ASSESSMENT OF HOW FINANCIAL INSTITUTIONS IN TANZANIA BENEFITS SMALL AND MEDIUM BUILDING CONTRACTORS: A CASE OF DAR ES SALAAM REGION

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By

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A Dissertation submitted in partial fulfillment of the requirements for the award of the MSc Degree in Construction Economics and Management of the Ardhi University.

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Ardhi University a dissertation entitled "Assessment of How Financial Institutions In Tanzania Benefits Small And Medium Building Contractors: A Case of Dar Es Salaam Region" in partial fulfillment of the requirements for the degree of Masters of Science in Construction Economics and Management of the Ardhi University.

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Dr. Thadeus Shio

(Supervisor)

Date………………………………

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I **KAMBI, FREDY. H** hereby declares that this dissertation is my own original work and has not been presented and will not be presented to any other University for similar or any other degree award.

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DEDICATION

This work is dedicated to Almighty God, for whom I live, worship and be thankful for my wellbeing, also to my lovely late parents (Mr. Hassan Kambi & Mrs. Alpha Shoose Msacki), my beloved wife Glory Zadock and our Children Adrian, Annabel and Alvin for your support and encouragements.

ABSTRACT

The lack of capital has been identified by many researcher as the major cause of failure among the small and medium building contractors in Tanzania in securing valuable tenders from different clients especially government institutions.

The main objective of this study is to asses on how the financial institutions benefits small and medium building contractors in Tanzania and proposed way forward to improve services and products. The data collected from sample size of 15 and 90 respondents from financial institutions and building contractors respectively. The data processed and analysed by SPSS to reflect clear understand of the findings.

The findings analyzed showed that there are many products and services offered by financial institutions in Tanzania to its clients including building contractors. However, the study found challenges associated with the accessibility of the financial products and services from financial institutions. The challenges included;-unfavorable government policy favoring SMBCS, stiff market competition, increase of foreign contractors, lack of collateral/security pledge, lack of financial education, insufficient working capital, delay of payments especially from the government as well as lack adequate own equity to contribute in accessing the plants/equipment finance. Products and services from financial institutions had both positive and negative impact according to the evidences found in the study.

This study recommend the financial institutions to concerted efforts to raise awarenes among SMBCS about the products and services provided and to review of financial charges and interest rate to favor the local SMBC. Since, majority of SMBCs has no collateral to secure loans from the bank. It is recomended by the study for them to invest in non-moveble asset like lands and houses.

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LIST OF ABBREVIATIONS

AAT	-	Architects Association of Tanzania
ACET	-	Association of Consulting Engineers Tanzania
AQRB	-	Architects and Quantities Surveyors Registration Board
BOA	-	Bank of Africa
BOT	-	Bank of Tanzania
BRELA	-	Business Registration and Licensing Authority
BDS	-	Business development Services
CAF	-	Contractors Assistance Fund
CBA	-	Commercial Bank of Africa
CIP	-	Construction Industry Policy
CRB	-	Contractors Registration Board
ERB	-	Engineers Registration Board
FI's	-	Financial Institutions
NCC	-	National Construction Council
NEMC	-	National Environmental Management Council
PPRA	-	Public Procurement Regulatory Authority
SACCOS	-	Savings and Credit Cooperatives
SMBC	-	Small and Medium Building Contractors
SME's	-	Small and Medium Enterprises
TACECA	-	Tanzania Civil Engineering Contractors Association
TIQS	-	Tanzania Institute of Quantities Surveyors
TRA	-	Tanzania Revenue Authority

CHAPTER ONE

INTRODUCTION

This chapter gives the background information, problem statement including objective of the study, specific objectives, and research questions, significance of the study and scope of the study.

1.1 Background of the Study

The construction industry is a sector of the economy that transforms various resources into constructed physical economic and social infrastructure necessary for socio-economic development (Construction Industry Policy, 2003). It embraces the process by which the said physical infrastructure are planned, designed, procured, constructed or produced, altered, repaired, maintained, and demolished.

Construction industry is a fundamental which permeates most of the sectors of the economy it has a major role to play in achieving social economic development objectives of any country; local firms and professionals should be fully involved in the process. The industry comprises of organizations and persons who include individuals working as consultants, main contractors and sub-contractors, material and component producers, plant and equipment suppliers, builders and merchants. Also, the industry has a close relationship with clients and financiers. The government is involved in the industry as purchaser (client), financier, regulator and operator.

The majority of enterprises in the construction industry in least developed countries (LDCs) are small with a few of them being in the medium category. It is said that, world-wide, small and medium enterprises (SMEs) account for 90% of all enterprises and over 99% in developing countries. They are mostly owned by indigenous people. In Tanzania 90% of the 3,472 registered local building contractors by December 2015 were small and medium.

They are vital for ensuring diversity and flexibility of the economy responsible for the creation of employment and growth. They are the only firms willing and able to undertake the small projects, especially in rural areas, which are among the key components of development required to satisfy the basic needs of people such as housing, health facilities, sanitation and roads for geographical mobility. Growth of the SMEs provides also a platform for future medium and large-scale firms owned by indigenous people (URT-Construction Industry Policy, 2003).

The problem of lack of capital has been identified by many researcher to be among constrains that cause the small and medium contractors in Tanzania to fail to secure valuable tenders from different clients especial government institutions. This is also among the problem contributing largely to poor performance and non-completion of secured projects by these contractors.

Furthermore, banks and other financial institutions are often reluctant to lend the SMEs due to a lack of collateral and this hampers the ability of small enterprises to raise finance, information asymmetries, market uncertainty and higher transaction costs related to serving distant customers have restricted the flow to finance to SMEs (URT-National Economic Empowerment Policy, 2009).

The participation of the majority of the small and medium contractor in Tanzania in the modern economy continues to be limited. To a large extent the economy still remains in the hands of foreigners and a few local contractors. According to Contractors Registration Board (CRB) Report, 2016) as at December, 2015 the total number of registered contractors was 8,198. Of these, majorities (85%) are small and medium contractor's i.e Class 5, 6 and 7 for general works and class 3 for specialist works. Among the reasons that have restricted their effective participation in the contracting works includes lack of capital (access to finance) to finance productive.

Tanzania construction contracting has been dominated by foreign companies. About 70% of large and medium size contracts are carried out by foreign contractors who constitute less than 4% of all contractors in the country. A total of 3,172 projects worth Tshs. 4.23 Trillion were registered in year 2015 and local contractor's market share has improved from 20.8% to 44.4% in year 2015 (CRB Report,2016).

It is evident that small contractors dominate in terms of numbers, but their importance dwindles when looked from the output perspective. As such, a pyramid structure is typical in the industry, with a few large contractors at the apex and many small contractors at the base. (Ganesa, 1982 and Kirman, 1988; Ofori, 1991). This pyramid structure is attributed to the nature and products of the contracting industry which include inter alia: competitive nature, variation in size and cost and geographical dispersion of works.

However, there are financial credit facilities introduced by several financial institutions and financial scheme governs by the regulatory bodies such as Contractor Registration Board (CRB) who introduce Contractor Assistance Fund (CAF).

Furthermore, banks and other financial institutions are often reluctant to lend the SMEs due to a lack of collateral this hampers the ability of small enterprises to raise finance, information asymmetries, market uncertainty and higher transaction costs related to serving distant customers have restricted the flow to finance to SMBCs (URT-National Economic Empowerment Policy, 2009).

The banking system in Tanzania has a very limited level of penetration in the rural areas in this case most SMEs are unreached as more than 80% population is located in rural areas.

To address the above problem, the Government of the United Republic of Tanzania took the initiative to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing of the National Bank of Commerce and the recapitalization of the Co-operative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services and products offered. The government has also established the National Micro-finance Policy in 2000, the Co-operative Societies Act in 2003 and the National Economic Empowerment policy in 2004. All these initiatives were met to enhance growth and development of SMEs.

1.2 Research Problem

There has been an outcry on the poor performance of small and medium contractors in the country (Muhegi 2007). Five percent of the contractor who are contractors usually registered in class one and two, and these have no limits in terms of value of projects that they can execute. Large firms have tended to take larger share of the construction market, leaving the small and medium contractors in class five to seven with very little share.

The problem of lack of working capital, limited accessibility of financial services, un awareness of financial market, and non-user financial services has been identified by many researchers (Komu 2011, Mullunge & Baitaini, 2008 and Muhegi,2007) to be among constrains that cause the small and medium contractors in Tanzania to fail to secure valuable tenders from different clients especial government institutions. This also the problem contributing at large for poor performance and non-completion of secured projects by these contractors.

1.3 Objective of the Study

1.3.1Main Objective

The broad objective of the study was to assess of how financial institutions in Tanzania benefits small and medium building contractors in Tanzania and formulate appropriate strategies for improving financial institutions services to these contractors.

1.3.2 Specific Objective

The specific objectives of this study were as follows:

a) To explore services and products offered by financial institutions to small and medium building contractors in Tanzania.

b) To examine how the services and products offered by financial institutions to benefits the small and medium building contractors in Tanzania.

c) To assess the challenges facing small and medium building contractors in accessing to services offered by financial institutions in Tanzania.

d) To recommend possible ways of improving the services provided by financial institutions to small and medium building contractors in Tanzania.

1.3.3 Research Questions

The main research questions guided this research project as follows:-

a) What are the services and products offered by financial institutions to small and medium building contractors in Tanzania?
b) How do the services and products offered by financial institutions to benefits the small and medium building contractors in Tanzania?
c) What are challenges facing small and medium building contractors in accessing to services offered by financial institutions in Tanzania?
d) What are the possible ways of improving the services provided by financial institutions to small and medium building contractors in Tanzania?

1.4 The Significance of the Study

The study is expected to provide an insight of how the financial institutions benefit the small and medium building contractors in Tanzania. Financial institutions play a catalytic role of boosting small and medium building contractors. These contractors use two source of finance; internal or external sources of financing. The internal funds are always insufficient to undertake the required level of business hence the call is always made for external finance from relevant financial institutions to fill the financial gaps.

Over the years, the failures of small and medium building contractors have been linked to the inability to access finance and other services from financial institutions.

This study is therefore, important on providing empirical evidence how financial institutions benefits small and medium building contractors in Tanzania.

1.5 Scope and Limitation of the study

The research focus on how financial institutions benefits small and medium building contractors in Tanzania a Case of Dar es Salaam region. Due to the limitations in time and resources, this research limit itself to small and medium building contractors and other stakeholder such as banks and other financial institutions for instance SACCOs and microfinance, loan beneficiaries and non-beneficiaries of SMBCs located at Dar es Salaam.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents conceptual definitions of financial institutions, Construction Industry and small and medium contractors. Literature review was also done on the development of financial institutions and they are benefits to small and medium building contractors.

2.2. Building Contractors

The Contractor Registration Board (CRB) is a government autonomous regulatory body establish by Act of parliament No.17 of 1997 to register all type of contactors and regulate their conduct for the purpose of protecting consumers of construction services in Tanzania. In relation to this objective, CRB is also duty bound to promote the development of local contractors. CRB registers five types of contractors which are; Building works, Civil works, Mechanical works, Electrical works and Specialist works. The firms are registered according to their capacities in seven classes; one being the highest and class seven is the lowest. The table below show the trend of registered building contractors up to year 2012 were their total number was 3013 including the registered foreigner contractors.

Table 2.1: Registered Building Contractor

Class of Registration	I		II	III	IV	V	VI	VII	TOTAL
Category	L	F	L	L	L	L	L	L	
2000	29	21	20	32	70	100	86	817	**1175**
2013	23	28	16	35	135	430	747	1108	**2522**
2014	39	67	34	57	209	661	638	1582	**3287**
2015	72	118	45	59	238	676	650	1804	**3590**

Source: CRB Directories (2000, 2014& 2015) **L**= Local; **F**=Foreign;

According to the research done by CRB (2015), on average CRB has been registering over 808contractors annually. By December 2015 there were 8198 contractors on its register among which 79% are small and medium contractors ranging from class seven to five. Upon its establishment in 1997, CRB had only 998 contractors on register. This is approve that the construction industry within the country is fast and steady socio – economic development.

The Contractor who fails to abide with CRB Act sub section 13(1)(b)(c) and (d) and 15(1)(c) respectively will be deleted. In according to Section 34 of written Laws(Miscellaneous Amendments) Act No.3/2011 a contactor that fails to effect payment of Annual Subscription fees immediately ceases to be a contractor and is not be permitted to proceed with any construction works forthwith.(CRB Act, 1997).

The construction industry is a fundamental economic sector facilitating performance and enhancing trade such as agriculture, industry e.t.c. The sector is governed by the construction industry policy of 2003 and several legislation Acts including; Engineers Registration (ERB) Acts No.15 of 1997, Architects and Quantity Surveyor Registration (AQRB) Acts No.16 of 1997, The Contractors Registration Board (CRB)Act No.17 of 1997, National Construction Council(NCC) Act No.20 of 1979, Public Procurement Regulatory Authority (PPRA) Act of 2011, National Environmental Management Council (NEMC) Act No. 20 of 2004 and Tanzania Bureau of Standards Acts No.3 of 1975 which was later replaced by Standard Act No.2 of 2009. All these documents provide rules for monitoring and evaluation of the construction sector in Tanzania (CIP,2003).

This sector is important as it can transform various physical resources into constructed physical economic and social infrastructure necessary for socio-economic development. It comprises of buildings, civil works and specialist works that has direct or indirect deal with construction activities. In Tanzania the sector it comprises with many actors such as Contractors, Clients and Regulatory bodies including ERB,AQRB and CRB also other institutions involved in regulate and oversee the industry are including NCC, Public Procurement Regulatory Authority (PPRA) and Professional Associations such as Tanzania Institute of Quantity Surveyors (TIQS), Architects Association of Tanzania (AAT), Association of Consulting Engineers Tanzania (ACET), Tanzania Civil Engineering Contractors Association (TACECA)(CIP, 2003).

The Construction industry is crucial toward providing the country with the infrastructure deemed necessary for its development. Small construction firms in developing countries in particular, play an important role in socio-economic development. This is probably the only group of entrepreneurs that would seize the opportunity to undertake the relatively unattractive public works construction projects notably in schools, health care centers, and small road networks in the rural areas. In undertaking such projects, they play a very important role in the provision of infrastructure facilities required for improved standards of living, and consequently help alleviate poverty in the long run. The industry has been growing in the country with second quarter of 2015 contributing to GDP of 13.2% compare to the annual GDP for 2015 of 7% (Construct Africa: March, 2016).

2.3.1 Small and Medium Building Contractors (SMBCs) as Small and Medium Enterprises (SMEs)

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce, construction and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. (Tanzania SME Policy, 2003).

Small and Medium Building Contractors (SMBC's) firms are among small and medium enterprises in Tanzania due to fact that they share same characteristics with SMEs where both must acquire Tax Identification Number(TIN)/VAT Identification Number from The Tanzania Revenue Authority (TRA), the Certificate of Incorporation from the Business Registration and Licensing Authority(BRELA) and valid current Business License from Local government Authorities (LGA's) before continuous with business and differ in the way their operation are governed and entry barriers the must fulfill where the SMC's must conform with CRB registration requirements before obtain the contractor's license. These firms has class limit (most categorized in term of value of projects) which provide them work volume limitation during execution of projects. These firms' activities are managed and regulated by the Contractors Registration Board (CRB). The Contractors Registration Board (CRB) is a government autonomous regulatory body established by Act of parliament No.17 of 1997 to register all type of contactors and regulate their conduct for the purpose of protecting consumers of construction services in Tanzania. In relation to this objective, CRB is also duty bound to promote the development of local contractors.

2.3.2 Determinants of capital structure of Small and medium Building contractors (SMBCs)

Small and medium building contractors depends on the financial structures hence some important aspects are to be considered when deciding on their financial structure. This was postulated by Myers (1977) who determined the capital structure of SMCs. The pecking order theory (POT) was used to explain why firms will choose a particular capital structure than the other. The POT stipulates that SMBCs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital Myers (1984). Firms in one industry will have certain aspects that are common to most than to firms in a different industry (Harris and Raviv, 1991).

The decisions are made taking into consideration information asymmetry, agency theory, and the signaling theory. The signaling theory describes signs and the effectiveness or how a venture will progress in an uncertain environment. The main idea behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997).

The success of a business in the future is determined by the availability of information to the firm. The stakeholders of a business require signals to find the way of the asymmetry of information between what is known and what is unknown (Janney and Folta, 2003). The outsiders get to know about a particular venture based on the signals it sends out. These signals need to be favorable because it is from it that potential investors will be informed and thus show the intention to invest in the venture. The cost of equity will be high when poor signals are noticed by outsiders and this will restrain potential investors. Firms get access to venture capital when they have a good goodwill (Prasad, Bruton and Vozikis, 2000). Good signals to the outsiders of a firm can be described as equal to due diligence with reduced time and input (Harvey and Lusch, 1995).

New businesses have problems in getting a favorable position in the market. Their existence is determined by their size and age. If it continues to exist, it means it is capable of maintaining its size or it is expanding. This of course goes with time and when they continue to exist, it means resources are acquired or unlimited. This process of gaining stability and to survive makes the firm to gain legitimacy and thus can be trusted as a successful business since it emits positive signals. Firms with unlimited resources at the infancy stage are easy to go bankrupt and die in this early stage this was postulated by Aldrich and Auster (1986) and Freeman, Carroll and Hannan (1983).

Myers (1984) argued that external sources of funding have more moral hazard problems and consequently the demand for own or internal finances are of paramount to the firm. This moral hazard is explained by the fact that SMBCs are very close entities; that is owned and or controlled by one person or few people. The pecking order theory emphasizes; Ang (1991) on the use of owned capital rather than outside capital by SMBCs and also explain why SMBCs are denied or has a hindering factor in seeking for external sources of finance. World Bank (2002) reiterates the fact that SMBCs are more likely to be denied new loans for their businesses than larger firms when in need. They consider SMBCs to lack the skills to manage risk and the high transaction costs in lending to them compared to the amount that is borrowed (Hallberg, 2000).

2.3.3 Link between capital structure and financial institutions development

Capital structure shows the optimal mix between debt and equity. There is the connection between financial institutions development and firms' capital structure especially debt versus equity choices (Demirguc-Kunt and Maksimovic 1998). In this case financial development facilities affecting capital structure decisions through the reduction of the costs of external finance (Demirguc-Kunt and Maksimovic 2008; La Porta et al. 1997. Recent financial research (Degryse and Ongena 2005; Petersen and Rajan 2002) highlight the importance of the availability and pricing of bank loans. In particular, Petersen and Rajan (2002) document the importance of distance in the provision of bank credit to small firms, especially in a country where the problems of asymmetric information are substantial.

Pollard (2003) suggests the need of contextualizing firm finance, analyzing how different geographical configurations of financial institutions affect the access to credit for firms operating locally. In general, it is suggested the idea that banks operating locally have more knowledge and control about local firms and entrepreneurs (Alessandrini and Zazzaro 1999).

According to Titman *et al.*(2003), a principal source of the financial constraint influencing capital-structure may be the existence of asymmetric information and the cost of contracting between companies and potential providers of external financing.

Problems of financial constraint are potentially high in presence of a poorly developed financial system. A well-developed financial system can facilitate the ability of a company to gain access to external financing, providing cheaper finance to worthy companies (Guiso et al. 2004).

In addition, La Porta et al. (1997, 1998) and Beck and Levine (2002) suggested account for the role of the judicial enforcement in shaping the operation of financial systems and affecting financing decisions. Specifically, the judicial enforcement is important, because the regulations governing the financial system work in the interest of investors, protecting creditors only to the extent that the rules are actually enforced. Due to the risk of default and the difficulty to get back the liquidation value of the collateral, enforcement affects the ex-ante availability of agents to provide finance.

As suggested by La Porta et al. (1998), a good legal environment protects the potential financiers against expropriation by SMBCs; it raises their willingness to provide funds to firms. Giannetti (2003) argues that the recent contributor highlighted that SMBCs which have limited access to alternative source of financing due to their information opaqueness seem potentially very sensitive to the degree of development and efficiency of the financial system.

Also cross country research provided substantial evidence that small firms face larger growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMBCs' contribution to growth (Beck et al. 2008). Institutional development helps alleviate SMBCs' growth constraints and increase their access to external finance.

According to Céline Kauffmann (2004) most African financial systems are fragmented. The "missing middle" in the pattern of size of firm is matched by one in the range of financing available. Lack of funding for SMEs has partly been made up for by microcredit institutions, whose growth is due to the flexible loans they offer small businesses. In Angola, Novobanco provides loans free of bank charges, without a minimum deposit and with informal guarantees (property assets and a guarantor), as well as permanent contact with loan managers. Though adapted to local needs, however, micro-credit institutions remain fragile and modest sized. As well as lacking trained staff, micro-credit institutions face limited expansion because of their limited funds. Their mainly short-term finance means they cannot easily turn the savings they collect into medium or long term loans. They are also up against the cost of refinancing through the formal banking sector and have no access to refinancing either by the central bank or by venture capital.

Microcredit institutions could be put on a firms financial footing by developing and adapting long-term savings products that exist elsewhere, such as life insurance and home-saving plans, and encouraging the setting up of specialized refinance banks such as Mali's "Solidarity Bank" (Banque Malienne de Solidarité), or working more closely with the formal banking sector.

In some countries such as Kenya, financial system display a deficiency in the range of financial instruments and lack of coordination between different financial institutions. This is consistent with the argument that credits markets in Africa are characterized by inability to satisfy existing potential customers for instance SMEs. For instance, Oketch et al (1995) conducted a study on 16 financial institutions to determine the demand and supply of credit to the SME sector. The study revealed that the demand and supply for credit have been on the increase since 1991. It also revealed that the demand has only been met by 16% of what is required. The study also revealed that although financial institutions lend to prime borrowers with collateral security, there is need for these institutions to increase their lending to SMEs.

South Africa passed two laws in early 2005 to expand the banking system to include savings and loan institutions (second-tier banks) and co-operative banks (third-tier banks) while easing banking regulations so the new comers could still be flexible in providing loans. However, commercial banks are setting up their own micro-credit services in order to remove the obstacles to access for SMEs' to finance requires that commercial banks, micro-credit institutions, community groups and business development services (BDS) work closely together. Pushing for agreements between financial bodies and BDS suppliers will help make up for lack of capacity and reduce costs by more efficient division of labor. The BDS supplier makes the initial choice of projects on a purely technical basis and the credit institution looks at financial viability. Making loans to intermediaries (NGOs and federations of SMEs) with the job of allotting funds to members can also help cut administration costs.

In Nigeria, SMEs sector is importance to economy ,the best estimates available suggests that SMEs comprise 87% of all SMEs operating in Nigeria, although the total number of registered SMEs in Nigeria is also unknown World Bank (2002).In this case since attainment of independence several micro lending institutions were established to enhance the development of this sector. Such micro credit institutions include the Nigerian Bank for Commerce and Industry, National Economic Reconstruction Fund, the People's Bank of Nigeria, the Community Banks, and the Nigerian Export and Import Bank, and the liberalization of the banking sector unfortunately records indicate that the performance of SMES in Nigeria has not justified the establishment of this plethora of micro-credit institutions.

According to World Bank in 2001, a study identified poor access to finance as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major constraint. Though the study identified poor access to finance by SMEs, the Bankers Committee at the initiative of the CBN developed an interventionist strategy called the Small and Medium Industries Equity Investment Scheme in 1999. This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in equity participation. The pooled money has to be invested in SMEs in so doing reduces the extra risk of lending to SMEs.

In some countries in Asia and Latin America, financial institutions are not the only source of money for SMEs. Large firms are a major potential source of finance. Because big firms can do a lot to help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SME solvency with financial institutions. Links with major companies can also help SMEs get export credits, which are especially important in countries with weak institutions, since commercial partners are better informed than other creditors (especially financial institutions) about the ability of their customers to repay debts. Export credits have been proved useful in Zambia's agro-food industry. Subcontracting is still uncommon in Africa, but has grown rapidly in South Africa since 1998, though there is increasing skepticism about it.

It is active in Asia, enable member firms to seek finance together, provide collective guarantees or even set up their own financial body. The threat of expulsion from the cluster ensures that promises are kept, which allows the network to overcome shortcomings in the legal system. Frequent interaction with financial authorities, as well as the role that reputation plays in the cluster, can greatly increase confidence between firms and financial institutions and thus make it easier to get loans and lower rates of interest. Working together also means firms can get supplier credits and can borrow from each other when necessary, which reduces general costs.

In Europe, particularly Italy, majority of firms accounted more than 95% are SMEs. While the proliferation of small-scale enterprises has often been pointed to as one of the reasons for Italy's economic success, the limited types of external funds available to Italian companies make them prone to financing constraints. In Italy, once internal funds are depleted, the banking channel is often the only way for Italian SMEs. In fact, capital markets in Italy are relatively undeveloped compared not only to those in the USA. Therefore, the Italian stock market is not an important source of finance in Italy. Very few Italian companies trade publicly, not even companies that are quite large. Although its central role in the national economy, the Italian banking system was until recently state owned, heavily regulated and scarcely competitive. Up to the early 1990s, the main features of the banking industry in Italy were the results of the regulation introduced in 1936 in order to avoid banking instability Many restrictions were laid down on banks' activity among which the total control upon entry and exit in the industry, as well as on branching decisions.

In 1991, the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalization of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign. As of now, the country has 35 banks compared to only seven (7) banks existing in 1991. (TBA report, 2008)

Additionally in 1991, the Co-operatives Societies Act was formulated in order to provide the basis for the development of Savings and Credit Co-operative Societies (SACCOs) as privately owned and organized equity based institutions. The mainstream banking system expanded as a consequence of the reforms at a satisfactory pace.

Despite of the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMCs' capital enhancement and growth. BoT, (2006) .However the evidence showed the formal financial institutions find it difficult to deal with SMCs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Kashuliza et al., 1998).Due to this, small businesses face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

Furthermore according to the study done by Shayo& Temu (1998) on the financing sources to small businesses found that only 36% of them have made attempts for credit application from financial institutions. Out of these only 9.5 % managed to get a loan from financial institutions.

2.4. Empirical Analysis of Relevant Studies

2.4.1 Empirical Studies related to other countries

2.4.1.1 Africa

According to Kauffmann (2004), most African financial systems are fragmented. The "missing middle" in the pattern of size of firm is matched by one in the range of financing available. Lack of funding for SMEs has partly been made up for by microcredit institutions, whose growth is due to the flexible loans they offer small businesses. In Angola, Novobanco provides loans free of bank charges, without a minimum deposit and with informal guarantees (property assets and a guarantor), as well as permanent contact with loan managers. Though adapted to local needs, however, micro-credit institutions remain fragile and modest sized.

As well as lacking trained staff, micro-credit institutions face limited expansion because of their limited funds. Their mainly short-term finance means they cannot easily turn the savings they collect into medium or long term loans. They are also up against the cost of refinancing through the formal banking sector and have no access to refinancing either by the central bank or by venture capital.

Microcredit institutions could be put on a firms financial footing by developing and adapting long-term savings products that exist elsewhere, such as life insurance and home-saving plans, and encouraging the setting up of specialized refinance banks such as Mali's "solidarity bank" (Banque Malienne de Solidarité), or working more closely with the formal banking sector.

Some countries such as Kenya financial system display a deficiency in the range of financial instruments and lack of coordination between different financial institutions. This is consistent with the argument that credits markets in Africa are characterized by inability to satisfy existing potential customers for instance SMEs. For instance, Oketch et al (1995) conducted a study on 16 financial institutions to determine the demand and supply of credit to the SME sector. The study revealed that the demand and supply for credit have been on the increase since 1991. It also revealed that the demand has only been met by 16% of what is required. The study also revealed that although financial institutions lend to prime borrowers with collateral security, there is need for these institutions to increase their lending to SMEs.

South Africa passed two laws in early 2005 to expand the banking system to include savings and loan institutions (second-tier banks) and co-operative banks (third-tier banks) while easing banking regulations so the new comers could still be flexible in providing loans. However, commercial banks are setting up their own micro-credit services in order to remove the obstacles to access for SMEs' to finance requires that commercial banks, micro-credit institutions, community groups and business development services (BDS) work closely together. Pushing for agreements between financial bodies and BDS suppliers will help make up for lack of capacity and reduce costs by more efficient division of labor. The BDS supplier makes the initial choice of projects on a purely technical basis and the credit institution looks at financial viability. Making loans to intermediaries (NGOs and federations of SMEs) with the job of allotting funds to members can also help cut administration costs.

In Nigeria, SMEs sector is of importance to economy. The best estimates available suggests that SMEs comprise 87% of all SMEs operating in Nigeria, although the total number of registered SMEs in Nigeria is also unknown World Bank (2002). In this case since attainment of independence several micro lending institutions were established to enhance the development of this sector. Such micro credit institutions include the Nigerian Bank for Commerce and Industry, National Economic Reconstruction Fund, the People's Bank of Nigeria, the Community Banks, and the Nigerian Export and Import Bank, and the liberalization of the banking sector unfortunately records indicate that the performance of SMES in Nigeria has not justified the establishment of this plethora of micro-credit institutions.

According to a study by World Bank (2001), poor access to finance was identified as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major constraint. Though the study identified poor access to finance by SMEs, the Bankers Committee at the initiative of the CBN developed an interventionist strategy called the Small and Medium Industries Equity Investment Scheme in 1999. This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in equity participation. The pooled money has to be invested in SMEs in so doing reduces the extra risk of lending to SMEs.

2.4.1.2 Asia and Latin America

In some countries in Asia and Latin America continent financial institutions are not the only source of money for SMEs. Large firms are a major potential source of finance. Because big firms can do a lot to help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SME solvency with financial institutions. Links with major companies can also help SMEs get export credits, which are especially important in countries with weak institutions, since commercial partners are better informed than other creditors (especially financial institutions) about the ability of their customers to repay debts. Export credits have been proved useful in Zambia's agro-food industry. Subcontracting is still uncommon in Africa, but has grown rapidly in South Africa since 1998, though there is increasing skepticism about it.

It is active in Asia, enable member firms to seek finance together, provide collective guarantees or even set up their own financial body. The threat of expulsion from the cluster ensures that promises are kept, which allows the network to overcome shortcomings in the legal system. Frequent interaction with financial authorities, as well as the role that reputation plays in the cluster, can greatly increase confidence between firms and financial institutions and thus make it easier to get loans and lower rates of interest. Working together also means firms can get supplier credits and can borrow from each other when necessary, which reduces general costs.

2.4.1.3 Europe

In Europe, particularly Italy majority of firms accounted more than 95% are SMEs. While the proliferation of small-scale enterprises has often been pointed to as one of the reasons for Italy's economic success, the limited types of external funds available to Italian companies make them prone to financing constraints. In Italy, once internal funds are depleted, the banking channel is often the only way for Italian SMEs. In fact, capital markets in Italy are relatively undeveloped compared not only to those in the USA. Therefore, the Italian stock market is not an important source of finance in Italy. Very few Italian companies trade publicly, not even companies that are quite large. Although its central role in the national economy, the Italian banking system was until recently state owned, heavily regulated and scarcely competitive. Up to the early 1990s, the main features of the banking industry in Italy were the results of the regulation introduced in 1936 in order to avoid banking instability Many restrictions were laid down on banks' activity among which the total control upon entry and exit in the industry, as well as on branching decisions.

2.4.2 Empirical Studies in Tanzania

2.4.2.1 Development of Financial Institutions

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalization of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign. As of now, the country has 35 banks compared to only seven (7) banks existing in 1991. (TBA report, 2008)

In the same year, the Co-operatives Societies Act was formulated in order to provide the basis for the development of Savings and Credit Co-operative Societies (SACCOs) as privately owned and organized equity based institutions. The mainstream banking system expanded as a consequence of the reforms at a satisfactory pace.

Despite of the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMCs' capital enhancement and growth. BoT, (2006) .However the evidence showed the formal financial institutions find it difficult to deal with SMCs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Kashuliza et al., 1998).Due to this, small businesses face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

Furthermore according to the study done by Temu (1998) on the financing sources to small businesses found that only 36% of them have made attempts for credit application from financial institutions. Out of these only 9.5 % managed to get a loan from financial institutions.

2.4.2.2 The Contribution of Financial Institutions in Financing SMBCs

According to Banking Financial Institution Act 1991 commercial banks have established microfinance oriented products. In Tanzania the main commercial banks serving SMBCs include Akiba Commercial Bank, Tanzania Postal Bank, CRDB Bank and National Micro-Finance Bank (Satta, 2002). These banks have the most explicit orientation towards micro finance. They have well defined strategies to expand their operations in this market (Randhawa and Gallardo J, 2003). It is obvious that these banks do not use the famous commercial lending models like the credit scoring models neither do they use the micro finance models like the Grameen Models. They have their own perspective of serving this segment.

Commercial banks are seen to be very important for serving this segment because they have a wide branch network that can reach most micro enterprises. They also operate accounts, which make it possible to monitor their clients closely. Although there are limitations that commercial bank encountered for example; most of them are located in urban areas thus making it difficult to provide services to those enterprises located in rural areas. Other limitations of commercial bank lending to the SMBCs sector in Tanzania are the lack of appropriate savings instruments to mobilize savings to the SMBCs and the restrictions on withdrawals, which discourages savers who would like frequent access to their savings. Their location away from many enterprises also implies high transaction costs (National Microfinance Policy, 2000).

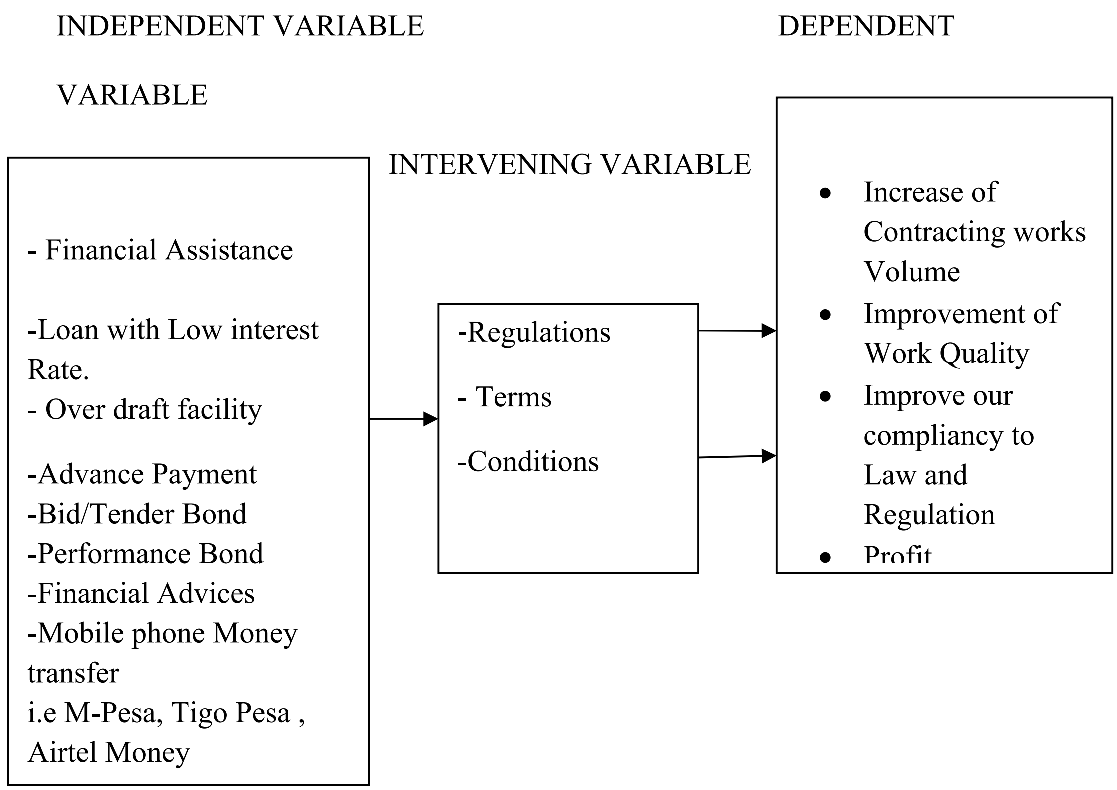
SACCOs are supervised by Cooperative department of the Ministry of Cooperative and Marketing. According to a survey done by BoT in 2005 there were about 1620 SACCOs registered in Ministry. It is therefore the largest group of MFIs providing financial services to SMBCs (Silvanus, 2001). Among of the distinctive characteristics of SACCOs are; the highest potential of reaching the most people, SACCOs are relatively easy to establish and they have simple joining procedures less stringent Savings and loan conditions, dealing with people of well known to them and lastly SACCOs have weaknesses in operating and administrative management, especially in the area of accounting and internal control systems. (Silvanus, 2001).

The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or preexisting relationship.

2.5 Conceptual Framework.

This part introduces the conceptual frame work of the study. Denscombe (2007) and Kothari (2006) provide that the use of conceptual frame work in research is to seek for gently facilitation of research process and serves in the final analysis. Eisenhart (1991) defines conceptual framework as a skeletal system of justification of enlightenment based on rational concepts, assumptions and expectations and theories that support and update the research.

Figure 2.1: Conceptual Framework



NOTE

Inputs from Financial Institution → Processing → Output/Productivity

Source: Researcher own Design, 2017

Independent variables are variables whose effects to the dependent variable are the centre of the study (Adam et al, 2003). In this study, SMBC's need such as financial assistance, loan with low interest rate, overdraft facility, advance payment, bid/tender bond, performance bond, financial advices and mobile phone money transfers services are independent variables. They are the factors which have effect on Contractor output.

According to Adam et al, (2003), dependent variable waits for the effect an independent variable will create on it. In this study contractor output is a dependent variable.

Another variables included in the conceptual framework are the intermediate variables which are independent variables in nature, sometimes known as extraneous/intervening variables. Adam et al, (2003) argued that extraneous variables are likely to have effect on dependent variable but for the purpose of the study they are not intended to be measured. In this study, terms, conditions and regulations are factors that may have effect on contractors output but they are not interested in this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an overview of the research methodology that was used in this study. The chapter describes the study area and research design which was adopted. It gives a detail description of the sample and the sampling procedure used in this study and closes with the techniques used in data collection and the methods of data analysis.

3.2 Methodology

Research methods are those methods and techniques that are used to conduct research (Kothari, 2006). Research methods for a data collection describe the practical aspect in which the whole research task has been organized and carried out. There are two types of data according to Kothari (2006), which are primary and secondary data. Primary data are those which are collected afresh and for the first time, and thus happen to be original in character. The secondary data are those which already been collected by someone else and which have already passed the statistical process.

Once the problem is identified and the problem statement is made and formulated, the type of data collected becomes evident and also the appropriate method of analyzing the data collected will be identified (Kothari, 2006). In this research study various data collection techniques was adopted including literature reviews, questionnaire was filled from group of people, talking to people, focus group, and several personal interviews was made.

Questionnaires are one of the cost effective method of gathering information. They are ideal for large sample size or when the sample comes from a wide geographical area. A pilot study (pilot Survey) for testing questionnaires were conducted, in order to test the quality of questions with regards to answering the research questions.

According to Kothari (2006) pilot survey is the replica and rehearsal of the main survey conducted by experts, bringing to the light the weakness (If any) of the questionnaires and also of the survey techniques.

3.3 Research Design

According to Kothari (2006), define the Research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Furthermore, Kothari (2006) explains that research design is a procedure which the research must pass in research and should be design so as to structure or show how all of the major parts of the research project work together by addressing the central research questions. This study was descriptive. It was designed to obtain views from construction industry key stakeholder on how the small and medium building contractors benefits from financial institutions.

3.3.1 Population size

Population can be defined as the class, families, electors or electorates from which you select few students, families, electors to question in order to find answers to your research questions (Kumar, 2005). The respondents in this study were Financial Institutions were there total number are 15 and Small and Medium Building Contactors from class V to VII located at Dar es Salaam were involving with total number of 962.

3.3.2 Sample size

Sample size can be defined as the number of small group either students, families or electors from whom you collect the required information to estimate the average age of the class, average income or the election outcome (Kumar 2005). A simple random sampling technique was used to obtain sample. This technique is superior over other sampling techniques because each element has equal probability of being picked up and each item in the entire population has an equal chance of being included in the sample (Kothari, 2006). According to CRB Report, 2016 the number of registered contractors (SMBCs) from class V to VII are 962, hence the population size (N) is 962. In this study a confidence interval of 90 percentage (z=1.645) was used and the degree of precision of sampling (margin of error that is acceptable) was ± 10 percentage. The CI of 90 and marginal error of ±10 have been used in various researches and it have shown a good results. Bailey, (1994) reported that for studies in which statistical analysis is to be done, a sample of greater 30 (>30) is required regardless of population size. Sample size of 15 and 90 respondents from financial institutions and SMBCS respectively was used to obtain information required in the study.

$$n=\frac{N}{1+Ne^2}$$

Whereby; n=Sample size = 90

N=Total Population =962

e=Confidence level = 0.1 or 10%

3.3.3 Sampling frame

Sampling frame is a list identifying each student, family or elector in the study population (Kumar 2005). The sampling frame is also known as the “source list”. In this study the sampling frame of SMBCs was extracted from list of registered building contractors from CRB contractor’s directory and financial institutions registered in Tanzania.

3.4 Sampling Techniques

Kothari (2006) define sampling as the selection of some part of an aggregate or totality on the basis of which a judgment or inference about the aggregate or totality is made. The objective of sampling is to provide a practical team of enabling the data collect. According to Kumar 2005, sampling is the process of selecting a few (a sample) from a bigger group (the sample population) to become the basis for estimating or predicting the prevalence of an unknown piece of information, situation or outcome regarding the bigger group.

3.4.1 Probability Sampling

Probability sampling is also called simple random sampling. According to Kombo and Tromp (2006), random sampling is the probability whereby people, places or things are randomly selected. The advantage of this technique is that each unity in the population has an equal chance of being selected and bias is minimized. It also enables the researcher to generalize to the large population and make inferences. The problem with this approach is that, the selected sample may not have provided the relevant expected information.

The researcher adopted this approach in particular random sampling based on the advantage explained above, when getting sample of Small and Medium Building Contractors from Contractors Registration Board directory list.

3.4.2 Purposive Sampling

According to Williman 2005, purposive sampling is a useful sampling method which allows a researcher to get information from a sample of the population that one thinks knows most about the subject matter. Purposive sampling techniques include hand picking of the subject cases that the researcher thinks that possesses rich information to accomplish the researcher's objective.

A sample of the financial institutions and regulatory bodies of major actors in construction industry such as contractors and consultants was selected by purposive sampling.

3.5 Techniques Used in Data Collection

Among the available methods in collecting data, three methods were adopted; Document review, questionnaires and interviews.

3.5.1 Documents Review

A research literature review, as a process, is a systematic, explicit, and reproducible method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by researchers, scholars and practitioners (Fink, 2010).

This method was used to collect secondary data. It has an advantage because the researcher was be able to collect as much information as possible without limitation. However, in some cases the researcher may not find published information in some of the particular area of concern. The aim of the secondary data was to establish the existence situation on how financial institutions benefits SMBCs in Tanzania.

The useful information was collected from seminar and workshop papers, journals, annual consultative meeting and continuous professional development reports organized by regulatory bodies, study findings from Masters of Science and Doctor of Philosophy theses.

3.5.2 Interviews

Interview refers the method of collecting data from face to face dialogue or telephone. Some of people opted to be interviewed rather than filling questionnaires. Therefore, interview was also regarded as the best method to obtain information. The interview was done to the Chief Executive Officers/ Managing Directors SMBCs who was opted for the interview rather than filling the questionnaires.

3.5.3 Questionnaires

Questionnaire was regarded as an appropriate method for gathering data from larger number of respondents within a limited time frame, owing to the nature of this study. This method was used to gather both qualitative and quantitative information.

Questionnaire was prepared and administered to financial institutions and small and medium building contractors. Most of questions in the questionnaire covered the research objectives of the study; focus on collecting of the general information to determine the characteristics of the sample, asses on how the financial institutions benefits small and medium contractors and recommending ways forward to improve the financial institutions services.

3.6 Validity and Reliability

3.6.1 Validity

According to Ranjit 2005, the concept of validity may be applied to test if the procedures used in conducting research are correct and the actual situation of data presented on the ground.

3.6.2 Reliability

Reliability refer to the quality of a measurement procedure that provides repeatability and accuracy Magotto, 2008. Data collected from biased respondents may not give the reliability needed in the study. Kumar 2005 defines biasness as a deliberate attempt either to hide what you have found in your study or highlight something disproportionate to its true existence. The reliability of the study depends first on the researcher. She/he should take each step in unbiased manner and draw each conclusion to the best of his /her ability and without introducing his / her own vested interest. Thus, if an independent researcher follows the same procedure she / he must come out with the same findings and conclusions.

In order to ensure further reliability of the study, other measures taken included avoiding ambiguous and paraphrasing questions and consistently recording of the information from the respondents. A pilot study helped the researcher to get early information about the accuracy.

3.7 Data Analysis

Irrespective of method of data collection, the information collected is called raw data or simply data. To ensure viability and reliability of data, various steps must be taken; the first step according to Kumar (2007) is to ensure that data are clean and free from inconsistencies and incompleteness, a process called editing. Having cleaned the data, the next step is coding, which also depends on the way want to communicate the findings about variable to your reader.

Coded data can be analyzed manually or with the help of computer programme. When the number of respondents is very small, researcher may analyze the data manually especially when calculating frequencies and simple cross tabulation. In this study some data was analyzed manually owing to their magnitude; while others were compelled with computer aided software such as the statistical package for social science (SPSS) and Microsoft excel (2007) all the descriptive statistics from each question were put together and analyzed to describe the relationship between pairs of variables. The information obtained from different respondents was well organized from raw data to information, from information to fact and from fact to knowledge. The knowledge was expressed with statistical degree of confidence. The study ensured that the collected data and information are processed scientifically before carrying out the analysis. The study ensured that the collected data and information were processed scientifically before carrying out the analysis. The study applied coding arrangement to create codes and scale from responses.

Pictorial presentation using tables and graphs were used for presentation of data, simplifying and clarifying research data. The purposes of each table or graph were to soften the summarization, interpretation and communication of the meaning of the data. Despite the number of standardized forms for presentation of data in form of table or graph, the study will improve them hence add the meaning of the data presentation. The increase use of computer technology in research is significantly paramount in tabulation and statistical analysis.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Overview

This chapter presents the study findings and its discussion based on the study topic. The analysis of collected data basically focuses on achieving the specific objectives namely; to explore the services and products offered by financial institutions to small and medium building contractors, to examine how the services and products offered by financial institutions to benefits the small and medium building contractors, to assess the challenges facing small and medium building contractors in accessing to services offered by financial institutions as well as to recommend possible ways of improving the services provided by financial institutions to small and medium building contractors in Tanzania.

4.2 Demographic profile of respondents

Demographic profile of respondents includes the sex and age of respondents, level of education as well as the working experience. The main rationale was to provide a snap shot of the respondent's information regarding its impact in this study.

As presented in Table 4.1, the study considered the issue of gender aiming at ensuring the validity of the information provided. The study findings indicates 73 male respondents which is equivalent to 81 percent of the total respondents where as female respondent's amount to 17 which is also equivalent to 19 percent of the total contractors respondents whom were involved in this study. Contrary to that, 75 percent male and 25 percent female from financial institutions were involved in the study too.

Table 4.1: Distribution of the respondents according to Sex, Age, Education and Working Experience

FINANCIAL INSTITUTIONS (Four (4) Respondents)			CONTRACTORS (Ninety (90) Respondents)	
Respondent	**Frequency (n)**	**Percentages (%)**	**Frequency (n)**	**Percentages (%)**
SEX				
Male	3	75	73	81
Female	1	25	17	19
AGE				
31 to 35 years	0	0	22	24.4
36 to 40 years	2	50	50	55.6
41 to 45 years	2	50	18	20
EDUCATION				
Diploma	0	0	12	13.3
Bachelor Degree	3	75	76	84.4
Master Degree	1	25	2	2.2
EXPERIENCE				
0 to 5 Years	0	0	33	37
6 to 10 years	1	25	29	32
11 to 15 years	2	50	28	31

It is evident that, sex was decidedly considered as a means of ensuring that both sexes participated to large extent in providing necessary information on how financial institutions benefits small and medium building contractors . It was so important for the study to consider the issue of gender since it has been majority believed that, in construction industry female are lassies involved. The findings for this study correlates with the findings by Chappell (2013) who did research on why women have made so little headway in the construction industry. She discovered that, construction industry is the majority male-dominated sector in Australia and it appears to be getting more gender-segregated. In 2016 women make up only 12% of the workforce, down from 17% 10 years ago. Therefore, it is evident that construction industry is highly dominated by male.

Moreover, in this study, the respondents' age was considered to a large extent. The findings in Table 4.1 indicates that respondents aged between 36 and 40 was the leading group constituting 55.6 percent of the total respondents followed by the group aged in between 31 and 35 with 24.4 percent and lastly 20 percent representing the group of respondents aged 41 and above mainly adults. Main rationale of selecting the above age scale is to determine the level of experience each respondents have in the field of construction industry.

With the above presentation, majority falls under the age between 30 and 40 meaning that, the construction sector in Tanzania particularly in Dar es Salaam is dominated by youth. It was the researcher's expectations that majority of members in the sector are adults and that is why they are lessee able to monitor financial issues during project implementations and that's why majority of the local projects are constructed under low quality. The study proved the statement wrong since majority of members were youth with education and power to manage the resources available for the better results. Basing on the findings, it is true that, majority of building contractors including both small and medium, depend on financial institutions to run their businesses.

In order to measure the level of understanding, the study went further by looking on respondents' level of education. The respondents' level of education ranged from diploma to university level where majority of respondents has bachelor level of education which constituted 84 percent followed by 14 percent of respondents with

Diploma level of Education and lastly was 2 percent with master level of education in among SMBCS who were involved in this study. Therefore, the study dealt with people with enough knowledge to explain or elaborate how financial institutions benefits small and medium building contractors in Tanzania.

Furthermore, the study looked at respondents' experience on the sector of construction. As indicated in Table 4.1,Respondents' experiences especially small and medium building contractors were categorized into three groups. The study found that, majority of respondents of about 37 percent has experience in between 0 to 5 years followed by 32 percent with an experience in between 5 to 10 years. Further, about 31 percent had experience of over ten years. Basing on the findings, majority of Small and medium building contractors have less than ten years. This helped the study to identify and compare those contractors with experiences and those who have not, so that to come up with the best recommendation toward financial service and product to the SMBCS.

4.3 The services and products offered by financial institutions to small and medium building contractors in Tanzania.

In order to arrive to the conclusion to whether financial institutions benefits small and medium building contractors, the study explore the services and products offered by financial institutions to small and medium contractors. In order to ensure validity of the information, the information was collected from both parties of financial institutions and contractors as indicated in Table 4.2.

Table 4. 2: Products and Services offered by Financial Institution to SMBCS and SMBCS Responses

PRODUCTS AND SERVICES	Responses				
	Financial Institutions (4no)			Contractors (90n)	
	Always	Majority	Often	Agree	Disagree
Products					
Asset Financing	0	50%	50%	63%	37%
Construction Loans	0	50%	50%	28%	72%
Overdraft Facilities	75%	25%	0	100%	0
Bond and Guarantees	100%	0	0	90%	10%
Short term Loan up to 1 year	100%	0	0	94%	6%
Long term Loan up to 3/5 years	50%	25%	25%	70%	30%
Medium Term Loan	100%	0	0	87%	13%
Services					
Advance Payment	0	0	100%	59%	41%
Capital Investment	25%	25%	50%	84%	16%
Bid Bond	100%	0	0	98%	2%
Performance Bond	100%	0	0	81%	19%
Money Transfer Service	50%	50%	0	92%	8%
Simu Banking	0	100%	0	67%	33%
Internet banking	100%	0	0	29%	71%
Capacity building	100%	0	0	20%	80%

The study results as per Table 4.2 indicates that, there are services and products termed to be offered by financial institutions. Respondents were asked to which extent they have accessed them. The respondents from SMBCS, some of them are whether fully agreed or of partially agreed to have accessed it.

4.3.1. Products

The study found so many products offered by financial institutions in Tanzania to its clients. These products were always, majority or often given to the clients in accordance to the demand and market competition. Banks seemed not to be with special product aiming at improving or facilitating the tasks from small and medium building contractors, though those contractors are not limited to access the products.

The following products were reported by different banks to operate the financial market. These include; Asset financing; Construction loan (Mortgage Loan); Overdraft facility; Bond guarantees; Short, Medium and Long term loan. Under this study, few of them are elaborated on how it functions and examples of financial institutions offer the product.

During the study, it was discovered that some of Tanzanian financial institutions are either majority or often offering the product. About 50 percent of the majority banks offer the product while 50 percent often offers the product. The same question was posed to the Small and medium building contractors to see if they agree with the product or disagree in term of availability and profitability to the contractors. About 63 percent of the contractors agreed while 37 percent disagreed. It was reported during the study that, every financial institution had its terms and conditions regarding the products. During an interview with one of the Bank managers from the Bank of Africa Tanzania, he reported that the Bank introduced a lease financing facility allowing customers to acquire an asset without having to incur a large capital outlay. The facility offers a wide range of assets in a number of different industries including construction sector. That,

> *"The bank considers lease financing as an important product for companies 'large and small' to finance business operations while managing assets effectively and maximizing productivity and profits".*

The respondent concluded that the product provides an alternate source of credit that is specifically designed to accommodate acquisition of different assets such as trucks, tractors, machines, buses and cars.

For other financial institutions the same product seemed to be designed differently. For example, in CBA Bank Tanzania, the product is designed to enable anyone to acquire moveable assets with ease. With this product, the one can acquire an asset and use it as security for the facility. For Equity Bank, this is a short to medium term loan granted to customers for purchase of moveable capital assets, mainly motor vehicles, construction equipment, industrial plant and machinery, agricultural equipment, office & IT based equipment and specialized equipment. The minimum loan is T.Shs 6,000,000/= (Six Million Tanzanian Shillings). With these findings, it is evident that the product of asset financing is available to the majority of Tanzanian financial institutions.

Among many other financial products reported to be offered to small and medium building contractor in Tanzania was construction loan. This product was reported to be majority offered by about 50 percent of the banks while 50 percent often offers the product. The same question was posed to the contractors to prove the claim from the banks. The findings indicates that, of about 72 percent of the total Small and medium building contractors who involved in this study disagreed with the statement that majority of the banks offers the product while only 28 percent agreed with the statement.

The study went further by looking on the nature of construction loan offered by financial institutions as per the data indicated in Table 4.2. During an interview with one of the respondents from Amana Bank, it was reported that, the bank finance construction of commercial and residential properties by providing construction materials finance within a repayment period of three years maximum. The study went further by investigation how other banks offer the product. The study found that, the product offered under the same umbrella is termed Mortgage Loan. While interviewing one of the respondent from BOA Bank Tanzania, it was reported that, construction loan product is always offered to clients under the same qualifications as the other normal loans. That, Mortgage Loan is primarily long term facility designed to enable one acquire structured loans that will help one own, improve, complete or release equity investments on his/her new/existing home. That the product is directed to the owner and not the contractors.

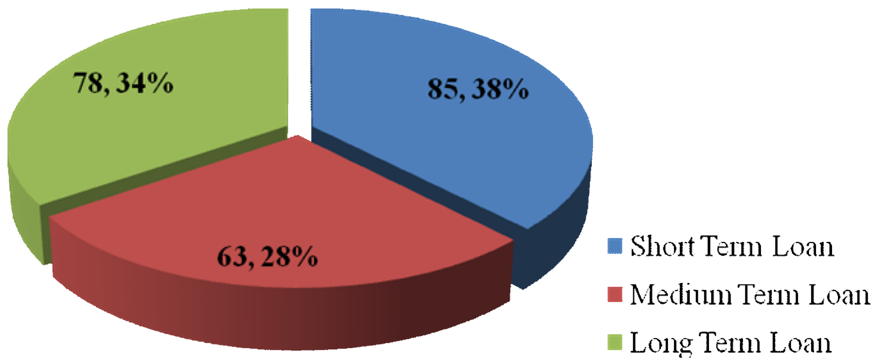
Basing on the above findings, it is evident that the product is available though in some of the banks depending on the nature of product specifications.

Overdraft was among other financial product which was reported during the study. The Study found that, every financial institution in Tanzania offers the product to its clients. This was responded by 100 percent of the respondents from financial institutions, arguing that banks always offer the service. In order to prove the statement from financial institutions, the researcher went further by asking the same question to the clients. All Small and medium building contractors of about 100 percent agreed that they are aware of the product and the always use it.

The researcher was interested on how the product works such that every contractor seems to use it. During the interview, the researcher met with of manager from Stanbic Bank where he had a chance of understanding the product. That, an overdraft is a credit facility loaded to a clients’ current account. This means that a client have the convenience of borrowing on the same account the client uses for his/her daily banking transactions. That, an overdraft helps the client to manage his/her cash flow in months when she/he has high expenditure, to finance small recurring expenses as well as unforeseen expenses. Other advantages were; - Funds are available immediately and the one can use as much as he/she agreed on overdraft limit, the payments of interest on the portion of the overdraft are monthly, the interest rate is linked to prime so that the one benefits when prime rates decrease, it gives the comfort of knowing that a client have instant access to extra cash in case of an emergency and that, the amount someone qualify for depends on the ones' affordability and credit risk. Basing on the information from both parties, it was proved by the study that, majority of financial institutions specifically banks offers the product.

The study found that, the majority common type of product in financial institutions in Tanzania is loan provision product. Three types of loans were found to dominate the market place. These included short, medium and long term loans. That these three types of loans are always accessible to anyone qualifies to access. That, in short term loan, loan tenure of 1–12 months. Interest rate that is being charged is applied on a per month basis can vary 0.5% to 2.5% per month. Medium loans are those loans such as 1 to 5 years the interest rate is up to 36%. That medium loan was reported to be minimally secured or sometimes not secured in some cases. Moreover, long terms loans was reported to be those loans which have a long tenure more than five years. That, majority of the long terms are secured loans for example home loans, car loans, loans against property all these category falls under long terms loans. The study went further by examining small and medium building contractors ' awareness toward the product as indicated in Figure 1.

Figure 4.1: Responses on the level of awareness on the different Loan Products offered by Financial Institutions

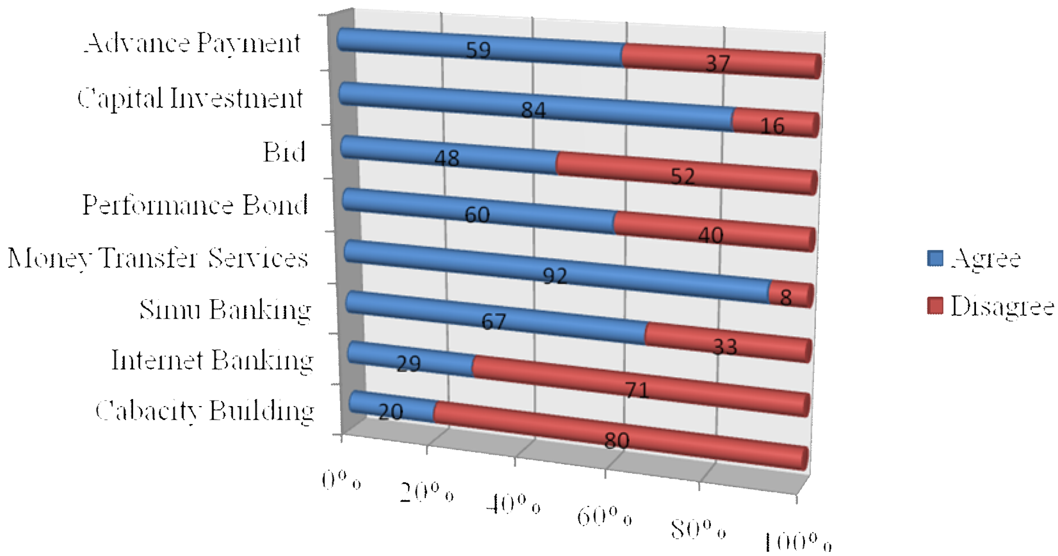


From the results from Table 4.2 and Figure 4.1, it is evident that the products is offered by majority of Tanzanian financial institutions. However, product specifications differs from one institution to the other in terms of product name, product features as well as the qualifications for the one to use the product.

4.3.2 Services

The study exproles the services offered by financial institutions to its clients including small and medium building contractors. The study found so many services as per financial insitutions' statements found by the study though secondary data search where the researcher had a chance to visit some of the financial institutions and he was given the report on the services offered. Some of these services was reported by small and medium building contractors that there not offered and if those financial institutions offers the services, its for few familiar contractors as shown in Figure 4.2, Table 4.2.

Figure 4.2: Small and Medium Building Contractors' Response on the Availability of Services in Financial Institutions



Results in Figure 4.2, Table 4.2 indicates the services offered by financial institutions such as;- advance payment, capital investment, bid bond, performance bond, money transfer service, simu banking, internet banking as well as capacity building as indicated in Table 4.2. the results indicates that, some of the services found in financial institutions' list are being partially given such that its not every contractor had an access. For example, in Table 4.2 all financial institutions involved in the study reported to always offer capacity building service interm of offering trainings on how to manage loans, using financial products as well as training on the new products. Findings in Table 4.2 was contrary to that in Figure 4.2 where, about 80 percent of the total small and medium building contractors disagreed with the statement which asked them if they are usually involved in capacity building trainings offered by financial institutions.

Bid bond and performance bond services was reported to be offered by several financial institutions as indicated in Table 4.2. Moreover, the services seems not to be new to so many small and medium building contractors. The results in Figure 4.2 indicates that, about 60 percent of the total resondents from SMBCS group agreed with the statement which was posed to them by the researcher on the availability and usefulness on ‘performance bond’ in financial institutions while 40 percent disagreed. In addition to that, respondents was asked the second type of bond commonly known as ‘bid bond’. The results as per Figure 2 indicated that, only few SMBCS of about 48 percent of the total respondents were aware of the service while 52 percent were not.

The researcher went further by looking on how these services are being offered to the clients including building contractors. Response from the interviewed managers from different financial institutions was; a bid bond is a debt secured by a bidder for a construction job or similar type of bid-based selection process for the purpose of providing a guarantee to the project owner that the bidder will execute on the works if selected. And that, the existence of a bid bond provides the owner with assurance that the bidder has the financial means to accept the job for the price quoted in the bid while A performance bond is issued to one party of a contract as a guarantee against the failure of the other party to meet obligations specified in the contract. It is also referred to as a contract bond. A performance bond is usually provided by a bank or an insurance company to make sure a contractor diligently completes designated projects.

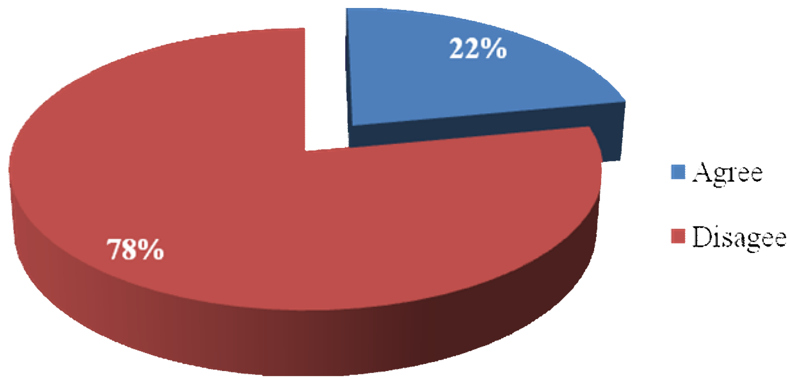
Basing on the findings in Table 4.2 and Figure 4.1 and 4.2, the study concludes that, there so many products and services in Tanzanian Financial Instituions. These products and services are for different clients regardless of who is doing what in a sence that, small and medium contractors are not limited to use the services and products as per other sectors of development.

4.4 Benefits of services and products offered by financial institutions to small and medium building contractors in Tanzania.

The study wished to investigate the benefits from the products and services offered by financial institutions to small and medium building contractors in Tanzania. This was driven from the normal perception that, financial institutions in Tanzania have been helping much on boosting up the economy of SMEs. The study looked from the next side of small and medium building constructors, where apart from employing the majority of Tanzanians, yet their conections to financial institutions have not been too much considered as that of small and medium enterprises. In order to fill the gape, the study collected information from both SMBCs and officers from financial institutions.

The information collected though questionaires to the small and medium building contructors indicated that, majority of respondents of about 78 percent complained from not benefiting from the services and products offered by financial instituions while only 22 percent agreed with the stament as indicated in figure 4.3.

Figure 4.3. Response from SMBCs on if financial products and servises offered by financial instituions benefits them.



Basing on the above data, it is evident that, despite the fact that small and medium contractors had been using financial institution severally especially under loan product, they have been partially enjoying the products and services. Every product was viewed by the beneficiaries with two sides of perception. The first side was the advantage and the next part was disadvantages.

The foremost advantage of using financial institutions for the small and medium building contractors included; facilitation of working capital; it simplifies money transactions, payment of bills and salaries to many workers; security for money, while financial reports improves someone's confidence at a time of competing for project tenders.

During the study, majority of respondents whom reported to benefit from financial institutions argued that, sometimes they face difficulties especially when it comes a time of project execution. That, most of small and medium building contractors cannot start any project using his/her income from normal operational account. That, most of these type of contractors has a worth net of less that 50,000 $ per year while most of the projects requires the one to start with atleast 30,000 $ at the first stage of project implimentation. At this stage, contractors viewed the financial institutions with postive impact but to only those contractors with qualification i.e. with motgage or security. It was reported by one of the contractors that, if it was not financial institutions, no one can stand alone and impliment the project because most the pprojects incure too much costs. But, at the first stage, the one can be able to aquire the capital to suport him/her.

Another benefit mentioned by contractors was that, financial institutions have been supporting small and medium building contractors like any other sectors of economy by allowing the contractors to make direct payments to their workers. That, today workers under normal conditions can open bank accounts where their salaries can pass through. This was termed as an advantage since it confines the time depletion, that instead of spending some days paying workers they can access their salaries directly from their accounts.

Another benefit from financial institutions was that, financial institutions bid various types of insurance, ranging from life insurance on mortgage contracts. Insurance firms and banks also insure other financial institutions. If one bank becomes insolvent, its losses are partially absorbed by the other institutions that insured it. In some instances, this can lead to systemic risk, which describes the danger of a major bank's collapse having a filter down effect on other banks and the economy as a whole.

Apart from the advantages of financial institutions, majority small and medium building contructors complained for not being benefiting from the services and products offered to them rather it undermines their income. Their complaints were on interest rates issued by financial institutions on loans. That, loans from financial institutions does not aim at improving someone's income rather keeping the financial institutions' income stable. That, by the time someone aquires a loan from any instituions its like the one is tying him/herself.

4.5 Challenges facing small and medium building contractors in accessing products and services offered by financial institutions in Tanzania

During the study, the researcher looked at the obstruction/impediments that face small and medium building contractors in Tanzania such that they are sometimes failing to access financial products and services offered by different financial institutions. Basing on the findings, the fore majority barrier toward the financial access was delay of payments from the government by the time they work with government. This obstacle was reported by 100 percent of the respondents. This was followed by government policies with 91 percent, lack of financial education (90 percent), inadequate capital (89 percent), collateral or security assurance (74 percent), competition in the market place (67 percent), increasing number of foreign contractors (56 percent), and lastly was lack of adequate own equity to contribute in accessing the plants or equipment finance (52 percent) as indicated in Table 4.3;

Table 4.3: Response on the Challenges facing SMBCS in Accessing Financial Products and Services

Challenges	Frequency (n)	Percentages (%)
Government policies	82	91
Competitions in market places	60	67
Increasing foreign contractors	50	56
Collateral/ Security Pledge	67	74
Lack Financial Education	81	90
Inadequate working capital	80	89
Delay of payments from the government	90	100
Lack adequate own equity to contribute in access the plants/equipment finance	47	52

During the study delay of payments from the governments to the contractors was reported by every participant (equivalent to 100 percent) as an obstacle toward their access to financial products and services from financial institutions. During the study, majority of small and medium contractors blamed the government for not paying them when they do government tenders and thus has made majority of financial institutions not to trust them. Despite that financial institutions are aware about government issues in relation to payments, yet they structure loan in a normal way such that, whenever the government fails to pay on time, financial institutions impound their properties.

Cementing on that, one the contractors aged 50 years olds reported that he could have been in the upper class since he has been in the same industry for so long but because of the government he ended up losing everything. That;-

> "*Once I had a tender from the government, that tender was worth of more than 1 Billion but demanding materials for implementation with worth of 650 Million up to the completion of the project. I borrowed the money from the bank for me to proceed. It took the government to pay me back after reaching in court where I spend the money too.*

> *Since the loan was supposed to be paid with 3 years of contract period, then I was not able to pay back. They took everything for compensation. Till now I have not managed to settle my company……"* (Respondents' complaints on government)

The complaints from small and medium building contractors pushed the study to seek the opinions from the other side of the financial institutions. During an interview with on the bank manager, the study found the same situation and perception. That manager reported that, majority of the banks including microfinance are operating depending on the cash flow. They majority depend on interests and money circulation to pay workers and also to run other operations from the bank. Financial institutions reached at a situation where they could not support the one with government tender unless the company or that individual is worth enough to pay back without considering the tender. This was because; majority of contractors were not able to service the loan on time while at the same time paying the employee. This made majority of contractors become poor and all because the governments made them think of money which is not in their pockets as the source of operational costs.

Basing on the arguments, the study concluded that, small and medium building contractors have been affected by delay of payments especially those who win the government tenders to access the financial products and services.

Competition in the market places and unfavorable government policies were found to be other obstacles toward the access to financial services and products in Tanzania especially in Cities including Dar es Salaam, where the rate of constructing new fashioned building is very high. Basing on the results in Table 4.3 about 91 percent of the total small and medium building contactors respondents reported the government policy to be an obstacle and 67 percent reported competition in the market place. It was reported during the study that, current competition in the marketing place are created by poor and insufficient government policy.

That the government policies never differentiate building sector from other construction sectors like civil constructions. That, apart from initiating for joint venture between the foreign companies by adjusting the local companies or experts, the government never made a follow up on it if issues as written on papers are real practical in the field. The government has not initiated the project where the local contractors must own the project supported by foreign ones. With such situation, majority of projects are under foreign contractors while local ones remain casual labor. In addition to that, the data collected from book review indicated no place where financial institutions are forced to lend money to small and medium building contractors such that, whoever goes in financial institutions has to be served. Further, the study found that, while other nations like China and Japan are supporting the small and medium building contractors using their national banks, in Bank of Tanzania (BoT) issues are different. Yet there is no arrangement for small and medium building contractors to meet Bank of Tanzania. There is direct opportunity for those contractors to be served by the national Bank of Tanzania.

The study concluded that, if there could be a direct support from the government on time of financial needs, then small and medium building contractors could have reached somewhere in term of financial services since they could be easily accessing the money for the new projects either from commercial banks or the national bank of Tanzania.

Increasing number of foreign contractors was also reported to be an obstacle toward the access to financial services in the sense that, local small and medium building contractors are little recognized in the sector. By being not fully recognized it takes them a long time to prove themselves to the banks and other financial institutions that they would be able to service the loan. Responding to that, one of the small and medium building contractor reported that, Tanzanian financial institutions trusts foreigners more that local people because of their capacity of paying their debts. That majority of the banks believe the foreigners contractors are good in financial management compared to local people. By that sense of believing the foreign experts whom are increasing now and then to our building industry makes the local small and medium building contractors fail to access financial products and services offered by financial institutions.

Collateral/security pledge was reported during the study to be among many other obstructions toward the access to financial products and services. Results in Table 3 as was collected through questionnaires indicates of about 74 percent of the total small and medium building contractors who responded to our question on what are the obstacles toward access to financial products and services, mention security issue. The researcher went further by looking of how many small and medium building contractors had a collateral or security pledge to secure the loans from banks. Results indicate that, majority of SMBCS of about 68. 7 percent has no collateral to secure loans in financial institutions while is about 31.3 respondents who has collaterals as per Table 4.4.

Table 4.4: Respondents' response on the Collateral or Security Ownership

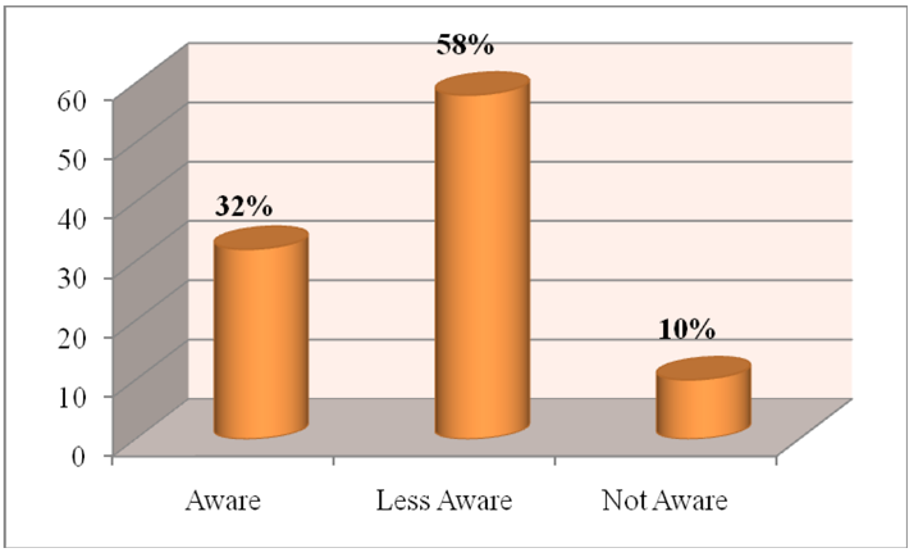
Security	Response in Percentages (%)		
	yes	**No**	**Total**
An Electronic Gadget	14	86	100
Registered House	41	59	100
Registered Plot(s)	22	78	100
Registered Farm	8	92	100
Vehicle	38	62	100
Other unmemorable Items	20	80	100
Sub Total	**143**	**457**	**600**
Average Percentages (%)	**31.3%**	**68.7%**	

Basing on the data in Table 4.4, it is evident that, small and medium building contractors have limited choices of accessing the products and services from financial institutions especially those products which demands the one/company to have a own property to secure the loan. Results from questionnaires were cemented by results collected through interviews with financial sectors management teams which was involved in the study where majority every financial institution mentioned the same. During an interview with Credit manager from one of the financial institution, the study discovered that there little chances for the small and medium building contractors to get an access to bank products and services. That, majority of financial institutions is risk averse to the extent that, security/collateral matters the majority for the one to have a banking products especially those products which are connected to loans. That, there are no any other ways of defending a client who has no collateral for the large amount of money while majority of small and medium building contractors lacks the qualifications automatically.

Basing on both evidences from the findings it is true that, majority of small and medium building contractors have limited chances to benefit from financial institutional sectors because majority of them have no securities and if they have, they are not the owner. Meaning that, majority of directors from building construction companies tend to use collaterals which is not theirs but through lobbing either one of the shareholder or any other staffs to offer his/her property as a security to defend the company's loan in financial institution which is not majority acceptable.

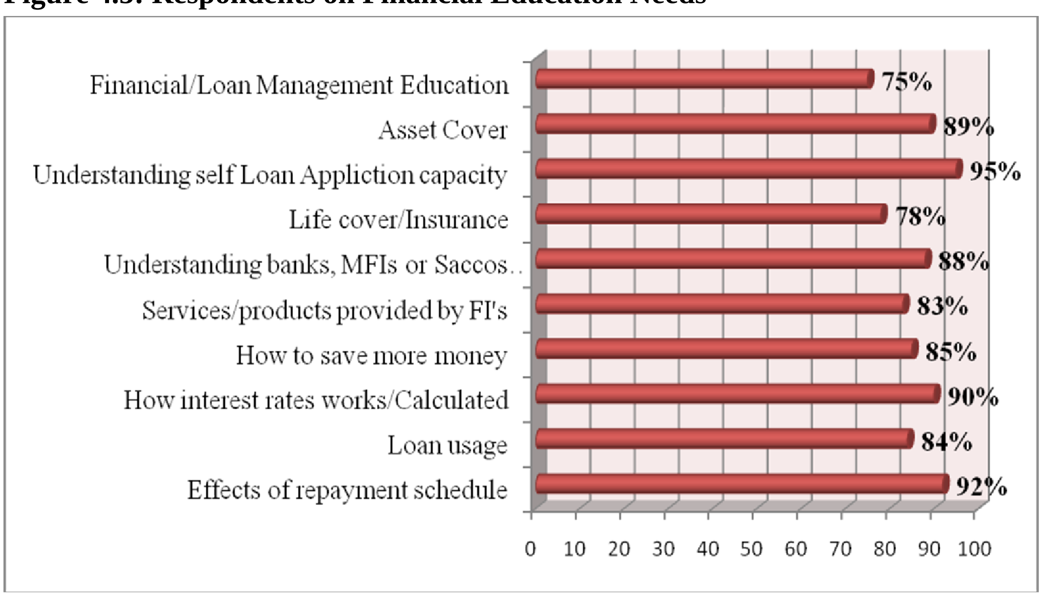
Furthermore, lack of financial education was among other obstacles which were reported by small and medium building contractors as a drawback to their usefulness of financial products and services. Apart from having education, the study went further by investigation on if those contractors have financial education which softens their accessibility to financial services. Answers for this response where totally different from what was expected. Majority of contractors of about 58 percent of the total contractor respondents who were involved in this study claimed to be shallow in the issues of finance. Despite the fact that they have been using financial institutions for so long to supplement their working capital yet they are lessee aware of financial issues. Further, the data indicated that there others who just benefit from financial institution but having with no idea about financial service offered. This constituted 10 percent of the total contractors who responded to the question. They reported to use financial consultants as well as financial expertise all the time when they seek financial service from financial institutions.

Figure 4.4: Response on Awareness of Financial Services offered by Financial Institutions apart from normal loans



Source: Field Data, 2017

Figure 4.5: Respondents on Financial Education Needs



From Figure 4.4 and Figure 4.5, it is found there are a number of areas of finance where financial education is demanded. Those areas includes, loan usage, effects of loan repayment schedule, how interest rates are calculated, services and products offered and its advantages and disadvantages, knowledge on bank/, MFI or Savings and Credit Cooperatives charges, advantages of collaterals in lending sectors, etc. All these were reported to be not well known to so many respondents and that they had been failing to use financial products and services as per financial institutions terms and conditions. With the above evidences the study concluded that, knowledge on financial sectors is missing to enable every member of the sector capable of enjoying the services and products offered by the banks and other financial institutions.

Additionally, inadequate working capital and inadequate own equity to contribute in access of the plant/equipment finance was reported too as an obstacle toward accessing the financial products and services from financial institutions in Tanzania. These were reported by about 52 percent of the contractors who were involved in the study. Those, majority of small and medium building contractors have no sufficient capital for self-investment such that they could be able to own their securities and also to use as equity contribution during equipment finance request. These were reported to limit their chances to access those products which demands equity sharing. This was proves by financial institutions that majority of small and medium building contractors has not financial power either to compete on the market places or having property ownership deed for them to enjoy other products from banks. This study is concurrent with the study by Hastings and Tejeda Ashton(2008) who examined the links between investor characteristics such as financial literacy, information format, and investment choice using data collected from a survey and field experiment in Mexico‟s privatized social security system.

Basing on the evidences provided during the study, it can be concluded that, the chances for small and medium building contractors to enjoy financial services and products from financial institutions are limited. This is due to several obstacles which hinders the chances. These include unsupportive government policy, inadequate financial education, insufficient capital, delay of payments from the government as well as insufficient equity to contribute to the plant/equipment finance.

4.6 Recommended possible ways of improving the services provided by financial institutions to small and medium building contractors in Tanzania

During the study, it was an interest of the researcher to trace out the possible ways of increasing the chances for small and medium contractors to improve their access to financial services and products. The study aimed at tracing out if small and medium building contractors are aware of the solutions towards their problems. Their responses were as indicated in Table 4.5.

Table 4.5: Respondents' response on the solution toward improving accessibility to financial services and products from Financial Institutions.

Solutions	n / 90n	(%)
Amendment of government policies	82	91
Provision of Financial Education	60	67
Amendment of terms and conditions in financial institutions	50	56
Improving the chances for direct access to the FPS from BoT	67	74
Adjustment of Financial fee charges for SMBCS during loan application	81	90
Adjustment of the interest rate charges aiming favoring the SMBCS	80	89

Basing on the study finding, small and medium building contractors were aware of the solutions toward their obstacles. These included amendment of government policies, provision of financial education, amendment of terms and conditions in financial institutions, improving the chances for SMBCS to access finance from the bank of Tanzania, adjustment of the financial charges and interests in financial institutions.

Amendment of government policies; this was reported to be the first solution toward improvement of access to financial services and products in Tanzanian financial institutions. This was reported by 91 percent of the total contractors who was involved in the study. Their response was that, the government should think of reversing or add some of the phrases that will allow the law maker to think of the law which will favor the indigenous people in the sector of constructions. That, the current government policy are open to everyone especially outsiders who comes in under the umbrella of investment to come and have an access to every sector but not for indigenous. Commenting to that, one of the SMBCS aged 40 argued that, it is so simple for a Chinese to get the loan from any of financial institution than the local one. That, this is due to unclear country policy with an intention of uplifting small and medium building contractors' life and this is not only to the building contractors only rather to all sectors of construction. That, this are creating the chances of foreigners to be favored while local ones dumped out of the system. Therefore, by having with the national policy with an intention of making local SMBCS the first priority in every project implemented in the country, will allow them to own the income to support their company and later, the issue of equity and security will be no more an obstacle to them.

Further, provisional of education was mentioned to be a solution too. Majority of respondents of about 67 percent of the total SMBCS who were involved in the study thought of having special trainings from financial institutions as the solution toward their ignorance on financial products and services. Cementing on that, one of the banking officer reported that, small and medium building contractors are always busy in the field such that they have no chance even to listen to the broadcast trainings and when it comes to the need of money is when they pay visit direct to financial institution. That, majority of them they do not even know their capacities to lend but they only come at the same time demanding product knowledge and money to run the project. Therefore, by being with special program which will be specifically aiming at improving the financial knowledge to the specific group hopefully will improve their chances to access bank products and services.

Another solution was adjustment of the terms and conditions used by financial institutions aiming at favoring the group of small and medium building contractors. That, it is not every contractor can fit in the shoes of every financial access conditions. So, with the static and not considering/differentiating the financial capacities and the nature of contracts, it is too hard for the small and medium to access the products and services. The team of contractors of about 56 percent of respondents suggested for the financial institution to think of having separate terms such that even small and medium building constructors could enjoy the products and services. Terms for big ones should be different from that for small and medium ones.

Besides, adjustment of fee charges and interest rates was suggested. During the study, about 89 and 90 percent of the total respondents whom involved in the study viewed fee charges and interest rates to be among many other issues to be considered for the small and medium building contractors to enjoy the product. That, majority financial institutions has no intention of helping them rather making benefit from them. They had complaints on the charges offered by SMBCS once to the bank or other financial institutions of which is non refundable, that it does not favor the one in need of loan. That, the one can spend even five million looking for 500 million but at the end he/she ends up getting 300 million under the condition that he/she does not qualify to have the amount requested. This affects the budget and also it distorts the capacity of the contractors. There, it was suggested that, if possible, every charges should be reduced and also shifted to the loan. This will help those who have no cash in hand to proceed with the processes without being affected with pre-paid charges.

Additionally, small and medium building contractors suggested that, the government through the Ministry of Finance should thing of enabling accessibility of funds by SMBCS directly from the Bank of Tanzania by the time they won government or private tenders. Small and medium building contractors involved in this study of about 74 percent of the total respondents agreed with the statement that they should be supported by the government using the responsible ministry. They used other countries as their point of reference including China and other Asian countries where their individuals can access to financial assistant from their government banks using the documents of the tenders they have. After verification of the tenders, their government supports them. Thus they thought that, if Tanzanian government could think of doing like any other countries, then they will be improved directly. They will not struggle to get finances to implement projects at hand.

Basing on the study findings a per the stated objective, it is true that there are so many solutions toward improving the chances for small and medium building contractors to have an access to financial services and products and hence improve their income for the implementation of their projects. Apart from the stated solutions, other solutions includes, good financial management during project implementation, opening up of saving accounts, using financial institutions in every single transaction they make at a time of business, having time to acquire new financial knowledge and not only for the wished products and also seeking assistantship from consultants by the time they think that they are in need of services and products from financial institutions.

4.7 Chapter Summary

The study found that there so many products and services offered by financial institutions in Tanzania to its clients including small and medium contractors. The products offered by different financial institutions include; Asset financing; Construction loan (Mortgage Loan); Overdraft facility; Bond guarantees; Short, Medium and Long term loan. And the services includes advance payment, capital investment, bid bond, performance bond, money transfer service, simu banking, internet banking as well as capacity building.

The study found that, Medium and Small Building Contractors benefits from those products and services offered by FI's. Among the benefits are availability of working capital, easiest way of money transactions, it simplify the payment of bills and salaries to so many workers at a time, safe places for keeping money, financial reports improves someone's confidence at a time competing for project tenders as well as offering working equipments through assert finance. All these creates peaceful working environment for so every contractor who uses financial institutions especially the banks.

However, the study found obstacles or Challenges toward the accessibility of the financial products and services from financial institutions particularly in Tanzania. These included, unfavorable government policy favoring SMBCS, stiff competition in the market places, increase of foreign contractors, collateral/security pledge, lack of financial education, insufficient working capital, delay of payments from the government as well as lack adequate own equity to contribute in access the plants/equipment finance. All these hinder the chances to use financial products and services. The study concluded by stating the solutions toward the stated challenges.

CHAPTER FIVE

CONCLUSIONS AND RECOMENDATIONS

5.1 Chapter overview

The chapter provided general conclusion and recommendations on the benefits of services and products offered by financial institutions to small and medium building contractor in Tanzania particularly in Dar es Salaam region. Both findings and discussion were largely summarized in a wider perspective in considerations of the literature reviewed purposely to provide relationship between the findings and objectives of the study. Accordingly appropriate recommendations were provided to the government as well as to the financial institutions on basing on the findings on the Challenges toward financial access. Furthermore, the area where more research is needed is also mentioned for those who are interested to conduct study in this field. Finally the chapter ends with chapter summary.

5.2 Conclusions

There so many products and services offered by financial institutions in Tanzania to its clients including small and medium contractors who qualifies under product specifications. The study found no special product specifically set to favor building contractors rather the products and services are generally saving clients such that, contractors are not limited to access them.

Products and services from financial institutions had both positive and negative impact according to the evidences found by the study. Among the benefits are availability of working capital, easiest way of money transactions, it simplify the payment of bills and salaries to so many workers at a time, safe places for keeping money, financial reports improves someone's confidence at a time competing for project tenders as well as offering working equipments through assert finance. All these creates peaceful working environment for so every contractor who uses financial institutions especially the banks.

On the other financial institutions were found intending not to improve their conditions rather to earn profit from them. Majority of MFI was proved by the study to have high interest rate compared to the banks despite of offering short-term loans such as SACCOS and Vicoba. In addition to that, the blame was on property confiscation after failure to pay back loans. This has been a burden to so many contractors and hence fails to move from one level to the next level of development. Medium and Small Building Contractors had so many challenges facing their access to financial products and services from financial institutions particularly in Tanzania.

The study generally concludes that, there should be new policies, new terms and conditions regarding every product offered by financial institutions dedicated specifically for local small and medium building contractors instead of using the same terms and condition to individuals/companies with different capacities. This will improve the small contractors to medium and medium to lager contractors.

5.3 Recommendations

5.3.1 Recommendations to Financial Institutions

1. Since the study has reveled apparently the awareness has great financial services and products usage in among small and medium building contractors, this study recommend concerted efforts to be done using newly ventured channels of communication to raise awarenes among local small

and medium building contractor in Tanzania. This can be done through media adverts or regular seminars conducted for further trainings.

2. It was proved that majority of SMBCS has no collateral to secure loans. The study recomend for the bank to consider that such that they could not easly miss financial profits from those who have no collaterals but fits in other conditions.

3. Review of financial charges and interest rate should be considered to favor the local SMBCs.

5.3.2. Recomendations to the Small and Medium Building Contractors

1. The study found that because of financial ignorance SMBCs have limited chances to utilize the services and products offered by financial institutions. It is recomended for SMBCs to upgrade themselves with financial education on every product offered by the bank or any other financial institution such that they could be able to improve their chances to use the products and services. It is also recomended for the members to have the tendency of reading banners offered to them for keeping them updated.

2. The study found that majority of SMBCs has no collateral to secure loans from the bank. It is recomended by the study for them to invest in land and houses by the time they own money and that will help them on lending processes.

3. The study further recomend SMBCs should think of having consultants who a conversant with financial issues. This will help them avoid finanacial risks at a time using loans for project implementation.

5.3.3 Recomendation to the Government

1. The study uncovered that government policy is not favoring local SMBCs rather it opens the chance for the external contractors and also favours them much than the local ones. It is recomended for the government to think of reviewing the policy on construction sectors and make some ammendiments where local SMBCs would be recognised and considered before anyother contractors.

2. The government should also come in between financial institutions such that, the set terms and conditions could aim at favouring the local small and medium building contractors and also the SMBCs benefits from the services and provided offered to them.

5.4 Areas for Further Research

Since the study was mainly focusing on the benefit of products and services offered by financial institutions to small and medium building contractors mainly in Dar es Salaam, other studies can be done focusing on efficiency and effectiveness of financial usage in project implementation by small and medium building contractors. Moreover, the same topic can be used to assess the chances of financial accessibility to small and medium contractors under civil engineering works and specialized works such as plumbing and electrical installation works.

5.5 Chapter Summary

The chapter clearly summarized the findings while proving a clear conclusion basing on the specific objectives. However, the recommendations based on the study findings were clearly driven out seeking to provide solution for the identified Challenges toward the access to the financial products and services in among small and medium building contractors in Tanzania. Additionally to that, the study suggests for further study area aiming at improving the sector of building construction in Tanzania.

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APPENDICES

APPENDIX 1 - THE QUESTIONNAIRE TO CONTRACTORS

INTRODUCTION:

This questionnaire forms are part of the research titled **“Assessment on how financial institutions benefits small and medium building contractors in Tanzania**”, being conducted as partial fulfillment of the requirements for MSc in Construction Economics and Management.

The main objectives of this research are to Assessment on how financial institutions benefits small and medium building contractors in Tanzania through;

In view of the above, I kindly request your assistance and cooperation, in responding to the questions raised in this questionnaire. Your response is highly valuable and has repercussion to the outcome of this research. The information shall be kept with great confidentiality and shall be used for academic purposes only.

Thank you for your cooperation.

Qs.Fredy H.Kambi

Kibaha, Coast Region.

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SECTION 1: GENERAL INFORMATION ABOUT RESPONDENT

This part is associated with personal information regarding the respondent involved in the research survey, focusing on education, designation and working experience. Please, respond to the same accordingly to enhance the achievements of the research objectives.

1.1 Please, tick/ Indicate your current position in your organization or firm

Director Manager Supervisor Operational Officer

1.2 Please, tick the Class Registration description of your organization or Firm

Class VII Class VI Class V Please Specify year of Registration

1.3 Please, tick/ Indicate your current Education status

Others, please specify

Diploma BSc MSc PhD

1.4 Please, tick/Indicate Your gender Status

Male Female

1.5 Please,tick/ Indicate Your Age

☐	☐	☐	Above 46 Years
30 – 35	36 – 40	41 – 45	

1.6 Please, tick/indicate how many years, have you worked with the construction industry?

☐	☐	☐	Above 15 years
0 – 5	6 –10	11 –15	

1.7 Tick/ Indicate your firm capital Investment

Category	**Response**
≤ 5 mill	
Above 5 mill to 200	
Above 200 to 800mill	
Above 800mill	

SECTION 2 : ASSESMENT OF CONTRIBUTION OF FINANCIAL INSTITUTIONS ON IMPROVING THE EFFICIENCY OF SMALL AND MEDIUM BUILDING CONTRACTORS IN TANZANIA

Please circle/Bold the answers in this questionnaire by rating where 1= strongly disagree, 2= disagree, 3= agree, 4= strongly agree

S/N	Answers	Strongly disagree	Disagree	Agree	Strongly agree
2.1	We use Bid Bond from Financial Instutition to sustain our operations	1	2	3	4
2.2	We use advanced Payment from Financial Institutions to sustain our operations	1	2	3	4
2.3	We use Performance Bond from Financial Institutions to sustain our operations	1	2	3	4
2.4	We use loans from Financial Institutions to sustain our operations	1	2	3	4
2.5	We use Money transfer services(i.e TISS, SWISS) from Financial Institutions to sustain our operations	1	2	3	4
2.6	We use Simu Money (I.e M-Pesa, Tigo pesa , simu Banking and Airtel money) from Financial Institutions to sustain our operations	1	2	3	4
2.7	We get training/capacity building from Financial Institutions to sustain our operations	1	2	3	4
2.8	We have improve our compliancy to law and regulations governing construction activities.	1	2	3	4
2.9	We have improve our Quality works	1	2	3	4
2.9.1	We have increase works volume in contractors market	1	2	3	4

SECTION 3: THE MAIN CHALLENGES FOR YOU TO UTILIZE SERVICES AND PRODUCTS FROM FINANCIAL INSTITUTIONS

Please Bold/circle the answers in this questionnaire by rating where 1= strongly disagree, 2= disagree, 3= agree, 4= strongly agree

S/N	Answers	Strongly disagree	Disagree	Agree	Strongly agree
3.1	We are lack Collateral/ Security Pledge for complying with Financial Institutions policy and Regulation	1	2	3	4
3.2	We are lack adequate working capital for executing secured contract	1	2	3	4
3.3	We are facing delays in project completion which disturbing our cash flow	1	2	3	4
3.4	We are facing delays of effect interim Certificates payment from clients	1	2	3	4
3.5	We are lack adequate information about services and products of Financial Institutions	1	2	3	4
3.6	We lack adequate own equity to contribute in access the plants/equipment finance	1	2	3	4

Please Specify others____

3.2 What do you recommend as a way forward to improving services and products of Financial Institution to contractors?

____

3.3 What is your opinion, concerning the role of Financial Institution for the development of the construction industry in Tanzania and capacity building of the Small and Medium contractors firms?

____

____

APPENDIX 2 - THE QUESTIONNAIRE TO FINANCIAL INSTITUTION

INTRODUCTION:

This questionnaire forms are part of the research titled **“Assessment on how financial institutions benefits small and medium building contractors in Tanzania**”, being conducted as partial fulfillment of the requirements for MSc in Construction Economics and Management.

The main objectives of this research are to Assessment on how financial institutions benefits small and medium building contractors in Tanzania through;

In view of the above, I kindly request your assistance and cooperation, in responding to the questions raised in this questionnaire. Your response is highly valuable and has repercussion to the outcome of this research. The information shall be kept with great confidentiality and shall be used for academic purposes only.

Thank you for your cooperation.

Qs.Fredy H. Kambi

Kibaha, Coast Region.

Mobile: 0713 596 358/0764 065 870

Email: fredkambi@gmail.com

SECTION 1: General information about Respondent

This part is associated with personal information regarding the respondent involved in the research survey, focusing on education, designation and working experience. Please, respond to the same accordingly to enhance the achievements of the research objectives.

1.1 Please, Indicate your current position in your organization or firm

Manager Supervisor Operational Officer Others, specify

1.2 Please, tick the category that best describe your organization or Firm

Insurance Banker Microfinance Others specify

1.3 Please, Indicate your current Education status

Others, Please specify

Diploma BSc MSc PhD

1.4 Please, Indicate Your gender Status

Male Female

1.5 Please, Indicate Your Age

☐ 30 – 35 ☐ 36 –40 ☐ 41 –45 Above 46 Years

1.6 How many years, have you worked with the construction industry?

☐ 0 – 5 ☐ 6 –10 ☐ 11 –15 Above 15 years

SECTION 2 : Questions

2.1 What services and Product you are providing for Small and Medium contractors in Tanzania?

Select all that are applicable

	Most	Always	Often
a.) Construction Loans			
b.) Equipment Financing			
c.)Bonds and Guarantees			
d) Overdraft Facilities			

If there are others please specify ____________________________

2.2 What types of loans you are providing for Small and Medium contractors in Tanzania?

Select all that are applicable.

	Most	Always	Often
a) Short Term Loan			
b) Medium Term Loan			
c) Long Term Loan			
d) Track/ Equipment Loan			

If there are others please specify ____________________________

2.3 According to your bank's policy, what is the time of maturity for the following loans?

a) Short Term: Up to ____________Yr;

b) Medium Term: _______ to ______Yrs;

c) Long Term: More than _________Yrs.

2.4 What preconditions should have to be fulfilled by Small and Medium contractors to get a loan from your bank?

a) Collateral Requirement ( )

b) Third Party Guarantee ( )

c) Work guarantee by project owners ( )

d) Work payments guarantee by owners ( )

If there are others please specify ____________________________

2.5 Is there a possibility for a construction firm to obtain loan without securing the loan by collateral or by any other guarantee?

a) Yes ( )

b) No ( )

If your answer is Yes, specify all other ways you use please?

____

2.6 If your bank has secured the given loan by collateral, which type of collateral is acceptable from construction firms?

a) Owned Assets ( )

b) Payments that are to be collected ( )

c) An asset that will be purchased by the loan ( )

If there are others please specify ___________________________

2.7 If a construction firm is small in capacity, a first time borrower without any track records at your bank and has fulfilled the required pre established conditions for loan, will the bank allow him to get loan?

a) Yes ( )

b) No ( )

If your answer is No, what is the reason?

____

____

2.8 What facilities do you provide for Small and Medium contractors in order to finance the required construction equipments and/ or trucks?

a) Providing Truck/ Equipment loan ( )

c) Advance Payment for equipments ( )

b) Equipment Leasing Scheme ( )

d) Hire Purchase Scheme ( )

If there are others please specify ____________________________

2.9 What are the required criterions for a certain firm to enjoy these facilities?

a) Collateral Requirement ( )

b) Third Party Guarantee ( )

c) Work guarantee by project owners ( )

d) Work payments guarantee by owners ( )

If there are others please specify _____________________________

3.0 What type of bonds and guarantees are you providing for Small and Medium contractors firms?

	Most	Always	Often
a) Bid Bond/ Bid Security			
b) Performance Bond			
c) Advance Payment Guarantee			
d) Retention Bonds			

3.1 After your bank /Insurance has provided bonds and guarantees for Small and Medium contractors firm, how do you follow up and evaluate the contractor's ability to meet the terms and conditions of the bond / guarantee contract satisfactorily?

____

3.2 What do you think are the main factors that prevent Small and Medium contractors to utilize services and products from your Organization?

(a)____

(b)____

3.3 What do you recommend as a solution for the financial problem of the Small and Medium contractors firms?

____

3.4 What are the main challenges for Financial Institution to work with Small and Medium Contractors firms in Tanzania?

____

____

3.5 What is your opinion, concerning the role of Financial Institution for the development of the construction industry in Tanzania and capacity building of the Small and Medium contractors firms?

____

____

APENDIX 3 - CORRESPONDENCES LETTERS DURING STUDY