THE CONTRIBUTION OF FINANCIAL INSTITUTION IN INDUSTRIALIZATION,
A CASE STUDY OF DAR ES SALAAM REGION-TANZANIA

BY
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A DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS STUDIES IN
PARTIAL FULFLMENT OF A MASTERS OF SCIENCE IN ACCOUNTING AND
FINANCE PROVIDED BY MZUMBE UNIVERSITY
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A dissertation submitted to the faculty of business studies in partial Fulfillment of a Masters of science in accounting and finance provided by Mzumbe University

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CERTIFICATION

The undersigned certifies that he has read and hereby recommend for acceptance by Mzumbe University a dissertation entitled “The role of financial institutions in industrial development in Tanzania” A Case study of Dar es salaam Region in partial fulfillment of the requirement for the award of a Master’s of Science Degree in Accounting and Finance offered by Mzumbe University.
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DECLARATION

I, Geoffrey Mwakabejela declare that this dissertation is my own original work and that it has not been submitted for a similar Master’s Degree award in any other higher learning institution.

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Signature

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Date
DEDICATION

This research study is dedicated to many that trained and develop me along the way, including:

My Wife Faraja Sikana and My Kids; Colin, Gladys and Eliezer
ACKNOWLEDGEMENT

It is my pleasure to thank Almighty God for giving me strengths and health throughout collecting data and writing this research. Also, I feel deeply indebted to many people who have contributed to the accomplishment of this research.

My gratitude goes to my supervisor for his positive criticism and support. He inspired me greatly to work hardly so as to produce quality research. But also, his willingness to help and motivate contributed tremendously to the finishing of this research.

I mostly recognize the immeasurable effort made by my family for always giving not only financial support but also the emotional and spiritual support during conducting this research. Much appreciation goes to my family for inspiration and care in every trial that came on my way. Also, to my colleagues who willingly helped me gather the necessary data and information needed for this research compilation.
ABSTRACT

This study was premised on the quest to gain meaningful understanding on the contribution of financial institutions in industrialization and was directed by four specific objectives namely: to assess financial based problems facing industrial development, to identify the sources of financing industrial development, to evaluate the impact of bank loans on industrial development and to develop strategies that can improve access to financing of industrial development in Tanzania.

The study conducted by relying on primary and secondary data whereby data collections tools like; interview guide, questionnaires, and documentary review were used.

The study sited some industrial development financing channels like; Specialist Banks such As Women Banks, Agriculture Banks, Investment Banks, Pension Funds, Equity Fund i.e. Umoja Trust Funds, Capital Markets (DSE) with a special SME window, Self-Financing (Savings), repayment of installments by current borrowers, However, the study also noted obstructing factors that hinder access to finance such as low national financial savings, Lack of Long term funding options, Poor loan repayment culture, Low levels of financial literacy, public confidence in the financial system, Inadequate Legal and Regulatory Frameworks; Structure and Court inefficiency in handling business related cases; need fairness and speedy decision making especially on credit related cases as defaulters tends to find a rescue at the court and takes advantage of the delays, unpredictable taxes and multiple fees and levies; Challenges due to outdated /biased labor laws and multiple fees payable to multiple Government institutions offering the same services example OSHA and Fire. The study also found that poor loan repayment culture possesses a major challenged towards financing industrial development in Tanzania as it creates good sum of non-performing loans.

The study recommends that: savers be given fiscal incentives, decrease of withholding tax on interest income, Pushing financial inclusion by enabling reliable, cost effective financial infrastructure including networks and electronic payment systems; establishment of National Payment Switch to achieve total interoperability, thus reduce transaction costs, Taking actions to enhance confidence of public in the financial system, sustaining the financial transactions confidentiality while respecting the role of the sector to the economy and its sensitive nature, there is need to strengthen the Private Sector, borrowers should have a good culture of loan repayment and there is a need for lenders to develop innovative products/services.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AD</td>
<td>Arusha Declaration</td>
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<td>BOT</td>
<td>Bank of Tanzania</td>
</tr>
<tr>
<td>CRDB</td>
<td>Co-operative and Rural Development Bank</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>ERP</td>
<td>Economic Recovery Programme</td>
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<td>FFYP</td>
<td>First Five Years Plan</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FYDP</td>
<td>Five years Development plan</td>
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<td>GDP</td>
<td>Gross domestic Production</td>
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<td>IIDS</td>
<td>Integrated Industrial Development Strategy</td>
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<td>NMB</td>
<td>National Microfinance Bank.</td>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<tr>
<td>SIDP</td>
<td>Sustainable Industrial Development Policy</td>
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<td>SIDO</td>
<td>Small Industries Development Organization</td>
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<td>SFYP</td>
<td>Second five Year plan</td>
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<tr>
<td>TIRDO</td>
<td>Tanzania Industrial Research Development Organization</td>
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<tr>
<td>WTO</td>
<td>World trade Organisation</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

CERTIFICATION ............................................................................................................ ii  
COPYRIGHT .................................................................................................................... iii  
DECLARATION ................................................................................................................. iv  
ACKNOWLEDGEMENT .................................................................................................... vi  
ABSTRACT ....................................................................................................................... vii  
ABREVIATION .................................................................................................................. viii  
LIST OF TABLES ............................................................................................................... 4  
LIST OF FIGURES ........................................................................................................... 5  
CHAPTER ONE ............................................................................................................... 6  
1. PROBLEM SETTING ................................................................................................... 6  
1.1 Introduction .............................................................................................................. 6  
1.2 Background of the study ........................................................................................... 6  
1.3 Statement of the Problem ......................................................................................... 9  
1.4 Objectives of the Study ............................................................................................ 9  
1.4.1 Main Objectives .................................................................................................... 9  
1.4.2 Specific Objectives ............................................................................................... 9  
1.4.3 Research Questions .............................................................................................. 9  
1.5 Significance of the Study ......................................................................................... 9  
1.6 Scope and Limitation ............................................................................................... 10  
CHAPTER TWO ............................................................................................................ 11  
2. LITERATURE REVIEW ............................................................................................. 11  
2.1 Overview .................................................................................................................. 11  
2.2 Definitions of Key Terms and Concepts ................................................................... 11  
2.3 Opportunities for establishment of industries in Tanzania ........................................ 11  
2.3.1 Market and Market outlets .................................................................................. 12  
2.3.2 Labour availability .............................................................................................. 12  
2.3.3 Endowments of natural resources ....................................................................... 13  
2.3.4 Geographic location ........................................................................................... 14  
2.3.5 Financial Services .............................................................................................. 14  
2.3.6 Peace and Security ............................................................................................ 14  
2.4 Industrial Development in Tanzania ....................................................................... 14  
2.4.1 Industrial development 1961-1985 .................................................................... 15  
2.4.2 Industrial development under structural adjustment, 1986-1995 ....................... 16  
2.4.3 The return to industrial development as a development agenda 1995-2011 ........ 17  

1
4.13 Impacts of Bank Loans on Industrial Development in Tanzania: ........................................47
4.14 Strategies needed to be adopted to enable access to financing industrial development…..52
CHAPTER FIVE ...........................................................................................................................................54
SUMMARY, CONCLUSION AND RECOMMENDATIONS .................................................................54
5.1 Introduction........................................................................................................................................54
5.2 Summary ..........................................................................................................................................54
5.3 Conclusion .......................................................................................................................................56
5.4 Recommendations ..........................................................................................................................58
5.4.1 Owners of Industries ....................................................................................................................58
5.4.2 Financial institution .....................................................................................................................58
5.4.3 To the Public ...............................................................................................................................59
5.4.4 Government ...............................................................................................................................59
5.5 Areas for Further Research ............................................................................................................60
REFERENCES: ......................................................................................................................................61
LIST OF TABLES

Table 4.1  Respondents’ locations.................................................................36
Table 4.2  Respondent’s year of business establishment..................................37
Table 4.3  Respondent’s form of business ownership........................................38
Table 4.4  Distribution of respondents by Gender.............................................38
Table 4.5  Respondent’s marital status.............................................................39
Table 4.6  Respondent’s age ............................................................................39
Table 4.7  Education level of respondents..........................................................40
Table 4.8  Major economic activities carried out by industries.........................42
Table 4.9  Business owners loan size.................................................................44
Table 4.10  Non-Performing loans by sector.....................................................48
Table 4.11  Share of outstanding credit extended by bank in various sectors, June 2018..51
LIST OF FIGURES

Figure 4.1 NMB Bank loans and advances status 2014 to 2018……………………………………49

Figure 4.2 CRDB Bank loans, advances and overdraft 2014 to 2018………………………………50
CHAPTER ONE

1. PROBLEM SETTING

1.1 Introduction

The chapter holds the background of the study, the statement of the problem, main and specific objectives and research questions, significance of the study, scope and limitations of the study.

1.2 Background of the study

Financial institutions have historically played a substantial contribution not only in driving economic growth and development but also boosting capitalization of various stakeholders in the economic dispensations. More so, the role of the financial institution is now even more reflective as the economy moves forward towards new era of economic restructuring that is an era of hastened industrialization and high private initiative. Worldwide in 1990s approaches was to focus on industrialization as a strategy of growth and development. By the early 1990s spells the need to strength industrial sector through development of a strong manufacturing base.

In Tanzania industrial development has been the focuses of all the governments from the time of independence till now with various market structures raining from state run monopolies to current mixed economy whereby the private and public sector work in partnerships and there is mounting appetite for the current government of president John Pombe Magufuli to prioritize industrialization as a drive to push the country into middle income economy (Wangwe, 2016).

Industrialization refers to the development of industries in a country at wider scale. It is the process of undertaking economic activities using measures that can promote effectiveness and efficiency. Industrialization deals with changing the production method from hand-work to work done by machines using modern technology and in industrial organization; from work at home to work in industries or factories.

Industrialization is taking place in order to foster the processes of enhancing productivity in social and economic activities. Similarly, the process is influenced by wide number of factors including fast increase in cost of implementing industrialization operations, emerging technological innovation and raise in literacy level among others. Nevertheless, industrialization process goes hand by hand with industrial financing. The concept of industrialization finance means: - Industrialization finance in General sense, where it includes cash and cash equivalents.
Industrialization finance in experts’ sense entails availing, firms or individuals with favorable financing facilities to enable them achieve industrialization objectives. According to Entrepreneurs sense, industrialization finance is concerned with cash. This is because every business transaction undertaken by industries involves direct or indirect cash.

The Academicians argue that, industrialization finance encompasses the acquisition and effective utilization of cash and cash equivalents or equipment to finance or foster operations aimed at industrialization. It is established that industrialization financing through financial institutions means the processes of identifying financial needs, determining financial institutions as sources of financing and procuring the needed financial resources from financial institutions – banks and non - banks. It also, entails allocating the procured financial resource in manner that can foster the process of reaching identified industrialization goal. In particular, the concept of industrialization financing through loan has drawn economic development stakeholders’ attention due to reasons such as:

It facilitates bridging financing actual and potential financing gap by investors in under practical industrialization. Help to synergize individual industry’s ability to practice industrialization in manner that foster competitiveness and promote effectiveness and efficiency. The general effects of industrialization is the attainment of fostered industry performance, create strategic opportunity for meeting industrialization needs at micro and macro levels, acts as a base for industrialization conflict resolution, and promotes sustainable relationship between industries, financial institutions and the government.

However, resources are scarce while needs are unlimited. In connection to that, the scarcity extends to the resources needed by stakeholders choosing to participate into industrialization processes. This situation compels the need for developing reliable sources of industrialization financing especially in developing countries. One option is enhancing stability of industrialization financing through loan with particular interest on creating enabling environment for SME’s loan.

Referring to experiential practices, Carrington & Edwards (1979) provide that financing industrialization investment through financial institutions boosted industrialization in France, Japan, West Germany United Kingdom and United State of America in 1970s.
The commitment of the Government of Tanzania has been expressed by prioritizing industrialization at the top of the agenda as evidenced in FYDPII under the theme “Nurturing Industrialization for Economic Transformation and Human Development “since industrialization has been the engine of economic growth.

The current Government addresses the issue of industrialization in Tanzania by making it a priority and introducing a goal that ‘by 2025 Tanzania will be a semi-industrialized economy’ – Tanzania ya viwanda: which is continuously backed up by his well-known slogan “Hapa Kazi Tu”, hence this study attempts to focus specially on evaluating the contributions of financial institutions in industrialization and arose with the suggest strategies for improving access to financing industrial growth in Tanzania.

1.3. Statement of the Problem
The industrialization is facing a multiplicity of impediments that hinder attainment of its full potential. The financing of investment and industrialization poses a critical challenge. In Tanzania, problems associated with financing include, domestic savings falling short of the levels needed to finance an industrial revolution and intermediation systems failing to translate the savings into profitable investment and poor infrastructure facilities. (Negatu 2014).

Lack of financing for acquisition of capital goods is another constraint that hampering industrial development. In some of industries plant and machinery are obsolete hence substantial amount of capital assets is required particularly for investment of heavy industries. For small scale enterprises and light industrialization, the need for credit arises for start-ups, working capital to cater for operating costs as well as expansion of investment.

There are a number of financial institutions which can potentially lend to the sector with proper strategies and incentives in place. For instance, as of now in Tanzania at least 40 banks are in operation. Banks can act as catalyst by supporting the industrialization agenda towards a new Tanzania. A strong and stable banking sector, fuels the economic development. It is from these facts that, the study intended to determine the contribution that made by financial institutions in industrialization process in Tanzania particularly Dar es Salaam.
1.4 **Objectives of the Study**

In this section, researcher has jotted down the main objective and the specific objectives which helped in the process of data collection.

1.4.1 **Main Objectives**

The main objective of the study is “to assess the contribution of financial institutions towards industrialization in Tanzania”.

1.4.2 **Specific Objectives**

The following are the specific objectives of the study:-

i. To assess financial based problems facing industrial development in Tanzania

ii. To identify the sources of financing industrial development in Tanzania.

iii. To evaluate the impact of bank loans on industrial development in Tanzania.

iv. To develop strategies that can improve access to financing of industrial development in Tanzania.

1.4.3 **Research Questions**

From the specific objectives derived the research questions of this study;

i. What are the impacts of bank loans on industrial development in Tanzania?

ii. What are the possible sources of financing industrial development in Tanzania?

iii. What is the financing-based problems facing industrial development in Tanzania?

iv. What strategies required to be adopted to enable access to financing industrial development in Tanzania?

1.5 **Significance of the Study**

The main importance of the study is for the fulfillment of the requirements for the reward of Masters of Science Degree in Accounting and Finance offered by Mzumbe University. Nevertheless, due to the direction of the world’s economy through the development of the manufacturing sector, the aim of the study is to understand the level at which The United Republic of Tanzania has reached in the case for industrial development and where it heads. Notwithstanding, the study also aim at determining the level at which financial institutions influence the industrial development in Tanzania, a move to reach a semi industrialized economy by 2025 and hence as a strategy for alleviation of poverty and the pursuit of economic growth.
1.6 Scope and Limitation
The study focuses on determining and understanding the contribution played by financial institutions towards industrialization in Tanzania, specifically in Dar es Salaam Region whereby Ilala and Temeke districts were the case study areas and was selected because they have reasonable number of small and medium industries, banks and other financial institutions. Furthermore, contextually, the study assessed financial based problems facing industrial development, the sources of financing industrial development, the impact of bank loans on industrial development and the strategies that can improve access to financing of industrial development in Tanzania.
CHAPTER TWO

2. LITERATURE REVIEW

2.1 Overview

This section presents the conceptual definitions of key terms and concepts of industrialization and financial institutions. Stages of industrial development in Tanzania and literature review on the growth and contribution of financial institutions towards the achievement of industrial development as well as the various empirical studies and conceptual framework.

2.2 Definitions of Key Terms and Concepts

2.2.1 Industrialization

Simandan (2009) argues that industrialization refers to the way of using innovative approaches to add value with a quest to produce valued added items. Industrialization involves turning raw materials through numerous processes into finished good with high value.

According to Sheffrin (2003); Industrialization helps to transform societies from agrarian to manufacturing modern society of creating high value goods turned out of raw materials. Individual manual labor entailed the use of hard labor tools or hands to produce but today with increased industrialization there is increased mechanization whereby work has been made simple by advent of machines which has not only increased output but also solved societal problems.

2.2.2 Financial Institutions

Financial Institution is defined as an establishment that conducts financial transaction such as investments, loans and deposit. According to (Saunders, 1994) financial institutions are entities involved in the provision of monetary services such as money transfers, bonds, stocks, loans, and underwriting or claims payments among others. Examples include: banks, microfinance institutions, Savings and Cooperatives organizations, insurance firms and stock exchanges among others.

2.3 Opportunities for establishment of industries in Tanzania.

The Government of Tanzania spearheads industrialization through various initiatives and is inscribed in the Sustainable Industrial Development Policy (SIDP) aimed at becoming a semi-industrialized country by 2025 and the manufacturing sector contributing to at least 40 percent
of the GDP by 2025 (TanzaniaInvest.com). This bold government move has created numerous opportunities in the industrialization sector and therefore, it is inferred that Tanzania has massive potential opportunities for establishment of manufacturing industries for both light and heavy ones. Such colossal potential opportunities include the following:

### 2.3.1 Market and market outlets
Tanzania heavily relies on importation of manufactured goods from China which in itself might not be well positioned and competitive to export manufactured goods to Asian and European markets, but there is ever-growing of domestic and regional markets (Lapperre, 2001). It is estimated that the population growth rate of Tanzania stands at a remarkable of 3.1% with 51 million people. This creates a reliable market for manufactured products. The regional markets comprising of EAC (6 member states), SADC (15 member states) and COMESA (19 member states) offer another outlet for manufactured products (Combined the population stands at more than 400 mil. people).

Rapid urbanization brings about another market opportunity (Gaillard & Beernink, 2001). There is now an increasing recognition of its potential to drive industrialization as more people get into urban centers and by 2035 African urban population is projected to reach 49%. However, the challenge is that the increased demand for manufactured goods is largely been bridged by reliance on imports rather than developing domestic industrial hubs or entities.

### 2.3.2 Labour availability
Tanzania like many other developing countries has abundant human resources and therefore production is labour intensive rather than capital intensive and the liberation of markets should have a tendency to shift production from capital-intensive import substitutes towards labour-intensive exportable thus controlling domestic inequality arising out of the increased demand for labour. Moreover, the cost of labour is low particularly for light manufacturing such as agro-processing (edible oils, textiles and garments, leather). In most all developing countries, population is young. This increases the demand for manufactured goods and increases availability of labour. It is evident that young population is economically positive and creates a phenomenon called “demographic dividend”. It is ascribed to economic change of countries when they are able to exploit their youth boom. In Tanzania, it is anticipated that around 44
percent of the populaces are under-15 year of age and the labor force is escalating at around 2.3 percent per annum and in 2014 there were 25.8 million peoples in the working age group. Of these, 87 percent are economically active (Ministry of industry and Trade, 2011)

2.3.3 Endowments of natural resources
The country is blessed with large water bodies with numerous rivers and three of Africa's Great Lakes which are partly within Tanzania (Victoria, Tanganyika and Nyasa). To the east there is Indian Ocean with more 800 km cost line. Water is a great input in processing industries, irrigation for crop production, fishing and fish processing industries.

With suitable Tropical climate and fertile agricultural land one can grow a variety of crops and it is noted that Tanzania is agriculture-based economy with 75% of the people involved in agriculture (URT, 2015). Agro-industries for processing farm produce from smallholders could have great positive spill-over effects on other ancillary industries. This can potentially increase the contribution of smallholder farming, and agriculture in general, to the country’s growth and development. It is important to note that processing industries have relatively low requirement of capital investment.

In semi-arid parts of livestock keeping is major economic activity. Tanzania has the 3rd largest livestock population in Africa (after Ethiopia, 31 million and Sudan 30 million); entailing 25 million cattle, 98% of which are indigenous breeds, complemented by 16.7 million goats, 8 million sheep, 2.4 million pigs, and 36 million chickens (URT, 2013). This brings about an opportunity for processing animal products-meat, milk and hides and skins. Another important endowment comes from the discovery of abundant natural gas, more so, available wildlife for tourism and abundant minerals of various types provides resilient and diversified economy as envisioned in TDV 2025.

2.3.4 Geographic location
Tanzania is strategically located as a bridge of the southern Africa and east African sub regions and therefore is pivoted as an entry point for several countries hence attracting regional blocks such as EAC, SADC and COMESA markets. The Indian ocean offers strategic advantage to many of the landlocked countries neighboring Tanzania who often transport their goods via Tanzania ports and the volume of goods movements is expected to increased especially given
the fact that it is projected that about 60 percent of aggregate global trade by the year 2050, all commodities including energy and minerals will be shipped through the Indian Ocean, thus an opportunity for Tanzania to take full advantage.

2.3.5 Financial services
There are a number of financial institutions which can potentially lend to the sector with proper strategies and incentives in place. For instance, there are more than 40 banks operating in Tanzania with favorable discount central bank rate of currently 9% which was previously high at 16% (BoT, 1994).

2.3.6 Peace and security
Tanzania unlike her neighbors like Kenya, Uganda, Rwanda, Burundi and DRC among others has enjoyed abundant peace and security since independence with governments changing hands only 5 times. The peaceful transfer of governments is an indicator of deeply rooted system of tolerance and unity among the people as instilled by the founding father Mwalimu Julius Nyerere.

2.4 Industrial Development in Tanzania
Tanzania’s industrial sector has substantial grown over the last 57 years of being independent from heavy reliance of labour intensive industrial technique of using hands and simple implements to adoption of mechanized technology to produce goods and services. Today the country boosts of more industries than ever before and the number is increasing every year as government steps up industrialization drive programmes throughout the country.

The government has initiated various policies and incentives aimed at shifting from primary production to secondary and tertiary production for example at the time of independence there were 200 manufacturing industries which employed 200,000 people out of 9 million people which could meet just about 1 percent of families and the industrial sector contributed about 4 percent of GDP. productive factories in drinks, agro-processing, and consumable such as Coca-Cola, east African breweries, Tanganyika packers, British American tobacco, metal box, Bata shoes, and even smaller companies, which existed at that time of independence, were under foreign ownership (Wangwe, 1986).
2.4.1 Industrial development 1961-1985

In early 1960s, the national economic drive was to boost growth or production of good and services to match the rising population needs and little effort was put on real development, however, there were efforts to attract more Foreign Direct Investment (FDI) as spelt out in the foreign investment protection act of 1963 but unfortunately it did not bear tangible fruits, thus resulting into the Arusha declaration (AD) which in 1967 gave rise to socialism and self-reliance.

Industrial development in Tanzania was based on the introduction of the three year development plan (YTP) for 1964-1969 which focused on promoting growth through increasing investment in high return areas and a relatively low degree of regulatory control was exercised to promote private domestic and international investment in the economy. More so, tax incentives were provided and existing investment opportunities published in a bid to expand pool of capital flows and eventually the programme turned out successful in promoting basic consumer goods processing industries through the incentives outlined as well as providing a public injection of funds from the government through the Tanganyika development corporation and therefore this period saw the first active state promotion of the Strategic Information System (SIS) strategy (Rweyemamu 1973).

Furthermore, the first five year plan (FFYP) succeeded the YTP in 1964 and fronted strategic roadmap for shaping the industrialization of Tanzania for the subsequent five years. The FFYP promoted the manufacturing sector as it promoted high output production of goods and this drives also led to the identification of bottlenecks such as: market size and availability of capital in the industrial sector. In addition, East African Common Market Protocol clauses were amended giving more independence on trade policy and regulations and as a result the government set industrial conditions and policies in line with national specific interests and in doing so, weak industries were protected from the multinational cooperation (Rweyemamu 1973).

The AD saw greater government control on the economy in terms of setting policies and guidelines which drove the industrial sector (Maliyamkono, 1990). This subsequently gave rise to the price control act 1973 which curbed monopoly entities who wanted to manipulate prices of goods and services (Mongi, 1980).
The foreign exchange markets were firmly in the hands of the central government, however, there still remained challenge of a insufficient foreign earnings from trade in goods and services this led to a shortage of currency (Lipumba, 1991), a feature symptomatic no Tanzanian economic woes of the era.

2.4.2 Industrial development under structural adjustment, 1986-1995

In 1987, the government of Tanzania brought in the Economic Recovery Programme (ERP) which was aimed at reviving the economy and partially liberalize the economy from wholly state owned monopolistic settings to allowing private stakeholders and ownership. Its main objective was to restore the economy to the right path and fill up the gaps in economic growth and development in the various sectors. This led to setting up of incentives by government towards the private sector so as to lure them to invest in certain sectors however government retained full control of certain sensitive sectors.

To some extent ERP restored economic stability and accelerating structural reforms in order to create a sustainable position of the country balance of payments correcting budget deficits cutting down inflation reforming the microeconomic framework of policies and increasing incentives eventually led to the birth of TRIDO which was tasked with providing consultancies and technology on utilization of local resources.

By the 1990s the ERP was replaced by the Economic and Social Action Programme (ESAP) which focused on increasing private investments and incentives to the private sector such as tax holiday for new firms that would invest in particular sectors. It was, however, noted that the ESAP failed to better the country’s Balance of Payment Problem as most merchandise was still imported with very little exports. Worse still there was still high unemployment and a drop in the level of GDP by 6% and industries like textiles performed poorly yet government had a high grip on the economy (RPED 1994). Macroeconomic reforms, privatization, and trade liberation led to de-industrialization.
2.4.3 The return to industrial development as a development agenda 1995-2011

Tanzania spearheaded the Sustainable Industrial Development Policy (SIDP 2020) in 1996 so as to boost the industrial sector and enhance sustainable industrial development so as to create employment opportunities. This led to increased acceptance of the private sector role in industrialization and government concentrating on providing a favorable environment for investment to private sector players. The Phase 1 stage of the programme which ran from 1996 to 2000 to some extent rehabilitated and consolidated existing industrial capacities, hence created competitive advantage as more efficient technology was used in industries. The second phase of 200 to 2010 was a medium term approach which created better capacities and opportunities for industries and the 3rd phase of 2010 to 2020 focuses on production of intermediate goods and light capital and is for long term purposes. This in essence consolidates the economy and will take the country into greater economic prosperity.

The industrial advent in Tanzania is characterized by a multiplicity of fragmented but related industries which arose out of market externalities shocks and it undermines the real structural change and the need to not only upgrading but also diversifying the industrial base (Lin, 2011). Furthermore, the governments of Tanzania adopted an Integrated Industrial Development Strategy (IIDS) 2025 in 2010 with the aim of catalyzing the achievement of SIDP and bring the whole economy into sustainable growth and development. It is also aimed at building competitiveness and better infrastructure facilities, thus, a gateway port improvement for the region and the promotion of Economic Development Zones for growth and infrastructure development.

2.4.4 Kilimo Kwanza and Industrialization

It is evident that enhancement of agricultural productivity provided the ignition for the economic advancement in all economic areas save for a few countries like Singapore and Hong Kong. Agriculture employs nearly 75% of Tanzanians and therefore its underdevelopment prevents economic growth and development and subsequently low agro production results into under industrialization. The high cost of living for urban residents pushes employers to carry high labor costs. Farmers hardly endure their lives through their poor yield and cannot provide the markets or work force for industries. The weak agro-processing industrial sub-sector does
not offer the market and inspiration for farmers to invest in improved farming (Ministry of Industry and Trade, 2011). The advent of Kilimo Kwanza as a national resolution and strategy. The environment of investment for initiating positive industrialization policies had ripened. Considering this opportunity, IIDS 2025 suggests an aggressive industrial investment program to make challenging industrial bases in Tanzania to follow the mandate given to the sector by VISION 2025.

2.5 Theoretical review of the study

2.5.1 Pecking Order Theory (POH) and Static trade off Theory (STT)

The static trade-off theory and Pecking order theory are both financial principles that help a company to choose its capital structure. Myers and Majluf (1984), established the theory (POH) which posed that the cost of financing rises with asymmetric information. Financing originates from three sources, internal funds, debt and new equity hence the firm chooses can act as signal of its need for external finance. It further clarifies that a company chooses how much debt finance and equity finance to use through balancing the costs and benefits. This is conducted in view of balancing between the dead-weight costs of bankruptcy and the tax saving benefits of debt.

The static trade-off theory (STT) of capital structure founded by Kraus and Litzenberger (1973) is the most popular model among other theories and it provides the impression that the company selects the extent at which the debt finance and equity finance to use by balancing the costs. The significant of the theory is to clarify the fact that the corporations usually are financed by partly with debt and partly with equity. Despite the energetic of static theory and its sensitivity to be a research area for academics and practicing managers alike, its application for MSEs in particular is limited according to Gebru (2009).

Basing on these theories, financing preference were severely constrained at all stages of the MSE’s life. Therefore, policy choice should consider to support further growth in established and mature enterprises and remove constraints that are faced by start-up and newly established firms in accessing finance particularly from mainstream formal finance. The problem of accessing finance is more binding on the latter firms which should be improved by creating an integrated rural financial system that is more responsive to the varying financing needs of MSEs at all stages, with this future studies should focus on the relationship between the various
financing preferences, as well as strategies for creating linkage either directly or otherwise, between the continuums of financing choices ranging from formal to the bootstrap finances.

2.5.2 Economic Theory

This theory to economist means commercial activities such as production, distribution and consumption of goods and services. The theory attempts to provide theoretical setup of linking relationship between urbanization, industrialization, institutional quality and financial advancement in any developing economy. It is evident that industrialization is a catalyst for financial growth of an economy in the sense that expansion of industrialization induces immigration of labor in the process of production. Hence, growing of production process of the new developing economy requires supplementary financial resources to fund prevailing business in the form of procuring raw materials and compensating wages to labor because both capital and labour are being applied as potential inputs in the enlargement of industrial activities.

Furthermore, the advancement of financial system is absolutely correlated with the industrialization process of the economy and urbanization may definitely affect economic growth and financial changes in an economy. An increase in urbanization in the pursuit for job and living occasions requires some support of finances from formal sectors like bank and informal institution like microfinance for the day to day subsistence of migrants.

Further indicates that despite of people to earn wages from their employment in industrial sectors, their wages are insufficient to sustain them beyond the subsistence level of consumption, and hence superior financial expansion is necessary for industrial labour in order to sustain their long term investments need in house and education sectors.

Nevertheless, Institution quality plays a very important role in enhancing the financial growth of the economy (law at all, 2015. in this regard, Mishkin, (2009), in a theory-based paper contends that institutional quality is likely to play a powerful role in nurturing the financial progress of the economy through globalization channel, further demonstrating that globalization is one of the sources of financial development for emerging economies. It can be seen that most of developing countries are found to be underprivileged in terms of not having sound established financial development. Mishkin, (2009) suggests that so as to have an advanced financial system, it is essential for developing countries to open the economies to the rest of the World.
This results in an enhancement in the quality of the domestic financial Institutions services and the upkeep of a strong financial setup (e.g. effective legal systems, less corruption, effective property rights, high degree of corporate governance and sound financial rules).

2.5.3 Big Push Theory

The big push theory is a notion in development economics or welfare economics that insists that a firm's options whether to industrialize or not is subject on its anticipation of what other firms will do. It assumes economies of scale and oligopolistic market structure and describes when industrialization would happen. The theory initiated by Paul Rosenstein-Rodan (1943). Later Murphy, Shleifer and Robert W. Vishny (1989) provided other contributions on the theory. Analysis of this study of economic model customarily comprises using game theory.

Rosenstein-Rodan contended that the entire industry which is proposed to be created should be treated and planned as a massive entity (a firm or trust). He supports this argument by clarifying that the social marginal product of an investment is continually different from its private marginal product, so when a group of industries are planned together according to their social marginal products, the rate of growth of the economy is greater than it would have otherwise been.

According to Rosenstein-Rodan (1943), there exist three indivisibilities in underdeveloped countries.. The indivisibilities are indivisibility in function, indivisibility of demand and indivisibility in the supply of savings. These indivisibilities are responsible for external economies and thus justify the need for a big push.

The theory has been criticized by Hla Myint (1962) and Celso Furtado(1964), among others, primarily on the grounds of the massive effort required to be taken by underdeveloped countries to move along the path of industrialization. Some of the major criticisms are as follows

Difficulties in execution and implementation: The execution of related projects during the course of industrialization may involve unexpected or unavoidable changes due to revisions of plans, delays and deviations from the planned process. Hla Myint (1962) notes that the various departments and agencies involved in the process of development need to coordinate closely and evaluate and revise plans continuously. This is a challenging task for the governments of developing countries.
Lack of absorptive capacity: The implementation of industrialization programmes may be constrained by ineffective disbursement, short-term bottlenecks, macroeconomic problems and volatility, loss of competitiveness and weakening of institutions. Credit is often utilized at low rates or after long time lags. There is often a loss of competitiveness due to the Dutch disease effect.

2.5.4 Prior Savings Theory (PST)
This theory developed by Bhole L.M, (2004) who regards saving as a prerequisite or determinant of investment and it holds all savings in the economy can find investment outlets. It stresses the need for appropriate monetary policy for promoting and mobilizing savings voluntarily for investment and growth. It is believed that since investment is an alternative to consumption, any investment which is not financed prior saving will generate and not real income or development. This theory does not subscribe to the view that inflation is needed for growth, it is averse to inflation and advocate control of inflation and suggests policies reasonable high positive real interest rates to encourage savings by public. PST Believes of Money in the growth process.

The financial systems have both the scale and structure effect on saving and investment. It increases the rate of growth of saving and investment and makes their composition, allocation and utilization more optimal and efficient. It activates saving or reduces idle saving. It reduces uncertified investment and the cost of transferring saving to investment.

2.5.5 Credit Creation Theory
According to Bhole (2004) Credit Creation theory proposes that the contribution of financial system to growth goes beyond increasing prior saving based investment. There are two stands of thoughts in this case. The first one Klecki and Schumpeter (1962) that the financial system plays a positive and catalyst role by providing finance or credit in anticipation of savings. Thus, to a certain extent ensures the independence of investment from saving in a given period of time. The investment financed through created credit generates the appropriate level of income which in turn leads to an amount of savings which are equal to the investment already undertaken. It is assumed that the investment out of created results in a prompt income generation otherwise there will be sustained inflation rather that sustained growth.
This theory is crucial to the study of the roles of financial institutions in promoting industrialization as financial credit foster development hence industrialization. The inputs obtained from this theory will help to understandings of the efficiency of financial organization into investments where directs the channelization of saving in the most desirable and productive formation to the economic development.

2.6 Empirical Literature Review:
2.6.1 Financial based problems facing industrial development efforts.

Richard, 2008 investigated on the roles of banks in the industrialization of the Czech Crownland- Austria. The study objectives were to examine relationships between banks and industry in the industrial heart of the Austro-Hungarian Monarchy, the Czech Crown land. The fundamental question which lied at the hearts of his study was that of the extent to which the banks actually did facilitate or hinder the process of industrialization in that area.

He examined further on the roles of banks as initiators of development (entrepreneurial and promotional role) and as lenders (their normal banking role) as the party of his study.

The findings of the study showed that there were long-term and short term credits available but more consideration was put to large producers (textiles industries) and the geographical extent of each firm’s operation was the great degree predetermined.

From his findings he concluded that the idea of the banks being the leaders of industrialization in Austria is not valid, the truth, rather appeared to have been that industrial development did not follow so much from investment by investment banks but was preceded by either private investment, often subsequent to an upturn in the neighboring German economy or an expansion of the government programs for rail road’s, constructions or armaments.

Again, he noted that the banks encouraged the formation of the monopolies, they may have further distorted the growth of potential of industry (small scale industries) for putting consideration to large scale industries.

This study gives insights of the rationale of the financial institutions in promoting industrialization by not only considering the larger investors but in order to foster the industrialization process then the financial institution should consider even the small scale
investors for the potential growth of industrialization and the Government role is to foster those financial institutions by making reliable policies and being fully involved in investment process.

Kimei, C. (2018), in his paper titled: the role of financial institutions in promoting industrialization in Tanzania; He pointed out that currently the key challenges impacting the industrial growth rate is the cost of accessing banking services, which, we believe once properly addressed will be a "game changer", also the paper includes other factors that are:- low national financial savings, Lack of Long term funding options; Poor loan repayment culture, Low levels of financial literacy, public confidence in the financial system, Inadequate Legal and Regulatory Frameworks, Structure and Court inefficiency in handling business related cases; need fairness and speedy decision making especially on credit related cases as defaulters tends to find a rescue at the court and takes advantage of the delays, unpredictable taxes and multiple fees and levies, Challenges due to outdated /biased labour laws and multiple fees payable to multiple Government institutions offering the same services example OSHA and Fire. He also finally argued that for banks to be able to finance industrialization they need to consider syndication and/or seek accommodation from international capital markets. (The Government should also be encouraged to borrow from external sources to avoid crowding out of the private sector).

From this study it implies that so as to foster industrialization there is a need for the Government to have adequate legal and regulatory frameworks in handling business cases, transparency and proper system of charging fees, taxes and levies, provision of good means of providing business education to small and large investors, create good environment and possibility of accessing loans required by investors which will enable to build public confidence in financial system.

2.6.2 Sources of financing industrial development
Banks are influential institutions in financing development. Since their establishment back in the 19th century, banks have played a leading role in supporting development in many countries. Before the financial liberalization process of the 1980s and 1990s, many governments created development banks with Donor or budgetary funds to catalyze development of ‘priority’ sectors by providing long term funding to key projects. However, these institutions failed to deliver their objectives in most countries due to government interference. As of today, commercial
banks have remained major players in financing development in most poor countries, although this poses a number of problems. Banks are ready to play their integral role in supporting the industrialization agenda towards a new Tanzania. We believe that a strong and stable banking sector, fuels the economic development (Kimei, 2018).

As per Demirguc-Kunt and Maksimovic (1998), from their sample of developed and underdeveloped countries taste they found that countries with developed financial and legal frame work systems nurture their firms are easily be exposed to external financing and firm expansion. They argued that adequate legal framework and financial system foster firms’ chances of acquiring external finance sources that eventually nurtures firm’s growth opportunities.

Despite of problems that are facing banks still play integral source of funds in industrial development however existence of developed financial and legal systems enhances the access of financing investors hence foster industrial growth.

### 2.6.3 Impact of loans on Industrial development.

The rational for financial institutions to the promotion of industrialization have been discussed by many scholars. According to Oscar et al, (1961) contributed that both economists and economic historians have shown increasing interest in the role of financial Institutions in the process of industrialization. The most question was the role of financial Institutions is that of the degree to which the banks, themselves have played a direct or motivating role of an industry. It was further noted that there are number of historical instances in which financial institution constituted leading sectors in development, these institutions were growth inducing through direct industrial promotion and finance.

Rajan and Zingales (1998), posits a causal relationship between finance and economic growth. According to this view, well developed capital markets especially those imbued with rights that protect investors promote the efficient allocation of funds to projects with high rates of return, in turn stimulating savings, investment, and economic growth. Evidence from both single country and cross country studies suggests that economies with more developed financial markets begin to grow earlier, attain higher growth rates, and achieve higher levels of per capita income than economies with less developed financial markets.
The development of deep and liquid debt and equity markets is often cited as a key institutional innovation that encouraged the efficient allocation of financial capital to investment projects and in turn stimulated high rates of economic growth in the United States (Rousseau and Sylla, 2005). Indeed, recent empirical scholarship relies on this fact and uses the United States as a benchmark to assess the development of financial systems in other countries (Raddatz, 2006).

It is clearly indicate that despite of challenges in accessing bank loan yet bank loans act as an engine or catalyst for financing industrial development/growth, through bank loans enable investors to have more capital which in turn promote the efficient allocation of funds to projects with high rates of return, in turn stimulating savings, investment, and economic growth. But existence of underdeveloped financial system may hinder the industrial growth due to failure of accessing external sources of funds therefore so as to access external funds for capital growth developed financial system should be adopted and maintained.

A study conducted by Claessens and Laeven (2005) find that more competition in banking markets raises the growth of industries that depend relatively heavily on external financing. Likewise, Demirguc-Kunt and Maksimovic (1998) contented that weak financial system and inadequacies market in terms of information asymmetry limit the firms to grow which also in turn limit the industrial to grow financially due to the fact that there is no room for acquiring external finance for investment expansion because of poor system and management of finances.

Masayuki (2006) investigated on the roles of tradition in Japan’s industrialization, a case study conducted at Japan. The objective of the study was to focus on the alternative to factory based industrialization. The study assessed the quantitative position of traditional or indigenous industries in the whole economy including the commercial and service sectors and the diverse process of industrialization.

Researcher further explores the role of early factories in Japanese industrialization dealt with the manufacture of products newly introduced from western country after the opening of treaty ports. Those goods include brushes, buttons, matches, knitting goods and soap. The findings showed that although the modern factories found to manufacture those goods played a significant role in the early stage of industrialization. Eventually went into declining in spite of
the development of industries. He further noted that the combination of modern technology and traditional skills formed another route to industrialization in modern Japan. The study argued that traditional or indigenous systems in small scale industry also played a significant role in the industrialization in Japan. He studied on micro level approaches to non-agriculture small or petty scale business and the results showed that it was small or petty scale business which engaged in the manufacture sundries after the breakdown of the early factories in that industry. The study also suggested that non-employed labor such as the employer or members of his family played a significant role in labor supply in small scale businesses even in the nonagricultural or urban sectors.

At the end of the study the following were revealed tradition industry which accounted for the largest number of gainful occupied works developed steadily in the modern era and continued to provide opportunities to those workers whom the modern industrial sectors could not absorb.

Of the various traditional industries, commerce and service industries had the largest number of gainful occupied workers. Those industries provided opportunities to the largest number of workers male and female. There was a decline in the number of manufacturing industrial workers who operated in extremely small scale workrooms that are not regarded as factories. On the other hand, there was an increase in number of manufacturing industrial workers who operated in factories employing five workers or fewer. Traditional manufacturing industries of this type continued to provide working opportunities especially for younger and female workers. The knowledge obtained from this study provides understanding of contribution of traditional or indigenous system in small scale enterprises play a significant role of industrialization process and through supporting indigenous system in small scale enterprises provides employment opportunities especially for younger and female.

Shi Cheng (2005), investigated the China’s rural industrialization policy focused on rural industrialization, characteristic and miracles. An objective of the study was to explore china’s economic development. The biggest characteristic of China’s economy is rural industrialization and the biggest miracles were also the rural industrialization. The concept of China’s rural industrialization demonstrate the china’s economy this is not only because China, by the end of 20th Century had the largest population in the World accounting to 69% of its total population
but also there was no other Country in the World with huge rural industry that holds approximately ½ share in the national industry output, plays a vital role in their economy.

He found that China’s economy was previously small and had little influence on the World economy. On the globalization wave China’s economy had a high speed growth and rapidly emerging into the World economic systems in which its rural industry is playing an important role. Its share of total exportation was about 43% in 2002 (CTVEY 2003).

He further noted that the influence of China in the World economy is realized mainly through its rural industry. The products of China rural industry are flooding almost every corner of the World. In many products such as textiles and clothing the rural industry holds a considerable share in the World market.

The Government of China played a role to foster rural industrialization through providing measures to centralize government finance by unifying Government finance, revenue and expenditure – no one could use the revenue without the ministry of finance’s permit. Unifying trade – all funds plans and commodity dispatch of local state owned trade companies would be unified and managed by minister of trade. Unifying national cash management – The people’s bank of China was assigned as general organization to manage the national cash dispatch and also the foreign exchange rate and foreign exchange dispatch.

The Government of China formed a goal of land reform whereby abolish feudalist exploitation of landlord ownership and establish land ownership under farmers in order to liberate rural productive forces, develop agricultural production and pave the way to new Chinas industrialization (land reform Law, 1950).

Also, the government of China established the state companies to control markets in order to unify national state owned trade for completing state imports and export plan.

For the purpose of improving rural industrialization, the Government of china established the state rural finance system where Peoples bank of China requested to establish state bank organization from top to bottom level in rural areas and business offices or work teams in markets or towns as well as organized rural credit corporative from bottom to top level, under the state bank leadership these organizations supplement and mutually assist each other to make a better rural finance to widely develop credit corporative organizations with valid forms in the
country side such as credit corporative, credit departments, credit terms and other owned Chinese credit organizations.

At the end of his study he concluded that the miracles of the Chinese rural industrialization strategy were a vast and fast mounting industry deriving together the rural and national economy and the developing of huge number of rural small towns and cities.

He found the dilemma of huge number of poor farmers and poor countryside with stagnant agriculture under high speed growth of GDP.

Stagnant capacity of rural industry to engage rural labour surplus since the late 1990s, Township and village Enterprises had decreased which showed that depending only on township and village enterprises would not solve the China’s rural labour surplus completely.

In order to abandon the china characteristics, the researcher recommended for abolishing taking state owned enterprises as mainstay to allow township village enterprise to compete with state ownership enterprises. Abolish taking collective economy as a mainstay to impel with township village enterprise privatization and abolish state monopoly for purchase and supply to open agricultural product market.

The contribution of this research to the proposed study is the significance role of the financial institution in the process of industrialization. They should consider the rural industrialization.

2.6.4 Strategies that can improve access in financing industrial development.
According to Demirguc-Kunt and Maksimovic (1998), argued that underdeveloped financial system amplifies the magnitude of market imperfections in terms of information asymmetry and transaction costs which prevent firms to grow. Furthermore, makes firm financially constrained, for which it is complex or too expensive to get external finance and forced to limit its investment options, and hence its growth.

Again Kuzilwa (2002), examined the role of credit in generating entrepreneurial activities. From the findings he revealed that the access of credit facilities tends to expand the enterprises business and he also observed the important of trainings to the owners and arguing that
enterprises whose owners received business training and advice their performance tend to be of better position than those who did not receive training.

Kimei (2018), in his paper presented during The Mwalimu Nyerere Memorial Academy Symposium, argued that there are however factors that can drive participation of financial institutions in promoting industrialization. He outlined those factors that will depend on availability of resources and decision to allocate them to any of the potential sectors, again will depend on viability/feasibility of projects in the sector, market size demand and supply of products/regional integration, competitiveness domestic and global (determined by domestic factor productivity and cost of doing business etc), internal rates of return relative to projects in other sectors, risk factors (events that may lead to deviations in projected cash flows, etc), fiscal incentives, reliable credit support arrangements (e.g. Guarantee schemes) to address credit risk premiums and achieve low lending rates, legal and regulatory framework: including reliable leasing & foreclosure framework, presence of investors (risk takers) with adequate equity - Case for PPP/ entrepreneurship and clear, stable and irreversible Government policy on the sector (the rights and responsibilities of investors in the sector).

Shi (2005), investigated on the part of the financial institution in the process of industrialization. In his study he noted that, the government should consider the rural industrialization due the fact that large number of populations is obtained from rural areas. He further noted that for the purpose of improving industrialization in rural areas, the Government of china established the state rural finance system where Peoples bank of China requested to create state bank organization from top to bottom level in rural and business offices or work teams in markets or towns as well as organized rural credit corporative from bottom to top level, under the state bank leadership these organizations supplement and mutually assist each other to make a better rural finance to widely develop credit corporative organizations with valid forms in the country side such as credit corporative, credit departments, credit terms and other owned Chinese credit organizations. At the end of his study he concluded that the miracles of the Chinese rural industrialization strategy were a massive and fast increasing of industry deriving to rural and national economy and the sprouting of great number of small rural towns and cities.
A research by Ranganadha and Paul (2008); contends that the Government of India established financial institution principally to deliver long-term capital for Industries & agriculture. These financial Institutions played as an important part in the growth of small scale industries and entrepreneurship. They have generally been set up statutorily by the government but some private sector participation in the ownership and functioning of some of them may also exist. Generally recognized as specialized institution, they also known as "Development Bank" or Term Lending Institution or "Special Development Financial Institution." In this framework Government of India (GOI) initiated a series of financial institution since independence to provide term finance to the industry such as; Unit Trust of India (UTI), National Industrial Development Corporation (NIDC) and National Small Industries Corporation (NSIC).

According to Demirguc-Kunt and Maksimovic (1998), argued that out 30 sampled developed and underdeveloped countries, the countries with industries which operating in the well-developed financial system and functioning legal framework systems their industries have a big opportunity for accessing external finances and their firm’s growth is certain.

The above study provided clear evidence that so as to have an access of financing in industrial development then there must be a developed and functioning financial and legal and regulatory system, there must be constructive business training programs and advices and the government should ensure that it facilitate the establishment of good banking infrastructure to the rural areas for the purpose of improving rural industrialization by considering that large number of population is obtained from rural areas. And the Government should also facilitate the establishment of financial institution mainly for provision of long term capital for industries and agriculture as one of the strategies of boosting industrial sector.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction.
This chapter discusses how the study was carried out. It comprises of the following sub sections, the research design, study area, sampling, study population, sample size, sampling techniques, data collection, types and source of data, data collection techniques, data validity and reliability and data analysis.

3.2 Research design
According to Yin (2003), a research design is the logical sequence that connects the empirical data of the study questions to its conclusions. He explained that a research design is a plan that guides the investigator in the process of gathering, analyzing and interpreting data. He contends on diverse types of research designs, namely surveys, experiments, archival, case study, cross sectional and longitudinal designs.

The choice of a certain design is subject to the type of research questions, researcher’s control over real behavioral events and magnitude of emphasis on contemporary events (Yin, 2013). It is a procedure of studying or collecting information within the organization. Under this research the case study design was selected by the way of focused on the part played by financial institutions in industrial development in Tanzania. A case study of Ilala and Temeke Districts in Dar es Salaam Region was designed to provide answers to research questions on the Financial Institutions contributions towards industrialization in Tanzania.

3.3 Area of the study
The study was completed in Dar es Salaam Tanzania whereby a population of business banks was chosen. Data of population recorded was an exact data which was desired to be gathered. As per Ngechu (2004), a population is an all-around communicated as an arrangement of individuals, administrations, components, occasions, collection of things or family units that are being surveyed. The research conducted involved bankers, industrial owners/entrepreneurs/loan beneficiaries and financial institutions that their industries are located in Dar es Salaam Region in Ilala and Temeke districts which were nominated because they have the highest concentration of industries.
3.4 Sample
Sampling is defined as process of choosing a number of objects or individuals from a population (Donald and Kombo, 2006). The researcher selected only few things from the consolidated things for the study purposes. A study grounded on a sample which is representative and it is generally better than one which based on a larger sample or on the whole population for there is no need of interviewing large number of individuals saying the same thing. For the purpose of this study the population sample comprised of 90 respondents who participate in the process of industrial development that included 30 bankers, 30 industrial owners and representatives from financial institutions were also 30. In this context sampling process enabled the investigator to capture required data at the least costs in terms of efforts, time and financial resources.

3.4.1 Sampling techniques
Sampling techniques helps to provide different approach in the collection of data that lead to obtain reliable information by pruning the amount of data one needs to collect by considering only data from a sub-group rather than all possible cases or elements (Saunders, 2011). Sampling techniques are techniques used in picking or selecting items or informants to be included in the sample such as probability sampling techniques.
The study used purposive sampling technique which referred as a nonrandom Sampling technique whereby a researcher solicits for sources or persons with specific features that are appropriate to the study whereby the respondents were purposively selected accordance to their relevance to the study.

3.4.2 Study population
Study population is referred as the study of group of individuals or objects that encounter specified necessities for membership in the overall group. It is also defined as the complete set of cases from which a sample is chosen (Saunders, 2011). The population for this study comprised of bankers, industrial owners/entrepreneurs and financial institutions.

3.4.3 Sample Size
Sample size: Is the number of information or items selected from the overall sample from a certain population such as teachers, students, peasant and fishing business people or police men.
The researcher used a sample of 90 persons across Dar es Salaam City in the districts of Ilala and Temeke. This eventually helped the researcher in getting accurate and relevant data through the basis of the used sampling technique. The study sample size was respondents that involved bankers, industrial owners/entrepreneurs/loan beneficiaries and financial institutions. The sample size is assumed due to time and budget constraints. The sample distribution is presented in tabular form under figure 1 below.

**Figure 1: Sample distribution in tabular form:**

<table>
<thead>
<tr>
<th>Description</th>
<th>District</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankers</td>
<td>Ilala</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Temeke</td>
<td>15</td>
</tr>
<tr>
<td>Industrial owners/entrepreneurs</td>
<td>Ilala</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Temeke</td>
<td>15</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>Ilala</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Temeke</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>90</strong></td>
</tr>
</tbody>
</table>

However, only 82 respondents were able to respond to research questions and interviews that included 49 respondents from Ilala district and 33 respondents from Temeke district. Purposive sampling technique was applied to select 82 representatives to embody the respondents.

### 3.5 Data Collection

Primary and secondary data were used by the researcher in collection of information for the required data of study. Primary data of the study are those data which directly obtained from primary sources such as physically visiting to the field and collecting data using tools like questionnaire and interview whereas secondary data are those data obtained from bank reports and other past written documents on the related topics.

#### 3.5.1 Data collection techniques

The study was depending on a multiplicity of data collection tools as expounded hereunder:

**(i) Documentary review**

Documentary review involves the applying of external sources and documents, which used to support the lookout or argument of an academic work. The documentary review process often encompasses some or all of conceptualizing, using and assessing documents (Kothari, 2005). The analysis of the documents in documentary research can either be quantitative or qualitative (or both). All researchers who review documents in their research should consider main matters within the types of documents and their ability to apply them as reliable sources of evidence on
the social world. This method involved reviewing all literature resources in reports, journals, textbooks, articles, newspapers and presentations among others. This tool is good because it gave accurate historical data on particular issues and more so it is easy to use.

   **ii) Questionnaire**

A questionnaire can be termed as a research tool that comprises with a list of questions aimed at collecting or gathering information from respondents. Kothari (2004), explained that questionnaire consists of a numerous of written questions prepared to be answered by the respondents on their own. Kahn (1986) commends questionnaires must be developed basing on specific objectives of the study. Under this study questionnaires have been structured in the form of Likert scale or summated scale. Dayandandan (2009), explains that a Likert scale is an itemized rating in which respondents’ choices ranging from ‘strongly agree’ to ‘strongly disagree’. In this research, questionnaires were managed to real estate managers. The questions were both open and closed ended and this tool selected because it collects detailed and accurate information.

   **iii) Interview Guide**

This method involves collection of data that includes the presentation of verbal stimuli and respond in term of oral- verbal response (Kothari, 2004). Interview is preferred in data collection process as it provides more shared data from a small number of people and is being useful to the researcher when requires an expert or knowledge opinion on a subject.

3.6   **Reliability and Validity**

Under this study Reliability and validity of information are termed as Legitimacy which provides the consistency and accuracy of a measure. Legitimacy is how much outcomes acquired from the examination of the information correctly speak to the phenomena under investigation. Kothari (2004) called attention to legitimacy measures the precision of the instruments in getting the foreseen information which can meet the goals of the investigation. In this examination the analyst utilized the test and retest system in which the pilot surveys were contrasted and the field polls and saw to suit the planned goals of the investigation. Likewise, the scientist guaranteed that outer wellspring of variety, for example, weariness; weakness was limited to the conceivable degree.
Kothari (2004) portrays the dependability of an instrument as the level of consistency with which a variable measure, how much an exploration apparatus produces reliable outcomes or information after rehashed tests. In this investigation, a pilot contemplate was led for 10 respondents that were excluded in the examination test. The information gathered in the pilot stage were tried for dependability utilizing the Cranach Alpha unwavering quality test and the instruments were considered adequately solid in the event that they delivered under 0.7 of the suggested esteem.

3.7 Data Analysis
This involves the process of gathering of information, sorting, organizing, and structuring of gathered data. According to Magigi (2013), the process involves the ordering and organizing of data to produce knowledge. Data analysis is the process whereby data put into expressive and comprehensible way in which deployed so as to provide finding of the study. The findings related to the research questions that led the study. The researcher engaged software recognized as Statistical Package for Social Science (SPSS) for scrutinizing of the data. Data scrutinized to measure the extent of financial institutions contributions in industrial development in the study area. Descriptive statistical analysis used to recognize occurrences and interviews extent in percentages to answer all of the questions and focus group discussions. Qualitative information was analyzed by thematic approach to complement the quantitative information. The respondents not responded to all of the questions hence percentages testified match to the total number of respondents answered the individual question asked by the researcher.
CHAPTER FOUR
PRESENTATION OF FINDINGS AND DISCUSSION

4.1 Introduction

This chapter describes the detailed findings of the study and specifically entails the demographic details of the respondents, financial based problems facing industrial development, the sources of financing industrial development, the impact of bank loans on industrial development and the strategies that can improve access to financing of industrial development in Tanzania.

4.2 Demographic details

The study assessed the contribution of financial institutions towards industrialization in Tanzania and covered bankers, industrial owners or entrepreneurs as well as financial institutions within Ilala and Temeke districts of Dar es Salaam region. The respondents assessed were categorized in terms of the location, year of establishment, form of ownership, gender, marital status, education level, type of manufacturing ventures involvement and the findings are as expounded hereunder:

4.3 Location

The study noted all the respondents either came from Ilala or Temeke district and their composition is shown below.

Tables 4.1: Respondents’ locations.

<table>
<thead>
<tr>
<th>District</th>
<th>Respondents</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentages</td>
<td>Cumulative</td>
</tr>
<tr>
<td>Ilala</td>
<td>49</td>
<td>59.76</td>
<td>59.76</td>
</tr>
<tr>
<td>Temeke</td>
<td>33</td>
<td>40.24</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field data (2018)

Table 4.1, shows that Temeke had 33(40.24%) while Ilala had 49(59.76%) respondents, hence Ilala district had more respondents than Temeke district implying that Ilala district has more industries than Temeke district.
4.4 Year of Establishment

The study attempted to determine the period under which owners of industries/entrepreneurs commenced their business. A total of 30 respondents were involved 19 respondents from Ilala district and 11 respondents from Temeke district. It was detected that ultimate of the industry owners cross-examined begun their industries between the year 2000 and 2018. The result shows that 10(33.3%) were established before 2005, 6(20%) were established between 2006 and 2010 while 14(46.7%) were established between 2011 and 2018. It can be concluded here that most industries commenced in between 2011 and 2018.

Table 4.2: Year of the Establishment.

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 2005</td>
<td>10</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Between 2006-2010</td>
<td>6</td>
<td>20.0</td>
<td>53.3</td>
</tr>
<tr>
<td>Between 2011/2018</td>
<td>14</td>
<td>46.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field data (2018)

Before 2005 most of industries were established and as from 2006 to 2010 percentage decreased to 20% because Government did not take more effort towards encouragement of industrialization and this situation discouraged investment and most the established industries collapsed. In and after 2011 there is significant growth in industrial establishment. This increasing tendency is triggered by push encouragement of the government in power towards industrialization by allowing foreign investors as most of the industrial owners interviewed were foreigners.

4.5 Form of Ownership

The researcher wanted to investigate the form of industrial ownership whereby a total of 30 respondents were involved. With respects to nature of ownership, the study indicated that most of the industries are owned by foreigners. The study revealed that 23(76.7%) were of limited companies, followed by sole proprietors 4(13.3) and 3(11.0%) are partnerships. Further details are shown in the following table 4.3.
Table 4.3: Form of ownership:

<table>
<thead>
<tr>
<th>Nature of business ownership</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole proprietorship</td>
<td>4</td>
<td>13.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Limited company</td>
<td>23</td>
<td>76.7</td>
<td>90.0</td>
</tr>
<tr>
<td>Partnership</td>
<td>3</td>
<td>11.0</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field data (2018)

The motive as to why most of the industries owned by limited liability companies is that most of them are owned by foreign companies who have invested their funds in Tanzania. These foreign companies have enough capital and have invested in many countries. Sole proprietors and partnership companies are faced with lack of enough Capital to establish industries due to limitation of accessing bank Loan as most of banks have put regulations that are not friendly to them.

4.6 Distribution of Respondents by Gender

The researcher wanted to investigate gender participation in industrial development process in within the study area. A total of 30 respondents were again involved where 19 respondents came from Ilala district and 11 respondents were from Temeke district and their responses are shown as in follows:

Table 4.4: Distribution of Respondents by Gender:

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Females</td>
<td>7</td>
<td>23.3</td>
<td>23.3</td>
</tr>
<tr>
<td>Males</td>
<td>23</td>
<td>76.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field data (2018)

The response received revealed about 7(23.3%) of the respondents interviewed were females while 23(76.7%) males as illustrated in table 4.4. The data collected from this study demonstrate that a good number of males involved in operation of manufacturing industries as compared to female and this is due to nature of works performed in the industry needs capital stand whereby most women miss it.
4.7 Marital Status

The respondents were enquired to state their marital status which is vital in understanding their background and their responses are as shown hereunder:

**Table 4.5: Marital status:**

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>46</td>
<td>56.10</td>
<td>56.10</td>
</tr>
<tr>
<td>Single</td>
<td>30</td>
<td>36.59</td>
<td>92.69</td>
</tr>
<tr>
<td>Widowed</td>
<td>6</td>
<td>7.31</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Field data (2018)*

Among the 82 respondents interviewed, the collected data displayed that most of respondents were married 46(56.10%) while 30(36.59%) were single and 6(7.31%) were widowed. In table 4.5 below provides more illustrations. In this case the study revealed that married interviewers participate more in the operation of manufacturing industries because they are to seek money so as to care for family in which they are responsible to, they need money to send children to school, food, clothes and for medication, from this reason they need to have other source of income. Likely single interviewers were also participated in operation of manufacturing industries because they have enough time to concentrate in the business and less responsibilities from their families.

Numbers of widowed were less compared to others as shown in table above due to lack of capital, confidence, business knowledge and encouragement from the community.

4.8 Distribution of Age

The respondents were requested to state their distributions of age and below are their responses,

**Table 4.6: Distribution of Age of the Respondent**

<table>
<thead>
<tr>
<th>Age of Respondent</th>
<th>Number of Respondent</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 18-30years</td>
<td>26</td>
<td>31.71</td>
<td>31.71</td>
</tr>
<tr>
<td>Between 31- 44 years</td>
<td>44</td>
<td>53.66</td>
<td>85.35</td>
</tr>
<tr>
<td>Above 45</td>
<td>12</td>
<td>14.63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>82</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Field data (2018)*
Among 82 respondents’ findings revealed that 12 (14.63%) of the respondents were of the age above 45 years, 44 (53.66%) aged between 31 to 44 years and 26 (31.71%) were between 18 to 30 years as specified in Table 4.6 below.

The study finalizes that the greatest interviewed individuals were aged between 31 and 44 years. Thus, the age between 31 to 44 years is middle age and generally this group comprises matured people with work experience and energetic enough. Ages of respondent between 18-30 years of age were moderate because respondents from this age group depend much on support from their families and others are still in school. However, respondents with age above 45 were low because they are not energetic and avoid risky to involve themselves into industrial operations. These findings indicate that majority of the respondents are mature though youth who are in their prime productive ages and therefore can be inferred to be energetic and economically active. In relation to the above, the respondents were enquired to provide information of their highest level of education and below are their responses.

### 4.9 Education level of the Respondents

The respondents respond with regard to their level of education attained are as per below table:

**Table 4.7: Education level of the Respondent**

<table>
<thead>
<tr>
<th>Education level of Respondent</th>
<th>Number of Respondent</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary education</td>
<td>15</td>
<td>18.29</td>
<td>18.29</td>
</tr>
<tr>
<td>Diploma education</td>
<td>18</td>
<td>21.95</td>
<td>40.24</td>
</tr>
<tr>
<td>First degree</td>
<td>33</td>
<td>40.24</td>
<td>80.48</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>15</td>
<td>18.29</td>
<td>98.77</td>
</tr>
<tr>
<td>PhD</td>
<td>1</td>
<td>1.23</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td><strong>82</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Field data (2018)

Table 4.7 illustrated that among 82 of respondent’s holders of first Degree were 33 (40.24%) followed by Diploma holders accounted to 18 (21.95%), Master’s Degree holders 15 (18.29%), Secondary education accounted to 15 (18.29%), while 1 (1.23%) of the respondents was a PhD. These findings are a clear indicator that great number of the respondents are generally well educated and therefore can be deemed to be knowledgeable and competent in their area of work hence their responses can be relied upon.

A graduate respondent from certain University declared that "*it took a very long time to secure a job after completing my education as nowadays there are challenges for one to get employed.*
I thank this cement manufacturing company for employing me as of now I can afford paying for my living and provide support to my parents. “This statement shows that banks contribution towards industrialization has an impact to employment opportunities for unemployment solution to many youths.

Responses from all banks unanimously had a suggestion that access to loans by individuals and companies greatly influence industrial investment in Dar Es Salaam Region in that case limited access to loans discourages people to expand their business operations due to limited expansion of capital and in some cases this cause some of the foreign investors tend to transfer their investments to neighboring countries. This observation suggests that the increased access and availability to financial facilities is key factor to the promotion of industrialization.

In addition, majority of the officers from banks coincides that attractive incentives and friendly rates of import duty on capital goods have a great chances of attracting and influencing industrial investment in Dar es Salaam Region, but when there is high rates of duty imposed on capital goods it tends to discourage industrialization as investors won’t be able to import the very expensive machinery for production process. More so, a member of CRDB Company in an interview argued that “…… Dar es Salaam region is fundamentally located in a strategic stretch which attracts business prospects and that’s why every investor always thinks of setting up an office in the region before rolling out to other parts of the country”

In addition, the interviewees were asked as to whether import duty on deemed capital goods incentives influence industrial investment and all of them concurred with the argument, hence suggesting that there is existence of strong relationship between import duty and industrial investment.

It was noted that the interest rate of average 19% charged by commercial banks is very high and prohibitive, thus discouraging investments. In addition, all the bank officials concurred that economic stability directly influences industrial investment climate and that currently there is relative economic stability which is triggering increased investments in the country.
4.10 Major industrial Activities carried out by industries based in Ilala and Temeke districts:

The researcher was also interested to know the type of industries based in the study area where the respondents involved owners of industries/loan beneficiaries and therefore the respondents were inquired to indicate their industrial activities they deal with and findings are shown below:

Table 4.8: Major activities carried out by industries in Ilala and Temeke districts

<table>
<thead>
<tr>
<th>Type of industry</th>
<th>Number of Respondent</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing activities</td>
<td>16</td>
<td>53.3</td>
<td>53.3</td>
</tr>
<tr>
<td>Services activities</td>
<td>9</td>
<td>30.0</td>
<td>83.3</td>
</tr>
<tr>
<td>Others</td>
<td>5</td>
<td>16.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field data 2018

Table 4.8, displays that manufacturing activities constitute 16(53.3%) which means that it is the major activities that involve most of the individuals in the area of study and manufacturing activities dealt with includes; soap and oil production, maize milling, clothes, and cement plants, soft drinks, brewing hard drinks and building materials. Services include hotels, schools, general supplies, internet services and transportation activities which accounted for 9(30%) while other economic industry include fabrication, welding and fitting, garages, carpentry, and tailoring contained 5(16.7%).

These results show that participation of people in the industrial manufacturing activities have a great economic significance. Most respondents are engaged in the manufacturing industry than in services and other activities. The high growth of industrial activities has been caused by the rapid development in technology, telecommunication, banking, availability of electricity and good access of transportation in the country.

4.11. Financing based problems facing industrial development in Tanzania

The first research objective wanted to explore the impacts of bank loans on industrial development. With this regard respondents were requested to answer a research question which required them to explain the financing-based problems facing industrial owners/entrepreneurs in the industrial development process in Tanzania. An interview with one of the senior Managing Director of one of the banks contended that “the key challenges obstructing the growth and adding to the cost of accessing banking services, are, not limited to: high rates of bank interest, inadequate government financial support, inadequate collaterals to meet the required amounts of
loan, lack of human capital in terms of skills, no clear mechanism for using annual budgets to achieve medium and long term strategic objectives, poor record keeping and poor account performance, owners hesitate to make full disclosure of their assets, fake documentations and non-performing loans.

Continued by saying other challenges are low national financial savings, Lack of Long term funding options, Poor loan repayment culture, Low levels of financial literacy, public confidence in the financial system, Inadequate Legal and Regulatory Frameworks; Structure and Court inefficiency in handling business related cases; need fairness and speedy decision making especially on credit related cases as defaulters tends to find a rescue at the court and takes advantage of the delays, unpredictable taxes and multiple fees and levies; Challenges due to outdated /biased labor laws and multiple fees payable to multiple Government institutions offering the same services example OSHA and Fire.

The problem of poor record keeping as one of the obstacles of industrial growth through accessing funds tallies with the findings by Demirguc-Kunt and Maksimovic (1998) who asserts that poor financial development impedes industrial development as it denies the industrial enterprises the much-needed cash for industrial growth and expansion.

The study findings are in line with the research conducted by Demirguc-Kunt and Maksimovic (1998) who believed that well-functioning legal affairs and financial institutions aid firms’ ability to get external finance that eventually increases chances for firm’s growth which is similar to the responds from the research posed questions whereby inadequate operational Legal and Regulatory Frameworks highlighted as one of the limiting factor in accessing external finance for industrial development.

The study finding further coincides with the statements by NMB Bank Chief executive Ineke Busemaker who said that “The profit declined due to growing loan loss impairment. The bank’s loan loss impairment for the half year in 2017 grows from TZS 25 billion to TZS 41 billion in 2018,” she said. This situation inevitably affects the possibility for expansions of accessing finances from bank.

Furthermore, the study noted that poor loan repayment culture possesses as a major challenged towards financing industrial development in Tanzania. This finding tally with a statement by Dr.
Charles Kimei issued in his presentation during a workshop at The Mwalimu Nyerere Memorial Academy that Non-Performing Loans by Sectors total average as by December 2017 was at 11.47 supported by figures as demonstrated in table 4.9 below:

**Table 4.9: Non Performing Loans by Sector:**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Industry Sector Specific NPLs as at 30/11/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outstanding balance</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,127</td>
</tr>
<tr>
<td>Fishing</td>
<td>66</td>
</tr>
<tr>
<td>Forest</td>
<td>22</td>
</tr>
<tr>
<td>Financial intermediaries</td>
<td>320</td>
</tr>
<tr>
<td>Mining</td>
<td>322</td>
</tr>
<tr>
<td>Manufacturing and processing</td>
<td>1,836</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>840</td>
</tr>
<tr>
<td>Real Estate</td>
<td>810</td>
</tr>
<tr>
<td>Leasing</td>
<td>9</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>989</td>
</tr>
<tr>
<td>Trade</td>
<td>3,376</td>
</tr>
<tr>
<td>Tourism</td>
<td>159</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>566</td>
</tr>
<tr>
<td>Warehousing and Storage</td>
<td>13</td>
</tr>
<tr>
<td>Gas</td>
<td>253</td>
</tr>
<tr>
<td>Education</td>
<td>453</td>
</tr>
<tr>
<td>Health</td>
<td>86</td>
</tr>
<tr>
<td>Others Services (Including overdrawn accounts)</td>
<td>1,639</td>
</tr>
<tr>
<td>Personnel/Consumer and Staff</td>
<td>3,278</td>
</tr>
<tr>
<td><strong>Total Gross Loans</strong></td>
<td><strong>16,469</strong></td>
</tr>
<tr>
<td><strong>Interest in Suspense</strong></td>
<td>233</td>
</tr>
<tr>
<td><strong>Total Net Loans</strong></td>
<td><strong>16,237</strong></td>
</tr>
</tbody>
</table>

**Source:** Field data 2018

From the results presented in chapter four and the above reports from bank a number of conclusions can be drawn which relates to the first objective of the study. Despite of the sample to be small from which data was collected, the researcher is of the opinion that the results obtained still establish meaningful findings and insights that could be generalized to normal practice performed out by the average bank operation in the industry the trend of Poor loan repayment culture possess as a major challenged towards financing industrial development in Tanzania.
In addition, the study noted that the current government strives to put in place investment incentives that support manufacturing industries as argued by an official from NMB who states that

“…..TIC with support from His Excellence the President of the Republic of Tanzania John Joseph Pombe Magufu li have supported thousands of manufacturing industries through Provision of various incentives and this has created a conducive investment climate”

The interviewees were asked whether geographical location influences the level of industrial investment and all of them unilaterally concurred with the argument geographical location influence industrial investment in that places like Dar Es Salaam Region, are geographically suitably located given its proximity to the ocean hence attracts more business and investments than other inland regions like Dodoma.

The study noted that there has been a considerable step towards industrialization as government puts more emphasis on manufacturing and streamlining operations of regulatory agencies such as TRA and BRELA. This has resulted into reduced bureaucracy and efficiency for example the exemption of tax on Deemed Capital Goods, Import Duty further reduced at the rate of 75% where investors pay 25% of the import duty due.

Moreover, it was noted that in Africa, amongst the destinations favorite for foreign investment is Tanzania. The inflow in year 2016 was reached to 1.36 billion USD, compared to the previous year there was a drop of 15%. Despite of the situation provided Tanzania is still among 10 biggest recipients country of FDI in Africa. The FDI stock is currently estimated at USD 19.8 billion. Tanzania ranked 132 between 190 countries, gaining 12 positions. The commitment of the country inspired a good number of investors and the effort shown by the government in executing sound macro-economic policies, its effective privatization programme and rich natural resources. Nevertheless, it was noted that the environment of business investment still remains fraught by ineffective rules. Labor regulations are not favorable and stretchy enough to boost a vibrant labor market. Foreign investment in land is restricted, and investment in other sectors may be screened.
4.12 Sources of Loans to Financing Industrial Development in Tanzania.

With regard to the second research objective the researcher wanted to identify the sources of financing industrial development in Tanzania. To respond on this research objective whereby respondents were asked to respond on the research question which asked them to explain the possible sources of financing industrialization in Tanzania. Findings gathered from this study revealed that the ways to enhance financing of industrialization in Tanzania include tapping on foreign/external sources of financing through:- sovereign bond issue by the government or private placements facilitated by investment banks/crowding out/Golden Angels, Foreign Direct Investment which is promoted by Tanzania Investment Centre, Local banks and other financial institutions, Equity Financing and Borrowings by Corporate entities directly from International capital market.

An interview conducted with a bank officer revealed that “there is a need for increasing flow of foreign savings into Tanzania - Liberalization of capital account of Balance of Payments; however, a draft Regulations are now under review by stakeholders, allow sovereign rating: A good rating will impact on corporate ratings positively. Recent Doing Business ratings for Tanzania have dropped from 132 to 137 out of 190. Access to credit, seems to be not an issue in Tanzania (ranked at 55). However, our country needs to address other factors rated lower so as to attract more investors. As a country, much as the Government is making efforts in reducing corruption; we need to address other factors to take us to better rating: Needs to address challenges in Paying Taxes, A clear note drop in rates on procedures and processes involved in Registering Property; this is one of key factor to attract investors in industrialization. There is a noted improvement on the competitiveness index as per the current assigned of 3.7 compared to the previous one of 3.67, thus led to a positive change of country ranking from 116 (2016) to 113 (2017/18) out of 190. More efforts need to be made to address this, Other factors affecting sovereign rating include macroeconomic stability, debt servicing capacity and political stability and of course corporate rating: Banks and non-financial corporate entities wishing to borrow externally need to individually seek ratings by international agencies such as Moody's Investors Service, Standard & Poor's (S&P), and Fitch Ratings.

He concluded by saying “Currently Financing of Mainly Privately Owned Industrial schemes is based on the following financing channels; Specialist Banks such As Women Banks, Agriculture
Banks, Investment Banks, Pension Funds, Equity Fund ie Umoja Trust Funds, Capital Markets (DSE) with a special SME window, Self-Financing (Savings), repayment of installments by current borrowers, Cash flows of those enjoying overdrafts (working capital), New savings mobilized by financial institutions and External borrowing (only available to stronger banks). Continued by saying banks are ready to play their integral role in supporting the industrialization agenda towards a new Industrialized Tanzania. What is needed is a strong and stable banking sector, which can fuel the economic development”.

Another interview conducted with a Managing Director of one foreign industry when asked by the researcher on his opinion of what institutions do he think are responsible in supporting industrial development in Tanzania; he responded that “I found that your Small Scale Industrial Development Organization (SIDO) is a replica of Indian SIDO as it is for other Industrial related institution you have such as Tanzania Industry Research Development Organization (TIRDO) that are supposed to be interlinked with the financial wing of supporting Industrialization, the challenges you have with all the institutions and policies in place, but am not sure of the extent at which these “white elephants “institutes are supporting Industrialization; recently I visited India, the extent at which small and medium scales Industries are supporting India Industrial Economy tiger force is amazing and still an appealing example”. These findings concur with a research conducted by Dr. Charles Kimei et al (2018) who contended that financial institutions particularly banks are influential institutions in financing industrial development.

Despite of all available sources suggested still there is a need of having a good environment in terms functioning financial and legal frame work system and this is concurred with a study which conducted by Demirguc-Kunt and Maksimovic (1998), whose from their sample of developed and underdeveloped countries taste they found that countries with developed systems of financial and legal frame work tend to support firms’ by easily exposed to chances of external financing and firm expansion. They argued that adequate legal framework and financial system foster firms’ chances of acquiring external finance sources that eventually nurtures firm’s growth opportunities.
4.13 Impacts of Bank Loans on Industrial Development in Tanzania:
The third research objective wanted to assess the impact of bank loans on industrial development in Tanzania. To respond to the objective of study, the researcher gathered data through questionnaire and review of bank reports. Through questionnaires respondents were requested to answer a research question which asked on what are the impacts before and after receiving of bank loans for industrial/business development process.

Most of the respondents revealed that before obtaining loans from bank/financial institution were running their business through their own formulated capital, whereby this caused them to own small capital and establish small/petty industries hence small gain which hinder large profit, market accessibility, sales, limited business knowledge and hence limit expansion of their business. But after acquiring loans from bank the situations changed much because they had a position to acquire more business education/knowledge on how to manage business, increase working capital, run and acquire more profit from investment and able to expand their business in a good business manner.

Respondents were also enquired to state the loan size they have ever accessed and their responses are as shown hereunder:

**Table 4.10: Loan Size of beneficiaries**

<table>
<thead>
<tr>
<th>Amount borrowed first time</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1,000,000,000</td>
<td>7</td>
<td>23.3</td>
<td>23.3</td>
</tr>
<tr>
<td>Between 1,000,000,000 – 4,000,000,000</td>
<td>8</td>
<td>26.7</td>
<td>50.0</td>
</tr>
<tr>
<td>Between 4,000,000,000 – 7,000,000,000</td>
<td>9</td>
<td>30</td>
<td>80.0</td>
</tr>
<tr>
<td>Between 8,000,000,000 – 10,000,000,000</td>
<td>6</td>
<td>20</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

**Source:** Field data 2018.

Table 4.10 illustrated that a substantial number of the respondents about 6(20%) applied bank loans between TZS 8,000,000,000 to TZS 10,000,000,000, 9(30%) applied for bank loan between TZS 4,000,000,000,000 and TZS 7,000,000,000, while 8(26.7%) of the respondents applied between TZS 1,000,000,000 and TZS 4,000,000,000 and those who applied below TZS 1,000,000,000 were 7(23.3%). Despite of the loans provided, yet the respondents claimed that
they are not able to acquire the intended loans due to the various requirement needed to be fulfilled before acquiring loans from bank and this is the main factor which hindering the expansions of their entrepreneurial activities.

Furthermore, the researcher obtained data from various bank reports including NMB, CRDB and BOT. The analysis of the data collected from documentary review are shown below:

- NMB 2018 annual report shows that the appetite of doing business picked up and evidenced by the significant growth of bank loans issued from bank as from 2014 to 2018 whereby in 2014 to 2015 there was growth of TZS 475 billion issued as loans and advances, while in 2015 to 2016 there was a growth of TZS 312 billion, in 2016 to 2017 there was a drop of TZS 7 billion and 2017 to 2018 there was a growth of TZS 465 billion. Generally it shows that the appetite for doing business increased and evidenced by the growth in credit to the private sector which reached 4.9% in 2018 as compared to 1.7% in the previous year and this implies that an increase rate of accessing loans from bank in 2018 by 4.9% to private sectors have an impact to the growth of working capital to investors.

**Figure 4.1 NMB Bank loans and advances status as from 2014 to 2018.**

<table>
<thead>
<tr>
<th>YEARS</th>
<th>AMOUNT IN TZS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2007</td>
</tr>
<tr>
<td>2015</td>
<td>2482</td>
</tr>
<tr>
<td>2016</td>
<td>2794</td>
</tr>
<tr>
<td>2017</td>
<td>2787</td>
</tr>
<tr>
<td>2018</td>
<td>3252</td>
</tr>
</tbody>
</table>

**Source:** NMB Annual Report 2018
Data collected from CRDB as in the figure 4.2 below, shows that in year 2014 to 2015 loans, advances and overdraft of TZS 707 billion were issued by bank, in year 2015 to 2016 there was an annual drop of TZS 5 billion, in 2016 to 2017 there was also a drop of TZS 353 billion while in year 2017 to 2018 there was annual growth rate of 8% which is equivalent to the growth of TZS 233 billion that is from TZS 2894 billion loans issued by bank in 2017 TZS and 3127 billion issued in 2018 as loans, advances and overdraft to customers. Despite of that rate as an annual credit growth, yet the general annual credit growth status is very slow and this situation tend to diminish the acceleration of industrial sector growth.

**Figure 4.2 CRDB bank Loans, advances and overdraft from 2014 to 2018.**

![Graph showing loans, advances and overdraft in TZS billions from 2014 to 2018.]

**Source:** CRDB Annual report 2018

According to the Bank of Tanzania (BOT) Monthly economic assessment for July 2018, in table 4.11 below it shows that Tanzania’s bank credit is dominated by personal loans at 27.4% followed by trade at 20.5% and manufacturing industry becomes the third recipient accounting for 10.6% of the total credit extended by banks to major economic activities. In spite of the bank initiative and contributions in promoting industrialization financing the industrial sector unlike other sectors, has challenges which originated from both the nature of
the local financial institutions and the operational challenges of the industries, that challenges hinder the chances of acquiring substantial finances for industrializations. Industrial sector in particular requires long term financing while local commercial banks prefer short term loans by believing that long term financing is very risky and most of the banks are not in a position to offer long term loans because they depend much on customers deposit. Thus, despite of the Government struggle on industrialization and Financial institutions contribution towards industrial economy still access of funding remains very low which limits the growth of industrialization in the country.

**Table 4:11 Share of outstanding credit extended by bank in various sectors, June 2018**

<table>
<thead>
<tr>
<th>Types of Industry/sector</th>
<th>Percentage of loans extended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal loans</td>
<td>27.4%</td>
</tr>
<tr>
<td>Trade</td>
<td>20.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.6%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.7%</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>5.9%</td>
</tr>
<tr>
<td>Building and construction</td>
<td>4.3%</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

*Source: BOT Monthly economic review July 2018*

The study findings from the data collected through questionnaire and review of bank reports and the provided analysis concurred by research of Kuzilwa, (2002) who examines the role of credit in generating entrepreneurial activities and noted that industrial growth is significantly attained with increased access to bank credit, hence indicating a positive and strong correlation between access to credit/loans and industrial growth.
4.14 Strategies needed to be adopted to enable access to financing industrial development in Tanzania.

The last research objective wanted to develop strategies that can improve access to financing of industrial development in Tanzania. To come about this research objective respondent were required to respond on research question which posed on what are the strategies required to be initiated in order to enable to access financing for industrial development in Tanzania. Hence, the researcher enquired for views and proposals from banks, microfinance officers, SMEs and managers in the surveyed institutions and came up with essential strategies for refining and enabling financing industrial development in Tanzania.

The following strategies were thought to be effective if undertaken, the predominant situation will be partial or fully eradicated. Culture of savings: - Government should enhance efforts of financial institutions by mobilizing saving culture to people, provide fiscal incentives to savers, reducing withholding tax on interest income.

Other strategies include: Pushing financial inclusion by enabling reliable, cost effective financial infrastructure including networks and electronic payment systems; establishment of National Payment Switch to achieve total interoperability, thus reduce transaction costs, taking effort by putting tactics to enhance public assurance in the financial system, sustaining privacy of financial transactions while respecting the contribution of the sector to the economy and its sensitive nature. It was also noted that there is need to: Strengthen the Private Sector by letting it do its role while the Government focuses on ensuring conducive environments to do business and taking actions to enhance financial widening especially enactment of enabling regulations, and putting it clear for people to comprehend and create institutions like; Mutual funds, Investment banks, Venture capital funds, Golden Angels, Equity financing and Financial literacy, implementing the BOT driven Financial Education Framework also Government should consider about enhancing support on agriculture where most of the raw materials expected to be used in industry process depending from agricultural sector.

The concept of supporting agricultural sector also concurred by Shi Cheng (2005), who investigated on the role of the financial institution in the process of industrialization. In his study he noted that, the government should consider the rural industrialization due the fact that
large number of populations is obtained from rural areas. He further noted that for the purpose of improving industrialization in rural areas, the Government of China established the state rural finance system where People’s Bank of China requested to establish state bank organization from top to bottom level in rural areas and that the miracles of the Chinese rural industrialization strategy was a massive and high speed of industrial growth which deriving equally in the rural and national economy and the evolving of big number of small rural towns and cities.

Finally, it is complex and difficult task to transform strategies into action. The process is hindered by a multitude of impeders. However, the literature has discovered that there are many impeders that are common between different businesses and industries, therefore there should be favorable business climate for borrowers; banks should be given better performance environment and Government should increase more efforts to financial institutions by mobilizing saving culture to people.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter provides the key summaries of the research findings, the objective that arrived at conclusions with practical recommendations and area for further research.

5.2 Summary
The research assessed contribution of financial institutions towards industrialization in Tanzania and covered 82 respondents consisting of bankers, industrial owners or entrepreneurs as well as financial institutions within Dar es Salaam region specifically in two districts that is Ilala and Temeke. The respondents were categorized basing on the location, year of establishment, form of ownership, gender, marital status, education level, type of manufacturing activities dealt with and the overall findings are as expounded hereunder:

It was noted that ultimate of the industry owners cross-examined begun their industries between the year 2000 and 2018. The outcome disclosed that 10(33.3%) were established before 2005, 6(20%) were established between 2006 and 2010 while 14(46.7%) were established between 2011 and 2018. It can be concluded here that most industries commenced in between 2011 and 2018. More so, it was noted that most of the industries are owned by limited liability companies is that most of them are owned by foreign companies who have invested their funds in Tanzania. These foreign companies have enough capital and have invested in many countries. Sole proprietors and partnership companies are faced with lack of enough Capital to establish industries due to limitation of accessing bank Loan as most of banks have put regulations that are not friendly to them.

Furthermore, the study noted that the most predominant business activities are manufacturing activities which constitutes 53.3% and manufacturing activities which includes; soap and oil production, maize milling, clothes, cement plants, soft drinks, brewing hard drinks and building materials accounted. More so, it can be inferred that the high growth rate of industrial activities is a result of instant advancement in technology, telecommunication, banking, availability of electricity and improvement of transportation within the country.
The study noted that the current situation facing banks in Tanzania due to Poor loan repayment culture is declining of banks net profit as declared and reported by bankers and it was revealed that profits for some big banks dwindled during the first half of the current calendar year as they work to tame high levels of non – performing loans (NPLs). The banking sector has been in a tough situation during the past two years and some major banks reported further declines in profits during the first half of 2018. Banks which declared declining profits were NMB, CRDB, Standard Chartered, Exim and TPB during the first half of 2018. However, NMB Bank currently is the most profitable bank in the country but its net profit dropped to TZS 66.8 billion between January and June 2018 from TZS 76.2 billion during a similar period last year. It however managed to reduce its NPL to total gross loans ratio from 6.6 percent as of March 2018 to 5.0 percent in June 2018.

In addition, the study noted that a substantial number of the respondents about 20% applied loans from bank between TZS 8,000,000,000 to 10,000,000,000 followed by 9(30%) who applied for bank loan between TZS 4,000,000,000 and 7,000,000,000, while 8(26.7%) of respondents applied between 1,000,000,000 and 4,000,000,000 and those who requested below TZS 1,000,000,000 were 7(23.3%). More so, it is evident that poor loan repayment culture possesses as a major challenged towards financing industrial development in Tanzania and that Non-Performing Loans by Sectors total average as by December 2017 was at 11.47.

Lastly but not least, from the results which provided in chapter four a number of conclusions can be drawn from it together with the information of reports obtained from bank which relates to the first research objective. Despite of the data gathered from sample is small, the researcher provides opinion that the results still provide sensitive findings and insights that could be generalized to normal practice as carried out by the average bank operation in the industry. From the findings it was noted and emphasize that the trend of poor loan repayment culture possesses a major challenge towards financing industrial development in Tanzania since it hinders the expected growth speed of industrialization due to restrictions posed by the banks in issuing loans as one of the measures to control the trend of clients tendency of poor loan repayments.
5.3 Conclusion

Findings obtained basing on the first research objective which required respondents to explain the financing based problems facing industrial owners/entrepreneurs in the industrial development process in Tanzania revealed some key challenges obstructing the growth and adding to the cost of accessing banking services to include high rates of bank interest, inadequate government financial support, inadequate collaterals to meet the required amounts of loan, lack of human capital in terms of skills, no clear mechanism for using annual budgets to achieve medium and long term strategic objectives, poor record keeping and poor account performance, owners hesitate to make full disclosure of their assets, fake documentations and non-performing loans.

Study findings also contents that other challenges towards industrialization include low national financial savings, Lack of Long term funding options, poor loan repayment culture, Low levels of financial literacy, public confidence in the financial system, inadequate legal and regulatory frameworks; structure and Court inefficiency in handling business related cases; need fairness and speedy decision making especially on credit related cases as defaulters tends to find a rescue at the court and takes advantage of the delays, unpredictable taxes and multiple fees and levies; Challenges due to outdated /biased labor laws and multiple fees payable to multiple Government institutions offering the same services siting OSHA and Fire.

Findings gathered from this study with regard to the second research objective which wanted to identify the sources of financing industrial development in Tanzania evidenced that the ways to enhance financing of industrialization in Tanzania include obtaining finances from foreign/external sources such as issue of sovereign bond by the government or private placements facilitated by investment banks/crowding out/Golden Angels, Foreign Direct Investment supervised and promoted by Tanzania Investment Centre, financial institutions and Local banks, Equity Financing and Borrowings by Corporate entities directly from International capital market.

More findings evidences that Financing of Mainly Privately Owned Industrial schemes is based on Specialist Banks such As Women Banks, Agriculture Banks, Investment Banks, Pension Funds, Equity Fund i.e. Umoja Trust Funds, Capital Markets (DSE) with a special SME window, Self-Financing (Savings), current borrowers repayment of installments by, Cash flows
of those enjoying overdrafts (working capital), New savings organized by financial institutions and External borrowing.

Findings regarding the third research objective on the impact of bank loans on industrial development in Tanzania narrates that before obtaining loans from financial institution industry owners were running their business through their own formulated capital, whereby this caused them to own small capital and establish small industries hence small gain which hinder large profit, market accessibility, sales, limited business knowledge and hence limit expansion of their business. But after acquiring loans from bank the situations changed much because they had a position to acquire more business knowledge on how to manage business, increase working capital, run and acquire more profit from investment and able to expand their business in a good business manner which enhance the development of industrialization.

Findings on the last research objective on the strategies that can improve access to financing of industrial development in Tanzania suggested some strategies needed to be adopted to enable access to financing industrial development in Tanzania to include:- Saving culture, Government ought to enhance the ambition made by financial institutions and banks by motivating the saving culture to all people, provide fiscal incentives to savers, reducing withholding tax on interest income. Other strategies include: Pushing financial inclusion by allowing to be reliable, cost effective financial infrastructure including networks and electronic payment systems; establishment of National Payment Switch to achieve total interoperability, thus reduce transaction costs, taking actions to improve confidence of the public on the financial system, sustaining financial transactions confidentiality while respecting the role of the sector to the economy and its sensitive nature. Also that there is a need for Strengthening Private Sector by letting them do their part while the Government focuses on ensuring conducive environments for business activities and taking actions to encourage financial widening especially enactment of enabling regulations, and making it simple and clear for people to comprehend and create institutions like; Mutual funds, Investment banks, Venture capital funds, Golden Angels, Equity financing and Financial literacy, implementing the BOT driven Financial Education Framework also Government should consider about enhancing support on agriculture where most of the raw materials expected to be used in industry process depending from agricultural sector and should
also continue to accelerate their investment in infrastructure, water power, and transport that would enhance firms to strive in industries with sturdy competitive advantage.

Findings from this study concludes by saying despite of all available sources suggested still there is a need of having a good environment in terms of functioning financial and legal framework system.

5.4 Recommendations

The findings of this study expounded that the acquisition of financial support from bank and other financial institutions is crucial for boosting development of industrialization in Tanzania.

The following are the suggested recommendations to be taken into account:

5.4.1 Owners of Industries

The findings of this study observed that greatest number of loan enquirers have a culture of poor loan repayment records that resulted into large sums of nonperforming loans which have a negative impacts to financial institutions and banks in terms of profitability which in turn leads to fix stiff requirements by bank to loan seekers whereby only few of them being able to fulfill and majority fails fulfill the requirements which hinder them to acquire the intended loans for investment. Therefore, in order to address this problem, it is recommendation of this study that it is high time now for loan seekers to have a culture of loan repayment in order to enable other loan seekers have access to financing for investments and capital expansion towards industrial development in Tanzania.

5.4.2 Financial institutions

The findings under this study revealed that greatest number of people looking for loans to establish investment or capital expansion faced various difficulties of acquiring loans due to unfavorable environments imposed by commercial banks and other financial institutions. Hence, suggested to rethink on the necessity of reexamining the financial terms and conditions in favors of loan seekers purposely for promoting growth of industrial investment in Tanzania. In spite of reexamining the financial terms and conditions, the recommendation also suggest on importance of banks and financial institutions to develop new products and services as well as
rectifying the existing delivery mechanism and also need to be flexible to consider the desire of clients’ and their ability while applying for the loans.

5.4.3 To the Public
As citizens one important role we have to play in industrialization in general is to support our home products, not relying only on Tariffs and Non Tariffs barriers controls which sometimes jeopardize our WTO commitments, we need first to love and buy our goods in order to utilize our internal market of nearly 58 million people, as well taking advantage of our geographic location and regional protocols such as EAC common market and SADC we must take advantage of over seven countries sharing common border with us to reach out to over 300 million markets around us; With That we will go regain and conquer our TANZANIA YA VIWANDA.

5.4.4 Government
The big role of the Government to play is to encourage saving through tax policy. This study finds that, personal and corporate income are both imposed with income taxes. Therefore, households who own companies they are suffering from double taxes; hence tax policy should rethink to incorporate income taxes from personal and corporate income, and eliminating the incidence of being taxed twice that is from savings when derived by the company, and when shared as dividends households. Also, taxes across the region from personal income should remain sprouting into a dual system and maintain flat tax on capital at lower base, whereby all provisions of capital income (capital gains, interest payments and dividends) obtain an equivalent tax treatment. Furthermore, rates of corporate income tax should be treated in line with international benchmark to enable the formalization of informal firms. This will result to promote industrialization and expand the tax base.

Also Government should quicken their investment in infrastructure by taking into account that one of the crucial factors impeding speed of industrialization is not only access of financing from financial institution but also inadequate stock of productive infrastructure in water, power and transport services tend to affect productivity and output thus lead to an increase of running cost of production in industrial sector by looking for alternatives means of rescuing the insufficient and unstable stock of productive infrastructure. Unfair rivalry in the market, Government should also strengthen the controls on the market by curbing all channels used to
import cheap industrial goods as well as unlawful trade that brings fakes and sub-standard industrial goods in the market.

5.5 Areas for Further Research
The confines of the study under phenomena suggest for more future researches to be conducted. From this study some areas seemed to be insufficient sightless and obligate the need for supplementary research. The areas which need to be considered or proposed for supplementary research includes a comprehensive study by involving all industrial developers in the country since this study involved only few respondents from Ilala and Temeke districts in Dar es Salaam city as the case study.
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