



# Inclusive Finance for Growth and Wellbeing



Strategy  
2020 - 2025

## Delivering real value to the economy and the low-income population in Tanzania

Transformation is key to bridge the financial system to majority of Tanzanians by contributing to better wellbeing of individuals and businesses. Over the coming 5 years, FSDT's overall aim is to contribute to the achievement of real-life impact on the majority of Tanzanians through **"inclusive finance"**, which delivers real value to the economy and people on low income. FSDT seeks to facilitate a robust connection between the financial sector and lower income and marginalised communities.

Formed in 2004 with the long-term goal to help create a pro-poor financial sector in Tanzania, FSDT's strategy has been to influence individuals and businesses to derive value from the regular use of financial services by facilitating the creation of a financial system in which stakeholders design and implement responsive policies and solutions that meet their needs, and which contribute to equitable growth for inclusive development.

The strategy makes a strong case for a paradigm shift among financial sector players from the **"supply-push"** approach in intermediation to a **"demand-pull"** impact orientation, meaning that all the actors will have to orient their thinking, decisions and actions to align with users' needs and the desired developmental impact, where feasible.

Financial inclusion remains a critical means for FSPs to increase the relevance, quality, accessibility and affordability of financial services. This strategy also responds to the "finance for growth" agenda, strengthening linkages between the financial sector and the "real economy", contributing to income and job generation for target groups (rural farmers, rural youth, women and enterprises), and aligning the program impacts with relevant Sustainable Development Goals (SDGs) (3, 5, 8 and 9).

*There is consensus that financial systems development makes two mutually reinforcing contributions to poverty reduction through its impact on economic growth (i.e., finance for growth) and direct benefits to the poor using financial tools and solutions (i.e., finance for all).*

Informed by national development goals, FSDT will prioritize rural farmers, women, rural youth and enterprises, identified in national strategies. In terms of catalyzing growth that benefits the priority markets, the enterprise market will be used as a driver.

The critical role of any financial system is mobilizing and allocating resources in the form of capital flows and investments or facilitating economic and social activities through its intermediation function.

Despite the impressive developments in the financial inclusion trajectory, FSDT research and other sources have revealed that the usage of financial solutions in Tanzania is limited by a failure to ensure that products offered are relevant, appropriate, convenient and affordable. For enterprises, the main challenge is accessing investment or capital to grow their businesses. It is acknowledged that the overall level of intermediation is still low compared to the size of the economy. **Further examination of the evidence shows that financial exclusion in Tanzania has been more prevalent among rural farmers, women and youth, the majority of whom are on low incomes.**





**ENTERPRISES:** focus is on inclusive finance for SMEs and large corporates, agri-business and other SMEs in prioritised value systems. Enterprises will drive sustainable income growth and creation of jobs for women, youth, and rural farmers.



**RURAL FARMERS:** focus is on finance for farmers (smallholders and mid-size) including youth and female farmers. Contribution of enterprises to farmers' income and jobs.



**RURAL YOUTH:** Focus is on financial inclusion, as well as inclusive growth. Financial inclusion will expand youth access to relevant, useful, more affordable financial solutions that will lead to improved wellbeing and empowerment. Inclusive growth will boost income growth and jobs creation for young people.



**WOMEN:** Focus is on financial inclusion, as well as inclusive growth. Financial inclusion will propel more women of all ages to access relevant, useful, more affordable financial solutions, leading to improved wellbeing and empowerment for women in Tanzania. Through inclusive growth women will benefit from income growth and jobs creation.

*A transformative financial system will seek to facilitate the removal of obstacles or constraints that prohibit users of its services to benefit from them, and provide the mechanisms for markets to tap into new opportunities in the economy.*



Tanzania is tackling critical challenges that are limiting the attainment of an inclusive economic development that promotes wellbeing for all. These challenges include high levels of poverty, especially in rural areas; lack of formal employment and the rise of informal employment; consumption inequality; limited consumer capability to maximise opportunities in the finance sector; gender inequality, especially in economic activities, skills and assets; low productivity, access to markets, a lack or low value addition, failure to mitigate risks and a lack of appropriate and affordable finance among rural farmers and enterprises, and opportunities presented by innovation.

To contribute to the development objectives and to have impact on poverty (income, jobs and economic growth) the financial system requires a transformation from simply deeper financial systems to *“inclusive finance”*, using the essential *“value proposition”* within relevant segments of the markets and the economy as a whole.

The role of FSDT will be to drive thought leadership to encourage stakeholders to recognize the importance of effective financial intermediation in the economy. The essence of this strategy is to help transform the financial system to respond effectively to economic opportunities with a clear value proposition. This will be achieved by addressing the constraints at the policy and regulatory level, both demand and supply side, as well as relevant non-financial sector constraints.

In order to identify opportunities for the target markets (rural farmers, women and youth) and to achieve the desired impact, FSDT undertook rigorous analysis to identify optimal and relevant value systems that can contribute to growth (income generation, job creation and wellbeing).

FSDT utilises a market system change approach designed to demonstrate how *“inclusive finance”* could contribute to the desired impact and used the Optimal Benefit Framework for a pro-poor program to identify high impact value systems, which are likely to catalyse and benefit the target markets.



*In summary, Tanzania needs a financial sector that can:*

- *Support inclusive economic growth, which provides productive work for the growing army of young people*
- *Clearly articulate and demonstrate value*
- *Mobilize and allocate short-term and long-term funding for investments*
- *Be resilient to technology changes and can benefit from them*
- *Support growing trade and investments*
- *Absorb larger flows of capital seeking enhanced returns without being swamped*
- *Sustain shocks and ensure trust and sustainability*

The **prioritized value systems** are:



Specifically, the following actions are needed to support the new vision to transform the financial sector in Tanzania:

- Addressing the demand supply gap
- Effective mobilization of investments and capital flows
- Addressing high cost of accessing and using financial services as compared to the benefits enjoyed by the users
- Technological adoption and digitization promise greater future impact by stimulating the next generation of financial innovation and reducing transaction costs
- Building capability among stakeholders
- Evidence based decision making

**For finance to impact on poverty, there are both direct and indirect pathways. Crucially the direct route may include usage of relevant, useful and affordable solutions that directly improve wellbeing such as nutrition, education, health, energy, water and housing.**

Diverse types of finance can be used in production, services and businesses by farmers, women and youth to address all obstacles to growth, generating income and creating jobs, particularly in the identified value chains. The prospects suggest that this will be feasible if investment tools and capital are developed, and capable farmers, youth, women and enterprises use them effectively. For many, viable pathways out of poverty will be shaped by the market systems in which they operate. For this reason, FSDT will support the financial system to accelerate the growth of people and enterprise-centered economic value systems, through which the priority markets will benefit.

**FSDT's Theory of Change** acknowledges that inclusive finance needs to be understood not only as finance which can be directly used by the poor to take advantage of opportunities to improve their livelihoods, but also as finance to improve the opportunities created by the local economies in which they live.

As a **market facilitator**, working with market actors, clients and partners to implement interventions, FSDT uses a variety of mechanisms to influence changes in financial systems; including thought leadership, evidence and information generation, facilitation/ convening and financial instruments.

FSDT's goal is to see improvements in wellbeing and empowerment; including health, education, energy, nutrition, living conditions as well as increases in income, with creation and support of full-time equivalent jobs through FSDT interventions. Indicators provide the means for describing the delivery of the strategy, flowing the logic of the ToC, while targets provide the measure against which the program performance will be assessed.

## FSDT's Theory of Change

FSDT will focus on the following 5 key focus areas across the four priority markets (rural farmers, women, youth and enterprises):

- Facilitate development or revision and implementation of policies, regulations, strategies and guidelines to ensure they are driving the inclusive finance agenda
- Promote development of market infrastructures which will enhance convenience, efficiency and reduced cost
- Promote and drive innovation of appropriate and affordable financial solutions for the target markets
- Facilitate evidence generation through rigorous research and analytics to drive financial and real sector transformation
- Support the development of skills and capabilities of the markets to derive value from the financial and real sectors





## Delivering Impact

FSDT will demonstrate the benefits of a transforming financial system which delivers real value to the economy, enterprises and individuals through availing investment solutions, capital flows into businesses and risk mitigations. This depicts the impact orientation, which should be taken with a higher level of risk appetite and desire for innovation.

Improvements in wellbeing and empowerment will be ascertained through better health, education, energy, nutrition and living conditions for women, rural youth and rural farmers. A reported growth in income and increased quality jobs will be established through FSDT interventions in the prioritized value systems.

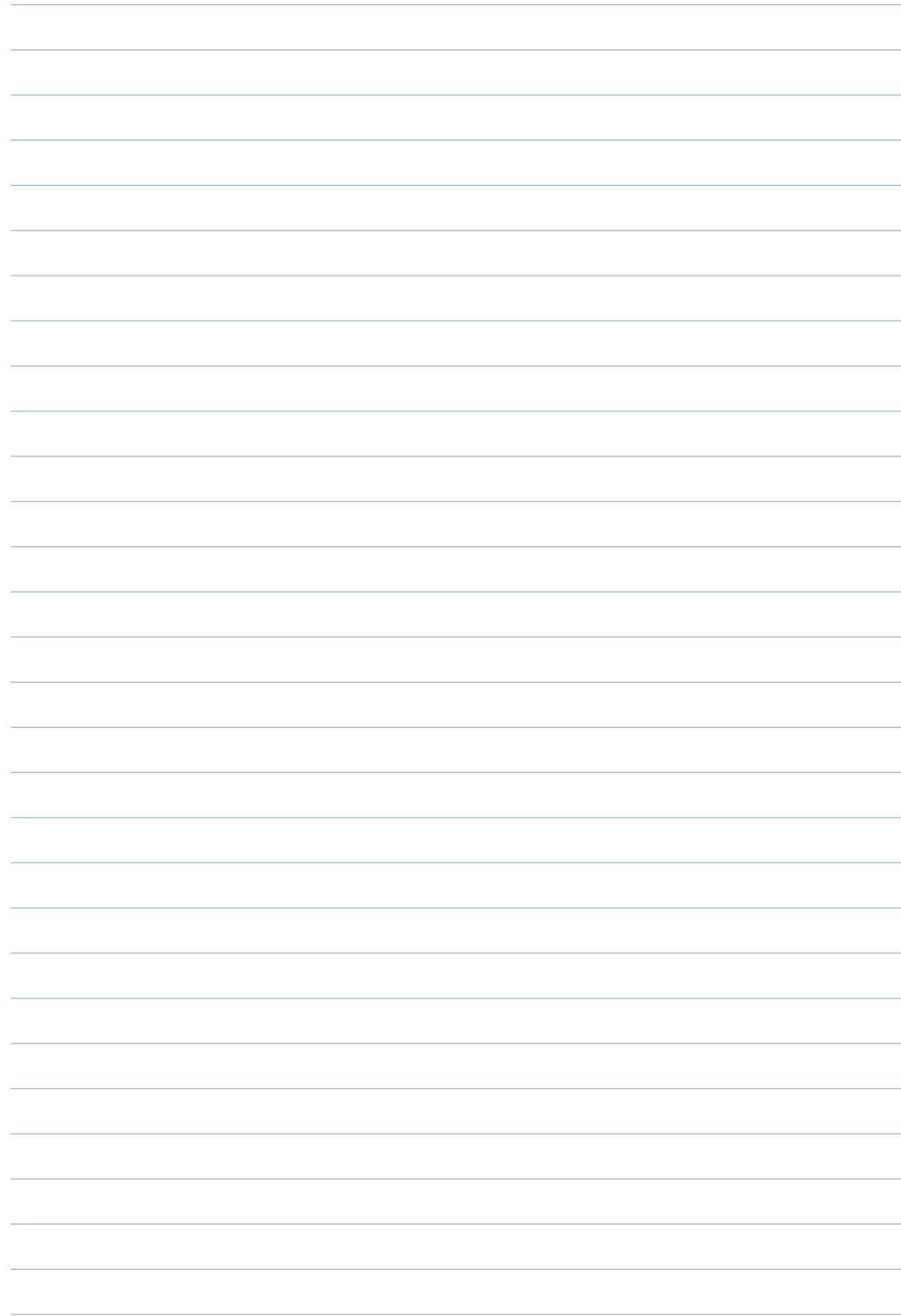
The **implementation of the strategy** requires capable entities with sound knowledge, experience, commitment, and clear vision to realize the desired impacts as outlined herein. This capability must be demonstrable through track record and/or a well-articulated vision and approach with the right support from a variety of stakeholders in the market. FSDT has significant experience of working in the development sphere through the financial sector, triggering changes that are beneficial to the prioritized market segments and the economy. Existing capabilities include vision building, governance, management, financial control and risk management; talent to deliver; track record; managing results; managing donor funds; a voice in the market and strong infrastructure for program delivery.

Building a capable and sustainable financial sector requires multiple players with varying roles as policy makers, providers of services or support and/or beneficiaries, requiring FSDT to identify and work with other partnerships or collaborators. FSDT will always endeavor to achieve results for the lowest overall expenditure of scarce resources, minimizing transaction costs for each intervention to deliver both value for money and useful contributions to financial sector deepening.

**Communication** is a core function for an M4P program and regarded as a key lever in the delivery of the strategy. Embedded with the thought leadership delivery mechanism, FSDT will share knowledge generated through various research, surveys and studies, as well as analysis from interventions being conducted, with the market actors in the financial sector and the wider stakeholders in the economy in general. FSDT intends to reinvigorate and use communication to raise awareness and importance of inclusive finance, to communicate insights and information to drive market change, to raise the profile of FSDT and increase communication among all stakeholders.

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