ASSESSING THE IMPACT OF SERVICE SECTOR PERFORMANCE TO THE ECONOMIC GROWTH IN TANZANIA

BY

FESTO MPILIPILI

A Dissertation submitted in partial Fulfillment of the Requirements for the Degree of Master of Science in Accounting and Finance (MSc – A & F) Mzumbe University.

November, 2020

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation entitled **assessing the impact of service sector performance to the economic growth in Tanzania**, in partial/fulfilment of the requirements for award of the degree of Master of Science in accounting and finance of Mzumbe University.

____

Major Supervisor

____

Internal Examiner

____

External Examiner

Accepted for the Board of MUDCC

____

DEAN/DIRECTOR, FACULTY, / DIRECTORATE BOARD

DECLARATION
AND
COPYRIGHT

I, **Festo Mpilipili** declare that this dissertation report is my own original work and that it has not been presented and will not be presented to any other University for similar or any other degree award.

Signature……………………………….

Date……………………………………

©2020

This dissertation report is a copyright material protected under the Berne convention, the copyright Act 1999 and other international and national enactments, on that behalf, an intellectual property. It may not be produced by any means in full or in part, except for short extracts in fair dealing, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

ACKNOWLEDGEMENTS

I thank the almighty God for the great opportunity to pursue a Master of Science in Accounting and Finance (MSc A&F) at Mzumbe University.

My special appreciations and gratitude are sent to my major supervisor Dr. Erasmus Kipesha for his valuable guidance throughout this research work.

Finally, I acknowledge the efforts of all the lecturers in the MSc A&F programme whose knowledge has been valuable in achievement of this study.

DEDICATION

I dedicate this work to my wonderful wife Janeth Mpilipili, and to my great children Jackline, Hans, Caroline and Vivian, for their love, prayers, patience, understanding and encouragement throughout the study.

LIST OF ABBREVIATIONS

ADF	-	AUGMENTED DICKEY-FULLER
BOT	–	BANK OF TANZANIA
FDI	-	FOREIGN DIRECT INVESTMENT
GDP	–	GROSS DOMESTCIC PRODUCT
GCE	-	GOVERNMENT CONSUMPTION EXPENDITURE
HFCE	-	HOUSEHOLD FINAL CONSUMPTION EXPENDITURE
ICT	–	INFORMATION COMMUNICATION TECHNOLOGY
OLS	-	ORDINARY LEAST SQUARE
R&D	-	RESEARCH AND DEVELOPMENT
TO	-	TRADE OPENNESS
IPSASB	-	INTERNATIONAL PUBLIC SECTOR STANDARDS BOARD
IMF	-	INTERNATIONAL MONETARY FUND

ABSTRACT

The motive of the study was to assess the impact of service sector performance to the economic growth in Tanzania. The specific objectives of this study were to assess the performance of Service Sector, to examine the economic growth and trends, to assess the relationship between service sector performance and economic growth, and to examine the factors affecting service sector performance and Economic Growth in Tanzania.

The researcher used secondary data and collected the yearly time series data covering between 1993 and 2019 periods for analysis from International Monetary Fund, World Bank Group and Bank of Tanzania. This research work adopted deductive reasoning in explaining the effect of service industry on economic development. The types of analytical tests performed were; the Stationarity Analysis of the Data, descriptive statistics, the correlation analysis and the ordinary least square regression analysis.

The finding of this study indicated that service sector performance has a significant positive effect on GDP per capita, The inflows of FDI and Government Consumption Expenditure have a significant negative impact on service GDP at constant price, trade openness is positively and significantly impacting the service GDP at constant price, Household Final Consumption Expenditure has a positive significant impact on service GDP at constant price. Also the result showed that the inflation rate and FDI inflows have a positive insignificant impact on GDP, household final consumption expenditure has a positive significant impact on GDP, interest rate and trade openness have a negative insignificant impact on GDP, GCE has a negative significant impact on GDP.

Finally the study recommends that service sector need to be given proper attention by policy makers which will aim at designing and promoting proper innovation structure that will mainly focus on helping to increase service sector production, government have to formulate and implement properly interest rate policies which are friendly to the investment in order to promote the growth of the economy and also the government should reduce foreign direct investment entry barriers, since FDI help to develop an economy.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter comprises the background of the study, problem statement, research objectives, research questions and rationale of the study.

1.1 Background of the Study

The economic growth is a phenomenon in an economy resulting from complex practice through which several macro level influences built from separate units interconnect. It is an outcome of the struggle by distinct households to the total economic players functioning under unrelated economic sectors such as international trade, tourism finance, manufacturing, agriculture, mining and public administration etc. In general there are three different levels of sectors development that can be functional to the many developing and developed economies: the expansion of a manufacturing sector, the dominance of agriculture sector and the expansion of the service generating industry are regarded as a leading input to economic activity (Alhowaish, 2014).

In current decades, a number of developing economies have thrived to enter and make changes in different sectors that are anticipated to bring economic growth, through expanding their input and others focusing on modification of their policy approach (UNCTAD, 2007, 2018). Since 1990s most of Sub-Saharan countries recorded high average growth resulting from productive sectors and economic reforms. Between 1995 and 2016 periods the economic growth of Tanzania was influenced by services sector and construction activities with 50.8% and 26.9% contribution to GDP respectively. Other sectors contribution such as agriculture, declined from 27.3% to 14.6 % recorded between 1997-2016, implying structural change towards services industry and construction activities (Reweta et al., 2018).

The implementation of Economic Recovery Programmes (ERPs) and Structural Adjustment Programmes (SAP) between 1986 and 1995 brought a decline to the macroeconomic factors such as inflation which declined from 27% to less than 5% in 2002 (Mwaseba et al., 2018). As a result the service sector started performing well and the economy recovery was observed. However, the service sector and construction activities are influenced by several factors comprising human capital development; good quality institutions, favorable macroeconomic policy settings which comprise government consumption, openness and terms of trade, lower levels of external debt, advanced international reserves levels, technology and expansion of the economic base (Bosworth & Collins, 2003; Reweta et al., 2018).

Despite of the achievements and contribution of service sector in growth of Tanzania, according to the WIDER Working Paper 2017/16 and BOT report 2018, the sector experienced a steady growth between 2000 and 2007 (Ellis et al., 2017; Reweta et al., 2018), and recently it is slightly declining due to slow implementation of project, shortage of resources, long delays of some major service projects, weak coordination amongst key stakeholders, few developed producers and inadequate of skills development (Reweta et al., 2018). As well as the unfavorable serious changes of macroeconomic factors which are anticipated to influence the service sector performance such as inflation rate, interest rate and foreign direct investment (BOT, 2015). In addition to that, the service subsectors such as transport services, trade and communication and business services are not extremely productive due to multiple taxation and heavy regulations. This makes it so difficult to determine how effective the service sector has contributed in recent years towards the economy and whether it might contribute to the development of Tanzanian economy in the forthcoming years (Tourism Task Force, 2016).

However, in spite of several strategies and efforts proposed such as; improvement of power supply, roads improvements, soft workers and business skills, reduction of regulations and tax burdens, boosting of coordination among key stakeholders, Prioritization of Projects, Projects Funding and establishment of strong macroeconomic policies (Ellis et al., 2017; Reweta et al., 2018). Still in recent years this sector contribution to GDP is going down slightly, and presently statistics shows a decline since 2015 and low productivity of service subsectors (Ellis et al., 2017;

Tanzania Daily News, 2017). Does this slightly decline and low productivity of service subsectors imply less significance of the sector to the nation's economic growth? Or does the country fail to implement its service development strategies and policies? Therefore despite of its challenging factors this research work aim to assess the effect of services performance to the economic growth, by discussing the main conceptual issues and applying these to the case study of Tanzania.

1.2 Problem Sstatement

According to Reweta et al., (2018) 50% of Tanzanian economic growth was influenced by service sector performance from 1995 to 2016. Although the sector recorded stable growth from the period between 2000 and 2007, the sector reported to have a slightly decline in post years to 2016 despite of measures, strategies and efforts implemented by the government (Ellis et al., 2017; Reweta et al., 2018). Further, the government attempt to expand the service sectors coverage, trying to reach all people has reduced the quality and performance of all service sub sectors. Therefore the sector shows evidence of the decline which attributes to unequal distribution of services to the society as well as the decline of growth and jobs (Mwaseba et al., 2018).

Reflecting on the economic growth of Tanzania, (Mandalu et al., 2018) concludes that it is still unsatisfactory for the average citizens of Tanzania. Problem, thus, exist given that several strategies and efforts proposed such as; improvement of power supply, roads improvements, reduction of regulations and tax burdens, boosting of coordination among key stakeholders, prioritization of projects, and establishment of strong macroeconomic policies, has not attained the desired objective in Tanzania (Reweta et al., 2018). The problem is either the service sector objectives are not well articulated or other variables that hinder the government to implement and realize the economic growth in the country.

The present literature have been eminent to reveal mixed findings on the association between service sector performance and growth of economy in different countries. Additionally, according to (Epaphra & Mwakalasya, 2017; Mwaseba et al., 2018), so far due to lack of conclusive evidence about the effect of service sector performance on the economic growth of Tanzania. Considering that, a report by Ellis et al., (2017) revealed a slightly decline and low productivity of service subsectors in Tanzania, so the question arises, does it mean this sector is less significant to the economic growth of Tanzania? Yet, the prior studies provided mixed results on the subject matter (Alhowaish, 2014; Blomstrom et al., 1996; Burridge & Sinclair., 2002, 2002; Krishna & Lee., 1993; Shuling & Donghui, 2011). In response to this contradiction it is reasonable to assume that, the link between service sector performance and growth of economy differs with context. Therefore to this end, there is a need for this study to examine the impact of service sector performance to the Tanzanian economy. This study has filled the gap in literature on the subject matter in Tanzania.

1.3 Objectives of the Study

1.3.1 General Oobjective

The main objective of this study was to assess the impact of Service Sector performance to the Economic Growth in Tanzania.

1.3.2 Specific Oobjectives

i. To assess the performance of Service Sector in Tanzania.
ii. To examine the economic growth and trends in Tanzania.
iii. To assess the relationship between service sector performance and economic growth in Tanzania.
iv. To examine the factors affecting service sector performance and Economic Growth in Tanzania.

1.4 Research Questions

i. What is the performance of Service Sector in Tanzania?
ii. What is the trend of economic growth in Tanzania?
iii. What is the relationship between service sector performance and economic growth in Tanzania?
iv. What are the factors affecting service sector performance and Economic Growth in Tanzania?

1.5 Rationale of the Study

Given the contemporary quick transformation of service industry and its significant influence in the world economy, this work aims to explore the influence of service sectors on the growth of economy in Tanzania. The results of this work has helped; first to the domestic and foreign investors involved in services exports as they have being able to obtain current information of service sector development. Secondly, to developing economies like Tanzania that is aiming to industrialize their production process or diversify their economies. Thirdly, the empirical results of this study has helped policy makers to formulate the knowledgeable decisions. Finally this work has brought more value to the prevailing body of literature by using the Tanzanian data which has formed the foundation for further research.

1.6 Scope of the Study

The intention of this work was to determine the association between service sector and growth of the economy and it focused only the United Republic of Tanzania. For that reason, the findings from this research work may not essentially relate to other nations nearby the East African border.

1.7 Organization of the Study

In summary, this research has Six Chapters. The first chapter of this study communicates composed of introduction, background of the study, problem statement, general and specific objectives, research questions, rationale of the study, scope of the study and organization of the study.

Chapter two communicates Literature Review; it consists of definition of key terms, Theoretical literature review, Empirical literature review, Conceptual framework and Hypothesis formulation.

Chapter three provides brief of the research methodology which consists of Introduction, Research design, Study area, Study population and sample size, Types of Data and Sources of Data, Data Collection Technique, Data Analysis Method and Test Variables.

Chapter four communicates presentation of findings. It consists of Introduction, descriptive statistics, study results and chapter Summary.

Chapter five communicates discussion of findings.

Chapter six consists of Summary of findings, Conclusion, Policy implication and Recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter review literature about service sectors and growth of the economy. The chapter focuses on theoretical literature review, empirical literature review and conceptual framework.

2.2 Definition of Key Terms

2.2.1 Service Sector Performance

The definition and characteristics of service sector is an important requirement especially in the scenario of analyzing their contribution towards the economic growth. According to Marshall 1990s service industry is an individual group of activities whose growth signify an important transformation in the nature of the new/modern economy (Marshall & Wood, 1995). The service sector which is also recognized as the tertiary sector is a potential portion of an economy that deals with intangible goods. It includes activities among others, the transportation and telecommunication, energy, education and health services, financial services, legal and accountancy services, and well trained workforce (OECD, 2008). These services have a significant and direct contribution to job creation and Gross Domestic Product (GDP).

The service sector performance can be defined as the efficient and effective achievement of the financial and non-financial objectives set by the public entities/service subsectors (IPSASB, 2008). In view of (Halachmi, 2005), public service indicates productivity and success, a political topic on most countries' agenda.

2.2.2 Economic Growth

In economic theory by Cantillon, (1755), the economic growth indicates a yearly increase of the national income, GDP growth rate or material production expressed in value. The growth of economy is proxied by the nation's GDP in one year (Grassa & Gazdar, 2014). GDP is the total amount of final services and goods produced in one year within a nation, communicates how poor or rich a nation is, It displays if the state's economy is getting worse or better, by increasing the state's GDP can advance the people's living standard. The determinants of GDP in a country are; entrepreneurship, human capital, natural resources and capital goods.

The economic growth of an economy comprises of a series of structural transformations, thus it is specified in a longer period. The achievement of economic development depends on the contribution of the processing capacity of secondary sector (industrial production) and at higher levels is gradually dominated by the tertiary sector (service industry)(Ivic, 2015).

2.3 Theoretical Lliterature Review

There is a number of theories which try to explain the exiting link between service sector performance and economic growth. Therefore this study was grounded by the following theories.

2.3.1 Three Sector Theory

The theory was presented by Colin Clark, Jean Fourstale and Allan Fister; According to this theory the economic activities main focus shifts from the extraction of raw material (primary sector), through manufacturing sector (secondary sector) to the services sector (Tertiary sector)(Clark, 1940; A. Fisher G., 1935, 1939). The primary sector comprises forestry, fishing, agriculture and mining, the secondary sector covers manufacturing and industrial constructions and tertiary sector consists of education, transport, tourism, heath care and whole sales. The theory also suggests of the presence of other additional sectors which are human services and information services.

This theory displays that services sector growth is perceived as a phase in the long-term economies alteration, however it predicts that services sector fit to the most advanced phase of economic growth, led at earlier stages by manufacturing and agriculture. Further the theory validates that the communications technology and information technology are part of service and they also have contribution to economic growth. The analysis of this model is still broadly used, with sometimes a quaternary industry, however describes only a procedure of social and economic alteration that outcomes in the services getting the largest individual group of employment or activity of economy (Clark, 1940; Fisher, 1939).

2.3.2 The Eeconomic Base Theory

It states that the region's economic size and development is dependent on the behavior of set of activities whose production is exported (Siegel, 1966). The basic view of this theory is that the rise in exports from the region determines the rate of economic development of a region. According to this theory the set is called the basic sector, thus it predicts the impact of activities both products and services arises from the basic sector to the economic development of a nation. For the long term growth of the economy of a region this theory predicts that the exportation of goods and service activities are the key determinants in that they generate external income.

2.3.3 Endogenous Growth Theory

This theory was established by (Romer, 1986) in which technological change was introduced into a production process. This theory highlighted on two critical investment channels to influence growth of the economy: first, through the effect on the share information available for R&D, and second, through the effect on the kind of available products (Helpman & Grossman 1991).

This theory has been practical widely to inspect how growth of economy is influenced by Foreign Direct Investment (FDI) through the technology diffusion (Barro & Sala-i-Martin, 1990). The FDI can also stimulate growth of GDP through formation of dynamic relative gains that leads to expansion of technology (Gregorio et al., 1998). Helpman & Grossman (1991); Romer (1990) have rectified Romer (1986) model and assume that endogenous technological development is the key driver of growth of the economy.

Helpman & Grossman (1991)highlight that an innovation increase and competition will cause advancement of technology and increase in the level of productivity and, therefore, stimulate development of the economy in the long run Giulio (2009); while

Romer (1990) argued that FDI speed up growth of economy through strengthening human capital, the most significant aspect in R&D effort.

On the other hand, Reis (2001) expressed a model that examines the impacts of FDI on growth of economy when return on investment may be deported. Reis states that after launching of Foreign Direct Investment, domestic companies will be replaced by overseas companies in the R&D part. This may reduce the welfare of domestic companies due to the transfer of capital returns to overseas companies. In this model, the impact of FDI on GDP growth is affected by the comparative strength of the interest rate. If the domestic interest rate is lower than world interest rate, Foreign Direct Investment has a negative influence on economic growth, while if the domestic rate of interest is higher than world rate of interest, FDI has a positive influence on economic growth.

2.3.4 Monetarist Theory

This theory states that as money supply increases than the national income growth rate, inflation originates and affect economic growth (Sattarov, 2011). This theory shows that inflation has an opposing influence on the distribution of resources functioning through a change in comparative prices. In view of (Stanley, 1993), time periods related with high inflation tends to hinder development of economy. Time periods related with low levels of inflation, on the one side, make wages and prices more flexible, indorsing growth of economy (Stanley, 1993). If low inflation is beneficial and high inflation is harmful for an economy, then it is realistic to think about an ideal level of inflation for an economy. Therefore according to monetarist theory inflation rate is negatively linked to the growth of economy.

2.4 Empirical Literature Review

Different researchers have conducted comprehensive analysis to examine the impact of service sector performance on economic growth and came with different findings. This part presents the findings obtained from different countries as follows.

2.4.1 Service Sectors and Gross Domestic Product (GDP)

Henrekson & Edquist (2016) investigated if R&D and ICT services have different effects on the total factor Productivity Growth. This study used descriptive statistics and regression analysis. The model used was perpetual inventory method (PIM). Their findings confirmed that in India the fastest growing industry is services sector, with a significant influence to GDP, inflows of FDI and trade as the whole share of this industry to the GDP of India is about 65%.

Odeleye & Olusoji (2016) conducted a study in Nigeria on the service sector potentials in transformation of the economy using quarterly data in the time frame of between 1981 and 2015 period.

The study used multiple regression analytical technique and to scrutinize the association between growth of economy (per GDP) and service sector and other components of GDP. After analysis, the results revealed that the highest contributor of GDP in Nigeria is Agriculture sector followed by service sector basing on the period between 1981 and 2015, but the results changed after extension of the period to from 1981 to 2015 where the post outcome indicated that the contribution of service industry on GDP has increased. Finally this study suggested to increase investment in service industry so as to boost the economy of Nigeria.

Ogunleye et al., (2015) conducted a sectoral analysis and found a vivid growth of the service industry in Kenya. The manufacturing and agriculture sectors, respectively contributed about 21% and 9% and service sector contributed about 57%, to the country's GDP. The evidence recommends that the share of service industry is positively associated to the growth of economy (per GDP).

Alhowaish (2014) scrutinized the role played by the service industry in the development of Saudi Arabian economy covering the time interval of between 1969 and 2012.This research work adopted the unit root test, the Granger causality test and the co-integration test acceptable to discuss the cause link between the service industry and development of the economy of Saudi Arabia. The outcomes obtained from Granger causality test revealed existence of a two-way Granger connection between the economic development and service industry that the development of economy promotes the growth of service sectors, and that services industry has a strong support to the economic development.

Bhorat et al., (2016) led a research work on the characteristics of services sector in the Southern part of Africa. Through the study they realized that the service sector had big influence on the improvement of the South Africa economy because of its contribution share to the nation’s GDP which account about two-third of it and the same share to the total employment likened to the rest of sectors to the economy. It was evidenced that structural adjustments led to the growing of services sector across many countries. Gain from employment in South Africa has catalyzed the shifting from low-productivity sectors to high productivity services industry such as communications, financial, insurances, business services (non-TES), government services and to low-productivity wholesale and retail trade under business services. South Africa labor market took into consideration education and skills which segment labor forces in high and low earnings. On other side high-productivity from modern services sectors in South Africa seem to be limited in future sustainability growth due to the low ability of education arrangements to meet the required labor resources. Study revealed that government services do not have long-run economic growth sustainability as lacking assurance on fiscal stability.

Yarrow & Decker (2012) assessed the implication of the certified legal services industry in Union of Europe. This study used quantitative approach and concluded that economic analysis and other evidences have shown that legal services had variety of impact to economies which arises from their linkage to the general institutions within the society. The report also showed that favorable economic performance is constituted by well-organized and operated legal systems. Records indicate that the GDP share accounted by revenue of legal services in 2010 was 1.1 percent in the biggest five European markets and in US economy estimated 1.8 percent of GDP share in 2007. As per WTO report US dollars 581 billion were earned at global market from legal services in 2008 at annual increase of 5 percent from 2004. Geographical regions segmented shares were; Europe 36.5 percent, US 54.1 percent and Asia – Pacific 9.4 percent

Gupta & Eichengreen (2009) conducted investigation on the two wave of service sector development in Asia. This research work used descriptive statistics and found a positive link between output of service share and income per capita, but such a correlation holds only for activities performed in service sector that are either a mixture of modern and traditional services consumed mostly by families(Households). Further, they found that modern services contribute towards highest growth of productivity among service sectors and also the share of modern service is rapidly rising at high levels of income. The researchers concluded that these results are consistent to other authors who investigated the same subject matter in Asia. However, a serious weakness is that distinct methodologies were employed in their analysis. Consequently their findings can't be generalized.

Monteagudo & Dierx (2009) scrutinized the performance of economy and services competition in the euro part: This study used time series data and indicated that services markets at euro area did not perform well as compared to the rest of the European Union due to the presence of many obstacles and restrictions on regulations within the area. Services sector was found to be of vital important as adjustment mechanism to economy within euro area. On other hand services sector such as logistics and telecommunications were found to be most interacted with other sectors and having more significant on the economic growth.

OECD (2008) examined the influence of services to growth and the function of trade regulation and liberalization. This report concluded that service industry has an influence on the global economic development as it contributes a big share to GDP, introducing new employment opportunities as well important facilitation to other sectors of the economic growth and is influencing investment environment as an indicator for achieving progressive economy. In 2000-2005 analysis had indicated service sector to have 47% share to the GDP of countries under Sub-Saharan Africa compared to 37 percent of industry and 16 percent of agriculture sectors. Infrastructure services like energy, telecommunications and transportation constitutes much on other sectors.

Another study by Hoekman & Mattoo (2008) discussed on services trade and growth. Through the study it was observed that increased level of services sector is an indication of the growth in many economies. Further, clear and adequate regulations on services sectors were found to remove more complications of reforms on trade in services and investments to the sector. For positive results to be achieved by trade in services, regulations set-up need not to differentiate at large extent between domestic and foreign firms to allow high competition at domestic market hence productivity and equity considerations.

Dasgupta & Singh (2007) scrutinized the role in emerging nations of services and manufacturing using a Kaldorian context. The findings indicated that manufacturing remains to be a leading sector contributing to the economic development, however services overall, along with many individual services also have a positive influence in a number of emerging nations for example India.

OECD (2005) conducted discussions on the growth of services in fostering employment, productivity and innovations. This report revealed that enhancement of the performance of services sector and more adjustments on service markets regulations bring new chances of firms to establish new services, fulfill economies requirements, availability of new jobs and high productivity. Services investment and international trade give positive results on growth of economy in both industrialized and emerging nations. More productivity from services will be achieved if the regulations are riverside to reduce more protection on employment. ICT services are more influencing on coordination and digitally services deliverance which had shown big impact to consumer behavior. Good set-up of fiscal policies allowing better development of the service industry and economy.

Ahsan & Ahmed (2011) came up with a study which aimed at examining the influence of services industry to the Pakistan economy. The study employed descriptive statistics in which cross country data through 1975 – 2010 were analyzed. The findings gave the conclusion that growth of the services sector is positively impacting the development of economy in Pakistan; particularly big share on the employment.

Heshmati & Uwitonze (2016) performed a study regarding the development of service sector and how it determines the economy of Rwanda. The study adopted econometric methodology approach using data covering 2011 and 2014 periods. Results from the findings suggested that service sector in Rwanda is accelerated by the finance accessibility, training personnel, wide labor force, openness and applications of ICT, emergent innovations and present tax scheme. Then the study revealed that service sector is the leading determinant economy growth as well the GDP share in Rwanda.

Qasenivalu (2008) scrutinized the impact and role of services industry on development of economy in Fiji. This study put emphasize on tourism and air services. The method employed by the study was auto regressive distributed lag method, and the time series yearly data in the interval of between 1968 and 2006 were used. Results found that service sector specifically on air services exports and tourism had a higher positive effect on development of the economy in Fiji, finally the author concluded that the GDP of the Island is positively influenced by the total services industry.

Rath & Rajesh (2006) conducted a study on implications and analytics of services industry development in the Indian economy. The study used data between 1980 and 2005 periods. OLS regression analysis model was adopted. The outcomes specified a significant and positive correlation between services industry performance and Indian economic development.

2.4.2 Factors affecting Service Sector Performance

Banga (2005) carried out a study on the critical service issues that impact development of the Indian economy. This research work adopted both time series and cross sectional approach, and used data covering 1980 – 2004 periods in analysis. The findings indicated that in the past decade, India had progressive growth on service sectors, and further concluded that domestic reforms and high level of liberalization such as removing unnecessarily barriers on trade and encouraging FDI improve service sector development. Thus the favorable FDI is positively impacting the development of service sector in India.

Bresley (2007) conducted an examination on the inflation and the service sector in England. This study employed the descriptive statistics and the use of charts in order to obtain the results. The Findings showed that inflation is positively linked to the growth of service sector.

Imran et al., (2013) led a study that aimed at examining if inflation rate matter for growth of sectors in Pakistan. This study collected data covering 1972 and 2010 periods. This work adopted ordinary least square (OLS). The outcomes presented that inflation rate is positively and significantly influencing the growth of service sector.
Singh & Kaur (2014) conducted a study on factors that determine Indian services sector. The researcher used yearly data from 2000 to 2013 periods and vector autoregressive model was adopted in analysis. The findings claimed that local investment and foreign trade have positive relationship to the share of service sector on GDP of India which contrasts to FDI having negative relationship.

In the similar vein of research, Jain et al., (2015) investigated the factors of the services sector in India. The research work employed yearly time series data covering the interval between year 2000 and 2012 periods and the estimation by OLS method. Outcomes showed that inflation rate is negatively effecting the growth of service sector and FDI has a significant and positive link with services sector development in India.

Hussain et al., (2017) investigated aspects that affect the growth of Pakistan services industry. The time variable parametric method and yearly data of 1976 – 2014 from World Development Indicators were employed. The adopted rolling regression method and indicated that FDI have a positive significant association with services sector development while the rate of inflation has a negative relationship on service sector growth in Pakistan.

Rathore et al., (2019) led a research work on factors influencing service sector's performance to GDP in Pakistan. Panel data from World Bank covering 1990 to 2017 periods was adopted. Also the autoregressive distributed lag technique was employed for data analysis. Outcomes specified that a FDI has a significant positive connection with service sector's contribution to GDP.
Salami (2018) conducted a study on factors determining of services sector growth on developing and developed nations. The study adopted a Panel data covering between 1990 and 2014 years and dynamic panel data valuation method. Results from the study had revealed that FDI net inflow is significant relating to service sector growth in developed and developing economies.

Baggs et al., (2008) came up with a study that examined how the movements on service sector firms are impacted by the real exchange rate in Canada. The time period taken under this study was between 1986 and 1997. The study employed descriptive statistics and robust standard errors. The results argued that the real interest rate has no impact on the level of service sector growth.

2.4.3 Factors affecting Economic Growth

Christopher & Dimoso (2011) led a research on the link between Foreign Direct Investment (FDI) and Tanzanian economic performance. They employed yearly time series data covering the interval of from 1970 to 2007 and adopted Granger causality test for data analysis. Findings showed two way causation between the inflow of economic development and FDI in Tanzania.

Obamuyi (2009) conducted the study on the association between growth of the economy and interest rate in Nigeria. This study was covering 1976 -2006 periods. This study modelling methods and discovered the lending rate of interest has significant effect to the growth of the economy. This work then claimed that rate of interest policies which are friendly to the investment are necessary for encouraging economic growth therefore they must be framed and implemented properly.

Erega (2010) examined how the interest rate determined the investment of Nigeria. The study used descriptive statistics and multiple regression and revealed that the interest rate variations is significantly and negatively influencing the investment level the demand for development of the economy in Nigeria.

Samuel et al., (2013) conducted a study that aimed to scrutinize the influence of macroeconomic factors on Ghana's economic growth. The study adopted Johansen method to Cointegration, using annual data covering 1980 to 2010 periods. The results of this research revealed that in long term inflation rate and FDI significantly influencing the development of economy. However rate of inflation is negatively impacting the growth of economy.

Asajile (2014) carried a research work on the influence of FDI to Tanzanian economic development. This work used time series data covering between 1975 and 2013 and adopted an Autoregressive Distributed Lag (ARDL) modeling and bound method. Results revealed a positive association between performance of the economy and FDI in Tanzania.

Ojima & Fabian (2015) carried out a study on how investment and growth is affected by rate of interest in Nigeria. The author used multiple regression. Results of his work revealed that the rate of interest has a negative effect to the level of investment and development of the economy in Nigeria.

Mushtaq & Siddiqui (2015) scrutinized how the economic performance is determined by the rate of interest in Islamic and Non-Islamic Economies. The study used fixed effect model and Panel least square separately for 17 Islamic countries and 57 non-Islamic from 2005 to 2013. The findings claimed interest rate is not the major concern of people in the Islamic countries, however GDP per capital is positively affected by savings. Moreover in the Non-Islamic countries the findings contended that the interest rate positively influence the GDP per capital

Massawe & Epaphra (2016) carried a research work on measuring the causality direction between Investment and economic growth in Tanzania. This study adopted the use of time series data between 1970 and 2014 and modified neo classical growth model for data analysis were applied. The results suggested bilateral causality between development of the economy and FDI in Tanzania.

Ajayi et al., (2017) came up with a study that aimed to scrutinize how growth of economy is influenced by interest rate in Nigeria. In order to test for the long run and short run association among inflation, real interest rate and the saving deposit this study employed Error Correction Mechanism, they further adopted granger causality test. The findings showed that an increase of rate of interest will lead to the rise of level of economic growth.

Akhi et al., (2019) scrutinized the effect of macroeconomics factors to the Bangladesh economic development. This work used macroeconomics data within the period of 1987 and 2015. Correlation and multiple regression analytical tools were adopted. The results showed that the real inflation and rate of interest are negatively associated to the GDP of Bangladesh.

Susilo (2018) examined how different sectors FDI affect the United States Economic Growth. This study used OLS method for estimation of multiple linear regression model. From the sample of ten selected sectors in US the findings revealed that the economic development of United States is significantly affected by FDI, however not all forms of FDI have influencing power to the economy.

Salami (2018) conducted a research work on the influence of exchange rate, inflation and deposit rate of interest to the economic performance in Swaziland. World Bank data covering between 1980 and 2016 were adopted and multiple regression analysis was employed for data analyzing. From the findings it was observed that inflation has positive insignificant relation with economic performance in Swaziland, deposit interest rate as well the exchange rate has negative link with development of economy in Swaziland. On the other side Lipsey (2004) scrutinized a study on the effect of host and home country FDI to the growth of economy. In this study he argued that there is no steady relationship between economic growth and the extent of FDI stock or inflows.

Toulaboe et al., (2011) carried out an investigation on how economic growth is effected by FDI. This study used the figures, tables and the regression technique to analyze data. The findings revealed an insignificant positive effect on the development of economy.

Borenzsztein et al., (1998) scrutinized a study on how growth of economy is affected by the FDI. The work employed the descriptive statistics and regression method and revealed that FDI is positively impacting the growth of economy. This study suggested that the magnitude of the impact of FDI is determined by human capital level in the host nation.

Despite the positive relationship in studies on industrialized and semi developed economies, there are limits to how far their opinion/idea can be taken in emerging economies like Tanzania due to selection bias which is a possible concern. During the review of literatures numerous research works were found explaining the connection between service sector and GDP. Many studies have emphasized on the significance of service industry to the general growth of economy since its output is perceived to be positively related with employment shares and per capita income at the international level. However, so far, there is no evidence associating the link between service sector and the general growth of economy of Tanzania. This informs the significance of this study. Further, a number of empiric supports there is a strong decline of industry and agriculture sector and a strong increase in share of service sector (McMillan et al., 2017; World Bank Group, 2016). But their findings cannot be concluded in Tanzania because most of them were conducted in developed countries where there is higher per capital income which differ with Tanzania in terms of countries Different researchers have come up with evidence with concern to the subject matter in emerged and emerging nations.

Table 2. 1: The Empirical Reviews Summary

Author/year	Nation	Nature of study	Methodology technique	Findings/Results
Henrekson & Edquist (2016)	India	Effect of R&D and ICT services on the total factor Productivity Growth	Descriptive statistics and regression analysis	Services sector has a significant contribution to GDP of India
Odeleye & Olusoji (2016)	Nigeria	The service sector potentials in transformation of the economy	Multiple regression analytical method	An increase in investment of service industry to boost the economy of Nigeria
Ogunleye et al., (2015)	Kenya	Sectoral analysis and growth of the service industry	Descriptive statistics	The share of service sector is positively linked to the development of economy
Alhowaish (2014)	Saudi Arabia	The role played by the service industry in the development of Saudi Arabian economy	Granger causality test and Co-integration test	There are two-way Granger connection between the economic development and service industry that the development of economy promotes the growth of service sectors, and that services industry has a strong support to the development of economy.
Bhorat et al., (2016)	South Africa	The characteristics of services sector	Descriptive statistics	The government services do not have long-run economic growth sustainability as lacking assurance on fiscal stability

Author/year	Country	Nature of study	Methodology technique	Findings/Results
Yarrow & Decker (2012)	Union of Europe	The implication of the professional legal services industry	Quantitative approach	Economic performance is constituted by well-organized and operated legal systems. Records indicate that the GDP share accounted by revenue of legal services
Gupta & Eichengreen (2009)	Asia	Investigation on the two wave of service sector development	Descriptive statistics	A positive link between output of service share and income per capita
Monteagudo & Dierx (2009)	Euro part	The performance of economy and services competition	Descriptive statistics & Time series	Services sector was found to be of vital important as adjustment mechanism to economy within euro area. On other hand services

				sector such as logistics and telecommunications were found to be most interacted with other sectors and having more significant on the growth of economy.
OECD (2008)	Sub-Saharan Africa	The influence of services to growth and trade role regulation and liberalization	Regression analysis	Service industry has an influence on the global economic development as it contributes a big share to GDP
Hoekman & Mattoo (2008)	World Countries	services trade and growth	Descriptive statistics	Increased level of services sector is an indication of the growth in many economies

Author/year	**Country**	**Nature of study**	**Methodology technique**	**Findings/Results**
OECD (2005)		Discussions on the growth of services in fostering employment, productivity and innovations.	Descriptive statistics	ICT services are more influencing on coordination and digitally services deliverance which had shown big impact on consumer behavior and economy
Ahsan & Ahmed (2011)	Pakistan	The influence of services industry to the Pakistan economy	Descriptive statistics	Growth of the services sector has a positive influence to the development of economy in Pakistan; particularly big share on the employment.
Heshmati & Uwitonze (2016)	Rwanda	The development of service sector and how it determines the economy	Econometric methodology approach	The study revealed that service sector is the leading determinant economy growth as well the GDP share in Rwanda.
Qasenivalu (2008)	Fiji	The impact and role of services sector on growth of economy	Auto regressive distributed lag method	The GDP of the Island is positively influenced by the total services industry
Rath & Rajesh (2006)	India	Implications and analytics of services industry development in the Indian economy.	OLS regression analysis model	The findings indicated a significant and positive correlation between services industry performance and Indian economic growth
Banga (2005)	India	The critical service issues that impact development of the Indian economy.	Time series and cross sectional approach	Favorable FDI is positively impacting the growth of service sector.

Author/year	Country	Nature of study	Methodology technique	Findings/Results
Baggs et al., (2008	Canada	Exchange rate and the movement of service sector firms	Descriptive statistics and robust standard errors	Real interest rate has an insignificant impact on he level of service sector performance
Bresley (2007)	England	The inflation and the service sector in England	Descriptive statistics	Rate of Inflation is positively linked to the development of service sector.
Imran et al., (2013)	Pakistan	Examining if inflation rate matter for growth of sectors	Ordinary least square (OLS).	Inflation rate positively and significantly impacting the growth of service sector.
Singh & Kaur (2014)	India	Factors that determine Indian services sector	Vector autoregressive model	Domestic investment and foreign trade are positively related to the service industry share on GDP of India which contrast to FDI having a negative relationship.
Jain et al., (2015)	India	The factors of the services sector in India.	OLS method	inflation rate has negative effect to growth of service sector and FDI significantly and positively related with services sector growth
Hussain et al., (2017)	Pakistan	Factors that affect the growth of services industry	Rolling regression method	FDI have a positive significant association with services sector development while the rate of inflation has a negative relationship on service sector growth in Pakistan.

Author/year	Country	Nature of study	Methodology technique	Findings/Results
Rathore et al., (2019)	Pakistan	Features influencing service sector's performance to GDP	Autoregressive distributed lag method	FDI has a significant positive connection with service industry's influence to GDP
Salami (2018)	Developing and developed nations	Factors determining services sector growth	Dynamic panel data valuation method.	FDI net inflow is significant relating to service sector growth in developed and developing economies
Christopher & Dimoso (2011)	Tanzania	the link between Foreign FDI and economic performance	Granger causality test	Two way causation between the inflow of economic development and FDI in Tanzania
Erega (2010)	Nigeria	Interest rate and	Descriptive statistics	Interest rate variations is

		investment	and multiple regression	significantly and negatively influencing the demand for growth of the economy
Obamuyi (2009)	Nigeria	Interest rate and economic growth	Descriptive statistics and modeling technique	The lending rate of interest has significant effect on economic growth
Ojima & Fabian (2015)	Nigeria	Interest rate and investment	Multiple regression	Rate of Interest has a negative effect to the level of investment and development of the economy
Samuel et al., (2013)	Ghana	The effect of macroeconomic factors on economic growth.	Johansen method to Cointegration	Inflation rate and FDI have a long term significant effect to the development of economy. Inflation is negatively impacting growth of economy

Author/year	**Country**	**Nature of study**	**Methodology technique**	**Findings/Results**
Mushtaq & Siddiqui (2015)	Islamic and Non-Islamic Economies	How the economic performance is determined by the interest rate	fixed effect model and Panel least square	For Non-Islamic countries the findings contended that the interest rate positively influence the GDP per capita For Islamic countries interest rate has no impact to the GDP per capita
Asajile (2014)	Tanzania	The effect of FDI to economic development	Autoregressive Distributed Lag (ARDL) modeling and bound method	A positive association exist between economic performance and FDI
Massawe & Epaphra (2016)	Tanzania	The causality direction between Investment and economic growth	Modified neo classical growth model	Bilateral causality between economic development and FDI
Ajayi et al., (2017)	Nigeria	Economic growth and interest rate	Error Correction Mechanism, granger causality test	An increase of interest rate will lead to the increase of level of economic growth
Chowdhury et al., (2019)	Bangladesh	Effect of macroeconomics factors to the economic growth	Correlation and multiple regression analytical tools	Real inflation and interest rate are negatively associated to the GDP
Susilo (2018)	United States	Different sectors FDI affect the United States Economic Growth	OLS method for estimation of multiple linear regression model	The economic development of United States is significantly affected by FDI,
Salami (2018)	Swaziland	The influence of exchange rate, inflation and	Multiple regression analysis	Inflation rate has positive insignificant relation with economic performance.

		deposit interest rate to the economic performance		Deposit interest rate as well the exchange rate have negative link with development of economy in Swaziland
Author/year	**Country**	**Nature of study**	**Methodology technique**	**Findings/Results**
Lipsey (2004)		The effect of host and home country FDI to the growth of economy	Descriptive statistics	No consistent relationship between economic growth and the size of FDI stock or inflows
Toulaboe et al., (2011)	Developing countries	How growth of the economy is influenced by FDI.	Descriptive statistics and regression model	The findings revealed an insignificant positive effect on the development of economy
Borenzsztein et al., (1998)		Economic growth and FDI.	descriptive statistics and regression method	FDI has a positive influence on the growth of economy

2.5 Conceptual Framework

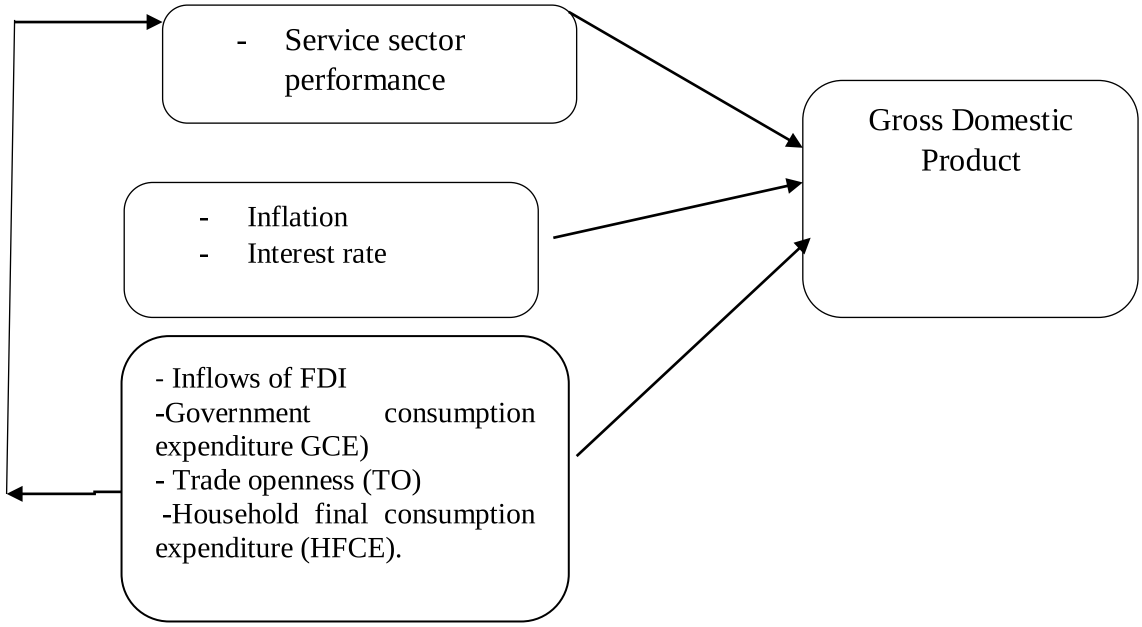
In this research, services are conceptualized as non-manufacturing and non-agricultural economic activities in companies operating in the Tanzanian economy. According to the Bank of Tanzania (BOT) services includes Trade and repairs, financial intermediation, Hotels and restaurants, Transport, Communications, Tourism, Real estate and business services, Education, Public administration, Health, Other social and personal services.

The growth of the economy is conceptualized as the rise in GDP per capita. Therefore in this work the GDP is dependent variable while service sector performances expected to impact GDP therefore is an independent variable. This part explains the direct impact of explanatory variable on the dependent variable.

The service sector and Gross Domestic Product are theoretically and empirically influenced by various variables such as inflation, rate of interest and foreign direct investment(FDI) (Hussain et al., 2017).

Figure 2. 1: Conceptual Framework of the impact of Service Sector Performance on GDP per Capita

Independent Variable **Dependent Variable**



Source: Author's own study

2.6 Hypothesis Formulation

For the purpose of finding answers for the developed objectives of this research a number of hypotheses were developed in agreement of the formulated conceptual framework. Hypotheses was developed in order to confirm on three sectors theory, economic theory, Monetarist theory and Endogenous growth theory which claim on the relationship of study variables. In light to this, the hypothesis was formulated with the aim of recognizing the link between the dependent variable and explanatory variables of this study.

2.6.1 Service Sector Performance and Economic Growth

The first objective of this study is to assess the link between service sector performance and Tanzanian economic development. It is hypothesized that there is a relation between service sector performance and growth of economy. For purpose of obtaining direction and strength of this objective the following null hypothesis is formulated.

Null hypothesis one; there is no significant link between service sector performance and growth of economy.

2.6.2 Inflation Rate and Economic Growth

The second objective is to evaluate link between inflation rates on GDP. It is predicted that there is a link between inflation and GDP. For the purpose of obtaining direction and strength of these objectives the following null hypothesis was developed.

Null hypothesis two; inflation rate has nonsignificant effect on Gross Domestic Product.

2.6.3 Household Final Consumption Expenditure and Service Sector Performance and Growth of the Economy

Third objective of this study is to inspect the link between Household Final Consumption Expenditure (HFCE) on service sector performance and GDP. It was predicted that there is link between HFCE on service sector performance and GDP. With the purpose of obtaining direction and strength of these objectives the following Null hypothesis was formulated.

Hypothesis three; Household Final Consumption Expenditure has no significant effect on service sector performance and Gross Domestic Product

2.6.4 Interest Rate and Economic Growth

Fourth objective of this study is to inspect the link between interest rate on Gross Domestic Product. It was predicted that there is a significant link between interest rate on Gross Domestic Product. In order to obtain direction and strength of these objectives the following Null hypothesis was formulated.

Null hypothesis four; Interest rate does not have significant effect on service sector performance and Gross Domestic Product

2.6.5 Government Consumption Expenditure and Service Sector Performance and Economic Growth

Fifth objective of this study is to inspect the link between Government Consumption Expenditure on service sector performance and GDP. It was predicted that there is relationship between Government Consumption Expenditure on service sector performance and GDP. So as to obtain direction and strength of these objectives the following Null hypothesis was formulated.

Hypothesis five; Government Consumption Expenditure has no significant effect on service sector performance and Gross Domestic Product

2.6.6 Foreign Direct Investment and Service Sector Performance and Growth of Economy

Sixth objective of this work was to inspect the link between foreign direct investment on service sector performance and GDP. It was predicted that there is link between FDI on service sector performance and GDP. With the intention of obtaining direction and strength of these objectives the following Null hypothesis was formulated.

Hypothesis six; foreign direct investment has no significant effect on service sector performance and Gross Domestic Product

2.6.7 Trade Openness and Service Sector Performance and Economic Growth

Seventh objective of this study is to inspect the link between Trade openness on service sector performance and GDP. It was predicted that there is link between Trade openness on service industry performance and GDP. With the aim of obtaining direction and strength of these objectives the following Null hypothesis was formulated.

Hypothesis seventh; Trade openness has no significant effect on service sector performance and Gross Domestic Product

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The focus of this section is on the methodology of the study, different approaches and tools that were used in data collection. This chapter presents research design, area of the study and population of the study, sample size and sampling techniques, data, source of data and data collection methods and analytical data techniques.

3.2 Research design

The research design of this study is a time series design, where data were to be collected at a regular interval of time for a single subject. The reason for choosing this design is simply because it is useful for keeping the track of trends, describing changes over time, forecasting the expected short term trends and establishing a baseline measure (Dielman, 1989). In addition, time series design is descriptive, according to (Gottman et al., 1969) the time series descriptive function is mainly significant when the intervention covers over a substantial time period. The duration of this study was very long thus, time series design is deemed appropriate.

3.3 Study area

This work was carried out in Tanzania. Tanzania is located in the Eastern part of Africa, In addition this country is characterized with the economic growth which subject to various sectors performances such as service, manufacturing and agricultural sector etc., as well as the macroeconomic variables such as foreign direct investment, interest rate, inflation etc.(World Bank Group, 2016).

3.4 Study population and sample size

The number of rudiments upon which the implications can be made is known as population (Copper, & Schindler, 2008). The target population for this research included all service subsectors in Tanzania such as, Trade and Repair, Accommodation &restaurant, Information and communication, Transport and storage, Financial & insurance, Professional, public administration Scientific & Technical act, Administrative & Support services, Education , Real estate, Health and

Other services (BOT, 2019). The sample size for this study comprised all service sector subsectors.

3.5 Types of Data and Sources of Data

This work employed the quantitative data as the problem was quantified in numbers and figures. The use of quantitative data is for resources and time saving, in addition, the use of quantitative data in this study made possible generalization after data collection and analysis (Daniel, 2016). According to (Denscombe, 1998) the quantitative data helped to eliminate the issue of bias during collection of data or data analysis as the researcher was not in a direct contact with the respondents.

The researcher used secondary data and collected the yearly time series data covering from 1993 to 2019 periods from World Bank Group and Bank of Tanzania (BOT). This research work adopted deductive reasoning in explaining the effect of service industry on economic development. Deductive reasoning is very useful and appropriate when the intention of the work is not to develop a theory but to test a theory (Bibel & Kreitz, 2015). Basically the aim of this study is to test theories relating to service sector which scrutinize whether this variable as supported in the theory significantly influence the economic growth.

3.6. Data Collection Technique

3.6.1 Secondary Data

In this research work the scholar collected yearly data from IMF reports, World Bank Group, Trading economics and Bank of Tanzania Data website. This study used secondary data because they have been used in prior studies and they are available from other sources, making it easier to conduct more research.

3.7 Data Analysis Method

3.7.1 Analytical Technique

In order to achieve each study specific objective, the quantitative technique was carried out. The analysis included descriptive statistics and correlation matrix to describe the general characteristics of the data. The quantitative analysis involved the use of regression analysis. This was adopted to identify the effect of service industry performance to the development of economy.

3.7.2 Model Specification

The research inspected the effect of service sector performance to economic development of Tanzania from 1993 to 2019. In other words, the study attempts to scrutinize the link between service sectors performance and growth of Tanzanian economy. Therefore, correlation and multiple regression analysis were employed to scrutinize the link between the explanatory variables and the dependent variable. The models were developed basing on the following dependent and explanatory variables:
In the OLS model where the economic development (GDP per capita) was the dependent variable, the explanatory variables were service sector performance (service GDP at constant price), inflation rate, interest rate and inflows of FDI, Trade Openness (TO), Government Consumption Expenditure (GCE) and Household Final Consumption Expenditure (HFCE).

In the OLS model where service sector performance (Service GDP at constant price) was the dependent variable, the independent/explanatory variables were inflows of FDI, government consumption expenditure GCE), trade openness (TO) and household final consumption expenditure (HFCE).

The service sector performance was measured by Service sector GDP by Economic Activity at constant price which measures the output produced at constant price (Service sector output). The government consumption expenditure (GCE) was measured by % of GDP, trade openness was measured by % of GDP, and the household final consumption expenditure (HFCE) was measured in USD Values.
In measurement of the service sector performance the adopted model was service sector productivity model, while in measuring factors affecting the service sector performance and economic growth the Ordinary Least Square model was employed.

Service Productivity Model

Katri (1999) measured the service productivity through adoption of both physical and financial measures which allowed the study to use of price indices. This model allow incorporation of all service subsectors in measuring the overall sector productivity. This study used the service productivity model which allows the use of price indices in measuring the service productivity (output). Therefore referring to the service productivity model this study formulated the following specific equation to show the service sector GDP at constant price.

$$TSS_t = \Sigma_t (TR + HR + T + FI + RBS + PA + E + H + TUR + ICT + RE) + \varepsilon_i$$

Where; TSS presents the Total Service sector GDP by Economic Activity at constant price

TR - presents the Trade and repairs GDP at constant price

HR – presents Hotels and restaurants GDP at constant price

T- Presents Transport GDP at constant price

FI - Presents Financial intermediation GDP at constant price

RBS - Real estate and business services GDP at constant price

PA –presents Public administration GDP at constant price

E – Presents Education GDP at constant price

H – Presents Health GDP at constant price at constant price

TUR – Presents Tourism at constant price at constant price

ICT – Information and communication at constant price

RE – Real Estate

ε_i – Error term

Ordinary Least Square Model

According to the previous studies on the service sector, the models adopted have been based on specification of two variables, service sector outputs and Gross domestic product, for instance (Ishola & Olusoji, 2020) tested for causality between service sector outputs and economic growth, and (Oh, 2003) for analyzing the granger causality between service sector in Korea and development of the economy. No subject on the subject matter have been conducted in Tanzania, however in Fiji the model adopted in modeling the economy on the service sector was Computable General Equilibrium (Qasenivalu, 2008). This study used OLS model in estimation similar to (Ishola & Olusoji, 2020; Oluwatoyese & Applanaidu, 2013) who used the same model when estimating the effect on service sector performance (service output) in the economy.

In this work the Ordinary Least Square Model (OLS) was adopted to test objective three and four. The OLS model form is as follows;

$$Yi = ß_0 + \Sigma_k ß_k x_{ik} + \varepsilon_i$$

Where:

y_i - presents the dependent variable at i

X_{ik} - Presents the explanatory variable at i

ε_i - Presents the error term at i

$ß_k$ – presents column vector of regression coefficient

$ß_0$ – presents the intercepts

The parameters of this model are assessed in the entire area of the study, and the link between the explanatory variables and dependent variable are considered stationary. But, in reality, in the field of growth of economy, the impact of each independent variable on the response variable might vary from country to country (Ran et al., 2019).

The Model for the Service Sector on Economic Growth has the following specific form*;*

$LnGDP = ß0 + ß_1X_1 + \mu$

Where, lnGDP stands for dependent variable natural logarithm of Gross Domestic Product per capita

ß0 stands for constant term

β stands for coefficients

X1 stands for independent variable service GDP by Economic Activity at constant price

μ is the error term

The Model for Factors affecting Service Sectors Performance has the following specific form*;*

$lnSSO = ß0 + ß1FDI + ß2TO + ß3GCE + ß3HFCE + \mu$

Where; lnSSO presents the natural log of Service sector GDP by Economic Activity at constant price (Service sector output)

ß0 stands for constant term

β stands for coefficients

FDI presents the inflows of FDI

TO presents the Trade openness (TO)

GCE presents the government consumption expenditure (GCE)

HFCE presents the household final consumption expenditure (HFCE)

μ is the error term

As applied in numerous empirical studies on service sector performance, the service sector output/ Service sector GDP by Economic Activity at constant price is the measure of the service sector growth/performance (Oluwatoyese & Applanaidu, 2013).Also a study conducted in Rwanda measured the service sector growth/performance by using the GDP of service at constant price (Uwitonze & Heshmati, 2016).

The Model for Factors affecting GDP per Capita has the following specific form;

$$GDP = ß0 + ß_1X_1 + ß_2X_2 + ß_3X_3 + ß_4X_4 + ß_5X_5 + ß_6X_6 + \mu$$

Where, GDP stands for dependent variable natural log of GDP per capita

ß0 stands for constant term

β stands for coefficients

X1 stands for independent variable inflation rate

X2 stands for independent variable household final consumption expenditure (HFCE)

X3 stands for independent variable interest rate

X4 presents the government consumption expenditure (GCE)

X5 presents the FDI inflows

X6 presents the Trade openness (TO)

μ is the error term

As applied in numerous empirical studies on growth economy, the GDP per capita which is the dependent variable is the proxy of the growth of economy (Alhowaish, 2014; Ishola & Olusoji, 2020).

3.8 Test Variables

In this study a researcher selected four variables to test with the intention of determining the problem discussed in the introduction part. The first test based on H_{1X} which concerns how the service sector performance impact the Gross Domestic Product per capital. The second test based on the H_{2X} which concerns the impact of interest rate on Gross Domestic Product per capita, the third test variable was on H_{3x} which concerns on the effect of inflation rate on GDP per capita and the fourth test variable was on H_{4x} which concerns on the effect of FDI in Gross Domestic Product per capital in Tanzania, H_{5x} which concerns the impact of trade openness on Service Sector performance, H_{6x} which concerns the effect of government consumption expenditure on service sector performance, H_{4x} which concerns the impact of Household Final Consumption Expenditure on service sector performance.

Table 3. 1: Summary of Variables Measurement

S/NO	Variable name	Data requirement/measurement	Source of data	Analytical tool
1	Dependent variable (Economic growth)	The Gross Domestic Product measured from expenditure of services and goods within a period of time and expressed in TZS	Data from IMF reports and World Bank Group and Trading economics	Descriptive statistics, time series data
2	Independent variable (Service sector performance)	The service sector output/production (Service GDP at Constant price)	Data from the Bank of Tanzania website	Descriptive statistics
3	Independent variable (Household final consumption expenditure (HFCE))	The household final consumption expenditure values	Data from IMF reports and World Bank Group	Descriptive statistics
4	Independent Variable (Trade openness)	The Trade (% of GDP)	Data from World Bank Group	Descriptive statistics
5	Independent Variable (Government consumption expenditure (GCE))	Final consumption expenditure (% of GDP)	Data from World Bank Group	Descriptive statistics
6	Independent variable (Inflation rate)	The customer price index from Tanzania wa used	Data from World Bank Group	Descriptive statistics
7	Independent variable (Rate of interest)	The rate of interest set by the central Bank of Tanzania	Data from World Bank	Descriptive statistics
8	Independent variable (Foreign Direct Investment)	Net inflows of FDI (% of GDP)	Published FDI data from Centre of investment, bureau statistics and central bank	Descriptive statistics

CHAPTER FOUR

PRESENTATION OF FINDINGS AND DATA ANALYSIS

4.1 Introduction

This section presents the descriptive statistics, results of the study, stationary test results, Pearson correlation matrix results, presentation of diagnostic tests and interpretation on the impact of service sector performance to the economic growth in Tanzania. The presentation of findings were led by the succeeding specific objectives: (i) to assess the performance of Service Sector in Tanzania, (ii) to scrutinize the growth of economy and trends in Tanzania, (iii) to assess the link between service sector performance and economic growth in Tanzania, and (iv) to examine the factors affecting service sector performance and Economic Growth in Tanzania.

4.2 Descriptive Statistics

Table 4. 1: Summary Statistics results

Variable	*Obs.*	*Mean*	*Std. Dev.*	*Min*	*Max*
GDP per Capita	27	602.6636	306.0008	157.0608	1095.454
SS	27	1.09e+07	8417044	1834029	2.64e+07
INFL	27	10.54229	7.998908	3.464281	34.08336
INT	27	6.605901	7.570817	-26.49958	14.541
FDI	27	2.906354	1.308871	.4804884	5.663728
TO	27	41.3216	13.05042	23.36092	65.69072
GCE	27	80.13026	9.727681	67.94122	103.1497
HFCE	27	2.43e+13	2.38e+13	1.45e+12	7.97e+13

Prepared by researcher with data from the Central Bank of Tanzania (BOT) and the World Bank

It can be observed from the table 4.1 above that under the reviewed period, in Tanzania the average GDP per capita is 602.6636TZS over the duration of the study. However the GDP per capita standard deviation is 306.00TZS which show that GDP per capita is in minimum risk. Further the GDP per capita can be expected to be 602.6636TZS. It is also evident that the minimum value of GDP per capita attained is 157.0608TZS and the maximum is 1095.454TZS, indicating a slight variation between the max and min which might be influenced by the fact that the economy of Tanzania is still low and emerging.

Table 4.1 shows that in Tanzania the service sector performance as measured by the service GDP constant price have higher productivity (output) which is shown by an average value of TZS 1.09e+07 Million during the sample period, which is greater than the standard deviation of TZS 8417044 Million. The greatest values of service GDP at constant price is very high as shown in the maximum of TZS 2.64e+07 Million compared to the lowest value which is very small as shown by the minimum value of TZS 1834029 Million. This propose a fast significant growth of the service industry productivity in Tanzania. This might be influenced by the increase in government spending in the service industry, the growth of tourism subsector which is recently taking more pace of development, and other service GDP government reforms.

The trade openness has an average value of 41.3216, this mean that the trade openness is highly related to Gross Domestic Product, with a standard deviation of 13.05042. The average value of Trade Openness shows that Tanzania have high total income of imports and exports than the Gross Domestic Product, with the standard deviation of 13.05042. The greatest and lowest values are 65.69072 and 23.36092 respectively. This might be influenced by the fact that the economy of Tanzania depends on the international trade, due to more importation goods and services. However, this result might be giving a meaning that the Trade Openness is more appreciating than depreciating due to the positive average value of trade openness.

Inflation rate has the average value of 10.54229, and a standard deviation of 7.998908, whereas the greatest and lowest values of are 34.08336 and 3.464281 respectively. The mean shows the presence of high inflation in Tanzania. This might be caused by exchange rate depreciation and the rise in oil price globally.

Table 4.1 above the outcomes openly shows that inflows FDI has an average value of 2.906354 with a lowest of .4804884 and a greatest values of 5.663728 and standard deviation of 1.308871. Showing that the Tanzania has an average FDI inflows of 2.906354 which indicates an increase of FDI inflows compared to the standard deviation of 1.308871. This might be contributed by several measures for example tax reliefs, improvement of infrastructures and investment policies.

The mean value of the rate of interest is 6.605901 which is low compared to the standard deviation of 7.570817. This mean that in Tanzania there is higher interest rate which suggests high demand for money. The lowest and the greatest values are -26.49958 and 14.541 respectively. The average value of interest rate have a positive sign which proposes that in Tanzania the interest rate is depreciating more than appreciating.

From the table 4.1 the Government consumption expenditure represents 80.13% of the GDP during the study period, with a minimum of 67.94% and a maximum of 103.15% in 2017 and 1993 respectively. In the time being the government consumption expenditure volatility is 9.73% as shown in the standard deviation.

The household final consumption expenditure contribute to the GDP by an average has an average value of TZS2.43e+13 Million during the study period, with the lowest and minimum values of TZS 1.45e+12 and 7.97e+13 respectively. However, the household final consumption expenditure has a standard deviation of TZS 2.38e+13Million which is very risk to the GDP of Tanzania. This might be influenced by low wealth, low income high expectation of risk in the future income, poor education, high rate of interest and family size.

4.3 Study Results

Table 4. 2: The Service sector GDP at constant price between 1993 and 2019

Years	Total Service sector GDP at constant rice (TZS MILLION)
1993	1834029.00
1994	1992325.00
1995	2012875.00
1996	2403693.00
1997	2634456.00
1998	2767188.00
1999	3241264.00
2000	3693800.00
2001	4139962.00
2002	4617402.00
2003	5174913.00
2004	5870446.00
2005	6786597.00
2006	7773898.00
2007	9076622.47
2008	10846586.8
2009	12346842.7
2010	14188184.9
2011	16525870.5
2012	17520835.1
2013	18767585.4
2014	20119051.3
2015	21511358.1
2016	23138495.6
2017	24102398.4
2018	25012931.4
2019	26387286.4

Prepared by researcher with data from the Central Bank of Tanzania (BOT)

The service sector is one of the components that influence in the Tanzanian GDP, Table 4.2 shows growth in Services GDP by Economic Activity at constant price over time. According to (Plecher, 2020), the service sector contributed to 37.92 percent of GDP (at constant price) in Tanzania from the period 2007 to 2017, which is more than the contribution of Agriculture and industry which that accounted 28.74% and 25.1% respectively. During the same period total services output grew on an average

of 32% of GDP over the same period and grew at a slower rate of 2.5% per year (BOT, 2019).
The service industry play a significant role in Tanzania because of its contribution in terms of employment whereby majority of people get paid billions of money as income. From 2016 to 2019, the service sector contributed in employment with an average of 27.24% of total employment paid compared to 6.67%% in industry, and 66.085%% in agriculture (Plecher, 2020). Moreover, in 2012 the service sector accounted for over 90% of companies and 85% of employment in its subsectors, with over 800,000 labors.

In Tanzania the significant contributor of GDP are wholesale and retail trade; repairs, Transport and storage, Accommodation and Food Services Financial and insurance activities Real estate (BOT, 2019). Within this category the trade service seem to have a significant contribution on employment in spite of their reasonably low output, whereas subsectors of the service industry such as transportation and business services exhibit higher output and advance the environment for other companies to function.

However, in the wholesale and retail trade which represents also the tourism sector in Tanzania play a main role in contributing more to the structural change and growth of Tanzania Economy (GDP). The tourism sector contribute high percent in wholesale and retail trade and the GDP of a country. In 2017, $ 3 billion of foreign exchange in Tanzania was contributed by tourism sector which was 25% of the foreign exchange in a country (Admin, 2020). And also around 700,000 persons were employed and received millions of income. Also Financial and insurance activities, Information and communication and Public administration and defense have significantly.

4.3.2 The Economic Growth and Trend in Tanzania

Table 4. 3: The Gross Domestic Product per Capita Growth between 1993 and 2019

Years	GDP per capita (TZS)
1993	157.0608183
1994	161.1769355
1995	182.3618837
1996	219.5501888
1997	253.4759513
1998	395.5326846
1999	400.2636844
2000	410.9523276
2001	406.5386686
2002	411.9723458
2003	431.2796931
2004	459.2592825
2005	492.6313793
2006	485.4974874
2007	552.8395296
2008	687.3904455
2009	695.2167768
2010	743.4037847
2011	781.4370143
2012	867.8676806
2013	970.4169384
2014	1030.092917
2015	947.9334465
2016	966.4746224
2017	1004.841121
2018	1060.994615
2019	1095.45373

Prepared by researcher with data from the Central Bank of Tanzania (BOT)

Table 4.3 presents the trend of economic growth of Tanzania which was proxied by the GDP per capita. Tanzania is one of the East African countries, during 1993 – 2019, the country has been experiencing an upward fluctuation of its gross domestic product per capita (economic development) accordingly of different aspects in the market economy.

The table 4.2 shows that since the 1993 Tanzania experienced a very high economic growth. The country recorded the highest GDP per capita in 2019, which amounted 1095.45Tzs, and the lowest GDP per capita in 1993, which amounted 157.06Tzs. Some researchers, such as Matthew et al., (2011) indicated that the takeoff began in 1996. However, the finding of this study shows that since 1993, Tanzania has greatly done well in terms of GDP per capita (economic growth).

The acceleration of economic growth trend in Tanzania has been increasing since 1993 to 2019. However, this increasing experienced slight declines in 2001, 2006 and 2015. In 2015 the decline might have been influenced by deterioration of trade balance, lower level of FDI inflows and exports constricting as well as the country's general election. The figure shows an upward movement of GDP per capita from 1993 to 2005 where there is a slightly decline then it started to rise. Again in 2010 there was an increase in GDP per capita until 2014. A decline is also recorded in 2015, however after 2016 there was a high recorded increase in GDP line till 2019. This might have been contributed by improvement of public administration, proper management resources, increased government expenditure on infrastructure, increased investment, consumption and exports, this was also recommended by (World Bank Group, 2020).

The overall movement of GDP per capita indicates an upward movement from 1993 to 2019 which might have been influenced by the economic reforms which were undertaken in the market since 1980s. The main aspect behind the high progression of this economic growth comprises the major structural changes that happened in the country as the basic institutions were presented in the market economy.
Some of the economic reforms/ structural changes that might have caused the growth of GDP per capita includes among others the; relaxation of FDI rules, implementation of privatization, banking reforms, implementation of programmes that aimed at improving the health and education service sector, buyers were allowed to import some goods using their own funds, reduction of the black market for foreign exchange (Sebastian, 2012). Therefore from the table 4.3 the researcher suggests that economic growth of Tanzania recorded a better growth between 1993 and 2019.

4.3.3 Relationship between Service Sector Performance and Economic Growth

Objective three of this study has been untaken under this part to reveal the empirical analysis of the link between service sector performance and growth of economy. The regression analysis was employed by the researcher to show how these variables are related. In order to carry out this analysis these variables were changed to the natural logarithm of the second difference to make the variables stationary as it was suggested by other prior researchers (Senhadji & Khan, 2000). And also they suggested that to some extent the natural logarithm data can smooth distribution of data.

Since this study involves the time series data it was necessary to test for stationarity of data. In order to perform the stationarity test for the variables of the study, the Augmented Dickey Fuller (ADF) was employed. In the time series literature the standard procedures recommends that it is significant for the researcher to check first for unit root in series before performing the equation estimation. In existence of unit root test then a certain series is considered as non-stationary. Thus estimation on non-stationary variable might lead to spurious findings which may not be valid for forecasting (Rubinfeld & Pyndick, 1998). With the intention of avoiding spurious findings the study used ADF test in estimating the unit root test. The preliminary analysis were carried by unit root test and Pearson correlation matrix.

4.3.3.1 Unit Root Test

Table 4. 4: Augmented Dickey Fuller (ADF) test results

	Test Statistic	*5% Critical Value*	*P-value*
LnGDP per Capita, lags(1)	*-4.245*	*-2.997*	*0.0003*
lnSSO lags(1)	-4.102	-2.997	0.0011
Inflation rate, lags(1)	-3.505	-2.997	0.0389
Interest rate, lags(0)	-4.441	-2.997	0.0003
FDI, lags(0)	-3.652	-2.997	0.0048
Trade Openness, lag (2)	-3.471	-3.000	0.0088
GCE, lag (1)	-3.279	-3.000	0.0158
HFCE	-4.209	-3.000	0.0042

The results obtained from table 4.4 reveals that at lag 1 for the Log of GDP per capita the t test statistics is -4.245 which is greater than 5% critical value of -2.997, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary.

Therefore we accept the alternative hypothesis that the log of GDP per capital is stationary.

The results of Log of Service Sector Performance (SSP) at lag 1 shows that the test statistics is -4.102 which is greater than 5% critical value of -2.997, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that Log of Service Sector Performance (SSP) is stationary.

The results of inflation rate at lag 1 shows that the test statistics is -3.505 which is greater than 5% critical value of -2.997, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the inflation rate is stationary.

The outcomes of interest rate at lag 0 shows that the test statistics is -4.441 which is greater than 5% critical value of -2.997, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the interest rate is stationary.

The results of FDI inflows at lag 0 shows that the test statistics is -3.652 which is greater than 5% critical value of -2.997, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the FDI inflows is stationary.

The results of Trade Openness at lag 2 shows that the test statistics is -3.471 which is greater than 5% critical value of -3.000, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the Trade Openness is stationary.

The results of Government Consumption Expenditure at lag 1 shows that the test statistics is -3.279 which is greater than 5% critical value of -3.000, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the Government Consumption Expenditure is stationary.

The results of Household Final Consumption Expenditure at lag 1 shows that the test statistics is -4.209 which is greater than 5% critical value of -3.000, thus we reject Null Hypothesis of the Unit root test that the variable is non-stationary. Therefore we accept the alternative hypothesis that the Household Final Consumption Expenditure.

The results on table 4.4 shows that some of the variables were stationary but others were non-stationary in levels, (0), but after first differencing or integrating order one, lag (1) and lag (2) they become stationary, which provided the not sufficient but necessary rationale for Counteraction estimation or error correction models.

4.3.3.2 Pearson Correlation Matrix Results

Table 4. 5: Correlation results for Factors affecting Economic Growth (GDP per Capita)

	LnGDP per capita	***lnSS***	***INFL***	***INTL***	***FDI***	***TO***	***GCE***	***HFCE***
LnGDP per capita	1.0000							
lnSS	0.9678** 0.0000	1.0000						
INFL	-0.7406** 0.0000	-0.6173* 0.0006	1.0000					
INTR	0.0348 0.8631	0.1329 0.5087	-0.1198 0.5516	1.0000				
FDI	0.3697 0.0577	0.2872 0.1464	-0.3579 0.066	0.0779 0.6993	1.0000			
TO	-0.3754 0.0537	-0.1975 0.3233	0.0772** 0.0000	0.0168 0.9338	-0.0373 0.8535	1.0000		
GCE	-0.9499** 0.0000	-0.1908** 0.0000	0.0815** 0.0000	-0.0605 0.7644	-0.3896* 0.0445	0.4452* 0.0200	1.0000	
HFCE	0.7877** 0.0000	0.8292** 0.0000	-0.4453* 0.0199	0.0852 0.6727	0.0841 0.6765	-0.1837 0.3592	-0.6450** 0.0003	1.0000

* indicates the significance level at 0.05

** indicates the significance level at 0.01

The finding in table 4.4 above reveal that service sector performance (lnSS) has a strong positive correlation with Gross Domestic Product per capita, r = 0.9678. Suggesting that as the service sector performance increase it will lead to an increase of GDP per capita. This proposes the presence of a logical link between service sector

performance and growth economy (GDP).This might be influenced by the fact that a growth of service sector performance create employment.
The results from the table above reveal that inflation rate has a strong negative relationship with GDP, r = -0.7406. Showing that a rise of inflation rate will cause a strong decrease of Gross Domestic Product. Corresponding, this result suggests that inflation is not well controlled, the interest rate is very low or it is due to sector specific causes. The negative link might be due to fact high national debt and an increase in money supply in Tanzania.

There is a very weak positive link between interest rate and GDP per capita, r = 0.0348. Suggesting that as the interest rate increase also the GDP per capita will increase. This result might be influenced by the level of unemployment or the monetary policy.

There is a weak positive link between inflows of FDI and GDP per capita, r = 0.3697. This outcome shows that a rise of in inflows of FDI will cause a consistent increase of GDP per capital. This might be influenced by government barriers such as taxation policies and other investment policies.

There is a negative but weak link between Trade Openness (TO) and GDP per capita, r = -0.3754. This result proposes that an increase in TO will result to a consistent decrease of GDP. This proposes that the correlation between GDP and trade openness is not logical, thus the probability for the indirect link to occur is very low. This might be subject to high tariffs in trade, high custom duty and free movement of services and goods in the Tanzania.

There is a very strong negative link between Government Consumption Expenditure (GCE) and GDP per capita, r = -0.9499. This result indicates that an increase in GCE will result to a consistent strong decrease of GDP. The strong link might be influenced by a rise of public spending/expenditure such as infrastructure, healthcare, security, housing, education etc.

There is a strong positive link between Household Final Consumption Expenditure (HFCE) and GDP, r = 0.7877. This result indicates that an increase in HFCE will result to a consistent strong increase of GDP per capita. This might be influenced high expected income, rate of interest, high income distribution wealth and liquid assets, consumer credit etc.

4.3.3.3 Regression result of the relationship between Service Sector Performance and Growth of Eeconomy

From table 4.4 below, the coefficient of determination shows that 54.09% variation on economic growth measured by the GDP per capital is explained by service sector performance. The outcome of R-square indicates that the remaining 45.91% of the economic growth (GDP) might be explained by other aspects such as the agricultural sector performance, manufacturing sector performance and the macroeconomic influences such as inflation, interest rate and FDI inflows.

The findings of the regression result in table 4.4 below reveal that the economic growth (GDP per capita) would be at -3.843183 in absence of service sector performance. The corresponding p-value is 0.005. Since 0.005 is less than 0.05, this suggests that the constant coefficient is significant at 0.05 level of significance.

Table 4. 6: Service Sector Performance and GDP per Capita regression results

Source	*SS*	*df*	*MS*		
Model	*8.76197551*	*1*	*8.76197551*	*Number of obs*	*= 27*
Residual	*.592971249*	*25*	*.02371885*	*F(1, 25)*	*= 365.41*
Total	*9.35494676*	*26*	*.359805645*	*Prob > F*	*= 0.0000*
				R-squared	*= 0.5409*
				Adj R-squared	*= 0.5341*
				Root MSE	*= .15401*

GDPperCapi~l	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
lnSSP	.6367614	.0331301	19.22	0.000	. 5685287	.7049941
_cons	-3.843183	.5259261	-7.31	0.000	-4.926348	-2.760018

The result shows that service sector performance has a positive effect on growth of economy (GDP per capita). Also the study reveals that as the service sector GDP at constant price increase by 1unit also the economic growth will increase by .6367614unit. Therefore the results suggests that at 5% level of significance, service sector performance has a significant positive impact on the growth of the economy.

T-test was conducted to test the null hypothesis that there is no significant link between service sector performance and growth economy. The regression results show that t-test value for service sector performance is 19.22 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since probability value is less than level of significant.

4.3.4 Factors affecting Service Sector Performance and Economic Growth (GDP per Capita)

4.3.4.1 Factors affecting Service Sector Performance

The test on the goodness of fit showed that 94.86% variation on service sector performance is explained by FDI inflows, Trade openness (TO), Government Consumption Expenditure (GCE) and Household Final Consumption Expenditure (HFCE). This outcome of Adj R-squared indicates that the remaining 5.14% of the service sector performance must be explained by other aspects for instance population growth, employment (in service) etc.

The findings of the regression result reveal that the service sector GDP at constant price would be at 20.78741 in absence of FDI inflows, Trade openness (TO), Government Consumption Expenditure (GCE) and Household Final Consumption Expenditure (HFCE). The corresponding p-value is 0.000. Since 0.000 is less than 0.05, this suggests that the constant coefficient is significant at 5% level of significance.

Table 4. 7: Factors affecting Service Sector GDP at constant price

Source |	SS	df	MS	
-------------+------------------------------				Number of obs = 27
Model |	20.6691125	4	5.16727813	F(4, 22) = 120.86
Residual |	.940580599	22	.042753664	Prob > F = 0.0000
-------------+------------------------------				R-squared = 0.9565
				Adj R-squared = 0.9486
Total |	21.6096931	26	.831142043	Root MSE = .20677

lnSSP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
FDI	-.026674	.0354173	-0.75	0.459		-.100125
TO	.046777					
GCE	.0149896	.00359	4.18	0.000		.0075443
HFCE	.0224348					
	-.0726987	.0068994	-10.54	0.000	-.0870073	-
	.0583902					
	1.42e-14	2.34e-15	6.07	0.000	9.37e-15	1.91e-14
_cons	20.78741	.5961328	34.87	0.000	19.5511	22.02371

(i) The relationship between inflows of FDI and Service GDP at constant price

The result of the study indicates that inflows of FDI has an insignificant negative impact on service sector performance. Moreover the finding of the study reveals that as the inflows of FDI increases by 1 unit service sector performance decreases by .026674 unit. Thus the results indicate that at 5% level of significance, FDI inflows have an insignificant negative impact on the service sector performance (service GDP at constant price).

T-test was conducted to test the null hypothesis that there is no significant link between inflows of FDI and service sector performance. The regression results show that t-test value for FDI inflows is -0.75 which is insignificant with p-value of 0.459 at 0.05 level of significant (i.e. 0.459 is greater than 0.05). Therefore we fail to reject the null hypothesis since p value is greater than level of significant.

(ii) The relationship between Trade Openness and Service GDP at constant price

The results showed that trade openness has a positive significant effect on service GDP at constant price. Also the finding of the study reveals that as the trade openness increases by 1 unit the service GDP at constant price increases by .0149896unit. Thus the results suggest that at 5% level of significance, trade openness is significantly, but positively impacting the service GDP at constant price.

T-test was conducted to test the null hypothesis that there is no significant link between service sector performance and Trade openness. The regression results show that t-test value for Trade openness is 4.18 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since p value is less than level of significant. And accept alternative hypothesis that openness to trade has a significant effect on service sector performance.

(iii) The relationship between Government Consumption Expenditure (GCE) and Service Sector Performance (SSP)

The findings of the study display that GCE has a negative significant effect on service GDP at constant price. Also the finding of the study reveals that as the Government Consumption Expenditure (GCE) increases by 1 unit the service GDP at constant price decreases by .0726987unit. Thus the outcomes propose that at 5% level of significance, GCE has a significant negative impact on the service GDP at constant price

T-test was conducted to test the null hypothesis that there is no significant link between GCE and service sector performance. The regression results show that t-test value for Government Consumption Expenditure (GCE) is -10.54 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since p value is less than level of significant. And accept the alternative hypothesis that the Government Consumption Expenditure (GCE) has a significant impact on service sector performance

.

(iv) The relationship between Household Final Consumption Expenditure (HFCE) and Service Sector Performance

The results of the study show that Household Final Consumption Expenditure (HFCE) is positively and significantly influencing on service GDP at constant price. Also the finding of the study reveals that as the Household Final Consumption Expenditure (HFCE) increases by 1 unit the service GDP at constant price increases by 1.42e-14unit. Thus the results propose that at 5% level of significance, HFCE has a significant positive impact on the service GDP at constant price

T-test was conducted to test the null hypothesis that there is no significant link between Household Final Consumption Expenditure (HFCE) and service sector performance. The regression results show that t-test value for Household Final Consumption Expenditure (HFCE) is 6.07 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since p value is less than level of significant. And accept the alternative hypothesis that the HFCE has a significant impact on service sector performance.

4.3.4.2 Factors affecting Economic Growth (GDP per Capita)

From table 4.6 below, the test on the goodness of fit showed that 94.77% variation on economic growth is explained by FDI inflows, Trade openness, Government Consumption Expenditure and Household Final Consumption Expenditure (HFCE), inflation, and interest rate. The Adj R-squared indicates that the remaining 5.23% of the growth of economy (GDP per capita) must be explained factors other than such as the FDI inflows, Trade openness, Government Consumption Expenditure and Household Final Consumption Expenditure (HFCE), inflation, and interest rate.

The findings of the regression result reveal that the economic growth would be at 9.682837 in absence of FDI inflows, Trade openness, Government Consumption Expenditure and Household Final Consumption Expenditure (HFCE), inflation, and interest rate. The corresponding p-value is 0.000. Since 0.000 is less than 0.05, this suggests that the constant coefficient is significant at 5% level of significance

Table 4. 8: Factors affecting Economic Growth regression results

Source	*SS*	*df*	*MS*		
				Number of obs =	*27*
				F(6, 20) =	*79.60*
Model	*8.97893744*	*6*	*1.49648957*	*Prob > F =*	*0.0000*
Residual	*.37600932*	*20*	*.018800466*	*R-squared =*	*0.9598*
				Adj R-squared =	*0.9477*
Total	*9.35494676*	*26*	*.359805645*	*Root MSE =*	*.13711*

GDP per capita	Coef. Interval]	Std. Err.	t	P>|t|	[95% Conf.
INF	.0034802	.0105091	0.33	0.744	-.0184413
HFCE	.0254018				
INT	8.03e-15	1.56e-15	5.15	0.000	4.78e-15 1.13e-14
GCE	-.0029569	.0037078	-0.80	0.435	-.0106912
FDI	.0047774				
TO	-.046289	.006509	-7.11	0.000	-.0598667 -
_cons	.0327114				
	.0317663	.0248463	1.28	0.216	-.0200623
	.0835948				
	-.0007043	.0041839	-0.17	0.868	-.0094317
	.0080231				
	9.682837	.5443894	17.79	0.000	8.54726 10.81841

(i) The relationship between Inflation Rate and Economic Growth (GDP per Capita)

The result of the study indicates that inflation rate has a positive impact on economic growth. Moreover the finding of the study reveals that as the inflation rate increases by 1 unit the economic growth increase by 0.0034802unit. Thus the result indicates that at 5% level of significance, inflation rate has an insignificant positive impact on the economic growth.

T-test was conducted to test the null hypothesis that there is no significant relationship between inflation rate and economic growth. The regression results show that t-test value for inflation rate is 0.33 which is insignificant with p-value of 0.744 at 0.05 level of significant (i.e. 0.744 is greater than 0.05). Therefore we fail to reject the null hypothesis since p value is greater than level of significant.

(ii) The relationship between Household Final Consumption Expenditure (HFCE) and Growth of Economy (GDP per Capita)

The results of the study show that household final consumption expenditure is positively impacting growth of economy. Also this finding suggests that as the household final consumption expenditure increases by 1 unit the growth of economy increases by 8.03e-15units. Thus the results suggest that at 5% level of significance, household final consumption expenditure has a significant positive impact on the economic growth.

T-test was conducted to test the null hypothesis that there is no significant link between HFCE and growth of economy. The regression results show that t-test value for household final consumption expenditure is 5.15 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since probability value is less than level of significant.

(iii) The relationship between Interest Rate and Economic Growth (GDP per Capita)

The results of the work show that interest rate has a negative effect on growth of economy. Also this finding suggests that as the interest rate increases by 1 unit the economic growth decreases by 0.0029569unit. Thus the findings propose that at 5% level of significance, interest rate has an insignificant negative impact on the economic growth.

T-test was conducted to test the null hypothesis that there is no significant relationship between interest rate and growth economy. The regression results show that t-test value for interest rate is -0.80 which is insignificant with p-value of 0.435 at 0.05 level of significant (i.e. 0.435 is greater than 0.05). Therefore we fail to reject the null hypothesis since probability value is greater than level of significant.

(iv) The relationship between Government Consumption Expenditure (GCE) and Economic Growth (GDP per Capita)

The results of the work show that Government Consumption Expenditure (GCE) is negatively impacting growth of economy. Also this finding suggests that as the Government Consumption Expenditure (GCE) increases by 1 unit the economic growth decreases by 0.046289unit. Thus the results propose that at 5% level of significance, Government Consumption Expenditure (GCE) significantly and negatively impact the growth of economy.

T-test was conducted to test the null hypothesis that there is no significant link between Government Consumption Expenditure (GCE) and growth of economy. The regression results show that t-test value for Government Consumption Expenditure (GCE) is -7.11 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis since probability value is less than level of significant.

(v) The relationship between FDI inflows and Economic Growth

The result reveals that FDI inflows have a positive impact on growth of economy. The finding of the study reveals that as the inflows of FDI increases by 1 unit the economic growth increases by 0.03176631unit. Accordingly the results suggest that at 5% level of significance, FDI inflow has an insignificant, but positive effect on the growth of economy.

T-test was conducted to test the null hypothesis that there is no significant link between FDI inflows and growth of economy. The regression results show that t-test value for FDI inflows is 1.28 which is insignificant with p-value of 0.216 at 0.05 level of significant (i.e. 0.216 is greater than 0.05). Therefore we fail to reject the null hypothesis since p-value is greater than level of significant.

(vi) The relationship between Trade Openness and Economic Growth (GDP per Capita)

The result reveals that trade openness have a negative impact on growth of economy. The finding of the study reveals that as the trade openness increases by 1 unit the economic growth decreases by 0.0007043unit. Accordingly the results propose that at 5% level of significance, trade openness have an insignificant negative effect on the growth of economy.

T-test was conducted to test the null hypothesis that there is no significant link between trade openness and growth of economy. The regression results show that t-test value for trade openness is -0.17 which is insignificant with p-value of 0.868 at 0.05 level of significant (i.e. 0.868 is greater than 0.05). Therefore we fail to reject the null hypothesis since p-value is greater than level of significant

4.4 Chapter Summary

This section contains the findings of the study. It includes the Unit root tests, descriptive statistics analysis, correlation matrix, regression results using the Ordinary Least Square (OLS) as well and the findings of hypothesis testing.

The existing results reveal that some of the variables were stationary but others were non-stationary in levels, (0), but after first differencing or integrating order one, lag (1) they become stationary.

The correlation matrix results revealed that that service sector performance (lnSS) has a strong positive correlation with Gross Domestic Product per capita, inflation rate has a strong negative relationship with GDP per capita, there was a very weak positive correlation between interest rate and GDP, there was a weak positive link between inflows of FDI and GDP per capita, there was a weak negative link between trade openness and GDP per capita, there was a very strong negative link between Government Consumption Expenditure (GCE) and GDP per capita, a strong positive correlation between Household Final Consumption Expenditure (GCE) and GDP per capita

Furthermore the regression results have revealed that service sector performance is positively and significantly affecting the growth of economy (GDP per capita). The inflows of FDI has a significant negative impact on service sector performance, trade openness is positively significantly impacting service sector performance, Government Consumption Expenditure (GCE) is significantly and negatively influencing service sector performance, Household Final Consumption Expenditure (HFCE) has a positive significant impact on service sector performance.

The last regression result displayed that the inflation has a positive insignificant effect on growth of economy, household final consumption expenditure is positively and significantly influencing growth of economy, rate of interest has a negative insignificant effect on growth of economy, Government Consumption Expenditure (GCE) has a negative significant impact on economic growth, FDI inflows have a positive insignificant impact on economic growth, and trade openness have a negative insignificant impact on growth of economy.

CHAPTER FIVE

DISCUSSION OF FINDINGS AND DATA ANALYSIS

5.1 Introduction

This section shows discussion of results on the established research objectives. Results of this study displayed that service GDP at constant price is significantly and positively impacting GDP per capita, The inflows of FDI has a significant negative impact on service GDP at constant price, trade openness is positively and significantly impacting service GDP at constant price, Government Consumption Expenditure (GCE) has a negative significant impact on service GDP at constant price, Household Final Consumption Expenditure (HFCE) has a positive significant impact on service GDP at constant price.

Also the study reveals that as the service sector GDP at constant price increase by 1unit also the economic growth (GDP) will increase by .6367614unit, as the inflows of FDI increases by 1 unit service sector performance decreases by .026674 unit, as the trade openness increases by 1 unit the service GDP at constant price increases by .0149896unit, as the Government Consumption Expenditure (GCE) rises by 1 unit the service GDP at constant price decreases by .0726987unit, and Household Final Consumption Expenditure (HFCE) rises by 1 unit the service GDP at constant price increases by 1.42e-14unit

Also the result showed that the inflation rate has a positive insignificant impact on GDP per capita, household final consumption expenditure has a positive significant impact on GDP per capita, interest rate has a negative insignificant impact on GDP per capita, Government Consumption Expenditure (GCE) has a negative significant impact on GDP per capita, FDI inflows have a positive insignificant impact on GDP per capita,, and trade openness have a negative insignificant impact on GDP per capita.

Further, as the inflation rate increases by 1 unit the economic growth increase by 0.0034802unit, as the household final consumption expenditure increases by 1 unit the economic growth increases by 8.03e-15units, as the interest rate increases by 1 unit the economic growth decreases by 0.0029569unit, as the Government Consumption Expenditure (GCE) increases by 1 unit the economic growth decreases by 0.046289unit, as the inflows of FDI increases by 1 unit the economic growth increases by 0.03176631unit, and as the trade openness increases by 1 unit the economic growth decreases by 0.0007043unit.

5.2 Relationship between Service GDP at constant price and Economic Growth

The findings of this study indicated that the service GDP at constant price has a significant positive effect on growth of economy proxied by GDP per capita. Also the service sector performance has a strong correlation of 0.9678 with the economic growth. Suggesting that the service sector cover a big portion of the economic growth since it provides funds, transport, marketing and insurance for the growth of other sectors specifically agriculture sector and FDI inflows, therefore service sector performance boost growth of all sectors and thus contribute to the growth of economy of a nation.

The results of this study are similar to the findings obtained by Edquist & Henrekson (2016) who also revealed that a large portion of GDP in India of about 65% is influenced by the service sector performance. This study also suggested that the performance of service sector boost FDI inflows and economic growth. Further, these findings are supported by (Alhowaish, 2014; Barungi et al., 2015; Odeleye & Olusoji, 2016) who also suggested the same. Further Rathore et al., (2019) claimed that the contribution of service on GDP is positively increasing to have a significant impact.

However, the above findings contradicts Bhorat et al., (2016) who came with the conclusion that the services sector do not have long-run economic growth sustainability as lacking assurance on fiscal stability. This study argued that government services do not have long-run economic growth sustainability as lacking assurance on fiscal stability.

5.3 The Influence of FDI inflows on the Service GDP at constant price

The inflow of FDI has an insignificant negative effect on the service industry performance. Also the another reason for the negative direction is due to the increase in share of inflows of FDI in the industry sector, which on the other side decreases the total proportion of service sector share. FDI brings contemporary technology which advance human capital in the host nation and present new service provision approaches, hence bring a greater impact on service GDP at constant price These results are similar to the results obtained by Singh & Kaur (2014). Further, the negative link might be as a result of insufficient FDI fund invested into the service sector in Tanzania which hasn't been able to bring enough influence to make it positive..

However, these findings opposes the results obtained by Jain et al., (2015) who argued that there is a significant positive link between FDI and service sector growth in India. The positive effect of FDI is consistent with endogenous and neoclassical growth theories which emphasize that physical investments promote development of the economy.

These results also opposes Hussain et al., (2017) who argued that inflows of FDI are positively linked to the growth of service sector, suggesting that as net inflows of FDI increases the job opportunities are created by placing the unused resources in use, increase per capita income and demand of value added of service. Other studies which suggested the same results are (Singh & Kaur 2014;Alfaro, 2003; Fornero & Tondl, 2008; Sharma & Dixit, 2014). Rathore et al., (2019) argued that the inflows of FDI significantly and positively influence the contribution of service industry to the GDP.

5.4 The Influence of Trade Openness on the Service GDP at constant price

The results from this study revealed that the Trade Openness (TO) is significantly and positively influencing the Service sector performance (Service GDP at constant price). These findings mean that as the trade openness increase the service sector GDP at constant price significantly increases as well. This result proposes that this might be because trade openness aids to deteriorate the impacts of the instability of fundamentals (eg. unpredictability in output growth, terms of trade shocks, money growth or changes in government consumption) on the service sector performance/productivity/output, as trade openness shows that the nation takes more international trade (exports and imports) opportunities which help to strengthen the service sector in Tanzania. The direction indicates that the more open the economy is to international trade in goods and assets, the higher the service sector performance. This is because the policy makers reduces trade barriers and stimulate export activities to obtain a positive effect of trade openness on output/productivity.

The findings of this study are in the same vein as Thangavelu et al., (2015) who examined how trade openness influence the service productivity in the ASEA nations. This study came with the conclusion that the openness has a significant effect on productivity of the service sector. They argues that as the growth and human capital in export activities increase will stimulate/improve productivity of labor in the service sector and increase performance/productivity. Other studies such as (Ashok & Mukesh, 2002; Hoekman, 2006) showed that if the country has more trade openness it will develop the performance in the service industry and add productivity for the development of the Industry which will improve economic productivity. Siyakiya (2017) highlighted that the openness to trade positively affect the service sector output/value added.

The findings of this work opposes Nosheen et al., (2018) who claimed that the service sector growth is negatively affected by trade openness. Suggesting that the increase on openness on trade will result to a decrease of the service sector productivity. They also contradict Raboloko, (2018) who led a study in Botswana and presented that the country's service sector growth is negatively influenced by the trade openness.

5.5 The Influence of Government Consumption Expenditure on Service Sector Performance (Service GDP at constant price)

The results obtained from these results reveal that the Government Consumption Expenditure (GCE) is significantly and negatively influencing the service sector performance (Service GDP at constant price). This suggests that if the GCE on service increases it will results to a corresponding decrease in life stability, individual productivity by increasing the people's burdens on social services and finally reduce the performance of service to GDP at constant price. The results of this study are similar to (Raboloko, 2018) revealed that the national expenditure is significantly influencing by the service sector development/ growth. Also in line with another study by (Fisher, 1997) argued that the country's expenditure on education, public and social services significantly contribute to the development of service sector GDP development.

The findings of this study conflicting the results shown by Rathore et al., (2019) who argued that the Government Consumption Expenditure is insignificantly influencing the service sector output/contribution to the economy. The results of this study also contradicts with (Jei et al., 2019) who claimed that the government expenditure in China is positively linked to the service industry development in the western part of China. This study suggested that in increase in service sector performance such as the education services and general public service aids to increase in life quality to the public. These results also contradicts (Raboloko, 2018) who led a study in Botswana and showed that the national expenditure is positively influencing by the service sector development/ growth. This study proposed to the government to put much focus on aspects that enlarge service sector growth when formulating policies which are oriented on services.

5.6 The Influence of Household Final Consumption Expenditure on Service GDP at constant price

The results obtained from these results showed that the Household Final Consumption Expenditure (HFCE) is significantly and positively influencing the service sector performance (Service GDP at constant price). These results proposes that as the individual's final consumption expenditure amount increased it will influence the increase of service sector performance. This is because the household expenditure on meeting social services demands such as clothing, education, health, transport etc. improves the service performance. The findings of this study are in line with (Arapova, 2018) who claimed that in Asian countries there is a significant and positive correlation between HFCE and service sector. The results of this study conflicting the results shown by Rathore et al., (2019) who argued that the Household Final Consumption Expenditure (HFCE) is insignificantly influencing the service sector output/contribution to the economy.

5.7 Relationship between Inflation Rate and Economic Growth

The findings of this study indicated that the inflation rate has an insignificant positive impact on the growth of economy. Suggesting that inflation rate does not play a significant role towards the growth of economy. Further, another suggestion obtained from these results is that high inflation rate may increase the financial development and increase the speed of economic growth.

Similarly, these results are in line with Salami (2018) who indicated that inflation is positively effecting the growth of economy. This work suggested that cynicism of the association is adequate to completely hinder financial growth in Swaziland if the state doesn’t roll out enhancements or enhancements.

These results contradict with Chowdhury et al., (2019); Samuel et al., (2013) who also showed that inflation rate is negatively influencing growth of economy.

5.8 The impact of Household Final Consumption Expenditure (HFCE) on Growth of Economy

The result of this study showed that the Household Final Consumption Expenditure (HFCE) on economic growth has a positive and significant impact on the growth of economy. This suggests that if a person has a greater household income, the greater will be the consumption expenditure level, and as the consumption expenditure level rises, it will lead to a corresponding positive impact on the growth of the economy

The results obtained from this study are in line with the findings of (Handriyani et al., 2018) a significant and positive relation between the HFCE and growth of the economy in North Sumatra. Further this is also similar to the findings of (Ling -li & Xi- xiang, 2013) who contended that the household consumption is significantly linked with the growth of the economy in the run, however, this study pointed out that there exist a comparative present positive relationship between them.

Further a study by (Amin, 2011) revealed that the Final consumption expenditure have a long run cointegration link with the growth of the economy in Bangladesh. Contradicting the short run results which claimed that HFCE does not stimulate the growth of the economy. Further in the same study when the granger causality test was performed the results showed that in long run the Household Final Consumption Expenditure have unidirectional causal link with the growth of the economy.

5.9 The Influence of Interest Rate and Economic Growth

The findings of this study revealed that the interest rate has an insignificant negative impact on the economic growth. Indicating that when it comes to the growth of economy of Tanzania, the interest rate might not be playing an important role. However the negative impact suggests that the increase of interest rate discourages investors and lower the level of investment thus reduce the level of growth to the economy. On the other hand as the interest rate decreases it encourages investors and attracts them to invest their funds to the economy of Tanzania.

The results of this study are similar to the results demonstrated by Erega 2010; Ojima & Fabian (2015) who indicated that an increase in interest rate will result to a corresponding decrease of the economic growth. They suggested that higher rate of interest on credit restrict credit demand, proposing that the liberalization of interest rate policy may be stag-inflationary in its impacts. Further these results are also in line with the findings of (Handriyani et al., 2018) who found a significant and negative relation between the interest rate and growth of the economy in North Sumatra.

The outcomes of this study contradicts Mushtaq & Siddiqui (2015) who revealed that for economic performance measured by GDP per capita, the interest rate affects positively. The study further suggested that it’s only for the case of investment where the interest rate have a negative impact. However, the study also suggested that the interest rate behavior is related to those demonstrated in the insignificant market economy.

5.10 The Influence of Government Consumption Expenditure on Growth of Economy

The outcomes obtained from this work argued that the growth of the economy is significantly and negatively influenced by Government Consumption Expenditure (GCE). Indicating that a good composition of the GCE matters to the growth of economy. This result proposes that the GCE can negatively affect the development of

the economy through increasing the marginal output/productivity of both private and government supplied production factors. The study further proposes that, as the GCE rises private output, the continued economic growth will be expected to occur. Further, before the GCE influences a steady nation, it has a maximized and positive effect on development of economy. As the GCE proportion rises over the stable nation, it will lead to a decrease of growth o economy, because of the effect of crowding out, this is similar to (Jei et al., 2019) who brought the same suggestion.
In contrast, these findings opposes (Alper, 2018) who came with the arguments that as the consumption expenditure increases by 1% the economy will grow by 0.41%.Also the results from this study contradicts Zou et al., (1996) who suggested that the government consumption expenditure which are well-thought-out to be productive, might become unproductive in case if they are in excess. In specific capital expenditure frequently assumed to be the backbone of growth could have been extreme/excessive in emerging nations, and render them unproductive. Since they are squeezed by current expenditure, the governments of capital spending are actually productive at the margin. These findings confirm that emerging nation have been misallocating their resources, but show that the direction bias is relatively dissimilar from the normal view.

Further these findings contradicts Maingi (2017) who proposed that the composition of GCE matter to the economic development. In long run expenditure in the education, defense, economic affairs, services and general administration is positively linked to the growth of the economy. Gupta (2018) concluded that the government expenditure is positively and significantly effect on the development of the economy. Other findings by Rathore et al., (2019) argued that the government consumption expenditure has no effect on the growth of the economy.

5.11 The Influence of FDI inflows and Economic Growth

In this study the results showed that inflows of FDI have an insignificant positive effect on the growth of economy. Suggesting that the economic growth of Tanzania is not significantly contributed by FDI inflows. The insignificant result means that the magnitude of the effect of FDI on economic growth in lower income countries like Tanzania is less significant likened to the middle income nations. This outcome supports the results of (Toulaboe et al., 2011). However the positive impact might be due to the adequate/sufficient FDI funds invested to the economy of Tanzania which has been able to bring enough impact to make its growth positive.

Further, this study suggests that the contribution of FDI towards the growth of the economy is primarily contingent on the characteristics of the host country. These findings are in line with findings indicated by De Mello (1999) as cited by Asajile (2014) who also revealed that inflows of FDI are positively related to the economic growth. Asajile (2014) also came with the same results as he revealed a positive link between inflow of FDI and GDP per capital. Further another study by Borenzsztein et al., (1998) found he same result that FDI impact GDP positively. This study suggested that the magnitude of the effect of FDI depends on the human capital level in the host nation. However, this findings opposes (Samuel et al., 2013; Susilo, 2018) who indicated that FDI inflow is negatively related to the economic growth. And the study of Lipsey (2004) who argued that there is no consistent link between economic development and the size of FDI stock or inflows.

5.12 The Influence of Trade Openness on the Growth of the Economy

The findings of this study reveals that trade openness has a negative insignificant influence on the economic growth. This depicts that as the trade openness increase in Tanzania it will result to a decrease in the growth of the economy, however this relationship may not occur due to insignificance on the existing relationship. The study suggests that trade openness may fail to bring growth to the economy due to high trade barriers such as customs, restricted base of exports, etc. which was also suggested by Rathore et al., (2019) to be the restricting factors for trade openness productivity on the GDP growth.

In the same series of results Musila & Yiheyis (2015); Satti et al., (2015); Ulasan (2015); Vlastou (2010) came with the similar findings that the output of trade openness is negatively impacting the growth of economy. Musila & Yiheyis (2015) argued that the policies on trade openness is significantly and negatively influencing the growth of the economy in Kenya. This study proposed that in long term the trade openness has influence on the development of economy.

The outcomes of this work are similar to Abdullah et al., (2016) who led a study in Jordan and claimed that openness to trade on the goods is negatively impacting the gross domestic product of a country. However this study argued that openness of trade in services is significantly and positively influencing the performance of the economy.

The findings of this study contradicts with Ashok & Mukesh, (2002); Hoekman, (2006) showed that if the country has more trade openness it will improve the performance in the service industry and add productivity for the development of the Industry which will improve economic productivity. Studies by Goldsmith, (1969); Levine, (1999) depicts that in the service sector the financial services aids in directing savings to productive investments trends to increase the efficient allocation in the economy. Other service subsectors for instance the telecommunication service smooth trade and improve diffusion of knowledge and technology across the boundaries, moreover have a more influence on investment and economic development/growth.

Further, these results contradicts with Keho (2017) came up with the findings that trade openness is relative positively and significantly affecting growth of the economy in both long term and short term. They further show that the trade openness has a strong balancing link with formation of capital in stimulating growth of the economy. Also another study by Nosheen et al., (2018) revealed that the GDP of a country is positively linked to the openness of trade.

The study examined the influence of inflation rate and economic growth (GDP per capita). T-test was conducted to test the null hypothesis that there is no significant relationship between inflation rate and economic growth. The regression results show that t-test value for inflation rate is 0.33 which is insignificant with p-value of 0.744 at 0.05 level of significant (i.e. 0.744 is greater than 0.05). Therefore we fail to reject the null hypothesis. The result of the study indicated that inflation rate is insignificantly, but positively influencing the growth of the economy.

The study scrutinized the influence of household final consumption expenditure and economic growth (GDP per capita). T-test was conducted to test the null hypothesis that there is no significant link between household final consumption expenditure and economic growth. The regression results show that t-test value for household final consumption expenditure is 5.15 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis. The findings of the study showed that household final consumption expenditure has a positive and significant impact on growth of the economy.

The study examined the influence of interest rate and economic growth (GDP per capita). T-test was conducted to test the null hypothesis that there is no significant relationship between interest rate and growth of economy. The regression results show that t-test value for interest rate is -0.80 which is insignificant with p-value of 0.435 at 0.05 level of significant (i.e. 0.435 is greater than 0.05). Therefore we failed to reject the null hypothesis. The findings of the study showed that interest rate is negatively and insignificantly influencing the growth of economy.

The impact of Government Consumption Expenditure (GCE) and economic growth (GDP per capita). T-test was conducted to test the null hypothesis that there is no significant relationship between Government Consumption Expenditure (GCE) and economic growth. The regression results show that t-test value for Government Consumption Expenditure (GCE) is -7.11 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis. Therefore the findings of the study showed that Government Consumption Expenditure (GCE) is significantly and negatively affecting the economic growth.

The study examined the effect of FDI inflows and economic growth (GDP per capita). T-test was conducted to test the null hypothesis that there is no significant relationship between FDI inflows and economic growth. The regression results show that t-test value for FDI inflows is 1.28 which is insignificant with p-value of 0.216 at 0.05 level of significant (i.e. 0.216 is greater than 0.05). Thus we failed to reject the null hypothesis. The result revealed that FDI inflows has a positive and insignificant impact on growth of the economy.

The study evaluated the influence of trade openness on GDP per capita. T-test was conducted to test the null hypothesis that there is no significant relationship between trade openness and economic growth. The regression results show that t-test value for trade openness is -0.17 which is insignificant with p-value of 0.868 at 0.05 level of significant (i.e. 0.868 is greater than 0.05). Therefore we failed to reject the null hypothesis. Therefore the result revealed that trade openness have a negative insignificant impact on growth of economy.

CHAPTER SIX

SUMMARY, CONCULUSION AND POLICY IMPLICATIONS

6.1 Introduction

The general objective of this research was to assess the impact of service sector performance on economic growth in Tanzania. Specifically, this study wanted to assess the performance of Service Sector, to examine the economic growth and trends, to assess the relationship between service sector performance and economic growth and to examine the factors affecting service sector performance and Economic Growth in Tanzania. This chapter shows the summary on statistical assessment based on Ordinary Least Square (OLS), conclusion of the study, policy implication or recommendation, area for further study and limitation of the study.

6.2 Summary of Findings

This research aimed at examining the impact of service sector performance to the economic growth of Tanzania. This study was set on the opinion that the service sector has significant impact on growth of economy to conform with the three sector theory which predicts that service sector fit to the most advanced phase of economic growth.

The researcher developed a conceptual framework showing the relationship between the explanatory variables such as service sector performance, inflation, interest rate, government consumption expenditure, and FDI inflows, household's final consumption expenditure ad trade openness, and the dependent variable such as the economic growth.

After theoretical and empirical literature view, this research was established on opinion that service sector performance had a significant impact to the economic growth of Tanzania. This was to obey to three sector theory, which proposed that service sector is significantly contributing to the growth of economy.

The study formulated a detailed conceptual framework to show the relationship between dependent variable (economic growth measured by GDP per capita), and independent variables (service GDP at constant price, interest rate, Trade openness, inflation rate, Government Consumption Expenditure, foreign direct investment inflows and Household Final Consumption Expenditure. And the hypothesis was developed centered on expected relationship and was tested which assisted in answering the specific objectives of the study.

This study used secondary data from annual data from IMF reports, World Bank Group, Trading economics and Bank of Tanzania Data website. Secondary data obtained were scrutinized by using Ordinary Least Square from the collected annual time series data covering between 1993 and 2019 periods. Variables were tested for stationarity and the existing results revealed that some of the variables were stationary but others were non-stationary in levels, (0), but after first differencing or integrating order one, lag (1) and lag (2) they become stationary. Independent variables were tested if they are linearly correlated and the results indicated that independent variables are not linear correlated. And finally the Ordinary Least square adopted as method for analysis.

The findings showed that service sector performance has a positive effect on growth of economy (GDP per capita), inflows of FDI has an insignificant negative impact on service sector performance, that trade openness has a positive significant effect on service GDP at constant price, GCE has a negative significant effect on service GDP at constant price, Household Final Consumption Expenditure (HFCE) is positively and significantly influencing on service GDP at constant price, inflation rate has a positive impact on economic growth, household final consumption expenditure is positively impacting growth of economy, interest rate has a negative effect on growth of economy, Government Consumption Expenditure (GCE) is negatively impacting growth of economy, FDI inflows have a positive impact on growth of economy, and trade openness have a negative impact on growth of economy.

6.3 Conclusion

Based on the obtained general and specific objectives this study provides the following conclusion; first, the study scrutinized the effect of service sector performance on growth of economy in Tanzania. Service sector positively and significantly influenced growth of economy in Tanzania. The null hypothesis was tested and the results attained were significant which provided the ground to reject null hypothesis that there is no significant relationship between service sector performance and economic growth in Tanzania. Therefore, alternative hypothesis was accepted that there was significant link between service sector performance and economic growth measured by GDP per capita in Tanzania.

Secondly, the study examined the impact of inflows of FDI on service sector performance. T-test was conducted to test the null hypothesis that there is no significant relationship between inflows of FDI and service sector performance. The regression results showed the p-value of 0.459 which is greater than 0.05. Therefore the study failed to reject the null hypothesis since p value was greater than level of significant. Inflows of FDI have an insignificant negative impact on service sector performance in Tanzania.

Thirdly, the study evaluated the influence of Trade openness on service GDP at constant price. The results of the study showed that trade openness is positively impacting service GDP at constant price. T-test was conducted to test the null hypothesis that there is no significant link between service sector performance and Trade openness. The regression results showed that t-test value for Trade openness is 4.18 which is significant with p-value of 0.000 at 0.05 level of significant. Thus we reject the null hypothesis. The results of the study showed that trade openness have a positively and significantly influencing service GDP at constant price.

Fourth, the study assessed the effect of Government Consumption Expenditure (GCE) and service sector performance (SSP). T-test was conducted to test the null hypothesis that there is no significant relationship between Government Consumption Expenditure (GCE) and service sector performance. The regression results show that t-test value for Government Consumption Expenditure (GCE) is -10.54 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Therefore we reject the null hypothesis. The findings of the study showed that Government Consumption Expenditure (GCE) has a negative significant impact on service GDP at constant price.

Fifth, the study examined the impact of Household Final Consumption Expenditure (HFCE) and service sector performance. T-test was conducted to test the null hypothesis that there is no significant relationship between Household Final Consumption Expenditure (HFCE) and service sector performance. The regression results show that t-test value for Household Final Consumption Expenditure (HFCE) is 6.07 which is significant with p-value of 0.000 at 0.05 level of significant (i.e. 0.000 is less than 0.05). Thus we reject the null hypothesis. The findings of the study showed that Household Final Consumption Expenditure (HFCE) has a positive significant impact on service GDP at constant price.

6.4 Policy Implication

In order to enhance service sector performance further considerations must be taken by policy makers. It is very important for the government to walk very carefully in arears that the best policy practice are still being developed and avoid actions that may bring destruction to the growth of service sector. Additional, it is very essential to improve knowledge and statistics about various influencing factors of the performance of service sector in different subservice sector as it will help in developing, monitoring and measuring appropriate service sector’s policies.

Service Sector Performance and Economic Growth; the results of this study indicated that service sector has a positive and significant impact on the economic growth. Despite the higher share of this sector to the economy it still undergoes a steady movement. This sector requires innovation through technology growth and introduction of new production ideas. Therefore, service sector needs to be given proper attention by policy makers which will aim at designing and promoting proper innovation structure that will mainly focus on helping to increase service sector production.

Further considering that service sector contribute a high percentage of the economic growth, anything that influence this sector may as well impact the economic growth. Therefore it is very important for the government to determine factors that affect service sector and adopt policies that are oriented on the service sector output growth if it aims to expand the country's economic growth.

Interest Rate and Economic Growth; the outcome of this study indicated that interest rate has an insignificant and negative impact on economic growth. This suggests that as interest rate rises the growth of economy declines. This might be connected to the income obtained from the banks lendable assets that may support profit. Since interest rates are sources of earning money, such moneys can be transferred to the economy via reinvestment, hence support development of monetary. Thus the central bank is encouraged to formulate policies that will encourage lenders; this can be achieved via setting the favorable rate of interest.

The study proposes that the government have to formulate and implement properly interest rate policies that are friendly to the investment in order to promote the growth of the economy of Tanzania.

Inflation Rate and Growth of Economy in Tanzania; the outcomes from regression analysis revealed that inflation rate is positively linked to the economic development. The outcome of these findings revealed that as the inflation increases the country's GDP also increases. This proposes that the policy makers of the government should introduce control measures for controlling inflation rate in an economical way. The country authoritative has a duty to take the expected reasonable measures to control inflation rate in order to improve productivity of service sector and in turn this will promote economic growth.

Foreign Direct Investment inflows and Economic Growth; the outcome of this study indicated that the inflow of FDI is positively related to the growth of economy to a nation. This mean that as the inflow of FDI increases also the economic growth will increase. Thus the study suggests that the policy makers are required to take into consideration relaxation of the investments rules and obligations, especially the foreign investments, in order to attract more investors. This can be achieved through providing favorable tax policy (issuance of tax incentives, tax exemptions) without forgetting other non-tax factors which may attract more investors in one way or another and trigger the FDI inflows as well as the economic growth.

Trade Openness and Service Sector Performance and GDP per Capita; the study proposes that the policy makers have to establish foreign trade policies that will attract expansion of trade. This can be achieved through reducing the trade restrictions on goods and services exportation. This will help a Tanzania to be competitive in the international trade market. They have to formulate policies that will aid at reducing trade balance deficit and support local production so as to encourage export sector.

Household Final Consumption Expenditure; the study suggests that the country has to establish the policies which are friendly to the household, due to their effect on the economy, so as to stimulate development of the economy via consumption spending/ expenditure.

Government Consumption Expenditure (GCE); the study proposes that the country has formulate GCE policy that aim at strengthening the service sector. Due to the significance of GCE the policy makers have to establish policies that shape distribution of income by impacting human capital development and income transferring. Through this the service sector and economy will be improved.

6.5 Recommendation of the Study

Based on the findings of this study, the study recommends that the government should increase investment infrastructure, Research and Development and long term project that will assist in improving the Tanzanian economy. In Tanzania the human development investment such as social sectors including health and education are mostly needed.

The service provided in Tanzania are neither sufficient nor efficient especially education and health sectors. The good performance of these subservice sector could add up to the economic growth; thus the government should put more emphasize on health and education as well as ensuring the service value added is increased.

The government should reduce foreign direct investment (FDI) entry barriers since FDI help to develop an economy. Effective payments over FDI and its expenditure may assist the service sector and other sectors in the process of development. FDI provides technology, bring new ideas from foreign nations, and equip their workers with new skills; while focusing on innovation will help in improving the services quality. Therefore the government should attract more FDI in Tanzania.

The government should improve the workforce skills based on training and education. This will help to evade rework during the delivery of service. Furthermore, workers should be briefed periodical in order to keep them well up-to-date about new items/ arising.

REFERENCES

Abdullah, G., Nooh, A., & Serena, S. (2016). Trade in goods and services and its effect on economic growth—The case of Jordan. *International Develoment and Applied Econometrics*, *25*(2).

Admin, F. (2020). *Economic potential of Tourism in Tanzania/Flight link*.

Ahmed, A., & Ahsan, H. (2011). *Contribution of Services Sector in the Economy of Pakistan*.

Ajayi, S. A., Oladipo, O. A., Ajayi, L. B., & Nwanji, T. I. (2017). Interest rate and economic growth: The case of Nigeria. *International Review of Businessresearch Papers*, *13*(1).

Akhi, Y., Hamid, K., & Chowdhury, R. A. (2019). Impact of Macroeconomic Variables on Economic Growth: Bangladesh Perspective. *Information Management and Computer Science*.

Alfaro, L. (2003). *Foreign Direct Investment and Growth: Does the sector matter?*

Alhowaish, A. (2014). Does Services Sector Cause Economic Growth? Empirical Evidence from Saudi Arabia. *The Global Studies Journals, 7*(2).

Alper, A. E. (2018). *The relationship of economic growth with consumption, investment, unemployment rates, saving rates and portfolio Investment in the Developing Countries*.

Amin, S. B. (2011). Causal relationship between consumptio expenditure and economic growth in Bangladesh. *World Journal of Social Sciences, 1*(2).

Arapova, E. (2018). *Determinants of Household final consumption expenditure in Asian cuntries: Apanel model, 1991-2015*.

Asajile, U. (2014). *The impact of Foreign Direct Investment on Economic Growth in Tanzania*.

Ashok, K., & Mukesh, E. (2002). *The role of service sector in the industrialization process: Develoment economic Journal 68(2)*.

Banga, R. (2005). Critical Issues in India’s Service-Led Growth. *Indian Council for Research on International Economic Relations*.

Barro, R. J., & Sala-i-Martin, X. (1990). *Growth Models With Exogenous Saving Rates*. http://piketty.pse.ens.fr/files/BarroSalaIMartin2004Chap1-2.pdf

Barungi, B., Ogunleye, E., & Zamba, C. (2015). *Nigeria, African Economic Outlook, African Development Bank, Country Office, Nigeria.* https://www.google.com/search?sxsrf=ACYBGNRTn0VAC06ew9Wwp6tbBqz21FcN8w%3A1576922936878&ei=OO_9XcmjNYneaqq3jrgL&q=Barungi%2C+B.%2C+Ogunleye%2C+E.%2C+Zamba%2C+C.+%282015%29%2C+Nigeria%2C+African+Economic+Outlook%2C+African+Development+Bank%2C+Country+Office%2C+Nigeria.&oq=Barungi%2C+B.%2C+Ogunleye%2C+E.%2C+Zamba%2C+C.+%282015%29%2C+Nigeria%2C+African+Economic+Outlook%2C+African+Development+Bank%2C+Country+Office%2C+Nigeria.&gs_l=psy-ab.12..0i71l8.163163.163163..164554...0.2..0.0.0.......1....2j1..gws-wiz.UuAoD2MuaAs&ved=0ahUKEwjJn_bbv8bmAhUJrxoKHaqbA7cQ4dUDCAo

Bhorat, H., Steenkamp, F., Rooney, C., Kachingwe, N., & Lees, A. (2016). *Understanding and characterizing the services sector in South Africa*. United Nations University.

Bibel, W., & Kreitz, C. (2015). *Deductive Reasoning Systems*. https://www.researchgate.net/publication/275243349_Deductive_Reasoning_Systems

Blomstrom, M., Lipsey, R. E., & Zejan, M. (1996). *Is fixed investment the key to economic growth? Quarterly Journal of Economics 111, 269-276.*

Borensztein, E., Gregorio, J. D., & Lee, J.-W. (1998). *How does foreign direct investment affect economic growth?*

Borenzsztein, E., Gregorio, J. D., & Lee, J.-W. (1998). How does Foreign direct investment affect economic growth? *Journal of International Economics*.

Bosworth, B., & Collins, S. M. (2003). *"The Empirics of Growth: An Update," (unpublished draft; Washington: Brookings Institution).*

BOT. (2015). *The Relative Importance of Foreign and Domestic Shocks for Macroeconomic Fluctuations in Tanzania; Bank of Tanzania Working Paper Series.* file:///E:/MY%20RESEARCH/zero%20draft/FIRM'S%20SPECIFIC%20FACTORS/theories/3.%20Relative%20Importance%20of%20Foreign%20and%20

Domestic%20Shocks%20for%20Macroeconomic%20Fluctuations%20in%20Tanzania.pdf

BOT. (2019). *Bank of Tanzania*. https://www.bot.go.tz/Publications/PublicationsAndStatistics.asp

Bresley, T. (2007). *Inflation and service secor; The bank of England*.

Burridge, L., & Sinclair., P. J. (2002). *Relationship between economic growth, foreign direct investment and trade: Evidence from China. Applied Economics 34, 1433-1440.*

Cantillon, R. (1755). *An essay on economic theory*.

Christopher, N., & Dimoso, R. (2011). *Foreign Direct Investment and Economic Growth in Tanzania: The Granger-Causality Analysis*. *22*, 17.

Clark, C. (1940). *The Conditions of Economic Progress, Macmilan, London*.

Copper, D., & Schindler, P. (2008). *Business Research method: New York: McGraw-Hill.*

Daniel, E. (2016). The Usefulness of Qualitative and Quantitative Approaches and Methods in Researching Problem-Solving Ability in Science Education Curriculum. *Journal of Education and Practise*, *7*(15).

Dasgupta, S., & Singh, A. (2007). Manufacturing, Services and Premature Deindustrialization in Developing Countries: A Kaldorian Analysis. In G. Mavrotas & A. Shorrocks (Eds.), *Advancing Development* (pp. 435–454). Palgrave Macmillan UK. https://doi.org/10.1057/9780230801462_23

Denscombe, M. (1998). *The Good Research for Small –Scale Social Research Project. Philadelphia: Open University Press*.

Dielman, T., E. (1989). *Pooled cross-sectional and time series data analysis. New York: Marcel-Dekker.*

Edquist, H., & Henrekson, M. (2016). Do R&D and ICT affect total factor productivity growth differently? *Telecommunications Policy*, *41*(2), 106–119. https://doi.org/10.1016/j.telpol.2016.11.010

Eichengreen, B., & Gupta, P. (2009). *The two wave of service sector growth*. National bureau of economic research. https://www.isid.ac.in/~pu/conference/dec_09_conf/Papers/PoonamGupta.pdf

Ellis, M., McMillan, M., & Silver, J. (2017). *Employment and productivity growth in Tanzania's service sector*. https://wider.unu.edu/sites/default/files/wp2017-16.pdf

Epaphra, M., & Massawe, J. (2016). *Investment and Economic Growth: An Empirical Analysis for Tanzania*. https://doi.org/10.20944/preprints201608.0159.v2

Epaphra, M., & Mwakalasya, A. H. (2017). *Analysis of Foreign Direct Investment, Agricultural Sector and Economic Growth in Tanzania*.

Erega, P. (2010). Interest Rate Variation and Investment in Nigeria'. *International Business Management*, *4*, 2.

Fisher, A., G. (1935). *The Clash of Progress and Serenity, London*.

Fisher, A., G. (1939). *Production, Primary, Secondary and Tertiary", Economic Record,*.

Fisher, R. C. (1997). *The effect of state and local public services on conomic development*.

Fornero, J. A., & Tondl, G. (2008). *Sectorial productivity and Spill over effect of FDI in Latin America*.

Giulio, G. (2009). *Innovation and growth in theGrossman-Helpman's model withincreasing returns: A note*. https://mpra.ub.uni-muenchen.de/19612/1/MPRA_paper_19612.pdf

Goldsmith, R. W. (1969). *Financial structure and development New Haven CT. Yale University Press: Foreign direct investment and trade service*.

Gottman, J. M., McFall, R. M., & Barnett, J. T. (1969). *Design and Analysis of Research Usingtime Serie*. *72*. https://pdfs.semanticscholar.org/2161/e15d5f7ac6c3002fbbe3247a0829d868c005.pdf

Grassa, R., & Gazdar, K. (2014). Financial development and economic growth in GCC countries: A comparative study between Islamic and conventional finance. *International Journal of Social Economics*, *14*(6).

Grossman, G. M., & Helpman, E. (1991). *Innovation and Growth in the Global Economy. MIT Press, MA.*

Gupta, R. (2018). *The impact of government expenditure on economic growth in Nepal*.

Halachmi, A. (2005). *Performance measurement is only one way of managing performance, International Journal of Productivity and Performance Management.*

Handriyani, R., Sahyar, M. M., & Arwansyah, M. S. (2018). *Analysis the effect of household consumption expenditure, investment and labor to economic growth: A case in province North Sumatra*.

Hoekman, B. (2006). *Liberalising trade inservice: A survey ; Policy research working paper*.

Hoekman, B., & Mattoo, A. (2008). *Services Trade and GrowthL: Policy Research Working Paper*.

Hussain, K., Ahmad, U., Ajmair, M., & Zeb, A. (2017). Factors affecting the services sector growth in Pakistan: A time varying parametric approach. *Journal of Economics Library*, *4*(3). https://www.researchgate.net/publication/320930409_Factors_affecting_the_services_sector_growth_in_Pakistan_A_time_varying_parametric_approach

Imran, F., Ayyoub, M., & Chaundry, I. S. (2013). *Does inflation matter for sectorial growth in Pakistan? Pakistan Economic and Social Review. 51*(1).

IPSASB. (2008). *Consultation Paper Developments in Performance Measurement Structures in Public Sector Entities;*

Ishola, O., & Olusoji, O. (2020). Service Sector Performance, Industry and Growth in Nigeria. *International Journal of Service Science, Management, Engineering, and Technology*.

Ivic, M. M. (2015). Economic growth and development. *Ournal of Process Management –New Technologies, International*, *3*(1). https://scindeks-clanci.ceon.rs/data/pdf/2334-735X/2015/2334-735X1501055I.pdf

Jain, D., Nair, K., S., & Jain, V. (2015). Factors affecting GDP (Manufacturing, Services, Industry): An Indian perspective. *Annual Research Journal of Symbiosis Centre for Management Studies Pune,.*

Jei, S. Y., Won, Yi. J., & Lee Chan, J. (2019). *Study of the relationship between government expenditure and economic growth for China and Korea*.

Katri, O. (1999). *Conceptualizing Productivity in Services. Helsinki/ Helsingfors: Hanken Swedish School of Economics Finland/CERS, 133.*

Keho, Y. (2017). The impact of trade openness on the economic growth; The case of Ivory Cost. *General and Applied Economics*.

Kira, A. R. (2013). *Factors affecting Gross Domestic Product in Developing countries: The case of Tanzania*.

Krishna, D., & Lee., K. Y. (1993). The service sector and economic growth: Some cross-section evidence. *International Review of Applied Economics*.

Levine, R. (1999). *Law, finance, and economic growth, 'Financial Intermediation Journal*.

Ling -li, D., & Xi- xiang, S. (2013). *Emperical Analysis o the influence of Household consumption on growth of the economy in Hubei province.Springer, Berlin. The ninentheen International conference on industrial engineering management.*

Lipsey, R. E. (2004). Home and Host country effect of foreiegn direct investment; In challenges to globalization; Analysing the economics. *National Bureau of Economic Research*.

Maingi, J. N. (2017). *The impact of service sector performance on the growth of the economy in Kenta*.

Mandalu, M. P., Hofisi, C., & Thakhathi. (2018). Investigation on Tanzania's Economic History since Independence: The Search for a Development Model. *World Journal of Social Sciences and Humanities, 4*.

Marshall, N. J., & Wood, P. A. (1995). *Service and Space: Key aspects of urban and Regional Development. Longman Group Limited.*

Masenya, C., Reweta, W., Magere, D., Temba, L., & Macha, D. (2018). *Working Paper Series; Drivers of Economic Growth in Tanzania. Bank of Tanzania*. https://www.bot.go.tz/Publications/Working%20Papers/Drivers%20of%20Economic%20Growth%20in%20Tanzania.pdf

Matthew, G., David, R., & Chris, P. (2011). Growth accelerationand Increased Public Spending with Macroeconomic Stability in Tanzania. *The International Bank for Reconstruction and Development*.

McMillan, M., Page, J., Booth, D., & te Velde, D. W. (2017). *Supporting economic transformation*. https://set.odi.org/wp-content/uploads/2017/03/SET-approach-paper-WEB_FINAL_MARCH.pdf

Monteagudo, J., & Dierx, A. (2009). *Economic performance and competition in services in the euro area: Policy lessons in times of crisis*.

Mushtaq, S., & Siddiqui, D. A. (2015). *1Effect of interest rate on economic performance: Evidences from Islamic and Non-Islamic Economies*. https://mpra.ub.uni-muenchen.de/68298/1/MPRA_paper_68298.pdf

Musila, J. W., & Yiheyis, Z. (2015). *The Impact of trade openness on growth:The evidence of Kenya: Policy Modelling Journal*.

Mwaseba, S. L., Mwang'onda, E. E., & Juma, M. S. (2018). Impact of Financial Sector Development on Economic Growth: Evidence from Tanzania. *International Journal of Economics and Financial Research*, *4*(8).

Nosheen, M., Salam, M., & Iqbal, J. (2018). The determinants of service sector growth: A cross couuntry analysis. *The Applied Economics Journal in Pakistan*.

Obamuyi, T., M. (2009). *An Investigation of the Relationship between Interest Rates and Economic Growth in Nigeria. Journal of Economic and International Finance, vol. 1, no. 4,*.

Odeleye, A. T., & Olusoji, M. O. (2016). *Service Sector Potentials in Transformation of Nigerian Economy*. 15.

OECD. (2005). *Growth in Services: Fostering Employment, Productivity and Innovation*.

OECD. (2008). *The contribution of services to development and role of trade liberalization and regulation*.

Oh, C.-O. (2003). *Contribution of Tourism development to economic growth in Korean development; Tourism Management*.

Ojima, D., & Fabian, E. (2015). *Impact of interest rate on investment in Nigeria: Developing countries studies*. *5*(3).

Oluwatoyese, O. P., & Applanaidu, S. D. (2013). Effect of Agricultural, Manufacturing And Services Sectors Performance In Nigeria, 1980-2011. *Journal OfEconomics and Sustainable Development*, *4*(20).

Plecher, H. (2020). *Share of economic sectors in the Gross Domestic Product in Tanzania 2017; International Tanzania; Statista*.

Qasenivalu, M. T. (2008). *The Role and Impact of Services Sector on economic growth: An econometric Investigation of Tourism and Air Services in Fiji*.

Raboloko, M. (2018). *Determinants of service sector in Botswaba: The institute for development policy analysis in Botswana*.

Ran, B., Qu, X., Ding, F., & Yang, F. (2019). *Estimating Urban Shared-Bike Trips with Location-Based Social Networking Data*.

Rath, D. P., & Rajesh, R. (2006). *Analytics and Implications of Services Sector Growth in Indian Economy*.

Rathore, K., Shahid, R., Ali, K., & Saeed, A. (2019). *Factors affecting service sector's contribution to GDP in Pakistan*. *20*(2).

Reis, A. (2001). *On the Welfare Effects of Foreign Investment Journal of International Economics,Elsevier, vol54(2), pages 54,411-427.*

Romer, P. M. (1986). *Endogenous technological change. Journal of Political Economy 98, S71–S102.*

Romer, P. M. (1990). *Endogenous Technological Change. Journal of Political Economy, 98, S71-S102. Http://dx.doi.org/10.1086/261725.*

Rubinfeld, D., & Pyndick, R. S. (1998). *Econometric Forecast and Econometric Model. Forth Edition; MCGraw Hill: Irwin.*

Salami, F. (2018). Effect of Interest Rate on Economic Growth: Swaziland As a Case Study. *Journal of Business & Financial Affairs*.

Samuel, A., Atta Mills, E. F. E., & Xicang, Z. (2013). Impact of macroeconomic factors on economic growth in Ghana: A cointegration analysis. *International Journal of Academic Research in Accounting, Finance and Management Sciences*.

Sattarov, K. (2011). *Inflation and Economic Growth Analyzing the Threshold Level of Inflation -Case Study of Finland, 1980-2010*. http://www.diva-portal.org/smash/get/diva2:484668/FULLTEXT01.pdf

Satti, S. L., Rehman, I. U., Shahbaz, M., & Polat, A. (2015). *Revisiting linkages between trade openness, financial development and economic growth in South Africa: Combined Cointegration tes evidence.*

Sebastian, E. (2012). *Is Tanzania a Success Story? A Long Term Analysis: National Bureau of Economic Research*.

Senhadji, A. S., & Khan, M. S. (2000). *Threshold effect in relationshp between inflation and economic growth*.

Sharma, A., & Dixit, S. (2014). Implication of FDI in service sector growth in India. *International Journal of Advance and Innovatve Research*.

Shuling, W., & Donghui, L. (2011). *Empirical analysis on the relationship between service industry and economic growth. Hebei University of Economics and Business, Shijiazhuang, P.R. China, 050061.*

Siegel, R. A. (1966). *The Economic base and Multiplier Analysis*.

Singh, M., & Kaur, K. (2014). ndia's Services Sector and Its Determinants: An Empirical Investigation. *Journal of Economics and Development Studies, 2*(2). http://jedsnet.com/journals/jeds/Vol_2_No_2_June_2014/22.pdf

Siyakiya, P. (2017). Can trade openness stimulate output performance? A case of selected African Countries. *Global and International Economic Studies Journal*.

Stanley, F. (1993). *"The Role of Macroeconomic Factors in Growth", Journal of Monetary Economics, Vol. 32 (December 1993), pp. 485-512.*

Susilo, D. (2018). The Impact of Foreign Direct Investment on Economic Growth (a Causal Study in the United States). *Jurnal Pendidikan Bisnis Dan Ekonomi, 4.*

Tanzania Daily News. (2017). *Tanzania: Service Sector Leads in GDP Contribution*. https://allafrica.com/stories/201706090102.html

Thangavelu, S. M., Urata, S., & Ing, L. Y. (2015). *Service productivity and trade openness: Case of ASEAN*.

Toulaboe, D., Terry, R., & Johansen, T. (2011). *Foreign direct investment and economic growth in developing countries*.

Tourism Task Force. (2016). *'Tourism Task Force Report: Promoting Sustainability of Biodiversity and Raising Annual Revenue Growth to 20%'. Tanzania National Business Council, June.*

Ulasan, B. (2015). *Economic growth and trade openness: Panel research design; Applied economic letter*.

UNCTAD. (2007). *World investment report 2007: ―FDI policies for development: National and international perspective. New York and Geneva: United nation conference on trade and development, United Nations Publications.*

UNCTAD. (2018). *Economic development in Africa report 2018; Migration for Structural Transformation, Intra-African migration and structural transformation*.

Uwitonze, E., & Heshmati, A. (2016). *Service Sector Development and its Determinants in Rwanda*.

Vlastou, I. (2010). *Forcing Africa to open up to trade; is it worth? The Journal of emerginf areas*.

World Bank Group. (2016). *Thailand economic monitor: Service as New Driver of Economy*. http://pubdocs.worldbank.org/en/660991482204992792/TEM2016-Services-as-a-New-Driver-of-Growth.pdf

World Bank Group. (2020). *Gross Domestic Product growth(annual growth %) IBRD-IDA; World Bank in Tanzania*.

Yarrow, G., & Decker, C. (2012). *Assessing the economic significance of the professional legal services sector in the European Union*.

Zou, H. F., Swaroop, V., & Devarajan, S. (1996). The composition of Public expenditure and growth of economy. *Monetary Economics Journal*.

Country	years	log of GDP per capita	log of Service Sector Performance	Inflation rate	Interest rate	FDI (% of GDP)	Trade openness	Government Consumption Expenditure	Household Consumption Expenditure
TANZANIA	1993	5.056633108	14.4220257	25.27726433	5.253020511	0.480488362	65.69071871	103.1497	1445370000000.00
TANZANIA	1994	5.08250274	14.5048129	34.08336407	5.96938969	1.108459134	64.23894901	101.1575	1931980000000.00
TANZANIA	1995	5.205993085	14.5150746	27.42778542	12.58957616	2.282237875	65.58242013	95.37752	2532840000000.00
TANZANIA	1996	5.391580857	14.6925169	20.97725964	12.27968756	2.310065686	51.88067231	94.63216	3130070000000.00
TANZANIA	1997	5.535268952	14.7841873	16.09065493	4.712578399	2.054764377	41.90762586	92.64945	3968070000000.00
TANZANIA	1998	5.980233425	14.8333422	12.79975405	-26.49957712	1.404237523	25.93556908	85.01903	6262860000000.00
TANZANIA	1999	5.992123541	14.9914739	7.890433361	10.12178781	4.064919874	25.01345223	86.47468	7444600000000.00
TANZANIA	2000	6.018477217	15.1221663	5.923961096	12.36253164	3.46442642	23.9808677	84.9059	8249670000000.00
TANZANIA	2001	6.00767905	15.2361972	5.147468002	14.54100202	4.044211007	28.02050647	82.04545	8813270000000.00
TANZANIA	2002	6.020956225	15.3453428	5.317833661	8.547002752	2.797101915	27.48976305	80.85442	9840640000000.00
TANZANIA	2003	6.06675682	15.4593331	5.303566215	5.624748515	2.091407706	30.43836752	79.58522	10941000000000.00
TANZANIA	2004	6.129614936	15.5854412	4.735801439	6.787345317	2.653759399	33.5982317	77.03294	11908900000000.00
TANZANIA	2005	6.199761185	15.7304602	5.034570093	8.327256062	5.084614661	36.95927329	75.59664	13226900000000.00
TANZANIA	2006	6.185174112	15.8662823	7.250972621	9.612352709	2.161114459	42.76816647	75.61422	14878000000000.00
TANZANIA	2007	6.315067778	16.0212127	7.02551437	6.389565193	2.662169681	48.05839478	75.74593	17034600000000.00
TANZANIA	2008	6.532902465	16.199361	10.27839376	-1.201762229	4.950614566	49.02654455	72.6078	20502000000000.00
TANZANIA	2009	6.544223706	16.3289109	12.14222787	5.492230433	3.275733534	43.53260065	72.78839	23213100000000.00
TANZANIA	2010	6.611239349	16.4679201	6.200155956	4.675261601	5.663727899	47.64043943	76.40814	29509200000000.00
TANZANIA	2011	6.661134551	16.6204376	12.69096947	2.463942653	3.547208559	56.16612418	78.16153	36954600000000.00

TANZANIA	2012	6.766039261	16.6789013	16.00109385	4.590680967	4.538769413	54.36958801	74.78101	40104500000000.00
TANZANIA	2013	6.877725813	16.7476418	7.870723646	5.649196164	4.569257822	48.63061535	73.13625	46042100000000.00
TANZANIA	2014	6.937404288	16.8171778	6.13161433	9.654169256	2.834172021	45.3560221	71.56364	50962900000000.00
TANZANIA	2015	6.854284296	16.8840916	5.58816953	7.912490759	3.178702889	40.75768023	73.78917	60253200000000.00
TANZANIA	2016	6.873655041	16.9570083	5.174766293	7.896227682	1.735925655	35.42047002	70.54573	66620300000000.00
TANZANIA	2017	6.912584719	16.9978219	5.318716052	14.52325948	1.758606511	32.23894101	67.94122	7064670000000.00
TANZANIA	2018	6.966962063	17.03490351	3.494458489	12.06146252	1.820636914	27.6202912	71.28716	72969410000000.00
TANZANIA	2019	6.998923922	17.08839288	3.46428058	8.023894021	1.934230021	23.36092159	70.66613	79693680000000.00

APPENDICES

Appendix 1 Data for the study

Appendix 2 factors affecting service sector performance

Source	SS	df	MS
Model	20.6691125	4	5.16727813
Residual	.940580599	22	.042753664
Total	21.6096931	26	.831142043

Number of obs	= 27
F(4, 22)	= 120.86
Prob > F	= 0.0000
R-squared	= 0.9565
Adj R-squared	= 0.9486
Root MSE	= .20677

lnSSP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
FDIofGDP	-.026674	.0354173	-0.75	0.459	-.100125	.046777
tradeopenness	.0149896	.00359	4.18	0.000	.0075443	.0224348
GovtCE	-.0726987	.0068994	-10.54	0.000	-.0870073	-.0583902
HOUSEHOLDC	1.42e-14	2.34e-15	6.07	0.000	9.37e-15	1.91e-14
_cons	20.78741	.5961328	34.87	0.000	19.5511	22.02371

Appendix 3 factors affecting GDP per capita

Source	SS	df	MS
Model	8.97893744	6	1.49648957
Residual	.37600932	20	.018800466
Total	9.35494676	26	.359805645

Number of obs	= 27
F(6, 20)	= 79.60
Prob > F	= 0.0000
R-squared	= 0.9598
Adj R-squared	= 0.9477
Root MSE	= .13711

lnGDP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
inflationrate	.0034802	.0105091	0.33	0.744	-.0184413	.0254018
HOUSEHOLDC	8.03e-15	1.56e-15	5.15	0.000	4.78e-15	1.13e-14
interestrate	-.0029569	.0037078	-0.80	0.435	-.0106912	.0047774
GovtCE	-.046289	.006509	-7.11	0.000	-.0598667	-.0327114
FDIofGDP	.0317663	.0248463	1.28	0.216	-.0200623	.0835948
tradeopenness	-.0007043	.0041839	-0.17	0.868	-.0094317	.0080231
_cons	9.682837	.5443894	17.79	0.000	8.54726	10.81841

Appendix 4 Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
lnGDP	27	6.24907	.599838	5.056633	6.998924
lnSSP	27	15.84935	.9116699	14.42203	17.08839
inflationr~e	27	10.54229	7.998908	3.464281	34.08336
interestrate	27	6.605901	7.570817	-26.49958	14.541
FDIofGDP	27	2.906354	1.308871	.4804884	5.663728
tradeopenn~s	27	41.3216	13.05042	23.36092	65.69072
GovtCE	27	80.13026	9.727681	67.94122	103.1497
HOUSEHOLDC	27	2.43e+13	2.38e+13	1.45e+12	7.97e+13