

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Analyzing the Extent of Dollarization and Its Potential Impact on the Growth of Small and Medium Enterprises in Tanzania

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Abstract:

The primary objective of this study was to investigate the prevalence of dollarization and its potential impact on the progress of Small and Medium Enterprises (SMEs) in Tanzania. To achieve this, an extensive review of literature was conducted to explore the various causes, types, trends, and global effects of dollarization. The research specifically focused on the Dar es Salaam region in Tanzania, employing a survey strategy that involved the distribution of questionnaires to gather data. A sample size of 160 SME representatives was chosen using stratified random sampling techniques.

The collected data underwent analysis using the Statistical Package for Social Sciences (SPSS) software, and the findings were presented using tables, charts, figures, and percentages. The results indicated that more than 80% of the respondents were aware of dollarization and its potential implications on their businesses, expressing a predominantly negative perception towards it. However, around 20% of the participants exhibited a lack of comprehensive understanding regarding dollarization and remained uncertain about its benefits. Some respondents argued that dollarization contributes to currency instability, leading to fluctuations in prices for goods and services, as well as creating uncertainties in the foreign exchange market.

Based on these findings, it is recommended to conduct further research and analysis to investigate the relationship between SMEs and dollarization within the context of development.

Keywords: Statistical Package, investigate the relationship, survey strategy

1. Introduction and Background

In recent years, the use of foreign currency in SME business operations has seen a significant increase across Sub-Saharan African economies, including Tanzania. This phenomenon, known as dollarization, has been prevalent in Tanzania for many years, with pricing and payment affinity towards foreign currencies. This perspective is supported by scholars such as Reinhart (2009), Levy (2010), and Gianni, Patrick, and Alain (2009), who argue that developing countries have become reliant on dollars due to globalization.

The issue of dollarization in Tanzania can be linked to the poor economic performance that began in the mid-1970s, characterized by imbalances in the balance of payments, high inflation rates, declining income growth, and a slowdown in GDP growth rates. To address these challenges, Tanzania has implemented structural adjustment reforms since the early 1980s. However, these reforms did not fully resolve the issue of low salaries and resulted in job losses, leading to an increase in self-employment as a means of survival.

This study focuses on the prevalence and perceptions of SME owners regarding dollarization in Dar-es-Salaam region, as well as its impact on SME development. Additionally, it aims to assess the level of awareness among SME owners regarding dollarization in Tanzania. Due to the limited research on the effects of dollarization on SMEs, particularly in the context of price fluctuation, this study aims to fill the knowledge gap by investigating the issue in Tanzania and testing various hypotheses related to dollarization.

By conducting this study, we aim to determine the potential effects of dollarization on small and medium enterprises and shed light on its micro-economic impacts, particularly concerning price fluctuation. This research contributes to the understanding of dollarization's prevalence and impacts on SMEs, offering valuable insights for policymakers, researchers, and entrepreneurs in Tanzania and similar developing economies.

2. Literature Review

The chapter provides a comprehensive review of the existing literature on the strategic planning practices of public institutions in Tanzania. It aims to clarify and define key terms related to the concept of strategic planning and to review both theoretical and empirical literature on the topic. The chapter provides a foundation for the research by analyzing the current state of knowledge on strategic planning practices in public institutions.

2.1. Definition of Key Concepts

SME and dollarization are the most common concepts in this study. They are defined as follows:

2.1.1. Small and Medium Enterprises

Small and Medium Enterprises (SMEs) vary across countries, and Tanzania is no exception. Different criteria are used to describe SMEs, including the number of employees, capital invested, and production capabilities. According to the Tanzania SME Policy (2009), small enterprises are defined as undertakings with employee numbers ranging from 5 to 49 and capital between 5 million to Tsh. 200 million. On the other hand, medium enterprises are described as those with employee numbers between 50 and 99 or capital investments ranging from Tsh. 200 million to Tsh. 800 million.

2.1.2. Dollarization

Various scholars have provided different definitions and classifications of dollarization. Feige (2009) defines it as the substitution of foreign currency for domestic currency to serve as money. Alesina and Barrow (2011) describe it as the use of another country's currency as a legal tender. Dean (2011) categorizes dollarization into *de facto* and *de jure*, based on whether it is adopted by the public or officially by the government. Meyer (2010) classifies dollarization into official dollarization, official semi-dollarization, and unofficial dollarization, depending on the extent of foreign currency usage. De Nicole et al. (2011) further categorize unofficial dollarization into transaction dollarization, real dollarization and financial dollarization. For the purpose of this study, dollarization will be defined as the substitution of foreign currency for domestic currency to fulfill the functions of money, as proposed by Feige (2009). This definition encompasses the core aspect of using foreign currency as a medium of exchange and store of value, which aligns with the focus of assessing dollarization prevalence and its impacts on SME development in Tanzania.

2.2. The Influence of Dollarization on the Growth and Advancement of SMEs

Although there is no official research on the impacts of dollarization on the development of small and medium enterprises (SMEs), most researchers have attempted to explore the general effects on the economy. Despite the limitations noted in the literature review, it is evident that what affects the economy also has repercussions on the development of SMEs. By critically examining the broader view of dollarization and its impact on the economy, the connection between dollarization and SMEs has been established.

In certain political and economic environments, countries have sought solutions to currency problems by abandoning their domestic currencies and adopting stable currencies from larger economies. This decision is often prompted by the poor performance of the financial system, which leads to an unstable value of the domestic currency. According to Ize and Yeyati (2012), this trend is rooted in macroeconomic fundamentals following prolonged episodes of inflation. However, in some cases, such as Panama and Liberia, official dollarization has occurred as a natural outcome of their colonial and historical ties to major economic powers (Saamoi, 2011).

Various studies have found that inflation is one of the driving forces behind dollarization in different countries. As argued by Savastano (2009) and Levy (2010), a history of inflation, and high and variable inflation rates, contribute to financial dollarization. Savastano (2009) mentions that "long-lasting inflationary memories in economies with a track record of monetary mismanagement" foster financial dollarization. Additionally, Guidotti and Rodriguez (2012) argue that high nominal instability can lead to the use of foreign currencies as units of account in inflationary economies.

The literature suggests that the primary driver of dollarization in many countries is the residents' desire to protect the value of their wealth and income from being eroded by inflation and exchange rate depreciation. This implies that economies with higher inflation rates tend to have relatively higher rates of dollarization as savers seek to preserve the real value of their wealth (Pantaleo, 2011).

In an environment of high inflation, the cost of using domestic currency increases. As a result, the confidence in the currency for transactions declines, leading to its substitution with foreign currency (Levy-Yeyati & Arias, 2006).

Following episodes of high inflation and depreciation, many countries have witnessed banks and their customers spontaneously shifting part of their business to foreign currency-denominated deposits and loans (Honohan & Shi, 2009).

Delgado et al. (2011) argue that uncertainty about potential future depreciation, coupled with a high real interest rate for domestic currency lending, makes foreign currency lending more attractive, regardless of the associated risks. Domestic residents turn to foreign currency as a store of value to avoid the depreciation of the domestic currency.

Armas, Ize, and Yeyati (2006) argue that financial dollarization results from a market equilibrium in which both buyers and demanders of funds choose an optimal currency composition. In this process, the drivers highlighted are: maximizing return volatility due to risk aversion favoring a more stable and credible currency in the long run, maximizing credit risk favoring a currency that minimizes the probability of default (in the case of a single creditor or perfect information) or the loss-given default (in the case of multiple creditors and imperfect information), and maximizing the option value of bail-out or deposit guarantees, which promotes a moral hazard-driven equilibrium where the preferred currency maximizes expected costs for the insurer.

Berg and Borensztein (2011) argue that dollarization exists due to two main motives: currency substitution and asset substitution. Currency substitution occurs when foreign assets are used as money, primarily as a means of payment and unit of account. It typically arises in conditions of high inflation or hyperinflation when the high cost of using the domestic currency for transactions.

2.3. The Impact of Dollarization on Trade and Financial Links between Countries

Dollarization may foster greater economic integration beyond what would be achievable with the United States or any other country whose currency is adopted. Several studies have discovered evidence suggesting that Canadian provinces exhibit higher levels of trade volume and price level convergence among themselves compared to their trade with nearby U.S. states, despite the geographical proximity. They trade approximately twenty times more among

themselves than with neighbouring U.S. states. The use of a common currency can thus play a crucial role in market integration, benefiting from relatively low transaction costs and fewer trade restrictions across the U.S.-Canada border. Dollarization could also facilitate closer integration in financial markets. One of the notable effects of Panama's dollarization is the significant integration of its banking system with that of the United States and the rest of the world, particularly after a major liberalization in 1969-70.

In addition to the above perspectives, it is worth considering that dollarization can provide stability and confidence in the local economy, attracting foreign investment and promoting international trade. The use of a globally recognized and stable currency can enhance the credibility of the country's financial system and encourage foreign investors to participate in the local market. Moreover, dollarization eliminates the risk of currency fluctuations, making it easier for businesses to engage in cross-border transactions and mitigate exchange rate risks.

However, it is important to acknowledge that dollarization also comes with its own set of challenges. For instance, a country adopting a foreign currency as legal tender loses control over its monetary policy and the ability to adjust interest rates and exchange rates to respond to domestic economic conditions. This can limit the country's flexibility in managing its economy and addressing specific challenges that may arise. Additionally, dollarization may lead to a loss of seigniorage, the profits derived from issuing and controlling a national currency. This loss can have significant financial implications for the country over the long term.

Overall, the decision to pursue dollarization should be carefully evaluated, considering the potential benefits of economic integration, stability, and attractiveness to foreign investors, while also weighing the limitations and potential trade-offs associated with surrendering monetary policy control and the loss of seigniorage.

When a country becomes highly dollarized, with the dollar serving as the de facto unit of account, the effectiveness of devaluations is limited, and devaluation can quickly lead to domestic price increases. This was one of the key reasons why Argentina adopted a currency board.

In addition to the impact on prices, highly dollarized economies have an additional incentive to avoid devaluation due to the significant negative effects it can have on the balance sheets of banks and corporations. If a country's financial institutions and businesses have substantial dollar-denominated loans, devaluation can greatly worsen their financial position. Even if banks lend in dollars to domestic firms and manage their currency risks accordingly, they still carry a significant currency risk. A sharp depreciation of the domestic currency would result in a substantial drop in dollar revenues for the banks' clients, impairing their ability to repay dollar debts.

The currency crises experienced by Mexico in 1994 and East Asia in 1997 demonstrated the severe consequences when weak banking systems and large foreign exchange exposures exist in the private sector. Following the devaluation, the financial health of banks and companies becomes highly vulnerable, leading to significant disruptions in economic activity. Therefore, in highly dollarized economies, devaluation as a policy option may prove to be excessively costly and a shift towards full dollarization would not result in the loss of an important policy tool.

It is important to consider these factors when evaluating the feasibility and potential benefits of dollarization for a particular country. While dollarization can provide stability and mitigate certain risks, the limitations and potential costs associated with relinquishing control over monetary policy and managing foreign exchange exposures should be carefully weighed.

2.4. The Awareness and Perceptions towards Dollarization in Tanzania

Tanzania has experienced a significant level of unofficial dollarization, making it the most dollarized economy in East Africa over the past two decades. This trend has led to high demand for foreign currency, particularly among importers, including small and medium-sized enterprises (SMEs). As a result, these importers often price their products in foreign currency to account for the necessity of obtaining dollars during the importation process.

Studies by Gianni et al. (2009), Reinhart and Savastano (2009), and Levy (2010) have highlighted that the use of foreign currency alongside local currency has increased in developing countries due to globalization. De Nicolo et al. (2011) have categorized unofficial dollarization into transaction dollarization, financial dollarization, and real dollarization based on the functions of money. In Tanzania, foreign currency is used for various transactions, such as tourist services, international schools, and transit trade. Additionally, there is evidence that domestic transactions in Tanzania, including those in the real estate industry, are increasingly being conducted in U.S. dollars instead of Tanzanian shillings.

Research conducted by Ngowi (2010) in the real estate industry supports the existence of dollarization in Tanzania. Out of 56 analyzed announcements, 51.8% had price tags, and 72.4% of these were dollarized, denoted in USD. This finding suggests that dollarization is a real phenomenon in Tanzania. It is likely that similar results would be obtained if surveys were conducted in other sectors, such as large/tourist hotels, lodges, apartments, travel agencies, educational institutions, consultancy firms, supermarkets, and airport shops.

Furthermore, there are indications of dollarization in other forms, including the pricing of house rent and apartments in foreign currency, especially in areas like Masaki, Osterbay, Mikocheni, Kunduchi and Mbezi Beach. Services such as air tickets, hotel accommodations, conference facilities, school fees, and consultancy fees are also often priced in U.S. dollars.

The distributional effects of dollarization, as studied by Dean and Hira (2010) in Latin America, indicate resistance among those working in the informal sector due to smaller transactions and uneasiness with the currency. Additionally, Albert (2011) argues that countries with concentrated exports in primary commodities are more vulnerable to terms of trade shocks and may benefit more from dollarization. This criterion suggests that a country like Zimbabwe, with primary commodity exports, would be a suitable candidate for dollarization.

The degree of dollarization in Tanzania has shown mixed trends, with a decline to 30% in December 2009, followed by an increase to 40% by December 2011. Despite fluctuations, Tanzania remains the most dollarized economy in East Africa. Unofficial dollarization has been observed not only in Tanzania but also in other countries such as Panama, Argentina, former Soviet States, Zimbabwe, Zambia and Southern Sudan.

These findings highlight the prevalence and significance of unofficial dollarization in Tanzania, underscoring the need for further examination and assessment of its implications for the economy and policy considerations.

2.5. Gaps in the Literature

The existing theoretical and empirical literature on dollarization in Tanzania confirms the presence of dollarization in SMEs. However, similar to studies conducted in other developing countries, there is a lack of comprehensive data that establishes clear connections between dollarization and the growth of SMEs.

Furthermore, research conducted in the Tanzanian context has been unable to provide evidence of a direct link between dollarization in SMEs' transactions and the growth of these firms. This implies that without sufficient research attention given to SMEs' growth, it is difficult to fully understand the dynamics of SMEs firms and their potential to alleviate poverty among business owners and workers in the context of dollarization.

To gain a deeper understanding of the relationship between dollarization and SMEs' growth, further research is needed, focusing specifically on the Tanzanian context. This research should aim at uncovering the specific mechanisms through which dollarization influences SMEs, including the impact on their access to finance, competitiveness in domestic and international markets, and overall business performance. By addressing these knowledge gaps, policymakers and stakeholders can make informed decisions and implement effective strategies to promote sustainable growth and poverty reduction in the context of dollarization.

3. Research Methodology

3.1. Introduction

This chapter provides a detailed overview of the methods employed in conducting the research study. The following sections outline the research design, study area, population, sampling techniques, research instruments, data collection, and data analysis procedures.

3.2. Research Method

The purpose of this study was to evaluate the extent of dollarization in Tanzania and its potential effects on the performance of SMEs. A quantitative approach is considered appropriate. Semi-structured interview approach was chosen as it allows for easy analysis, quantification, and comparison of data. This interview method provides an opportunity to gather in-depth information by probing specific areas of interest (Brewerton & Millward, 2011). The semi-structured format strikes a balance between flexibility and structure, enabling the interviewer to explore relevant topics while maintaining a consistent set of questions across interviews. Furthermore, the use of semi-structured interviews offers several advantages.

Questionnaires were divided into sections carrying both open and closed-ended questions. In order to meet research objectives, probability and non-probability sampling techniques were applied by which quantitative data were collected. A multistage approach was used to select business owners from which a sample was drawn. A sample size of 160 respondents was used as a sample size. The snowball sampling technique was used to obtain interviewees.

According to Best et al. (2008), 'Population' is a group of individuals who have one or more common characteristics that are of interest to the researcher. It is a larger group of people from which the sample is taken.

The study population comprised general managers, senior departmental managers, supervisors and non-managerial staff for each bank.

3.3. Data Analysis

Data analysis is a crucial step in research, involving the careful examination of acquired information and the drawing of meaningful conclusions (Kombo & Tromp, 2006). In this study, the computer package SPSS was utilized. This software enabled the generation of frequencies and figures, providing statistical insights into the collected data. The findings were presented using clear and concise visual aids, such as tables, bar charts, and figures, which served to illustrate the key findings and enhance the understanding of the results.

3.4. Limitation of the Study

Limitations in a study are weaknesses that usually lie outside the researcher's control (Simon, 2011). One of the limitations of the research was the availability and reliability of data on the extent of dollarization in Tanzania. Obtaining accurate and up-to-date data on the level of dollarization and its impact on small and medium-sized enterprises (SMEs) may pose challenges, especially if the data is not readily available or if it is collected through self-reporting, which may be subject to biases. Establishing causality between dollarization and the performance of SMEs can be challenging. The research design should consider the complex interactions between dollarization and other factors that may influence SME performance, such as economic policies, market conditions, or internal organizational factors. Additionally, the findings may be specific to the Tanzanian context and may not be directly applicable to other countries or regions.

3.5. Presentation of Findings

The chapter is structured into subsections, focusing on the composition of respondents and presenting preliminary findings. The respondents' profiles, including gender, age, and years of operation in SMEs' provide essential insights into the study area. The findings presented in this chapter are a result of thorough data analysis.

To analyze the data, the study utilized Statistical Package for Social Science (SPSS) and spreadsheet tools. Frequency tables and charts are employed to describe the findings. The study assigns equal importance to data obtained from questionnaires, interviews, and secondary sources, aiming to explain the impact of dollarization on SMEs in Tanzania. These areas were chosen due to diverse cultural backgrounds, the varying nature of SME activities and the presence of different financial institutions involved in dollarization and SME support.

3.6. Composition of Respondents and Preliminary Findings

This subsection provides a detailed profile of the respondents participating in the study, including their gender, age, and years of operation in the SME sector. These variables have been carefully chosen as they play a crucial role in helping the researcher gauge the level of experience and expertise within the field of study.

| VARIABLE | CATEGORY | NUMBER | PERCENTAGE (%) |
|------------------------|--------------------|--------|----------------|
| Gender | Male | 67 | 67.00% |
| | Female | 33 | 33% |
| Age | 18-30 | 20 | 20% |
| | 30 – 45 | 50 | 50% |
| | above | 30 | 30% |
| Education level | Primary | 57 | 57% |
| | Secondary | 28 | 28% |
| | College/University | 15 | 15% |
| Household Size | <5 | 37 | 37% |
| | >5 | 63 | 63% |
| Marital Status | Married | 64 | 64.00% |
| | Single | 21 | 21% |
| | Divorced | 9 | 9% |
| | Widow | 6 | 6% |
| Experience in Business | <1year | 9 | 9% |
| | 1-5 years | 39 | 39% |
| | >5 years | 52 | 52% |
| Identity of customer | Limited company | 46 | 46% |
| | Society | 9 | 9% |
| | Individual | 45 | 45% |
| Total | | 100 | 100% |

Table 1: Composition of Respondents and Preliminary Findings

3.7. The Profile and Key Characteristics of SME Business Operators in Tanzania

The characteristics of the respondents were examined in terms of gender, age, and education level, with a focus on primary, secondary, and higher levels of education. The study revealed that a higher number of male respondents had obtained advanced loans compared to their female counterparts. This indicates a greater presence of male business operators compared to females in the SME sector. Furthermore, the study found that a significant portion of SME business operators were aged 35 years and above. According to the respondents, this age group was perceived to possess greater business experience and a well-established business network. The findings of this study encompassed both qualitative and quantitative data, aligning with the study's objectives. The primary data analysis results were presented first, followed by the secondary data obtained from business owners, ensuring a comprehensive understanding of the respondents' characteristics and insights.

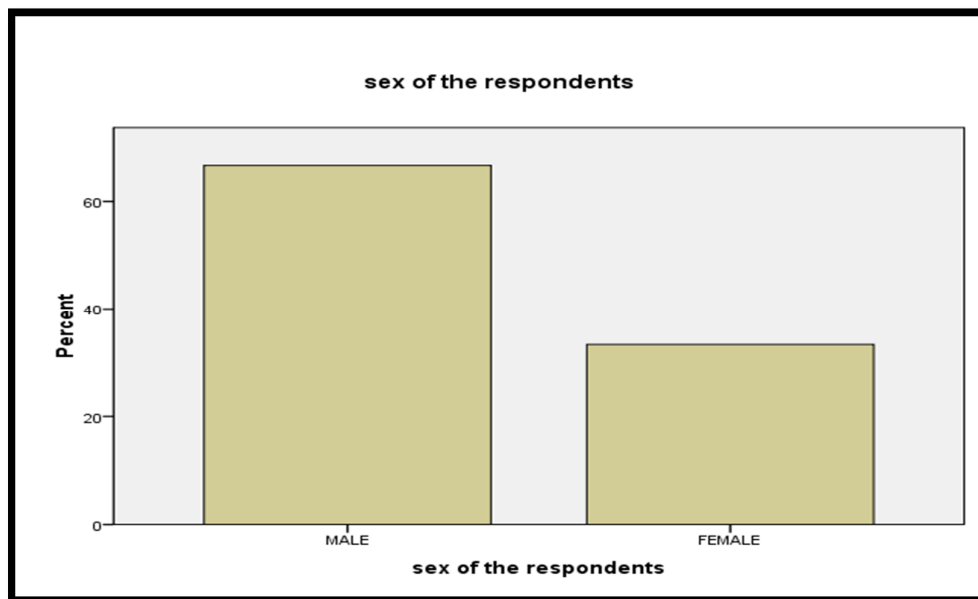


Figure 1: Sex of the Respondents

The study revealed a significant gender disparity among the respondents, with over 70% being men and only 30% being women. This finding highlights the prevailing gender imbalance within the SME sub-sector, indicating that most of the SMEs are owned and operated by men, while women's participation is comparatively lower. This observation aligns with previous research conducted by FAO (2006), which indicated that women are predominantly employed in the informal sector.

Given this gender imbalance, it is recommended that promoting women's involvement in formal business becomes a priority. Efforts should be made to create an enabling environment that supports and encourages women to engage in entrepreneurship and SME activities. This can be achieved through various means, such as providing targeted training programs, access to finance, mentorship opportunities, and addressing societal and cultural barriers that hinder women's participation in formal business sectors. By promoting women's inclusion and empowerment in SMEs, it can contribute to more equitable economic development and enhance overall socio-economic growth.

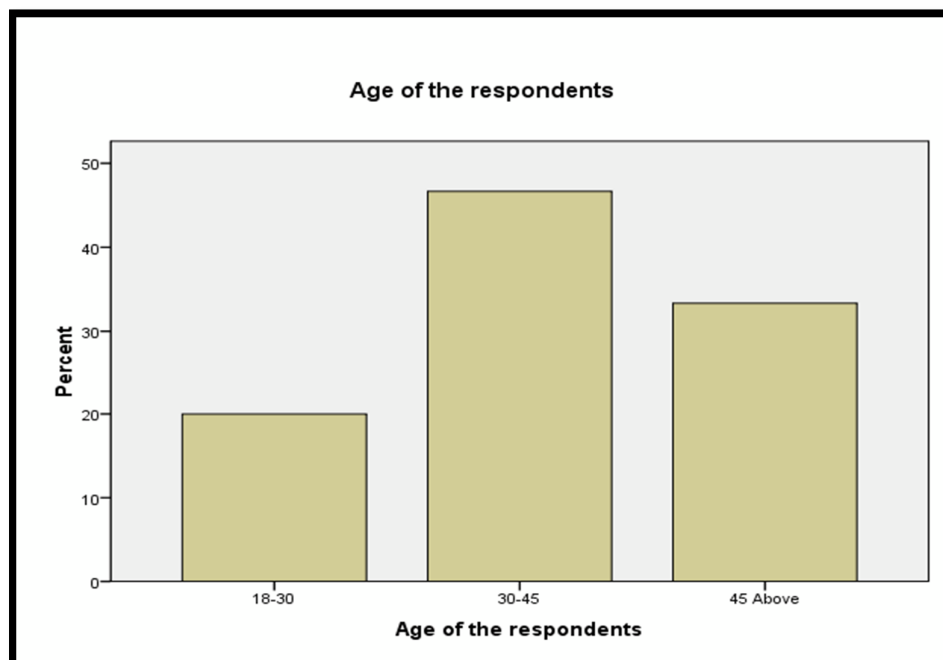


Figure 2: Age of the Respondents

About 50% of the respondents are aged between 30 and 45, and, according to adoption theory, out of them, the younger the respondents, the higher the adoption rate (Ashimogo et al., 2009). This implies that most of the SMEs are owned by old ages. In relation to this, age also has an implication on decision-making. The older the person, the more time

they spend on decision-making, which also has implications for business management. It was noted that most of the respondents are not experienced in business management since they are, on average, 30 years old, and the average years of business ownership is about 2 years. This means they always join the SMEs at older ages.

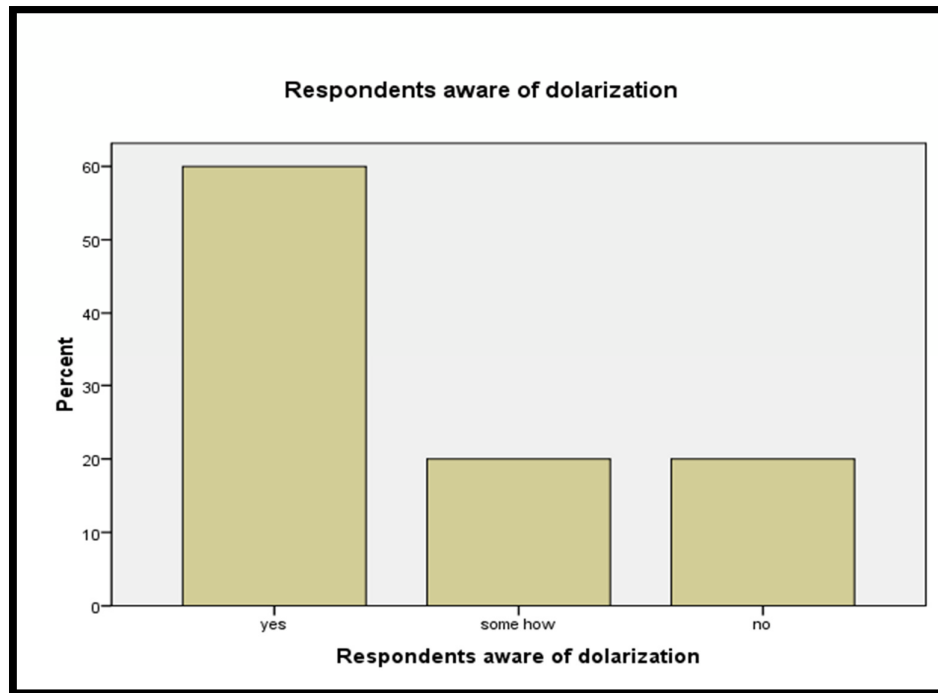


Figure 3: The Respondent's Awareness of the Dollarization

In the findings, it was observed that 80% of the respondents were aware of dollarization and its implications on their business. Many of the respondents expressed concerns about the risks associated with participating in the dollarization system, as they were unable to meet the necessary standards and requirements set by banks and the bureau de change. The fluctuating prices in the exchange markets and bureau de change were identified as major challenges for SMEs operating within the dollarization system. These price fluctuations disrupted the purchasing power of SME operators and created instability in the quoted prices of goods and services due to the variations in the local currency.

The respondents from SMEs consistently highlighted the negative effects of price fluctuations. This supports the initial belief that conducting business in a foreign currency puts SMEs at a disadvantage. Dollarization contributes to the instability of the local currency, resulting in unreliable prices for goods and services and uncertainties in the exchange markets. Since many SMEs sell imported goods or rely on imported raw materials, the prices of final goods are often quoted in dollars, which further exacerbates the impact on their purchasing power.

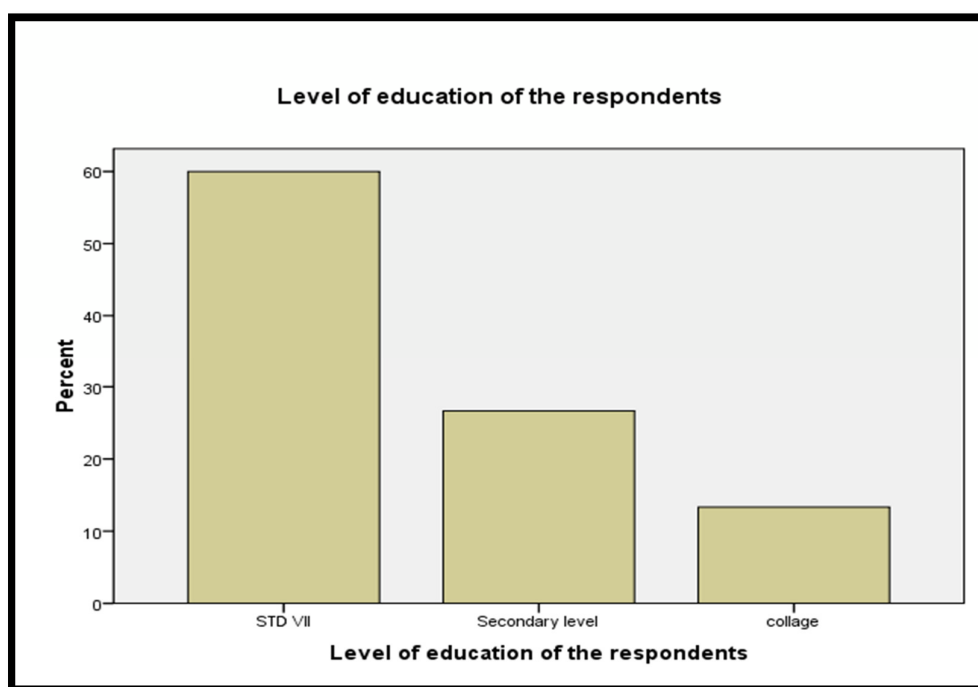


Figure 4: Level of Education of the Respondents

According to the data, 58% of the respondents were found to hold basic primary education. These imply that with their level of education, they can lead a small enterprise. However, it was found to have some challenges, especially when it comes to SMEs' management and development of SMEs' policy or any other factors such as inflation which may, in one way or another, need a high level of business management. This level of education was also found to affect decision-making, for example, most of the respondents were using dollars in their transactions, but they were found to know nothing about its implication on their business. However, they hate using dollars for no critical reasons. The level of education has implications on decision-making and project management. Only 15% of respondents were found to have secondary education and this is a recommended education for at least doing business in a very competitive environment, especially on language since, in some areas, English speaking is important for bargaining and sometimes in bureaus de change. The findings show that only 10% engage in SMEs, which means the more people are educated, the less they engage in small business and this might be one of the facts that the so-called SMEs in Tanzania perform less compared to other EEA countries since the business owners lack most of the important basics of business management and policy set up.

| TYPE | CATEGORY | NUMBER | PERCENTAGE |
|------------|----------|--------|------------|
| HOUSE BOLD | Married | 64 | 64% |
| | Single | 21 | 21% |
| | Divorced | 9 | 9% |
| | Widow | 6 | 6% |
| Total | | 100 | 100% |

Table 2: Marital Status of Respondents

Based on the analyzed data, it was found that 50% of the respondents were involved in individual businesses, indicating that most of the entrepreneurs are operating as individuals or sole proprietors. These findings also revealed that a significant number of SME operators still face business challenges because they are not officially registered, resulting in a lack of business history.

This report presents the results of a practical assessment conducted on the impact of dollarization and its implications for the development of small and medium enterprises (SMEs). The assessment focused on five SMEs that are actively engaged in various industries.

4. Summary, Conclusions and Recommendations of the Study

4.1. Introduction

This chapter provides a comprehensive summary of the study, including the key findings, conclusions, recommendations, limitations, and suggestions for further research. The primary aim of the study was to investigate job-related needs, desires, and expectations linked to employee retention in commercial banks located in Dar es Salaam.

4.2. Summary of the Study

This study aimed to evaluate the impact of dollarization on the development of small and medium enterprises (SMEs) in Dar-es-Salaam city. Specifically, the goal was to determine whether the application of dollarization could lead to poor performance of SMEs. The study was motivated by the need to gain a clear understanding of dollarization and its effects on SMEs' development.

The key findings of the study indicated that dollarization is not an effective tool for fostering the growth of SMEs. In light of this, several recommendations have been proposed to enhance the performance of SMEs and their contribution to household income, thereby improving overall living standards.

One significant recommendation is providing timely and adequate market information to SME owners. Access to accurate and up-to-date price information is crucial for SMEs to respond effectively to market signals and forces. The study revealed that the current provision of price information is inadequate, highlighting the need for SME owners and other stakeholders to explore ways to improve the flow of information.

By implementing these recommendations, SMEs can enhance their decision-making processes, better adapt to market dynamics, and ultimately contribute more effectively to economic growth and poverty reduction.

4.3. Conclusion

The objective of this study was to assess the prevalence of dollarization and its possible impact on the development of small and medium enterprises (SMEs) in Dar es Salaam city. Specifically, the study aimed to analyze the impact of dollarization on the development of SMEs and the awareness and perceptions of SME owners towards dollarization.

The study was motivated by the need to gain a clear understanding of dollarization and its effects on SME development. Data were collected through structured questionnaires from a random sample of 160 respondents from Temeke, Ilala, and Kinondoni Municipalities.

The main results of the study indicated that 80% of respondents were aware of dollarization and its impacts on their businesses. They held negative perceptions toward dollarization. On the other hand, 20% of respondents were not fully aware of the concept but occasionally conducted transactions in dollars without knowing the benefits or drawbacks of dollarization. It is worth noting that although business owners are currently aware of dollarization, they lack awareness of the underlying policies behind the concept.

Promoting the engagement of women in SME management was found to be crucial, as only a few women were found to be involved in SMEs. The majority of SME owners expressed concerns about the instability of prices for goods and services quoted in dollars due to variations in the local currency. This confirms the initial belief that conducting business in a foreign currency puts most SMEs at a disadvantage.

Furthermore, many SMEs complained about the shortage of dollars in the market. This shortage was attributed to the inability of the Forex market to supply sufficient dollars to meet market demands, leading to an expensive United States dollar. As a result, the Tanzanian Shilling has persistently weakened against the dollar, causing significant volatility and price increases. This has had a direct impact on the cost of living for many low-income earners.

Based on these findings, it is crucial to address the challenges posed by dollarization and promote policies and measures that can stabilize prices, ensure sufficient currency supply, and support the development of SMEs. Additionally, efforts should be made to enhance awareness and understanding of dollarization among SME owners to enable informed decision-making.

4.4. Recommendations

The key findings of the study indicate that dollarization is not an effective tool for the development of SMEs. As a result, the study suggests several recommendations to improve the performance of SMEs and enhance their contribution to household income, thereby improving living standards.

Firstly, there is a need for the provision of timely and adequate market information to enable SME owners to respond appropriately to market signals and forces. The study reveals that the current provision of price information is inadequate, calling for the development of various strategies to improve the flow of information by SME owners and policymakers.

Additionally, organizational and institutional reforms are necessary to capitalize on the opportunities and challenges presented by globalization and technological advancements. With increased competition from other business enterprises, these reforms become even more crucial.

Capacity building for SME owners on the concept of dollarization is highly recommended. Many SME owners engage in dollarization without a clear understanding of its implications for their business. Therefore, there is a need to enhance their knowledge and awareness of the concept to ensure informed decision-making.

Furthermore, the study emphasizes the importance of a comprehensive SME development strategy that includes policies to reduce entry costs, stimulate demand, improve accounting practices, and enhance creditworthiness. It also suggests an export promotion strategy to assist smaller firms in entering international markets and adopting cost-saving innovations. Regarding further research, the study suggests exploring related issues in the SME sector and extending research to other sectors of the economy. Comparing SMEs operating under dollarization with those operating without it could provide valuable insights. Additionally, studying the impact of dollarization on SMEs in regions with significant tourist centers, such as the northern zones of Tanzania, is recommended due to the potential effects of dollarization on tourist-related transactions.

In conclusion, the study highlights the limitations of dollarization in fostering SME development and provides recommendations to address these shortcomings. It also identifies areas for further research to deepen understanding and explore the implications of dollarization on SMEs in Tanzania.

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