CERTIFICATION

The undersigned certifies that, has read and hereby recommends for acceptance by this research paper titled“Economic Effects of Global Financial Crisis in Less Developed Countries”, A Case Study of Dar es Salaam Tanzaniain partial fulfilment of the requirements for the award of Masters in Business Administration.

……………………………………………….

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(Supervisor)

Date:………………………….

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DECRALATION

I, Genardius, R.K. Scallion,hereby declare that this research paper is my original work and it has not been presented anywhere or will not be presented to any other institution for any award.

Signature

Date

DEDICATION

This work is dedicated to my family, my father and other people who supported me in time of need.

ACKNOWLEDGEMENT

After a long journey in full filing the requirement of demanding work it is time to convey my heartfelt regards to all people who participated in one way all another to make this work possible. I thank the Almighty God who in his capacity has given me desire and ability to pursue this programme. Sincerely I don't have a clear word to express my appreciation to him rather than saying "Thank You Lord". Also I am grateful to my supervisor Dr.Chacha for his continuous support from the start to date. I am indebted to him recognition of his contribution. More over I recognize the contribution ofstaffs from BOT, National Bureau of Statistics and Dar-es-salaam business community for their support during research period.

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ABSTRACT

This research intended to examine the economic effect of Global Financial and Economic Crisis (GFEC) toLess Developed Countries (LDCs) focusing on Tanzania, the city of Dar es salaam. The researcher concentrated on the economic effects of the global financial crisis to Tanzania. The research was designed in such a way that it enabled the researcher to grasp public perception on the financial crisis. On the basis of different views of authors, a conceptual framework was developed which determined the association between the impact of global financial and economic crisis on individuals, general business community and the country in general was supported by questionnaires. The study adopted both qualitative and quantitative research approaches and it represented an econometric analysis using statistical package for social sciences (SPSS). The determinants and repercussion were scrutinized by employing regression analysis, in which the researcher used a one sample t-test. The research gives a new insight into explaining the impact of global financial crisis on country's economy.Descriptive statistics analysis and one sample t-test empirical study concluded that respondents were aware of the GFC, and its impact on individuals, and the general business community. The respondents were also aware and knowledgeable on the effects of GFC on individuals and the Tanzania's economy.It was reported that the GFC shattered country's economic stability, especially on tax revenues decrease and rising inflation. Further, it was reported that financial sector and industrial sector were seriously affected through international trade.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

The current global economic crisis started as a financial crisis in the United State of America in 2007(Ndulu, 2010). It has its roots in credit contraction in the banking sector due to certain laxities in the US financial system. The crisis later spread to Europe and now has become a global phenomenon. The financial crisis at the early stage manifested strongly in the sub-prime mortgages because households faced difficulties in making higher payments on adjusted mortgages,Hume and Sentence, (2009). This development led to the use of credit contraction by financial institutions in the US to tighten their standards in the light of their deteriorating balance sheets. In addition, financial institutions stopped lending and recalled their credit lines to ensure capital adequacy (Lunogelo, 2010).

According to Lunogelo and Hangi, (2010), the use of credit contraction by foreign banks began in early stages, the Tanzanian banking system had not been seriously entangled in a financial crisis. The reason behind is that Tanzania Financial systems is independent and therefore has lowlevels of integration with the international financial market and operated in a regime of capitalaccount restrictions. This lowered exposure to the bad financial assets leading to lower exposureto the crisis. However, by late 2008 the banking sector in Tanzania started worrying that tradefinancing was increasingly becoming more risky as commodity prices continued to lose value inthe world market and export orders reduced. One of the initial interventions by government ofTanzania was to assure the general public that the local banking sector was in sound condition.Meanwhile it started initiatives to support the Banks so that they avoid reducing trade financingas that would have greatly affected the national economy in terms of foreign exchange earningsand job creation

Lunogelo and Hangi, (2009).Over time the falling purchasing power of developed economies began to manifest in terms of fall of commodity prices, loss of jobs leading to unemployment, decline in incomes,and fallin demandfor world tradable commodities. The most negatively affected sectors were; agriculture, industry,mining and tourism (MOFE, Budget Speech 2009/10).

As the global economy continued to sinkinto depression, price levels of key export commodities in Tanzania fell further as consumerdemand in advanced countries continued to decline and the revenues from the tourist sectordwindled as tourists cut back on holiday making. There were fears that although the governmenthad managed to stay on track in the promise to create a million jobs by 2010, the financial crisiswas likely to derail the process. The government therefore made concerted efforts to maximizethe benefits from falling international crude oil prices so that local prices are lowered andtherefore reducing the cost of production and transport (Lunogelo and Hangi 2010).

This study aims at exploring facts regarding economic effects of Global financial crisis in Tanzania. Assessment of major economic factors and financial policies will be done to determine the degree to which the crisis has affected Tanzania. It is known that Tanzania is not an autarky; hence it is difficult for her to completely hedge against effect of global financial crisis.The earlier assessment by the Bank of Tanzania confirms this fact (BOT Monthly Economic Review March, 2009)

1.2 Statement of the Problem

Tanzania started to experience Global financial crisis shocks late 2008. During this period financial institutions like banking and insurance sector started worrying that trade in finance was becoming more risky. Commodity prices lost value at the world markets, reduced export orders and dwindling tourism revenue was a big threat. The crisis had affected a number of sectors in early 2009, including agriculture, mining, health and tourism, Lunogelo and Hangi(2010).

The Tanzania Deputy Minister of Health and Social Welfare confirms presence of threats in her speech during 24th scientific conference at the National Institute for Medical Research (NIMR) when she called upon healthy researchers, policy makers and development partners to collectively come up with practical solutions to reducing impacts of the global financial and economic crisis, which was facing the world at that time (The Guardian, MondayMarch22, 2010*)*. In Tanzania specifically, it was anticipated that the situation was likely to affect the implementation of Millennium Development Goals by 2015 which is mainly funded by western countries (Msangi, 2008). More over the global financial crisis has affected even common man as revealed by rising prices of goods at grocery stores, retrenchment of employees and closure of industries (The Guardian, Thursday May 6, 2010)According to this newspaper the problem was also in Greece where Greeks protested against new austerity measures which compelled public and private workers to riot. About 4,000 teachers, garbage collectors, pensioners and civil servants rallied in Athens on Tuesday 4th 2010, in the first march organized by unions after the government announced sweeping spending cuts to secure an EU/IMF rescue package.

This situation triggers the need to conduct a study and find out what is the real situation in Tanzania. In order to restore the public confidence in financial, health, agriculture, mining, tourism and other industrial sectors, answers to the above economic impediments should be available. There is a need to address channels through which effects are transmitted. These channels are*financial channels* and *real channels*. Financial channels include effects through stock markets, banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to sub-prime market), and Foreign Direct

Investment (FDI). Real channels include effects through remittances, exports, imports, terms of trade and aid,Lunogelo and Hangi, (2010).

It is on the basis of that, this study was undertaken to investigate the effects of the crisis on the Tanzanian Economy. Approach followed by the study is consistent with the idea of ESRF report (2009) on Tanzania which focused on The Global Financial Crisis and Tanzania, Effects and Policy Responses in order to reveal useful insights.

1.3 General Objectives

Examining economic effects of the Global Financial Crisis of 2007 in Less Developed Countries in particular Dar es salaam-Tanzania.

1.4 Specific Objectives

i. To examine the effect of the crisis on trade prices.

ii. To assess the economic situations faced by Tanzanians during the crisis.

iii. To assess the economic policies during the period under crisis in Tanzania.

iv. To assess the business environment in Tanzania during the crisis.

v. To asses if the general business community werepromising during the crisis.

1.5 Research Questions

i. Were trade prices affected during outset of the global financial crisis?

ii. Were common men in Tanzania affected by global financial crisis?

iii.Which economic sectors were affected by global financial crisis?

iv. Why were financial and industrial sectors seriously affected by the globalfinancial crisis?

v.Was the business environment promising during 2007 throughto 2009?

1.6 Significance of the study

This study equipped the researcher with high knowledge on the current macro economic and social challenges posed by the global economic and financial crisis. Also, the study provided a better understanding of what could provide financial stability, how cross-border cooperation could help to provide the public good of international financial rules and systems, and what could be the most appropriate rules with respect to development. There are needs to get understanding of whether and how developing countries could minimize financial contagion, to know how developing countries could also need to manage the implications of the current economic slowdown. Although the GFC had negative effects in the country's growth path, it provides some challenges and opportunities for the country. The challenges are in its low domestic revenuegeneration capacity and productivity and weak infrastructures systems, where as theopportunities exist such as; wide diversification ability due to large natural resources baseand increase in income from exports due to expanding regional trade in the EAC.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1Definitions of Concepts

2.1.1 Global Economic and Financial Crisis

A global financial crisis refers to a situation when, for reasons that may not necessarily be grounded in accurate information or apparent logic, parties to financial contracts in many nations simultaneously conclude that the contracts they hold are unlikely to be honored by counterparties or that the financial assets that they hold are likely to be worth substantially less than previously thought, Ndulu (2009).As a result these parties, such as banks, typically cease to advance funds to others, demand early repayment of loans and other financial instruments, liquidate holdings of financial assets that can be sold, increase collateral requirements to a degree that is outside the prior expectations of market participants. The result is what is often referred to as “frozen” financial markets, where trading volumes fall considerably and parties often cannot be induced to trade financial instruments no matter what prices are offered.

Also Hume (2010) has defined the global financial and economic crisis as an economic scenario where the economies of countries all over the world have taken a beating. The GDP's of countries are going down, are in negative zone. There is severe liquidity crunch and countries, governments around the world are frantically taking steps to combat this issue. This crunch was due to America’s laxity in addressing control measure as the symptoms for crisis started to show up in early 2007.

2.1.2 Sub-prime Mortgage

A sub-prime mortgage is a type of mortgage that is normally made out to borrowers with lower credit ratings. As a result of the borrower's lowered credit rating, a conventional mortgage is not offered because the lender views the borrower as having a largerthanaverage risk of defaulting on the loan. Lending institutions often charge interest on subprime mortgages at a rate that is higher than a conventional mortgage in order to compensate themselves for carrying more risk (Soludo, 2009).

2.1.3 Financial Contagion

Financial contagion is the likelihood that significant economic changes in one country will spread to other countries. Contagion can refer to the spread of either economic booms or economic crises throughout a geographic region. Financial contagion is the mechanism through which the crisis was spread the world over (Lunegelo, Mbilinyi and Hangi, 2010).

2.1.4 Less Developed Countries

Less Developed Countries are countries which are considered lacking in terms of their economies, infrastructure and industrial base. The populations of lesser developed countries often have a relatively low standard of living, due to low incomes and abundant poverty, Ndulu, (2009). The per capita income of individuals is considered to be less than USD 1 per day. Less developed countries’ budgets are dependent on donor support from developed countries.

2.1.5 Gross Domestic Product (GDP)

GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, overnment outlays, investments and exports less imports that occur within a defined territory.

GDP = C + G + I + NX

Where:

"C" is equal to all private consumption, or consumer spending, in a nation's economy.

"G" is the sum of government spending.

"I" is the sum of all the country's businesses spending on capital.

"NX" is the nation's total net exports, calculated as total exports minus total imports. NX= (Exports – Imports).

2.2 Critical Theoretical Review

Models of financial markets and economic policies to deal with recurring financial crises have come under much greater scrutiny since the events of 2007 erupted into a global financial crisis. Models that are capable of identifying when and how financial markets react to shocks, the influence of policies that seem to impede price discovery in these markets, the sensitivity of financial markets to global influences and international attempts to regulate and supervise them, including transparency, governance, and the communication of policy initiatives, are now at the forefront. The international community is keenly interested in understanding the role of China in all of the foregoing developments, Waterloo, (2011). In several readingthe researcher gone through, he discovered that many authors have viewed effects of global financial crisis generallyin developed and developing countries. Little have been done in less developed countries, and if done iswithout identifying specific area of concentration.

The global financial crisis and the great recession dramatically illustrated how integrated the world economy is and how economic interdependencies have become more complex than previously understood or recognized. The crisis also made clear that these interdependencies and associated spillover effects demand ever greater attention to the design of domestic policy with international implications in mind. Indeed, one of the pressing global governance issues is the need to further develop a consensus on the nature of global interdependencies.

Without a clear understanding of the nature and scale of economic interdependencies, policymakers will not possess sufficient evidence of the benefits of international policy cooperation. While the global economy is no longer on the verge of collapse, it is critical that nations cooperate on adjustment policies to address global imbalances, put the recovery on a robust and sustainable path and strengthen the international monetary and financial systems. One of the most demanding tasks facing the G20 is this challenge of multilateral policy cooperation Jenkins, (2011).

The impact of the global financial crisis differs from one region to another depending on style and standard of living (Ndulu, 2009). Although the significance level of the impact may be the same, what matters is the way the affected people respond to those effects.An analysis and review of the relevant literature on the subject and the various factors and theories, will provide evidence on economic effects of global financial crisis to the society.

2.2.1 Austrian Business Cycle Theory

Austrian Business Cycle Theory (ABCT) states that distortions in the availability of credit are the cause of business cycles. Mises and Hayek (1974) believe that a sustained period of low interest rates and excessive credit creation result in a volatile and unstable imbalance between saving and investment. According to the theory, the business cycle unfolds in the following way,low interest rates tend to stimulate borrowing from the banking system. It is argued that this leads to an increase in capital spending funded by newly issued bank credit. The theory confirms the fact that a credit-sourced boom results in widespread mal-investment. In the theory, a correction or credit crunch commonly called a "recession" or bust, occurs when the credit creation has run its course. Then the money supply contracts, causing resources to be reallocated back towards their former uses.

Garrison (2000) in his book "Time and Money" argues that the troubles which characterise modern capital-intensive economies, particularly the episodes of boom and bust, may best be analysed with the aid of a capital-based macroeconomics. The primary focus of this text is the inter-temporal structure of capital, an area that until now has been neglected in favour of labour and money-based macroeconomics.This leads to the situation in USwhere difficulties associated with the housing segment of the US house property market were the immediate cause of the crisis (IMF, 2008). Complex financial instruments that incorporated subprime house mortgages lost their value as the housing bubble burst following ten years of continuous price rises based on expectations of a continuation of such increases.

This housing bubble occurred despite the fact that during the previous two decades the supply of housing had increased appreciably (Solow, 2009). In brief, house prices had risen because interest rates were low and credit was easily available, and prices were expected to continue to increase much as in the case of the classic tulip mania and bubble in the early 17th century when, at its peak, the price of a tulip bulb Holland was equivalent to that of a three story town house. This was the beginning of financial crisis.

2.2.2Credit Cycle Theory

The credit cycle theory is the expansion and contraction of access to credit over a period of time. According to Reinhart and Rogoff (2009), during an expansion of credit, asset prices are bid up by those with access to leveraged capital. This asset price inflation can then cause an unsustainable speculative price "bubble" to develop. The upswing in new money creation also increases the money supply for real goods and services, thereby stimulating economic activity and fostering growth in national income and employment.

2.2.3Marxist Economic Theory

Marxism, or Scientific Socialism, is the name given to the body of ideas first worked out by Marx (1818-1883) and Engels (1820-1895). In their totality, these ideas provide a fully worked out theoretical basis for the struggle of the working class to attain a higher form of human society, socialism. While the conceptions of Marxism have been subsequently developed and enriched by the historical experience of the working class itself, the fundamental ideas remain unshaken, providing a firm foundation for the labour movement today. Neither before, nor since the lifetime of Marx and Engels have any superior, more truthful or scientific theories been advanced to explain the movement of society and the role of the working class in that movement. Knowledge of Marxism therefore equips the proletariat theoretically for the great historic task of the Socialist transformation of Society.

Developing an economic crisis theory became the central recurring concept throughout Karl Marx's mature work. Marx's law of the tendency for the rate of profit to fall has created a base for other economic analysis. Mill (1873) in his Principles of Political Economy Book IV, on the concept book of *the Tendency of Profits to a Minimum,* The theory is a corollary of the *Tendency towards the Centralization of Profits*.In a capitalist system, successfullyoperating businesses return less money to their workers (in the form of wages) than the value of the goods produced by those workers (the amount of money the products are sold for). This profit first goes towards covering the initial investment in the business. In the long-run, however, when one considers the combined economic activity of all successfullyoperating business, it is clear that less money (in the form of wages) is being returned to the mass of the population (the workers) than is available to them to buy all of these goods being produced. Furthermore, the expansion of businesses in the process of competing for markets leads to an abundance of goods and a general fall in their prices, further exacerbating *the tendency for the rate of profit to fall*.

The viability of this theory depends upon two main factors, firstly, the degree to which profit is taxed by government and returned to the mass of people in the form of welfare, family benefits and health and education spending, and secondly, the proportion of the population who are workers rather than investors/business owners. Given the extraordinary capital expenditure required to enter modern economic sectors like airline transport, the military industry, or chemical production, mines and tourism, these sectors are extremely difficult for new businesses to enter and are being concentrated in fewer and fewer hands, Thompson (2012).

2.2.3Classical GrowthTheory

Classical Growth Theory was developed by Ricardo (1823), Smith (1790) and Malthus (1834). A theory on economic growth that argues that economic growth will end because of an increasing population and limited resources. Classical Growth Theory economists believed that temporary increases in real GDP per person would cause a population explosion that would consequently decrease real GDP. Economists behind this theory developed an idea of a "subsistence level" to model the theory. They believed that if real

GDP rose above this subsistence level of income that it would cause the population to increase and bring real GDP back down to the subsistence level. It was sort of like a equilibrium level that real GDP would always revert to in this theory. Alternatively, if the real GDP fell below this subsistence level, parts of the population would die off and real income would rise back to the subsistence level.

In their paper Bhaduri and Harris (1986) analysis the essential dynamics of the Richardian system as it is governed sorely by the interplay of distribution and accumulation a model similar to this theory. The interest of classical economists in economic growth derived also from a philosophical concern with the possibilities of “progress” an essential condition of which was seen to be the development of the material basis of the society. Accordingly, it was felt that the purpose of the analysis was to identify the forces in the society that promoted or hindered this development and hence progress, and consequently to provide a basis for policy and action to influence those forces. This situation is related to current innovation in financial instrument which seem very volatile.The volatility of the financial instrument was the major determining factor in developing this model. Also it considered the influence of participant at the market especially those who could study and predict the market trends called arbitragers, who were able to take advantages of their market knowledge and available information.

2.2.4Minsky's Theory

Minsky (1996) has proposed a post Keynesian explanation that is most applicable to a closed economy. He theorized that financial fragility is a typical feature of any capitalist economy. High fragility leads to a higher risk of a financial crisis. To facilitate his analysis, Minsky defines three approaches financing firms may choose, according to their tolerance of risk. They are hedge finance, speculative finance, and Ponzi finance. These can be explained further as follows;Fist, for hedge finance, income flows are expected to meet financial obligations in every period, including both the principal and the interest on loans.Second, for speculative finance, a firm must roll over debt because income flows are expected to only cover interest costs. None of the principal is paid off.Third, for Ponzi finance, expected income flows will not even cover interest cost, so the firm must borrow more or sell off assets simply to service its debt. The hope is that either the market value of assets or income will rise enough to pay off interest and principal.

Financial fragility levels move together with the business cycle. After a recession, firms have lost much financing and choose only hedge, the safest. As the economy grows and expected profits rise, firms tend to believe that they can allow themselves to take on speculative financing. In this case, they know that profits will not cover all the interest all the time. Firms, however, believe that profits will rise and the loans will eventually be repaid without much trouble. More loans lead to more investment, and the economygrows further. Then lenders also start believing that they will get back all the moneylend. Therefore, they are ready to lend to firms without full guarantees of success.Lenders know that such firms will have problems repaying. Still, they believe these firms will refinance from elsewhere as their expected profits rise. This is Ponzi financing. In this way, the economy has taken on much risky credit. Now it is only a question of time before some big firm actually defaults. Lenders understand the actual risks in the economy and stop giving credit so easily. Refinancing becomes impossible for many, and more firms default. If no new money comes into the economy to allow the refinancing process, a real economic crisis begins. During the recession, firms start to hedge again, and the cycle is closed.

2.2.5 Economist's 'Creative Destruction' Theory

Economist’s Creative Destruction Theory was developed by a German economist who viewed an Entrepreneur as the corner stone of capitalism. Although he died 50 years ago, Schumpeter's theories anticipated an age when an entrepreneur such as Mr. Bill Gates could command as much global recognition as the president of the United States or the latest rock star. Economist’s Creative Destruction Theory states that the vital force behind capitalism is innovation and the entrepreneur’s willingness to introduce it, coupled with a process in which new technologies, new kinds of products, new methods of production and new means of distribution make old ones obsolete, forcing existing companies to quickly adapt to a new environment or fail.

Schumpeter (1942) in his book, Capitalism, Socialism and Democracy says that the entrepreneurial spirit came from a “will to create an empire for one's self. It is a dynamic force that stems from the disposition of some people. Not that they are particularly intelligent. It is not cognitive ability. They are not subtle people. They are often very crude, but they want to attack the world in a certain way. Hammour (2005) said that if you take the old adventurers, capitalism turned that into this calculating spirit. Whatever their nature, entrepreneurs, by advancing new products, technology or production methods, provide an impulse for change and Schumpeter explains this as "a perennial gale of creative destruction.

2.3 General Discussion of the Topic

According to Minsky (1996), The Financial Instability Hypothesis (FIH) has both empirical and theoretical aspects that challenge the classic precepts of Smith and Walras, who implied that the economy can be best understood by assuming that it is constantly an equilibriumseeking and sustaining system. The theoretical argument of the FIH emerges from the characterization of the economy as a capitalist economy with extensive capital assets and a sophisticated financial system.

In spite of the complexity of financial relations, the key determinant of system behavior remains the level of profits, the FIH incorporates a view in which aggregate demand determines profits. Hence, aggregate profits equal aggregate investment plus the government deficit. The FIH, therefore, considers the impact of debt on system behavior and also includes the manner in which debt is validated. Minsky identifies hedge, speculative, and Ponzi finance as distinct income-debt relations for economic units. He asserts that if hedge financing dominates, then the economy may well be an equilibrium-seeking and containing system, conversely, the greater the weight of speculative and Ponzi finance, the greater the likelihood that the economy is a "deviation-amplifying" system. Thus, the FIH suggests that over periods of prolonged prosperity, capitalist economies tend to move from a financial structure dominated by hedge finance (stable) to a structure that increasingly emphasizes speculative and Ponzi finance (unstable). The FIH is a model of a capitalist economy that does not rely on exogenous shocks to generate business cycles of varying severity. Business cycles of history are compounded out of, one the internal dynamics of capitalist economies, and second the system of interventions and regulations that are designed to keep the economy operating within reasonable bounds.

A speculative bubble exists in the event of large, sustained overpricing of some class of assets. One factor that frequently contributes to a bubble is the presence of buyers who purchase an asset based solely on the expectation that they can later resell it at a higher price, rather than calculating the income it will generate in the future. If there is a bubble, there is also a risk of a *crash* in asset prices, market participants will go on buying only as long as they expect others to buy, and when many decide to sell the price will fall.

However, it is difficult to predict whether an asset's price actually equals itsfundamental value, so it is hard to detect bubbles reliably. Some economists insist thatbubbles never or almost never occur.It is often observed that successful investment requires each investor in a financial market to guess what other investors will do,Soros (2007). He suggests that there is a need to guess the intentions of others 'reflexivity'. Similarly, Keynes (1996) compared financial markets to a beauty contest game in which each participant tries to predict which model *other* participants will consider most beautiful.Circularity and self-fulfilling prophecies may be exaggerated when reliable information is not available because of opaque disclosures or a lack of disclosure.

It has been argued that if people or firms have a sufficiently strong incentive to do the same thing they expect others to do, then *self-fulfilling prophecies* may occur.For example, if investors expect the value of the shilling to rise, this may cause its value to rise, if depositors expect a bank to fail this may cause it to fail. Therefore, financial crises are sometimes viewed as a vicious circle in which investors shun some institution or asset because they expect others to do so.

According to G 20-Summit (2008), the current financial crisis has been accompanied by a period of strong global growth, growing capital flows, and prolonged stability earlier this decade. Market participants sought higher yields without an adequate appreciation of the risks, and failed to exercise proper due diligence. At the same time weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products and consequently excessive leverage combined to create vulnerability in the system.Policy makers, regulators, and supervisors in some advanced countries did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic effects of domestic regulatory actions hence leading to global financial crisis (G 20-Summit, 2008).

2.3.1The US Subprime Mortgage Crisis

The position of USA in the world market gives a challenge to LDCs that it is very unlikely to do without US involvement in economic development. Therefore any shock in US economy definitely will affect developing countries. For example if the situation were to affect Tanzania, the country could experience a fall in Foreign Direct Investment (FDI), Investors would have cash shortage and it would be difficult to attract investors. However countries like Tanzania of which 40% of her budget depends on boost from donors would face problems because foreign aid will decrease, pressures to repay debts to cover deficit is a situation which will seriously affect social services, and government will experience loss of tax revenue from investments and employment.

In Tanzania specifically, the situation is likely to affect the implementation of Millennium Development Goals by 2015 which is mainly funded by western countries (Msangi, 2008). Contrary to the above view, (Ndulu,2008*)* argues that the economy to most of African countries is unshakable and that Tanzania financial sector remained stable with a growth rate of 48% and foreign reserve of 2.7 billion for the past 18 months. In addition the President of the United Republic of Tanzania assured Tanzanians of their economy sailing through unaffected during Uhuru torch ceremony in Tanga(2008). Also according to BOT reports (2008/2009*)* the Tanzania economy grew by approximately 7.5% in the year 2008 as compared to 7.1% in year 2007. Furthermore the Tanzania Minister for Finance commented that our economy was doing fine. Quotation “If it was not for the economic crisis, the economy was robust, we are doing very well. In fact, we had a sustainable 7-

percent growth rate for more than three years." said Mustafa Mkulo the Tanzanian Minister (Beijing Time 27th April 2009).

To the contrary the International Monetary Fund (IMF) warnedTanzania's financial system was still not safe from the global economic crisis, in its country report for June 2008, the IMF called for vigilance and closer scrutiny of the local financial sector, warning that local banks as well were not out of the woods yet and urging the Tanzanian government to safeguard pension funds whose significant assets in banking institutions could be undermined by the crisis. As the rapidlygrowing and inadequately supervised pension funds were particularly at risk from downturn and could also be affected by deterioration in the quality of their assets and the regulation of pension funds is weak, the IMF report pointed out that urgent action was required to put in place a regulatory authority whose law was enacted in November 2009.

The IMF also noted that Tanzania's banking system was vulnerable to credit risk that could result from the second round effects of the crisis likely to increase pressures, although the system remained sound. Nonperforming loans were likely to increase as the economy slows down and international commodity prices and demand for traditional exports like gold fall, the IMF warned.

2.3.2 Current situation in Developed Countries

According to G 20-Summit (2008) the current financial crisis was a result of weak policy makers, regulators, and poor supervision of financial systems in some advanced countries. They did not adequately appreciate and address the risks building up in financial markets, keeping in pace with financial innovation, or take into account the systemic effects of domestic regulatory actions hence leading to global financial crisis. Musasila (2008) supports the above view, argues that financial crisis eventually has caused serious;First, credit tightening by banks: it is significantly difficult to obtain funds from banks. Second, plummeting global equity market: since year 2007 stock market activities in developed countries have dropped. Third, the money market and particularly the interbank market are under pressure. Fourth, volatility in commodity prices is high. Fifth, it has lead to increase in level of unemployment and sixth, it has accelerated collapsing of some metropolitan companies eg DTV, Cargil, and Lehman Brothers.

Ndalichako (2008), also points out that, the global financial and economic crisis has been frightening and severe. It is hurting national economies throughout the world. Less Developed countries and newly industrializing countries are particularly feeling the pains. Every national economy feels the immediate impact of the global financial crisis in direct proportion to the extent it is integrated into the global economy. The second wave of the crisis, however, is also felt by economies with low degrees of integration, for example, when demand for the commodities they export drops. The magnitude of the current global financial crisis is unprecedented both in scope and scale. It is more serious than the Asian Financial crisis of 1997-98, and it is undoubtedly bigger than the bursting of the tech bubble of 1999-2000. It can be compared with the Great Depression of 1929-33(Pressman, 2009; Ndulu, 2009).

According to Ndulu (2009), the crisis has caused loss of wealth valued at more than US $7.3 trillion, which is about 50 percent of USA Gross Domestic Product. In the global financial crisis triggered by the crash of Lehman Brothers, the New York based investment bank, credit became virtually unobtainable because banks no longer trusted one another.

Governments in developed countries and some emerging markets have been forced to step-in to rescue banks, other financial institutions and corporations. They have so far spent more than U.S. $ 4 trillion to that effect. Plans for further coordinated expenditure are underway in the advanced countries to protect their economies from slipping into depression. Some countries are already in recession. Hopefully, this bailout will not presage yet the next bigger and severe financial tumble.Allan (2009) with his article "*New Thinking on the Financial Crisis*" shows that the global financial crisis came in two waves. First the banking system collapsed, and then economic difficulties affected *trade* and *industry*. The more a country is integrated into the global financial system, the more rapidly it was hit by the crisis. The first economies to be affected were those with banks that held many toxic assets, namely, the established industrial nations. However, other nations felt the impact too, because the loss of confidence in the financial sector prompted many investors to withdraw funds from developing and newly industrializing countries. Also BettyKibaara, (2010) supports this argument.

Stage two of the crisis is about the real economy. Export nations above all are noticing the decline in demand in major national economies. Fewer consumer goods and commodities are being sold on the world market, and usually these goods are exported mainly by poorer nationsthe LDCs. Prices for commodities, including internationally traded food stuffs, fell by about one third between mid2008 and mid2009. Falling demand has led to production cut backs and even to the closure of raw material facilities in poor countries like Tanzania, the Democratic Republic of Congo, Zambia and others, Lunegelo, Mbilinyi and Hangi, (2010). The crisis has triggered several questions into scholars' mind on how this could happen to a country like USA!!! Despite the fact that financial crisis has caused economic downturn as discussed above, yet there are mixed views from scholars and researchers on who should bear the blames as highlighted by different schools of thoughts below.

2.3.2 Schools of Thought on the Origin of the Crisis

There are two distinct schools of thought used to explain the origin of the current global financial Crisis. The first school mainly composed of pundits from Less Developed Countries and those from the new emerging industrializing nations from Asia of whom their economic growth was exportled to the west propagate that the crisis was the product of builtup systemic financial risks in both the United States of America and Europe.

They shift the blame to the west and **Bretton Woods Institution** i.e. The International Monetary Fund. Their argument is based on the premises that US crisis, of course, followed the bursting of a housing price bubble created by excess liquidity and undue risk taking. Three key factors tabled wereloose monetary policy, inadequate financial supervision and regulation, and large, persistent current account deficits.

The failure of US monetary policy to contain excess liquidity in the face of the emerging housing bubble was a major factor behind a buildup of financial risks. It is now well known and quite evident that the US Federal Reserve did not aggressively address the housing bubble, but rather responded to its bursting with monetary policy easing. Wide gaps in financial supervision and regulation created a result of a highly fragmented regulatory structure and weak oversight of investment banks, insurance firms, rating agencies, and derivatives, allowed a shadow banking system to expand enormously and pose grave systemic risks. In addition, large, persistent current account deficits enabled overspending and artificially prolonged the housing bubble, Adrian and Shin, (2008).In

Europe, financial institutions were not just innocent bystander either. Major European financial institutions not only invested in toxic US assets, but also had exposure to inflated domestic real estate and volatile Eastern European economies. They financed these risky investments largely by whole sale funding through international and domestic capital markets. In the Euro zone, a single monetary policy allowed for divergences among countries in real interest rates and real effective exchange rates due to differential inflation rates. As a result, countries with higher inflation faced lower real interest rates and stronger real exchange rates, thereby, fuelling active housing markets, property development and foreign borrowing. These contributed to the build-up of macroeconomic and financial risks in a number of countries, especially in the UK, Ireland, Spain and Greece. Vulnerabilities were even more apparent, with larger current account deficits, in some of the peripheral, non-Euro zone countries in Europe, including Iceland, Hungary, and the Baltic States. Many European financial institutions had large exposures to these financially vulnerable Countries, Adrian and Shin, (2008).

The second major factor was a weak international financial architecture that was unable to cope with the pace and complexity of financial globalization and rapid innovation. What began as the US sub-prime mortgage crisis rapidly spread to a general crisis in US and global capital markets and then to the real economy as manufacturing output and trade declined worldwide. All developed economies experienced financial turmoil and recession, most emerging economies were also affected, particularly those which borrowed excessively in foreign currency or depended heavily on US and European markets for exports.

The spill over impacts of US and European vulnerabilities on global finance and economic activity were clearly underestimated. The International monetary fundIMF failed to discern the depth and severity of the macroeconomic and financial risks and implications of the US Subprime crisis and European risks for global finance, trade and capital flows. It was not able to compel the US and Europe to take necessary policy steps to reduce economic and financial risks. Furthermore, there was no international framework capable of regulating, monitoring and supervising the cross-border activities of systemically important financial institutions, their products, and more generally, global financial market. Ideally, a global financial body should have been in place to supervise, regulate and ultimately prevent a global financial crisis as well as resolve internationally, active, insolvent financial institutions. Such a body could have provided rapid analysis and a timely warning of a crisis and helped further global integration in a stable manner, Bean, (2009).

The second school correctly argues that "*none of us is entirely blameless in causing the current global financial crisis*". These experts mainly from the west, i.e. US and EU countries, argue that the global financial crisis cannot be *isolated* or *blamed on one region over another*. It is a consequence of Asia's relationship with the West and a cause of the reshaping of the relationship. It results from the confluence of vast Asian and Middle Eastern liquidity, high Chinese savings, near-zero Japanese interest rates, and petrodollars combined with increasingly Laissez-faire Western bank regulations, corrupt rating agencies, and a bias-embodied in the policies of former US Federal Board Chairman Alan Greenspan toward re-inflating busted markets but never popping market bubbles. Thus, the root causes of the problems are persistent. The needs of the Chinese people for high savings, mostly likely to educate their community and to offset the country's lack of a sound social safety net, along with the Chinese economic system's suppression of personal consumption ensure that high savings will endure for decades, Bean (2009).

More over *Caballero, Farhi and Gourinchas (2008),* argue that Japanese government's incompetent management of its economy has required near-zero interest rates to avoid collapse for a period that is already stretching toward two decades, with no end in sight. The vast yet "carry trade" where investor borrow in yen to take advantage of low interest rate, then sell those yen for foreign currency to take advantage of higher interest rates and the prevalence of yen based mortgages from Hong Kong to Iceland is at least as important a source of excess liquidity as the excess savings of China, South Korea, Taiwan and Singapore.

Likewise, USA and EU dependence on Middle Eastern and Russian oil ensures persistent petrodollar accumulation. But Western financial mismanagement is in principle more easily and quickly remediable, but it remains to be seen whether fundamental reform or political theatre in form of attacks on executive pay and hedge
funds that are not central to the problem will predominate.

2.3.4 Implication to Global Economic GrowthEmphasis on the Less Developed Countries

Initially, less developed countries were thought to be free from any serious impact. However, this optimistic view was quickly overturned as the effects of the crisis in U.S. and Europe spread to Asia and Sub-Saharan Africa through foreign trade. Normally exporters demand advance payment from importers before the consignment is dispatched. But in the global "credit crunch" bank credits became impossible to obtain. Towards the end of 2008, money grew even scarcer. Banks capped importers' credit lines, such as importers were unable to pay up front.

Exporters were reluctant to do business without advance payment. Foreign business suffered and dwindled. Both sides of the trade suffered heavily. The crisis caused the banking system to collapse, thus, creating economic difficulties which seriously affected trade and industry worldwide. Then came loss of confidence in financial sector, which prompted many investors to withdraw funds from developing and newly emerging industrializing countries. With the dramatic slowdown in the West, there was a sharp decline in demand for imports from less Developed Countries and East Asia that depressed overall economic activity, Reinhart, (2008, 2009) and Rogoff, (2008, 2009).In year 2008, the United States of America economy contracted by 6 percent. In the same year 2008, the growth rate of the global economy was 3 percent while in 2009 it was projected to slow down to only 0.5 percent. Developed economies were projected to shrink by 2 percent in 2009, the growth rate in the emerging market economies was projected to slow down to 3.25 percent in 2009 from 6.25 percent in 2008. The growth rate of the economies of sub-Saharan Africa was projected to slow down to 3.5 percent in 2009 from 5.4 percent in 2008. And oil producing countries were affected more than non-oil producing nations, (IMF Report, 2009).

The crisis affects real economy. Export nation above all noticed the decline in demand in major national economies. Fewer consumer goods and commodities were being sold on the world market and these goods were exported mainly by poorer developing nations. Prices for commodities including internationally traded food stuffs fell by one third between mid-2008 and mid-2009.

Falling demand has led to production cutbacks and even to the closure of raw material facilities in countries like Democratic Republic of Congo, Zambia and others. This quite inevitably caused many layoffs among factory workers. In USA alone, by 2009, 3.6 million Americans lost their jobs. This exacerbates the economic situations in the less developed world whereby more than 80 percent of employable people remain unemployed. At the same time, private remittances from migrants to their families dwindled because people were earning less money, or had no income at all if they were on the dole. The World Bank estimated that relatives' remittances from abroad dropped by some $2 billion in sub-Saharan Countries in 2009. Moreover, revenues from tourism and foreign investments were also falling, Ndullu, (2010) and Kibaara, (2010).And also if donor countries who had pledged to provide development finance to less developed countries opt to cut back development aid. Per Capital Income and Economic growth will fall.

It should also be noted that countries with high export to GDP ratios have suffered more during the current crisis than those with low exportto GDP ratios. Heavily export-oriented countries such as Singapore, Taiwan, and South Korea experienced sharper declines in growth than Indonesia and Philippines which have lower exportto GDP ratios and consequently rely more heavily on their domestic and region market for economic activity. That sounds like advocating inwardoriented trade policies such as protectionism. To the contrary, countries should abhor protectionism and pursue outward oriented, liberalized trade policies because once the recovery starts, countries with more open trade regimes can be expected to return to robust growth quickly.

Furthermore, trade policies aimed at protecting domestic industries are likely to result in unexpected consequences that ultimately damage those industries by triggering retaliation from trading partners, which in turn reduces export opportunities for all countries. This is what happened during the tariff wars between World War I and World War II, WTOPress Release, (2009). Experience has revealed that followers of trade protectionism are at risk of losing international business due to their trend of restricting both imports and exports.

2.3.5 Trade Protectionism and Economic Growth:

In the researcher's views, trade protectionism is the most worrisome trend, especially in the current recession. The global financial crisis has triggered acceleration in the use of protectionist trade measures, even among the G-20 countries that have pledged not to do so.

In a world where economies have enhanced their dependence on trade over the years, there is an increased likelihood that protectionism could have a contagion effect that will lead to deterioration in the world trade environment. Since the outbreak of the global recession a variety of trade restricting and distorting measures, mostly of a protectionist nature have been introduced. They include tariff increases impact quotas, product standards and trade remedy measures such as anti-dumping initiatives and countervailing duty investigations. In addition to these rather obvious protectionist steps, "hidden" or so-called "murky" protectionist measures have been adopted by a number of countries that give preference to local companies over foreign firms in government procurement, provision of public loans and other areas.

While the number of such actions that are outright vio violations of WTO rules is rather small, they are still problematic because they exacerbate economic recession by discouraging trade. The rise of protectionism has several causes. First, a resort to trade protection frequently accompanies economic recession. Governments are enticed to adopt protectionist measures in the face of domestic political pressure, hoping to drive economic recovery and stabilize employment by blocking or reducing imports. Second, when foreign goods compete in a domestic market, international trade is already a latent domestic political issue, as is trade protectionism. Protectionism not only favours special interest groups, it can also win political support from the broader public. Third, there are some exceptions in current WTO rules and regulations and they tend to be abused. It is never wrong to criticize protectionism, because trade liberalization will help drive the world economy out of recession, but protectionism won't.

2.3.6 Impact of Global Financial Crisis to Less Developed Countries (LDCs)

The global financial crisis is bound to have a major impact on developing countries including Africa. Growth performances vary substantially among developed and developing countries. East Asia's growth is diverging as much as it did during the last significant global economic downturn in the early 1990s.

The relationship between the Organization for Economic Cooperation Development (OECD) GDP and Africa's GDP has weakened as a result of the emergence of countries such as China, as well as structural changes in African economies. According to the *IMF World Economic Outlook report in April 2008*, a decline in world growth of one percentage point would lead to a 0.5 percentage point drop in Africa's GDP, so the effects of global turmoil on Africa (via trade, FDI, aid) would be quite high. The correlation between African GDP and World GDP since 1980 is 0.5, but between 2000 and 2007, it was only 0.2. As there have been significant structural changes (and a move into services that were able to withstand competition much better) as well as the rise of China, African growth has temporarily decoupled from OECD GDP, Overseas Development Institute (ODI), October (2008).There is a need to better understand the nature of the financial linkages, how they occur (as they do appear to occur) and whether anything can be done to minimize contagion,Velde, (2008). Second, the economic downturn in developed countries may also have significant impact on developing countries. Velde,(2008), *ODI Research Fellow*outlines that the channels of impact on developing countries include:

First, Trade and trade prices. Growth in China and India has increased imports and pushed up the demand for copper, oil and other natural resources, which has led to greater exports and higher prices, including from African countries. Eventually, growth in China and India is likely to slow down, which will have knocked on effects on other poorer countries. Second, remittances, remittances to developing countries will decline. There will be fewer economic migrants coming to developed countries when they are in a recession, so fewer remittances and also probably lower volumes of remittances per migrant. The third point is foreign direct investment (FDI), and equity investment, they will come under pressure. While 2007 was a record year for FDI to developing countries, equity finance was under pressure and corporate and project finance was already weakening.The fourth point is the proposed Xstrata takeover of a South African mining conglomerate was put on hold as the financing was harder due to the credit crunch. Fifth point is about lending, there are several examples e.g. in India. Commercial lending, Banks under pressure in developed countries may not be able to lend as much as they have done in the past. Sixth point is about investors who are increasingly factoring in the risk of some emerging market countries defaulting on their debt, following the financial collapse of Iceland. This would limit investment in such countries as Argentina, Iceland, Pakistan and Ukraine.Seventh aid, aid budgets were under pressure because of debt problems and weak fiscal positions, e.g. in the UK and other European countries and in the USA. While the promises of increased aid at the Gleneagles summit in 2005 were already off track just three years later, aid budgets are now likely to be under increased pressure.

The eighth point is about other official flows. Capital adequacy ratios of development finance institutions will be under pressure. However these have been relatively high recently, so there is scope for taking on more risks. Each of these channels needs to be monitored, as changes in these variables have direct consequences for growth and development. Those countries which have done well by participating in the global economy may also lose out most, depending on policy responses, and this is not the time to reject globalisation but to better understand how to regulate and manage the globalisation processes for the benefit of developing countries. The impact on developing countries will vary. It will depend on the response in developed countries to the financial crisis and the slowdown, and the economic characteristics and policy responses, in developing countries. This situation is not guaranteed given countries are still trading to one another.

2.3.7 Countries which are at risk and how they are affected

The list of channels above suggests that the following types of countries are most likely to be at risk: First, Countries with significant exports to crisis affected countries such as the USA and EU countries (either directly or indirectly). Mexico is a good example.Second, countries exporting products whose prices are affected, or products with high income elasticities. Zambia would eventually be hit by lower copper prices, and the tourism sector in Caribbean and African countries will be hit.Third, countries dependent on remittances. With fewer bonuses, Indian workers in the city of London, for example, will have less to remit. There will be fewer migrants coming into the UK and other developed countries, where attitudes might harden and job opportunities become scarcer.

Forth, countries heavily dependent on FDI, portfolio and DFI finance to address their current account problems (e.g. South Africa cannot afford to reduce its interest rate, and it has already missed some important FDI deals).Fifth, countries with sophisticated stock markets and banking sectors with weakly regulated markets for securities.Sixth, countries with a high current account deficit with pressures on exchange rates and inflation rates.

South Africa cannot afford to reduce interest rates as it needs to attract investment to address its current account deficit. India has seen a devaluation as well as high inflation. Import values in other countries have already weakened the current account. Seventh, countries with high government deficits. For example, India has a weak fiscal position which means that they cannot put schemes in place.Eighth, countries dependent on aid.While the effects will vary from country to country, the economic impacts could include: Weaker export revenues, Further pressures on current accounts and balance of payment, Lower investment and growth rates and lastly, Lost employment. Likely social effects could be, Lower growth translating into higher poverty, more crime, weaker health systems and even more difficulties meeting the Millennium Development Goals.

2.3.8 Recent Macroeconomic Development in Tanzania

Impact of the global financial crisis (GFC) on economic growth became more noticeable in 2009 compared to 2008, although to a lesser extent than expected. This is reflected in the relatively good performance in traditional exports, cement production and the index of manufacturing industry. Provisional figures indicate a slowdown in real GDP growth to 5.0 percent during the first half of 2009, compared with a growth of 7.0 percent in the corresponding period in 2008, BOT Monthly Economic Review, (2009).

The trade account in 2009 depicted positive developments as low global demand for exports was offset primarily by a reduction in the import bill due to lower import prices. Notwithstanding the low demand for exports, as reflected in the decline in average prices of traditional exports, the value of exports in 2009 increased due to an increase in the volume of all traditional exports, except for tea and tobacco. Gold exports registered large volumes and price increases. Import of goods and services declined during the same period on account of decrease in value of oil import associated with the fall in world market prices. Improved performance of the trade account led to a reduction in current account deficit to USD 978.7 million in the first half of 2009/10, from a deficit of USD 1,214.2 million recorded in the corresponding period a year earlier, BOT Report February (2010).

During 2009/2010, the current account was projected to record a deficit (excluding current transfers) equivalent to 11.5 percent of GDP compared to 13.1 percent of GDP in 2008/09. The overall balance of payments was projected to record a surplus of USD 347.4 million, largely due to improvement in the current account, together with disbursements from development partners and SDR allocation. Consequently, official gross reserves by end of June 2010 were estimated at USD 3,461.0 million, which is equivalent to 5.2 months of imports of goods and services (BOT Report May, 2010).

2.3.9 Possible Policy Responses in Tanzania

The current governments have attempted to eliminate or mitigate financial crises by regulating the financial sector. One major goal of regulation is transparency, making institutions' financial situations publicly known by requiring regular reporting under standardized accounting procedures. Another goal of regulation is making sure institutions have sufficient assets to meet their contractual obligations, through reserve requirements, capital requirements, and other limits on leverage.

The current macro-economic and social challenges posed by the global financial crisis require a much better understanding of appropriate policy responses. For example, there are needs of better understanding of what can provide financial stability, how cross-border cooperation can help to provide the public good of international financial rules and systems, and what the most appropriate rules are with respect to development, an understanding of whether and how developing countries can minimize financial contagion, and how developing countries will also need to manage the implications of the current economic slowdown after a period of strong and continued growth in developing countries, lastly need to understand the social outcomes and provide appropriate social protection schemes.

Tanzanian government came up with the following policy responses to counteract Global Financial and Economic Effects, first formed a crisis committee led by the BOT governor who updates and advises the government on regular bases. Second, a two-yeareconomic rescue plan was instituted (for FY 2009/10 to 2010/11) that was also approved by the parliament.Third, applied for a loan amounting to USD 336 million from the IMF under the Exogenous Shock Facility (ESF) to fill the gap in the balance of payment. Fourth, the government has already channeled TSh21.9 billion of that package directly to the banking sub-sector to cover losses suffered by bank clients like cooperatives and firms which bought agricultural products from farmers.

Fifth, setting of policy which improved foods distribution to curb food shortages in the country,to cushion against the decline in incomes in some families, the government allocated Tsh 20 billion in FY 2009/09 budget to ensure food availability at a reasonable cost.Sixth, provision of affordable capital for businesses. Under this scheme, the Government has released a stimulus package of Tsh.200 billion through the commercial banks.Under the Central Bank of Tanzania, the government has intensified surveillance of both domestic and international capital financial markets to oversee the performance of all financial institutions.

The government has also formed a Financial Sector Regulatory Authority. It has also established an early warning system using selected financial soundness indicators; through this measure an oversight of the banking system has been intensified. The BOT has also established a *financial stability department* that produces regular financial stability reports. The BOT holds on daily basis surveillance meetings to ensure stability in the financial sector and availability of appropriate level of liquidity in the system. Although the Global Financial and Economic crisis had negative effects in the country's growth path, it provides some challenges and opportunities for the country. The challenges are in its low domestic revenue generation capacity and productivity and weak infrastructures systems, whereas the opportunities exist such as; wide diversification ability due to large natural resources base and increase in income from exports due to expanding regional trade in the EAC.

2.3.9.1 Tanzania Balance of Payment position during economic crisis

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country, Ndullu, (2008). If a country has received money, this is known as a credit, and, if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance. But in practice this is rarely the case and, thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

Tanzania typically runs a current account deficit, although long term capital investment from abroad resulted in surpluses for several years during the 1970s. Agricultural marketing reforms and flexible exchange policies are expected to provide export growth in upcoming years, as exports move from the underground to the official market. For example let us have a look on trade trend between Tanzania and other East African countries.Trade balance between Kenya and Tanzania has been negative since 2000. However the situation started to improve marginally in favour of Tanzania from a negative balance of US$ 63.9 million in 2006 to positive balance of US$ 1.5 million in 2008. Tanzania reduced her import from Kenya to US$ 155.3 in 2008 from US$130.2 million in 2004, whereas her exports to Kenya increased to US$ 115.2 million in 2008 from US$89.3 million in 2006. The improvement is partly explained by an increased export of staplefoods and improvement of quality of Tanzania products for the Kenyan Market. At the same time Tanzania continued to be the net exporter to Uganda, Rwanda and Burundi (BOT Annual Report 2008/09).Notwithstanding an increase in Tanzania's absolute exports to Kenya, its share of exports to Kenya slowed down to 58.4 percent in 2008 from 77.6 percent in 2006 while her export share to Burundi and Rwanda went up significantly from 3.1 and 2.4 percent to 24.0 and 6.5 percent respectively in 2008. The increase of exports to Burundi was a result of increased exports of cereals and fertilizers.

Tanzania holds a significant share of import from Kenya; however the share declined in 2008 to 94.0 from 97.5 percent in 2007, while her import share increased significantly from 2.4 to 6.0 percent in Uganda over the same period. The general picture is that Kenya and Tanzania do dominate export and import trade in the region, and the increase in trade in the region played a significant role to offset the decline in Tanzania's exports in the world market. However, here is a need to assess whether the global financial crisis resulted to exceptionally increased trade between the member states compared to their trade volumes and values with the rest of the world.

2.3.9.2 External Sector Development

Data from the ministry of finance revealed that the Tanzanian economy was sound. The press release by the Minister says that “So far the external trade performance was fairly satisfactory”,*MOFE, (2009)* whereby the export of goods and services increased by 3.2 percent during the period up to September 2009. However, imports decreased by 4.4 percent in the same period. Meanwhile, thecurrent account deficit narrowed to USD 2,060.7 million from a deficit of USD 2,950.4millionrecordedin the same period 2008.

2.3.9.3 Export Performance

During the year ending September 2009, earnings from exports of goods amounted to USD 2,671 million, equivalent to an increase of 7.9 percent compared to the same period in 2008.Improved performance was also recorded in manufactured goods, horticultural products, fish and fish products during the period. The value of traditional exports went up by 32.2 percent to USD 492.5 million from USD 372.4 million recorded in the corresponding period in 2008. This was due to the increase in the export volumes of coffee, tobacco and cloves.

With the exception of tea, tobacco and cashew nuts, which recorded an increase in the export unit prices, other traditional exports recorded a decline in prices mainly on account of the effects of the global financial crisis. As for non-traditional exports, their earnings increased marginally by 3.6 percent largely due to an increase in the exports of manufactured goods and horticultural products. There was a remarkable performance in horticultural exports largely associated with expansion in Global Financial Crisis in Tanzania, horticultural production coupled with new investments in cut-flowers in the southern part of Tanzania.

2.3.9.4 Import

According to MOEF report, (2009/2010), during the first six months of the financial year 2009/10, imports of goods and services amounted to US$6,425 million, representing an increase of 11.6 percent over the previous year, much of the increase coming from import of goods. Total goods import increased by 10.9 percent to US$5,024.6 million during this period. Imports of capital and consumer goods rose by 29.0 percent and 6.9 percent, respectively, while imports of intermediate goods decreased by 3.4 percent.

2.3.9.5 World Commodity Prices

During the period up to July 2009, the world market prices for agriculture and non-agriculture commodities recorded mixed trends. Prices of robusta and arabica coffee recorded a decline from USD 2.2 in July 2008 to USD 1.87 in July 2009 per kg and from USD 3.08 in July 2008 to USD 2.17 in July 2009 per kg respectively. While the price of cotton decreased from USD 1.64 to 1.41 per kg and the price of tea (average price) and Mombasa auction rose moderately from USD 2.36 to 2.41 and USD 2.02 to 2.24 per Kg respectively, BOT Report April,(2010).

The price of tea at Mombasa auction rose by 10.7 percent following strong demand from Russia, Middle East and Pakistan. For cloves, the price declined slightly from USD 4,164.9 to USD 3,913.1 per metric ton, whereas the price of sisal increased from USD 1,090.7 to 1,213.0 per metric ton in July 2009. On an annual basis, the price of robusta coffee declined by 18 percent to USD 1.9 per kg, BOT Report April, (2010).Similarly the price of cotton declined to USD 1.4 per kg as a result of reduced global market demand. During the period to July 2009, the average price of crude oil (Dubai fob and White petroleum products) recorded a notable decline; owing to an increase in crude oil stocks as the result of weak global demand occasioned by the financial turmoil. On the other hand the price of gold rose slightly to USD 873.1 per troy ounce. These positive trends helped to mitigate the effects of falling revenue from other export earnings which had declined due to the falling world market prices, The Guardian of 22nd April, (2010).

2.3.9.6 Agriculture

In Tanzania's agricultural sector provides raw material to domestic processing industries and it offers employment to about 70% of the total population. The sector contributes about 45% of total export earnings. The sector produces food crops including cereals, legumes and tubers, sugar, livestock and fish mainly for the local market and coffee, cotton, cashew nuts, tea, sisal, tobacco, and horticultural crops. Although most of the production is self-financed, marketing is largely funded by seasonal credits provided by the banks to cooperatives and private companies.

The GFC mostly affected borrowers engaged in marketing of cotton, coffee and tea. For instance, the CRDB Bank in Tanzania reported TSh168 billion at risk following persistent failure by traders to service their loans. Flower farmers also pleaded for rescheduling of servicing of their loans following a decline of world market prices. Between October 2008 and March 2009 the world market price of horticultural crops, including flowers, had declined by as much as 30 to 50 percent because of the economic downturn.The demand for Tanzanian cotton products had also declined in the world market leading to a domestic market crisis as international prices fell by 40%, leading to a pile up of unsold cotton stock in warehouses. Cotton that was bought by traders at a high price from peasants suddenly lost its market and demanded at much lower prices. By April 2009 there were 124,344 bales of unsold cotton out of 605,812 bales that were bought during the previous season. As a consequence of reduced business profitability and individual incomes, there are already indications that domestic revenue collection in the Fiscal Year 2009/10 will experience 10 percent shortfall of its 4.73 trillion shilling ($3.53 billion) target. Meanwhile, Tanzanian farmers were advised to take advantage of the crisis by diversifying and increasing their productivity in large production of food crops such as maize, paddy, cassava, wheat, legumes, grams, millet, sweet potatoes, bananas, Irish potatoes, beef, milk, chicken, fish, oilseeds, fruits and vegetables so as to ensure food security for the country and open up massive opportunity to export food to address the expected food shortages in the world.

Tanzania recorded a surplus of $620.4 million (Sh825.1 billion) in its balance of payments in the year ending September 2009 from a deficit of $115.1 million (Sh153 billion) during the same period in 2008.The Bank of Tanzania has attributed the reduction in the current account deficit to increased exports, a lower import bill and increase in external funding. The development is largely attributed to the reduction in the current account deficit, which resulted from an increase in export of goods coupled with decline in import bill,*BOT notes in the October monthly economic review* (MER).Moreover, there was a surge in official current transfers to $832.7 million (Sh1.1 trillion) from $432.8 million (Sh575.6 billion) recorded in the corresponding period, resulted into improved performance in the current account.The trend also contributed to the rising of the gross international reserves to about $3.56 billion (Sh4.7 trillion) at the end of the review period from the $2.69 billion (Sh3.5 trillion) recorded during the year ending September 2008. This level of reserves was enough to cover about almost six months of imports of goods and services. BOT says the other factor is the IMF's intervention to help Tanzania cope with the global recession under the *Exogenous Shock Facility*. Though the balance of payment surplus is a positive development because it results in increased gross reserves, it is, however, not sustainable.

However a prominent financial expertMinja (2010), argues that surplus in the balance of payment should not be banked upon as it was mainly a result of the budgetary financial support from donors, something that was not viable on a long-term basis. He says that the surplus we observe in the balance of payment would have been sustainable had it resulted from a net surplus in exports. But, as the BOT report indicates, the exports/import deficit is still so huge at $2.8 billion.Minja(2010), points out further that unsustainability of the surplus of balance of payments was also reflected by the fact that national reserves would suffer if donors stopped their remissions. In fact, the reason for the balance of payment deficit in the year ending September 2008 was due to reluctance by donors to release funds early last year(i.e2007) due to governance issues that were not resolved by the Government of Tanzania. He noted that balance of payments surpluses due to exports surpluses in countries such as China were much more sustainable.

The BOT reportJanuary (2010*)* indicated that the deficit between exports and imports had decreased from $3.4 billion (Sh4.5 trillion) in September 2008 to $2.8 billion (Sh3.7 trillion) in September 2009. This is because export of goods and services increased to $4.6 billion (Sh6.1 trillion) in September 2009 from $4.4 billion (Sh5.8 trillion) in the corresponding period in the previous year while imports of goods and services in the year ending September 2009 decreased to$7.4 billion (Sh9.78 trillion) from $7.8 billion (Sh1.03 trillion) recorded last September. Experts attribute the decrease in the import bill to falling commodity prices in the global market, notably oil, due to the global financial and economic crises that reduced demand for commodities.

With all the adverse consequences of the crisis on Tanzania, it should be appreciated that the decline in world commodity prices has also reduced the cost of imported intermediate goods. This reduces cost of production and ease pressure on domestic inflation, Masawe (2009).

2.3.9.7 Response of Financial Institutions in Tanzania

Early in 2009 there were already indications that the crisis had adversely affected a number of sectors such as; agricultural, mining and the tourism sectors. By May 2009 the Tanzanian government estimated a loss of about US$255 million from domestic income occasioned by the Global Financial Crisis. However the analysis by sector indicates that by the third quarter of 2009, using various indicators such as profitability, liquidity and other financial assets; the financial sector in Tanzania was still sound although some banks experienced an increase in their non-performing loans and decline in price of equities in the Dar es Salaam Stock Exchange (DSE) and foreign exchange inflows (remittances), Ndullu (2010)

The global financial turmoil and economic slowdown under this part will be examined from two perspectives; first, impact on the financial sector and second impact on the real economic performances in Tanzania.To start with Financial Sector, according to Ndulu (2009), Tanzania's financial markets have not been significantly affected due to the following main reasons:- one, Low level of integration with the International Capital and Financial Markets. Our financial and economic dealings with US and Europe are relatively insignificant when compared to our GDP.

The second point is on foreign assets component in our commercial banking system which is barely 11 percent of the Commercial bank assets in Tanzania.Third, Commercial banks in Tanzania are licensed, regulated and supervised by Bank of Tanzania under Tanzanian law, and do not operate as branches of parent banks abroad, but as independent subsidiaries. The System had low exposure to the crisis because it had limited amount of foreign borrowing and none holds securities of the international banks which were affected by the crisis. Ndulu further supports his argument that the the financial sector in Tanzania remains sound and safe due to the following indicators, first, Capital adequacy, 31 out of 34 banks meet the criteria for minimum core capital requirement. Capital adequacy is 17 percent against the required 10 percent.Second, adequate liquidity to meet the payments needs of the financial system; liquidity ratio average 42 percents against the required 20%. Third, appropriate balance between loans and deposits ratio, deposits of 68% against limit 80%. Fourth, the interbank payments and settlement system continues to be liquid and efficient. Fifth, the interbank cash market continues to be liquid and stable. Sixth, lending to private sector increased by 47% during the year to December, 2008. Seventh, the ratio of Non-performing loans (NPL) to total loans at 6.3% was far below acceptable limit of 10%. Eighth, Return on Capital was on average Tsh.23.5 for Tsh.100 invested.

Contrary to the above argument the interbank foreign exchange market was affected by the Crisis. After consistently appreciating over the period of one year from Nov. 2007, the shilling has depreciated by about 15% during the period between December, 2008 and February, 2009.The depreciation on the one hand is attributable to the turmoil in the global financial markets which caused the business community to believe that the supply of foreign exchange would dry up thus is triggering a buying frenzy for hoarding. On the other hand, depreciation of the shilling has in part helped to offset the impact of decline in world commodity prices, has made tourism cheaper and also has increased the shilling value of donor AID thus enhancing government revenue position.

2.3.9.8 Real economy

The trade sector suffered some setbacks as agricultural exports, minerals and gemstones, traditional crops and nontraditional crops recorded negative growth as discussed above. However, trade in industrial goods recorded a positive trend, which was accounted by the increase in regional trade between Tanzania and its EAC neighbours. An improved performance was also recorded in manufactured goods, horticultural products, fish and fish products. In terms of investments, the available information has confirmed that some multinational companies have decided to close their operations and hundreds of workers have been declared redundant as a result of the crisis. The TIC recorded a decrease in FDI projects (for year 2009) and low employment creation from the registered projects despite an increased in FDI value.

2.4 Empirical Review

2.4.1 Herding model

In "herding" models, it is assumed that investors are fully rational, but only have partial information about the economy. In these models, when a few investors buy some type of asset, this reveals that they have some positive information about that asset, which increases the rational incentive of others to buy the asset too. Even though this is a fully rational decision, it may sometimes lead to mistakenly high asset values (implying, eventually, a crash) since the first investors may, by chance, have been mistaken.

2.4.2 Adaptive Learning Models

In "adaptive learning" or "adaptive expectations" models, investors are assumed to be imperfectly rational, basing their reasoning only on recent experience. In such models, if the price of a given asset rises for some period of time, investors may begin to believe that its price always rises, which increases their tendency to buy and thus drives the price up further. Likewise, observing a few price decreases may give rise to a downward price spiral, so in models of this type large fluctuations in asset prices may occur. Agent-based models of financial markets often assume investors act on the basis of adaptive learning or adaptive expectations.

2.4.3Neo-Classical Growth – The Solow Model

Solow (1987) developed the neo-classical theory of economic growth. He suggests that growth comes from adding more capitalandlabourinputs,and also fromideasand new technology**.**

The Solow model believes that a sustained rise in capital investment increases the growth rate only temporarily, because the ratio of capital to labour goes up. However, the marginal product of additional units of capital may decline (when there are diminishing returns) and thus an economy moves back to a long term growth path, with real GDP growing at the same rate as the growth of the workforce plus a factor to reflect improving productivity. A **'**steady state growth path' is reached when output, capital and labour are all growing at the same rate, so output per worker and capital per worker are constant. Neo-classical economists believe that to raise the trend rate of growth requires an increase in the labour supply and also a higher level of productivity of labour and capital. Differences in the rate of technological change between countries are said to explain much of the variation in growth rates that we see.

The neo-classical model treats productivity improvements as an 'exogenous'variable they are assumed to be independent of the amount of capital investment. The Solow Model features the idea of catch-up growth when a poorer country is catching up with a richer country often because a higher marginal rate of return on invested capital in faster-growing countries.

The Solow model predicts some convergence of living standards (measured by per capita incomes) but the extent of catch up in living standards is questioned, not least the existence of the middle-income trap when growing economies find it hard to sustain growth and rising per capita incomes beyond a certain level.

2.4.5Kiyotaki and Moore's model of credit cycle

Kiyotaki and Moore (1997) they constructed a model of a dynamic economy in which lenders cannot force borrowers to repay their debts unless the debts are secured. In such an economy, durable assets play a dual role, not only are they factors of production, but they also serve as collateral for loans. The dynamic interaction between credit limits and assetprices turns out to be a powerful transmission mechanism by which the effects of shocks persist, amplify, and spill over to other sectors. They showed that small, temporary shocks to technology or income distribution can generate large, persistent fluctuations in output and asset prices. This theory is common in the daily business environment whereby borrowers need to take pace to pay debts. Frequent follow up for payment may result into conflict leading to poor business relationship.

2.4.6Marshall's Model of credit cycle

Marshall's explanation of business cycle and its relation to credits is to a great extent basedon psychology. According to Marshall,a cycle is started by a positive impulse (such as opening offoreign markets or good harvest) that contributes to increase of general confidence and that alsoset in motion growth of credits (both business and bank credits). This means that activity ofbusiness sector intensifies and firms register a sudden increase of new orders. As soon asproducers notice the increase of demand for their goods, they will start hiring new labour forceand wages will become to grow too.

Marshall assumes that general confidence will spreadthroughout the society and results of this process will again contribute to strengthening ofconfidence. This process will be going on for some time, this will be the growth phase of businesscycle. However, when growth of bubble based on confidence reaches some critical point, creditorswill start realizing increasing risk and will try to reduce their offer of credit. This restriction ofcredit supply will meet collide with high demand for credits. Consequently interest rates willsubstantially increase. General confidence will more and more be replaced by growing generaldistrust. Creditors will try to reduce their risks and they will refuse to renew credits,debtors that will suddenly have to repay their debts will have to start selling their property. Thissudden increase of supply will push property prices down. There is again self-promoting process both in the asset markets, where decreasing prices will prompt other debtors to sell too, eventhough they are not compelled by forthcoming repayment of debt, and in the credit market, where the negative development of debtors makes creditors be even more cautious. Some of theborrowers will go bankrupt, consequently some of the otherwise “healthy” creditors may becomebankrupt too. However, the process will gradually loose its strength and ground is prepared forthe start of a new cycle.

Marshall’s model is quite interesting and it offers very intuitive and simple explanationof relations between credits and cycles. This model actually predicts that credits will move pro-cyclicallyand asset prices (as well as general price level) will lag behind the cycle.

2.5 Research Gap

It isthe fact that several writers have done a great deal regarding the current and past financial crisis. However they have not reflected much on how financial crisis has affected a common man at individual level. There is a need to know the extent to which effects of global financial crisis have affected poor groups from less developed countries.

Data reflects that under normal situation the average per capita income to less developed countries is less than US$ 1. NOW what is the situation in a scenario of economic shock? Less developed countries can not sustain their annual budget, they largely depend on donar funds to implement over 50% development programs which are directly interlinked to social welfare. Therefore, in a situation whereby no more support

or reduced support the first groups to experience the shock are the common men.The researcher has decided to do this study in order to address the impact of the crisis, and create self-awareness to general public on the existence of the crisis. More over the researcher intended to come up with solutions and suggestion to hinder any further occurrence of the financial crisis.

2.6 Conceptual Frame work

Growth, which is crucial for development, is vulnerable to crises, with harmful long-term consequences for development. Vulnerability to crises increases with exposure, but declines with resilience. Exposure is correlated with growth, so growth involves an increase in vulnerability ceteris paribus. Shocks can have long-term effects on growth (IMF and World Bank publications March 2009).

Therefore it is often efficient to reduce vulnerability, not by reducing exposure (although this might be a second best approach), as this hampers opportunities to grow, but by increasing resilience against crises. Thus, resilience has to increase more than growth in order to reduce vulnerability. We call this crisis-resilient growth. There may also be some reverse circularity in countries that are doing better, generally may also be better at handling crisis, with better institutions and better macro management.

Vulnerability equals exposure minus resilience. Exposure is often measured in terms of openness to trade, migration and capital flows. Resilience comprises economicspace like fiscal room and structures, institutional capacity and social cohesion. The researcher has used aframework or model designed in Figure1, to explain the occurrence and spread of financial crisis.

Crisis-resilient growth

Key components of vulnerability (= exposure – resilience)

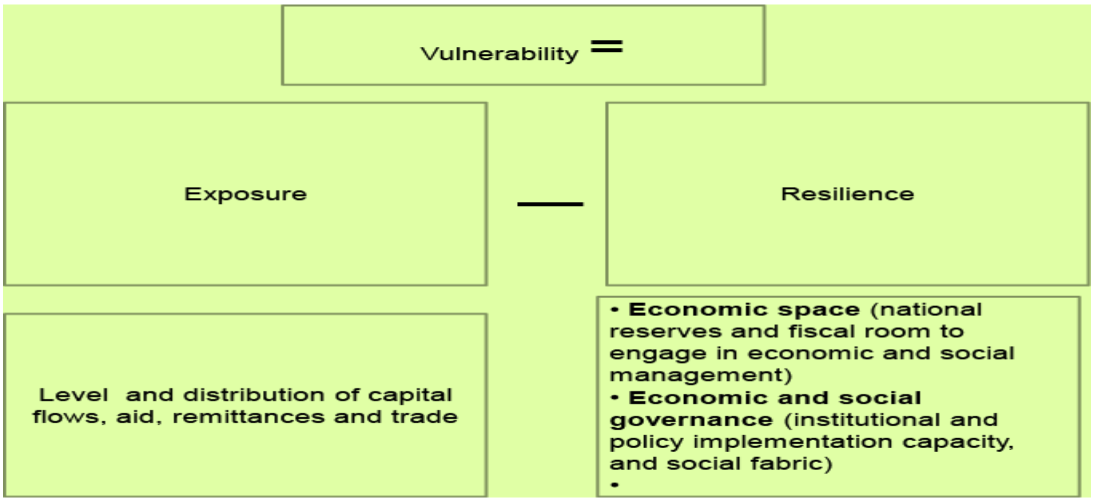


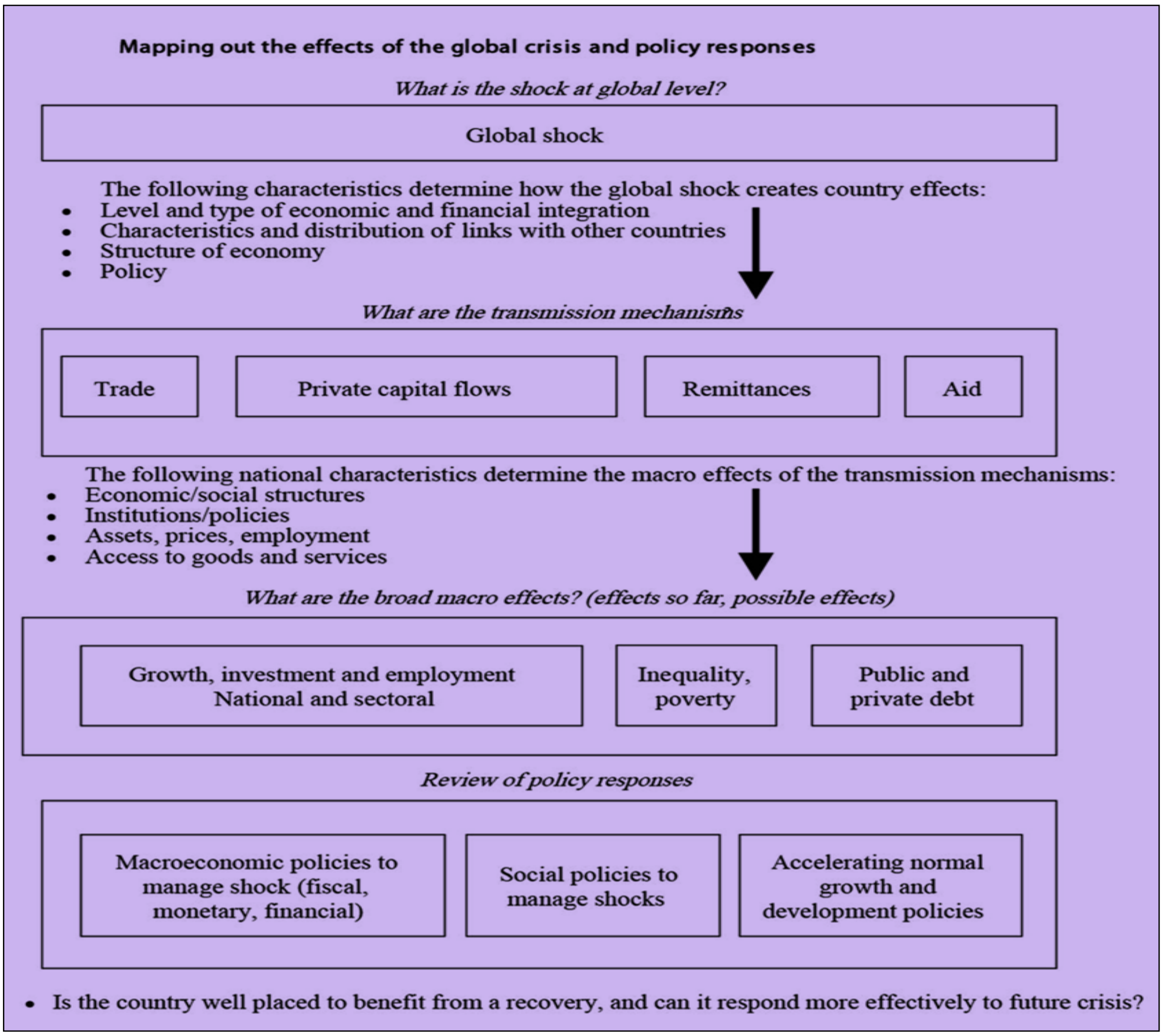
Figure 2.1 Crisis Resilient Growth Model

Source: OECD (2010)

Figure 2.1 above leads to author’s discussion on major transmission mechanism as observed in many readings. The readings suggested that countries were exposed to the crisis through financial contagion and real channels. Countries with sophisticated, globalised banking sectors likestock markets or with a high share of foreignowned banks and foreign assets and dependent on external capital flows (e.g. FDI, portfolio) were more exposed. On the real side, the most exposed countries were those, First, with a significant share of exports to crisis-hit advanced economies, second those with concentrated exports in a few commodities or exporting commodities whose prices have dropped or products and services with high income elasticity of demand (e.g. tourism), or third those countries which are heavily dependent on remittances and aid. But it was also clear that some countries were likely to be more resilient, especially those: That had insured themselves against crises, e.g. countries with a current account surplus with few pressures on exchange rates and inflation rates, with high external reserves, low government deficits and healthy fiscal balances and low debts, or countries with strong policy implementation capacity and strong institutions (e.g. effective state business relations) or with social protection nets.

According to Figure 2.2, the author portrays global financial crisis on vulnerability, exposure and resilience and the promotion of crisis-resilient growth as follows:

One, while all countries are being affected by the financial crisis, it should immediately be added that the impact is highly varied, from very small or no macro effects in some countries (even though disaggregated effects at sector level and in some groups may be visible) to very large effects in others. Two, financial transmission mechanisms to low-income countries initially appeared limited, and attention quickly focused on the real (trade and remittance) transmission mechanisms, however, it is now clear that bank lending, stock market contagion and worsening


Mapping out the effects of the global crisis and policy responses
What is the shock at global level?
Global shock
The following characteristics determine how the global shock creates country effects:
Level and type of economic and financial integration
Characteristics and distribution of links with other countries
Structure of economy
Policy
What are the transmission mechanisms
Trade
Private capital flows
Remittances
Aid
The following national characteristics determine the macro effects of the transmission mechanisms:
Economic/social structures
Institutions/policies
Assets, prices, employment
Access to goods and services
What are the broad macro effects? (effects so far, possible effects)
Growth, investment and employment National and sectoral
Inequality, poverty
Public and private debt
Review of policy responses
Macroeconomic policies to manage shock (fiscal, monetary, financial)
Social policies to manage shocks
Accelerating normal growth and development policies
Is the country well placed to benefit from a recovery, and can it respond more effectively to future crisis?

banking systems did propagate the crisis. One lesson is that some low income countries are more integrated financially than is often thought.

Third point related to another myth expelled by the crisis is that foreign direct investment (FDI) is always resilient in crises (or more resilient than other flows). In fact, FDI fell significantly in countries such as the DRC (even before security problems occurred), Cambodia and Bolivia. In some other countries, such as Uganda and Kenya, portfolio flows changed quickly.

Forth, while certain types of openness have left countries more exposed to crisis, this may not always have meant increased vulnerability, as some countries have also become more resilient (e.g. Tanzania and Bolivia through good macroeconomic management, including using mineral resources to build up reserves). It is important that countries promote crisis-resilient growth, as in this way they are better prepared for recovery.

Fifth, in particular, diversification (products and destinations) is important for growth and resilience to crises. This should be promoted and could draw more attention than has previously been the case – of course in a market-friendly way, so that new policy interventions are not completely delinked from private sector needs. It may also be important to diversify sources of capital flows, such as FDI inflows. For example, Chinese FDI is now making up for some of the losses in mining in Zambia. Sixth, good macroeconomic management allows more scope for policy responses later. This requires good institutions in managing finances.

Seventh, indeed, the crisis highlights that flexible institutions are important in dealing with crises. There are examples of task forces that led to policy responses to the crisis in Bangladesh, Tanzania and Mauritius, and these were set in a more institutionalised way.

Eighth, this global financial crisis has increased the importance of links between emerging markets and low-income countries.

Ninth, policy responses in many country were well designed, they used fiscal, financial and monetary policies to address short-run economic management (fiscal policies constrained by resources; monetary policies lagged owing to previous inflationary pressures), and they did not engage in major policy reversals. In fact, so-called ‘doing business’ reforms continued. Tenth, protectionism did not affect the countries much, and trade finance was not mentioned as a binding constraint to trade.

2.7 GDP Growth Performances

The length of the recession and the post-crisis performance is one area where emerging economies did fare better, partly because of structural reasons and partly because their policies worked in their favour this time around.Based on relatively high frequency industrial production data, Figure 3 shows that the number of months that emerging economies were under recessionary pressures was smaller than that of advanced countries. For example, by September 2009, emerging countries, as a group, achieved their pre-crisis levels of industrial production, while advanced countries were still well below their pre-crisis level, even by the end of 2010.

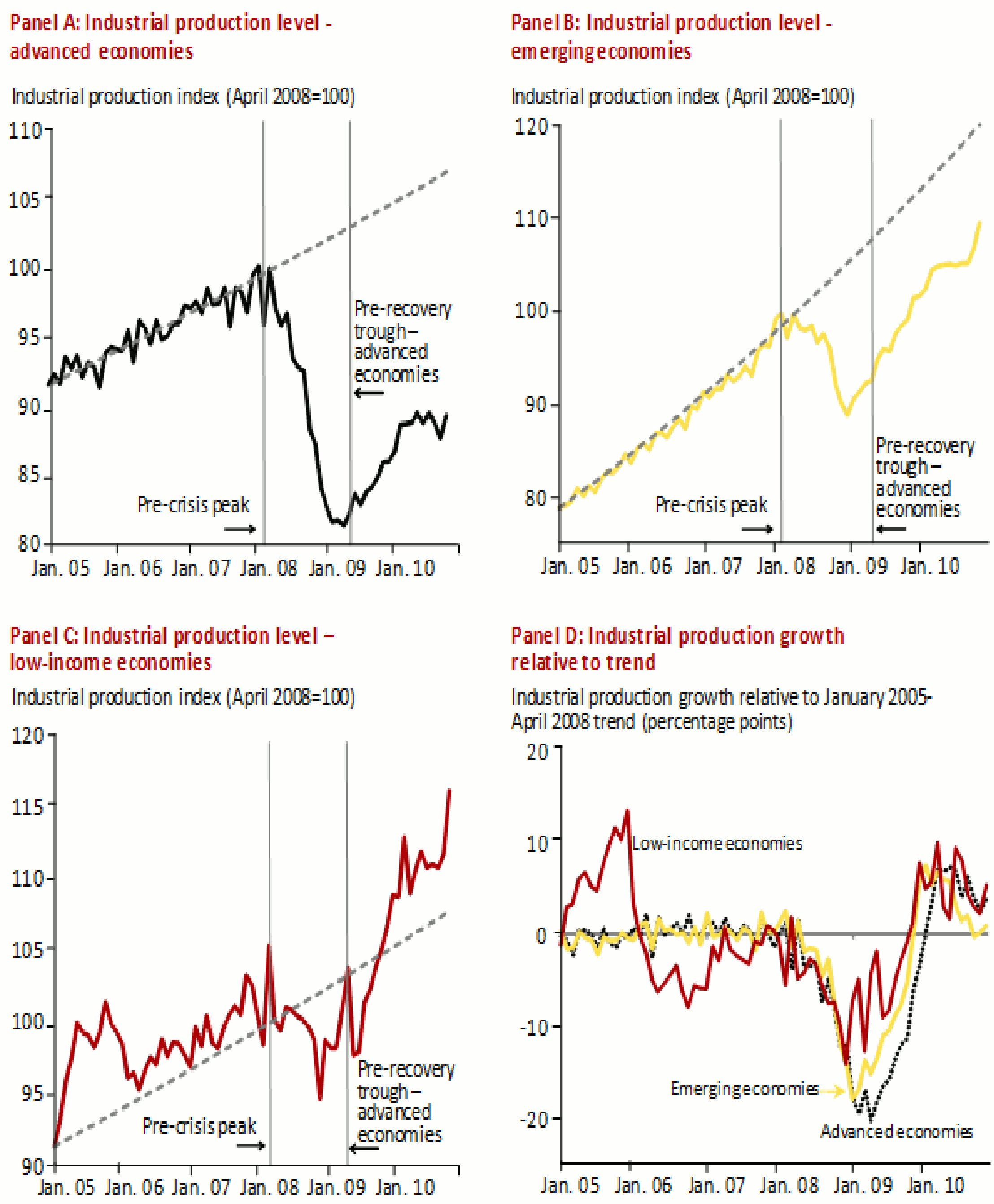


Figure: 2.3 GDP Growth Performance indicator

Source: Overseas Economic Development (OECD, 2010)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Paradigm

Research requires an organized data gathering in order to pinpoint the research philosophies and theories that will be included in the research, the methodology of the research and the instruments of data interpretation. In this study the research process “onion” was utilized so that the findings of the study could be thoroughly established (see Figure2.4). The inner part of the onion describes the methodology portion whereas the outer part discusses the strategies that could be utilized in interpreting the results of the findings.

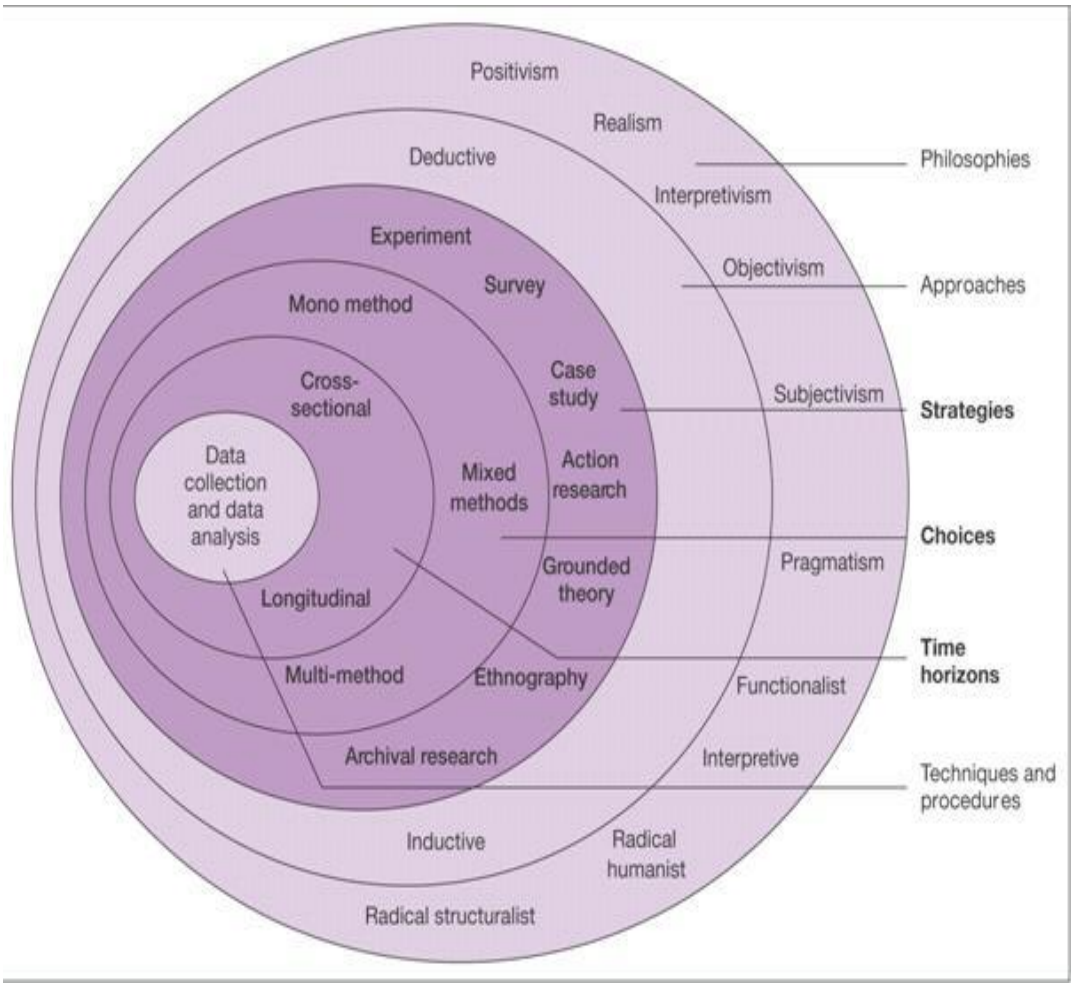


Figure3.1: Research Onion

Source:Saunders and Lewis (2000)

The descriptive research method uses observation and surveys. In this method, it is possible that the study would be cheap and quick. It could also suggest unanticipated hypotheses. Nonetheless, it would be very hard to rule out alternative explanations and especially infer causations. Thus, this study used the descriptive approach. This descriptive type of research utilizes observations in the study. To illustrate the descriptive type of research, Creswell (1994) guides the researcher when he states: Descriptive method of research is to gather information about the present existing condition.

The purpose of employing this method is to describe the nature of a situation, as it exists at the time of the study and to explore the cause/s of particular phenomena. The researcher opted to use this kind of research considering the desire of the researcher to obtain first hand data from the respondents so as to formulate rational and sound conclusions and recommendations for the study.

The research described in this document is partly based on quantitative research methods. This permits a flexible and iterative approach. During data gathering the choice and design of methods are constantly modified, based on ongoing analysis. This allows investigation of important new issues and questions as they arise, and allows the investigators to drop unproductive areas of research from the original research plan, Kothari (2004).This study also employed qualitative research method, since this research intends to find and build theories that would explain the relationship of one variable with another variable through qualitative elements in research.

These qualitative elements does not have standard measures, rather they are behaviour, attitudes, opinions, and beliefs. Furthermore, as we define the qualitative research it is multi-method in focus, involving an interpretative, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand.

The research employed qualitative and quantitative methods. In this study the objective was answered and achieved. This approach is found to be suitable because it gives more control over the research process.

3.2 Research Design

The researcher used non probability sampling design in making selection. The items for the sample were selected by researcher deliberately. It was based on personal judgement to identify samples.

The sample involved selection of units for making up a sample which represented the universe. Selection was done based on ease of access known as convenience sampling. It is a fact that this procedure may result into biasness when interpreting results of a population which is not homogenous, Kothari (2004)

3.2.1 Area of the Study

The study was conducted at the Bank of Tanzania. The Bank of Tanzania was chosen because it is the sole controller of Monetary and Fiscal policies in our country. However this is the place where reliable statistical data on foreign trade can be obtained. Also the researcher extended the study to National Bureau of Statistics (NBS) and some selected commercial banks eg CRDB, NMB, Barclays and TRA. The target group was different departments under respective institution's officers at different levels; top, middle, and lower level. The sample consisted of 50 staffs from each institution. and also Dar es Salaam business community at Kariakoo was part of the study.

3.2.2 Population of the Study

The study has been designed to population of 1000people with a random sample of 450 selected individuals of which 50 are employees from each of institution mentioned above and 150 people from Kariakoo business community. The respective period was between the years of 2007-2009. Thispopulation age group was any adult individual. The profile had175 Male and 38 Female which comprise of holders of Diploma 40%, Bachelor 30% Masters 10% and others 20%.

Kothari (2004), Research Methodology Methods and Techniques, P.62 concluded that the selection of each item in a random sample from an infinite population is controlled by the same probabilities and that successive selections are independent of one another.The population also regarded gender, Section/Departments and profession. The sample size large than 30 and less than 500 are appropriate for most research Sekaran (1992).The sampling techniques which were adopted in this study are stratified random sampling and purposive sampling. Stratified random sampling was employed for those employed and business class. Different departments were taken as strata. Reasons for choosing this technique was twofold, one is that employees in each department are known therefore it was easy to construct a sampling frame. The other is that this technique gave an opportunity to include respondents from each department hence more representation.

Purposive sampling was based on researcher's reasonable judgement that the selected sample will give reliable information, helpful for this research. According to Saunders et al (2000), purposive or judgement allows the researcher to make a choice of cases which according to his own view or judgement.

3.2.3 Sampling and Sampling Technique

Sample Size

The sample size to be used for the research will be:

$$N = \frac{z^2 \times Q \times P}{D^2}$$

Where;

N= the desired sample size

Z=1.96 which is the standard normal deviation at required normal confidence level

P= the portion in target population

Q= 1 – p

D= the level of statistical significance

Therefore,

$$N = \frac{(1.96)^2 \times (1 - 0.095) \times 0.095}{(0.036)^2}$$

N= 254.84

To check the adequacy of the sample size, the researcher performed a power analysis. This is the capacity of the study to detect differences or relationships that actually exist in the population. The minimum acceptable level of power for a study is 0.8, or 80% (Cohen, 1988).

$$P = \frac{213}{254.84}$$

P = 0.835≈ 84%

Based on the above results, the sample size qualifies to be used by the researcher to represent the population.With sampling, researcher infers population characteristics from a sample. Factors that may lead the researcher into choosing sampling against survey are budget, time availability, population size, variance characteristics, nature of measurement, and attention to individual cases (Bryman, 2003).213 respondents were identified and chosen from a population (sampling frame).of about 255respondents tomake a study sample. All 213 respondents were obtained and they filled the questionnaire.

Hogg and Tanis (1977), concludes that 25 to 30 observations are enough for analysis and reporting purposes. Therefore a study of 213 respondents was relevant to increase the level of accuracy and confidence.

3.3 Data Collection Methods

Data came from interviews and anonymous questionnaires from respective institution in Tanzania. The primary data frequently gives the detailed definitions of terms and statistical units used in the study. These are usually broken down into finer classifications. The secondary sources of data came from published articles from social science journals, theses and related studies. Acquiring secondary data are more convenient to use because they are already condensed and organised. Moreover, analysis and interpretation are done more easily.

The data comprised of qualitative and quantitative data. The methods of collection procedures depended on type of data,that is, primary or secondary data. Data were obtained using the following; questionnaires, observations of business statics and trends from the beginning of this global financial turmoil, direct dialog with senior officers which was governed by informal interview, direct inquiry from regulatory authorities especially employees of differentlevels, personal judgment after evaluating all information gathered, structured and unstructured questionnaires were distributed to participants (simple language was used to avoid ambiguity) and annual reports from respective institutions.

3.3.1 Type of Data

Primary Data- are those data which are collected afresh and for the first time and thus happen to appear original in character either through experiment or through survey. If the researcher conducts an experiment, he observes some quantitative measurements or the data with the help of which he examines the truth contained in his hypothesis. Kothari, (2004). Secondary data- are data that are already available or data which have been collected and analysed by someone else. When a researcher utilizes secondary data then he has to look in various sources from where he can obtain them. Kothari, (2004).

3.3.1.1 Primary Data

Primary data are original data collected for the purpose of problem at hand. These include original letters, survey, focus group discussions, interviews, government hearings etc. Primary data comes from the original sources and are collected especially to answer our research questions.

Primary sources are records of events as they are first described, without any interpretation or commentary. The primary data can be collected by Observation i.e investigator's own observation, through personal interviews where the investigator follows a rigid procedure and seek answers to a set of pre conceived questions through personal interviews.

3.3.1.2 Secondary Data

The secondary data for this dissertation have been obtained by studying manuals,magazines, journals, books and other dissertations which already address this aspect.Secondary data are existing, usually are published data available in various publications of centrallibrary, National statistics archive and other local governments, various publications of foreign governments or international bodies and their subsidiary organisations, technical and trade journals, books magazines and newspapers.Reports prepared by research scholars, various universities, economists in different field and public records and historical documents and other unpublished biographies. Before the researcher uses the secondary data must see that they are reliable, suitable and adequate Kothari, (2004).

3.4 Data Analysis

During data analysis, the researcher assigned value to various variables and then used SPSS to interpret them. SPSS helps to interpret data in various forms like, graphs, charts, histogram, bar charts etc.

Data come in various types. They are a representation of reality, and show the results of measuring properties or processes. Both qualitative and quantitative data collected from the field are analyzed according to the hypothesis and objectives of the questionnaires which were returned and the interview that was carried out. SPSS program was used during data processing. The processing involved editing, coding, classification and tabulation of data to generate significant and meaningful outcome intended to address the research problem.

Pre-Test (Pilot Study)

The researcher designed experiment to test logistics and gathering of information prior to a study itself in order to improve the quality and efficiency of the study. After designing the questionnaire and before embarking into the actual study and start collecting data, the questionnaire was pre-tested to assess its clarity and acceptability. To refine the questionnaire a pilot survey was conducted to determine the reliability of the study and estimating the anticipated completion time, Kothari, (2004).

The study found that, there were statistically significant improvements in anticipated research objectives.Participants found the meditation to be enjoyable and beneficial and perceived their cognitive function to be improved.

3.5 Validity of Data

The use of the primary and secondary data, the context of different theories and well-reviewed literature will examine the validity of the research. It is usually considered better to rely on the straight forward statistical methods with only supplementary use of projective techniques in pre testing and in searching for hypothesis they can be highly valuable, CR Kothari, (2004).Validity on the other hand, refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index (Sirkin, 1995). As regard to the logic of qualitative research like this one, two methods are suggested for validation, i.e. triangulation of data & methods and respondent validation (Silverman, 1993).

3.6 Reliability of Data

The control questions on the questionnaires and the chosen respondents will prove the reliability of the research. The reliability of data can be tested by finding out information about the said data such as who collected the data; what were the sources of data; where they were collected and by using proper methods; at what time they were collected; was there any bias of the compiler; what accuracy was desired and was it achieved, Kothari (2004).

Reliability of a measure refers to the consistency with which repeated measures produce the same results across time and across observers (Walsh, 1990). Reliability in this study will be improved by employing triangulation of methods in evidence collection as suggested by Kirk and Miller (1986). The methods to be employed are interviews, questionnaire and documentation. This will help the researcher to picture how multiple, but somehow different, measures used to collect data are simultaneously true. On the questionnaire method of data collection that is the major approach to gather data and information, reliability will be achieved through pre-testing the instrument so as to ensure that respondents understand the questions in the same way.

3.7 Ethical Clearance

The researcher took effort to get permission from relevant leaders to conduct the study within their areas. For individual business class also the researcher had to seek for audience a day before. The researcher accompanied with him a written statement to show that the intention of the research was only for academic purpose and not otherwise. A sample of this statement was attached to the questionnaire for verification. A 'consent form' also was prepared and given to respondents to fill up before interview and permission to use them as participants in the study without coercion.

CHAPTER FOUR

4.0 RESEARCH FINDINGS AND DATA ANALYSIS

4.1 Introduction

Under this chapter the author is going to summarize and discuss research findings using available research outcomes. Given the nature of the subject matter there were mixed feelings.Many respondents acknowledged being aware of Global Financial and Economic Crisis,however the literature related to this economic phenomenonwas a bit tough to most respondents as it will be reflected later in this chapter. Questionnaires were answered almost 95% of those distributed.

4.2 Data reflection

Data collected were discussed in deep to narrate the position of respondents. The researcher developed questionnaires which were distributed to financial institutions, eg Bank of Tanzania, general business community at Kariakoo, National Bureau of Statistics of Tanzania (NBS), and Ministry of Finance and Economic Affairs (MOFEA). The population of the study was randomly selected. The response rate was ninety five percent (95%). The responses were as follows.

4.2.1 Analysis on knowledge of EFC

Table 4.1: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge of EFC	213	1.1643	.37144	.02545

Question one intended to test if people were aware of the global financial crisis. The study found that 83.5% of the respondents reported that they were aware of the GFC. Only 11.7% of the respondents said that were not aware and 4.8% didn’t respond.

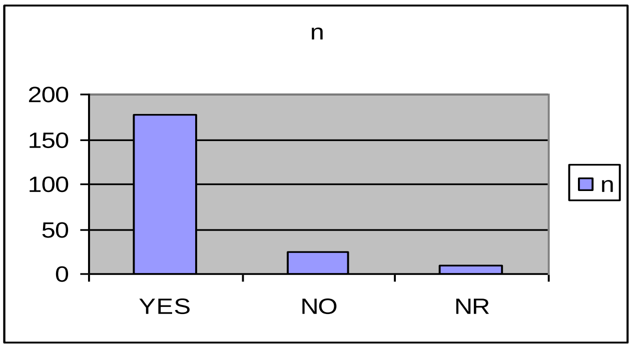


Figure 4.1: Response on awareness of GEFC

Source: Research Data (2011)

Summary: n= number of respondents

Those who said YES were 83.5%

Those who said NO were 11.7%

Those who didn't respond (NR) were 4.8%

4.2.2 Analysis on knowledge about effects of EFC

Table 4.2: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Effects of EFC to Tanzania	213	1.2723	.44619	.03057

Source: Research Data (2011)

Question two framed to get an understanding if Tanzania was affected by the global financial crisis. About 72.77% of the respondents believed that Tanzania was affected by GFC while 17.84% of the respondents did not believe. The study revealed that only 9.39% said they didn't know if Tanzaniawas affected or not.Moreover they gave reasons including; increase in prices of goods at grocery, final prices not affordable, frequent rising of bus fares, and that inflation was high as evidences for the turmoil. About 34.52%

of the respondents said Tanzania was not affected and claimed that inflation affected those who were trading mainly in toxic assets which was not the case in Tanzania and Africa.

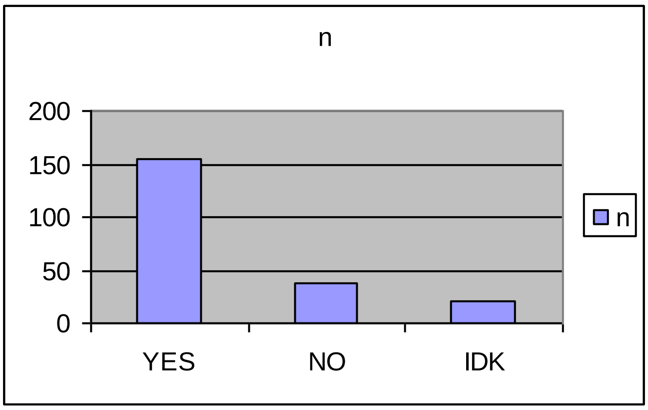


Figure 4.2: Response on whether Tanzania was affected or not

Source: Research Data (2011)

Summary: n= number of respondents

Those who said YES were 72.77%

Those who said NO were 17.84%

Those who said they don't know (IDK) were 9.39%

4.2.3 Analysis on hedging mechanism

Question three intended to assess the possibilities of Tanzania to protect itself against effects of global economic and financial crisis. About 38.9% of respondents suggested that countries within East African Community, Tanzania inclusive, should trade among themselves within the region so as to protect themselves against effects caused by the crisis. 27.7% of the respondents reported that the government of Tanzania should improve agricultural products by supporting Kilimo Kwanza while 23% of the respondents advised that capital inflow and outflow should be monitored by Bank of Tanzania. Further, 8.5% of the respondents advised the government to stop receiving loans and aids from donor countries while 1.4% of the respondents said that the country should avoid importation of goods and services from abroad. See the Chart below.

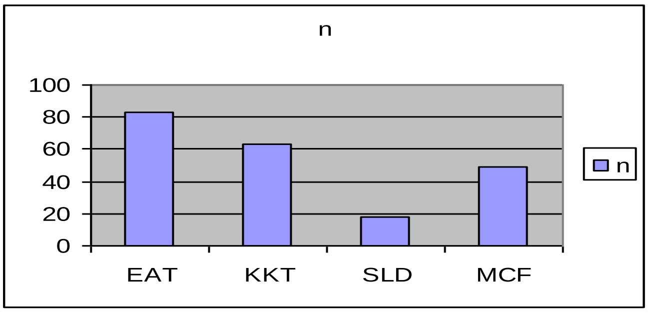


Figure 4.3: Responseon how Tanzania can protect itself from the effects

Source: Research Data (2011)

Summary: n= number of respondents

EAT- respondents who suggested that countries within East A frican

Community should trade among themselves, Tanzania inclusive.

KKT- respondents who suggested that Tanzania should improve

agricultural products by supporting Kilimo Kwanza.

SLD- respondents who advised the government to stop receiving loans and aids from donor countries.

MCF-respondents who advised that capital inflow and outflow should bemonitored by Bank of Tanzania.

4.2.4 Analysis of the impact and getting an understanding if individual Tanzanians were affected by the global financial crisis

Table 4.3: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
To confirm if individuals were personally affected by EFC	213	1.3991	.49086	.03363

Source: Research Data (2011)

About 60.1% of the respondents believed that Tanzanians were affected by GFC while 32.4% of the respondents did not believe. 7.5% didn't respond to this question. See chart below for clarity.

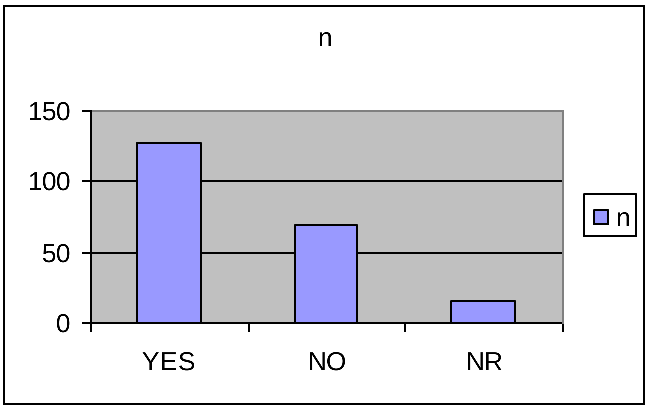


Figure 4.4: Effects of GFC to common men.

Source: Research Data (2011)

Summary:

Those who said YES were 60.1% of the respondents

Those who said NO were 32.4% of the respondents

Those who didn't respond (NR) were 7.5% of the respondents

4.2.5 To evaluate if financial and industrial sectors were seriously affected by the global financial crisis

Table 4.4: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Reasons confirming serious effects of EFC to financial and industrial sectors	213	1.3615	.65576	.04493

Source: Research Data (2011)

About 73.71% of the respondents believed that GFC caused serious effects to financial and industrial sectors because these sectors were connected to the economy of countries, which were seriously affected through international trade. Another 16.43% of the respondents believed that GFC had seriously affected these sectors because these sectors were led by non-professionals, who did not foresee the effects of GFC. Also, 9.6% of the respondents believed that these sectors were highly monitored by the politicians who easily interferes their operations.

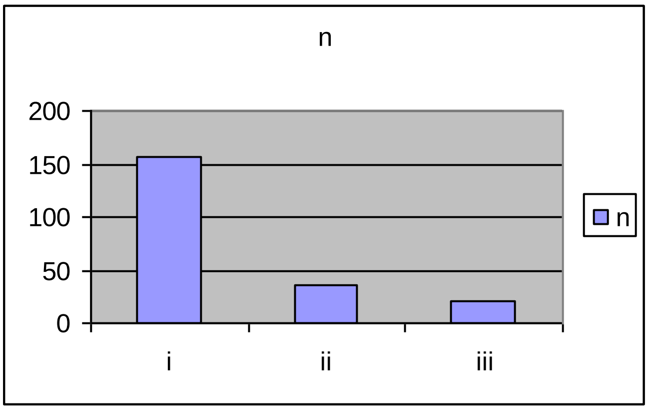


Figure 4.5: Effects of GEFC to Financial and Industrial Sector

Source: Research Data (2011)

Summary:

i) sectors connected to economy of western(affected) countries.

ii) sectors led by non professionals.

iii) sectors monitored by politicians.

4.2.6 To assess if the trend of tax revenue decreased since global financial crisis emerged

About 82.63% of the respondents said “Yes”, 13.15% said “No” whereas 4.22% of the respondents knew nothing.

Table 4.5: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge on behavior of tax revenue during financial crisis	213	1.1784	.38375	.02629
Identify reasons for tax decline by choosing from available alternatives	213	1.6761	1.08734	.07450

Source: Research Data (2011)

Out of 213 of the respondents, 66.20% believed that tax revenue decrease was caused by decreased importation of goods and services; 14.08% of the respondents believed the cause was due to decreased exportation of goods and services; and 5.64% of the respondents believed that the main reason was poor and weak control of customs officers who failed to ensure compliance when goods entered into Tanzania. Yet, another 14.08% of the respondents believed that the decrease in tax revenue was due to lack of strong internal control of the Tanzania Revenue Authority, which is entrusted to collect taxes, plus extended tax holidays to investors.

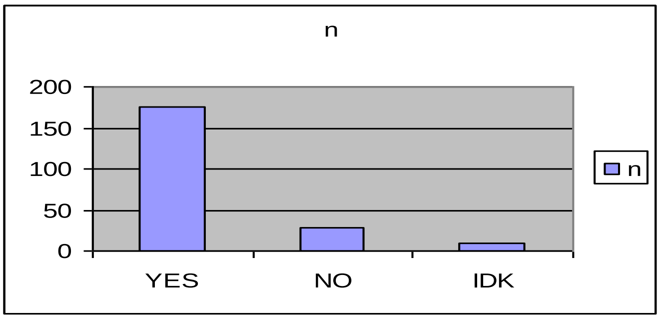


Figure 10: Chart to show respondents view on Trend of Tax Revenue.

Source: Research Data (2011)

4.2.7 To investigate if programs funded by Western countries in Tanzanian were affected by global financial crisis

Table 4.6: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge about programs funded by Western countries and likelihood of being affected by EFC	213	2.0000	.00000[c]	.00000

Source: Research Data (2011)

About 66.20% of the respondents reported that programs funded by western countries were affected by GFC; about 9.39% of the respondents reported that the programs were not affected; and 24.41% of the respondents were not knowledgeable.

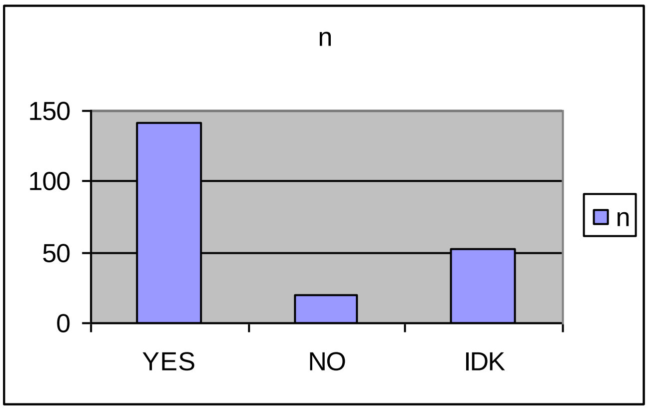


Figure 11: Chart to show frequency of respondent who knew project funded by eastern countries

Source: Research Data (2011)

Summary:

Those who said YES were 66.2%

Those who said NO were 9.4%

Those who said they don't know (IDK) were 24.4%

4.2.8 Position of the balance of payments (BOP) during 2008/09

There was a need to get understanding why BOP was stable during 2008/09 despite the global financial crisis. About 87% of the respondents reported that the stability was a result of foreign support (donor funds) through Exogenous Shock Facility.

Table 4.7: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge on the trend of balance of payment during 2008/2009	213	1.2347	.63045	.04320

Source: Research Data (2011)

Another 10.8% of the respondents reported that the reason behind stability of the BOP was that gold and export products recorded high during that period. Further, 1.9% of the respondents reported that this is because Bank of Tanzania (BOT) records of imports and exports were recorded accurately. See chart below.

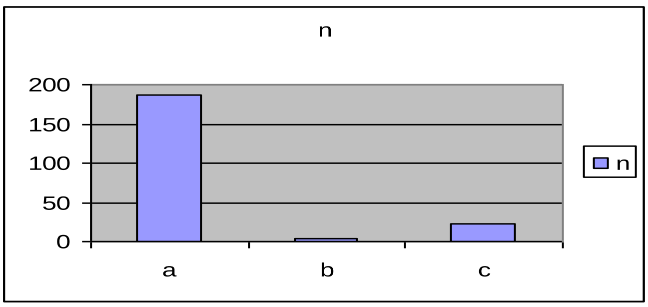


Figure 12: Response on Balance of Payment.

Source: Research Data (2011)

Summary:

Those who said stability was due to donor funds were 87%

Those who said stability was due accurate records of BOT were 1.9%

Those who said stability was due to gold and export products which recorded high were 10.8%

4.2.9 Assessment of commodity prices

Question nine was framed to investigate the reason behind the prices of key export commodities to decline during global financial crisis.

Table 4.8: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge on export commodities prices if declined during EFC	213	1.5822	.71313	.04886

Source: Research Data (2011)

About 55% of the respondents believed that the best reason was that consumer demand in advanced countries continued to decline.

Also, 32% and 13% of the respondents believed that the reasons were threats from pirates in Indian Ocean, and producers did not go for higher prices, respectively. See the following chart.

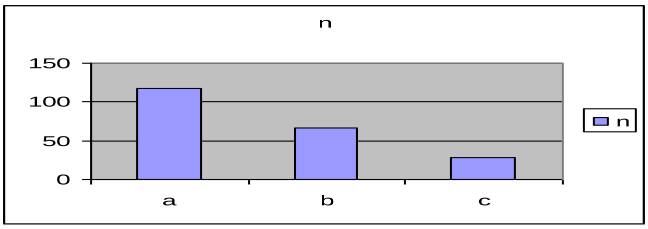


Figure 13: Response on export commodities

Source: Research Data (2011)

Summary:

Those who said consumer demand in advanced countries declined-55%

Those who said threats from pirates in Indian Ocean-32%

Those who said producers didn't go for higher prices-13%

4.2.10 Analysis of the main cause of credit crunch

In assessing the main cause of credit crunch the following results were obtained.

Table 4.9: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge on the causes of EFC (Credit crunch)	213	2.0751	.74225	.05086

Source: Research Data (2011)

About 69.95% of the respondents believed that accountancy professionals' failure, loose American financial policies, poor corporate governance and excessive investment in toxic assets were the main causes. About 15.49% of the respondents reported that the main cause was accountancy professionals' failure. Also, 8.45% and 6.10% believed the main causes were American involvement in war in Iraq, and more dependence on loans and aids from abroad, respectively.

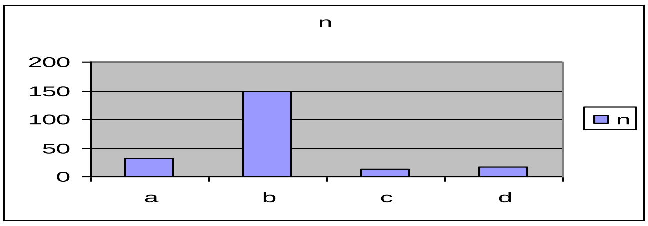


Figure14: Response on causes of credit crunch

Source: Research Data (2011)

Summary:

Those who said it was due to accountancy professionals' failure-15.49%

Those who said it was due to accountancy professionals' failure, looseAmerican financial policies, poor corporate governance and Excessive investment in toxic assets were 69.95%

Those who said it was due to more dependence on loan and aids from abroad were 6.10%

Those who said it was due to American involvement in war against Iraq were 8.45%

4.2.11 Testing the impact of EFC in business environment

This was framed to assess the business environment amongst the business community during 2006 through 2009. The focus was at Kariakoo area.

Table 4.10: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Assessment of business environment during 2006 through to 2009	213	2.3991	.79230	.05429

Source: Research Data (2011)

About 59.15 percent of the respondents reported that the business environ was very good; 21.60% of the respondents reported that was good; whereas 19.25% of the respondents reported that the business environment was poor.

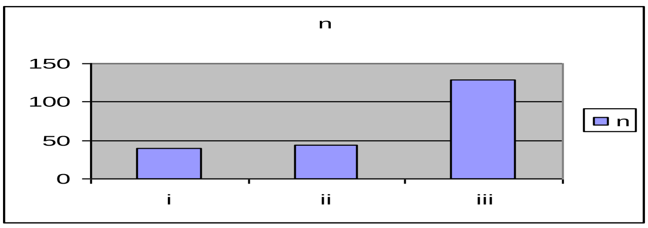


Figure 15: Response on assessment of Business Environment.

Source: Research Data (2011)

Summary:

Those who said business environment was poor were 19.25%

Those who said business environment was good were 21.6%

Those who said business environment was very good were 59.15%

4.2.11 Assessment of awareness of EFC in Tanzania

The following table gives the picture on understanding if Tanzanians were aware of potential economic effects caused by GEFC.

Table 4.11: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Knowledge of potential economic effects from available alternatives	201	1.4080	.74346	.05244

Source: Research Data (2011)

About 70.4% said that one of the potential effects was reduced bank credit facility, reduction in donation to donor-funded projects, and reduced demand of products from Africa. 9.4% said that civil war in Africa was a result of Global Economic and Financial Crisis. Also increased restriction to tourists coming to Africa, many African countries pushing for independence were among potential effects. 14.10% said that GEFC induced western countries to stop doing business with Africa. And 6.10% didn't respond to this question. See the chart below.

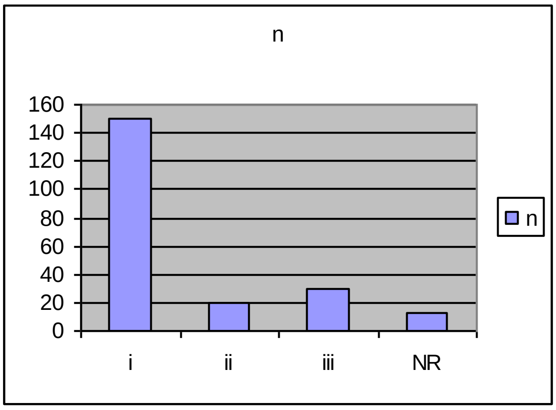


Figure 16: Response on Potential Economic Effects.

Source: Research Data (2011)

Summary:

Those who said GEFC led to reduced bank credit facility, reduction in donation to donor funded projects, and reduced demand of products from Africa were 70.4%

Those who said GEFC led to civil war were 9.4%

Those who said western countries stopped trading with Africa were 14.10%

Those who didn't respond were 6.10%

4.2.11 Assessment of effects of EFC on employment

Question thirteen designed to check if there was unemployment as a result of Global Economic Financial Crisis.

Table 4.12: One-Sample Statistics

Variable	N	Mean	Std. Deviation	Std. Error Mean
Assessment of level of unemployment in Tanzania during 2008/2009	213	1.2347	.63045	.04320

Source: Research Data (2011)

The issue of unemployment was hot debate during our discussion, 85.44% said the crisis has caused unemployment. Many multinational companies have closed down business resulting into people loosing their jobs. They sited DSTV, Cargill, and Morogoro Canvas. While 14.56% said no unemployment was not due to credit crunch.

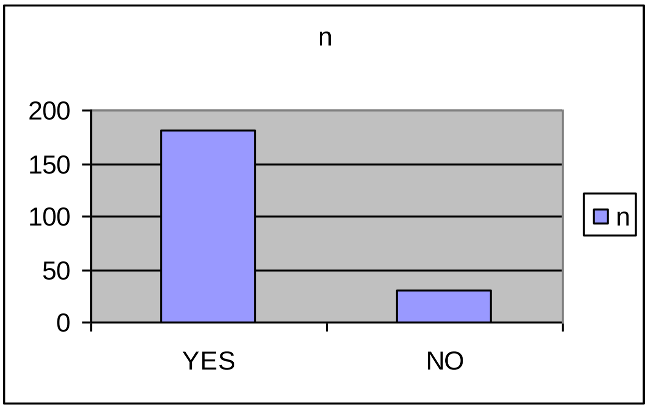


Figure 17.Assessment of level of unemployment.

Source: Research Data (2011)

Summary:

Those who said YES were 85.44%

Those who said NO were 14.56%

4.2.12 Assessment of Tax Trend during the crisis

Question Fourteen was designed to assess the trend of tax revenue during Global Economic and Financial Crisis.

Table 4.13: One-Sample Statistics

Variable	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Identify reasons for tax decline by choosing from available alternatives	213	1.6761	1.08734	.07450

Source: Research Data (2011)

Out of 213 people, 66.19% said tax revenue decreased due to decreased importation of goods and services. 13.62% said the decrease in tax revenue was due to decrease in exportation of goods and services. 6.10% said the decrease was due to poor and weak control of customs officers and 14.09% said the decrease was due to lack of strong internal control of TRA.

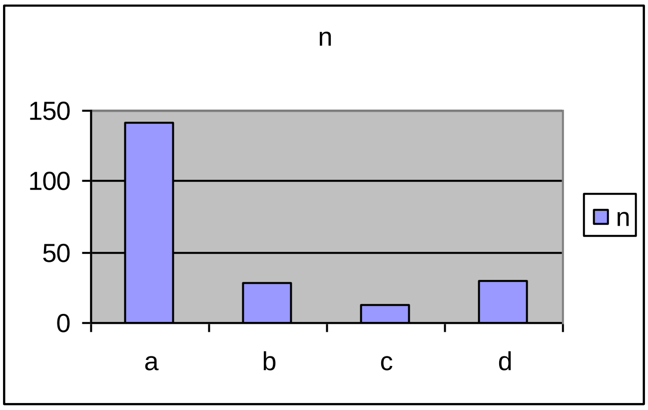


Figure 18: Response on trend of Tax Revenue.

Source: Research Data (2011)

4.3 General analysis

According to response from respondents as reflected in part 4.1 above, it is very unlikely that the Tanzanians have not realized the effect of GEFC

Testing Hypotheses and Results Analysis

This part of the research includes two main topics; the first about descriptive statistics of the study variables through descriptive statistical measures such as frequencies and percentages.

4.3.1 Descriptive Statistical Analysis

The purpose of this study was to investigate the impact of global financial crisis (GFC) to Tanzanian economy as well as individuals and the general business community. The researcher developed questionnaires that distributed to financial institutions, general business community at Kariakoo, Bank of Tanzania, National Bureau of Statistics of Tanzania (NBS), and Ministry of Finance and Economic Affairs (MOFEA). The population of the study was randomly selected. The response rate was ninety five percent (95%).

4.3.2 One Sample T-Test Approach

In this part, one sample t-test was used to test hypotheses.First: the hypothesis setting was for one sample t-test. Second: the researcher calculated the degree of freedom, mean, standard deviation, standard error mean, t values, significance levels (2-tailed), and means difference, by using one sample test.

Table 4.14: One-Sample Statistics

Variables	N	Mean	Std. Deviation	Std. Error Mean
Knowledge of EFC	213	1.1643	.37144	.02545
Effects of EFC to Tanzania	213	1.2723	.44619	.03057
Possibility of Tanzania to protect itself against the effects of EFC	0[a,b]	.	.	.
To confirm if individuals were personally affected by EFC	213	1.3991	.49086	.03363
To identify if people were aware about economic effects as result of EFC	213	1.1455	.35348	.02422
Knowledge of potential economic effects from available alternatives	201	1.4080	.74346	.05244

Reasons confirming serious effects of EFC to financial and industrial sectors	213	1.3615	.65576	.04493
Knowledge on behavior of tax revenue during financial crisis	213	1.1784	.38375	.02629
Identify reasons for tax decline by choosing from available alternatives	213	1.6761	1.08734	.07450
Knowledge about programs funded by Western countries and likelihood of being affected by EFC	213	2.0000	.00000[c]	.00000
Knowledge on the trend of balance of payment during 2008/2009	213	1.2347	.63045	.04320
Knowledge on export commodities prices if declined during EFC	213	1.5822	.71313	.04886
Knowledge on the causes of EFC (Credit crunch)	213	2.0751	.74225	.05086
Assessment of business environment during 2006 through to 2009	213	2.3991	.79230	.05429
a. t cannot be computed because the sum of case-weights is less than or equal 1.				
b. t cannot be computed. There are no valid cases for this analysis because all case-weights are not positive.				
c. t cannot be computed because the standard deviation is 0.				

Source: Research Data (2011)

This output tells us that we have 213 observations (N), the mean number and standard for each tested variable are shown in the third and forth columns, respectively. The standard error of the mean (the standard deviation of the sampling distribution of means) for each tested variable is shown in the fifth column.

The second part of the output gives the value of the statistical test:

Table 4.15: One-Sample Test

Variables	Test Value = 1					
	T	Df	Sig. (2-tailed)	**Mean Difference**	**95% Confidence Interval of the Difference**	
					Lower	**Upper**
Knowledge of EFC	6.456	212	.000	.16432	.1142	.2145
Effects of EFC to Tanzania	8.907	212	.000	.27230	.2120	.3326
To confirm if individuals were personally affected by EFC	11.865	212	.000	.39906	.3328	.4654
To identify if people were aware about economic effects as result of EFC	6.009	212	.000	.14554	.0978	.1933
Knowledge of potential economic effects from available alternatives	7.780	200	.000	.40796	.3046	.5114
Reasons confirming serious effects of EFC to financial and industrial sectors	8.046	212	.000	.36150	.2729	.4501
Knowledge on behavior of tax revenue during financial crisis	6.785	212	.000	.17840	.1266	.2302
Identify reasons for tax decline by choosing from	9.074	212	.000	.67606	.5292	.8229

available alternatives						
Knowledge on the trend of balance of payment during 2008/2009	5.434	212	.000	.23474	.1496	.3199
Knowledge on export commodities prices if declined during EFC	11.914	212	.000	.58216	.4858	.6785
Knowledge on the causes of EFC (Credit crunch)	21.140	212	.000	1.07512	.9749	1.1754
Assessment of business environment during 2006 through to 2009	25.771	212	.000	1.39906	1.2920	1.5061

Source: Research Data (2011)

Third, the researcher tested hypotheses for all the variables. In hypothesis testing for one sample t-test, the calculated values of (t) were compared with the table value. To accept alternative hypothesis, the calculated value of the one sample t-test must be greater than the table value. Also, it must be noted that the value of sig value must be less than 0.005.

4.4.0 The knowledge of EFC

HO: “The Null hypothesis”: The Tanzanian financial institutions, general business community, and government officials are knowledgeable of the global financial and economic crisis.

The output (Table 4.1) from one sample t-test tells us that we have 213 observations (N), the mean number of the knowledge of EFC is 1.1643 and the standard deviation of the knowledge of EFC is 0.37144. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.02545 (0.37144/square root of 213 = 0.02545).

The second column of the output (Table 4.2) gives us the t-test value: (1.1643 – 1)/(0.37144/square root of 213) = 6.456. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, the researcher looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, he accepted the alternative hypothesis (H1), because the calculated value of t (i.e. 6.456) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.1 The knowledge about effects of EFC

H2: “The alternative hypothesis”: Tanzanian has been affected by global financial and economic crisis.

The output (Table 4.1) from one sample t-test tells us that we have 213 observations (N), the mean number of effects of EFC to Tanzania is 1.2723 and the standard deviation of the effects of EFC to Tanzania is 0.44619. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.03057 (0.44619/square root of 213 = 0.03057).

The second column of the output (Table 4.2) gives us the t-test value: (1.2723 – 1)/ (0.44619/square root of 213) = 8.907. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, he looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, he accepted the alternative hypothesis (H1), because the calculated value of t (i.e. 8.907) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.2 The hedging mechanism

H3: "The alternative hypothesis": Tanzania can protect itself against the effect caused by global financial and economic crisis if it stops receiving loans and aids from donor countries.

The third hypothesis on the possibility of Tanzania to protect itself against effects of EFC was not computed by the one sample t-test because case weights were less than 1. Also, there were no valid cases for that analysis because all case weights were not positive. Thus, we were not able to make analysis for the third alternative hypothesis.

4.4.3 The understanding of Tanzanians about effects of the global financial crisis

H4: “The alternative hypothesis”: The Tanzanian individuals were personally affected by economic financial crisis due to increase in unemployment, high inflation, credit tightening in banks, high price of fuel, and non-availability of goods.

The output (Table 4.1) from one sample t-test tells us that we have 213 observations (N), the mean number of confirming if individuals were personally affected by EFC is 1.3991 and the standard deviation of confirming if individuals were personally affected by EFC is 0.49086.

The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.03363 (that is, 0.49086/square root of 213 = 0.03363).

The second column of the output (Table 4.2) gives us the t-test value: (1.3991 – 1)/(0.49086/square root of 213) = 11.865. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But he did not want a two-tailed test; his hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, he looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H4), because the calculated value of t (i.e. 11.865) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.4 The financial and industrial sectors

H5: “The alternative hypothesis”: Tanzanian people and general business community are aware about economic effects as a result of globalization financial and economic crisis.

The output (Table 4.1) from one sample t-test tells us that we have 213 observations (N), the mean number of identifying if people were aware about economic effects as a result of EFC is 1.1455 and the standard deviation of identifying if people were aware about economic effects as a result of EFC is 0.35348.

The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.02422 (that is, 0.35348/square root of 213 = 0.02422).

The second column of the output (Table 4.2) gives us the t-test value: (1.1455-1)/(0.35348/square root of 213) = 6.009. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H5), because the calculated value of t (i.e. 6.009) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.5 The trend of tax revenue

H6: “The alternative hypothesis”: Reduced bank credit facility; reduction in donation to donor-funded projects; and reduced demand of products from Africa are potential economic effects caused by global financial crisis.

The output (Table 4.1) from one sample t-test tells us that we have 201 observations (N), the mean number of the knowledge of potential economic effects from EFC is 1.4080 and the standard deviation of the knowledge of potential economic effects from EFC is 0.74346.

The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.05244 (that is, 0.74346/square root of 201 = 0.05244).

The second column of the output (Table 4.2) gives us the t-test value: (1.4080-1)/(0.74346/square root of 201) = 7.780. The third column tells us that this t test has 200 degree of freedom (201-1 =200). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 200 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.
By using the above-mentioned rule, we accepted the alternative hypothesis (H6), because the calculated value of t (i.e. 7.780) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.6 The performance of programs funded by Western countries in Tanzanian

H7: "The alternative hypothesis": Global financial crisis has caused serious effects to financial sectors and industrial sectors because these sectors are connected to the economy of countries, which were seriously affected through international trade.

The output (Table 4.2) from one sample t-test tells us that we have 212 observations (N), the mean number of the reasons confirming serious effects of EFC to financial and industrial sectors is 1.3615 and the standard deviation of the reasons confirming serious effects of EFC to financial and industrial sectors is 0.65576. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.04493 (that is, 0.65576/square root of 212 = 0.04493).

The second column of the output (Table 4.2) gives us the t-test value: (1.3615 – 1)/(0.65576/square root of 212) = 8.046. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H7), because the calculated value of t (i.e. 8.046) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.7 The position of the balance of payments (BOP) during2008/09

H8: “Alternative hypothesis”: The trend of tax revenue since global financial crisis emerged has decreased.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of the knowledge on behavior of tax revenue during financial crisis is 1.1784 and the standard deviation of knowledge on behavior of tax revenue during financial crisis is 0.38375. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.02629 (that is, 0.38375 /square root of 212 = 0.02629).

The second column of the output (Table 4.2) gives us the t-test value: (1.1784 – 1)/(0.38375/square root of 212) = 6.785. The third column tells us that this t test has 212 degree of freedom (213-1 =212).

The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H8), because the calculated value of t (i.e. 6.785) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.8 The trend of commodity prices

H9: “The alternative hypothesis”: It is believed that tax revenue decreased during the global financial crisis due to decreased importation of goods and services.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of identifying reasons for tax revenue decline EFC is 1.6761 and the standard deviation of identifying reasons for tax revenue decline EFC is 1.08734. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.07450 (that is, 1.08734 /square root of 212 = 0.07450).

The second column of the output (Table 4.2) gives us the t-test value: (1.6761 – 1)/(1.08734/square root of 212) = 9.074. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H9), because the calculated value of t (i.e. 9.074) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.9 The main cause of credit crunch

H10:"The alternative hypothesis": People have knowledge about programs funded by western countries that are likely of being affected by global financial crisis.

The tenth hypothesis on the knowledge about programs funded by western countries and likelihood of being affected by EFC was not computed by the one sample t-test because the standard deviation was 0. Thus, we were not able to make analysis for the tenth alternative hypothesis.

4.4.10 The impact of EFC in business environment

H11: "The alternative hypothesis": Stabilized 2008/2009 balance of payments and its positive result oriented was temporary and not sustainable due to the fact that the stability was a result of foreign support (donor funds) through exogenous facility.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of the knowledge on the trend of Balance of payment during 2008/2009 is 1.2347 and the standard deviation of the knowledge on the trend of Balance of payment during 2008/2009 is 0.63045. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.04320 (that is, 0.63045/square root of 212 = 0.04320).

The second column of the output (Table 4.2) gives us the t-test value: (1.2347-1)/(0.63045/square root of 212) = 5.434. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H11), because the calculated value of t (i.e. 5.434) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.11 Awareness of EFC in Tanzania

H12: “Alternative hypothesis”: Prices of key export commodities declined during global financial and economic crisis because consumer demand in advanced countries continued to decline.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of the knowledge on export commodities prices if declined during EFC is 1.5822 and the standard deviation of the knowledge on export commodities prices if declined during EFC is 0.71313. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.04886 (that is, 0.71313/square root of 212 = 0.04886).

The second column of the output (Table 4.2) gives us the t-test value: (1.5822-1)/(0.71313/square root of 212) = 11.914. The third column tells us that this t test has 212 degree of freedom (213-1 =212).

The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H12), because the calculated value of t (i.e. 11.914) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.12 Effects of EFC on employment

H13: “The alternative hypothesis”: The main causes of credit crunch are accountancy professionals’ failure, loose American financial policies, poor corporate governance, and excessive investment in toxic assets.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of the knowledge on the causes of EFC (credit crunch) is 2.0751 and the standard deviation of the knowledge on the causes of EFC (credit crunch) is 0.74225. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.05086 (that is, 0.74225/square root of 212 = 0.05086).

The second column of the output (Table 4.2) gives us the t-test value: (2.0751-1)/(0.74225/square root of 212) = 21.140. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t. The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H13), because the calculated value of t (i.e. 21.140) is above t-tabular = 1.65; and sig. value is below 0.05.

4.4.13 Tax Trend during the crisis

H14: "The alternative hypothesis": The business environment during 2006 through 2009, in terms of availability of loans, liquidity of the bank, and level of interest rate was very high.

The output (Table 4.1) from one sample t-test tells us that we have 212 observations (N), the mean number of the assessment of business environment during 2006 through to 2009 is 2.3991 and the standard deviation of the assessment of business environment during 2006 through to 2009 is 0.79230. The standard error of the mean (the standard deviation of the sampling distribution of means) is 0.05429 (that is, 0.79230/square root of 212 = 0.05429).

The second column of the output (Table 4.2) gives us the t-test value: (2.3991-1)/(0.79230/square root of 212) = 25.771. The third column tells us that this t test has 212 degree of freedom (213-1 =212). The fourth column tells us the two-tailed significance (the two-tailed p value). But we did not want a two-tailed test; our hypothesis is one tailed and there was no option to specify a one-tailed test. Because this is one-tailed test, we looked in a table of critical t values to determine the critical t.

The critical t with 212 degrees of freedom, $\alpha = 0.05$ and one-tailed is 1.65.

By using the above-mentioned rule, we accepted the alternative hypothesis (H14), because the calculated value of t (i.e. 25.771) is above t-tabular = 1.65; and sig. value is below 0.05.

4.5 Summary of Findings

The purpose of this study was to analyze the impact of the Global Financial Crisis (GFC) on Tanzanian economy and how it personally affected the individuals, as well as financial institutions and the businesses. The researcher used both descriptive analysis and regression analysis approaches.
On the side of descriptive analysis, as the impact on of the global financial crisis on the above-mentioned factors, the opinions of respondents were varying. However, it was observed generally that consumer buying behavior was severely affected; the export earnings and tax revenues were shattered; people lost their jobs, financial and industry sectors were affected to a large extent; and programs financed by donor countries were affected.

On the side of one sample t-test, twelve out of calculated fourteen values of t were above t-tabular/critical value, t = 1.65 and twelve sig out of fourteen were below sig = 0.05, thus the twelve questions (Q1, Q2, Q4, Q5, Q6, Q7, Q8, Q9, Q11, Q12, Q13, and Q14) are accepted. This means that there is sufficient evidence to conclude that the mean numbers of these variables are larger than 1. Thus a t test succeeded to reveal a statistically reliable difference between the mean numbers of the twelve variables; hence it can be summed-up that:

First, the Tanzanian financial institutions, general business community, and government officials are knowledgeable of the global financial and economic crisis.
Second, Tanzanian has been affected by global financial and economic crisis.
Third, the Tanzanian individuals were personally affected by economic financial crisis due to increase in unemployment, high inflation, credit tightening in banks, high price of fuel, and non-availability of goods.

Fourth, Tanzanian people and general business community are aware about economic effects as a result of globalization financial and economic crisis.

Fifth, reduced bank credit facility; reduction in donation to donor-funded projects; and reduced demand of products from Africa was potential economic effects caused by global financial crisis.

Sixth, Global financial crisis has caused serious effects to financial sectors and industrial sectors because these sectors are connected to the economy of countries, which were seriously affected through international trade.

Seventh, the trend of tax revenue since global financial crisis emerged has decreased.

Eighth, it is believed that tax revenue decreased during the global financial crisis due to decreased importation of goods and services.

Ninth, stabilized 2008/2009 balance of payments and its positive result oriented was temporary and not sustainable due to the fact that the stability was a result of foreign support (donor funds) through exogenous facility.

Tenth, prices of key export commodities declined during global financial and economic crisis because consumer demand in advanced countries continued to decline.

Eleventh, the main causes of credit crunch were accountancy professionals' failure, loose American financial policies, poor corporate governance, and excessive investment in toxic assets.

Twelve, the business environment during 2006 through 2009, in terms of availability of loans, liquidity of the bank, and level of interest rate was very high.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 General Observations

The current crisis has reached the individuals, business community, and government globally. It has threatened their wealth as people have lost their assets, savings and they are facing major concerns about their future stability.

They lost trust in their current financial system because some financial institutions have been putting peoples' money at risk for their own benefits. Even the individuals who don't own a bank account and never applied for a loan have been affected by this crisis. Individuals should be aware that the global financial crisis has reached a consumption level and it is no longer affecting only the financial institutions and investors.

The three identified challenges associated with the financial crisis that mostly reshaped normal life of Tanzanian people are: higher price levels, decreased savings, and job uncertainty. For example sugar price rise from Tsh 1,200/= to Tsh 2500/= this is more than 108% increase.

Higher prices (mostly due to increased indirect taxes) and depreciation are recognized to be the cost significant factors preventing the individuals from sustaining their usual levels of savings. This was a financial crisis outcome resulted in greater cautiousness during purchasing of goods and services.

People also face great pressure regarding their job security because of the excessive dismissal of staff by large multinational corporations. In Tanzania multinational companies, including DTV, Morogoro Canvas, and Cargill Inc. had to seize operations while Mbeya Cement closed operations for few months so as to accommodate the shock. People thus started to feel uncertain about their jobs. For example the number of employees of Morogoro Canvas was reduced from 509 in 2008 to 338 in 2010. This is equivalent to 33.59% decrease in number of employees.

5.1.1Future Focus

There is a need to spread awareness to people, especially through consumer protection associations, to help them achieve the greatest possible benefit using their disposable income. Illiterate people do not have knowledge of the effects of the financial crisis and find it hard to cope with difficult circumstances that the whole world is living through.

Thus, the government as well as financial institutions, industries and consumers should start focusing on long-term planning so as to meet their future financial obligations.

5.1.2 Conclusion

The world is facing tremendous economic challenge. The United States subprime crisis in 2007 negatively affected a number of well-developed economies like those Western Europe and developing economies including Tanzania. The financial crisis is known as a multi-dimensional trend, which has various impacts on economic stability and social life. In this context it is highly observed that amongst the most rigorously impacted sections of the Tanzania's economy were consumers and business community.

The study concluded that the Tanzanian individuals, government and regulatory institutions' officials, financial institutions and the general business community are aware of the impact of GFC to the Tanzanian economy. Also, people were affected by the global financial crisis and therefore adapted with the crisis through adjusting their behavior. They turned to inexpensive substitute goods, and switched from buying luxury to essential goods, and buying small quantities of goods rather than buying huge quantities. Financial and industrial sectors were also seriously affected, especially through international trade. Further, the Tanzania's economy suffered in terms of decrease in tax revenues due to decrease in imports and exports, and closure of multinational corporations.

5.3 Recommendations

The Tanzanian government role is fundamental in trying to overcome some problems associated with global financial crisis. Its intervention is essential to ensure that consumers are not affected by the crisis by monitoring the prices of essential commodities like food, fuels and electricity; and services like public transport and telecommunication. This would prevent increasing the prices in the future. Therefore regulating agencies such as EWURA, SUMATRA, and TCRA should from time to time provide regulations to protect consumers from the effects of global financial crisis, especially the poor.

Banks and financial institutions have an incredibly important role to help avoid another financial crisis by simply explaining to their clients the nature and features of their financial products they provide. By clarifying the consequences of acquiring particular this particular product people can avoid loans or credit that are hard to repay or a very risky investment.

Government should be ready to step in especially after the credit squeeze which has affected vital services and this harmed the poor, most in food and housing sectors. It should put restrictions on businesses that do not work in favor for consumers.

The government also should create institutional and legislative structures to reduce undesirable effects of the global financial crisis. The government must tolerate the GFC through expansion of investment in human resources, which increasing competition and production, and facing inflation and rising prices.

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APPENDICES

APPENDIX I:

LIST OF LEADING QUESTIONS PICKED FROM ALL QUESTIONNAIRES

Do you understand that there is Global Financial Crisis? Yes/ No.

Are Tanzanians affected by this crisis? Yes/ No.

Having answered no.2 above how can Tanzania protect itself against effects caused by crisis? Tick only one from the following best alternative answers;

i) Improve agricultural products by supporting kilimo kwanza

ii) Avoid importation of goods and services from abroad

iii) Stop receiving loans and aids from donor countries

iv) Should advise countries within East African region to trade among themselves within the region

v) Capital inflow and outflow should be monitored by BOT

vi) None of the above

1. Are you personally affected by this financial crisis? Yes o Hov

Brieflyexplain…………………………………………………………………………

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2. Global Financial crisis has caused serious effects to financial sectors and Industrial sectors due to following reasons: Tick the best reason.

i) These sectors are connected to the economy of countries, which were seriously affected through international trade.

ii) These sectors are led by non professionals who did not foresee the effects of global financial crisis.

iii) These sectors are highly monitored by politicians who can easily interfere there operations

3. Do you think the trend of tax revenue since global financial crisis emerged has decreased? Yes or No

4. Do you know there are programs funded by Western Countries which are affected by the global financial crisis? Yes No

5. During 2008/2009 the balance of payment stabilized showing positive result. However it is believed this stability was temporary and not sustainable. Out of the following statement which one explains better this situation?

a) This stability was a result of foreign support (donor funds) through Exogenous Shock Facility.

b) BOT records of imports and exports information were accurate

c) Gold and export products recorded high during that period.

d) None of the above.

6. Prices of key export commodities declined during global financial and economic crisis. Which among the following reasons best explains the reasons for the decline?

a) Consumer demand in advanced countries continued to decline.

b) Threats from pirates in Indian Ocean.

c) Producers did not go for higher prices.

7. What do you think are the right measures to be taken in order to reduce the impact of global financial crisis?

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What do you think are causes of credit crunch? Tick the most accurate reason.

a) Accountancy professionals' failure ☐

b) Accountancy professionals' failure, loose American financial policies, poor corporate governance and Excessive investment in toxic assets ☐

c) More dependency on loans and aids from abroad ☐

d) American involvement in war against Iraq. ☐

11. If employed/ started business, before year 2007 how do you assess business environment in the following years;

a) Year 2006 Business was

i) poor ii) good iii) very good ☐

b) Year 2007 Business was

i) poor ii) good iii) very good ☐

c) Year 2008 Business was

i) poor ii) good iii) very good ☐

d) Year 2009 Business was

i) poor ii) good iii) very good ☐

12. If yes (question 5 above) tick from the following potential effects.

i. Reduced Bank credit facility, reduction in donation to donor-funded projects, reduced demand of products from Africa. ☐

ii. Lead to civil war in Africa, Many African countries pushed for independence, increased restriction to tourists coming to Africa. ☐

iii. Western countries stopped doing business with Africa. ☐

13. Unemployment has increased in Tanzania as a result of Global Economic and Financial crisis. This has led to high level of crime which jeopardizes peace and stability in our community. Do you agree with this statement? Yes / No ☐

14. It is believed that tax revenue decreased during the global financial and economic crisis due to several reasons. The following reasons best explains this outcome.

a) Decreased importation of goods and services ☐

b) Decreased exportation of goods and services ☐

c) Poor and weak control of customs officers who fail to ensure compliance when goods are entered into our country. ☐

d) Lack of strong internal control of the authority entrusted to collect taxes plus extended tax holidays. ☐

15. Is there any advantage to Tanzania arising from global financial crisis?

Yes No ,

APPENDIX II

GUIDANCE QUESTIONNAIRES

Dear Respondent,

a) Kindly answer the following questions. The questions are purely for academic purpose and I do not intend in any way to victimize any person.

b) Your positive response will contribute a great deal towards researcher's success in writing thesis which is a partial fulfillment in the award of Masters Degree in Business Administration.

c) The information you are going to give will be confidential.

d) Finally you are requested not to write your name on this paper.

APPENDIX III:

QUESTIONNAIRE FOR HEAD OF SECTION

Personal Particulars:

Unit/Section:

Designation:

Duration of work:

Education Level:

Sex: Female / Male , Tick respective box.

Questions: Tick appropriate box

1. Do you understand that there is Global Financial Crisis? Yes / No .

2. Are Tanzanians affected by this crisis? Yes/ No .

1. Having answered no.2 above how can Tanzania protect itself against effects caused by crisis? Tick only one from the following best alternative answers;

i) Improve agricultural products by supporting kilimo kwanza ☐

ii) Avoid importation of goods and services from abroad ☐

iii) Stop receiving loans and aids from donor countries ☐

iv) Should advise countries within East African region to trade among themselves within the region ☐

v) Capital inflow and outflow should be monitored by BOT ☐

vi) None of the above ☐

2. Are you personally affected by this financial crisis? Yes / No . How? Brieflyexplain

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3. Is there any economic effect caused by global financial crisis?

Yes. .

No. .

4. If yes (question 5 above) tick from the following potential effects.

i. Reduced Bank credit facility, reduction in donation to donor-funded projects, reduced demand of products from Africa. ☐

ii. Lead to civil war in Africa, Many African countries pushed for independence, increased restriction to tourists coming to Africa. ☐

iii. Western countries stopped doing business with Africa. ☐

5. Global Financial crisis has caused serious effects to financial sectors and Industrial sectors due to following reasons: Tick the best reason.

i) These sectors are connected to the economy of countries, which were seriously affected through international trade. ☐

ii) These sectors are led by nonprofessionals who did not foresee the effects of globalfinancial crisis. ☐

iii) These sectors are highly monitored by politicians who can easily interfere there operations ☐

6. Do you think the trend of tax revenue since global financial crisis emerged has decreased? Yes or No .

7. It is believed that tax revenue decreased during the global financial and economic crisis due to several reasons. The following reasons best explains this outcome.

e) Decreased importation of goods and services ☐

f) Decreased exportation of goods and services ☐

g) Poor and weak control of customs officers who fail to ensure compliance when goods are entered into our country. ☐

h) Lack of strong internal control of the authority entrusted to collect taxes plus extended tax holidays. ☐

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THANK YOU FOR YOUR CONTRIBUTION

APPENDIX IV

QUESTIONNAIRES FOR STAFF WITHIN ECONOMIC PLANING AND FOREIGN TRANSACTION SECTION

Personal Particulars:

Unit/Section:

Designation:

Duration of work:

Education Level:

Sex: Female / Male , Tick respective box.

1. Do you understand that there is Global Financial Crisis? Yes ☐ ☐

2. Do you know there are programs funded by Western Countries which are affected by the global financial crisis? Yes /No,

3. During 2008/2009 the balance of payment stabilized showing positive result. However it is believed this stability was temporary and not sustainable. Out of the following statement which one explains better this situation?

a) This stability was a result of foreign support (donor funds) through Exogenous Shock Facility. ☐

b) BOT records of imports and exports information were recorded accurately ☐

c) Gold and export products recorded high during that period. ☐

d) None of the above. ☐

4. Is there any advantage to Tanzania arising from global financial crisis?

Yes /No ,

5. Reference to question number 4 above which among the following best explains the advantages

a) Trade among countries within East African Region has increased. ☐

b) Firms which suffered during the crisis have been compensated. ☐

c) Trade protectionism has increased. ☐

d) Forming an instrument(Financial Stability Forum) to monitor financial matters worldwide. ☐

6. Do you think it possible for a country like Tanzania to escape from problems caused by credit crunch?

Yes. .

No. .

7. If no which statement is relevant to question 6 among the following?

a) Tanzanian budget and many projects depend on donor funds. ☐

b) Globalization has turned the world into one village. ☐

c) None of the above. ☐

8) Prices of key export commodities declined during global financial and economic crisis. Which among the following reasons best explains the reasons for the decline?

d) Consumer demand in advanced countries continued to decline. ☐

e) Threats from pirates in Indian Ocean. ☐

f) Producers did not go for higher prices. ☐

9) One of the following plays a great roll in economic stability, however the crisis affected this system because donors were put under pressure in such a way that they could not honour commitments made by them as they spent colossal amounts of money to save their economies. Eg Italy.

a) The Official Development Assistance (OAD)

b) Exogenous Shock Facility

c) Financial Stability Foundation ☐

10) What is the reliability of statistics obtained from BOT records and Ministry of Finance as a whole?

Excellent ☐

Very good ☐

Good ☐

Average ☐

Tick where you think is appropriate.

11) Has the global financial crisis affected all LDCs?

Yes. .

No. .

12) Various publications indicate that Tanzania has not been affected much by global financial crisis.

Do you agree with this statement?

Yes. . /No. .

If you agree what do you think are major reasons? …………………………………………………………………………………………

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13) What are possible measures to be considered in order to avoid any other occurrence of global financial crisis in future?

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THANK YOU FOR YOUR CONTRIBUTION

APPENDIX V:

QUESTIONNAIRES FOR MINISTRY OF FINANCE/ ITS DEPARTMENTS

1. When did you ear about global financial crisis for the first time? a) 2006 b) 2007 c) 2008 d) 2009 ☐

Choose the appropriate answer.

2. How common is the word "Global Financial Crisis" nowadays?

Very common ☐

Common ☐

Rarely heard ☐

Tick appropriate word.

3. How statistics on international trade are obtained? Is it the Ministry which receives data first and send the same to BOT or vice versa? ………………………………………………………………………………………………
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4. Which channels do you utilize to ensure that you get latest international trade data?………………………………………………………………………………………

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5. Can the Tanzanian budget suffice the countries' needs without external aid? Yes/No

If yes/no, to which extent?

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6. Would Tanzania monetary and fiscal policies be affected due to global financial crisis? ☐ s/No ☐

Explain…………………………..………………………………………………………

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7. Do you think a common man in Tanzania is really feeling the pinch of global financial crisis?

Yes. .

No. .

If yes how? Describe briefly.

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8. What do you think are the right measures to be taken in order to reduce the impact of global financial crisis?

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9. What do you think are causes of credit crunch? Tick the most accurate reason.

a) Accountancy professionals' failure ☐

b) Accountancy professionals' failure, loose American financial policies, poor corporate governance and Excessive investment in toxic assets ☐

c) More dependency on loans and aids from abroad ☐

d) American involvement in war against Iraq. ☐

8. Any comment related to global financial crisis?

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THANK YOU FOR YOUR CONTRIBUTIONS

APPENDIX VI

QUESTIONNAIRES FOR GENERAL QUESTIONS TO BE DIRECTED TO BUSINESS COMMUNITY

Personal Particulars:

Company name:……………………………………………………….

Designation:…………………………………………………………

Duration of work:…………………………………………………..

Education Level:…………………………………………………...

Sex: Female / Male , Tick respective box.

Tick the appropriate box

1. Question

Do you know what Global Financial Crisis is? Yes / No .

2. Question

The Financial and economic Crisis occurred in the United States of America in July 2007 and then spread world wide. Are you affected by the crisis? Yes / No .

3. Question

What is your occupation?

a) Employed / Discipline ……………………………………………

b) Business Person/Employer / Line of Business……………………………

c) Unemployed / How do you get income ……………………………..

4. Question

If employed/ started business, before year 2007 how do you assess business environment in the following years;

a) Year 2006 Business was

i) poor ii) good iii) very good .

b) Year 2007 Business was

i) poor ii) good iii) very good .

c) Year 2008 Business was

i) poor ii) good iii) very good .

d) Year 2009 Business was

i) poor ii) good iii) very good .

5. Question

Do you have a bank account? Yes / No .

Mention the name of your bank ……………………………….

6. Question

Bank customers usually choose the bank based on unique services they get from the bank. Services like getting loans, liquidity of the bank, low interest rates on loan, efficiency of the bank etc. How do you assess the following services with your bank in respective years? Choose favourite answer.

a) Availability of loans:

Year 2006	i) poor	ii) good	iii) very good .
Year 2007	i) poor	ii) good	iii) very good .
Year 2008	i) poor	ii) good	iii) very good .
Year 2009	i) poor	ii) good	iii) very good .

Year 2010 i) poor ii) good iii) very good .

b) Liquidity of the bank:

Year 2006 i) poor ii) good iii) very good .

Year 2007 i) poor ii) good iii) very good .

Year 2008 i) poor ii) good iii) very good .

Year 2009 i) poor ii) good iii) very good .

Year 2010 i) poor ii) good iii) very good .

c) Level of interest rate?

Year 2006 i) low ii) high iii) very high .

Year 2007 i) low ii) high iii) very high .

Year 2008 i) low ii) high iii) very high .

Year 2009 i) low ii) high iii) very high .

Year 2010 i) low ii) high iii) very high .

7. Question

Tanzania is fur away so many miles from United States of America (USA), do you think economic problems in USA will affect Tanzania? Yes / No .

8. Question

Increased capital flows, international trade (import/export), as a result of globalization compel countries to trade to one another. Hence it is inevitable to suffer the consequences of global economic and financial crisis. Do you agree with this statement? Yes / No .

Briefly explain your choice;

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9. Question

Unemployment has increased in Tanzania as a result of Global Economic and Financial crisis. This has led to high level of crime which jeopardizes peace and stability in our community. Do you agree with this statement? Yes / No .

10. Question

Certain financial institutions will simply not have the funds available to assist and support businesses needing cash injections, or to increase over-drafts to manage trade recovery. Alternative financing has all but disappeared during the global financial crisis and major bank competition has eased. Put simply, there is not enough global funding to support all businesses throughout the recovery.

Does this statement sound fit to Tanzanian Financial institutions? Yes / No .

Brieflycomment

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11. Question

During global financial crisis, many financial institutions in the US suffered to the point of closure including Lehman Brothers. However, the same problem happened in Tanzania where multinational companies like DTV, Morogoro Canvas and Cargill Inc had to seize operations. In addition, Mbeya cement closed operations for few months to accommodate the shock.

Is this statement true as regard to global economic and financial crisis? Tick your choice.

a) Yes .

b) No .

Briefly explain your reason based on your choice

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THANK YOU FOR YOUR CONTRIBUTIONS

DEFINITIONS OF TERMS AND ABBREVIATIONS

LDCs(Less Developed Countries)

Less Developed Countries are perceived to be those countries of the third world of which theirgovernments can not manage to survive without getting support from Developed Countries. Example of less developed countries isAfrican countries and Asia. Developed countries are countries like USA, Great Britain, and Canada etc.

TED (Transaction Exposure Draft)

Is the difference between the interest rates on the interbank loans and short term government debt, is an indicator of perceived credit risk in the general economy.

GDP (Gross Domestic Product)

Gross domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period. It is one of the indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific period of time.

OECD (The Organization for Economic Development)

Is an organization which was formed in 1961 as an expansion of the Organization for European Economic Co-operation (OEEC).The OEEC developed strategies for restructuring Europe after World war II. Conversely, the OECD expanded its reach and included not only European countries but also Canada, Mexico, Australia, New Zealand, Japan, Korea and the United States.

MSCI (Morgan Stanley Capital International)

MSCI is a leading provider of equity, fixed-income and hedge fund indexes. Morgan Stanley's global equity benchmarks have become the most widely used international indexes by institutional investors across 23 developed and 27 emerging markets.

FDI-Foreign Direct Investment

Foreign direct investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

BOT-Bank of Tanzania

Is the Tanzania central bank, which governs all financial institutions in the country.

PSI -Policy Support Instrument

The Policy Support Instrument (PSI) is a non-financial instrument that has been designed to support low-income countries that do not want—or need—Fund financial assistance but seek to consolidate their economic performance with IMF monitoring and support. It is a valuable complement to the newly established lending facilities under the Poverty Reduction and Growth Trust. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, deliver clear signals to donors, multilateral development banks, and markets of the Fund's endorsement of the strength of a member's policies.

ESF-Exogenous Shock Facility

The Exogenous Shocks Facility (ESF), which was established in 2008 by the international monetary fund (IMF), provides concessional financing to the poverty reduction and growth facility(PRGT)-eligible countries facing balance of payments needs caused by sudden and exogenous shocks.