CONSUMPTION AND SAVING PATTERN OF MICRO-ENTREPRENEURS IN DAR ES SALAAM

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Abstract (10pt)

This paper examines patterns of consumption and saving of micro-enterprise operators in Dar Es Salaam. Descriptive statistics is employed to analyse data from 103 micro-enterprise operators gathered through structured questionnaire. Further, Ordinary Least Squares (OLS) method is employed to estimate econometric model. Accordingly, results show that micro-entrepreneurs consume over 80 percent of their income meaning that they save less than 20 percent. Further, results show that about 20 percent of micro-entrepreneurs do not save. The results show positive relationship between income, consumption, and saving. Demographic characteristics of micro enterprise operators do not relate to consumption and saving patterns.

Keywords:Consumption;Saving;Income;Micro-Entrepreneurs;

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1. Introduction (10pt)

Ability of an entrepreneur to save a part of income for investment is imperative for growth of micro small and medium enterprises. As a general rule higher saving rate is preferred in order to mobilize funds for re-investment. According to Mbiro (2006), Mihayo (2005), and UNDP et al. (2004) informal sector is dominated by micro and small enterprises in Tanzania of which 60 percent are located in urban centers. Micro Small and Medium Enterprises (MSMEs) operate in all sectors of the economy such as agriculture, mining, manufacturing, construction, trade, transportation & communication, and finance, but are most dominant in trade (54 percent) and services (34 percent). Over the last two decades there has been high migration to Dar es Salaam city with majority of migrants being youths who find quick employment in informal sector such as micro-enterprises. As such the International Labour Organization (ILO) in its Kenya mission report introduced the concept of the MSMEs sector into internal usage in 1972 (ILO, 1972). Ndanshau and Mvungi (2001); ILO and UNDP (1999) explain that MSME sector is characterized by (a) easy of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labour intensive and adaptive technology.

In Tanzania, the MicroSmall and MediumEnterprises (MSMEs) sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation and as a base for industrial development. MSME development policy was formulated in 2003 so as to address constraints and to tap the full potential of the sector. According to URT (2003) in Tanzania the full potential of the MSME sector has yet to be realized due to a number of constraints hampering the development of the sector. They include: unfavorable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access to finance, and ineffective and poorly coordinated institutional support framework. The MSME policy serves as guide to all stake holders and thus stimulates new enterprises to be established and existing ones to grow and become more competitive. The expected outcome is to have a significantly increased contribution of the MSME sector to economic development of Tanzania.

MSME development policy covers the following areas: reviewing and reconsidering public policies and regulations that discriminate against or hinder the start-up, survival, formalization

and growth of MSMEs; enhancing the growth of the sector; identifying and assigning clear roles of key actors; developing strategies that will facilitate provision of financial and non-financial services to MSMEs; developing and institutionalizing public-private partnerships for MSME sector development (URT, 2003).

Lack of access to finance has been identified as one of the most severe constraints facing MSMEs in Tanzania. In underscoring this point Callice et al (2012); Rugumamu (1992) and Bagachwa et al (1992); and URT (1991) found more or less similar results. The sources of funds were such that 66% are own funds, 7% gifts, less than 2% from formal financial institutions (e.g. banks, cooperatives, and government), 1% obtained through Savings and Credit Cooperative Societies (SACCOS). These statistics underscore the importance of Micro, Small and Medium Enterprises operators to save part of income earned to finance their investments. Although several sources of finance exist in Tanzania (eg. Commercial banks, non-banks financial institutions) in practice, the capacity of MSMEs to access them is difficult due to stringent conditions. These conditions include requirement for immovable loan securities with title deeds, records of business operation over several years, short repayment period, and demand for legal documents such as business license, audited accounts; high interest rates and many others that ordinary MSMEs operators cannot meet.

According to NBS (2015; 2016) Tanzania had 22 percent change in urban population from the year 2002 to 2012. Urban population is increasing reaching 13,305,004 people in 2012 with Dar es Salaam city alone making 33 percent of total urban migration in Tanzania. Youth population (between 15 and 35 years) in Dar esSalaam,which was 4,364,541 in 2012,is 46.8 percent of total urban population in the city. De facto this age cohort comprises of primary, secondary, and tertiary school leavers. On one hand, theyouth group has no substantial experience and skills to compete in the labour market while on the other hand the group is challenged to meet stringent requirements usually influeneced by prudential banking regulation in accessing loans and credits from the rapid growing financial sector in Tanzania. Therefore, to sustain livelihoods majority of the young population can easily find employment and income generating opportunities in micro small and medium enterprises sector.The dominant income generating activities include food vending; water selling; selling of building materials such as sand, gravel, stones and limestone;

urban farming; and livestock rearing; carpentry and timber works; tailoring; motor vehicle repair garages; fish mongering; hair cutting and setting salons, motorcycle transport and many others.

The informal sector includes all economic activities that are not officially regulated and which operate outside the incentive system offered by the state and its institutions (Liviga and Mekacha, 1998 and Ndanshau and Mvungi, 2001). The informal sector covers a wide range of labour market activities that combine two groups of different nature. On one hand, informal sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations. Therefore, there are two types of informal sector activities namely coping strategies or survival activities that involve casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, and multiple job holding. The informal sector plays an important and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labour regulations. It helps alleviate poverty. It provides jobs and increases incomes of the most vulnerable groups.

Notably Tanzania has made progress toward formalization of informal secort through Property and Business FormaliationProgramme known as MKURABITA. According to MoF (2011) MKURABITA is framed under the hypothesis that poor people remain poor because their assets (capital) in the form of land, housing or small business activities remain informal and marginalised from the benefits of the formal modern economy. Thus, the solution partly lies on reviewing and adapting laws, procedures and economic institutions to integrate (formalize) the informal sector into the formal economy – most of which fall in interventions of National Strategy for Growth and Reduction of Poverty (NSGRP- commonly known as MKUKUTA). By its nature, MKURABITA interventions cut across several sectors – from land and human settlement issues to copyrights aspects. But the unifying idea is that of identifying, legalizing and recognizing the property rights of the informal sector. The program is able to empower the poor and reduce poverty, for example, by formally registering a title to a small farm plot, it becomes easier to use it as security for a loan to expand farmer's livelihood. However, given large

proportion of youth in the country, still there is big number of micro-entrepreneurs still operating in informal sector and they face myriad challenges including access to finance from financial institutions.

While available evidence from the literature suggests that various studies have been conducted to examine characteristics, problems, policies, and social aspects of Micro Small and Medium Enterprises (for instance, see Rutashobya and Olomi, (1996) and Liviga and Mekacha, (1998) little is known about spending and saving patterns of micro-entrepreneurs. In the relative absence or complete failure to access credit and insurance markets by informal secotor, micro-entrepreneurs can take advantage of savings to mitigate and cope with risks associated with income uncertainty(*ex-ante* protection against risk and *ex-post* management of risk) and also use the savings for increased investment in their businesses. This paper therefore intends to contribute to the body of knowledge ofpatterns of saving and consumption of micro-enterprises.

2. Research Method (10pt)

This paper uses cross-sectional data collected through structured questionnaire of cluster of micro-entrepreneurs at Ubungo Bus Terminal (UBT) in Dar Es Salaam. The data is all primary, as such secondary data on micro-entrepreneurs in Tanzania is scant. Data collection was done once by the researcher himself directly administering the questionnaire to 103 repondents on their business sites. Prior to actual data collection enumerator pre-tested the questionnaire to correct for deficiencies. Data analysis is done through descriptive statistsics and estimation of econometric model.It should be noted here that income of the micro-entrepreneurs being studied is not gross revenue accrued from business rather it is that money micro-entrepreneur consider for household consumption. Therefore the money could have different sources including the business of the micro-entrepreneur.

UBT in Dar es Salaam city is the largest bus terminal serving both local and regional transport services in upcountry and neighbouring countries. UBT was established in 1999 with an area of 8.2 hectares its capacity is 560 commuter buses though currently UBT is under renovation. Final destinations of UBT buses are categorized into two groups. Group 'A' covers about six neighboring countries: Zambia, Malawi, Congo-DRC, Kenya, Uganda and Rwanda. Group 'B'

covers about 30 countryside towns: Mpanda, Bukoba, Mwanza, Arusha, Musoma, Moshi, Tanga, Korogwe, Bagamoyo, Morogoro, Kibaha, Kilombero, Ngerengere, Dodoma, Singida, Kondoa, Karatu, Shinyanga, Nzega, Mbeya, Tunduma, Kyela, Songea, Njombe, Iringa, Sumbawanga, Mtwara, Masasi, Lindi, Tabora and Mpawapwa. The UBT management is made of UBT director, UBT manager and five units namely: infrastructure development and maintenance unit, health unit, security and safety unit and revenue unit.

UBT is characterised by a cluster of micro enterprises with thousands operators mainly youth scattered within and along peripheral of the terminal (operators are both men and women). Normally, the micro-entrepreneurs are lined up with some operators having wooden and temporary kiosks or umbrella to protect them from sun and rains. Therefore, systematic sampling method was used to select samples whereby every fifth operator was interviewed using structured questionnaire with interview lasting for thirty minutes maximum.

Econometric Model: Study model is based on the framework of Keynes consumption function. An assumption is made that there is positive relationship between consumption and income and that income determines consumption. Mathematically the econometric model with error term introduced to conform to stochastic form is specified as:

$$C = \beta_1 + \beta_2 Y + \varepsilon \qquad\qquad 0 < \beta_2 < 1 \qquad\qquad (1)$$

Where:

 C = consumptionof micro-entrepreneur,

Y= incomeof micro-entrepreneur

 β_1 = intercept coefficient of the function

 β_2= slope coefficient of the function

ε = an error term or a disturbance

Therefore, the model has one dependent variable 'C' and one independent variable, Y; thus consumption depends on income. The disturbance term, ε, represents other factors that affect Micro-entrepreneur consumption but are not taken into account explicitly in this model.Ordinary

Least Squares (OLS) estimator of the bivariate regression analysis is used to estimate parameters, β1 and β2 in the model. The slope coefficient β2 measures the proportion to consume. Further to the parameters, the estimator is expected to generate the coefficient of determination(r2), a measure of goodness of fit of data which also is a none negative quantity with following limits $0 \leq r2 \leq 1$ and correlation coefficient (r), a measure of the degree of association between dependent variable and independent variable with following limits $-1 \leq r \leq 1$.

3. Results and Analysis (10pt)

(a)   Descriptive Statistics

The results show that the majority of micro-entrepreneurs are young and middle aged people. 95.1 percent of the 103 respondents are aged below 50 years, while 4.9% are above the age of 50 years. The majority of the respondents 52.4% are aged between 30 and 49 years. In terms of education level the majority of MSMEs operators 76.7% were those with primary level of education (up to seven years of schooling) while 20.4% had ordinary level secondary education. Only 1.9% of the 103 respondents had tertiary (college/ university education level while 1% had no formal education. For the majority of the respondents 98.1% business was their major occupation. Only 1.9% respondents reported business not to be their major occupation. The overall pattern that emerges about the micro-entrepreneurs is that they are middle aged, low educated with business as their occupation.

The results show that the majority of micro-entrepreneurs earn income below one million shillings. 54.4% of the 103 respondents earn income below 500,000/= per month while 25.2% earn income between 500,000/= and 1,000,000/= only 20 .4% of the respondents earn income of one million and above.The results further show that largest part 93.2% of the respondents use enterprise income for both investment and private or domestic purposes, of the 103 sampled respondents 2.9% use the enterprise income only for investment. While the majority 67% had an increasing trend of enterprise income, 22.3% respondents report that their enterprise income trend was normal, 10.7% report decreasing trend of enterprise income. The results showed that micro-business is major source of household income of the103-sampled respondents 97.1 had the enterprise as the only source of household income.

All of the respondents claimed to use the income for investment and private consumption. The results show that minimum income consumed per month was 30,000/= while maximum amount consumed per month was 14,950,000/=. Further 8.7% of all the respondents consume below 60% of enterprise income, 20.4 consume 60% to 80%of the enterprise income. The majority of the respondents 70.9% consume above 80% of their income. 95.1% of the 103 respondents confirmed to have increasing trend of consumption of the income, 3.9% of the respondents experience normal consumption trend while only 1% of the respondents confirmed decreasing trend in consumption.

The results show that majority of respondents, 83.5% save income. Of the 103 sampled respondents 16.5% were not saving at all that means all income earned was consumed. Further, 81.6% of the respondents save below 25% of their income. 12.6% save between 25% and 50%, few respondents 5.8% save over 50% of income. Of the 103 sampled respondents, 68% claimed to have increasing trend of saving, 20.4% claimed to have normal trend of saving income. Results indicate that 2.9% of the sampled respondents use all saved income for investment purposes, 3.9% of the respondents use all income saved for private consumption, further, 93.2% use savings for both investment and private consumption. Furthermore results show majority 80.6% use savings to buy household items e.g. electronics, furniture, kitchen utensils, and house construction however; this indicates that very little is therefore reserved for investment purposes. Of the 103 sampled respondents 68% claimed to have increasing trend of saving. Since majority 70.9 % of the respondents consume above 80% of income while 81.6% of the respondents save below 25% income this results confirm the hypothesis that micro-entrepreneurs save little relative to the proportion of income spent on consumption.

(b)   Correlations analyses

Estimation of the results show positive correlation, r = 0.527 (52.7%) between income saved from enterprise per month and income earned per month. This indicates that there is a positive relationship between income earned and income saved. However, the results suggest that the relationship is not so strong. More importantly, the hypothesis that there is a positive relationship between income earned and income saved is supported by the results. Furthermore crosstabulation results show no relationship between the socioeconomic characteristics such

education, sex, age and income of a respondent versus income saved. The study results in Table 1 show positive relationship between size of enterprise, consumption and saving.

Table 1: Correlation analysis between income, consumption and saving

Variables	Enterprise size	Monthly Income saved	Monthly Income earned	Monthly income consumed	Age of a respondent	Respondent's dependents
Enterprise size	1	.446(**)	.552(**)	.537(**)	-.110	.030
Monthly Income saved	.446(**)	1	.527(**)	.464(**)	-.060	.121
Monthly Income earned	.552(**)	.527(**)	1	.997(**)	-.092	-.038
Monthly income consumed	.537(**)	.464(**)	.997(**)	1	-.091	-.050
Age of a respondent	-.110	-.060	-.092	-.091	1	.415(**)
Respondent's dependents	.030	.121	-.038	-.050	.415(**)	1

** Correlation is significant at the 0.01 level (1-tailed).

Source: Field data

(c) Econometric model results

Regression results in Table 2 indicates that the goodness of fit (R^2=0.942) which implies that the explanatory variable in the model explained about 94.2% of the variation in income consumed by Micro-entrepreneurs. Also the regression results in indicate that the constant ($\beta 1$=-59935.5), slope coefficient of the model ($\beta 2$=0.957), therefore, the proportion of consumption is 0.957 whereas the proportion of saving is 0.043. Theresults means that 95.7% of Micro-entrepreneurs income is for consumption while 4.3% of enterprise income if for saving, this implies that very small proportion of income is saved for re-investment. Furthermore the overall model is highly significance of parameters.The Durbin-Watson statistic does not indicate presence of

autocorrelation problem. Examination of the results presented in Table 2 indicates that, Micro-entrepreneur income significantly determine consumption. Therefore the hypothesis that Micro-entrepreneur consumption is positively related to income has been supported by the data. Results show negative sign on a constant indicating an autonomous consumption which is consumption in the absence of income meaning that amount ofmoneymicro-entrepreneurs need to borrowper month at least for survival.

Table 2: Model results summary

Constant		Coefficient For income		Correlation	R	Std. Error of the Estimate	Durbin-Watson
β_1	t	β_2	t	R	Square		
-59935.9	-2.01	0.957	40.50	.971(a)	.942	.28385	2.034

a Predictors: (Constant), Ln(natural Log) of income earned per month

b Dependent Variable: Ln(natural Log) of income consumed per month

Source: Field data

4. Conclusion (10pt)

Generally, based on the findings, it is possible to conclude that micro-entrepreneurs in Dar es Salaam earn little income hardly sufficing basic consumption. There is little money left for saving thus in relative terms there isnt significant finance capitalaccumulated from savings to inject into their businesses. In the absence of external financing to sumplement little saving, there is little prospects for the micro-entrepreneurs to grow. Therefore, financial inclusive policy and institutional frameworks in favour of Micro Small and Medium Enterprises (MSMEs) is key recommendation put forward by this paper.

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Abreviations and accronyms

ILO   International Labour Organization

UNDP United Nations Development Programme

URT   United Republic of Tanzania

MoF   Ministry of Finance of the United Republic of Tanzania

NBS   National Bureau of Statistics of the United Republic of Tanzania

UNIDO   United Nations Industries Development Orgnainsation