DETERMINANTS OF FINANCIAL INCLUSION IN TANZANIA

BANK OF TANZANIA

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Outlines

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Overview of the Financial Sector in Tanzania

Tanzania financial sector is dominated by the banking sub sector (70%) of the total assets, while insurance, pensions and securities account for the remaining 30%. The microfinance sub sector which was previously unregulated has been currently regulated which serves most vulnerable groups, such as low-income women in rural areas

Growth is supported by

- The Supportive Legal and Regulatory Framework,
- Conducive Macro-economic Environment
- Financial technologies and innovations

Overview of the Financial Sector in Tanzania

Details	Number
Full-fledged Commercial banks	34
Development Finance banks	2
deposits taking Microfinance banks	4
Community Banks	5
Financial Leasing Companies	5
Mortgage finance Institutions	2
Credit Reference Bureaux	2
Social Security Schemes	4
Regulated Microfinance institutions (Tier 2, Tier 3, and Tier 4)	33,028

Financial access points Landscape

Sector/Access Point Component	2014-2016 Assessment	2018-2022 Assessment	Current Position
Banking Sector growth	52	67	45, 2 Mortgages, 5 FLCs, 2 CRBs
Banks branches Networks	609	813	988
Insurance Sector	27 private insurance companies, 2 re-insurance companies, 76 brokers and 520 agents	31 private insurance companies, 2 re-insurance companies, 115 brokers and 472 agents	33 insurance Companies Including insurance companies, 85 brokers and 789 agents, bancassurance agents 23
Pension Sector	5 Pension Funds	5 Pension Funds	2 pension Funds, 2 non pension funds Social Security Schemes
Capital Markets	1 stock exchange, 7 brokers, 7 Nominated and 13 Investment Advisors, 4 Fund Managers, 3 Custodians, 6 Collective Investment Schemes.	1 Stock Exchange, 12 Brokers, 4 Custodians, 6 Bond Traders, 16 Investment Advisors, 8 Fund Managers, and 2 Nominated Advisors	2 Exchanges, 16 Brokers/Dealers, 6 Custodians, 7 Bond Traders, 18 Investment Advisors, 11 Fund Managers, and 5 Nominated Advisors
ATMS	45	2,158	2048
MFIS and SACCOS	6015	5871 Non Regulated MFIs	32,729 regulated MFIs

Evolution of Microfinance

National Microfinance Policy 2000 was developed to ensure there is an efficient and effective micro financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty.

Success of National Microfinance Policy 2000	Challenges in implementation of National Microfinance Policy 2000
Entry of Non-Financial Institutions (NFIs) including mobile network operators (MNOs) for Mobile Money	Inadequate legal and regulatory framework resulting into malpractices. Eg. insufficient disclosure of lending terms and conditions; high interest rates; reckless lending; unfair loan collection and recovery procedures
Establishment of several credit programmes/schemes to address the need for credit access by the low income populations such as; SELF Microfinance Fund (SELF MF) and SME Development Fund.	Poor management of Information System and data regarding Microfinance sub-sector
Increase in number of banks and financial institutions offering microfinance services	Lack of unified central point for sharing and verifying client credit information in microfinance sub-sector leading to multiple loans

Evolution of Microfinance

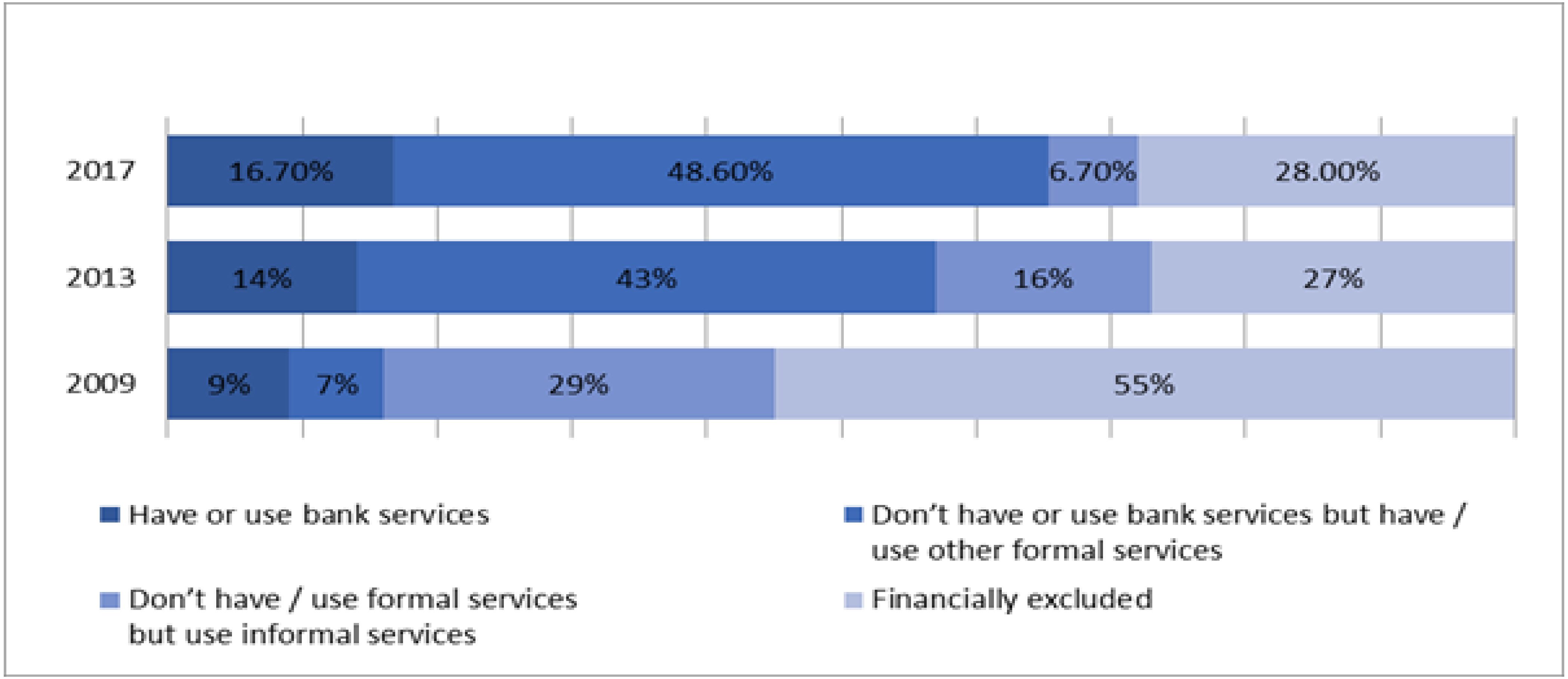
National Microfinance Policy 2017

- ✓ Challenges observed during implementation of the NMP 2000, necessitated its review
- ✓ In 2017 the National Microfinance Policy 2017 was developed with a view of promoting financial inclusion
- ✓ Priorities included
  - Creating an enabling environment for efficient and effective microfinance sub-sector,
  - Microfinance sub sector to contribute in economic growth, employment creation and poverty reduction;
- ✓ To operationalize the Policy, in 2018 the Microfinance Act was enacted
  - Extended BOT mandate to regulate and supervise Microfinance companies, SACCOS, Financial groups

Financial inclusion

- The idea of “financial inclusion,” emerged as a global priority in the late 2000s.
- Financial inclusion is referred as access and use of affordable and appropriate financial services
- The importance of financial inclusion process in economic development and improved livelihood of Tanzanians
- Dimensions of Financial inclusion include;
  - ✓Access
  - ✓Usage
  - ✓Quality
  - ✓Impact
  - ✓Welfare

Financial inclusion Status



National Financial Inclusion Strategy

- Tanzania has so far developed two Financial Inclusion Frameworks as intervention initiatives to address the financial inclusion challenges
- The first framework was developed in 2014 and the second in 2018
- The first framework had prioritised Access dimension while the second prioritised usage of financial services.
- In 2023 Tanzania is expecting to conduct FinScope Survey and there after develop its third Financial Inclusion Framework.
- The development of the third Framework will be consultative and shall include inputs

Key Priorities in the NFIF 1

- **Proximity:**
  - ✓Enhancing and implementing access channels and creating conducive implementation environment
- **Robust electronic platforms**
  - ✓Facilitating cost effective access to financial services
- **Robust information and easy client on-boarding**
  - ✓ Enhancing use of credit bureaus and Identification (ID) systems
- **Informed customers and consumer protection**
  - ✓Implement financial consumer protection mechanism and financial education strategy.

Key Priorities in the NFIF 2

1. Ensure robust electronic information infrastructure for individual and business profiles
   - Digital Identity Platforms
     - ✓establishment of an effective Know Your Customer (KYC) process.
   - Digital Information Platforms
     - ✓credit reference bureau
     - ✓establishment of a central collateral database.

- 2. Ensure that customers are informed and protected
  - ✓Put in place the Bank of Tanzania Financial Consumer Protection Regulations of 2019; and
  - ✓Implementing the existing Financial Education Framework.

Key Priorities in the NFIF 2

- Encourage design and development of demand-based solutions
- Contributes to drive appropriateness and affordability of products and services by:
- Developing, reviewing and implementing relevant, policy, legal and regulatory frameworks
- Embracing innovation and technology-development and use of digital financial services and innovative service delivery models

Supply Side Determinants of Financial Inclusion

- In adequate physical and communication infrastructure
  - ✓Conducive information, payments and physical infrastructures are critical for access and usage of FS
- Policy, Legal and Regulatory Frameworks
- Robust credit information systems.
- Adequate supply of demand driven product and services
- Market Failures
  - ✓Information asymmetry and lack of competition

Demand side Determinants of Financial Inclusion

- Social- economic and Demographic characteristics
  - ✓ Gender,
  - ✓ Age
  - ✓ Income status
  - ✓ Cultural norms and beliefs
- Financial literacy.
  - ✓ High levels of financial illiteracy
  - ✓ Low level of digital financial literacy
- Lack of Financial Identity/ National ID

Determinants of Financial Inclusion in Tanzania

- Consumer trust and Protection
- Unaffordable Costs of financial Products and services
- Behavioral Characteristics

Limitations for Financial inclusion

- High cost of financial services and products as perceived by consumers
- Lack of comprehensive financial consumer protection legal frameworks
- Financial services is distribution still underdeveloped with a fragmented payments ecosystem that cannot offer low transaction costs commensurate with peoples' levels of incomes
- Limited availability of products and services that low-income people find relevant and intuitive,
- Cash-dominated economy

Way forward

- Strengthen collaboration between public and private sector in implementing national financial inclusion interventions;
- Evaluate NFIF2 and Develop the NFIF 3
- Embrace Fintech and information infrastructures as drivers of FI in the country.
- Conduct Research in the financial sector to facilitate financial inclusion and financial sector development.
- Continue to implement the Financial Sector Development Master Plan

Thanks for listening