

THE ROLE OF FORMAL EDUCATION ON SELF EMPLOYMENT AND INCOME EARNINGS TO GRADUATES IN TANZANIA

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Abstract: *This study was set up to determine whether formal education contributes to small scale self-employments in term of job creation and income generation particularly in vending, shop keeping, tailoring and hair salons activities in Morogoro municipality. Furthermore, the study aimed at assessing motivation factors for self-employment and identifying the challenges facing small scale businesses. 60 small scale entrepreneurs in the mentioned activities were randomly selected and both interview and questionnaires were administered to them asking them details on their profits, education levels and other factors influencing profit. Analysis of the collected data was done using multiple linear regression model. It was revealed that formal education has no significant influences in income generation activities of the identified activities. However, it was found that business profit is much more dependent on financial capital, areas of business, prior experiences to business (age of the business), frequency of customers (marketing level), and other factors depending on the type of activities. As to what motivates people to self-employment includes, search for freedom, more paying jobs and family influences. The challenges facing the entrepreneurs includes lack of capital, instability of the market, lack of areas for doing business and paying more taxes to Tanzania Revenue Authority . The study recommends to the government and other stakeholders to introduce entrepreneurship skills courses as compulsory courses to all the schools and the universities so as to help school leavers to manage self-employment businesses. Also self-employed people are encouraged to form a network team and look for grants from financial institutions so as to cut off problem of capital and hence extend their small firms.*

Key Words: *self-employment, formal education.*

1. INTRODUCTION:

Education means the body of skills and knowledge that an individual have acquired after studying a particular subject that offers an understanding of something. It requires instructions of some sort from an individual or composed literature. In a traditional view education is an investments for the proceeding and future life (Aki & Sari, 2010). Agrican and Kruger (1999) indicated that in daily life acquisition of education improves individual future earnings and overall success. This can be also applied to some selected group like self-employed group, such as people owning their self-activities and generates profits directly from their jobs.

The Self-Employed people are commonly known as entrepreneurs. A self-entrepreneur creates own job, nourishes it and generates income from her or his self jobs. In other words, these are regarded as original persons who may have learned some skills without depending on too much formal education (Aki & Sari; 2010). In real life situation education seemed to be linked directly with starting self-jobs and income generation. This is in case that, self-employed people provide a variety of productive resources to themselves, to an organization and national like human capital, control of resources, specifically industries and ability to acquire financial capital that are accruing through education provision (Copper, Gimeno-Gascon & Woo,1994).

Following the vision and mission of Tanzania government since 1961 after her independence towards poverty eradication, the government has been trying to focus much in educating the majority and put much emphasis on self-work. With this development vision, various policies that favor human resources development including universal primary education policy, introduction of education for self-reliance, popularization of functional literacy, and interface work with education were established (URT, 2000). These policies grounded on the assumption that education is the best way to eradicate poor living standard of the majority associated with lack of employment in Tanzania. Moreover WDHE (n.d) noted that lack of adequate high education associated with production of critical mass skilled and educated people development of indigenous people in any country is impossible. This idea forces developing country like Tanzania to focus more in education with productive education reforms, example in 2004 education curriculum reformed from content to competence based that comprises learning by doing, practical studies and project based learning to bring about creativity and innovations to learners that in turn propels starting of self-jobs and increase in income generations. Through education employability of graduates and income earnings are facilitated thereby converting them into not only job seeker but also job creators (World conference on High education, 1998).

Jobs creation is very important especially in developing country like Tanzania with insufficient formal and private job as well as acceleration of jobs streaming. It is Job creation that leads into self-employment which is also a viable alternative to wage employment (ILO, 2011).

Despite of this importance, to some areas especially in education field the issue of self-employment has been left behind particularly in education settings. This is because the current education are for securing employments for present number of people rather than increasing the number of productive job positions which allows living standards to rise. The point to note is that, if in our country education is fulfilling the role of people to become self-employed effectively then graduates of secondary to high level of education could be expected to know how to create and organize their self-jobs. In other words if they have competency to become sustainable self-employed labor, the number of unemployed individuals could decrease. This expected point in Tanzania is opposite as many secondary and some of high education level graduates are jobless. That is to say, despite of Tanzania government to regard education best way of solving the problem of insufficient employment opportunities and serving people from bad living condition still most of graduates are jobless and those with self job their income generations claimed not to differ to that of none educated. The questions to ask ourselves were why some graduates are jobless up to now? Why even graduates self employed are not different as non-educated people in self employments? Because of those two important questions there was much need of finding whether education is playing its role effectively in serving people from their poor living conditions by enabling them to become self employed and raise their profitable income or there are other superior factors than education that can lead success in self employments.

Despite of Tanzania Government to recognize the importance of education towards self-employment but the relationship between education and self-job creation that in turn lead to more income generation from self-employments is unclear. Many people including educated are depending much on public and private sectors employment opportunities rather than creating their own jobs. And because the public and private sectors employment opportunities available do not match with the growing population then they find themselves living in situation of being unemployed and hence poor living condition. Moreover even those who are already in self-employments are claimed not to grow in businesses and income generation more than uneducated entrepreneurs. Therefore due to such problems there was a need of investigating whether education is playing its role effectively in enabling people to create self-jobs and increase in income profitable earnings or not .specifically the study aims to address the following issues:

- i) To determine the role of education in income generation
- ii) To investigate motivating factors and challenges facing, vrending, shop keeping, tailoring and hair salons activities.

2. LITERATURE REVIEW:

2.1 Theoretical literature review

This literature review has a much emphasis on the contribution of education towards self-job creation and income earnings. Basing on the human capital theory stated by social scientists in 1960's, investing in education is more likely to shape the job creation and individual earnings rather than investing in any kind of economy. It is education that contributes directly to the growth of individual income earnings and nation at large (Schultz, 1961 & Becker, 1964). This is due to the fact that, the collectiveness of skills, knowledge, or other intangible assets of individuals particularly those acquired through education attainment and training, enhancing creation of jobs and economic values of the individual and hence income earnings. In other word education raises income by increasing productivity of workers (Simon, 1990s). Through education people gain productive skills both technical and social skills (Davisson & Honing, 2003). These productive skills modify a route in response to changing opportunities in dynamic environment there by stress economic growth (Schultz, 1994). Lucas (1978) argues that education enhances an individual's managerial skills and ability which possibly determines entrance and staying in self-created job. The World Conference on Higher Education in 1998 shows that the major concern of education is to develop an entrepreneurial skills and initiatives; this is because education facilitates employability of graduates by converting them into not only job seekers but also job creators who will earn income directly from their jobs. Some scholars point that secondary and high level of formal education facilitates the absorption of superior technology and accelerates economic growth when physical capital is in limited increase (Brown, 2001). Psachropoulos (1980) in his study argued that the level of education attainment determines the rate of education return in jobs. One of those returns is increase in income earnings. The increase of capability of people lead to future earnings, thus more educated and skilled persons earn more from their self-jobs than none educated (Becker, 1970). The quality and quantity of productivity can in turn lead to win in marketing there by increasing the possibility of high income generation and encourage job creation. Through education status quo of a certain generation to generation can be maintained (Boweles, 1972). Although this status quo does not constitute to individual earnings as a proxy for production but the family background or social class has an indirect effect on ones earning and thus is via education. Psacharopoulos (1977) indicates that those with education have high social mobility and it is this mobility that enable one to win in self-employment. Because of the above supports, then education can be noted as device for improving population

quality and economic condition of poor society like those of self employed in Tanzania. However, investing in education seems to be a core of leading graduates to the job creation and rise individual income but still the current situation shows that other factors may be concerted for one to initiate job and earn incomes. *Financial capital, technology changes, marketing*, and other many can also be noted as factors for job creation and income earnings (Certo & Peter, 1998).

2.2 Empirical literature review

2.2.1. Factors affecting job creation and income earnings

2.2.1.1 Financial capital

Apart from education attainment, any individual need financial capital so as to start his or her own job. This capital can be regarded as seed that needed to be planted so as to run and manage activities. What to note is that the size of starting capital determines the income and profit to be gained. Access to financial capital is one of the serious problems in starting up self jobs and venturing to new firms particularly in Tanzania where economic is still poor. To most people initiatives of capital are from personal savings, family, cooperative reference and financing institution (banks) which contributes to very small extent. Unavailability or lack of information about alternative sources of finance and failure to evaluate financing option is a problem to self employed people (Orser, Hogarth-Scott & Riding, 2002). Other evidence shows that lack of access to capital and constraints of financial systems are regarded by many as a main obstacle towards job creation and income generation (Marsden, 1992 & Steel, 1994). Then we can assume that any economic activities without financial capital is impossible that is to say lack of financial capital affects job creation and income earnings at large.

2.2.1.2. Market and Marketing

Market has a great contribution to the creation of job and income earnings. It is a stable market that determines the success in business (Kristiansen, Furuholt & Wahid, 2003). When the market is stable the flow of produced goods become high and the reverse of the statement are also true. A stable market should result into high promotion of regular customers and encourage the survival of business. The significant performance of individual is also the determinant success in marketing as it creates the necessary behavior for the creation of superior value to customers and hence high income generation (Verhess & Meulenberg, 2004). To add on performance of individual, self employed person need to understand that market is no long geared on finding the customers but the quality and quantity of products will automatically increase the flow of customer. The way to achieve this is through education attainment as stressed by human capital theory. Possibly we can say that failure to quantify and qualify the products is the failure to acquire more customers and this determine starting of new firms or not and some do loss their capital and become jobless

2.2.1.3. Work experience.

The job creators must understand that jobs are linked with a prior experience and since experience is a good teacher in respective jobs, the experienced entrepreneurs are likely to have more success in business. Kolvered (1996) found that individuals with prior entrepreneurial experience had significantly higher entrepreneurial intentions than those without such experience. Therefore lacking of experience can be the obstacles for one to start a job and run it despite of being educated and hence poor income earnings.

2.2.1.4 Technology

Economic growth and development should take place when technology become more efficient and when people utilize human resources in the use of technology. Improved technology leads to great quantity and quality production and with contends of capital theory; people can acquire skills and productive knowledge for the use of technology through formal education. Barro (2001) stress that education facilitates the absorption of superior technology and accelerates economic growth where physical capital is increasing in limited manner. In many cases there is link between technological advancement and automation as well as process of innovation in making strategic planning (Gibbons & O'Connor 2003), this strategic plans in turn satisfies investment return like income earnings and ability to venture into new job. Through education we increase the formation of new ventures, like hood self-employed graduates earning high business technology (Charney & Libecap, 2000) But what to note is that, techniques needed for improving productivity are often not static and there is no way of avoiding it in any activities as they are parcel part of our life. Then the job initiators are needed to copy with the changes existing by finding an alternative way so as to sustain their competitive advantage by deploying new process and new growth methods. Failures of coping with the resulting changes seem to have great effect to job creation, accessing and income generation.

3. METHODOLOGY:

3.1 Research design and study area

The research approach was base on both quantitative research and qualitative research approach, and the research design was cause comparative research design. This approach enabled the researcher to examine the differences in income generation and causative factors for either variation or not between small self-employments running by people with formal education and those with no formal education. Also the approach was less expensive in

terms of time and money. Also causal comparative design played a significant role in determining the impacts of those factors including education on increase in income generation and possibility of starting new firms.

The study was conducted in Morogoro region municipality which is one among the regions found in Tanzania main land .Specifically the study was done in three wards of Mazimbu, Mji Mkuu and Kihonda

3.2 Targeted population of the study.

This study involved tailoring and hair salon, vending and shop keeping whose firms lying on small scale business with income generation per day less or equal 100,000tshs. Entrepreneurs in Morogoro municipal in three wards that were Mazimbu, Kihonda and Mji Mkuu who are in neither public nor private sector employments were of most concern in the field.

3.3. The study sample.

This study involved a sample of 60 respondents with 21 responses received from educated entrepreneurs and 39 responses from uneducated small entrepreneurs running vending, shop keeping, tailoring and hair salon activities. Other information’s included in the sample were obtained from 15 interviewed self entrepreneurs.

3.4 Sampling procedure and technique.

This study used a simple random sampling method to get a sample for analysis. This is the technique on which every possible combination of objects in the population to be studied has an equal chance of being selected. To all business type involved in the field, every entrepreneur had equal chance of either interviewed or filling the distributed questionnaires. The Proportionate stratified sampling also was applied to get a proportionate balance of male and female respondents so as to have intensive analysis on sex variable.

3.5 Instruments for data collection.

The study used *unstructured* and semi-structured interviews, questionnaire and physical observations. Data gathering in this field started conducting unstructured interview with entrepreneurs of different business activities. The aim of unstructured key informant interview was to obtain preliminary data on motivations for going in self-business activities and challenges facing those activities. Basing on those preliminary data semi structured interviews was then formulated with few important questions on self-business. The study also used questionnaires to obtain important data over 60 respondents.

3.6 Data analysis

The data were analyzed using multiple linear regressions analysis with Profits generated per week as a dependent variable against a number of covariates which included, formal education, age of business or experiences, marketing (frequencies of customers), financial capital invested, location of business from central of Morogoro town and type of business.

4. RESULTS AND DISCUSSIONS:

4.1 Demographic Characteristics of the Respondents

The study involved 60 respondents dealing with small scale business. Out of 60, 23(38%) were vendors, 22(37%) had shops and 15 (25%) were tailors and/o cutting hair salon This results indicates that in the study areas most of small scale entrepreneurs were likely to be *food, fruits and vegetables sellers that are vendors followed by shopkeepers. In terms of sex composition 33 (55%) of them were females where’s as 27 (45%) were males.*

As regards education 39 (65%) of them were uneducated and only 21(35%) were educated. This is a clear indication that t vending, shop keeping, tailoring and cutting hair salon are dominated by uneducated people. As for the age of the business very few of them (13) which is about 22% had stayed for more than five years whereas majority of them 47(78%) stayed for less than 5 years. This could be an indication that most small scale business including the ones under this study do not survive for a long time.

Regarding marital status 31(52%) of them were married while 29(48%) were single. The percentages are quite balanced which indicates that both married and unmarried people do engage themselves in small scale business.

4.2 Results from Multiple linear Regression

The income figures had a skewed distribution and because of that this study transformed profits figures into natural logarithms to make them normally distributed which is one of the key requirements for multiple linear regressions. After the model was run, model residuals were tested for normality and they were found to be normally distributed (Table1).

Table 1: Test of normality of model residuals

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Predicted Value	.079	60	.200	.967	60	.109

Kolmogorov-Smirnov and Shapiro-Wilk tests were done and both tests led to the non-rejection of the null hypothesis of data normality (Table 1)

Multiple linear regression analysis is governed with some other key important assumptions that ensure trustworthy of analysis apart from normality. Key assumptions such as homoscedasticity (that is constant variance), Linearity (Figure 1), no multicollinearity and independence of the dependent variable were also considered (Table 2).

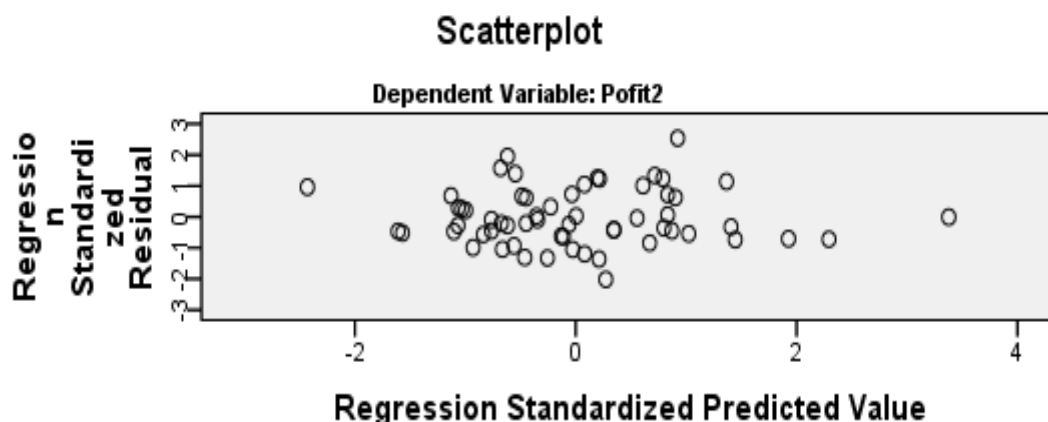


Figure 1: Scatter plot indicating linearity and constant variances of variables on profits

In Figure 1 above the plotted residuals seems to be equally spread up and below the zero value suggesting that the model obeys linearity and constant variance assumptions.

An assumption of independence of the observation was assessed using the Durbin-Watson (d) statistic which had a value of 1.703. This value is within acceptable range of $1.5 <= d <= 2.5$ which indicates clear independence of each observation from the other. Further the analysis carried to test multicollinearity of variables showed the absence of it with variance inflation factor value less than ten i.e. $VIF < 10$ for each independent variable as shown in Table 2.

Apart from the fulfillment of the stated assumptions, regression model results in Table 2 indicates that the model is highly significant ($p=0.000$) with an adjusted R-square value of 0.604 which signifies the powerfulness of the model and suggesting that all independent variables involved are able to explain 60.4% of the total variation in profits generated by vendors, shopkeepers, tailors and hair salons in Morogoro municipality. These results justify the use of this model to explain the role of education and other factors in income generation.

Table 2: Multiple Linear Regression Results on factors influencing Business Profit

variables	Unstandardized coefficients	Std. Error	Standardized Beta	t	Sig.	VIF
Vendoring	.560	.398	.282	1.409	.165	5.986
Shop keeping	.965	.385	.475	2.507	.016	5.359
Tailoring and Salon	1.157	.388	.533	2.980	.004	4.765
Sex	-.096	.171	-.049	-.560	.578	1.132
Capital	.113	.085	.181	1.321	.052	2.812
Marital status	.00003.59	.179	.000	.000	1.000	1.253
Distance from town	-.080	.020	-.377	-3.993	.000	1.327
Customers per day	.005	.004	.156	1.474	.057	1.675
Education	.029	.196	.014	.150	.881	1.359
Age of the Business	.538	.141	.387	3.813	.000	1.534

Dependent Variable: lnPofit2: Adjusted R-square =0.604, $p=0.000$, F-value=10.007, Durbin-Watson =1.703

Basing on model results in Table 1 above, formal education has no influence in profits or income generation to vendors, shopkeepers, tailors and hair salon in Morogoro Municipality ($p=0.881$). This indicates that knowledge acquired from formal class do nothing in increase of income generation to small scale activities involved in this study. Lentz and Laband (1990) support this model conclusion with argument that potential and successive entrepreneurs do not necessary need formal skills since integrated perspectives of the firms can only be obtained by actual experiences in the firms. Moreover formal education focuses much on accumulation of knowledge rather than practical know-how to run business effectively and successfully.

Age of business

Age of business relate positively with personal years of market experiences. Through experiences entrepreneurs predict in deep market situations and kind of products value more by customers at time. Moreover skills

including business language skills, marketing skills, social skills and other necessary skills to run firms develop as the personal interact with same activities for many years. Having such market experiences and inborn developed skills selected entrepreneurs are likely to generate more profits and increase their income. The regression analysis performed resulted into $p=0.000$ with beta weight $\beta=0.387$ which was significant to conclude that the increase in profit generation is positively influenced by age of business accounted as personal experiences in business.

Location of business

In this study location of business signify the population and demands of products. The coefficient of distance was -0.080 with a significant impact on profit ($p=0000$) indicating that profits generation decreases with an increases in distance from Morogoro town center. This trend is explained by variation of populations and demands of products associated within the study areas.

Financial capital

The financial capital to start business determined to have a slight contribution in profits generations. Through interview most of the people responded on capital their ideals relied on quality and quantity of goods in marketing. Enough financial capital is needed so as to access more quantity and quality of products that sounds in markets. Furthest analysis on multiple linear regression confirmed such slightly influence of capital in increase of profit generation with $p=0.052$ and beta weight of 0.181 .

Frequency of Customers

The marketing level relates with type of business and frequency of customers an individual entrepreneur can receive per day. Using multiple linear regression analysis the result gave $p=0.057$ and beta weight $\beta= 0.156$ indicating slightly increase of profits generation. This slightly increase in profits can be explained with type of business that operated at low price like selling of already cooked food and fruits.

Type of Business Activity

Results in Table2 shows that type of a business matters a lot in profit generation. The Table indicates that shop keeping and tailoring and saloon matters a lot for profit generation as compared to vending.

4.3 Motivating Factors and Challenges Facing Small scale Businesses.

Table 3: Percentage of respondents on reasons for entering into self-employment

	Motives force	Frequency	Percentage
	No any driving force	7.0	11
	Freedom only	31.0	52
	Family influences	10.0	17
	freedom and more payments from jobs	12.0	20.0
	Total	60.0	100.0

Table 3 above indicates that most of entrepreneurs (52%) in selected activities were likely to start their own activities because of desires for freedom followed by 20.0% who entered because of the fact that the activates have more payment entrepreneurs out of 60 accounted for 20.0% who see their jobs to pay more and desires also freedom. Also it depicts that the belonging families have an influence on start or entering in small scale firms with 10 entrepreneurs of 60 makes 17% influences by their families or society.

4.4 Challenges facing small scale businesses

There many challenges mentioned by groups of self-entrepreneurs depending to their type of activities, but this study tried to describe only common challenges which were received from all of them. These were , insufficient finances, instability of market, lack of better areas for business and paying more taxes (TRA) as sown in Table 4.

Table 4: Percentages of respondents on the challenges facing small scale business

S	Challenges	Frequencies	Percent of respondents
1	Insufficient of capital to start a job	38	63
2	Unstable market	36	60
3	Lack of better areas for business	35	58
4	More taxes paid by small scale entrepreneurs	33	55

Table 3 above shows that 38 out of 60 (63%) of small entrepreneurs face financial problem to start and expand their small firms. The Table also shows that 60% of total sample are not satisfied with the market stability of their business. Another challenge is the lack of better areas for doing business(58%). Most of affected entrepreneurs on areas for business are food sellers falls in vending activities due to eruption of diseases such as cholera disease leads into seasonal suspensions of such activities. Vendors claimed that the issues of municipal authority to stop them doing their normal business lead them to loss even small capitals they already have.

5. CONCLUSION:

This paper analyzed the influence of formal education on small self-employments particularly job creations and income growth and challenges facing self-employments. The study concludes that formal education has no influence or contribution on both income generations and creation of small scale self-employments. The issue of creating or engaging in small scale self-employments particularly vendoring, shop keeping, tailoring and hair salon and grow in income earnings from those activities do not necessary require formal education but factors like financial capitals, marketing level, age of business, marital status, and location of business can better explain income growth and possibility of a person to create self-employment. The study has shown that even if a person has formal education while has no experiences (few years in the same business), he/ she cannot win and expand if compared to experienced person. Moreover business is a capital. Entrepreneurs with more financial capital are likely to enter into self-employments and generate more profits than those with less capital. Many entrepreneurs' responded on capital availability, cried of being having insufficient financial capital as one of serious challenge. In other word it can be understood that with no education but having enough capital with the forces of hard living standard one is likely to enter or start new firms and generate more income. Also the study has shown that small scale self-activities need supportive areas that are more populated and stable markets so as to create, extend size of firms and grow in income.

6. RECOMMENDATIONS

The government, other businesses educational institutions and stakeholders are recommended to team up and develop important business skills or studies and incorporate those studies in schools curricular at all level of education so as to help in enabling graduates of all level with a vision of being self-employed to win more and show some supperioties in all level of business compared to uneducated people. This will help to notify the importance and role of education even to people who failed to both continue with other level of education and access public jobs as they will engage in self-employments and win more. The societies are likely to engage and continue investing more in education if oversees education to be more helpful in all side of success including business area. Lastly small entrepreneurs in Morogoro municipality are recommended to establish difference business networks to support each other, consult different financial institutions to support them and the newly entrepreneurs in case of finances so as to be able start and expand their business.

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