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**ANKARA ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ
İŞLETME ANABİLİM DALI**

**CONTRIBUTION OF CAPITAL MARKETS TO ECONOMIC GROWTH
AND DEVELOPMENT: A STUDY ON TANZANIAN CAPITAL MARKET**

Masters' Thesis in Business Administration

STEPHEN JACKSON LYIMO

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Date 21.11.2012

ÖZET

Afrika 1990'lardan bu yana önemli ekonomik gelişme sergilemiştir. Buna karşın Afrika sermaye piyasalarının bu sürdürülebilir büyümedeki rolü henüz tam olarak oturmamıştır. Bu durumun temel nedenlerinden biri, Afrikalıların henüz sermaye piyasalarının temel fonksiyonlarını tam olarak kavrayamamış olmalarıdır. Afrikalı hükümetler, kendi sorumlulukları adına, sermaye piyasalarını güçlendirmek için halen tutarlı politikalara sahip değildir. Afrika'nın önemli düzeyde yabancı sermaye çekebilmesi için borsaların yabancı yatırımcılar tarafından sermaye toplama platformları olarak kullanılması gerekmektedir. Bunun yanı sıra döviz piyasalarının da girişimciler tarafından kendi projelerinin finansmanı için girişim sermayesi toplamaları için kullanılması gerekmektedir.

Çalışma, özellikle Tanzania'da sermaye piyasalarının ekonomik büyüme ve kalkınma sürecine olan katkılarını incelemektedir. Yukarıda belirtilen hususların analizi için çalışma sermaye piyasası kurumlarına ve düzenleyici kurumlara odaklanan çeşitli anket soruları üzerinde şekillenmiştir. Çalışma sonucunda Tanzania sermaye piyasasının henüz olgunlaşmamış bir safhada olduğu ve ekonominin uzun vadeli finansmana kaynak aktarımı için henüz önemli bir rol üstlenmediği gözlemlenmiştir. 2010 yılı Şubat ayı itibariyle borsa değeri 3.75 milyar dolar olan yalnızca 15 şirket Dar es Salaam Stock Exchange'de listelenmiş olup, 2009'un son çeyreğinde piyasa işlem hacmi yalnızca 9.6 milyon dolar olarak gerçekleşmiştir. Şirket tahvilleri piyasası da oldukça dardır. 2010 yılı Şubat ayı itibariyle toplam değeri 58.7 milyon dolar olan toplam 7 şirket tahvili bulunmaktadır. Çalışma bunun yanı sıra öncelikle çalışmanın kısıtlarını sıralayarak ve ileride üzerinde çalışılmaya değer konu önerileri sunarak Tanzania sermaye piyasasının gelişmesinin önündeki bazı önemli kısıtları ortadan kaldırmak için politika önerileri sunmaktadır.

ABSTRACT

Africa has experienced significant economic growth since 1990s. However, the role African capital markets played in this sustained growth and development is not yet well established. One of the reasons is that the majority of Africans do not yet understand the basic functions of a stock market. African governments, for their part, still do not have coherent policies in place to push forward the capital markets agenda. For Africa to attract significant foreign direct investment, the stock markets will need to be used as platforms by foreign investors to raise capital to finance their projects. Exchanges will also need to be used by budding entrepreneurs as venues to raise venture capital to help finance their businesses.

The study assessed the contribution of capital market to economic growth and development particularly in Tanzania. In order to examine the above issues, the study focused on various research questions as basis for administering survey questionnaires to capital market institutions and regulatory agencies. The study found that Tanzanian capital market is still at a nascent stage and has not played a major role in resource mobilization and long-term financing of the economy. Only fifteen companies are listed on the DSE, with a market capitalization of US\$3.75 billion in February 2010 and a market turnover of US\$9.6 million in the fourth quarter of 2009. The corporate bond market is very limited; as of February 2010 there were seven corporate bonds with an outstanding amount of US\$58.7 million. The study also revealed some policy recommendations for addressing some of the major constraints to capital market development in Tanzania before wind up by sorting out limitations of the study and suggest for areas worthy undertaking further studies.

DECLARATION AND COPYRIGHT

I, Stephen Jackson Lyimo, declare that this thesis is my own work; no part of this work may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronically, photocopying or otherwise without permission of the owner. The work is only submitted to the Institute of Social Science of Ankara University.

Signature _____

Date _____

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I developed an interest to undertake a study on the contribution of capital market to economic growth and development in Tanzania due to my involvement in Financing industry as a banker in commercial and development banks.

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Finally, I am also thankful to my dearest wife Anitha and our two lovely sons Innocent and Alvin for their patience, moral and material support throughout my study period. Despite such contributions from different people, I am personally responsible for the study contents and facts.

DEDICATION

To my parents for their responsibility for my career development.

To my dearest wife, Anitha, for great love and hope.

To my two lovely sons Innocent and Alvin who brings the joy and prospects. They are my motive behind everything.

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LIST OF ABBREVIATIONS

BOT	Bank of Tanzania
CMSA	Capital Markets and Securities Act
CU	Custom Union
DSE	Dar es Salaam Stock Exchange
DVP	Delivery versus Payment
EAC	East Africa Community
GDP	Gross Domestic product
IFM	International Finance Management
LGA	Local Government Authority
MFI'S	Microfinance Institutions.
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini
NSGRP	National Strategy for Growth and Reduction of poverty.
NEEP	National Economic Empowerment Programme
NBS	National bureau of Statistics
NGO	Non Governmental Organization
PAYE	Pay as you earn
PRGF	Poverty Reduction Growth Facility
PSI	Policy support Instrument
SAP	Structural Adjacent Program
SACCOS	Savings And Credit Co-operative
SBAS	Strategic Budget Allocation System
SME	Small and Mediam enterprises
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank Ltd
TOL	Tanzania Oxygen Limited
VAT	Value Added Tax

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CHAPTER ONE

PROBLEM SETTING

1.1 Introduction

The study was intended to assess the contribution of capital market to economic growth and development particularly in Tanzania. Capital market development is still at a nascent stage in Tanzania. In order to achieve economic growth and development it is important to increase access to long-term funding and providing suitable placements for institutional investors. This chapter describes the context of the study, the statement of the problem, the research objectives, the research questions, and the significance of the study, the limitations of the study, the study delimitations and the scope of the study.

1.2 Background of the problem

Capital markets play major role in economic development by increasing the rate of capital formation which is a basic precondition of economic growth. It is an agent of economic growth and development because of its ability to mobilize saving and investment.

Well-functioning capital markets are an extremely important component of capitalism. "... At any given level of savings, an efficient financial system will allow for a higher level of investment by maximizing the proportion of savings that actually finances investment (Pagano 1993)." Companies require funds to expand operations, develop new products and services, and construct facilities. Governments use capital market funding to develop and enhance infrastructure, for other government projects and initiatives, and to finance deficits.

Goldsmith (1969) and McKinnon (1973) further investigated the importance of financial services and reasoned that better functioning financial systems, as described by Schumpeter (1911) were indeed supportive of faster growth and development. King and Levine (1993) found that higher levels of financial development are significantly and robustly correlated with faster current and future rates of economic growth, physical capital accumulation and economic efficiency improvements. They conclude that the relationship between growth and financial development is not just a contemporaneous correlation: finance leads economic growth.

1.3 Statement of the problem.

The financial sector is often regarded as ‘strategic’ to economic development. Financial services are the central nervous system of the body economic (Crockett, 2000). In a market economy, the role of the capital market is very important. The good functioning of the capital market is vital in the contemporary economy, in order to achieve an efficient transfer of monetary resources from those who save money toward those who need capital and who succeed to offer it a superior utilization; the capital market can influence significantly the quality of investment decisions.

However in most of the African countries the contribution of capital markets towards economic development and growth are not well recognized. Therefore the researcher’s interest was to investigate and evaluate the contribution of capital market to economic growth and development of cfa study at Tanzanian Capital Market.

1.4 Objective of the study

The general objective of the study was to assess and investigate the contribution of capital markets for the economic growth and development a case study at Tanzanian Capital Market.

Specifically the objectives are:

- To determine the role of stock exchange in raising long-term capital for growth and poverty alleviation.
- To determine the benefit and challenges of globalization and regional integration of the Tanzanian capital markets.
- The study also identified the various constraints that impede the development of efficient capital markets and how these constraints can be removed.
- The study also identified the steps to be taken by Government to improve the Capital market contribution for the economic growth and development. Its also provides policy recommendations for addressing some of the major constraints to capital market development in Tanzania.

1.5 Research questions

1.5.1 General question

The main question of the study was; “What are the contribution of capital market to economic growth and development in Tanzania?”

1.5.2 Specific questions

The study intended to address the following specific questions:

- To what extent the existence of stock exchange in Tanzania improve the prospects of raising long-term capital for growth and poverty alleviation?
- What are the the benefit and challenges of globalization and regional integration of the Tanzanian capital markets?
- What are the contributions of capital market to SME in raising capital in form of equity securities?

- What are the steps to be taken by Government in order to improve the contribution of capital market towards economic growth and development?

1.6 Significance of the study.

The study will enable the researcher to gain practical experience of the contribution of capital marketing on realizing economic growth and development hence to be in a position to make comparison between the ones already learned theoretically and practical situation, also the study will have the following significances:

- The findings of the study will lead to better understanding weakness of utilizing capital market by different government for the economic growth and hence solution to be taken to improve its contribution.
- The study also will lead to the recognition of the contribution of capital market in realizing economic growth and development, and the Government of developing countries will keep effort to solve the problem stated thereof and deal with it effectively.

The study also helps the researcher to write a research report to be submitted to Ankara University in partial fulfillment for the award of Master of Business Administration.

It may also serve as a guide for future reference for students doing research on similar problems and probably extend the research visiting the same points raised in this study.

1.7 Limitations of the study.

Budgetary constraints .This was because the study was self-sponsored and needed to cover wider sample of different stakeholders in Tanzanian capital market. Time also limited the study to a small sample of respondents.

1.8 Delimitation of the study

Due to time and financial constraints, the study concentrated at Tanzanian Capital Market specifically Dar es Salaam Stock exchange and Bank of Tanzania.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter attempts to review areas and various literature related to capital market, economic development, economic growth , financial Institution and their values in relation to economic growth and development. The literature review gives the study a direction and good understanding on capital market and how can play a significant role economic growth and development in Tanzania economy. The chapter covers among other things, the definition of key concepts, profile of Tanzania, Capital market and financial Institution, economic development and contribution of capital market towards economic growth and development. The literature review also gives background and current status of capital market development in Tanzania.

2.2 Capital market and Economic Development

Economic growth in a modern economy hinges on an efficient and effective financial sector that pools domestic savings and mobilizes capital for productive projects. Absence of effective capital market could leave most productive projects which carry developmental agenda unexploited. Inefficient financial institutions will have the effect of taxing productive investment and thus reducing scope for increasing the stock of equipment needed to compete globally. Inefficiency can substantially cut growth from the level that might have been possible given appropriate policies and market structures.(. Bekaert,1997)

The capital market today is a reality met in any modern economy. It is a market the necessity of which is unchallengeable, an extremely dynamic and innovative structure,

permanently adapting to the economic environment and at the same time an influential factor of it, generating opportunities and to the same extent risk for all categories of participants to the economic activity, being a replica of a national economy to a small scale, but nevertheless especially representative (Alin Marius Andrieș, 2009) According to Alin Marius Andrieș on its paper 'Importance of capital market in economy explained that that In a market economy, the role of the capital market is of first rate. The well- functioning of the capital market is vital in the contemporary economy in order to be able to perform an efficient transfer of money resources from those who save towards those who need capital and those who succeed to offer it a higher capitalization; the capital market can significantly influence the quality of the investment decisions Depending on the moment when the transaction is performed, the capital market is divided into two temporal defendant segments: primary and secondary. CESWorking Papers, The primary market has the role of placing the issuing of securities, to attract the available financial capitals on medium and long term, both on the internal capital markets, and on the international one appealing to the public economies. The secondary market – once the securities are set into circulation, through the issuance on the primary market, they are the object of transactions on the secondary market. The existence of this type of market offers to the owners of shares and bonds the possibility to capitalize them before they bring a profit (dividends or interests). The secondary market represents, at the same time, the way to concentrate in the same place private or institutional investors who can sell or buy securities, having the guarantee that they are valuable and can be reinserted into the circuit at any time.

The secondary market is also the almost perfect expression of the free adjustment between the offer and demand of securities, being a barometer, in the first place for the need for capital, but also for the economic, social and political state of a country. From this point of view, the secondary capital market can be considered a perfect market, where the law of demand and offer finds the perfect terrain for its unfenced action. Ensuring the mobility of capitals, of liquidities on long and medium term, of the

negotiability of any security that passes the primary market, the secondary market attracts, at the same time, professional investors, but also amateur investors, in the hope of a maximum profit in record time

McKinnon (1973, 1991), Gelb (1989) and Fry (1988), Montiel (1996), among others, stress the positive contribution of capital market development to growth, while King and Levine (1993) and Ghani (1992) find strong correlation between measures of banking development and economic growth. Calamanti (1983) points that the securities market can positively contribute to growth if supported by appropriate government policies

Richard (1996) observes that the growth of stock markets increases the volume of long-term investments. Levine and Zeros (1996) establish a positive relationship between measures of stock market development and long-run growth rates. The stock markets are seen to provide a means for risk diversification, acquisition of information about firms, efficient allocation of funds and tying manager compensation to stock performance. Internationally integrated capital markets make diversification of risk possible, apart from the inflow of financial resources.

In his recent study published in *The Journal of Economic Literature*, Levine (1997) reviewed a body of literature that has bearing on the debate concerning the linkage between capital market development and real sector growth. In that study, Levine discussed the linkage between four different proxies of capital market development and real sector growth. These capital market proxies include (a) liquid liabilities (comprising currency plus demand deposits of banking and non-banking financial institutions), (b) bank credit as a ratio of total credit by the banking sector and the central banking sector, (c) credit allocated to the private sector as a ratio of total credit, and (d) credit extension to the private sector divided by GDP. Levine postulates a positive relationship between

the above proxies of capital market development and real sector growth as represented by per capita income.

In another study by Atje and Jovanovich (1996), the authors focused their empirical work on the capital (equity) market development and growth, using various proxies. These include (a) stock market capitalization (where market capitalization refers to the value of listed shares, (b) stock market turnover ratio (measured by the total value of shares traded divided by market capitalization).

2.3 Financial Development and Economic Growth

Some economists have argued that the development of financial markets is a critical part of the development process and that an efficient financial system is linked to economic growth. In the world of Schumpeter (1911), a country's financial system was seen to play a critical role in fostering development. The basic services financial intermediaries provide to the economy include mobilizing savings and facilitating transactions. These services are essential in fostering technological innovation and economic growth. Goldsmith (1969) and McKinnon (1973) further investigated the importance of financial services and reasoned that better functioning financial systems, as described by Schumpeter (1911) were indeed supportive of faster growth and development. King and Levine (1993) found that higher levels of financial development are significantly and robustly correlated with faster current and future rates of economic growth, physical capital accumulation and economic efficiency improvements. They conclude that the relationship between growth and financial development is not just a contemporaneous correlation: finance leads economic growth.

Capital market development is an important component of financial sector development and supplements the role of the banking system in economic development. Specifically, capital markets assists in price discovery, liquidity provision, reduction in transactions

costs, and risk transfer. They reduce information cost through generation and dissemination of information on firms leading to efficient markets in which prices incorporate all available information [Yartey and Adjasi (2007), Garcia and Liu (1999)]. Overall, stock markets provide market liquidity that enables implementation of long term projects with long term payoffs thereby promoting a country's economic growth endeavor. Moreover, efficient capital markets not only avail resources to investors, they also facilitate inflow of foreign financial resources into the domestic economy.

The financial sector is often regarded as 'strategic' to economic development. Financial services are key inputs in all that nations produce, bring to market, trade in, whether goods, ideas or services. Simply put, financial services are the central nervous system of the body economic (Crockett, 2000).

Efficient provision of financial services is crucial for entrepreneurial growth and commercial success (Levine, 1996; Jacquet, 1997). Entrepreneurial success, in turn, serves the employment, innovation, growth and development prospects of the host country. Financial services mobilise savings and allocate capital to more productive uses, both of which help increase the amount of physical capital and its productivity. By this, financial services increase economic growth; however, it is widely accepted that the contribution of financial services to economic development is higher in liberalized regimes. This is because financial repression and the implied credit rationing distorts resource allocation and distribution and, as a result, productivity, growth and development are stifled.² Further, Shaw (1973) argues that distortion of financial prices including interest rates and foreign exchange rates reduces the real rate of growth and real size of the financial system relative to non-financial variables. Financial repression would thus seriously retard the development process. On the contrary, the World Bank (1993) finds that a policy of moderate financial repression at positive interest rates may have boosted aggregate investment and growth in the high performing Asian economies

by transferring income from depositors, primarily households, to borrowers, primarily firms.

King and Levine (1993) assessed the connection between banking sector development and the sources of economic growth and found that financial development was positive and significantly correlated with economic growth. Reinhart and Tokatlidis (2001) in a study of 50 countries found that financial liberalization appears to have positive impact on financial deepening as measured by the credit and monetary aggregates, but that low income countries do not appear to show clear signs of such a benefit. Indeed, Berthelemy and Varoudakis (1996) found negative correlation between financial development and growth on the basis of the panel data regressions run over the period 1960–90 for a sample of 82 countries and concluded that there exists a threshold effect associated with the existence of multiple equilibrium in the long run between finance and growth. Demetriades and Hussein (1996) studied 16 developing countries and found that although for half of the countries the granger causality runs from financial development to growth, the relationship for the other half of the countries was in the opposite direction, where causality runs from growth to finance and therefore confirmed the argument that generalizations based on cross-country studies on this debate can be misleading. They concluded that the relationship between financial services and economic growth and development was very country-specific. Much of the evidence on the relationship between finance and growth uses bank-based measures of financial development such as the ratio of bank deposits to nominal GDP. More recently, the emphasis has shifted to stock market indicators and evidence shows that the role of stock markets could potentially be substantial.

Garretsen, et al. (2004) found out a causal relationship between economic growth and financial markets development: a 1% improvement of economic growth determines a 0.4% rise of market capitalization/GDP ratio. Yet, according to their results, market capitalization/GDP ratio does not represent a significant determinant of the economic growth. Beck, Lundberg and Majnoni (2006), also, found a positive correlation between

capital market development (measured by a dummy variable computed to reflect if the market capitalization exceeds 13,5% of GDP) and economic growth. Bose(2005) offers a theoretical financial model that explains the positive correlation between stock market development and economic growth; the model is based on the hypothesis that for levels of GDP per capita higher than a certain threshold the information costs become lower than bankruptcy costs, determining the development of capital markets. Hence, it is explained why stock markets appeared late after banks. Beckaert, Harvey and Lundblad (2005) analyzed financial liberalization as a special case of capital market development and determined that equity market liberalizations, on average, led to a 1% increase in annual real economic growth. Studying the link between domestic stock market development and internationalization, Claessens, Klingebiel and Schmukler (2006) using a panel data technique concluded that domestic stock market development as well as stock market internationalization are positively influenced by the log of GDP per capita, the stock market liberalization, the capital account liberalization and the country growth opportunities and negatively influenced by the government deficit/GDP ratio. Minier (2003) analyzed the influence of the stock market dimension on economic development by regression tree techniques; he found evidence that the positive influence of stock market development on economic growth held only for developed stock markets in terms of turnover, in the case of underdeveloped stock markets the influence is negative. Ergungor (2006) analyzed the impact of financial structure on the economic growth on the period 1980-1995; he concluded that in countries with inflexible judicial systems the stronger impact on economic growth is generated by the development of the bank-system, whereas in countries with greater flexibility of judicial systems the development of the capital market had a stronger influence. Studies on the relation between capital market development and economic growth in different countries were performed.

Nieuwerburgh, et.al (2006) analysed the long-run relationship between stock market development (measured by market capitalization and number of listed shares) and

economic growth (measured as a logarithmic difference of GDP per capita) in Belgium. They performed Granger causality tests and emphasized that stock market development determined economic growth in Belgium especially in the period 1873-1935, but also on the entire analyzed period (1800-2000) with variations in time due to institutional changes affecting the stock exchange. Hondroyannis, et.al (2005) studied the case of Greece (1986- 1999); they found out that the relationship between economic growth and capital market development is bi-directional. Studying the effect of different components of financial systems on economic growth in Taiwan, Korea and Japan, Liu and Hsu (2006) emphasized the positive effect of stock market development (measured by market capitalization as percentage of GDP, turnover as percentage in GDP and stock return) on economic growth.

Bolbol, Fatheldin, and Omran (2005) analyzed the effect of financial markets (measured by the ratio of market capitalization on GDP and the turnover ratio) on total factor productivity and growth (the per capita GDP growth rate) in Egypt (1974-2002); they demonstrated that capital market development had a positive influence on factor productivity and growth. Ben Naceur and Ghazouani (2007), studying the influence of stock markets and bank system development on economic growth on a sample of 11 Arab countries, concluded that financial development could negatively influence the economic growth in countries with underdeveloped financial systems; they stressed the role of building a sound financial system.

Levine et. al (1995) argue that well-developed stock markets may be able to offer different kinds of financial services than the banking system and may, therefore, provide a different kind of impetus to investment and growth than the development of the banking system. Increased stock market capitalization, measured by the ratio of stock market value to GDP, may improve an economy's ability to mobilize capital and diversify risk. They find that the measures of banking and stock market development are robustly correlated with current and future rates of economic growth, capital

accumulation and productivity improvements and conclude that stock markets provide different services from banks.

Atje and Jovanovic (1993) also find a significant correlation between economic growth and the value of stock market trading relative to GDP for 40 countries over the period 1980–8. In principal, a well-functioning stock market should affect economic development through channels similar to those by which the equilibrium interest rate is expected to influence it. Although King and Levine (1993) emphasize the merits of financial intermediation with respect to the promotion of technical progress and entrepreneurship, Allen (1993) stresses that stock markets can effectively take on the risk sharing, monitoring and screening functions with respect to new investment projects. There is a general agreement that banks and the stock markets are the two main channels of financial intermediation and that they complement each other. However, Atje and Jovanovic (1993) are of the view that although stock markets positively affect growth, raising it by a huge 2.5% per annum, banks have little influence. The contribution of financial services to economic development is indirect because of their intermediary role and depends on the content of the services provided and on the quality of institutions that provide the services.

Arestis and Demetriades (1996) provide evidence which suggests that the causal link between finance and growth is crucially determined by the nature and operation of the financial institutions and policies pursued in each country. An efficient financial system delivers improved credit allocation and a higher quality of financial services. High-quality financial services can result from increased competition between financial institutions. Financial systems exist to serve one primary function—to facilitate the allocation of resources across space and time, in an environment of uncertainty and transaction costs (Levine, 1997). The financial system channels resources from savers to investors for longer-term investment.

2.4 Capital market development and economic growth

In the recent financial literature on endogenous growth, the relationship between capital markets development and economic growth has received much attention. Beckaert, Harvey and Lundblad (2005) analyzed financial liberalization as a special case of capital market development and determined that equity market liberalizations, on average, led to a 1% increase in annual real economic growth. Studying the link between domestic stock market development and internationalization, Claessens, Klingebiel and Schmukler (2006) using a panel data technique concluded that domestic stock market development as well as stock market internationalization are positively influenced by the log of GDP per capita, the stock market liberalization, the capital account liberalization and the country growth opportunities and negatively influenced by the Government Deficit/GDP Ratio. Minier (2003) analyzed the influence of the stock market dimension on economic development by regression tree techniques; he found evidence that the positive influence of stock market development on economic growth held only for developed stock markets in terms of turnover, in the case of underdeveloped stock markets the influence is negative.

Ergungor (2006) analyzed the impact of financial structure on the economic growth on the period 1980-1995; he concluded that in countries with inflexible judicial systems the stronger impact on economic growth is generated by the development of the bank-system, whereas in countries with greater flexibility of judicial systems the development of the capital market had a stronger influence. Studies on the relation between capital market development and economic growth in different countries were performed. Nieuwerburgh, et.al (2006) analysed the long-run relationship between stock market development (measured by market capitalization and number of listed shares) and economic growth (measured as a logarithmic difference of GDP per capita) in Belgium. They performed Granger causality tests and emphasized that stock market development determined economic growth in Belgium especially in the period 1873-1935, but also

on the entire analyzed period (1800-2000) with variations in time due to institutional changes affecting the stock exchange.

Hondroyannis, et al (2005) studied the case of Greece (1986- 1999); they found out that the relationship between economic growth and capital market development is bi-directional. Studying the effect of different components of financial systems on economic growth in Taiwan, Korea and Japan, Liu et.al. (2006) emphasized the positive effect of stock market development (measured by market capitalization as percentage of GDP, turnover as percentage in GDP and stock return) on economic growth.

Bolbol, et.al.(2005) analyzed the effect of financial markets (measured by the ratio of market capitalization on GDP and the turnover ratio) on total factor productivity and growth (the per capita GDP growth rate) in Egypt (1974-2002); they demonstrated that capital market development had a positive influence on factor productivity and growth. et.al (2007), studying the influence of stock markets and bank system development on economic growth on a sample of 11 Arab countries, concluded that financial development could negatively influence the economic growth in countries with underdeveloped financial systems; they stressed the role of building a sound financial system. The literature focuses on the financial system's components, the banking sector or the capital market, that influence economic growth.

Graff (1999) stated that there are four possibilities concerning the causal relationship between financial development and economic growth:

1. Financial development and economic growth are not causally related. An example of this type of relation could be found in the development of modern economy, in Europe, in the 17th Century. In this case, the economic growth was the result of real factors, while the financial development was the result of financial institutions development.

2. Financial development follows economic growth. In this context, economic growth causes financial institutions to change and to develop, so as both the financial and credit market grow.
3. Financial development is a cause of economic growth. In this case, there could be identified two possibilities, respectively: (a) financial development is a precondition for economic growth; (b) financial development actively encourages economic growth (see, e.g. Thornton, 1995). Provided that there are no real impediments to economic growth, mature financial systems can cause high and sustained rates of economic growth (see, Rousseau and Sylla, 2001).
4. Financial development is an impediment to economic growth. Similar to the previous possibility, causality runs from financial development to real development, but the focus lies on potentially destabilizing effects of financial overtrading and crises (see, e.g. Stiglitz, 2002) rather than on the efficient functioning of the financial system. This view considers the financial system as inherently unstable.

2.5 Tanzania's Socio-economic Background

2.5.1 National Overview

Tanzania is a vast country occupying a total area of 945,234 square kilometers. According to the 2009 census, the population of Tanzania is 43.7 Million with 21.4 Million or (49%) male and 22.3 Million or 51% female living in a total of 6,996.036 households, thus an average of 4.9 people per household



Figure 1:Map of Tanzania

Soon after independence in 1961 and subsequent Arusha Declaration of 1967, Tanzania adopted as state controlled economy in which the state owned and controlled all essential sectors of the economy including education, major industries, trade, large farms, transport, Real estate, communication infrastructure, bank & financial institutions, and many other. This prompted command and control policies and the state had to play a leading role in the policymaking to stimulate development and growth. The entire education system was placed under the management of the Tanzania Government.

The underperformance of almost all sectors of the economy in the 1970s which reached the peak in the 1980s plunged the country into a serious economic crisis, which manifested itself into among others, the declining per capital output, rising inflation and worsening balance of payments positions. The education sector was not spared either. The situation persisted until mid eighties when the Economic Recovery Program (ERM) was launched with the assistance of the World Bank (in 1986). Its overall objectives were reduction of the role of the government in all productive and service sectors, creating conducive environments that would facilitate productive investment in the economy and decontrolling state monopolies through liberalization and privatization. The immediate main measures that had to be taken included economic and trade liberalization, devaluation of the Tanzania Shilling and the removal of price controls.

These called for major policy changes across all sectors including: reducing the size of the public sector, removing restrictions on imports, adopting a market oriented exchange rate and market determined interest rates. The government enacted the Tanzania Investment Act 1997 to safeguard the investors and provide incentives within the provisions of the act. Direct investment flow into Tanzania has also been increasing year by year further exerting pressure for prime office facilities. The table below demonstrates this fact:

Table 1: Foreign Direct Investment to Tanzania

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009 (Est)
Value of FDI(\$ Million)	467.2	430	526.8	469.6	325	501.5	645	744	680

Source: Bank of Tanzania (BOT)/TIC

Economic reforms started yielding results progressively and as of 2002, Tanzania’s macroeconomic performance had impressive signs of growth lead by the private sector. GDP has been growing at an encouraging rate from the lowest ever recorded growth of 1.5 in early 80’s to more than 6% by 2002, 6.7% by 2006 and reaching 7.4% in 2008. Although GDP dropped slightly in 2009 below 6% due to the impact of the Global Financial Crisis, it is anticipated that the economy will re-correct during 2011 as the Tanzania economy and indeed the Global economy recovers. The table below demonstrates the GDP Growth:

Table 2:Tanzania DGP growth

Year	GDP - real growth rate
2003	5.20%
2004	5.20%
2005	5.80%
2006	6.80%
2007	5.80%
2008	7.30%
2009	7.10%
2010	6.00%
*2011	6.70%

Source: IMF – World Economic Outlook *Forecast

2.5.2 Macroeconomic policies

Tanzania’s economic performance has been strong over the last ten years, supported by prudent macroeconomic policies and far reaching structural reforms. In particular, sound financing of government operations, including substantial assistance from donors,

has been well complemented by a prudent monetary policy stance. A combination of a fiscal policy with minimum net domestic borrowing and a restrictive monetary policy resulted into subdued level of inflation, while allowing a rapid expansion of credit to the private sector. This has translated to high growth, adequate reserves and sustainable public debt position.

Tanzania has been implementing an IMF Poverty Reduction and Growth Facility (PRGF –III) that came to an end in December 2006 after being extended from August 2006. In what is considered a graduation from PRGF programmes, the government intends to adopt a Policy Support Instrument (PSI) programme with Fund, under which Tanzania will continue with efforts to maintain macroeconomic stability and implement structural reforms aimed at improving the financial sector and the business environment to promote investment.

PSI programmes were designed by the IMF for countries that have been pursuing reforms with the funds support but which may no longer need its financial assistance, given their good record in economic reform, yet would still benefit considerably from its advice. When Tanzania adopts the PSI, it will be the third country in Africa after Nigeria and Uganda to do so.

Fiscal policy:

The key challenge to Tanzania's fiscal policies has remained underperformance in domestic resource mobilization, resulting from weak tax administration, which leaves many loopholes for tax evasion, as well as the non-integration of the informal sectors into the tax base regime to allow for wide tax loop. In addition, domestic revenue mobilization suffers from numerous tax exemptions: for example, it is estimated that 20 per cent of potential customs duties are exempted. The government's medium term fiscal strategy addressed these problems and is making some progress. In addition to

ongoing reforms in tax and customs administration, the government is implementing measures to improve expenditure planning and management capacity. The government's goals focus on fiscal prudence, compliance with public procurement regulations and intensification of the fight against corruption.

Further improvements in expenditure controls are envisioned at local government level to reduce expenditure arrears and ensure that funds provided in local Government Authorities (LGAs) are used for the intended purposes. The government is also working to improve expenditure management, by addressing the problem of large idle government balances in commercial bank accounts that should be spent, and to strengthen its expenditure tracking and monitoring. The government has also strengthened the link between budgetary resource allocation and the National Strategy for Growth and Reduction of poverty (NSGRP) priorities through the rolling out of the strategic Budget Allocation System (SBAS) to local government authorities in addition to government ministries, departments and agencies that were already using the system.

The budget deficits are mitigated by improved revenue collections resulting from the tax and customs administration reforms being implemented by the Tanzania Revenue Authority

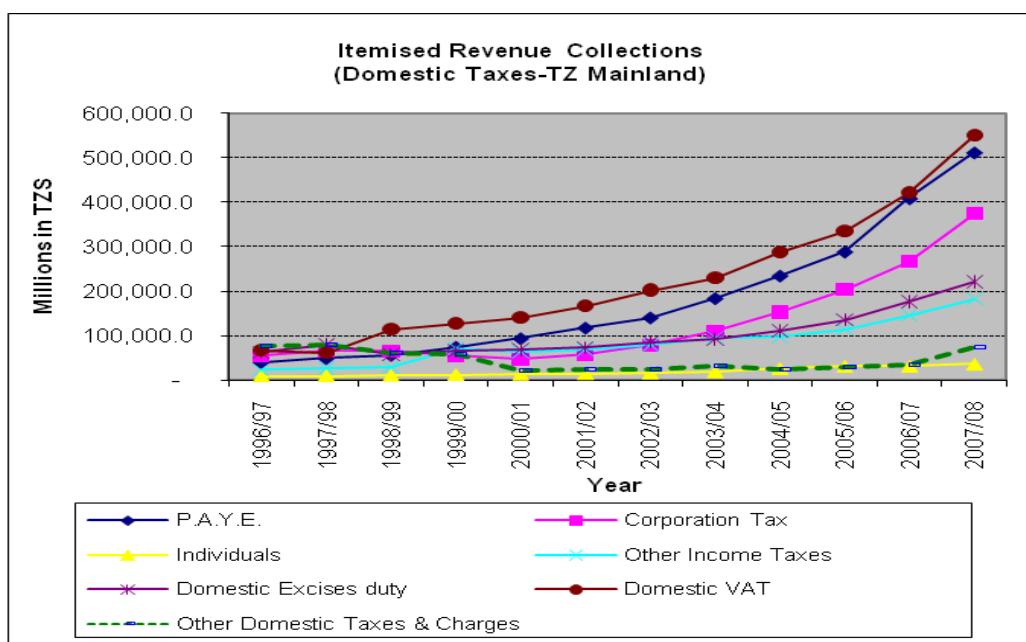


Figure 2: Revenue Collection. Source: Tanzania Revenue Authority

Government expenditure rose to 26.5 per cent of GDP but capital expenditure fell, as a result in part of delays in disbursements of pledged foreign assistance to the government. The government plan to reverse the declining development expenditure with sharp increases in infrastructure spending in 2007 and 2008 in the energy sector, to diversify power generation sources, and in the transport and communications and water sectors. However, reliance on donor funds for these investments continues to pose the main challenge for their attainment.

International Trade

Following the adoption of East Africa Community (EAC) Customs Union (CU) in January 2005, timetable was approved in April 2006 for launching a common market by 2010. Tanzania and other EAC partner states thus remain committed to liberalization to

enhance competitiveness, by, among other things, strengthening mutual trade integration. Implementation of various reforms in the context of EAC- CU regulations started during 2010 and implementations are underway. At the moment the government of Tanzania is working on lowering existing non – tariff barriers within the EAC – CU relating to standardization, quality assurance, and metrology.

Exports of goods and services have continued to exhibit robust performance since 2002 as a result mainly of the increase in export volumes of coffee, tobacco and cotton. Similarly, there has been an increase in the price of almost all traditional exports in the world market except for cotton prices which suffered devastating collapse as result of global financial crisis.

In respect of non – traditional exports, manufacturing exports showed a significant increase, although gold continued to contribute the largest share in total non traditional exports. Traditional exports continued to benefit from an easing of structural constraints, including improvements in roads, access to inputs and extension services, as well as favorable commodity prices. Traditional exports have also gained from both price and volume increases, with increase in volumes consequent on availability and timely usage of agricultural inputs.

Imports of goods and services in all categories have also continued to grow. Oil and food imports have risen rapidly since 2005 because of higher world prices and growing demand for food imports to meet domestic demand. Because imports have grown faster than exports and current transfers have been lower than projected, the current account balance remains precarious, with its pressure contributing to a continued depreciation of the shilling.

External Debt and Domestic Debts

As at the end of December 2009, Tanzania’s total external debt amounted to \$ 7.0 billion, which represented 11% of GDP.

The outstanding domestic debt stock, as of the end of December 2009, stood at TZS 2, 418.1 billion.

The national debt burden, which grew from \$1,445 million to \$7,972.2 million between 1970 and 1998, was reduced to Sh7.5 trillion in June 2007, following the implementation of the G8's multilateral debt relief initiative (MDRI).

The new domestic debt increased by nearly four times, from the Sh606.27 billion recorded in September 2008.

National Developmental Policies

While Tanzania has been able to maintain progress towards macroeconomic stability, despite of the recent Global Financial Crisis, the country is still faced with the daunting challenge of raising the incomes of its people and reducing poverty. Considerable challenges remain in overcoming structural constraints to development, including improvement of infrastructure services in the energy, water, transport, education and health sectors as well as in fostering local entrepreneurial capacity through improvement of the regulatory environment.

In 2005, the government established a five – year National Strategy for Growth and Reduction of Poverty (NSGRP) which ends this year (2010). In addition to the NSGRP, the government of Tanzania also drew up the “Tanzania Mini – Tiger Plan 2020” as a vehicle to achieve the objectives of the Tanzania Development Vision 2025. It is expected to facilitate the creation of a favorable climate for both domestic and foreign investment through the establishment and promotion of special Economic Zones (SEZ).

National Vision

The need to formulate a new economic and social development vision for Tanzania emanated from the outcomes of economic reforms – especially those which were pursued since 1986. These social and Economic reform measures were taken in response to the economic crisis that had persisted in the country and the world as a whole since the early years of 1980s. Secondly, the government had realized that those earlier development policies and strategies were not in consonance with the principles of a market led economy and technological development occurring in the world. The government therefore started preparing three year reform economic and social areas, and the areas of focus changing frequently. These structural adjustment programmes, have been followed for a long time, about fifteen years. Over this long period, the whole philosophy of working for the country's development and that of its people started losing direction and as a result the country lost its vision which had originally been based on long – term development objectives. The government and the society in general realized that the nation lacked direction and a philosophy for long term development. The new development Vision 2025 fills this vacuum.

The targets of the vision 2025.

Vision 2025 targets at a high quality livelihood for all Tanzanians through the realization of universal primary education, the eradication of illiteracy and the attainment of a level of tertiary education and training commensurate with a critical mass of high quality human resources required to effectively respond to the developmental challenges at all levels.

Education is treated as a strategic agent for mindset transformation and for the creation of a well educated nation, sufficiently equipped with the knowledge needed to competently and competitively solve the development challenges facing the nation. In this light, the education system is restructured and transformed qualitatively, with a

focus on promoting a science and technological culture from its lowest levels, giving a high standard education to all children between age of 6 - 15. Basic sciences and mathematics are accorded great importance in keeping with the demands of the modern technological age without losing sight of the humanities. The vision emphasize the need to ensure that science and technology education and their application for promoting and enhancing productivity permeate the whole society through continuous learning and publicity campaigns. In addition, the poor communities are targeted to ensure their access to basic education. The resource base is being broadened to ensure adequate funding for primary education up to the university. More resources are being allocated to tertiary and higher education while management capacity to cope with the requirements of the education sector is enhanced. The vision also points out the need for enhancement and encouragement of pre-school education.

All these challenges will be met through the following strategies:

reduction to manageable levels, of the high unit costs in higher education and training institutions, promotion of partnership between industry, the private sector and communities in the provision of education, revision of the curriculum to give it a greater science and technology orientation, encouragement of a balance between personnel and other inputs, encouragement of private investment at the local level in order to tap their creative capacity, promotion of special programmes targeting poor households to ensure their access to basic education, putting in place mechanisms for developing and utilizing science and technology at all levels of education and training. It is envisioned that the following specific achievements would be attainable by the year 2025:

High quality livelihood

A high quality livelihood for all Tanzanians is expected to be attained through strategies which ensure the realization of the following goals:

- Food self – sufficiency and food security.

- Universal primary education, the eradication of illiteracy and the attainment of a level of tertiary education and training that is commensurate with a critical mass of high quality human resources required to effectively respond and master the development challenges at all levels.
- Gender equality and the empowerment of women in all socio – economic and political relations cultures.
- Access to quality primary health care for all.
- Access to equality reproductive health services for all individuals of appropriate ages.
- Reduction in infant and maternal mortality rates by three – quarters of current levels.
- Universal access to safe water
- Life expectancy comparable to the level attained by typical middle income countries.
- Absence of abject poverty
- Good Governance and the Rule of Law

It is desired that the Tanzanian society should be characterized by:

- Desirable moral and cultural uprightness
- Strong adherence to and respect for the rule of law

- Absence of corruption and other vices
- A learning society which is confidential learns from its own development experience and that of others and owns and determines its own development agenda.
- A strong and competitive Economy

The economy is expected to have the following characteristics:

- A diversified and semi – industrialized economy with a substantial industrial sector comparable to typical middle – income countries.
- Microeconomic stability manifested by a low inflation economy and basic macroeconomic balances.
- A growth rate of 8% per annum or more.
- An active and competitive player in the regional and world markets. With the capacity to articulate and promote national interests and to adjust quickly to regional and global market shifts.

Major targets include:

- Accelerating the rate of growth from the level of 6.2% achieved in 2002 to between 8 and 9% during the period 2005 – 2010 and 10% after 2010.
- Increasing real GDP per capita to about % 3,000 by 2025. GDP growth rose from 4% in 1998 to 6.2% in 2003, the target for 2004 – 2005 being 6.4% : and Inflation fell from 12.9% in 1998 to 4.4% in 2003, the target for 2004 – 2005 being 4%.
- It is also envisaged that fast growth will be pursued while effectively reversing current adverse trends in the loss and degradation of environmental resources

(such as forests, fisheries, fresh water, climate, soils, biodiversity) and in the accumulation of hazardous substances.

2.6 Structural Adjustment Financial Sector Reforms in Tanzania

In the early years of political independence in Tanzania, the policy makers adopted the Arusha Declaration in 1967. This declaration empowered the government to nationalize private financial institutions as a way of mobilizing financial resources for allocation to the private sector for growth and poverty alleviation. This policy was aimed at providing credit to the private sector in order to promote growth and make the country self-reliant. However, as evidence shows, the repressive policies of the government had its own seeds of destruction.

As time passed, the implementation of the Arusha Declaration proved increasingly difficult. It became quite obvious that the Arusha Declaration had failed to transform Tanzania into a self-reliant state. By 1979, the distress in the Tanzania economy was clearly visible. Thus, a careful analysis of the Tanzania economy revealed the following shortcomings that constrained the development of a well functioning capital market in Tanzania.

- a. Monopolistic and uncompetitive financial institutions,
- b. Pervasive government intervention in the financial system,
- c. Inadequate and ineffective resource mobilization instruments and strategies,
- d. Large portfolio of non-performing loans within the banking sector,
- e. Low and inadequate capital requirement of financial institutions,
- f. Weaknesses in management and accounting systems and policies,
- g. Loss of public confidence in the financial system,
- h. Existence of institutional gaps in the financial system,

- i. Weaknesses in management and in accounting systems and policies, and
- j. An inadequate and inefficient payments system.

Thus, in order to arrest the deteriorating economic conditions, the government undertook an economic recovery program

2.6.1 Structural adjustments and economic reform programs

Similar to other developing countries, Tanzania was badly affected by economic crisis of the 1970s and 1980s. Up to the early 1980's, the crisis had reached a critical level, especially after the oil price shock of 1979 and associated recession in advanced countries. In the early 1980s, the government launched two stabilization programs, namely the National Economic Survival Program (NESP) in 1980/81 and the Structural Adjustment Program (SAP) of 1982/83. The objectives of these programs were (a) to restore the national output to the pre-1978 level, (b) improve the public sector finances, (c) reduce inflation, (d) improve the balance of payments, and (e) restructure the economic activities through a system of incentives and prices. It was also designed to improve capacity utilization and labor productivity in Tanzania.

These objectives were to be achieved through the removal of inter-regional trade barriers and abolishing price controls. However, one of the major miscalculations was the expectation of foreign capital inflows, which never materialized. As a result, not much was achieved at the end of the reform program and there was the need for another adjustment program. In 1986, Tanzania adopted a comprehensive and major economic reform namely, Structural Adjustment Programs under IMF/World Bank supervision. The economic recovery program adopted in 1986 has the following objectives:

The attainment of broad fiscal and monetary stability demand management policies,

- The achievement of sustainable growth, and
- The opening up of the Tanzanian economy to the outside world by adopting an attractive foreign investment code and through economic liberalization.

The specific details of the policy change under the economic recovery program were announced in the budget speech of 1986 and formed the basis of standby arrangement with the IMF in August of the same year 1986. The first structural adjustment facility with IMF was first entered in 1987, followed by the second and third in 1988 and 1990 respectively. In 1989, the government embarked on the second phase of the economic recovery program named Economic Recovery Program II, also known as the economic and social action program.

2.6.2. Financial Sector Reforms

The financial sector reform which was initiated after the structural reform came later when it was realized that in order to sustain the development in the real sector, there was the need for a strong financial sector for mobilizing financial resources for allocation to the private sector for growth. However, given the problems of the financial system and its overall limitations in operation, there was the need to carry out a comprehensive restructuring of the financial institutions in order to enable the sector to function efficiently. The performance of the financial sector in terms of resource mobilization, credit allocation, quality of service, and profitability were a major source of concern and dissatisfaction within the sector.

A review of the financial sector by the Presidential Financial Sector Reform Commission, 1990 revealed that savings mobilization declined continuously between 1979 and 1986. Financial assets, which were equivalent to nearly 50% of GDP in 1979, had fallen to 28% of GDP in 1986. The domestic saving rate, which had peaked at 25% of GDP in 1977, fell to 8% in 1985.

Thus, following the findings of the Presidential Commission, the Government has ushered in a comprehensive financial sector reform that aimed at achieving the following goals and objectives:

- a. Liberalization of interest rates and exchange rates,
- b. Restructuring of existing formal financial institutions through write-offs of non-performing assets,
- c. Reforming the policy environment in which the existing institutions were operating,
- d. To foster competition by encouraging the establishment of domestic and foreign-owned private banks including joint ventures with Tanzanian interests,
- e. To strengthen adequate provision of Bank of Tanzania's prudential regulatory and supervisory roles of other financial units operations, and
- f. To foster an efficient money market by creating new instruments.

As part of the financial sector reform, new legislations were put in place in order to restructure the legal framework (Nyagetera, 1997). The new legislation introduced since 1991 include the Banking and Financial institutions Act 1991, 1993. This repealed and replaced the Banking Ordinance 1960 and provides for the licensing of banks and other financial institutions, capital adequacy requirements, central bank supervision, regulation of financial institutions, and a deposit insurance fund.

The other legislation is the Loans and Advances Realization Trust Act of 1991. This provides for acquisition of non-performing assets of financial institutions, and

machinery for their expeditious recovery. The third legislation is the Foreign Exchange Act of 1992, which provides for elimination of exchange controls and establishment of a free foreign exchange market and foreign exchange bureau de change. The fourth legislation is the Capital Markets and Securities Act (CMSA) of 1994, which provides for the establishment of the Capital Markets and Securities Authority. The Bank of Tanzania Act 1995 which repealed and replaced the Bank of Tanzania Act 1965, provides for replacement of multiple policy objectives with a single primary policy objective of price stability.

Under the restructuring of the policy environment, various policy measures were implemented. The elimination of government intervention in the financial sector was achieved by eliminating government administrative price setting in the financial sector. This led to granting the financial institutions greater autonomy in setting interest rates and exchange rates. Administrative resource allocation mechanisms in the financial sector have also been dismantled.

The restrictions on competition and free entry into the financial sector have been lifted. New commercial banks, merchant banks, bureau de change, insurance companies, and other financial institutions and intermediaries have been licensed. The restructuring of the public sector was initiated through various reforms and downsizing of the civil service and the restructuring of the parastatal enterprises through the Parastatal Sector Reform Commission. As a result, over one-third of the 400 plus parastatals have been restructured through privatization, joint ventures, and outright sales.

2.6.3 Fiscal policy changes and the macro-economic environment

In order to avoid deficit financing and thus have a firm control over the inflation, the government adopted a cash budget system. Following this system, the actual government expenditures are determined in accordance with revenue collection every

month. This system has been effective in controlling government expenditures. This policy change has greatly improved and stabilized macro-economic environment. Furthermore, the government has provided several fiscal incentives in order to encourage participation in the capital market development. Dividend income for listed companies is taxed at a lower rate of 5%. Withholding tax of 15% is charged on dividend distributed by companies that are not listed. Likewise, transactions taking place through the DSE are exempted from capital gains tax of 10%. Lower corporate tax for listed companies can encourage more companies to go public.

2.6.4 Institutional reforms, growth of capital markets, and financial institution Policy reforms and capital market development

Much has been done during the reforms to enhance activities of the capital market in Tanzania. Major institutional changes within the Tanzanian capital market include the establishment of Capital Markets and Securities Authority (CMSA) in 1994, and the establishment of private banks. In addition, there were efforts to promote the establishment of the first stock exchange in Tanzania. There were other efforts underway to promote NGOs and other organizations to assist in mobilizing funds for long-term investments

During the period before reforms, there were no effective efforts to develop the capital markets in Tanzania for the mobilization of long-term capital. In addition, there were no efforts made to provide legal assurances against nationalization of foreign companies in order to forestall the fear of foreign investors. The new investment initiative and the private sector policies provide guarantees and assurance to foreign investors. As a result, foreign direct investments have been encouraged. Also, generous incentives including tax holidays for five years have been offered. However, foreign participation in the primary and secondary markets is not allowed.

2.6.5 The development of non-bank financial institutions

The non-banking financial institutions (NBFIs) in Tanzania encompass a wide range of institutions, which include deposit taking institutions (excluding current accounts), hire purchase finance institutions, contractual savings institutions (including pension funds and excluding insurance), and the foreign exchange bureau de change. The measures adopted to restructure existing formal financial institutions were designed to enable the institutions to comply with the operating conditions and requirements of the new Banking and Financial Institutions Act 1991 and 1993. The measures leading to the establishment of new financial institutions have flowed from implementing the provisions of the Banking and Financial Institutions Act 1991, 1993, the Foreign Exchange Act 1992, the Capital Market and Securities Act 1994 and the Insurance Act 1996. Consequently, new commercial banks, merchant banks, bureau de change and insurance companies, as well as a stock exchange and its associated institutions have been established in Tanzania. The existence of these new institutions has helped to reshape the character of the Tanzanian financial sector

2.6. 6. The Capital Markets and Securities Authority (CMSA)

The Capital Markets and Securities Authority (CMSA) was established by the Capital Markets and Securities Act, 1994. It became operational as a unit under the Bank of Tanzania (BOT) in April 1994. It became an autonomous body in July 1995. The vision of CMSA is to develop and regulate a sustainable capital market, which is efficient, transparent, orderly, fair and equitable to all. Section 10 of CMSA Act, 1994 stipulates the main functions of CMSA as follows:

- a. To formulate principles guiding the industry and to protect the integrity of the market against any abuses;

- b. To maintain surveillance over securities business to ensure orderly, fair and equitable dealings in securities;
- c. To register, license and regulate Stock Exchange, Investment Advisors, Securities Dealers and their agents and representatives and to control and supervise their activities with a view to maintaining proper standards of conduct and professionalism in the securities business;
- d. To determine the minimum capital requirements for license holders given the size of operations and risk and monitor their solvency and take other measures which will protect the interest of investors where solvency of such license holders is in doubt;
- e. To adopt measures that are likely to minimize conflict of interest that may arise for dealers, brokers and other market players;
- f. To review, approve and regulate take over bids, mergers, acquisitions and all forms of business combinations in accordance with any existing rules and practice;
- g. To advise the Minister for Finance on all matters relating to securities business in such a way that the necessary environment for growth and development of the capital markets is created; and
- h. To do anything which is calculated to facilitate the discharge of its functions or is incidental or conducive to their discharge under the Act.

Since its creation, the CMSA has initiated several activities aimed at developing the Tanzanian capital market. It took several initiatives to develop the market professionals

and participants in Tanzania through conducting courses leading to licensure for dealers/brokers representatives in the country.

2.6.7. The Dar es Salaam Stock Exchange (DSE)

The establishment of the DSE in 1996 marked an important milestone in the effort towards the development of the capital market for mobilization and allocation of long-term credit to the private sector. Even though the DSE was incorporated in September 1996, trading has not started until April 15th 1998 with the listing of the first company, Tanzania Oxygen Limited (TOL). The DSE is governed by the Council of the Exchange. The Council consists of 10 members representing various interest groups as follows: (a) three licensed dealing members, (b) two associate members who represent listed companies, (c) one associate member who represents institutional investors, and (d) one member representing the public. The chief executive of the DSE is an ex-officio member who is in charge of policy implementations and the day-to-day operations of the Exchange.

The creation of the DSE was a government initiative through a comprehensive preparatory groundwork that was required to promote a stock exchange in Tanzania. It has seven stockbrokerage firms, licensed to deal on the exchange.

Official trading activities

Trading takes place twice a week on Tuesdays and Thursdays starting from 10.00 a.m. to 12.00noon. Trading is conducted at the DSE floor under a continuous Open Outcry Auction Trading System. The representatives of Licensed Dealing Members converge at the trading floor and trade by shouting their orders to a board writer who records the orders on the board. A trade is takes place when a bid and an offer are matched. It has

been observed that the infrequency of trading has affected the thinness and liquidity in the market. The delivery and settlement of securities traded is centralized at DSE and is on Delivery versus Payment (DVP) five business days following the transaction date. Since June 1999, a central depository computer program has been installed and has replaced most of the physical delivery and settlement process.

Taxation of dividends and interest income

The withholding tax on dividend for listed companies is 5% and is taxed at the source. Dividends paid by non-listed companies would attract withholding tax of 15%. Stamp duty was 0.96% on consideration by the buyer until June 1999. Also, beginning July 1999, transactions taking place at the DSE are exempted from stamp duty. Beginning July 1999, the capital gains tax has been introduced in Tanzania. However, securities listed at the DSE are exempted from capital gains tax but corporate tax is 30%.

2.6.8 Commercial and Development Bank

Prior to the reforms, the financial sector regime in Tanzania was characterized by a monopoly of state owned banks and financial institutions (Nyagetera and Kilindo, 1997) that created various financial distortions.

After Reform of 1991, the government initiated restructuring and reorganization of the four major public banks which were the National Bank of Commerce, the Cooperative Rural Development Bank, the Tanzania Investment Bank (TIB) and the Tanzania Housing Bank (THB). Following the reforms and privatizations of the financial sector the number of commercial banks increased from 12 in the year 1991 to 28 by February, 2010 with some such as CRDB Bank PLC and the NMB having a

branch networks at district levels and a focus on SME, and Microfinance Customer segment and financial intervention through SACCOS.

Below, Table 3 gives a list of Banks in Tanzania as on 23rd October, 2011.

Table 3:List of Banking Institution in Tanzania

S/N	Name of Bank	Physical Location of Head Office	Branch Network
1	Standard Chartered Bank (T) Ltd	DSM	7
2	Stanbic Bank (T) Ltd	DSM	10
3	Citibank (T) Ltd	DSM	1
4	FBME Bank Ltd	DSM	4
5	Bank of Africa	DSM	7
6	Diamond Trust Bank (T) Ltd	DSM	8
7	Exim Bank (T)Ltd	DSM	20
8	National Bank of Commerce Ltd	DSM	56
9	National Microfinance Bank Ltd	DSM	132
10	CRDB Bank Ltd	DSM	56
11	The Peoples' Bank of Zanzibar Ltd	DSM	3
12	Akiba Commercial Bank Ltd	DSM	7
13	KCB Bank Tanzania Ltd	DSM	7
14	International Commercial Bank (T) Ltd	DSM	5
15	Habib African Bank Ltd	DSM	2
16	Barclays Bank (T) Ltd	DSM	31
17	BancABC	DSM	1
18	Commercial Bank of Africa	DSM	6
19	I&M Bank Tanzania ltd	DSM	3
20	NIC Bank Tanzania Ltd	DSM	3

21	Azania Bancorp	DSM	7
22	Bank of Baroda (T) Ltd	DSM	2
23	Bank M (T) Ltd	DSM	4
24	Access Bank Tanzania Ltd.	DSM	4
25	Bank of India Tanzania Ltd.	DSM	1
26	United Bank for Africa Tanzania Ltd.	DSM	1
27	Mkombozi Commercial Bank Ltd.	DSM	1
28	Ecobank Tanzania Limited	DSM	2
29	Advans Bank Tanzania Ltd	DSM	1
30	First National Bank Tanzania Ltd	DSM	2

Source (www, bot-tz.org/Banking supervision/ registered banks) visited on 23rd October 2011

2.6.9 Grassroots based community banks

Since most of the banks were reluctant to serve the rural sector after trade liberalization, the government started the promotion of grass root based unit banks in the form of community banks in order to serve the underserved majority of the rural population. The community banks have facilitated developing financial products which suit the local economy of an area and facilitating the financing of SMEs and microfinance production and business units. According to the bank of Tanzania website as on 23/10/2011, there were 7 registered community banks as per the t

Table 4:Registered community banks in Tanzania.

S/N	Name of Regional Unit Bank	Physical Location of Head Office	Branch Network
1.	Kilimanjaro Co-operative Bank Ltd	Moshi	1
2.	Dar es salaam Community Bank	Dar es Salaam	2

3.	Mbinga Community Bank	Mbinga	1
4.	Kagera Farmers Co-operative Bank Ltd	Bukoba	1
5.	Uchumi Commercial Bank	Moshi	1
6.	Tandahimba Community Bank Limited	Tandahimba	1
7.	Mwanga Community Bank	Kilimanjaro	1

Source (w.w.w.Bot-tz.org/BankingSupervision/registered community banks)

2.6.10 Promotion formation of microfinance Institutions.

A microfinance institution (MFI's) may be defined as an organization that provides financial services to the poor through financial intermediation(Khandker,1998).All the MFIS share common characteristics of providing financial services to a focus group of clientele who are the poor people. Among the MFIS are financial NGOs, SACCOS, SACAS and Village Community Banks-VICOBA (URT -2004). To support the promotion of microfinance Institutions and financing to the underserved rural population, the government developed a microfinance policy 2000 to facilitate the regulation and supervision of microfinance institutions.

Similarly, the implication for development and performance report on microfinance shows that the microfinance commercialization in Tanzania consisted of the establishment of microfinance-oriented commercial banks (NMB),restructuring and recapitalization of privately-owned commercial Banks (CRDB) which entered into microfinance market using an approach of SACCOS which has a direct impact and primary relationship with individual owners of micro enterprises. Bikki,2003)

There are also arguments that appropriately designed financial products and services enable many poor people to expand and diversify their economic activities, increase their income and improve their self –confidence. Many poor people, particularly rural

dwellers, are served with informal money lenders who generally provide easy access to credit but at high cost, charging poor borrowers nominal monthly effective interest rates that typically range from about 10% to more than 100%, many times the monthly effective rates of sustainable institutions which is usually 2-5 percent Marguerite, 2001. The paper on 'Tanzania's cooperatives look to the future' addressed that Cooperatives, if they are to meet their potential in the future, in Tanzania, must undergo a comprehensive transformation. The task is to focus on the key cooperative principles (Bibby, 2006).

CHAPTER THREE

RESEACH DESIGN AND METHODOLOGY

Introduction

This chapter describes how the study was conducted in data collection and analysis. It describes the research design, the area of study, the research approaches, the research sampling, the population of the study, the sample size, data collection methods, the data collection instruments and the analytical tools for data analysis.

3.1 Research design

A research design can be defined as a logical and systematic plan prepared for directing a research study. It specifies the objectives of the study, the methodology and techniques to be adopted for achieving the objectives (Krishna swami, 1993). The research design was the case study design. A case study is an in-depth comprehensive study of a person, a social group, an episode, a situation, a programme, a community, an institution or any other social unit. (Krishna swami, 1993).It is also defined as a research strategy that involves the empirical investigations of a particular contemporary phenomenon within its real lie context, using multiple sources of evidence (Robson,2002).Therefore, the case study was appropriate for descriptive purposes and determination of relationships between variables.

The case study is preferred because it allows an easy application of observation, participatory observation, questionnaires, interviews and documentary review as data collection techniques. Also the researcher decided to use the case study research design due to time of doing research. Time was very limited that why researcher decided to use the case study design rather than other research design.

3.2. Strengths of a case study design

- i. A case study is flexible with respect to data collection methods, since it employs more than one data collection technique such as interviews, questionnaires, observation and documentary review which allow to collect a rich and detailed set of data(Krishna swami, 1993)
- ii. A researcher can provide a detailed description of specific and rare cases (Krishna Swami, 1993).
- iii. A case study makes it easy for a researcher to relate a research topic to the existing theories which allow the study to test the applicability of existing theories to the setting(s) that is examined (Marshall,1999).
- iv. A case study use a wide range of different people and activities that are invariably examined so that the contrast with survey samples is not as acute as it appears at first glance(Bryman,1988)
- v. With a case study, the ability to explore and understand the context is limited by the number of variables for which data can be collected (Yin, 2003).

Weaknesses of case study design

- i. A case study may be suspicious because of an unscientific approach (Yin, 2003).
- ii. Insufficient information can lead to inappropriate results (Yin, 2003)

3.3. Research variables of the study

The Variable can be defined as an individual element or attribute upon which data have been collected (Ghauri and Gronhaug, 2005).There are three relationships that exist between variables which are:

- i. A variable is dependant- that is; it changes in response to changes in other variables.
- ii. A variable is independent- that is, it causes changes in dependant variables.
- iii. A variable is extraneous-that is, it might also cause changes in independent variables, thereby providing an alternative explanation to your independent variable or variables.

The study focused on assessing the relationship between Capital market as an independent variable and economic growth and development as a dependant variable.

3.4 Area of the study

The researcher examined the contribution of capital market in realizing economic growth and development. The researcher will conduct the research in Tanzanian Capital market.

3.5 Research Approach

This is about how research work was conducted to get the findings and conclusions. The study used both quantitative and qualitative approach to analyze the data with regard to capital market and its contribution to economic development in Tanzania.

3.6 The units of the study

The units of the study will be that of capital market and security authority and the sampling frame will be staff from Dar es salaam stock exchange, Bank of Tanzania and Tanzania private sector foundation.

3.7 Research Sampling Plan.

3.7.1 Population of the Study

Population refers to the full set of cases from which a sample is taken (Saunders, 2007). The population of the study comprised of Stock exchange companies, financial institution, corporate companies and SME.

3.7.2 Sample size

A sample is a subset of a particular population (Krishnaswami, 1993). The study sample size comprised 2 senior officer from Capital Market and security authority 4 board member from Dar es Salaam stock exchange, 3 staff of Bank of Tanzania, 3 cooperate companies listed in Dae es salaam stock exchange and 5 member from SMEs.

3.7.3 Sampling Techniques/Methods

Sampling techniques/methods are approaches that assist in reducing the amount of data one needs to collect by considering only data from a subgroup rather than all possible cases or elements (Saunders, 2007).The study used a simple random sampling and purposive/judgmental sampling to select some of the study respondents.

Advantages of sampling;

Firstly, it reduces the time and cost of research studies. It becomes possible to undertake even national or global studies at a reasonable cost and time. Secondly, sampling also saves labour where a smaller number of individuals was required for field work, processing and analysis of the data.

3.8. Method of data collection

In the process of data collection the researcher collected both primary and secondary data. Primary data are those that will be collected by the researcher by using questionnaires, observations and interviews while the secondary data are those that the researcher will collect from existing documents records and reports.

3.8.1 Interview method

This is regarded as the most effective method as it involves a face-to-face dialogue with respondents. Interviewing is defined as a two-way systematic conversation between an investigator and informants initiated for obtaining information relevant to a specific study (Krishnaswami, 1993). It involves not only conversation, but also learning from the respondents' gestures, facial expression, pauses and his/her environment. This technique was used to interview respondents at different capital markets institutions to get insight of how those institutions contribute to the economic development of the country.

3.8.2 Questionnaire methods.

Questionnaires are a formatted set of questions that is drawn up to meet the objectives of the study (Krishnaswami, 1993). A researcher distributed questionnaires to the respondents, for the purposes of translating research objectives into questions (Open – ended questionnaire).

3.8.3 Documentation.

This entails the researcher's use of written documents to get secondary data (Krishnaswami, 1993). Secondary data for the study were collected from different sources which included annual reports, booklets, published reports and official performance reports. Background information and literature review on the topic were reviewed from different documents and websites. Researcher also review different report

from Ministry of Finance and IMF to get picture of how Tanzanian capital market contributing to economic development.

3.9. Data Analysis and interpretation

The data collected were both qualitative and quantitative. These were summarized in a data-base template containing identified variables. Qualitative data were analyzed descriptively to give clear interpretation whereas the quantitative ones were analyzed before presented.

3.9.1 Data accuracy and reliability

The degree of accuracy and reliability of data greatly depends on the approach and methods employed during data collection. To ensure accuracy and reliability of data, sufficient time was allocated in the selection of reliable persons who are Capital market senior officers who are understanding the roles of their institution in economic development. The respondents were also given a brief back-ground and purpose of the study for more transparency and provision of realistic data. Information collected from were counterchecked at other possible sources to ensure accuracy. The study also referred to documentary sources to enrich the study findings. In that way, the degree of reliability and accuracy of data was enhanced.

3.9.2 Summary and Conclusions

This chapter focused on describing the study area and methodology employed during the study. The description of the area of the study, the population, the methodology and the work plan were very important, since they made the study more focused in terms of methodologies and location specifics in assessing the contribution of capital marketing for the economic growth and development a case study at Tanzanian Capital Market. Chapter four presents data findings and discussions on the study findings

CHAPTER FOUR

DATA ANALYSIS, DISCUSSION AND INTERPRETATION OF THE RESEARCH FINDINGS

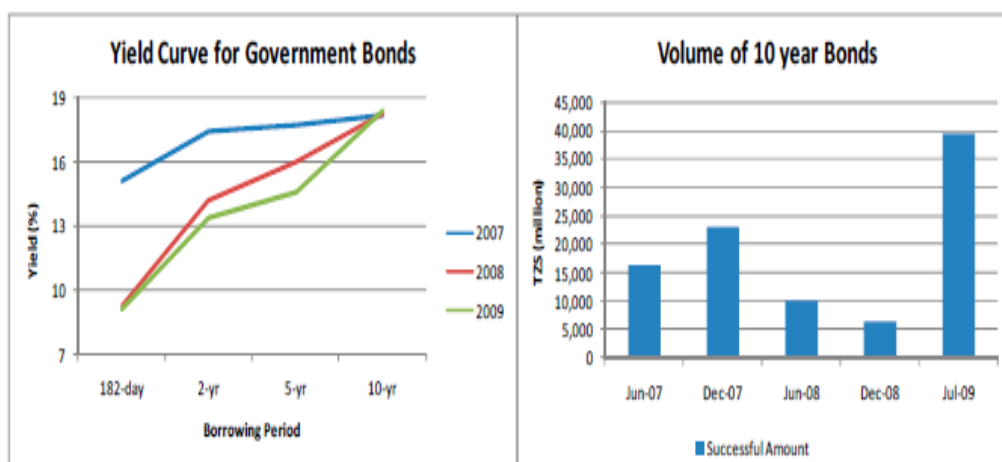
4.1 Introduction

This chapter focuses on the analysis of data and the presentation of the research findings. It assesses the contribution of capital markets to economic growth and development a study at Tanzanian Capital Market. This analysis is based on the research questions.

4.2. *To what extent the existence of stock exchange in Tanzania improve the prospects of raising Long term capital for growth and poverty alleviation in Tanzania?*

The study found that the Tanzanian capital market is still at a nascent stage and has not played a major role in resource mobilization and long-term financing of the economy. Only fifteen companies are listed on the DSE, with a market capitalization of US\$3.75 billion in February 2010 and a market turnover of US\$9.6 million in the fourth quarter of 2009. The corporate bond market is very limited; as of February 2010 there were seven corporate bonds with an outstanding amount of US\$58.7 million. On the government bond market, secondary transactions are limited, but recent oversubscriptions on the 10-year primary bond auctions and increased placements indicate a growing appetite for long-term instruments by investors (Figure 8).

Figure 3: Yield curve for Government bonds and Volume for 10-Years bonds



Source: BOT.

4.3 What are the the benefit and challenges of globalization and regional integration of the Tanzanian capital markets?

The study found that The regionalization of the EAC capital market presents considerable opportunities for Tanzania. An EAC regional capital market (currently planned for implementation by 2012) will enable investors to diversify their portfolios, better manage risks, and grant issuers access to a deeper pool of long-term resources to finance their investments. It will generate economies of scale in market infrastructures and increased efficiency in securities transactions through the interconnection of exchanges, Central Securities Depositories (CSDs) and payment systems across borders in the EAC region

The finding also reveiled that, despite of rapid asset growth in recent years, private credit and deposit mobilization levels still lag behind countries in the region (Figure 3). The ratio of private credit to GDP rose from 5 to 16 percent of GDP during 2003–09, but remains below the regional average of 28 percent. Similarly, domestic deposits

increased from 15 to 25 percent of GDP in the same period, compared to the regional average of 44 percent. Factors that have impeded a further increase in intermediation include a poor business environment, historically high interest rates on government securities, low competition, high profitability, lack of longer-term funding, and the loan-to-deposit ceiling.

The study found that a major benefit of capital market regionalization and globalization is the possibility of greater inflow of foreign capital to the domestic capital market. The results revealed that as globalization proceeds, Tanzanian capital market operators would share the wealth of experience from the rest of the world on managing capital market institutions. Globalization is seen therefore as a source of better knowledge of how capital markets are efficiently managed.

It is also suggested that capital market globalization and regional integration would lead to improved market liquidity. Absorption capacity would increase leading to greater demand for products trading on the market and hence greater volume of activities. Globalization would also mean that Tanzanian participants would have access to international assets. Globalization of the capital markets would also lead to opening of Tanzanian capital markets to the outside world. This would result in the integration of the Tanzanian economy into the world economic system. Instead of relying on government-borrowed funds and economic aid from donor countries, globalization would attract foreign inflows of capital and the elimination of inefficient operations. International capital markets would direct international capital to firms and sectors of the economy where they can be utilized more efficiently.

The respondents argue that globalization of capital markets would stimulate productivity, efficiency, and economic growth. It also means that Tanzanian firms would be able to compete globally for financial resources. As presented earlier, only the efficient firms would have access to international capital products. This will lead to

improvements in corporate governance leading to better utilization of resources and ultimately economic growth. The survey results also show that globalization and regionalization would promote confidence in the Tanzanian market. This would enable domestic firms to access cheaper financial resources, improve employment opportunities and lead to free movement of capital. While we acknowledge significant benefits of globalization of capital markets, this study also raised caution flags. The respondents argue that without proper monetary control mechanism, globalization of capital markets could lead to foreign domination. More sophisticated and developed capital markets are likely to benefit at the expense of less developed capital markets like the Tanzanian capital market. They argued that in a global capital market, unfair market practices cannot be ruled out unless efforts are made to prevent them. They also pointed out that globalization of capital markets may thwart the development of domestic capacity for participation in the market. The growth of wide share ownership in the domestic market may also be jeopardized.

Other negative issues pointed out by respondents are greater opportunities for money laundering accompanying the globalization of capital markets. However, we could not find any evidence to support the above finding. In the light of these issues presented above, the respondents suggested gradual approach to globalization of capital markets in Tanzania. The respondents suggested that in the initial stages of regional integration and globalization, policies should be adopted to encourage national priorities. They suggested further that incentives should be devised to encourage market participants to behave in a manner consistent with national interests and priorities.

4.4 What are the contributions of capital market to SME in raising capital in form of equity securities?

The overriding of capital market development is to ensure that financial services in terms of mobilization and allocation of credit to the productive sectors of the economy

are enhanced. Thus, the anticipated goal is to increase long-term capital to the private sector for expansion of productive opportunities, which will increase the welfare of the people.

In terms of raising long-term capital through the issue of securities, the study found that shows that the structure of most stock exchanges in Tanzania are not well suited for small enterprises to raise capital. Unlike the U.S. for example where the existence of capital markets for small and medium enterprises enable small and growth companies to raise capital, such institutions that specialize in providing credit to small and medium-sized enterprises are not available in Tanzania. As a result, small and medium-sized enterprises and low-income people are marginalized in the formal capital markets.

Also, the complementarity of capital and money markets in providing long-term and working capital to the private sector is hampered by the lack of responsiveness of the banking sector to credit needs of the private sector. The lack of foreign participation in the capital market is detrimental to the development of the capital market. Additionally, the lack of development of capital market instruments such as venture capital and institutions, investment banks, corporate bonds, mutual funds, and unit trusts, derivative securities, and options limit the attractiveness of the stock market for investors. The lack of financial derivatives and options precludes risk management by hedging underlying stocks in the futures and options markets.

As a result the government should pursue a best strategy of developing financial products that may be suited for those small and medium enterprises that may not be able to raise credit in the securities market or the formal credit market. Such institutions may include the establishment of over-the-counter stock exchanges with fewer requirements for listing and raising of long-term capital in the formal capital market. In addition, government guaranteed programs through small business development centers may

provide useful functions for financial intermediation that maybe suited to small and medium-sized firms.

The private sector and stock exchange performance

Previous research shows that the development of a viable capital market depends on a viable private sector firms that are willing to participate in the stock exchange in the form of listing firms to raise long-term capital. A viable and developed capital market relies on individuals, institutions, and corporate demand for securities issued in the capital market. These institutions include institutional investors, insurance companies, financial institutions, mutual funds, pension funds, and other corporate bodies.

The results of our survey confirmed that the demand for securities in Tanzania is affected by various factors that have been identified in other studies. These include the level of income of the local population, perception of risk in the market, tax considerations, and attractiveness of yields on capital market products as compared with alternative investment products. The level of public confidence in the financial sector also affects the demand for securities in the stock exchange.

Our survey results show that out of 50 employees interviewed, only 6.2 % indicated that they had bought shares in the DSE. This represents a small percentage of individual participation in the stock exchange. This compares very unfavorably with the Ghana Stock Exchange, which saw greater participation by individual investors. However, this finding is not surprising given the short duration of the exchange, the limited number of products, and the infancy of the stock exchange.

The survey results also revealed that investors might not be attracted to the stock exchange because of limited investor awareness of the DSE because of its infancy, lack of adequate investment instruments, lack of adequate tax incentives, and lack of confidence in the financial system. However, the researchers recognized that most of the

above problems of the DSE could be attributed to its infancy. It is expected that with time, those problems would be resolved. The introduction of new products through privatization and introduction of debt instruments would enhance its attractiveness. The government's policy of tax incentives and fiscal discipline would also enhance the confidence of investors in the DSE.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The overall objective of this study was to explore the contribution of capital market to economic growth and development in Tanzania. In order to examine the above issues, the study focused on various research questions as basis for administering survey questionnaires to capital market institutions and regulatory agencies for the aim of collect primary data for the analysis. Secondary data on financial sector, capital markets and macroeconomic data supplemented the primary data. This chapter presents conclusion and recommendations on the basis of the study findings.

5.1 Conclusion

It can be concluded from the findings of this study that the Tanzanian capital market is still at a nascent stage and has not played a major role in resource mobilization and long-term financing of the economy. This study found that the financial sector reform has led to more players in the capital market. The entry of more financial institutions in the financial sector set in motion a competitive banking environment. In addition, the financial resource mobilization has also shown some improvement as evidenced by increases in deposit growth. However, this deposit growth was not matched by increases in credit to the private sector.

5.2 Recommendations

On the basis on the findings and conclusions of the study, the following recommendations have been made:

1. The role of capital market development in promoting economic growth has been confirmed by this study. Additionally, the negative consequences of reduced

credit to the private sector and its negative impact on poverty alleviation have been documented. It is therefore important to develop strategies and programs to ensure access to long-term credit by small and medium sized enterprises that experience difficulty in raising capital in the post-reform era

2. The role of government in creating an enabling environment has been demonstrated by the positive impact of the policy changes on the development of the private sector financial institutions, and instruments. The adoption of sound economic policies of inflation control, stable foreign exchange management, and balanced budget approach will enhance the confidence of the public. In view of the infancy of the DSE and the lack of awareness by the majority of the population, much work and publicity is required to propagate the desirable attributes of the DSE. This requires the intensification of public education in order to promote investor awareness.
3. In order to address the poverty situation in Tanzania, there is the need to improve access to long-term finance for small and micro-enterprises. It is our hope that the spin-off micro-finance institutions from the National Bank of Commerce will address the credit needs of the small enterprises in the country. In addition, the establishment of small business development centers and guaranteed project loans will go a long way in addressing the credit needs, employment, growth, and poverty alleviation of the majority of Tanzanians.
4. The introduction of various capital market products such as mutual funds, unit trusts, government, and corporate bonds will increase prospects for portfolio diversification and thereby enhance the attractiveness of the stock exchange and bond markets in Tanzania. These collective investment instruments would also attract small investors who may not be able to invest in individual stocks that require more income and greater sophistication and risk concentration.

5. The establishment of small business development centers and guaranteed business and project loans will enhance the prospects of small businesses to obtain loans for productive activities in the economy.
6. The establishment of an over the counter (OTC) stock exchange (sometime in the future) for small enterprises will enhance the attractiveness of listing small and medium-sized private firms in the stock exchange for raising long-term capital.
7. The role of non-governmental organizations (NGOs) in providing financial services to the poor, especially those in the rural areas should be encouraged. Thus, the re-allocation of many of the NGOs from the urban areas to the rural areas should be encouraged
8. The study suggested that in the initial stages of regional integration and globalization, policies should be adopted to encourage national priorities. They suggested further that incentives should be devised to encourage market participants to behave in a manner consistent with national interests and priorities. However, in order to undertake the regionalization and globalization of domestic capital markets, the following pre-requisites have been suggested:

a) Improve the environment for the capital markets:

- Adopt sound and consistent economic policies to assist in building up confidence in the capital markets
- Create a framework for assisting domestic market participants
- Institute a sound regulatory framework
- Promote wide share ownership
- Gradual removal of all economic barriers to share ownership

b) Build capacity for domestic participation

- Improve corporate governance of domestic firms
- Institute incentives for domestic firms to go public
- Improve capital market infrastructure. This would include encouraging market facilitators such as investment advisors to emerge.
- Public education should aim at encouraging wide participation, elevating the level of sophistication of domestic investors.
- Create new products which will enable domestic participants, especially low-income earners to invest in the stock exchange. For example, mutual funds can be created to spread wide ownership of securities in the stock market.

c) Harmonize economic conditions:

In order to harmonize economic conditions in the various regions, the following issues need to be addressed before any plans for regional integration should be seriously considered:

- Currency convertibility
- Harmonization of taxation and fiscal policies of the various regions
- Access to bank loans
- Control of corruption and money laundering
- Infrastructure improvement
- Guard against unfair competition practices

d) In addition, the following sequence of regionalization and globalization of capital markets of the Tanzania capital market has been suggested as follows:

- Globalization of capital markets must be preceded by sound and stable economic policies
- Regional integration of the domestic market must precede globalization of capital markets

- Economic conditions in the regional groupings must be harmonized
- Economic barriers must gradually be removed
- Education programs must be devised to promote wide participation in capital markets and elevate the level of sophistication
- Capital market infrastructure must be improved
- Currency convertibility should be implemented at the national level to encourage cross-border trades and international settlement of stock trades Removal of political risk by promoting stable political systems to ensure confidence in the capital markets

5.4 Recommendations for further studies

The purpose of the study was to research on the contribution of capital marketing for the economic growth a case study at Tanzania Capital Market. Therefore, we recommends that future studies to be ‘Despite of different Financial Sector Reforms, the capital market in Tanzania is still underdeveloped. What are the root causes?’

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APPENDIX

1: A QUESTIONNAIRE SET USED IN THE COLLECTION OF SURVEY DATA

A: Cover letter

I am master students at Ankara University in Turkey. Towards the end of our study, it is important that each student carries out a research work and writes a report for submission to the University for the Award of the degree. In order to meet this requirement, I am conducting a study on the contribution of capital market to economic growth and development in Tanzania economy. Due to time constraints I, therefore, intend to ask Dar es salaam stock exchange only to provide me with relevant answers to the questions and/or statements given in this set of questionnaire. The answers provided here will be treated with high confidentiality and that it will be used for this desired research work only. We hope to receive an extended hand of cooperation from you.

With regards;
Stephen Lyimo

Part A: Personal particulars

1. Name (Optional).....

2. Age (Tick where appropriate)

Btn 19-29yrs	Btn 19-29yrs	Btn 19-29yrs	Btn 19-29yrs	Btn 19-29yrs

3. Marital status

Single	Married	Divorced	Widowed

4. Part B: Other information

Working in capital market industry

1 to 5 years ()

6 to 10 years ()

Over 10 years ()

5. What is the current situation of Tanzania Capital Markets.....?
6. What do you believe could be the best way in which Tanzania Capital Market could help the growth of private sector in Tanzania?.....?
7. How many companies are now listed at Dar es Salaam stock exchange.....?
8. What are the advantages for private company listing at Dar es Salaam stock exchange.....?
9. What has been the purpose of setting up the DSE and what has been its development since then.....?
10. What is anything still need to be done by government to promote the use of Tanzania Capital Market for companies to access capital.....?

Thank you for your cooperation