinance has become very popular over the last few decades, and we see a variety of international institutions, governmental and non-governmental, implementing policies unique to the needs of each country. Tanzania's use of SACCOS membership and microfinance loans is but one such example. From the empirical study we find that while Tanzania may not be implementing microfinancial policies in the most efficient way yet, there is hope that improved reforms will reach the targeted community and improve the overall economy of Tanzania.

The government of Tanzania should look to implement more microfinancial efforts to the rural areas of Tanzania and increase encouragement of entrepreneurs to join SACCOS. More specifically, if women are targeted, literature suggests the overall well being of society would improve. Ironically, the empowerment of women contradicts the initial concept of Nyerere's Ujamaa, yet it creates the betterment of society he so strongly desired. With small changes to microfinance policy within Tanzania, the country could see drastic improvement in living standards in the nation, decreased separation between rich and poor, and hopefully more opportunity a more equal society for women. Though there are cultural issues to battle, an implementation policy including the people's voices is strongly recommended so as to not see another failed attempted such as *ujamaa vijijini*.

This study is quite small at its base. A larger sample size could increase the outcome of these results, and examination of multiple years would be beneficial to see if microfinance reforms are actually changing participation rates. Further examination of other co-operative societies within Tanzania could also be important to the overall understanding of microfinance effects. Finally, the focus on success of this paper is significant. Finding alternatives to measuring success would allow even more insight into how microfinance is affecting entrepreneurial efforts within the country.

Table 1: Descriptive Statistics LSMS Participants

Variable	Obs.	Mean	Std. Dev.	Min	Max
Microfinance Variables:					
SACCOS	27665	0.067	0.25	0	1
Microloan	27665	0.02	0.141	0	1
Success Variables:					
Avg Net Monthly Income	2855	1679.26	23591.64	0	1234000
Months of Bus Operation	2872	71.177	95.616	0	632
Self-employed w employees	27665	0.012	0.111	0	1
Control Variables:					
Age	27662	22.334	19.684	0	105
Number in Household	27665	5.819	3.549	1	25
Urban	27665	0.329	0.47	0	1
Married	17371	0.329	0.47	0	1
Female	27665	0.52	0.5	0	1
High school	9907	0.215	0.411	0	1
Literacy	22241	0.681	0.466	0	1

Table 2: Descriptive Statistics Self-Employed

Variable	Obs	Mean	Std. Dev.	Min	Max
Microfinance Variable:					
SACCOS	2230	0.0878924	0.2832018	0	1
Microloan	2230	0.0381166	0.1915207	0	1
Success Variables:					
Avg Net Monthly Income	2171	2047.603	27037.75	0	1234000
Months of Bus Operation	2186	76.33257	99.49831	0	632
Self-employ w employee	2230	0.1327354	0.3393647	0	1
Control Variables:					
Age	2230	38.67982	13.84299	14	99
Number in Household	2230	4.987892	3.365747	1	22
Urban	2230	0.4627803	0.4987246	0	1
Married	2230	0.4919283	0.500047	0	1
Female	2230	0.4941704	0.5000782	0	1
High school	1827	0.2255063	0.4180297	0	1
Literacy	2230	0.7910314	0.4066631	0	1

Table 3: Characteristics (Marginal Effects)

	SACCOS		Micro-Finance Loan	
	Female	**Male**	**Female**	**Male**
Age	0.001	0.002*	-0.0003	0.000
	(0.001)	(0.001)	(0.001)	(0.000)
Number in HH	0.010*	0.002	-0.0002	0.004*
	(0.003)	(0.003)	(0.002)	(0.001)
Urban	0.040*	0.038**	0.075*	0.013
	(0.022)	(0.019)	(0.017)	(0.009)
Married	-0.004	-0.015	-0.009	0.008
	(0.022)	(0.021)	(0.016)	(0.01)
High School	0.062**	0.047	0.013	-0.002
	(0.031)	(0.024)	(0.022)	(0.01)
Literacy	0.003	-0.0362924	-0.099**	-0.002
	(0.043)	(0.038)	(0.052)	(0.017)
New Business	0.046***	-0.027	0.013	0.002
	(0.026)	(0.024)	(0.021)	(0.01)
Observations	820	972	820	972
R-squared	0.003	0.001	0.0004	0.033
Adj. r-squared	0.038	0.04	0.067	0.066

Notes: Robust standard errors are represented in parentheses, *** denotes significance at 10%, ** denotes significance at 5%, and *denotes significance at 1%.

Table 4: Occupational Sector Characteristics

Occupation Sector	SACCOS		Microloan	
	Not Member	Member	No Loan	Loan
AGRICULTURE	727	45	757	15
FISHING	13	0	13	0
MINING	13	0	13	0
GOVERMENT	31	15	42	4
PARASTATAL	5	0	4	1
PRIVATE SECTOR	76	5	78	3
NGO/RELIGIOUS	4	0	4	0
WITH EMPLOYEES	189	11	194	6
WITHOUT EMPLOYEES	884	110	943	51
UNPAID FAMILY WORK	55	8	60	3
Total	1,997	194	2,108	83

Table 5: Use of Microfinance Loan

Loan Use	SACCOS		Microloan	
	Freq.	Percent	Freq.	Percent
Subsistence needs	18	12.77	31	13.72
Medical cost	5	3.55	4	1.77
School fees	17	12.06	20	8.85
Ceremony/Wedding	8	5.67	5	2.21
Purchase land	9	6.38	7	3.1
Purchase agricultural inputs	5	3.55	129	57.08
Other business inputs	55	39.01	21	9.29
Purchase/Construction of dwelling	12	8.51	8	3.54
Other (Specify)	12	8.51	1	0.44
Total	141	100	226	100

Table 6: Place of Business

Place of Business Operation	SACCOS		Micro Loan	
	Not Member	Member	No	Yes
In house with office space	623	62	665	20
In house with no office space	192	12	200	4
Structure attached to house	15	2	17	0
Permanent building other than home	282	48	314	16
Fixed stall/kiosk in market	133	2	131	4
Temporary stall (car/cart) in market	25	2	26	1
Fixed stall/kiosk in street	88	17	98	7
Temporary (car/cart) stall in street	15	3	18	0
Other temporary structure	165	6	165	6
Construction Site	9	0	7	2
Client/employer house	16	2	16	2
No fixed location	438	37	452	23
Total	2,001	193	2,109	85

Table 7:Results on Average Net Monthly Income

	Female	**Male**
Age	4.54	-82.84
	(5.27)	(114.32)
Married	135.07	4696.44
	(124.60)	(2894.27)
High School	519.17*	7324.68**
	(153.71)	(3057.89)
Urban	687.08*	4475.15***
	(122.25)	(2676.51)
Number in HH	19.84	-85.89
	(19.20)	(412.20)
Literacy	-233.27	-1282.02
	(234.54)	(4859.89)
SACCOS	434.57**	-2885.99
	(193.17)	(4471.35)
Microloan	50.68	-2591.02
	(245.45)	(8414.87)
_cons	291.46	2096.32
	(337.86)	(6666.16)
Obs.	815	968
R-squared	0.06	0.01
Adj. r-squared	0.05	0.00

Notes: Standard errors are represented in parentheses, *** denotes significance at 10%, ** denotes significance at 5%, and * denotes significance at 1%.

Table 8: Results on Months of Business Operation

	Female	**Male**
Age	2.53*	3.64*
	(0.21)	(0.25)
Married	-5.19	21.30*
	(4.93)	(6.40)
High School	-7.07	-8.92
	(6.10)	(6.70)
Urban	-2.51	2.14
	(4.85)	(5.90)
Number in HH	2.10*	-2.39*
	(0.76)	(0.91)
Literacy	-3.28	21.35**
	(9.33)	(10.74)
SACCOS	-9.52	23.73**
	(7.65)	(9.93)
Microloan	5.12	-11.18
	(9.76)	(18.21)
_cons	-38.78	-73.34
	(13.41)	(14.73)
Obs.	820	972
R-squared	0.18	0.23
Adj. r-squared	0.17	0.22

Notes: Standard errors are represented in parentheses, *** denotes significance at 10%, ** denotes significance at 5%, and * denotes significance at 1%.

Table 9: Results on Presence of Employees

	Female	**Male**
Age	-0.0008	0.0003
	(0.0009)	(0.0012)
Married	0.0296	0.10*
	(0.0187)	(0.0279)
High School	0.06**	0.10*
	(0.0279)	(0.0326)
Urban	0.03***	0.09*
	(0.0182)	(0.0264)
Number in HH	0.0031	0.01***
	(0.0028)	(0.0040)
Literacy	0.0365	0.0425
	(0.0283)	(0.0445)
SACCOS	0.0113	0.0099
	(0.0293)	(0.0437)
Microloan	0.0142	-0.0638
	(0.0383)	(0.0650)
Observations	820	987
R-squared	0.01	0.00
Adj. r-squared	0.04	0.04

Notes: Standard errors are represented in parentheses, *** denotes significance at 10%, ** denotes significance at 5%, and * denotes significance at 1%.

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