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The Effects of Financial Liberalization in Singida region: Experience from Utemini ward, Tanzania

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ABSTRACT: The study examined the effects of financial liberalization in Singida region. Data collected through questionnaire while survey and focus group discussion techniques applied. Data were analysed through Statistical Package for Social Science (SPSS) version 11.5. Results indicated that four types of loans offered by financial institutions includes; personal loans offered to employees of different organizations; Mortgage loans given to business persons with existing business; Corporate loans targeted agricultural groups; and loans is offered to SACCOs from banks. However no loans found favored directly youth as first target as a result Persistence of Youth unemployed is increasingly in Singida region. It is concluded that contribution of financial liberalization to youth employment in Singida municipality is only 22.5%. The researchers recommended that government should supported financial sectors to play a significant role in economy by establishment of appropriate policies which consolidate the gains of first generation reforms.

KEYWORDS: financial liberalization, employment, unemployment, investment.

INTRODUCTION

Financial liberalization (FL) refers to the measures directed at diluting or dismantling regulatory control over the institutional structures, instruments, and activities of agents in different segments of financial sector Chandrasekhar (2004), cited by Ghosh (2005). The term financial liberalization is also used to refer to the deregulation of domestic financial market and liberalization of capital account (Arestis and Caner, 2009).

Starting in the 1980s, and mainly in the 1990s, two facts became decisively in international relations: one is a significant rise in private capital flows and the capital account liberalization. This process began in developed nations and found fertile ground in developing countries and Tanzania in particular. As argued by Edwards (2000), it flourished in the 1990s when market-oriented reforms were implemented. At the same time capital flows increased, channeled mainly through foreign direct investment (FDI). According to Froot (1993), worldwide flows of FDI increased almost threefold between 1980 and1990.

Following the financial liberalization in developed countries it contributed to the general savings which were in access of investment ex ante, increased the flexibility of banking and financial institutions where creating credit and investment, permitting the proliferation of financial institutions, encouraged competition and whetted the appetite of banks to earn higher returns hence boom to customer credit (Arestis and Caner, 2009).

Ranciere *at al*. (2005), cited by (Arestis and Caner, 2009) found that countries adopted financial liberalization have passed through boom and busts and has an average of economy which grow faster than those without financial liberalization. In 2008, the ILO noted that recently there had been a declining trend in youth unemployment around the world. The world unemployment rate of youth aged 15-24 rose from 10.9% in 1999 to a peak in 2004 of 12.6% and declined to 11.9 per cent by 2007. The ILO noted that the world youth unemployment rate was nearly three times the adult rate but 2.4 times in the developed world. It is apparent that, in contrast to the rest of the world, the trend in youth unemployment has been rising in the UK, as has the ratio of youth-to-adult rates.

In developing countries, financial liberalization took place in the 1980s and 1990s as part of general move toward giving market a greater role in development. Before the financial liberalization in developing countries had financial repression between 1970s and 1980s, this characterized by a mix of state led development, nationalism, populism, politics and corruption. Financial system was treated as an instrument of treasury; government allocated credit at below market interest rate, used monetary policy instruments and state guaranteed external borrowing to ensure supplies of credit for themselves and public sectors firms (Arestis and Caner, 2009).

Financial liberalization in developing countries went together with significant parts of the economic policy package promoted by the so-called 'Washington consensus', associated by freeing interest rate, allowing financial innovations, reduce directed and subsidized credit as well as greater freedom in terms of external flows of capital in various forms such as private capital flows and FDI (Ghosh, 2005).

African countries adopted financial liberalization in 1990s often in the context of stabilization and reform programs supported by International Monetary Fund and World Bank. As the cost of repression become clear, many countries have made an attempt to liberalize their financial sector by deregulating interest rate, eliminating or reducing credit control, allowing free entry into financial sector, giving the autonomy to commercial banks, permitting private ownership of banks and liberalizing international capital flows (Arestis, 2005).

In Tanzania Financial Liberalization aimed at sustaining growth in real sector by boosting resources mobilization, motivating competition in financial market and enhancing quality and efficiency in credit allocation, financial liberalization is also major factor for Structural Adjustment Policies (SAPs) which aimed at rationalization of fiscal and monetary policies and creation of micro-economic environment favorable for economic growth (Shechonge, 2009). Financial liberalization has been to the large extent based on the view that it mobilizes savings and allocate capital to a more productive uses, both of which help to increase the amount of physical capital and its productivity, the trickledown effects of economic growth caused by financial liberalization increase income, reduce poverty and improve income distribution (Maliyamkono, 2006).

In order to liberalize the financial sector in Tanzania, government undertook number of measures such as; 'introduction of banking and financial institutions Act' (BFIA) to legalize the establishment of private financial institutions, foreign exchange Act 1992, the capital market and securities market Act 1994.

Also government has encouraged the development of savings and credit cooperative societies (SACCOs) or microfinance type of institutions. Most of the SACCOs are rural and community based (Muganda, 2004). Together with these initiatives, government passed into law a legal and regulatory framework to guide microfinance institutions with the objective of enhancing access to credit particularly to the rural sector and facilitating deepening of the sustainable financial intermediation.

These have resulted into proliferation of new merchant banks, commercial banks, bureau de change, insurance companies, stock exchange and related financial units. Also community based banks have been established through the grassroots initiatives such as Kilimanjaro cooperative bank, Kagera cooperative bank, Mwanga community bank, Mufindi community bank and Mbinga community bank. The entry of new banks and non bank financial institution has enhanced the competition and improved the quality and type of financial products and services provided. Currently in Tanzania there are 27 registered banks and nonbanks financial institutions, each of these institutions play an important role in financial recourses mobilization (Ghosh*, et al,* 2003).

Regardless the adoption of financial liberalization program in African countries, Youth unemployment is much higher than the world average of 14.4 per cent and second to the Middle East and North Africa where youth unemployment is 25.6 per cent. The youth population in Sub-Saharan Africa was estimated at 138 million people in 2002- 2003, with 28.9 million which is 21 per cent of unemployed. The high share of young people ages 15–24 in Africa's population contributes to the severity of the problem.

There are notable differences in youth unemployment with regard to gender and geographical dimension where unemployment rate for young women is 18.4 per cent–lower than the unemployment rate for young men which are 23.1 per cent and it is generally higher in urban areas than in rural areas, (ILO 2004b). Although in Tanzania, liberalization of financial sector has substantially transformed the economy into the more diversified, competitive and vibrant in economy of the country, there is an increasing number of youth unemployment. Therefore researcher is interested to examine the effects of financial liberalization with focus on employment creation to youth.

STATEMENT OF THE PROBLEM

Tanzania youth unemployment is becoming big problem. According to Integrated Labour Force Survey (ILFS), (2006) there is an average increase of 760,000 persons interring labour market in yearly basis, while government capacity to employment is 40,000 people which is only 5 percent of the whole population. The remains depend on informal employment and private sectors while majority stay jobless. According to Semboja, (2007), youth unemployment rate is about four times the adult unemployment rate and is growing at double the rate of adult counterpart.

Several factors account for the high youth unemployment rate in Tanzania, most notably is low economic growth, which is manifested in low economic activity and low investment. Also lack of skills/training and credit facilities. Low economic

Activity entails low overall job creation. Given the sustained population growth rates, labour markets are not able to absorb all the newcomers, resulting into high youth unemployment rate.

Government undertook various measures to overcome the problem, among which is financial liberalization which aimed at ensuring a better mobilization of capital, allocate capital to a more productive uses, stimulation of investments, and ultimately encourage economic growth. All of which would help to increase the amount of physical capital and its productivity, the trickledown effects of economic growth accompanied by financial liberalization could increase income, reduce poverty and unemployment rate, (Maliyamkono, 2006).

Despite the effort of government to liberalize financial sector, problem of youth unemployment continues, and there is little official information on the impact of financial liberalization on employment. Therefore researcher is interested to examine the effects of financial liberalization with focus on employment creation to youth.

OBJECTIVE OF THE STUDY

The general objective of this study is to examine the effects of financial liberalization in order to establish new understanding on how youth unemployment can be reduced.

DATA AND METHODS

Primary data collected from youths engaging in small business and financial institutions in study area. In secondary data conducted through documentary review in financial institutions, National Bureau of Statistic, marketing offices, Tanzania Investment Center (TIC) and beneficiaries' offices' annual reports, records, published and unpublished information. Non experimental research design were applied in the Study whereby cross-sectional technique while Sample size of 89 respondents include in the study.

The study used probability and non probability sampling techniques. The method of simple random sampling in probability technique was used mostly because each respondent had equal chance to be selected. Purposive non-probability technique was used to select target respondents such as financial institutions' loan officers, marketing officer and key informants where deep information related to study were obtained.

Both primary and secondary data were collected, whereby; Primary data were collected through unstructured interview using checklist, structured interview using structured questionnaire. Secondary data; were collected through documentary review in financial institutions and beneficiaries' offices, such as annual reports, records and published and unpublished available information's of financial institutions.

After collection, data was edited depending on the situation that encountered in the field. Then editing, classification, tabulation and coding of data were undertaken to enable analysis and categorization of the data into meaningful components.

The computer program used in data analysis was Statistical Package of social Science (SPSS) version 11.5.

Qualitative data collected through discussion with key informative were analyzed using content analysis .This was to give summary of each topic discussed and identify the content of discussion.

Already analyzed data produced outputs which were presented through tables, graphs, charts and figures. Also text was used to present information for different studied variable.

RESULTS

New investments created after financial liberalization

The trend of project supported by financial institutions is dramatically increasing as shown in table 3 below, they are individual owned projects ranging from small scale to medium scale projects. Most of this project is owned by individual persons who engage in business such as selling cooking oil, honey transit, second hand clothes just to name the few. These businessmen/women primarily must meet loans qualification as mentioned above; unfortunately youths in Tanzania are not among the qualified candidate of loans in most banks.

Table 3: Trend of financial service provision

Year	Project supported	Size	Type	Ownership
2009	198	500,000-15m	business	individual
2010	280	500,000-40 m	business	individual
2011	360	500,000-30 m	business	individual
Total	838	1,500,000-85m		

From the findings researcher found that majority of youth are engaging in small business such as selling second hand clothes, shoes, food vender, solon works just to mention, all of these makes them hardly to afford a minimum life expenses such as food, water costs and rent houses.

Most of this is either by self-employment or employed by individual person. Figure 3 shows the situation of youth job distribution in informal sector.

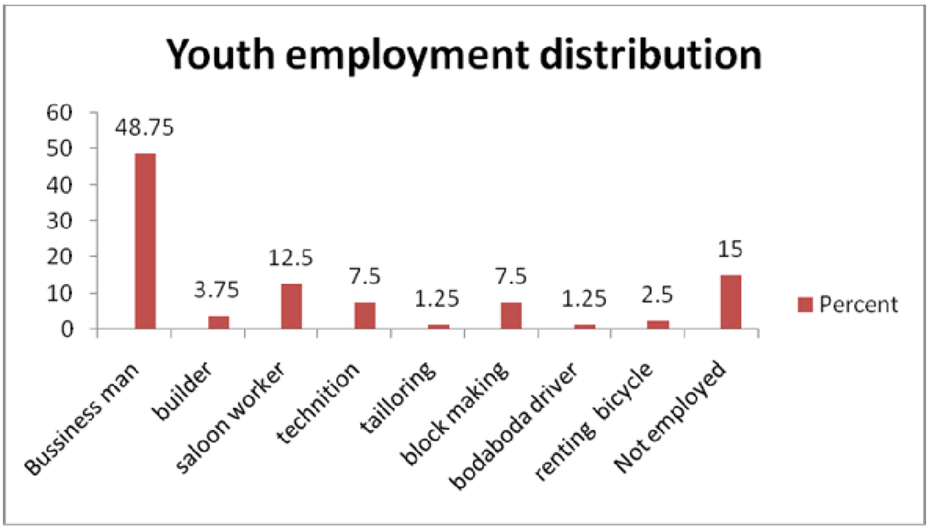

Figure3: Youth job distribution in Singida

Beneficiaries' Views

Views of youth at Singida municipality on the contribution of financial institutions on youth employment and development demonstrated grievances among them. Youth saw financial sectors as one of the accelerating factor to their increasing poverty, due the fact that, they do attracts people to access loans and letter on it leads to confiscation of their little owned properties, it is because, the interest rate is high which is hardly reached by youth. Loan beneficiaries at Mandewa ward in focus group discussion on contributions of financial sectors' had the following views ''Yaani hazina faida kwavijana, ukiangalia riba kubwa inapelekea wengikufilisiwa hata kidogo ulichomiliki. Ni Kama kujiweka kitanzi mwenyewe. Wengi wamekuwa vibarua wakujenga, ambavyo leo vipo kesho hakuna'' (Mandewa ward loan beneficiaries, 2012).

This is how mere people view financial institutions and their operation, such kind of notions has greater impact on youth decision to ask for financial services. As situation show many lacks prior requirement for loans acquisition, alternatively they rely on other sources such as relative contributions and or remain permanent jobless individual till good day occurs to them.

CONCLUSIONS

The contribution of financial institutions to youth employment in Singida municipality by this finding suggests that, only 22.5% of youth employment in study area is a result of financial institutions by either extending loans or get employed in the organization which primarily secured loan from financial institutions. This is very small contribution to overall employment creation in Tanzania and it imply that, financial liberalization is not effective towards increasing youth employment in Tanzania.

Factors which hinder youth employment in study area and Tanzania in general, includes; lack of education to meet employment qualification, lack of enough investments, high cost of capital/interest rate, low understanding of loans accessibility, absence of enough training and business education, lack of loan information, lack of commitment to loans seekers and poor money management and discipline to meet loan requirement as well as their development. It is recommended that, The government should put in place good financial policies which incorporate youth's needs and requirements, this will create an environment to reach require group of beneficiaries at the grass root level and hence creation of employment to youth groups. The government should support Tanzania financial sectors to play a more significant role in economy by establishment of appropriate policies which consolidate the gains of first generation reforms. Also training colleges and VETA should be offered to train standard seven leavers to be part of development initiative in our community.

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