THE ROLE AND EFFECT OF MICRO FINANCE INSTITUTIONS' LOAN ON INNOVATIVENESS IN MICRO AND SMALL ENTERPRISES

The Case of Women's Micro and Small Enterprises in Dar Es Salaam

By

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the University of Dar es Salaam a dissertation entitled: "***The Role and Effect of Micro Finance Institutions' loan on Innovativeness in Micro and Small Enterprises: The Case of Women's Micro and Small Enterprises in Dar Es Salaam,"*** in partial fulfillment of the requirements for the degree of Master of Arts (Development Studies) of the University of Dar es Salaam.

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Prof Ibrahim Shao

(Supervisor)

Date……………………………

DECLARATION AND COPYRIGHT

I, **Lanta Daniel Diyamett** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any University for similar or other degree award.

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Immeasurable thanks should go to the Almighty God who gives me strength and lead my ways and finally enabled me to see this wonderful joyous occasion of completing my MA programme, both course work and the dissertation. May His name be glorified eternally.

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Finally, I bear the responsibility for any shortcomings arising from this work.

DEDICATION

I dedicate this work to my beloved daughter Chitegetse Precious Muhondwa who was born in the year 2010, a few weeks before the start of this Masters program. Her endurance and smiles every time I got home from the university made it possible for me to successfully complete my dissertation and the MA Program as a whole.

ABSTRACT

This study aimed at investigating the role and effect of loan attained by Micro and Small enterprises from Micro Finance Institutions in fostering innovation, among women owned enterprises. Specifically, the study had the aim of finding out the extent, to which women business ventures are innovative, the effects of loans received from MFI on innovativeness in women business venture and also identifying challenges and solutions associated with loans for innovation. The study was carried out in Dar es Salaam, in all the three districts, Kinondoni, Ilala and Temeke. Literature on innovation, women entrepreneurs and finance in the Micro and Small enterprise was extensively reviewed. To measure the extent of innovation, three levels of innovation were categorized, namely introduction of completely new ways and products, modifications of ways and products and adoption of new ways and products. To achieve the desired results, a questionnaire, interviews guides and field observations were used for data collection. The statistical Package for Social Sciences (SPSS) and content analysis were used for data analysis.

The study findings revealed that women who own micro and small enterprises in Dar Es Salaam do innovate but the effect and role of loan played a minimal in the innovation in these enterprises. The popular kind of innovation activities that is performed is more of adoption and modification than that of introducing completely new products and ways of productions. The study recommends that women's micro and small scale entrepreneurs who are keen on enhancing their innovativeness should seek entrepreneurial courses and further education in business so as to master the management of their enterprises. Also financial institutions need to expand on the specification type of loans introducing loan for innovative purposes. Furthermore payment mechanisms by financial institutions should take into consideration the type of the loan taken and the nature of the enterprise that took the loan while interest rate on loan should be reevaluated to lower rates.

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LIST OF ABBREVIATIONS

CIS	CIMsteel Integration Standards data
FINCA	Foundation for International Community Assistance
GDP	Gross Domestic Product
ILO	International Labour organization
MFI	Micro finance institution
MSE	Macro and Small Enterprises
NEDF	National Entrepreneurship Development Fund
PRIDE	Promotion of Rural Initiative and Development Enterprises Limited
R&D	Research and Development
SACCOS	Savings and Credit Cooperative Organizations
SIDO	Small Industrial Development Organization
URT	United Republic of Tanzania
UNIDO	United Nation Industrial Development Organization
UK	United Kingdom
WDF	Women Development Fund

YDF	Youth Development Fund

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Innovation capabilities are one of the keys to achieving competitiveness of firms, whether small or large (Diyamett, 2010). With markets and technology changing fast, and good ideas quickly copied, there is continual pressure to devise new and better products, processes and services. In addition, fast changing environment leads to shorter product lifetimes and hence a need to replace products sooner. In the contemporary economy, customers have more choice and are more sophisticated, segmented and demanding, and expect more in terms of customization, newness, quality and prices (http://www.eur.nl/ese/students/minor/enmi/).

In today's fast paced business environment, innovation is a prerequisite for not only success, but also for survival. Innovation is also said to be the most important factors in establishing and maintaining a competitive advantage. That is why innovation is now moving to the top of the agenda for organizations and many countries around the world so as to achieve economic development and poverty alleviation.

For years the Government of Tanzania has been adopting various measures for economic development through fiscal and monetary policies. In the early 1980's, Tanzania's economy was not doing well in many sectors including industries. Under these economic changes the Government initiated private sector development through liberalization of the economy, market decontrolling measures, etc (Kirumba, 2000). The Central Government has pulled out from most of most of the productive activities, and instead the private sector is encouraged to invest in these activities, the measures that brought about the emergence of micro and small enterprises.

The Small Industries Development Organization (SIDO) classifies small scale industries as those establishments which employ people not exceeding 50 while micro enterprises are those projects which employ 10 people or less (URT, 2003). Informal sector projects also are small units but not officially registered. In addition, these have no working premises and are not in official records.

The MSE sub-sector's contribution to the national and socio-economic development can be seen in many dimensions. This sub-sector generates income and employment and is a major supplier of goods and services to the people. It contributes about 50% of industrial products' Gross Domestic Product. The MSE sub-sector contributes most to job creation especially currently when formal employment is no longer in the position to absorb the job-seekers. It is one of the leading employers (next only to peasant agriculture) in Tanzania. It is estimated that there are over one million enterprises in the sector, employing between 3 and 4 million people or 20-30 per cent of the total labour force (Massawe, 2000). The MSE sector is considered to have the brightest potential for making the highest contributions to employment growth and increased incomes in the future. Employment in the sector is growing at 10 per cent per annum. Operators are able to generate between 2.5 and 10 times the minimum earnings of civil servants. The MSEs have also shown great potential for creating wealth. Their aggregate contribution to national income is estimated at between 35 per cent and 40 per cent of GDP (Finseth, 1998).

In 1993 for instance, it was estimated that about 12% of the rural labour force was self-employed in the MSE sector, while in urban areas it was estimated to be 34%. The average number of school leavers who join the labour market is estimated at 700,000 annually whereas the formal economy creates about 22,000 new posts annually (Kirumba, 2000). Based on this prevailing economic situation there is no doubt that small and micro businesses will provide an alternative solution to formal employment.

Women have increasingly been involved in the sector either as employees or as operators. They constitute at least a third of the MSE operators (URT, 1995). And if we are to focus much on the root or stimulating part we will be looking at the women in this sector since there are a good number of them engaged in the sub sector. It is also likely that achievements that are attained by women are more likely to spread out to the families and whole community. As the saying goes “when you educate a woman you have educated the whole family while educating a man is educating one person only."

1.2 Statement of the Problem

Given the importance of MSE performance, especially those by women, there has been a huge supports on women entrepreneurs in terms of loan so as to achieve growth. One of the important aspects of growth is innovation. However, on all the studies on the performance of womens' Micro and Small Enterprises in Tanzania, none is focused on innovation or the relationship that exists between these loans and innovation. This work is a modest attempt to shade some light concerning this gap.

1.3 Research Objectives

Broad objective

To find out the extent to which loans from MFI attained by women business ventures have an effect in innovation

Specific objective

1 To find out the extent to which women business ventures are innovative.

2 To find out the effects of loans received from MFI on innovativeness in women business venture.

3 To identify challenges and solutions associated with loans for innovation

1.4 Research Questions

This study was guided by the following questions

1 To what extent are women business ventures innovative?

2 What are the effects of loans received from MFI on innovativeness in women business venture?

3 What are the challenges and solutions associated with loans for innovation?

1.5 Significance of the Study

Developing a woman has a great impact on the development of a whole society as women are more concerned about the welfare of their families than men. So for a country to be in a right track towards development, it has to put emphasis on developing women, and that includes their business ventures. On this globalizing world the survival of any business venture depends on its ability to compete globally and hence the importance of innovation, which is a cornerstone of competitiveness. However, innovation is always associated with investment and hence the importance of loans and credit to these MSE. It is therefore important to assess the whole issue of innovation in relation to women's business ventures if development is to be realized, and specifically the role of credit. By the virtue of doing this study, women have leant a lot concerning enhancing innovation in their ventures. The study will also shade light to the policy makers, especially MFIs policies on credit, towards effective policies that are relevant and needed to enhance innovativeness of this sector, and eventually development of the whole nations. The study will also add to the body of knowledge on issues concerning loan for innovation in Micro and Small Enterprises.

1.6 Conceptual framework

1.6.1 General information

The role of small and macro enterprises in Tanzania can not be over estimated. A good portion of Tanzania national income comes from the MSE sector. In Tanzania, micro and small enterprises contribute more than 30% of the GDP (Wangwe and Semboja 1997; Toroka and Wenga 1997). The sector is significant in the urban as well as in the rural areas, though most enterprises are located in towns and cities (Bagachwa 1990). Estimates of the percentage of the labour force employed in micro- and small enterprises range from 38% to 56% in urban areas, and between 10% and 15% in rural areas (Bendera 1997; Kessy and Urio 2004). But for the sector to be competitive, innovation is very important. Innovation takes place everywhere in all aspects of life like social and more and more in the business activities

The reason for development of capability of the MSE sector is to improve performance. In achieving higher performance in the market the MSE sector needs to be competitive and match up to everyday changes in the market and hence the importance of continuous innovation.

According to Cooper (1980) Innovation is the introduction of a process or product that is new to the economy regardless of whether it has been used elsewhere. It also includes all modifications or adaptations of processes or products that are new to the economy, however minor they may be. Even imitation of technology used elsewhere within industry or economy does also represent innovation. Innovation has been a result of accumulation of technological capabilities, research and development (R&D) support, work organization and practices and prompting pressures (Fransman 2008)

The objective of innovation is not limited to creating technological novelty. Care needs to be taken in such a way that innovation should not take place just for technology's sake. But rather to be able to meet user's needs, which means adding value to the products and services produced. Innovation in small and micro enterprises is, most of the time, an incremental one. That is the innovation comes about as a result of small adaptation and alterations in both the products and the processes.

A reliable supply of reasonably-priced finance is important for entrepreneurial activity and innovation. Finance and innovation are necessary and go together. Financing can affect innovation outcomes through two channels. Access to financial capital directly mitigates liquidity constraints which impede reaching innovation milestones. At the same time, the entrepreneur's choice of financing can also affect innovation outcomes through the incentive or disincentive to undertake risky innovation (Smith *et al* 2011).

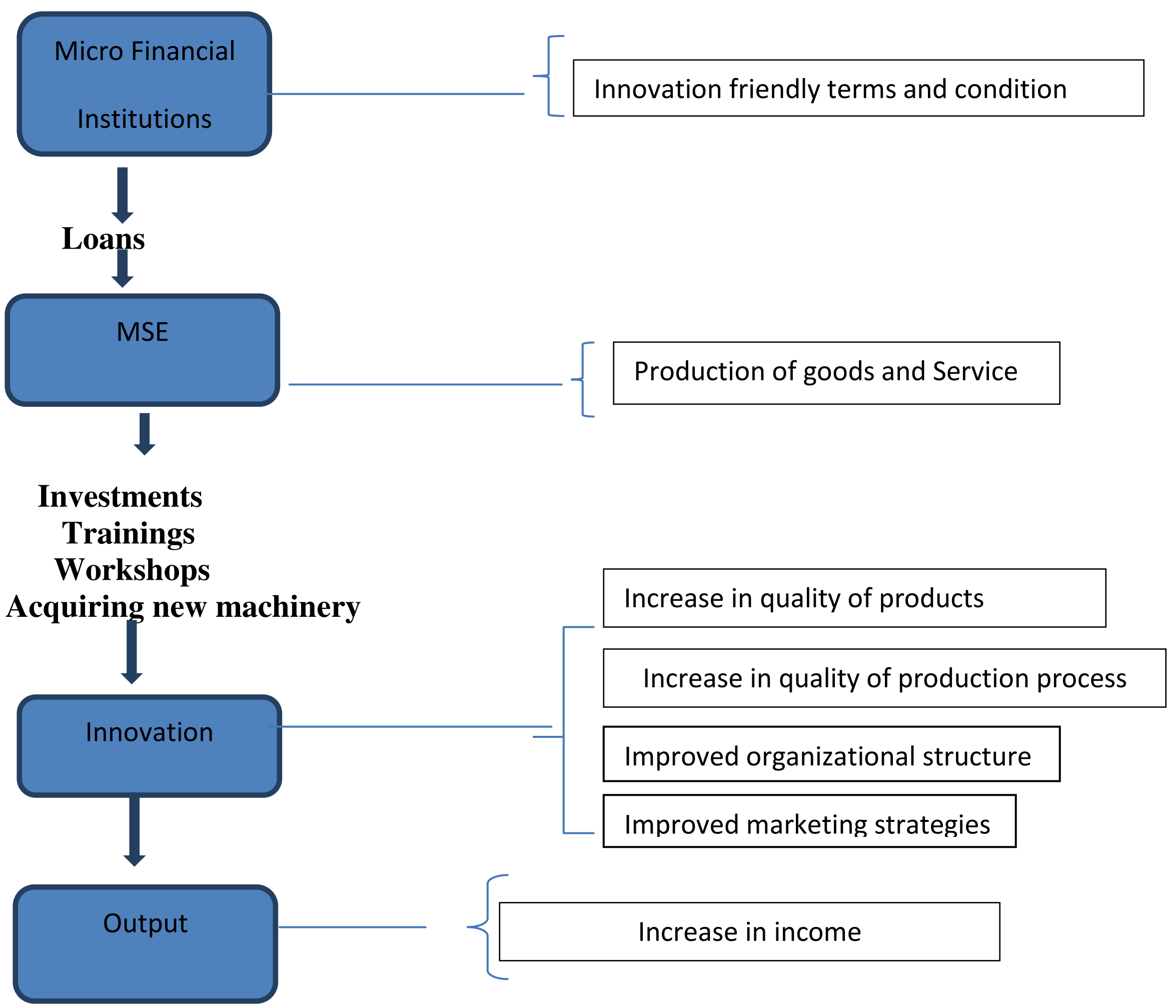
Financing theories suggest, that all being equal, banks will finance lower risk, lower growth ventures. Most of the time, banks face greater liquidity constraints, leading to preference for collateral, transparent valuation, and other lower risk sectors (Berger & Udell, 1998; Ueda, 2004; Winton &Yerramilli, 2008). Furthermore, intermediated financing provided by banks, will impose stricter demands for payback but at the same time can provide financial flexibility. All these conditions and circumstances can affect innovation in one way or another.

All these tell that there is a close relationship between finance or loans and the trend of innovation. Finance in terms of loans does foster innovations but it can also be an obstacle to innovation processes depending on the environment that surrounds the credit system and also the type of the businesses that the loan is taken for.

1.6.2 Conceptual framework figure

The conceptual framework used for this study is illustrated in figure 1 and described thereafter.

Figure 1: Conceptual framework for loans on innovation in MSE



Source: Designed by the Researcher

With MFIs that have favorable terms and conditions for investments in innovation activities, MSE will be able to acquire loan. These loans will then be invested by MSE in innovation activities through training, workshop, acquiring of new machinery etc. The result of this is an increase in quality of products, production processes, market strategies and better organizational structure of the MSE. This means innovation and increase in output that result into an increase in income.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This chapter provides a review of literature applied in this work. The goal is to identify gaps in literature, concerning the innovation aspect and the role of micro credit loans on MSE led by women. The literature involves the issues surrounding innovation, including definition of innovation and types of innovation, the state of micro credit loans and an overall state of women entrepreneurship in Tanzania.

2.1 Definition of Key terms

2.1.1 Innovation

Innovation, in most cases, has wrongly been used interchangeably with the word "invention". However, these are two different things. While invention refers to creation of something new, innovation is the actual putting of the new thing into the market place. According to Mutlu & Er (2003), invention is the first step in the long process of bringing a good idea to widespread and effective use; and invention cannot be termed as innovation unless it has been put in the market or any other effective use.

Innovation is both the process of introducing something new and useful, and the new thing itself. It is a concept of very general application, and there is a wide range of approaches to conceptualizing innovation in the scholarly literature (Fagerberg & Verpagen, 2004). Archibugi *et al* (1994) define innovation as successful creation, development, and marketing of new goods or successful application of new techniques or ways of working that improve the effectiveness of individuals and organizations. Inherent in this definition are four types of innovation: these are product and process innovation, which are technological innovations; and organizational and market innovations, which are non-technological innovations. Therefore innovation generally refers to the creation of better or more effective products, processes, technologies, or ideas that are accepted by markets, governments, and society. Innovation has been studied in different contexts, including in relation to technology, social system, economic development, and policy formulation. One can talk of innovation in the education system, constitutional innovation, etc. This study is mainly concerned with innovation in economic context. This is successful creation, development, and marketing of new goods or successful application of new techniques or ways of working that improve the effectiveness of an individual and organization (Archibugi *et al*., 1994).

2.2 Types of Innovation

Implied in the definition of innovation provided above, four types of innovation are distinguished. Product innovations and process innovations are closely related to the concept of technological product innovation and technological process innovation. Marketing innovations and organizational innovations broaden the range of innovations and can be put as non technological-innovation (Diyamett, 2010).

2.2.1 Product innovation

A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovations can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies (Oslo Manual, 2005).

2.2.2 Process innovation

A process innovation is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. Process innovations can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products (Oslo Manual, 2005).

2.2.3 Marketing innovation

A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing the firm's sales (Oslo Manual, 2005).

2.2.4 Organizational innovation

An organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non tradable assets (such as non-codified external knowledge) or reducing costs of supplies (Oslo Manual, 2005).

2.3 Strategy in innovation, measure and indicator

The purpose of strategy is to help manage the growth process to achieve the optimal results. Hence, the link between innovation and strategy is fundamental. It is not possible to talk about innovation without talking about strategy, and vice versa. So it only makes sense that the innovation process should begin by thinking about what we want to get out of the overall innovation effort, which is a strategic advantage in the marketplace. For strategic thinking, there are several questions that need to be answered. These are: Are we targeting the right parts of our business for innovation? Can we change as fast as our markets do? Are we flexible enough? Is our strategy clear enough that we can translate it into innovation initiatives? How well do our strategies match with the way the market is evolving? Morris (2008) argues that quantitative strategy, it involves time that senior managers invest in innovation, time required from development of strategic concept to operational implementation, money invested in innovation, money invested in innovation of each type and growth expected from the innovation process.

In measuring innovation the innovation Index is likely to look at a range of factors, such as organizational change, investment in management and skills training, and competitive performance over time, as well as include a peer review in which company executives both help to define the innovation indicators and rate each other. For example in this regard again Morris (2008) reiterate that Return on Investment' (ROI) is a standard and accepted measuring tool that managers have relied on for centuries.

The purpose of innovation is to create business value. That value can take many different forms, such as incremental improvements to existing products, the creation of entirely new products and services, or reducing costs, etc. The reason this is done is to make the enterprise survive and grow, and in a rapidly changing market the only way to do is to innovate effectively. In the history of business, it is clear the effective innovators have a better chance of surviving, and non-innovators tend not to survive at all. The method of innovation is to develop ideas, refine them into a useful form, and bring them to fruition, the market where they will hopefully achieve profitable sales, or in the operation of the business where they will achieve increased efficiencies (Morris 2008). In addition, the famous robotics engineer Joseph F. Engelberger (1982) asserts that innovations require only three things: 1. A recognized need, 2. Competent people with relevant technology, and 3. Financial support.

2.4 Bank loans and innovation

The positive role of banks in economic development was articulated by Schumpeter (1912), who contended that well-functioning banks spur technological innovations by identifying and funding those entrepreneurs with the best chance of successfully implementing innovative products and production processes.

According to Schumpeter, a banking system and entrepreneurship were two crucial factors and development agents embodied in innovation activities. He observes that the capacity of the banking system to create credit empowered entrepreneurs with the necessary purchasing power with which to command the directional use of productive resources to where there were better rewards.

Thus, the Schumpeterian view of the relationship between finance and development is premised on the impact of financial intermediaries on productivity, growth and technological change. Schumpeter has stressed the importance of identifying and funding the entrepreneurs with the best chance of successively implementing innovative products and production processes. This inevitably relates to financial policies of financial institutions.

2.5 Women as Entrepreneurs

Women's entry into business in Tanzania is a recent phenomenon; mainly a result of the economic crises and restructuring programmes which have led to a drastic decline in real wages as well as formal employment opportunities (Rutashobya, 1995; Tripp, 1994; Kombe,1994). Increased participation of women in the MSE sector has not only improved their access to independent cash income and their control over economic resources, but also posed socio-cultural challenges. For example now women are increasingly contributing to meeting household economic needs, a role that was traditionally left to men in many societies. However, women's involvement in business can also represent an additional responsibility on top of the multiple roles that they have traditionally played in society (Koda,1995; Mbughuni, 1994). Probably as a result of the recent nature of women's involvement in business, much of the research that has been carried out before was aimed at providing general descriptions of women in the sector, along with a cross-section of the barriers that they face. Indeed, one of the limitations of the existing literature on entrepreneurship in Africa, and in Tanzania in particular, is its treatment of women entrepreneurs as a homogeneous group (Rutashobya and Nchimbi, 1999).

Tanzania's women entrepreneurs face many obstacles including access to finance simply because women do not own property. They are supposed to provide collateral, but due to social and cultural norms and values of African societies including women not being allowed to own land or not being allowed to be employed and earn their own cash, most of the time women fail to provide collateral. So, this becomes a big challenge in accessing finance. Due to this fact female entrepreneurs use relatively low level of capital in starting their firms. Rutashobya and Nchimbi (1999) advance that high percentage of female entrepreneurs start their firm with their own savings or support from family and friends. Even when they are doing business, they lack the skills, they lack the necessary technologies including pricing strategies, promotion strategies and distribution strategies. And in this competitive world, if one lacks those strategies, one is lacking a very big component in a business.

2.6 Financial Services and MSE

According to pecking order theory the firms prioritize their sources of funding starting from internal finance, debt and then equity. That is to say there is a tendency of the firms to go to loan option after they have exploited own internal savings or have none. Myers and Majluf (1984) argued that this is due to the fact that there exists information asymmetry between managers of the firms or enterprises (insiders) and investors (outsiders). Studies (World Bank, 2000; ILO, 2001) have shown that many MSEs lack access to finance for starting, operating and expanding their businesses. The estimated demand for MSE credit in Tanzania is 2.5 million borrowers, compared to about 50,000 borrowers being served currently (SIDO, 2002). The largest demand for credit is in the range of Tshs 50,000 to 500,000. Small and short-term loans (typically rising in stages from Tshs 50,000 to 500,000 per MSE recipient or loan group, with a repayment period of 6-12 months) are available from several MFIs, of which PRIDE, MEDA and Poverty Africa are the most prominent and widespread. The main beneficiaries are microenterprises primarily in trade, food vending and agriculture. Loans attract an interest rate of between 25 and 40 per cent per annum, which is above the commercial lending rate (20-25 per cent). These rates would be a disincentive to long-term borrowing even if this was available.

There are also some government departments/agencies which provide credit. The District Community Development Officers manage the Women Development Fund (WDF) and the Youth Development Fund (YDF), which are used to provide micro loans to economic groups in rural areas. SIDO manages the National Entrepreneurship Development Fund (NEDF) which also provides micro loans to MSE operators in the regions. In addition to MFIs and NGO, MSEs operators rely also on informal moneylenders. However these have extremely high lending rates (as high as 130 per cent per annum). Pretes (2002); Sonfield and Barbato (1999) have indicated that these high interest rates are camouflaged by short repayment periods. These authors also argue that problems which hinder access to credit by MSEs can be categorized into those which are attributable to the suppliers which are most of the time associated with terms and conditions of loans, those which are attributable to MSE operators which are mainly based on the entrepreneur capabilities and those which are attributable to the environment example issues of market and infrastructure.

2.7 Empirical literature

Recent research shows that 40 to 50 percent of enterprises in developing countries are owned and run by women (Schlein, 2008).Hence it can be seen that women entrepreneurship is a growing phenomenon and has had a significant economic impact in all economies. However, women-owned enterprises have their fair share of challenges and constraints.

Efforts have been made and studies have been done globally in order to make the women MSE prosper. In Tanzania there have been projects and programmes that have been undertaken and example of this is the programme by UNIDO on women in the food industry. The programme's main objective has been to promote women's entrepreneurship development in the food processing subsector through the improvement of existing micro enterprises managed by women, and the encouragement of new ventures with a potential to grow into SMEs. The programme addressed major constraints that affect enterprise operation and growth, through skill development and integrated technical, business and managerial assistance in food processing.

In Korea, studies shows that women business owners experience financing and the effort to balance work and family as their most difficult tasks. Indonesian women entrepreneurs on the other hand, have difficulties in exporting their product overseas and in increasing the volume of production, both of which are of importance for their competition in the global market (Gordon, 2000). Lee-Gosselin and Grise (1990) as cited in Maysamiet. al. (1999) found that in general, the most common start-up problems seem to be lack of capital. Additional problems, such as marketing and labour difficulties and disagreement with associates, may arise after the start-up phase. In an earlier study, Stoner, Hartman, and Arora (1990) as cited in Maysamiet. al. (1999) found the work home conflict – the tension caused by the dual responsibility of managing a business and maintaining a family to be the main stumbling block for female business owners. This tension may be viewed as a form of inter role conflict in which the role pressures from the work and home domain are incompatible. In short, involvement in one role becomes more difficult because of involvement in the other role. Maysamiet's study findings indicate that time pressures, family size and support, job satisfaction, marital and life satisfaction, and size of the firm are important variables affecting work-home role conflict (Maysamiet 1999).

In a study by Barwa (2003) on women entrepreneurs in Vietnam, the author found that women face additional handicaps due to the prevailing social and cultural gender-based inequalities and biases. For instance, the barriers that women entrepreneurs face in accessing credit from formal institutions is magnified in view of their limited access to formal education, ownership of property, and social mobility. Other aspects of unequal access to opportunities and markets include business experiences, limited knowledge of marketing strategies, weak business associations, lack of networking facilities, and poor access to education and training programmes.

In a study by Karim (2001) on women entrepreneurs in Bangladesh, financial problems were the most common problems faced by their women entrepreneurs. Inadequate financing was ranked first, particularly so in rural areas and among small economic units. Competition, obtaining quality raw materials, and balancing time between the enterprise and the family were ranked as major start-up problems.

Looking at the existing literature that concern woman, micro and small enterprises, innovation and loan as finance in the least developed country as one study, poses a challenge. In developing countries the literature that tries to come close to the combinations of all the mentioned topics is the one that deals with gender, finance and entrepreneurship leaving behind the content of innovation. In many of these studies that concern women and micro and small business venture, the key issue that is seen most of the time is the one associate with financial problems. The issue of finance is, in a big picture, an obstacle to high performance in women MSE. But still the literature does not say much about the role of finance and when said, the issue of effective use of finance for innovation is completely ignored. This is despite the fact that most of the studies emphasize the issues on productivity increase and growth, which are both intertwined into innovation issues.

However, there are studies that come from the developed nations that have issues of micro and small enterprises, finance and innovation but with no sorting out of the gender perspective in ownership of these enterprises. Canepa and Stoneman(2002) analyzed CIMsteel Integration Standards data (CIS2) when looking at steel industry and concluded that financial constraints have a big effect than other internal and external factors in constraining innovation. Reviewing results from the CIS3, Eurostat (2004) noted:

> *"Among the economic factors that are listed as part of CIS3, innovation costs appear to be the most often cited reason why innovation activity is hampered, followed by a lack of appropriate sources of finance and excessive perceived economic risks. Within the EU, almost one quarter (24 %) of enterprises with innovation activity cited the cost of innovation as a hampering factor, while 19% cited a lack of appropriate sources of finance and 17 % excessive perceived economic risks (p. 33)."*

When comparing United Kingdom (UK) and German using Research and Development (R&D) as a proxy for innovation, Bond in 2003 found that, in both the UK and Germany there is a real constraint upon companies investing in innovation: companies which fund their innovation programmes from their own resources prefer to use available funds (cash flow) which are usually very limited. The study reported that in the UK, despite the well-developed financial and capital markets there, there was more volatility and lower overall investment in innovation development than in Germany (Bond et al., 2003) Another study in Canada In 2004, showed that firms that allocate more than 20 percent of their investment expenditures on research and development (R&D)) represented only 4.2 percent of SMEs in that country.

Generally Small and Micro Enterprises face considerable problems in seeking funds necessary to innovate. Intangible activities like R&D or innovation are considered riskier, so that these enterprises face a higher cost of capital. Yet, often intangible assets are undervalued when being used as collateral for credit. These result in reductions in the amount of capital debt rise. Considering this, MSEs investing in technology and innovation have a higher chance of finding difficulties in accessing credit than other MSEs which focus on more traditional businesses. High transaction costs, the risk connected to their business, the limited possibility to appropriate innovations and the difficulties of lenders to understand the real value of innovative projects are all factors that seem to limit the capability of innovative MSEs to raise external funds (Stiglitz, 1993)

2.8 Research gap

The literature has revealed that many studies have been done concerning financial institutions and their importance to the micro and small enterprises in terms of credit assistance. Also the literature has shown much on the issues surrounding women entrepreneurs and the obstacles faced. However, these studies lack detailed information on the role that these micro credit institution loans plays in achieving innovation on the existing micro and small women enterprises. This work will be a modest attempt to fill this knowledge gap.

CHAPTER THREE

RESEARCH METHODOLOGIES

3.1 Research Approach

The research used explanatory design. Explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon. It attempts to go above and beyond descriptive research to identify the actual reasons a phenomenon occurs. This design was used so as to find the answer as to why and how the co existence between loans and women micro and small enterprises is effective. It focused on the women entrepreneurs in the micro and small business venture. This is done in order to get deeper insight and better understanding on the state of innovation. The study also used both qualitative and quantitative approaches. Qualitative approach was used in collecting respondents' views during the interviews and observation while quantitative approach was used to collect information from respondents through questionnaire.

3.2 Area of the Study

The study was carried out in all the three districts of Dar es salaam: Kinondoni, Ilala, and Temeke. This is due to the fact that, it is in Dar Es Salaam where many business ventures are situated.

3.3 Population

The population was all women micro and small enterprises that were situated in Dar Es

Salaam region and who had obtained loans from Micro Finance institutions.

3.4 Sample Size and Sampling Procedure

The study was intended for 40 women enterprises but at the end of data collection data was gathered from 35 enterprises with 14 enterprises from Temeke, 11 from Kinondoni and 10 from Ilala district. These were chosen through snow ball at the researcher visit to the micro finance institutions where these entrepreneurs had been there for returning the paybacks for the loan they had obtained. A snowball sample is a non-probability sampling technique that is appropriate to use in research when the members of a population are difficult to locate. This sampling procedure was chosen since it gave an effective and easy way to trace women enterprises with loan and without bias on the kinds of product they produced. The micro finance institutions visited were FINCA, PRIDE, and SACCOS.

3.5 Data Collection Methods

Primary and secondary sources were used to collect data.

3.5.1 Primary sources

The primary sources used were interviews, questionnaire and observation.

3.5.1.1 Interview

The study visited 5 micro and small enterprises among the 35 enterprises which had responded to the questionnaire for interview in order to get more explanations. Unstructured interview was used. The unstructured interview was chosen not only to give a greater freedom for the researcher to ask questions and lead the direction of the interview but also gave room for the respondents to provide in-depth information.

3.5.1.2 Questionnaire

The study used a questionnaire with both closed and open ended questions. The open ended questions enabled the respondents to elaborate more on their information while the close ended ones helped in getting a lot of questions answered in a short time. Copies questionnaires were administered to the women entrepreneurs.

3.5.1.3 Observation

Observations were used in order to collect objective information by the researcher as an addition to the self reported information from the respondents as a basic source of data. It also enabled the researcher to compare what was being said by the respondents and the real situation that is seen there. The observation method also enabled the researcher to look at the kind or types of innovativeness that exists in each particular enterprise. The kinds of innovativeness that were observing included improvements in product quality, marketing strategies, organization structures and also cost effective and time effective production processes.

3.5.2 Secondary sources

Secondary sources of information involved reading different literatures on the state of innovation activities. Also publications on micro finance environment for small and micro enterprises. More over brochures of the enterprises visited were also used as a source of secondary information

3.6 Data Analysis Techniques

With regard to quantitative data, descriptive statistics such as mode, range, frequencies, and averages were employed to determine distribution of values for variables and summarize the data. The qualitative data were subjected to content analysis in which data collected through interviews and observation were summarized in themes, patterns and trends then analyzed and presented following the objectives and research questions.

3.7 Reliability of Data

Reliability refers to the consistency with which repeated measures produce the same results across time and across observers (Patton, 2002). In order to ensure reliability of the data in this study, four methods of data collection were used. These were interview, documentary review, observation and the questionnaire. Questionnaire was developed in line with the research objectives and questions. Also a Pre testing of the questionnaire was conducted to guarantee common understanding of the questionnaire items among the respondents. Then the actual field followed.

3.8 Validity of data

Validity of the data refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index (Babbie, 1992). To ensure validity, the data were gathered from a number of women business ventures from all the three districts of Dar es Salaam. This made sure that there was a representation of views from the women entrepreneurs from all districts. To ensure validity also primary data were cross checked against secondary data.

3.9 Limitation of the study

Limitation faced during the study included delayed return of the questionnaire copies that were given to the respondents. Also bank officials were reluctant to be interviewed.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analyses and discusses research findings which were collected during the field study. The presentation, analysis and discussion focused on three research objectives which were put in line with the research questions. The sub-sections of this chapter consist of women micro and small business ventures' characteristics, extent of innovation among the studied enterprises and how loan play its part and lastly constraints and solutions that are associated with loan for innovation.

4.2 Basic Information about Respondents

This sub section- begins with an analysis of respondents characteristics. It gives a general picture for innovativeness by assessing the owner's education qualifications enterpreneural skills and experience in the sector.

Owners Education

For the purpose of this work, the education levels reached are presented in the table below in ascending order.

Table 1: Owners Education

Education	**Frequency**	**Percent**
Primary	7	20.0
Secondary	18	51.4
vocational trainings	8	22.9
higher education (universities and colleges)	2	5.7
Total	**35**	**100.0**

Source: Survey data, 2012

The findings showed that 20 percent of the owners or leaders of these women business ventures had only basic primary education and 51 percent which is above half had secondary education. 8% of them had attended vocational trainings and the remaining 2% had higher education from colleges and universities. The findings showed that majority of the women owner in these business ventures have only primary and secondary education and a very small number of them at least go to vocational training. This shows that most of these ventures are survival oriented and education is not perceived as an important assert to the business by many of the owners. It shows that 71% of these entrepreneurs had only primary and secondary education but still innovation activities did take place. The findings showed that all the MSE studied had either adopted or modified ether their products or production process or the way they market themselves or even the way they organized their work. This finding is similar to that of Thomas (2011) where he found that entrepreneurs who did not attend vocational trainings were also innovative even more compared to those who attended the vocational trainings.

This contradicts the study by Barwa (2003) in Vietnam where due to limited access to formal education women fail to invest in innovation since they could not get access to credit. In Dar es salaam although some of these entrepreneurs were having just primary education and some of them with unfinished years of secondary education but they could still easily secure loan from these micro finance institution though complained of how little the loan was.

Entrepreneurial skills.

The table below showed the findings on the entrepreneurial skills of the women entrepreneurial visited for the study.

Table 2: Entrepreneurial skills

Entrepreneurial skills	**Frequency**	**Percent**
Had skills	20	57.1
Had no skills	15	42.9
Total	**35**	**100.0**

Source: Survey data, 2012

Findings showed that 57% of the women business ventures owners had entrepreneurial skills from VETA and other collages like Mbeya and also from SIDO but many of them had these skills from programs from different financial institutions that offered them loans, these were mainly SACCOS and PRIDE Tanzania. The rest of them who were 43% did not attend any entrepreneurial courses and hence do not have the entrepreneurial skills.

This showed that, with entrepreneurial skills entrepreneurs were able to make sound judgment on where and how the loan attained could be used effectively and also they were the risk takers, which is an important attribute when it comes to investment in innovative activities. The finding also revealed that the entrepreneurs who had higher education were the ones who could easily make satisfactory loan application that could induce innovative activities and there were better risk takers. This is due to the fact that most of those entrepreneurs who had higher education all had also attained entrepreneur skills which explains the risk taking behavior that they posses.

Experience before starting the venture.

The next aspect was about whether the respondents had experiences before they started venturing into the businesses there were involved in. The table below indicates this

Table 3: Experience before starting the venture

Experience	**Frequency**	**Percent**
had experience	5	14.3
no experience	30	85.7
Total	**35**	**100.0**

Source: Survey data, 2012

Finding showed that only 14% of the owners of these business ventures had prior experience in the business before starting the current ventures. The remaining 86% had no prior experience in the business.

When asked why they engaged themselves in the business 49% said that they did not have enough education qualification to get employment and 12% said they did not want to get employed but wanted to employ others. The remaining 37% had other reasons including responses like the education attained from the vocational training gave them an incentive, earning an additional income, hobbies and also tiredness of sitting idle as one mentioned that she was just tired sitting at home and hence wanted to meet different people and hence started the business venture. This implies that many of these women in micro and small enterprises started the enterprises from reasons that were mostly social oriented rather than business oriented and this had an effect on how strong the drive for innovation activities was.

Looking at the basic information of the entrepreneur a lot could be drown on the link to the innovativeness of the enterprise. Example, when looking at owner's education, the findings revealed that those enterprises with owners that have attended school higher than secondary school complained less on the amount of loan attained. They had been able to attain loan that was big enough to stir innovative activities like modifications of the imported machinery in their enterprises. This was due to the fact that they had better awareness, they could express themselves better to the micro finance institution and also they had better business proposals. One of the entrepreneurs was quoted saying;

"The loan I took from the bank enabled me to buy the first crop draying machine outside our country, but with time we have been able to modify it so that it does the work more effectively. So I can firmly say that the loan I took helped me to be innovative in my enterprise though not directly. The modification that we made to the machine that we are using now is a result of the purchase of the machine from abroad with the help of the loan I got"

Due to the above mentioned statement it can be seen that because of the satisfactory amount of loan attained there was a transfer of technology from abroad to the enterprises which then resulted in the innovation activities that led to the modification of the machine and made it more productive and effective.

4.3 Characteristics of the Enterprises

This part of the study provides an analysis of enterprise characteristics. It gives a general picture of innovativeness by considering enterprise's age, number of workers and also kinds of products produced. The age, ownership type and number of people working have an effect on the level of innovative activities that enterprises can poses.

Type of the product being produced

Many of the enterprises were producing products from the agriculture sector. Things like mixed flours (LISHE), tomato paste, pickles, mopes and sweepers. Also carvings and arts crafts like fabric (batiki), pottery, furniture making, and mats making. Also one was involved in small scale mining.

Age of the enterprise

When looking at the age of the enterprises, enterprises age were categorized into four groups the following picture emerged as demonstrated below:

Table 4: Age of the enterprise

Years	**Frequency**	**Percent**
1-3yrs	5	14.3
4-6yrs	19	54.3
7-10yrs	4	11.4
above 10yrs	7	20.0
Total	**35**	**100.0**

Source: Survey data, 2012

Findings showed that 14 percent of the enterprises were having 3years and below. Majority (54%) of the enterprisers had 4 to 6 years. 11% of the ventures were 7 to 10 years old and the remaining 20% were having above 10 years. This implies that the majority (86%) of the enterprises had more than three years in the business and out of which 54% had 4 to 6 years. This length of time (4 years and above) was enough to see visible innovation in an enterprise compared to the young enterprises which had less than 4 years. The enterprises with less than 4 years had done single modifications or adaptation in ether product or production processes or in marketing themselves or the way they organized themselves in doing the work. When looking at the enterprises with more than 4 years they had multiples of these activities in a single enterprise.

Number of employees

The next issue was to find out the number of employees in the enterprises and the table below shows this.

Table 5: Number of employees

Employees	Frequency	Percent
1-5	25	71.4
6-10	2	5.7
11-20	3	8.6
above 20	5	14.3
Total	**35**	**100.0**

Source: Survey data, 2012

Findings showed that the majority of these enterprises had between 1 and 5 employees by 71%. Those with above 20 employees occupied 14%. The enterprises with 6 to 10 employees and those with 11 to 20 employees were 7% and 9% respectively. Observation showed that the majority of the enterprises (71.4) had 1 to 5 employees and followed by those which have been in the business for a long time (above 20 years) which has 14.3. A bigger number in employees allows specialization and division of labor which is a recipe for improved ways in which work is organized. Lower number of employees indicates the possibility of low organizational innovation and this is what was evident in the enterprises visited.

Startup capital

The entrepreneurs had different sources from which they obtained their startup capital as indicated in the table below:

Table 6: Startup capital

Capital	**Frequency**	**Percent**
from family	10	28.6
from bank	9	25.7
from friends	3	8.6
From own savings	13	37.1
Total	**35**	**100.0**

Source: Survey data, 2012

When asked about the source of the startup capital only 26% had obtained capital from the banks. These banks included NMB and Akiba bank. The rest (74%) had obtained startup capital from other source like from family, from friends and from own savings. 29% got capital from family and more than half of them specifically got the capital from their spouses, 9% from friends and 37% from own savings. This has a positive relation with the pecking order theory discussed by Myers and Majluf in 1984 where they stressed that firms or enterprises prioritize their source of funding by first exhausting internal fund and after that it is when they can shift to external funding like loans. In order to effect massive innovation, a higher investment is needed (Schumpeter 1912) and since these can be attained from the financial institution, the use of capital from other sources like friends and family members did not affect massive kind of innovation since the capital was small(less than one million).

4.4 Extent of innovation among Entrepreneurs

In this subsection we looked at the percentage or the extent in which these business enterprises are innovative. That is if they have performed innovation or not. The innovation looked at here is based on product innovation, process innovation, market innovation and organizational innovation. All these type of innovation will be looked at in three phases that is, if there is a new way or product put in the market (This is the type of innovation introduced to the market for the first time), adopted from another market(This is a type of innovation which is only new to an enterprise. This means that enterprises are producing the products that were developed and produced by other enterprises exactly as they are without upgrading them. They embody innovation because entrepreneurs have applied skills and knowledge in mastering them) or modified to suit the existing local market (These are products that entrepreneurs have adopted and then mastered to an extent that they have upgraded them to make even better products). Therefore in the context of this study an entrepreneur is considered to be innovative if they had introduced something new to the market or had adopted or improved by modifying the existing ones, be it a product or a production process or a marketing strategy or the way they organized work.

Product innovation

The kind of product innovations that were done by the entrepreneurs are as indicated by the table below:

Table 7: Product innovation

Products innovation	**Yes**	**% Yes**	**No**	**% No**
New products	13	37.1	22	62.9
Adopted products	21	60	1 4	40
Modified products	16	45.7	19	54.3

Source: Survey data, 2012

Findings showed that only 37% of these enterprises introduced a new product on their local market and the remaining 63% did not introduce any new product in the market. These products included stoves that use wooden plane, shoe decoration from batiki materials and batiki handbags. The product that were adopted from other market and then produced locally accounted for 60% of the total number of the enterprises and the remaining 40% did not adopt any product. More over 46% of these enterprises were able to modify the existing products to suit their local market and the remaining 54% did not modify. These products included coal stoves that use less of coal, Lishe Flour that uses combinations of other grains like wheat, rice and pulses in different rations. Others are pickles of mixed fruits of different sizes and shapes, tatue shapes and beads of different sizes and shapes. All in all these enterprises had performed product innovation; if it was not introduction of a new product but at least they had managed to adopt or modify the existing ones or did the two of the innovation. Its only 5 of the enterprises which is 14% that did not perform any kind of product innovation. Also it can be seen that new product innovation is rarely done compared to adoption and modification. The main reason given by the entrepreneurs is that; introducing a new product in the market demands a much higher investment capital, which they lacked and that it is risky when one puts a new product into the market since the reaction of the consumer to the product is not yet known.

Process innovation

Again the types of process innovation that were performed by the entrepreneurs are given in the table below:

Table 8: Process innovation

Process innovation	**yes**	**%Yes**	**No**	**%No**
New process	5	14.3	30	25.7
Adopted process	18	51.4	17	48.6
Modified process	9	25.7	26	74.3

Source: Survey data, 2012

Findings showed that only 14% of the enterprises did perform new ways of production and the remaining 86% did not. Adopted processes and modified processes accounted for 51% and 26% respectively and leaving 49% and 74% with neither adopted innovation processes nor modified innovation processes respectively. 12 of the enterprises which is 34% did not do any kind of process innovation. This is basically because many of the production processes that are used in these enterprises are very simple and not complex and hence it is not easy to further simplify them.

Organizational innovation

Organizational innovation in the context of this study refers to how these enterprises organized their work in term of human resource. The study looked at this in terms of specialization and division of labour. The Table below shows the extent of division of labour in these enterprises.

Table 9: Extent of division of labour

Division of labour	**Frequency**	**Percent**
Present	28	80.0
Absent	7	20.0
Total	**35**	**100.0**

Source: Survey data, 2012

The findings showed that 80% of these enterprises had division of labour that the whole production is sub divided and undertaken by different people. Example of this is the kind of labor division that was found in one of the enterprises where they were making shoes. There were people who had the job of cutting the leather shoe sole which was yet designed by another person. Then there were others who were making the curves and the batiki fabric decorations on the shoe and another group of people had the job of coloring and preparing the batiki for the decoration. The remaining 20% of the enterprises had no division of labour and specialization. Everything was done by one person all the way. In one of the enterprise where women were preparing Lishe flour each one was doing all the sorting out of the grains and putting them in the proper ratios and then they would choose 2 or 3 among themselves to do the grinding of the grain. This is basically found in the very micro enterprises where even the number of employees is limited and production output is small. This implies that there is low organizational innovation and the smaller the enterprise the less there is organizational innovation.

Market innovation

This section examines the various marketing strategies used in selling the products by these women entrepreneurs. The aim was to find out the extent to which these women entrepreneurs use innovative marketing skills in making their product known to the market. The table below demonstrates the kind of marketing strategies deployed.

Table 10: Advertising strategies

Marketing	**Frequency**	**Percent**
word of mouth	1	2.9
notice boards	8	22.9
discount on sales	5	14.3
national exhibition	2	5.7
more than one way	19	54.3
Total	**35**	**100.0**

Source: Survey data, 2012

Findings showed that only 3% of the enterprises used only the word of mouth to market their products. When people come to the shop, the seller talked to them about the good quality of the product so as to persuade the customer to buy. And also the customer that buys the products talks to the people they are close to about the product they bought and that is how the marketing is done. Also the fact that the products were just taken to a nearby market place was also considered as a way of marketing. 22% used notice boards only that were put in front of their shops or workshops, 14% used discount on sales and 6% use national exhibition. The remaining 54% used combinations ways of doing marketing to their products. One of the respondent on one of the micro enterprises said;

"*There is no need to do much of the advertising, our products good quality sells by itself, a lot of advertising cost money and this will reduce the money invested in creating a good product, so its better to use the little capital that we have into making a good quality product and then the good quality of the product will sell itself.*"

Among using word of mouth, notice boards, discount on sales, and national exhibition they also used brochures, business cards, phone calls and sms texting. We consider the usage of more than one way and use of technology example telecom as being innovative in marketing strategies. The data implied that these women enterprises are innovative by 54% when it comes to marketing strategies.

When looking at the type of innovation activities that had been found been done, mostly it is the adoption and modified type of innovation activities. Many of these enterprises either copy products or production processes/machine from other places and use them. Also they modify imported ones to suit the local market. These are the incremental kind of innovation activities which does not take or need a lot of invested capital. New product innovation is rarely done because it needs a lot of capital in investing in R & D and a lot of gestation time so as to acquire profitability in the market. The new product and process innovation needs research and development of which these women in micro and small enterprises could not possibly afford. This agrees with the study by Arrow on which he concluded that financing R & D is expensive because of risk, uncertainty and asymmetric information (Arrow 1962).

4.5 Effect of loan in innovation

This sub-section looked at the respondents view and assessment of the loan that they obtained in association with the innovation activities in their enterprises. The subsection introduces on the amount of loan that were obtained also the main reason to why the loan was taken for. The section also looked if business proposals had been a condition for obtaining a loan and if yes then who was responsible in making the business plan.

The findings showed that 67% of the loan taken was between 200,000 to 500,000. While those with a loan of bellow 200,000 was 25%. The smallest percentage of the loan by 8% was that of the enterprises that had obtained the loan of above 500,000. This explains why the innovation in these micro and small entrepises is most of the time the incremental innovation because these do not need a lot of investment compared to new innovations that needs much of investment in Research and development.

When asked what drives them to look for loans in these financial institution 85% had business oriented reasons. In this 85%, the ones who directly responded that they want to increase capital were 52%. 30% were specific and used the terms like they want to increase their income and also want to increase the quantity of production. The remaining 15% had other reasons, these reasons included peer pressure, wanted to meet new people and also one said that she was just trying to see if she could really get the loan. Another respondent said that all her friends in the group had taken a loan so she also decided to take a loan.

The finding also showed that 56% of these entrepreneurs were not asked for a business proposal as a condition for the loan application. The remaining 46% had to submit their business plan during loan application where by 14% made the business plan with the help of the financial institution that was to offer the loan and 32% had to make the business plan on their own with the help of their friends or their teachers for those who attended the entrepreneurial courses.

The owners of the enterprisers were asked to grade the terms and conditions of the loan from very good, good, fair and bad according to whether the loan was satisfactory or favorable to their need for borrowing. When grading only 2% said the terms and conditions were very good, 30% said they were just good, 55% said they were fair and the remaining 18% said that the terms and conditions that came with the loan were bad. The respondents that complained of bad terms and condition of loan complained more of the insurance that they had to cut. They saw no importance of the insurance and that it was just money consumed with no productivity. This showed that the terms and conditions of the loan inhibited effective use of the loan in innovative activities.

When directly asked on how the loan had helped in their innovation activities only 12% said that loan played a part in stimulating the innovation activities. That is, they said, although the loan amount alone was not sufficient for investing it in innovation activities, it supplemented the cash that was already there.

The rest of them (88%) said that the loan did not help stimulate innovation at all, it rather added capital on the operating costs that had been going up due to inflation and cost of gas in transportations. One of the respondents was quoted saying;

"Here we always try to do a little modification here and there so that we could stand out in the market, it is something we have been doing even before acquiring the loan so I cannot real say that it is the loan that has stimulated it."

Therefore the women micro and small enterprises real had elements of incremental innovation activities but loan that were received by these MSE had little to do with the innovation or initiate innovation in these enterprises. These findings contradicts the Schumpeterian view (Schumpeter 1912) where he said that finance is one of the key engine to the development or an incentive in the innovation activities. He said that well functioning banking systems and entrepreneurship were the two crucial factors and development agents embodied in innovation activities. The findings revealed that this is not so to the women's micro and the small enterprises that are located in the Dare s salaam region. The element of financing alone could not possibly stir innovation activities, but the amount of the finance, the terms and condition of the finance and also the economic environment of the area also had to play a big part in stimulating innovative activities

4.6 Challenges and solutions associated with loan for Innovation

This sub section focuses on small enterprises innovations' challenges and solutions that are associated with finance. In this section the respondents were asked what they face as challenges when using the loan gotten from the micro finance institutions in innovation activities. The sub section also looked at the solutions that the women enterprenures suggested so as to tackle the obsclacles and challenges that are faced concerning getting the loans and using the loan in innovation activities.

4.6.1 Challenges

It was observed and found that there were similar constraints for innovation that were finance oriented in the studied women enterprises. One was a small amount of loan that was provided. The amount was not enough to make an investment on innovation. As one of the responded quoted saying

"*investing in upgrading of product is very expensive and sometimes very risky, I rather use the money I got from loan in buying more raw materials and adding some more workforce so that I increase quantity of what I produce, that is more profitable and it is the one thing applicable considering the amount of loan we get from the Financial institution."*

Also the findings revealed that the weekly returns of the part of loan amount was a constraint to the enterprisers. That is due to the MF's arrangements that the entrepreneurs were supposed to go back to these MFI weekly to return some portion of the loan as arranged as part of terms and conditions for obtaining the loan. This made them to waste a lot of time away from their enterprises just to end up spending more than half a day at the MFI's. Also the amount that was supposed to be returned on a weekly bases was a lot. Other constraints that came about included high interest rates that was charged

The most common constraint that was spoken by almost all the respondents was the gestation period for starting returning the loan. It was found that these women enterprises saw that there was a very short gestation period until the starting of paying back the loan. One of the respondents was quoted saying,

"The banks should give us even a year before starting collecting their debts. That way the loan taken by a year would have been invested and already generated enough profits to enable me to return the loan without disturbing the cash flow in my business."

Also another respondent was quoted saying,

"in my view I see there is not any problem in using the loans for innovative activities given that you make a good assessment of the amount of loan needed and the terms and conditions that come with the loan. Also without forgetting good finance management skills and hardworking."

4.6.2 Solutions

The findings showed that women entrepreneurs saw that an Increase in the amount of' the loan that can be taken is fundamental to effective use of the loan for the innovation purposes. One of the respondents was quoted saying;

Investing in innovation activity is not a short time thing, the profits from these activities takes time to be seen. Now if you are given a loan that has to be paid back after six months what good does it do if you put all of the loan taken into something that will not be even half done by six months.

Also it was found that the terms of procedure of payments needed to be evaluated and changed according to kind or type of an enterprise. The weekly payback should have considered the type of the enterprise and the product produced and not the amount of the loan that was taken. The weekly paybacks should be flexible because all days are not the same in terms of profits, some weeks business is bad compared to others. This way maturity of profits of the loan could have been captured.

Other solution that was put forward asserted that Loan should be directed to production and not other personal consumption. This is due to the fact that sometimes the loans that are abtained from these micro credit institutions end up being used in other social activities and just a few of the loan remained is put into investment into the enterprise

The common solution that was so stressed was concerned with reduction in interest rate. The women entrepreneurs suggested that reduction in interest rate will have a more effects on innovation activities because the entrepreneurs can now afford to take bigger loan and the payback will be easier and also it is effective because the amount invested will be bigger enough to realize increase in productivity and hence profits.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the key study findings from the objectives, conclusion and recommendations.

5.2 Summary

Specific objective one aimed at finding the extent to which the women micro and small business ventures are innovative. The findings showed that these enterprises are innovative through incremental kind of innovation. That is they do adopt and adapt product and production processes from outside their boundaries and hence add something to their local market. They also modified the existing product and production processes to suit and be effective in their local market. Less of new product innovation was spotted in the field study and basically was because new product innovation needed a bigger capital and it is much more risky and hence due to the size of these enterprises that was inapplicable.

Specific objective two aimed at finding out the effects of loan received from the MFI's on innovativeness in the micro and small enterprises owned by the women. The study found out that the loan received from the Micro Finance Institutions had a little part to play in the innovativeness of these micro and small enterprises. Many of these enterprises had been engaging themselves in innovative activities way before they acquired the loan. Basically these enterprises used their cash flows in pursuing innovative activities. And only few of the enterprises used a small portion of the loan to add up on the already existing capital in innovation activities.

Specific objective three aimed at identifying the challenges and the solutions that were associated with loan for innovation. The findings revealed that the pressing challenges ware associated with the terms and conditions that come with the loan. These were amount of the loan that was granted was very small, maturity period for starting repaying back the loan was very short and the weekly payment mechanism was not advantageous to these enterprises and also the rates charged were high.

Proposed solutions that came up from women on these micro and small enterprises stressed more on adjusting the terms and conditions of these loans from the Micro Finance institutions. The more stressed solution was the amount of the time that should be given before these financial institutions can start demanding the paybacks of the loan. Others are reduction of the interest rate and also an increase of the amount that an enterprise can borrow.

5.3 Overall Conclusions

The conclusions arising out of this study are as follows:

Micro and small enterprises owned by women in Dar es Salaam were doing innovative activities. Most innovations activities in the women micro and small enterprises were built on existing products and processes, involving reconfiguration and modification to existing functions and practices. It involved adaption of ways in the production processes or in the marketing activities. These enterprises also showed innovativeness in their marketing strategies. They used multiple ways in doing their marketing. These marketing strategies included discount display, Mobile text message sending (sms), internet advertising through social networks and also exhibitions. In organizing how they perform production activities up to when the product reach the final consumer innovativeness was captured. That is, not a single person was responsible for all the tasks since the raw material stage up to the when the product reach the final consumer. Division of labor and specialized was observed. However, the smaller the enterprise, the blur the specialization and division of labor was seen. Generally all these were more or less incremental kind of innovation activities which most of the time are not capital consuming. Less of new ways or new product kind of innovation was observed. This is possibly due to the fact that radical or new innovations are very expensive and risky to undertake and hence these women's micro and small enterprises could not afford.

These Micro and Small women enterprise fund innovation through their cash flow, and often this does not allow deep and more advanced innovations but the incremental ones that involve small modification and adaptations of the already existing product and ways of producing and marketing. Loan that are acquired from the Micro finance institutions are put in the expansions of the business through increasing raw materials and hiring of additional labor force so as to achieve higher output and hence increase profit. Less focus of the loan is associated with investing it in innovative activities like researching for new ways or new product. The small connection that was found during the study that connects loan and innovation is that which is concerned with technology transfer. That is the loan could be used to buy some new machines outside the locality and with time the enterprise learned to adopt and copy the machine and also do some modification and alteration to the machine so as make it more effective in their production. Also during the interview with the entrepreneurs, it was revealed that big commercial banks considered them very risky clients and expensive to be served and hence provide them with small loans to reduce the risky or denied them all together.

The interest rates charged on micro loans were very high considering the economic conditions prevailing in the region and the country as a whole. For this reason it is difficult for them to put this loan into productive activity like innovation activities. This is due to the fact that innovation investments take time to mature and for them to earn enough income on the loan, to enable them service the loan.

The mode of repayment had not been favorable for these women owned micro and small enterprises. Some of the institutions modes of repayment were bi-weekly and the other ones were monthly. Most of the institutions did not give moratorium, making it difficult for the beneficiaries to quickly adjust and settle down before paying back their loan. Also the amount given as loan was not enough to effect investment in innovation in these micro and small enterprises.

In general we can conclude that women owned micro and small enterprises are performing innovative activities in their daily production, but the effect and the role of loans that they obtain from the Micro Finance Institutions is limited in terms of fostering those innovative activities.

5.4 Recommendations

Recommendation for practice, policy and academic purposes are offered in light of the findings of this study. There for the following recommendations are provided to both the women micro and small enterprises and also the policy makers:

- The women’s micro and small scale entrepreneurs who are keen on enhancing their innovativeness should seek entrepreneurial courses and be risk takers when it comes in investments in innovation.

- These entrepreneurs should put emphasis on further education in business so as to master the management of their enterprises.
- Community development and NGO services can play important roles in ensuring the positive development of microenterprises supported by microfinance by providing mentoring, basic infrastructure and supporting the innovation agenda.
- Financial institutions need to expand their corporate social responsibilities to small scale enterprises.
- Financial institutions need to expand on the specification type of loans and introduce loan for innovative purposes
- Payment mechanisms by financial institution should forecast on the type of the loan taken and the nature of the enterprise that took the loan.
- Interest rate on loan should be reevaluated by the financial institution.

5.5 Areas for Further Research

From the standpoint of academic scholarship, two particular lessons stand out from the study as basis for further research

I. Factors that hinder Micro finance institution in lending for innovation investments to the micro and small enterprises

II. The role of Government in ensuring workable practices of Banks in fostering innovation.

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR WOMEN OWNERS OF MICRO AND SMALL ENTERPRISES WHO HAVE OBTAINED LOAN FROM THE MICRO FINANCE INSTITUTIONS

A. About the enterprise

1. Name of the business ……………………………………………

2. Location ……………………………………………………….

3. When was the business established ………………………………..

4. For how long have you been in this career before establishing this venture? ....…………………………………………………

5. What is the form of your business

   ☐ Sole proprietorship
   ☐ Joint venture
   ☐ Family owned

6. Number of workers working in the enterprise
   ☐ 1-5
   ☐ 6-10
   ☐ 11-20

7. Education of the owner
   ☐ Primary
   ☐ Secondary
   ☐ Vocational training
   ☐ High Education

8. What made you be an entrepreneur?
   ……………………………………………………………………..

9. Have you got entrepreneur training?
   ☐ Yes ☐no

10. If yes when did u get the training?
    ……………………………………………………

B. Production

11. What products do you produce?
    ……………………………………………………………………….
    …………………………………………………………………………………
    ……………………………………………….

12. What machines do you use in production?
    ………………………………………………………..
    …………………………………………………………………………………
    ……………………………………………….

13. Where do you get the raw materials
    ☐Dar es Salaam
    ☐Other regions
    ☐Other country

14. Where did you get the capital for the business
    ☐ From the family
    ☐ Financial institution
    ☐ From friends

C. Innovation

15. Have you made any new product in the past 3 years?
    ☐Yes ☐No

16. If yes, what product and how many?
    ....

…………………………………………………………………………………
…………………………………………………

17. Have you adopted any new product in the past 3 years?
☐ Yes ☐No

18. If yes, what product and how many?
....
……………………………………………………………………….

19. Have you modify any product in the past 3 years?
☐Yes ☐No

20. If yes, what product and how many?
……………………………………………………………………..
…………………………………………………………………………………
……………………………………………..

21. Have you made any new production process/machine in the past 3 years
☐ Yes ☐No

22. If yes, what production process/machine and how many?
…………………………………………………………………………………
……………………………………………

23. Have you adopted any new production process/machine in the past 3 years
☐ Yes ☐No

24. If yes, what production process/machine and how many?
…………………………………………………………………………………
……………………………………………..………………………………
………..................

25. Have you modify any production process/machine in the past 3 years
☐ Yes ☐No

26. If yes, what production process/machine and how many?
…………………………………………………………………………………
……………………………………………

27. Is there division of labour?
☐ Yes ☐No

28. If yes explain

…………………………………………………………………………………
………………………..

29. What marketing strategies do you use

☐ Word-of-mouth

☐ Display sales system

☐ Putting billboards

☐ Discount on sales

☐ Using sale room or showroom

☐ Participating at national exhibition

☐ Using business cards

Any other strategies
…………………………………………………………………………………

D. Effects of loan in innovation.

30. Where did you get the loan?
…………………………………………………………………………………
…

31. Why did you take the loan?
…………………………………………………………………………………
.

32. What is the amount of loan?
……………………………………………………………………………….

33. Who wrote the business plan?
...……………………………………………………………………………

34. How do you grade the terms and condition of the loan?
☐ very good ☐ good ☐fair ☐bad

35. Has the loan help you to innovate?
……………………………………………………………..
………………………………………………………………………………………
…………………………………

E. Challenges and solution associated with loan for innovation.

36. What are the challenges faced in using loan for innovation
☐Getting a loss
☐ High returns/high pay backs
☐ Small amount of loan
☐ Small gestation period
Others………………………………………………………………………………
…………………………………………..

37. What should be the solution to the above challenges?

……………………………………………………………………………………………………
……………………………………………………….

APPENDIX B

Interview Guide for Women owned Micro and Small Enterprises (MSE)

1. What made you become an entrepreneur/start the enterprise?
2. Why did you take the loan?
3. What can you say about terms and the condition of loan received?
4. Has the loan helped to innovate?