

CREDIT FINANCING CHALLENGES ON FARM ENTREPRENEURSHIP IN TANZANIA: EMPIRICAL EVIDENCES FROM SMALLHOLDER PADDY FARMERS AT DAKAWA WARD IN MVOMERO DISTRICT

Shemeli Mbuga¹

Abstract

This study aimed at exploring constrains facing smallholder farmers to access credit. The study addressed the following question: why smallholder farmers face difficulties in accessing loan from formal financial institutions in Tanzania? This study was carried out at Dakawa ward in Mvomero district, Morogoro region involved 120 smallholder famers. Descriptive analysis was used to understand why smallholder farmers face difficulties in accessing to credit. It was established that lack of collateral, lack of exposure to financial services among smallholder farmers, high interest rates, complicated loan bureaucracy, and lack of formal financial institutions-commercial banks in Tanzania rural settings (loan lenders are not located nearby the farmers setting) as the main challenges that hampers farm entrepreneurs to acquire loans. There are little prospects for farmers particularly the small farmers who use traditional methods unless they become more entrepreneurial in managing their farms. They have to cultivate and produce for market and make profits. For the survival of small scale farming, there is a need of entrepreneurial mind-sets among smallholder farmers and a helpful hand from the government, formal financial institutions and other agricultural stakeholders. Assistance from extension workers, financial and other supporting institutions is needed for small scale farmers to become successful entrepreneurs. Farm entrepreneurs need access to finance (credit), agricultural inputs, reliable market, business networks and instant information to succeed and remain afloat.

Keywords: Farm entrepreneurship, farm entrepreneur, paddy production, and financial services

1. INTRODUCTION

The agricultural industry adds to about one quarter of Gross Domestic Product (GDP) in Tanzania. It employs about three quarters of the whole Tanzanian population who are capable to work. Agriculture covers 90% the food needed in Tanzania where about 80% of production comes from smallholder farmers dwelling in rural settings. These smallholder farmers have limited use of modern technologies and inputs and they are highly vulnerable to weather shocks due to dependence to rain cultivation (URT, 2016).

Farmers in agribusiness chain are not performing well enough to play their expected vital role for the economic growth and development of Tanzania. Different economic stakeholders (the government, citizens, practitioners, private sector, international organizations, and local Non-governmental Organizations-NGOs) had raised a great concern to support smallholder farmers so that they can contribute significantly in rural poverty reduction and generally enhance economic development of the nation.

Acquisition for reliable credit services is the predominant challenge that constrains growth and development of smallholder farm entrepreneurs in low developing countries, including

¹ Assistant lecturer , Institute of Adult Education; P. O. Box 827 Morogoro, +255755 017 043; email: minzalove1955@gmail.com

Tanzania. Lack or insufficient credit and equity have negatively affected technology innovations, crop production, and socio-economic development of the farm entrepreneurs. Despite the fact that smallholder farmers are the engine of agricultural sector in Tanzania rural areas which employ a large number of population, its contribution in poverty reduction has not been significant as it is expected. The ability of smallholder farmers to access credit is termed as one of the perfect strategy that could enable them to improve their production and earn better income, hence reducing poverty (Mokaya, 2014).

Despite potential for production in agriculture, Tanzania imports a significant volume of cereals annually, which could be produced in the country (URT, 2016). In Tanzania and other low developing countries, farm entrepreneurs are facing challenges which constrain growth and development of the sector. In the literatures reviewed, these challenges are too generally highlighted, and the researchers have employed quantitative approach to investigate. The constraints, includes: government regulations, access to credit and market information, social barriers, economic barriers, and personal managerial capacities, failure to manage risks and cope with changes (URT, 2016). Therefore, this paper aimed at exploring the specific challenges that impede smallholder farm entrepreneurs to access credit from formal financial institutions in Tanzania. In this study simple descriptive statistics and qualitative approach were used with expectations of enriching more information in the literature for deeper understanding.

2.0 LITERATURE REVIEW

2.1 Farm Entrepreneurship

Business environments are dynamics that need an entrepreneur for quick response in order to stay in a particular business racing. The emerging question here is; who is an entrepreneur? There is a lot of descriptions about an entrepreneurs in different entrepreneurship literatures. For example, according to Kahan (2012), an entrepreneur is someone who is engaged in business either by producing or supplying for the market. He/she is determined and creative leader, always looking for grasping opportunities to improve and expand his/her business. An entrepreneur takes calculated risks, and he is responsible for both profits and losses. Entrepreneurs are passion on their business growing, and constantly they are looking for new opportunities to diversify their businesses (Hawa, 2012; Olomi, 2006).

In the farming context; farm entrepreneurship is the ways and means for creating and developing a profitable farm in a competitive agribusiness environment (Rudmann, 2008). This means that farm entrepreneur terms his farm as a business. This farm is the means of earning profit for the farmer's socio-economic development. The farmer has a passion on his farming business and a desire to take calculated risks. Thus, farm entrepreneur plans and implements to achieve his goals as other entrepreneurs do in their businesses. Similarly, Kahan (2012) defines a farm entrepreneur as the person who looks for better ways to organize the farm, tries new crops, better animals and uses alternative technologies to increase productivity, diversify production, reduce risks, and increase profit. In this study a farm entrepreneur covers all aspects of the two definitions and is summarized as the person who has best farm production skills, opportunity realization skills, management skills, networking skills and produces for the market to generate profit. Gray (2002) defines an entrepreneur, is an individual who manage a business with the intention of expanding that business with the leadership and managerial capabilities for achieving his/her goals'. This study, adopts the definition by Gray as it is most appropriate and relevant to agricultural (farming) sector. Lauwere *et, al.*, (2002) had introduced five distinguished groups of farmers. They includes; one, economic entrepreneurs. These are farmers who create significant

economic change in their living settings. Two, socially responsible farm entrepreneurs; these are farmers who recognise that the financial success (economic gains) of the farm needs have to balance with a social and environmental role (social gains). Third, traditional growers; these are farmers who focus on the activities which are guaranteed to be successful. Fourth, new growers; these are farmers who initiate new activity; and fifth, doubting farm entrepreneurs. These are farmers who are reluctant to embrace any change.

Successful farmers are not the same as common farmers. They always differ in terms of entrepreneurial spirit and mind-set. According to Schiebel (2002), entrepreneurial farmers have three personality traits; they believe in their ability to control events; they have high capacity in problem-solving, and have good social initiative that is expressed in socio-economic networks. On the other hand, Carter & Rosa (1998) argue that farmers are primarily business owners and managers thus they are traditionally entrepreneurs. Therefore, indeed, farms are the business entity of the farmers. They have multiple business interests which create employment and socio-economic development in rural societies. Despite of this fact, smallholder farmers are not performing well in Tanzania because most of them are the peasants who depend greatly on seasonal rain cultivation. They suffer severely from several constraints that impedes their noble contribution on socio-economic development, particularly in Tanzanian rural populations. This calls immediate and strategic approaches that will empower smallholder farmers and enable them to recognize their potentiality and capture prevailing opportunities.

2.2 Paddy production in Tanzania

In Tanzania today, paddy production is placed to the second position after maize production. Rice is both a commercial and food crop that is excessively demanded in big cities of Tanzania to feed the rapid growing population. Paddy farming is among the main sources of employment, income generating activity and food for a significant number of the households in Tanzania. The world rice statistics 2007, termed Tanzania as the second largest rice producer in Southern Africa after Madagascar. Paddy is cultivated at an area of about 681,000 ha, which represents 18% of the whole cultivated land of Tanzania. The most engaged population in paddy cultivation is the smallholder farmers settling in Tanzanian rural areas. Generally, yields per ha is very low (1-1.5 tons/ha) due to the fact that, rice mostly is grown with traditional methods by smallholder farmers who lack advanced technology and enough financial capital (URT, 2016).

The national households survey of Tanzania (2017), reports that about 71% of paddy production depends on rainfall where half of total rice in Tanzania is grown by 230,000 smallholder farmers in Mbeya, Morogoro, Shinyanga and Tabora regions (URT, 2017). The government of Tanzania has strategized to increase rice production and become a large exporter of rice in Africa (see the national rice sector strategy of Tanzania, 2009). This is possible due to the fact that Tanzania has a vast arable land for paddy production. If it could have good reliable market, production and exportation of rice could be high compared to the current status. The government strategies should focus on empowering the smallholder farmers who are the majorities in crops production.

2.3 Tanzania Smallholder Farmers

The large population in Tanzania is dwelling in rural area engaging in agriculture as the main and dominant economic activity employing a significant number of people than any other sector. The dominant players in this sector are the poor smallholder farmers who cultivate around 5.5 million hectares annually, of which 85% are food crop producers (URT, 2017).

They contribute to over 75% of total agricultural outputs in Tanzania, producing mainly for home consumption, and using poor traditional technologies, and the majority of them depend on rain agriculture. Smallholder farmers in Tanzania primarily grow food crops and little cash crops. Commonly, maize, paddy, beans, sweet potatoes and cassava are grown as staple food crops. Thus, smallholder farmers are the main source of food and income to significant number of households in Tanzania rural community. They feed both the rural and urban communities through marketing channels. Also, small farm entrepreneurs who produce cotton, cashew nuts, coffee and tea which are the traditional cash crops in Tanzania earns foreign currencies (ibid).

2.4 Tanzania smallholder farmers and financial services

Farm entrepreneurship is the fundamental instrument for poverty reduction and sustainable development in low developing countries where agriculture employs the majority of population particularly the rural populations (World Bank, 2008). Lack of financial support and credit is the long historical and chronic constraint that hampers agriculture development, particularly, the majority smallholder farmers. Financial services in Tanzania are low and inequitably distributed. Very few farmers enjoy loans from formal financial institutions, particularly, the commercial banks compared to entrepreneurs from other sectors. Financial constraints severely impede smallholder farmers' ability to compete in the market.

Most of the smallholder farmers don't have bank account. According to the national smallholders' survey, its only 10% of Tanzanian small farm entrepreneurs who have a bank account registered in their name (URT, 2017). It's almost half of these farmers who do not use their accounts at banking full service because the formal financial lenders doesn't offer them credits. According to Maziku (2012), most of smallholder farm entrepreneurs (75%) in rural areas use mobile money services provided by cellphone companies (voda, m-pesa, airtel money, and tigo pesa).

2.5 Challenges

Most of the small farm entrepreneurs interpret financial constraints as a lack of government support (Mwambo & Makembe, 2011). Thus, small agribusiness entrepreneurs, particularly the farmers, identify difficulty in accessing investment capital as a major constraint to their business survival and growth (Mokaya, 2014). Lack of or inadequate property rights and title deeds for their farmlands lead to lack of collateral which obstructs them to have access to investment capital/credit. Difficulties in accessing investment capital can be also a result of weak farmers' organization, overly lenders' loan application procedures, complex bureaucracy, and private bias against financing smallholder farmers (Bannock, 2002).

3. METHODOLOGY

The reviewed literatures revealed too general challenges that smallholder farmers encounter with in Tanzania. Most of these literatures are quantitative studies employed complex statistical analysis models which in most cases are difficult to be understood by the audience who has no exposure to quantitative analysis approach. Therefore, due to lack of supporting qualitative evidences in the reviewed literatures, in this study simple descriptive statistics (frequency and percentage) analysis was adopted as it is easy and simple to understand it. In some sections, the study provided qualitative evidences to substantiate the descriptive statistical findings.

The targeted population for this study was the small entrepreneurs farming paddy in Dakawa Ward in Mvomero district where I employed a cross sectional case study design. Non-probability sampling method (purposefully quota sampling) was used to select sample of the

study. This method was adopted because there was no proper database of smallholder farmers in the area (Dakawa ward). It was difficult to find the exact number of smallholder paddy farmers because their names are not listed anywhere in the ward government and non-government database. Due to this challenge, it was necessary to visit smallholder paddy farmers in their farm yards. For a farmer to qualify for sample selection he/she must be a smallholder entrepreneur who experienced difficulties in accessing credit from formal financial institutions. Questionnaires were administered to 120 sampled respondents and few interviews were done to four (4) smallholder paddy farmers. The use of non-probability sampling method is very relevant when the exact number of the targeted population is unknown. This is very common in Tanzania particularly for studying small and micro enterprises due to the fact that they operating informally. For instance studies by Mbwambo (2005) and Nchimbi (2002) employed non-probability sampling methods due to lack of proper databases.

Descriptive statistical analysis was done in which only frequencies and percentages were used. Data were categorized, coded and then entered in the computer software: Statistical Package for the Social Sciences (SPSS), to produce an over view of data in the form of frequency tables. The frequency with which a word or description has higher percentage was used to interpret the potentiality (theme) of the whole content so as to link opinions of the respondents. Thematic analysis was also done where responses of the interviewees were discussed in order to draw meaningful interpretation. The responses of these four (4) interviewees are presented in quotations, and they substantiate the descriptive statistical information presented in the frequency and percentage table 1, 3, 4 and 6.

4.0 FINDINGS AND DISCUSSION

This section presents discussion of the findings generated from collected data. Smallholder farm entrepreneurs in Tanzania encounter a lot of difficulties to have access to loans. In this paper, we have managed to explore both descriptive statistics (presented in frequency and percentage distribution tables) and qualitative information from 120 small paddy farmers who acknowledged that lack of collateral, financial services illiteracy (lack of exposure and boldness to financial institutions), high interest rate, complicated loan bureaucracy, and lack of reliable formal financial institutions in the farmers' area settings; are the main specific challenges that limit the farmers to have access to financial credit from formal financial institutions. Discussions of the findings have been presented in sections 4.1 to 4.6 in which table 1 through table 6 indicates the findings.

4.1 Lack of collateral

Lack of collateral troubles the performance of smallholder farmers as it limits them to have access to credit from financial institutions. Loan conditions compel someone to have an asset to qualify for loan acquisition. In Tanzania, most of viable and reliable financial institutions, in particular the commercial banks do not have friendly loan conditions for small agribusiness entrepreneurs, mostly in rural areas. As the matter of fact, lack of collateral hinders good production performance among the small entrepreneurs in Tanzania agribusiness (table 1).

Table 1: Lack of collateral (n=120)

Do you agree lack of collateral limits you to acquire loan?	Frequency	Percent (%)
Strongly Agree	80	66.7
Agree	30	25.0
Disagree	5	4.2
Strongly disagree	4	3.3
Not sure	1	0.8
Total	120	100.0

Findings on lack of collateral as a challenge constrains smallholder farmers to have access to credit are revealed in table 1. A total of 110 (91.7%) of respondents strongly agreed and agreed that lack of collateral limits them to acquire loans whereas 9 (7.5%) of respondents disagreed. Another, 1(0.8%) respondent was not aware the relationship between collateral and access to loan. Despite on opinions variation, the findings reveal that lack of collateral impedes small agribusiness entrepreneurs to have access to loans from financial institutions. These findings concur with (Maziku, 2012) study on credit rationing for small and medium scale enterprises in the commercial bank loan market which reveals that difficult loan/bank conditions hamper smallholder farmers to acquire loans as many of them have no fixed assets qualifying as collaterals.

Similarly, information obtained from one of the respondent during the interviews portrayed the same. The interviewee argue that;

"...We are not given loans by commercial banks and other formal loan lenders because most of us (small farmers) have no sufficient securities of which may be compensated when we fail to repay the loan. It is true we have farmlands but our lands are not registered as well as our houses have no value compared to the amount which we request as loan..."

From these responses, we see that lack of legalized fixed asset like farmlands and houses for the farmers limit them to acquire loan. Loan lenders need first to assess farmers' fixed assets as they do to the formal employees and business persons. Most of smallholder farmers are in the informal economy where their assets are not legalized which means could not qualify for credit acquisition.

4.2 Lack of exposure and boldness

It was also noted that there is lack of awareness in using financial organizations among rural people. The discussions with the smallholder farmers showed that most of them didn't have an account with a bank. This implied that most of them stayed with their cash at homes. Financial illiteracy in Tanzania rural areas has been pointed out as one of the major challenges and constrain significant number of small farm entrepreneurs to have access to loans from different lenders. Majority of rural agribusiness entrepreneurs are not well exposed to bank financial benefits including loan acquisition and saving money in account (table 2). There is ignorance for most of farmers about financial institutions' services.

Table 2: Lack of exposure and boldness (n = 120)

Lack of exposure to lenders affects you to access financial credit?	Frequency	Percent (%)
Strongly Agree	44	36.7
Agree	62	51.7
Disagree	7	5.8
Strongly disagree	5	4.2
Not sure	2	1.6
Total	120	100.0

The result in table 2 divulge that 106 (88.4%) of respondents expressed lack of exposure and boldness cost them to access credit from financial institutions whereas 12 (10%) disagree on the factor and 2(1.6%) are not sure. This implies inadequate of financial education among the small farm entrepreneurs in rural societies of Tanzania. That is why the majorities have no exposure to business benefits offered/serviced by financial institutions. These findings attest to the findings of Maziku (2012) in his study on credit rationing for small and medium scale enterprises in the commercial bank loan market in Tanzania. In his study, Maziku found that lack of reliable information from financial institutions constrain small and medium entrepreneurs from getting loans. Similarly, Mbwambo (2011) argue that, farmers in Tanzania have low financial capacities resulting from lack of exposure and boldness to loan access. These findings tell us that the commercial banks and other formal financial institutions are not significantly ventured in rural areas of Tanzania. The small farm entrepreneurs are not well educated about financial services that are why they have no exposure to commercial banks and loan acquisition opportunities.

4.3 Farmers' perception towards interest rate

In assessing the challenges for accessing loan among small farm entrepreneurs, it is necessary to address the issue of interest. Thus, the intention of the researcher in this section was to know how the small farm entrepreneurs rate the interest charged by financial institutions. How do they perceive the interest rate? In the business world, interest rate is one of the major determinant factor for lending and borrowing. It attracts investors (borrowers) when is low but discourages if it is high. Small paddy farmers' responses are significant to predict perceptions of the agribusiness entrepreneurs towards the interest rate set by financial institutions (see table 3).

Table 3: Perception towards loan interest rate (n=120)

How do you perceive the loan interest rate of the financial institutions?	Frequency	Percent (%)
High	103	85.8
Low	3	2.5
Not aware	14	11.7
Total	120	100.0

Findings illustrated in table 3 reveal that 103 (85.8%) of respondents perceive the interest rate charged is high whereas 3(2.5%) asserted it is low and 14 (11.7%) are not aware. This implies that most of smallholder farmers do not opt to take loan from financial institutions due to high interest rate. As the matter of fact, small agribusiness entrepreneurs are not performing well because they have weak financial capacity to facilitate their investments. Mwatawala, Mwang'oda and Hyera (2016) found the same result; small agribusiness entrepreneurs in farming activities, particularly in rural areas, depend on their low personal savings due to lack of affordable credit. This limits them to venture for more green opportunities, diversification and developing their businesses.

During the interview, the researcher captured words from one of the interviewees, arguing that high interest rate impedes most of the paddy smallholder farmers to borrow money from formal loan lenders. From his words of mouth, he said:

"...Most of the challenges that we face in accessing financial services are those related to high interest rate charged by formal money lenders, poor SACCOS' management of loan portfolio and poor legacy of our cooperative in the past. Many smallholder farmers don't want to hear about borrowing money from commercial banks due to high interest charged..."

4.4 Financial institutions' loan bureaucracy

Accessing credit from formal lending institutions in Tanzania is the long process compared to informal lenders. You need to follow all the procedures stated in the loan forms which in reality are very complicated conditions for a small entrepreneur particularly the peasants (small farmers) who has no collateral due to lack of legalized assents (land). In other words, these loan bureaucracy are very complicated. For the small agribusiness entrepreneurs who are the seasonal farmers, are demoralized with these cumbersome loan bureaucracy (table 4).

Table 4: Financial institutions' loan access bureaucracy (n=120)

Do you agree that lenders bureaucracy constrain you to ask for loan?	Frequency	Percent (%)
Strongly Agree	43	35.8
Agree	56	46.7
Disagree	4	3.3
Strongly disagree	2	1.7
Not aware	15	12.5
Total	120	100.0

The respondents cited bureaucracy as a challenge that constrain them to have access to loan as reflected in table 4 where 99 (82.5%) attested, 6 (5%) do not support and 15 (12.5%) were not sure. This means that loan procedures are very complicated and that someone who need credit has to spend a significant long time to make a follow up. Due to the fact that most of smallholder paddy farmers are rain dependants with a very short time in production; complicated bureaucracy to them, it is wastage of their precious time which lead to most of them to quit and approach informal lenders. These findings are consistent to Bannock (2002) who argue that smallholder farmers are not friendly to formal commercial credit lenders because of the cumbersome procedures, requirements and conditions to meet. Similarly, Rugumamu (2014) found that agribusiness entrepreneurs, particularly the peasants in Tanzania rural areas fear long loan processing procedures and difficult requirements. To substantiate the frequency and percentage descriptive results, during the interviews, one of the respondents, put the following fact:

"...We are limited to access credit from financial institutions especially the formal institutions because of very long and extremely complicated procedures to follow. You find that, procedures take long time to accomplish while the season for cultivation is also passing, so because of these long procedures and complicated requirements, small farmers in rural farms lose hope and stop making follow up for loan and wait for another season to start again..."

This response shows that taking long time, and the complicated procedures discourage farmers to ask for loan from formal financial institutions.

4.5 Farmers' loan repayment history

In this paper, also, we analysed loan repayment history to know if it might be one of the factors impeding smallholder paddy farmers in Mvomero district to acquire credit from formal financial institutions. This was due to the fact that, in some of the reviewed literatures, we found lenders lamenting those small farm entrepreneurs are not reliable customers as most of time they fail to payback their loans. Therefore, the main question here was to explore whether these smallholder farmers have a bad loan repayment history. Credit lenders normally assess loan repayment history before they grant a new one (Nyamsogoro, 2010), and if it found that the borrower has dirty history, he/she is disqualified.

Table 5: Beneficiaries' loan repayment history (n=120)

How do you rate the beneficiaries' loan repayment history?	Frequency	Percent (%)
Good	8	6.7
Bad	10	8.3
Not aware	102	85.0
Total	120	100.0

The findings in table 5, elucidate that the majority 102 (85%) of respondents are not aware on loan repayment history. This might be due to the fact that, most of the farm entrepreneurs do not have access to credit from formal lenders so that they don't know about loan repayment. This finding is consistent to Ngowi, Mauki and Mpenda (2018) findings; small farmers are not able to assess loan repaying as they are not beneficiaries compared to their counterpart entrepreneurs from other economic sectors. Similarly, Mokaya (2014) argue that a large number of smallholder farmers is not aware on financial credit due to the fact that most of them have not received loans from banks due to different challenges constraining them. Therefore, from this information, one can conclude that, those minority 10 (8.3%) farmers with bad credit history are a result of bad weather which affect their paddy production and hence fail to repay loans.

4.6 Location distance between farmers and lenders

Availability of financial institutions impact the borrowing rate of the people in a particular place. This paper explored the responses of small paddy farmers to know whether or not the distance from where lenders are constrains credit accessibility. Financial customers (borrowers) prefer a nearby service (money lender) in order to avoid wastage of time and unnecessary costs (Nyamsongoro, 2010).

Table 6: Lenders' location (n=120)

Lack of lenders at a nearby location impede you to ask for loan?	Frequency	Percent (%)
Strongly Agree	65	54.2
Agree	44	36.7
Disagree	5	4.2
Strongly disagree	2	1.6
Not sure	4	3.3
Total	120	100.0

In table 6, the findings divulge that, 109 (90.9%) of respondents disclose lack of lenders at a nearby location impedes them to have access to credit. This is true in Tanzania rural area settings because financial institutions, the commercial banks in particular are in urban areas. Thus, the rural community in Tanzania and many other low developing countries is not well financially served by formal lenders. Instead, it is underserved by unstable and unsustainable SACCOS and VICOBA. This might be one of the significant factor drilling farmers into poverty rings. Akyoo (2013) found the same situation; sometimes smallholder farmers in rural areas need loans to finance their agricultural activities, but these agribusiness entrepreneurs fail to access simply because there are no commercial banks in their locality. During the interview, in my conversation with one of the farmers, pointed out that:

"...I could not be able to acquire loan because here in our community and nearby villages there is no commercial bank which could lend me a significant amount of money that am in need. All commercial banks are far away from here, they are found in urban areas which are costly for most of us to reach there...."

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study explored specific credit financing challenges that constrains smallholder paddy farmers. From the findings it can be concluded that farm entrepreneurship is not performing well in Tanzania due to the fact that , smallholder farmers who are the majority players in the sector, has a very weak financial capacity which has resulted from lack of loan access from formal financial institutions. For example, smallholder farmers in rural areas are by passed and not trusted by commercial and development banks, and formal micro credit organizations, simply because farmers do not have collaterals, their production which is seasonal rain is not reliable at all, just a probability game. Due to this fact, formal lenders fear to lose their money. It is an extremely high risk to lend loan to smallholder famers that why most of formal lenders opt not giving credit to smallholder farm entrepreneurs. Similarly, insufficient credit education and low exposure to credit financial business among the farmers, contributes significantly in limiting them to have access to loans. Meanwhile, complicated bureaucracy, high interest rate of the commercial banks, and unavailability of financial institutions in rural settings; greatly have been cited as one of the serious factors that constrain small farmers to access credits.

5.2 Recommendations

Major challenges that constrain farm entrepreneurs are rooted in lack of strong financial capacity. Small farmers have no enough money to finance their investments. Lack of sufficient capital (money) results to poor technology and weak production performance, and hence, failure of small farmers to contribute in poverty alleviation. Therefore, there is a need for formal financial institutions and the government to intervene by empowering farmers through education and giving loans. To improve the contributions that small farm entrepreneurs can make in poverty alleviation in rural areas; a number of changes are therefore called upon.

This study has awakened some recommendations which are expected to be working on. First, farmlands should be legally registered so that the lenders will recognize them as collaterals and enable smallholder farmers qualify for loan. Second, there is an urgency call for the government and formal credit lenders to sensitize loan education in rural community because majority of small farm entrepreneurs are not aware and lack exposure on loan. Third, formal financial institutions, particularly the commercial banks should reset special loan category for smallholder farmers and make it simple as it is for formal employees.

Moreover, formal financial institutions should expand their services to reach rural community. Also, the government through its agent, the Tanzania Agricultural Development Bank (TADB), should give loan to farmers. Furthermore, agricultural insurance could be one of the best solution to the farmers when they incur loss either due to adverse weather or fall of their produce price. Finally, the study recommend for the small farm entrepreneurs to create groups and register them officially so that it will be easy for the government, commercial banks, formal lenders and other stakeholders to trace them and help. This is because, formal and legal groups are more trusted than an individual person in loan security purposes. So as a group, smallholder farmers will access loan easily.

REFERENCES

- Akyoo, E. P. (2013). Improving paddy production through strengthening capacities of smallholder farmers on system of rice intensification and saving and credit: A case of Igurusi ward, Mbarali district in Mbeya region. Master's degree dissertation, Open University of Tanzania.

- Bannock, G. (2002). Improving the enabling environment for indigenous enterprise development and investment: Lessons of experience. A summary of insights from six Southern African workshops.
- Carter, S., and Rosa, P. (1998). Indigenous rural firms: farm enterprises in the UK International Small Business Journal Vol.16 No.4 pp 15-27
- Clover & Darroch (2005). Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agribusinesses in Kwazulu-Natal, South Africa. *Agrekon*, 44(2) (June 2005).
- Gray, C. (2002). 'Entrepreneurship, Resistance to change and Growth in Small Firms' Journal of Small Business and Enterprise Development.
- Kahan, D. (2012). ENTREPRENEURSHIP in farming: Farm management extension guide submitted at FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS Rome 2012.
- Lauwere, C., de, Verhaar, K. and Drost, H (2002). The Mystery of Entrepreneurship; Farmers looking for new pathways in a dynamic society. Wageningen University and Research Centre.
- Maziku. M. (2012). Credit rationing for small and medium scale enterprises in the commercial bank loan market, Tanzania. Tanzania: REPOA.
- Mbwambo, A.H. (2005). "Strategies and Firm-Level Institutions in SmallScale Enterprise Performance in Tanzania: The Case of Small-Scale Garment Manufacturing Firms", Doctoral dissertation, University of Nairobi.
- Mbwambo, N. Njombe, A. P. Msanga, Y. and Makembe, N. (2011). The Tanzania Dairy Industry: Status, Opportunities and Prospects. Paper Presented to the 7th African Dairy Conference and Exhibition held at Moven Pick Palm Hotel, Dar es Salaam, 25-May 2011.
- McElwee, G. (2006). The enterprising farmers: a review of entrepreneurship in agriculture
- Mokaya I. M. (2014). Factors that influence the performance of micro and small agricultural enterprises in Nyamache sub county, Kenya
- Mwatawala H. W., Mwang'onda E, Hyera, R. N. (2016). Paddy Production in Southern Highlands of Tanzania: Contribution to Household Income and Challenges Faced by Paddy Farmers in Mbarali District. *Scholars Journal of Agriculture and Veterinary Sciences, Sch J Agric Vet Sci*, 3(3):262-269.
- Nchimbi, M. I. (2002). "Gender and entrepreneurship in Tanzania: A comparative analysis of male-female's start-up motivation, individual characteristics and perceptions of business success", Doctoral dissertation, University of Dar es Salaam.
- Ngowi, A. R., Mauki, C. R. and Mpenda, Z. (2018). Challenges facing agribusiness entrepreneurs in East Africa: A Comparative Study. *Research Report Series (RRS)*. 2(1), 2018.
- Nyamsogoro, G (2010). "Microfinance Institutions in Tanzania: A Review of Growth and Performance Trends". The Journal of the National Board of Accountants and Auditors Tanzania, 26(3) July-September, 2010.
- Olomi, D.R. (2006); "African Entrepreneurship and Small Business Development". DUP, Dar es Salaam.
- Rudmann, C., (2008). Entrepreneurial Skills and their Role in Enhancing the Relative Independence of farmers Results and Recommendations from the Research Project Developing Entrepreneurial Skills of farmers.
- Rugumamu, C. P., (2014). Empowering smallholder rice farmers in Tanzania to increase productivity for promoting food security in Eastern and Southern Africa.
- Salami, A., Kamara, B. & Brixiova Z. (2010). Smallholder Agriculture in East Africa: Trends, Constraints and Opportunities. Tunis: African development bank (ADB).

- Skarstein, R. (2010). "Smallholder agriculture in Tanzania: Tanzania in Transition – from Nyerere to Mkapa, Mkuki na Nyota, 2010; 99-130.
- Schiebel, W. (2002). Entrepreneurial personality traits in managing rural tourism and sustainable business
- Stephen, O. M. and Agbekpomu, H. (2013). Determinants of Access to Credit by Agribusiness Operators in the Kumasi Metropolis, Ghana
- United Republic of Tanzania (2009) National rice development strategy final draft, May 2009
- United Republic of Tanzania (URT 2011). "List of potential Rice Stakeholders and their Roles. Ministry of Agriculture Food Security and cooperatives". A Report presented to Eastern African Agricultural Productivity Program (EAAPP)
- United Republic of Tanzania (URT 2016). Reversing Land Degradation trends and increasing Food Security in degraded ecosystems of semi-arid areas of Tanzania – GEF 9132.
- World Bank (2008). The Growth Report: Strategies for Sustained Growth and Inclusive Development, Washington D.C., Commission on Growth and Development, World Bank.