Commerce

for Secondary Schools
Student's Book

Form Three

Tanzania Institute of Education

TAASISI YA ELIMU TANZANIA
ELIMU NI KAZI

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Commerce

for Secondary Schools

Student's Book

Form Three


THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF EDUCATION,
SCIENCE AND TECHNOLOGY

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Abbreviations and Acronyms

ATMs	:	Automated Teller Machines
BoT	:	Bank of Tanzania
CFA	:	Clearing and Forwarding Agent
COSTECH	:	Commission for Science and Technology
EACB	:	East African Currency Board
E-mail	:	Electronic mail
EPZs	:	Export Processing Zones
EPZA	:	Export Processing Zones Authority
GII	:	Global Innovation Index
ICT	:	Information and Communication Technology
ID	:	Identity Document
MAKISATU	:	Mashindano ya Kitaifa ya Sayansi, Teknolojia na Ubunifu
MoEST	:	Ministry of Education, Science and Technology
NBC	:	National Bank of Commerce
NBFIs	:	Non-Banking Financial Institutions
PBZ	:	People's Bank of Zanzibar
SEZs	:	Special Economic Zones
TANCIS	:	Tanzania Customs Integrated System
TanTrade	:	Tanzania Trade Development Authority
TBS	:	Tanzania Bureau of Standards
TCCIA	:	Tanzania Chamber of Commerce, Industry and Agriculture
TIE	:	Tanzania Institute of Education
TMDA	:	Tanzania Medical and Drugs Authority
TRA	:	Tanzania Revenue Authority
TV	:	Television
WIPO	:	World Intellectual Property Organisation
ZBS	:	Zanzibar Bureau of Standards
ZFDA	:	Zanzibar Food and Drugs Agency
ZNCC	:	Zanzibar National Chamber of Commerce

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Dr Aneth A. Komba
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Tanzania Institute of Education

Preface

This book, *Commerce for Secondary Schools*, is written specifically for Form Three students in the United Republic of Tanzania. It is prepared according to the *2016 Commerce Syllabus for Ordinary Secondary Education Form I-IV* issued by the Ministry of Education, Science and Technology. The book consists of five chapters, namely Business communication, Marketing, Money and banking, International trade, and Entrepreneurship. Each chapter contains text, illustrations, activities, and exercises. You are encouraged to do all the activities and attempt all the given exercises as well as other assignments provided by your teacher. Doing so will enable you to develop the intended competencies.

Tanzania Institute of Education

Chapter One
Business communication

Introduction

Effective business communication is an important condition in business operations. The ability to communicate effectively helps to create a conducive working environment and subsequently improves overall business performance. In this chapter, you will learn about the concept of communication, business communication, barriers to effective communication, communication media, business communication documents and electronic communication. The competencies developed will enable you to communicate effectively and efficiently in different business settings within and outside the country.

The concept of communication

Communication is a two-way process where the message in the form of ideas, facts, opinions or feelings is exchanged between people with the intention of creating a common understanding. In other words, communication is a process of transmitting the intended information and understanding from one person to another. Individuals in organisations spend nearly 70 percent of working hours communicating in the form of writing, reading, speaking, and listening. Communication is only complete when the intended message is clearly understood by the receiver. However, this is not always the case as some barriers often hinder smooth communication. The communication process normally passes through various stages and entails different elements.

Elements of communication

Communication is a dynamic process which starts with the formulation of ideas by the sender who later transmits these ideas through a selected medium to the receiver. The receiver in turn gives feedback in the form of a message or signal within a particular timeframe. Figure 1.1 indicates the main elements of communication process.

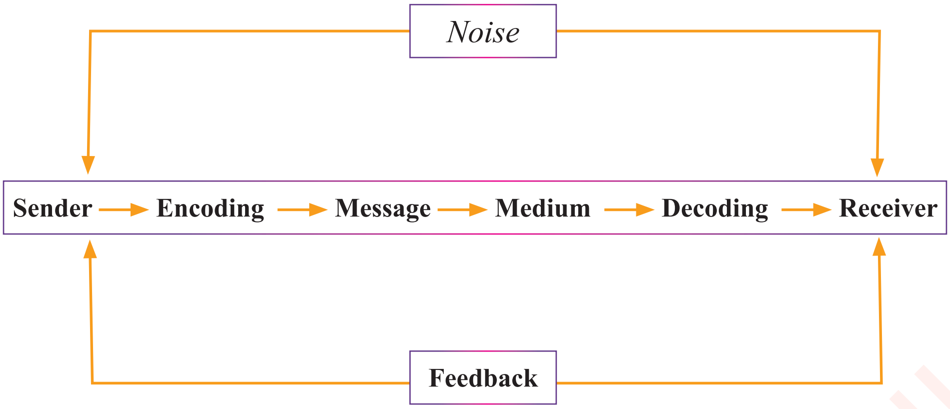


Figure 1.1: *Elements of the communication process*

Sender: The sender represents the source of information which is communicated. The sender initiates the conversation and conceptualises the desired idea for a particular communication purpose.

Encoding: This is a process in which the sender converts an idea into a message in the form of communication symbols such as words, pictures, and gestures. The sender's knowledge, skills, perception, background, and competencies have great impact on the success of the message. It is important for the sender to use symbols and language that the intended receiver understands. A good way for the sender to encode the message, is to mentally visualise the communication from the receiver's point of view.

Message: Message is a focus of the communication process. The message includes the information (ideas, feelings, suggestions, and orders) or the content of the communication that the sender intends to relay to the receiver. The message may be in the form of spoken or written words, some behaviours of a person (a receiver or a sender) beyond words such as clothing, gestures and eye contact. When communicators use word message, the non-word behaviours may be used to enrich the word message. The purpose of a message is to trigger the response of a receiver.

Medium: This is a path through which the encoded message is transmitted to the receiver (s). Sometimes the medium is referred to as the channel of communication. It may be in written, oral or visual (symbolic) form. The sender must select the medium carefully to ensure that the message is correctly interpreted by the receiver. The choice of medium depends on various factors. These factors include interpersonal relationships, urgency, cost, location of the audience, nature of the audience, sensitivity of the message, and length of a message. So, it is important to make sure that appropriate channel or media is used to communicate with target receiver.

Decoding: Decoding refers to the process in which the receiver interprets the sender's message and tries to understand it. Effective communication occurs only if the receiver understands the message in the way intended by the sender.

Receiver: The receiver is the person to whom the message is intended. The purpose of communication process is for the receiver to interpret the message such that the communication objective is reached. The degree to which the receiver decodes the message depends on knowledge of the subject matter, experience, trust, and relationship with the sender.

Feedback: Feedback includes all the responsive actions of the receivers indicating that they have received and understood a message. Feedback is the final step of the process which ensures that the receiver has received the message and interpreted it correctly as intended by the sender. Feedback is a key component in the communication process as it permits the sender to recognise the effectiveness of the sent message. Feedback ultimately provides an opportunity for the sender to take corrective action to clarify a misunderstood message.

NOTE

Noise represents any barrier to communication which interferes or creates some obstacles to communication process. This barrier may affect any element of the process of communication externally or internally. External noise refers to factors from outside a person or a communicator. These factors include non-working media, traffic, music, power cut for telephone line and internet failure. The internal noises have sources within a person in the communication processes. The examples of internal noise include temporary irritation, body discomfort, and lack of interest which may cause a communicator to lose concentration.

Functions of communication

Communication serves the following functions:

Informing: The main function of communication is to help people acquire knowledge and information of what they do not have yet. Knowledge sharing is the process of delivering some form of information, skills, or expertise to people who could benefit from it. Making timely and correct decisions requires updated and relevant information.

Persuading: It is sometimes referred to as motivational or influential communication function. Communication can be used to tell a person to perform a certain task or exhibit a certain behaviour. The message can be used to convince individuals that their actions are important at the individual or organisational level. Persuasion can be used to entice people to agree or disagree with certain ideas or do certain actions which the communicator desires.

Entertaining: It is a communication function which mainly aims at audience enjoyment. Entertaining speeches function as a way to divert an audience from their day-to-day lives for a short period of time. This function can reduce stress and fatigue.

Integrating: Communication is used to promote coordination of activities performed by various individuals and groups to achieve a common goal. Effective communication helps to coordinate different processes and activities such as sports and meeting.

Controlling: Communication can be used to transmit directives and guidance to enable people to accomplish particular tasks. Through communication, individuals and groups may be provided with directives on what to do and how to do it.

Evaluating: Communication is a tool to appraise an individual, team or product, and their contribution to the organisation. Evaluating one's own inputs or other's outputs demand an adequate and effective communication process.

Publicising: This refers to image building through an effective system of internal and external communication. With such system, an organisation informs the society about its goals, activities, progress and social responsibility. In this regard, communication creates relationships with workers, customers, suppliers, investors, general community and the government.

Activity 1.1

1. Think of any information you would like to communicate to your fellow students and then, respond to the following questions:
   (a) Who will be a sender and receivers of the message?
   (b) What are the expected noises during that process?
   (c) Identify the encoding and decoding activities in that process.
2. Relate each communication function to a business situation then, describe how each function can contribute to business survival.
3. Share your work by presenting it in the class.

Exercise 1.1

1. "Communication is what it does". Explain.
2. Describe the key elements of communication.

Business communication

Business communication is a broad concept that can be defined as the transfer of information from the source to the receiver within and outside an organisation. Business communication can be expressed through speaking, listening, writing, and reading or implied from the behaviour of a communicator. Thus, it may stem from an act of the communicator or omission to act in some circumstances.

Effective and efficient business communication occurs when employees, management, customers, and other business stakeholders interact with each other to attain business objectives or goals.

Importance of business communication

Business communication plays an important role in the business world as follows:

Enhances information sharing: Communication is the exchange of information between two or more parties. Through communication, businesses exchange information with internal and external parties.

Facilitates planning and execution: Planning is pre-determination of the future. Execution is the implementation of plans. Both planning and execution require communication of goals, targets, standards and instructions. Actors in business who have adequate information can prepare effective business plans and policies. These are to be communicated for effective implementation. Realistic plans and policies require adequate and relevant information circulated to the internal and external stakeholders.

Increases efficiency: Communication enables objectives, plans, policies, rules, directives, and other complex matters to be shared to the staff and customers. This helps the communicators at all levels to be conscious of their roles. Hence, business communication makes it possible to accomplish jobs and achievement of business goals efficiently.

Empowers members of an organisation: Communication ensures that members of an organisation have the right information about the business roles and responsibilities.

Reduces misunderstanding: Communication in business helps to overcome and avoid disagreements and controversies in business. One key way to reduce misunderstanding is to improve relations between workers and management at the workplace.

Facilitates decision making: Communication fosters effective decision making because it provides information which is the input for decision making. Communication helps in the understanding of a problem, identification and evaluation of alternatives, and making a choice based on the selected alternatives.

Exercise 1.2

1. Communication can mean a different thing to different people. What does communication mean to a business person?
2. Information has a meaning when it is delivered in the right form to the right person and acted upon as expected. In all circumstances, there must be an effective business communication. Explain the importance of having an effective business communication in the business environment.

Barriers to effective business communication

Barriers to communication can be defined as anything that prevents or restricts communicators from delivering the right message and feedback to the right person at the right time. These obstacles include loud music or emotions such as when a person is too angry or fearful to listen to what another individual is saying. The effective business communication requires minimisation of the various types of communication barriers.

Types of communication barriers

The following are the types of communication barriers:

Personal barriers: Person barriers refer to the experience someone goes through in life which influences the attitude towards the communication. Such barriers include emotions, stress, and fear which may prevent information among participants. The said barriers tend to reduce understanding, reasoning and decision-making capacity of an individual. The personal barriers can be reduced by avoiding 'know-it-all' attitude, studying the nature of the people being dealt with, that is, their educational background, beliefs, situations and life experiences.

Physical barriers: Physical barriers refer to environmental factors which can prevent the smooth flow of information. Such barriers include noise, distance, closed office doors, breakdown of communication media, and separate or special areas for people of different status. Such factors prevent a timely sharing of information between communicators, and consequently, they delay organisation activities. To reduce the impact of physical barriers provide plenty of opportunities for collaboration, arrange settings such that the atmosphere is pleasant and ensure that the equipment are well placed.

Semantic barriers: Semantic barriers occur when the receiver does not understand the words or signs used by the senders. Ways of reducing semantic barriers include the selection of words that can easily reflect the desired response, avoid symbols that can irritate the audience or reduce ambiguity and understand the culture of the audience.

Cultural barriers: Cultural barriers refer to factors which originate from cultural differences between communicators. Some cultural differences stem from differences in social status of communicators, cultural background, language and/or religion. Such barriers influence the way people behave and adapt to the practices of an organisation. Business setting must be designed to accommodate people with cultural differences so that every member of the organisation becomes part of the communication process. For example, some decisions may be perceived differently between people of different religions or ethnic origin. Cultural barriers can be reduced by ensuring proper choice of words, channel, and message which consider the cultural differences of communicators.

Organisational barriers: Organisational barriers refer to the nature of information flow between the various levels of management in a business. Organisational structure of some organisations can be a barrier for efficient communication. Such organisation structure may have inefficient information sharing and communication systems, often resulting in frustrations, lack of engagement and productivity among employees. Organisational barriers can be reduced by improving information sharing, transparency, accountability, listening, providing feedback, as well as discouraging gossips.

Activity 1.2

1. Split into small groups and come up with a practical solution for the following barriers:
   (a) People working in isolated office or environment;
   (b) Dealing with a customer who talks too much;
   (c) Working in a noisy business location;
   (d) Dealing with a frustrated client; and
   (e) Dealing with visual distractions

   One representative from each group should present the practical solutions based on their discussion.
2. Practice the Chinese whisper exercise then, identify all barriers associated with communication process that may have led to the message received by the last person in the chain.

Exercise 1.3

Communication barriers result in poor communication. Describe various ways to reduce barrier in communication.

The concept of communication media or channel

Communication media is defined as means of delivering or receiving a message. The effective communication requires the use of a common language that is understood by both the sender and receiver. Hence, the choice of communication media is essential for effective communication.

Types of communication media

The following are types of communication media:

Verbal communication

In verbal communication, the message is transmitted through the use of words such as face to face speaking, use of cell phones, journals and magazines.

Types of verbal communication

Verbal communication is divided into oral and written communication as follows:

Oral communication media: The oral communication channels refer to exchange of ideas, information and emotions through spoken words. This mode of communication is highly used across the world because of rapid transmission of information and prompt response. The effectiveness of oral communication depends on the tone of the speaker, clarity of speech, volume, speed, body language, and the quality of words used in the conversation. The feedback for oral communication is immediate since there is simultaneous transmission and receipt of the message.

Written communication media: The written communication media refer to exchange of ideas, emotions, and facts through composed text. It is a reliable mode of communication that is often used in distant communication and formal communication, for example newspapers, letters and books.

To sum up, the choice of verbal communication depends on the level of formality of the communication process, the need for record, the nature of the audience, urgency of the information, resources and relations of the communicators. Table 1.1 presents the differences between written and oral communication media.

Table 1.1: *Differences between written and oral communication media*

Basis	Written communication	Oral communication
Documentation or record	It has permanent record that can be used for future reference	Oral messages or information are not normally preserved so they cannot be used as reference
Cost	Usually involves higher cost because pen, paper, ink, and printing materials are required to prepare the message	Less costly because it does not require a pen, paper, ink, and printing materials to prepare the message
Feedback	Usually takes time to receive feedback	Immediate feedback is possible
Flexibility	More rigid and structured	It can easily be changed and adjusted (flexible)
Transmission speed	Takes more time to prepare and transmit	Takes less time to prepare and transmit
Formality	More formal	Less formal
Distortion	Difficult to distort	Highly proned to distortion
Applicability	Applicable only to the literate	Applicable to both literate and illiterate

Activity 1.3

Think of any business of your choice. Explain ways that you can apply written communication when dealing with customers.

Exercise 1.4

Both oral and written communication play a significant role in transferring information from one business to another. Based on that, answer the following questions:

(a) Explain on the meaning of oral and written communication as used in the business communication; and

(b) In which context can the two concepts in part (a) be used in business communication.

Non-verbal communication

Non-verbal communication refers to the process of transferring information by using wordless symbols of language or cues. It can be through the use of body language, visuals and voice. It involves the use of eye contact, facial expressions, voice tones, signs, symbols, appearance and distance between the interacting individuals. People often use non-verbal communication knowingly and unknowingly. A substantial portion of communication in business setting is non-verbal. It reveals peoples' qualities and has effects on the relations between each other. The interpretation of non-verbal communication varies with culture. Some cultures are reactive to certain forms of body languages and visuals, however people of such cultural orientation may be reluctant to respond to such messages.

Categories of non-verbal communication

Non-verbal communication can be classified in the following categories:

Body language

Body language as a type of non-verbal communication takes place in the following forms:

Facial expression: Facial expression involves the uses of eyebrows, mouth, eyes and facial muscles to convey emotions or information of a person. For example, when surprised, people could raise their eyebrows and open their eyes widely.

Posture: Posture involves the way a person sits or stands. Posture can be used to communicate a person's comfort level, professionalism and general disposition towards another person or conversation. For example, someone might slouch their shoulders if they feel tired, frustrated or cross their arms if they are feeling angry or nervous.

Gestures: Gestures refer to movement of the body parts, such as a hand or the head to express an idea or meaning. While gestures vary widely across communities, they are generally used both intentionally and unintentionally to convey information to others. For example, someone might raise a hand up if they want to answer a question, or point at something they are talking about.

Eye movement: Eye movement refers to the use of eye contact to communicate a person's attention and interest. For example, eye contacts with someone may have cultural implication on respect and interest one has on the message or information.

Paralanguage: Paralanguage includes the non-language elements of speech, such as a person's talking speed, pitch, intonation, volume, and emphasis. For example, a person might speak quickly if they are excited, or shout when they are angry.

Haptics: Haptics means anything relating to the sense of touch. After vision it is the second most important way in which humans explore, understand, and interact with the world. Most commonly, haptics is used to communicate support or comfort. This form of communication should be used sparingly and only when a person knows that the receiving party appreciates it. It should never be used to convey anger, frustration or any other negative emotions. For example, a handshake can be used to seal an agreement or placing a hand on a friend's shoulder may convey support or empathy.

Proxemics

This entails the utilisation of a space. Creating or closing distance between communicators can convey messages about the level of comfort, the importance of the conversation, desire to support or connect with others. For example, one might stand two to three feet away from a new contact to respect their boundaries.

Appearance and accessories

Appearance refers to the way humans dress, groom, and present themselves physically. A particular appearance has a lot to communicate in business. Accessories on the other hand, refer to additional objects that impact the appearance. In interpersonal communication, the appearance and accessories of the participants establish their social identity or status. Messages designed to construct a social identity for the participants is sent through appearance and accessories. Normally, these messages would sound simple if constructed by verbal means. For instance, thoughtful people may not use expressions such as 'I am trying to impress you' or 'I am trying to control you,' but can regularly and repeatedly communicate such messages visually through the clothes they wear and the accessories they own. Appearance has a great impact on one's self-image and on the message, it communicates to other people. As such, it is a major factor in shaping personal behaviour and the behaviour of others in an interaction.

Silence

Silence refers to the act of pausing briefly between sentences or not communicating at all. Silence can be positive when it provides a health break from verbal communication and gives chance to reflect on what has been said. Silence can also be negative when used to show disapproval, anger, or rejection.

Benefits of non-verbal communication

Non-verbal communication is important because it gives valuable information about attitude and perception on the communicated verbal information. The ability to understand the responses of non-verbal communication is a precious skill that one can use to design appropriate strategies to approach a person or a group of people. There are several ways in which non-verbal communication can support a person's ability to communicate effectively in a particular business organisation. The following are the benefits of non-verbal communication:

Supports verbal messages: Non-verbal communication can emphasise the content of a person's oral or written message. For example, using hand gestures to indicate the importance of an idea may tell listeners to pay attention and remember a key point.

Shows intention: A person's body language may intentionally or unintentionally express the person's current purpose. For example, people may pick up non-verbal signals that indicate being dishonest, unengaged, excited or aggressive.

Conveys feelings: A person may use non-verbal communication to show emotions, such as disappointment, relief, happiness, and contentment.

Showcases personality: Non-verbal communication is a great way to show who a person is. For example, a kind and optimistic person might frequently smile with open body language and offer friendly touches.

Indicates a desired action: An individual may make a move toward a door to indicate the desire to leave the room or may raise a hand to offer an idea.

De-escalates tension: Using a calm tone of voice, open posture and directive gestures may help to resolve a difficult situation.

Uses of non-verbal communication

Non-verbal communication can send a strong message in spite of what can be expressed through words as it can be used to:

(a) Make a repetition to emphasise on the message said verbally;

(b) Contradict or show disagreement with the message said verbally;

(c) Substitute a verbally communicated message, for example, the facial expression can indicate a far more serious message than what words can do;

(d) Complement what is being said, for example, patting an employee on the back in addition to giving verbal praise; and

(e) Accent or emphasize by adding meaning to the message, like pounding a hand on a table to show how angry or frustrated one is.

Factors that influence the choice of communication media

People and organisations should be familiar with various communication media or channel and different factors which should be considered when selecting communication media to be used. In order to decide on the appropriate medium of communication (face-to-face, newspapers, radio, web pages, fliers, television or telephone), the following factors may be put into consideration:

Quickness or speed: Speed is the rate at which someone or something is able to move or operate. A communicator may need to speed up the transmission of a message from the sender to the receiver on the basis of the importance and urgency.

Accuracy: Accuracy refers to the quality or state of being correct or precise. Different media provide varying levels of accuracy. The written medium is often perceived as more accurate due to its formality as compared to oral.

Safety: Safety refers to the condition of being protected from danger, risk, or destruction. Some media are safer than others. For safety purposes, important documents may be sent by registered post; for further safety by registered and insured post.

Confidentiality: Confidentiality refers to the state of keeping something secret or private. In business, certain messages have to be kept confidential. When secrecy is to be ensured, then handling the message should be taken into account.

Record: Record refers to a piece of evidence about the past, especially an account kept in writing or some other permanent form. A record of the message is essential and possible especially when it is written. In some cases, a record of the communication is desirable. This makes it necessary for a choice of the written communication.

Cost: The choice of a media depends on the cost of sending information. For example, teleconferencing equipment are efficient alternative to physical meeting. However, they are costly.

Distance: The distance between communicators is an important factor for a choice of the media. If the distance is short, face to face communication is suitable. The networked world can be connected by using electronic communication such as phone, telegram, letter, e-mails or skype when the sender and receiver are distant.

Exercise 1.5

1. In the delivery of information, the sender always selects the best media to deliver the message to the audience. Explain the relevant factors to be considered by the sender when selecting the medium to disseminate the information.
2. There are a number of ways in which non-verbal communication can be utilised. Provide an explanation on the different forms of non-verbal communication mostly likely to be utilised by senders of information.
3. Non-verbal communication has its own strengths and weaknesses when selected as a mean of communication. However, many benefits are resulting from the use of non-verbal communication. Describe the use of non-verbal communication.

Business communication documents

Business firms use certain documents to facilitate internal and external communication. Such documents range from brief e-mail messages to complex legal agreements. These documents must be well written to support smooth business dealings. Further, they may be used as references.

Types of business communication documents

The following are the types of business communication documents:

Legal or regulatory documents

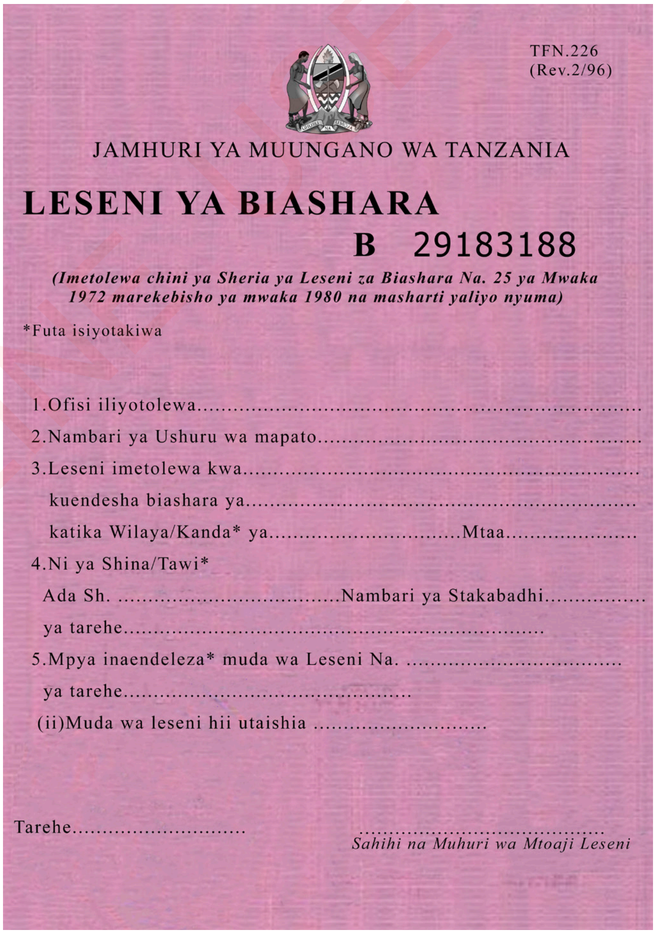
Legal document refers to any document which indicates contractual relationship and specifies duties as well as rights of an individual or organisation which are considered to be legally enforced. These documents play an essential role in protecting interests of the business. The following are some legal documents:

By-laws: The by-laws are prepared to encompass all legal documents established to govern a particular business. By-laws spell out a business' structure, individual roles, communication and governance issues, for example, staff regulations.

License or permit: The license or permit is used to provide permission to do something, and they often set out how long someone may act or be allowed to do something, as well as the fee to pay if available. Figure 1.2 shows a sample of a business license.

Non-disclosure agreement: The non-disclosure agreement is a legal contract that establishes confidential relationship. The party or parties signing the contract agree that sensitive information that they may obtain between them will not be made available to others. In this case, the shared information is protected. Examples of this information may be client list, financial records, project details, pricing plans and designing ideas.

Meeting proceedings: Document of meeting proceedings are used to plan, organise and keep records of meetings. These documents include the notice, agenda, and minutes. A notice is a document sent to alert those required to attend a meeting. Agenda is a list of


TFN.226
(Rev.2/96)

JAMHURI YA MUUNGANO WA TANZANIA

LESENI YA BIASHARA

B 29183188

(Imetolewa chini ya Sheria ya Leseni za Biashara Na. 25 ya Mwaka 1972 marekebisho ya mwaka 1980 na masharti yaliyo nyuma)

*Futa isiyotakiwa

1.Ofisi iliyotolewa..

2.Nambari ya Ushuru wa mapato..

3.Leseni imetolewa kwa...

kuendesha biashara ya...

katika Wilaya/Kanda* ya.............................Mtaa.......................

4.Ni ya Shina/Tawi*

Ada Sh. ....Nambari ya Stakabadhi.................

ya tarehe...

5.Mpya inaendeleza* muda wa Leseni Na. ....

ya tarehe...

(ii)Muda wa leseni hii utaishia ....

Tarehe............................

....
Sahihi na Muhuri wa Mtoaji Leseni

Figure 1.2: *A sample of business license*

topics to be discussed in an upcoming meeting. Agenda are usually distributed to the participants beforehand except for extra-ordinary meetings. Minutes refer to official account of what occurred during the meetings, including any decisions made or actions taken. They should be detailed enough to serve as institutional memory for the businesses. They should include: type of meeting, time and place of meeting, detailed attendance, all actions taken such as purchases and elections as well as any votes. Figure 1.3 shows a sample of a meeting notice as one of the meeting documents.

Contracts: A contract document sets the obligations and expectations of the business and other parties in order to minimise disputes. Once members sign the document, it becomes an official binding contract. A common contract is an employment agreement. This agreement includes the obligations that both the employee and the employer will be subjected to. Other contracts include rent or occupancy contracts and memorandum of understanding.

NOTICE OF MEETING OF BOARD OF DIRECTORS

EGM Co.Ltd,
P.O.Box 0001,
DAR ES SALAAM.

1st September 2022

Dear Sir/Madam,

NOTICE OF THE BOARD OF DIRECTORS' MEETING

This is to inform you that, the second meeting of the Board of Directors will be held at the head office of the Company on September 23,2022 at 10.00 am.

You are duly requested to attend the meeting.

Yours sincerely,

Makando, E.G
Secretary

Agenda:

1. ....
2. ....
3. ....
4. ....

Figure 1.3: *Sample of a meeting notice*

Business plan: A business plan is a formal statement of business goals and plans for reaching them. Business plans help clarify business ideas, spot potential problems, set out goals, measure progress, and secure investment capital. It can also help to convince stakeholders to support a business.

Correspondence documents

The correspondence documents are communication in the form of letters or e-mails. These documents are distinguished from other documents by the fact that they are typically addressed to a specific individual or group, and are often intended to be delivered by a third party. Examples of these documents are as follows:

E-mails and memorandums: Employees in a business organisation frequently use e-mails to communicate. Before e-mail became popular, memorandums were used for intra-office messages. Memos are still used in situations where a message is meant to accompany a specific file and in cases that require more privacy than an e-mail. Both a memo and an e-mail identify the sender and the recipient, and they contain a subject line.

Business letters: Business letters are used to communicate with individuals outside a particular business organisation. Receivers of these letters may be customers, service providers, consultants, government officials, and job applicants. These letters are always formal and can be e-mailed or delivered by courier.

Reporting documents

A report is a clearly structured document in which the writer identifies and examines issues, events or findings of an investigation. Structure varies between institutions, organisations, disciplines, and units. They are generally organised into sections using clear headings. Reports are classified according to several factors including:

Frequency: How often are they generated? For example, annually, quarterly, or daily.

Source: Who generates it? For example, a department, an institution, or an auditor.

Destination: Where is it being sent? For example, to the management, to the investors, or to the customers.

Level of formality: How formal is it? For example, formal, informal, or semi-formal.

Length: How long is it? For example, short or long.

Content: What does it contain? For example, observations, opinions, facts or recommendation.

A report's medium, format, style and structure depend on its classification. Figure 1.4 shows the format of various reports.

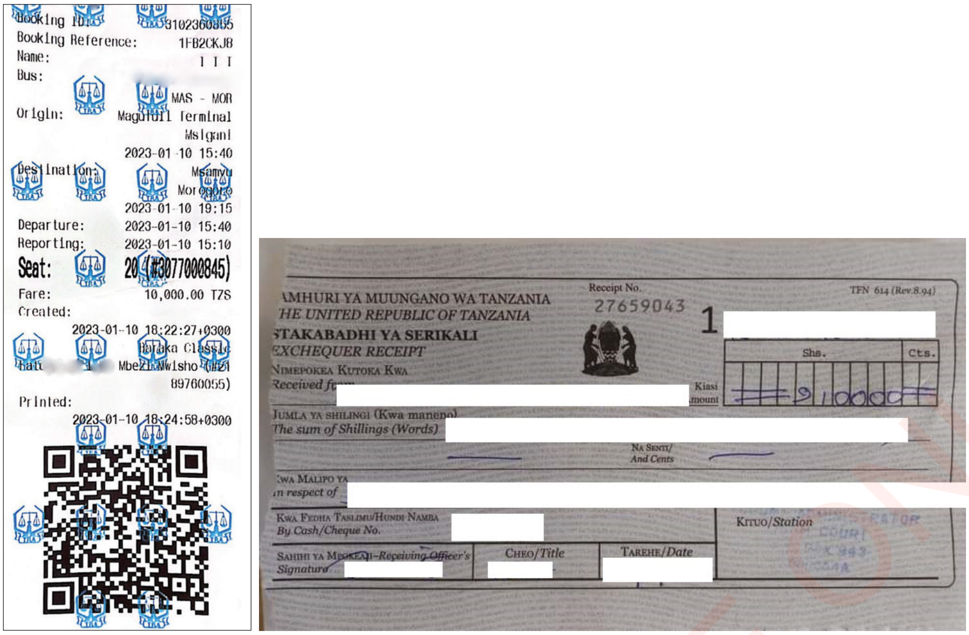
Short report	Scientific report	Engineering report	Business report	Research report	
Title page	Title page Abstract	Title page Executive summary	Title page Executive summary Table of contents	Title page Abstract Table of contents	**Front matter**
Introduction Discussion Conclusion	Introduction Method and materials results Discussion Conclusion Recommendations	Introduction Objectives analysis Discussion Recommendations Conclusion	Introduction Discussion Conclusion Recommendations	Introduction Literature review methodology results Discussion Conclusion Recommendations	**Body**
References Appendices	References Appendices	References Appendices	References Appendices	References Appendices	**Back matter**

Figure 1.4: *Format of various reports*

Business reports convey information in a format that is more formal and usually longer than a letter. They may be written to cover a variety of topics of business operations, such as safety compliance, sales figures, financial data, feasibility studies and marketing plans. The contents of a report may include statistics, charts, graphs, images, case studies, and survey results.

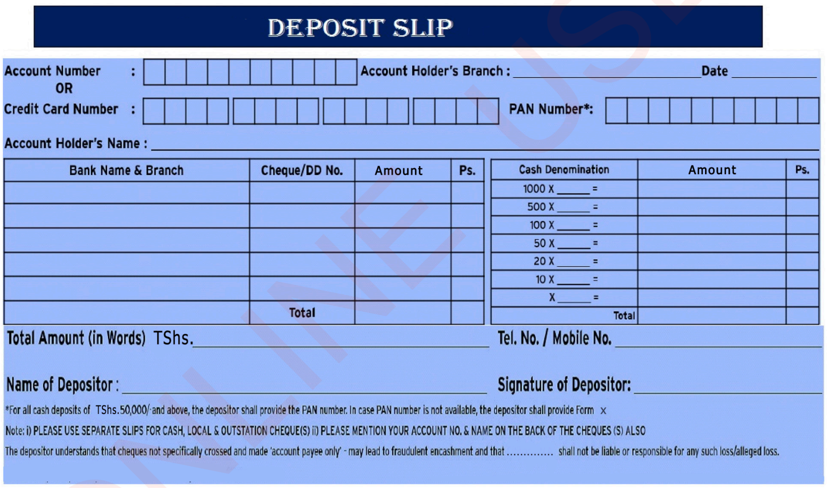
Transactional documents

The transactional documents such as a receipt and deposit slip provide evidence for exchange or interaction between people, especially in buying and selling. The types of transactional documents vary by the nature of a business. An insurance agent, for example, generates insurance application forms and insurance policies, while a lender uses loan application forms and loan agreements. These documents may be formatted as a form, as it is for an order form, transmittal page, invoice or receipt. Figure 1.5 and Figure 1.6 show sample of receipts and deposit slip respectively.


Booking ID: 3102360005
Booking Reference: 1FB2CKJ8
Name: I I I
Bus:
Origin: MAS - MOR Magufuli Terminal Msigani 2023-01-10 15:40
Destination: Msamvu Morogoro 2023-01-10 19:15
Departure: 2023-01-10 15:40
Reporting: 2023-01-10 15:10
Seat: 20 (#3077000845)
Fare: 10,000.00 TZS
Created: 2023-01-10 18:22:27+0300
Baraka Classic Mbezi Mwisho (#21 89760055)
Printed: 2023-01-10 18:24:58+0300

JAMHURI YA MUUNGANO WA TANZANIA
THE UNITED REPUBLIC OF TANZANIA
STAKABADHI YA SERIKALI
EXCHEQUER RECEIPT
Receipt No. 27659043
TFN 614 (Rev.8.94)
Nimepokea Kutoka Kwa
Received from
Kiasi Amount
Shs. | Cts.
Jumla ya shilingi (Kwa maneno)
The sum of Shillings (Words)
Na Senti/ And Cents
Kwa Malipo ya
In respect of
Kwa Fedha Taslimu/Hundi Namba
By Cash/Cheque No.
Kituo/Station
Sahihi ya Mpokeaji–Receiving Officer's Signature | Cheo/Title | Tarehe/Date

Figure 1.5: *Sample of receipts*


DEPOSIT SLIP

Account Number OR Credit Card Number : Account Holder's Branch : Date PAN Number*:
Account Holder's Name :

Bank Name & Branch	Cheque/DD No.	Amount	Ps.
	Total		

Cash Denomination	Amount	Ps.
1000 X ____ =		
500 X ____ =		
100 X ____ =		
50 X ____ =		
20 X ____ =		
10 X ____ =		
X ____ =		
Total		

Total Amount (in Words) TShs.______ Tel. No. / Mobile No.______

Name of Depositor :______ Signature of Depositor:______

*For all cash deposits of TShs.50,000/ and above, the depositor shall provide the PAN number. In case PAN number is not available, the depositor shall provide Form X

Note: i) PLEASE USE SEPARATE SLIPS FOR CASH, LOCAL & OUTSTATION CHEQUE(S) ii) PLEASE MENTION YOUR ACCOUNT NO. & NAME ON THE BACK OF THE CHEQUES (S) ALSO

The depositor understands that cheques not specifically crossed and made 'account payee only' - may lead to fraudulent encashment and that .... shall not be liable or responsible for any such loss/alleged loss.

Figure 1.6: *Sample of a deposit slip*

Financial documents

The financial documents are used for reporting financial information of a business in a standardised format. A business organisation also uses financial documents to stay within its budget, prepare budget proposals, and file tax returns. These documents include receipt records, payroll reports, paid bills, bank statements, income statements, statement of financial position (balance sheets), and tax reporting forms. Such documents are often prepared by Accountants. Figure 1.7 shows an example of the income statement.

Elimika Company Ltd		
Income statement for the year ending December 31, 2018		
	Amount (TShs)	**Amount (TShs)**
Sales	180,000,000.00	
Cost of sales	(100,000,000.000)	
Gross profit		80,000,000.00
Operating expences		
Selling expences		
Advertisement expenses	6,000,000.00	
Commission expenses	3,500,000.00	
Total selling expenses		(9,500,000.00)
Administrative expenses		
Office supplies expenses	2,500,000.00	
Office equipment expenses	2,000,000.00	
Total administrative expense		(4,500,000.00)
Total operating expenses		(14,000,000.00)
Operating profit		66,000,000.00

Figure 1.7: *Sample of an income statement*

Characteristics of effective business communication and documents

The following are the characteristics of effective business communication documents:

Ability to provide practical information: The business communication documents should be able to describe how something should be done, explain why a certain procedure is needed, highlight the cause of a problem or a possible solution, discuss the status of a business project, or explain why a new piece of equipment or a particular technology should be purchased.

Ability to provide facts rather than impression: Business messages need to use actual and specific details. Information must be clear, convincing, accurate, and ethical. The message to be transmitted should provide proper evidence and not simply opinions and present all sides of an argument.

Ability to provide adequate clarification of important information: Business messages are more effective if they adequately use tables, charts, photos, or diagrams to clarify or summarise information, to explain a process, or to emphasise important information.

Ability to outline precise responsibilities: The information in business documents should be directed to a specific audience. Therefore, business communication documents must clearly state what is expected of, or what can be done for the particular audience.

Ability to persuade employees, customers, and offer recommendations: Business documents should carry information which can persuade employees, customers, or clients to purchase a product or adopt a plan for an action. To be effective, persuasive messages must show the readers just how a product or idea will benefit them.

Activity 1.4

In a group of students, prepare a notice of meeting and agenda for a class meeting, then share it with your fellow students.

Exercise 1.6

When communicating information among various business stakeholders, a number of documents are utilised to deliver the intended information between the parties involved.

(a) Identify different business communication documents used in business transactions.
(b) Provide the differences between transactional and financial documents.

Electronic communication

Electronic communication refers to the transfer of information from the sender to the receiver electronically. It is supported by the use of Information and Communication Technology (ICT) tools, such as computers, telephone, mobile phones, TV, and tablets. This type of communication may take different forms, such as images, graphics, sound, pictures, and maps.

Electronic communication can be classified as messaging, voice call, e-mail, fax, video conferencing, and social media (blogs, social networks, skype). These tools of electronic communication or platforms are explained as follows:

Electronic mail (E-mail): The e-mail messages are distributed instantly by electronic means from one user to one or more recipients via a network. An e-mail is the most popular type of electronic communication. A person must create an e-mail account to send and receive an e-mail with media files, photos or documents by using a device such as a computer, a smartphone or other similar devices. Due to its benefits, e-mails have largely managed to replace traditional means of communication. This type of communication has many benefits such as speed, ease of use, and accessibility. Business e-mails must be structured well to convey the intended information.

Blogging: This is a type of online journaling, which can be updated daily or many times a day. It covers information on a particular topic. Company blogs are useful platforms that one can share, follow, or even post some comments about business activities. Through the internet, people can access, read, and follow blogs worldwide.

Video conferencing: The video application combines audio and visual communication by adding web cameras for video calling and chatting. A video chat is beneficial because of various reasons such as its ability to allow people to contact anybody immediately and being able to communicate with more than one person at the same time.

Social networking: The social networking involves websites and applications that enable users to create and share content or to participate in social networking virtually. The social networks are such as Facebook, YouTube, WhatsApp, TikTok, Instagram, Telegram, Signal as well as LinkedIn that provide opportunities for people to work collaboratively.

Demonstration of the effective use of e-mail

Originally, e-mails were confined to people using computers, and users had to be online so as to receive messages which could not be stored. Nowadays, messages can be stored to mailboxes. Moreover, mails can be sent to more than one recipient; and sometimes the recipient's name can be hidden from others by adding Blind Carbon Copy (BCC) against their e-mail addresses. Figure 1.8 shows a government message composing page.

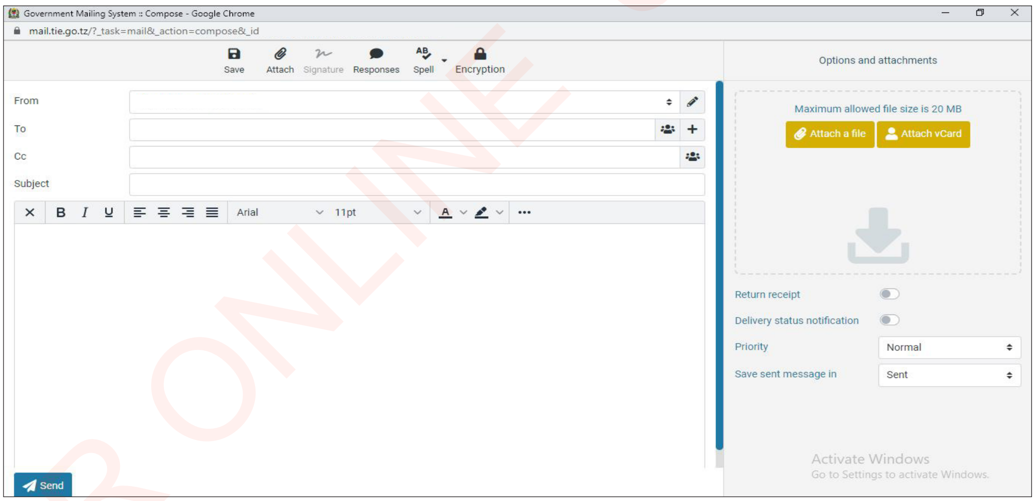


Figure 1.8: *A government message composing page*

There are various service providers such as Gmail, Yahoo, Hotmail, Outlook, and Thunderbird in which mails can be sent and received from different communicators.

Procedures for effective use of e-mail

The following are steps of using e-mail software effectively:

(a) Navigate the sign-up page of the e-mail provider by using an internet browser. E-mail providers can be Gmail (from Google), Yahoo ! mail or outlook (from Microsoft). Just to mention a few, Figure 1.9 shows some of the web browsers which support e-mail communication;

Source: *https://deviceatlas.com/blog/the-most-popular-mobile-browsers*

Figure 1.9: *Internet browsers*

(b) Follow the procedures in Table 1.2 to create an e-mail account;

Table 1.2: *Opening an e-mail account*

Components	Basic requirements
Name	First and last
Desired Login Name	This is the e-mail address the user would like to create. The user should choose a login name that is easy to remember, spell, and type. Once the user creates the address, then it becomes unchangeable. For example: firstname.lastname@gmail.com, as this is recognisable and easy; as it enables others to interact with the user
Password	The user should create a password that is secure, which is often not easy to remember, spell or share. At least eight characters with a combination of upper case, lower case, letters, numbers and symbols could be used. This password should be written down and stored in a safe place
Phone number	This number can be used as an extra security measure in case the user cannot get into the e-mail account in the future

(c) Follow the rest of the steps as required. Some sign-up forms will also ask for things such as the user's birthdate and location. The user may also be asked to create a security question, to help the user to recover a forgotten password;

(d) Accept the "Terms of Service." The user will also be asked to read and accept the terms of their service. This is usually one of the final steps; and

(e) The user should start using the newly created e-mail account. The user can easily log in using devices such as a computer, a smart phone or a tablet with internet access.

Uses of e-mail in business

The e-mails can be used for many purposes such as:

Fostering productivity: The business owners can contact established distribution lists, automatically submit information on a topic, or send promotional information to specific people as needed. Most e-mail softwares can customise features based on the type of work being done, the volume of e-mail messages received each day, and other user needs. Effective use of e-mail can reduce excessive reliance on personal consultations and meetings;

Means of communication: E-mail as a means of communication helps a team with instructions and guidelines to follow any other information that may be directed to the user;

Marketing products to a specific target group: Customers can choose to receive e-mail notifications about products, sales, or new items. The e-mail marketing can also address customers based on their status within a business. For example, a company can customise messaging for new customers, existing customers, and regular customers; and

Sending or receiving electronic files: Electronic files such as a meeting document, a spreadsheet full of data, or reports may be sent and received through e-mail.

Importance of e-mail

The use of e-mails is important in the following ways:

(a) It is relatively faster than other forms of communication since the communication is almost instantaneous. Therefore, it improves communication due to its rapid dissemination of information and response. It also allows problems to be solved more quickly and business processes to be streamlined. As a result, business owners can do more in less time;

(b) Contacts can be saved easily, and past messages can be checked frequently rather than saving the data in the local server;

(c) It is easy to understand the content as most e-mails come with a subject line; and hence, they can be categorised accordingly. Consequently, the categorisation helps in saving time for e-mails checking and makes it easier for unwanted e-mails to be ignored or sent to the spam folders;

(d) E-mails reduce geographical and time barriers. People can use e-mails to communicate from any location in the world; and

(e) The e-mail address identifies users on the internet. Therefore, the use of e-mails makes easy exchange of information related to the business.

Activity 1.5

Create your own e-mail account and make a presentation in a class to demonstrate the procedures used.

Communicating with the target audience

The effective use of electronic communication requires one to understand the target audience. Target audience refers to a particular group of people in which a certain massage is supposed to be addressed. This is important not only for a decision on the electronic tool to use but also the type of information to communicate. Therefore, knowledge of the target audience is essential for a focus of communication efforts.

Important aspect to consider about the target audience

Business persons who understand their target audience can be more effective in getting their message delivered. The following are factors to consider in order to ensure appropriate information is communicated to the targeted audience:

(a) Location (local, national, international, online, physical);

(b) Demographics (age, gender, occupation, income level, marital status);

(c) Psychographics (values, hobbies, lifestyle, personality, attitude, behaviour, or motivations);

(d) Industries relevant to the product (such as medical, accounting, mining, or non-profit); and

(e) Buying behaviour associated with the product (complex, dissonant, habitual, variety seeking, or impulsive).

Understanding of these factors is an important step towards effective business communication. In fact, this is a starting point for crafting the ideal message for the intended audience.

Activity 1.6

In a group of students, assume that you are dealing with any type of business activity. Then,

(a) formulate a list of questions that you might use to determine your target audience.

(b) prepare a topic for presentation and describe how you have assessed characteristics of the target audience.

Manners for communicating with target audience

Appropriate manners enhance the productivity, creativity, adaptability of employees, teams, departments, as well as responsiveness to customers. The following are examples of the manners to ensure successful communication with the target audience:

Research on the audience and prepare appropriate message: Know the audience and align the message to audience's priorities and interests. In addition, be concise and clear.

Professionalism: Be courteous, dress appropriately, avoid gossip, check body language, actively listen, show concern for others, and mind unnecessary use of mobile devices like phones.

Encourage discourse: Make room for interaction between the speaker and the audience. Give feedback and consider their inputs.

Time management: Be attentive to schedules and timelines. Be punctual and flexible to accommodate time issues of others.

Use of appropriate communication channel: Recognising when a conversation warrants face-to-face interaction, an e-mail or a video call can help to ensure that the message is positively received.

Activity 1.7

Think of a certain type of audience and explain the appropriate manners you will pay attention to when communicating with this target audience.

Exercise 1.7

The introduction of internet technology offered a room for business communication to shift from paper to digital-based. This significantly increased the use of e-mail service in executing business communication. Based on this information answer the following questions:

(a) What is an e-mail?
(b) How an e-mail can be used to facilitate business communication?
(c) What is the difference between e-mails and memoranda?
(d) Identify other forms of electronic communication that can be utilised by business organisations.

Chapter summary

1. Communication is a process of exchanging information (ideas, views, facts, feelings) between or among people to create common understanding.
2. The communication process entails several elements which are the sender, encoding, message channel, receiver, decoding, feedback, and noise.
3. Communication functions to inform, persuade, motivate, entertain, control, and integrate.
4. Through business communication organisations can exchange information and make decisions to plan and implement various activities.
5. Barriers to effective communication are anything that distort a message between the sender and the receiver.
6. The barriers to effective communication can be categorised as personal, physical, semantic, and socio-cultural.
7. Verbal communication media use words and is categorised as oral (for instance conversation and speech) and written (for instance reports, e-mail, and letters).
8. The non-verbal communication media use the wordless cues between people. It includes body language, use of space, time, and appearance.
9. The non-verbal communication may be used to repeat, contradict, substitute, complement or accentuate a verbal message. The choice of communication media is influenced by speed, accuracy, safety, confidentiality, cost, record, and distance.
10. Business communication documents are important in facilitating internal and external communication between organisations and among its staff, customers and other stakeholders.
11. The common business documents include *legal documents* such as by-laws, licences, permits, contracts, business plans, and policies; *correspondence documents* such as letters, memoranda, e-mails, and text messages; *reports* such as periodicals, departmental, and technical reports; *transactional documents* such as receipts, invoices, application forms, and *financial documents* such as income statements, budgets, and payrolls.
12. Knowledge on business documents is important because such documents are tools to inform actors in business about the purpose and the operation of the business.
13. Electronic communication options like e-mail, voice and video calls, as well as social media have replaced several traditional communication methods.

14. The electronic mail is an important tool for electronic communication because of a number of reasons. The electronic mail is faster than ordinary mails, saves contacts records, reduces geographical and time barriers. In addition, electronic mail is easy to understand from the subject line and e-mail addresses serve as the means for identifying and verifying internet users.
15. An effective business communication means the understanding of communication needs of the audience. Key audience characteristics to be considered include their location, demographics, psychographics, industry sector, and buying behaviour.
16. A business person must develop good manners of communication such as time management, professionalism, choice of communication channel, and hygiene.

Revision exercise

For each of the following questions (1-10), choose the correct answer and write its letter in your commerce revision exercise book.

1. What do we call the exchange of facts, ideas, opinions and emotions between two or more people?
   (a) Translation
   (b) Communication
   (c) Complication
   (d) Compensation
2. Which of the following element of communication is a pathway for the information?
   (a) Receiver
   (b) Communication channel
   (c) Sender
   (d) Ideas
3. What is the term used to define the communication which involves the word of mouth.
   (a) Oral communication
   (b) Written communication
   (c) Informal communication
   (d) Formal communication
4. What do we term the element of communication which represents a reply to sender?
   (a) Ideas
   (b) Encoding
   (c) Feedback
   (d) Receiver
5. One of the following is not the tools of electronic communication.
   (a) Instagram
   (b) WhatsApp
   (c) E-mail
   (d) Pictures or photo
6. One of the following is not a business communication document.
   (a) Employment agreement
   (b) Friend letter

(c) Certificate of business registration
(d) Business contracts

7. Which one of the following is not a characteristic of the effective communication?
   (a) It must be in a foreign language
   (b) It must be free from personal prejudices
   (c) It must be strategically planned
   (d) It should be a two-way process

8. Mr Mango wants to communicate effectively in business. Out of the following, what should he consider?
   (a) Name of the media owner
   (b) Cost of the media
   (c) The relationship between the media owner and the user
   (d) Number of people to use the media

9. One of the following is not an example of written communication.
   (a) Memos
   (b) Post cards
   (c) Fax
   (d) Joint consultation

10. The communication we make is influenced by some obstacles, one of the following might not be one of them.
   (a) Use of technical language
   (b) Badly expressed message
   (c) Poor channel
   (d) Precise and clear idea

11. Match the explanation of the concepts used in business communication in group A with the correct response in group B and write the letter of your response in your Commerce revision exercise book.

Group A		Group B
(i)	The first element of communication.	A. Two-way process
		B. Cultural barriers
(ii)	Example of electronic communication tool.	C. Faxes
		D. Joint conversation
(iii)	A principle of effective communication.	E. Blogs
		F. Downward communication
(iv)	Exchange of ideas, between two or more people.	G. Informal communication
		H. Sender
		I. Communication
(v)	An example of non-verbal communication.	J. Signs, symbols and images
		K. Horizontal communication
(vi)	A barrier of effective communication.	L. Upward communication
		M. Communication media
(vii)	One of the examples of oral communication.	N. Formal communication

12. "E-mails in business communication is advantageous". Justify this statement.
13. Imagine you are in the highly populated market like Kariakoo where there are many buyers and sellers. Meanwhile you are interested to promote one of your products to your customers. Describe the barriers that might affect your means of communication.
14. With the aid of a diagram, explain the communication process.
15. Explain the appropriate manners of communicating with audience in business environment.

Chapter Two Marketing

Introduction

Today's marketing must be understood not in the old sense of making a sale, that is, "telling and selling" but in the new sense of identifying and satisfying customers' needs and wants. If producers understand consumer needs and wants, they will develop products that provide superior value, set prices, promote them, and make such products available to customers so as to sell them smoothly. In this chapter, you will learn about the concept of marketing, marketing functions, marketing mix, promotional mix and marketing institutions. The competencies developed will enable you to be more effectively engaged in some marketing activities in any organisation.

The concept of marketing

Many people think of marketing as only concerned with selling and advertising. Their misperception is not accidental as everyday there are television (TV) commercials, sales campaigns, catalogues, and e-mail adverts. Marketing is broader than these, and it includes the process of finding out or identifying what consumers want or need, developing a product that fits the needs and wants, pricing, promoting, distributing the product, and establishing long-term relationship with the targeted market for continuous success and brand creation. Hence, the term marketing can well be explained as a social and managerial process by which individuals and groups obtain what they need and want through developing, offering and exchanging with others products of value. It can also be defined as the means by which organisations identify unfulfilled consumer needs and wants, and convert them into opportunities for the satisfaction of customers, and meeting organisational objectives.

Marketing is, further, defined as activities undertaken by a company to promote the buying or selling of a product. It includes packaging, grading, financing, storing, advertising, selling, and delivering goods and services to customers. Furthermore, marketing is the process of satisfying human needs by bringing products to people in the proper form and at the proper time and place. Moreover, marketing involves all the processes necessary to determine consumers' surplus, societal needs, and to conceptualise and effect their fulfilment. Marketing is also expressed as the process by which business organisations create value for customers and build strong customer relationships to capture value from customers in return.

But what is common in all definitions? They all emphasise on identifying or anticipating customer needs and wants, and fulfil them accordingly.

Market

Market is any arrangement that brings buyers and sellers together. Any market has two sides which are demand and supply. Demand is associated with consumption side while supply is associated with production. Market exists wherever a supply of products is meeting the corresponding demand and price is being determined. Therefore, market is not necessarily a place but it can also be virtual. In this case, buyers and sellers may arrange exchange goods and services or online transaction. For example, through the use of social media such as Instagram, and WhatsApp.

Key differences between market and marketing

The concepts "marketing" and "market" are related but are not the same. The following are the differences between the two:

(a) Market is defined as any arrangement that brings the buyers and sellers together to proceed with exchange of goods and services. Marketing is a set of activities like advertising, promotion, and grading the products that identifies, creates, communicates and supplies consumers' needs;

(b) Market sets the price of the product through the interaction of demand and supply forces. Conversely, Marketing is a process which analyses, creates, informs and delivers value to the customers;

(c) Market varies by product, place, and other factors. As opposed to marketing, it can be consistently applied, irrespective of product, place, and any other factors; and

(d) Unlike marketing, that creates a link between the customer and producer or supplier, to provide the right and quality product at the right time and place with required quantity. Market facilitates trade between parties.

Types of markets

Markets are classified into two categories, that is according to product purpose or usage, and level of competition in an industry. These categories are explained as follows:

Types of markets according to product purpose or usage

Based on the product purpose or usage, three types of markets exist. These are consumer markets, industrial markets, and reseller markets. These three types of markets are explained as follows:

Consumer markets: Consumer markets consist of individuals or households who intend to consume or benefit from the purchased products, and who do not buy products for the purpose of making a profit, but for personal consumption. Products bought by consumers are such as housing, clothes, food, vehicles, water, electricity, communication, and appliances.

Industrial markets: These consist of individuals, groups, or organisations that purchase specific kinds of products for direct use in producing other products or for use in the day – to – day operations. For example, a bicycle producer who buys tyres to use in making bicycles is part of the industrial market for bicycle tyres. Industrial goods are differentiated from consumer goods on the basis of their ultimate use. Compared with ultimate consumers, industrial customers tend to be more knowledgeable about the products they consider. They must be well informed about these products in order to buy the most appropriate items for the required job at the best price. Usually, industrial buyers purchase fairly large quantities of a relative limited assortment of products on periodic basis. Industrial markets are characterised by fewer but large buyers who are geographically concentrated in few large cities. Industrial markets are divided into three kinds of markets, namely producer markets, government markets, and institutional markets as follows:

(a) Producer markets: These include individuals and business organisations that purchase products for the purpose of making a profit by using them to produce other products or by using them in their operation. They include buyers of raw materials as well as purchasers of semi-finished and finished items used to produce other products, for example, farmers who buy fertilizers, and seeds.

(b) Government markets: These include federal, state, country, and local governments (units) buying for countless government institutions such as schools, offices, hospitals, and military bases. They spend billions of dollars annually for goods and services to support their internal operations and to provide such products as highways, education, water, national defence, fire, and energy. The types and quantities of products bought in government markets reflect societal demands. Government purchases are made through either tender bids or negotiated contracts.

(c) Institutional markets: These consist of organisations that seek to achieve business goals such as profit, market share or return on investment. Members include institutions such as mosques, churches, private schools, hospitals, civic clubs, fraternities, charities, and foundations.

Reseller markets: These include intermediaries, such as wholesalers and retailers, who buy finished goods and resell them to the final consumer for the purpose of making a profit. Resellers do not physically change the product they handle.

Types of markets according to the level of competition in an industry

Classification of markets according to the level of competition between companies in the industry essentially refers to the market structure. Market structure is characterised by various factors such as number of companies in the industry, extent in which products of companies in the industry are differentiated, and the cost of resources. According to the market structure, there are four common types of markets which are perfect competition market, oligopoly market, monopoly market, and monopolistic competition market, which are explained as follows:

Perfect competition refers to a market structure where many buyers and sellers are involved in selling identical products to customers. There are no restrictions for new businesses to enter in the industry.

Monopoly refers to a market structure with only one seller who sells products to all customers while *oligopoly* refers to a market structure with a small number of companies selling differentiated or similar products to all customers. Lastly, *monopolistic competition* refers to a market structure with a large number of buyers and sellers in which sellers sell heterogeneous products.

Activity 2.1

Based on what you have learnt in this section:

(a) Visit any market in your local area or in online platforms and describe its key features; and

(b) Share your findings with your fellow students.

Exercise 2.1

1. Consider you have a product that you are interested to bring it into the market. Explain different types of market that will be available for your product.

2. The concepts of market and marketing are often confused and used interchangeably. Identify the key differences between the two.

Marketing functions

Marketing is concerned with whole process of ensuring that produced goods and services reach the consumers.

Therefore, marketing functions comprise of interrelated activities to get products from producers to consumers. The following are some of the marketing functions:

Marketing information management: Marketing facilitates collection of information about customers to understand their needs and wants. Therefore, a good marketer gathers more information about targeted customers, competitors, and market trends for a successful organisation. The collected information helps organisations to develop products that suit consumer needs and wants at a reasonable price and right location. Sales teams, for instance, can always use more in-depth marketing information to help them refine their pitches to address the latest industry trends, respond to competitor messaging, and speak directly to the pressing customers' concerns.

Product development and management: A company is expected to develop a product that meets the needs and wants of the targeted customers. Moreover, companies are required to make different decisions regarding the products they intend to sell to their customers. Besides new product development, companies make decisions about product features. Product features refer to attributes in a product that bring value to customers and distinguish such a product from competitors' products. These include branding, packaging, and quality.

Branding is a process of assigning a name, sign, symbol, design, or a combination of them, which is intended to identify the goods or services of one seller or group of sellers and differentiate them from those of competitors. The term "brand" refers to a name, sign, symbol, design, or a combination of them which identify a product of a company. Figure 2.1 shows a branded drinking water product called "clean water".

Figure 2.1: *A branded drinking water*

The terms "brand" and "branding" often relate to another term "trademark". Trademark is a specific element of the brand such as word or symbol which is registered and legally protected by the law.

Packaging, on the other hand, refers to a process of designing and creating a container, cover or wrapper for a product. Among other functions, packaging enables products to be differentiated from competitors' and protects various products.

Quality refers to how well a product or service meets the customers' needs and satisfies or meet the market standards.

Pricing: The other marketing function is to set the price of a product. Through pricing, the company or organisation gets revenue to run its operations. Therefore, effective pricing is as important as any other strategy. So, organisations need to find that balance between customers' expectations and pricing of organisational goods and services.

Channel management: Choosing the right distribution channels comes down to understanding the type of target customers that the organisation is serving, how these customers view brand and where the customers will find this brand. Organisations need to be aligned whenever a new product, promotion, or campaign is launched so companies can have all of their distribution channels in a row.

Promotion: This marketing function aims at informing, persuading, and reminding customers about the organisation's products. Customers cannot purchase anything they are not aware of. Awareness should constantly be created. Once they are aware, they are persuaded to buy. At times they forget about the product, so they are supposed to be reminded.

Selling: Every business organisation intends to sell their products to customers. Every marketing decision, from organisation's brand messaging to formulating campaign themes, should support the ultimate goal of increasing sales.

Standardisation: As a marketing function, standardisation involves the establishment of standards for company's products. Setting standards is about creating specifications for product uniformity. Product standards may be created, for instance, based on product features which are considered valuable to customers. Depending on the nature of the product, such features may include various specifications regarding product style, colour, taste, and weight. In addition, standardisation may involve creating standards about other marketing elements beyond the product such as price, promotion, and distribution to cater needs of the target customers.

Financing: Marketing helps a company to generate revenue, expand into new markets, reach more potential customers, and marketing teams to demonstrate their value to the organisation. The generated revenues will eventually help a company to meet its operational needs.

Importance of marketing functions

The importance of marketing functions comprises the following:

Implementation of the marketing plan: Through marketing functions, companies may make right products for target customers, set right prices for such products and make such products available to the right customers. In addition, right ways of communicating with customers may be used. Therefore, marketing functions may enable companies achieve their objectives through satisfying needs and wants of their target customers.

Attracting target customers: Through promotions, companies communicate with customers and their stakeholders about their products and customer value. This is due to the reason that promotions allow companies to make promises about their products to the potential customers. Another way of attracting customers is through delivering products as per companies' promises in order to satisfy needs and wants of intended customers. Satisfied customers may be attracted to make repeated purchases and may become loyal to the product or company.

Building company image: Through marketing functions which relate to promoting products, companies are able to communicate with customers and other stakeholders. Such communications enable companies to inform, persuade, or remind stakeholders about their products. Companies may also communicate about their purposes and future directions. In addition, through public relations element of promotion, companies can establish and maintain relationships with various stakeholders such as customers, government, employees, local communities, suppliers and investors. The relationship created by companies, may influence trust of such stakeholders. Therefore, marketing may be regarded as the important tool in building and maintaining reputation of various companies.

Satisfying companies, customers and society expectations: Through marketing functions, companies make products which satisfy needs and wants of customers and societies. Likewise, companies may be able to achieve their objectives such as profitability and market share. Further, carrying-out marketing functions means people can be employed in various activities which are linked to the production, promotion and distribution of goods and services. Therefore, not only that peoples' welfare is improved through products they get, but also marketing practices generate income.

Activity 2.2

Visit various businesses in your community and ask operators or business owners on the marketing activities undertaken; and then, prepare a 5 minutes' presentation for a classroom discussion.

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Exercise 2.2

1. Briefly identify the functions of a marketing department or unit in any given organisation.
2. Each marketing functions is expected to influence the market of a product. Describe the importance of marketing functions.

The concept of marketing mix

Marketing mix are elements used by the companies or organisations to satisfy customers' needs and wants. Traditionally, there are four marketing mix elements, namely product, price, place and promotion. These are commonly known as 4Ps in marketing. Overtime, three other elements have been added that apply primarily in the service sector. Thus, currently there are seven elements of the marketing mix, and these are product, price, people, process, physical evidence, placement (distribution), and promotion. They are referred as seven Ps (7Ps) because each of the elements begin with the letter 'P'. These seven Ps are explained as follows:

Product

Product is defined as a set of tangible and intangible attributes that lead to customer satisfaction. It includes physical goods and services. Marketing starts with the product since it is what an organisation has to offer to its target market. The product is important because it satisfies the target market needs; and it is the primary source of organisations revenue. Product is what companies sell or offer in order to realise their objectives. A well-developed product strategy that includes input from the target market leads to organisation's long-term success.

Placement

Placement is one of the marketing mix elements that ensures product availability to the consumers. The products move from producers to consumers through the channel of distribution. The channel of distribution comprises a set of institutions, which performs all of the activities (functions) utilised to move a product and its title from production to consumption. They include merchant middlemen, agent middlemen, suppliers and facilitators. These channels ensure that consumers get products timely.

Process

The process describes the series of steps that a customer goes through to access the product from a given organisation. This element seeks to ensure that effective systems are in place on how to deliver the products to the customer. If a good process is in place; it helps to ensures that a company repeatedly delivers the same standard of product desired by the customers. It consists of a number of activities such as how the service is delivered, how the product is packaged, how customers move down the sales funnel, checkout, and shipping delivery. It aims to minimise the different pieces of the process puzzle that characterises the process and, therefore, makes a customer happy. For example, when customers visit any bank with the aim of depositing money, they start by filling in forms, queue towards the bank teller, then the teller counter checks the details and amount, and finally offers a slip as evidence of deposit. All these steps that the customers go through to deposit money constitute a process.

People

People refer to human actors or employees involved in the service delivery. Employees deliver promises that the company or organisation makes to its customers. They may enhance or lower the level of satisfaction if they perform or underperform respectively. Employees act on behalf of an organisation in the eyes of the customers. Therefore, excellent customer services or care highly depend on the actions of the employees to the customers.

Employees need to be able to solve the problems that customers have. Therefore, as a business person, you need to offer training, provide good working environments and anything that will safeguard the contentment of your employees. Excellent customer service is a must for any brand operating in today's customer-centric market. Many customers cannot separate the product or service from the staff member who provides it. Service employees largely determine the nature of effect on the level of customer satisfaction.

It is critical to the success of company's brand and the satisfaction of customers that everyone who represents the company is polite, professional, knowledgeable and fully trained. It also requires to offer superior after sales services and advices that add value to service offering which therefore, provide the company with a competitive advantage. These services will become more important than price for customers over time. To ensure that employees meet customers' expectations during service delivery, then business organisations should recruit good employees, train, and motivate them. The company also has to reward employees and embrace employees' teamwork. With regards to customers, as they also have a role to play, customers' education on the services offered should be provided.

Physical evidence

Physical evidence refers to everything customers feel when interacting with the business organisations. The evidence includes the physical environment where the service is provided, and the layout or interior design. Apart from the above, the physical evidences may include facility design (equipment, signage, employees' dresses, cleanliness, tidy, music, temperature and well decorated place), and other tangibles (reports, business cards, statements, and guarantees). It is often an important determinant of personal satisfaction and may play an important role in differentiating one service from the other.

Price

In general terms, price is a component of an exchange or transaction that takes place between two parties. It also refers to what must be given up by one party (that is a buyer) in order to obtain something offered by another party (that is a seller). Price is the exchange value of a product. It is the amount a buyer is willing to pay for some goods or services. However, in marketing terms, price is a sacrifice that the customer is willing to give in order to get something in return. It may be money, time, physical effort or cognitive effort. Figure 2.2 shows an example of a list of food prices.

Figure 2.2: *List of food price*

Importance of price

Price is of fundamental importance as it is the only mix element that actually generates revenue for the organisation. The importance of price in an organisation is explained as follows:

Price is considered to be the most flexible marketing mix element: For marketers, price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter (example., television advertisement), price can be changed very rapidly depending on the economic conditions or market force. Price is also, the indicator of the quality of product because people tend to assume that high quality products have higher price.

Price is an important part of sales promotion: Price provides first impression such that customers' perception of a product is formed as soon as they learn the price, for instance, when a product is first seen while walking down the corridor of a store. In addition, price adjustments are part of sales promotions. A low price may be set for a short term to stimulate customers' interest in the product. Therefore, the price of a product is a major determinant of market demand for the item. That is, the higher the price the lower the quantity demanded, and the lower the price, the higher the quantity that will be purchased.

Price is a determinant of sales revenue: Sales revenue equals price multiplied by unit sales volume. Hence, the higher the price the higher per unit sales revenue. Price is also a competitive tool such that when the price is set lowly the possibility of beating other competitors becomes higher. Price can further be considered as a promotional tool. For instance, a seller can set a price to influence people to buy the product which eventually become the source of revenue.

Bases and methods of setting price

Setting a right price for products is an important and challenging task to businesses. The price to be set for a certain product may be affected by several factors such as politics, regulations, and market conditions.

However, the common bases for setting product price are cost, demand and level of competition. Product cost refers to the cost of producing a product, therefore, high cost implies high price. Demand as a base for setting price refers to the product price which compares the supply of the product and its demand. Therefore, high demand implies high price. The level of competition as another base for price setting refers to the product price which is set by comparing with competitors' prices. Therefore, high competition implies lower price. Figure 2.3 shows the common price bases.

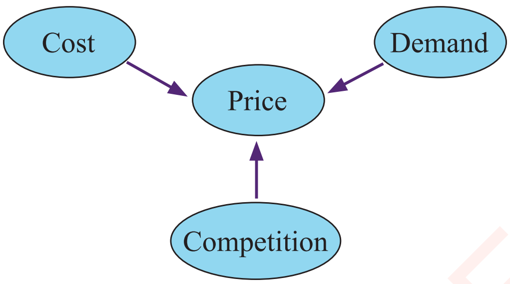

Figure 2.3: *Common price bases*

There are different methods of setting product prices. These are cost-based, customer-based, and competition-based pricing. They are mostly regarded as techniques used by companies in assigning prices to products. These methods are described as follows:

Cost-based pricing methods: These are methods in which a company sets a price by adding all the costs related to the product and adding certain percentage of profit to the product cost. The added amount of profit or percentage to the product cost is called mark-up. Therefore, pricing methods may differ if the company set the price by adding a mark-up to the total cost. Cost-plus pricing and variable-cost pricing methods are among the common types of cost-based pricing methods.

Customer-based pricing methods: These are methods in which the company fixes the product price by considering the perceived value of the product by the customer. The common pricing method in this category is called perceived-value pricing method.

Competition-based pricing methods: These are methods in which a company sets product's price in relation to prices of competing products. It is also called going-rate pricing method. It focuses on the prices charged by the other organisations or companies in the same market or industry. It does not always imply charging the identical price but rather using the others' prices for comparison. Another competition-based pricing method is seen when a company bids for tenders. It is called sealed-bid pricing method. It is the pricing method in which a company may win a bid or tender or contract if it appears that the set product price is lower than the competitors.

Although various methods for setting products prices are available, a company principles matter. Principles offer guidance in price setting to ensure that the company achieves its objectives and gives flexibility if reasons for setting different prices exist. Company principles involve policies such as geographical pricing policy which offers guidance as to whether the same price should be charged to all products regardless of customers' geographical locations or the opposite. Another example is pioneer pricing policy which offer guidance as to whether new products should be introduced in the market by using high price or not. In addition, psychological pricing policy offers guidance as to whether the company should design prices based on emotional reactions or not.

Setting competitive prices

The following are among the strategies used in setting competitive prices:

Skimming pricing: The strategy refers to charging high price initially when a product is introduced and reducing price over time. It is commonly used when introducing new and innovative products. For example, when selling products like jewellery, digital equipment, this strategy may be used.

Penetration pricing: The strategy refers to charging a low price when entering the market to capture the market share. It is used when competitors are in the market with similar or better products. This strategy is typical in mass products like food stuffs and household goods.

Discount pricing: The strategy involves reducing prices to reward customers responses in order to increase sales. It may be applied basing on the quantity that the customer purchases, such that the more quantities the less the price charges for every product. This strategy may also be used as a seasonal to attract customers for a short period of time. For instance, during festivals like Christmas and Eid, most retail outlets like supermarkets and stores offer discount on prices in order to attract more customers.

Segmented pricing: This involves adjusting prices to allow for differences in customers or locations. The same product may be sold to different customers at different prices. These price differences may be associated with the differences in location. For instance, the same mobile phone may be sold at different prices to a customer in Dar es Salaam when comparing to a customer in Mwanza.

Psychological pricing: The strategy involves setting prices lower than the whole number. It is used to reflect customers perception. It is aimed at influencing customers spending or shopping habits to make more sales. For instance, a product may be priced TShs. 999.99 instead of TShs. 1,000. Setting TShs. 999.99 instead of TShs. 1,000 has a psychological impact whereby the customer perceives the product is affordable.

Price bundling: The strategy involves packaging two or more products to gain pricing advantage. It also involves selling products together (in a bundle) typically at a price that is less than the sum of the individual component. Thus, the bundled package is usually offered at discount.

For instance, a tour company may charge price to a tourist that includes services like accommodation, transport, fee entry to the national park in one package. Moreover, a car dealer may sell a car to a customer together with a car insurance cover.

Activity 2.3

Visit any nearby market in your locality:

(a) Ask business owners about the methods they use to set prices of their products; and

(b) Discuss the point noted in part (a) with your fellow students in a class.

Exercise 2.3

Assume you have imported a large quantity of goods from country Y. Describe the criteria you will use in setting their price.

Promotion

The term "promotion" can be defined as the element in the organisations marketing mix that is used to inform, persuade, and remind the market regarding the organisation's goods and services. It is through this element that the business communicates with potential and existing customers about its products. Promotion as one of the elements of marketing mix plays the following roles:

Creating awareness: Promotion enables communication with individuals, groups and organisations in order to inform them about the products. It enables businesses to educate customers about various issues such as uses of the products, availability and price. This is usually done at the introduction stage of the product with the major aim of creating the primary demand for a product.

Persuasion for the sake of building conviction: Promotion works to persuade customers to develop preference to the products rather than those of competitors. In addition, promotion stimulates competition because it can be applied as a competitive tool. Customers are more selective in their buying choices and a good promotional program is needed to reach them.

Reminding customers about the product: When the product has been in the market for quite sometimes, customers tend to forget it. Therefore, it is important to organise a promotion campaign which aim at keeping customers thinking about the product.

Building companies' image: Promotion is also used as a means of building company's image. The image can be built through communications between companies and customers. For instance, through public relations, companies communicate, create and maintain relationships with various stakeholders beyond customers such as government, local communities and investors.

Increasing sales: A company can use promotion programs to increase a product sales volume at any given price. The right promotion can drive customers to make a purchase. In the case of products that a customer has not previously purchased or has not purchased over a long time, the promotional efforts may be directed at getting a customer to try the product.

Promotional mix

Modern marketing is not only about developing a good product, pricing it attractively, and making it accessible to markets. Businesses must communicate with their customers in order to make them aware of the product and its availability. This can be achieved through the use of the elements of promotion mix. This is a combination of advertising, personal selling, sales promotion, and public relation that the company uses to communicate customers value and build customers relationship.

Advertising

Advertising is the process or techniques that brings knowledge and information about the product to the general public. Advertising comprises both personal and non-personal forms of communication conducted through paid media by an identified sponsor. The public knows who is behind the advertising because the sponsor is openly identified in the advertisement. Moreover, the sponsor pays the media that advertises the products. The media commonly used for advertising purposes include newspapers, televisions, magazines, direct mail, radios, e-mails, billboards, and digital platforms such as websites and social media.

Types of advertisements

Advertisements can be classified according to advertising medium. Advertising medium refers to the means from which advertisement message is delivered. In this category, there are four common types of advertisements namely broadcast, digital, print, and outdoor advertisements.

Broadcast advertisement involves advertisements aired on television and radio. Digital advertisement involves advertisements placed on online platform through digital devices, such as e-mails, website, search engines, and social media posts. Print advertisement is another type of advertisements involving advertisements which are in printed forms such as newspapers, brochures, and magazines. Outdoor advertisements refer to advertisements placed on objects like banners, billboards and flags. Figure 2.4 shows an example of outdoor advertisement.

Figure 2.4: *Outdoor advertisement*

Factors to be considered when choosing advertising media

When choosing advertising media, companies need to take into consideration a number of factors. The factors to be considered include mission, money, media, message, and measurement. These factors are commonly known as 5Ms since each factor begins with an 'M'. Mission refers to the advertisement objective. Among others, advertisement objectives may seek to inform customers about the product or influence customers to buy company products or to remind customers about the product. Money refers to advertisement cost. It involves decisions about expenses relating to the advertisement and its overall budget.

Choice of the media depends on available funds for the purpose since each media poses different cost potentials for the company (television is very expensive, while newspaper advertising is inexpensive); Media refers to the conduits in which the advertisement will be placed. It involves the type of media to be used such as print, broadcast, outdoor, digital or a combination. Decisions to be made regarding the media to use are normally based on targeted audience, media habits, and nature of the products. Media types have different potentials for demonstrations, visualisation, explanation, believability, and colour; Message refers to what should be communicated in the advertisement and other decisions involving creation of its contents up to its evaluation; and Measurement refers to evaluation of the effect of advertisement to the company such as its effect on the desired objective.

Advantages of advertisements

There are some advantages associated with advertisements in companies. Among others, advertisements enable a single message to be repeated for a number of times. This increases a chance for target audience to recall the message and hence, influence their behaviours. Advertisement is also a good method of introducing new products. Companies can reach potential customers inaccessible to the sales force through advertisements. This promotional method is cost-efficient because it can reach a vast number of people at a low cost per person. Further, visibility that a company gains from advertising is important for enhancing its image. Similarly, advertised products or companies have a chance to be perceived by customers as prestigious.

Disadvantages of advertisements

Despite the stated advantages, advertisements have a number of disadvantages. One of the objectives behind advertisements is to persuade customers. However, advertisements are less persuasive compared to personal selling. Moreover, advertisement messages may not be within the marketer's target market, and thus, may be an inefficient use of promotional funds. The cost per person may be low but expenses related to such advertisements may generally be high. Moreover, advertisements rarely provide rapid feedback. As such, they may not stimulate immediate demand for advertised products.

Personal selling

Personal selling is the process of informing customers and persuading them to purchase the products. This form of promotion involves personal contact between business representatives and those who have a role in purchase decisions.

Advantages of personal selling

Personal selling has some advantages over other promotion methods. The method provides immediate feedback, and therefore, linked to a greater impact on customer sales. Moreover, personal selling involves two-way communication, therefore, allowing marketers to adjust their messages to improve their communication clarity and effectiveness. In addition, with personal selling, sales people are able to customise their messages to fit the needs and behaviours of individual customers.

Disadvantages of personal selling

Although there are advantages of personal selling, this promotional tool has a number of disadvantages too. A major disadvantage of personal selling is its cost. It is generally the most expensive element in the promotional mix. Expenditures for sales peoples' salaries, commissions, travel expenses, and the expenses of managing these sales people, all add up to its cost.

Sales promotion

Sales promotion is an activity or material that acts as a direct inducement, offering added value or incentive for product to sales people, resellers or consumers. The most common sales promotion methods for new products include free samples, cents – off offers, consumer contents and consumer sweep stakes. Marketers invest in activities related to sales promotion. The purposes include new product introduction or informing customers regarding changes related to product improvement. Then, marketers seek to increase the number of users, or enhance usage rate of a certain product or brand, and to offset competitors' marketing efforts. An example of sales promotion campaign would be when a customer buys two bottles of a soft drink and gets one free.

Public relations

Public relation is a planned and sustained efforts to establish and maintain goodwill and mutual understanding between an organisation and its stakeholders during business interactions. It involves activities which intend to maintain good relationship with the public, normally, business stakeholders such as customers, suppliers, government, employees, local communities, media, and investors.

Although public relation is always interchanged with publicity, such concepts are not the same. Publicity is a subset of public relations which deals with visibility of a product or a company. Specifically, publicity is a non-personal form of demand stimulation and not paid for by the person or organisation benefiting from it. This type of promotion uses news media to offer a favourable mention of the marketing company or product without direct payment to the publisher of the information. Importantly, the message communicated through publicity is considered trustworthy by the target audience.

In general, both publicity and public relations increase awareness about product or company to the target audience; and therefore, influence the product's demand. They are important in the business because they are linked to business image and relations between the business and its stakeholders.

Factors for the choice of promotion mix

Advertisements, personal selling, sales promotions, and public relations are elements which fall in the promotion mix. However, decisions for the element(s) of promotion to be used by businesses are affected by the following factors:

Availability of resources: The amount of money and other resources available for promotion have effects on the marketer's choice of promotional methods. Marketers with large promotional budgets can spread spending among all promotion options while marketers with limited funds must be more selective on the promotion techniques they use.

Company philosophy: Some companies follow a philosophy that dictates where most promotional spending occurs. For instance, some companies select the method that all promotions are done through sales people. Other companies prefer to focus attention on product development with hope that word-of-mouth communication by satisfied customers helps to create interest for the products.

Target market: Customers' characteristics dictate how promotion should be undertaken. Characteristics such as size, location, and type of target markets affect how marketers communicate with customers. For instance, for a small marketer serving business markets with customers widely dispersed, it may be very expensive to utilise a sales force compared to the use of advertisement.

Product: Different products require different promotional methods. With regards to consumer market, products falling into the convenience and shopping goods' categories are likely to use mass market promotional methods. Otherwise, higher-end specialty goods are likely to use personalised selling. Thus, products that are complex and take customers extended time to make a purchase decision may require personal selling rather than advertising.

Price: The higher the price of a product the more likely a marketer will need to engage in personalised promotion compared to lower priced products that can be marketed using mass promotion.

Activity 2.4

Organise yourselves into small groups:

(a) Visit any two companies around your community and describe the types of promotion tools in use;

(b) Design the promotion kit by employing promotion mix components; and

(c) Prepare a 10 minutes presentation to your fellow students on the challenges that sales people encounter in making sales.

Exercise 2.4

1. Promotion mix in particular, represents opportunities for entrepreneurs to improve their business. What are the different elements of promotion mix that can be utilised for effective sales?
2. The concepts of people, process and physical evidence are relevant in the marketing process of a product. Describe how these concepts are necessary in effecting the marketing strategies of a given business.
3. Successful advertising requires choosing the right media. Identify the key factors to consider in selecting a medium to use.

4. There are several elements of promotions mix available to marketers. Identify the factors that marketers should consider when selecting the promotion mix to use.

Marketing institutions

Marketing institutions consist of facilitating organisations which perform the marketing functions. Some of those institutions are marketing research companies, middlemen, advertising agencies, experiential marketing agencies, co-operatives and marketing boards. Some marketing institutions are explained as follows:

Marketing research companies

These are established for the sake of providing information to other businesses marketing their products. Businesses marketing their products need information related to customers' needs and wants, competitors' strategies, market trends and size for smooth running of their businesses. They may find it difficult to invest in marketing research units and instead decide to outsource such services from companies dedicated to do research. In Tanzania, universities with business colleges or schools provide market research services. In addition, government institutions such as Tanzania Trade Development Authority (TanTrade), Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), and Zanzibar National Chamber of Commerce (ZNCC) provide marketing information.

Middlemen

A middleman is an individual or a business organisation operating between the producer and the ultimate consumer or industrial user. There are two categories of middlemen, namely merchant middlemen and agent middlemen which are explained as follows:

Merchant middlemen: These are middlemen who take title while performing marketing functions. They may be divided into two groups of retailers and wholesalers. The classification of merchant middlemen rests basically upon the markets to which these groups cater. Thus, retailers sell mainly to the ultimate consumer, whereas, wholesalers main outlet targets other middlemen such as retailers, industrial users, or both.

Agent middlemen: These include middlemen such as purchasing agents, commission agents, selling agents, brokers and auction companies. Purchasing agents differ from brokers in that they have continuous relationship with their principals and operate only in the buying side of the transaction. Some are paid on commission basis, whereas others receive a flat fee per month. Commission agents are often confused with brokers, but they are really a distinct group because they actually handle the products whose sale they negotiate. They usually operate in central markets, receive goods for sale, deduct their commission and other charges from the proceeds of sale and remit the balance to the client. Unlike brokers, they may sell without having specific approval by the client.

Selling agents are independent operators functioning as sales department for their clients. They handle the entire output of their clients on continuous basis and have unlimited sales area with a large degree of authority over prices and terms of sales. Auction companies provide facilities through which goods turned over for sale can be displayed to prospective buyers.

The middlemen are part of the distribution channel that comprises of a set of institutions which perform the entire activities involved in moving the products and their titles from production to consumption. There are different levels of distribution channel including direct (zero level) and indirect levels which may be one level, two levels, three levels or more as shown in Figure 2.5.

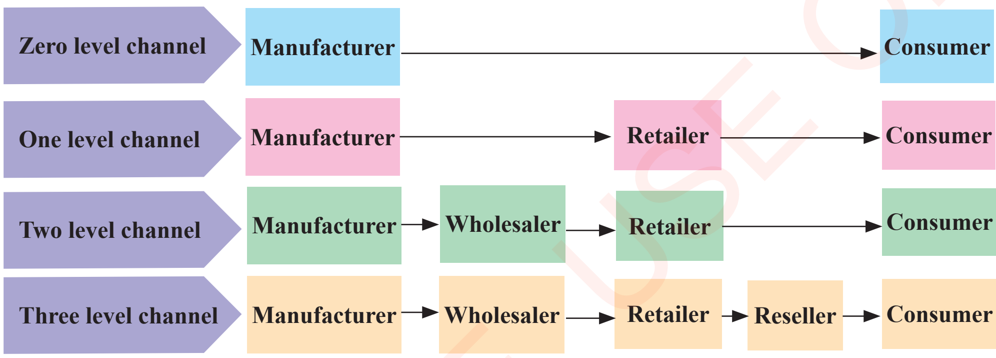

Figure 2.5: *Distribution channel levels*

Advertising agencies

These agencies are permitted to prepare advertisements on behalf of the business marketing their products and, at times, advise on the right media to use. Usually, they have creative department or units that decide the best way to communicate the message on the advertisement.

Experiential marketing agencies

These companies are in-charge in developing marketing companies aiming to increase the engagement of customers in the product being marketed. The companies perform activities like events management, road show, outlet activations and product sampling.

Co-operatives

Co-operatives are legally institutionalised voluntary organisations which are set up to serve and benefit those who are going to use them. Their group can compete within the platform of other types of business organisation. Thus, co-operatives are established on the basis of equal participation in terms of providing capital, management, and distribution of profits and liability when losses occur.

Various reasons exist as to why co-operatives are formed. Co-operatives are formed as a way of increasing prices for the products sold. This is because it is used as a bargaining association. Co-operatives are also, formed because they can absorb middlemen's profit. With a few exceptions, cooperative marketing organisations serve to replace other middlemen in the channel of distribution. In addition, they are formed because of their association in the reduction of marketing cost. Like in any other business, vertical integration in farmers' co-operatives for example, is a factor in reducing cost. Co-operatives find it advantageous to own the production, transportation facilities, and in some cases the retailing or wholesaling parts of the marketing system. Generally, through co-operatives, the cost of production may be lowered. This is because many co-operative associations lead to substantial savings in the cost of supplies, equipment, and machinery as their members purchase them co-operatively.

Marketing boards

A marketing board is a legalised single government agency charged with the responsibility of marketing nation's output of a particular product. Marketing boards are one form of direct involvement by governments in marketing. In other words, the boards are marketing agencies or institutions with government power over essential products. Some of the marketing boards in Tanzania are Coffee Board, Sisal Board, Cashewnuts Board, Cotton Board, Sugar Board, and Tanzania Tourist Board. Similarly, Zanzibar Commission for Tourism, and Zanzibar Investment Promotion Authority perform the same functionalities as the marketing boards.

Functions of marketing agencies in the distribution channel

The marketing agencies in the distribution channel add value in the following:

Assortment: The marketing agencies in the distribution channel transform the assortment of products in assortments wanted by consumers.

Information: During the conduct of their business, these agencies receive information from the customers or producers. They gather and distribute market information to producers or customers.

Promotion: These agencies develop and spread persuasive communication to the customers about the product.

Negotiation: Marketing agencies in the distribution channel attempt to reach final agreement on the price and other terms for the product so that the transfer of ownership can be affected.

Physical distribution: The agencies facilitate the movement of products by providing transport and storage.

Activity 2.5

In a group:

(a) Visit any marketing agency or board and ask operators about their major functions; and

(b) Prepare a 10-minute presentation for your fellow students.

Exercise 2.5

Assume you are a marketing officer in one of the marketing agencies in Tanzania. You are working with groups of farmers who are seeking to find new market for their products. Identify different functions of your institution in relation to this core.

Chapter summary

1. Many people think of marketing as only concerned with selling and advertising, but marketing is broader than that.
2. Marketing is the social and managerial process by which a company may achieve its objectives by identifying and meeting needs and wants of its customers.
3. Market is not just a place, area or product, rather a situation that brings together buyers and sellers to exchange something of value.
4. Marketing mix are key factors which are used by the companies for effective marketing of their products; they include seven (7) elements which are product, price, placement or distribution, promotion, people, process and physical evidence.
5. Price is the amount a buyer is willing to pay for the product, and pricing includes all activities involved in setting product price. The common bases for setting product price are product cost, demand and level of competition.
6. Pricing methods are techniques used by companies in assigning prices to their products. The common pricing methods are cost-based, customer-based and competition-based.
7. Promotion mix refers to elements which are used by a company to communicate with customers and other stakeholders. They include advertising, personal selling, sales promotion, and publicity.
8. Advertisement consists of non-personal forms of communication conducted through paid media under clear sponsorship. Advertisements can be printed, broadcasted, outdoor or digital.
9. Public relations involve activities which intend to maintain good relationship with the public, normally, company stakeholders such as customers, suppliers, government, employees, local communities and investors.

10. Marketing institutions consist of facilitating organisations which perform the marketing functions. Some of those institutions are marketing research companies, middlemen, advertising agencies, experiential marketing agencies, co-operatives, and marketing boards.

Revision exercise

In question 1 to 10 choose the correct answer and write its letter in your revision commerce exercise book.

1. Which of the following elements of promotion mix deals with creating awareness to customers about goods available in the market?
   (a) Sales promotion
   (b) Advertising
   (c) Personal selling
   (d) Placement
2. Which of the following set comprise the major ingredients of marketing mix?
   (a) Product, promotion, pricing and distribution
   (b) Distribution, product, policies and pricing
   (c) Product, pricing, promotion and policies
   (d) Procurement, product, promotion and pricing
3. What do we call the type of communication activity whose objective is to inform, remind, and persuade customers on the availability of a product?
   (a) Market research
   (b) Promotions
   (c) Pricing
   (d) Selling
4. It refers to face-to-face selling in which the salesman tries to convince a customer to buy products.
   (a) Personal buying
   (b) Personal selling
   (c) Personal contract
   (d) Personal advice

5. Match the explanation of the concepts used in marketing in group "A" with the corresponding responses in group "B" and write its letter beside the item number in your commerce revision exercise book.

Group A	Group B
(i) Market which consists of individuals and households who buy goods and services for consumption.	A. Producer markets
(ii) Market where wholesalers sell goods to retailers for selling them to consumers.	B. Consumer market
(iii) Market structure with many buyers and sellers.	C. Secondary market
(iv) Process of assigning a name, sign and symbol to goods and services.	D. Wholesale market
(v) Market structure with small number of sellers selling differentiated or similar products.	E. Monopolistic competition market
(vi) A situation which brings together buyers and sellers to exchange something of value.	F. Perfect competition market
	G. Market
	H. Branding
	I. Monopoly

6. You are a marketing officer in a company dealing with consumer products. Explain how the knowledge of marketing may help you in executing your responsibilities.
7. Explain the importance of pricing in any organisation.
8. Select two (2) types of advertising and determine how each type works to advertise the targeted product.
9. Why personal selling is considered important to both sellers and the buyers?

Chapter Three Money and banking

Introduction

Money is something of value that is used in exchange of goods and services. Whenever we buy goods or services we actually pay, either in cash or electronically through other means such as mobile money or bank cards. Existence of money necessitated the establishment of the banking system. Bank serves as an intermediary between savers and borrowers. In this chapter, you will learn about money, financial institutions in Tanzania, bank payment system, credit facilities, and loan management. The competencies developed will enable you to effectively manage your transactions in different ways.

Meaning of money

Money is anything that is generally accepted by the society as a medium of exchange. Money is widely used and accepted in the exchange of goods and services.

The historical background of money

No one knows exactly when and who first invented money, because the invention of money took place long before the beginning of written history. Historians, however, believe that metal objects were first used as money as early as 5,000 B.C. Prior to the invention of money people used to trade by exchanging goods for goods, a system known as barter trade.

Barter trade

Before money was invented, people were compelled to provide themselves with food, shelter, and clothes. As communities grew, demand for goods and services grew and people were no longer able to satisfy their wants. As a result, there was a need for exchange of goods or commodities depending on people's needs and availability. People, then, started to acquire and exchange the commodities they produced with those produced by others, through bartering. Bartering or barter trade involved the provision of goods by one party in return for other goods from another party. For example, if one wanted to acquire a sheep in exchange for cans of milk, then a person was supposed to find another person who wanted milk for sheep so that exchange could take place as shown in Figure 3.1.

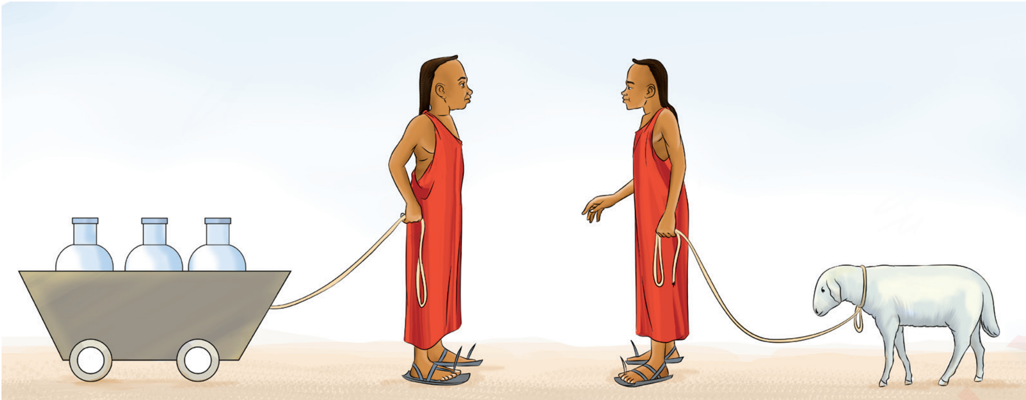

Figure 3.1: *Barter trade system*

Over time, bartering was not always possible. Various factors limited the effectiveness of barter trade among the people.

Limitations of barter trade

The following are some of limitations of barter trade:

Lack of double coincidence of wants: During the barter trade, for a transaction to occur between two parties, both parties needed to have what the other person wanted. In other words, the wants of the two persons who desire to exchange goods must coincide. For example, if person "Z" wants to acquire shoes in exchange for maize, then 'Z' must find another person who wants maize and has shoes for the exchange to take place. In the absence of a double coincidence of wants, the individuals under the barter system were obliged to either hold goods for long periods of time or make numerous intermediary exchanges in order to finally get the goods of their choice.

Difficult to measure value: Under the barter trade there was no common measure over which the value of a commodity could be expressed. For example, how many bags/kilograms of maize could be exchanged for a pair of shoes? This means that, there were no well-defined standards of measuring the actual quantity of one item to be exchanged with the other. In fact, for a smooth exchange to take place every good must be expressed in terms of every other good.

Indivisibility of certain goods: This limitation resulted from the fact that not all goods could be divided and subdivided. Therefore, if for example, the price of a cow was equal to 10 pairs of shoes, then a person having one pair of shoes could not exchange it for the cow because it was not possible to divide a cow into small pieces and still left it living. Indivisibility, thus, discouraged occurrence of some transactions, which gradually contributed to the failure of bartering as the system of exchange.

Perishability of some goods: When barter trade was in place, there were no effective means of storing wealth or value. People would only store their purchasing power in the form of commodities such as wheat, maize and rice. With changes in time and weather, commodities could decrease in value due to physical deterioration or perishability.

Problems of portability of some goods: During the barter trade some commodities could not be transported conveniently from one place to another. For example, it was not easy and sometimes, quite risky to herd a herd of cattles to a distant place to exchange them with other goods.

Lack of standards for deferred payments: Under the barter trade, future payment contracts were written in terms of specific goods to be used for repayment. The borrower, however, would not always be able to arrange goods of exactly the same quality at the time of repayment. There were conflicts regarding which specific commodity was to be used for repayment: the commodity to be repaid could lose or gain its value at the time of repayment.

Due to all these difficulties, the barter trade could not be sustained for a long time. This led to its gradual extinction which welcomed the emergence and development of commodity money.

Commodity money

Commodity money refers to a commodity whose value serves as the value of money. It is a physical good that has intrinsic value. That is, even if nobody would accept it, the owner could still use it for other purposes. Figure 3.2 shows some historic examples of commodity money including cocoa beans, gold, salt, and seashells.

Sea shells

Gold

Salt

Cocoa beans

Figure 3.2: *Commodity money examples*

The main characteristics of commodity money were portability, divisibility, easy exchangeability, and scarcity. Despite its apparent usefulness, use of commodity money faced some serious challenges. Some commodities did not qualify all features of commodity money, for example, barley was heavy to carry, so it was not portable; whale's teeth were hard to split into two, so it was not easily divisible; seashells lacked scarcity as it could be picked up on any beach. Similarly, feathers did not have much intrinsic value; hence, it was hard to trade outside one's immediate community. As a consequence, commodity money lost ground and was gradually replaced by metal money.

Metallic money

The challenge of portability, divisibility, durability or scarcity of some of the commodities used as money forced the ancient people to find something that was intrinsically useful and easy to operate in their daily life (example iron and silver). The value of these metals was measured by weight and had a recognisable symbol such as flowers, wheels, and swastikas. Figure 3.3 further shows examples of the earliest metallic money.

Figure 3.3: *Early metallic money*

With time, governments or sovereign states decided to put portraits of their rulers on them for their immediate official recognition. They also stamped them with some value markings to make its value known at sight. Standardisation and certification of the early metal monies, evolved into primitive versions of round coins as shown in Figure 3.4. These new coins were made from precious metals such as silver, bronze and gold, which had more intrinsic value and could be used to trade with other communities.

Figure 3.4: *Early coins*

Paper money

As trade developed and expanded, carrying around large quantities of coins became exhaustive and unsafe, then the idea of developing a paper money arose. The value of the paper money was linked to the value of physical commodities such as silver and gold which acted as the standard of exchange between different currencies. Although the paper had no physical value, people trusted that, it was worth based on what it represented. To date, the only thing that distinguishes the value of a bank note from any other paper is a guarantee trust. Figure 3.5 shows the world's first paper money which was created in the Republic of China.

Figure 3.5: *World's first paper money*

Fiat money

Fiat money is a government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it. It is regulated and controlled by the central bank of each country. In Tanzania, the Bank of Tanzania (BoT) controls and regulates fiat money. Currently, the value of the fiat money is derived from the forces of demand and supply, and the stability of the respective government, rather than the value of a commodity attached with it. Figure 3.6 shows specimen of fiat money in the form of notes and coins in Tanzanian shillings.

The following are some security features of the Tanzanian shilling notes:

(a) Watermark image viewable only when held up to light and that does not reproduce on copy paper;
(b) A security thread running through the bank note paper;
(c) High quality paper that provides special texture of paper; and
(d) Printing quality which involves thick ink lends a raised surface to the print surface is difficult to reproduce cheaply.

Figure 3.6: *Specimen of fiat money in Tanzania*

Digital currency or electronic money

Advancement of technology in the global economy has contributed to the changes and development of digital currencies over time. A digital currency is a type of currency that is managed, stored and exchanged in online system. They include cryptocurrencies, virtual currency and central bank digital currency. Bitcoin is the first cryptocurrency to have been developed and for which blockchain technology was developed. It is currently the most developed of all the cryptocurrencies in the world. Some of other cryptocurrencies include Ethereum, dogecoin, solana and cardano. Digital currencies facilitate trade without exchange of any physical currency.

Activity 3.1

In a group of six students:

(a) Investigate on how the existence of money have simplified the process of buying and selling of goods.

(b) Present your findings in the class.

Exercise 3.1

The shortcomings of the barter trade outweigh its significance in commercial trade. With examples, explain the statement.

Functions of money

Money has many important functions. These functions include:

Medium of exchange: Money facilitates exchange of commodities as a medium of exchange. Any commodity can be exchanged for money. For example, instead of exchanging a bag of maize for shoes, the farmer can now exchange money for shoes.

Store of value: Money is the most convenient and economical means to store value as it does not lose its value over time so quickly. Holding money is a more effective way of storing value than holding other items of value such as maize or rice, as they are perishable. Money, however, is not always a perfect store of value because of inflation. Inflation erodes the purchasing power of money over time.

Measure of value or unit of account: Money is used to assign prices to all kinds of goods and services. Essentially, it is price that signifies the value of goods and services, that is with money people can compare the value of various products. For example, if one kilogram of wheat costs TShs. 5,000 and one kilogram of rice costs TShs. 2,500 we can say that one kilogram of wheat is worth twice as much as one kilogram of rice.

Standard of deferred payments: Money can easily be used to transfer value, at different times and between people, by means of credit or debt. For example, one person can lend a certain amount of money to another person for a certain period of time so they may use, and repay the agreed amount of money at a future date. Therefore, the borrower enjoys the value of goods or services that they most need now in exchange for the payment at a later date.

Qualities of good money

The following are the qualities of a good money:

General acceptance: Money must be generally accepted as the medium of exchange, without any hesitation.

Portability: A good money can easily and economically be transported from one place to the other.

Divisibility: A good money is that which could be divided into small units without losing any value. If someone wants to buy a smaller unit of a commodity, then divisibility of money can make it possible. For example, cows cannot function as good money. This is because you cannot divide a cow into smaller units without losing its value.

Durability: As money is passed from hand to hand and kept in reserves, it must not deteriorate easily, either in itself or as a result of wear and tear. It should not lose its value with the passage of time.

Recognisability: A good money is the one that can be easily recognised by seeing and touching. It should easily be identified by everyone. In addition, different coins and notes should be of different colour and size in order to avoid any confusion.

Stability: A good money material should be comparatively stable in value. If the value of material used in money keep on changing, then it will fail to function as a measure of value and as a standard of deferred payment.

Scarcity: A good money should be scarce in quantity. That is the supply of money must be kept low as compared to the apparent desire for it. Scarcity of money will push people to always work hard to earn more money and meet requirements of life.

The motives for holding money

There are three motives for holding money, which include the following:

Transaction motive: The transaction motive occurs from the fact that most of the transactions involve an exchange of money. Thus, it is important to have money available to facilitate various transactions.

Precautionary motive: People usually need money as a precaution against uncertain future events or emergencies. Unexpected expenses, such as medical treatment, require immediate payment.

Speculative motive: Keeping all money invested does not seem attractive at all times. Some people, therefore, hold money so as to make its best use for any investment opportunity that arises in the future.

Activity 3.2

In pairs, think of an item that stores value, but does not serve the other functions of money and present your idea in class.

Exercise 3.2

1. The introduction of money in the business environment has significantly easen the way business operates. Based on that statement answer the following questions:

   (a) Provide for the meaning of the term money; and

(b) Analyse the basic functions of money in business operations.

2. The use of money is one approach among many used to counterbalance the shortcomings of the barter trade. Describe the qualities of money which gives it superiority over the barter trade.

Financial institutions in Tanzania

A financial institution (FI) is an entity that provides intermediary services for different types of financial and monetary transactions such as deposits, loans, investments, and currency exchange. It helps to bridge the gap between savers and borrowers. Savers are mostly individuals, companies or government who have more money than probably needed (surplus). Borrowers on the other hand, do not have enough money to cover their expenses, hence need to borrow from those with surplus.

Types of financial institutions

Financial institutions are usually classified based on the kind of intermediation service they provide. They are classified into banking and non-banking financial institutions.

Banking financial institutions: These are financial institutions that are licensed to receive deposits, issue cash, and offer or advance loans. Banks are classified based on their functions. They include the Central bank, Commercial banks, Investment banks, Community banks, and Microfinance banks.

Non-banking financial institutions (NBFIs): These are financial institutions that do not have a full banking license and cannot accept deposits from the public. NBFIs supplement banks in providing financial services to individuals and firms. They include, mortgage finance institutions, microfinance service providers, bureaux de change, financial leasing companies, credit reference bureaux, insurance companies, representative offices of foreign banks, and social security schemes.

Roles of financial institutions

Financial institutions play a significant role in the economy. They have the following roles:

Regulation of money supply: Financial institutions, specifically the Central Bank through monetary policy, regulates money supply in the economy to maintain stability, and control inflation.

Banking services: Baking financial institutions, serve customers by providing savings and deposits services. In addition, they offer credit facilities, to cater for their customers' need for short and long-term funds. Commercial banks also extend several financial products such as personal loans, education loans, mortgages, or housing loans.

Insurance services: Financial institutions, such as insurance companies, provide protection to individuals and organisations against adverse events.

They insure individuals or organisations against their life or some particular assets against various risks.

Capital formation: Financial institutions help in capital formation. This involves mobilisation of the idle savings from individuals in the economy to investors through various monetary services.

Investment advice: Financial institutions have an investment advisory desk that helps customers and businesses to select the best investment options available in the market according to their ability to take risks and other factors.

Products and services offered by financial institutions in Tanzania

Financial institutions offer a wide range of products and services to meet the needs of individuals, groups, households, businesses, and large organisations. The products and services offered vary widely between different types of financial institutions. Table 3.1 presents categories of financial institutions in Tanzania and the services they offer.

Table 3.1: *The categories of financial institutions in Tanzania*

S/N	Category	Products and services offered
1.	Banks	Banking services such as depository and loan services
2.	Bureau de change	Currency exchange services.
3.	Credit reference bureaus	Collecting, analysing and providing credit rating information to different lenders
4.	Financial leasing companies	Engage in financing the purchase of physical assets
5.	Mortgage finance companies	Facilitating mortgage loans to banks or direct lending to the public
6.	Microfinance service providers	Financing small and medium scale enterprises
7.	Representative Offices of Foreign Banks	Facilitate the normal functioning of the parent bank in the foreign state. It also involves the collection of information, conducting market research, providing information to the parent banks and customers in a foreign country
8.	Social security schemes like Public Service Social Security Fund (PSSSF), Zanzibar Social Security Fund (ZSSF) and National Social Security Fund (NSSF)	Provide social security schemes such as retirement benefits, health insurance services and workers' compensation benefits
9.	Insurance companies	Provide insurance services by protecting individuals and organisations against adverse events
10.	Investment companies	Manage investments, advise on investment issues like investment management and selection of different assets

Activity 3.3

In a group of students:

(a) Visit any nearby bank;

(b) Learn about different products, services offered, procedures and documents required to open a bank account; and

(c) Present your findings in a class.

Exercise 3.3

1. The development of any financial system is significantly influenced by the performance of its financial institutions. Thus, the financial institution has a significant role to play in any country's financial system. With evidence, state the different roles played by the financial institutions in Tanzania.
2. Both banking and non-banking financial institutions operate in the country at different capacities and levels. With examples, provide the differences between the banking and non-banking financial institutions.

The background of banking industry

The history of banking is closely related to the history of money, but banking is considered to start before the invention of money as the ancient merchants used to lend grains during the barter trade system. Universally, the concept of banking is believed to have begun in Mesopotamia (currently, Eastern Syria, South-Eastern Turkey, and most of Iraq) around 1,800 BC. During that period, temples, royal palaces, and some private houses served as storage facilities for valuable commodities such as coins and jewels. Earlier on, temples were also involved in the business of lending. There are records of loans by the temples of Babylon as early as 2,000 BC. The temples and palaces were believed to be the safest place to store gold, as they were securely built and constantly attended by priests. Religious temples became the earliest banks that dealt primarily in silver, gold, and coins. Much of their business was money changing and supply of foreign and domestic coins of the correct weight and fineness.

The full-fledged banks emerged in the middle-ages when the Romans (people from Rome, Italy), who were expert builders and administrators, detached banking from the temples and formalised it within distinct buildings or organisations. They specialised in depositing and lending of money, as well as creation of the generally accepted document that acknowledged the existence of a debt "I Owe You," (IOU) that serves in place of coins or other commodity money.

The merchant banks

The development of banking spread from northern Italy throughout the Holy Roman Empire, to northern Europe in the 15^{th} and 16^{th} centuries. In Europe, there was the so called the 'merchant banker' who first evolved the system of banking by trading in commodities other than money. The merchant banking business arose from the fact that many merchants traded internationally holding assets at different points along trade routes. They acquired remittances of money from one place to another. Merchant banks enabled merchants make distant payments using bills of exchange instead of actual coins.

The Gold Smith

The next stage in the growth of banking was the Goldsmiths of London. Goldsmith design and make gold jewellery, including that with precious and semi-precious stones. Their business required them to take special precautions against theft of gold and jewellery. They therefore, possessed private palaces. Merchants in the surrounding neighbourhoods consequently, started leaving their bullion, money and ornaments in the care of any goldsmith who seemed to be an honest person. As this practice spread, the goldsmiths started to impose some charges for their taking care of merchants' money and bullion. As evidence for receiving valuables, they issued a receipt. Subsequently, since gold and silver coins had no marks of the owner, the goldsmiths started lending them out. The goldsmith-money-lender, thus, became a banker who started performing the two major functions of modern banking; accepting deposits and advancing loans. By the end of the 17th century, banking was also becoming important for the funding requirements of the aggressive European states. This led to the enactment of different government regulations, then, the first central bank was established. Success of the new banking techniques and practices in Amsterdam and London helped to spread the concepts and ideas elsewhere in Europe.

The emergence of modern banking

The new banking practices promoted commercial and industrial growth by providing a safe and convenient means of payment and a money supply more responsive to commercial needs, as well as by "discounting" business debt. In 18th century, governments adopted the theories of Adam Smith, an economist who proposed the idea of free market economy. This later on gave banks a relatively free hand to operate. During the 20th century, developments in telecommunications and computing technology caused major changes to banks' operations causing their dramatic increase in size and market share. Consequently, banking evolved to the modern banks which are more complex, globalised, and technology-based.

Historical background of banking in Tanzania

The history of banking sector in Tanzania can be categorised into three phases; the colonial era, after independence, and the liberalisation era. These phases are explained as follows:

During colonialism

In Tanganyika, commercial banking was introduced during the Germany colonial era by the Germany East African Company in 1905 when the German bank, Deutsch-Ostafrikanische Bank opened its office in Dar es Salaam and in 1911, another German bank, namely the Handelsbank fuer Ostafrika, opened a branch in Tanga. Commercial banking was essentially under the German Government until 1918 when Britain was mandated to take over the Germany's territory of Tanganyika. Under the British rule, the two Germany banks were replaced with three new banks: The National and Grindlays Bank, the Standard Bank, and the Barclays Bank. The monetary system at the time was aligned with that of Kenya and Uganda through the establishment of the East African Currency Board (EACB) in December 1919.

In Zanzibar, commercial banking began in 1840 when the Oman Arabs moved their capital from Muscat to Zanzibar. Gradually, Zanzibar's commercial activities grew exponentially, with the township becoming the central point of the East African trade. The first bank in East Africa known as the Credit Bank was established in Zanzibar.

After independence

After Tanganyika obtained its independence on December 9,1961, two more banks were introduced in additional to those existed during the British rule. These included: The National Cooperative Bank (1964) and the Tanzania Bank of Commerce (1965). The EACB was liquidated in 1965, paving way for the establishment of the national central's banks in Tanzania, Kenya, and Uganda. The Bank of Tanzania (BoT) was established under the Bank of Tanzania Act of 1965 to perform all the traditional central banking functions. The following year 1966, the Revolutionary Government of Zanzibar established the People's Bank of Zanzibar (PBZ). Shortly, after the Arusha Declaration in 1967 all private banks were nationalised and their assets and liabilities were merged to form one big commercial bank, namely the National Bank of Commerce (NBC) in Tanzania mainland and the PBZ in Zanzibar. Having established one big commercial bank, the government focused on establishing other financial institutions to cater for the various needs in other sectors such as agriculture, industrialisation and housing. These included the Tanzania Investment Bank (TIB), Tanzania Rural Development Bank (TRDB) and Tanzania Housing Bank (THB).

Liberalisation of banking

The Government took deliberate efforts to reform the economy following the economic crisis in the late 1980s. The aim was to eliminate controls and introduce a market-based economy. The liberalisation of the financial sector led to the enactment of the Banking and Financial Institutions Act (BFIA) in 1991 which allowed entrance of the private sector (both local and foreign) in the Tanzanian financial sector. The opening up of the financial sector increased the number of banks significantly, both locally and foreign owned. Up until 2021, there were 48 licensed banks in Tanzania: 34 commercial banks, 5 community banks, 5 microfinance banks, 2 mortgage banks, and 2 development banks.

Types and functions of banks

Banks are the financial institutions authorised by the government to conduct banking activities like accepting deposits, advancing credit, managing withdrawals, paying interest, clearing cheques and providing general utility services to the customers. Banks are the ultimate organisations, which dominate the entire financial system of the country. There are different types of banks and each type usually specialises in particular functions. The following are the types of banks in Tanzania distinguished according to their functions:

Central bank

A central bank is an integral part of any financial and economic system. It is owned by the government and given certain functions to fulfil. Bank of Tanzania (BoT) is the central bank of the United Republic of Tanzania. Figure 3.7 shows the landmark of the BoT in Dar es Salaam.

Figure 3.7: *The landmark of Bank of Tanzania in Dar es Salaam*

Functions of central bank

The central bank performs the following key functions:

Issuance of currency: The central bank has the sole responsibility of issuing notes and coins. In Tanzania, BoT is the only institution with the right to issue Tanzania's shilling notes and coins.

Banker to the banks: The central bank acts as a banker to commercial banks in the following manner: it is the custodian of cash reserves for the commercial banks; lender of the last resort in the sense that, if commercial banks fail to generate enough cash from its own sources, it approaches the central bank as their last resort. The central bank, thus, may provide loans and, or advances to the bank that experiences financial deficit. The central bank also, acts as the central clearing house for the commercial banks.

Banker to the government: As a banker to the government, the central bank carries out all banking businesses on behalf of the government. For Tanzania, the BoT accepts deposits for the account of the government or public authorities; maintains government accounts as well as effecting payments, remittances, transfers, and collection of government revenues; maintains and operates special official accounts in accordance with arrangements made between the BoT and the government or public authority concerned.

Guardian of the country's reserves: The central bank is the custodian of the stock of gold and foreign exchange reserves of the nation. This function helps in maintaining stability in the currency's exchange rate. It also serves to enforce exchange controls and other regulations for a favourable balance of payments for the economy.

Controller of credit and money supply: Credit control and control of money supply is probably the most important functions of central banks. It formulates, defines and implements monetary policy directed to attain domestic price stability, balance of payments, and sustainable growth of the national economy. Essentially, central banks extend an advisory role to their government on economic and financial matters.

Commercial banks

Commercial banks are financial institutions that provide basic banking services and products to the general public, and business entities. These services include deposits, withdrawals, loans, and basic investment services. With the rise in internet banking technology, most commercial banks now allow their customers to do most of the banking transactions online. Examples of commercial banks in Tanzania includes CRDB bank, NMB Bank Plc, National Bank of Commerce (NBC), Tanzania Commercial Bank (TCB) and Exim bank.

Functions of commercial banks

Commercial banks are authorised to provide a variety of financial services. The functions that a commercial bank performs are classified into primary and secondary functions as follows:

Primary functions of commercial banks

The primary functions of a commercial bank include the following:

Acceptance of deposits: The most primary function of commercial banks is to accept deposits from the general public, business entities, and other institutions. The deposits received by the banks may be in the form of savings, fixed deposits, and current or demand deposits.

Provision of loans and advances: Another primary function of commercial bank is to offer loans and advances to individuals and businesses. In this process, a bank retains part of deposits as a reserve, offers (lends) the remaining amount to the borrowers, and charge interest. This is how they earn revenue and carry on their business. The commercial banks advance loans in the following forms: bank loans, overdrafts, credit cards, and cash credits.

Secondary functions

Commercial banks perform a variety of miscellaneous functions on behalf of their customers as follows:

(a) They act as agents for the purchase of shares and other securities;
(b) They collect and pay bills;
(c) They keep valuables in safe custody;
(d) They issue letters of credit;
(e) They arrange for transfer of money from one place to another by

banker's draft or otherwise; and

(f) Some banks are involved in foreign exchange market and are subject to the foreign exchange regulations of the countries concerned.

Types of commercial bank accounts

Most commercial banks offer the following types of accounts:

Saving account

A saving account is the most basic type of bank account, allowing users to save money and earn interest on the amount deposited while also having the option to withdraw it at any time. This type of account is generally maintained by households or individuals.

Features of savings account

A savings account has the following features among others:

(a) A minimum initial deposit is often required and must be maintained in the account;

(b) No limit on number and value of deposits that can be made in a month;

(c) There is flexibility in withdrawals available to the savings account holders that can be made through ATMs, internet banking or through teller windows;

(d) The bank pays interest on the deposits in the savings accounts; and

(e) It is subjected to a monthly maintainance fee which varies from bank to bank.

Current account

Current account also known as demand deposits, is an account that is opened by businessmen and entities who have large number of regular transactions with the bank. It is also suitable for making payments by using cheques.

Features of current account

Some features of current account are as follows:

(a) It is a non-interest-bearing bank account, however currently some banks do pay interest on current accounts;

(b) Current account holders can get a facility of overdraft;

(c) There is no restriction on the number and amount of deposits; and

(d) There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in the bank account.

Fixed deposit account

Under this account, money is deposited for a fixed period at a pre-determined interest rate. The rate of interest is relatively higher than other accounts depending on the tenure and size of the fixed deposit. It can be opened by individuals, businesses, or organisations.

Features of fixed deposit account

The following are some features of fixed account:

(a) This account offers competitive interest rates;

(b) There is little risk of loss of principal;

(c) Flexible tenures of deposit periods ranging from 15 days to 10 years;

(d) No cap on the maximum deposit; and

(e) The deposits in a fixed deposit account can be used as a security for an overdraft against a current account.

Community banks

A community bank is a locally owned and operated financial institution that addresses the needs of a community by offering loans to local individuals and small-business owners. Typically, they operate with a very small level of capital. The survival of a community bank depends on the social relationship it has with customers. Community banks mainly perform the traditional banking services such as lending and accepting deposits. Examples of community banks in Tanzania include: Mufindi Community Bank Plc (MuCoBa), Kilimanjaro Cooperative Bank, and Tandahimba Community Bank Limited.

Microfinance banks

A microfinance bank is a banking financial institution licensed by the Central Bank to carry on the business of providing banking services to low-income individuals who are traditionally not served by commercial banks. In Tanzania, the BoT has the mandate to license, regulate, and supervise the microfinance services in the country. Examples of microfinance banks in Tanzania include; FINCA Microfinance Bank, Mwanga Hakika Microfinance Bank, Yetu Microfinance Bank, and Vision Fund Tanzania Microfinance Bank.

Mortgage banks

Mortgage bank is a bank specialising in mortgage loans. A mortgage loan is a loan specific to the real estate industry. The loan should be used in either purchasing or maintaining a house, land, or any other type of real estate. The property itself serves as a collateral for the loan. Examples of mortgage banks in Tanzania include: First Housing Company Tanzania Limited and Tanzania Mortgage Refinance Company.

Savings and Credit Cooperative Society

A Savings and Credit Cooperative Society (SACCOS) is a member based financial institution which operates on cooperative values, identity, and principles which includes social responsibility, openness, honesty, and caring for each other. Examples of SACCOS are Tujikomboe SACCOS in Moshi rural district, and Melinne SACCOS in West district Zanzibar

Bank payment system

The banks payment system is the banking infrastructure for processing and settlement of financial transactions between people and organisations. Businesses can accept or authorise payments in different ways, which include cash, bank card, telegram transfer, and cheque payments. Also, advanced methods like digital fund transfers such as mobile payments, Automated Teller Machines (ATMs), wire transfers, and other online payments are becoming popular with time. The following are detailed explanation on some of the bank payment services:

Cheques

A cheque is a written, dated, and signed instrument that directs a bank to pay a specific sum of money to the bearer or the person named on it. It includes instructions from a customer to the bank to transfer funds from the customer's account to the account of a person named on the cheque.

Parties to cheque

Basically, there are three parties to a cheque:

Drawer: The person who draws or issues the cheque, that is, signs and orders the bank to pay the sum amount.

Drawee: The bank on which the cheque is drawn or which is directed to pay the specified sum amount written on the cheque. It is simply the bank that pays the cheque.

Payee: The beneficiary, that is, to whom the amount is to be paid.

Types of cheque

The following are types of bank cheques:

Open cheque: This is also known as uncrossed cheque or bearer cheque. It refers to the cheque which can be cashed over the counter by the person whose name is written on the cheque.

Crossed cheque: A crossed cheque refers to the cheque which contain two transverse parallel lines, called crossings across its face or at the top left corner of the cheque. The crossings may or may not have the words. Unless signed to open it, a crossed cheque cannot be presented for payment over the counter, it must be deposited into a bank account of the payee. Crossings may be general or special as follows:

General crossing

General crossing may take one of the following forms:

(a) Just two parallel transverse lines with no words between them. In case of general crossing on the cheque, the paying banker will pay money to any banker provided it is through a bank account and not over the counter;
(b) Two parallel lines with words '& Co' between them. The words do not have any significance;
(c) Two parallel lines with the words 'Account Payee Only' between them. This is the safer means of payment as the cheque must be paid into a bank account with exactly the same name as that which appears on the 'payee' line of the cheque; and
(d) Two parallel lines with the words 'Not Negotiable' between them. The words restrict the negotiability and thus, in the case of transfer, the transferee will not give a title better than that of a transferor.

Figure 3.8 shows a sample of crossed cheque and different styles of crossing cheque.

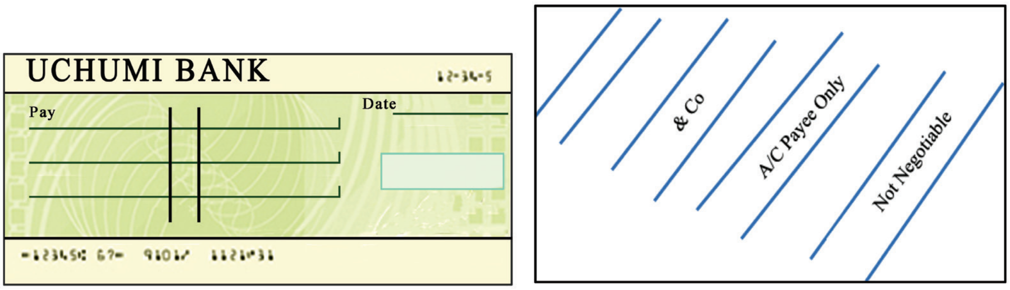

Figure 3.8: *Crossed cheque and different styles of crossing cheques*

Special cheque crossing

This consists of two parallel lines with the name of the bank and branch between them. A cheque with special crossings can be presented for payment only through the bank and the branch named between the crossings. The words 'Not negotiable' or 'Account Payee only' may be added to a special crossing to make it more effective as shown in figure 3.9. In this case, the paying bank is UCHUMI bank A, Kawe branch.

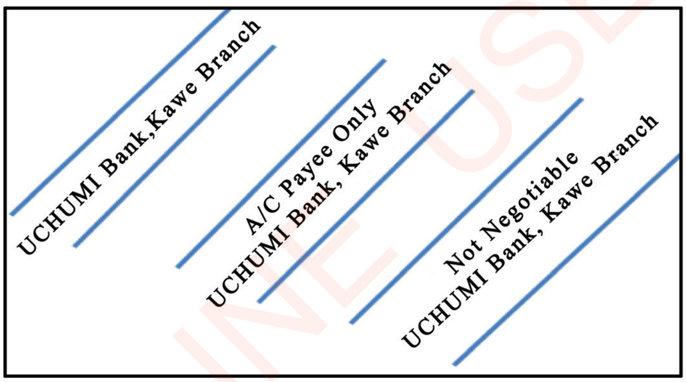

Figure 3.9: *Special crossings*

Self-cheque: This is a cheque used by the issuer to withdraw money from the bank account. This cheque has the word 'self' written as the payee. It can be cashed only at the issuer's banks.

Blank cheque: A cheque which is only signed, but the amount payable has not been specified. Such cheques can name the payee and the maximum limit of withdrawal can be mentioned.

Stale cheque: A cheque presented before the bank, after the expiry period of six months of which the bank cannot effect the transaction.

Post - dated cheque: When a cheque is drawn containing a future date, it is called post-dated cheque. Post-dated cheque can be presented in a bank for clearance or payment only on or after that date. In such cases, money will not be payable by the bank before that date.

Banker's cheque: It is a non-negotiable instrument, which is issued by the bank on behalf of the customer, which is payable in the same city or within a local area. It is also known as a pay order.

Cancelled cheque: This is a cheque that is crossed with two lines and with the word 'cancelled' written across. A cheque may be cancelled if any mistake has been made while writing the cheque and will never be honoured for transaction.

Mutilated cheque: This is a cheque which is torn, damaged, crushed, or washed. Such cheques are honoured only when certain details are visible after confirming with the drawer.

Traveller's cheque: This is a cheque which is issued by a bank for a fee, containing a fixed amount. This cheque is used to make payment in a foreign country, after endorsement by the signature of the holder.

Gift cheque: This is a cheque that is issued for the purpose of providing gifts and prizes to individuals or organisations. Banks charge a fee for issuing such cheques.

Promissory notes

A promissory note is a legal financial instrument issued by one party, promising to pay the debt owed to another party. It is a written negotiable instrument duly signed by the maker that contains an unconditional promise to pay the stated sum of money to another party (payee), either on-demand or on a specified future date. It outlines the amount of loan, interest rate and schedule for repayment. A promissory note needs no acceptance. Figure 3.10 shows an example of promissory note.

Characteristics of promissory notes

The promissory note has the following characteristics:

(a) It must be drawn and duly signed by the maker;

(b) It must be properly stamped with a specified the name of the maker and the payee;

(c) The amount to be paid must be certain, given in both figures and words; and

(d) Payment is to be made in the country's legal currency; and it needs no acceptance.

Promissory Note

____________________ ____________________

Place of Residence *Date*

I, *(Maker's name)* agree and promise to pay *(Payee's name)* or order the sum of TShs ____________ for the value received, with interest at a rate of __%__ payable on/after *(Date)*

____

(Maker's signature)

Figure 3.10: *Promissory note*

Bill of exchange

A bill of exchange is a binding agreement by one party to pay a fixed amount of cash to another party at a predetermined date or on demand. Figure 3.11 shows an example of bill of exchange. Bills of exchange were primarily used in international trade. Their use has declined as other forms of payment have become more popular.

Characteristics of bill of exchange

The bill of exchange has the following characteristics:

(a) It carries an absolute order to pay a specified sum, and the sum is payable to the person whose name is mentioned in the bill or to any other person, the order of the drawer, or to the bearer of the instrument;

(b) It requires to be stamped, duly signed by the maker, and accepted by the drawee;

(c) It contains the date by which the sum should be paid to the creditor; and

(d) It needs acceptance by the buyer.

Bill of Exchange

Amount ____________ Place ____________

Stamp Date ____________

60 days after date, pay *(Payee's name)* a sum of TShs ____________ for the value received.

ACCEPTED Drawer ____________

(Signed) *(Signed)*

Drawee's Name ____________ Drawer's Address ____________

Drawee's Address ____________

Figure 3.11: *Bill of exchange*

Postal orders

A postal order or a postal note is a type of money order usually intended for sending money through the-mail. It is purchased at a post office and is payable at another post office to the named recipient.

Debit card

A debit card is a payment card that deducts money directly from a cardholder's account when it is used. It can be used to buy goods or services; or to get cash from an automated teller machine (ATM), points of sale (PoS) or any bank agents. A debit card is an alternative to carrying cash. It is also known as a bank card. Examples of debit cards include visa cards, master cards, and union pay cards. Figure 3.12 shows a sample of a debit card.

Figure 3.12: *Debit card*

Credit card

A credit card is a card issued by a bank and enables the cardholder to borrow limited funds from that institution. Cardholders agree to pay the money back with interest according to the institution's terms. These are like debit cards; however, the difference is that the users enjoy a certain credit period. This means they can pay for their purchases now and repay this money later.

Prepaid cards

Prepaid cards are cash alternatives which allow a person to spend whatever amount of money is stored on the card. In a prepaid card a certain amount is pre-loaded to the card and users pay the required amount until the limit is exhausted. Prepaid cards eliminate the risk of over-spending but may come with certain fees.

Standing order

A standing order (or a standing instruction) is an instruction a bank account holder "the payer" gives to their bank to pay a set amount at regular intervals to another's "the payee's" account. The instruction is sometimes known as a banker's order. They are typically used to pay rent, mortgage repayment, upkeep allowances or any other fixed regular payments. Because the amounts paid are fixed, a standing order is not usually suitable for paying variable bills such as credit cards or gas and electricity bills.

Direct debits

A direct debit is an instruction by payers to banks for funds to be withdrawn from their account to pay service users. It is the simplest and most convenient way for bank customers to pay regular and occasional bills, such as water, gas or electricity, especially if the amount regularly changes.

Electronic bank transfers

Electronic bank transfers are used to move funds from one account to another via online networks. Such transactions replace paper-based transfers and human intermediaries. The payments can be made to the same bank or different institutions. Such transfers include: mobile payments, ATMs transactions, card transactions, and internet transactions.

Exercise 3.4

1. "Issue of currency is the only important function performed by the central bank", comment on this statement.
2. Both current and saving accounts are offered by many commercial banks in Tanzania. These accounts have some distinctive features that separate them from other accounts and from each other. In what ways is the current account different from the saving account?
3. In any operating day, a bank performs a number of transactions based on the interests of its clients. These transactions mostly differ in the manner of the way they are executed. Based on this fact, provide the difference(s) between the following form of transactions executed by the bank:
   (a) Standing order and direct debits;
   (b) Open cheque and crossed cheque;
   (c) Stale cheque and post-dated cheque; and
   (d) Debit card and credit card.

Credit facilities

Lending is an important activity performed in the banking industry. Banks accept deposits from the public and invest them in form of loans to earn profit. A credit facility is an agreement with the bank that enables a person or organisation to take credit or borrow money when it is needed. The business of lending is carried by banks through offering various credit facilities to their customers. These credit facilities may be secured or unsecured.

Unsecured loan: They are loans offered to the borrowers without any collateral but generally carry a high interest rate. This means, if the borrower defaults on the repayment of loan, there is no way for the lenders to acquire any asset of the borrower whether it is tangible or intangible. Examples of unsecured loans include personal loans and student education loans.

Secured loan: These loans offered by lenders against any tangible or non-tangible asset like house, piece of land, or vehicle. If the borrower defaults on the payment, the assets can be taken over by the lender. Examples include housing loans and business loan that are secured with a collateral.

Broader classification of credit facilities

Different types of credit facilities can be broadly classified into business and consumer credits as follows:

Business credit

Business credit is the one where the bank provides the fund directly to business borrower. There are different types of business credits as follows:

Business loans

These loans are given to business to meet their various expenditures such as production, distribution, and expansion. Business loans can be of different types as follows:

Demand loans: These are short term loans that are to be repaid on the demand of the lender. Once notified, the borrower must repay the amount of loan and associated interest. Normally, banks issue demand loans to their long outstanding customer.

Term loans: These are loans that are given for a fixed period of time and must be repaid in regular instalments. Term loans can be classified into three types based on the repayment periods as follows:

(a) Short term loans: These are usually loans that are repayable within one year.

(b) Medium term loans: These are generally repayable loans between one and seven years.

(c) Long term loans: These are loans that are repayable in more than seven years.

Cash credits

Cash credits are secured short term loans that are provided to the business owners for the purpose of financing their working capital requirements. In cash credits, borrowers are given access to a current account from which they can withdraw money within a predefined limit for an agreed period. The interest is charged on the daily closing balance of the account rather than the borrowing limit.

Overdraft

This credit facility is offered to current account holders in a particular bank, to use the funds more than their existing balance for a specific period. These credits are secured by the physical assets, pledge of fixed deposits, securities or mortgage of some immovable property in some cases.

Letter of credit

When buyers or importers want to purchase goods from an unknown seller or exporter, they may ask assistance from their bank in such transactions. A letter of credit is a document sent from a bank or financial institution that guarantees that a seller will receive a buyer's payment on time and for the full amount. A letter of credit is often used in the international trade and banks collect a fee for issuing such letters.

Bank guarantee

This type is a guarantee issued by a bank that promises to cover a loss if a borrower defaults on a loan. It may be of various types such as:

Financial guarantees: In this type of guarantee, the bank takes responsibility for the borrower. It means, if the borrower fails to repay the debt, the bank will be liable to pay the unpaid amount.

Performance guarantees: The guarantor issues a security that assures the lender that the contractor will complete the work satisfactorily in the stipulated time.

Deferred payment guarantee: This type of guarantee is usually given on deferred or postponed payments. The banks generally offer deferred payment guarantee on the purchase of certain machinery and goods.

Advantages and disadvantages of business credit

A business credit helps the business to access some capital to finance business expansion as well as financing their working capital to smoothen operations. On the other hand, a business credit is disadvantageous in the sense that:

(a) There is a risk of losing assets in case of default;
(b) It involves lengthy procedures in accessing the facility; and
(c) It increases the cost of operations caused by the interest rates.

Consumer credit

A consumer credit is a personal debt that is taken to purchase goods and services. It can be in the form of a credit card or any type of personal loan. Consumer credits are generally offered by financial institutions to help customers buy everyday goods and services. In return, the consumers are charged interest over the time taken to repay the loan. A consumer credit can be classified into two types as follows:

Revolving credit: This is also known as revolving open-end credit. It is the type of credit a consumer finds with a credit card. It offers customers an open line of credit that they can use and re-use without exceeding the limit provided by the bank. The consumers must pay off part of the credit they have used at the end of a period, normally a month. The credit does not close unless the company offering the credit closes the account.

Instalment credit: This type of credit is generally issued in the case of specific purposes. For example, purchase of furniture, vehicle, or home appliances. In the case of instalment credit, the payments are made in the form of determined monthly instalments for a predefined period.

Advantages of consumer credits

The following are the advantages of consumer credits:

Financial flexibility: Consumer credit allows consumers to spread out major costs over a number of months or years in repaying the facility. It also provides flexibility in accessing the facility whenever needed. Before access to credit cards and other consumer lending options, people often had to save for years to make major purchases.

Convenience: A consumer credit provides an opportunity to use it when travelling or shopping which is more convenient and safer than carrying around huge amount of cash. It also helps in keeping records of transactions and hence the spending pattern.

Eliminate the need for collateral: Consumer credits do not require the borrower to pledge any collateral. This means consumers will not have to risk losing a valuable asset like a house or a car if they default on the loan.

Meet emergencies: Consumer credit enables individuals to access funds to meet their emergencies such as health issues or finance a wedding without asking for assistance from relatives or friends. Therefore, consumers credit if used wisely, can fill a fund gap in their budgets without risking their houses or other assets.

Disadvantages of consumer credit

Consumer credit can be a good option in some situations, but they might not be the right choice in all situations. The following are some disadvantages of consumer credits:

Interest rates can be higher than alternatives: Interest rates on consumer credit are not always low. Consumer credits are unsecured loans; therefore, they may come with higher interest rates and thus, it poses more risk to lenders. This is especially true for instalment credit.

Temptation to overspend: Access to credit makes it easier to pay for basic needs and to cover emergency expenses; but it also simplifies buying expensive products that may not be needed.

Lead to credit damage: Borrowers who fail to make on-time payments or who default on the loan are likely to find themselves with a lower credit score which make it difficulty or expensive for them to obtain loans in the future.

Reduces future purchasing power: Future income is tied up in the payment of the past credit purchases the consumers made.

Exercise 3.5

Assume you are an entrepreneur seeking a financial capital. You have approached one of the commercial banks in Tanzania and offered you a detailed information on the range of credit facilities available.

(a) Explain the different types of credit facilities that will mostly likely be at your disposal; and

(b) What are advantages and disadvantages of the facilities based on your business environment?

Loan management

The primary function of banks is to accept deposits and advance loans. A loan passes through various stages from application until the repayment. Therefore, loan management involves the administration of the entire loan cycle; from verification of applicant's information and other requested documents, applicant's trustworthiness, and credibility. This process is very important in ensuring compliance to several financial regulations and to avoid fines and losses that will have an effect on financial institution's reputation.

Loan application process

The loan application process may vary between different financial institutions. This variation is based on the bank's lending experience with the borrower. Generally, the following documents may be required to apply for a personal loan:

(a) Proof of age and identity – Passport, National Identity card, Employment Identity Document (ID) or Voter ID card;
(b) Proof of residence – Identification letter from village/street executive officer;
(c) Proof of income – Salary slips or employer's guarantee;
(d) Passport – size photographs; and
(e) Duly-filled and self-attested personal loan application form.

Qualities of a good borrower

Each lender has its own method for analysing a borrower's creditworthiness but the use of the five Cs (5Cs) of credit is common for both individual and business credit applications. These 5Cs are explained as follows:

Capacity: While reviewing loan application, the first thing the lenders would like to know is the borrower's repayment capacity. Banks will evaluate borrower's repayment history with other financial institutions and the amount of debt the borrower currently has. The bank then reviews borrower's income and calculates debt service coverage ratio.

Collateral: Sometimes a bank may require collateral or security from the applicant to cover its risk due to unforeseen circumstances which could prevent a borrower's ability to repay a loan. The type of a collateral that a bank can ask for depends on the available assets like, buildings, pieces of land, vehicles, current, savings, or fixed deposit accounts. In case the borrower is unable to repay the loan, then the bank will have the right to take control and sell those assets to recover its losses.

Capital: The banks will normally review the borrower's financial history and record, and also evaluate the capital invested in their businesses, which is the amount of money the business has to work with so as to generate income for loan repayment. In case the bank finds that the business is not well-capitalised, it can decline the loan application as it may consider the business to be of high risk.

Character: A lender will also do a thorough check of the borrower's credit history before approving the loan application. In case the borrower has a history of non-payment of debt, or a bad reputation, banks may hesitate to offer the loan even if they can meet the other conditions.

Conditions: Conditions refer to the terms of the loan itself such as, the purpose of the loan, the amount involved, and prevailing interest rates. Additionally, lenders may consider conditions that are outside of the borrower's control, such as the state of the economy, industry trends, or pending legislative changes that might affect the borrower repayment capacity.

Advantages and disadvantages of bank loans

A bank loan is an amount of money borrowed from banks for a specific period within an agreed repayment schedule. The repayment amount will depend on the size and duration of the loan and the rate of interest. Bank loans are generally most suitable for: assets paying such as vehicles and computers, starting-up capital for businesses, or covering emergencies such as wedding or health issues.

The following are advantages of bank loans:

Flexibility: A bank loan allows flexibility in repayment. The bank does provide a set of rules directing how the money should be repaid unlike an overdraft where all the credit is deducted at once.

Profit retention: When you raise funds through equity finance (issue of shares) you have to share profits with shareholders. However, in a bank loan raised finance, one or a person does not have to share profits with the bank.

Benefit of tax: According to Income Tax Act, the interest payable on the bank loan is a tax-deductible item when the loan has been taken for business purpose.

Maintain control: With bank loan, the borrowers can obtain money without losing control of their companies or businesses provided that they make repayments to the banks on time. Unlike raising funds through equity finance where businesses have to give up some ownership to the new shareholders.

Bank loan is temporary: Once a business borrower has paid off a loan, there is no more obligation to the lender. Compared to equity finance, where the company will be required to pay out dividends to shareholders as long as the business exists.

On the other hand, bank loans have the following disadvantages:

Tough to qualify: One of the greatest disadvantages of the bank loans is that, they are very difficult to obtain unless a borrower has a substantial track record or valuable collateral such as real estate.

Complicated: Obtaining a bank loan can be time consuming, the process can take several months to qualify and to obtain a capital from a bank.

Risk of losing collateral: Normally banks will need some form of collateral before granting a loan. For such a scenario, they need to protect themselves in the case of default. Thus, the borrower's assets can be seized in the event the whole or part of a loan is not repaid.

Activity 3.4

Visit any nearby commercial bank:

(a) Explore their loan application process; and

(b) Share your findings with your fellow student.

Exercise 3.6

1. Not all bank customers qualify to be issued with a loan. What qualities does a borrower need to possess to be offered a loan by a particular bank?
2. Many business organisations do take multiple loans from the bank to finance their business activities. However, these loans offer some rewards and shortcomings to any business. Elaborate on the rewards and shortcomings a company might face by taking a loan.

Chapter summary

1. Before money was invented, the ancient people exchanged goods for goods in a system known as Barter trade. Barter trade faced several difficulties like; lack of double coincidence of wants, lack of common measure of value, and indivisibility of certain kind of goods.
2. Money evolved through various stages: commodity money, metallic money, paper money, fiat money, and digital.
3. Money is anything of value which is generally accepted as a medium of exchange.
4. Money performs various functions including, a store of value, a measure of value and a unit of account.
5. A good money is the one that is divisible, portable, scarce, and durable.
6. Financial institutions in Tanzania comprises of banks and non-banks financial institutions.
7. A Central Bank is an apex bank in an economy which is entrusted with the issuance of currency, custodian of the cash reserves of the commercial banks and lender of the last resort.
8. Commercial banks are primarily concerned with accepting deposits from public and lending to the public.
9. Businesses can accept payments in different ways: cash, card, cheque, bills of exchange, promissory note, postal orders, debit, and credit cards.
10. A credit facility is an agreement with the bank that enables a person or organisation to borrow money when it is needed. Examples include loans, overdraft, credit cards, letter of credit, and bank guarantee.
11. A consumer credit is a personal debt taken on to purchase goods

and services. It increases financial flexibility and helps in meeting emergencies.

12. A consumer credit can be a good option in some situations; but they might not be the right choice in all situations; the interest rates can be higher than alternatives, increases a temptation to overspend, and thus reduces future income.

13. The five Cs of credit (capital, collateral, capacity, character, and condition) are used to assess the creditworthiness of potential borrowers.

Revision exercises

1. Match the detailed sentences in group "A" with the correct responses from group "B" and write the answers in your commerce revision exercise book.

Group A	Group B
(i) Cheque which does not show the amount.	A. A Stale cheque
(ii) Cheque which is rejected by the bank due to various reasons.	B. Current account
(iii) Cheque which has not been presented for payment within six months from the day it was written.	C. Blank Cheque
(iv) A cheque which is presented to bank for payment before its maturity date.	D. Dishonoured cheque
(v) It is a written, dated, and signed instrument that directs a bank to pay a specific sum of money to the bearer.	E. Open cheque
	F. Post-dated cheque
	G. Special crossing
	H. Cheque

2. Barter trade is a system of exchange involving the exchange of goods. Over the years the system has encountered a number of significant setbacks making it difficult to satisfy the market demand. Explain on the difficulties encountered by the barter trade system.

3. "Different types of money have been used in different periods". Explain.

4. The introduction of money significantly eliminated the shortcoming experienced during the barter trade system. With the help of examples, explain how the introduction of money significantly solved the difficulties related to barter trade system.

5. The introduction of the banking sector in Tanzania corresponds to the period the country was in. By separating the different period, provide an explanation on the historical development of the banking sector in Tanzania.
6. Imagine you are an employee of any commercial bank in Tanzania. A customer has approached you and inquire information about the different types of bank account available. What information will you offer to this customer?
7. The different bank accounts offered by commercial banks have distinctive features that differentiate them from one another. Identify the different features of the following bank accounts:
   (a) Saving account
   (b) Fixed deposit account
   (c) Current account
8. In different circumstance, a certain type of bank account will be preferred more than the other. What advantages do the following bank account exhibit that make them more desirable to the users:
   (a) Savings account
   (b) Fixed deposit account
9. In dealings with both domestic and international trade transactions, Mr Mwampakole use a number of banks services to affect these transactions. Identify the different means of payments that will be made available to Mr Mwampakole by his bank.
10. Many of the financial institutions in the country offer consumer credit to its clients. Determine the advantages and disadvantages of these consumer credits to bank's clients.
11. Before remitting loans to its borrowers, banks have to assess the creditworthiness of its borrowers. Describe the qualities of a good borrower.

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Chapter Four: International trade

Introduction

Goods and services consumed in a particular country are normally not necessarily produced within the same country, some are from other countries. For instance, in Tanzania, goods such as computers, cars, telephones, and televisions are sold domestically but are not produced in the country. In fact, some goods which are not produced in Tanzania can be made available in the country through international trade. In this chapter, you will learn about the concept of international trade, import trade, export trade, international trade agents, international trade documents, balance of trade and payments, and trade protectionism. The competencies developed will enable you to describe and engage in some international trade activities.

Concept of international trade

International trade also known as global trade, foreign trade, intercontinental trade, external trade or overseas trade can be defined as the exchange of goods and services across national borders or territories. It involves exchange of goods and services between people from two or more countries. It occurs when a buyer and a seller involved in a transaction are from different countries. International trade can be classified into three types namely import trade, export trade, and entrepot trade as shown in Figure 4.1.

Import trade: This type of trade involves purchasing of goods and services produced outside borders of a particular country. It is a trade which occurs when a person in one country buys goods and service from other countries, for example, a Tanzanian buying a car from Japan.

Export trade: This type of trade involves selling of goods and services to foreign countries. It is a trade that leads to the outflow of goods and services from one country to other countries, for example, a Tanzanian selling cashewnuts to India.

Entrepot trade: This type of trade occurs when goods are imported from one country, processed to add value, and then exported to other countries. It occurs when a country imports goods or services not for consumption or sale within the country, but for re-exporting to a third country. The aim of an importing country is to add value to the goods imported before re-exporting. Such activities which add value may include assembling, packaging, and branding. For example, country X may buy Tanzanite from Tanzania, process them, and sell the jewels to country Y.

Figure 4.1: *Classification of international trade*

Differences between international trade and domestic trade

There are several factors which differentiate international trade from home or domestic trade. International trade involves more than one country; thus, different currencies are involved. However, the trade may involve only one currency sometimes, for instance, a trade between countries in the European Union. The parties in the exchange belong to different nationalities. Comparatively, international trade transactions involve many documentations and procedures than domestic trade transactions. Table 4.1 summarises the differences between the international trade and domestic trade.

Table 4.1: *Differences between international trade and domestic trade*

Basis of comparison	International trade	Domestic trade
Meaning	Trade carried out between countries	Trade carried out within a country
Buyers' and sellers' origin	The buyers and sellers stay in separate countries	The buyers and sellers stay in the same country
Currency	It mostly involves the exchange of currencies, that is, more than one currency is used	No exchange of currency as it often involves the use of only domestic currency
Territory	It is conducted across the borders	It is conducted within the borders
Risk	Relatively high risk as it involves citizens from different countries and also long distance	Relatively low risk
Language	In most cases it involves the use of various languages	It involves the use of local language
Formalities	It involves many formalities and procedures	Relatively fewer formalities and procedures are involved
Types or forms	Import, export, and entrepot trade	Wholesale and retail trade
Regulations and policies	Policies and regulation of multiple countries do apply	Policies and regulation of a single country do apply

International trade agreement

Trade agreement is a contractual agreement between countries concerning their trade relationship. It shows the mutual agreement between countries which include the trade preferential treatment among members. The goods imported from a country with trade agreement will be given a preferential treatment or favour in customs clearance. There are two types of international trade agreements which are bilateral trade and multi-lateral trade agreements. These are explained as follows:

Bilateral trade agreements: These are commercial treaties that involve two countries. This type of agreement occurs when two countries enter into trade agreement with the aim of facilitating trade between themselves under a specific preferential treatment such as low tariffs. For example, Tanzania may enter into a trade agreement with Kenya or Uganda for trading of maize. Such an agreement will allow easy trading of maize products between the two countries.

Multi-lateral trade agreements: These are commercial treaties that involve more than two countries. Such agreements occur when those countries enter into trade agreement to trade among themselves with some preferential treatments. Examples of multilateral trade agreements include: trade agreements between the East Africa Community (EAC) which has 7 member countries; and Southern African Development Community (SADC) which has 16 member countries. Like Bilateral trade agreements, multi-lateral agreements aim at reducing tariffs to smoothen business transactions among the member countries.

Reasons for international trade

International trade is inevitable to any country in the world. The following are some of the reasons for existence of international trade:

Differences in human skills: Every country has different levels of human skills and expertise. These differences translate into country's ability to provide different specialised services. A country that lacks such skills may need to import from another country.

Differences in the level of technology: Countries have different levels of technological advancement. The goods and services that will be produced by countries with an advanced technology will not be the same to those that are produced by countries with lower technological advancement. If countries differ technologically, their abilities to produce goods and services would also differ. Those with high technology will produce large volume of products at a significant low cost. Thus, a country with a well-advanced technology will be in a position to export goods to the countries with low technology.

Differences in natural resources: Uneven distribution of natural resources among countries forces some countries to specialise in producing goods and services as per their natural resources. A country with lack of particular natural resources is forced to import from a country with enough natural resources. For example, Tanzania is the only source of Tanzanite in the world; therefore, other countries import Tanzanite from Tanzania in order to fulfil their demand.

Differences in climate: The differences in geographical and climatic conditions lead countries to produce different products. For example, not all climatic conditions are favourable for cultivating wheat. For this reason, in most cases, Tanzania imports wheat from Ukraine and Russia where climatic conditions are favourable for wheat cultivation. The climatic conditions in Tanzania favour the production of avocados but not apples. As such Tanzania has to import apples from South Africa.

Surplus production: If a country produces more than what it needs for its consumption, it may export its excess and import goods and services that are in shortage. When the excess production is not sold or exported, it may lead to wastages of resources and financial losses.

Gain from trade: Sometimes a country engages in international trade for the purpose of obtaining some gains. Gains from international trade include getting foreign currencies through exportation of products and increasing revenues through charging custom duties. These gains are used by a country for its own investment and economic development.

Advantages of international trade

The following are the advantages of international trade:

Optimal use of natural resources: International trade helps each country to ensure optimal use of its natural resources which reduce the wastage of those resources. The optimal use of natural resources is achieved when a country specialises in producing goods at lower opportunity cost compared to its trading partner.

Acquiring products which cannot be produced within the country: International trade enables a country to obtain and consume goods which it cannot produce due to high costs, lack of human skills and resources, and lack of relevant technology. Thus, a country is able to acquire variety of goods which cannot be produced by importing from other countries.

Disposal of surplus: When a country produces goods more than its requirements, the surplus could be disposed by exporting it to the international markets. Otherwise, they could be destroyed and become wastage of resources.

Transfer of technology: International trade helps the transfer of technology from one country to another. Most of the technology is transferred from developed countries to the developing countries through investments.

Promotion of international relationship: International trade removes rivalry and retaliation between countries, and therefore, it creates peace, unity, cooperation, understanding, and good relationship based on mutual understanding and interaction.

Building capacity to face natural calamities: In the time of natural calamities such as floods, epidemic diseases, drought, famine, and earthquake, a country gets hard time especially where to get goods which cannot be produced quickly. At that time, a country faces shortage of goods in the market. This problem can be solved or reduced when a country imports goods from other countries.

Promotes wider choice of goods and services: International trade enables the availability of variety of goods and services in the market. A country can ensure that goods and services which cannot be produced are available in the market through importation. This advantage increases alternatives which consumers can choose from; and hence, it enhances the quality of life and standard of living.

Stability in prices and increase in production efficiency: International trade allows inflow and outflow of goods and services among countries. This advantage increases competition and allows the forces of demand and supply to determine the price of goods and services. Besides, it ensures that the prices of goods and services are stabilised. The problem of shortage or surplus of goods in the market is solved by importing goods and services in shortage and exporting surplus goods and services. The existence of competition increases efficiency among producers in a country, and therefore, tend to produce quality goods at minimum costs.

Disadvantages of international trade

The following are some disadvantages of international trade:

Effects on the growth of domestic industries: International trade has an adverse effect on the development of domestic and infant industries. In most cases, an inflow of foreign goods and services poses threat to domestically produced goods, especially for the African countries. Due to low development in technology, goods and services produced domestically cannot compete with foreign goods and services in the market. Consequently, it may lead to the collapse of domestic industries and increased unemployment, as workers who used to work in the industries may become unemployed. The government also may lose revenue it used to collect from these industries. In the end, this affects the general economic development of a country.

Increases international dependence: International trade may result into economic and political dependence which may lead to a nation losing its sovereignty and power of decision in social, economic, and political matters. Overdependence may result in exploitation.

Importation of harmful goods: If not well managed, international trade may result into an importation of harmful goods, drugs, or expired goods which have adverse effects in the economy, health, environment, moral being and well-being of the people.

Cause imported inflation: If the imported goods are affected by inflation from the country of origin, the effect will be reflected in their prices in the importing country. The effect can also lead to increase in the prices of other domestic goods of the importing country.

Activity 4.1

Visit your school library or any other source of learning materials and find out the difficulties or problems faced by international traders. Then, organise a classroom discussion to share your findings with your fellow students.

Exercise 4.1

1. Explain the relevance of international trade to a country like Tanzania.
2. Suppose you are invited to talk to a group of entrepreneurs who have never heard about the concept of international trade but wish to learn more. What will you tell them about the advantages and disadvantages of international trade?

Import trade

Import trade is a trade which involves buying of goods and/or services from abroad and sell or consume them within a country. It is a trade which involves an inflow of foreign goods and services in a country. A good example is when a Tanzanian trader buys goods from Kenya and sells them domestically. A trader who deals with importation of goods and services is called an importer. The process of buying goods and/or services from abroad and sell or use them within a country is called importation. Imports are classified into the following two types:

Direct import: This means a direct purchase of the products from a producer abroad without using middlemen who are independent organisations. A buyer does not use middlemen or agents in the channel of distribution between the home country and overseas market. A buyer makes own arrangement to import the goods or services through their existing buying networks. That is, a buyer is solely responsible for all functions such as communication, negotiations, market research, setting up contracts, payments, and shipment.

Indirect import: This means a trader buys products from other countries through middlemen. It occurs when the buyer or importer uses independent marketing middlemen in importing the goods and services. The buyer does not import goods directly from foreign sellers, but hires the service of other people in carrying importation processes. Importation is done through intermediaries such as merchant importers, import houses and importer brokers who operate on behalf of the buyer. Table 4.2 shows some differences between direct and indirect imports.

Table 4.2: *Differences between direct and indirect imports*

Basis of comparison	Direct import	Indirect import
Meaning	Import activity is directly carried out by the buyer or importer of the goods	The importer hires the services of an import intermediary to import on behalf
Market information	An importer gets first hand market information for the business	The importer gets information from intermediaries
Control	All import activities are controlled by importer	All activities are taken by import agencies
Price	Imports can fetch lower prices if purchased directly from manufacturer	Imports may fetch higher price due to intermediaries' margin
Suitability	Suitable for large business as it involves huge costs and resources	Suitable for small businessmen as they may find it difficult to import directly
Reputation	Easy to earn goodwill because direct contact with exporter	The importer may not earn reputation because of lack of direct contact with exporter
Risk	Direct importers bear more risks	Indirect importers bear less risks

Import trade procedures in Tanzania

The import procedures in Tanzania are not constant, they change and differ according to the nature of the product, technology, trade agreement, and one border stop centers like Dar-es-Salaam port, Dar-es-Salaam International Airport, Zanzibar International Airport, Hororo, Holili, Kilimanjaro International Airport, Namanga, Sirari, Mbeya, and Tunduma. In importing a product in Tanzania, the following procedures should be undertaken:

Find the supplier of the product: The initial stage of importing a product to a country is to first find the supplier of the product abroad. This will include the process of screening potential suppliers for information such as contact information, past business dealings in the country including their delivery frequencies. It may also involve the process of consulting various banks dealing with international settlements to gather more information on their involvement with the potential supplier or consulting other local traders to learn more on their experience with international dealings.

Check on the importation conditions and making payments: Once the supplier is identified, the importer needs to check on the importation conditions including the status of the imported product as to whether it is permitted, restricted or limited in the quantity to be imported or only imported depending on specific circumstances. Once satisfied with the conditions, an order has to be placed and payment has to be effected through bank.

Preparation of the documents: After effecting payments of the product, the importer need to prepare the documents for the purchase of the product. The process includes the action of preparing custom declaration documents which describe the nature of goods, value, the recipient and the shipment ultimate destination. At this stage the importer will also organise the transport of the goods from the supplier country to the importer country of destination (which can be by land, sea or air). After this stage, the importer needs to appoint a clearing and forwarding agent.

Appointment of clearing and forwarding agent: The importer has to appoint a licensed Clearing and Forwarding Agent (CFA) to clear the goods. These are persons and companies licensed by the Commissioner of Customs and Excise Department to carry on the duty of processing documents and clearing goods from customs control on behalf of the importers, such as the Tanzania Shipping Agency Cooperation (TASAC).

Secure of documents by CFA: The CFA helps an importer to get documents such as import permits from government regulatory bodies such as Tanzania Bureau of Standards (TBS), Zanzibar Bureau of Standards (ZBS), Tanzania Medical and Drugs Authority (TMDA) and Zanzibar Food and Drugs Agency (ZFDA); packing list, final invoice, transport documents, agent's authorisation letter from the importer and exemption documents (if applicable).

Lodge the documents with customs authority: After obtaining the required documents an importer or CFA lodges the documents electronically in customs information system currently known as Tanzania Customs Integrated System (TANCIS). The system automatically accepts or rejects a wrong declaration. When the documents are rejected, the CFA will be required to submit a new declaration.

Processing of documents: Processing of documents is done either online or manually to facilitate payments of custom duties before the manifest is submitted. This process is normally done within seven days before arrival of the imported goods.

Review and confirm cargo manifest (physical verification of cargo): The manifest will be received after the documents have been processed through TANCIS. The customs authority will need to review and confirm the cargo manifest against the actual cargo off loaded at a port of destination. The results will be registered by the officer, and submitted to the supervisor for approval.

Receiving acceptance with a payment notice for approval: Once the manifest has been written off, the CFA will get acceptance notice with a payment notice generated based on declared values for approval. If rejected the CFA will send the amendment notice, which after being validated by the customs officer CFA will get Amendment Acceptance Notice. If the customs officer rejects the amendment, the CFA will get amendment rejection notice in which the officer will work on the document classification, valuation and physical verification. Once the verification is completed, the results will be registered by the officer. Verification results will be submitted to the supervisor for approval. CFA will then receive the assessment notice.

Receive and submission of final assessment notice: When approval is done, the CFA receives an Assessment Notice, which he has an option to accept or to reject. In case of objection of the assessment, the CFA has to submit it through online government system. If the CFA accepts, he or she must make arrangement for payments; but if rejected, the notice will need to amend the declaration as guided by inspection results and re-submit.

Making payment: The payment will be made according to the accepted assessment. After receiving the final accepted assessment notice, the importer will be required to make payment for import duty and the other required customs clearance duties.

Release or receipt of the goods: When payment is received and inspection completed accordingly, the CFA will receive a release order for the respective goods.

Activity 4.2

In a group of students, investigate how import trade is operated and explain how Tanzania benefits from it.

Exercise 4.2

Suppose that, country A is in demand of certain quantities of maize that is not produced within, what should it do and how?

Export trade

Export trade is a trade which involves selling goods and services produced within a country to abroad (outside the country). Exports are those goods and service sold outside the country. For example, a Tanzanian trader may sell goods produced in Tanzania to Malawi. A person or trader or institution involved in export trade is called an exporter and the process is called exportation. Export trade can be categorised into the following two types:

Direct export: This is a direct sale of the products to a customer abroad without using a middleman. The manufacturer or exporter makes own arrangement to export the products through either the existing sales network or manufacturer. In a direct export, a seller is solely responsible for all processes such as client communication, negotiations, market search, setting up contracts, foreign distribution, shipment, and for collecting payment.

Indirect export: This happens when a trader sells products to other countries through middlemen. It occurs when the exporter uses independent marketing middlemen such as merchant exporters, export houses, brokers, factors, and commission agent to export goods to foreign buyers. An exporter transfers the selling responsibility to intermediaries who operate on behalf of the exporter. This mode of selling goods outside the country is good for small companies as it is the easiest way to enter foreign markets.

Export procedures in Tanzania

The export procedures for every country differ according to their formalities and regulations. The procedures may change according to some circumstances and needs of the government. The following are common procedures and formalities for export of goods in Tanzania:

Identification of the potential customer: The export procedure normally starts when the exporter has an order from a buyer outside the country. The exporter can also export goods without an intended buyer particularly when goods are exported to the exporter's retail outlet. It is important for exporters to strategically select customers that ensure the securing of relevant markets. The action will require conducting researches on potential customers to understand their needs and taste. It may sometimes require the customisation of the product to meet customers' demand. Exporters are frequently advised to target those countries or regions with high probabilities of securing potential markets. Moreover, exporters are required to ensure the shipping process can be made smoothly and at an affordable price.

Investigation of both domestic and international regulations: The exporter is required to investigate both domestic and international regulations relating to the product of interest. The analysis will be on the product export status within the country and its importation status to country of destination (customer's country). No way the exporter will be allowed to export products that is prohibited by domestic or international laws or both.

Appointing clearing and forwarding agent: The exporter is required to appoint a licensed CFA to clear the goods for export.

Securing of documents: The process of obtaining export documents is done online by the exporter and completed before examination of goods. The documents include invoice, export license, parking list, exporter's Taxpayer Identification Number (TIN) and agent authorisation letter.

Submission of documents: The exporter hands over all relevant documents to the CFA who uploads them in the TANCIS for processing the custom clearance. All relevant documents needed for customs clearance should be attached including export permit.

Assessment of tax and duty: An assessment of export taxes and duties, if any, is very important, because goods can be duty free or dutiable. If the goods are dutiable, the customs officer will assess the export taxes against the value of goods declared in the documents. In Tanzania, most of the exports are duty free (not subjected to export taxes).

Booking for shipping: CFA makes booking of container(s) together with a space from shipping line/agent. Booking of the space at the shipping line is not required for exports made overland.

Stuffing the export goods: The exporter is required to inform the customs before loading the goods in the container or truck as the proper officer is required to supervise the loading process. Stuffing of export cargo in the container should be under supervision of customs and Other Government Departments (OGDs).

Submission of vessel schedule information: The shipping line/agent submits to customs the export vessel schedule information.

Confirmation of loading declaration: The Tanzania Revenue Authority (TRA) may approve or reject a loading declaration. An approved loading declaration is automatically disseminated to Terminal operator as loading list for carriage.

Gate check confirmation: The gate check is confirmed by TRA terminal gate to check if goods that enter into a gate are similar with that registered for export.

Submission of export arrival report: The terminal operator submits carry in report to TRA to confirm arrival of export cargo at Terminal after inspecting the cargo.

Submission of loading result report: The loading result report either short or normal loaded cargo should be submitted by terminal to TRA.

Confirmation of loading report: Confirmation of loading report is issued by TRA after receiving the report from the terminal operator.

Submission of export manifest: Submission of Export manifest by Shipping Line/Agent to TRA.

Approval of export manifest and release: TRA approves export manifest and automatically strike off inventory from terminal.

Activity 4.3

Search information about import and export trade in Tanzania, then attempt the following questions:

(a) What are the goods that are frequently imported and exported in Tanzania? and
(b) What are the reasons behind for the higher frequency in part (a)?

Exercise 4.3

Mr. Ndekuyamamba is a government retired officer who has heavily invested in banana farming. Last year, he produced beyond the demand. Now, he would like to export the excess, however he is not familiar with export formalities. How would you assist him in this endeavour?

International trade agents

In international trade, it is very difficult for a single person to carry and manage everything. Trader may hire services of other people who can help them to carry and manage business on their behalf. The hiring process creates what is termed as principal-agent relationship. An agent is a person or firm appointed by owners (the principal) to act on their behalf in the ordinary course of the business. The agent usually does not take title to goods but actively assist on the transfer of tittle. Therefore, agents act as intermediaries or middlemen in trade.

Classification of agents

Agents are classified according to tasks or roles assigned to them by a principal as follows:

Special or particular mercantile agents: These agents have partial authority in performing special or particular task on behalf of the principal. They have limited power to act for the principal. The agency relationship in such cases last for a specific period of time for a particular type of task.

General agents: These agents have authority to do all the acts connected with a particular trade, business, or employment in the interest of the principal. A general agent has an implied authority to bind the principal by doing various acts necessary for carrying on the business of the principal.

Universal agents: These agents have unlimited powers to act for the principal. A universal agent has full authority in performing any lawful transaction on behalf of the principal. A universal agent is a substitute of principal for all those transactions in which a principal cannot participate. This kind of agency relationship is usually assigned to close person of the principal such as members of a family.

Forms of agents involved in international trade

The following are the forms of agents involved in international trade:

Commission agents: These agents buy and/or sell goods in the market on the best possible terms in their own name and receive a commission for their labour. The commission is charged on the basis of total sales. Thus, commission agents are employed to buy or sell goods or services on behalf of others and paid a commission in terms of percentage of total sales value generated by them. The goods sold can be collected from a principal or directly purchased by an agent.

Brokers: These agents bargain for others and receives commission in return. Brokers are employed to negotiate and arrange the contracts between two parties involved in purchasing (importing) and selling (exporting) of goods. Brokers link buyers and sellers in international trade and do not take possession of goods for sale, ownership, or title to goods. Brokers do not have authority to contract in their own names but only to negotiate for sale or purchase. Brokers are not personally liable for the contracts concluded. In international trade, brokers can be called import brokers or export brokers. Import brokers deal with import trade while export brokers deal with export trade. The commission for their services is called brokerage fee.

Factors: The factors are mercantile agents employed to sell goods consigned or delivered to them by the principal. They take physical possession of the goods and usually sell them in their own names without revealing the principal. Factors may even sell goods delivered to them on credit and other usual terms. They are entitled to receive payments for the goods sold after providing valid receipts. They are liable for their action. They can sue or be sued for their contracts. They deduct their commission and send the remaining money to the owner of the goods. A factor has a wide authority and discretionary powers to sell goods on their terms and conditions.

Clearing and forwarding agents: These agents act on behalf of the importers and exporters to complete all formalities required for clearing and dispatch of the goods. They are employed to take care on import and export formalities before sending or receiving goods. They take care of the delivered goods at the ports after customs clearance and send the goods to the place of the importer. The CFAs render services of collecting and dispatching the goods from the principals to the shipping companies or the importer. They arrange and organise the transportation of goods and take care of the goods at a time of custom clearance.

Del-credere agents: Del-credere agents act on behalf of the suppliers (exporters) and guarantee to pay for the goods in their possession whether they are sold or not. A del-credere agent is paid a special or extra commission called "del credere commission" for undertaking the liability to guarantee the due performance of the contract by the other party. A del-credere agent guarantees the principal that the collection of dues from the customer to whom credit sales is made will be received in full, and if any risk or loss happens, an agent will bear it. An agent takes the responsibility of the solvency and performance of their contracts by the other parties and indemnifies the principal against any loss. For example, if customers are unable to pay their credit and become insolvent, the agent will be responsible to bear the risk of the loss of bad debt by taking their assets to finance the principal.

Auctioneers: Auctioneers are licensed agents who undertake selling of goods in an auction. They sell goods openly to the public auction to the highest bidders.

Auctioneers are required to obtain the maximum price for the goods during the auction. An auctioneer is required to give some description of the goods, the date, and place of sale before the auction.

Warehouse–keepers: Warehouse keepers accept goods for the purpose of storage in their warehouses before exporting or after importing. Warehouse keepers provide care and diligence in the storage of goods. They are entitled to receive payments for the services offered. The warehouse keepers give the owner of the goods a receipt known as warehouse keeper's receipt or certificate. Warehouse keeper's receipt is not a document of title to goods, but an acknowledgement of receipt of goods for the purpose of storage. They may issue a 'Warehouse warrant', which is a document with the title of goods which can be easily transferable.

Institutions and organisations involved in international trade in Tanzania

Comparatively, international trade has more involving processes than domestic trade. In many countries, governments have decentralised most of these processes to be undertaken by lower authorities and private organisations with exception of some few processes. In that sense, the government of Tanzania established organs to help facilitating some important roles in international trade. A good example for this is the Export Processing Zones Authority (EPZA).

Export Processing Zones Authority

Export Processing Zones Authority (EPZA) is the principal government agency for promoting investments in Tanzania's Special Economic Zones (SEZs). It operates as an autonomous agent under the Ministry of Industry, Trade and Investment of Tanzania. It was established in 2006 following the amendment of the Export Processing Zones (EPZs) Act of 2002 for the purpose of administering the EPZ program. EPZA is mandated to promote, register, and facilitate investments in SEZs in the Tanzania mainland.

The following are objectives and purposes of establishing EPZs:

(a) To promote investments in designated EPZ and SEZ areas;
(b) To attract and encourage transfer of new technologies;
(c) To promote processing of local raw materials;
(d) To create and increase employment opportunities; and
(e) To increase foreign exchange earnings.

Functions of Export Processing Zones Authority.

The following are the functions of EPZA:

(a) In consultation with the Minister responsible for land and the local government, the authority acquire land in its name and set up industrial and commercial buildings, and lease such buildings to the investor for undertaking;

(b) To provide basic infrastructure for purposes of operations in the EPZs;

(c) To provide, within the EPZs, utilities and a system of sewerage, drainage, and removal of refuse and waste for the benefit of export processing zones investors and other users;

(d) To prepare national and international programmes for appropriate promotion of the EPZs;

(e) To ensure the provision of security and surveillance, property, and equipment maintenance and availability of restaurants and food services; and

(f) To provide commercial information for the benefit of investors in the EPZs.

NOTE

Other organs established to support export and import trade in Tanzania include; Zanzibar Investment Promotion Authority (ZIPA), Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Zanzibar National Chamber of Commerce (ZNCC), Tanzania Trade Development Authority (TanTrade), Tanzania Private Sector Foundation (TPSF), Tanzania Exporters Association (TANEXA), Confederation of Tanzania Industries (CTI), Small Industries Development Organisation (SIDO), and Small and Medium Industry Development Authority (SMIDA).

Activity 4.4

In a group of students, first find out various literatures on international trade based on the context of Tanzania, then identify clearing and forwarding agencies involved in import and export of goods. Lastly share your findings with the rest of the students in the class.

Exercise 4.4

The Table provides a list of some of the agents used in the international trade, with reasons classify them accordingly.

Agents	Classification (special, general or universal)	Give a reason for your classifications
Broker		
Commission agent		
Factor		
Del- credere agent		
Clearing and forward agent		
Auctioneer		

International trade documents

The documents used in international trade can be categorised as export and import documents. These documents play a number of functions such as security, evidence for future reference, and also, for custom clearance.

Export documents

Export documents are documents used in export for custom clearance and formalities. They are prepared by the exporters of goods and services from the exporting country where an exporter is stationed. Importers in an international trade transaction depend very much on export documents as they are required during import clearance processes. Therefore, the practice is that exporters send these documents to importers; and under this circumstance, these documents serve as import documents. Table 4.3 shows some common export documents.

Table 4.3: *Common documents used in export trade*

Documents related to goods	Documents related to shipment	Documents related to payment
(a) Packing list	(a) Mates receipt	(a) Letter of credit
(b) Certificate of origin	(b) Shipping bill	(b) Bill of exchange
(c) Inspection certificate	(c) Bill of lading	(c) Bank certificate of payment
(d) Consular invoice	(d) Airway bill	(d) Letter of hypothecation
	(e) Insurance certificate	(e) Commercial invoice

Commercial invoice: A legal document issued by a seller (exporter) to a buyer (importer) to inform a buyer about the quantity of goods and the price to be paid for the goods. It shows the summary of the sale transaction which serves as a contract and proof of sale between a seller and a buyer.

The commercial invoice is the main document presented to custom authority to aid in determining duty payable in custom clearance for goods imported. It contains all the information required for an international sale such as addresses of a seller and a buyer, the type of goods, order number, invoice number, price per item, quantity, weight, total price, terms of payment, terms of delivery of goods, the discounts granted to the customer, and other expenses that might be included in the sale. Figure 4.2 shows the format of commercial invoice.

Address of sellers (include all address information of the seller)

Date:

To

Address of the buyer (include all address information of the buyer)

Your invoice no:

Your order no:

Code	Description	Quantity	Unit price	Total
01	Name of the goods (products)	Xx	Xxx	Xxxxx
	Less trade discount (if any)			(xxx)
	Subtotal			xxxx
	Value Added Tax			Xxxxx
	Amount due			xxxx

Terms of payment:

Terms of delivery:

Name of sales manager:

Signature:

Figure 4.2: *Format of a commercial invoice*

Example 4.1

Based on the information given prepare a commercial invoice.

Name and address of a buyer: Bukanda Secondary School, P.O. Box 199, Mwanza, Namasabo Street;

Name and address of a seller: Sasala Stationery Supplier P.O. Box 900, Nairobi, Kenya, Telephone +254629690670, E-mail. alfa@gmail.com, Mobile: +254764603169

Date of invoice 26th January 2022.

Invoice number SSS/TB/JAN-26/22 and Order number BSS/MW/DEC-20/2021.

Terms of payment: Please pay invoice within 2 weeks from the receipt of the invoice; late payment is subjected to an interest penalty rate - 20% per month and 40% per annum. Term of delivery:Trade discount 4% and cash discount 5%. Description of the goods bought were as follows: Pens 100 dozen @ Kshs.1,900, Pencils 40 dozen @ Kshs.4,000 and Exercise books 60 @ Kshs.2,500. The products are exempted from paying tax

Solution:

Commercial invoice

Sasala Stationery Supplier P.O. Box 900, Nairobi, Kenya, Telephone +254629690670, E-mail: alfa@gmail.com, Mobile: +254764603169

Date: 26th January 2022.

To

Bukanda Secondary School,

P.O. Box 199, Mwanza,

Namasabo Street.

Invoice number SSS/TB/JAN-26/22

Order number BSS/MW/DEC-20/2021.

Code	Description	Quantity	Unit price Ksh.	Total price Ksh.
01	Pen	100	1,900	190,000
02	Pencil	40	4,000	160,000
03	Exercise book	60	2,500	150,000
	Total value			500,000
	Less trade discount (4%)			(20,000)
	Amount due			480,000

Term of payment: Please pay invoice within 2 weeks after receipt; late payment interest penalty rate - 20% per month and 40 % per annum.

Term of delivery

Kasigwa Magai

Sale Manager

Bill of lading: This is a written evidence of contract between the exporter and the shipping line regarding the receipt of the goods and acceptance to deliver goods to the prescribed port of destination against accepted shipping charge. It states the full description of the ship, ship owner, exporter, importer, and terms and conditions. Therefore, a bill of lading is a document acknowledging the receipt of goods and legal transportation contract. A bill of lading serves as a proof of ownership or tittle to the goods which can be transferable to other parties. In international trade, a bill of lading is a negotiable (transferable) means. It allows transfer of title to the goods to other parties. If it does not allow the transfer of the title of the goods to other parties, it is called straight (non-negotiable) bill of lading which is rarely used in international trade. The bill of lading enables the importer to clear the goods from the shipping company when delivered at a port of destination.

The following are the functions of bill of lading:

(a) It acknowledges the receipt of goods on ship;
(b) It acts as a proof (evidence) of a contract between the shipper and ship owner;
(c) It acts as a document of title of goods;
(d) It acts as collateral (security);
(e) It informs the customs authority; and
(f) It provides the information to the interested parties

Mates receipt: Mates receipt is a temporary receipt issued and signed by a mate (assistant to the captain of the ship) to acknowledge the receipt of goods; and that, they have been loaded on board prior to departure. It acknowledges only the receipt of goods on board; but it does not give guarantee of delivering of the goods to the port of destination. If a carrier agrees to deliver goods, then it exchanges the mate's receipt with bill of lading. The mate's receipt is neither a binding document nor a document of tittle like bill of lading. It does not guarantee carriage of goods until a bill of lading is issued against it. The receipt contains information about the name of vessel, date of shipment, time of receiving the cargo, condition of the cargo at the time of receiving, marks and numbers, description of packages, and berth among others.

Airway bill: Air bill is also called the air consignment note. It is issued by the airline transporting company acknowledging the receipt of goods and evidence of contract of carriage of the goods to a particular airport of destination. It gives an official acknowledgement of receipt of goods on board of the aircraft and acceptance of carriage of goods to the port of destination. It is like a bill of lading which is used in a marine transport while airway bill is used in air transport.

Certificate of origin: This document certifies a country where the goods in a particular export shipment are obtained, processed, or produced. It specifies a country in which the imported goods originate. The document is used to claim for preferential treatment during custom clearance. But, in some cases, the document can be used to assess goods that are not legally allowed to enter in a country. The certificate of origin is used as part of customs clearance procedures when determining the import duty payable. It is prepared by the seller who gets it signed by the local chamber of commerce or other appropriate government authority and sends it to the buyer who presents it to the customs, banks, or private stakeholder for various purposes.

Consular invoice: This document is issued and signed by the consular/ embassy of the importing country, but is located in the exporting country. The document is used to certify the correctness of the value of the goods stated in the invoice which helps to avoid the wrong state of value in the invoice; because such an invoice can either be under or over stated. It helps to prevent the importer from cheating a country by stating the incorrect value that is used to determine the import duty. Any mistake or incorrectness in an invoice is normally identified and certified by the consul.

Insurance certificate: Goods transported internationally has high risk of being affected by different risks. They need to be insured against risks that can cause the occurrence of financial loss. Insurance certificate is a document which shows that goods in shipment have been insured against any possible risk. It is a document which provides insurance cover against risks in foreign trade. It is used to protect the insurable interest of the parties depending on the terms of sale throughout the process of carriage. The document indicates the type and amount of insurance coverage in a particular shipment. It also includes the name of the insurance company and the conditions of coverage. It is useful in claiming for compensation when any loss occurs. In the occurrence of a loss, it should be accompanied with all other necessary documents to support an insurance claim such as a bill of lading, insurance policy, invoice, packing list and a survey report.

Packing list: This is a document which shows the complete or detailed list of all items inside a sealed container or package. It is useful when shipment is large or mixed with various goods as it becomes easy to identify those goods. Normally original packing list is placed outside of a container or package with a copy inside. It includes description of goods, quantity, size, weight of package, distinguishing markings, dimensions, number of packages, and invoice number. It helps to identify any lost or damaged items during loading and offloading of the goods. The document is prepared by the exporter and sent to an importer, the carrier and the customs authority.

Certificate of inspection: The certificate of inspection is also called certificate of conformity. It is a document issued by an authority (independent inspection agent as a third party) stating that goods have been inspected prior to shipment as well as the results of the inspection. It states the result of inspection according to the condition and standard laid down by a client (government, importer or importer's bank). The inspection is always done by an independent and a registered inspector. The inspector charges a fee for the service when inspecting the goods and issues a report.

Other documents that relate with certificate of inspection are certificate of fumigation and Certificate of analysis. This is when goods need to be fumigated before shipment. Certificate of fumigation is the document which shows that goods in shipment have been dully fumigated against certain insects and diseases which might have come into contact with before they were loaded into a ship. Certificate of analysis is a document which shows the natural composition of the goods. It shows general analysis of product ingredients.

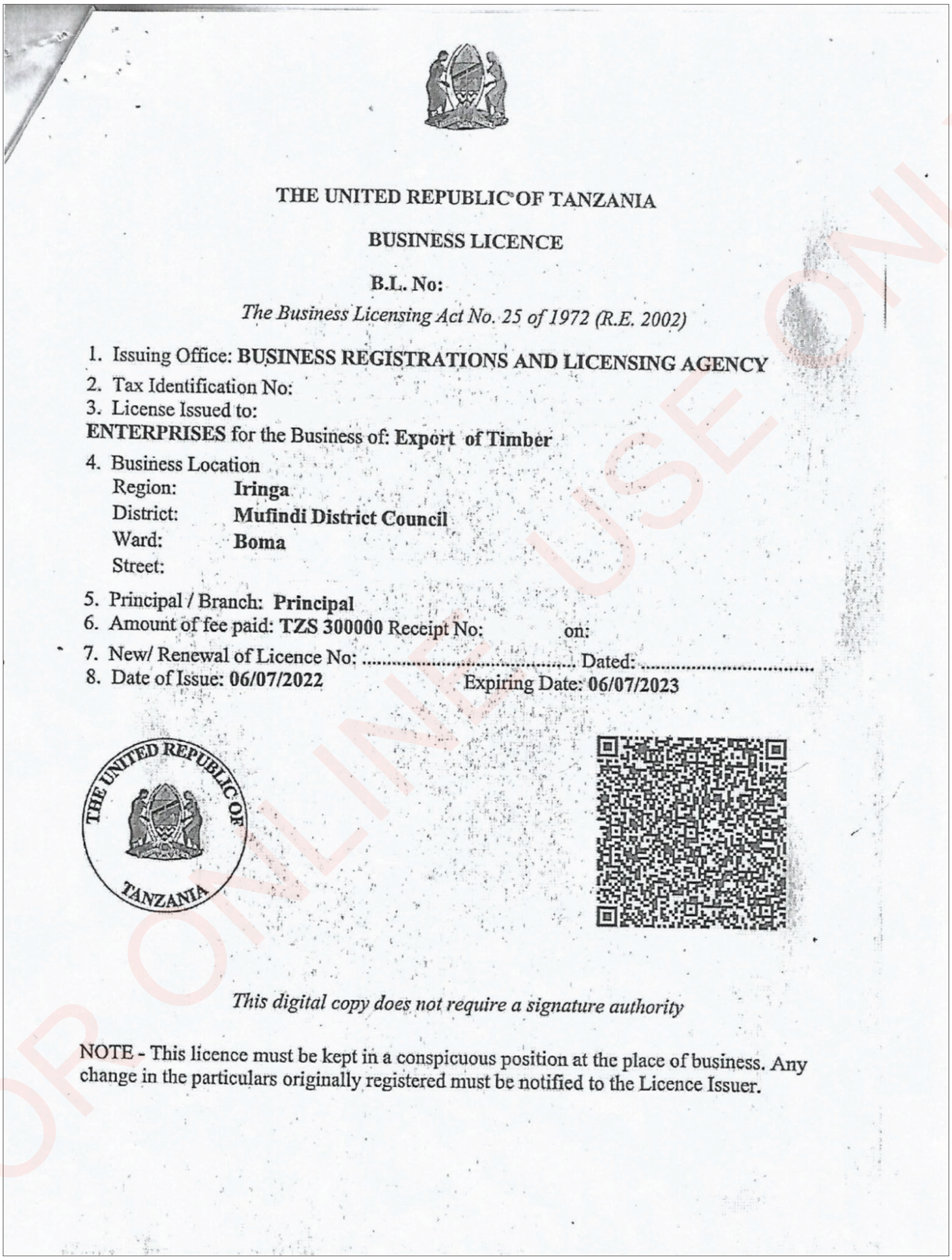
Charter party: This document is used when the exporter needs to hire a ship or a part of it to send goods or cargo to a specified place. It is a written contract or agreement between the ship owner and exporter where a ship owner agrees to lease, and the charterer agrees to hire a vessel with some terms and conditions. The charter party helps in claiming for compensation if the loss occurs. The main types of charter party are time charter and voyage charter, which are explained as follows:

(a) Time charter refers to an agreement whereby a ship or a portion of it is hired for a certain period. For example, when a shipper hires a ship for one month from 1st July 2022 to 31st July 2022.

(b) Voyage charter is an agreement by which the entire ship or a portion of it is hired for a specified voyage or routine only. For example, when a shipper hires a ship to transport the goods from Dar es Salaam port to Zanzibar port.

Shipping bill: This is the declaration made by exporter when the goods arrive at customs or port of embarkation for export. The declaration is made in order to allow the appointed examiner by customs authority to assess the goods in order to determine the duty payable. It is like a bill of entry for importation; but shipping bill is for exportation. When goods arrive at the custom office for export, the exporter needs to fill a document from customs office which indicates details of the goods to be exported so that the duties payable can be assessed and determined. After assessment and payment of the export taxes or charge if applicable, the customs authority can release the order of goods to be exported. This is a main document on the basis of which, the customs office gives the permission for export.

Export license: This document is issued by the government or the relevant authority, such as TMDA, to allow a certain quantity of goods or service to be exported outside the country. It indicates the quantity and value of goods which an exporter is permitted to sell abroad. Some goods or services cannot be exported without getting permission for export; thus, they need a special permission from the government before exporting. The export licence is normally issued by the government after inspection and after passing all the criteria set. Figure 4.3 shows a sample of export license.



THE UNITED REPUBLIC OF TANZANIA

BUSINESS LICENCE

B.L. No:

The Business Licensing Act No. 25 of 1972 (R.E. 2002)

1. Issuing Office: **BUSINESS REGISTRATIONS AND LICENSING AGENCY**
2. Tax Identification No:
3. License Issued to:

ENTERPRISES for the Business of: **Export of Timber**

4. Business Location
   Region: **Iringa**
   District: **Mufindi District Council**
   Ward: **Boma**
   Street:
5. Principal / Branch: **Principal**
6. Amount of fee paid: **TZS 300000** Receipt No: on:
7. New/ Renewal of Licence No: .... Dated: ....
8. Date of Issue: **06/07/2022** Expiring Date: **06/07/2023**

This digital copy does not require a signature authority

NOTE - This licence must be kept in a conspicuous position at the place of business. Any change in the particulars originally registered must be notified to the Licence Issuer.

Figure 4.3: *A sample of export license*

Letters of credit: A letter of credit is a guarantee from importer's bank to the exporter's bank that it will honour the payment up to a certain amount of the export bills. This letter is issued by the importer's bank to show the credit worthiness of the importer. The importer's bank guarantees that the buyer's payment to a seller will be received on time. In an event that the buyer is unable to make such payments, the bank covers in full or the remaining amount on behalf of the buyer. The letter is prepared against a pledge after buyers have requested their bank. It is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. The letter helps an importer to get credit and the exporter get an assurance of payment of the amount due. It protects both the buyer and the seller. The buyer is protected because no payment obligation arises until the goods have been shipped and received as promised; and the exporter is protected from financial loss.

Letter of hypothecation: This is a letter issued by the exporter to the bank authorising the bank to repossess and sell the goods in order to recover the money if a bill of exchange drawn has not been paid by the importer. If the bank cannot obtain payment on a discounted bill of exchange drawn by the exporter, the exporter can allow a bank to repossess and sell goods from the importer and remit the remained money collected to an exporter after deducting charges for the service. If the bank gets less money from the sale, the deficit plus the expenses of selling the goods is met by the exporter. However, if excess money is obtained from the sale, the surplus is returned to the exporter.

Proforma invoice: Sometimes called preliminary bill of sale. It is a preliminary invoice or sample of invoice that is sent to a buyer by a seller before purchase of goods. It is an invoice sent ahead of the shipment by a seller indicating an intention of selling a predetermined quantity of goods. It is used to show how an invoice will look like when a buyer decides to purchase goods or service from a seller. It may be used to request payment from a committed buyer who is expecting to order and pay cash in advance before goods or services are supplied. It can be used by importers to apply for import license or letter of credit. The proforma invoice is not a contractual offer or a legal binding document. Figure 4.4 shows a sample of proforma invoice.

ProForma Invoice
eForms

PROFORMA INVOICE

Bill From
Name: ____________
Company Name: ______________
Street Address: ______________
City, ST ZIP Code: ______________
Phone: ________________

Bill To
Name: ________________
Company Name: ______________
Street Address: ______________
City, ST ZIP Code: ______________
Phone: ________________

Invoice No. ___________

Invoice Date: ________

Due Date: ________

Description	Quantity	Price (TShs)	Total (TShs)
		Subtotal	
		Sales Tax	
		Other	
		Total	

Figure 4.4: *A sample of proforma invoice*

Import documents

The import documents are used in import custom clearance. The import documents can be prepared in importing or exporting country. Most of the import documents are used during the exportation of goods; and they are sent to an importer to be used when doing import customs clearance. Thus, import documents are mainly originating from exportation processes. The following are import documents:

Trade enquiry: Trade enquiry is the document sent by the buyer (importer) to the seller (exporter) seeking the information for goods or services which a buyer intends to buy in the future. The request is normally in the form of a letter but sometimes can be done orally, depending on the relationship with a seller. The information requested may include price, description of the goods, quantity, discount, picture (if any), and other terms and conditions for goods or services. The information requested can be specific or general information, depending on the information a buyer intends to have, after which the buyer can make the decision whether or not to order the products. Figure 4.5 shows a sample of trade enquiry form.

Department:
Trade and Industry
COUNTRY

TRADE ENQUIRY FORM

Date Received		Date Completed	
Allocated to		Reference Number	

FOREIGN OFFICE
Office Details and Contact Person:

COMPANY CONTACT DETAILS							
Company/Organisation Name:							
Type of business (please tick one):	Manufacturer	Importer	Distributor	Wholesaler	Retailer	Agent	Other (please state):
Contact Person:							
Address:							
Telephone:							
Facsimile:							
E-Mail:							
Website:							

PRODUCT
Product Required:
Type (colour, size etc.)**:**
Quality (grade, ISO etc.)**:**
HS Code:

QUANTITY
Quantity Required (units, volume, container etc.)**:**

DELIVERY
When is the product required:
How frequently is the product required:
Destination Port:

Figure 4.5: *A sample of a trade enquiry form*

Indent (or indenture): Indent is an international order that is placed by an importer with an exporter for the purpose of supplying certain goods. Normally an importer who is a buyer will send this document to an exporter through an agent with details about the goods required. An indent may be an *open indent*, *closed indent or confirmatory indent*. Figure 4.6 shows the types of indents.

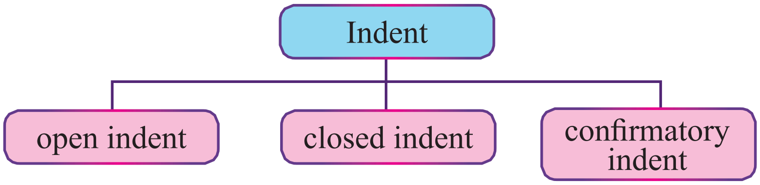


Figure 4.6: *Types of indents*

(a) An open indent gives a buyer (importer) a free hand of obtaining the goods from any source of supply. There is no name of manufacturer or seller who should supply the goods. The selection of goods and other details are left to the discretion of a buyer.

(b) A closed indent restricts the agent to a named manufacturer or seller from whom the goods must be obtained. In a closed indent, the producers from where goods are to be purchased are specified or named by a foreign buyer.

(c) Confirmatory indent is the form of the indent whereby an order is placed subject to the confirmation by the importer's agent. Indent contains full details regarding the goods to be imported, the terms and conditions, price, shipment, delivery and methods of payment.

Shipment advice: Also called *shipping counsel or advice note*. It is a document sent by an exporter to an importer informing an importer that the goods ordered have been sent or dispatched. It is prepared to inform an importer to be ready to receive the goods dispatched by making arrangements and preparations needed to receive the goods when they arrive at the port of destination. It contains the summary of the information about the date of shipment, route, expected date of arrival of the ship, invoice number, bill of lading number, name of the vessel, the port of embarkation, port of destination, and description of goods and quantity.

Bill of entry: This form is supplied by the customs office to the importer who makes declaration of the arrival of the goods at the port of destination for import custom clearance. The declaration is made in order to allow the examination and assessment of goods so as to determine import duty payable to customs office. The information in a bill of entry is taken from an invoice and other documents. It states the name and address of the importer, name of the ship, number of packages, marks on the package, description of goods, quantity and value of goods, name and address of the exporter, port of destination, and customs duty payable.

Bill of sight: Refers to a declaration made to customs office by an importer who is uncertain about what is being shipped. When an importer lacks some information to declare about the goods to be imported, the importer can make a declaration stating the inabilities to submit bill of entry, instead an importer prepares bill of sight. The bill of sight is prepared after inspecting the goods in the presence of the customs officials. The collected data are used to fill up the bill of the entry form and to assess the duties to be paid.

Import license: This is a document which is issued by the government to allow certain goods or services to be imported. It indicates the quantity and value of goods which an importer is permitted to buy from abroad. It is a role of an importer to seek for information whether the goods or services to be imported are subject to import license or not.

Import general manifest: This document summarises all information for shipping or transportation. It includes details of a cargo, passengers, freight, and crew of the vessel. A manifest can be used in a sea, air, or land mode of transport. For sea transport, it is called shipping manifest or customs manifest. Most of the information in manifest is extracted from bills of lading, so it is also called a summary of bills of lading.

Methods of payment in international trade

With the high competition in the market, traders need to offer attractive and affordable means of payment to their customers. The methods of payment used in business is a matter of agreement between two parties involved in trade. The choice of methods of payment is affected by various factors such as trustworthiness and relationship. The following are the methods of payment in international trade:

Advance payment: Cash in advance is a pre-payment method in which, an importer makes the payment for the goods to be imported prior to the shipment of goods. Under this method, the payment is received before goods are dispatched to an importer. An importer must trust that the supplier or exporter will deliver the goods on time. The common methods which can be used in cash advance payment include purchasing online, credit card, telegraphic transfer, and credit transfers.

Open account trading: An open account trading is a sale where the goods are shipped and delivered before payment is due. The payment is made on an agreed period, or after an agreed period of time according to the terms and conditions of the sale contract. The agreed periods can be such as 30, 60 or 90 days. This method of payment favours the importer as they do not have to pay until they have received the goods; but it is the highest risk options for an exporter.

Letters of credit: This is a method of payment where an importer's bank guarantees the supplier (exporter) that the bank will pay the mentioned amount in a bill of exchange in case it become dishonoured. A letter of credit is a guarantee from importer's bank to the exporter's bank that it will honour the payment up to a certain amount of the export bills. The importer's bank guarantees that buyer's payment to a seller will be made on time. In an event when the buyer is unable to make such a payment, the bank covers in full or the remaining amount on behalf of the buyer. The letter is prepared against a pledge after a buyer has requested the bank.

Documentary collections: This is a method of payment where an exporter sends the documents to the importer's bank with instructions to release the documents to the buyer for payment. An exporter gives instruction to an importer's bank that the documents attached to the draft for collection are deliverable to the drawee (importer) only against documents. These documents are necessary for processing and clearing of goods from the custom, because without these documents' goods cannot be released at customs office.

An exporter uses this method to bind an importer to accept and make payment in order to obtain the documents to be used in custom clearance of imported goods. The documents may include, original bill of lading, certificate of origin, and consular invoice. Documentary collection can be of two types: document against payment or document against acceptance. With *documents against payment*, the documents are only given to the buyer after payment has been made. With *documents against acceptance*, the documents are only given to the buyer after the acceptance of a bill of exchange issued by the seller which is payable at a certain period in the future such as pay after 30, 60 or 90 days.

Activity 4.5

Form groups of students, then in every group do one of the following sub-activities:

(a) Visit any nearby commercial bank, then ask the bank officials how traders make payments in international trade.
(b) Visit any nearby traders who export goods or services abroad, then ask them how they are paid after selling products abroad.
(c) Visit any nearby traders who import goods or services from abroad, then ask them about how they pay money abroad.
(d) With the aid of internet search engines, search information about international trade documents required by Tanzania Port Authority (TPA) for customs clearance.

Thereafter, all the groups should share/present their findings to your fellow students and allow them to ask questions for further clarifications.

Exercise 4.5

1. Assume that you are a trader conducting trade between Tanzania and China. Describe the payment methods you will use to effect the transactions.
2. International trade involves the use of a number of documents, the Table summarises some of them. Study the Table and complete it by providing needed information.

Documents	Prepared by	Issued to	Main function
Certificate of origin			
Bill of lading			
Bill of entry			
Insurance certificate			
Inspection certificate			
Charter party			
Consular invoice			
Indent			
Letter of credit			

Balance of trade and balance of payment

The relationship between imports and exports can be determined or explained by comparing the two elements. When a country makes exports, it receives earnings which implies inflow of funds to the country; and when a country makes imports, it makes payment, which means outflow of funds to other countries. Thus, the comparison of exports and imports involves comparing receipts and payments in international business. When exports exceed imports, the net balance is positive or favourable or surplus. When exports are less than imports, the net balance is negative, unfavourable or deficit and when exports equal to import the net balance is called balanced. The terms favourable and unfavourable which are used to explain the relationship between imports and exports are explained in detail through balance of trade and balance of payment.

Balance of trade

Balance of trade is the difference between total value of exported goods and services, and the total value of imported goods and services. It is calculated by taking the total value of exported goods minus the total value of imported goods and services.

$$\text{Balance of trade} = \text{Total value of exports} - \text{Total value of imports}$$

The balance of trade can either be favourable, unfavourable or balance as per the following explanation:

Favourable balance of trade: A balance of trade which occurs when the value of domestic goods and services exported is more than the value of foreign goods and services imported. Favourable balance of trade is also called positive or surplus balance of trade. Favourable balance of trade implies that, value of export of goods and services is greater than value of import of goods and services.

Unfavourable balance of trade: A balance of trade which occurs when the total value of exported domestic goods and services is less than the total value of imported goods and services. It is also called negative or deficit balance of trade. Unfavourable balance of trade implies that, value of export of goods and services is less than value of import of goods and services.

Balanced balance of trade: A balanced balance of trade occurs when the total value of exported goods and services is equal to the total value of imported goods and services. It is also called equilibrium or zero balance of trade. Balanced balance of trade implies that, value of export of goods and services is equal to value of import of goods and services.

Example 4.2: Assume that, a certain country exported goods valued TShs. 10,000,000 and imported goods valued TShs. 8,000,000 in 2021. Determine its balance of trade.

Solution

$$\text{Exports} = \text{TShs.}10{,}000{,}000$$

$$\text{Imports} = \text{TShs.}8{,}000{,}000$$

$$\text{Balance of trade} = ?$$

$$\begin{aligned}\text{Balance of trade} &= \text{Value of exports} - \text{Value of imports}\\ &= 10{,}000{,}000 - 8{,}000{,}000\\ &= \text{TShs.}2{,}000{,}000\ (\text{Favourable})\end{aligned}$$

Therefore, the value of balance of trade is positive TShs. 2,000,000 which implies that, the balance of trade is favourable.

Example 4.3: Assume that in 2019, Tanzania imported products valued TShs. 50,000,000,000 and exported products valued TShs. 38,500,000,000. Determine its balance of trade.

Solution

Exports = TShs. 38,500,000,000

Imports = TShs. 50,000,000,000

Balance of trade =?

Balance of trade = Value of exports − Value of imports

= 38,500,000,000 − 50,000,000,000

= TShs −11,500,000,000 (Unfavourable)

Therefore, the value of balance of trade was negative TShs. 11,500,000,000 which implies that, the balance of trade is unfavourable.

Table 4.4 further clarifies on favourable and unfavourable balance of trade.

Table 4.4: *Favourable and unfavourable balance of trade*

Year	Value of exports (billions in TShs)	Value imports (billions in TShs)	Balance of trade (billions in TShs)
2019	20	17	03 (favourable)
2020	15	25	10 (unfavourable)
2021	18	13	05 (favourable)
2022	24	30	06 (unfavourable)

Balance of payment

The balance of payment is a systematic record of all economic transactions between the residents of a country and the rest of the world in a given period of time. It is a summary of records of all receipts of goods exported, services rendered, and capital received by residents and payments of goods imported, services received, and capital transferred to non-residents or foreigners. Balance of payments can either be in equilibrium or disequilibrium as follows:

Disequilibrium balance of payments

This can either be surplus balance of payments or deficit balance of payments.

Surplus balance of payments: This occurs when the total value of exports of the country is more than the total value of its imports. It occurs when the total export earnings exceed total import expenditure. This means that the total value of goods and service exported plus capital transferred abroad exceed the total value of goods and services imported plus capital transfer from abroad. This type is also, known as favourable balance of payments. Surplus balance of payments implies that, value of exports (goods, services, and capital transfer) is greater than value of imports (goods, services, and capital transfer).

Deficit balance of payments: This occurs when the total value of exports in the country is less than the total value of its imports. It occurs when the total import expenditures exceed total export earnings. This means that the receipts for goods and services exported plus capital transferred abroad are less than the total payments for goods and services imported plus capital transfer from abroad. This type is also, known as unfavourable balance of payments. Deficit balance of payments implies that, value of exports (goods, services, and capital transfer) is less than value of imports (goods, services, and capital transfer).

Equilibrium balance of payments

This means the total value of exports in the country is equal to the total value of imports. It occurs when the total receipt from abroad is equal to the total payment to abroad. It is also called balanced or zero balance of payment. Equilibrium balance of payments implies that, value of exports (goods, services, and capital transfer) is equal to the value of imports (goods, services, and capital transfer).

Table 4.5 shows the differences between balance of trade and balance of payments.

Table 4.5: *Differences between balance of trade and balance of payments*

Basis of comparison	Balance of trade	Balance of payment
Meaning	Records transactions that arise out of the exports and imports of goods and services in a given period of time	Records all economic transactions between the residents and foreign countries in a given period of time
Scope	It is a narrow concept as it covers export and imports goods or merchandise. It is a part of balance of payment	It is a wider concept. It covers balance of trade, invisible trade and capital items
Nature of item	It includes only visible items.	It includes both visible and invisible items
Capital transaction	It does not include capital flow transactions	It includes capital flow transactions
Settlement of deficit balance	Deficit in balance of trade is reflected in the balance of payment	Deficit in balance of payments is not necessarily reflected by the component of balance of trade

Importance of balance of payments

The following are the importance of balance of payments:

Indicators of economic and financial status: The balance of payments is the economic barometer which helps to determine economic and financial status of a country in the short-term, particularly within a year.

Policy formulation: The status of balance of payment helps the government to formulate its monetary and fiscal policies. The policies should focus on how to control import and promote exports.

Determinants of foreign exchange position: Net balance of payment helps to determine foreign exchange position of a country internationally. It helps to determine the power of the currency in other countries' currencies.

Control imports and exports: The balance of payment is an account that examines all import and export transactions. When all transactions are examined and assessed their trends can help the government to take correct measures to control the importation and exportation transactions.

Measures the extent of dependence of the country: The government can also use the information from the balance of payment to determine the level of dependence and its capacity to control such dependence.

Control currency flow: It helps to monitor the currency inflows and outflows of the nation. If a country has high currency outflow, it means payments abroad are higher than receipts from abroad which is dangerous for the health of the economy. Thus, a balance of payment can help to oversee the capital flows and take correct measures.

Determination of balance of payment

The balance of payment can be determined by taking all economic receipts from abroad and all economic payments to abroad. Economic receipts from abroad includes receipts for exported goods, services rendered, capital inflow while economic payments to abroad include payments for imported goods, services received, plus capital outflow. Balance of payment has the following accounts:

Current account: The current account in the balance of payments is a record of a country's international transactions with the rest of the world. It includes all the transactions (other than those in financial items) that involve economic values; and it occurs between resident and non-resident entities.

Capital account: This is an account which records all the receipts into an economy resulting from the acquisition of domestic assets such as shares and stocks abroad by foreigners, and all payments to an economy by foreigners.

Financial accounts: This is an account which comprises of Foreign Direct Investments (FDIs), portfolio investments among others. It gives a summary of the net flow of both private and public investment into an economy.

Reserve account: These are reserve assets (maintained by the central bank) that are available to meet immediate needs.

Other terms related to the balance of payments:

Visible trade: The visible trade refers to the exchange of physical goods between countries. It is a trade of tangible items or physical goods that can be touched and seen such as coffee, maize or car. The visible exports are the goods which a country sells to the other countries while the visible imports are the goods which a country buys from the other countries. Trade balance is the difference between visible export and visible import.

Invisible trade: The invisible trade is the exchange of services between countries such as education, tourism, travelling, banking, engineering or medical service. It is an exchange of intangible items or services. Invisible exports are the services which a country sells to the other countries. It is a receipt which a country obtains from the service rendered to foreign countries. Invisible imports are the services which a country buys from other countries. It is a payment for the services which a country receives from the other countries. Invisible balance is the difference between receipt and payment of services. Table 4.6 briefly shows balance payments transactions.

Table 4.6: *Balance of payments transactions*

Transactions	Amount (billions in TShs)
1. Exports of goods	xxxx
2. Imports of goods	xxxx
3. Trade balance (1-2)	xxxx
4. Export of services	xxxx
5. Import of services	xxxx
6. Net invisible (4-5)	xxxx
7. Current account (3+6)	xxxx
8. Capital account (NET)	xxxx
9. Overall balance (7+8)	xxxx

Example 4.3

Given the following information related to balance of payment, prepare a statement of balance of payment.

1. Exported goods……………….TShs.10 billion
2. Exported service……………...TShs. 6 billion
3. Imported goods……………….TShs. 5 billion
4. Imported service……………...TShs. 4 billion
5. Net capital account …………..TShs. 16 billion

Solution

Statement of balance of payments

Transactions	Amount (billions in TShs)
1. Exported goods	10
2. Imported goods	05
3. **Trade balance (1-2)**	**05** (that is, 10 – 5 = 5)
4. Exported service	06
5. Imported service	04
6. **Invisible balance (4-5)**	**02** (that is, 6 – 4 = 2)
7. **Current account (6+3)**	**07** (that is 5+2 = 7)
8. Capital account	16
9. **Overall balance (7+8)**	**23**

International commercial terms

The International Commercial Terms **(INCOTERMS)** are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are intended primarily to clearly communicate respective obligations, tasks, costs, and risks involved in the delivery of goods from the seller to the buyer. The following are the most commonly used terms in international trade:

Ex Works: Ex Works (EXW) means, a buyer assumes all risks of bringing the goods to their final destination. Neither the seller loads the goods on collecting vehicles nor clear them for export, or if the seller does load the goods, does so at buyer's risk and cost.

Free Carrier: Free Carrier (FCA) means, the seller is responsible for the export, clearance and delivery of goods at a named place. The goods can be delivered to a carrier nominated by the buyer, or to another party nominated by the buyer.

Carriage Paid To: Carriage Paid To (CPT) means, the seller pays for the carriage of the goods up to the named place of destination. However, the goods are considered to be delivered when they have been handed over to the first or main carrier. Usually, the risk is transferred to buyer upon handing goods over to that carrier at the place of shipment in the country of export.

Carriage and Insurance Paid to: Carriage and Insurance Paid to (CIP), this term is broadly similar to the CPT term, with the exception that the seller is required to obtain insurance for the goods while in transit. CIP can be used for all modes of transport, whereas Cost, Insurance and Freight (CIF) should only be used for non-containerised sea-freight.

Delivered at Place Unloaded: Delivered at Place Unloaded (DPU) requires that the seller delivers the goods, and unloaded at the named terminal. The seller covers all the costs of transport (export fees, carriage, unloading from main carrier at destination port and destination port charges) and assumes all risks until arrival at the destination port or terminal. All charges after unloading (for example, import duty, taxes, customs and on-carriage) are to be borne by the buyer.

Delivered at Place: Delivered at place (DAP) means, the seller delivers when the goods are placed at the disposal of the buyer that is on the arriving means of transport ready for unloading at the named place of destination. All necessary legal formalities in the exporting country are completed by the seller at his/her own cost and risk to clear the goods for export.

Free Alongside Ship: Free Alongside Ship (FAS) means, the seller delivers when the goods are placed alongside the buyer's vessel at the named port of shipment. This implies that, the buyer has to bear all costs and risks of loss of or damage to the goods from that moment forward. This term should be used only for non-containerised sea freight and inland waterway transport.

Free on Board: Free on Board (FOB) is the term which means that the seller bears all costs and risks up to the point goods are loaded on board of the vessel. FOB contract requires a seller to deliver goods on board of a vessel that is designated by the buyer in a manner customary at the particular port. In this case, the seller must also arrange for export clearance.

Cost and Freight: Cost and Freight (CFR) means, the seller pays for the carriage of the goods up to the named port of destination. Risk transfers to buyer after the goods have been loaded on board of the ship in the country of export. The seller is responsible for origin costs including export clearance and freight costs for carriage to named port. The seller is not responsible for delivery to the final destination from the port (generally the buyer's facilities), or for buying insurance.

Cost, Insurance & Freight: Cost, Insurance and Freight (CIF) is broadly similar to the CFR term, with the exception that the seller is required to obtain insurance for the goods while in transit to the named port of destination. CIF requires the seller to insure the goods for 110% of their value.

Cost, Insurance, Freight and Free Out: Cost, Insurance, Freight and Free Out (CIFFO) in this, the exporter is responsible for all charges until the goods have been discharged at the port of destination.

Franco Domicile: Franco Domicile means that, the exporter pays for all costs until the goods arrive at the buyer's place of business.

Activity 4.6

Search information about balance of payments of Tanzania for the last three consecutive years. Based on your analysis, comment on the country situation.

Exercise 4.6

Suppose that, some of the international trade statistics of Tanzania in billions TShs are as indicated in the Table. Complete the Table by computing the missing data.

Year	Visible export	Visible imports	Trade balance	Invisible export	Invisible imports	Invisible balance	Net balance
2019	15,650	?	950	?	3,890	?	1,460
2020	2,370	?	?	4,580	?	2,450	(240)
2021	3,400	4,500	?	1,640	2,890	?	?

Trade protectionism

Trade protectionism also referred to as trade restrictions is a deliberate and purposeful commercial or trade policy adopted by a government to control imports and promote exports. Thus, trade protectionisms are the barriers imposed to reduce the volume of imports while promoting export volume of a country. It is significantly adopted to protect domestic industries from adverse effects of competition with foreign industries. Despite the existence of free trade agreements. The high competition in international trade has made some domestic industries to experience adverse trade effects as most of them are small and have less advanced in technology. In order to reduce these adverse effects, different countries have tried to protect their local and infant industries against any foreign competition. It is the responsibility of the government to protect its local industries against the foreign industries competition.

Tools of trade protectionism

The following are the tools or measures which are normally used to control the volume of imports and promote exports in the economy:

Tariffs: The tariffs can be referred to as import duties or customs duty. Tariffs are the taxes imposed on imported goods to make those imported goods expensive and less competitive in the domestic market. This tool causes the imported goods to be sold at higher prices than the locally produced goods. Customers will, therefore, prefer the goods with lower price; and hence, reducing the demand of foreign goods. A good example of such tariff is anti-dumping duty that is imposed on foreign imports that is believed to be priced below the fair market value.

Quotas: The import quota restrict the amount of foreign goods to be imported in the country. The government provides the maximum amount of goods to be imported from other countries over the specific period of time. It is a restriction in the form of non-tariff barriers because it focuses on the limit of volume of imports within a particular period of time. For example, the government of country X may decide to protect the local sugar industries by imposing the quota of 200 million tons in 2022. It means that anyone who wants to import sugar from abroad should seek the import permission and the total amount for all permits should not exceed 200 million tons.

Subsidies: The subsidies are benefits given to the local industries by governments to help them reduce the production costs burden. It is given to remove some type of burden of cost of production that help local industries to sell their goods at a lower price than the imported goods. The subsidies normally take a form of direct payments from government to the selected industries, or it might take in the form of reduced taxes, special tax, exemption, or incentives for the selected industries.

Total ban (embargo): The total ban is a tool adopted by the government to prohibit or stop completely the importation or the exportation of a certain product because of their negative impact on economy and society. It occurs when certain goods are totally not allowed to enter in a country.

Product standard: The product standard is used to allow the importation of goods that meet a particular standard set by the government. Goods which fail to meet certain standards laid down by a government will not be allowed to enter in a country, which reduces domestic competition. The standards may include quality, labelling, or ingredients. It is used to serve the public interest such as their health or environment protectionism. In Tanzania the process is carried out by various agencies like Tanzania Bureau of Standards (TBS), Zanzibar Bureau of Standards (ZBS), Tanzania Medical and Drugs Authority (TMDA), and Zanzibar Foods and Drugs Authority (ZFDA).

Argument for trade protectionism

The following are the arguments for trade protectionism:

Improve balance of payments: The trade protectionism reduces importation and increases exportation of goods and services. Decrease of importation result into improvement of balance of payment, increase employment, reduce the national debt, and increase the national sovereignty.

Support infant domestic industries: Infant industries should be given a temporary protectionism in order to enable them to build up their competitive power against well-established industries. They need to be protected until they reach a stage

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of enjoying reasonable economies of scale. If competition is allowed with well-established foreign industries, the infant industries may collapse or stop production which would affect the economy. Protectionism for infant industries do relieve such industries from foreign industries' competition, hence, allow them to grow.

Increase revenue collection: Trade protectionism increases government revenue through imposing tariffs for imported goods and sometimes for goods being exported. The funds collected from tariffs can be invested in the economy for the development of the country.

Avoid dangerous and harmful goods: Trade protectionism discourages and prohibits the importation of dangerous and harmful goods including expired, substandard, and outdated goods through imposing high import duty, product standard, or total ban. This situation helps to maintain peoples' health, standard of living, and economic growth of the country.

Control imported inflation: Protectionism helps to reduce the problems of imported inflation. Such a scenario occurs when a country restricts importation of highly priced goods and services, hence, it encourages domestic industries' production and consumption.

Reduce over dependence: Protectionism is used as a mechanism to reduce over dependence of a country on the other countries. Over dependence can be reduced by establishing domestic industries that could produce similar goods which could substitute imports. These industries will reduce the demand for imported goods, hence, reduce over dependence on foreign industries or producers.

Employment opportunity: When home and infant industries are protected against foreign competition people's employment will also be protected. Therefore, the domestic industries will grow and flourish, and employ more people.

National security: A country should have the capacity to produce crucial goods when demanded, example weapons during wars. A country should reduce its dependence on importing crucial goods from foreign countries. It should take some initially efforts of producing such goods so that during the time of war or emergency, it will have the capacity to produce them.

Arguments against protectionism

The following are arguments against trade protectionism:

Fall in consumer welfare: Trade protectionism can contribute to the fall in consumer welfare when there is high price, lack of goods, and poor products in the market. High price of the product leads to the increase of cost of living which reduces purchasing power of the people. Lack of goods can be resulted from quota, and poor products because of lack of competition.

Danger of inflation: Trade protectionism can influence inflation through either imposing high import duties or shortages of goods which cause the increase of price of imports. The inflation caused by import duties is called imported inflation. The burden of high import duties is shifted to price in order to compensate or cover the tax which brings the raise of price. Moreover, the inflation can be influenced by the shortages of goods because of restrictions such as total ban.

Limit choice of goods and service: Trade protections affect the availability of variety of goods and services in the market which affect the consumer's choice. The consumers will remain consuming goods or services from the local producers which limits their choice and, hence, standard of living.

Poor quality of goods: Lack of competition in the local market leads to inefficiency for local industries. This trend in turn, leads to production of poor quality of goods or services which ultimately affect the standard living of the people.

Effects of monopoly: Trade protectionism can lead to the formation of monopoly power in the market. The formation of monopoly affects the welfare of the people through the raise of price and creation of unnecessary shortages.

Black market and smuggling: Restricted protectionism through imposing high tariffs, total ban, and quota influence people to find other illegal ways of importing or exporting goods or services without following the established procedures by the government. This restriction causes a government to lose revenues and face problems in controlling the economy.

Activity 4.7

Using any reliable information:

(a) Find out the goods restricted in Tanzania;

(b) Explain the reasons for the restriction of the goods identified in part (a); and

(c) Describe the tools used for restriction of the goods identified in part (a).

Exercise 4.7

Markets in Tanzania sell products from various countries. Similarly, industries can produce domestically some of the imported products. Do you think there is a need of Tanzania to impose restrictions on the imported goods as they can be produced within? Explain.

Chapter summary

1. International trade is defined as the exchange of goods and services between nations or countries.
2. The international trade is classified into import trade, export trade, and entrepot trade.
3. Export trade is selling goods and service outside the country, import trade is buying goods and service from outside the country, and entrepot trade is a trade of importing goods for the purpose of re-exporting.
4. Some of the reasons for international trade are the difference in climate, the difference in natural resources, the difference in human skills, the difference in technology and capital, the surplus production, and the gain from trade.
5. Advantages of international trade are optimal use of natural resources, acquiring of products which a country cannot produce, disposal of surplus, transfer of technology, promote international understanding and relationship, ability to face natural calamities, wider choice of goods and services, stability in prices, increase in efficiency and competition.
6. Among the disadvantages of international trade are the collapse of home industries and infant industries, the increase of international dependence, the exhaustion of natural resources, the import of harmful goods, the cause imported inflation and the danger of monopoly.
7. An agent is a person or firm which acts on behalf of principal (employer) in dealing with third party. The agents are classified as special agent, general agent, and universal agents.
8. There are several types of agents in international trade such as commission agent, brokers, factors, clearing and forwarding agent, auctioneers, del credere, and warehouse keeper.
9. The certificate of origin, consular invoice, bill of lading, commercial invoice, certificate of inspection, indent, certificate of insurance, letter of credit, bill of entry, and letter of hypothecation are some of the documents used in international trade.
10. The means of payment used in international trade are cash advance payment, letter of credit, open account trading, and the documentary collection.
11. The visible trade is the exchange of physical or tangible goods between countries while the invisible trade is the exchange of services or intangible items between countries.
12. Balance of trade is the difference between total value of exported

goods and services, and imported goods and services.

13. The favourable balance of trade occurs when the value of exported goods and services is greater than the value of imported goods and services while unfavourable balance of trade occurs when the value of exported goods and services is less than that of imported goods and services.
14. Balance of payment is the systematic records of all economic or financial transaction between a country and rest of the world in a given period of time.
15. The surplus balance of payment occurs when the total export earnings exceed the total import expenditure while deficit balance of payment occurs when the total import expenditures exceed total export earnings. The difference takes consideration of goods, services and capital transfers.
16. The trade protectionism is defined as the purposeful government policy to control imports and promote exports.
17. Tariffs, quota, subsidies, exchange control and product standard are some of the tools for trade protectionism.
18. The advantages of trade protectionism include: improvement of balance of payments, support the infant domestic industries, increase revenue collection, avoid dangerous and harmful goods, control imported inflation, reduce dependency, employment opportunity and national defence.
19. The disadvantages of trade protectionism include: fall in consumer welfare, danger of inflation, limited choice of goods and services, poor quality of goods, retaliation, and effect of monopoly.

Revision exercise

In each of the following questions (1 to 9) choose the most correct answer and write its letter in your revision exercise book.

1. The country of Tanzania is engaged in exchange of goods and services with different countries. What is the type of trade that Tanzania is involved?
   (a) Domestic trade
   (b) Foreign trade
   (c) Internal trade
   (d) Wholesale trade

2. ABC company of Tanzania is dealing with buying foods from India, and selling them to Tanzania. Which is the position of ABC company in international trade?
   (a) Importer
   (b) Exporter
   (c) Import broker
   (d) Export broker

3. Which one of the following refers to a country record of all financial transactions with the rest of the world in a given period of time?
   (a) Balance of payment
   (b) Balance of trade
   (c) Invisible trade
   (d) Visible trade

4. Which trade consists of the tangible imports and exports?
   (a) Invisible trade
   (b) Visible imports
   (c) Visible trade
   (d) Invisible trade

5. Which one of the following is not a reason for international trade?
   (a) Disposal of surplus
   (b) Gain from trade
   (c) Increase in internal dependence
   (d) Difference in climate

6. Who is the agent linking buyers and sellers but does not own the goods?
   (a) Brokers
   (b) Merchant
   (c) A factor
   (d) Del credere agent

7. What is the method used by the government when completely stop the importation or exportation of certain goods?
   (a) Quotas
   (b) Embargo
   (c) Exchange control
   (d) Subsidies

8. Who is an agent of international trade dealing with transportation of goods on behalf of others?
   (a) Import brokers
   (b) Factors
   (c) Import merchant
   (d) Forwarding agents

9. Suppose the recent report by the Bank of Tanzania shows the total value of exports is TShs. 250 billion, while the total value of imports is TShs. 320 billion. It also shows the current account balance is TShs. 42 billion and the capital account is TShs. 22 billion. What is the balance of trade?
   (a) TShs. 70 billion unfavourable
   (b) TShs. 64 billion unfavourable
   (c) TShs. 92 billion favourable
   (d) TShs. 64 billion favourable

10. Match the explanation in group "A" with correct words in group "B" and write its letter beside the explanation number in your revision exercise book.

Group A	Group B
(i) A document which shows the contract of hiring a ship.	A. Letter of credit
(ii) A temporary receipt issued and signed by the officer of a vessel, to acknowledge the goods ready to be loaded on a ship.	B. Mate's receipt
(iii) Shows credit worthiness of the importer to pay the amount due from the exporter.	C. Letter of hypothecation
(iv) A letter from an exporter to his bank authorising the bank to sell goods being exported if the bank cannot obtain payment on a discounted bill of exchange.	D. Commercial invoice
(v) A document issued by the shipping company or its agent acknowledging the receipt of cargo on board.	E. Bill of lading
(vi) A document which shows a particular country where goods were produced.	F. Charter party
(vii) A declaration made in a particular form by the importer on the arrival of the goods at the port.	G. Consular invoice
(viii) Informs them of the amount they have to pay and to allow them to check the goods they have received.	H. Proforma invoice
(ix) Acting as a quotation as well as allowing the importer to apply for a license for the goods to enter their country.	I. Indent
(x) Order placed by an importer to an exporter for the supply of certain goods.	J. Inspection certificate
	K. Certificate of origin
	L. Certificate of insurance
	M. Freight note
	N. Bill of entry
	O. Certificate of indemnity
	P. Packing note
	Q. Ship's report
	R. Dock receipt
	S. Shipping advice
	T. Shipping bill

11. Regardless of the significance of international trade to the world economy, it might adversely affect the country's economy. Comment on this statement with evidence.
12. Suppose that, you are about to import a car from Japan. Describe the role which might be played by CFA to ensure the completion of importation procedures.
13. Describe the implication of the following in relation to international trade:
    (a) Unfavourable balance of payment
    (b) Favourable balance of trade

Chapter Five

Entrepreneurship

Introduction

Survival in a dynamic business environment requires inventive, proactive and innovative thinking. These factors necessitate anticipatory activities that will allow entrepreneurs to adapt to conditions and events as they occur. Moreover, changes in conditions and events create opportunities in which entrepreneurs can invent and develop innovative solutions to generate income. In this chapter, you will learn about the concepts of innovation and invention as well as sources of capital for entrepreneurs. The competencies developed will enable you to explore business opportunities and evaluate alternative sources of capital for developing innovative solutions, products and efficient business operations.

The concepts of invention and innovation

Entrepreneurship is a process of establishing and managing enterprises based on existing business opportunities. Based on this definition, entrepreneurs are people who establish and manage business enterprises by using the identified opportunities to produce goods and services. Entrepreneurs managing such business enterprises continually find business opportunities to satisfy peoples' needs and wants. For the purpose of achieving their objectives, entrepreneurs identify opportunities through people's challenges. Among others, opportunities lie in the changing needs and wants of people.

Change in peoples' needs and wants may mean that new products are needed or the existing products need to be changed or improved to suit current needs. It is thus, advisable that the new and improved products which aim at meeting people's needs and wants should be at the core centre of business enterprises. In developing a new or improved product it involves the processes of invention and innovation. More apparently, excellent performance of business enterprises is significantly linked to product invention and innovation. These processes are therefore, necessary to be understood as they are at the heart of the business and should constantly be done to ensure business survival.

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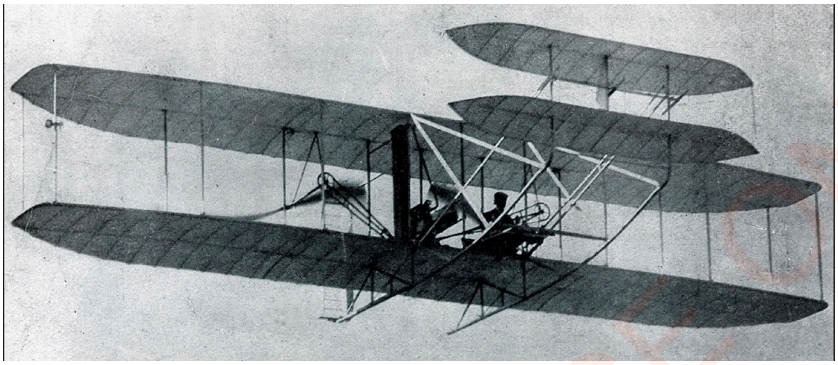
Invention is about the establishment of something new such as new products or new ways of doing business activities. It involves the creation of something that has never existed before. Aeroplanes and cars are examples of invented products in the transportation sector. Introduction of telephones by Alexander Graham Bell in 1876 is an example of invention in the communication sector. In addition, introduction of drugs such as penicillin is an example of early inventions in the pharmaceutical industry. Figure 5.1 shows an example of the aeroplane invented by two American brothers in the year 1903.



Source: https://www.wright-brothers.org/Information_Desk/Just_the_Facts/Airplanes/Model_B.htm

Figure 5.1: *Early aeroplane invented by Wilbur and Orville Wright*

Innovation involves making changes in something which is in existence. It is centred on improvement made on an already invented item. Figure 5.2 shows a car powered by natural gas as an example of innovation.

Source: https://twitter.com/africafactszone/status/1295830620682280960

Figure 5.2: *A car powered by natural gas in Tanzania (2020)*

Another example of innovation is linked to the breakout of COVID – 19, a disease caused by corona virus. In the year 2020, washing of hands was one of the ways recommended by the World Health Organisation (WHO) to prevent spread of the disease. This made it necessary for entrepreneurs to innovate automated hand-washing devices which dispensed water sanitiser without having to touch any handles. One of the institution that designed such a device was Arusha Technical

College (ATC). Figure 5.3 shows one type of solar powered automatic hand-washing device.

Figure 5.3: *Solar powered automatic hand-washing device*

Forms and types of innovation

Innovation can be categorised based on an area in which innovation takes place and the extent to which innovation is taking place. Innovations based on the area in which they take place refer to forms of innovation. Innovations based on the extent to which changes take place in the innovated object, refer to types of innovation.

Forms of innovation

Forms of innovation refer to areas in which innovation takes place. The common forms of innovation are those occurring in products, processes, markets, raw materials, and organisations. Product innovation refers to the introduction of a new product in the market while organisation innovation involves introduction of new ways of organising activities of a business enterprise, also known as business model innovation. Process or production innovation involves introduction of new ways of making a product, whereas, material innovation involves introduction of new raw material or new source of material in a production system. Finally, market innovation means introduction of a new market for the existing product.

Types of innovation

Types of innovation involve the extent to which changes are made to the innovated object. There are two major types of innovation: continuous and discontinuous innovation. Continuous innovation refers to the marginal upgrades made on an innovated object. It means that few changes are made on the object. In the field of technology, continuous innovation involves upgrades on levels of technological change. Two types of continuous innovation are incremental and sustaining innovations. Both, incremental and sustaining innovations, involve changes on low level of technology and are associated with gradual or marginal improvement on the object. The difference is that, for incremental innovation the product is offered to the existing market while for sustaining innovation, the product is offered to an expanded market which includes new high-end clientele base.

Discontinuous innovation refers to major changes or improvement made on innovated object. In technology, discontinuous innovation involves high levels of technological change. There are two types of discontinuous innovation: the radical and the disruptive. Both of them involve high levels of technological change, and are associated with major improvements on the innovated object. Essentially, disruptively innovated products are offered to the existing market, whereas, radically innovated products create a new market base. Figure 5.4 shows the different types of innovation.

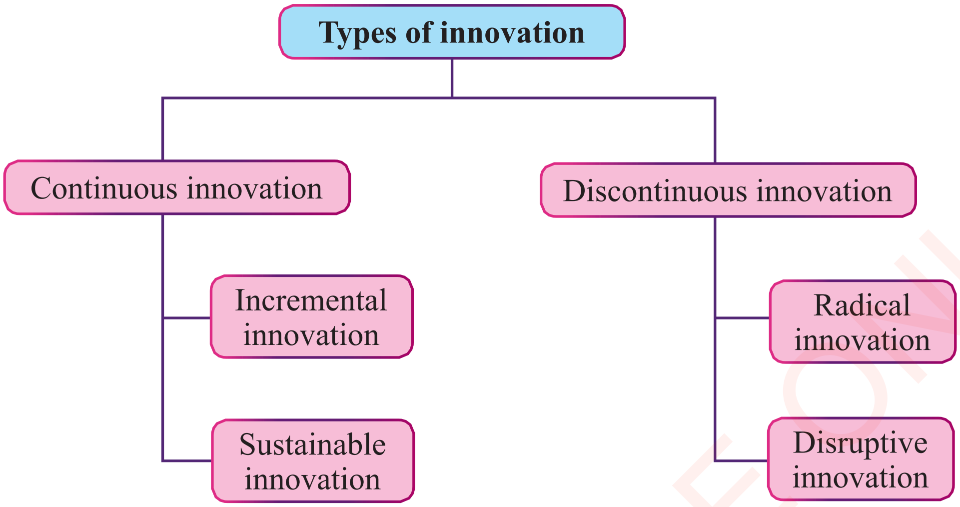


Figure 5.4: *Types of innovation*

NOTE

Both invention and innovation involve creation of something new which can be a new product, a process, raw materials, organisation and market. Creation of something that has not existed before is referred to as invention while improvement made on the existing object is referred to as innovation. Invention, therefore, occurs before innovation. In addition, an entrepreneur can be an inventor or innovator or both. For example, Bill Gates, the founder and former chairman of Microsoft Corporation is both an inventor and innovator. In contrast, the late Reginald Mengi, was an innovator who introduced TV services in mainland Tanzania in 1990s.

Inventions in Tanzania

The history of invention in Tanzania can be traced as far back before colonialism where the invention of fire and hunting took place. However, in documentation the history of first invention can be traced from 1980s when the establishment of private entities were encouraged as a result of economic transformations. More people got involved in invention of different business ideas. Some inventions were made by residents while others were made by non-residents. Inventions need to be protected; thus, all inventions are protected by patents. Patent provides the inventor the rights to prevent actors such as individuals or companies from copying, selling, and using an invention of another person or company without their consent. In Tanzania, patent protects an invention for a period of 20 years and business enterprises can apply for patents to stop competitors from imitating or replicating their inventions. Inventions can be a source of money in terms of royalties and fees to the inventor and the country when the inventor's patents or licences are hired or purchased by other enterprises. The number of patents applied is one of the indicators of growth in the number of inventions in Tanzania. Tanzania has recorded a total of 27 inventions, many of which have been applied between the period of 2015 and 2018. Figure 5.5 shows the number of patents applied to protect inventions in 1983, 2015, and 2018.

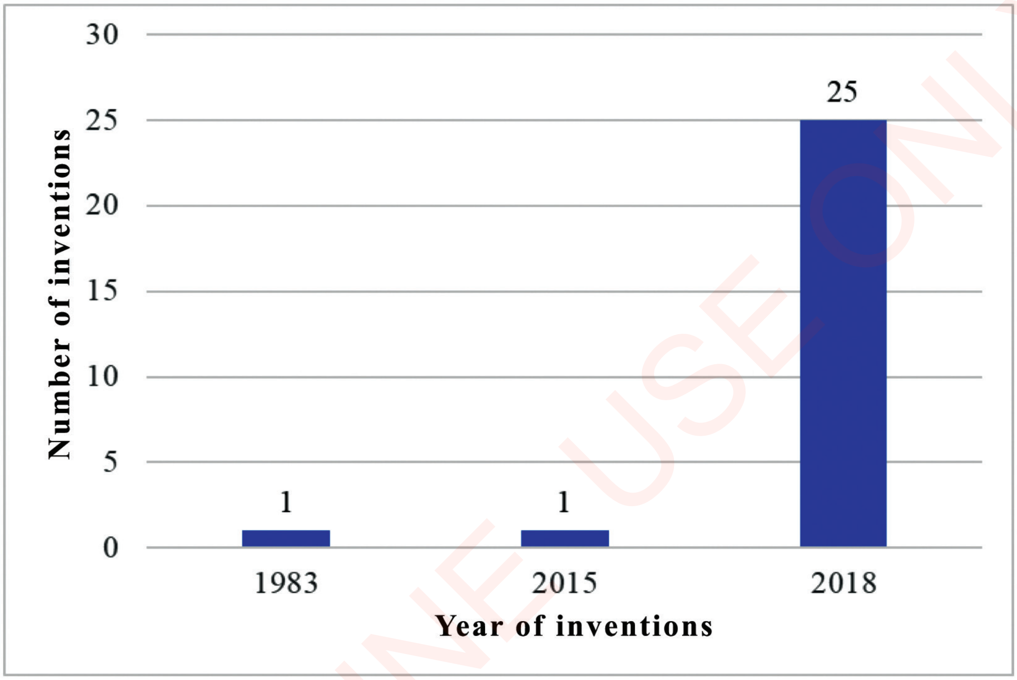


Figure 5.5: *Tanzanian inventions according to the number of patent applications*

Innovation trends in Tanzania

Innovation ecosystem in Tanzania is currently coordinated by the Ministry of Education, Science and Technology (MoEST) under the Directorate of Science, Technology and Innovation. The government of Tanzania is aware of the significant contribution of innovative research and development to economic transformation. Among the platforms established by MoEST to nurture innovations in Tanzania is MAKISATU. MAKISATU connotes *Mashindano ya Kitaifa ya Sayansi*, *Teknolojia na Ubunifu*. It is a platform which enables nationwide competitions relating to science, technology and innovation in Tanzania. In addition, the MoEST through the Tanzania Commission for Science and Technology (COSTECH) has set the direction and priority areas for research in Science, Technology and Innovation (STI). These priorities serve to propel socio-economic transformation.

Innovation in Tanzania can be measured in various ways. One of the ways is the use of innovation index developed by the Global Innovation Index (GII) under the World Intellectual Property Organisation (WIPO). GII indicates countries' innovation performance as well as innovation strengths and weaknesses. The index consists of national economy aspects which support innovative activities. These aspects are categorised as innovation inputs and innovation outputs. Innovation inputs include five aspects, namely: institutions; human capital and research; infrastructure; market complexities; and business complexities. Innovation outputs, on the other hand, include knowledge, technology, and creative outputs.

The five aspects on innovation inputs are briefly explained by their indicators as follows:

(a) Institutions are indicated by items such as political and regulatory institutions;

(b) Human capital and research are indicated by items such as investment made in education as well as in research and development;

(c) Infrastructure has indicators such as accessibility of Information and Communication Technology (ICT), and electricity supply;

(d) Market complexities are indicated by items such as consumer behaviours, competition, pricing, and distribution; and

(e) Business complexities are indicated by items such as the number of knowledge intensive workers, ease of getting credit for business enterprises, investors' protection, and university - industry collaborations.

Indicators for aspects of innovation outputs are as follows:

(a) Knowledge and technology outputs are indicated by items such as patents, labour productivity and established new businesses; and

(b) Creative outputs are indicated by items such as trademarks, brand value as well as market for entertainment and media.

Based on the aspects of innovation input and output, innovation index, which is ranked from 0 to 100 points, is one of the ways of measuring innovation in Tanzania. For example, the average value of Tanzania's innovation index from 2014 to 2021 is 26.6 points. The country recorded the highest level of innovative works in 2018 with 28.1 points as compared to the world's average of 34.30 points which is based on 132 countries. Moreover, the Global Innovation Index (GII) ranked Tanzania on the 90th position out of 132 countries in 2021. Figure 5.6 shows the trend of innovation in Tanzania as per index points from 2014 to 2021.

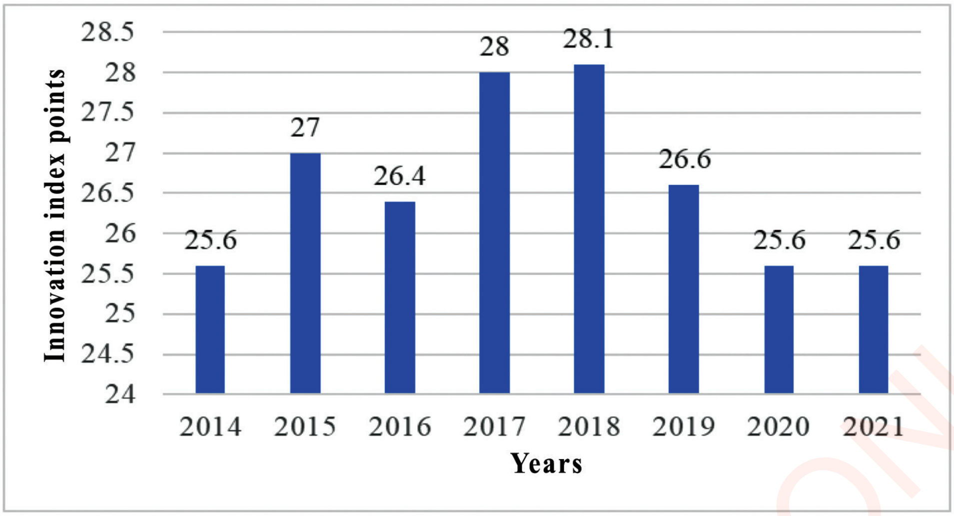


Figure 5.6: *Trend of innovation in Tanzania as per Global Innovation Index from 2014 to 2021*

Sources of entrepreneurial opportunities

Entrepreneurs discover opportunities in people's needs, wants and problems. They establish new business enterprises or improve the already established ones to achieve certain goals. Identification of entrepreneurial opportunities which may enable them achieve desired goals is one of their important tasks. While opportunity refers to a condition favourable for something to be done, entrepreneurial opportunities refer to ideas and actions that enable entrepreneurs to create new products or ways of doing things. Entrepreneurial opportunities can be discovered or created. It is, however, quite challenging for entrepreneurs to identify such opportunities. Opportunities may arise from the imbalance or mismatch of demand and supply or change in the cost of inputs such as raw materials, financial capital and labour. In practice, sources of business opportunities include the following:

Customer complaints: Satisfaction of customers' needs and wants is an important and also a challenging task to business enterprises. Businesses create value by serving right products in the right manner to the right customers. If customers are not satisfied and their needs are not met, they will complain. Also, customers may have been facing some inconveniences and dissatisfactions while purchasing and consuming various products. Depending on the nature of a product, customers may complain about aspects such as quality or quantity of a product, customer service, after purchase services, packaging of the product, and hygiene. These complaints create business opportunities which may be resolved by establishment of new enterprises or improving existing ones. For instance, an entrepreneur may consider establishing a business with high standard of customer care and improved product quality. Customer complaints and frustrations are linked to introduction of new products. Whenever consumers complain bitterly about a product, for example when someone says, "I wish there was …" or "If only there was a product that could …'', this is a potential business idea. The idea could involve setting up a rival business enterprise with better products, or introduce new products to be offered to target customers.

Personal skills and experience: Over half of the ideas linked to successful businesses originate from people's skills and experiences at the workplace. For instance, an experienced mechanics may set up their own car repair or establish a used car business. Thus, the background of potential entrepreneurs plays a crucial role in the decision to go into business as well as the type of venture to be created. Skills and experiences are important resources in generating ideas and capitalising on them.

Surveys: This involves doing research in order to ascertain the need or want for a product. The focal point for a new business idea should be the customer. Surveys might be conducted informally or formally by involving a number of stakeholders such as family members, friends, manufacturers, wholesalers, distributors, agents, and retailers to find out what they think is needed or wanted but not available. A survey can also be conducted to potential customers to discover market opportunities. For example, in deciding whether to open a new restaurant or hotel on a tourist location or in a given town, entrepreneurs need to be informed through various means such as surveys. One way of ensuring that entrepreneurs are not negligent is to be alert at all times to the clients' needs and wants which are linked to opportunities to do business.

Media: Media is a great source of information, ideas, and often opportunity. Newspapers, magazines, television, and nowadays the internet are all examples of mass media. Articles in the printed press, internet or documentaries on television may report on changes in wants or needs of consumers. For example, one may read or hear that people are now increasingly interested in healthy eating or physical fitness. This means business enterprises can identify opportunities in the delivery of healthy foods and creating physical fitness programs.

Exhibitions: Another way of getting business ideas is from exhibitions and trade fairs. Visiting such events helps in identifying not only new products, but also meeting important stakeholders such as salespeople, manufacturers, wholesalers, and distributors. Such stakeholders are often good sources of business ideas and business opportunities.

Brainstorming: This is a technique for creative problem-solving and generating ideas in groups. The objective is to come up with as many ideas as possible. It usually starts with a question or problem statement. For example, one may ask

"What are the products needed at home but not available in the market?" Accordingly, through brainstorming, each suggested idea may lead to one or more ideas linked to the identification of feasible and viable business opportunities.

Friends and families: Consulting friends and family members can be another way of identifying business ideas. People close to entrepreneurs may have insights of quite interesting and feasible business ideas that an entrepreneur may find useful and practical. In addition, work experiences, exposures and interests of friends and family members can offer insights regarding various ideas as well as business opportunities. For instance, when an entrepreneur is interested in opportunities identified in the automobile industry, they may consult friends and family members who are informed about the industry. Such consultations may avail the entrepreneur with feasible ideas and business opportunities.

Franchises: A franchise is an arrangement in which the manufacturer or sole distributor of a trademark or product gives exclusive rights to independent retailers for local distribution of a product in conformity to standardised operating procedures in return of payment of royalties. Franchising may take several forms but, of much interest, is the type that offers rights to a name, image, method of doing business, and operating procedures. The franchise market of Tanzania is a developing one with a growing number of franchisors coming into the market coupled with the growth of consumer demand. Franchises provide a wide range of businesses opportunities which require different amounts of starting capital and the franchise fee.

Market trends: Changes in trends cause changes in customers' consumption patterns. This may also signal some business opportunities. For example, youths may become interested in a particular dressing style different from that which they used before. Businesses may respond to such an opportunity. Anyone interested in self-employment and/or entrepreneurship is expected to monitor the past, current and future market trends in order to identify new opportunities related to them. For example, an increment in the income and size of families may mean greater demand for day care centres, home security, and utilities such as electricity, and water.

Unexpected occurrences: These are incidences which occur unexpectedly. Such incidences can bring business opportunities. During the breakout of the corona virus diseases (COVID - 19), it was not expected that people's lifestyle and habits would be affected. COVID – 19 created opportunities to sell lemons, gingers, fruits, masks, hand sanitisers, and buckets for flowing water. Some industries increased production of hand washing soap, and surgical masks which were necessary prevention against the disease.

Change in technology: Technology is among important factors that influence business activities. Technological changes such as in the production process, marketing systems, and communication systems, are associated with new business opportunities. In the Tanzania financial sector, the introduction of mobile money technology has for a greater extent, changed the way of doing business. Many entrepreneurs have now invested in the mobile money business and they have thus, created employment opportunities to a number of people.

Spill-over from successful businesses: Products that are successful in some areas can be adopted in other areas. For instance, when people realise that certain products have a huge market base in other countries, business enterprises may adopt such products if there are some potential customers.

Need for product differentiation: Undifferentiated products which are offered to customers for a long period of time may indicate an opportunity. The need to differentiate products against competitors may signify the presence of entrepreneurial opportunities which may be pursued by business enterprises.

Changes in government regulations: Changes in government policies and regulations may provide a clue for business opportunities. For example, when the government banned the use of plastic bags, entrepreneurs saw an opportunity to sell environmentally friendly bags such as paper bags.

Activity 5.1

In a group of students perform the following tasks:

(a) Scan your community and identify three business opportunities and three inventions or innovations in line with opportunities;

(b) Identify different franchises existing in Tanzania and how they operate; and

(c) Then, prepare a ten minutes presentation to your fellow students.

Exercise 5.1

1. Innovation and invention are commonly used interchangeably; however, they significantly differ. Describe the difference between the two concepts.
2. In ever changing business environment, both forms and types of innovation can occur in sequential or concurrent order and bring about positive and negative outcomes. In normal course of a business, how does the type and form of innovation differ from each other?

Sources of capital for entrepreneurs

Entrepreneurs who manage new or established business enterprises need resources in order to carry-out their activities. Examples of such resources include money, raw materials, skilled people and machines. Entrepreneurial capital refers to assets which are used by entrepreneurs to produce desired output. Entrepreneurial capital may be in terms of financial capital, physical capital, and human capital. In this subsection, the focus is only on financial capital and its sources.

Financial capital refers to assets which are used to finance entrepreneurial activities. For the purpose of creating new business enterprise or developing existing one, entrepreneurs may obtain financial capital from various sources. Such sources include financial institutions, the government, founder assets, friends, families, and the general public. These sources of financial capital are further explained in the strategies of acquiring capital.

Strategies of acquiring capital

Business enterprises need to raise money to pay for expenses or invest for their growth. There are various ways entrepreneurs may use to obtain capital for their business enterprises. Common strategies of acquiring financial capital include friends and relatives, debt financing, equity financing, financial bootstrapping, grants, and crowdfunding.

Friends and relatives

Also termed as love money. It is the easiest and the most common type of financing available to entrepreneurs. It involves the process of seeking financial supports from friends and relatives. In many instances personal relationship rather than risk-based analysis is used to negotiate the terms and conditions of the funds given.

Advantages of capital generated from friends and relatives

Love money significantly offers sources of financing to business enterprises deemed not worthy or fit to receive financing from formal financial institutions such as banks. They can be offered to both start-ups and established companies. Moreover, the financing can take a number of rounds allowing constant flow of capital to the business, thus, pioneering for the growth of businesses.

Disadvantages of capital generated from friends and relatives

It can be only be made by a person willing or prepared to lose majority or the entirely of the investment. Given it is based on relationship, the financers have little to no return on the investment they undertake.

Debt financing

Debt financing is one of the ways of raising financial capital for financing business activities of enterprises. It involves borrowing money which should be repaid to the lender. In addition, borrowed money is required to be repaid with interest at the agreed future period. Repayment of the borrowed money may be periodic, for instance, monthly. With debt financing, owners can maintain control of their businesses because they are not required to give-up part of their business ownership. There are different types of debt financing. Loan is the most common type of debt financing. Description as well as the advantages and disadvantages of each type of debt financing have been covered in chapter three.

Equity financing

Equity financing is one of the ways of raising capital mostly used by new business enterprises. Equity financing refers to the way of raising financial capital by selling shares. Shares are ownership units in a business, therefore, selling shares means selling ownership of a business in exchange for cash. Shares may be sold to family members, friends, investors or the public. Common types of equity financing include angel investors and venture capital. These types are explained as follows:

Angel investors

Angel investors are also known as business angels or private investors. These are wealthy private individuals who invest part of their money in businesses. Besides money, angel investors who are usually people with skills, experiences and business connections can invest their time as mentors. They finance business ideas with expectations of future gains such as exchange of business ownership and return on investment.

Advantages of angel investors

As an approach for acquiring capital, angel funding is advantageous because they provide a quick way to grow business enterprises. Angel investors also have the freedom to make quick investment decisions; hence, less time may be used between the time for funding application and response from investors. With regards to conditions associated with angel investment, business enterprises are required to make repayments of invested money without interests. Also, no collaterals are needed to secure invested money. With angel funding, business enterprises may access investors' knowledge and connections. Further, this funding approach may provide an opportunity for guiding enterprises through mentoring.

Disadvantages of angel investors

Despite its advantages, angel funding has a number of disadvantages. It takes longer to get appropriate angel investors. Investors may have high expectations which may bring too much pressure in a business to meet the expectations. Regarding the amount of financial capital, angel funding provides limited amounts; hence, not suitable for large-scale investments. In addition, angel investors provide a one-time investment to support business ideas which are in early stage. They are not willing to invest additional money in a business. Regarding sacrifices made by business enterprises, angel investment involves surrendering part of business ownership as a sacrifice for enterprise to get funding.

Venture capital

Venture capital funding is a way of raising money from private equity investor(s) or venture capitalist for business enterprises with high growth potentials in exchange for equity. Venture capitalists expect to get above average return from their investments; hence, they invest in high risk and potentially high return businesses. Venture capital funding is suitable for new and growing business enterprises which seek large capital and have high growth potential. In addition, investments of venture capitalists to business enterprises may not necessarily be financial. Alternative to financial, venture capitalist may provide technical and managerial expertise as well as business connections to guide business enterprises.

Venture capitalists are professional investors who may include wealthy investors, investment banks or other financial institutions. Depending on the stage of business enterprises, they can have 25 per cent to 50 per cent of ownership in invested businesses. Venture capitalists can finance a business enterprise until the business generates returns on invested capital. Returns for venture capitalists may be generated through selling of their ownership, for instance, selling their shares to other investors or as a return in form of dividends.

Advantages of venture capital

Venture capital is advantageous because it offers a large amount of capital. Venture capitalists invest for ownership; hence, business enterprises are neither obliged to repay the invested money nor make additional investments by using their personal assets or loans. The fact that they also invest into an enterprise their business expertise, experiences, guidance and connections, venture capitalists help business enterprises to better manage their business risks and thus, increase chances for business enterprises to grow.

Disadvantages of venture capital

Despite the advantages, the venture capital financing has certain limitations. Among others, it is not easy for business enterprises to secure financing from venture capitalists. Another disadvantage is that venture capitalists mostly invest in high-risk businesses with expectations for high returns on invested capital. In addition, entrepreneurs may lose their businesses to these venture capitalists in an event of low performance.

With venture capital funding, investors take part of the business ownership. As a result, shares owned by the business entrepreneurs are significantly reduced; their control of the enterprise is, thus, diluted. Because business entrepreneurs give up part of their business ownership, the overall cost of capital may be regarded as high compared to when alternatives such as bank loans are used.

Financial bootstrapping

This refers to the use of personal assets to establish or improve a business enterprise. It includes personal saving and owned properties. It basically refers to the use of methods of meeting the need for resources without relying on long-term external financing from debt holders and/or new owners. It may also involve re-investment of revenue generated from the established enterprise.

Advantages of financial bootstrapping

Entrepreneurs with financial bootstrapping have full control of the enterprise and business decisions. Financial bootstrapping also allows the enterprise to operate with little or no debt.

Disadvantages of financial bootstrapping

Financial bootstrapping may lead to slow growth of the enterprise due to its limited financial capital. Personal financial risks are high in case the business experiences loss. Further, limited social capital and network make the enterprise less attractive to other investors.

Crowdfunding

Crowdfunding involves raising funds from the public. Large numbers of people and organisations contribute small amounts of money to finance entrepreneurial activities. This approach of getting financial capital requires the business enterprises to make decisions about the initiators and platforms. The initiator is a person or a team with the task of introducing a business activity to be financed by stakeholders. Platform refers to the structure which facilitates interactions between actors involved in crowdfunding.

There are different ways for an enterprise to be engaged in crowdfunding. Accordingly, crowdfunding can be of different types. These types are debt, equity, reward and donation crowdfunding. Debt crowdfunding involves raising funds from investors who should be repaid of the invested money, with interest. Equity crowdfunding involves collecting money from people and organisations in exchange for shares or certain levels of ownership in a business enterprise. Reward crowdfunding involves raising funds from people and organisations in exchange for non-financial benefits such as free gifts. Donation crowdfunding involves raising funds from people and organisations in exchange for social or charitable activities.

Advantages of crowdfunding

Crowdfunding can be a quick and cheap way of raising capital, as in donation and reward types of crowdfunding. Furthermore, it enables business enterprises to communicate with people and organisations about the activity that needs to be financed. The act of sensitising investors can be regarded as a way of promoting the business. This increases the possibility for investors to become customers or even be loyal customers.

Disadvantages of crowdfunding

Raising money through crowdfunding can at times be costly, for instance, in terms of invested time. Furthermore, it is not quite certain whether the funds to be raised may meet the amount targeted by the business enterprise.

Under crowdfunding, business enterprises are required to share the business ideas with investors. As such there is a risk for their unprotected ideas to be stolen. Again, failure of an enterprise whose activities or ideas were financed by crowdfunding may damage the reputation of the business and investors.

Grants

Grants are a financial support from either the government or private organisations, both local and international, used to finance entrepreneurial activities. Business grants provide free money to start-ups and existing businesses. Strict application, screening, and spending conditions are attached to grants in order to ensure that grants are utilised for the intended purpose.

Advantages of grants

One advantage of a grant is that, it is a debt-free financial support since it does not need to be repaid. In addition, grants increase credibility and attractiveness of an enterprise to other investors or stakeholders. They are associated with money which promotes a positive change in the society.

Disadvantages of grants

Grants are difficult to obtain as they involve strict application, screening and spending conditions. In addition, bureaucracy usually exists in grant application. Grants, also, provide short-term financing and are a highly competitive source of financing.

NOTE

Debt and equity financing are the most common approaches for financing business enterprises. However, business enterprises may choose one or a combination of different approaches in financing their activities.

Activity 5.2

In a group of students:

(a) Visit any nearby commercial bank or microfinance institution, and find out on how they empower entrepreneurs financially; and

(b) Prepare and make a 10-minute presentation in a class.

Exercise 5.2

1. In starting and operating a business, an entrepreneur requires a number of resources to finance the business. The resources included financial, physical and human capital. In light of these, answer the following:
   (a) Describe the different sources from which an entrepreneur may secure financial capital for business operation.
   (b) What are the different strategies to be used by the entrepreneur to secure financial capital?

2. Your friends Mr Ali and Miss Stella are new entrepreneurs in the market and have come to seek advice from you. They are current looking for new source of financial capital to finance their business operations. Assist them in the following:
   (a) Identifying the different sources of financial capital available to them;
   (b) Identifying the advantages and disadvantages of each source identified in (a); and
   (c) Identifying the best option available to them given their status in the market.

Chapter summary

1. Entrepreneurs are continually required to improve their products to match the changing needs and wants of people.
2. Introduction of new or improved products involve the process of invention and innovation.
3. Invention is the creation or design of something that has never existed before while innovation involves making changes in something. It includes the introduction of new methods, ideas, products, markets, and organisations.
4. MoEST coordinates the innovation ecosystem in Tanzania through organs like COSTECH.
5. A common way to measure innovation is through the GII which is released annually by the WIPO. This index shows a country's innovation performance, strengths, and weaknesses.
6. The 2021 GII ranked Tanzania at the 90th position out of 132 countries.
7. Different ways do exist for entrepreneurs to find business opportunities. They include personal skills and experience, customer complaints,

surveys, media, exhibitions, brainstorming, friends and family, franchises, market trends, unexpected occurrences, change in technology, spill-over from successful businesses, the need for product differentiation, and changes in the government regulations.

8. Sources of acquiring capital for entrepreneurs include debt financing, equity financing, financial bootstrapping, crowdfunding, and grants.

Revision exercise

Answer question 1 to 10 by writing correct answer in your commerce revision exercise book.

1. It results to the creation of a brand-new product
   (a) Innovation
   (b) Invention
   (c) Creativity
   (d) Entrepreneurship

2. What do we term the process of adding value to the existing product in the entrepreneurship field?
   (a) Invention
   (b) Monitoring
   (c) Innovation
   (d) Evaluation

3. Which of the following activities is not an example of innovation activity.
   (a) Adding value to an existing product
   (b) Promoting a product
   (c) Removing the product from the distribution channel
   (d) Transporting goods to the market

4. Which one of the following statements does not relate to the innovation concept?
   (a) Modify existing product
   (b) Adding value to an existing product
   (c) Making changes to an existing product
   (d) Occurrence of product, process or idea for the first time

5. Which one of the following statements explains invention?
   (a) Expansion of new market
   (b) Making significant contribution to an existing process
   (c) Original idea that creates new product or process
   (d) Adding value to an existing product

6. It is one the sources of capital in which individual contributes from their personal assets.
   (a) Angel investors
   (b) Government grants
   (c) Financial bootstrapping
   (d) Business incubator

7. What is a source of capital in which only friends and family provide money to entrepreneurs?
   (a) Financial bootstrapping
   (b) Love money
   (c) Grants
   (d) Venture capital

8. What a method of raising capital by an entrepreneur in which individuals and organisations provide capital through a platform they have established?
   (a) Angel investor
   (b) Financial bootstrapping
   (c) Venture capitalist
   (d) Crowdfunding

9. Which one is the type of innovation?
   (a) Incremental innovation
   (b) Disruptive innovation
   (c) Radical innovation
   (d) All of the above

10. Which of the following is not a form of innovation?
   (a) Product
   (b) Process
   (c) Incremental
   (d) Material

11. Match each explanation in group "A" with the corresponding response in group "B"

Group A	Group B
(i) The process of adding value to the existing product.	A. Angel investor
(ii) When entrepreneur contribute financial capital to a business enterprise by using personal assets.	B. Innovation
(iii) Creating brand-new product.	C. Listening to customer needs, likes and dislikes
(iv) A method of identifying business opportunities.	D. Invention
(v) A source of financial capital from wealthy individuals usually in exchange for business ownership.	E. Product or process
(vi) The way of raising money for business enterprises from private equity investor who provides capital to companies with high growth potentials in exchange of equity.	F. Venture capital
(vii) An example of product innovation.	G. New package style for a product
(viii) Types of innovation.	H. Continuous and discontinuous
(ix) Forms of innovation.	I. Crowdfunding
(x) Individuals and organisations who provide money for enterprises through a platform established by entrepreneurs.	J. Financial bootstrapping
	K. Patent right
	L. Services
	M. Entrepreneur
	N. Capital

12. Innovation implies making a significant change or improvement on existing product. thus, innovation in all senses is broad and has engulfed a number of activities. Stipulate on the different type of innovation that may take place in the business environment.

Glossary

Agency	business or organisation providing a particular service on behalf of another business, person, or group
Auction	the process by which goods are sold to the highest bidder in a public competition
Bitcoin	type of digital currency, that can be sent from user to user without the need for intermediaries or a central bank
Brand value	the monetary value of the business enterprise or company or brand which signifies the attentiveness of customers to products and the business enterprise or company
Bureaucracy	the complicated procedures in an organisation
Business environment	sum total of all external and internal factors that influence a business
Cash discount	a discount which is allowed to stimulate prompt payment of the goods purchased
Chinese whisper	an activity in which a teacher forms a group of students then, writes a sentence and let the first student in a group read it. The first student is required to whisper the sentence to the next one until the last student has to say it loud to everyone in a class.
Collateral	any property or asset that is given by a borrower to a lender in order to secure a loan. It may be seized by a lender in case the borrowers fail to fulfil their obligation of repaying the loan.
Customs authority	refers to the government agency which is charged with the responsibility of controlling imported and exported goods
Customs clearance	an official permission granted for goods to be exported or imported after fulfilling the laid down procedures and formalities
Creativity	creation of novel and valuable ideas by individual(s) intended to solve problems

Economies of scale a phenomena where a business increases the amount of profit earned through cost reduction by increasing the volume of product produced

Effective communication the process of exchanging ideas, thoughts, opinions, knowledge, and data so that the message is received and understood with clarity and purpose

Efficient communication the ability to deliver a clear message in the shortest amount of time

E&OE means Error and Omission Expected

Firm any legal business undertaking which produces or supplies products to generate profit

Fixed cost refers to the cost which remains unchanged in a short run when there is an increase or decrease in the quantity of products produced by a company. It must be incurred regardless of the quantity produced.

Inflation the rate of increase in prices over a given period of time

Infant industries new or young industries which are at early stages of development and may, thus, not compete with the well-established ones

Innovation ecosystem an interconnected network of companies and other entities that involve capabilities around a shared set of technologies, knowledge or skills, and work cooperatively and competitively to develop new products

Intrinsic value means that the item would have value even if it were not used as money

Monetary policy a set of actions to control a nation's overall money supply and achieve economic growth

Organisation structure a system used to define a hierarchy of an organisation. It identifies each job, its function and where it reports within the organisation.

Preferential treatment	an advantage granted by a state to another state or groups of states without a condition of reciprocity
Pitch	business idea or proposal presented to a group of stakeholders such as potential or existing customers, investors for different purposes
Ports	the terminal where ships load or unload cargo and passengers
Port of destination	the port where goods are delivered. It is also a port of unloading or discharge
Product	refers to anything of value produced by a company for satisfaction of human needs and wants. Products can be goods or services or ideas or persons or places
Product differentiation	a process of introducing unique features in a product to distinguish it from other similar products offered by competing companies
Swastika	an ancient religious and cultural figure with an equilateral cross with both arms bent at right angles facing clockwise
Trade discount	a discount offered by a trader to a buyer to encourage the buyer to purchase large quantity of goods and early repayment
Variable cost	refers to the cost which changes when there is an increase or decrease in quantity produced by the company

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