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The Role of Financial Institutions: The TIB Development Bank

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The Role of Financial Institutions: The TIB Development Bank

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ABSTRACT

Industrialization plays a vital role in the economic growth of an underdeveloped country. The historical facts reveal that all the developed countries of the world broke the vicious circle of underdevelopment by industrialization. Tanzania being a developing country also wants to achieve higher standards of living for its masses. In order to achieve this, financial institutions have a key role to play in mobilizing appropriate resources to enable industrialization objectives to be achieved. Experiences from the pioneer countries have a lot to share as Tanzania eyes the journey into industrialization.

Tanzania now has 56 banks in total, but the TIB-DFI is of special importance. It is licensed as a Development Financial Institution and wholly owned by the government of Tanzania. Created in 1970, TIB has played a fundamental role in supporting the manufacturing sector. Following its re-launch as a Development Finance Institution (DFI) it is charged with making long-term loans to projects with national developmental impact promoted by both private and public sectors.

Drawing on TIB's establishment mandate, the paper shares what is like to take on the responsibilities of a financial institution inspiring industrial development.

Key words: *industrial-led strategy, financing, resource mobilization, DFI mandate, cost overrun, bankable project, governance*

1.0 INTRODUCTION

Financial institutions play a key role in economic transformation, especially when heavy industries such as steel, chemicals and electrical industries are involved. The early industrialization of the UK in the last 50 years of the eighteenth century involved machinery which was simple and cheap and could be built and financed locally. The main contribution of the emerging banking system was to finance trade and working capital.

Industrialization in Western Europe, the USA and Japan followed. Although light industries again played important parts in the early years, e.g. in Japan, these industrializations were founded on the creation of steel, chemical, electrical, and later automotive industries, backed up by machine tools manufacture. All these were capital intensive. The industrializations were supported by government policies, including to copy and improve on what had been achieved in the UK. Much of the finance for the larger, more risky investments was underwritten by development banks, implicitly or explicitly supported by their national governments.

The emergence of China and the Asian tigers was a key feature of the 1970s. They drew inspiration from the history of Japan, and expertise and some investment from the USA. They made it possible for US consumers to enjoy the advantages of much cheaper labour in the East. But the success of these countries also depended on large capital intensive investment, such as in steel and shipbuilding in (South) Korea and automotive industries in Korea, Taiwan and Malaysia. In all these, development banks played a key role. China and Vietnam had finance systems based on those of the former Soviet Union, where major projects were funded directly from national budgets, but have developed their banking systems in recent years.

This paper seeks to draw conclusions from these experiences that are relevant to Tanzania. Brief reviews of the roles played by development banks in these countries are followed by a summary of key milestones in Tanzania's quest for industrialization. The paper then turns to the part played by the Tanzania Investment Bank. The final section draws lessons from these that are relevant to Tanzania.

2.0 COMMERCIAL BANKS AND INVESTMENT BANKS

Commercial banks (sometimes called retail banks) take deposits from customers, and lend mainly on a short term basis. Investment banks are involved in long term investments in industries or infrastructure and either hold share capital, or more often, facilitate the placing of shares with other investors, through stock markets.

Commercial banks grew up in the major trading centers of Europe – Italy (Florence, Genoa, Venice and other cities) in the fifteenth century, the Netherlands in the seventeenth century, and London in the eighteenth century. They lent money to merchants, and to kings and princes, to cover their debts, especially during and after wars. But they were not heavily involved in long term project finance.

Investment banks (or development banks) were a major feature of industrialization in the last half of the nineteenth century and thereafter. Many countries created "universal banks", involved in both taking deposits and short term lending and in the finance of long term investments.

2.1 Financial Institutions in the Industrial Revolutions of Western Europe

The concept of a company with limited liability, separate in law from its owners (shareholders) or employees, was developed, largely in the United States, in the first half of the nineteenth century. Britain was influenced by the South Sea Bubble of 1720, in which many investors had been persuaded to invest in what turned out to be a fraudulent company, and lost their money. The so-called Bubble Act of 1720 prevented any undertaking from raising money from the public unless this was approved by a specific Act of Parliament (as for example with companies to build roads or railways) or a Royal Charter from the King (such as that of the East India Company, founded in 1600 and effectively ruling India from 1767 to 1858). It was not repealed till 1825, and it was not till the 1855 Limited Liability Act that companies with limited liability could be established by individuals, and 1862 when the rules and regulations for a company limited by shares were put into law.

The industrial revolution in Britain was based on new machines to make textiles – especially the spinning jenny (1764) and the mule (1779). Steam engines were

already in use to pump water from mines, and the first factory powered by a steam engine opened in 1790. The first passenger railway ran in 1825. None of these machines was unduly complicated. They could be manufactured by craftsmen, and most of the factories were financed by the entrepreneurs or their friends, from rich landowners, or from existing businesses. Britain had a flourishing network of savings and retail banks, which underwrote trade and provided overdrafts, but only on a short term basis (Kindelberger 1993, pp.94-5). The railways expanded rapidly in the 1840s, to join all the major towns and cities, on the basis of Acts of Parliament which permitted joint stock companies (without limited liability) to be formed. These raised finance largely from the expanding middle class who had money to invest. Many railway companies overreached themselves, and those who invested lost money.

But after about 1860, key manufacturing sectors required heavy investments which would take years to recoup – steel and other metals, chemical industries, machine tools, and later electrical industries and the automotive industries. In Britain the resources for this this came largely from private investment through the stock market. The commercial banking system expanded rapidly, but was seldom directly involved in the finance of investments.

The next country to industrialize was Belgium, which had plentiful resources of iron ore and coal, followed by Germany, France, Austria, Switzerland and Italy (Fohlin 2014, p, 12ff.). Here banks played a key role. The first "universal bank", the Société Générale in Belgium, acted as a central bank in some respects, helped small manufacturing firms convert into companies, and took deposits from the public. The first German universal bank dates from the 1840s; it accepted deposits from the public and helped to raise the finance to build railways. Before 1871, the German speaking people of central Europe were governed by about 300 separate states or principalities. By 1865, the main German cities were linked by railways, and in 1871 the Prussian Chancellor, Count Otto von Bismarck, persuaded all the German states other than Austria and its empire and Switzerland to unite. A key objective of this was economic development, primarily industrialization, specifically to escape economic domination from Britain.

Heavy industries were rapidly developed. The government played a strategic role – both the central government and governments of the more powerful states or regions. It imposed tariffs on goods coming in from outside. It promoted education, especially in science and engineering, and skills training in crafts and skills related to the new industries. Germany quickly became Europe's biggest steel producer, and the world's largest producer of chemicals.

The banks ensured that the companies had effective governance structures. “Intimate ties ran between industry and the large banks ... industrialists were represented on the boards of banks and banks on the boards of companies” (Kindelberger 1993, p.129). From 1884, German companies were required to have two tiers of boards: small “Management Boards” that meet regularly, e.g. weekly, and take the day-to-day decisions required to run the company; and “Supervisory Boards” which look at strategic issues and policies, and approve key managerial appointments. For large companies, half the directors on the supervisory board are selected by the workers and trade unions which represent them. Banks were (and are) permitted to place directors on the supervisory boards. This enables them to get an inside story of what is happening in these companies and to hold them to account, but also to deal with the inter-relationships between companies, which are vital if producer goods are to be successfully produced and sold. Bismarck also enabled it to be legal for groups of companies producing the same product to work together in “cartels” and agree prices between them, and to get financing from the same banks (by 1900 there were 275 cartels, and by 1908 more than 500). Through these institutional changes, large integrated companies came to dominate the steel, chemicals, heavy machinery and electrical industries sectors. The banks seldom held share capital themselves; however they underwrote the issuing of shares for new ventures, which they sold on to others as soon as these were established.

2.1.1 The United States

America was always divided. The South was based on cotton, at first cultivated by slaves, later by poorly paid share-croppers and other farmers. The East had few natural resources but good communications. Banks were created to mobilize the funds to invest in infrastructure (such as the Eerie Canal underwritten by the Bank of Manhattan in the 1820s). From the 1830s “joint stock corporations” were created to build railways, which needed huge amounts of investment. This led to manufacturing of steel on the coast (Philadelphia), the Great Lakes (Cleveland and Chicago) and Pittsburgh (with excellent river transport and close to coal deposits). Other heavy industries - aluminium, copper, oil and other chemicals, electrical products - were mainly developed by large conglomerate companies, each with many inter-related factories owned by subsidiary companies, and each closely linked to a bank – e.g. Andrew Carnegie and later the electrical companies set up by Thomas Edison with JP Morgan, Charles Hall and his aluminium

factories with Andrew Mellon, Rockefeller and Standard Oil with City Bank. These banks became some of the most powerful in the world. Under the 1864 National Banking Act, commercial banking and investment banking were supposed to be kept separate. But the banks found ways around the restriction, for example investment banks took minority shares in commercial banks. They were, in practice privately owned universal banks, retaining close links with successive governments in Washington. This is how Caroline Fohlin (2014, p.26) describes J P Morgan:

> J.P. Morgan and Co. stands out as the preeminent example of American quasi-universal banking in the pre-WWI era, perhaps acting even more like the stylized view of a German universal banker than the Germans ever did: providing abundant capital to firms with which it had close relationships and monitoring the management of the same. Morgan operated in cooperation with the First National Bank of New York.

And the role of the Rockefellers (ibid, pp.26-7):

> … the Rockefellers took a substantial stake in National City Bank. After James Stillman's sister married William Rockefeller, the brother of John D. Rockefeller and co-founder of Standard Oil and Amalgamated Copper, he became president of the bank. City Bank grew rapidly into a Wall Street force, the largest bank in the city as of 1893 … Stillman held seats on over 50 corporate boards in the early 1900s, including major rail lines of the Harriman system, and the bank functioned as the main bank of Standard Oil—earning it the title "Oil Bank."

2.1.2 The Zaibatsu in Japan

From 1853, the Americans were determined to block attempts to industrialize in Japan. But ten years later, a new dynasty, the Meiji, took power determined to do just that. They got their initial surplus from agriculture – the cultivation of silk by silkworms growing on mulberry trees. From this they moved on to create textile industries, textile machinery, steel, shipbuilding, machine tools, chemicals (especially plastics), motorcycles, motor vehicles, and electronics.

The period from 1868-1894 "was essentially one of state managed industry" (Allen 1990, p.108). Four large "zaibatsu" or holding companies (Sumitomo, Mitsui, Mitsubishi, Yasuda) and some smaller ones, each dominated by a single

family, emerged during this period . After 1881, they each held shares in a "main bank" (Canals 1997, p.186) which accepted deposits from the public and also from overseas investors. They financed projects in the group on the basis of loans, so that the shares, and hence control, stayed with the ruling family (Allen 1946, pp.125-6). When they lent money, they placed a director on the board of that company who not only held the rest of the board to account but also facilitated the relationships of that company to others in the group. The Industrial Bank, and the first modern steelworks, were both created in 1900 (Allen 1990, pp.165-6).

Between the two Great Wars, Japan expanded its markets by colonizing neighbouring countries, while rapidly developing its heavy industries. During the Second Great War, it allied with Germany and started a new front of the war by attacking the American fleet at Pearl Harbour. It surrendered only when atomic bombs were dropped on its people. Its determination to recover after the War, coordinated by the very powerful Ministry of International Trade and Industry, led to very rapid progress, based on the automotive industry (Toyota became world's largest automobile manufacturer), TVs and radios and consumer electronics, computers, etc. The family ownership of the zaibatsu was abolished during the War, and after the War "the members of the families owning the companies were displaced from management functions by professionals appointed by the banks" (Canals 1997, p.194). But the large, diversified but integrated companies, now called keiretsu, continue to this day.

2.1.3 China

China is a huge and varied country, with a proud history of independence. But during the 1930s important parts of it were colonized by Japan and there were major investments by Japan; for example in the late 1930s Manchuria produced more steel than Japan. It was in that context that Mao Ze Dong campaigned for Independence, on basis of a "worker/peasant alliance" which meant that when the communist party took control of the country in 1949 they did not follow the path taken by the communist parties in Europe under the control of the Soviet Union, and instead gave land to the peasants.

This was taken farther in the Great Leap Forward (1958) where villagers were encouraged to work together and also to create small industries; but the speed and scale in which this happened meant that farmers neglected their production of food and what followed was one of the worst famines the world has ever

known, between 1959 and 1962. There was a period of relaxation after 1961 – until the Great Cultural Revolution of 1966-68, in which what started as an attempt to curb inefficiency and corruption in the leadership ended up as an attack on intellectuals and anyone with unorthodox ideas. Policies were imposed from the centre. Farmers were organized into large communes. These turned out to be too complex to manage effectively. So in the late 1970s there was another land reform, in which the huge farms were divided into small plots for individual farm families, with "block farming" arrangements so that large flat areas could be ploughed mechanically before being left to individual initiative. This was a success. In a short space of time China became the world's greatest producer of horticultural products, and was able to export rice.

Through all this China continued to develop its heavy industries – steel, railways, chemicals, agricultural machinery etc. The Chinese were adept at copying products and machines made elsewhere, and manufacturing them, often improving the technology as they did so. By 1970 China had the capacity to design and construct the TAZARA railway between Zambia and Tanzania, completed by 1975. It innovated in health care, and in pharmaceuticals. And then after the death of Mao Ze Dong in 1976 it started welcoming and partnering with American and other companies who wanted to manufacture electrical products, while supplying the rest of the world with almost every kind of manufactured product.

In the years when the state was the key player in major industrial and infrastructure investments, banks as such were not the key players. As in the Soviet Union and other socialist economies, money for investment came direct from government budgets. Alongside this, small retail banks grew up, accepting deposits from savers and supporting local businesses. Today there is an extensive network of banks, but many of the smaller, often local or regional, banks have problem investments on their books. They have survived partly because of the continuing very rapid growth of the economy. The state has continued its commitment to the concept of workers' involvement. Thus companies (other than the smallest) have two levels of board – supervisory boards who members are elected by workers in that company and its shareholders, and boards of directors which are much smaller and include key managers who make day-to-day decisions.

2.1.4 Republic of (South)Korea

Korea was annexed by China in 1910. After Japan's defeat in 1945 it was divided between Russia (what is now North Korea) and the USA (what is now the Republic of Korea or South Korea) who fought each other to a standstill in the Korean War 1950-3

Thereafter (South) Korea modelled itself on Japan, developing its heavy industries, steel, shipbuilding, armaments, and specialized metal work such as cables, tools and cutlery. The authoritarian President Park Chung-hee who ruled from 1962 till his assassination in 1979, brought in "outstanding talent" (technocrats and engineers, many from the private sector) in what has been called "guided capitalism". He was supported by the US, which saw Korea as a force to resist communism, and encouraged inward investment (Hyang-A 2004, pp.76-81). A motor vehicle industry, which became by 2015 the fifth largest in the world, was developed with US partnerships. Kia, which expanded rapidly from 1986, partnered by the Ford Motor Company, is now effectively a subsidiary of Hyundai, and Daewoo part of General Motors. As in Japan, conglomerate companies were associated with particular families – the "chaebol". This is how the Wikipedia article on chaebol describes how they worked, although it is also important to note how the quotation hints at the corruption scandals in which the chaebol became embroiled in Park's later years and afterwards, showing some of the possible limitations of authoritarian economic development:

> Government-chaebol cooperation was essential to the subsequent economic growth and astounding successes that began in the early 1960s. Driven by the urgent need to turn the economy away from consumer goods and light industries toward heavy, chemical, and import-substitution industries, political leaders and government planners relied on the ideas and cooperation of the chaebol leaders. The government provided the blueprints for industrial expansion; the chaebol realized the plans. However, the chaebol-led industrialization accelerated the monopolistic and oligopolistic concentration of capital and economically profitable activities in the hands of a limited number of conglomerates.

The Wikipedia article continues:

> The chaebol were able to grow because of two factors: foreign loans and special favors. Access to foreign technology also was critical to the growth of the chaebol through the 1980s. Under the guise of "guided capitalism,"

> the government selected companies to undertake projects and channeled funds from foreign loans. The government guaranteed repayment should a company be unable to repay its foreign creditors. Additional loans were made available from domestic banks. In the late 1980s, the chaebol dominated the industrial sector and were especially prevalent in manufacturing, trading, and heavy industries.
>
> The tremendous growth that the chaebol experienced, beginning in the early 1960s, was closely tied to the expansion of South Korean exports. Growth resulted from the production of a diversity of goods rather than just one or two products. Innovation and the willingness to develop new product lines were critical. In the 1950s and early 1960s, chaebol concentrated on wigs and textiles; by the mid-1970s and 1980s, heavy defense, and chemical industries had become predominant. In the early 1990s, real growth was occurring in the electronics and high-technology industries…

Prominent chaebol families continue to own companies and maintain very close working relationships with the government. In contrast to the position in Japan, they were not permitted to own banks, and was not till 1997 that foreign interests were allowed to own banks. There was little investment in the form of equity. The government maintained control by permitting firms to have access to foreign investors, and by controlling the amounts of loans to companies (Johnson 1987, p.148)

The achievements in terms of economic growth are there to see. Per capita incomes, and wage rates, are now close to those in Europe. But it may not be a coincidence that the ruling elite in Korea have been dogged by allegations of corruption, up to this day. Kim Hyang-A concluded that the Chaebol fell

> … from their lofty role of "industrial warriors" to become major players in the corruption scandals of the 1980s and thereafter. … It can be argued that the strength of the chaebol lies not only in their ruthless dedication to success at all costs, but also in their fundamental competitiveness in world markets due largely to their engineering orientation as established under the guidance of technocrats during the Park era. (Hyang-A 2004, p.207).

2.1.5 Vietnam

Vietnam has a history of repelling foreign invaders. In 1941 the Japanese invaded, and Ho Chi Minh organized resistance against them in the North. After the Japanese defeat, the French who had governed the country for a hundred years, tried to resume their rule, and this led to the First Indochina War (1946-54), and then the better known Vietnam War (1954-75) which was also a civil war – in which the Chinese supported the North while the Americans the South. The North won, and the country was reunified in 1976, under communist rule.

Much of its agriculture was destroyed during long years of war, and the new government found it hard to recover. Eventually it conceded that there would have to be some kind of capitalism. That was the context of liberalization in 1986 – helped by the discovery of oil (the country is now a major oil producer).

In recent years there has been rapid growth, in both agriculture and industry. New crops were introduced, such as cashewnuts and others, including coffee, expanded - in each of these cases competing with Tanzania. Vietnam is now a major exporter of rice, and one of biggest producers of cashewnuts in the world – with small productive trees grown on dense plantations, the use of inputs to control diseases, a series of successful innovations in processing (which means that the country is now an exporter of cashewnuts processing machines), and reliable marketing.

During its socialist period, banking was based on the Soviet model: finance for manufacturing investment was allocated directly from government budgets. There were no separate commercial banks – the State Bank of Vietnam had branches in many cities and towns. After 1986, state-owned banks were created for industry, trade, agriculture and housing, the first commercial bank offering credit to individuals and companies opened, and foreign banks were welcomed. The large banks continue to play very prominent roles, although by 2016 three of the four were partially privatized. One of their main problems is dealing with the legacy of poorly performing loans inherited from the socialist period.

2.1.6 Some Generalizations

All these countries industrialized because they believed that if they did so they could compete in world markets on equal terms, if not at once then after a few years. Thus the US and Germany produced better steel and later engineering

products and chemicals than Britain. Japan became the world's greatest producer of textiles while innovating in shipbuilding, motor vehicles, and electrical goods. China succeeded Japan as the world's greatest producer of textiles, as well many other products. It copied products made elsewhere, but it also developed a formidable engineering capacity. The Asian tigers believed that they could use their cheap labour, fresh starts and access to American and European markets to produce a wide range of products, and were willing to welcome American and other investment to achieve this.

In each of these countries, the state had a vision of what was possible, but the private sector was not always willing or able to underwrite the resulting risks and so large firms were supported in a variety of ways. This could involve long term contracts, loan guarantees for banks, or the underwriting of strategic investments. In the USA, Japan and Korea, powerful banks were closely linked to powerful business families and politicians, and could count on support from national governments when they needed it. In China and Vietnam the coordination of major industries such as steel, other metals, chemicals, and engineering industries was directed by the state, on the old Soviet model.

They developed linkages – ensuring that one local company could sell to others or supply other companies. Their models were of collaboration and partnership rather than pure competition. This was partly achieved through networks of interlocking directorships, in which individuals were members of a number of company boards. There was recognition of the importance of company boards, as the place where the management of a company was scrutinized, calculations checked, and decisions taken. Germany and China developed systems of two-tier boards, in which company workers and their representatives, as well as shareholders, have influence. Company and investment strategies were discussed before they were approved. In the larger companies, the roles of directors placed on company boards by banks were crucial in this.

The next section of the paper is a summary of key events in the industrialization of Tanzania, and then the role of the TIB-DFI, leading to a consideration, in the final section of the paper, of what Tanzania can learn from these experiences of other countries.

3.0 INDUSTRIALIZATION IN TANZANIA

In Tanzania, there was very limited manufacturing prior to Independence in 1961 – mostly first-stage processing of agricultural products for export or local consumption – cotton ginneries, sisal decortication, coffee pulperies, sugar factories, maize mills, etc. Import substitution got under way before and after Independence – textiles, cigarettes, soft drinks, breweries, aluminium products, etc. The contribution of manufacturing to GDP rose from 4.3% in 1961 to 12.8 in 1965. By 1970 there were more than 2000 industrial establishments with production increasing at an average of 10% per annum and employment at 12%. The focus was on light industries producing consumer goods such as food, clothing, tobacco products, beer, pharmaceutical, glassware, household plastic items, footwear and soaps (Mussa 2014). The sector was highly protected. Rweyemamu (1973:130-131) links the imposition of tariffs with investments in specific factories, for example on imports of yarn in 1961, on blankets in 1963, on clothing in 1964 and on cotton piece goods in 1966. His Table 4.9 (p.134) shows that, for example, by 1966 the nominal tariff paid on imported textiles was 73%, but the rate of "effective protection" (which allows for local factories obtaining raw materials at prices less than could be obtained from exporting) was 269%. These figures show that both Tanzanian farmers and Tanzanian consumers were paying heavily for industries such as these.

Following the 1967 Arusha Declaration, the largest industrial enterprises not already in the public sector were nationalized, and new factories were commissioned, many supported by the Tanzania Investment Bank. The economic strategy was not however greatly different: in the words of the 2016-2021 Economic Development Plan: "In earnest, however, industrialization followed the same strategy of import substitution". Wangwe noted that capacity utilization was low (Wangwe 1977). In 1992 he noted with surprise and concern that most of the projects were turn-key projects, where local managers purchased a factory where the machinery was already specified and not necessarily the best for Tanzania: "preference for turnkey projects has continued because they are easier and faster to implement. This suggests that it is the speed of implementation which matters most rather than the extent of technological learning that is derived from the project" (Wangwe 1992, p.272). Rweyemamu (1973, p.124) suggested that many of these investors made more profit from their sales of the machinery than from the sales of the products which resulted. Williams, writing in 1975, concluded that technologies were not chosen because they were the most

efficient, but because there were offers on the table from outside investors which could be implemented quickly. The machines imported were so diverse that the National Textile Corporation, which had 8 textile mills, found it impossible to set up a common workshop to maintain them (Wangwe 1992, p.279). Mlawa, who also researched the textile sector, reported that between 1973 and 1979 both labour productivity and the productivity of the machines declined, and concluded "this industry shows no evidence of technological learning in the sense of endogenous execution and management of incremental technological changes or productivity improvement", and that "very limited technological assimilation, absorption and mastery of imported technology took place …. It also suggests that there wasn't much effort in Tanzania to build up the technological and managerial skills, expertise and related capabilities needed to improve productivity and efficiency in the industry". (Mlawa 1995, p.117).

However, following the rises in the world price of oil from the late 1970s onwards, the country faced economic difficulties and came under pressure from the IMF and elsewhere to open its economic activities to the private sector. In 1986 it devalued its currency and reduced its tariffs on imports. The devaluations were not sufficient to protect the new industries from international competition. Thus the factories which manufactured textiles and clothes now had to face competition from low cost production from Asia and elsewhere, and imports of used clothes, many donated to charity shops or recycling schemes in Europe (Wangwe et al 3013, p.12; Kabissa 2014, pp.172-173). The first objective of the Sustainable Industrial Development Policy 1996-2020 (URT, 1996; Mussa 2014) was to raise the spirits of the private sector as main driver of the economy. Phase one was dedicated to rehabilitation and consolidation of the existing industrial capacities. The government would withdraw from direct investment in productive activities and the sector would concentrate on activities where Tanzania has a comparative advantage, notably agro-processing. 196 companies were privatized and of these many closed subsequently or were barely profitable - with dire consequences for the TIB which remained heavily involved in the sector. Thus, again to use the textile sector to illustrate, by 1994, 10 of the 22 large mills had closed, 8 of 14 publicly owned mills had been privatized, and textile production had declined from 87 million linear metres of cloth in 1975 to 33 (Kabissa 2014:170-171). The closures meant the loss of 25 years of experience of training the labour forces and marketing the products.

Phase Two of the SIDP, scheduled to be implemented between 2000 and 2010, aimed to extend manufacturing exports by creating export processing zones

(EPZs) and to begin the promotion of intermediate goods. Phase Three, 2010-2020, would make use of the rich minerals resources that Tanzania is endowed with "to create a base for the development of intermediate and capital goods industries" (Mussa 2014, p.9).

By 2006 some of the textile factories were back in production – which reached 130m square metres in 2006 and 155,000 square metres in 2008 (Bank of Tanzania Quarterly Bulletin September 2015, Table 1.14). Exports of textiles were increasing, mostly to neighbouring countries and some to America where from 2000 textile exports from most African countries, including Tanzania, were allowed in duty free, under AGOA, the African Growth and Opportunity Acts.

In 2011 Phase Four of the SIDP was approved. This was enshrined in the Integrated Industrial Development Strategy (IIDS) 2011-2025. Its objectives are to improve the institutional framework to support industrialization, and create the infrastructure that will support industries and enterprises that are internationally competitive. Phase Five aims to make Tanzania the transport and logistics hub of the whole Eastern and Central African region, and to ensure that all opportunities are taken to develop industries with forward or backward linkages to agriculture. (Mussa 2014)

By 2013 the Tanzanian economy was growing rapidly, on the basis of mineral exports, and natural gas, with the promise of much more natural gas when recently-discovered undersea deposits were exploited. However, the development and investment programme Big Results Now (2013), developed with partnership support from the Malaysian Planning Commission, did not include a "lab" relating to manufacturing, but President John Pombe Magufuli, elected in October 2015, at once made it clear that manufacturing was an important part of his vision, and necessary if Tanzania was to achieve its aim of becoming a middle income country by 2025. A new industrial strategy was commissioned, and the National Five Year Development Plan 2016/17-2021/22, subtitled "Nurturing Industrialization for Economic Transformation and Human Development", gave extensive treatment to industrialization. Within this the TIB was singled out with its "core objective … to provide debt finance at the long-term end of the market" (para 5.5.1).

Problems remain. One is high labour costs and low skills levels. The Tanzania labour force has low skills and often poor working practices. Mussa (2014) found

that a new garment factory in Tanzania in need of 14,000 workers could hardly manage to get 2000 suitably qualified employees. Lack of skilled manpower and other governance and inappropriate incentive structures mean that industrialization in Tanzania is still in the emerging stage.

3.1 Banking in Tanzania

56 banks are licensed by the Bank of Tanzania. These include branches of international banks, such as City Bank, First National Bank, Standard Chartered Bank, Stanbic Bank, and Barclays Bank. Some are development banks such as the International Finance Corporation, the European Development Bank, and others supported by donors and international organizations. However, the majority are small commercial banks.

The TIB Development Bank (TIB-DFI) and Tanzania Agricultural Development Bank (TADB) are of special importance as both have specific mandates to spearhead developmental projects. The TIB Development Bank (TIB-DFI) is wholly owned by the government, closely regulated by the Bank of Tanzania and reports to the Treasury. As a Development Finance Institution (DFI), it is charged with making long term loans to project ventures with national developmental impact in addition to other projects promoted by either LGAs targeting infrastructure projects or viable privately promoted businesses. The TIB presence and its role and mandate is particularly important as regards investments in industries, where long term political support can make all the difference between success and failure. Between 1971 and 1999 it made 282 loans to projects (TIB 1999).

It is however important to differentiate the financing of new projects from the funding of existing projects. For new projects there are many ways in which money may be raised, be it national, LGAs or bankable projects i.e. agro-processing, manufacturing, industrial, mining, oil and gas, tourism or commercial real estate. At the present time, TIB participation, particularly under the 5th phase government commitment to an industrial led economy, is turning out to be more closely linked to rationalization of its large portfolio of loans built up since TIB's establishment in 1970.

4.0 CONCLUSIONS AND LESSONS LEARNT

The realities of the 1960s, 1970s and the early years of the 1980s created an environment where governments took the macroeconomic role without instituting mechanisms to manage those who took responsibilities for running the industries. There was neither appropriate risk management for success nor incentive structures to reduce the risk of failure. In addition, those given responsibility to run the industries did not recognize themselves as either owners or employers. They regarded themselves as government employees with little concern for the operation of the industries. They seldom saw their careers as related to the successes of the industries they ran. Guidelines and expectations as to what was expected from managements were determined centrally. Foreign exchange was controlled and macroeconomic management was not favourable to those running businesses. The recommended solution, thought to provide the way forward for falling manufacturing, was to privatize public owned state owned enterprises.

The 1980s liberalization of the economy has opened new windows of opportunity for the private sector, and gradually lessons are being learnt. It is becoming understood that the success of strong manufacturing industries is dependent on innovations, research and development. In today's world economy, industrial development is not automatic; it is a nation's choice. With continued globalization, the convergence of consumer tastes, and world-wide dispersal of industrial technology, the manufacturing sector has never been as competitive as it is today. Companies are no longer concerned about firms within their geographic jurisdiction, but with competitors all over the world. Low international freight costs, and unprecedented levels of information available over the internet, have transformed the world into a single accessible market. The fierce global competition has reduced the likelihood of spontaneous development of new industry. Countries must therefore have a deliberate, precise, and intense approach to nurture and expand industrial activities. This is even more paramount for a country like Tanzania, starting from a relatively low manufacturing base. The rest of this paper is about where that leaves policy-makers in general and the TIB-DFI in particular.

The bank faces many challenges. Many of the project proposals it receives do not have convincing investment rationales, robust business plans or marketing strategies. The governance structures of their boards do not recognize the value

of partnership working especially with supporting financial institutions, and they are often not fully aware of the need to comply with regulations, and national and international best practices. When loans have been approved there have sometimes been issues with cost overruns, and failures of communication and subsequent failure to meet repayment obligations.

Tanzania can learn much from the comparison of investment banking in countries that have industrialized. In particular company boards have important roles to play, both in scrutinizing investment proposals and in holding company managers to account. They need directors who understand the technical detail and are not fearful to ask difficult questions. In terms of institutions, the most important lesson is that the boards of companies need to be strong, but open, and able to subject the managements of the companies to intense and well-informed scrutiny. In most of the countries that successfully industrialized this was partly achieved by having nominees from investment banks on the boards, who could ask hard questions at board meetings and elsewhere, and, if they were not happy with a developing situation, ensure that steps were taken to take corrective action at the earliest possible time. In some countries, such as Germany and China, this is further achieved by having representatives of workers, alongside directors nominated by shareholders, on a supervisory board which is probing the strategy of the company, and its implementation, and may also approve senior staff appointments and investment decisions. Such directors are likely to be directors of many related companies. While their position as directors of a company requires them to act in the best interests of that company, they also have information about other companies which can be of strategic importance. In particular it can ensure that linkages are developed – that one company sells to another, or if there is a proposal to manufacture an intermediate product this can be done in a manner that enables as many other companies as possible to use it. This may involve collaboration and partnership and not just pure competition – thus if Tanzania is to create steel or chemical industries, other local businesses must be prepared to use the products. That was the logic which underlay the basic industries strategy set out in the 3rd Five Year Plan 1975-1980 but not implemented due to the economic crisis. This kind of industrialization depends on forward and backward linkages being developed and strengthened. The experience of industrial investments in Tanzania shows the importance of scrutinizing capital investment proposals before they are firmed up, to ensure that business plans are robust, that equipment to be purchased is the most cost effective, that maintenance back-up will be in place, which it will perform as those

selling it claim it will. Bank and worker directors are in a strong position to ask such questions, and perhaps to visit other countries to see the same machines in operation. Banks such as the TIB-DFI, who invest in companies, should therefore insist on the right to appoint directors to the company boards. If the state is promoting a project, or investing in it, this kind of probing is even more important, to ensure that all relevant alternative methods of meeting the project objectives are considered, and the one chosen will give a good financial return. The board also has extremely important roles to play in response to day to day changes in operating circumstances. Thus if the profits reported by a company are declining for any reason, it is important that action is taken as soon as possible to turn this round. Bank representatives may ask the hard financial questions. Worker representatives will also see the position unfolding, and may have very practical suggestions to make.

4.1 Operational Challenges for TIB-DFI

The fact that the state should have an industrial strategy is no longer controversial. It is argued by senior economists at the World Bank (Lin 2016), and by almost all economists who have researched the Asian tigers and China's economic transformation. Even by Donald Trump who wants to protect American manufacturing from Chinese imports. There is also greater understanding of the theory of trade: comparative advantages are not set in stone, on the contrary a country can deliberately set out to create a new comparative advantage, as Japan did when it started building ships, or the Asian tigers when they started manufacturing automobiles. However, this kind of pioneering investment will almost always be risky and often unattractive to banking and financial institutions in the private sector, and only possible if supported by state-owned or state-underwritten investment banks.

But there are important differences in emphasis. Lin believes that African countries can now compete successfully not only with the Asian tiger economies but with other low wage producers, for example Bangladesh. If this is correct – for example with textiles or leather products – then there is almost no limit to the scale of industrialization that is possible (Lin 2016). In contrast, strategies based on import substitution or the processing of agricultural products before export are limited in potential scale. And if projects require protection with tariffs on competing imports, then consumers are probably paying more than otherwise

they would pay, and workers may well require higher wages, and this will make other industries less competitive. There is some natural protection from geography, which has enabled Tanzania to successfully increase its exports of manufactured products to neighbouring countries. Protection is also justified for a limited number of years if it enables a sector to get established and then compete without protection. But the conditions under which it is given must be strict and limited, or else Tanzania and other countries risk repeating the mistakes of the 1970s when too many uncompetitive projects were implemented.

There are therefore big challenges for TIB-DFI. On the one hand it will find itself under pressure to finance projects that other financial institutions will not support. But if it does so, it must have its eyes open, clear timetables, rigorous appraisals of projects to ensure that they give the best possible value for money, and on-going monitoring with the power to take decisive action if targets, especially financial targets, are not met. The first requirement for this is probably that, for all major investments, it places competent and effective directors on the boards of the companies concerned.

As Brian van Arkadie has pointed out in relation to Vietnam, “efficient financial discipline is dependent on the existence of a financial system capable of applying good judgement to the provision of credit”, and effective development banks cannot be created overnight (van Arkadie 2003, p.97). Moreover, if enterprises who borrow from a state bank believe that if they are under financial pressures, they can go to central government and they will be bailed out, inefficient industries will be tolerated and the bank will have a portfolio with many underperforming loans. The bank therefore has to strike a balance between encouraging initiative and being prepared to take strong measures if plans do not work out. Ultimately, this, like all banking, depends on trust and “a culture of prudent banking behavior which needs to be acquired and demonstrated over the longer term” (ibid, p.98).

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