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Highlights

Financial Services Outreach

Challenges and Opportunities

Discovering Thoughts, Inventing Future

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Financial Services Outreach in Tanzania: Determinants of Financial Exclusion through a Fin scope Lens

By Yohane Kitwima Magembe
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Abstract- Unlike financial services in developed countries, it is necessary to investigate the outreach of financial services in developing countries such as Tanzania. The study investigated the determinants of financial exclusion using data from Fin scope collected from April to July 2017 with a sample of 9,459 adults' aged 16 years and above. The study adopted a multinomial logistic regression for Savings and borrowing models. Through borrowing model, gender, marital status, education, wealth index, access to mobile phone, financial education, payments of utility bills, location and individual income are statistically significant influencing borrowing. The results from saving model reveal that age, gender, marital status, education, wealth index, access to mobile phone, employed, financial education, utility payment bills, household size, location, and individual income are the critical factor for saving among adults. Finally, the study recommends that the government through its respective organs promote and facilitate the investment of financial institutions to the investors who can develop and establish financial services, which are sensitive to young people, and women who are poor. Cell phones are basic infrastructures for financial deepening; banks, microfinance, non-bank payment service, and mobile money service providers should use them at the level whereevery group in the society such as poor people can access and use financial services.Provision of financial education in remote rural still vital to creating awareness on the importance of financial service on economic activities thereby attaining inclusive economic growth.

Keywords: financial services, financial exclusion,financial inclusion, Fin scope, outreach.

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Yohane Kitwima Magembe

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Keywords: financial services, financial exclusion, financial inclusion, Fin scope, outreach.

I. Introduction

Financial services outreach is crucial for economic growth in developing countries and advanced economies. Financial services exclusion is a bottleneck on daily undertakings in economic activities of any economy (Akudugu, 2013). Banks and other financial institutions that offer different financial services such as credit, saving, insurance, and transactions assume financial inclusion for all us as an essential phenomenon for economic growth and poverty reduction (Musa, Abdullahi, Idi and Tasiu, 2015). Establishing strong and inclusive financial systems will ensure and foster the goals for concrete improvements in the lives of all people (National Financial Inclusion Framework, 2014).

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People need to have full access to reliable financial services, which are low-cost, fair, and affordable that ensures inclusive growth (Sarma, 2009). Financial services should enable individuals to migrate out of poverty through effective use of borrowing, savings, insurance, and transactions. While implementing effective use of financial services, there should be a lesser probability of financially included adults to fall into the poverty pool (Sinclair, McHardy, Dobbie, Lindsay and Morag, 2009).

Ensuring affordability of quality financial services to all people remain the challenge to financial institutions in any country. Only a few countries have achieved the formal financial sector essentially universal coverage of the population, at least for basic services. Some levels of financial exclusion persist in many countries even in advanced economies (World Bank, 2008). Effective use of financial services will ensure active participation in economic activities such as production, consumption, distribution, and exchange that will lead to equitable and sustained economic growth. Financial exclusion is deeply interrelated with poverty that automatically leads to social exclusion. People who are excluded socially, are also more likely to be socially and economically vulnerable (Musa *et al.,* 2015)

Financial exclusion is attributed to several factors based on the level of development and efforts put into place by governments on the matter. However, the frequently reported attributes include but not limited to lack of money, the high cost of accessing financial services, use of a bank account owned by another member of the family. Other causes include; distance to banks, low population density and gender inequality, weak financial literacy, lack of trust in the financial institutions and religious beliefs (Conray, 2005; Demirgüç- Kunt and Klapper, 2013; Fin mark, 2015; Fins cope, 2017). Moreover, financial exclusion can come about because of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions (Sinclair e*t al.,* 2009).

It worth noting the meaning of financial exclusion and inclusion, but it should be noted earlier that there is no single satisfactory definition on the two terms. Different countries define financial exclusion and inclusion based on their market perspective (NFIF, 2014; Lotto, 2018). Financial exclusion refers to a "*process whereby people encounter difficulties accessing and using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.*" (Anderloni,Bayot, Błędowski, Iwanicz- Drozdowska and Kempson, 2008). Furthermore, Fin Mark, (2015) defines financial exclusion that *"individuals manage their financial lives without the use of any financial products or mechanisms external to their relationships. If adults borrow, they rely on family/friends; and if they save, they save at home".*

In Tanzania, financial inclusion is defined as a *"frequent use of financial services in the three dimensions such as measurability and frequent usage of financial services, the types of financial inclusion services offered and the target group, which includes all Tanzanians but with emphasis on the poor, enterprise, low income, women, youth and children to build financial stability in society"* (NFIF, 2014).

Financial exclusion is a phenomenon that draws attention of many people even the 11 Southern African Development Community (SADC) member countries. All governments in this region strive to attain effective use of financial services to foster economic growth and mitigate poverty. It was estimated about 66% of adults have access to both formal and informal financial services which is equivalent to 83.5 million adults in the region. Access to financial services varies in comparison, for examples, 90% of adults in Mauritius, 86% in South Africa, 67% in Tanzania and 40% in Mozambique to mention a few (Fin Mark, 2015).

The series of the Fin Scope surveys and reports in Tanzania depict that, there are the variety of financial products/services that are offered and many adults (16 years and above) manage to access them. The period between 2013 and 2017, the actual number of adults using financial services in Tanzania has grown by 15%.Adults using banking and mobile financial services has grown by 37% and 38% respectively. Formal financial services usage has grown from 58% to 65% from 2014 to 2017. The number of adults who are excluded from financial services has been successfully reduced whereby the gap in accessing financial services is narrowed over time. For example, in 2009 adults who were excluded from financial services was 55%, in 2013 was 27% and in 2017 was 28% of adults (Fin Scope, 2013; Fin Scope, 2017).

This profound achievement results from collaborative efforts between government and financial services providers, dedication to the provision of quality financial services for all and support of implementing agents increase in the uptake of formal non-bank products such as mobile financial services (NFIF, 2017). For example, every second adult in Tanzania, which account to 51% of adults uses mobile financial services, mainly to remit money (Fin Mark, 2015). Access to mobile is a good infrastructure for financial outreach deepening that has facilitated financial services to easily reach the financially excluded population (Lotto, 2018)

The financial sector in Tanzania is dualistic in nature, and it constitutes formal and informal financial institutions. Formal financial institutions sometimes called regulated financial institutions. Regulated financial institutions further classified into banks and nonbanks financial institutions providing financial services such as saving, credit, insurance, and transactions, which include insurance, pension, securities, SACCOS, non-bank payment service providers and mobile money. Informal institutions include; Community Groups such as Village Saving and Loans Association (VSLA), Saving and Credit Association (SACAS), Village Community Banks (VICOBA), moneylenders, Microfinance Institutions (MFIs) (NFIF, 2017).

According to NFIF report (2017) financial sector in Tanzania comprised of 67 banking institutions with 813 Branches, 5814 Bank Agents and 2 Credit Reference Bureau (CRB). 31 Insurance Companies, 115 Brokers and 472 Agents, 1 Stock Exchange, 12 Brokers/Dealers, 4 Custodians, 6 Bond Traders, 16 Investment Advisors, 8 Fund Managers, and 2 Nominated Advisors.5,640 and 231 SACCOS in Tanzania mainland and Zanzibar respectively. Furthermore there were 6 Electronic Money Insurers (EMI), seven (7) non-bank EMI and 398,094 Agents countrywide. These financial institutions play great roles in resolving the issue of financial exclusion. The opportunity to overcome financial exclusion partly depends on access and usage of mobile money that is quick, safe and affordable by many in urban and rural remote areas. If the government, banks, microfinance institutions, and other money services providers work in collaboration to overcome the challenges or constraints hindering will ensure the financial sector provides the deserved service to the economy and its people.

The constraints that are currently reported in the financial markets in Tanzania include; Low level of literacy and numeracy among clients, high cost of financial services, limited formal ownership of land, women marginalization on mobile phone ownership, lack of innovation among Financial Service Providers (FSPs) that limit nontraditional players to innovate, limited distribution of financial institutions and lack of a comprehensive financial consumer protection legal frameworks. Insufficient information on clients, many people do not keep money in digital format, lack of national ID that limit verifications, Lack of mechanisms to generate feedback on user satisfaction from the use of financial services, financial market dynamics that impair strategies and operational decisions by policymakers, regulators and financial services providers and shortage of analytical capacity and tools for analysis of financial inclusion data that limit generation of useful information to clients and financial services providers (NFIF, 2017)

There are financial initiatives in the country to resolve the constraints that impede the provision of financial services in the economy and people. The initiatives involve reforms and policies over time. The reforms include The First Generation Financial Sector Reform (FGFSR) was enacted between 1991 and 2003 with objectives of creating an efficient and effective financial system and broadening the scope of financial services. The Second Generation Financial Sector Reform (SGFSR) was initiated in 2006 with one of the objectives being enhancing access to financial services. The National Financial Inclusion Framework (NFIF) of 2014/16, which focused on establishing infrastructures for financial services.The NFIF of 2018/22 with the objective of achieving financial services for all to improve lives for all Tanzanians. Policies in place include Alliance for Financial Inclusion of 2006, the National Microfinance policy of 2000, and the Banking and Financial Institutions Act, 2006 (NFIF; 2014, NFIF, 2017; URT, 2000; URT, 2006).Through these initiatives there continued financial outreach to many people in the country especially on mobile money usage in urban and rural (Lotto, 2018).

Financial exclusion is of great interest to many people in financial services. It draws the attentions of all stakeholders in financial services. The present study investigated the reasons that constrain Tanzanian adults in the course of borrowing and not being able to pay the loans. Finally, the study investigated the determinants for financial exclusion in Tanzania.

II. Statement of The problem

Provision of inclusive and quality financial services is an essential requisite for job creation, economic growth, social uplift, and poverty alleviation. Even though that access to finance is very crucial for economic development, still some of the Tanzanian adults who do not have access to financial services. According to Fin Scope insights of 2017, about 28% of adults (16 and above years) are excluded from financial market mainstream. Financial exclusion causes inefficiency allocation of resources in any economy and imposes high costs of capital accumulation. Furthermore it affects negatively the households' welfare and anyone else in any country. Effective access to the main financial services such as savings and credit is crucial to any society for improvement of peoples' welfare and economic growth. This study investigated the factors that lead to adults' exclusion from accessing financial services that should be addressed to enhance adults to reap the benefits of accessing financial services for their welfare and economic development in Tanzania using data from Fin Scope Survey of 2017.

a) General objectives of the study

Main objective is to investigate the factors that lead to financial exclusion in Tanzania

Specific objectives include the following:

i) To examine the reasons impede borrowing
ii) To examine the reasons for loans delinquency.
iii) To determine the factors influence borrowing and saving.

b) The Significance of the Study

The study is useful to students, researchers, and academicians. The study also provides knowledge to decision makers, policy makers and many other local and international shareholders in the area of financial services. The study has empirical findings that will further serve as the reference to subsequent researches on the same topic.

c) Literature Review

From theoretical and empirical point of view, the study represents an analysis of the adopted theories that are critically examining borrowing and saving phenomena such as Credit, Life cycle and Keynesian theory

d) Theoretical Literature Review

Financial markets particularly credit (borrowing) markets are characterized by "credit rationing," Credit rationing may occur in the financial markets due to imperfect information faced by banks (Stiglitz and Weis, 1981). Asymmetric information may lead banks and other financial institutions to adverse selection effect and moral hazard effect in financial markets in Tanzania. They decide to adopt interest rate and other forms of contract, such as collateral requirements when dealing with borrowers' behavior. Charging interest rates and demand for collateral causes disutility to borrowers due to fear of losing in case of failure to pay back and hence they are forced either to seek financial assistance from informal markets or not to seek it at all (Atieno and Shem, 2001). The theory reflect the situation in current study on the supply side, that when people demand credit meet constraints that are generated from the supply side, that impede them from accessing credit.

Modigliani and Brumberg (1954) pioneered Life-cycle model of saving. They said the major aim of saving is to smoothen consumption path along the lifetime. The model is built around saving and consumption behavior of an individual who is assumed to maximize present value of lifetime utility subjected to the budget constraint. Prediction of this model is that consumption in the income generation period depends on the expectation about lifetime income. Therefore saving can transfer purchasing power from one point to another in someone's life. Other determinants of saving suggested by the model are interest rate on bank deposits and wealth (Modigliani, 2005). The current study in particular focuses on saving at micro level. Modigliani theory reflect on macro level. However, the theory still reflect the study that saving is a tradeoff with consumption. People at micro level do save sometimes to soften their consumption along their life paths.

Another model that fits into the study is Keynesian model of saving which pins out that behaviour of saving is supposed to depend on current income completely. Under Keynesian model, saving to income ratio is expected to be an increasing function of income. Even though this model is believed to be able explain saving behaviour in relatively poor countries it also implies people with low income may not be able to afford the sufficient level of saving when they are young and productive to support their consumption during retirement period or at least not as much as people with higher income (Solem, 2012). Keyesian model of saving in its essence looks saving at macro level. The current study is based on micro data, which reflect the same implication that richer people are likely to save than poorer and age plays a great role on saving, thus at earlier and latter age people tend to dissave and tend to save more at working age

Furthermore, financial exclusion is in the light of credit rationing theorem for borrowing, life cycle and Keynesian models for saving which partly explain the reasons for why some other adults are excluded in the mainstream of financial market and excluded some reasons that are significant and crucial in the developing countries like Tanzania

e) Empirical Literature Review

A study was conducted in the UK that applied logit regression model in explaining financial exclusion from five types of accounts, namely; current account, savings account, household insurance, and life insurance. The authors used a sample of 16,000 respondents. The results showed that employment status, household income and wealth were influential variables on financial exclusion. Other variables that were significant included; marital status, age, and educational attainment (Simpson and Backland, 2008).

Dayson and Vik (2011) conducted a study in Rochdale in the UK in 2011on financial exclusion. They used a sample of 50 households in examining the reasons why some people in the UK are excluded from financial services. They employed a descriptive analysis to meet the objective. The results show that some other people don't have bank account because they used Post Office' services (60%), due to little/no money (24%), just refusing accounts (10%), some afraid of bank charges (2%) and some of the respondents said they afraid of overdrawn (2%).

Another study was conducted in Kenya, which used a sample that was drawn from the Nairobi Central Business District. The author adopted a multinomial logit model to analyze the three levels of financial services. The author classified these levels into mobile money transfers, mobile payments, and mobile banking. The results from multinomial logistic regression revealed that gender, education, wealth, tariffs of service and volume of transactions were influential factors. Moreover, the author said there should be the development of financial products and services, which are sensitive to all groups and low-income earners, as well as the creation of awareness on financial services both in urban and rural areas (George, 2012).

A cross-sectional study was conducted on the literature review about the financial exclusion for the poor in across the global. He identified some issues that lead to financial exclusion. The issues among others geographical location plays a significant role in financial exclusion globally. Other forms of financial exclusion that was thoroughly discussed in the review include access, condition, price, markets, and self-exclusion. The reviewer further said that researchers, policy makers, decision makers, and stakeholders should work deliberately on a specific barriers using "bottom-up" approach. This approach will enhance the excluded from the mainstream financial markets to speak out their needs and their predicament (Koku, 2015)

Fufa (2016) conducted a study on determinants of access to credit in Nekemte, Ethiopia. The author used data collected through administered structured questionnaire from 173 respondents. The author adopted binary and multinomial logit models in the regression analysis. The results from logistic regression revealed that age, location, corruption and owning business were related to borrowing from formal financial services. The results from multinomial regression showed that access to financial information, own income were statically significant in accessing credit. The author advised that the government should enact some regulation in the financial markets to enable the commercial bank to relax some of their terms and condition to enhance people to access to credit for the needy.

Chen and Jin (2016) analyzed financial access in China using data from the 2011 China Household Financial Survey. The author employed descriptive analysis, logistic and multinomial regression of different sets of variables and compared the results. The descriptive analysis showed that 53.2% of the sample used to credit the rest did not and only 19.77% used formal credit. The regression results from both models revealed that variables such as marital status, employment, net worth, age, and location were statistically associated with access to credit whereas gender, education, ethnicity and annual household income were not associated with access to credit.

Coeffinet and Jadeau (2017) conducted a study on factors determining financial exclusion in the Euro area. The authors used data from the Euro system's

Households Finance and Consumption Survey (HFCS). They adopted the probit model to get the probability of being excluded from mainstream financial market. The results showed that the household characteristics such as age (being older), unemployed, lower-income, lower-educated, less wealthy households are less likely to be included in the mainstream financial markets. Other factors are younger, lower-income were less likely to involve in credit.

Lotto (2018) conducted a study on determinants of financial services usage in Tanzania using data from a survey carried out by Sauti ya Wananchi. The survey covered a large part of the country on the usage of mobile money in particular. The author employed probit regression to analyze the factors that determine financial services usage. The findings of the paper revealed that gender, income, good education, and age were statistically significant. The author further said women lack collaterals for borrowing, poor awareness, lack of financial education and low rate of involvement in productive activities such as businesses cause exclusion compared to men. The advice was given to policymakers and the government to women and younger people to access financial services for inclusive growth.

III. Methodology

a) Data

The study based on the data collected by the FinScope Tanzania survey that took place from April to July 2017. The survey achieved a sample of 9,459 of adults aged 16 years and above. It collected data about Socio-economic, interest rate and financial literacy of adults in Tanzania. It adopted a multi-stage stratified sampling approach to get a representative sample of adults aged 16 years and above. However, the exclusion of fewer than 16 years on the day that the interview was held was done to avoid the inclusion in the sample too young people and some other people who are not in income-generating activities. Also, FinScope Tanzania 2017 survey believed that people at the age of 16 years and above start engaging in income-generating activities. The sample frame reflected the Tanzania Population and Housing Census of 2012.

b) Model Specification

There are two major types of barriers to financial inclusion. The first type is supply-side barriers, which include cost and poor regulatory framework. The second type is demand-side barriers, for instance socio-economic and cultural factors. This study based on demand-side barriers to financial exclusion using two financial services/products saving and credit. These two services enable and play a significant role in smoothing consumption and protecting adults against financial exclusion. The study adopted the multinomial logit model to estimate the factors that determine financial exclusion. Each product was estimated separately.

Multinomial logit regression technique is employed because the dependent variable has three categories namely; formal, informal and excluded from financial services. In a situation where categories are unordered, the often-preferred strategy is the Multinomial Logistic regression that is the extension of the logistic model. The properties include Sigmoid or S shape (means limiting probability between 0 and 1), equivalent difference property, independent of irrelevant alternative (IIA) which means that adding or deleting outcomes does not affect the odds among the remaining outcomes/alternatives (McFadden, Train and Tye, 1978; Hoffmnan and Duncan, 1988).

Suppose individual i^{th} faces j choices (that is the formal financial institution, informal institution, excluded). Assume the utility of choice j given in Eq. (1)

$$U_{ij} = V_{ij} + \varepsilon_{ij} \qquad (1)$$

The general expression for the probability of choosing an alternative *'j' (1, 2, 3 …j)* from a set of *j* alternative is:

$$Pr\,(i) = \frac{\exp(Vi)}{\sum_{j=1}^{j} \exp(Vj)} \qquad (2)$$

If an individual makes choice j specifically, we assume that U_{ij} is the maximum among the j utilities and therefore the model will be determined by the probability that choice j is made which is Prob $(U_{ij} > U_{ik})$ for all other $j \neq k$. The error (ε_{ij}) term is independent. *Pr (i)* is the probability of decision maker choosing alternative j; Vj is a systematic component of the utility of alternative j

c) Models estimated.

d) Borrowing model

$$C_{ij} = \beta_0 + \beta_1 Age_{ij} + \beta_2 Gen_{ij} + \beta_3 Mrst_{ij} + \beta_4 Edu_{ij} + \beta_5 Empl_{ij} + \beta_6 Iy_{ij} + \beta_7 PWndx_{ij} + \beta_8 Loc_{ij} + \beta_9 FncEduc_{ij} + \beta_{10} Hhs_{ij} + \beta_{11} NoAdlHhs_{ij} + \beta_{12} UtlBill_{ij} + \varepsilon_{ij}$$

e) Saving model

$$S_{ij} = \alpha_0 + \alpha_1 Age_{ij} + \alpha_2 Gen_{ij} + \alpha_3 Mrst_{ij} + \alpha_4 Edu_{ij} + \alpha_5 Empl_{ij} + \alpha_6 Iy_{ij} + \alpha_7 PWndx1ij + \alpha_8 Loc_{ij} + \alpha_9 AccMop_{ij} + \alpha_{10} FncEduc_{ij} + \alpha_{11} Hhs_{ij} + \alpha_{12} UtlBill_{ij} + \varepsilon_{ij}$$

Where:

S_{ij}= Demand for saving by individual i to financial services providers j. (1 = formal financial institution, 2 = informal institution, 3 = excluded from financial services)

C_{ij} = Demand for credit (borrowing) by individual i to financial services providers j. (1 = formal financial institution, 2 = informal institution, 3 = excluded from financial services)

Age_{ij}= Age of individual i to financial services provider j

Gen_{ij}=Gender of individual i to provider j

$Mrst_{ij}$ = Marital status of individual i to financial services provider j

Edu_{ij}=Level of education of individual i to financial services provider j

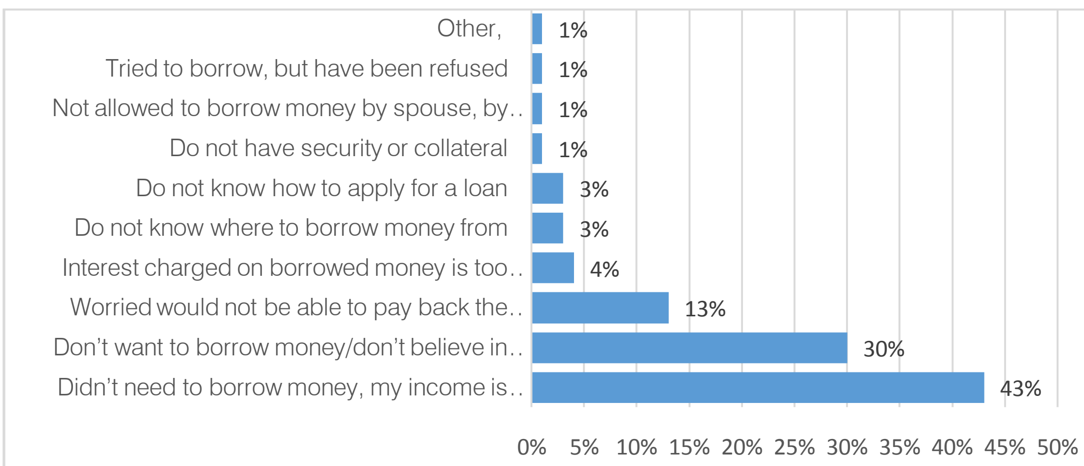
$Empl_{ij}$ = Employment of individual i to financial services provider j
Iy_{ij}= Income of individual i to financial services provider j
$PWndx_{ij}$= Wealth index (properties owned by individual i) to financial services j
Loc_{ij}=Location of residence of individual i rural) to provider j
$FncEduc_{ij}$= Knowledge about financial services (financial literacy) of individual i to provider j
Hhs_{ij} = Household size of individual i to financial services provider j
$NoAdlHhs_{ij}$ = Number of adults in a household i to financial service provider j
$AccMop_{ij}$ = Access to the mobile phone of individual i financial service provider j
$UtlBill_{ij}$ = = Payment of utility bills by individual i financial service provider j
ε_{ij}= Error term

IV. Results and Discussion

In presenting the study' findings and discussion, a descriptive and regression analysis was employed.

a) *Descriptive Analysis*

The descriptive analysis focused on the research questions. The first question was "*what are the reasons hindering people to borrow in Tanzania?"* This guiding question sought to identify the reasons that hinder people from borrowing from any financial services provider whether formally or informally. People borrow for different purposes in the economy. Adults borrow for investment or to meet their ends. The data that was used to tackle this research question was collected by Finscope Tanzania in 2017 and presented in Figure 1 as follows.



Source: Computed from Fin Scope Tanzania, 2017

Figure 1: Reasons hindering people to borrow in Tanzania (n = 9,459)

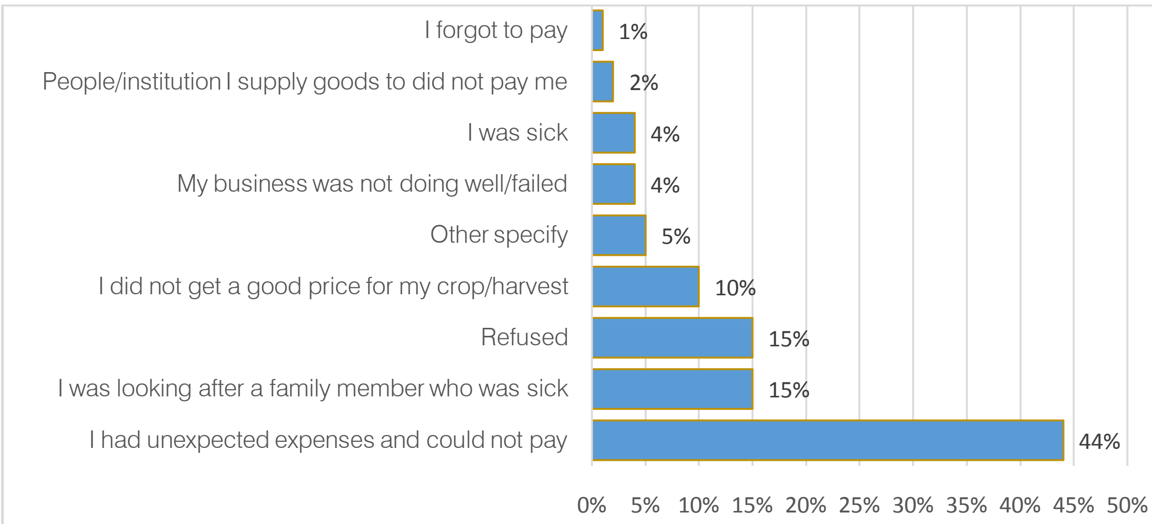
With Figure 1 description, about 43% of adults that were involved in the survey said they did not borrow because they worried that they would not be able to pay back the loan. The plausible reason for the situation is the high interest rate that is charged by financial services provider and lack of financial education among adults. Also, adults worry to borrow as consequences resulting from the poor performance in businesses and other unforeseen events that impede their ability to repay the loans. Moreover, adults may fear to borrow because they lack financial awareness related to terms, conditions and regulations tied to borrowing especially in formal financial institution.

Also, some adults do not believe in borrowing as shown in Figure 1 that13% of adults don't believe that borrowing can make a significant improvement in their life.Again, the study revealed that 2.5% of adults said, they do not borrow due to high interest that charged by money services providers. Adults considered interest rate as high because of asymmetric information in the financial markets. The growing literature of financial markets shows that the high interest rate might attract defaulters that cause bad loans to banks. Asymmetric information leads to scrutiny of loan applicants and eventually many applicants are rejected or are willing to be charged the interest. Under this situation credit, rationing is inevitable.

Spouse/family disagreement on borrowing that encountered 3.4% of the adults involved in the survey was another reason that was revealed in the present study. Banks and microfinance institutions require collaterals to pledge for loan disbursement. Some of the spouse/family member fear if the loan not covered, collaterals/assets that were pledged normally are confiscated to compensate the loans.

The refusal was another reason that hiders adults to borrow when they tried to borrow which encountered 1% of the respondents. This implies that some adults lack knowledge on how to apply successfully for loans perhaps due to failure to present required information and documentation. However, lack of collaterals was another reason that hinders adults to borrow. The study reveals that 1% of adults failed to borrow because they had no collaterals. Moreover, 30.3% of adults did not need to borrow. They said their income is enough to cover all aspects of their lives. It implies that they do not need to borrow money for either investment or social welfare.

The findings in the preceding discussion are consistent with the study of Frangos, Fragkos Sotiropoulos, Manolopoulos, and Valvi (2012) in Greek. The authors found that interest rates, collaterals, and perceptions of customers on financial institutions play a significant role in influencing the decision on borrowing. Furthermore, the study answered the second research question that was *"what are the main reasons for some of the adults not being able to repay the loans?*" this research question was thought to meet the second objective of the study which was to examine the reasons for not being able to repay the loans. Figure 2 below shows the reasons that affect borrowers to repay the loans.



Source: Computed from Fin Scope Tanzania, 2017

Figure 2: Reasons for not being able to repay the loan (n = 9,459)

The findings in Figure 2 reveal that 44% of adults said that they failed to repay the loans due to unexpected expenses that they faced. Unforeseen events reported affecting the payment of the loan. Given the magnitude of the event borrowers, find themselves not able to repay the loan.

The study reveals that 15% of the adults said they failed to repay the loan because of taking care of a family member who was sick. Sickness and accidents mostly are unpredictable phenomena and when happen do affect life equilibrium.Given the reality that economic options are limited to most of adults so they fail to generate income that can enable them to repay the loan. Eventually, financial services providers confiscate the properties that were pledged as collaterals.

Furthermore, Figure 2 shows that 15% of adults refused to repay the loan. Refusal to repay the loan may be attributed by unforeseen events facing the borrowers that limit their capability to repay the loan. Some may refuse to repay the loan because they were not interested in paying the loan from the beginning and the loan officers or moneylenders were not able to detect them when screening their applications for loan. However, some adults may refuse to repay the loan due to limited knowledge on financial education on terms and conditions regarding loans issues and defaulting. About 10% of adults reported that fluctuation in crop price/harvest limited the ability to pay the loan. Some of the adults borrow money for agricultural activities with the expectation of harvesting and competitive price could enable them to repay their loans. If harvest and price are not reliable may affect the capability to repay the loan.

Failure in businesses was revealed in the survey where 4% of adults said failure in their businesses of borrowers made them fail to repay the loan. Lack of capital among adults do make them opt for loans to raise capital to initiate or expand their business' operations. If businesses operations fail which may be caused by different reasons such as limited experience market competition,limited training, and business skills end closing business that would repay the loan.

Other factors that affect repayment of the loans that the survey reveals include; the borrowers' fallen sick, which encountered 4% of adults, some involved in other business, delay in the payment of their businesses 2%, which eventually affected the repayment of the loans, and 1% of adults said they forgot to repay the loan they took.

The findings in the present study are in line with the work of Nguta, and Huka (2013) in Kenya. The authors found that failure in business leads to loan delinquency/default. Another work that is consistent with the present findings is the work by Addae-Korankye (2014) in Ghana. The author concluded that unwillingness of borrowers to pay, poor business practices, high interest rate, poor appraisal, loan sizes, and lack of monitoring of borrowers from financial institutions, improper client selection, and illiteracy of borrowers on financial matters cause borrowers to default.

V. Regression Analysis

Table 1: Description and Summary Statistics of Variables

Variables	Description	Mean	Std. Dev.	Min	Max
Age	Actual age of the respondent in terms years	38.1959	16.28111	16	100
Gen	Gender of respondent 1=Male 2=Female	1.564542	.4958431	1	2
Mrst	Marital status of the SMEs operators 1 = Married/living together 2 = Divorced/separated 3 = Widowed 4 =Single/never married	1.785812	1.162975	1	4
Edu	Education of the respondent 1 = No formal education 2 = "Some primary" 3 = "Primary completed" 4 = "Post primary technical training" 5 = "Some secondary" 6 = "Secondary competed" 7 = "University or other higher education" 8 = "Don't know"	3.060049	1.553511	1	8
PW ndx	Wealth index (Properties) owned by the respondent	1.932445	.2509935	1	2
AccMop	Access to mobile phone 1=Yes 2=No	1.079924	.2711897	1	2
Empl	Employment of the respondent 1. Government 2. Private company 3. Own business 4. Small-scale farmer 5. Commercial farmer 6. Working for individual 7. others	-.7983931	.8772479	-1	7
FncEduc	Financial education of the respondent	.1540332	1.359419	-1	2
UtlBill	Payment of Utility Bills of the respondent 1= Yes 2 =No	1.846601	.3603906	1	2
Hhs	A continuous variable showing the size of the Household members	4.742256	2.983666	1	68
NoAdlHhs	A continuous variable showing the number of adults among Household members	2.21165	1.225835	0	33
Loc	Location of the respondent 1 = Urban 2 = Rural	1.276245	.447163	1	2
Iy	Individual Income	5.546464	3.385913	1	14

a) *Multinomial Logistic regression*

The study adopted Multinomial logit regression and its marginal effect. The marginal effect will measure the probability of an individual to borrow or save in either formal, informal, or being excluded from financial services. Various tests adopted before estimation, such as model fitness (*ovttest),* Multicollinearity test (*vif),* Model specification test *(linktest),* as follows:-

Table 2: Model Fitness

Ramsey RESET test using powers of the fitted values of BORROWING
Ho: model has no omitted variables
F (3, 9441) = 2.70
Prob > F = 0.0441

Source: Computed from Fin Scope Tanzania, 2017

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The above results in Table 2 show that P-value = 0.0441 if we compare with the critical P value = 0.05(If F ($p < 0.05$)) means we fail to reject the null hypothesis (is significant) that the model has no omitted variables. So some quadratic, cubic or otherwise nonlinear variables (or, indeed, nonlinear transformations of the existing variables) are best included them and fit the model.

Table 3: Multicollinearity test using the Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
Age	29.48	0.033922
age2	28.96	0.034525
Hhs	1.86	0.538787
NoAdlHhs	1.81	0.551389
Edu	1.42	0.703977
Iy	1.29	0.775308
UtlBill	1.28	0.783492
Loc	1.28	0.783708
Mrst	1.24	0.803256
Empl	1.19	0.839311
Gen	1.10	0.913149
FncEduc	1.05	0.953510
PWndx	1.04	0.960044
AccMop	1.04	0.964693

Source: Computed from Fin Scope Tanzania, 2017

If VIF is within the threshold of 1 to 10, then we fail to reject the null hypothesis of no multicollinearity. Table 3 depicts that we have no VIF exceeding 10 implying that there is no any severe multicollinearity (Kutner, Nachtsheim and Neter, 2004).

Table 4: Model specification test

BORROWING	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
_hat	.562808**	.2793226	2.01	0.044	.0152757	1.11034
_hatsq	.112011	.0712467	1.57	0.116	-.0276478	.2516698
_cons	.4196372	.2717267	1.54	0.123	-.1130056	.95228

*Notes; ***, **, * Represent significance at 1%, 5% and 10% respectively*

Source: Computed from Fin Scope Tanzania, 2017

Table 4 shows that our model is correctly specified since _hat is statistically significant at 5% as reflected by the probability value of 0.044 while the variable _hatsq is not statistically significant at all. For these results, we fail to reject the null hypothesis of no omitted variable (no functional miss-specification in the model).

Table 5: Multinomial logistic regression for Borrowing Model

Number of obs = 9,459
LR chi2(26) = 2740.54
Prob > chi2 = 0.0000
Log likelihood = -168.0737
PseudoR2=0.1437

BORROWING	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
Formal						
Age	.0029357	.0018494	1.59	0.112	-.0006891	.0065605
Gen	-.5551198***	.0532458	-10.43	0.000	-.6594796	-.4507601
Mrst	-.0621044***	.0233388	-2.66	0.008	-.1078476	-.0163613
Edu	.2541162***	.0189751	13.39	0.000	.2169257	.2913067
PWndx	-.3062003***	.0956874	-3.20	0.001	-.4937443	-.1186564
AccMop	-.8077335***	.1347458	-5.99	0.000	-1.07183	-.5436366

Empl	.0353904	.0292887	1.21	0.227	-.0220143	.0927951
FncEduc	-.2724022***	.0192421	-14.16	0.000	-.310116	-.2346885
UtlBill	-.2496975***	.0740777	-3.37	0.001	-.394887	-.1045079
Hhs	-.0088249	.0117347	-0.75	0.452	-.0318244	.0141746
NoAdlHhs	-.016124	.0275484	-0.59	0.558	-.0701178	.0378699
Loc	.46431***	.0618721	7.50	0.000	.3430428	.5855772
Iy	-.0183895**	.0087233	-2.11	0.035	-.0354868	-.0012921
_cons	.9249522	.327383	2.83	0.005	.2832933	1.566611
Excluded						
Age	.0143471***	.0018719	7.66	0.000	.0106782	.018016
Gen	.0736364	.0651651	1.13	0.258	-.0540848	.2013577
Mrst	.0635741**	.0269198	2.36	0.018	.0108123	.1163358
Edu	.0241484	.0243725	0.99	0.322	-.0236209	.0719176
PWndx	.0838947	.1381097	0.61	0.544	-.1867953	.3545846
AccMop	.716493***	.0932978	7.68	0.000	.5336326	.8993534
Empl	.0211429	.0439378	0.48	0.630	-.0649736	.1072594
FncEduc	-1.072707***	.0388683	-27.60	0.000	-1.148888	-.9965269
UtlBill	-.0367662	.1028487	-0.36	0.721	-.238346	.1648135
Hhs	.001546	.0132511	0.12	0.907	-.0244257	.0275178
NoAdlHhs	-.0896205***	.033372	-2.69	0.007	-.1550283	-.0242126
Loc	.0761441	.0772911	0.99	0.325	-.0753436	.2276318
Iy	.0311606***	.009209	3.38	0.001	.0131113	.04921
_cons	-3.185803	.4169723	-7.64	0.000	-4.003053	-2.368552

Informal (base outcome == 2)
*Notes; ***, **, * Represent significance at 1%, 5% and 10% respectively*
Source: Computed from FinScope Tanzania, 2017

Table 5 depicts the multinomial logistic regression results. The study reveals that gender *(Gen)*, marital status *(Mrst)*, education *(Educ)*, wealth index *(Pwndx)*, access to mobile *(AccMop)*, financial education *(FncEduc)*, payment of utility bills *(UtlBill)*, location *(Loc)* and individual income *(Iy)* variables affect borrowing in formal financial inclusion over the informal financial inclusion for borrowing model. In other words, gender *(Gen)*, marital status *(Mrst)*, education *(Educ)*, wealth index *(Pwndx)*, access to mobile *(AccMop)*, financial education *(FncEduc)*, payment of utility bills *(UtlBill)*, location *(Loc)* and individual income *(Iy)* increase the probability of embedding in a group with more relative preference for formal financial services compared to informal financial services.

Age (*Age)*, employment (*Empl)*, household size *(Hhs)* and number of adults in the household *(NoAdlHhs)* were found statistically not significant in explaining the financial inclusion between formal and informal financial services alternatives for borrowing model. Concerning the adults' choice of exclusion over the informal alternative, age *(Age)*, marital status *(Mrst)*, access to mobile *(AccMop)*, financial education *(Fnc Educ)*, number of adults in household *(NoAdlHhs)* and individual income *(Iy)* variables were statistically significant.

However, gender *(Gen)*, education *(Edu)*, wealth index *(PWndx)*, employment *(Empl)*, payment of utility bills *(UtlBill)* household size *(Hhs)* and location *(Loc)* were found statistically not significant in explaining the choice of being excluded and informal alternatives.

The interpretation of the coefficients of the multinomial model is not straightforward (Greene, 2002). For better understanding of the model, the author decided to run for marginal effects after multinomial logit regression. The marginal effects measure the change in the probability of adults' exclusion from financial inclusion concerning a change in each explanatory variable. Marginal effect measures the effects of a change in one category of a dependent variable, under ceteris paribus, on the probability that an individual choose among the alternatives (Fufa, 2016). The results of marginal effects are presented in Table 6 below.

Table 6: Marginal effects after Multinomial logit (Mlogit) for Borrowing Model

Categories of financial exclusion for the Mlogit				
Dependent Variable =	Formal	Informal	Excluded	
Independent variable	dy/dx (P>|z|)	dy/dx (P>|z|)	dy/dx (P>|z|)	X
Age	.0001161(0.777)	.0002362(0.491)	-.000509(0.086*)	38.1959
Gen	-.1310161(0.000***)	-.1078504(0.000***)	-.0993584(0.000**)	1.56454

Mrst	-.0168233(0.001***)	-.0133205(0.002***)	-.0150002(0.000***)	1.78581
Edu	.0577106(0.000***)	.0480587(0.000***)	.0414218(0.000***)	3.06005
PWndx	-.0739614(0.000***)	-.0604708(0.001***)	-.0578433(0.000***)	1.93245
AccMop	-.2144855(0.000***)	-.1707448(0.000***)	-.1873465(0.000***)	1.07992
Empl	.0073414(0.253)	.0062899(0.241)	.0045207(0.361)	-.798393
FncEduc	-.0208922(0.000***)	-.0277823(0.000***)	.0290804(0.000***)	.154033
UtlBill	-.0561968(0.001***)	-.0469274(0.001***)	-.0397863(0.001***)	1.8466
Hhs	-.0020975(0.420)	-.001723(0.428)	-.0016059(0.405)	4.74226
NoAdlHhs	-.0002141(0.972)	-.0010521(0.837)	.0035552(0.437)	2.21165
Loc	.104193(0.000***)	.0870847(0.000***)	.0734363(0.000***)	1.27624
Iy	-.0054643(0.005***)	-.004224(0.009***)	-.0053076(0.000***)	5.54646
	P(Y = 1) = .36151667	P(Y = 2) = .2576688	P(Y = 3) = .21658166	

*Notes; ***, **, * Represent significance at 1%, 5% and 10% respectively*

Source: Computed from Fin Scope Tanzania, 2017

From Table 6 the marginal effect of gender *(gen)* indicates that female respondents chooses informal credit and exclusion alternatives than male respondents. The marginal coefficients of informal credit and exclusion alternatives are 0.1078 and 0.0993 respectively. However, male respondents chose formal financial services more than female respondents, with their marginal coefficient of 0.1310. This finding indicates that female respondents are concerned with the informal financial services, while male respondents do access formal financial services. The study is in line with the work of George (2012) in Kenya who argued that female tend to be involved in informal financial services or even being excluded from the mainstream financial services compared to males.

The marginal coefficients of formal and informal alternatives for marital status *(Mrst)* are 0.0168 and 0.0133 respectively. However, the marginal effect for exclusion preference in financial service is 0.0150. The findings are evident that married adults choose to access formal financial services whereas other groups chose formal otherwise being excluded from financial services. Chen and Jin (2016) in China support the current study. They argue marital status of adults has effect on participation in financial services selection. Table 6 shows that education *(Edu)* influence financial access among adults. The marginal effects for informal and exclusion categories are 0.0480 and 0.0414 respectively. The findings suggest that as education increase, the probability of accessing formal financial services increases too as the marginal effects for formal financial services shows 0.0577. Adults with lower education access informal and even excluded from mainstream financial services. Coeffinet and Jadeau (2017) in the Euro area, Simpson and Backland (2008) in the UK and George (2012) in Kenya obtained similar findings. Education plays crucial role in influencing financial access as adult increases education increase the probability of accessing formal financial services. Lower education reduces the probability of accessing financial services.

Wealthy *(PWndx)* adults have a higher marginal effect of 0.0739 on the usage of formal financial services compared to other alternatives. The marginal effect for informal financial services and exclusion are 0.0605 and 0.0578 respectively. Wealthy adults have a higher probability of using formal financial services. The results supported by Simpson and Backland (2008) in the UK, George (2012) in Kenya, Chen and Jin (2016) in China and Coeffinet and Jadeau (2017) in Euro area concluded that wealthier people tend to access financial services unlike the poor one.

Similarly access to a mobile phone *(AccMop)* increase the probability of access to formal financial services with the marginal effect of 0.2145 relative to other alternatives. The marginal effect of informal financial services is 0.1707 and for financially excluded is 0.1873. The adults who have reliable access to a mobile phone have access to formal financial services compared to other alternatives. They use of mobile phones as devices for electronic money for transfers, payments, and savings. The increase in access to mobile phones has increased the probability of using formal financial services. Adults with no access to mobile phones are more likely to be excluded from financial services mainstream in the economy. This result is in line with the work of Lotto (2018) in Tanzania who argued that mobile phones usage increases the probability of access to financial services as they serve as devices for electronic money transactions.

Also, the marginal effect of financial education *(FncEduc)* variable indicates adults choose to borrow in informal financial services and even being exclusion than in formal financial services. The marginal coefficients of informal financial services and exclusion are 0.0278 and 0.0291 respectively. The results of this study reveal that adults with financial education fear terms and conditions attached to loans by formal financial institutions. The marginal effect for formal financial services is 0.0209. The result is supported by Maciejasz-Swiatkiewiez (2012) in Poland that found adults with financial education prefer borrowing in institutions, which pose out favorable terms and conditions

Table 6 shows that payments of bills *(UtlBill)* influence borrowing in formal financial services relative to other alternatives with the marginal effect of 0.0562. Payment of bills requires adults to use official channels to complete transactions. The marginal effect of informal financial services and exclusion from borrowing are 0.0470 and 0.0398 respectively. The findings reveal that adults who pay bills have a high probability of using and even borrowing in formal financial services than adults who do not pay bills. The finding is in line with the work of Cole and Greene (2016) in the U.S. who argue that payment of bills increases the probability of financial services usage.

Location of adults *(Loc)* influences financial inclusion. Urban dwellers have a high probability in inclusion in formal financial services relative to other alternatives with marginal effect of 0.1042. The marginal effects of informal and exclusion from borrowing are 0.0871 and 0.0734 respectively. Fufa (2016) in Ethiopia and Chen and Jin (2016) in China argue that geographical location of an adult plays important role in influencing access to financial services. These results signify that being in town improves the usage of financial services at both levels of formal and informal financial service. Rural dwellers are constrained by several factors from accessing to financial services especially in formal financial services. They lack documentation for loans, no collaterals and limited outreach of financial institutions in remote rural.

Individual income *(Iy)* influences adults borrowing from formal financial institutions. The marginal effect for formal financial services is 0.0055. It implies that adults with high income have a high probability of using formal financial services such as banks and micro financial institutions relative to other alternatives. The marginal effect of informal financial services and exclusion from borrowing are 0.0042 and 0.0053 respectively. Coeffinet and Jadeau (2017) in Europe area support the findings. Lower income reduce the probability of borrowing from formal financial services whereas informal or exclusion being the favorable options for them.

Table 7: Multinomial logistic regression for Saving Model

SAV	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
Formal						
Age	-.0088512***	.0023279	-3.80	0.000	-.0134137	-.0042887
Gen	-.6943619***	.0686626	-10.11	0.000	-.8289383	-.5597856
Mrst	-.0585037	.0297718	-1.97	0.049	-.1168553	-.0001522
Edu	.2320657***	.0260304	8.92	0.000	.1810471	.2830842
PWndx	-.0740309	.1366906	-0.54	0.588	-.3419396	.1938779
AccMop	-1.364845***	.1743371	-7.83	0.000	-1.706539	-1.02315
Empl	.1196273***	.0423494	2.82	0.005	.036624	.2026307
FncEduc	-.1144931***	.0241417	-4.74	0.000	-.1618098	-.0671763
UtlBill	-.1627285	.103779	-1.57	0.117	-.3661316	.0406746
Hhs	-.0345851***	.0112598	-3.07	0.002	-.0566539	-.0125163
Loc	.8281262***	.0813819	10.18	0.000	.6686206	.9876319
Iy	.0000686	.0108169	0.01	0.995	-.0211321	.0212693
_cons	1.829705	.4463855	4.10	0.000	.9548053	2.704604
Excluded						
Age	.0045197**	.002052	2.20	0.028	.0004979	.0085415
Gen	-.0683771	.0706543	-0.97	0.333	-.206857	.0701027
Mrst	.0303339	.0300859	1.01	0.313	-.0286333	.0893011
Edu	-.0837513***	.0288637	-2.90	0.004	-.1403231	-.0271794
PWndx	.3588936**	.1649266	2.18	0.030	.0356434	.6821437
AccMop	.8474369***	.0965928	8.77	0.000	.6581185	1.036755
Empl	-.0674773	.0622549	-1.08	0.278	-.1894945	.05454
FncEduc	-.3048271***	.0249401	-12.22	0.000	-.3537087	-.2559455
UtlBill	.4611014***	.133179	3.46	0.001	.2000754	.7221274
Hhs	-.0106203	.0105982	-1.00	0.316	-.0313923	.0101518
Loc	-.0187178	.0911915	-0.21	0.837	-.1974499	.1600143
Iy	.0161914	.0101874	1.59	0.112	-.0037756	.0361584
_cons	-2.695256	.499253	-5.40	0.000	-3.673774	-1.716738

Informal (base outcome)

*Notes; ***, **, * Represent significance at 1%, 5% and 10% respectively*

Source: Computed from Fin Scope Tanzania, 2017

Table 7 depicts the multinomial logistic regression results. The study reveals that Age *(Age)*, gender *(Gen)*, education *(Edu)*, access to mobile phone *(AccMop)*, employment *(Empl)*, financial education *(FncEduc)*, household size *(Hhs)*, location *(loc)* affected saving in formal financial inclusion over the informal financial inclusion in the first equation for adults.

In other words, Age *(Age)*, gender *(Gen)*, education *(Edu)*, access to mobile phone *(AccMop)*, employment *(Empl)*, financial education *(FncEduc)*, household size *(Hhs)*, location *(loc)* increase the probability of saving in formal financial services relative to other alternatives.

Marital status *(Mrst),* wealth index *(PWndx),* payment of utility bills *(UtlBill),* individual income (Iy) were found statistically not significant in explaining saving between formal and informal financial services alternatives.

Concerning the adults' choice of exclusion over the informal alternative, age *(Age),* education *(Edu),* wealth index *(PWndx),* access to a mobile phone *(AccMop),* financial education *(FncEduc)* and payment of utility bills *(UtlBill)* variables were statistically significant in explaining the phenomenon.

However, gender *(Gen)*, marital status *(Mrst)*, employment *(Empl)*, household size *(Hhs)*, location *(Loc)* and individual income *(Iy)* were found statistically not significant in explaining the choice of being excluded and informal alternatives.

Like the borrowing model, the coefficients of multinomial logistic regression from the saving model in Table 7is difficult to interpret them. Interpretation of coefficients form is complicated and misleading, so it worth running marginal effects after multinomial logistic regression. Marginal effects simplify interpretation, and the results are meaningful. Table 8 presents the marginal effects of saving model after multinomial logistic regression.

Table 8: Marginal effects after multinomial logit (Mlogit) for Saving Model

Categories of financial exclusion for the Mlogit				
Dependent Variable =	Formal	Informal	Excluded	Mean
Independent variable	dy/dx (P>|z|)	dy/dx (P>|z|)	dy/dx (P>|z|)	(X)
Age	-.0026015(0.000***)	-.0021521(0.000***)	-.0018189(0.000***)	38.5188
Gen	-.1647087(0.000***)	-.1337019(0.000***)	-.1077387(0.000***)	1.61269
Mrst	-.017238(0.010**)	-.0142631(0.008***)	-.0120604(0.006***)	1.7924
Edu	.0649726(0.000***)	.0535394(0.000***)	.0448173(0.000***)	2.85225
PWndx	-.0516517(0.097*)	-.0446694(0.080*)	-.0417475(0.048**)	1.94618
AccMop	-.4151604(0.000***)	-.3443554(0.000***)	-.2929095(0.000***)	1.10404
Empl	.0357554(0.000***)	.0296176(0.000***)	.0251113(0.000***)	-.851109
FncEduc	.0001704(0.975)	.0023358(0.600)	.0064936(0.076*)	.137639
UtlBill	-.0830201(0.000***)	-.0709631(0.000***)	-.064678(0.000***)	1.88063
Hhs	-.0075322(0.003***)	-.0060603(0.004***)	-.0047701(0.005***)	4.76305
Loc	.2057734(0.000***)	.1677867(0.000***)	.1367797(0.000***)	1.25228
Iy	-.0014905(0.541)	-.0013311(0.503)	-.0013268(0.413)	5.58806
	P(Y = 1) = .43980464	P(Y = 2) = .27803762	P(Y = 3) = .20555113	

*Notes; ***, **, * Represent significance at 1%, 5% and 10% respectively*

Source: Computed from FinScope Tanzania, 2017

Table 8 above shows that the Age *(Age)* of the adults' shows that an increase by one year in the age of adults will increase the probability of saving in formal financial institutions. The marginal effect of the preference in formal financial services choice is 0.0026. The probability of choosing informal and exclusion alternatives is 0.0021 and 0.0018 respectively. The result is in line with the work of Tuesta, Sorensen, Haring, and Cámara, (2015) in Argentina who argued that age of adults faces has to influence on accessing financial services.

The marginal effect of the gender *(gen)* indicates that female respondents chooses to save in informal credit and exclusion alternatives than male respondents. The marginal coefficients of informal credit and exclusion alternatives are 0.1337 and 0.1077 respectively. However, male respondents chose to save in formal financial services more than female respondents, with their marginal coefficient 0.1647. This finding indicates that female respondents are concerned with the informal financial services, while male respondents do save in formal financial services. The study is in line with the work of Ozturkkal and Davutyan, (2016) in Turkey, which founded that female, tend to be involved in informal financial services or even being excluded from the mainstream financial services compared to males.

The marginal coefficients of formal and informal alternative for marital status *(Mrst)* are 0.0172 and 0.0143 respectively. However, the marginal effect for exclusion preference in financial service is 0.0121. The finding an evident that who are married choose/access saving in formal financial services whereas other groups chose informal financial services and exclusion. Ozturkkal and Davutyan, (2016) in Turkey support the present study, which revealed the marital status of adults affect on participation in financial services selection.

Table 8 shows that education *(Edu)* influences saving among adults. The marginal effects for informal and exclusion categories are 0.0535 and 0.0448 respectively. The findings suggest that as education increase, the probability of accessing formal financial services in saving increases too. The marginal effects for formal financial services show 0.0650. Adults with lower education save in informal and even excluded from mainstream financial services. Choudhury and Bagchi, (2016) in India, Ozturkkal and Davutyan, (2016) in Turkey, Tuesta, Sorensen, Haring, and Cámara, (2015) in Argentina and Tambunlertchai, (2018) in Myanmar obtained similar findings. As adults increase education, increase the probability of accessing formal financial services.

Adults who own wealth *(PWndx)* have a higher marginal effect of 0.0516 on saving in formal financial services compared to other alternatives. The marginal effect for informal financial services and exclusion are 0.0447 and 0.0417respectively. Wealthy adults have a higher probability of using formal financial services. The results supported by Gina, Chowa and Ansong, (2012) in Uganda who said wealthier people tend to access financial services unlike the poor one.

Similarly, access to a mobile phone *(AccMop)* increases the probability of saving in formal financial services with the marginal effect of 0.41516 relative to other alternatives. The marginal effects of informal financial services is 0.3443 and for financially excluded is 0.2929. The adults who have reliable access to a mobile phone have a high probability of saving to formal financial services compared to other categories. They use the mobile phones as devices for electronic money for savings. The increase of the mobile phones have increased the probability of using formal financial services/product. Adults with no access to mobile phones are more likely to be excluded from financial services mainstream in the economy. This result is in line with the work of Lotto (2018) in Tanzania who argued that mobile phones usage increases the probability of financial inclusion as they serve as devices for electronic money transactions.

Individuals who are employed in formal sectors *(Empl)* has marginal effects of 0.0357 implying that adults who are employed in formal sectors have high probability of saving in formal financial institutions. The marginal effects of informal and exclusion alternatives are 0.0296 and 0.0265 respectively. Employed adults may also prefer to save in informal financial institutions than being excluded from financial services. The work Choudhry and Bagchi (2016) in India support this result; their findings argue that being employed in formal sectors increase the probability of using financial services/product.

Also, the marginal effect of financial education *(Fnc Educ)* variable indicates adults choose to save in informal financial services or being exclusion. The marginal coefficients of informal financial services and exclusion are 0.0023 and 0.00649 respectively. The results of this study reveal that adults with financial education fear terms and conditions attached to saving by formal financial institutions prefer to informal to formal financial services. The marginal effect for formal financial services is 0.0001. Gina, Chowa and Ansong (2012) in Uganda revealed that adults with financial education prefer saving in informal financial institutions that pose out favorable terms and conditions relative to other alternatives.

Table 8 shows that payments of bills *(UtlBill)* influence saving in formal financial services relative to other alternatives with the marginal effect of 0.0830. Payment of bills requires adults to use official channels to complete transactions. The marginal effect of informal financial services and exclusion from borrowing are 0.07096 and 0.0647 respectively. The findings reveal that adults who pay bills have a high probability of saving in formal financial services than adults who do not pay bills. The findings are in line with the work of Cole and Greene (2016) in the U.S. who argue that payment of bills increases the probability of financial services usage.

Households size *(Hhs)* influences saving in formal financial institutions with the marginal effects of 0.0075 relative to other alternatives. A change in family size increases the probability of saving for future use. The marginal effects of informal financial services and exclusion are 0.0060 and 0.0048. The result of this study is in line with the work of Oswald (2014) in Uganda who concluded that household size influence the usage of financial products.

Location of adults *(Loc)* influence saving. Urban dwellers have a high probability in saving in formal financial services relative to other alternatives with the marginal effect of 0.2058. The marginal effects of informal and exclusion from borrowing are 0.1678 and 0.1368 respectively. The results signify that being in town improves the usage of financial service at both levels of formal and informal financial services respectively. Rural dwellers are constrained by several factors from accessing to financial services especially in formal financial services due to limited outreach of financial institutions in remote rural. Choudhry and Bagchi (2016) in India, Ozturkkal and Davutyan, (2016) in Turkey and Gina, Chowa and Ansong, (2012) in Uganda support the findings of the current study. Location plays a great role in the saving with financial institutions.

Individual income *(Iy)* influenced the saving of money by adults from formal financial institutions. The marginal effect for formal financial services is 0.0014. It implies that adults with high income have high probability of using formal financial services such as banks and micro financial institutions relative to other alternatives. The marginal effect of informal financial services and exclusion from borrowing are 0.0013 and 0.0013 respectively. Adults with marginalized income will as well be limited from formal financial services whereas informal or exclusion being the favorable options for them. The findings of this study is in line with the work of Ozturkkal and Davutyan, (2016) in Turkey, Gina, Chowa and Ansong, (2012) in Uganda, Tambunlertchai, (2018) in Myanmar and Tuesta, Sorensen, Haring, and Cámara, (2015) in Argentina who argue that individual income is crucial for inclusion in financial services.

VI. Conclusion and Recommendations

The study has contributed to the knowledge on are of financial exclusion and financial services outreach in Tanzania. It has dealt with reasons hindering people to borrow and not being able to repay the loan in Tanzania. The reasons that hinder adults to borrow include, some adults worry may not be able to pay back the loans (43%), some do not believe that borrowing can make significant improvement in their life (13%), some adults said they do not need to borrow (30.3%), spouse/family disagreement on borrowing (3.4%), some adults said, they do not borrow due to high interests (2.5%). Other reasons were refusal when the adults tried to borrow (1%) and lack security/collaterals (1%)

The main reasons for some of the adults not being able to repay the loans include; unexpected expenses (44%), taking care of a family member who was sick (15%), refused to repay the loan (15%), fluctuation in crop price/harvest limited the ability to pay the loans (10%), failure in their businesses of borrowers (4%). Other reasons that revealed by the study include; the borrowers' fallen sick (4%), delay in the payment of their businesses (2%) and some adults forgot to repay the loan they took (1%)

The results from multinomial logistic regression demonstrate that there are interdependence and significant relationship between the borrowing and gender, marital status, education, wealth index, access to mobile phone, financial education, and payments of utility bills, location and individual income. The results from saving model reveal that age, gender, marital status, education, wealth index, access to mobile phone, employed, financial education, and payments of utility bills, household size, location, and individual income are the critical factor on saving among adults

The study recommends that government, financial institutions and consumers of financial services should collaborate in a holistic way. The government through Ministry of Finance and Planning (MoFP), and the Bank of Tanzania (BoT) formulate policies that will make banks, microfinance institutions and community-based groups to relax their credit and saving regulations and operations, which encourage borrowing and saving as main and common financial services that foster economic activities. The government through its institutional framework penetrates support to enable financial institutions operating in rural areas to establish infrastructures for reliable financial services provision. Moreover, the government needs to provide financial education to create awareness on financial services to enable lower income earners, younger people and women to access credit and saving.

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Social and Economic Transformation– International Scan and Lessons Learnt

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Abstract- Transformation is a necessity in many economies to address social, political and economic inequality. Addressing it normally takes the form of affirmative action. This paper reviews transformation in four selected countries, namely, Malaysia, The United States of America, Brazil and New Zealand. The paper concludes that effective transformation policies need enforcement, strong incentives and good monitoring. It also concludes that affirmative action is a process and not an event.

Keywords: transformation; affirmative action; social and economic inclusion; equality.

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Social and Economic Transformation–International Scan and Lessons Learnt

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Abstract- Transformation is a necessity in many economies to address social, political and economic inequality. Addressing it normally takes the form of affirmative action. This paper reviews transformation in four selected countries, namely, Malaysia, The United States of America, Brazil and New Zealand. The paper concludes that effective transformation policies need enforcement, strong incentives and good monitoring. It also concludes that affirmative action is a process and not an event.

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I. Introduction

Transformation is about change of consciousness, replacing what already exists with something completely new. The State must dismantle and emotionally let go of the old ways of operating while the new state is being put in place. The transitional phase can be project managed and effectively supported with traditional change management tools. Change management pundits are of the opinion that any change effort should have a well defined future state, an assessment of the current state and a clear and precise strategy to move from the current state to the future and desired state. It is in the implementation of the strategy that problems present themselves in conducting a serious review, let alone a review of the transformation of societies with long history of social and political inequality. Effective transformation can be better defined as arriving at an acceptable position in society in redressing past injustices. Four countries were selected for review, namely Malaysia, The United Stes of America (USA), Brazil and New Zealand.

The choice of these countries is based on their similarities with each other in the discrimination suffered by the disadvantaged group as a result of colonization and its effect. The purpose is to draw on the lessons learnt from policy designed towards the social and economic integration of ethnic groups with the principal objectives to have equal participation of previously disadvantaged people in the mainstream economy. The lessons drawn from the review of these countries can be adapted in informing recommendations of the strategies that can be used in any country wanting to realign its social engineering and achieving success in the affirmative action program. In the examination of transformation agenda of the chosen countries, the analysis is based on primary and secondary sources, as well as books, journals, newspapers and internet sources.

These four countries adopted comprehensive strategies of affirmative action designed to benefit a group of people who were previously disadvantaged by the enactment of legislative instruments to ensure some form of equality of the different ethnic groups.[1] This was to ensure that one group does not remain su[1]bservient to an economically and in most instances politically dominant group of ethnic groups in these countries.[2] These countries sought to address invidious distinctions among individuals because of their race, ethnicity, or national origin. Remedial actions have been taken by these countries where certain groups have been disadvantaged for a long time and there was a need for affirmative action to level the playing field.

The term affirmative action means different things in different contexts and to different people, so it must be used with caution. The term nonetheless suffices as an amalgam of measures taken by governments to redress past historical imbalances in opportunities for education, employment, economic participation, ownership of assets and control. These historical imbalances have necessitated interventions by states to redress sharp racial divisions that ultimately resulted in unequal income levels. These "Affirmative Action" programmes were necessitated by pressing problems of economic inequality between the races. Affirmative action policies' main purpose is to address and redress systematic economic and political discrimination against any group of people that have been historically underrepresented or has a history of being discriminated against in particular institutions. Their primary emphasis in most instances has been on addressing racial discrimination. Studies have shown that racism, rather discrimination. Studies have shown that racism, rather than being self-correcting, is self-perpetuating. The disadvantages to the discriminated

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[1] Affirmative action is defined by the Oxford dictionary as action favouring those who tend to suffer from discrimination, positive discrimination.

[2] Affirmative action policies are highly encompassing as they permit the use of race and other factors such as gender and ethnic origins in decisions to allocations of public benefits, such as employment, admissions to schools, where different ethnic groups live and allocations of resources. They are implemented in diverse spheres such as economic, political, educational and healthcare.

group and the benefits to the advantaged group are passed on to each succeeding generation unless remedial action is taken.

Affirmative action has been given international status and the right of states worldwide to implement it by Article 2.2 of the International Convention on the Elimination of All Forms of Racial Discrimination, which stipulates that affirmative action be demanded of states that have ratified the Convention, in order to rectify systemic discrimination. It however stipulates that such programs "shall in no case entail as a consequence the maintenance of unequal or separate rights for different racial groups after the objectives for which they were taken have been achieved." The United Nations Human Rights Committee is of the opinion that:

> *The principle of equality sometimes requires States parties to take affirmative action in order to diminish or eliminate conditions which cause or help to perpetuate discrimination prohibited by the Covenant. For example, in a State where the general conditions of a certain part of the population prevent or impair their enjoyment of human rights, the State should take specific action to correct those conditions. Such action may involve the granting for a time to the part of the population concerned certain preferential treatment in specific matters as compared with the rest of the population. However, as long as such action is needed to correct discrimination, in fact, it is a case of legitimate differentiation under the Covenant."*

A comparative analysis would bring to the fore that national unity is unattainable without greater equity and balance among a country's social and ethnic groups in the participation of the country's development and in the sharing of the benefits derived from economic growth. It would be virtually impossible to achieve national unity if a vast section of the population and in some instance even a minority of the population remains poor. In addition, if economic equality is not achieved, peaceful co-existence can never be achieved as chaos and riots would be the order of the day.[3]

Affirmative action or preferential policies are international phenomena. The concept is a feature of societies which consist of plural ethnic or religious groups at such different levels of economic and social development that leveling the playing field and overcoming disadvantages thus introducing some equality requires government intervention. Affirmative action policies help mitigate the historical effects of institutional racism. It also addresses the effects of current discrimination, intentional or not. South Asia and India in particular embarked on such policies much earlier than the USA. The concept is actually wrongly perceived as originating from the USA when that is not the case. It is the international publicity and controversies attached to the preferential and affirmative action's programmes in the US social policy since the 1960's that has brought a misconception that variations of these policies have spread to other parts of the world in imitation of the US prototype of such policies. It is worthy to note that affirmative action or preferential policies have common features in all four of these countries, they all have salient and distinctive features as well (KM de Silva)[4]

a) *Malaysia*

Malaysia is significant as a case study in affirmative action because of its diverse ethnic groups and is regarded as one of the most successful countries to have achieved economic growth over the last century. It has been a major supplier of primary products to industrialized countries, such as tin, rubber, palm oil, timber, oil, liquefied natural gas, etc. Since the 1970's, it has seen a major development in the export-oriented manufacturing industries such as textiles, electrical and electronic goods, rubber products, etc. The 1990's saw the country's transition economically to Newly-Industrialized Country (NIC) status. Malaysia is perhaps the best example of a country that has seen significant economic growth, which necessitated the economic roles and interests of the various racial groups to be pragmatically managed in the long term without significant loss of economic growth momentum, despite inter-ethnic tensions which manifested in violence, notably in 1969.

Malaysia has a long history of trading and its commercial importance enhanced by its strategic position athwart the seaborne trade routes from the Indian Ocean to East Asia. What makes Malaysia also significant in relation to socio-political economy is its focal point for both local and international trade as it was also penetrated by the European trading interests, first the Portuguese from 1511 as a trading destination of the Dutch East India Company (VOC) for trade in pepper and various spices. In about the 1600 there was also competition for trade in the area by the English East India Company (EIC) in the same commodity, that of spices, and by the 1800 the VOC was dominant. This saw Malaysia as a staging post in the growing trade with China and also was strategic for the British to expand control of the Malay Peninsula from about 1870. Over these centuries there was growing inflow of migrants from China attracted by the trading opportunities and as

[3] The Malaysian affirmative action began after the bloody riots between affluent Chinese and impoverished Malays in 1969 killed hundreds for example. There are the same examples that can be quoted for elsewhere in the world where race based paradigm at restructuring society has occurred.vv.

[4] Ethnic Studies Report, Vol. XV, No. 2, July 1997.

wage labour force for the growing production of export commodities such as gold and tin. The indigenous people were also engaged in the commercial production of rice and tin but remained relatively within a subsistence economy and were not keen to offer themselves as a permanent wage labour.[5] The growth of the trading sector around these times was already foreign dominated, even though was still in its infancy (Drabble, 2000).

The history of social and economic differences among the various ethnic groups in Malaysia cannot be separated from the growth of its multi-ethnic society. To gain an insight in the ramifications of the multi-ethnic society in Malaysia, a brief historical perspective is necessary. The 1920's saw the large inflows of migrants in Malaysia and this created a multi-ethnic population of the type which the British scholar, J.S Furnivall (1948), described as a plural society in which the different racial groups co-existed under a single political administration and do not interact with each other either socially or culturally, apart from economic transactions. Many of the migrants who ended up being permanently domiciled in Malaysia their original intention was to come for a limited period, say 3-5 years, save money and then return home. Circumstances changed and saw a growing number staying longer, having children and staying forever. The economic developments happening at that time saw in boom times the immigrant inflows in certain areas by far outnumbering the indigenous Malays.

The Indians and Chinese, in terms of social and cultural, recreated the institutions, hierarchies and linguistic usage of their country of origin. This led to social stratification of society. This was particularly so in the case of the Chinese. The Chinese came as traders or mine workers shipped in by colonial rulers made up 25 percent of the population, but held 40 percent of the nation's wealth. The Chinese also dominated the mining and agricultural sectors. This led to the creation of immense wealth and division of labour in which economic power and function were directly related to race. The Malays were mainly rice growers in the rural areas.

The economic disparities led to a growing discontent among the Bumiputera that were not partaking in this economic growth and were losing their ancestral in heritance, that is land. This also led to it becoming a source of fear to the Malays whose claim of indignity to the land dated thousands of years. It was this fear that was among the early factors, coupled with resentment against British colonial rule which saw the emergence of Malay nationalism between the periods of the two World Wars. It was this economic marginalization that lay the seed for the 1969 violence that was to follow (Ghee 1977).The inter-racial economic disparities became the source of political campaigns and these latter became apotentially explosive phenomenon underlined by sharp racial undertones that resulted in the violent incidents of the May 1969 riots. All these made remedial measures complex and thus needed political will and strong tactful leadership and well planned strategies. It was against this series of events that Malaysia's ambitious 'affirmative action' policy was promulgated in 1971, under the title of the New Economic Policy (NEP) under the leadership of Tun Abdul Razak. He was the leader that spearheaded the introduction of the affirmative action policy embodied by the NEP. The NEP was promulgated in conjunction with the 'Second Malaysia Plan 1971-1975 and its main objective was to forge national unity. The targets were:

1. Malays and the other indigenous group referred to as the Bumiputera will own at least 30% of the total commercial and industrial activities in all categories and scale of operations;
2. The creation of a Malay commercial and industrial community by means of deliberate training and human resources development programmes;
3. The employment pattern at all levels and in sectors, particularly the Urban and Rural Sectors must reflect the racial composition of the population; and
4. The establishment of new industrial activities in selected new growth areas.

Rural development and urbanization improved remarkably during this period. Official poverty statistics in rural areas fell from 58.6% in 1970 to 21.1% in 1990. In 1970 there was relatively very high unemployment and poverty and by the 1990 there was significant reduction (Shireen, 1998).

At the start of the NEP programme, the exclusion of Malays from higher education was very evident. At the start of the programme in 1970, the University of Malaya was the only university and by Bumiputera's enrolment was significantly very low and by 1986, there were more universities established and the Bumiputera's enrolment had risen to 54% at the University of Malaya, close to 73% at the National University and 81% at the Agriculture University (Lee, 1994).

The growth in higher education rose significantly in the ranks of the skilled workforce, with Bumiputera making the most gains. The total registered professionals rose from 4.9% to 29.0% in 1990 (Lee, 2007). Overall, Bumiputera's participations in professions had increased. Accountants rose from 4% in 1970 to 28% in 1990 and architects from 4% to 24%, engineers from 7% to 35%, doctors from 4% to 28% (Funston, J 2001).

In 1970, the share capital ownership was unequal, with Bumiputera owning 2.4% and non-Bumiputera holding 32.3% and 63.3% was in foreign interest control. By the 1990, there was a major shift and transformation had taken place; 20.3% Bumiputera,

[5] Over these centuries, the VOC was dominant in the Indonesian region, while the EIC was dominant in Malaysia, starting with Penang (1786), Singapore (1819) and Melaka (1824).

46.2% non- Bumiputera; and 24.1% foreign interest (Lee, 2007). These results show that that the 20% wealth in the hands of Bumiputera fell short of the intended 30%, but it went a long way in ensuring the reduction of poverty in the population from 50% to 68% (Funston, 2001). The government believed the aim of having 30% equity participation in the hands of Bumiputera' s had yet to be achieved (Malaysian Government, 1991).

Affirmative Action policy in Malaysia under the NEP made considerable advances in the process of restructuring the society in the initial timeframe, 1971-1990. The education and urbanization routes to social mobility and higher income were taken advantage of by many Malays.

b) The United States of America

Throughout its history, The United States has been inhabited by a number of interacting racial or ethnic groups. Historians have asserted that there is not a country in world history in which racism has been more important, for so long a time as the United States. The problem of "colour line" as W.E.B. Du Bois stated[6] still persist up today.[7] There has been important social distinction among those of white or European ancestry, in addition to the obvious "colour line" structuring relationships between dominant whites and lower-status blacks, mainly of African origin, Indians and Asians.

The most influential and durable conception of the relations amongst the racial groups viewed as significantly dissimilar has been hierarchical. The hierarchical model has its origins and most enduring consequences in the conquest of Indians and the slave trade during the colonial period. It also applied to European immigrants who differed in culture and religion from old-stock Americans of British origin. The hierarchical models have always been highly visible in the sharpest and most consequential distinction between "white" and non-white".

The Declaration of Independence of 1776, which is the founding document of the United States declares: "All men are created equal; that they are endowed by the Creator with certain unalienable rights; among these are life'liberty and the pursuit of happiness."Had this document been followed literally, it would have signalled the birth of a nation in which the criteria for equal citizenship regardless of race, colour and gender woul have been membership in the human race[8] The Constitution of the United States, founded in 1789 provided no definition of national citizenship that might have precluded the federation of states from discriminating on the ground of race. The only reference to race in the Constitution is in Article IV, section 2 which states that: "The citizens of each state shall be entitled to the privileges and immunities of citizens in the several States."

The policy of affirmative action in the United States of America originated as a pragmatic response by those in the federal government for the advancement of disadvantaged US citizens by the use of quotas for enforcing employment provisions of the Civil Rights Act of 1964. The policy was aimed in particular at Black American and Hispanic American ethnic groups, who were in the minority. It also took into consideration and covered gender discrimination.[9] It was the result of the civil rights movement of the 1960's which was meant to address the issue of education and employment and that it should be biased towards non-white ethnic groups to overcome the effects of centuries of prejudice against the ethnic minorities. The policy has challenged white – American domination in education, employment and government. The Civil Rights Act of 1964 legislated that any form of discrimination was illegal and established the equal opportunity for all Americans regardless of race, cultural background, colour or religion. This act was the most sweeping civil rights legislation.

The affirmative action policy was implemented by federal agencies enforcing the Civil Rights Act of 1964 and three executive orders, that is, the Executive Order 10925, Executive Order 11246 and the next order to follow under the authority of Executive 11246 was the Revised Philadelphia Plan of 1969, based on an earlier plan of 1967. The policy and especially the use of quotas were challenged in a number of cases in the courts of the United States. The implementation of affirmative action in most cases was left to the discretion of the various organizations in the different sectors of government and industry and many of such programs were challenged in courts of law. The courts made several judicial

[6] DuBois, W.E.B., The Philadelphia Negro, A Social Study, (Schocken Books, New York, first published in 1889, 1967)-This quote was taken from Introduction to the 1967 Edition written by E, DigbyBaltzell, pp xxv.

[7] DuBois was an American civil rights activist, Pan-Africanist, historian, sociologist, author and editor. He rose to prominence for campaigning for increased political representation of blacks in the United States, in order to guarantee civil rights and the formation of a Black Elite for the progress of the African American. He tried virtually every possible solution to the problem of twentieth-century racism-scholarship, propaganda, integration, national self-determination, human rights, cultural and economic separatism, politics, international communism, expatriation, third world solidarity etc. He has been labeled the father of Pan-Africanism.

[8] Women were then generally subsumed under the category of men or man.

[9] Gender relates to the relationship between men and women in society.Historians have tended to forget the discrimination women suffered in the United States. The explorers were men, the landholders and merchant men, the political leaders were men, the military figures men, which led to women is society being invisible. White women because of this invisibility were in the same status as black slaves and this means slave women faced a double oppression. The fact that women were child bearers also resulted in them being pushed backward in society, not taking into consideration those who did not bear children, or too young or too old for that. Their physical characteristics became a convenience for men who exploited these to their advantage, subjugating them to servants, sex mate, companion and bearer-teacher-warden of his children.

pronouncements in the implementation of affirmative action programs. Substantial jurisprudence has been built by the judiciary in the implementation of the affirmative action program in the United States. From the decided cases, an inference can be drawn that affirmative action is a highly contentious issue in the United States. Examination of the judicial decisions bares testimony of the role the judiciary has played in defining and implementing affirmative action in the United States. The courts have from time to time affirmed that there is constitutional foundation for affirmative action in the United States.

In 1970 President Johnson framed the concept underlying affirmative action in an eloquent speech to the graduating class at Howard University, asserting that civil rights alone are not enough to remedy discrimination:

> "*You do not wipe away the scars of centuries by saying: now, you are free to go where you want, do as you desire and choose the leaders you please. You do not take a man who for years has been hobbled by chains, liberate him, bring him to the starting line of a race, saying, 'you are free to compete with all the others,' and still justly believe you have been completely fair. This is the next and more profound stage of the battle for civil rights. We seek not just freedom but opportunity-not just legal equity but human ability-not just equality as a right and a theory, but equality as a fact and as a result.*"

In conclusion, it has been noted by Fredrickson (2008) that the situation of African Americans, because of the application of affirmative action policies, has certainly improved to a certain extent in the last half century. To a much greater extent there is evidence, than in the past, of high achievers rising to positions of power and prestige. To this growing African-American bourgeoisie, the privileges associated with class have overcome the liabilities associated with race to some extent. It is the poorer blacks, confined to the inner-city ghetto from which the middle class has emigrated to more affluent suburbs, who suffer from a double handicap of race and class that is very difficult to overcome. Fredrickson, (2008) further stated that the situation of blacks and other racialised minorities, such as Mexican Americans could all be blamed on past injustices. There had been other contributory factors, such as the partial dismantling of the welfare state in the United States had deprived the poor, who were mainly black and brown, of access to the social citizenship adumbrated by the New Deal[10]. They were the group that continued to suffer discrimination in access to housing, employment, loans, medical care and education. The antidiscrimination laws were either inadequately enforced or failed to cover some of the subtler ways in which racial bias is expressed.

c) Brazil

Race based affirmative action was established for the very first time by several Brazilian institutions in 2001, following the United Nations Conference on Racism in Durban, South Africa.[11] The implementation of such a program represented a major step in Brazil's process of democratization and nation-building which was contrary to the country's long-held ideology of racial democracy (Schwartzman, S 2010). This ideology, which has been held since the 1930's, was of the opinion that racism and racial discrimination were minimal or non-existent in the Brazilian society in contrast to other multiracial societies in the world. By the 1990's as the country democratized and saw the emergent of a small but active black movement denounced the long held popular view of racial democracy, as it alleged that racism was widespread and evidence was produced of official statistics showing Brazil's tremendous racial inequality.

The ideology of non-racism in Brazil has led to the social and economic exclusion of members of a certain racial group.[12] Research has shown that in Brazil whites earn 57 percent more than blacks with the same levels of education, whites also attend an average of two years more school than blacks and more than 90 percent of the country's diplomats and judges are white.[13]These inequalities exist despite the country's constitutional prohibition on racial discrimination. The Constitution of Brazil also guarantees equal access to education. It mandates that the country aims to "promote the well-being of all, without prejudice as to origin, race, sex, colour, age and any other forms of discrimination.'[14]The country's constitution further provides that international treaties have the force of law, and specifies that "The rights and guarantees expressed in this Constitution do not exclude others deriving from the regime and from the international treaties in which the Federative Republic of Brazil is a party."[15] In conformity to this constitutiona obligation, Brazil has ratified The International Convention

[10] The New Deal was a series of economic programs enacted by the US Congress from 1933 to 1938 during the first term of President Franklin Roosevelt. They were a response to the Great Depression and were passed to provide relief for the unemployed and poor, recovery of the economy to normal levels and reform of the financial systems to prevent another depression occurring. Most historians refer to them as the three "R's", that it relief, recovery and reform.

[11] The Durban Conference was the most comprehensive discussion undertaken by the international community concerning "Racism, Racial Discrimination, Xenophobia and Related Intolerance" and resulted in the Brazilian government making international commitments following the recommendations of the Conference

[12] Committee on the Elimination of Racial Discrimination, Reports submitted by States Parties under Article 9 of the Convention, CERD/C/431/Add.8,16 October 2003.

[13] See id

[14] Brazil Constitution,1988, Art 3(IV).

[15] Brazil Constitution,1988, Art 208(V).

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on the Elimination of Racial Discrimination (ICERD), The International Covenant on Civil and Political Rights (ICCPR),The International Covenant on Economic, Social and Cultural Rights (ICESCR) and The Committee on the Elimination of Discrimination Against Women (CEDAW). The government further to this, in May 2003, established a new ministry called the "Special Secretariat for Devising Policies for the Promotion of Racial Equality."[16]

The economy of Brazil was based on agriculture and mining from the 16th through to the 19th century and depended on a large African-origin slave population. In a period of more than 300 years of slavery, the country was the world's largest importer of African slaves, which resulted in Brazil importing seven times as many African slaves to the country compared to the United States.[17] In 1888, Brazil became the last country in the Americas to abolish slavery, and by then had a population of mostly black and mixed-race. The abolishing of slavery and its past consequences did not create a change in the country's racial inequality or the beliefs about black people. Throughout much of its history, Brazil's miscegenation and the fluidity of racial classification has largely been used as proof of its racial democracy.[18]

The absence of classificatory laws and high rate miscegenation in Brazil resulted in a racial continuum with racial categories from black to white and passing on to intermediate colours that are quite mixed. This has resulted in some Brazilian's racial classification being ambiguous, in some instances varying according to the classifier and the social context.

Most Brazilians have come to acknowledge now that there is racial prejudice and discrimination in their country. Research and statistical analysis of census and surveys have highlighted evidence that racial inequality and racial discrimination exists in the labour market and other spheres of Brazilian society. Research has shown that on average, black and brown (mulatto and mixed race) Brazilians earn half of the income as compared to white Brazilians, despite the historical and contemporary absence of race-based laws.

In Brazil, the people in need for advancement are the Afro-Brazilian, who are poor and the working class as research has it that the middle class and the elite is almost entirely white.[19]The absence of Afro-Brazilians in the middle and the elite of society are closely related to their poor representation in Brazilian universities. The government realized that if this was not addressed, it represented a well-known melting pot of problems to come in the future. Until the implementation of affirmative action in 2001, non-white Brazilians were rarely found in Brazil's top universities. It was because of this that university admissions were found to be the most appropriate place for race-conscious affirmative action.[20] Race based affirmative action policy was established and the result of this is that by 2008, roughly 50 Brazilians universities adopted this policy to address the issue of racial inequality. For the first time in Brazilian societies affirmative action policies brought the issue of racism to be openly discussed and debated when all along there had been very little formal discussion of race, while other societies like the United States and South Africa were viewed to be obsessed with race and racial difference.

Affirmative action policy in Brazil has mandated many leading universities to admit a fixed percentage of non-white students and others use a point system that awards additional points to Afro-Brazilian students.[21] The absence of Afro-Brazilians in the middle and the elite of society are closely related to their poor representation in Brazilian universities. The government realized that if this was not addressed, it represented a well known melting pot of problems to come in the future. Affirmative action policy in Brazil has mandated many leading universities

[16] Brazil Constitution, 1988, Art 5(LXXVII)(2).

[17] By the time Brazil ended slavery in 1888, the population was already colourful: 37% white, 44% brown and 19% black. It is estimated that today those with African origins make up almost 60% of Brazil's population- Wilson G, The Effect of Legal Tradition on Affirmative Action in the U.S. and Brazil. <http:www.garretwilson.com/essays/law/ brazilaffirmativeaction.html.

[18] During slavery and colonialism, Brazil experienced greater miscegenation or race mixture as compared to the United States because its European settlers were mostly male of Portuguese origin in contrast to the family oriented colonization in North America and as result they sought out female mates among the African slaves, indigenous and mulatto population. In Brazil as compared to the United States or South Africa, there were no anti-miscegenation laws and they have prided themselves for this.

[19] This has anthropological roots dating back to the days of slavery, when the first law in regard to ownership of land was enacted, 'Lei de Terras"(Law of Lands passed in 1850) which excluded slaves and their descendants from land ownership as they were not viewed as Brazilians, and thus denied citizenship. If slaves had access to ownership of land, they could have been competition with white farmers and thus their economic status elevated. The economist and sociologist Marcelo Paixao, from the Universida de Federa do Rio de Janeiro did a lot of research proving that the colour of poverty in Brazil is black. This information is published in his dissertation with accompanying data proving to this effect (Ramos, I.,2006).

[20] Brazilian universities have in the past depended on a standardized test, known as the vestibular. This is a competitive entrance examination and is the primary and widespread system used by Brazilian universities. The term vestibular comes from the word "vestibular" which means entrance hall in Portuguese. The original reason for its introduction was a way to prevent nepotism or other form of unfair or beneficial selection of candidates. Until 1996 when the New Education Law was passed, it was by law considered as the only authorized selection method. In 2000 and 2001, the Rio de Janeiro state legislature passed laws mandating that two public universities under its jurisdiction reserve 50 percent of their admissions intake for applicants from public school, 40 percent for students who identified themselves as black or pardo (mixed race) and 10 percent for students with disabilities. The first intake of these students under the quota system which implementation began in 2002 were admitted in universities in 2003.

[21] In 2005, the combative chancellor in favour of the system, Naomar de Almeida Filho of the Universidade Federal da Bahia-UFBA supported by other academics showed for the first time that year that the percentage of black students which was 73.4% is very close to the percentage of the university's black population.

to admit a fixed percentage of non-white students and others use a point system that awards additional points to Afro-Brazilian students.

Quotas system has also been introduced for indigenous people, for the disabled and those who come from poorly funded public schools. Like in any country where affirmative action has been introduced, there are many controversies that surround the policy. In Brazil even though some people acknowledge that the quotas are an imperfect tool and that the solution really is to expand education opportunities to accommodate people who are otherwise disadvantaged, that is Brazilians, both black and white. To achieve redress, the process has to start from somewhere.

In conclusion, racial equality policies are now at the centre of the government of Brazil's agenda and their effects are evident, even though affirmative action policy is relatively new. Former President LuizInacio Lula da Silva, who was a former metalworker and trade unionist, chose a cabinet that includes four blacks, including one in the most recent created position of Secretary for the promotion of Racial Equality.[22] In 2003 he established a National Policy for the Promotion of Racial Equality which established quotas for certain jobs.

d) New Zealand

Affirmative action in New Zealand has long been a public policy tool and has been specifically authorized by legislation since 1977.[23] Affirmative action in New Zealand is two pronged: First, it has been used to justify the hiring and promotion of women;[24] second, it has been used as a justification for special educational measures being provided for Maori and Pacific Island students.

In New Zealand, there are two different laws, with two different standards governing affirmative action. These laws are the: The New Zealand Bill of Rights Act 1990 (BORA) and the Human Rights Act 1993. This New Zealand Bill of Rights Act provides a wide range of broadly worded rights, including freedom from discrimination. The overall exception for limiting these rights is in Section 5 of the Act: "reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society." The Act is applicable to all spheres of government, that is, the legislature, executive and judiciary. It is also applicable to other persons or bodies exercising any "public function, power, or duty conferred or imposed on them by or pursuant to law." Section 19(1) provides that:" Everyone has the right to freedom from discrimination on the grounds of discrimination in the Human Rights Act 1993."

This Human Rights Act addresses the issue of discrimination only. It applies to all citizens of the country. The Act applies to employment matters even to those covered by BORA[25]. Section 21 outlines the grounds of discrimination, which are sex, marital status, religious belief, ethical belief, colour, race, ethnic or national origins, disability, age, political opinion, employment status, family status and sexual orientation.

The affirmative action measures are governed ostensibly by different regimes under these two Acts. Mere differential treatment is prima facie unlawful under the Human Rights Act. Under this Act it does not need to be adverse discrimination to be unlawful. Affirmative Action is legalized through an explicit exception in this Act. Section 73 provides for measures to ensure equality and states:

(i) Anything (…) which would otherwise constitute a breach of (…) this Act shall not constitute a breach if-

a) *It is done or omitted in good faith for the purpose of assisting or advancing persons or groups of persons, being in each case persons against whom discrimination is unlawful by virtue of the Par of this Act; and*
b) *Those persons or groups need or may reasonably be supposed to need assistance or advancement in order to achieve an equal place with other members of the community.*

In regard to affirmative action, Paragraph (b) is most relevant. Evidence is needed that the group in question may need assistance in order to achieve an equal place with others (of the community). Even though "Community" is not defined in the Act, it is taken that for employment matters, it would be the community of relevant employees. In the case of:

Amaltal Fishing Co Ltd v Nelson Polytechnic (No 1)(1994) 1 HRNZ 369; Amaltal Fishing Co Ltd v Nelson Polytechnic (No2) (1996) 2 HRNZ 225.

In this case, the Polytechnic had set aside all its 14 places in the fisheries training course for Maori applicants. Evidence was required to have been led in terms of Section 73 that Maori community needed or may reasonably need assistance or advancement in order to achieve equal place with other members of the

[22] Global Rights: Partners for Justice, Latin America Program, Affirmative Action Affinity Group, Policy Updates-Brazil, July 2003-April 2004.

[23] The Human Rights Commission Act 1977 gave legislative power to the Commission to approve such special plans to ensure the advancement of women and all were for education or training. The purpose as advanced by the Human Rights Commissioner was to achieve equality of outcome.

[24] It is actually surprising that in 1893, New Zealand was the first country in the world to give women the right to vote and that is a quarter of a century before Britain or the USA. Under the leadership of the Prime Minister and leader of the Labour Party then, Richard "King Dick" Seddon, pioneering systems such as old age pensions, minimum wage requirements and children's health services were implemented making New Zealand a world leader in social welfare.

[25] In Part II of the Act, there are approximately 53 sections detailing what is and what is not allowed in terms of discrimination. It also sets up the Human Rights Commission and the complaints procedures.

community. It was the reasonableness of the measure that of dedicating all available places in the course that was never advanced and non-Maori complainant disputed.

The Bill of Rights Act also regards affirmative action measures as remedial measures for those disadvantaged by discrimination, in a more in-depth way that the Human Rights Act does. The relevant section is s 19 which provides:

Freedom from discrimination

1) *Everyone has the right to freedom from discrimination; and*
2) *Measures taken in good faith for the purpose of assisting or advancing persons or groups of persons disadvantaged because of discrimination that is unlawful by virtue of the Human Rights Act do not constitute discrimination.*

It is clear that subsection 19(2) was inserted in order to make it clear that affirmative action programs would not constitute discrimination. It is clear that this subsection applies to programs to assist persons suffering from actual past unlawful discrimination. It does not apply to those who simply may reasonably be supposed to need assistance or advancement. Under section 19, it will be easier to prove that unlawful discrimination has occurred on the grounds of race than for sex or for other reasons It is for this reason the two Acts must be read together as they are different views on the meaning of discrimination[26].

The huge challenge in New Zealand in regard to affirmative action is that both Acts discussed above that are most relevant to the implementation of affirmative action do not define what "discrimination" is. The question how this affects the consideration of affirmative action measures is unclear and will depend on the approach adopted by a New Zealand court to the meaning of 'discrimination" in BORA.

In conclusion, the law of affirmative action in New Zealand needs clarifying. To justify affirmative action measures in New Zealand will depend on the legislation that it falls under: whether that is section 19 of BORA or section 73 of the Human Rights Act. Justification of measures to be taken for affirmative action if a situation is covered by the BORA will depend upon the approach taken to the interpretation of "discrimination". The interpretation to be used could be formal or substantive and will affect how much scope there is for operation of the justification in subsection 19(2) and in section 5. If the United States model is favoured then different tests will be adopted for different types of discrimination. The result will then depend upon the ground of discrimination alleged: whether it is on the basis of race or gender, for example. Evidence will need to be supplied of the disadvantaged suffered by the target group seeking the adoption of any affirmative action measures. What then follows is the careful definition of the target group and also the disadvantage to be remedied will be carefully defined. In terms of the Human Rights Act, the disadvantage to be remedied need not have been actually suffered by a particular person or group wishing to take advantage of the remedy. The test in this case that needs to be applied is whether they "may reasonably be supposed to need assistance or advancement". In contrast, in terms of the BORA section 19(2), affirmative action is designed to assist persons or groups of persons actually disadvantaged by unlawful discrimination. Under the Treaty of Waitangi, the role of consideration must be considered to invoke affirmative action measures.

II. Observations and Analysis

Comparisons involving the United States, Malaysia, Brazil, and New Zealand had to rest on three pillars. First, all of these societies were as a result of European expansion and subsequent colonization of the non-Western world around 1500. The English, the Dutch and the Portuguese established colonies that displaced, marginalised or subordinated indigenous people. Second, each of these colonies imported non-European slaves or other race groups to meet the demand for labour that the settlers found they were in need of as a result of the indigenous groups being unable or unwilling or deemed unsuitable. A master-servant relationship between settlers and indigenous people was created. Third, each of these colonies applied a divide and rule strategy, in which the different races were separated by race, economic, social and political status. In the United States, Brazil and New Zealand a colour code developed at a very early age to determine status. In all these countries, society's ethnic hierarchy was established by the colonial state and the original white settlers who would continue to exist long after these states became independent, after the abolition of slavery or after self-determination.

From country to country, significant variations had been found in the way racial groups were defined and how their subordination was justified. Significant variations were also evident in the nature and rigidity of the racial order and in the way historical developments or changing conditions adjusted, strengthened or weakened the primary hierarchies. In the current comparison of race and ethnicity, there was one dominant assumption: race was a social and cultural construction and not a fact of nature. What was evident in these case studies was that the legacy of discrimination and attitudes to race was difficult, if not impossible to overcome or fully transcend when racial orders were being reconstructed or reinvented. Historical burdens inherited on the issue of race could be

[26] Richworth and others, The New Zealand Bill of Rights,Melbourne, Oxford University Press, 2003).

lightened, but it would be Utopian to think that it could be entirely eliminated.

Malaysia's affirmative action policies were the most comprehensive of these case studies. In Malaysia, the policies were designed to protect the interest of the social and economically disadvantaged Malay majority against the Chinese minority which was more dynamic and much wealthier. These policies had a more unmistakable ethnic content. In the United States, the affirmative action policies had a more race and gender content as they were designed to protect the interest of the African and Mexican Americans and women in general. The United States affirmative policies had a restricted scope; they focused on university admissions and employment equity only. They were designed to provide preferential support more to the African Americans who were of slave descent and Jim Crows laws, which were specifically designed to suppress people of colour in the United States. In Brazil, The situation was more race based as it was more geared toward the advancement of the Brazilian of African descent. In addition, there was a requirement for photographic evidence as proof that the people definitely fell within the designated group for remedial actions. In New Zealand, the distinctive feature of the country's reservation policies was their focus on evidence needed for the disadvantages to be remedied. The target group for remedial action would have to be explicitly defined, as would the disadvantage to be remedied. Research in New Zealand showed despite the affirmative action measures regarding the Maori and that they enjoyed some measure of advancement, the reality was that significant socio-economic gaps still existed between the Maoris and non-Maoris, in terms of education, health, income and labour market status. The broad-based policies geared towards the Maori community which had gone a long way in closing the gaps (such as fisheries settlement, other treaty settlements etc.) risked the major beneficiaries being the considerable number of Maoris already empowered by virtue of having jobs, skills, high income and good prospects. [27]

A common feature of the lessons learnt from the affirmative action policies in the four countries was that these policies were all intended to be temporary features of social engineering programs. In all these countries, they developed vested interests with a strong political will which prevented their abolition, even where they had proven to patently harmful to a country's social harmony and economic advancement or where the original circumstances which justified their introduction had long since changed for the better and could no longer be used to justify the perpetuation of such policies.

Another common feature regarding these Policies was that they often changed in character in the course of time. Affirmative action was not a cure-all. It would not eliminate racial discrimination, nor would it do away with competition for scarce resources. What cannot be disputed in this paper was that affirmative action could ensure that everyone had a fair chance once the playing field had been levelled to the economic resources available in societies. Even in a case of past discrimination not being a factor, a recipient in administering a program could take affirmative action to overcome the effects of conditions which resulted in limiting participation by persons of a particular ethnic group, race, colour or national origin. The common feature that had been highlighted in this paper was that, in most cases, as in Malaysia and the United States, affirmative action policies' main aim had been to seek to uplift race groups. However, in New Zealand and the United States, historical disadvantage in principle also applied to women and the disabled.

Another common lesson that had been highlighted by these comparative analyses was that all these countries had implemented some of the world's most progressive, sustained and successful founding documents and legislations for rendering reparative justice[28], for example, the Constitution had proved inadequate in remedying the intertwined problems of economic inequality and chronic poverty of the previously disadvantaged people of these countries. All needed distributive instruments, namely targeted policies, to embark on a process of levelling the social and economic playing field.[29]

Malaysia constituted a useful example on how much policy makers could learn and how best policies could be managed, from other countries' experiences of affirmative action. What the analysis showed was that affirmative action in other countries had been an attempt to redress the historical disadvantage suffered by minorities of the population. Malaysia is similar to South Africa in that, the affirmative action program was the result of a demographically and. politically dominant, but economically disadvantaged majority of the population. The affirmative action program was launched as a measure to level the playing field and to advance the majority's economic position. Malaysia also had a similar

[27] This argument had been advanced by Simon Chapple in a Labour Markets Bulletin of New Zealand. Throughout the 20th century, substantial absolute and relative socio-economic gaps still existed in most areas of the socioeconomic sectors.

[28] Reparative justice was applied to breached rights to property caused by dispossession in most cases.

[29] In all these countries, the introduction of affirmative action program had a significant effect on the changing educational demographics, increasing the number of the previously marginalized in universities through a strict set aside system that provided for the admissions and subsequent hiring, thus leveling their economic participation. In all these countries the affirmative action policies had not been without their critics, but despite all this, it remained clear that they were often critically needed to make real any promises of equality.

level of economic development to South Africa which countered the argument that affirmative action was a luxury that only rich countries could really afford. The Malaysian case study demonstrated that affirmative action was not the reserve of the rich countries and that developing countries could also undertake such action, as long as there was economic advancement and opportunities for all are being created.

III. Conclusion

In all the countries researched in this paper, the conclusion is that effective transformation policies needed to be enforced, strong incentives provided and good monitoring introduced to ensure the desired outcome is obtained. It was also observed that low-skilled citizens without work and living in high density areas were empowered to acquire better socio-economic outcomes. The one paramount lesson learnt from the comparative analyses was that implementation of affirmative action policies was a process and not an event. It required long-term plans to be effective and for its impact to be felt in a country.[30]

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[30] In all these countries the preliminary effects of affirmative action could be noted, e.g. in Malaysia the impact of the NEP could be seen in the number of Malays driving in the streets of Kaula Lumpar in luxurious cars, even though in the 20 years of its implementation the set targets to redress the past had not been achieved. In Brazil many of the students admitted in accordance with the quota system remained unable to attend school due to a lack of financial resources and a dearth of scholarships' funds -Global Rights Partners for Justice-Affirmative Action, A Global Perspective. 2005.

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Corporate Strategy and Firm performance: Case for the Multinational Banks in Sub Saharan Africa

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Abstract- Various studies have empirically examined the effect of corporate strategy on firm performance but not to the level of this paper's methodological scope regarding time, geographic, and variable constructs. For external validity of research findings, this paper uses a more modern estimation procedure-the system Generalized Method of Moments GMM, on a panel data (2007-2017) for the multinational banks in sub-Saharan Africa. Relevant corporate strategy constructs for firms with multinational operations are adopted. These are; diversification, debt, and equity financing which are examined in relation to firm's performance as measured by return on assets ROA. One provoking question motivating this inquiry is: Does it profit a firm to have operations in many countries when financing is by debt, and or equity? Such corporate strategies are expected to have positive returns. Findings however, show that unlike debt financing strategy, geographical diversification and equity financing positively affect the banks' ROA. Therefore, investors and corporate manager should design their strategic plans from which the best strategies for implementation can be selected. Particularly,corporate decisions on questions about the bank's where to go, and the source of funds for investment should keenly be addressed during strategic planning.

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Strictly as per the compliance and regulations of:

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Kibs Boaz Muhanguzi

Abstract- Various studies have empirically examined the effect of corporate strategy on firm performance but not to the level of this paper's methodological scope regarding time, geographic, and variable constructs. For external validity of research findings, this paper uses a more modern estimation procedure-the system Generalized Method of Moments GMM, on a panel data (2007-2017) for the multinational banks in sub-Saharan Africa. Relevant corporate strategy constructs for firms with multinational operations are adopted. These are; diversification, debt, and equity financing which are examined in relation to firm's performance as measured by return on assets ROA. One provoking question motivating this inquiry is: Does it profit a firm to have operations in many countries when financing is by debt, and or equity? Such corporate strategies are expected to have positive returns. Findings however, show that unlike debt financing strategy, geographical diversification and equity financing positively affect the banks' ROA. Therefore, investors and corporate manager should design their strategic plans from which the best strategies for implementation can be selected. Particularly,corporate decisions on questions about the bank's where to go, and the source of funds for investment should keenly be addressed during strategic planning.

I. Introduction

For any business to attain her desired goals and objectives, there is need for effective strategy formulation and implementation. The extent the firm's corporate strategy affects performance has increasingly received empirical analysis but not to the scope of this paper's combined role of diversification, debt, and equity funding. When firms are contemplating about geographic expansion, often, they are confronted with the question of source of funding. This paper investigates how the three corporate strategy constructs impact on the performance of multinational banks in sub-Saharan Africa.

Bank performance can be measured using two main approaches: financial measures, and market measures. Financial measures include: return on assets ROA, return on equity ROE, return on investments ROI and net interest margin NIM. One key market-based measure of performance is the Tobin's Q approach. Each of these has strength and weaknesses (Marashdeh, 2014). ROA and ROE concern control of the wealth effects of corporate governance mechanisms from the view point of the company management (insiders) while the Tobin's Q represents financial estimation performance by investors (outsiders).

Profit maximization is one common objective of firms. Increasing profitability involves determining which corporate strategies are working and which ones need improvement. Mahira (2011) defines profitability as the measure of management efficiency in the use of organizational resources in adding value to the business. Profitability is the ability of a given investment to earn a return from its use (Soumadi& Hayajneh 2012). Pouraghajan and Bagheri (2012) explain that profitability is the final measure of economic success achieved by a company in relation to the capital invested.

The corporate strategy entails any decision made by corporate managers to ensure that company stakeholders are satisfied at all times. With this as the goal, corporate managers must choose a less costly source of capital that results in long-term profit maximization and increased returns to the firm's stockholders (Muritala et al., 2012). Corporate strategy influences all levels of strategy formulation including business (middle-level) and functional level (lower-level). It is majorly how the corporate managers define the strategy of the company as a whole, that firms targets are met (Management Strategic, 2010).

The corporate strategy focuses on a fundamental set of questions that guide decision making: "In what businesses to invest? Where and when? Why? What budget? What will be the source of funding? (Chathoth&Olsen,2007;Schwatz et al., 2015). This study dwells on where to go (diversification as a growth strategy), at what cost (capital budget) and source funds (debt or equity), questions.

The corporate strategy entails dimensions among others, one that includes measures about growth (Zook & Rogers, 2001). Some growth alternatives include expansion into existing businesses, diversification into new businesses, internal development, acquiring firms, and collaborative ventures, licensing and franchising (Ilori (2015). Growth through geographic diversification has far-reaching benefits including risk hedging, tapping cheaper sources of production inputs and the fresher market for products (Parola et al., 2014). However, this strategy

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has a challenge of raising the required capital. Once capital has been solicited, the extent this and geographic diversification impact on performance, is what motivates this study.

Source of finance for investment as a corporate strategy: for varying reasons, a firm may decide to use either debt or equity financing. The decision regarding the source is one key strategic decision that firms need to make for sustainability.

According to Muchlis et al., (2013) and Martis (2013), equity holders are the owners of the firm, and they have a long term commitment to the firm in the trust that it will grow in the near future. In contrast, debt holders are the creditors of the firm, and they have no long-term commitment to the firm as they are more interested in the timely repayment of their interest and principal.

Debt Financing: acquiring debt capital is a process that is contingent on the availability of funds in the global credit markets, interest rates, and a corporation's existing debt obligations. For example, if credit markets are experiencing a contraction, it may be difficult for the corporation to sell corporate bonds at favorable rates. In particular, it may be challenging to get high advance rates for asset-backed securities. If a firm becomes over-leveraged, it may be unable to pay its debt obligations leading to insolvency (Karadeniz et al., 2009). However, debt is less costly to acquire than other forms of financing.

Equity Financing: Preferred stock, common stock, and components of retained earnings are considered equity capital. A multinational firm should carefully analyze its equity cash flows and mitigate the risk associated with currency fluctuations. Otherwise, it may lose equity due to changes in exchange rates. Also, the issuance of new shares may cause stock prices to fall because investors no longer feel company shares are worth their pre-issuance price. Offering stock in global financial markets costs multinationals more than acquiring debt, but it may be the right financing option if a corporation is already highly leveraged (Seetanah, Seetah, Appadu, Padachi, 2014).

The traditional theory of finance and capital, given some market assumptions, whether or not the investment is financed with equity or debt makes no difference (Modigliani & Miller, 1958). Popularly, this theory is termed the capital structure irrelevance. No matter how the firm chooses its finances, the value of the company will be the same. Proponents of this theory argue that financial leverage is in direct proportion to the cost of equity. An increase in debt component, the equity shareholders perceive a higher risk to the company. Hence, in return, the shareholders expect a higher dividend, thereby increasing the cost of equity. The theory assumes that debt holders have an upper-hand as far as the claim on earnings is concerned. Thus, the cost of debt reduces (Karadeniz et al., 2009). But in a world with taxes, the value of a levered firm is higher than that of a similar firm that is not levered, by an amount equal to the corporate tax rate. Given this postulation, how would a firm's choice of these two funding source affect a firm's profitability?

According to the pecking order hypothesis (Myers, 2001), firms prefer to finance their activities using retained earnings. If internal equity is not enough, then the use of external debt is preferred. Raising funds from external source should be the last resort. It is generally the most expensive type of funding. Due to adverse selection, firms prefer internal to external finance. When outside funds are necessary, firms opt for debt than equity because of lower information costs associated with debt issues. This theory maintains that businesses should adhere to a hierarchy of financing source by choosing internal funds first, and external funds last. Thus, the form of debt a firm chooses can act as a signal of its need for external finance (Fama, French, 2002). Leary and Roberts (2010) expand the pecking order model by incorporating factors that are typically used in other theories. They find that over 80% of observations support the pecking order hypothesis. However, market timing theory postulates that firms try to time the financing of their activities in a period when equity or debt is cheap.

According to agency theory, a high level of debt is one way to control spending by management that is not productive to firm profitability (Korajczyk & Levy, 2003). Whenever management decides to behave contrary to the owners' expectations, debt financing becomes a corporate strategy to maximize returns through minimizing agency conflicts. Whenever the principal-agent conflicts arise, organizational performance declines.

Stakeholder co-investment theory suggests that a multinational firm structures her finance sources relative to other firms to keep the confidence of all stakeholders in the business. In other words, an industry standard is set, and firms have a strict target debt-equity ratio.

Tax bankruptcy trade-off theory (Myers, 2001) takes into account the trade-off between the tax benefits of debt and the potential cost of bankruptcy. It assumes equity financing is too expensive. In essence, use debt financing by taking into account the pros and cons of debt.

Cross-border banking has been a critical part of Africa's financial history since colonial times (Thorsten et al., 2014). After independence however, investors saw a wave of nationalization across the continent that left many colonial banks bought off by the government. The 1980's financial liberalization and privatization rejuvenated the activity of private enterprises. Failing state-owned and private banks were sold mostly to global investors or multinational banks (Thorsten et al., 2014). Economic liberalization, formation of economic zones (SADC, EAC, ECOWAS), and deregulation further increased the number of foreign banks, and by the mid-2000s many African banking systems were yet again dominated by foreign banks (IMF, 2011). By 2010, several indigenous (African-founded) banks had operations outside their mother countries: Eco bank, Bank of Africa, Standard Bank and United Bank for Africa (Mlachila, Seok, & Masafumi, 2013).

Sub-Saharan Africa is a developing region of the world that has a big proportion of foreign-owned banks (Claessens & Horen, 2012) though many African banks have started their international expansion in their home region over the last decade (Mlachila et al., 2013). Some factors account for the fast spread of multinational banks in sub-Saharan Africa: globalization, regional integration, generally improved business climate (political and socioeconomic), rapid growth and forward shifts in customer needs, improved physical and socio-infrastructure, and technological advancement (Mlachila, Seok & Yabara, 2013).

Given the above historical, theoretical, conceptual and contextual background, this study examines how corporate strategy in terms of geographical diversification, and debt and equity financing impact on multinational banks' profitability within sub-Saharan Africa. More than my interest in strategic management and international business and finance, this study's purpose is relevant to corporate managers, academics, and investors in strategic matters concerning: whether to expand operations into new countries, and how to raise funds for such strategies.

II. Related Literature Review

Nowadays, corporate organizations are increasingly paying attention to strategic planning (Ilori, 2015). To establish the relationship between corporate strategy and firm performance, Arasa and K'Obonyo (2012) find a strong relationship between the two variables.

Werner and Moormann (2009) apply static and dynamic regression analyses on firms' data (1998-2007) to investigate the role of corporate strategy on the efficiency of firms. Their results show a positive correlation.

Empirical studies on the effect of growth strategy on performance produce inconsistent findings. For example, Parola et al., (2014) use cross-sectional data and a 2-stage sampling procedure to investigate the effect of corporate strategy on the profitability of firms for a sample of 144 firms from 44 countries (2008-2012). They find investment for growth with a positive impact on corporate profitability. Monroe (2006) while using content analysis of Journal articles (1980-2004) on studies that have investigated the relationship between corporate strategy and firm performance finds a positive relationship.

Extant literature on the effect of funding source and the firm's performance has mixed results. For example, those that find a positive relationship between debt and the firm's profitability index ROA include: Abor (2007 who uses a panel data on 160 Ghanaian and 200 South African SMEs; Javed, Waqar and Muhammad's (2014) work on 63 companies listed on Karachi Stock Exchange, Pakistan (2007-2011), Goyal (2013) and Muchlis et al., (2013). On the contrary, Salteh *et al.* (2009), Chakraborty (2010), Onaolapo (2010), Karadeniz et al. (2009), Muritala (2012), Soumadi and Hayajneh (2012), Manawaduge et al., (2011) and Fama and French (2005) find a firm's high debt detrimental to ROA. Lower leverage (equity financing) is associated with higher ROA (Seetanah et al, 2014) while Chadha and Sharma (2015) find no impact.

Generally, most empirical literature posits a negative relationship between higher debt and firm performance. However, from a counter perspective, debt financing can positively affect firms' performance. For example, from the agency theory's perspective, as more debts lead to more interest expense, it creates higher risk of bankruptcy; as a result, managers have to perform better to avoid bankruptcy and associated costs, which in turns improves firm performance. How this could be so with the multinational banks in sub-Saharan Africa, requires further investigation.

a) Empirical approach

This paper follows a positivist research philosophy to be able to explain and predict what happens to bank performance as a result of the defined corporate strategies. In line with Saunders et al.'s (2009) suggestion, this study's objective can be achieved through developing research hypotheses alongside a designed strategy to achieve them.

b) Data and sample description

From the 2016's ten best performing multinational banks (Mutiso, 2016), panel data (2007-2017) is collected from 43 countries. A cross section of 126 banks gives a total of 1386 observations. Since observations are more than 1000, the sample is adequate for measuring bank performance using different financial measures (Mlachila, Seok, & Masafumi, 2013). Main sources of this data are the World Bank's bankscope database, bank's websites, World Bank's database, the IMF's World Economic Outlook.

c) Variables and their measurement

Empirical literature guides variable identification and how to measure them. From Marashdesh (2014), (Munyambonera 2013) and Panayiotis *et al.* (2005) measures of bank performance, this study adopts banks' profitability index of return on assets (ROA) to measure multinational bank performance. ROA shows the percentage of total income on total assets.

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Diversification is identified as a corporate strategy using Parola et al. (2014) growth approach. It indicates the number of countries; a specific bank has operations. Debt financing as a corporate strategy measures the percentage of total capital obtained through borrowing. Equity financing as a strategy processes the proportion of bank capital obtained through the sale of shares and retained earnings. The assumption is that, rather than through borrowing, when a firm uses equity means of financing, her profitability rises more.

Two control variables: country size and bank size, are used in the analysis. Because the study area-sub-Saharan African economies-is diverse in size, this study uses logarithm for per capita income to measure country size. While log bank assets are used to measure the size of the bank (Pasioras et al. 2007; Shahidul & Nishiyama, 2015), the hypothesis is that larger banks perform better than smaller banks and bank performance is better in rich than poor economics. These two variables are transformed into natural logarithm to allow linear regression since their prior values were higher in thousands. Appendix table 1 shows the summary of variables and their measurement.

d) Estimation strategy

This paper uses corporate strategy constructs (diversification, debt and equity) as determinants of bank performance. A panel model in equation (2.1) shows theoretical variable relationships. Such a specification was previously used by Panayiotis *et al.* (2005) on Greece banks, and Marcos and Peter (2006).

$$ROA_{ist} = \beta_1 Diversfn_{ist} + \beta_2 Debt_{ist} + \beta_3 Equity_{ist} + \beta_4 Log_{Assets\ ist} + \beta_5 Log_{YPC\ ist} \tag{2.1}$$

Where:

ROA_{ist} Shows performance of bank *i* in country *s* in period *t*;

β_i Are the parameters to be estimated following a null hypothesis that β_i =0. In other words, that all the corporate strategy constructs have no effect on bank profitability. Details of variables on the right hand side of equation 2.1 are in appendix table 1.

Because profits often show a tendency to persist over time, the previous year's profits may affect the current profits. Thus, a dynamic model specification that includes a lagged dependent variable among the regressors emerges as in equation 2.2:

$$ROA_{ist} = \gamma ROA_{ist-1} + \beta_1 Diversfn_{ist} + \beta_2 Debt_{ist} + \beta_3 Equity_{ist} + \beta_4 Log\_Assets_{ist} + \beta_5 Log\_YPC_{ist} \tag{2.2}$$

Following literature on the effects of globalization and economic liberalization (Claessens *et al.,* 2012; Munyambonera, 2013), this study assumes the banking industry in sub-Saharan Africa to be highly competitive, and states the corresponding hypothesis on the coefficient for the lagged dependent variable as $\gamma = 0$.

The one-year lag for profits $y_{is,t-1}$ has a parameter γ which measures the speed of adjustment to equilibrium. The coefficient γ is the correlation between Y_{it} and Y_{it-1}. A value of γ between zero and one implies that profits persist, but they will eventually return to their normal (average) level (Baltagi, 2008). A value close to zero means that the industry is fairly competitive (high speed of adjustment) while a value of γ close to 1 implies less competitive structure (very slow adjustment). The parameter γ, shows the degree to which change (or shock) affects the system (Panayiotis *et al.*, 2005).

Since the lagged dependent variable is included in the equation, the regressor $Y_{i,t-1}$ correlates with the error term. This biases the standard panel estimates if the simple ordinary least squares estimator (OLS) approach is used. As a solution, Baum (2013) recommends use of the Generalized Method of Moments GMM estimator for dynamic models.

By construction, the residuals of the differenced equation should possess serial correlation, but if the assumption of serial independence in the original errors is warranted, the differenced residuals should not exhibit significant AR(2) behavior. The evident statistically significant AR(2) statistic implies that the second lags of endogenous variables are inappropriate instruments for their current values (Baum, 2013).

A system GMM estimator θ in dynamic panels is a set of coefficients $\beta, \gamma, \rho, \delta_\alpha^2 \delta_\varepsilon^2$ whose values must be tested for stationarity, reliability, efficiency, and robustness. Two tests for this estimator are: first, the Arellano-Bond (1991) test for autocorrelation, and second, the Hansen j-test for over-identification (Baum, 2013). The *Stata14* command for these tests is David Roodman's (2009) *xtabond2*. This study uses *clustering* option because many variables in the sample are specific only for countries and not for banks themselves.

e) Empirical findings

Appendix table 2, has a summary of the 2 regression results. In the model I, all the variables are included except the control variables. In the second regression: model II, control variables are introduced. Importance of running these regressions is to check for results robustness with and without the control variables. Accordingly, in both models I&II, the coefficients for the corporate strategy constructs together with the lag for the ROA did not change so much. They remained significant at the same percentage levels.

Note that from the appendix table 2, the system GMM estimation uses the Arellano-Bover dynamic panel estimator. The p-values are shown in brackets. Respectively, ***, **, * indicate significance level at the 1%, 5%, and 10% level. The row for the Hansen J-test reports the p-values for the null hypothesis of instrument validity. The values reported for the Diff-in-Hansen test are the p-values for the validity of the additional moment restriction necessary for system GMM (Baum, 2013). The values reported for AR (1) and AR (2) are the p-values for first and second order autocorrelated disturbances in the first differences equations. Variable names in the first column are in appendix table 1.

In both regressions, the lagged dependent variable ROA has a positive coefficient that is statistically significant. This coefficient implies that profits in the previous year positively impact on banks' performance in the current year. More specifically, in model II, other factors held constant, a one percent increase in the previous year's profits brings about a 2.6 increase in the current year profits and vice versa. This result implies that bank performance today will necessarily be higher if was high in the previous year. Following the coefficient interpretation by Panayiotis et al. (2005), in terms of market structure for the banking industry in the region, the statistically significant coefficient for the lag (1) of ROA shows a low degree of profit persistence among multinational banks. Since the coefficient is near to zero than one. It signifies high level of competition among the multinational banks within sub-Saharan Africa. This finding concurs with the previous empirical study by Munyambonera (2013) in the same region.

On whether expansion into new territories would make banks reap more, the coefficient for diversification in model II is 0.0324, and is not far different from that in model I where control variables are eliminated. This coefficient is significant at 5% significant level. The result implies that a corporate strategy by a bank to run into one more country for business raises her profits by 3.2 percent, other factors held constant. This signifies great importance attached to geographic diversification. Firms reap more by operating beyond their territories. The positive relationship between diversification and ROA in this paper is similar to that by Parola et al. (2014).

The study finds debt financing as a corporate strategy to raise capital for investment with a negative relationship with banks' ROA. From model II, raising the USA $1 through borrowing reduces a bank's profit margin by 6.5 percent. This effect is significant at a 5% significance level. This negative relationship between debt and profitability of banks is explained by Mlachila, Seok and Yabara' s (2013) situational factors in the sub-Saharan Africa manifesting high cost of borrowing, poor debt management, and generally high investment risks in the region emanating from political instabilities, poverty, poor infrastructure, and poor governance. This negative relationship concurs with the previous empirical results from Seetanah et al, (2014) and Muritala (2012). The negative relationship between debt and profitability as measured by ROA extends to multinational banks like any other firms.

The coefficient for equity is positive and significant in both regressions suggesting that as banks finance their investment plans through equity, their profit raise. For example, in model II, the profitability of a multinational bank goes up by 3.6 percent when a USA $1 capital is raised from equity=selling shares. Should multinational banks bench on equity financing?!! The discussion on such a result emanates from investment theory. Since the corporate strategy yields positive returns, there is no cause for worry. However, following pecking order theory, external equity should be as a last resort.

The coefficients for the control variables: bank size and country size are positive and significant. Because their values are linearly transformed into logarithms, they are interpreted as elasticities. For example, other factors held constant, as bank size and country size expand by the USA $1000 and the USA $1 respectively, profitability response by multinational banks becomes 1.01 and 0.07 respectively. Notice that for bank expansion, 1.01 is elastic whereas for economic growth, the response of 0.07 is inelastic. To investors, the message here is that increase in per capita income does not necessarily raise demand for bank services in sub-Saharan region. This inelasticity is explained by high level of poverty, income inequality, high banking competition, and the geographic inequality in the distribution of these banks-where more concentrate in urban areas. The response for profits to country size is elastic in a sense that it equally pays the multinational banks not to cluster in relatively rich than poor countries. This finding explains the current rapid spread of multinational banks into countries with relatively low levels of per capita income moving away from the well-to-do economies like South Africa and Nigeria.

In both regressions-model I&II, the results of the Arrellano Bond (AR2) test for zero autocorrelation are all positive and insignificant across the models. As expected, there is evidence for first-order autocorrelation and no significant second-order autocorrelation. Likewise, the Hansen p-values in the test for over identification, and the validity of the additional moment restriction are all above 0.10 implying that: first, both models are well fitted, and second, additional moment conditions are valid.

Notice also that the number of instruments, denoted as j in the table of results, is lower than the number of multinational banks in the sample used. For example, in model II, j=104 lower than 126 banks, meeting the basic condition for keeping the results reliable.

Because the Arellano-Bond test for zero autocorrelation in first-differenced errors and the Hansen test for over-identifying restrictions and the difference-in-

Hansen tests of exogeneity of instrument subsets suggest that the underlying assumptions are not violated, we conclude that the estimation results in both regressions are efficient, robust and reliable, and the models are properly specified.

III. Conclusion and Implications

From the results above, corporate strategy affects the performance of multinational banks. The two strategy constructs: geographical diversification, and equity financing positively relate to bank profitability in terms of ROA while debt financing strategy exposes a reversed effect. Therefore, investors and corporate manager should design their strategic plans from which the best strategies for implementation can be selected. Particularly,corporate decisions on questions about the bank's where to go, and the source of funds for investment should keenly be addressed during strategic planning.

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Appendices

Table 1: Summary list of variables and their measurement.

	Variable label	Variable name	Measurement
Performance	ROA	Return on assets	Percentage (total income/total assets)
	Lag1_ROA	One year lag for profitability	ROA_{t-1}
Corporate strategy	Diversf	Diversification	No. of countries a bank has operation in.
	Debt	Debt financing	%Debt/capital
	Equity	Equity financing	%Equity/capital
Bank assets	Log_Assets	Bank assets	Natural log of total bank assets
Country size	Log_YPC	Country size	Natural log of per capita income

Table 2: A two-step system GMM estimates-effect of diversification, and debt and equity financing on profitability of multinational banks in sub-Saharan Africa

Variable	Model I	Model II
Lag1_ROA	0.0205** (0.0410)	0.0260** (0.0391)
Diversf	0.0140** (0.0121)	0.0324** (0.0110)
Debt	-0.0631** (0.0002)	-0.0651** (0.0001)
Equity	0.0371** (0.0007)	0.0362** (0.0003)
Log_Assets	-	1.0104** (0.0001)
Log_YPC	-	0.0072** (0.0004)
Constant	1.3250** (0.0021)	1.3173** (0.0098)
Group banks	10	10
Number of banks	126	126
Observations	1386	1386
Number of instruments=j	98	104
AR(1)p	0.0013	0.0010
AR(2)p	0.0464	0.0566
Hansen p>ch2	*0.3124*	0.3116
Diff-in-Hansen testP	0.4441	0.4128

Source: Researcher's output from sub-Saharan Africa multinational banks Panel data (2007-2017)

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Risque-Pays et Investissements Directs Etrangers au Bénin

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Abstract- The purpose of this paper is to analyze the impact of country risk on the entry of foreign direct investment into Benin. For this purpose, at least one variable of each country risk component (political risk, economic risk and financial risk) has been taken into account in the model. From the Hendry-based Error Correction Model (ECM) over the period from 1980 to 2015, the results from the econometric estimation suggest that FDI inflow is positively explained by the rate of economic growth and the rate while foreign debt and corruption do not favor the growth of FDI in Benin. For the country to become a pole of attractiveness of FDI, it is imperative to clean up the institutional framework in the field of political right, to undertake economic reforms and to work for a real financial independence to ensure its solvency and self-financing.

Keywords: country risk, political risk, economic risk, financial risk, FDI, Benin.

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Risque-Pays et Investissements Directs Etrangers au Bénin

Tanguy A. Gbaguidi[α] & Elie A. Adedodja[σ]

Résumé- L'objectif de ce papier est d'analyser l'incidence du risque-pays sur l'entrée des investissements directs étrangers au Bénin. A cet effet, au moins une variable de chaque composante du risque-pays (risque politique, risque économique et risque financier) a été prise en compte dans le modèle. A partir du Modèle à Correction d'Erreur (MCE) à la Hendry sur la période de 1980 à 2015, les résultats issus de l'estimation économétrique suggèrent que l'entrée des IDE est positivement expliquée par le taux de croissance économique et le taux de change tandis que la dette extérieure et la corruption ne favorisent guère la croissance des IDE au Bénin. Pour que le pays se fasse un pôle d'attractivité des IDE, il est impérieux d'assainir le cadre institutionnel en matière du droit politique, entreprendre des réformes économique et œuvrer pour une indépendance financière réelle afin d'assurer sa solvabilité et son autofinancement.

Motsclés: risque-pays, risque politique, risque économique, risque financier.

Abstract- The purpose of this paper is to analyze the impact of country risk on the entry of foreign direct investment into Benin. For this purpose, at least one variable of each country risk component (political risk, economic risk and financial risk) has been taken into account in the model. From the Hendry-based Error Correction Model (ECM) over the period from 1980 to 2015, the results from the econometric estimation suggest that FDI inflow is positively explained by the rate of economic growth and the rate while foreign debt and corruption do not favor the growth of FDI in Benin. For the country to become a pole of attractiveness of FDI, it is imperative to clean up the institutional framework in the field of political right, to undertake economic reforms and to work for a real financial independence to ensure its solvency and self-financing.

Keywords: country risk, political risk, economic risk, financial risk, FDI, Benin.

I. Introduction

L'un des traits de la mondialisation est l'évolution des flux d'investissement direct étranger (IDE) en direction des pays en développement depuis les années 90. La montée en puissance des IDE a été stimulée par la communauté internationale et par les pays d'accueil qui ont créé un environnement d'affaires favorable (avantages fiscaux, stabilité économique et financière, privatisation des entreprises, etc.). L'intérêt porté aux investissements directs étrangers ces dernières années est généralement justifié par de nombreuses attentes : leur impact sur la croissance, les apports en ressources, l'accès aux marchés internationaux, la hausse de la productivité, l'amélioration des capacités locales de gestion, et les transferts de technologies (Nkouka, 2010).

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a) *Contexte et quelques faits stylisés sur la situation des IDE au Bénin*

Le Bénin a connu dans les années 70 à 90 deux modes de gouvernance basés sur le système Marxiste-Léniniste caractérisé par l'instabilité politique et le système démocratique. Ces événements ont particulièrement marqués l'environnement des affaires et de l'investissement et pourraient également contribuer à l'explication de la volatilité du flux d'IDE.

Dans les années 90, la situation s'est essentiellement améliorée grâce aux différentes réformes structurelles, institutionnelles et économiques engagées par les nouvelles autorités démocratiques. Ainsi, les flux d'IDE ont connu une nette augmentation de 94,5%[1] entre 1989 et 1991. Pour attirer les investissements étrangers, de nombreuses initiatives ont été entreprises pour, notamment l'amélioration de la production d'électricité ou encore la création d'un Conseil Présidentiel pour l'Investissement (CPI)[2].

Mais, sous l'effet de la crise économique mondiale, ces flux d'IDE ont connu un ralentissement d'environ 19%[3] entre 2013 et 2015. Malgré toutes ses réformes, la contribution d'IDE dans la formation du Produit Intérieur Brute (PIB) a baissé passant de 4,28% en 2007 à 2,71 % en 2015 (Banque Mondiale, 2016). La croissance économique étant l'une des préoccupations majeures du pays, elle n'est pas encore atteinte de façon satisfaisante et tourne en moyenne autour de 5% jusqu'en 2015 (FMI, 2016). Cette faiblesse de la croissance s'explique par de nombres difficultés qu'éprouve le pays depuis des décennies pour son

[1] Calcul des auteurs à partir de la base de données de la Banque Mondiale (2016).

[2] Créé par Décret N°2006-299 du 27 juin 2006, le CPI a pour principale mission d'organiser des séances de réflexion, de faire des propositions et recommandations sur les questions se rapportant à la promotion des investissements publics et privés au Bénin afin d'améliorer le climat des affaires.

[3] Calcul des auteurs à partir de la base de données de la Banque Mondiale (2016).

développement et l'amélioration du bien-être de la population.

Ces difficultés pourraient trouver leur fondement dans l'absence des investissements tant domestiques que directs étrangers suite à la mauvaise gouvernance, l'état délabré des infrastructures, l'instabilité du marché et le cadrage macroéconomique. D'où la prise en compte du risque pays dans l'évolution de la croissance et du développement du Bénin.

b) Contexte théorique et problématique de l'attractivité des IDE

Les théories néo-libérales qui reviennent en force dans les années 80, renforcées par la théorie de la croissance endogène (Romer 1990, Grossman et Helpman, 1991) mettent en avant les effets positifs des IDE sur la croissance et le développement. Non seulement ces IDE mettent des capitaux à la disposition de l'économie nationale, mais ils facilitent l'accès à de nouvelles technologies, créent des emplois, stimulent les industries locales à travers les effets d'entraînement. C'est ce qu'on a appelé les externalités positives des IDE. Avec ces IDE, les deux risques commerciaux et de change sont supportés par le pays étranger. Ainsi, bon nombre de pays en développement comme le Bénin se sont tournés progressivement vers cette source de financement en vue d'améliorer le bien-être des résidents. Cependant, les avantages nets de l'IDE ne sont pas automatiques, et leur ampleur diffère en fonction du pays d'accueil et du contexte.

Parmi les facteurs qui empêchent l'IDE de porter pleinement ses fruits dans certains pays en développement figurent le risque-pays (OCDE, 2002). Le risque-pays est l'un des facteurs essentiels tant pour les entreprises que pour les États qui peut fortement affecter leur stratégie d'investissement (Nivoix, 2012). Son analyse évolue suite à l'intensification accrue des phénomènes de rupture dans la sphère financière émergente et l'indissociabilité entre risque et investissement. L'économie et la finance internationale font de cette analyse une composante essentielle des décisions stratégiques des entreprises en termes d'investissements, d'exportations, de partenariats, de fusions, d'acquisitions etc.

En effet, le risque-pays se réfère aux éléments du risque inhérent aux affaires dans l'environnement socio-économique et politique d'un autre pays (Robock, 1971). Certains, comme Marois (1991) mettent l'accent sur les opérations internationales des entreprises. Aussi, le risque pays est décrit comme la capacité d'un pays à générer des devises nécessaires pour faire face à ses engagements financiers extérieurs (Cosset et al. ,1992). Par opposition, d'autres auteurs insistent sur les opérations de prêts internationaux.

Outre, le risque pays se produit de plusieurs manières. Sur le plan industriel, il peut s'agir de la confiscation de biens ou d'actifs détenus à l'étranger. Sur le plan financier, un pays peut connaître une crise grave, générant des défauts de paiement, ou plus rarement décider unilatéralement de l'extinction de ses dettes. Sur le plan humain, l'événement peut concerner un conflit armé (guerre civile ou entre plusieurs pays) ou l'enlèvement de personnes contre rançon. Ce phénomène se compose donc à la fois d'un aspect économique et d'un aspect politique, lié à des décisions et événements internes ou externes au pays considéré. Ces deux paramètres sont fréquemment liés, une crise économique pouvant entraîner une instabilité politique, et inversement (Nivoix, 2012).

Par ailleurs, la ventilation des IDE dans les pays en développement illustre le faible attrait des IDE par les pays africains par rapport à ceux de l'Asie et de l'Amérique du sud. A ce sujet, l'OCDE (2002) souligne que la faiblesse des IDE dans la plupart des pays d'Afrique s'explique très probablement par les facteurs risques-pays : l'instabilité macro-économique, la perte d'actifs due au non-respect des contrats, et les destructions physiques résultant de conflits armés. Asiedu (2001) relève que la faible attractivité d'IDE dans les pays africains s'explique par les problèmes économiques et politiques. De ce fait, Agénor et al. (2000) expliquent que le taux d'investissement, le taux d'ouverture de l'économie, le service de la dette en pourcentage du PIB, le taux d'intérêt international, l'indice risque politique et la variation du taux d'intérêt ont une influence significative sur les flux entrants d'IDE. Ces effets s'observent grâce à la libéralisation commerciale et une meilleure compétitivité (Noorbakhsh et al., 2001). C'est dans cette logique d'ouverture économique que Ngouhouo (2008) estime que plus le régime de change est stable, plus le risque lié aux variations de change diminue et ainsi les profits futurs deviennent moins incertains. Mais, il faut aussi noter qu'une corrélation entre régime de change et IDE peut être aussi le reflet d'une instabilité du régime de change (Ben Abdallah et Meddeb, 2000).

Pour le cas des pays en développement, Boujedra (2002) élabore que les firmes multinationales (FMN) mettent en œuvre des jeux complexes et incertains dans leur choix d'implantation à l'étranger, entre libéralisation et ouverture du marché. L'intuition du modèle est que le risque pays prédétermine le seuil de rentabilité de l'IDE. Le modèle théorique révèle que le rôle des FMN et l'impact des flux d'IDE sont controversés. En présence du taux de change fixe, la perte de compétitivité et les déséquilibres extérieurs peuvent altérer la confiance dans la soutenabilité du régime de change et précipiter une crise financière. Ainsi, le taux de croissance, le degré d'instabilité macroéconomique (variabilité du taux de change réel) et le poids de la dette sont des facteurs importants qui influencent les flux d'IDE en Afrique Subsaharienne (Agénor, 2003).

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Dans les pays de l'Union Economique et Monétaire Ouest Africaine (UEMOA), Batana (2005) souligne que le PIB, le taux d'ouverture et le taux d'alphabétisation des adultes influencent positivement et significativement les IDE tandis que l'encours de la dette extérieure exerce un effet négatif. L'attractivité des idées dépendra de la bonne gouvernance du pays d'accueil. Les pays ayant un niveau élevé de corruption et un bas niveau de gouvernance et de démocratie ont des entrées d'IDE plus faible que ceux qui ont plus de droits politiques (Kim, 2010). Dans les pays de la Communauté Economique des Etats de l'Afrique de l'Ouest (CEDEAO) sur la période 1995-2010, Diaw et Guidime (2012) relèvent que la taille du marché, l'ouverture économique sur l'extérieur, la qualité de la main d'œuvre, celle de l'infrastructure et de l'effet d'agglomération ont une influence positive et significative sur les flux d'IDE. A l'inverse, le niveau de développement financier, la volatilité du taux de change, les coûts des transactions et l'absence de politique commerciale ont une influence défavorable sur les flux d'IDE. Dans la même lignée, Sghaier et Abida (2013) trouvent des preuves que le développement du système financier national impact positivement sur les flux entrants d'IDE. L'instabilité financière d'une économie peut agir défavorablement sur les flux d'IDE selon Bouri (2015).

Puisque les mouvements des investissements internationaux se fondent sur la gouvernance, la stabilité de l'environnement macroéconomique et institutionnel, le cadre juridique des investissements, la taille des marchés intérieurs, la qualité des infrastructures et le capital humain (Imen et Zouheir, 2013), le Bénin, comme la plupart des pays africains, a mis en place des dispositifs incitatifs à l'attractivité des investissements mais jusque-là le pays n'attire pas particulièrement les IDE. Or, un faible niveau de l'investissement local devrait être compensé par le flux d'IDE afin de permettre de stimuler la croissance économique (Gouenet, 2016). Si, l'entrée massive des IDE dépend de la situation politique et économique du pays, il urge de tenir compte du risque-pays dans l'analyse du développement du pays. C'est dans cette optique que cette recherche s'intéresse sur la question centrale suivante: *Quelle est l'incidence du risque-pays sur l'entrée des IDE au Bénin?*

L'originalité de ce papier s'inscrit dans la logique de prendre en compte toutes les trois composantes du risque pays dans l'élaboration des politiques pour l'amélioration de l'attractivité des IDE, du climat des affaires et de la relance de la croissance économique au Bénin en particulier et dans les pays de l'Afrique en général. Pour y aboutir, il s'avère indispensable d'avoir une idée sur les effets de ces composantes sur les flux d'IDE au Bénin.

L'argumentaire ici propose de présenter tour à tour le cadre méthodologique *(2.1)*, les techniques d'estimation *(2.2)*, puis des résultats auxquels l'évaluation économétrique permet d'aboutir *(2.3)*.

II. Cadre Methodologique

a) Spécification du modèle

Pour analyser les effets du risque-pays, la plupart des auteurs qui ont abordé le sujet utilisent un modèle linéaire. Le cadre méthodologique retenu fait également recours à une analyse économétrique qui intègre des indicateurs du risque-pays dans les déterminants de l'IDE. Cette approche formalisée s'inspire des travaux de Serven (1996) et repose en partie sur le « résidu de Solow ». Considérons une économie dotée d'une fonction de production relativement simple, à l'instar de celle de Mankiw (2002) dans son exposé sur la croissance.

$$Y_t = A_t K_t^{\alpha} L_t^{1-\alpha} \qquad (1)$$

Avec :

$\alpha < 1$; Y_t étant le revenu à la date t; K_t le capital à la date t ; L_t la quantité de travail disponible à la date t et A_t un paramètre technologique. En appliquant l'opérateur logarithme à l'équation (1) pour la linéariser, on a :

$$LogY_t = LogA_t + \alpha LogK_t + (1-\alpha)LogL_t \qquad (2)$$

Introduisons l'opérateur de différence dans l'équation (2) pour faire ressortir le taux de croissance de l'économie, on obtient l'équation (3) ci-dessous.

$$g_t = \alpha_t + \alpha^* K_t + (1-\alpha) * n_t \qquad (3)$$

Avec :

$$K_t = dLogK_t \qquad n_t = dLogL_t$$

Le terme *a* désigne la part de la croissance non expliquée par l'évolution du capital et du travail, ce paramètre que la littérature (Mankiw, 2002) appelle le *« résidu de solow »* est en réalité une variable composite qui regorge tous les autres paramètres non pris en compte dans le modèle. Comme ce résidu est plus élevé pour les estimations réalisées dans des économies africaines, les modèles ainsi élaborés n'expliquent pas parfaitement la réalité de ces pays (Gouenet, 2016). Pour corriger la performance du modèle, nous introduisons dans ce résidu les IDE et l'indicateur du risque-pays. Ainsi, on peut écrire :

$$\alpha_t = \phi_1 \left(\frac{IDE}{Y} \right)_t + \phi_2 Risk_t + \varepsilon_t \qquad (4)$$

Où ε_t : terme d'erreur ; Ø est un paramètre.

En introduisant (4) dans (3) on peut écrire :

$$g_t = f(k_t, n_t, (IDE/Y)_t, Risk_t) \qquad (5)$$

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$$\left(\frac{IDE}{Y}\right)_t = h(g_t, n_t, k_t, Risk_t) \quad (6)$$

Un tel modèle a été exploité par Gouenet (2016) dans lequel la variable *« Risk »* représentait seulement le risque socio-politique. Dans le cadre de notre étude, nous nous intéressons seulement aux différentes formes du risque-pays. Alors, la forme économétrique retenue se présente comme suit:

$$\left(\frac{IDE}{PIB}\right)_t = \alpha_0 + \alpha_1 CORR_t + \alpha_2 DETTE/PIB_t + \alpha_3 TxCHANGE_t + \alpha_4 PIB/hbt_t + \varepsilon_t \quad (7)$$

Où : $CORR_t$ est le niveau de corruption de l'année t et est utilisé comme proxy du risque politique; $(DETTE/PIB)_t$ et $(TXCHANGE)_t$ désignent respectivement les dettes extérieures en pourcentage du PIB et le taux de change de l'année t. Elles représentent le risque financier ; $(PIB/hbt)_t$ désigne le Produit Intérieur Brut par tête de l'année t et est utilisée comme proxy du risque économique. ε_t est le terme d'erreur.

b) Technique d'estimation

Avant l'estimation de l'équation ci-dessus, nous avons effectué d'abord le test de stationnarité sur les différentes variables du modèle. Ainsi, le test Dickey-Fuller Augmented (ADF) est réalisé pour l'étude de la stationnarité des variables. Ensuite, nous avons réalisé le test de Johansen pour vérifier l'existence d'une relation de cointégration entre les variables d'étude. Après ces différents tests, l'estimation économétrique du modèle s'appuie sur le Modèle à Correction d'erreur (MCE) par la technique des Moindres Carré Ordinaires (MCO) sur le logiciel Eview 7. Pour valider la qualité du modèle et la robustesse des résultats obtenus, nous avons procédé à plusieurs tests dont le test de spécification du modèle, le test de stabilité, le test d'autocorrélation des erreurs, le test d'homoscédasticité des résidus et le test de significativité des variables.

Les données utilisées dans cette étude sont secondaires et couvrent la période de 1980 à 2015, soit 36 observations. Ces données proviennent essentiellement de World Development Indicators (2016) de la Banque Mondiale et de la base de donnée de Transparency International (2016).

c) Résultats empiriques

Nous allons d'abord présenter les résultats des tests de stationnarité puis les résultats issus de l'estimation économétrique.

Tableau 1 : Résultats des tests d'ADF en niveau

Variables	t-stat ADF	Valeurcritique ADF	Décision
IDE_PIB	1,3807	-3,0403	NS
CORR	-1,6866	-1,9513	NS
DETTE_PIB	0.5128	-1,9506	NS
TXCHANGE	-2,3402	-2,9484	NS
TXPIB	-1,9432	-1,9529	NS

NS : Non stationnaire
Source : Résultats des auteurs

Tableau 2: Résultats des tests d'ADF en différence première

Variables	T-stat ADF	Valeurcritique ADF	Décision
IDE_PIB	-6,2768	-3,0403	S
CORR	-4,0502	-1,9520	S
DETTE_PIB	-4,0932	-1,9513	S
TXCHANGE	-5,1290	-2,9511	S
TXPIB	-3,2568	-2,9515	S

S : Non stationnaire
Source : Résultats des auteurs.

Les tests de stationnarité d'ADF appliqué aux variables montrent que toutes les variables du modèle ne sont pas stationnaires en niveau.

En différence première, toutes ces variables sont stationnaires. Le test de Johansen révèle l'existence d'une relation de cointégration au seuil de 5%. L'approche de Hendry est celle retenue pour l'estimation du modèle. Cette approche prend en compte à la fois le modèle de court terme et de long terme et se présente comme suit :

Tableau 3: Résultats de l'estimation du MCE à la Hendry

Variables	Coef	Prob.
C	-2,915	0,5540
D(CORR)	$-2,969^{***}$	0,0057
D(DETTE/PIB)	-0,516	0,5970
D(TXCHANGE)	1,324	0,3346
D(PIB/tête)	-0,471	0,2609
IDE/PIB (-1)	$-0,639^{***}$	0,0014
CORR (-1)	$-1,789^{**}$	0,0408
DETTE/PIB (-1)	$-1,541^{***}$	0,0109
TXCHANGE(-1)	$1,380^{*}$	0,0749
PIB/tête (-1)	0,793	0,1541
R^2= 0,71 Durbin-Watson = 1,94 Prob (F-statistic) =0,0032		

*NB: *** significativité au seuil de 1% **significativité au seuil de 5% et *significativité au seuil de 10%.*
Source : Résultats des estimations des auteurs.

Les résultats des différents tests réalisés après estimation permettent de valider la qualité du modèle et la robustesse des résultats. Le coefficient du résidu retardé, qui représente *la force de rappel* vers l'équilibre, est négatif (-0,639) et statistiquement significatif au seuil de 5%. De plus sa valeur est comprise entre -1 et 0. La représentation du modèle à correction d'erreur est donc validée.

A long terme, les déséquilibres entre les IDE et les variables explicatives du modèle se compensent de sorte que les séries ont des évolutions similaires. Le coefficient de la force de rappel représente la vitesse à laquellet out déséquilibre entre les niveaux désirés et effectifs des IDE en pourcentage du PIB est résorbé dans l'année qui suit tout choc exogène. Le coefficient de la force de rappel (-0,639) indique que l'on arrive à ajuster à 63,94% par effet de « Feed-back » l'équilibre. En d'autres termes, un choc exogène constaté au cours d'une année est résorbé à 63,94% au bout de l'année suivante.

La statistique de R^2 = 0, 71; alors il y a une forte association entre la variable expliquée et les variables explicatives. Les variables exogènes du modèle expliquent à 71% les IDE au Bénin.

La probabilité associée au *test de Fisher* est inférieure au seuil de 5%. On en déduit que le modèle est globalement significatif.

d) Analyse globale des résultats obtenus

Les résultats présentés ci-dessus font état de ce que le coefficient de la corruption, de la dette extérieure, du taux de croissance économique et du taux de change ont les signes attendus. La corruption a un effet négatif et significatif sur l'entrée des IDE à court et à long terme. Ce qui atteste les théories économiques qui stipulent un impact négatif de cette variable sur le développement. Toute augmentation du taux de corruption de 1point défavorise l'entrée des IDE de 2,96 points à court terme et de 1,78 points à long terme. Cela s'expliquerait par le fait que les investisseurs préfèrent localiser leurs filiales dans un pays où la corruption n'est pas élevée afin de sécuriser leurs affaires.

La dette extérieure agit négativement sur l'entrée des IDE au Bénin. L'effet de cette variable sur les flux d'IDE n'est significatif qu'à long terme au seuil de 1%. Car, les dettes extérieures consenties étant des dettes de long terme, ses effets ne peuvent s'observer qu'aussi à long terme. Toute augmentation de 1 point du niveau de dette extérieure entraîne une diminution des IDE de 0,51 point à court terme et de 1,54 points à long terme. Cette situation ne surprend guère, dans la mesure où un poids excessif de la dette agit négativement sur l'économie nationale. En effet les paiements au titre du service de la dette pèse lourdement sur l'épargne intérieure de la nation et constitue des fuites de capitaux. Le taux d'investissement devient plus faible et par conséquent, la croissance de l'économie pourrait du coup en être ralentie. Notons aussi que dans une situation d'un poids excessif de la dette, l'Etat pourrait même être tenté de manipuler son système financier en vue de se financer à un coût moindre. Une telle manipulation aboutirait inévitablement à un sous-développement du système financier ce qui affecterai profondément son efficacité et favoriserai l'apparition d'un marché financier informel ou les usuriers pourrait imposer leurs taux d'intérêt. Une telle éventualité pourrait rendre réticent les investisseurs étrangers potentiels. Ces conclusions corroborent celles de Boujedra (2004).

Quant au taux de change, il exerce un effet positif sur les flux entrants d'IDE au Bénin à court et long terme mais seulement significatif à long terme au seuil de 10%. Lorsque le taux de change augmente de 1 point, les IDE accroissent presque dans la même proportion de 1,32 ponts à court terme et de 1,38 points à long terme. Ceci témoigne du fait qu'une stabilité du taux de change à la capacité d'attirer les investisseurs étrangers. Ce résultat corrobore celui d'Agénor (2003).

Enfin, le taux de croissance économique a un impact positif et non significatif sur l'entrée des investissements directs étrangers à long terme. Cela se traduit par son coefficient positif dans le modèle de long terme et sa probabilité supérieure à 5%. En effet une augmentation du taux de croissance de 1 point entraîne une augmentation des IDE de 0,79 point à long terme. Par contre, à court terme, le taux de croissance à une influence négative et non significative sur l'entrée des IDE au Bénin. Cette sensibilité des IDE suite à une variation du taux de croissance du PIB tant à court terme qu'à long terme traduit l'importance de cette variable dans le processus du développement. Ce résultat s'inscrit dans la même lignée que celui Gouenet (2016).

III. Conclusion

Le Bénin, un pays à économie vulnérable est caractérisé actuellement par un faible niveau d'épargne intérieure brute qui ne lui garantit pas les ressources nécessaires pour faire face à son niveau d'investissement désiré. Pour cela, le recours aux capitaux étrangers s'avère nécessaire pour apporter un souffle nouveau à l'économie béninoise. L'attractivité des IDE dans un pays est influencée principalement par le risque-pays.

Ce papier a pour but d'analyser l'incidence du risque-pays sur l'entrée des IDE au Bénin. Pour atteindre cet objectif, nous avons tenu compte de quelques variables des composantes du risque-pays telles que la corruption, la dette extérieure, le taux de croissance économique et le taux de change. A l'aide d'un modèle à correction d'erreur basé sur la technique des moindres carrés ordinaires sur une période de 1980

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à 2015, les résultats de l'estimation montrent que l'entrée des IDE est positivement expliquée par le taux de croissance économique et le taux de change, tandis que la dette extérieure et la corruption ne favorisent guère la croissance des IDE au Bénin.

Les effets de la corruption nécessitent une attention particulière au Bénin. Son effet négatif vient du fait que nombre des entreprises privées existantes ou firmes étrangères compte tenue des lourdeurs administratives et des délais de récupérations font recours à ce phénomène en vue d'établir leurs firmes ce qui fait que la concurrence règne et amène certains investisseurs à se retirer atténuant ainsi la crédibilité du cadre juridique de l'Etat. Cette situation entraîne un développement rapide du secteur informel qui ne représente à l'Etat qu'un manque à gagner en matière de recette fiscale et entraine le non enregistrement de certaines firmes étrangères au niveau du registre du commerce ou chambre de commerce du Bénin. Les effets de la croissance sur l'entrée des IDE doivent interpeller les Gouvernants à revoir leur politique économique vue la situation actuelle du pays. L'incidence de la dette extérieure justifie le fait que les entreprises, étant le lieu de la production de la valeur, sont étouffées par les nombreux impôts auxquels elles sont soumises. De ce fait, L'Etat évince directement l'entrée des firmes étrangères

En guise de recommandations de politique économique pour l'amélioration du climat des affaires et celui de l'entrée des IDE, les autorités doivent :

i. Renforcer l'agence de contrôle et de lutte contre la corruption et instaurer une politique de promotion des entreprises ou administration qui auront milité pour la transparence afin de permettre la pénétration des entreprises étrangères ;
ii. Entreprendre des réformes économiques pour rehausser le niveau de la croissance par des investissements réalisés dans des secteurs porteurs tel que le secteur agricole et revoir le système d'exportation de l'or blanc au Bénin;
iii. œuvrer pour une indépendance financière réelle afin d'assurer sa solvabilité et son autofinancement à travers l'assainissement du cadre des affaires accordant au secteur privé la participation dans les grands travaux. Car, une participation du secteur privé incite les investisseurs étrangers à venir s'installer compte tenu de la liberté d'implantation.

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Growth of Smes in Dar es Salaam City in Tanzania: Factors Influencing their Growth and the Challenges they Face in the Course

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Abstract- This study examined challenges that impede the growth of SMEs and the factors influencing their growth in Dar es Salaam City. The study used a cross-section research design, which guided the collection of both quantitative and qualitative data from the field through questionnaire. 2Stratified random sampling was adopted to get the respondents of which data were collected from 300 SMEs owners. Both descriptive and logistic regression analysis were employed to meet the objectives of the study.

The results from the descriptive analysis showed the main challenges in the region, which include limited access to financial services, lack of collaterals and limited training among SMEs owners. The logistic regression results indicated that experience, ownership, startup capital, size of the firm, and business turnover are critical factors that largely influence SMEs growth.

Keywords: SMEs, Growth, Individual characteristics, SME_S characteristics, challenges, Dar es Salaam City.

GJHSS-E Classification: *FOR Code: 149999*

GROWTHOFSMESINDARESSALAAMCITYINTANZANIAFACTORSINFLUENCINGTHEIRGROWTHANDTHECHALLENGESTHEYFACEINTHECOURSE

Strictly as per the compliance and regulations of:

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Finally, the study recommends that all stakeholders should act holistically to support SMEs owners. There should be regular training among SMEs owners through seminars, workshops and symposia nearby their business premises. The Ministry of Finance and Planning, Bank of Tanzania (BoT) should open up a special window for SMEs owners to access soft loans especially those who operate in remote areas. Furthermore, the government though BoT should keep on regulating the financial market to enhance lending financial institutions to provide soft loans to SMEs owners. Moreover, experience, ownership, start-up capital, size of the firm and business turnover(benefits) are important attributes for the growth of SMEs. Therefore, SMEs owners should strive to maintain these attributes for sustainable growth of their businesses.

Keywords: SMEs, Growth, Individual characteristics, SME$_S$ characteristics, challenges, Dar es Salaam City.

I. Introduction

The growth of Small, Medium Enterprises Sized (SMEs) is an important phenomenon in economic development of any country. SMEs play a great role in absorbing the unemployed and they contribute to the growth of Gross Domestic Product (GDP). Measuring SMEs growth is difficult due to complex nature of their existence. In most countries, sales turnover, number of employees, profitability and size of the premises are considered as important factors when measuring SMEs growth. Brush, Ceru and Blackburn. (2009) define SMEs growth as a "geographical expansion, increase in the number of branches, inclusion of new markets and clients, increase in the number of products and services, fusions and acquisitions". However, the main indicators of SMEs growth lie on sales volumes and the total number of employees (Masum and Fernandez, 2008; Achtenhagen, Naldi and Melin, 2010)

The growth of SMEs is incapacitated by several factors one of them being the fear to take risks in business. SMEs owners fear business closure due to failure in their businesses' operations. Fear in their business operations limits the capacity of the individual to take risks and search for opportunities, which could eventually produce business growth. However, SMEs growth is perceived differently because SMEs owners (entrepreneurs) are heterogeneous in growth intentions (Machado, 2016). SMEs growth is important and should be sustainable for small and medium enterprises. In fact, their survival depends entirely on their abilities to access the opportunities in the market with other big companies (Davidsson, Achtenhagen and Naldi, 2010; Machado, 2016). Businesses growth enables SMEs to survive against all odds on the way through graduating from micro to small to medium and finally to big companies (Rauch and Rijskik, 2013)

Most African countries have implemented several policies and reforms ranging from sectoral, institutional, microeconomic and macroeconomic aimed at ensuring sustainable economic growth and poverty reduction (Salami, Kamara and Brixiova, 2010). All the ways through, SMEs still play a great role in absorbing the unemployed population and economic growth. Although Tanzania' economic growth trend and thematically the ideas guiding economic development have been changing from time to time, the SMEs sector, both formal and informal still plays a great role in creating employment opportunities in the country. The Small Industries Development Organization (SIDO) in 2008 reported that 92 % of the school leavers (at all levels) were potentially absorbed by SME sector. This shows that SMEs is a good option for absorption of unemployed individuals, school leavers, college and university graduates in the country. Furthermore, the SME sector was estimated to occupy about 20 % of the total labour force in Tanzania (URT, 2012). The size of the SMEs sector and its role in the economy is currently

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significant in Tanzania (Magembe, 2017). This sector is also very important in generating income as well as contributing to GDP growth rate and foreign exchange earnings due to international trade (URT, 2010). By 2008, it was reported that 30 % of the GDP originated from SME sector. The contribution increased from 30 % to 35 % in 2011 (URT, 2011).

The government of Tanzania recognizes the significant importance of SMEs in the economy. This is because; substantial support to SMEs has been always in place. This support includes, Policy Framework, Institutional Support, Private Support and International Sector Support Policy Framework. The government has been supporting SMEs since they play significant roles in the start-up and growth of businesses. They also play a vital role in simplifications of taxation, licencing and registering SMEs, technical support, researches, innovation, networking and improving access to financial services (Argidius Foundation, 2017; UK Essays, 2017). The government is currently working through Tanzania Revenue Authority (TRA) under the Ministry of Finance and Planning to formally license and register all SME owners who are currently doing their businesses informally. This is expected to enable the SMEs to increase their owners' access to financial services and loans from all financial institutions and other important services from the government something that will eventually influence the SMEs' growth.

However, despite these efforts by the government and other stakeholders to promote SMEs growth, limited access to credit is a serious global problem that has been reported to impede SMEs growth (Yongqian, Armstrong and Clarke, 2012). Also in Tanzania, the key obstacle to SMEs growth is limited access to credit and know how, especially for younger and new entrants in businesses. Most of the young people are school leavers and graduates. They face this obstacle in businesses because they lack experience, networking and collateral to pledge to lenders for loan approval because of their short time in business (Magembe, 2017). Market imperfections lead to credit rationing and may severely limit the investment and operations of SMEs due to shortage of capital that eventually limits the growth of SMEs. The same problem is facing SMEs in Tanzania (Stiglitz and Weis, 1981). Credit constraints limit business start-up and growth something that accounts for about 70%of the problems that face SMEs in Tanzania (Olomi, 2009). Other problems that are reported to hinder SMEs' growth include: some SMEs operate in remote areas, inability of the SMEs owners to prepare and present loan applications that meet lenders' requirements, limited capacity of SMEs owners who start and operate businesses, in terms of the attitudes, exposure, skills and experiences, regulatory framework and limited access to working premises (URT, 2003; Alexander, 2003; Stein, Goland and Schiff, 2010; Maziku, 2012 and Magembe, 2017). This situation has resulted into limited contribution of the SMEs to GDP growth. For example, a Survey on SMEs done in 2012 estimated that there were 2.75 million Micro, Small and Medium Enterprise (MSME) owners and about 3.16 million Micro, Small and Medium Enterprises (MSMES) in Tanzania, contributing about 27% of the GDP and employing more than 5.2 million people (URT, 2012).

This study examined the major challenges that impede SMEs' growth and factors that influence their growth. It used cross sectional data collected through questionnaire. It provides a wide scope on the major challenges that impede SMEs growth and the factors that influence their growth. Both descriptive and logistic analyses on challenges that impede SMEs growth were done. Logistic regression analysed SMEs owners' characteristics and their businesses' characteristics that play vital roles in influencing business growth whereas descriptive.

II. Problem Statement

Many policy makers, researchers, and practitioners have drawn their attention on SMEs' growth due to their contribution in absorbing unemployed population and their pivotal position in the entire process of economic growth and development (Hamis, 2011; Magembe, 2017). However, some of SMEs start and fail to grow to prosperity. The graduation rate from Micro to small, medium and large enterprises in Tanzania is very low and most enterprises remain micro while medium sized enterprises are rare (Argidius Foundation, 2017). Now many scholars, policy makers and practitioners are of the view that limited growth of SMEs is the problem that calls for more researches (Shane and Venkataraman, 2000; McKelvie and Wiklund, 2010). The literature reviews show several studies that have been conducted to measure the companies' growth but putting less emphasis on SMEs (Machado, 2016). Therefore, this study examined the challenges and factors influencing SMEs growth. The factors examined in the logistic regression model include personal and business characteristics.

a) Purpose of the Study

The main objective of this study was to investigate the challenges that impede SMEs' growth and factors that influence their growth.

The specific objectives of the study were:

i) To examine the main challenges that impede SMEs growth
ii) To determine the factors influencing the SMEs growth.

b) Significance of the Study

This study is useful to decision makers, policy makers, borrowers, lenders and entrepreneurs. It contains empirical evidences that can help decision makers to intervene the situation that affects the SMEs. To students, researchers and academicians, the study adds knowledge in the literature on the issues of challenges that impede SMEs' growth and factors influencing their growth.

III. Literature Review

a) *Theoretical Literature Review*

Trait theory guides this study. The theory is rooted in entrepreneurship. It suggests that entrepreneurs possess some in-born and exceptional characteristics. These unique characteristics include innovation, great self-confidence; need for personal control, high independence and restlessness (McClelland, 1961). Some authors, such as Shapero and Sokol (1982) advance the theory in which they said people become entrepreneurs after experiencing an entrepreneurial event. Experiencing such event makes people to alter the perception of their surroundings and subsequently modify course and follow a certain route (Maalu, Nzuve and Magutu, 2010).

The process of interpretation and analysis of the entrepreneurial behaviour is determined by various factors including values, memories, cultural settings, past experiences and imaginations (Muthomi, 2017). With reference to Trait theory, enterprises can be enhanced by many factors, which range from individuals, businesses and settings. The government or other stakeholders, who can enhance SMEs growth at their exposure, may attribute the factors in settings (Machado, 2016). This theory in particular underpins this study.

b) *Empirical Literature Review*

Achtenhagen et al (2010) conducted a study about SMEs growth in Sweden using a sample of 2,455 SMEs taken from Sweden's Statistics register that was designed to be representative of small and medium sized enterprises. In their analysis, they involved variables such as increase in sales, employees, profit, assets, and the firm's value. Other factors that were involved in the analysis were competences, SMEs' practices in efficiency and the professional sales process. The results of their findings showed that all other mentioned factors were significant to firms' growth except that the increase in the number of employees did not signify SMEs growth. Some of the variables such as increase of profits are included in logistic regression analysis of the present study.

Furthermore, SMEs' growth is affected by different factors and its magnitude is different depending on the levels of SMEs growth. For example, Wiklund, Patzelt, and Shepherd (2009) conducted a study on SMEs growth using data from 413 small businesses in Sweden. They used an integrative model to explain SMEs' growth by associating the variables of human capital and attitudes of SME operators, resources, enterprising features and setting. All these factors were reported to have significance on SMEs' growth. Human capital may mean education/skills of the SME owners that play a vital role in influencing growth of the SMEs. This study includes in the logistic regression both individual and business characteristics that are thought to influence SMEs' growth.

On the other hand, a study conducted in Netherlands used data from a SMEs survey, involving 1,535 SMEs. The researchers adopted a 7-point Likert scale to rate the factors contributing to SMEs growth. Factors such as motivation, internal control, locus and personal aims of entrepreneurs may have a positive effect on SMEs growth (Wakkee, Van Der Veen and Eurlings, 2015).

Using database of 13,221 firms from 46 countries, based on 9-year data Brito, Brito and Vasconcelos in 2007 investigated the relationship between size of the firm and firms' growth in Portugal. The results showed a positive relationship between size and growth rate of firms. They further reported that, the relationship between size of the firm and its growth is a complex phenomenon. As it is in industries with a great number of new firms, the small firms are at a disadvantage and they are obliged to grow fast or quit from the business due to business' failure. This study employed logistic regression using cross sectional data that involved 300 SMEs owners. The size of the firm is one of the variables that were involved in the analysis.

The existing Literature for SMEs growth in Tanzania show that entrepreneurs who have enough education, experiences in business management and coming entrepreneurial family their businesses grow than entrepreneurs who lacked the aforementioned attributes. In addition, factors like achievement desire, internal locus of control, risk-taking propensity, innovativeness and self-efficacy, attitude towards entrepreneurship, entrepreneurial alertness, different cognitive styles and entrepreneurial motivation play a great role on influencing SMEs growth in Tanzania (Isanga, 2012, Kirama, 2014).

Moreover, the literature reveals how the SMEs growth phenomenon has been dealt with differently. Many factors that are analysed include education, experience, age, fear of failure, personal aims, internal control, growth aspirations, motivations, expectations and growth intentions. The firm's characteristics or activities that may also influence growth are size, profits, start-up capital (firms' value) and ownership. All of these variables showed positive relationship with the SMEs growth (Achtenhagen *et al.,* 2010). Most of these attributes play great roles in influencing entrepreneurship inspiration and growth of SMEs (Muthomi, 2017).

c) The study's conceptual framework

With regard to theoretical and literature review, Figure 1 below depicts the conceptual framework of this particular study. It comprises of endogenous and exogenous variables. The later includes individual and SMEs' characteristics that influence growth. The former is the independent variable (SMEs growth) that depends on exogenous variables.

Source: The Researcher, 2018

Figure 1: SMEs growth process

IV. Methodology

The study was conducted in the three Municipalities of Dar es Salaam city namely; Kinondoni, Ilala and Temeke. The reasons for conducting this study in the region include among others, Dar es Salaam city is the most populated of all cities in the country and comprises of many SMEs. During the National Baseline Survey report of 2012 on SMEs, Dar es Salaam was used as a benchmarking for evaluation of other regions. In such regard, many economic activities were conducted with many operating financial institutions (URT, 2012; URT, 2013). SMEs operating in the region reflect the nature of all SMEs operating countrywide. Furthermore, the study adopted a quantitative research design, where quantitative approach helped to obtain and present data through percentages calculated to get the respondents' rating on challenges that impede their business growth. In addition, the approach enabled the researcher to analyse data using logistic regression when examining factors that influence SMEs growth.

a) Sampling Procedure

Respondents were obtained through stratified random sampling because the targeted population was heterogeneous. The study covered fourteen (14) wards of the Dar-Es-salaam City's three Municipalities namely Ilala (Buguruni, Kivukoni, Ilala, Mchikichini and Mtafukoge), Kinondoni (Makuburi, Manzese, Mikocheni, Tandale and Ubungo) and Temeke (Charambe, Sandali, Tandika and Temeke).

b) Data collection

The study used cross section data. The data were primary and secondary from authentic sources. Primary data were collected through questionnaire survey that contained both close and open questions which enabled the researcher to collect quantitative data. The secondary data were collected from publications such as SMEs Survey of 2012 and Bank of Tanzania (BoT).

c) Sample size

The study surveyed 300 SMEs owners from the 405,902 MSMEs owners in Dar es Salaam region (URT, 2012). The sample size is determined by the nature of the study at hand. The nature of this study and the model enabled the author to select a sample of 300 SMEs owners that enabled him conduct logistic regression. However, limited resources marginalized the process of adding more respondents.

d) Model Specification

Regarding the theoretical and empirical literature review, the model and variable to be estimated were specified according to Trait theory of entrepreneurship. Other variables thought to be relevant to situation prevalent in Tanzania were added to the model to make the study more precise and concise.

Determinant model (Growth of SMEs)

$$= \log(y_i) = X'_i\beta + \varepsilon_i \qquad (1)$$

Where, y_i is the dependent variable, $X'i$ is a vector of explanatory variables (personal and SMEs characteristics), ε_i is the error term and β is vector of coefficients to be estimated.

e) Motivation of the model

Castrogiovanni and Justis (2002); Bentzen, Madsen and Smith (2012) and Wright and Stigliani, i(2012) studied the growth of entrepreneurship and SMEs using logit or probit model. However, the approaches do differ given the nature of policy and data available in a particular country. Given the nature of SMEs, data and policy of Tanzania, this study used the binary choice logit model with micro-level regressors. The logistic regression model assumes the probability of SMEs growth to be defined by latent variable Y* as presented by the relationship in the equation (2):

$$Y^* = \beta' X_{ik} + \varepsilon_i \quad (2)$$

However, in practice, it is observed that Y is defined by $Y_i = 1$, if $Y^*>1$ and $Y_i = 0$ otherwise. The likelihood of the logit model is as shown here in equation (3):

$$Prob(Yi = 1) = \frac{\exp(\times i'\beta)}{1 + \exp(\times i'\beta)} \quad (3)$$

Where; Yi is the true dependent variable, taking two values, 1 if the SMEs or business grow and 0 if the SMEs or businesses do not. The dependent variable is assumed to depend on individual SMEs owner and business/firm's characteristics contained in the vector $\times i$. The explanatory variables $\times i$ and error term ε_i are distributed with constant variance and zero mean.

f) Model Specification

The log linear model is,

$$\log(y_i) = X_i\beta + \varepsilon_i \quad (4)$$

Where, y_i is the SMEs growth as the dependent variable and X_i is a vector of explanatory variables, β a Coefficient to be estimated and ε_i is the random error term. With the logistic regression model, the dependent variable is binary, taking only two values, 1 if the SMEs or businesses grow and 0 if do not. Hence, the probability of SMEs to grow depends on the explanatory variables X_i. The use of logit model is justified by the fact that the data to be used have more than one response. Moreover, explaining why some individuals' SMEs or business can grow and others cannot is best done with the logit model (Maddala, 1992; Green, 2003; Gujarati, 2004)

Description of the Variables Used in the Analysis of SMEs Growth

The functional form of the SMEs growth is shown below;

Growth = $\beta_0 + \beta_1$ED_CTION2 + β_2 MARITAL2 + β_3 experience_7 + β_4 OWNERSHIP3 + β_5 stupcut + β_6 SIZE_FIRM + β_7 BT_OVER2 + ε 5)

The explanatory variables include individual or personal and SMEs/firm' characteristics. The variables that were estimated in equation (5) are constant (α) and coefficients (βi). The error term (ε) is included in the equation to take care of any other factors that might have not been included in the model but may influence SMEs growth.

g) Estimation techniques

This study used the logit model to estimate the factors that influence SMEs growth in the study area. Maximum likelihood was employed during the estimation procedures because it has a number of desirable statistical properties; all parameters are consistent, efficient and asymptotically normal in the analogy of the test in regression estimation (Bokosi, 2004).

V. Descriptive Analysis

a) Explanatory Analysis of the Sample

This study surveyed 300 SMEs owners/operators and managers in their business premises in Dar es Salaam city. Table1 depicts a summary of the statistical variables. About 77 per cent of the respondents were males whereas 23 per cent were females. The reasons behind for having a larger per cent of male respondents was that 1) Males were found at business premises and they more occupied this category of SMEs than females. 2) Most women participated in micro-enterprises, which actually require low capital, and lastly 3), Traditions sometimes-hindered women from participating in businesses.

Table 1: Description of Variables used in the Logistic analysis

Independent Variables	Explanation	Average	Standard Deviation.	Mini mum.	Maximum .
Age	The age of the SMEs' owner/manager.	40.44667	8.873346	21	68
Gender	Gender of the SMEs' owner/manager 1=Male, 0=Female	0.7733333	0.4193747	0	1
ED_CTION2	Education of the SMEs owners 0 = Primary education, 1 = secondary and tertiary education	.3663366	.4826	0	1
MARITAL2	Marital status 1=Married, 0= not in marriage	.8349835	.3718095	0	1
experience_7	Experience of the SMEs owner 0 = 0 – 4 years, 1 = 5 to 14 years, and 2 = 15 years of experience	1.049505	.8102355	0	2
OWNERSHIP3	Nature of ownership of the SMEs 1 = Individually, 0 = Partnership	.2145215	.411169	0	1
stupcut	Initial capital that SMEs owner started business with.	174193.5	349090.9	20000	1000000
SIZE_FIRM	Grouped according to the number of employees	11.2008	18.08826	1	99
BT_OVER2	The profits generated per annum by SMEs 1 = Generated profits, 0 = Generated no profits	.1386139	.346 1148	0	1
BSS_TYPE	Economics activities which are conducted in the region 1 = education, 2= manufacturing, 3 = construction, 4= transport 5 = trading, and 6 =other (specify)	4.732673	.9583141	1	6

Source: Field data, (2014)

b) Sample characteristics

The mean age was 40 years. This is because the study target was adults who were able to operate or supervise business. By grouping the respondents into age groups, it was found that respondents falling within the 18-35 years bracket were 31%, a group of age from 36-55 were 64% and 56 and those above that age category were 5% of all the respondents. This implies that the age that is between youth and elderly dominated the SMEs in the region. Possibly, this is because they engaging in these ventures had savings that they used as start-up capital. It is also likely that they accessed credit easily compared to other age groups in the region given their experience in running business and having had accumulated enough wealth and assets to pledge as collateral.

On marital status, it was noticed that about 83% of the respondents were married, 17% were widows/widowers, divorced and separated. The reason for having large percentage of married respondents was that the study had targeted the adults that were operating or managing businesses and considering their age, they were socially expected to have been married already.

Another feature of the sample was education where 63% of the respondents had primary education, while 37% of the respondents had secondary education and above. Small and medium businesses are easily started since they do not require high education or any specialized skills.

This study classified ownership of business in the region as being owned individually and under partnership in order to get a clear picture on the nature of ownership of business in the study area. With regard to this, it was revealed that 79% of the businesses operated by the respondents were owned individually and 21% were under partnership. This implies that majority of the SME owners were the sole decision makers and for that they were rarely compelled to receive advice from other stakeholders. With this kind of ownership, the likely impact is that where decisions were made, they would have a great effect on their businesses. Generally speaking, in contrast, partnerships have well-organized operations and businesses thus run, have high probability of getting loans from banks and non-bank financial institutions as they own equipment and real estates, which they pledge as collaterals.

Furthermore, about 43% of the SMEs had employed up to four (4) employees whereas 34% of SMEs had employed 5-49 employees and 23% had employed 50-99 employees. Majority of the SMEs had less than five (5) employees implying that most of the

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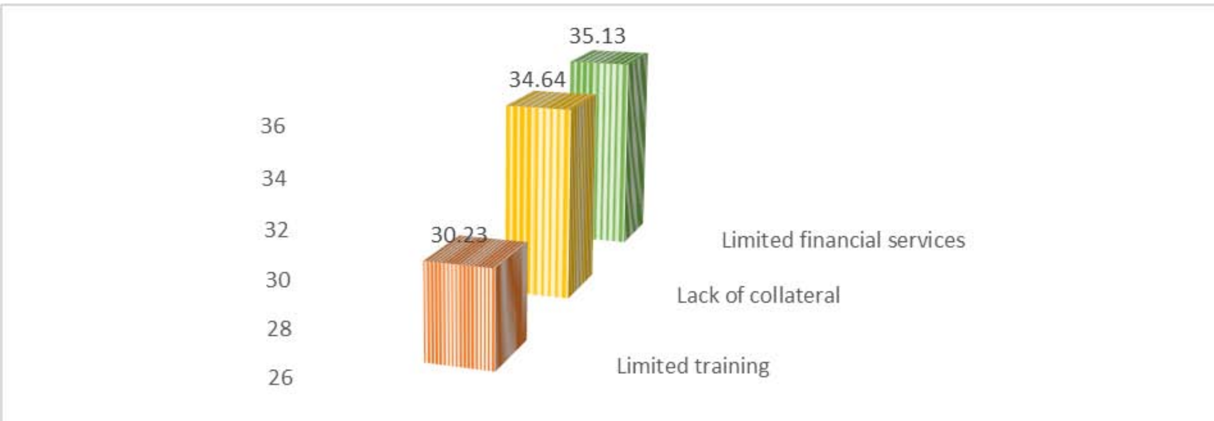
SMEs engaged in small enterprises.

Moreover, 78% of the SMEs respondents were dealing with trading activities involving buying and selling of final products (goods). The plausible reason for such a larger number of the respondents in trade activity is that it was easier to initiate and conduct it. It did not require high skills and capital compared to other production activities such as transport, construction and manufacturing. Only 5% of the SMEs respondents were found to be involved in manufacturing whereas 2% were revealed to be dealing with construction. The study revealed that 7% of the SMEs owners were dealing with service provision (education and others) and 6% of the respondents were dealing with transport business.

VI. Descriptive Analysis

a) Challenges that hinder SMEs' growth in the Study Area

It was revealed that SMEs growth in the region was being faced by several challenges, which were affecting it. Figure 2 shows the extent of each challenge as respondents rated them in terms of percentage.



Source: Field data, (2014)

Figure 2: Challenges hindering SMEs' growth in the Study Area

i. *Limited access to financial services*

This was rated as the first challenge that was hindering SMEs' operators to start and grow their businesses in the region. It made 35.13% of all of the respondents involved in the sample. The magnitude of the problem was reflected in the fin scope survey of 2012 on financial exclusion, which reported that about 68% of the SMEs were excluded from formal financial institutions (Micro Small and Medium Enterprises Survey, 2010; Fin scope Survey, 2012). Limited access to finance implies limited access to capital to start and expand business operations. Many business operators complained about the stringent conditions that were put forward by financial institutions to them, as they were perceived too risky groups that were likely to be potential loans defaulters. Even those who managed to access financial services they did not get loans due to lack of assets that they could use to pledge for such loans. It was noted that some of the SMEs owners in the region lacked knowledge on preparation of sound business plans to meet the moneylenders' requirements. With this fact, most of the SMEs had limited access to financial services and products which ultimately limited them in accessing start-up capital that eventually impeded their businesses' growth.

ii. *Lack of collaterals*

It was noticed that, about 34.64% of the respondents in the region rated lack of collaterals as the second major challenge impeding business growth in the region. It was revealed that Collateral requirements by financial institutions were limiting SMEs owners from getting enough capital, which could eventually enhance start-up and expansion of their businesses. It was noted that most of the banks and non-bank financial institutions demanded collaterals for loans disbursement due to fear resulting from market imperfection. Asymmetric information in the financial markets obliged loan officers to demand collaterals to control defaulters. As it has already been revealed, most of the SMEs were operating informally something which was considered more risky. Therefore, to minimize collateral requirements, asymmetric information should be controlled through thorough screening and scrutiny of loan applicants to hedge risks associated with adverse selections.

iii. *Limited training*

Regarding this aspect, about 30.25% of the respondents involved in the study rated limited training as the third challenge impeding the start-up and growth of businesses in the region. It was found that limited training for SMEs operators led to lack of innovation and

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creativity in business. This is because they failed to develop new technology in doing business that eventually caused lack of good business plans, failure to keep business records, limited market networking among SMEs and failure to access and compete in local and international markets. Due to this challenge, SMEs operators in the region were doing business by just using their inborn traits such as experience therefore ending up doing business to meet subsistence needs only. Therefore, in order for SMEs to grow, training is very important for SMEs operators to be trained regularly on all aspects of doing business in region. Training events on entrepreneurship will enhance creativity and innovation in doing business.

VII. Regression Analysis

a) Multicollinearity test

To test for severity of Multicollinearity, the study adopted the Variance Inflation.
Factor (VIF) after regression as presented in Table 2 below.

Table 2: The Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
stupcut	2.64	0.378592
BT_OVER2	2.64	0.379108
SIZE_FIRM	1.69	0.590037
OWNERSHIP3	1.53	0.654547
ED_CTION2	1.20	0.831935
experience_7	1.07	0.938869
MARITAL2	1.05	0.954956

Source: Field data, (2014)

If the VIF exceeds 10, then there is severe Multicollinearity (Kutner, Nachtsheim and Neter, 2004). Table 2 shows that there is no any VIF exceeding 10 and so there is no any severe multicollinearity.

b) Correlation test

The Spearman correlation test was used to check if some of the variables that were used in the logistic regression were correlated. Table 3 depicts the correlation results between variables.

Table 3: Correlation results

	Growth	ED_CTI~2	MARITAL2	experi~7	OWNERS~3	stupcut	SIZE_F~M	BTOVER2
Growth	1.0000							
ED_CTION2	-0.0138	1.0000						
MARITAL2	0.0518	0.1186	1.0000					
experience_7	0.7002	0.1693	0.1430	1.0000				
OWNERSHIP3	0.2339	-0.2803	-0.0660	-0.0544	1.0000			
stupcut	0.1873	-0.3140	0.0043	-0.0168	0.5260	1.0000		
SIZE_FIRM	0.1486	-0.2990	-0.0659	0.0545	0.4039	0.5901	1.0000	
BT_OVER2	0.1058	-0.3029	0.0169	-0.0351	0.5478	0.7541	0.5704	1.0000

Source: Field data, (2014)

From Table 3, if the pair-wise or zero-order correlation coefficient between two regression is high, say it is greater than 0.90 (r> 0.90), then multicollinearity is a serious problem (Gujarati, 2004; Field, 2005) . Table 3 shows that variables involved in the model, none of them violate this rule of thumb.

VIII. Econometric Estimation

Logistic Model was used to analyse the factors influencing SMEs growth in the region. In fact, several approaches could be used to dichotomous variables, including probit or discriminant functions analysis (Wright and Stigliani, 2012). However, due to the nature of data involved in this study, logistic regression was opted to be used in the analysing the data.

a) Logistic Regression

The dependent variable (SMEs growth) was treated as a discrete variable with two values: 1 if the SMEs grow and 0 if otherwise. Five (5) explanatory variables as indicated in Table 4 among other variables involved in the logistic regression were statistically significant thus explaining the likelihood of SMEs growth. The rest of the variables as shown in Table 4 were not statistically significant but still gave some insight on the contribution on SMEs growth.

Table 4: Logistic Regression Results

Variables	Odds Ratio	Std. Error	z	P>z	[95% Conf.	Interval]
ED_CTION2	.3570877	.3656747	-1.01	0.315	.0479849	2.65733
MARITAL2	.3323398	.299819	-1.22	0.222	.0567119	1.947558
experience_7	161.2232***	148.4295	5.52	0.000	26.53216	979.6764
OWNERSHIP3	159.0813**	242.1349	3.33	0.001	8.054145	3142.089
stupcut	1.000005**	2.01e-06	2.59	0.010	1.000001	1.000009
SIZE_FIRM	.9395464**	.0289391	-2.02	0.043	.8845048	.9980131
BT_OVER2	.0186808**	.0313351	-2.37	0.018	.0006976	.5002623
_cons	.3142225	.2436284	-1.49	0.135	.0687494	1.436169
LR chi2(7) =	128.53					
Prob > chi2 =	0.0000					
Pseudo R2 =	0.7047					
Number of obs =	154					

Notes: ***, **,* Represent significance at 1%, 5% and 10% respectively

Source: Field data, (2014)

Theoretically, it was expected that coefficients' signs of the variables involved in this study could to be positive signs as they appear in the above Table 4. However, Alexander (2003) noted that the problem arises when several of these characteristics are included in the regression at the same time because they may alter the results and their signs. This might have influenced the regression results in this study.

The coefficient of SMEs operators' experience *(Experience_7)* was positive and statistically significant. The odd ratio for experience was greater than 1. Experience as depicted in Table 4 reveals that, the SMEs, which were operated by experienced individual in the sector were about 22% more likely to grow or exist longer in operations. This implies that SMEs growth is related to experience of theowners because experiences enhance SMEs' survival. In addition, experiences enable the search for all necessary information related to SMEs' survival/operations in both local and international markets. Sarwoko and Frisdiantara (2016) obtained the same results in Malang. Their study revealed that experience was important in influencing SMEs growth. Furthermore, Davidsson et al, (2010) in the review of the literature in Sweden concluded that experience of SMEs owner in the SMEs sector is very crucial for SMEs growth in advanced and developing economies. The present study and the literature cement on the fact that experience matters on SMEs growth in Tanzania and in other countries.

The coefficient of SMEs start-up capital *(Stupcut)* was positive and statistically significant. The odd ratio for start-up capital from Table 4 is greater than 1. Hence, the SMEs operators under this category were about 22% more likely to grow than other SMEs in the region. This implies that SMEs with good starting capital are likely to prosper than those without good starting capital. SMEs with enough capital can start operations and meet all initial requirements from the government and they can search markets and meet other financial obligations. The same results were obtained in the Republic of Srpska in a study conducted by Đalić, Terzić and Novarlić (2017). The findings revealed that start-up capital was statistically important in influencing SMEs growth. The present study and the literature reveal the truth that sufficient capital is important for businesses start-up and expansion of the existing businesses. Capital enables SMEs owners to meet all financial obligations and operations expenses facilitating their success.

Size of the firm *(SIZE_FIRM)* was positive and statistically significant for small firms. The odd ratio from Table 4 for the size of the firm was less than 1. Hence, it was 93% less likely for the SMEs to keep their businesses growing. The reference was a small firm that had employed less than 49 employees. The odd ratio implies that small firms are not likely to access credit compared to the medium ones. Habib and Darush (2016) obtained the same findings in Sweden. Furthermore, Nham and Yoshi (2009) in Vietnam obtained the same results that size of the SMEs influences their growth. Yeboah (2015) in Ghana obtained the same results. The size of the SMEs plays a great role in influencing SMEs growth in Ghana. With regard to these findings, the size of the SMEs significantly influences their growth. Graduating from the present group to another is attributed by size. Therefore, being too small may not be favoured by the situation in the market.

Ownership of the firm/business *(OWNERSHIP3)* was positive and statistically significant. The odd ratio for ownership from Table 4 was greater than 1. This group was 8% more likely to grow their businesses than the other groups in the region. The reference group for this variable was SMEs that were owned individually. The findings of the present study are in line with other empirical findings. For example, in the study conducted by Nham and Yoshi, (2009) revealed that ownership influences the growth of SMEs in Vietnam. Results in both studies may imply that individually owned SMEs grow because they focus on production and increasing sales and avoid wasting time for bureaucratic procedures in making decisions

The coefficient of the firm's business turnover *(BT_OVER2)* was positive and statistically significant. The odd ratio in Table 4 was less than 1. The SMEs operators under this category were about 99% less likely to grow. Business turnover to this referred to profits that the firm/SMEs' owner generates from his/her enterprise. The group of SMEs, which did not generate profits, was less likely to grow compared to the group of SMEs that generated profits. This finding is in line with other findings in different places.For example, the findings by Roper (1999) show that profitability or returns on assets play a great role in influencing the growth of the SMEs. The findings revealed that SMEs performance strongly depend on profitability. Furthermore, profitability has influence on SMEs growth in United States of America (Kor and Mhoney 2004; Davidsson, Steffens, and Fitzsimmons, 2009). These findings strongly confirm the reality that profits for any enterprise are a crucial component for further investment and expansion of businesses operations in the region.

Education of SMEs operator *(ED_CTION2)* was positive but statistically insignificant for primary or less education implying that education matters in running business in the region. The odd ratio was less than 1. The study revealed that, 65% businesses in the region were less likely to grow. However, the factor was not statistically significant but its sign was positive implying that education influenced the growing of the business in the region. However, the results obtained by Yeboah (2015) in Ghana revealed that education was positive and statistically significant in influencing SMEs growth. Variation in findings may be influenced by the fact that the number of variables involved in the model and data type alter the results.

The coefficient of SMEs operators' marital status of SMEs owners *(MARITAL2)* was positive but statistically insignificant. The results in Table 4 show that odd ratio for marital status was less than 1. Hence, unmarried SMEs owners were about 67% less likely to grow their business operations. SMEs operators who were married had a higher possibility to succeed in business than other groups in the region. This may be because married SMEs owners are experienced enough to run businesses in the region unlike the other groups who are still young and not experienced in businesses. Regarding this, the findings by Mutoko and Kapunda (2017) in Botswana revealed that marital status has no influence on SMEs growth. The implications of these findings may be that marital status has nothing to do with SMEs growth in many places.

IX. Conclusion and Recommendations

This study has addressed the challenges that impede SMEs growth in Dar es Salaam region. They include limited access to financial services, lack of collaterals and limited training. Mitigating these challenges in the region would bring about efficiency and effective business operations. These challenges hinder SMEs to graduate from small to medium sized businesses as well as to large businesses. Again, the study examined factors influencing SMEs growth using logistic regression. The results showed that experience, start-up capital, size of the firm, ownership and business turnover are statistically significant in influencing SMEs growth in the region.

With these findings, the study recommends that the government should strategically adopt a holistic approach to regulate the financial market to create a window for SMEs owners to access financial services. Banks and non- bank financial institutions should not take collaterals as the only most important judgmental factor in the situation of credit rationing due to financial market imperfections. If SMEs access loans and other financial services easily, it can simplify the process of start-up and expansion of their businesses operations.

They study further recommends that, the government through the Ministry of Industries, Trade and Investment, Ministry of Finance and Planning, banks and non- bank financial institutions should collaborate to conduct regular training to SMEs owners. Such training may enhance creativity and innovation which will eventually improve know how in businesses. This will offer SMEs operators opportunities to harness the possibility to grow through their engagement in local and international markets. Regular training can be done in collaboration with Institutional entities like universities, private sector, international sectors support as well as the adjustment of policy frameworks in the country to offer deliberate support to SMEs owners to start and expand their businesses.

Furthermore, the results from regression analysis reveal that experience, start-up capital, size of the firm, ownership and business turnover (benefits) influence the growth of SMEs in the region. These findings imply that both personal and businesses' characteristics are crucial for growth in business. If SMEs owners are given business education through indoor training, it will enable them to maintain these attributes and have vision for success. Business education can be offered through seminars, workshops and symposium nearby their business premises. It is thus the study recommends that, the government through respective Ministries, Agencies and other stakeholders in SME subsector should deliberately be committed to offer business education.

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Dynamic Relationship between Monetary Policy and Economic Growth

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DYNAMICRELATIONSHIPBETWEENMONETARYPOLICYANDECONOMICGROWTH

Strictly as per the compliance and regulations of:

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I. Introduction

Economic growth is fundamentally believed to be driven by a wide range of factors, mainly by primary factors such as capital accumulation, growth in labor participation, advancement of knowledge, and technological progress (see, relevant literature). Meanwhile, it commonly articulated that other factors, including the policy environment (Smith, 2004). From the Lucas, (1972) view, economic growth is also largely attributed to real shocks that are linked to technological progress and cannot be effectively offset by monetary policy. Contemporary scholar suggest that monetary policy has a limited role in driving economic growth, particularly in the long term (Asongu, 2014). The results of the both theoretical and empirical literature on the role of monetary policy instruments in driving economic growth are not universally generalizable and remain variant, inconsistent, and inconclusive (see, among others, Amarasekara, 2009; Dele, 2007; White, 2013). The notion of monetary policy promoting economic growth by maintaining price stability has garnered increasing theoretical and empirical consensus particularly in the short term (Fontana & Palacio-Vera, 2007). The recent practice has shown that central banks have focused on inflation targeting to indirectly spur higher growth rates (Heintz & Ndikumana, 2010). While the literature on the linkage between monetary policy and economic growth through the promotion of price stability is wide ranging, empirical research questions continue to abound (Lacker, 2014; Papademos, 2003). On the one hand, monetary policy yielding low and stable inflation is believed to spur economic growth, mainly in the short term (Fontana & Palacio-Vera, 2007; Papademos, 2003; Yilmazkuday, 2013). In another view, poor monetary policies associated with high and volatile inflationary tendencies distort the allocation of productive resources, eventually harming economic growth in the long term (see, among others, Barro, 1997; Fischer, 1993; Hossain, 2014). On the other hand, some empirical studies discount the negative relationship between inflation and economic growth (Levine &Renelt, 1992; McCandless & Weber, 1995). Monetary policy actions driving steady and stable inflation tend to have a depressing effect on economic growth, resulting in a sacrifice ratio (Dornbusch, Fischer & Startz,2012). Broadly, countercyclical monetary policy can be counterproductive. Uncertainty about the effect of monetary policy on economic growth, particularly in developing economies, continues to prevail (Berg, Charry, Portillo & Vlcek, 2013). Some studies suggest that a monetary policy impetus to spur growth is likely to be inflationary, having a countervailing effect (Issing, 2001). The recent surge of non-conventional monetary policy in the wake of the global crisis of 2008 highlights the limited role of conventional monetary policy.

A lot of works has been done in the area of monetary policy as it affects economic growth in Nigeria, most of these studies concentrated on how monetary policies as a whole affects economic growth without highlighting the monetary policy instruments and examine the extent to which each actually contributed to the growth in the economy.

However, few works have been done using exchange rate, money supply, interest rate and liquidity rate as proxies for monetary policy of which their empirical findings indicates that exchange rate and money supply has a positive but fairly insignificant impact on economic growth while interest rate and liquidity rate on the other hand had a negative but highly significant impact on GDP.

Nevertheless, not much has been done in trying to investigate Cash Reserve Ratio and Monetary Policy

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Rate as proxies for monetary policy as they contribute to economic growth in Nigeria. We found a gap in this area and this study intends to fill this knowledge gap.

Against this backdrop, the aim of this paper is to empirically investigate what monetary policy can or cannot do in relation to driving economic growth in Nigeria, in both the short and long terms – a subject that has received very limited attention in scholarly work on Nigeria. This paper also makes an additional contribution by employing the error correction model and Johansen cointegrationin an attempt to establish the effect of monetary policy on economic growth in Nigeria. The rest of the paper is organized as follows: Section 2 gives an overview of monetary policy reform and economic performance in Nigeria, while Section 3 presents the empirical literature review. The empirical model and estimation methods are presented in Section 4. Section 5 presents the summary and conclusion.

a) *Monetary Policy Transmission*

In the view of Toby and Peterside (2014), a monetary policy shift tends to transmit a change for the future in the projected behavior of macroeconomic variables. Fundamentally analyst considerthe response of monetary policy makers as exogenous. As a generally accepted view, money is unbiased in its effects on the economy. Thus, in the classical theory, transmission mechanism reacts directly and indirectly. The direct mechanism is based on the demand for and supply for money, whereas the indirect mechanism has linkage with the banking system and operates through money and interest rate. The Keynesian theory explains that a change in money supply has effects on total expenditure and output level through the changes in interest rate. Hence, the system operates indirectly. The monetarists affirm that although monetary expansions affect output and employment in the short term, interest rate and prices are influenced in the long run (Chaudhry, Qamber, &Farooq, 2012). Monetary Policy Transition Mechanism Interest rate channel (INT) and credit channel (CRDT) are considered in some literature as the key propagation and strengthening mechanisms of monetary policy changes. Both types of transmission channels hold the prediction that any variation in bank lending is dependent on monetary policy actions. In other words, a change in bank lending is predicted to be in response to change in monetary policy stance. Because monetary policy hinges chiefly on the supply of money, it will be remiss and abnormal to ignore the role of banks, especially in the money creation process. Hence, the CRDT perspective portends that monetary policy induces movements in bank lending vis-à-vis changes in bank loan supply, whereas shifts in the demand for a bank loan is explained by the INT (Arnold, Kool, & Raabe, 2006). The Nigerian industrial sector faces insurmountable challenges ranging from infrastructural woes to highly unstable business environment. Also, the cyclical nature of industrial output equally intensifies the need for external financing. Bridging the funding gap depends mainly on both availability and cost of fund, which is largely determined by money supply through monetary policy action. Writing on monetary policy transmission mechanism, Friedman and Schwartz (1963) argue that when the central bank pursues an expansive open market operation, money stock will increase thereby leaving the deposit money banks with fat reserves and enhance their ability to create credit and extend loans and advances, which will increase the money supply. Besides the sale and repurchase of financial instruments like treasury bills to regulate the quantity of money in circulation, the central bank may also decide to use other monetary policy instruments such as rediscount rate or the reserve requirements (liquidity and cash ratio) to achieve the desired economic objectives of output growth, stable price level, and full employment. The industrial sector and other activity sectors stand to benefit from expansionary policy measures (for instance, increase in money supply and reduction of rediscount rate). Although this will promote production through cheaper cost of fund (interest rates), it could turn quite inimical to achieving price stability. On the contrary, a stringent policy, using any appropriate instrument, can help to attain a stable price level but could lead to a recession. Economists established the general relationship between real output and monetary policy transmissions. From the Keynesian point of view, an unrestricted change in money stock influences real output by bringing down the interest rate, which by efficient utilization of capital will stimulate investment and the real output growth (Athukorala, 1998).

II. Literature Review

The impact of monetary policy on growth has generated large volume of empirical studies with mixed findings using cross sectional, time series and panel data. Some of these studies are country-specific while others are cross-country. Thus, Empirical literatures in middle-income economies show that monetary policy shocks have little or no effects on economic parameters. (Ganev et al, 2002) studied the effects of monetary shocks in ten Central and Eastern European (CEE) countries and found no evidence that suggests that changes in exchange rates and not interest rates affect output.

In the same vein, (Starr, 2005) using a Structural VAR model with orthogonalized identifications found minimal evidences of real effects of monetary policy in five Commonwealth states. However, the results that were inconsistent with empirical expectations from different data in different countries are what economist now refers to as "puzzles". The puzzles identified in most literature were; the liquidity puzzle, the price puzzle and the exchange rate puzzle.

Balogun(2007) using a simultaneous equation model to test the hypothesis of monetary policy effectiveness in Nigeria found that rather than promoting growth, past domestic monetary policy has been a source of stagnation and persistent inflation in the country. In addition, the impact of monetary policy on growth in Nigeria generated large volumes of empirical studies with mixed findings using cross sectional, time series and panel data.

Amassoma, Ditimi, Nwosa, and Olaiya, S. A. (2011) examined the effect of monetary policy on macroeconomic variables in Nigeria for the period 1986 to 2009 by adopting a simplified Ordinary Least Squared technique found that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability.

Ajisafe and Folorunso (2002) examined the relative effectiveness of monetary and fiscal policy on economic activity in Nigeria using co-integration and error correction modeling techniques and annual series for the period 1970 to 1998. The study revealed that monetary rather than fiscal policy exerts a greater impact on economic activity in Nigeria and concluded that past emphasis on fiscal measures by the government has led to greater distortion in the Nigerian economy.

Hameed, Khalid and Sabit(2012) in presenting a review on how the decisions of monetary authorities influence macro variables like GDP, money supply, interest rates, exchange rates and inflation using the method of ordinary least square OLS found that tight monetary policy (in term of increase interest rate) had significantly negative impact on output, therefore asserting that increase in money supply has strong positive impact on inflation but affects output negatively. In addition to this exchange rate was found to be negatively related to output.

Chukuigwe and Abili (2008) analyzed the impact of monetary and fiscal policies on non-oil exports in Nigeria from 1974 to 2003. Using Ordinary Least Squares estimation, the study revealed that both interest rate and exchange rate, both proxies for monetary policy negatively affect non-oil exports. Similarly, budget deficits—proxy for fiscal policy also had a negative effect on non-oil exports. He therefore recommended the introduction of new strategies for monetary policy implementations to address this problem.

This leads us to the work by (Kogar, 1995) who examined the relationship between financial innovations and monetary control and conclude that in a changing financial structure, Central Authorities cannot realize an efficient monetary policy without setting new procedures and instruments in the long-term. This is because profit-seeking institutions change and create new instruments in order to evade regulations or respond to the current conditions in the economy. The evolution of monetary policy in Nigeria in the past four decades clearly show that though monetary policy management in the country was relatively more successful during the period of financial sector reforms characterized by the use of indirect rather than direct monetary policy tools, nevertheless, the effectiveness of monetary policy has been undermined by factors such as a stronger fiscal dominance, political interference, and the legal environment in which the Central Bank operates.

Busari, Omoke and Adesoye(2002) opined that monetary policy stabilizes the economy better under a flexible exchange rate system than in a fixed exchange rate system which stimulates growth at the initial period but is accompanied by severe depression thereby destabilizing sustainable growth. This basically explains the empirically backed belief that monetary policies are better suited when they are used in targeting inflation rather than in stimulating growth.

Onyeiwu (2012) examines the impact of monetary policy on the Nigerian economy using the Ordinary Least Squares Method (OLS) to analyze data between 1981 and 2008. The result of the analysis shows that monetary policy represented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation. Furthermore, the findings of the study support the money-prices-output hypothesis for Nigerian economy.

Adeolu, Kehindeand Bolarinwa(2012) assessed how fiscal and monetary policies influence economic growth and development in Nigeria. The paper argues that curbing the fiscal indiscipline of Government will take much more than enshrining fiscal policy rules in our statute books. This is because the statute books are replete with dormant rules and regulation. It notes that there exist a mild long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. The paper suggest that for any meaningful progress towards fiscal prudence on the part of Government to occur, some powerful pro-stability stakeholders strong enough to challenge government fiscal recklessness will need to emerge.

Owalabi and Adegbite (2014) examined the impact of monetary policy on industrial growth in Nigerian economy using multiple regression analysis. They analyzed the relationship between manufacturing output, treasury bills, deposit and lending, and rediscount rate and industrial growth, and found that the variables had significant effects on the industrial growth.

Adefeso and Mobolaji (2010), also investigated fiscal - monetary policy and economic growth in Nigeria by employing Jabansen Maximum Likelihood Co-integration procedure. The result shows that there is a long–run relationship between economic growth, degree of openness, government expenditure and broad money supply (M2).

Chukwu (2009),analyzed the effect of monetary policy innovations in Nigeria. The study used a Structural Vector Auto-Regression (SVAR) approach to trace the effects monetary policy stocks on output and prices in Nigeria. The study also analyzed three alternative policy instruments, that is, broad money (M2), minimum rediscount rate (MRR), and the real effective exchange rate (REER). The study found evidence that monetary policy innovations have both real and nominal effect on economic parameter depending on the policy variable selected.

Micheal and Ebibai (2014) examined the impact of monetary policy on selected macroeconomic variables such as gross domestic product, inflation and balance of payment in Nigeria using OLS regression analysis. The result shows that the provision of investment friendly environment in Nigeria will increase the growth rate of GDP.

Akujobi (2012) investigated the impact of monetary policy instrument on economic development of Nigeria using multiple regression technique and found that treasury bill, minimum rediscount rate and liquidity rate have significant impact on economic development of Nigeria.

Okwo, Eze and Nwoha, (2012) examined the effect of monetary policy outcomes on macroeconomic stability in Nigeria. The study analyzed gross domestic product, credit to the private sector, net credit to the government and inflation using OLS technique. None of the variables were significant, which suggested that monetary policy as a policy option may have been inactive in influencing price stability.

Okoro (2013) examined the impact of monetary policy on Nigeria economic growth by testing the influence of interest rate, inflation, exchange rate, money supply and credit on GDP. Augumente Dickey Fuller (ADF) test, Philips–Perron Unit Test. Co-integration test and Error Correction Model (ECM) techniques were employed. The results show the existence of long–run equilibrium relationship between monetary policy instruments and economic growth.

Nwoko*et al.* (2016) examined the extent to which the Central Bank of Nigeria Monetary Policies could effectively be used to promote economic growth, covering the period of 1990-2011. The influence of money supply, average price, interest rate and labour force were tested on Gross Domestic Product using the multiple regression models as the main statistical tool of analysis. Studies show that CBN Monetary Policy measures are effective in regulating both the monetary and real sector aggregates such as employment, prices, level of output and the rate of economic growth. Empirical findings from this study indicate that average price and labour force have significant influence on Gross Domestic Product while money supply was not significant. Interest rate was negative and statistically significant. It was therefore, recommended that Central Bank Monetary Policy could be an effective tool to encourage investment, reduce unemployment, reduce lending rate and stabilize the economy of Nigeria.

Udude, (2014) examined the impact of monetary policy on the growth of Nigeria economy between the period of 1981 and 2012 with the objective of finding out the impact of various monetary policy instruments (money supply, interest rate, exchange rate and liquidity ratio) in enhancing economic growth of the country within the period considered. To identify the stationarity characteristics of the data employed in the empirical investigation, various advanced econometric techniques like Augmented Dickey Fuller Unit Root Test, Johansen Cointegration Test and Vector Error Correction Mechanism (VECM) was employed and the following information surfaced: None of the variables was stationary at level meaning they all have unit roots. But all the variables became stationary after first difference with the exclusion of money supply. However, all the variables became stationary after second difference. Hence they were integrated of order two. The cointegration result indicated that there was a long run relationship among the variable with two cointegrating vectors. The result of the vector error correction mechanism (VECM) test indicates that only exchange rate exerted significant impact on economic growth in Nigeria while other variables did not. Equally, only money supply though statistically insignificant possessed the expected sign while others contradicted expectation. The study concluded that monetary policy did not impact significantly on economic growth of Nigeria within the period under review and that the inability of monetary policies to effectively maximize its policy objective most times is as a result of the shortcomings of the policy instruments used in Nigeria as such limits its contribution to growth.

Ayodeji and Oluwele(2018) analyzed the impact of monetary policy on economic growth in Nigeria by developing a model that is able to investigate how monetary policy of the government has affected economic growth through the use of multi-variable regression analysis. They proxied the variables of monetary policy instruments to include: Money Supply (MS), Exchange Rate (ER), Interest Rate (IR), and Liquidity Ratio (LR). Economic growth was represented by Gross Domestic Product (income) at constant prices. Unit root test was conducted and all their estimating variables were stationary at first difference except the component of interest rate which shows that their model interpretation would not be spurious and a true representation of the relationships that exists between the explained and explanatory variables. Error Correction Model was introduced in their estimation in order to have a parsimonious model. From their result, two variables (money supply and exchange rate) had a positive but fairly insignificant impact on economic growth. Measures of interest rate and liquidity ratio on the other hand, had a negative but highly significant impact on economic growth. In addition, Engle-Granger co-integration test was done and showed the existence of a long run relationship between monetary policy and economic growth in Nigeria. Granger causality test was done on their variables and the results showed the existence of a uni- directional causality between money supply and economic growth, economic growth granger causing liquidity ratio and exchange rates while a bi-directional causality exists between interest and economic growth.

III. Research Methodology

Okpara (2014) ascertain that, the core of any research lies on its methodology since the acceptability and the reliability of the findings depends on the appropriateness of the specified and the analytical tools employed. When models are wrongly or even rightly specified with inappropriate method applied to their analysis, the consequence will be "Spuriosity" of results and hence misleading conclusions.

a) Sources and Method of Data Collection

Secondary data will be used for the analysis of this work because of its empirical nature. Based on this, data will be sourced from the Central bank of Nigeria (CBN) Statistical Bulletin-2017 edition, within the period of 1986-2016 (31years).

b) Specification of Model

This study will be based on monetary policy variables and its impact on the Gross Domestic Product (GDP) and how it affects the economy of Nigeria at large. To indulge in empirical analysis between the monetary policy and economic growth in Nigeria; Real Gross Domestic Product (RGDP) will be used as endogenous variable while; Cash Reserve Ratio (CRR), Monetary Policy Rate (MPR), Broad Money Supply (BMS) and Liquidity Ratio (LR) will be used as the exogenous variables.

Having highlighted on these variables, our complete macroeconomic model for the determination of long-run impact of monetary policy on economic growth are stated first; in its implicit non stochastic form as shown below:

RGDP = f (CRR, MPR, BMS, LR)

Where;

RGDP = Real Gross Domestic Product

CRR = Cash Reserve Ratio

MPR = Monetary Policy Rate

BMS = Broad Money Supply

LR = Liquidity Ratio

A critical evaluation of this system of equation will help us draw conclusion on the long run impact of monetary policy instruments on economic growth. However, the co-integration approach will be employed to find out the impact monetary policy variables on the macroeconomic growth indicator. We will therefore, specify this model in its explicit stochastic form as follows:

$RGDP = b_0 + b_1 CRR + b_2 MPR + b_3 BMS + b_4 LR + U_t$.

Where; b_0 = constant term or intercept.

b_1, b_2, b_3, b_4 = Parameters of the model to estimated

U_t = Error term (stochastic term)

c) Method of Data Analysis

Stationary series constantly return to a given value and no matter the starting point, in long-run, it is expected to attain that value. The next set of analysis is to determine the co-integrating relationships that span the variables in the model RGDP: CRR, MPR, BMS and LR. This is to test whether they are integrated of a particular order. In other words, we test whether the dependent variable and the monetary policy variables have long run relationship, that is, whether they are co-integrated. Maddala, (1998) expound that, if co-integration is established, it suggests the presence of causality between monetary policy and the dependent variable at least in one direction. Furthermore, we'll estimate the specified macroeconomic model and access the contribution of the monetary policy variables in explaining the macroeconomic growth indicator in Nigeria.

Engle, (1999) and Granger, (1988) maintains that, the presence of co-integration forms the basis for error correction model (ECM) specification. The error correction model is designed to capture the short run deviations that might have occurred in estimating the long run co-integration equation. Thus, the above model will be re-specified in their explicit stochastic vector error correction model (VECM) forms as follows:

$\Delta\ (RGDP) = b_0 + b_1\ \Delta\ (CRR_{t-1}) + b_2\Delta(\ MPR_{t-1}) + b_3\ \Delta\ (BMS_{t-1}) + b_4\ \Delta\ (LR_{t-1}) + b_5\ ECT_{t-1} + U_t$

Where:

b = Parameters of the model

ECT = Error correction term

U_t = A white noise error term

Δ = Order of deficiency.

The Granger Causality Test will be applied to investigate whether a significant long– run relationship exists between monetary policy variables and real GDP. Finally,diagnostic test.

d) A Priori Expectation

$b_1,b_3\&b_4>0$, because they are positively related to RGDP.

$b_2,<0$, because it is negatively related to RGDP.

IV. Data presentation, Analysis and Interpretation

a) Data Presentation

Data for empirical tests were sourced mainly from the Central Bank of Nigeria Statistical Bulletin.

These data cover the period 1986 – 2016. The study used two groups of variables. The leading economic indicator as dependent variables measured by:

GDP = Growth rate of the Real Gross Domestic Product, expressed in billions of Naira as a measurement of internal stability.

And monetary policy proxies as independent variables measured by:

BMS = Broad Money Supply, expressed in billions of Naira as a measurement of money supply (money stock).

CRR = Cash Reserve Ratio, expressed in percentage as a measurement of quantity based nominal anchor (monetary aggregates).

LQR = Liquidity Ratio, expressed in percentage as a measurement of quantity based nominal anchor (monetary aggregates).

MPR = Monetary Policy Rate, expressed in percentage as a measurement of cost of lending rate to commercial banks. It is a penalty rate and often times the anchor of bank lending rate.

b) Presentation and Interpretation of Empirical results

Here we present results of empirical analyses of the study. Unit root was first conducted, followed by regression, Johansen co integration, Granger causality test, and lastly, diagnostic test. In this section, we present the empirical results on the long run and causality effects of monetary policy on the Nigerian economy. Test for the stationarity of the variables are presented in tables 4.4 below:

i. *Unit Root Test (ADF Tests)*

The results presented in Table 4 below clearly indicate that all series exhibit unit root property using both ADF test statistics. Thus, according to the ADF tests, all the five variables of (LOG(GDP)), D(LOG(BMS)), D(LOG(CRR)), D(LOG(LQR)) and D(LOG(MPR)) were non-stationary at their levels but became stationary after the first differencing. Hence the series are all integrated series of order I (1) and therefore showed that all the variables are stationary (no unit root) at first difference using 5 per cent level of significance (ɑ = 0.05). This is because their respective ADF test statistics value is greater than Mckinnon critical value at 5% and at absolute term. The results implied that all series has to be differenced once in our model in order to avoid spurious results.

Table 4.4: ADF Unit Root Test Results for Nigeria Annual Series (1986-2016)

	LAG				Order of integration	
Variables	SCI	1st difference	1%	5%		Remarks
CRR	0	-6.270723	-4.30982	-3.57424	1(1)	stationary
MPR	0	-6.137492	-4.30982	-3.57424	1(1)	stationary
BMS	0	-3.804591	-4.30982	-3.57424	1(1)	stationary
LIQ	0	-6.095327	-4.30982	-3.57424	1(1)	stationary
RGDP	0	-5.604149	-4.30982	-3.57424	1(1)	stationary

Source: Author's estimation using E-view 10

Based on the results obtained, it is concluded that the results for ADF tests are satisfying the initial assumption for co-integration analysis. Subsequently it is well again to confirm cointegration test under Johansen approach for explaining long-run associations among five variables under study.

Table 4.5: VAR Lag Order Selection Criteria Endogenous variables: LGDP LCRR LMPR LBMS LNQR

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-55.4446	NA	5.16E-05	4.317469	4.555363	4.390195
1	60.50376	182.2045*	8.05e-08*	-2.178840*	-0.751478*	-1.742482*
2	83.9403	28.45865	1.09E-07	-2.06716	0.549666	-1.267173
3	108.1981	20.79236	2.01E-07	-2.01415	1.792152	-0.850523

** indicates lag order selected by the criterion LR: sequential modified LR test statistic (each test at 5% level) FPE: Final prediction error AIC: Akaike information criterion SC: Schwarz information criterionHQ: Hannan-Quinn information criterion*

Source: Author's estimation using E-view 10

ii. *Johansen's Co integration Test Results*

The co integration result presented in Table 4.6 indicated that at McKinnon- Haug- Michelis 5% significance level of the Trace and suggests that the incorporated time series variables are co integrated at the fourth hypothesized co integration equations order i.e. r = 4 for linear deterministic trend model with intercept (i.e. the hypothesis of no co-integration among the variables can be rejected for Nigeria).

This implies that there exists at least one co integrating equations among the incorporated series in the estimated VAR system. The results shows that both the test statistics is more than its critical value while r ≤ 1,which indicates there exists a long-run association among the variables. Since the variables are co integrated, it is concluded that there exists a long-run equilibrium relationship between the variables.

Table 4.6: Johansen Cointegration Test Results (Lag length - 1) for Series: LOG (GDP), LOG (BMS), LOG (CRR), LOG (LQR), LOG (MPR)

Series: LGDP LCRR LMPR LBMS LNQR
Lags interval (in first differences): 1 to 1

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.649577	78.22862	69.81889	0.0091
At most 1	0.524332	47.81883	47.85613	0.0504
At most 2	0.397829	26.27084	29.79707	0.1208
At most 3	0.244217	11.56165	15.49471	0.1792
At most 4	0.111906	3.44164	3.841466	0.0636

Trace test indicates 1 cointegratingeqn(s) at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized N o. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.649577	30.40979	33.87687	0.1227
At most 1	0.524332	21.54799	27.58434	0.2445
At most 2	0.397829	1 4.70918	21.13162	0.3098
At most 3	0.244217	8.120014	14.2646	0.3666
At most 4	0.111906	3.44164	3.841466	0.0636

Max-eigenvalue test indicates no cointegration at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*
Source: Author's estimation using E -view 10

The co-integrating equation is chosen based on log likelihood ratio. If the log likelihood ratio is positively signed, we chose the equation with the lowest log likelihood ratio. If negatively signed, we chose the highest log likelihood ratio at absolute term. From the Johansen co-integration normalized cointegrating result, all four log likelihood ratio of the respective co-integrating equations are positively signed. Therefore, the lowest log likelihood ratio of 27.123 is chosen and the corresponding co-integration equation is given in table 4.7. Hence we estimate the VECM to test for long run and short run relationship or adjustment mechanis

iii. *Long run impact of monetary policy on Economic growth*

Table 4.7: Normalized cointegrating result

CointegratingEq:	LGDP(-1)	LCRR(-1)	LMPR(-1)	LBMS(-1)	LNQR(-1)	C
CointEq1	1	-0.42895	0.46402	-0.77592	0.776111	-6.739651
SE		(0.10232)	(0.26497)	(0.036)	(0.21259)	
t-statistics		[-4.19231]	[1.75124]	[-21.5544]	[3.65073]	

Source: Author's estimation using E view 10

From the cointegrating equation, if all independent variables are held constant, GDP will reduce by 6.739 units in the long run. CRR and BMS show an inverse long run relationship with GDP. A unit increase in CRR and BMS will cause a decrease in GDP in the long run by 0.42895 and 0.77592 units respectively. MPR and NQR show positive in the long run relationship with GDP. A unit increase in MPR and NQR will cause a rise in GDP in the long run by 0.46402 and 0.77611. All the variables conform to the a priori expectation in the long run.

iv. *Short run impact of monetary policy on Economic growth*

Table 4.8: Vector Error Correction Model (VECM)

Error Correction:	D(LGDP)	D(LCRR)	D(LMPR)	D(LBMS)	D(LNQR)
CointEq1	-0.798183	0.546142	0.101263	0.044503	-0.156803
	(0.14333)	(0.51422)	(0.24523)	(0.11115)	(0.20198)
	[-5.56883]	[1.06208]	[0.41293]	[0.40038]	[-0.77631]
D(LGDP(-1))	0.354855	1.039288	0.289302	-0.021119	0.300401
	(0.14838)	(0.53233)	(0.25387)	(0.11507)	(0.20910)
	[2.39157]	[1.95235]	[1.13958]	[-0.18354]	[1.43667]
D(LCRR(-1))	-0.090434	-0.005103	0.202746	-0.027255	-0.026244
	(0.06642)	(0.23828)	(0.11363)	(0.05151)	(0.09359)
	[-2.36165]	[-0.02142]	[1.78421]	[-0.52917]	[-0.28040]
D(LMPR(-1))	-0.254888	-0.069148	-0.371890	-0.012098	0.404128
	(0.13347)	(0.47885)	(0.22836)	(0.10351)	(0.18809)
	[-1.90968]	[-0.14440]	[-1.62850]	[-0.11688]	[2.14859]
D(LBMS(-1))	-0.244643	-0.735171	-0.419021	0.485569	-0.639587
	(0.25660)	(0.92060)	(0.43903)	(0.19900)	(0.36161)
	[-0.95339]	[-0.79858]	[-0.95441]	[2.44010]	[-1.76873]
D(LNQR(-1))	0.525935	-0.067247	-0.278695	0.088227	-0.207650
	(0.14957)	(0.53660)	(0.25590)	(0.11599)	(0.21077)
	[3.51635]	[-0.12532]	[-1.08906]	[0.76064]	[-0.98518]
C	0.200600	0.037575	0.019736	0.122350	0.086570
	(0.06601)	(0.23683)	(0.11294)	(0.05119)	(0.09302)
	[3.03886]	[0.15866]	[0.17475]	[2.39001]	[0.93061]
R-squared	0.647394	0.312248	0.228494	0.262509	0.357804
Adj. R-squared	0.551228	0.124679	0.018083	0.061376	0.182660
Sum sq. resids	0.426194	5.485678	1.247628	0.256315	0.846377
S.E. equation	0.139185	0.499349	0.238139	0.107938	0.196142
F-statistic	6.732089	1.664712	1.085944	1.305149	2.042912
Log likelihood	20.04304	-17.00447	4.468533	27.41610	10.09503
Akaike AIC	-0.899520	1.655481	0.174584	-1.408007	-0.213451
Schwarz SC	-0.569483	1.985517	0.504621	-1.077970	0.116586
Mean dependent	0.214847	0.090983	9.43E-05	0.227703	0.001986
S.D. dependent	0.207769	0.533728	0.240322	0.111411	0.216955
Determinant resid covariance (dof adj.)		5.33E-08			
Determinant resid covariance		1.34E-08			
Log likelihood		57.12312			
Akaike information criterion		-1.180905			
Schwarz criterion		0.705020			
Number of coefficients		40			

Standard errors in ( ) & t-statistics in [ ]
Source: Author's estimation using E-view 10

The shortrun result implies that a unit decrease in CRR will lead to about 0.0904(at lag 1) and increases in GDP, also a unit decease in MPR will lead to about 0.2548(at lag1) increases in GDP. A unit decrease in BMS will lead to about 0.2446(lag1)increase in GDP while a unit rise in NQR will lead to about 0.5259 (lag1) increases in GDP. The coefficient of determination is about 64.73 which mean that about 64% of the total variation in GDP is explained by the explanatory variables.

Moreso, the error correction term is -0.7981, and t-statistics(-5.5688). Since the coefficient of the error term is negative and significant, it means that (1). There is a long run causality running from explanatory variables to the dependent variable. (2) There is speed of adjustment towards long run equilibrium. That is the speed of adjustment of about 79.98%. However, to test whether there is short run equilibrium, we estimate it using the VEC Granger Causality/Block Exogeneity Wald Tests.

v. *Granger Casualty Test*

The Granger-casualty test is conducted to investigate whether a significant long-run relationship exists between monetary policy variables and real GDP. In table 8 below, we presented the Granger causality relationship between economic growth indicator and the monetary policy variables. In the result the null hypothesis of no granger causal relation is only rejected if p-value is significant at 5%, therefore, the first column of table 9 presents the null hypothesis, while columns 3 and 4 presents the chi-square statistic and p-value on the results respectively.

Table 9: VEC Granger Causality/Block Exogeneity Wald Tests Result for Lag 2

Dependent variable: D(LGDP)			
Excluded	Chi-sq	df	Prob.
D(LCRR)	1.854079	1	0.1733
D(LMPR)	3.646893	1	0.0562
D(LBMS)	0.908961	1	0.3404
D(LNQR)	12.36475	1	0.0004
All	18.24306	4	0.0011
Dependent variable: D(LCRR)			
Excluded	Chi-sq	df	Prob.
D(LGDP)	3.811659	1	0.0509
D(LMPR)	0.020853	1	0.8852
D(LBMS)	0.637727	1	0.4245
D(LNQR)	0.015705	1	0.9003
All	4.369903	4	0.3583
Dependent variable: D(LMPR)			
Excluded	Chi-sq	df	Prob.
D(LGDP)	1.298646	1	0.2545
D(LCRR)	3.183406	1	0.0744
D(LBMS)	0.910908	1	0.3399
D(LNQR)	1.186047	1	0.2761
All	5.600122	4	0.2311
Dependent variable: D(LBMS)			
Excluded	Chi-sq	df	Prob.
D(LGDP)	0.033685	1	0.8544
D(LCRR)	0.280018	1	0.5967
D(LMPR)	0.013660	1	0.9070
D(LNQR)	0.578570	1	0.4469
All	0.899777	4	0.9246
Dependent variable: D(LNQR)			
Excluded	Chi-sq	df	Prob.
D(LGDP)	2.064008	1	0.1508
D(LCRR)	0.078626	1	0.7792
D(LMPR)	4.616434	1	0.0317
D(LBMS)	3.128405	1	0.0769
All	11.26518	4	0.0237

Source: Researcher's compilation from E-view

Note: The direction of causality is based on the probability value. The smaller p-value indicated the presence of causality (i.e. p-value less than 0.05 indicate the presence of causality).

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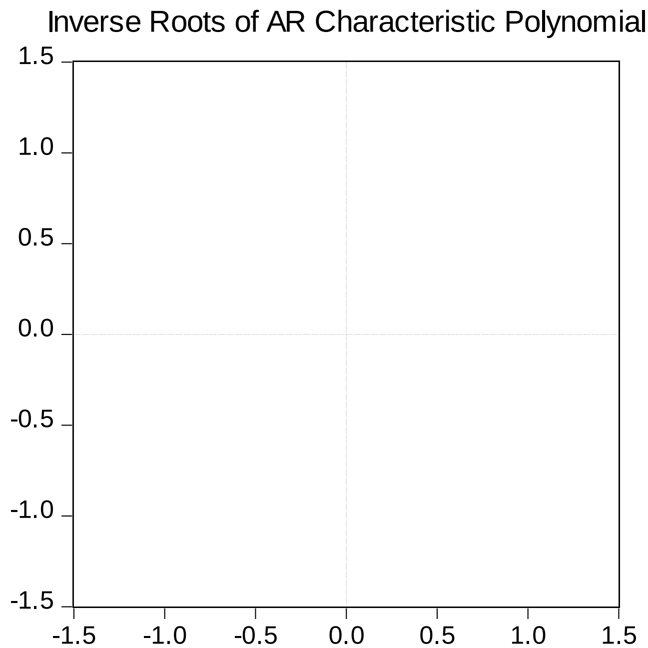
Results showed that there is no causal relationship between RGDP and BMS, MPR, and CRR since the probability is more than 0.05 and that changes in the NQR granger-cause only of the variables Real GDP. This means that this variable is affected by changes in the liquidity ratio in the short run. This is informed by an chi-sq-statistics of 12.364 and p-values of 0.004.

vi. *Stability test*



Source: Author's computation using EViews

Figure1: Roots of the AR

The result of the inverse root stability test for the panel vector error correction model in figure 1 above indicates that the model is dynamically stable. This can be seen as all the dots are inside the circled boundary

V. Summary and Conclusion

This study investigated the dynamic relationship between monetary policy on economic growth in Nigeria. Data for the study were collected from secondary sources. The variables on which data are collected include; real GDP, Broad money supply (BMS), Cash reserves ratio (CRR), Monetary policy rate (MPR), Liquidity ratio (LQR).The scope of the study covers the period from 1986 to 2017 and were sourced from CBN statistical bulletin. Data are analysed using the descriptive statistics and ordinary least square regression, Johansen cointegration, VECM and granger causality approach. Findings revealed that CRR and BMS have inverse long run relationship with GDP MPR and LQR exert positive long run relationship with GDP. In the short run CRR and MPR had an inverse relationship with GDP at lag while LQR exerts positive relationship with GDP. Using granger causality, RGDP and BMS, MPR, and CRR has no causal relationship between while and NQR exerts significant cause on Real GDP. From the findings, the study recommends that the policy instrument should be a well-coordinated optimal mix of instruments to significantly influence economic stability.

However, the result is in contrast with the findings of Okwo and Nwoha (2010) who found that there exist an insignificant relationship between monetary policy, gross domestic product, credit to private sector and inflation in Nigeria. The results confirm the weakness of key variables -broad money supply, and monetary policy rate in driving economic activities in Nigeria and highlights that cash reserve ratio and liquidity ratio is impacting positively on economic growth as result. Supporting Papademos (2003), the best contribution that monetary policy can make to sustainable growth is to maintain price stability. Because liquidity ratio and cash reserve ratio are fundamentally a monetary phenomenon, monetary policy is the only tool that can effectively maintain economic growth in the long run. The use of monetary policy instruments for economic stabilization may be important but there are several reasons for being cautious in assigning such a role to monetary policy.These ranges from time-lags (uncertainty regarding the timing and magnitude of its effects) to the length of transmissions and poor policy implementation. With the Nigerian government working hand in hand with Central Bank of Nigeria (CBN), monetary policy can be adjusted accordingly when the effects of money supply on economic growth is not apparent.

While monetary authorities can and do pursue one target to the exclusive of others, most monetary policy generally works with a mix of targets, keeping an eye on real gdp and other macroeconomic indicators at the same time. Nigeria's exporting activities can be further boosted by policies aimed at achieving and maintaining a stable competitive growth. The research observed that it is not always good to increase money supply at a rate that is not proportionate to national production with resultant inflation and low level of investment. The depreciation of a Nigerian currency causes harm to the Nigerian economy. Usually, when the local currency gets depreciated, the exports become cheap and imports become expensive. There is a dire need for policy makers to focus on policies that will strengthen the macroeconomic structure and boost the economic performance of Nigeria by ensuring effective control of the quantity of money in supply at any given time.

Putting the results from the models together, the results reveal that changes in monetary policy, the main variable being liquidity ratio and cash reserve ratio, are a very significant determinant of economic activity in Nigeria. The main policy implication emerging from these finding is that policy makers must emphasize the importance of effective control of liquidity ratio and cash reserve ratio at any given time as a key determinant for macroeconomic policy formulations. It can be seen that monetary policy plays a significant role in the well-being of an economy through its stabilizing role.

Based on the findings made in the course of this study, particularly the results of the regression models, it is clear that the development of the Nigerian economy is highly dependent on the provision of the right environment for investment, which will in no doubt encourage economic growth and development. The following recommendations are hereby made:

1. A flexible monetary policy by the monetary authority that will help sustain price stability and economic growth in the country.
2. Policy instrument should be a well-coordinated optimal mix of instruments to significantly influence economic stability.

These would provide different frequencies in dataset to provide different views in the research results with respect to the research title in which it facilitates the comparisons of research.

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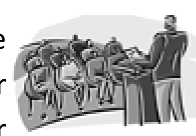

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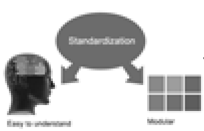

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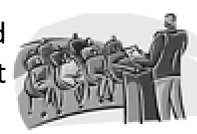

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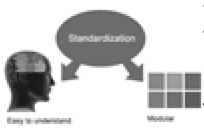

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1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

3. Ask your guides: If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

4. Use of computer is recommended: As you are doing research in the field of homan social science then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.

6. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

7. Revise what you wrote: When you write anything, always read it, summarize it, and then finalize it.

8. Make every effort: Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. Use proper verb tense: Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. Pick a good study spot: Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. Know what you know: Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. Use good grammar: Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.

Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

14. Arrangement of information: Each section of the main body should start with an opening sentence, and there should be a changeover at the end of the section. Give only valid and powerful arguments for your topic. You may also maintain your arguments with records.

15. Never start at the last minute: Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

16. Multitasking in research is not good: Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

17. Never copy others' work: Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

18. Go to seminars: Attend seminars if the topic is relevant to your research area. Utilize all your resources.
Refresh your mind after intervals: Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

19. Think technically: Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

20. Adding unnecessary information: Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

21. Report concluded results: Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

22. Upon conclusion: Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print for the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects of your research.

.

Informal Guidelines of Research Paper Writing

Key points to remember:

- Submit all work in its final form.
- Write your paper in the form which is presented in the guidelines using the template.
- Please note the criteria peer reviewers will use for grading the final paper.

Final points:

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

The introduction: This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

The discussion section:

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

Writing a research paper is not an easy job, no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record-keeping are the only means to make straightforward progression.

General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear: Adhere to recommended page limits.

Mistakes to avoid:

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.
- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

Title page:

Choose a revealing title. It should be short and include the name(s) and address(es) of all authors. It should not have acronyms or abbreviations or exceed two printed lines.

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

An abstract is a brief, distinct paragraph summary of finished work or work in development. In a minute or less, a reviewer can be taught the foundation behind the study, common approaches to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study with the subsequent elements in any summary. Try to limit the initial two items to no more than one line each.

Reason for writing the article—theory, overall issue, purpose.

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- o Single section and succinct.
- o An outline of the job done is always written in past tense.
- o Concentrate on shortening results—limit background information to a verdict or two.
- o Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- Explain the value (significance) of the study.
- Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- Briefly explain the study's tentative purpose and how it meets the declared objectives.

Approach:

Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

Materials may be reported in part of a section or else they may be recognized along with your measures.

Methods:

- Report the method and not the particulars of each process that engaged the same methodology.
- Describe the method entirely.
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures.
- Simplify—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

Approach:

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

What to keep away from:

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings—save it for the argument.
- Leave out information that is immaterial to a third party.

Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part as entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.

Content:

- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or manuscript.

What to stay away from:

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:

As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

Figures and tables:

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."

Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.

- o You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- o Give details of all of your remarks as much as possible, focusing on mechanisms.
- o Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- o One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- o Recommendations for detailed papers will offer supplementary suggestions.

Approach:

When you refer to information, differentiate data generated by your own studies from other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

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Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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