

Promoting Financial Inclusion in Tanzania

The overall aim of the Financial Sector Deepening Trust is to support the development of a deeper financial system that can provide greater access to finance to more Tanzanians.

Our **mission** is to generate sustainable improvements in the **livelihoods of poor households** through reduced vulnerability to shocks, increased incomes and employment

Our **vision** is to achieve **improved capacity and sustainability of the financial sector** to meet the needs of MSMEs and poor men and women and to contribute to economic growth

Strategic objectives:

1. Improved policy, institutional, legal and regulatory framework;
2. Enhanced market infrastructure and support services for financial services providers;
3. More and better financial services available to meet the needs of urban and rural enterprises;
4. More and better financial services available to meet the needs of poor urban and rural households and individuals.

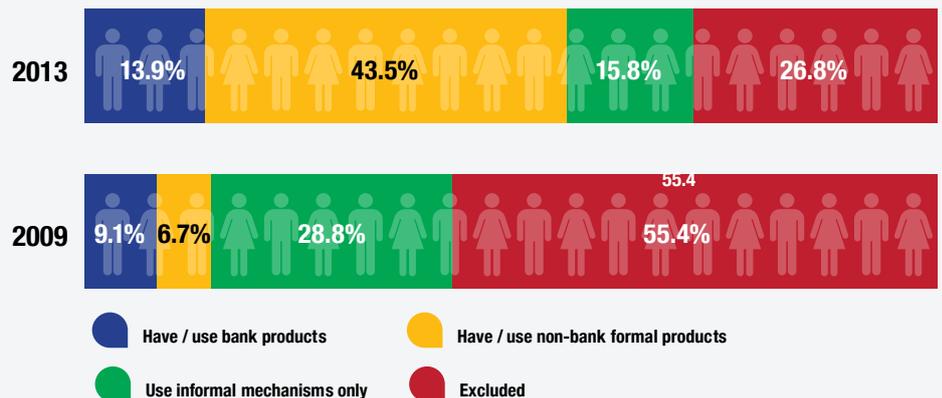
The challenge of Financial Inclusion

Tanzania has made significant strides in improving financial inclusion. The FinScope Survey 2013 shows that financial exclusion has halved from 55.4% to 26.8% between 2009 to 2013. Formal access using bank products has increased from 9.1% to 13.9% while formal access using non bank products has also increased from 6.7% to 43.9%.

However significant challenges remain. One is increasing the level of formal access. The Bank of Tanzania, in embracing the financial inclusion agenda, has set a formal access target of 65% by 2016 with mobile financial services and agency banking as core drivers. Other challenges include geography (83% of those excluded are in the rural areas), gender (60.6% of those excluded are female) and education (87.6% of those excluded have primary education or less). A major part of the FSDT strategy for 2013-2018 is focused on supporting efforts to address these challenges.



Access Strand 2009 - 2013



Source: FinScope Tanzania 2013

FSDT Approach and Theme Areas

FSDT uses the Making Markets work for the Poor (M4P) approach. This is an approach to developing market systems that benefit poor people and enterprises, offering them opportunities and capacities to enhance their lives. The approach requires working at three levels:

- i. Macro – supporting the policy, legal and regulatory framework
- ii. Micro – supporting the retail providers who actually deliver the financial services
- iii. Meso – supporting the development of support services on which Financial Service Providers (FSPs) and policymakers and regulators depend

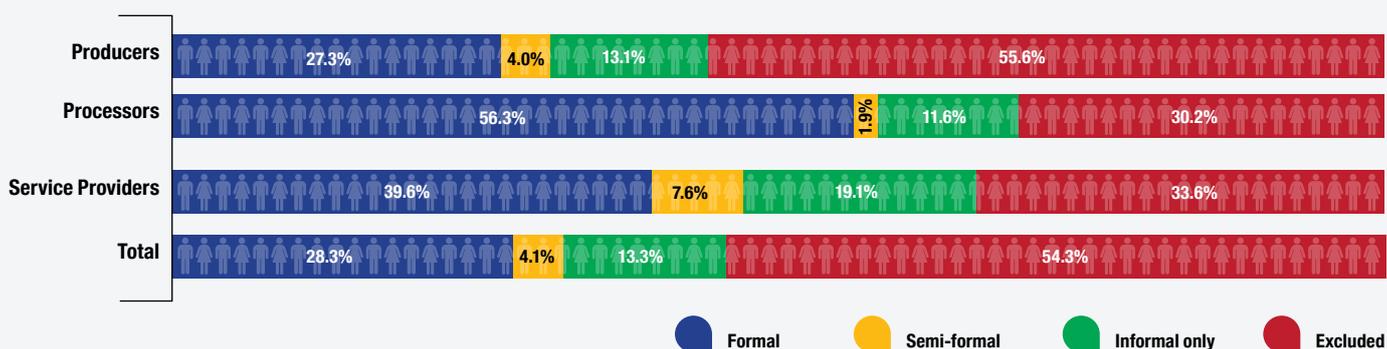
During the strategy period FSDT will continue to support projects that fall into three theme areas (a) agricultural and rural finance (b) remote access banking and (c) micro small and medium enterprise (MSME) finance. FSDT will also give priority to those projects that deal most effectively with the cross cutting themes of gender and youth.

Agricultural and Rural Finance

Tanzania’s economy remains largely agricultural, with over 78% of the working population relying mostly on this sector. Agriculture contributes a sizeable proportion of the GDP, a major source of foreign exchange earnings and food security. However, besides its importance to the economy and people’s livelihood, the sector continues to face substantial challenges for its growth. One of these challenges is lack of financing especially to the small scale farmers. FSDT supports the development of financial products for small scale farmers particularly in the provision of credit, savings, insurance and payment facilities.

In the rural finance area, FSDT supports the building of sustainable systems at the grass root level. The key driver in this area is support of savings groups which include Village Savings and loans (VSLAs), Village Community Banks (VICOABs), Savings and Credit Associations (SACAs), and Rotating Savings and Credit Associations (ROSCAs).

Access Strand: Agricultural Finance - Agribusiness



Source: Agricultural Finance Markets Scoping (AgFims) 2011

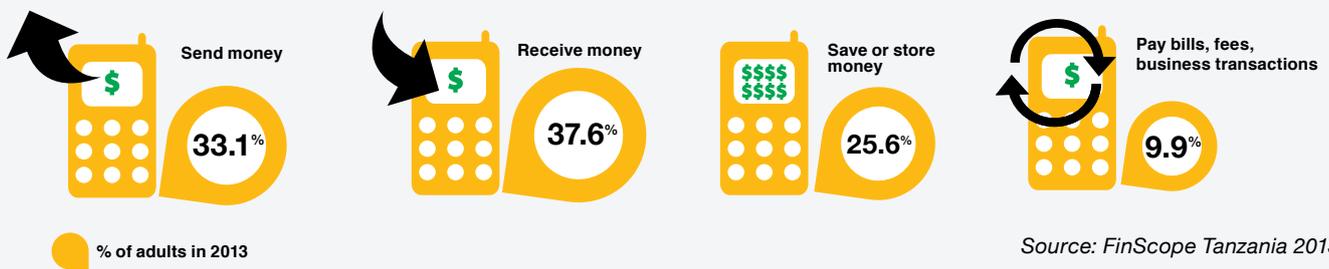


Remote Access Finance

FSDT defines Remote Access Finance as access to electronic/digital financial services through non-traditional banking infrastructure - brick and mortar branches and ATMs. This entails the use of alternative delivery channels, driven by mobile technology and agency banking models to facilitate payments as a core enabler of more advanced products like savings, credit and insurance. The major factor in the increase in overall formal access from 44.6% to 73.2% was the increase in use of mobile financial services offered by non-bank formal providers. On the supply side, 45% of Tanzanians live within 5Km radius of a financial access point due to the expansive mobile money agent network (GIS Financial Access Maps 2014).

In partnership with financial institutions and Mobile Network Operators, FSDT encourages interoperability, invest to increase proximity of financial services and supports customer centric approach to product development through its demand side research. FSDT will continue to work with regulators to create an enabling environment for digital/mobile financial services and agency banking.

How mobile money is used

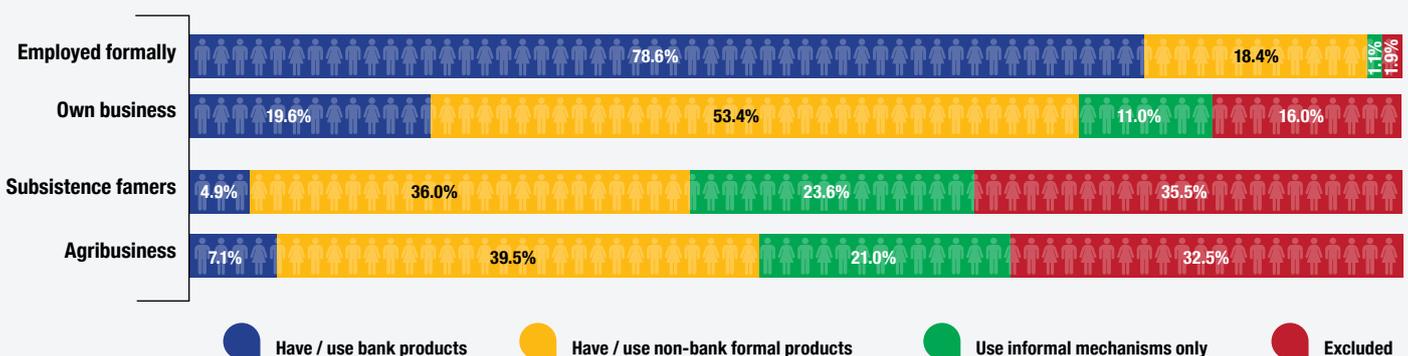


SME Finance

The importance of Micro, Small and Medium Enterprises (MSMEs) for economic growth and competitiveness, employment and poverty reduction is widely recognized. However, the inability of MSMEs to access financing remains one of the most frequently cited constraints to growth. There are demand-side barriers such as lack of viable businesses and financial management skills, lack of collateral, absent or patchy record-keeping and a poor repayment culture among business owners. Supply-side barriers include a small number of banks with the interest or capability of serving MSMEs and a low level of innovation leading to a very limited range of appropriate products for financing MSMEs.

During the strategy period, FSDT initiatives in this theme area will concentrate on promoting cash-flow based lending, value chain financing, lease financing and development of MSME tailored credit scoring methods.

Access strand comparison by main source of income



Source: FinScope Tanzania 2013

FSDT Governance

FSDT was established in 2004 as the Registered Trustees of the Financial Sector Deepening Trust Tanzania. The trustees are Rex Attorneys. The Trust is governed by a Project Investment Committee (PIC), which meets quarterly. The PIC is composed of 8 members - 4 development partners, one Trustee, one Bank of Tanzania representative and one independent member.

The management of FSDT is under the direction of a Executive Director. The Executive Director is supported by the Operations Director and specialists responsible for the various theme areas. The Finance Manager while reporting on a day to day basis to the Executive Director, is appointed by the Trustee. We have put in place a robust governance structure that allows for appropriate flexibility while ensuring accountability.

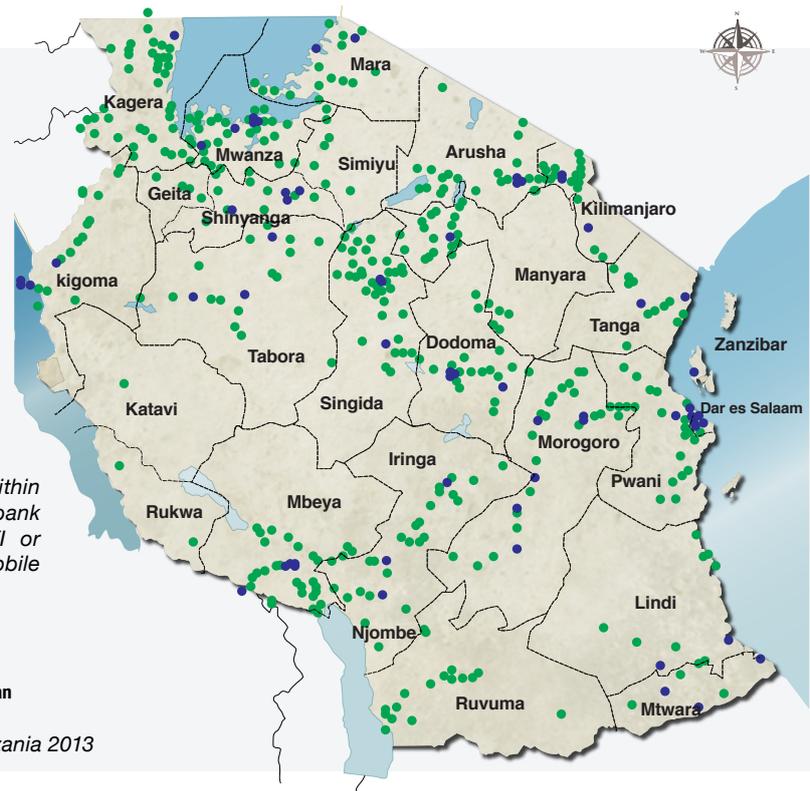


Financial Access points

40% of adults are within a 5km radius of a bank branch, an ATM, MFI or SACCOS or a mobile money agent

 Rural  Urban

Source: FinScope Tanzania 2013



FSDT Funding

The primary funders of FSDT are the Canadian Department of Foreign Affairs, Trade & Devt (DFATD), the Department for International Development (DFID), the Swedish International Development Cooperation Agency (SIDA), the Embassy of Denmark (DANIDA), the Bill and Melinda Gates Foundation.

During the period 2005-2013 FSDT received about USD 72 million in grant funding. Total expenditures for project and management costs were about USD 60.5 million leaving an accumulated fund of USD 11.5 million as at 30 June 2013. For the strategy period 2013-2018 the estimated total budget is USD 76 million. Development partners have already made a commitment of approximately 60% of this total budget and additional funding is expected from existing and new development partners.



BILL & MELINDA GATES foundation