RETROSPECTIVE IMPACT ASSESSMENT 2005–2015

Financial Sector Deepening Trust Tanzania

FINAL REPORT
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FSDT

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FSDT RETROSPECTIVE IMPACT ASSESSMENT 2005-2015

ACKNOWLEDGEMENTS

The impact assessment team would like to express its warm thanks to the many people and organisations who gave their time to help with this impact assessment. In particular, FSDT's Board of Trustees, Project Investment Committee (PIC) and Impact Assessment Committee (IAC) commissioned and guided the study. FSDT's Management Team and staff members provided valuable introductions, background material and briefings to support the study team with the assessment.

Additional thanks are due to numerous individuals who actively shared their reflections and insights, and provided key background material and data that informed the impact assessment. This included representatives from the Ministry of Finance, Bank of Tanzania, Ministry of Agriculture, Capital Markets & Security Authority, National Bureau of Statistics, IFC, CreditInfo, TAMFI, Aga Khan Foundation, CRDB MFSCL, NMB, Access Bank, and CARE.

The report also benefited from the findings of the field-based surveys, which were conducted in Temeke, Mbagala, Morogoro, Mbeya, Mwanza, and Pwani. The surveys incorporated interactions with the branch and field staff of a variety of SACCOs, financial service providers, and local financial institutions, and interviews with users of financial services, whose time and insights we gratefully acknowledge.

The PIC and IAC commissioned Oxford Policy Management to conduct independent quality assurance to the study, both in relation to the methodology applied and the draft reports produced by the team.

Most stakeholders we met recognise the urgency, importance and complexity of promoting financial sector development in Tanzania and are working hard to enhance access to finance to rural and urban poor households and businesses. We hope that this report will ultimately lead to a stronger understanding of the issues faced by FSDT and other organisations actively working in Tanzania to promote financial inclusion.

EXECUTIVE SUMMARY

INTRODUCTION

Financial Sector Deepening Trust (FSDT) Tanzania is a market development programme which seeks to systemically change how the financial market works for poor people, and thereby contribute to increased financial inclusion. It began operating in 2005. A budgeted USD 100 million had been allocated by FSDT by the end of 2015.

This report presents the findings of an impact assessment of FSDT's programme of work during the period 2005 to 2015. The purpose of this impact assessment is two-fold:

1. To provide FSDT management with relevant evidence of the impact of FSDT during 2005-15 and to assist FSDT's highest governance body, the Project Investment Committee (PIC), in its planning, prioritisation and implementation of the current programme and future activities.
2. To provide donors with evidence of the impact of their funding and to help them prioritise future investments.

It is also envisaged that the results of the impact assessment will contribute to the broader global debate about assessing and measuring the impact of market development programmes in general and of financial sector development programmes in particular, and help to inform FSDT's prospective impact assessment choices.

The evaluation looks beyond individual interventions to assess whether the programme's impact adds up to more than the sum of its parts, taking into account synergies between interventions, and the collective and cumulative influence that FSDT's body of work has had on the evolution and functioning of market systems for financial products. The findings are set alongside the counterfactual, asking the question: what would have happened had FSDT not been there?

Analytical approach

Our analytical approach has been based on existing best practice on how to evaluate market development programmes, including those working in the area of financial inclusion. The evaluation applies a theory-based approach to investigate causality by focusing on the mechanisms by which change has been achieved. Importantly, it combines project and portfolio analysis with an assessment of how the level and composition of financial services in Tanzania has evolved, to what extent this has contributed to financial inclusion, and the market system factors that led to these changes. This enables an assessment of to what extent changes observed in the financial sector were contributed to by FSDT.

Data sources for the evaluation included key informant interviews, a stakeholder workshop organised as part of the impact assessment, a survey of users of financial services, secondary data and literature, and FSDT literature and monitoring data.

FSDT's theory of change

Because FSDT had no explicit theory of change (ToC) during the evaluation period, the evaluation team constructed a retrospective ToC for the programme.

FSDT identified a number of constraints to financial inclusion which it sought to contribute to addressing through a combination of: (i) capacity building and institution building; (ii) convening, coordination and advocacy; (iii) evidence and information provision; and (iv) financing.

These activities worked to catalyse positive and sustained change at: (i) the macro level to improve the policy, institutional, legal and regulatory framework for financial inclusion; (ii) the meso level to improve business services and market infrastructure for financial service providers (FSPs); and (iii) at the micro level to achieve more and better financial services being available to meet the needs of urban and rural enterprises and households.

Over the period, 60% of funding went to (explicitly) micro projects; over 30% went to meso level projects; and less than 10% on macro level projects. There was a discernible shift in FSDT's portfolio towards macro and meso level projects towards the latter part of the period.

Through its contribution to change at the micro, meso and macro levels, FSDT sought to support improved capacity of the financial sector to meet the needs of both MSMEs and poor men and women. In most cases, FSDT's projects aimed to achieve direct changes within the partner / project. Beyond this, FSDT also aimed to catalyse wider changes in the market system.

The objective of this market level change was to build financial inclusion for MSMEs and poor rural and urban households through: (i) changes in the level and type of sustainable financial services (supply side); and (ii) changes in the level and type of access to, and use of, financial services (demand side).

FSDT's strategy and targeting of market level constraints

Three Strategic Frameworks shaped the portfolio for the period under review: the first, July 2005 to June 2007; the second, July 2007 to July 2012, which actually ran to February 2013, because of delays in finalising FSDT's third Strategic Plan, 2013-2018.

The first FSDT strategy was produced shortly after the Financial Sector Assessment Programme (FSAP) in 2003. It focused on supporting microfinance institutions to achieve greater reach (and was designed to be consistent with the recently published Microfinance Policy), without major involvement in initiatives to address wider constraints identified in the FSAP. This focus was deliberate, with FSDT leaving the World Bank to work with the government to address wider constraints.

The second strategy was developed in the context of the Second Generation Financial Sector Reforms (SGFSRs) covering the period 2006-11. FSDT's strategy during this time was to focus on funding most of the interventions under the Micro and Rural Finance component of the SGFSRs. The other four components of SGFSRs were left to other funding organisations. Following a fundamental review of the strategy in 2008, there was a shift in emphasis to financial sector deepening. This marked the start of a more holistic view by FSDT of the market system and a recognition that the systemic constraints at the meso and macro level were so severe that they were hampering the effectiveness of FSDT's interventions at the micro level. Funding for macro and meso level interventions was increased and FSDT's portfolio was more clearly differentiated by theme, with a shift in focus, moving beyond microfinance to new areas of activity, including agriculture and rural development, SME development, and mobile phone banking and payment systems.

The third strategy envisaged a more market-based approach by FSDT, implying less direct funding of institutions operating in the market to a more facilitative approach targeting specific binding constraints in the market. It considered a broader role for FSDT, partly in response to reduced investment in financial sector development by other donor programmes operating in Tanzania. Beyond access, there was deeper consideration of the use and quality of financial services. The constraints identified in the third strategy are closely aligned with the seven barriers to financial inclusion identified in the NFIF. FSDT has actively sought to address the majority of constraints identified in the strategy in some way. However, the third strategy under-emphasised the growing importance of digital finance, and the particular constraints that exist in this area.

Financial inclusion in Tanzania

The Tanzanian financial sector has experienced phenomenal growth during the evaluation period and there has been a considerable increase in financial inclusion, particularly since 2009, where the proportion of people excluded from financial services has fallen from 55% in 2009 to 27% in 2013. This has come about to a large extent as a result of the rapid growth in digital financial services.

- Comparing FSDT's high-level results to the targets:
- Financial inclusion targets were exceeded, particularly later in the evaluation period.
- Targets relating to credit extended to the private sector as a proportion of GDP were exceeded in 2009. Since then, levels have fallen short of target.
- Performance against targets relating to credit and deposits for SMEs and poor people has been mixed.

The question of the extent to which FSDT contributed the achievement of these results was a key consideration for the impact assessment.

Results of FSDT's projects

A sample of eleven projects was selected for in-depth analysis to test the main impact pathways in the ToC. In terms of achievement against specified targets and wider market-level change, performance was variable.

At the macro level, there is clear evidence to suggest that FSDT's support to policy makers made a significant contribution to improvements in the policy and regulatory environment for financial services. For example, FinScope has been cited as important evidence in the development of several key sector policies and has prompted renewed focus on financial inclusion by the Government and BoT. FSDT support to the National Payment Systems Act also appears to have positively contributed to the development of the financial sector.

At the micro and meso levels, there were also some notable successes. For example:

- By demonstrating success in targeting the MSME market, the creation of Access Bank, which was supported by FSDT, has led several other banks to follow into the market.
- The successful introduction of NMB's Mobile Banking product had a demonstration effect which sped up what has been an important systemic change to the Tanzania's financial sector.

- As a result of the MFS Interoperability Scheme, Tanzania is now a full MNO-interoperable country, a first in the world. Whilst this is currently limited to P2P, since its introduction in mid-2015, there has been a rapid growth in both the value and volume of P2P interoperable transactions.

However, for a number of the micro and meso projects that we reviewed, we found that the results were not sustained, or that they did not achieve replication within the market. Sustainability and replication was particularly questionable for projects that sought to enhance financial inclusion through the subsidisation of institutional models or products that were either not innovative or lacked commercial viability.

Contribution of FSDT's portfolio to market level change

The primary drivers of improvements in financial inclusion during the evaluation period have been: (i) a conducive macro-economic environment; (ii) the commitment by the Government and Bank of Tanzania to financial inclusion and the wider national emergence of an agenda to address financial inclusion; (iii) the pragmatic approach taken by policy-makers and regulators; and (iv) the rapid growth in digital financial services. FSDT has made a significant contribution to many of these drivers.

FSDT has been a key supporter to the Government and BoT in the formulation of new policies, or refinements of existing ones through capacity building initiatives and the provision of evidence and information, and relevant policy briefing. Our analysis and consultations with industry stakeholders suggest that this support has bolstered efforts to provide a sound policy and regulatory environment for financial services; and that FSDT's engagements made a significant contribution to the drive within government and across the wider financial sector to address financial inclusion, particularly during the later years of the evaluation period.

In the area of digital financial services, as innovations emerged, the BoT worked effectively to ensure that regulations kept pace with the evolving market, providing sufficient legal certainty and consistency to support growth, promote financial inclusion, and protect customers. FSDT helped to raise the importance of mobile money to BoT officials and supported a number of initiatives to encourage the development and uptake of digital financial services.

Looking across its portfolio of projects since 2005, we therefore conclude that the effectiveness of FSDT's interventions has been particularly strong in digital financial services and in supporting industry dialogue and policy making – through a combination of technical assistance, evidence generation, and wider facilitation.

At the meso level, our analysis suggests that many of FSDT's earlier interventions in this area centered on innovations in single financial service provider's product offerings and had limited systemic impact or were questionable in terms of sustainability. A more recent shift in FSDT's meso portfolio suggests increasing focus on supporting wider market-level change.

The contribution of the informal and semi-formal sector to financial inclusion remains considerable. However, this sector has encountered severe problems in relation to governance, management and institutional capacity. FSDT's significant investments this area have had a very mixed track record and their contribution to market wide change has been limited. This has only been achieved where FSDT has supported the successful introduction of innovative models which have provided a demonstrable effect to others active in the market.

FSDT's effectiveness in tackling gender issues

There is a significant gender disparity in financial inclusion in Tanzania. The degree to which FSDT's strategy documents explicitly focus on addressing women's financial inclusion varies: whilst the second strategy is silent about gender issues, the first and third strategies do emphasise the importance of specifically targeting women.

Reviews undertaken during the evaluation period have consistently highlighted the need for FSDT to target women more effectively, and emphasised that FSDT's M&E should analyse the differential impact of its projects on women and men better.

Links between improving access to financial services and reductions in poverty

The ToR for the evaluation stated that the study should focus on the impact that FSDT's programme has had on financial access. Undertaking a detailed and in-depth review of the relationship between improved financial access and poverty reduction was therefore outside the scope of the research.

Nonetheless, through a review of available policy and academic studies, the evaluation team has identified good evidence to suggest that where FSDT has contributed to enhanced financial inclusion, this should contribute to poverty reduction in Tanzania, as long as it is implemented alongside other policies (beyond the financial sector) which ensure that economic growth is inclusive (i.e. benefits enjoyed by a wide section of society). In itself however, this does not provide evidence to make a specific claim that some proportion of the recent reduction in poverty could be attributed to FSDT.

Recommendations of relevance to FSDT and other organisations supporting financial sector development

Working with Government institutions on macro level issues: FSDT has and should continue to capitalise on the generally strong reputation and relationships that it has built with the financial community and Government – particularly with regard to the research, information generation, and technical assistance that it has provided to support the introduction of new policies, laws and regulations to develop the financial sector.

- When engaging in promoting policy, legal and regulatory reforms, FSDT should:
- Where possible, clearly delineate the roles of specific agencies and stakeholders involved.
- Focus on constraints that have been prioritised by a recognised relevant authority.
- Acknowledge the risk that policy-level change is complex and takes time.

Achieving systemic impact: FSDT should more explicitly target market systems change in all of its interventions and track this more effectively in its monitoring system. A market development approach seeks to facilitate innovation and change – this implicitly requires risk taking (and instances of failure should therefore be expected as part of a portfolio approach). It requires that FSDT must be nimble and responsive, adapting to evolving market dynamics and lessons learned from the interventions it pilots.

Micro level work: Where micro level work is undertaken, we recommend greater clarity around the logic for such work. The logic is that FSDT support to market actors will catalyse and expand an identified innovation in the market. In designing interventions, this requires FSDT to identify innovations that are relevant beyond the individual firms pioneering them: innovations that will generate externalities with the potential to cause other actors to replicate.

Prioritising sustainability: In the design and implementation of its interventions, FSDT needs to pay special attention to the sustainability of the changes it is promoting. This means acting as facilitator, working with market actors to encourage them to adopt and run with changes, and 'right-sizing' subsidy to ensure partner ownership. FSDT's exit has to be properly thought through, made clear and agreed before interventions start.

Engagements in the informal and semi-formal sectors: Given the important role that the informal and semi-formal market segment plays in contributing to financial inclusion, FSDT should continue to look for opportunities to support the strengthening of its performance. To achieve this, interventions at the macro and meso levels, particularly those that seek to strengthen the regulatory environment for this sector, are important to contribute to sustained and market-wide improvement.

More due diligence should be placed on assessing the enabling environment, including the regulatory barriers that impact on the development of FSPs, and the level of risk this poses for projects in the informal and semi-formal sectors.

Recommendations of specific relevance to FSDT

Better definition of projects and understanding of work at the meso level: It is important that the future design and selection of FSDT's meso interventions should include deeper analysis of underlying market constraints and a strategy for how these will be addressed, whilst avoiding market distortions.

Research: Going forward, we recommend that a cogent research strategy is developed by FSDT, based on structured arrangements involving thematic leads, the research function and M&E, informed by emerging trends in the market, un-addressed constraints and demographic and geographical priorities.

Recommendations relating to M&E and impact assessment

Theory of change: Develop and formalise a theory of change for FSDT, which should form the bedrock of FSDT's strategy and measurement system. The ToC should be interrogated on a regular basis, informed by regular market analysis of the systemic constraints to financial sector development. At the project level, nested results chains should form the basis of developing indicators for monitoring, enabling FSDT to more effectively measure and report on results achieved throughout its intervention logic.

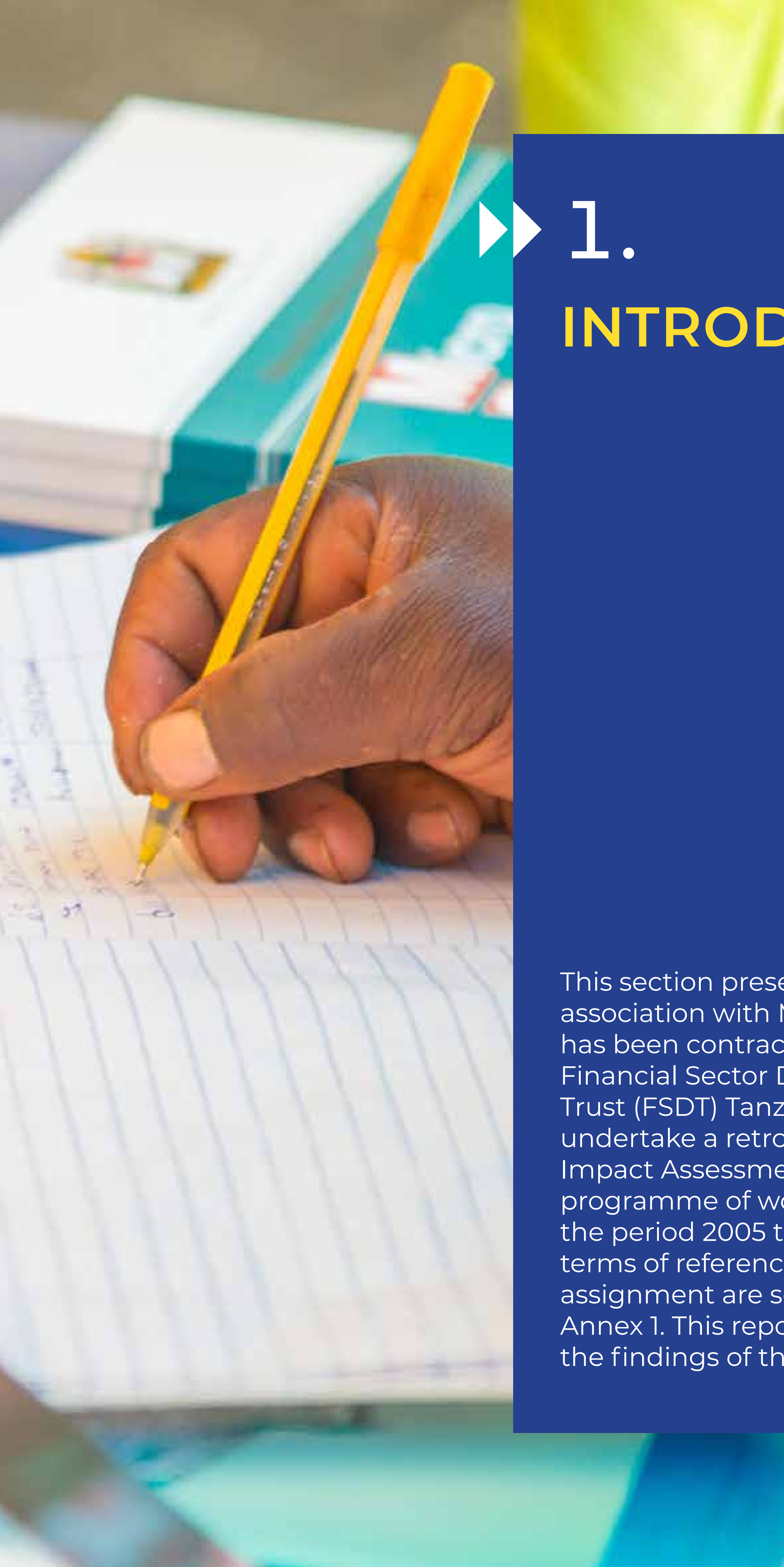
Programme adaptation and reflection cycles: Build in a more formal cycle of implementation and reflection to improve programme adaptation and build a robust evidence base for what is causing change in the financial sector.

Measurement lens: FSDT's measurement lens should be recalibrated, moving beyond a focus on end numbers (such as level of financial access) to how underlying structures, behaviours and incentives of the market have changed to support FSDT's end goal of financial inclusion and poverty reduction. This will help to ensure that FSDT's interventions and strategy remain relevant to evolving market dynamics and that it is better able to tell an accurate 'contribution story'.

ACRONYMS

2GFSRP	Second Generation Financial Sector Reform Program
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AgFiMS	Agricultural Finance Markets Scoping
AGR	Agriculture & Rural Finance
AGRA	Alliance for a Green Revolution in Africa
AML	Anti-Money Laundering
ATM	Automated Teller Machine
ATS	Automated Trading System
BEAM	Building Effective and Accessible Markets
BMGF	The Bill and Melinda Gates Foundation
BoT	Bank of Tanzania
CBT	Community-Based Trainer
CC	Cross Cutting
CCM	Chama Cha Mapinduzi
CDC	Commonwealth Development Corporation
CEA	Cost Effectiveness Analysis
CEO	Chief Executive Officer
CFT	Combatting the Financing of Terrorism
CGAP	Consultative Group to Assist the Poor
CHF	Community Health Fund
CICO	Cash-In/Cash-Out
CIDA	Canadian International Development Agency
CMSA	Capital Markets and Securities Authority
CNFA	Citizen Network for Foreign Affairs
CRDB	A bank that was earlier known and Cooperative and Rural Development Bank. Since reforms, it is known as CRDB.
DANIDA	Danish International Development agency
DAWASCO	Dar es salam Water and Sewerage Corporation
DCED	Donor Committee for Enterprise Development
DFATD	Department of Foreign Affairs, Trade and Development (Canada)
DFID	Department for International Development (UK)
DFS	Digital Financial Services
DID	Development International Desjardins
DSE	Dar es Salaam Stock Exchange
EGM	Enterprise Growth Market
EIB	European Investment Bank
FGD	Focus Group Discussion
FICO	Financial Cooperative
FINCA	Foundation for International Community Assistance
FISEDA	Financial Services and Enterprise Development Association
FOSA	Front Office Service
FSDA	Financial Sector Deepening Africa
FSAP	Financial Sector Assessment Programme
FSDT	Financial Sector Deepening Trust Tanzania
FSP	Financial Service Provider
FSS	Financial Self-Sufficiency
GDP	Gross Domestic Product
GFA	Guarantee Framework Agreement
GoT	Government of Tanzania
IA	Impact Assessment
1A1S	International Assoication of Insurnce Supervisors
IDA	International Development Association
IIC	Inter-Institutional Committee
IMF	International Monetary Fund
KfW	Kreditanstalt fÜr Wiederaufbau
KYC	Know Your Customre
LDM	Licensed Dealing Members
LIC	Low income Country

M4P	Making Markets Work for the Poor
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFC	Microfinance Companies
MFS	Mobile Financial Services
MFI	Microfinance Institution
MFP	Microfinance Providers
MFSCL	Microfinance Service Company Limited
MKUKUTA	Kiswahili acronym for the National Strategy for Growth and Reduction of Poverty
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge (Tanzania Property and Business Formalisation Program)
MKUZA	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar
MNO	Mobile Network Operator
MoF	Ministry of Finance
MISME	Micro, Small and Medium Enterprise
MTR	Mid Term Review
NBS	National Bureau of Statistics
NHIF	National Health Insurance Fund
NIC	National Insurance Corporation
NIP	National Insurance Policy
NFIF	National Financial inclusion Framework
NGO	Non-Gorvenmental Oraganisation
NMB	National Micro Finance Bank
NMP	National Mircorfinance Policy
NPL	Non-Performing Loan
NPS	National Payment Systems
NSGRP	National Streategy for Growth and REduction of Poverty
ODA	Overseas Development Assistance
OPR	Output to Purpose Review
OSS	Open Source Software
P2P	Peer-to-Peer
PAR	Portfolio At Risk
RAG	Red, Amber, Green
RCT	Randomised Control Trial
RFSS	Rural Finance Services Strategy
RNE	Royal Netherlands Embassy
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Cooperative
SADC	Southern African Development Community
SCC	Swedish Cooperative Centre
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SEDA	Small Enterprise Development Agency
SGFSRP	Second Geernation Financial Sector Reform Programme
SIDA	Swedish Interantional Development Cooperation Agency
SIM	Subscriber Identification Module
SME	Small and Medium Enterprise
SP	Strategic Plan
STF	Stakeholder Taskforce
TA	Technical Assistance
TAMFI	Tanzania Association of MFIs
TANU	Tanganyika African Union
TASAF	Tanzania Social Action Fund
TCRA	Tanzanian Communication Regulatory Authority
TISS	Tanzania Inter-bank Settlement System
TIRA	Tanzania Insurance Regulatory Authority
ToC	Theory of Change
ToR	Terms of Reference
TZS	Tanzanian Shillings
USD	United S
USAWA	Umoja wa SACCOs za Wakulima
VICOBA	Village Community Bank
VSLA	Village Savings and Loan Association



1.
INTRODUCTION

This section presents Itad, in association with MicroSave, has been contracted by the Financial Sector Deepening Trust (FSDT) Tanzania to undertake a retrospective Impact Assessment (IA) of its programme of work during the period 2005 to 2015. The terms of reference for the assignment are set out in Annex 1. This report presents the findings of the IA.

The drivers for this IA include: the interests of FSDT's funders to show Ministers and, through them their electorates, that investment of donated money in financial sector development does contribute to the mission of developing financial markets that work better for the poor. Secondly, recent studies have highlighted shortcomings in the evidence base for the development impact of microfinance. In addition, there is greater realisation that poor people need a diversity of financial products (not just micro credit) and the focus is therefore increasingly on a broader range of financial inclusion. Concurrently, there has been extensive debate over the appropriate questions and methodologies that should be used for evaluating financial sector programmes (and projects), and market development programmes more generally, and the metrics needed for effective monitoring.

Finally, and just as importantly, FSDT management wants to better understand the impacts of their investments so that they can respond and adapt accordingly through a more efficient allocation of resources and effective delivery of the interventions.

The intended audiences for this IA therefore include:

- FSDT's funders, board, management and staff.
- The Government of Tanzania, particularly the Bank of Tanzania, Ministry of Finance, and Tanzania National Council for Financial Inclusion.
- Financial service providers in Tanzania, including existing partners of FSDT.
- Other donors promoting financial inclusion in Africa.
- Other Financial Sector Deepening Trusts in Africa implementing similar programmes to FSDT and the umbrella organisation FSD Africa.
- The wider evaluation/impact assessment community of practice.

The team began work in November 2015 and concluded its field work in April 2016. The work was undertaken alongside a Mid Term Review (MTR) of FSDT's programme from 2013-2018, which was also undertaken by Itad. The findings of the MTR are presented in a separate report.

The remainder of this IA report is structured as follows:

Section 2 presents the context, providing a brief overview of the financial sector in Tanzania and of FSDT's operations.

Section 3 presents the methodology for the IA, including its objectives and challenges; the analytical approach; the approach to assessing contribution; and the evaluation framework and data sources.

Section 4 provides an overview of FSDT's strategy and high-level results during the evaluation period, FSDT's theory of change, a summary of the range of areas covered by the project portfolio, and an assessment of FSDT's effectiveness in tackling gender issues.

Section 5 presents our analysis of the impact of eleven FSDT projects selected for detailed analysis.

Section 6 draws together the analysis from the evaluation and presents its findings under eight separate headings, which correspond with the evaluation questions.

Section 7 concludes the report by setting out lessons and recommendations, in relation to strategy and programming; and the M&E system and impact assessment.

The report contains ten annexes as follows:

- **Annex 1.** Terms of reference
- **Annex 2.** Micro-level findings
- **Annex 3.** Meso-level findings
- **Annex 4.** Macro-level findings
- **Annex 5.** Links between financial services and poverty
- **Annex 6.** Evolution of financial services in Tanzania
- **Annex 7.** User survey results
- **Annex 8.** References
- **Annex 9.** Key informants
- **Annex 10.** Cost effectiveness analysis

2. CONTEXT

This section provides the background of the institution and country in which the retrospective impact assessment was undertaken.

2.1 THE FINANCIAL SECTOR IN TANZANIA

The Tanzanian financial sector has experienced phenomenal growth since its liberalisation in the 1990s. The ratio of bank deposits to GDP has steadily increased and there has been a gradual rise in the level of domestic credit to the private sector between 2000 and 2013. There has been a considerable increase in financial inclusion, from 55% excluded in 2009 to 27% in 2013, with a rapid roll-out of digital financial services playing an important part. Formal access using bank products has increased from 9% to 14% while formal access using non-bank products has also increased from 7% to 44%.

The Government of Tanzania and Bank of Tanzania have made concerted efforts to strengthen the policy and regulatory framework for the financial sector. A significant step was the launch of the Second Generation Financial Sector Reform Programme (SGFSRP) in 2008, which set out an extensive range of financial sector reforms for Tanzania. More recently, the Government's National Financial Inclusion Framework (NFIF) has seen Tanzania ranked as the top of African country for financial inclusion[1], with the Bank of Tanzania setting a target of 70% access to formal financial services by 2017 with mobile financial services and agency banking as core enablers.

2.2 FSDT TANZANIA

Financial Sector Deepening Trust (FSDT) was registered in Tanzania as an independent Trust on 1 July 2004 and commenced operations in 2005. FSDT aims to support the development of a capable and sustainable financial sector to meet the needs of micro, small and medium enterprises (MSMEs) and poor men and women, and to contribute to economic growth[2]. It is a market development programme which seeks to systemically change how the financial market works for poor people. Among its objectives are to:

- Support improvements in the policy, legislative and regulatory framework affecting delivery of services.
- Support initiatives aimed at improving financial market integration such as access to wholesale forms of finance by financial service providers.
- Provide funding to support the development of new financial products and solutions that address the needs of poor households and micro and small enterprises.
- Support initiatives aimed at enhancing the supply of appropriate business services to financial service providers in Tanzania.

The funders of FSDT for the period covered by this impact assessment were: Danish International Development Agency (Danida): Department of Foreign Affairs, Trade and Development (DFATD) Canada (previously CIDA); Department for International Development (DFID) United Kingdom; Swedish International Development Agency (SIDA); the Embassy of the Kingdom of Netherlands until June 2013; and Government of Tanzania through an IDA credit from the World Bank (until June 2012). The Bill and Melinda Gates Foundation (BMGF), began funding FSDT in June 2013.

A budgeted USD 100 million had been allocated by FSDT by the end of 2015.

1. http://www.dailynews.co.tz/index.php/home-news/47080-tanzania-takes-top-financial-inclusion-spot-in-africa
2. Its mission is to *"generate sustainable improvements in the livelihoods of poor households through reduced vulnerablity to shocks, increased incomes and employment achieved through providing greater access to financial services for more men, women and enterpirse"*.

3. METHODOLOGY

This section presents the methodology for the impact assessment, including its objectives and challenges; the analytical approach; the approach to assessing contribution; and the evaluation framework and data sources.

3.1 OBJECTIVES AND CHALLENGES OF THE IMPACT ASSESSMENT

Purpose

The purpose of this impact assessment (IA) is two-fold:

1. To provide FSDT management with relevant evidence of the impact of the FSDT programme during 2005-15 and to assist FSDT's highest governance body, the Project Investment Committee (PIC), in its planning, prioritisation and implementation of the current programme and future activities.
2. To provide donors with evidence of the impact of their funding (to confirm results of their investments and meet their reporting needs), and to help them prioritise future investments (particularly with regards to market development).

Recent studies have highlighted shortcomings in the evidence base for the development impact of microfinance[3]. In addition, there is greater realisation that poor people need a diversity of financial products (not just micro credit) and the focus is therefore increasingly on a broader range of financial inclusion. Concurrently, there has been extensive debate over the appropriate questions and methodologies that should be used for evaluating financial sector programmes (and projects), and market development programmes more generally, and the metrics needed for effective monitoring.

Assessing impact

The main aim of this evaluation is to assess the impact that FSDT as a programme, has had on financial access in Tanzania over the period 2005-15. Three Strategic Frameworks shaped the portfolio for the period under review: the first, July 2005 to June 2007[4]; the second, July 2007 to July 2012, which actually ran to February 2013, because of delays in finalising FSDT's third Strategic Plan, 2013-2018.

By June 2012 - the official end of the second strategic plan - the programme had financed 39 interventions at the macro, meso and micro levels, with 23 completed, and 17 projects ongoing and transiting into the next strategic framework. During 2013-15, a total of 31 projects were funded.

This body of projects provides the foundation for this evaluation. It looks beyond individual interventions to assess whether the programme's impact adds up to more than the sum of its parts, taking into account synergies between interventions, and the collective and cumulative influence this body of work by FSDT has had on the evolution and functioning of private-sector market systems for financial products.

The term 'impact' is often used in logframes as a synonym for 'ultimate goal' - the final desired results of a programme of activities. In the case of the FSDT this would mean a reduction in poverty through improving market systems. However, this is not how the term is defined and used in this evaluation. Impact here is seen as any results, ranging from changes in the functioning and efficiency of the market to fundamental changes in its dynamics and in the way it is structured. This ranges from changes in demand and supply (micro-level), to changes in the infrastructure and supporting services of the market (meso), and to changes in the policies, rules and institutional norms governing the sector (macro-level). Hence the focus of this impact assessment is on all changes stimulated in the financial services market, from the transactional to the transformational.

Secondary objectives

It is also envisaged that the results of the IA will contribute to the broader global debate about assessing and measuring the impact of market development programmes in general, and of financial sector development programmes in particular, and help to inform FSDT's prospective IA choices.

Two secondary objectives of the IA are therefore to:

- Provide lessons for prospective IAs, with particular reference to gaps in data and in measuring FSDT impacts beyond access to finance (i.e. financial inclusion and welfare). This includes recommendations about how the FSDT

3. See Duvendack M, Palmer-Jones R, Copestake J, Hopper L, Loke Y and Rao N (2011) What is the Evidence of the Impact of Microfinance on the Well-being of Poor People? DFID Systematic Review, University of East Anglia, and , Stewart, R, Van Rooyen C, Dickson K, Majoro M and De Wet T (2010) What is the Impact of Microfinance on Poor Poeple? A Systematic Review of Evidence from Sub Saharan Afica, Technical Report, London, EPPI-Centre, Social Science Research Unit, Universtity of London.
4. The first strategic framework, 2005 to 2007 ws a revision of the original foundational lstrategy of 2003. This was necessary in the light of the evolution of the porgramme from a multi donor, pooled fund initative to the establishemnet of FSDT as an independant locally incorporated Trust Fund supported byu external donors, and the Gorvernment of Tanzania.

monitoring and evaluation (M&E) system could be improved.
- Identify which financial sector indicators could be monetised to provide relevant measures of cost-effectiveness, to aid FSDT's value for money (VfM) measurement.

Challenges

There are a number of well-documented challenges in assessing the impact of market development programmes such as FSDT[5]:

- A market development approach to stimulating change in any development process does not result in many 'hard' outputs i.e. outputs directly produced by FSDT interventions that can be measured definitively.
- A market development approach provides a means to facilitate a process of change, but it cannot be expected to supply beforehand any detailed statement of the precise activities and events that will eventually emerge from that process.
- An influencing agenda is by definition part of a process that necessarily involves other players; so attributing the 'success' to any one or any group of contributing players is invariably judgmental and can be difficult.
- The market development approach is based upon a theory of change (ToC) that involves complex impact pathways operating both directly and indirectly, and at every level of the financial sector, which makes it difficult to distinguish between groups that are "treated" and "untreated".

The impact trajectory of interventions may also not be linear, which means that assessing impact at one point in time may provide a false impression of true impact.

For these reasons, simply looking at the results reported by FSDT against indicators in its results framework are insufficient to provide a balanced assessment of the role that FSDT has played in contributing to these results, and the range of other factors that have come into play. The findings from the IA are set alongside the counterfactual, asking the question: what would have happened had FSDT not been there? What would have happened without the programme?

Other challenges that the evaluators faced in completing this IA included:

- FSDT did not have an explicit theory of change underpinning its work during the evaluation period. And until relatively recently, it had not undertaken a systematic analysis of market level constraints and identified how its interventions would address them.
- FSDT has not undertaken any impact assessment (IA) work to date and, hence, did not have either a baseline defining the pre-project condition of its intended beneficiaries, or project-level impact assessment material that could be reviewed to establish the impact of the programme as a whole.
- At the project level, FSDT's design documents did not always set out an explicit strategy for FSDT's interventions (including a theory of change or results logic). Historical monitoring data reviewed by the evaluation team was at times incomplete and the filing of relevant documentation over the ten year period had limitations. Moreover, due to the recent high turnover of FSDT staff, institutional memory within the organisation has weaknesses.
- FSDT had a portfolio of 73 projects over the evaluation period. Due to limited resources available for the evaluation, the team was only able to undertake a detailed assessment of the impact of 11 projects. Whilst the 11 projects were selected to illustrate the range of initiatives funded by FSDT, this sample is not representative. The review of the remainder of the portfolio was necessarily light touch.
- Limited data has been collected by FSDT to measure its systemic market influence, including impacts beyond the institutions it directly supports (e.g. crowding in, competition, replication of products etc.). Whilst the potential systemic impacts from individual projects are sometimes identified ex-ante they are rarely tracked and measured.
- Within institutions (e.g. Government departments, banks etc.) that FSDT has supported, the institutional memory was at times weak and in some cases non-existent, due to staff turnover and mobility, changes in context and recipient organisations receiving multiple sources of support.

Our analytical approach, outlined in the remainder of this section, sets out how the evaluation was undertaken, in order to address these challenges.

5. See, for example: (i) Ruffer, T and Wach, E. (2013) Review of Making Markets Work for the Poor (M4P) Evaluation Methods and Appproaches, DFID Working Paer 41; and (ii) Arora, S, Stone, R and Roe, A. (2012) Assessing Value for MOndey - The case of donor support to FSD Kenya, Working Paper. Oxford Policy Management.

3.2 ANALYTICAL APPROACH

Theory-based evaluation

FSDT is a 'market systems' or M4P programme. M4P has been defined as *"an approach to developing market systems that benefit poor people, offering them capacities and opportunities to enhance their lives. Building on a detailed understanding of market systems and a clear vision of the future, M4P allows agencies to address identified systemic constraints and bring about large-scale and sustainable change"*[6].

Our analytical approach has been based on existing best practice on how to evaluate market development programmes, including those working in the area of financial inclusion[7]. The evaluation applies a theory-based approach to investigate the issue of causality by focusing on the *mechanisms* by which change has been achieved.

FSDT seeks to facilitate change at the macro, meso and micro levels (as depicted in Figure 1) and thereby contribute to improvements in the functioning of the market system that will lead to increases in financial inclusion and financial sector development. This in turn will lead to economic growth and poverty reduction (FSDT's theory of change is further elaborated below in Section 4.3). By focusing on the mechanisms through which this process of change occurs, a theory-based approach to evaluation provides the basis for linking together the different types of change that are observed at each level into a coherent framework.

An important aspect of market systems evaluations is to open up the 'black box' to understand why and how particular interventions work. The complexity of market systems means that we need to understand how the programme has interacted with other factors to achieve change. Theory-based evaluation provides the basis for doing this.

The starting point for a theory-based evaluation is the programme's theory of change (ToC). The ToC for a programme sets out a hypothesis explaining how the interventions that make up a programme are expected to achieve their desired outcomes.

While there is no universally agreed definition for the term 'Theory of Change', the two quotations below encapsulate the way in which the concept is understood and generally used in evaluation literature:

Every programme is packed with beliefs, assumptions and hypotheses about how change happens – about the way humans work, or organizations, or political systems, or eco-systems. Theory of change is about articulating these many underlying assumptions about how change will happen in a programme.[8]

A set of assumptions about how an intervention achieves its goals under what conditions.[9]

Combining 'Outward-In' with 'Inward-Out' analysis

Theory-based approaches typically analyse the extent to which an intervention has led to market level change, and then the extent to which this change has led to impacts on programme beneficiaries through improved access to services or economic growth. This 'inward-out' perspective attempts to track changes from the start of the theory of change (inputs/interventions) through to final impacts.

However, there are potential problems with using only this inward-out approach. For example, it may be difficult to make connections between specific interventions and changes in the broader market and sector, given the multitude of other influences at work (i.e. there is a risk of what has been described as what has been 'self-importance bias' - over-attributing changes to the actions of the programme).

Furthermore, when a programme has several interventions that together are aimed at achieving pro-poor growth or improved access to basic services in a market, it can be challenging to assess the relative contribution of each intervention and the extent of either synergies or overlaps between the interventions.

These shortcomings can be addressed by combining an 'inward-out' approach with one that is 'outward-in', as illustrated in Figure 2. An 'outward-in' approach analyses how changes at the programme logframe's impact level (poverty reduction) or outcome level (improved access to financial services) were caused by changes in market system dynamics.

Combining Outward-In with Inward-Out analysis

6. FSDT: Our work 2005-12
7. See, for example: (i) BEAM. Exchange (2016), Impact Evaluation for Markets Systems Programmes; and (ii) FSD Africa (2016), Developing an Impact-Oriented Measurements System: A Guidance Paper fo Financial Sector Deepening Programmes.
8. Vogel I., *Review of the use of 'Theory of Change' in International Development,* April 2012, p.4.
9. Stern E., Stame N., Mayne J., Forss K., Davies R., and Befani B. *Broadening the Range of Designs and Methods for*

implies a three-step approach:

- **Step 1: Inward-Out Analysis.** An assessment of how a sample of FSDT projects, selected to be representative of FSDT's portfolio, have led to market level change in terms of growth or deepening of the sector. This analysis tracks changes from the start of the theory of change (inputs/interventions) through to impacts.[10]
- **Step 2: Outward-In Analysis.** An analysis of the development of the financial sector during the evaluation period. It tracks how the level and composition of financial services in Tanzania has evolved, and the market system factors that led to these changes.[11]
- **Step 3: Compare and triangulate results.** An overall contribution narrative of FSDT's impact is developed by triangulating the findings from Step 1 and Step 2 – assessing to what extent changes in impact observed in the financial sector were contributed to by FSDT's interventions.[12]

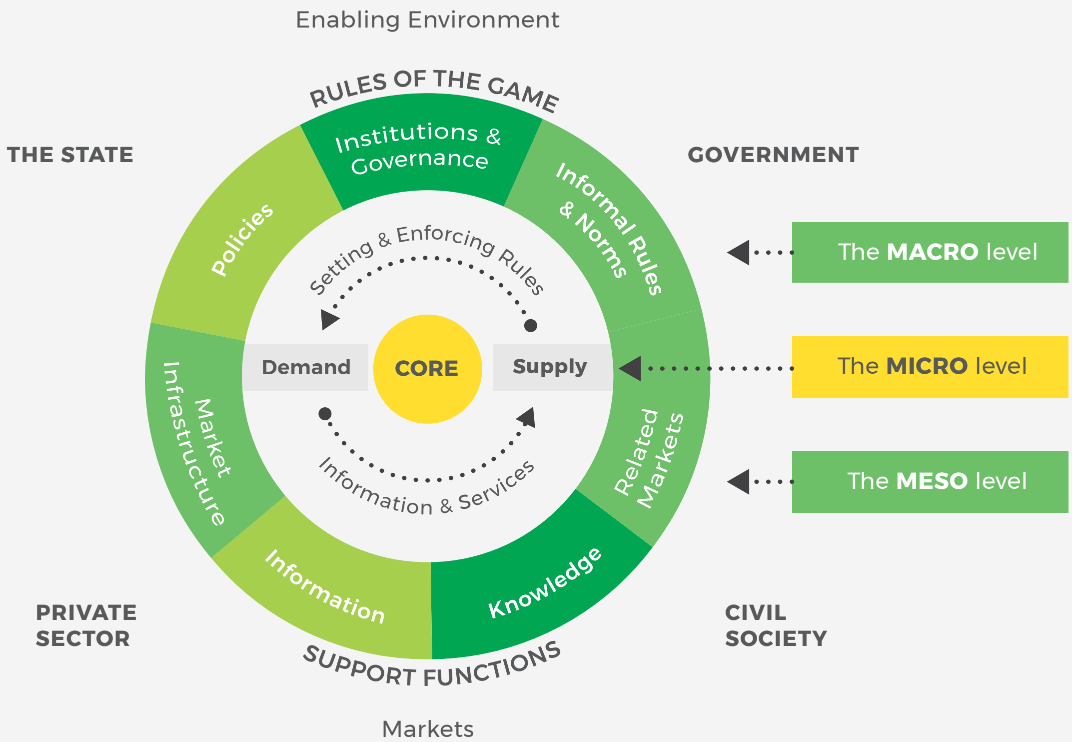
3.3 ASSESSING CONTRIBUTION

Defining a credible basis for claiming impact was of central importance to the design of this evaluation. Our methodology is centred on a theory-based analytical approach. In considering alternative methodologies, it was clear that experimental (e.g. randomised controlled trial) or statistical methods that *attribute* a particular degree of change to the programme would not work at the level of the programme as a whole (there is no appropriate 'control' group with which to compare the Tanzanian financial services sector for instance). At intervention level, baseline data was not available to undertake an analysis using 'before and after' comparisons. Apart from the very significant resource costs, experimental methods that use a control group would also be subject to the difficulties regarding self-selection bias and contamination effects. They are also not suited to assessing the wider market

Impact Evaluations, DFID Working Paper 38, April 2012, p.25.

10. The results of this analysis are presented in Annexes 2-4 and summarised in Section 5.
11. The results of the Outward-In analysis are presented in Annex 6 and summarised in Section 6.1.
12. This is presented in Section 6.

Figure 1. The M4P framework applied by FSDT



Source: FSDT: Our work 2005-12

system impacts to which FSDT sought to contribute.

Our approach to assessing impact has focused on assessing the contribution that FSDT has made to changes in the functioning of the sector and to improved access to financial services. The starting point was to compare the theory of change against the evidence in order to explore the contribution that FSDT's projects (and the programme as a whole) have made to observed outcomes. An essential consideration is understanding that effects are produced by several causes at the same time, none of which might be necessary or sufficient for impact. Examining how the programme has made a difference will therefore include considering supporting factors and looking at a combination of causes.

In each case we reviewed a wide range of qualitative and quantitative information about the intervention, and outcomes with which it was associated. We then worked backwards from the outcome to develop a plausible contribution analysis about impacts, for each of the interventions that we reviewed in detail, and for the programme as a whole.

Using this approach, the assessment of impact compared to what might otherwise have been expected to happen (the counterfactual) was established through careful consideration of whether the evidence from primary and secondary sources supports a judgment of contribution.

3.4 EVALUATION FRAMEWORK AND DATA SOURCES

Our Methodology is framed to answer as seriers of evaluationi questions, which were agreed with FSDT[13]. Table 1 below sets out these evaluation questions, the methods applied for answering each question, and the data sources applied.

We set out below the approach to data collection analysis that was taken to the impact evaluation.

13. A list of evaluation questions was initially provided in the terms of reference for the impact assessment (see Annex 1). These were revised following the inception phase of the evaluation and approved with the inception report.

Figure 2. Assessing program impact through inward-out, and outward-in analysis

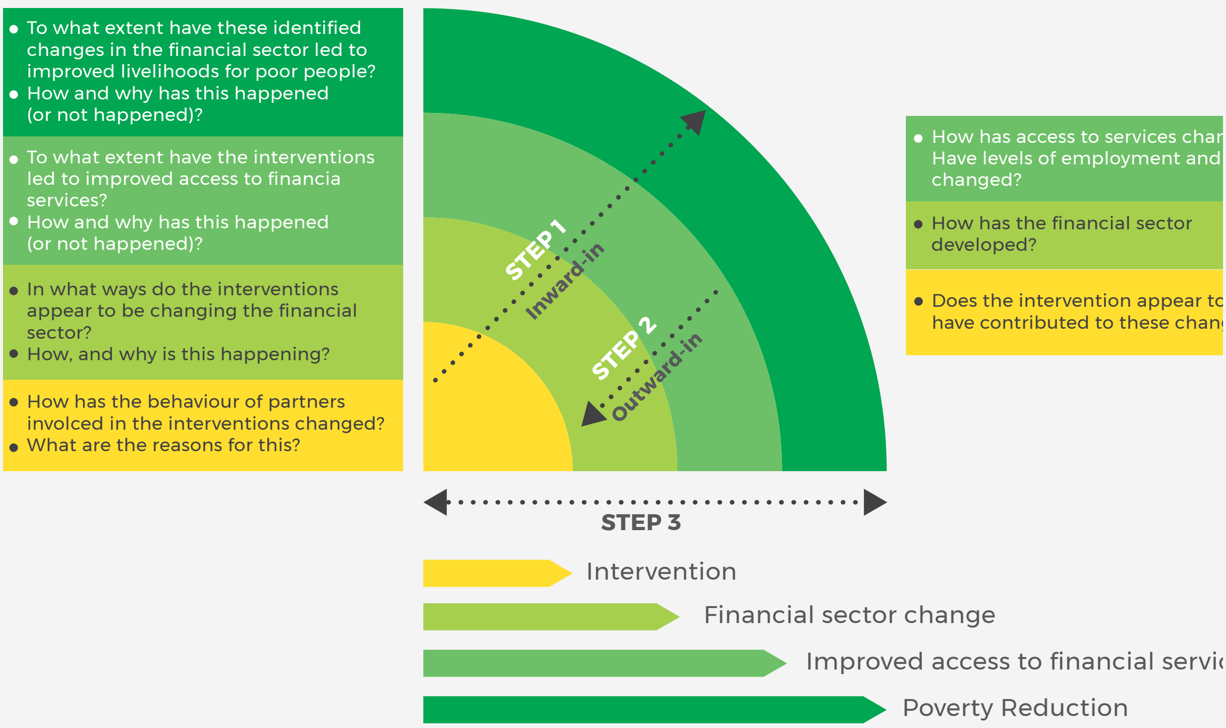


Table 1. Evaluation Framework

EVALUATION QUESTION	METHOD FOR ANSWERING THE QUESTION	DATA SOURCES	SECTION IN REPORT WHICH ADDRESSES THE EVALUATION QUESTION
1. What have been the most significant changes in the structure and operations of the financial sector during the evaluation period? To what extent have they benefited the poor? Have they been sustained?	Outward-in analysis based on assessment of wider trends	Secondary data and literature, including sector studies and reviews, and sector indicators Interviews and workshop with market stakeholders	6.1
2. Were the key constraints in the market system targeted? What have been the mechanisms for change at the macro, meso and micro levels? How have these corresponded to what was intended?	Analysis of eleven selected projects, compared to the reconstructed ToC Assessments of key market constraints during the evaluation period Review of FSDT strategies and portfolio	Project documents and monitoring data Key informant interviews User surveys Secondary data and literature, including sector studies and reviews, and sector indicators FSDT strategy documents	6.2
3. To what extent has the implementation of FSDT's projects had the intended results?	Analysis of selected eleven projects, using contribution analysis	Project documents and monitoring data Key informant interviews User surveys	6.3
4. Did FSDT deliver a systemic (large-scale) impact beyond the programme's direct sphere of influence? If so, how?	Combined results from the inwards-out analysis of selected projects Outward-in analysis based on assessment of wider trends	Reviews of the impacts for the eleven projects Project documents and monitoring data, key informant interviews User surveys Secondary data and literature, including sector studies and reviews, and sector indicators	6.4
5. What were the unintended consequences (positive and negative) of FSDT's actions?	Analysis of eleven selected projects	Key informant interviews	6.5
6. To what extent has FSDT contributed to market-level change?	3-step process combining Outward-In and Inward-Out analysis	Combined results from the inwards-out analysis of selected projects Outward-in analysis based on assessment of wider trends	6.6
7. In which market segments has FSDT had greater success in achieving its objectives? What lessons can be learnt from this? How has this impact been achieved?	Analysis of eleven selected projects Review of FSDT strategies and portfolio	Analysis of eleven selected projects FSDT strategy documents	6.7
8. What are the links between improving access to financial services, and reductions in poverty?	Review of secondary literature	Review of secondary literature	6.8

Data sources

The data sources for the evaluation included:

- Key informant interviews. A list of people consulted is provided in Annex 9.
- A workshop organised as part of the impact assessment which drew nearly 100 participants, including a wide range of market actors and representatives from key government ministries, departments and agencies responsible for policy and regulation.
- Survey of users of financial services (see Annex 7).
- Secondary data and literature. References are provided at relevant points throughout this report. Additional literature used is listed in Annex 8.
- FSDT literature and monitoring data.

Key informant interviews

Intensive interviews and discussions were held with FSDT staff and members of the FSDT Project Investment Committee (PIC). The evaluation team conducted interviews and focus group discussions with senior staff with direct experience of interventions supported by FSDT. Detailed interview guides were prepared in advance to ensure that relevant information and perspectives were gathered.

Workshop

The workshop considered the key barriers to the development of the financial sector, with a particular focus on SME finance, digital financial services, agriculture and rural finance, and insurance, as well as the forces and actors that have shaped the financial services sector over the last 10 years. This included an open discussion amongst participants on the role that FSDT has played in the development of the sector during the evaluation period.

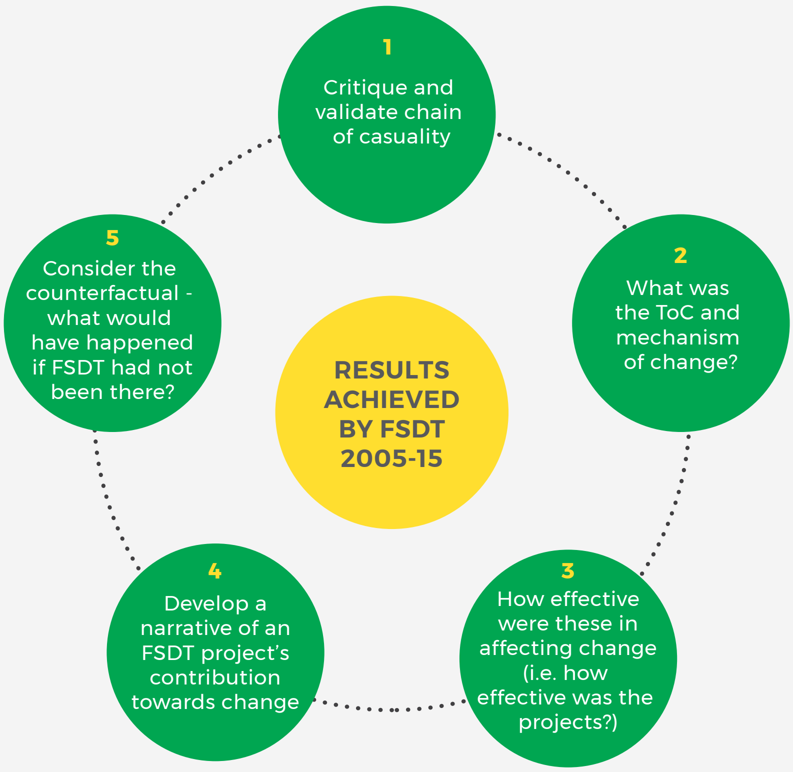
Survey of users of financial services

Interviews were held with three groups:

- Officers and managers of the financial providers that FSDT has supported.
- Clients/users of these financial services providers. The interviewees included owners of MSMEs.
- Non-user groups (users of financial services provided by institutions that had not received FSDT support) to provide a basis for comparison.
- Users of the financial services were interviewed with two objectives[14]:

14. A more detailed outline of the methodology and results of the user survey is provided in Annex 7.

Figure 3. The M4P framework applied by FSDT



Source: FSDT: Our work 2005-12

- To seek information on impact in their household as a result of the use of savings and credit services.
- To generate insights on the trends in financial service provision in their locations over time.

The surveys were conducted in four regions: Dar es Salaam, Mwanza, Morogoro, and Mbeya. Interviews were conducted in both urban and the peri-urban centres, as well as rural market centres that were 50-90 kilometres from the urban centres.

The results of the surveys are presented in Annex 7.

FSDT literature and monitoring data

FSDT literature and monitoring data was reviewed. At the programme level, this incorporated strategy documents (2005, 2007, and 2013) and related results frameworks, as well as the annual, and output-to-purpose and strategy reviews conducted during the evaluation period.

Project-level analysis

For the project-level Inward-Out analysis, a sample of eleven projects was selected for in-depth analysis to test the main impact pathways in the ToC, as listed in Table 2. Retrospectively assessing the impact of each of the 73 individual projects in the portfolio was not attempted by the evaluation team due to the complexity of rigorously assessing project-level risk and the scarcity of data available to undertake this exercise.

Table 2. Selected interventions for detailed review

SECTOR	PROJECT	PARTNER	RATIONALE FOR SELECTION
Micro	Capacity enhancement of CRDB in providing financial services to marginalised community groups	CRDB	Project focused on use of savings and credit cooperative associations (SACCOs) in Tanzania Building on CRDB's initial demonstrated success in expanding reach to underserved through SACCO model Strengthening informal structures to deliver efficiently and sustainably Focus on rural and remote areas
Micro	CARE Ongeza Akiba ('Increase your Savings')	CARE	Use of Village Savings and Loan Association (VSLA) methodology Significantly large investment in the project Ambitious targets of reaching the poor directly Building efficient and sustainable structure to provide informal finance Focus on rural, remote and isolated locations and unserved markets
Micro	Technical Assistance (TA) Support to Access Bank Tanzania Limited	Access Bank Tanzania Limited/LFS	Being one of the early projects focusing on enterprise finance Supporting green-field operations to establish themselves Target market that is not actively targeted by existing financial institutions Focus on peri-urban and urban areas
Meso	TA to Dunduliza	Development International Desjardins (DID)	The Dunduliza-DID model was a new model for cooperative development in Tanzania Innovative project Large budget Addressing a key constraint in the growth of SACCOs
Meso	NMB agro dealers guarantee scheme	National Micro Finance Bank (NMB)	Innovative mechanism to incentivise banks to improve their service offering to MSMEs Large outreach potential
Meso	Mobile phone banking project for NMB	National Micro Finance Bank (NMB)	Testing out first bank-based mobile financial service Developing new payments platform Potential to reach large number of unbanked e.g. inclusion

SECTOR	PROJECT	PARTNER	RATIONALE FOR SELECTION
Meso	Mobile Financial Services Interoperability Scheme	Bank of Tanzania	Important initiative to drive further development of digital financial services, which has been a key driver of financial inclusion in Tanzania
Macro	FinScope Survey	Ministry of Finance, Tanzania Bank of Tanzania National Bureau of Statistics	Repository of primary data on various key indicators Cross-sectional measurements over three rounds providing time series data Useful for comparative assessment of key indicators over past three rounds Perceived ability to provide evidence to effective policy and regulatory framework necessary for making markets work especially for the poor and rural areas
Macro	Policy support to the Ministry of Finance (MoF) – capacity building and establishment of the National Microfinance Policy	Ministry of Finance Bank of Tanzania	The Micro Finance Act 2000 was outdated and should have been revamped through this initiative/TA It had the potential to develop long-term capability and capacity of MoF for implementing the Second Generation Financial Sector Reform Program (2GFSRP) and change processes to create an effective and efficient financial system
Macro	Rural Finance Services Strategy (RFSS)	Ministry of Finance	It has the potential to create an enabling regulatory and policy environment to enhance outreach and deepen financial services in rural areas Stimulate the financial service providers to design and offer products and services catering to the needs of rural segments
Macro	National Financial Inclusion Framework (NFIF)	Bank of Tanzania	Seen as a key initiative to achieve a unified national vision for financial inclusion and enable effective implementation of the Maya Declaration Sought to contribute to addressing many of the constraints identified in FSDT's third strategy

Our analysis of the impact of each of these projects was undertaken as follows:

- **Logic model:** A logic model (or results chain) was formulated for the project. In many cases, this had to be done retrospectively because FSDT did not systematically develop logic models for its projects during project design. Four levels of results were captured in the results chains: inputs; market level change; financial inclusion; growth and poverty reduction. Where the project design envisaged systemic changes beyond the direct market-level outputs, these are captured in the logic model.
- **Project results:** An assessment was made of the results that the project achieved. The results frameworks originally developed for the projects focused on direct results. Achievements against these direct results were assessed based on those reported in relevant FSDT monitoring reports and associated evaluations. The results were verified and contextualised based on data collected during the interviews and surveys conducted as part of this evaluation.
- **Systemic change:** The evaluation team made an assessment of the systemic results achieved by the project, including replication; increased competition among suppliers; changes in knowledge, attitudes and practice; and sustainable improvements in the financial sector structure and operations.
- **FSDT** contribution to results: A central consideration in the impact analysis was a consideration of the contribution of FSDT to the reported results and an assessment of the counterfactual (what would have happened in the absence of FSDT support). This was made based on an analysis of a range of data sources, including our wider analysis of the evolution of financial sector during the evaluation period (the outward-in analysis), key informant interviews, surveys, and an analysis of wider documentation (including related evaluation reports where relevant).

Impact of extending financial services on poverty

The ToR for the evaluation stated that the study should focus on the impact that FSDT's programme has had on financial access. Whilst it is implicit in FSDT's ToC that financial inclusion will contribute to poverty reduction, undertaking a detailed and in-depth review of the relationship between improved financial access and poverty reduction was outside the scope of the research.

Nonetheless, the ToR did ask for consideration of this relationship: if FSDT has improved access to financial services, are there reasonable grounds to expect that this will improve the well-being of poor people? Accordingly, the following evaluation question is included: "what are the links between improving access to financial services, and reductions in poverty?"

To answer this question, the evaluation team prepared a paper (see Annex 5) based on a review of available policy and academic studies at global, national and regional levels. It was agreed that this paper should go beyond rehearsing what is already known within FSDT about the relationship between financial inclusion and poverty reduction. This includes, for instance, the results of several randomised control trials that show, at best, a very weak impact of microfinance on poverty.

We therefore extended the scope of the review in three ways. Firstly, by setting what is known about financial inclusion and poverty within a conceptual framework that covers a broader range of issues than the microfinance/poverty debate. Secondly, by reviewing literature on the link between financial deepening and economic growth. Thirdly, by investigating in some detail what is known about how a variety of financial products (such as insurance, savings, credit and mobile money) make a difference to the lives of poor people.

4. FSDT'S STRATEGY, THEORY OF CHANGE AND HIGH-LEVEL RESULTS

This section provides an overview of FSDT's strategy and high-level results during the evalution period, FSDT's theory of change, a summary of the range of areas covered by the project portfolio, and an assessment of FSDT's effectiveness in tackling gender issues.

4.1 FSDT'S EVOLVING STRATEGIC PLANS

FSDT was incorporated in Tanzania on 1 July 2004 with an overall aim to develop a deeper financial system that can provide greater access to finance to more Tanzanians. It commenced operations in 2005, funded by four donors: CIDA, SIDA, DFID and the Royal Netherlands Embassy (RNE)15, with the first three still supporting the organisation 11 years later, and are committed to doing so until at least 2018.

There are three strategic frameworks covering the evaluation period:

- The first Strategy Paper 'Pro-Poor FS Deepening Programme', underpinning the first strategy from July 2004 to June 2007 was finalised in October 2003.
- The second Revised Strategic Plan, underpinning the second strategy from July 2007 to July 2012 was actually finalised in November 2007 and applied to July 2013.The third Strategy Paper (2013-18) was finalised in February 2013 and was formally adopted from July 201316, and runs to June 2018.

Below we summarise the key elements of FSDT's strategies, setting out the focus of the strategies, the constraints identified and targeted, and FSDT's resourcing plans. Section 6.2 builds on this to assess of the extent to which FSDT targeted key market system constraints during the evaluation period.

The First Strategy (July 2004 to June 2007)

The first FSDT strategy was prepared before FSDT was instituted. It is focused principally at the micro-level, and aligned with the National Microfinance Policy (NMP). The strategy stated that it would aim at *"Reaching and developing new under-served market segments…"* This is made explicit in the Results Framework at the Goal and Purpose levels, with a clear focus on supporting institutions that provided micro-finance and achieving reach numbers.

High-level results framework

DEFINITION	INDICATORS / TARGETS
Supergoal: To generate sustainable improvements in the livelihoods of poor households through reduced vulnerability to shocks, increased incomes and employment	70% of supported institutions' poor clients report a positive livelihood impact from use of financial services 70% of supported institutions' client enterprises report positive use of financial services
Goal: Expansion of private sector financial services for micro, small and medium enterprise and poor rural and urban households	Access to financial services provided on a sustainable basis increases by at least: • 200,000 poor households (at least 50% rural, 50% women clients) • 100,000 micro-enterprises • 10,000 SMEs
Purpose: Improved capacity of Tanzania's financial sector to meet the needs of micro, small and medium enterprise and poor rural and urban households	Number of financial institutions providing pro-poor financial services on a fully sustainable basis increases by at least 3 Volume of credit provided to poorer households & MSEs increases by 100% Volume of deposits mobilised from poorer households & MSEs increases by 100%

Constraints identified and targeted

The constraints that the strategy sought to address are viewed through the narrow prism of supporting the pro-poor microfinance market, and reveal two strands of analysis:

1. *"Critical constraints to market development exist at all levels from the macro through meso to micro. The essential challenge faced in developing pro-poor finance is in reaching markets not reached by the existing orthodox, formal financial sector. In practical terms the common theme is the* relatively small size of transaction associated with poorer market segments. Pro-poor financial market deepening is principally about developing the

15. The Dutch government took a decision in 2010 to cut the countries it provided aid to from 33 to 15. One of the countries de-selected was Tanzania, which saw aid drop from USD 102.8 million in 2008 to USD 0.6m in 2014. The inference here is that end of RNE support to FSDT was a consequence of a Dutch foreign policy decision, and not a reflection on the performance of FSDT.

16. A 'Strategy Refresh' exercise to update this strategy was undertaken in the first two quarters of 2016.

organisational and institutional arrangements through which relatively very small transactions can be achieved on a profitable basis. Reaching geographically isolated and infrastructure-poor regions increases the challenge faced... At the micro-level the focus is on developing the financial providers who deliver services to poorer markets. Weakness in retail capacity remains the major constraint to pro-poor financial service deepening in Tanzania.... Investment is needed to develop this retail capacity". (Pg.6)

2. *"The over-riding approach of the programme can be characterised as 'market making', and it is through this market based approach that sustainability will be achieved. A series of interventions will tackle constraints to and realise opportunities for market development with the aim of creating robust institutions and sustainable organisations". (Pg.8)*

Though the first strategy has a clear pro-poor objective, and was influenced by emerging market systems thinking, the emphasis is on 'building a market of financial sector providers', and not on addressing wider constraints to market development.

CONSTRAINTS IDENTIFIED	PROPOSED RESPONSE
Micro • Weakness in retail capacity remains the major constraint to pro-poor financial service deepening in Tanzania • Lack of capacity in terms of systems, people, products, and physical assets • Appropriate products and services	– Investing in selected institutions, and through them addressing key market segments – Developing business service provision to reach large numbers of SACCOs at low cost & strengthening of a number of SACCOs – Building the capacity of commercial banks that want to engage in microfinance/micro-enterprise – Direct capital investments in selected MFIs (especially higher risks ones that have the potential to reduce barriers to entry of those that follow) – Support to MFIs to develop new/better products and services
Meso • Financial market integration: weak collaboration and co-ordination between young institutions • Business services to support pro-poor finance services: market research, advertising, auditing, recruitment & HRD/M, information systems & management consultancy • Market information and potential solutions for market players and policy makers	– Develop capacity of MFIs so that commercial banks develop commercial relationships with micro-finance providers – Develop mechanisms that strengthen the confidence of banks in lending to MFIs – Support the development of services including training, bookkeeping, basic SACCO management and governance product development, management information systems, credit risk management and financial controls. – Research and data generation
Macro • Need for regulatory framework that supports the development of a strong pro-poor financial system • Appropriate roles and responsibilities for the various players • FSDT involvement in at macro level uncertain largely because these issues are covered by an existing BoT-World Bank partnership	– Strengthen capacity of industry stakeholders to represent their interests in the regulatory development process – Support/capacity a 'home grown' rapporteurs and advocate to engage in the regulatory development process, through specialist technical assistance and training – Identify/conduct research on opportunities for further achievable improvements in the regulatory environment

The stated aim is to develop 'convincing demonstrations', and the strategy does not discuss scaling-up, replication or 'crowding in' of other FSPs into the market in any meaningful way other than to say that FSDT would seek a sectoral approach to lower macro and meso 'entry barriers'. Interventions and efforts at the macro and meso- levels were primarily designed to facilitate institution-building in line with existing national policies.

As is discussed further in Section 6.2, the strategy does not envisage any major involvement in initiatives to address wider constraints identified in the Financial Sector Assessment Programme (FSAP) (developed in 2003), which were led by the World Bank.

Resourcing

A team of two, a technical manager and a finance manager, ran FSDT during this period. The main form of support to partner organisations was finance. This funding was either given directly to the partner or to a third party technical assistance provider. The indicative budget of just over EUR 20.8 million was allocated in proportions that confirmed the focus on the micro level. After excluding 14.5% for management costs the ratios were:

- **Macro** (Enabling environment for finance): 3%
- **Meso** (Sector wide development): 15%
- **Micro** (Retail capacity development): 82%

The Second Strategy (July 2007 to July 2012)

The second strategy speaks with an urgency of the need to focus on outreach and scale of access, despite the reference to deepening the financial sector in the goal statement. The justification in the strategy document lies in evidence from the first FinScope study in 2006, which revealed the scale of exclusion in the country. In a pivotal section (3.1.1) on "Quick Wins" - Access versus Deepening, the strategy states:

"Given the very high proportion of people still without any form of access to finance, reducing this is a more pressing need than deepening the financial sector."

Interviews with representatives from bilateral funders and long-serving FSDT staff suggested that there was also pressure from donor agency headquarters to demonstrate the effectiveness of FSDT by generating high reach numbers, which translate more simply into popular narratives of aid effectiveness for audiences in donor countries; 'poor people reached' being a more immediately compelling and appealing storyline on the value and impact of aid, than abstract allusions to the long term benefits of market development.

High-level results framework

DEFINITION	INDICATORS/TAGETS
Goal / mission: To develop a deeper financial system providing greater access to sustainable financial services for more people and businesses	Reducing the proportion of the adult population totally excluded from 54% in 2006 to 47% by the end of June 2011 Doubling the proportion of the adult population that is formally banked from 9% to 18% over the same period
Purpose / vision: To achieve improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth	Credit extended to the private sector as a percentage of GDP from: 8.9% in 2006 to 13.1% Volume of credit provided by a cross-section of microfinance providers (MFPs) to MSMEs and poor people increased by 300% by the end of 2011 Volume of deposits mobilised by a cross-section of MFPs from MSMEs and poor peoples has increased by 300% by the end of 2011

One year into the second strategy period, an annual Output to Purpose Review (OPR) was undertaken, which produced a final report in March 2008 entitled "FSDT Review of Performance"[17]. This report marks a significant and decisive inflexion point in FSDT's strategic orientation with a headline recommendation:

"A five-year strategy (July 2008 to June 2012) should be adopted, and it should be completed as a matter of priority. In developing the strategy, the balance in the portfolio between improving access to financial services and deepening financial services needs to be reconsidered."

17. FSDT Review of Performance, October 2006 to Sept 2007 by F.Matsaert, W.Odero & R. Stone.

There are two clear messages implicit here: firstly, that the original 2007-12 strategy needs to be fundamentally reviewed and replaced by a new 2008-12 strategy; and secondly, that at the heart of this refocusing should be a shift towards deepening[18]. The report suggests a pathway for this transition, proposing that the 2008-12 strategy[19] should see resource allocation divided as follows:

	ACCESS	DEEPENING
Mid 2008 to end 2010	80%	20%
2011 to end 2012	60%	40%

Reports and interviews undertaken during the evaluation suggest that there were three other developments that occurred at this point, which reinforced this conceptual shift towards a more systemic approach to financial sector deepening.

- **Changes in the composition of FSDT responsible for policy-making.** Three new Trustees were invited onto the Board of FSDT. One was a new bilateral funder, DANIDA, (which would in time effectively replace RNE). The others were representatives from the Government of Tanzania (GoT) and the Bank of Tanzania (BoT). The presence of the latter two stakeholders not only helped to broaden the discussion on financial sector deepening, but brought two key national players into the discourse with an active direct interest in policy and market reforms.
- **Opening up of policy space to engage at the macro-level.** At the time when the first and second strategies were formulated, there appears to have been an unspoken, de facto agreement among FSDT's bilateral funders to leave work at the policy level to the World Bank[20]. The World Bank's decision to cease work in this area in 2009 opened up the potential for FSDT to operate in this space.
- **Localisation of key staff position.** The second strategy recommended that "*The overall HR strategy should be to build up a team of Tanzanians to fill all the FSDT management and administrative positions no later than 2012 - and preferably earlier. The present three ex-pats, including the TD* [Technical Director], *are all aiming to bring on local staff to replace them. As far as possible this should be done using existing team members, supplemented by new recruits as needed*." In the event, the localisation of staff took place swiftly, and the replacement of expatriates with Tanzanian nationals, and especially a new Tanzanian Executive Secretary (the former FSDT Finance Manager), presaged the beginning of closer links with government.

Constraints identified and targeted

The second strategy identifies three market failures that FSDT's interventions will focus on addressing:

MARKET FAILURE	PROPOSED FSDT RESPONSE
Information lacking, or asymmetry	Add to knowledge, e.g. surveys Disseminate information Advocacy
Risk / reward disparity	Apply subsidies (targeted and time-bound) Support new market entrants Bolster existing players Support new product development Improve competition
Market not functioning between tiers	Improve links: Support 2nd & 3rd tier institutions to become credible and creditworthy counterparts for higher tier partners Identify opportunities for existing and new formal financial institutions to finance ones in lower tiers

Resourcing

Notwithstanding this emphasis on prioritising scale and outreach, the conceptual commitment to a 'market-making approach' is also clearly retained in the strategy:

"The general approach the Trust will take can be characterised as "market-making". This recognises the failure of markets and lack of information in pro-poor financial services, something which the FSDT aims to help correct. Overall, the FSDT will tackle constraints to and realise opportunities for market development with the aim of creating robust institutions and sustainable organisations."- Section 4.2.2 of Strategy document.

18. In this context, the understanding of financial deepening understood by FSDT was based on the Alliance for Financial Inclusion (AFI) model of Four Dimensions of Financial Inclusion: (1) Access, (2) Usage, (3) Quality, and (4) Welfare, whereby 'deepening' relates to the second, third and fourth dimensions.
19. In fact, this strategic framework ultimately held until 2013.
20. Notably, DFID was one of the main funders of the World Bank's work in this area.

The budget for the second strategy seeks to reconcile this tension by proposing an increase in funding to the macro and meso-level from 18% (Macro 3%; Meso 15%) in the first strategy to 32% (10% for Macro, 22% for Meso) in the second. Two other points are notable:

- There is greater clarity and more differentiation of themes that the funding will be directed towards. This includes a significant shift in focus, moving beyond microfinance to new areas of activity, including agriculture and rural development, SME development, and mobile phone banking and payment systems.
- The increase in the budgetary allocation to the macro and meso-levels is qualified with a caveat that appears to re-affirm the underlying, lingering tension between reach and deepening.

The Third Strategy (2013-18)

FSDT's third strategy emerged from a measured reflective process, facilitated by external consultants[21] familiar with FSDT's work who brought to the exercise a keen understanding of systems thinking. A combination of consultation workshops with stakeholders, the presence of a Tanzanian government representative on the Board of Trustees, Tanzanian nationals on the PIC's Investment sub-committee, and senior management positions in the organisation occupied by Tanzanians, all played a part in ensuring enhanced Tanzanian contribution to the strategy.

There were several other issues of note in the formulation of the strategy:

- An emphasis not only on access, but also on deepening (in particular relating to the use and quality of financial services) – with specific mention of women/gender and youth.
- The need and opportunity to take into account the reduced investment in financial sector development by other donor programmes operating in Tanzania.
- The uncertainty of funding for the full timeframe of the third strategy, and the persisting issue of the long-term sustainability of FSDT, without direct donor support.
- Prevailing international and national discourse on financial inclusion which emphasised the importance of engaging at all three levels (macro, meso and micro) to achieve financial sector development.

High-level results framework

DEFINITION	INDICATORS / TARGETS
Goal: To generate sustainable improvements in the livelihoods of poor households through reduced vulnerability to shocks increased incomes and employment.	The proportion of the adult population using formal financial services - to increase to 50% by 2017, from 17% in 2009[22] Credit to private sector as percentage of GDP to increase to 24.7% by 2016
Purpose (outcome): 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	Volume of credit provided by financial service providers (FSPs) to MSMEs and poor people to increase by 66% by the end of 2017 Volume of deposits by FSPs from MSMEs and poor people to increase by 112% by the end of 2017

Constraints identified and targeted

The third strategy was more closely "informed by the identification of systemic constraints"[23] and the lessons from the second strategy period than previous iterations. These are summarised in the table on the right.

21. Oxford Policy Management Ltd. Note OPM was involved in the 2008 OPR, which had recommended that the second strategy progressively shift strategic focus away from 'reach' to 'deepening'.

22. Note this target has already been met. A revision of the logframe is envisaged, which should take into account the NFIF's revised target of 70% by 2017.

23. Introduction to Strategy Paper 2013-2018.

REVIEW OF SP 2: 2007 – 2013: KEY LESSONS	BINDING CONSTRAINTS TO FSD IDENTIFIED IN CONSULTATIVE STAKEHOLDER WORKSHOPS
A. FSDT should base priorities on a rigorous and detailed analysis of the market at macro, meso and micro-level in order to identify those constraints that distort incentives and outcomes in the market system. B. FSDT should focus on: (i) policy advocacy (using evidence to influence the macro-level policy environment); (ii) communicating its role and purpose to stakeholders and through this catalysing change. For e.g., by providing evidence of market opportunities offered by low income households. (iii) Results need to better capture more systematically, and communicated more effectively. C. FSDT has a good working relationship with various government institutions - FSDT should continue to engage with governmental institutions. D. Better direct communication with beneficiaries will improve results by promoting information sharing. E. Previously FSDT focused predominantly on micro issues due to significant investment by other development partners in the meso and macro. The financial sector support environment in Tanzania has now changed significantly, and thus FSDT should and has adapted its strategy.	**MACRO** 1. Lack of adequate legislative provision for agent banking 2. Stringent regulatory specifications for bank branch buildings 3. Inappropriate microfinance legal and regulatory framework 4. Lack of appropriate regulations for value chain finance mechanisms 5. Need to review the policy, legal and regulatory framework for micro-insurance 6. Stringent KYC requirements 7. Government interventions causing market distortions 8. Institutional/coordination weaknesses in government (BoT, MoF, Treasury) 9. Need for continuous supply and use of information on the financial sector **MESO** 10. Inadequate payments infrastructure 11. Difficulty in reliably identifying individuals 12. Lack of credit registry 13. Poor infrastructure in rural areas 14. Prevalence of informal businesses in the real economy, particularly in rural areas 15. Capacity constraints (human and systems) in the financial sector 16. Inadequate regulation and supervision of SACCOs 17. Fraud/corruption amongst FI staff 18. Limited availability of wholesale finance 19. Lack of innovation in agricultural practices 20. Lack of effective and speedy operation of commercial courts 21. Limited current scope of financial literacy initiatives **MICRO** 22. Poor geographical coverage of banks and NBFIs 23. Lack of appropriate/affordable products being offered by FIs 24. Difficulty of accessing appropriate credit from commercial banks (both MFIs and SMEs) 25. Poor governance and management of SACCOs 26. Lack of capacity of SACCOs and MFIs (human and MIS) 27. Insufficient commercialisation of agriculture 28. Lack of appropriate mechanisms for financing agricultural value chains 29. Lack of risk mitigation services (e.g. insurance, price risk products for agriculture) 30. Insufficient financial capability amongst population and SMEs Ineffective action by financial institutions to tackle fraud/corruption

FSDT's strategy shifted to a more explicitly M4P approach, implying less direct funding of institutions to build their operations to a more facilitative approach targeting specific binding constraints.

An interesting consequence of the analysis undertaken to inform the strategy was a shift to organise the programming approach according to three thematic areas: (i) SME finance; (ii) rural and agricultural finance; and (iii) remote access banking. Priority was given to those interventions that deal most effectively with the cross cutting themes of gender and youth, rather than organising interventions by levels of the market (macro, meso, micro). This is in keeping with an M4P informed design, which would see the three themes as complementary strands of a coherent pro-poor systems change programme that befits FSDT's role and competences.

Below we draw out the areas of focus or constraints being addressed through the three themes.

1. **Agricultural and rural finance:** focus on producers, processors and service providers to close the value chain loop.
   - Monetising surplus agricultural production (over and above what farmers need to feed their households) to provide cash that can service other needs. *(Micro)*
   - The need for increased investment in assets and other mechanisms that increase agricultural productivity, e.g. small-scale irrigation and processing for value addition. *(Micro)*
   - Development of risk management tools and systems specific to agriculture, especially the ones with relevant methodologies and that synchronise the financial service requirements with agricultural cycles (e.g. warehouse receipts and related insurance products). *(Meso)*
2. **MSME finance:** the inability of SMEs to access financing remains one of the most frequently cited constraints to growth.
   - Level of innovation in formal financial institutions reaching SMEs in particular remains low. (Micro)
   - Regulatory requirements and the practices of securing loans affect bank behaviour and impose high transaction costs on MSMEs. *(Macro)*
   - Almost no availability of supply chain finance products such as purchase order financing, invoice discounting, factoring or distribution finance. (Meso)
   - Information gaps – these fall into three categories: (i) knowledge of SME demand and market segmentation; (ii) which banks offer what SME financial products; (iii) financial literacy among SMEs. (Meso)
3. **Remote access banking**
   - No regulatory framework in place to allow agent banking. (Macro)
   - 'Know-Your-Customer' (KYC) requirements are stringent and are therefore restricting access to finance for large numbers of the population. (Macro)

Resourcing

The third strategy continued the trend of increasing the budget for each successive plan, with a proposed budget of USD 76.5 million, despite the uncertainty of donor commitments beyond 2015 by FSDT's principal sponsors: CIDA, DFID, DANIDA and the Bill & Melinda Gates Foundation[24]. The projected expenditure - at an annual average of about USD 15 million per year - reflected the growing stature of FSDT in the financial sector institutional environment of Tanzania, the organisation's convening power and connectivity with significant public and private sector stakeholders, and its growing internal capacity.

Two distinct phases of programme focus were proposed in the strategy, continuing the approach of reconciling the tension between reach and deepening made explicit in the second strategy:

- **2013 to 2015:** focus on Financial Inclusion
- **2015 to 2018:** focus on Financial Deepening

Budget allocations by level of the market confirm a continued shift in focus from micro to meso and macro:

- **Macro:** 18%
- **Meso:** 42%
- **Micro:** 40%

A Strategy Refresh exercise was being undertaken at the same time as this IA, which was likely to offer some refinement – but not a fundamental revision – to these indicative budgetary allocations.

24 of this figure, about USD 48 million ws assured at the time of drafting the plan.

4.2 FSDT'S THEORY OF CHANGE

A review of available programme documents revealed that although a theory of change was presented in the annex to the terms of reference for this impact assessment, there was in fact no explicit ToC in the 2005 strategy document, or in the revised 2007 version. The evaluation team therefore constructed a retrospective ToC for the programme on the basis of discussions with FSDT staff, as well as a review of programme documents, and the logframes for FSDT. It was agreed with FSDT that the best way to represent its ToC was to base it on the FSDT logframes. It therefore follows FSDT's logframe structure, with levels of the theory separated between inputs, outputs, outcomes and impact. Assumptions and constraints targeted are also summarised. The ToC presented provides a summary overview the FSDT ToC and therefore does not incorporate granular details, such as the full elaboration of outputs specified in each strategy.

As we have seen earlier in this section, FSDT's objectives, strategy and programme evolved over the evaluation period. The ToC we have constructed below is necessarily generic and does not imply that FSDT had a rigid theory that remained in force and unaltered throughout the evaluation period. We have highlighted the major changes that occurred to the ToC between the three strategy periods in the yellow boxes.

Mechanisms of change

The way that FSDT aimed to achieve its strategic objectives can be summarised as follows (Figure 5 presents a diagrammatic representation of FSDT's ToC):

- FSDT identified a number of **constraints** to financial inclusion. These constraints were categorised in different ways in the different strategies.
- FSDT's **inputs and activities** (primarily through its projects) sought to contribute to addressing these constraints through a combination of: (i) capacity building and institution building; (ii) convening, coordination and advocacy; (iii) evidence and information provision; and (iv) financing.
- **Outputs:** These activities sought to catalyse positive and sustained change at: (i) the macro-level to improve the policy, institutional, legal and regulatory framework for financial inclusion; (ii) the meso-level to improve business services

Figure 4. FSDT's strategic objectives

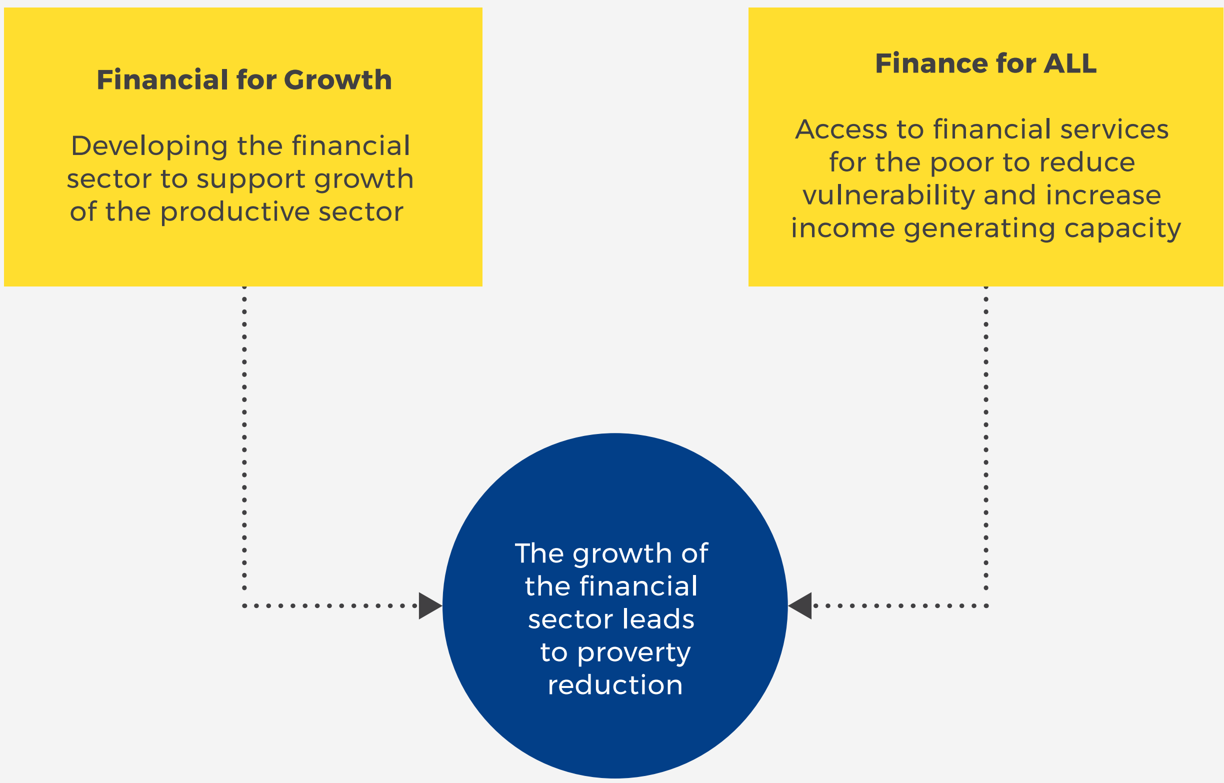
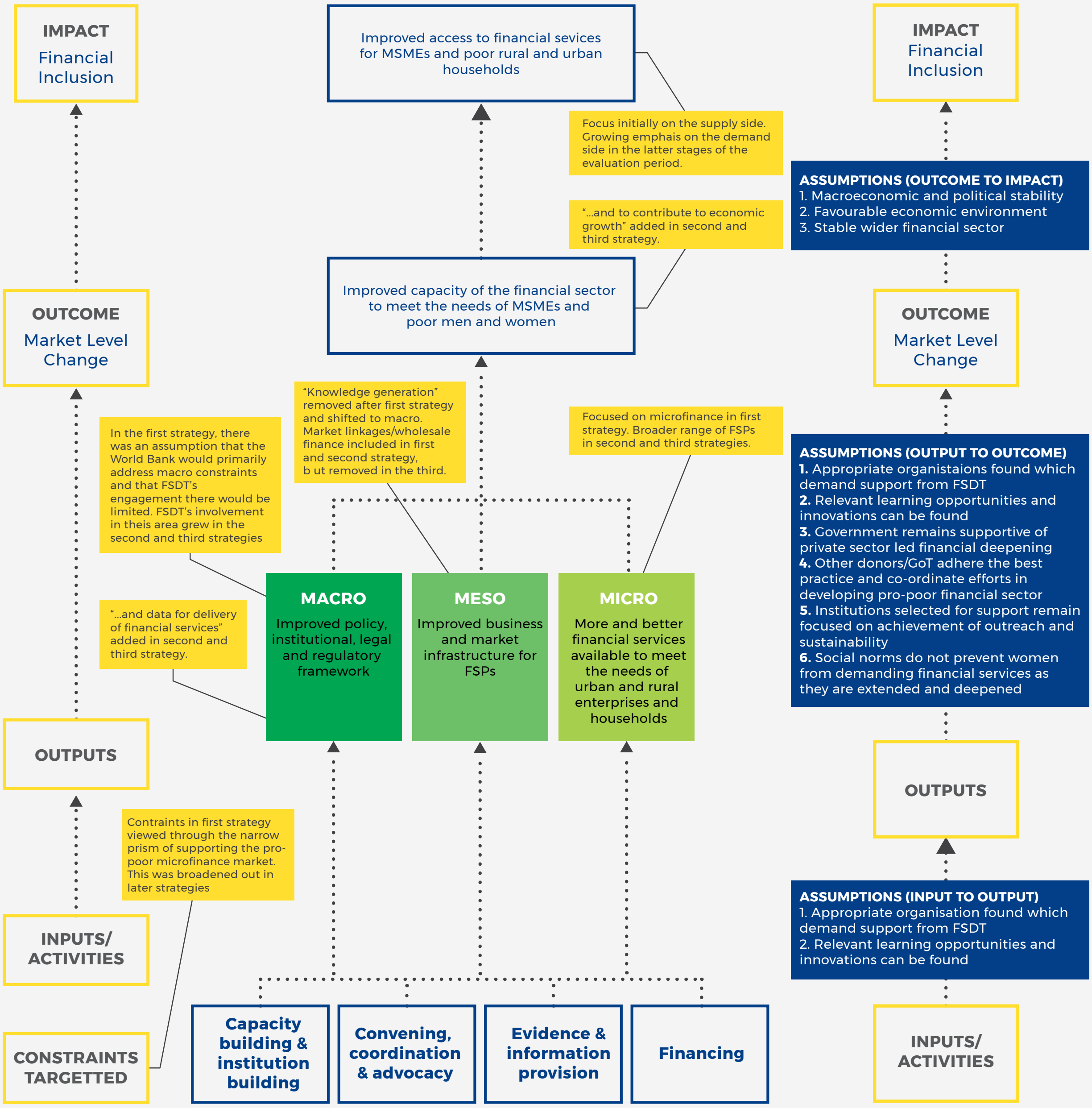


Figure 5. Reconstructed theory of change for FSDT



CONSTRAINTS CATEGORY	FIRST STRATEGY	SECOND STRATEGY	THIRD STRATEGY
Legal, policy & regulatory	• Gaps in the legal, policy and regulatory framework (largely covered by World Bank		• Gaps in the legal, policy and regulatory framework and need for relevant information
Information	• Lack of clarity on appropriate roles of sector players • Market information	• Information lacking, or asymmetry	• Information asymmetry between customers and financial service providers
Capacity	• Capacity of FSPs		• Capacity of FSPs
Market infrasture	• Week financial market intergration • Business services support	• Market not functioning between tiers	• Lack of appropriate market infrastructure
Demand-side			• Financial capability of consumers • Un-met demand for financial services and relevant financial products
Risk/reward		• Risk/rewards disparity	

and market infrastructure for financial service providers (FSPs); and (iii) at the micro-level to achieve more and better financial services being available to meet the needs of urban and rural enterprises and households.

- **Outcome:** Through the achievement of these outputs, FSDT sought to contribute to market-level change in the form of improved capacity of the financial sector to meet the needs of both MSMEs and poor men and women. In seeking improvements both at the enterprise level and the household level, FSDT had twin strategic objectives 'Finance for Growth' and 'Finance for All'.
- In most cases, FSDT's projects sought to achieve **direct changes** within the partner / project. Beyond this, FSDT also aimed to catalyse wider changes in the market system (**systemic changes**) through some combination of replication of innovations, increased competition amongst suppliers, changes in knowledge, attitude and practices, and wider improvements in the policy frameworks, structure and operations of the financial sector.
- **Impact:** The objective of market-level change was to build financial inclusion for MSMEs and poor rural and urban households through: (i) changes in the level and type of sustainable financial services (**supply side**); and (ii) changes in the level and type of access to, and use of, financial services (**demand side**).

A number of key **assumptions** underpinned FSDT's ToC, as shown on the right-hand-side of Figure 5.

Key areas of evolution

Whilst there is broad consistency in FSDT's ToC through the evaluation period, there were some significant areas of evolution (highlighted in the pink boxes in Figure 5):

- Outputs:
  - **Macro:** (i) Engagement in the policy, legal and regulatory framework was consistently in FSDT's ToC throughout the evaluation period. However, in the first strategy, there was an assumption that the World Bank would primarily address constraints in this area and that FSDT's engagement here would be limited. FSDT's involvement in this area grew in the second and third strategies; (ii) "Data for delivery of financial services" was added in the second and third strategies. However, a similar output (knowledge generation) was framed at the meso-level in the first strategy.
  - **Meso:** Whilst this was framed in a broadly consistent manner throughout the period, its focus varied in different strategies, with market links / wholesale finance removed as an output in the third strategy.
  - **Micro:** This was very focused on microfinance in the first strategy. In second and third strategies, FSDT engaged with a broader range of FSPs.
  - **Outcome:** In the second and third strategies, "Finance for growth" was more explicitly brought into the ToC: "...and to contribute to economic growth" was added to FSDT's outcome statement.
  - **Impact** was initially focused on the supply side. Demand side objectives relating to the use of financial services became a stronger strategic focus in the second and third strategies.

4.3 DISTRIBUTION OF FSDT'S PORTFOLIO

Tables 3 and 4 highlight a discernible shift in FSDT's portfolio towards macro and meso-level projects towards the latter part of the evaluation period, in line with its evolving strategic direction and the growing realisation that it was necessary to address constraints at the macro and meso-level alongside micro interventions. Over the period, a total of 60% of funding went to micro projects; over 30% went to meso-level projects; and less than 10% on macro-level projects.[25]

The process of transforming FSDT from a largely and implicitly microfinance support agency (see Purpose level statement of the first strategy) to one that promotes systemic change in the financial sector (reflected in Purpose level statement in the second and third strategies) has taken time for both external and internal reasons: the financial market in Tanzania was endemically immature at the outset, and FSDT's own staff and skills-set were initially better equipped to project manage micro-finance support interventions than undertake design and supervision of systemic change interventions.

25. In the view of the IA team, several of the meso-level projects are hard to justify as such, and have the characteristics of micro projects. The implication of this is that an overwhelming majority of FSDT's resources went to micro level projects during the period under review.

Table 3. Macro, meso & micro: type of projects per year

YEAR	MACRO	MESO	MICRO	TOTAL
2015	3	2	1	6
2014	4	4	1	9
2013	3	5	5	13
2012	4	2	4	10
2011	-	1	1	2
2010	1	-	3	4
2009	2	2	-	4
2008	1	2	5	8
2007	1	2	3	6
2006	-	-	1	1
2005	1	2	1	4
Grand Total	**24**	**22**	**27**	**73**

Table 4. Budget allocation across macro, meso and micro projects per year (USD)

YEAR	MACRO	MESO	MICRO	TOTAL
2015	646,750	1,400,000	6,217,500	8,264,250
2014	3,694,100	655,513	7,820,000	12,169,613
2013	1,402,013	1,020,900	5,333,435	7,754,335
2012	3,653,000	12,447,000	12,350,000	28,450,000
2011	-	1,000,000	53,000	1,053,000
2010	855,000		8,450,000	9,305,000
2009	100,000	400,000	-	500,000
2008	940,000	480,000	18,526,220	19,946,220
2007	200,000	1,271,121	3,616,000	5,087,121
2006	-		1,000,000	1,000,000
2005	270,000	8,110,136	423,000	8,803,136
Grand Total	**11,758,850**	**26,784,670**	**63,789,155**	**102,332,675**

4.4 FSDT'S RESULTS FRAMEWORK

Throughout FSDT's existence, its goal-level indicators have related to access to financial services. At the Purpose level, indicators have related to extending the volume of credit and deposits by SMEs and poor people.

However, FSDT's results framework does not explicitly encompass several central aspects of its theory of change (see Section 3.3):

- The dual objectives of 'Finance for All' and 'Finance for Growth'. The latter objective grew in emphasis in FSDT's strategy over time. However, FSDT's high-level indicators are focused on financial inclusion or 'Finance for all'.
- Whilst systemic change has been an inherent and growing underpinning of FSDT's strategy, its results framework does not include indicators of systemic change. It is challenging to link the theory underpinning a market development approach (as espoused by FSDT) to the programme's results framework. Recommendations on how future results frameworks might better reflect systemic change are provided in Section 7.2.

Performance against FSDT's high-level objectives is summarised below in Table 5[26]. The table presents data made available to the evaluation team regarding FSDT's achievement against the targets (no data is available on performance against the 2003 strategy logframe). Where targets are presented, these relate to the updated targets set at the time of the review when scoring was made.

In summary:

- FSDT's targets relating to financial inclusion were exceeded, particularly in the latter stages of the evaluation period, when the rapid growth in digital financial services had a major impact on financial inclusion.
- Targets relating to credit extended to the private sector as a proportion of GDP were exceeded in 2009. Since then, levels have fallen short of target.
- Performance against targets relating to credit and deposits for SMEs and poor people has been mixed.

At the project level, a review of FSDT's strategy (2007-12)[27] showed that all of the 18 projects at macro and meso-level had a systemic impact score of 3 or above. However, of the 12 micro level projects, only four scored 3 or above. This suggests that public subsidies provided through FSDT at the micro level may have had limited systemic impact.

We return to this and the key question for this impact assessment regarding the extent to which FSDT contributed to the high-level results achieved in Section 6, following the methodology elaborated in Section 3.

26. The FSDT logframe has undergone significant evolution over the evaluation period. As highlighted in the Review of FSDT's Strategy (2007-12), not all of these changes are clearly documented or explained. It should be noted that there are other iterations of the logframe, each with differences, particularly with respect to the Goal and Purpose Statements, as well as the targets, which have been adjusted over time.

27. Oxford Policy Management (2012), FSDT: Review of Existing Strategy (2007-2012), Final Report.

Table 5. FSDT's performance against high-level targets

	INDICATORS / TARGETS	PERFORMANCE AGAINST TARGETS			
First strategy					
Goal: Expansion of private sector financial services for micro, small and medium enterprise and poor rural and urban households	Access to financial services provided on a sustainable basis increases by at least: 200,000 poor households (at least 50% rural, 50% women clients) 100,000 micro-enterprises 10,000 SMEs	No information available on performance against FSDT's targets for the first strategy			
Purpose: Improved capacity of Tanzania's financial sector to meet the needs of micro, small and medium enterprise and poor rural and urban households	Number of financial institutions providing pro-poor financial services on a fully sustainable basis increases by at least 3 Volume of credit provided to poorer households & MSEs increases by 100% Volume of deposits mobilised from poorer households & MSEs increases by 100%				
Second Strategy		**2009 Target**	**2009 Actual**	**2011 Target**	**2011 Actual**
Goal / mission: To develop a deeper financial system providing greater access to sustainable financial services for more people and businesses	Increasing the proportion of the adult population totally with access to financial services from 46% in 2006 to 53% by the end of June 2011	50%	56%	53%	73% (2013)
	Doubling the proportion of the adult population that is formally banked from 9% to 18% over the same period	13%	12.4%	18%	14% (2013)
Purpose / vision: To achieve improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth	Credit extended to the private sector as a percentage of GDP from: 8.9% in 2006 to 13.1%	11%	19%	18%	16%
	Volume of credit provided by a cross-section of microfinance providers (MFPs) to MSMEs and poor people increased by 300% by the end of 2011	64%	147%	230%	219%
	Volume of deposits mobilised by a cross-section of MFPs from MSMEs and poor peoples has increased by 300% by the end of 2011	81%	144%	225%	155%

4.5 OVERVIEW OF FSDT'S PORTFOLIO

The interventions summarised below indicate the range of areas covered by the FSDT project portfolio during the period under review.

Macro-level

At the macro level, FSDT's interventions have supported several government institutions, notably the Bank of Tanzania (BoT), the Ministry of Finance (MoF), the Ministry of Agriculture and the Ministry of Industry and Trade. These engagements have supported the formulation of new policies, or refinements of existing ones through capacity building initiatives (including study visits) and the provision of evidence and information, and relevant policy briefing:

Rural Financial Services Strategy (2007-2011)[28]: Formulation of strategic options for rural micro-financial services to bridge the gap in access to financial services in rural areas vis-à-vis urban areas. However, the strategy has yet to be officially approved, because of concerns within government that not all interested stakeholders have been fully consulted. This delay in the adoption of the strategy has provided useful lessons to FSDT with respect to future policy work, including the critical importance of working closely with all relevant government stakeholders from the outset. Whilst the strategy has not been enacted, the momentum this initiative created enabled further policy formulations such as mobile money regulations, e-money guidelines, and NFIF.

Financial education-related interventions (2009 onwards): Support to BoT to conduct a National Financial Capability Baseline Study, and help with the continued development and revision of the National Financial Education Framework.

National Financial Inclusion Framework (NFIF) (2011 onwards)[29]: The groundwork for the development of the NFIF began toward the later stages of the second strategy period, with FSDT supporting the BoT in it is efforts to build a coherent long-term vision for financial inclusion. The NFIF was based on a widely consultative and coherent policy process that involved 19 major government and private sector organisations, and consideration of 13 relevant national policy frameworks.

Support to the Ministry of Finance on the Microfinance Policy (2013-2014) Assistance was provided both to the BoT and Ministry of Finance (the latter had final responsibility) to develop a legal and regulatory framework to license, monitor and supervise credit-only Micro Finance Institutions (MFIs). However, this Policy has still not been enacted. It would appear that collaboration between the two government institutions has been slow, suggesting that cross-government policy work can be ponderous. Interviews undertaken during the evaluation indicated that the delay in finalisation, approval and enactment of Act were largely due to a dispute between BoT and MoF about the respective institutions' jurisdiction and mandate to formulate national policies and national laws.

Support to the Ministry of Finance and Bank of Tanzania on the National Payments Systems Act (2014-2015) FSDT supported the Ministry of Finance and the Bank of Tanzania to develop the legal and regulatory framework for payment systems under the National Payment Systems Act of 2015. Subsequently, the government approved two regulations; namely the Licensing and Approval Regulations 2015 and the Electronic Money Issuance Regulations 2015.

Support to the Ministry of Industries and Trade on SME Policy 2003 (2015) The FSDT supported the Tanzania Private Sector Foundation in conducting a comprehensive review of the SME Policy of 2003 in order to assess its success and failure and to identify constraints hindering the growth of SMEs.

More generally, empirical data generated by a range of FSDT projects, notably, FinScope (2009 and 2013)[30], the MSME Survey (2012), AgFiMS, the Micro-insurance Diagnostics Study, the Financial Capability Baseline Study and GIS mapping, have been integral inputs into the formulation of public policy by relevant government institutions, and have informed wider national and international discourse on financial sector deepening and inclusion in Tanzania. Interviews with government officials[31] attested to the use of material from these reports being used internally in government institutions, particularly by the Bank of Tanzania,

28. Further analysis of the impact of this project is provided in Annex 4.
29. Further analysis of the impact of this project is provided in Annex 4.
30. Further analysis of the impact of this project is provided in Annex 4.
31. Oxford Policy Management (2012), FSDT: Review of Existing Strategy (2007-2012), Final Report.

MoF, the Ministry of Agriculture and the Ministry of Industry and Trade. These reports have also informed the sectoral analyses and programming decision of Official Development Assistance (ODA) agencies, including by the core bilateral donor partners of FSDT, and multilaterals such as the IMF and the World Bank.

Meso-level

At the meso-level, FSDT has focused on enhancing market infrastructure and support services for financial service providers. Key interventions include:

SACCOs Network (2005-2007)[32]: The SACCOs sector was (and is) in need of appropriate business services. There is potentially large-scale demand for low cost, technically relatively simple services, embedded in the local context. In this context, FSDT provided financial support towards the establishment and development of a network apex ("Dunduliza") that aimed to provide general as well as specialised support to its affiliated SACCOs.

Enterprise Growth Market (EGM) Initiative: Capacity building support to the Capital Markets and Securities Authority to develop and supervise the EGM segment.

Dar es Salaam Stock Exchange (2012-2015): Support to the Dar es Salaam Stock Exchange, to operationalise the new EGM segment by carrying out a country wide public awareness campaign.

CRDB - Integrated model (2012-2017): Support to CRDB in developing and implementing an integrated retail and wholesale microfinance services model via different technology-linked outlets.

Formalisation of MSMEs (2014-2015): FSDT supported a pilot of the Formalisation of Small Businesses, covering ten regions. The key outputs of the project included an increase in the number of formalised businesses, access to finance for MSMEs, improved attitude and confidence to meet tax and other authorities, capacity building and systemic change.

Digital Savings Group (2015): FSDT supported the Aga Khan Foundation in developing a digital product that would channel savings group members' savings and loans through a secure, transparent and efficient mobile platform and report back to the members on transaction activity.

Leasing Environment (2013-2015): Given the weak market for leasing instruments in Tanzania, FSDT commissioned research to review and assess the current leasing operations environment in order to provide recommendations for further developments of the leasing business.

First Access Finance: FSDT provided support to First Access Finance (FAF) to build an algorithm model to use MNO data to assess user risk levels for credit. By using consumer records like prepaid mobile and mobile money data, this has enabled FSPs to evaluate loan applicants via text message (SMS) at the point of sale, thereby reducing costs for assessing credit-worthiness, and has enabled them to extend the reach of their financial services by reducing the need for collateral.

SME Innovation Challenge Fund: FSDT ran a challenge fund to stimulate product innovation by financial sector market players in order to deepen financial services for agriculture and agri-enterprises, informal finance and MSMEs. FSDT also supported industry forums in generating discussions and debate among the various stakeholders within the financial sector.

Micro-level

FSDT has supported interventions in the micro-sector since its inception. Projects have been driven by twin objectives:

- Building the institutional capacity of banks and microfinance organisations and programmes to enable them to extend microfinance services in a cost-effective and profitable way.
- Subsidising the expansion of financial access and quality products to low-income individuals and MSMEs in urban and rural areas, by supporting financial service providers to deliver high quality and affordable financial services to the target segments.

Besides the immediate and primary results of these initiatives, they helped to establish FSDT's role in the financial services sector and have subsequently allowed it to influence and play a key role in the development of policy for microfinance in Tanzania. They have provided the platform for the shift of FSDT's focus, visible in the latter part of the IA period, towards projects aimed at systemic impact at the macro and meso sectors.

32. Further analysis of the impact of this project is provided in Annex 3.

Scaling up financial services: FSDT supported financial service providers through loans and grants to help them expand financial services. Supporting such programmes has allowed the FSDT to play a key role and exert a significant influence on the development of microfinance in Tanzania.

Funding SACCOs and linking SACCOs to banks: Support to CRDB's partner SACCOs to increase their outreach. This involved the establishment of new SACCOs as well as working with existing SACCOs, mainly in rural areas. The project also included an expansion of services through a blend of retail microfinance and wholesale methodologies.

Consolidation and expansion of agency banking: Support to Equity Bank Tanzania to help scale up its agency banking delivery model, and offer micro-savings, credit and insurance to individual households and MSMEs.

Community-based savings groups, expansion of Village Savings & Loans Associations (VSLA): Support to two CARE programmes, Ongeza Akiba, 2008-2011, and WAMA 2013-2016; the Aga Khan Foundation's Boresha Maisha project, 2010-2015; and BRAC Phase 1 (with a particular focus on women). All these initiatives sought to bring financial services to rural poor people and to help people onto the first rung of the financial ladder, by expanding VSLAs.

BRAC Small Enterprise Development Agency (SEDA) Phase 1: Support to strengthen SEDA as a micro credit organisation to enable it to achieve financial self-sufficiency ('commercialisation'), and transform it into a deposit taking agency.

Greenfield MSME banking: FSDT supported the establishment of two green-field micro and small enterprise (MSE) banks in Tanzania; namely Advans Bank Tanzania and Access Bank Tanzania.

Institutional transformation of FINCA: FSDT supported FINCA's transformation from an unregulated to a regulated microfinance company, to enable it to offer a wide range of financial services – loans, savings and money transfer services – to previously unbanked clients, and in line with the provisions of the Banking and Financial Institutions Act of 2006

Village Community Banks (VICOBAs): FSDT partnered with ORGUT-SEDIT to introduce informal VICOBAs to some of the poorest and most disadvantaged people in Tanzania, a project with merit in its own right, but also one that could over time could bring the members of VICOBAs into the formal financial system.

Product/service design for financial services: FSDT funded customer research in order to improve the M-Pesa and Airtel Money user interface through the provision of empirical evidence on drivers and patterns of use of mobile money in Tanzania, so as to stimulate increased use.

Institutional strengthening: FSDT supported banks and microfinance programmes to build the institutional capacity necessary to attain the goals of extending microfinance services in a cost-effective and profitable way.

4.6 FSDT'S EFFECTIVENESS IN TACKLING GENDER ISSUES

Women's use of financial services

There is a significant gender disparity in financial inclusion in Tanzania[33]. According to the World Bank's Global Findex data, the gender gap in Tanzania narrowed from 7% to 4% between 2011 and 2014: 17.1% of women held an account at a financial institution in 2014 versus 21.1% of men. From 2011–2014, the percentage of women holding an account at a financial institution increased by 3.3 percentage points, while the percentage of men holding an account rose only 0.3 percentage points.

Including non-bank formal financial institutions, FinScope reports that women's financial inclusion in formal institutions increased from 14.4% in 2009 to 51.2% in 2013. Digital finance has been the major driver of increased financial inclusion for both men and women in recent years. But there is also a gender gap for mobile money: FinScope data shows 44% of women and 54% of men use mobile money.

Women are more involved in informal groups than men, although the difference is not as large as one may expect (17% of women compared to 14% of men).

33. Alliance for Financial Inclusion (2016): Tanzania narrows the financial inclusion gender gap: A case study of policy change to support women's financial inclusion

FSDT's track record in tackling gender issues

The degree to which FSDT's strategy documents explicitly focus on addressing women's financial inclusion varies. In the first strategy, financial inclusion targets are disaggregated between men and women at the household level, but not in relation to MSMEs. This gender disaggregation of the financial inclusion target was removed in the second strategy, but was brought back in the third strategy.

The first strategy refers to poor women in remote, resource poor, rural areas as a potential focus, but does not advocate specifically targeting women as an overarching strategic priority. Having said this, it does emphasise the importance of encouraging the development of products which better meet the needs of women clients, both in the informal and commercial sectors.

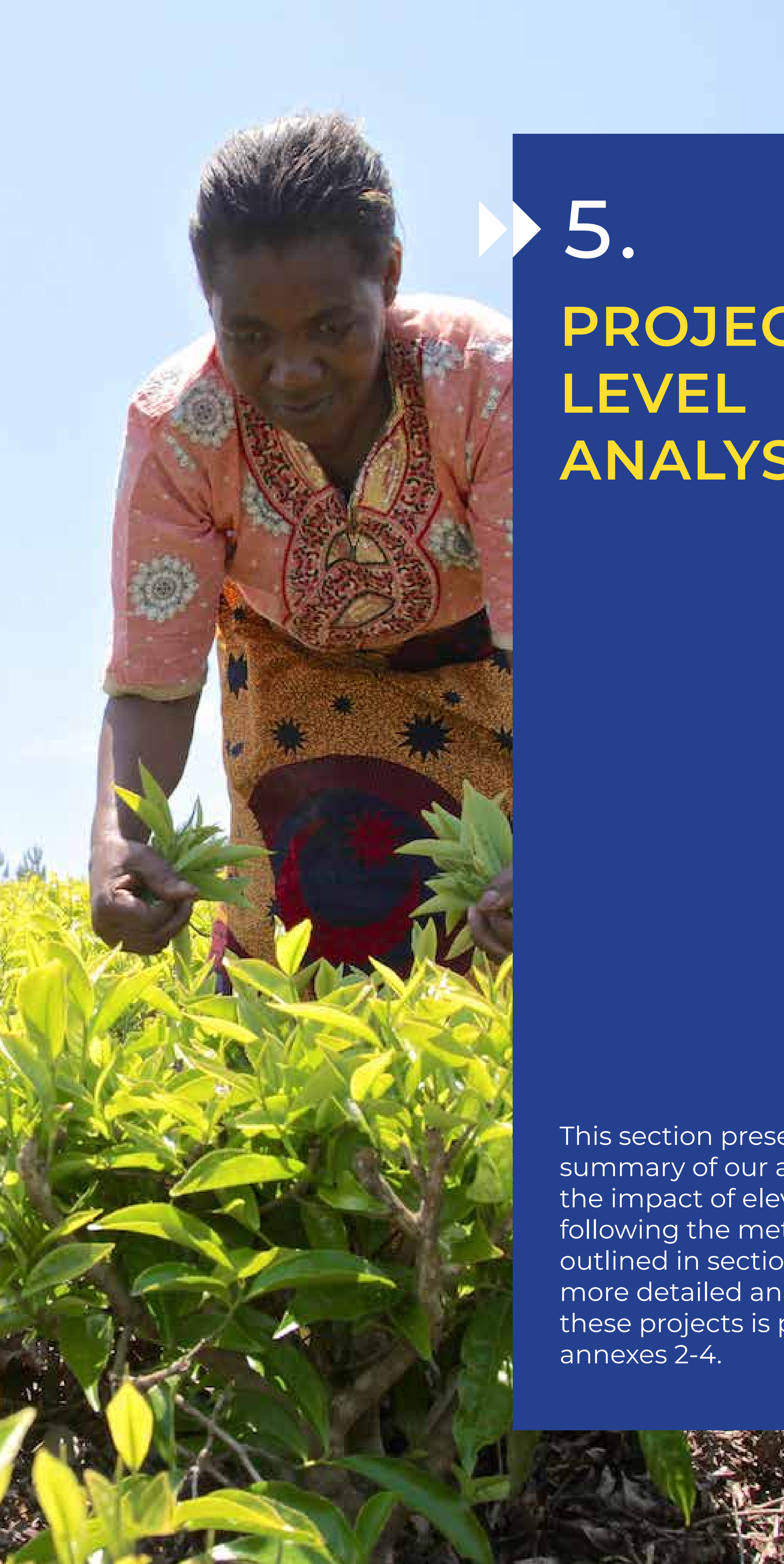
The second strategy makes no mention of gender issues or a need for FSDT to specifically target women.

The third strategy highlights the divergence in financial access between men and women and states that *"…it is crucial for FSDT to be gender-sensitive and meet the needs of both women and men" and says that FSDT will "give priority to those interventions that deal most effectively with the cross cutting themes of gender."*

An analysis of the reviews of FSDT during the evaluation period shows that FSDT's tackling of gender issues was raised at several points:

- **The 2009 OPR** states that *"…while several projects are expected to have a significant proportion of female clients, women are rarely specifically targeted."*
- **The 2012 OPR** identifies a number of FSDT projects that explicitly target women, including WAT Low Cost Housing, SELFINA, Aga Khan Coastal Rural Support Programme, and the BRAC extension. However, it highlights (and this was confirmed in our review of FSDT monitoring data) that there is a concern *"…that different and inadequate indicators for projects makes comparisons and measurement of areas such as the impact in youth, women…etc. difficult to achieve."* The review recommends that that projects provide information required to monitor logframe indicators relating to increasing access to women.
- **The 2014 OPR** highlights that FSDT has made good progress in achieving its target *"…for the number of people accessing financial services, with a significant portion of women as clients."* However, it raises a concern that there is no immediate focus on initiatives targeting women and recommends that FSDT should revisit its strategic approach to women.
- **The review of FSDT's second strategy** includes a detailed consideration of gender issues. It states that *"…six out of a total of 31 projects should directly benefit women and, with gender as a cross-cutting issue and given its prominence in the logframe it is possible that gender has been taken into account while designing and implementing every project."* However, the review team asserts that *"…more could be done by FSDT in terms of gender mainstreaming."*

Overall, we can conclude that whilst significant progress has been made in narrowing the gender divide in financial inclusion, and some FSDT projects have explicitly targeted women, (i) there is significant scope for FSDT to strengthen its approach to measuring the impact of its interventions on women; and (ii) whilst FSDT has prioritised addressing gender issues in its strategy, this does not appear to have fed through into its programmatic decision making to the extent that it could.



5. PROJECT LEVEL ANALYSIS

This section presents a summary of our analysis of the impact of eleven projects, following the methodology outlined in section 3.5. A more detailed analysis of these projects is presented in annexes 2-4.

5.1 MICRO-LEVEL IMPACT

PROJECT 1

CAPACITY ENHANCEMENT OF CRDB IN PROVIDING FINANCIAL SERVICES TO MARGINALISED COMMUNITY GROUPS

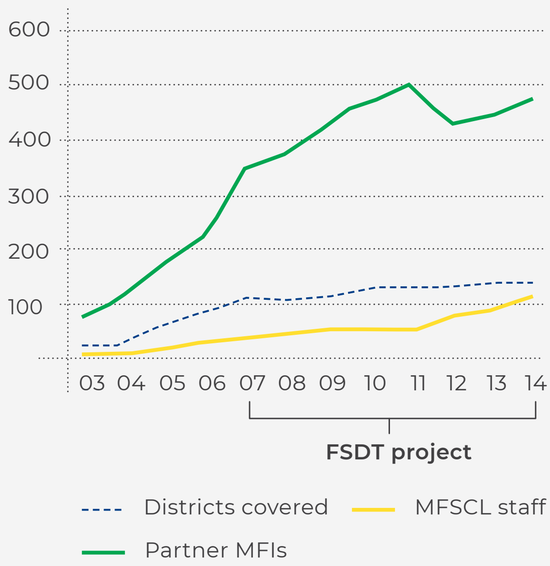
Project Description

The project centred on FSDT support to the scale-up of the Microfinance Service Company Limited (MFSCL), a subsidiary of CRDB Bank. MFSCL offered wholesale lending to local financial institutions such as microfinance companies, SACCOs and finance NGOs (referred to hence forth as 'MFIs') who in turn would offer lending facilities to low-income households and small enterprises in rural areas.

The FSDT project commenced in May 2008 and (after two time extensions) finished in December 2014. FSDT provided a grant of USD 3.81m to enable MFSCL to provide training and capacity building services to leaders, employees and members of existing partner MFIs and to MFIs newly introduced to the network. Support included construction of infrastructure such as office buildings and counters for transactions; capacity building to MFIs in governance, planning and product development; product and services development; capacity building support to partner MFI members; the introduction of management information systems and mobile banking; and the introduction of a rating system to encourage competition between MFIs.

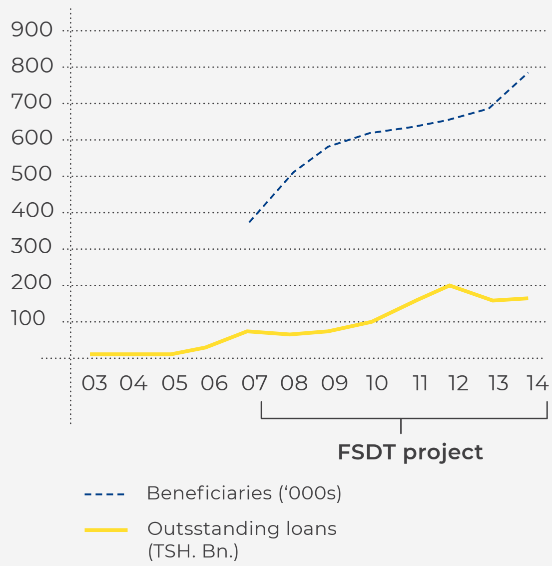
These capacity building activities were followed by an expansion of the CRDB/MFSCL network. More MFIs were provided with services in more districts (Figure 6). This expansion increased the number of customers being reached and the value of loans taken up by them overall (Figure 7). Unfortunately, we have no baseline data upon which we can assess with confidence the extent to which customers newly reached by CRDB/MFSCL were previously unconnected to financial services.

Figure 6. Growth of MFSCL network



Source: CRDB MFSCL Annual Reports

Figure 7. Growth in customer base and loans



Source: CRDB MFSCL Annual Reports

Project results

As Table 6 shows, the project (marginally) underachieved against key targets. For example, at project end, MFSCL had achieved 458 MFI partners out of a targeted 469 with 783,558 members out of targeted 909,075. These results were achieved by a project end date that was pushed back by over 3½ years.

In interviews for this Impact Assessment, both CRDB and FSDT put this underachievement down to a consolidation of partner MFIs that took place between 2011 and 2014. The objective was to remove under-performing partner MFIs by either combining them or establishing new partner MFIs. The consolidation led to a net reduction of about 80 partner MFIs and over 120,000 members.

CRDB managed to meet or surpass overall targets for other quantitative indicators such as cumulative loans disbursed by CRDB to partner MFIs, volume of savings mobilised by partner MFIs, average membership per partner MFIs, and volume of loans disbursed by partner MFIs.

The user survey conducted as part of this impact assessment indicated that membership of partner MFIs has been successful in reducing financial exclusion, has provided access to adequate products and services at reasonable prices through flexible processes and requirements, increased incomes and thereby access to social services, and through the use of mobile phone services, provided low-income households with improved access to payments and remittances.

Systemic results are more difficult to identify and indeed, the project's original design documents suggest no real systemic ambition for the project. The design focused narrowly on change within a single market actor and it follows that the project appears to have benefited one bank: CRDB, its subsidiary MFSCL, and its network of partner MFIs.

That said, one interesting, seemingly unintended, outcome has been that, as a result of their increased capacity, a small number of partner MFIs (3-5%) have been able to attract funding from sources other than CRDB at a reduced interest rate.

To what extent would these results have been achieved in the absence of FSDT? MFSCL report that, in the absence of FSDT funding, they would not have expanded as extensively as they have. Two pieces of evidence support this claim:

- First, historically, MFSCL's model of expansion has been supported by donor subsidy. Their expansion up to 2007 was made possible by a DANIDA grant of USD 1.9 million to CRDB to build and nurture the MFI (specifically the SACCO) network.
- Second, MFSCL's Review of 2014-15 notes that since the completion of FSDT's support programme, the 'peripheral' support like training, infrastructure support and regular hand-holding to partner MFIs has reduced. This has impacted on the small MFIs in particular, as the smaller partners are not financially able to spend on availing such support from MFSCL, even on a cost basis. Only those MFIs that were supported earlier in the project, that have grown to a reasonable size, are now able to afford MFSCL services.
- In this context, we are confident that FSDT has contributed to financial inclusion through its support to CRDB/MFSCL (see Figure 7). However, we are less confident about the sustainability of these gains. It is important to ask: after eight years of FSDT support, is the MFSCL a self-sustaining model that will continue push out the frontier of financial access? It is too early to tell but the recent scaling back of services is not a positive sign. Moreover, MFSCL reported to us that growing partner MFIs to professionalise them is not self-sustainable and requires grant funding.

Table 6. Project achievements against targets

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Number of partner MFIs	458	469	Under achieved
Number of members	909,075	783,558	Under achieved
Outstanding loans (TSH. Bn.)	208	158	Under achieved
Value of Deposits (TSH. Bn.)	52	38	Under achieved
Portfolio at Risk - 30 or more days past due (%)	<5	5.30	Under achieved

Source: CRDB MFSCL Annual Reports

PROJECT 2

TA SUPPORT TO ACCESS BANK TANZANIA LIMITED

Project description

FSDT's support was designed to contribute to the establishment of a new bank: Access Bank Tanzania Limited. Between June 2007 and December 2010 FSDT invested USD 1.4m worth of technical assistance into this endeavour, 45% of the TA provided, with IFC, KfW, AfDB and others providing the rest.

Access Bank stated mission is to be:

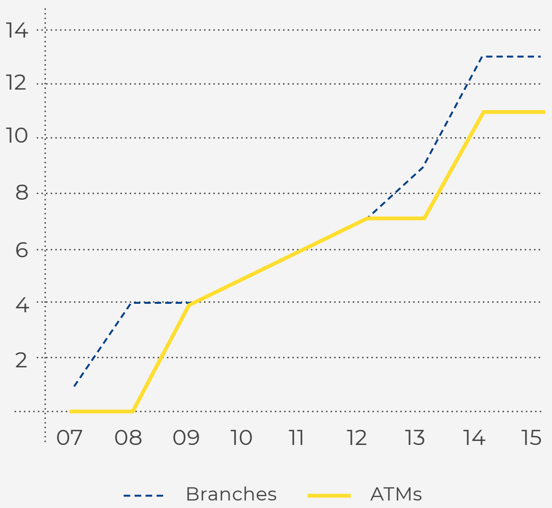
"A socially responsible bank for the lower and middle-income strata of the Tanzanian society. It is the one-stop bank of choice for micro and small enterprises. It strives to be the leading provider of financial services in Tanzania."[34]

Access Bank is part of the international network of banks that operate in the microfinance, enterprise finance and financial inclusion space. The majority stakes of the bank are owned by Access Microfinance Holding AG (AccessHolding), a Berlin-based investment company established in 2006 with the aim to make equity investments in start-up and early-stage MFIs in developing and transitional countries. The major shareholders include IFC, EIB, Omidyar-Tufts Microfinance Fund and CDC, and a company called LFS Financial Systems. LFS appears to be the key driving force behind AccessHolding and its investments.

FSDT's preference was to provide its grant through the locally domiciled Access Bank Tanzania. However, in the event, the grant was made to LFS, a German registered company on account of tax advantages wherein LFS was able to legally avoid paying Tanzanian tax and pension contributions on their staff salaries. This is mentioned by the Project Appraisal Report and was confirmed in an interview for this Impact Assessment by the CEO of Access Bank. This is striking. If accurate, this kind of decision-making would appear to run counter to DFID's efforts to tackle tax avoidance and promote 'responsible business' in Tanzania and globally.

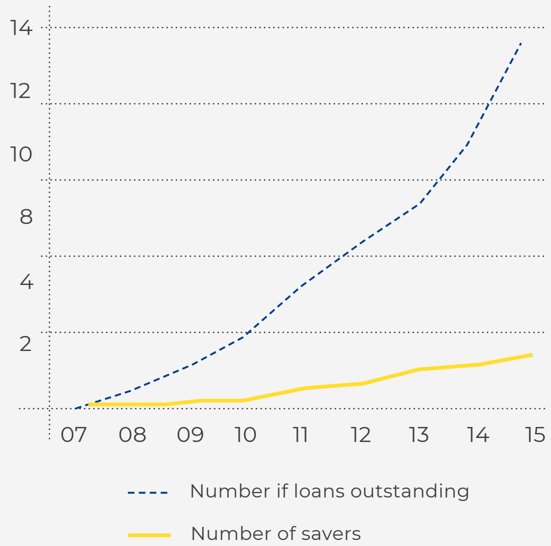
34.http://www.accessbank.co.tz/index.php/home/index/aboutus/mission

Figure 8. Growth in Access Bank branches and ATMs, 2007-2015



Source: CRDB MFSCL Annual Reports

Figure 9. Growth in Access Bank loans and savers, 2007-2015



Source: CRDB MFSCL Annual Reports

Project results

Commercially, Access Bank has performed extremely well. It achieved operational breakeven in October 2011 and is now among the ten largest employers in the Tanzanian banking sector. Beginning with micro loans and basic accounts, the bank has evolved to offer a variety of financial products and services. Through the Umoja Network it offers account access through over 200 ATMs across the country and offers full mobile banking services (Figure 8).

Perhaps the most notable achievement, from an FSDT perspective, is that at the end of the project in December 2010, Access Bank had just over 5,600 active borrowers and around 45,000 savers. This 'reach' has grown in subsequent years: at the end of 2015 Access Bank had approximately 32,000 borrowers and 238,000 savers (Figure 9). The bank is focused on expanding financial services to women and youth and as of December 2015, over 40% of its lending portfolio caters to such segments.

As Table 7 illustrates, the project had mixed results against key targets. Perhaps the stand out achievement is the number of voluntary savers achieved: over 45,000 against a target of around 2,000. And despite being lower than anticipated upfront, Access Bank's loan portfolio has grown steadily with 5,592 borrowers at project end in December 2010.

Field research conducted during the evaluation indicated that users who were formally excluded from accessing financial services have experienced increased economic empowerment as a result of the access to financial services provided by Access Bank. Users also now have a better understanding of commercial interest rates and are less likely to seek financing at uncompetitive interest rates.

In terms of systemic impact, while the primary impact envisaged was greater access to finance via Access Bank (i.e. direct impact), FSDT also thought that such a project may contribute via a 'demonstration effect' whereby more MSME focused banks would emerge and/or other banks will copy products successfully trialled by Access Bank.

In practice, since the launch of Access Bank, several banks and MFIs – including for example, CRDB, NMB, Akiba, Advans and MFIs such as Tujijenge – have started focusing products on the MSME sector. In interview, the CEO of Access Bank attributed this to the credibility Access Bank brought to the sector. Certainly, Access Bank appears to be seen by other banks as a pioneer: several of its staff have been poached because of their expertise in MSME lending.

To what extent would these results have been achieved in the absence of FSDT? Our assessment is that FSDT funds have contributed considerably to the establishment and expansion of Access Bank. It appears too that, with nearly 32,000 loans outstanding and around 238,000 savers in 2015 (five years after the FSDT project ended), Access Bank has contributed significantly to financial inclusion. Unfortunately, in the absence of baseline data, we cannot assess the extent to which these were customers that were new to banking or if they were customers switching from one bank to another.

But crucially, would Access Bank have been established in the absence of FSDT support? Would it have expanded at the rate that it has? Here we have some mixed evidence. Our outward-in analysis shows that the number of formal financial service providers in Tanzania has increased from 32 in 2005 to 53 in 2013. Thus, the launch of Access Bank can see seen as being part of a broader trend. However, our interviews for this particular project suggest the most likely counterfactual scenario is that the bank would not have come into existence. LFS' original project design envisaged management support for the first three and a half years of operations. Access Bank's senior management team claim that no other donor was willing to fund this. Further, they claim that without the grant from FSDT, it is likely that LFS and other stakeholders for the bank would have refused to invest and instead would have explored setting up a bank in another country.

Table 7. Project achievements against targets

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Equity (TSH. mn)	6,300	8,780	Over achieved
Branches	6	5	Under achieved
Active borrowers	11,967	5,592	Under achieved
Gross Loans Outstanding (USD '000s)	8,455	10,026	Over achieved
Voluntary savers	1,943	45,117	Over achieved
Operational self-sufficiency (%)	97.4	100.7	Over achieved
Operational expense ratio (%)	23.4	38	Under achieved
Portfolio At Risk (PAR)> 30 days (%)	<2.0	2.88	Under achieved

PROJECT 3

CARE ONGEZA AKIBA (INCREASE YOUR SAVINGS) VSLAS

Project description

FSDT supported CARE to bring financial services to rural areas through Village Savings and Loan Associations (VSLAs) using a direct intermediation model. A direct intermediation model is where the project organisation creates infrastructure and staff strength at the field level to create savings groups, train group members and monitor the processes of village savings and loan association. The FSDT project commenced in April 2008 and ran to December 2011.

CARE Tanzania had significant experience in VSLAs having established and trained VSLAs with 90,000 members across the country. In 2008, FSDT had been given a target of 700,000 new people enrolled in VSLA or VICOBA groups by 2012. It saw the scaling up of the CARE model as a means of achieving that goal cost effectively.

FSDT provided a grant of USD 8.35 million to CARE. This money went towards a range of activities including staff salaries and benefits (for mobilisers on formation and training of groups); materials and equipment (vehicles, motorcycles and kits for groups); operational costs (transportation, communications, utilities, insurances); and travel and transportation (for CARE's senior staff and zonal management, programme activity costs, consultants, contingencies and reviews).

As the grant represented over 15% of the total funds committed to FSDT, it split the funding for the project into two phases: half for the first phase and then the other half for the second phase depending on the mid-term review and the recommendations of the report.

Project results

As Table 8 illustrates, reported results suggest that the project has performed well against its targets. Thousands of associations were established and trained. While again, baselines on the financial activity of members are absent, it is likely that new VSLAs have offered thousands of previously financially excluded poor people access to financial services and financial literacy training for the first time. Field surveys undertaken during the evaluation indicated that as a result of the project, users' ability to accumulate funds for both capital investments and to meet basic needs has increased. Group members with capital have started running their own businesses. Low income groups have a sense of ownership with the VSLAs as they set their own rules and regulations and are provided with flexibility where required on issues such as setting/changing the share amounts, and justifications for accessing the emergency kit.

However, as we discuss below, an independent evaluation of the project casts serious doubt of the validity of the numbers reported in Table 8.

In terms of systemic impact, FSDT anticipated a self-replication of VSLAs. While there was a replication of groups due to the efforts of the mobilisers/trainers and apexes, it did not have an additive impact on the number of groups as it helped to replace the non-functional and disbanded groups.

In evaluating this project, a number of troubling issues emerge. In-line with the project grant agreement, the plan was:

- For Phase 1 of the project to run from April 2008 to December 2009.
- For a mid-term review to take place in December 2009.
- Assuming the mid-term review went well, for Phase 2 to take place from early 2010 to December 2011.

In practice, the mid-term review was not commissioned until November 2010 and the report submitted to FSDT in February 2011. FSDT decided to disburse the second tranche of funds to CARE without the mid-term review.

When it came, the review was highly critical and argued that FSDT should have commissioned a forensic audit to assess the lapses in utilisation of funding.

"Project performance against the original objectives and targets has fallen below reasonable expectations. The evaluation team estimates that at the time of the evaluation, compared to a target of 10,080 groups and a reported 10,332 from the MIS, there was probably a shortfall of at least 1,000 groups – and possibility substantially more – against target. More worrying than the slippage, however is the uncertainty, and the fact that the Project does not have a credible information system to track performance."

"All of this suggests a management team that lost touch with the realities in the field."

"CARE Tanzania is 'not ready' for prime time."

A key lesson from the project relates to the questionable effectiveness of the direct intermediation model in using the VSLA methodology to extend financial services to the rural poor population. Whilst community based trainers and local non-governmental organisations are effective in achieving outreach, there is a need for robust checks and balances on implementation supervision, management, monitoring, and use of funds.

In the light of the mid-term review, the decision to approve the second phase has been questioned. FSDT went on to fund a USD 7.5m follow-on project to Ongeza Akiba entitled 'Pesa Kwa Wote', again implemented by CARE Tanzania. However the second phase has been justified by FSDT and CARE on account of the design of Pesa Kwa Wote project being significantly different from Ongeza Akiba in the relation to: the delivery methodology; a more rigorous selection process for partners; greater accountability in relation to implementation, supervision, management, monitoring, and fund utilisation; and significant efforts to link Village Savings and Loans groups to formal financial institutions and to digital financial services. The evaluation team did not review Pesa Kwa Wote and so cannot verify the extent to which these measures taken in the second phase have meaningfully addressed the shortcomings of the first phase.

Table 8. Project achievements against targets

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Number of VSLA groups formed	10,080	10,385	Over achieved (103 per cent)
Number of VSLA group members	221,760	244,240	Over achieved (110 per cent)
Savings mobilised (USD Mn.)	8.72	8.02	Under achieved (92 per cent)
Apex Associations	40	41	Over achieved (102 per cent)
Community Based Trainers	1,000	1,107	Over achieved (110 per cent)

5.2 MESO-LEVEL IMPACTS

PROJECT 4

NMB AGRO-DEALERS GUARANTEE SCHEME

Project description

The objective of the project was to develop risk-sharing arrangements using private sector mechanisms to address capital constraints facing small-scale agro-dealers that in turn would support the sustainable agro-input distribution network within rural areas of Tanzania. To this end, FSDT and AGRA (Alliance for a Green Revolution in Africa) supported NMB to develop a financial product (an overdraft facility) appropriate for small-scale agro-dealers e.g. lower collateral requirements and lower interest rates. In order for NMB to provide this overdraft facility, the project launched a guarantee scheme with a shared risk agreement – 50% to NMB and 50% (split equally) between FSDT and AGRA.

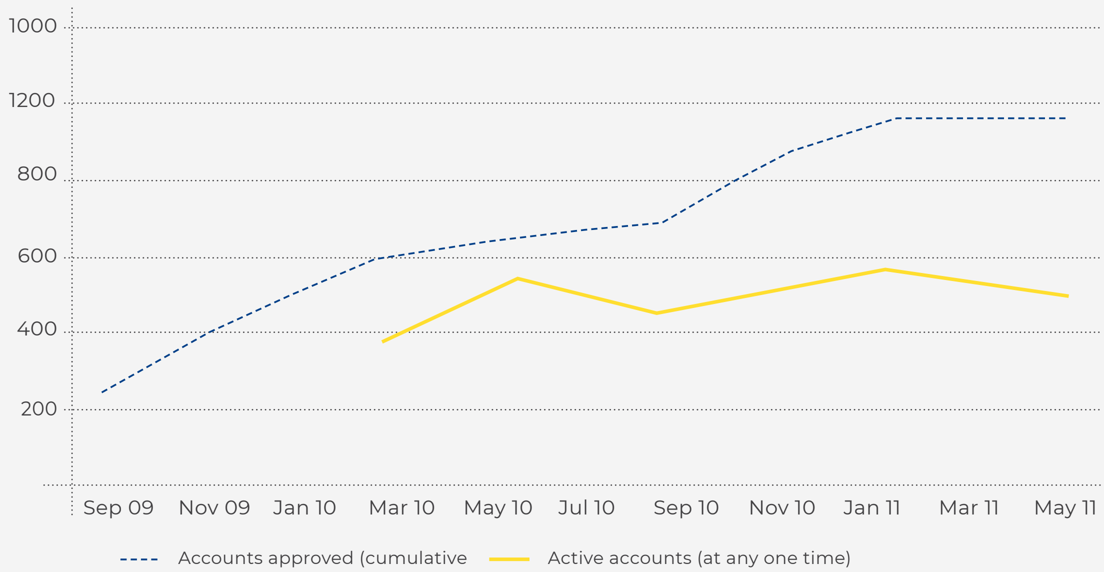
Project results

As illustrated in Figure 10, as a result of the project, 966 agro-dealers had access to loans that would not have been available in the absence of the scheme. The guarantee allowed agro-dealers to borrow at a lower interest rate of 15% (compared to the usual 18-20%) and borrow against a collateral valued at 62.5%, as compared to NMB's usual 125% collateral[35]. It has not been possible to confirm how many of the agro-dealers were previously unbanked or were not eligible for existing bank products. However anecdotally, a key informant stated that less than 5% had access to formal financial services before the overdraft facility.

At the end of three years, staff from NMB confirmed that 40% of the 966 agro-dealers had 'graduated' from the scheme and were eligible for NMB's standard SME loans. Furthermore, as the project supported these 966 agro-dealers to develop a credit history and to gain experience in working with a formal financial institution, the agro-dealers could in principle apply for loans at any bank. To this end, FSDT/AGRA assisted agro-dealers who were in principle bankable (e.g. stronger entrepreneurs) in

35. As required by the Banking and Financial Institutions (Credit Concentration and other Exposure Limits) Regulations of 2008.

Figure 10. Growth in agro-dealer accounts



Source: CRDB MFSCL Annual Reports

terms of business performance and prepayment capacity but lacked sufficient collateral, to access finance.

An independent review[36] confirmed that as a result of the guarantee scheme, agro-dealers were in a better position to stock up on inputs (fertilizers, seeds, pesticides, veterinary medicines and farm tools). In trend, during the project period, agro-dealers reported having higher sales turnover and increased clients. Farmers reported that access to agricultural inputs was easier as a result of the project because of better-stocked agro-dealers. Farmers also reported that stocks were generally of better quality and also more reliable in the areas where NMB-supported agro-dealers did business. Overall, farmers reported that yields had increased because of improved seeds, fertilizers and farming techniques as a result of improved extension services and awareness. However, because multiple other factors including weather, improved knowledge of farmers due to government and NGO projects and the existence of government subsidies to farmers also had a significant contribution, it is impossible to isolate the effect of the project on farmers' yields.

From our perspective, the key issue that emerges from this project is one of sustainability for the financially excluded agro-dealer client segment as a whole. Once the project came to an end, the tailored overdraft facility to agro-dealers was discontinued. Therefore, other agro-dealers with a similar profile as were served by this scheme no longer had access to this particular tailored product.

Could another product have been developed during the project that would be sustained? During the interviews with both CNFA and NMB, both expressed their surprise (at the time) that the Guarantee Scheme was not extended. CNFA staff believed that AGRA, FSDT and NMB missed an opportunity to develop another suitable product for agro-dealers that could be sustained without the guarantee. When probed on this specific subject, NMB expressed that since they fully expected the project to be extended, there was also no clear exit strategy and no alternative products or services were explored.

The project cannot, therefore, be said to have changed NMB's risk appetite to the extent that it was willing to continue to provide different and relaxed loan conditions without a third-party guarantor. In exploring this issue in interview, several NMB staff reported that they could not continue the overdraft facility without the risk-sharing arrangements that the guarantee scheme provided. This raises several questions: Did FSDT/AGRA and NMB have different expectations about the longevity of the overdraft facility? If so, how did this crucial miscommunication occur? Or, did FSDT/AGRA accept or ignore these sustainability issues? If so, why?

On a more positive note, thanks to the Guarantee Scheme, NMB was able to test out a new market to acquire hands-on experience with new clients and a new product without too much risk to themselves. The project enabled NMB to change the way it assessed risks posed by the agro-dealers as NMB had more experience in assessing the borrower and loan characteristics for this client segment. To this end, NMB has since continued to provide loan facilities to agro-dealers albeit under the standard products and loan conditions available to other SMEs. The experience is said to have also informed NMB's entry into the agricultural sector; before the overdraft facility, NMB's engagement with the agriculture sector was limited. In 2016 NMB had started a new division in the bank that extended services to the agricultural sector. However, it must be said that the push for NMB to focus more on financing the agricultural sector was spurred on from many fronts, not least the competitive environment of the retail-banking sector.

Table 9. Project achievements against targets

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Agro-dealers reached	1,000	966	Target met
Districts reached	23	38	Over achieved
Value of loans	TZS 9.5bn	TZS 13.27bn	Over achieved
Leverage ratio	4.5-5 : 1	4:1	Under achieved

36. Triodos Facet (Oct 2011) External Review of the Guarantee Fund Supporting the Financing Scheme of Agricultrual Inputs in Tanzania.

PROJECT 5

DUNDULIZA SACCO NETWORK

Project description

The SACCOs sector was (and is) in need of appropriate business services. There is potentially large-scale demand for low cost, services which are relatively simple technically, and embedded in the local context. In this context, FSDT provided financial support towards the establishment and development of a network apex ("Dunduliza") that aimed to provide general as well as specialised support to its affiliated SACCOs.

The Dunduliza project originated from the collaboration between four partners: FISEDA (Financial Services and Enterprise Development Association) a Tanzanian NGO; Development International Desjardins (DID); the Swedish Cooperative Centre (SCC); and FSDT. FISEDA (with the financial support/seed funding of FSDT) prepared a proposal for FSDT and SCC. FSDT (then DFID) financed the proposal.

The project's main objective was to develop the technical, financial and organisational capacity of Dunduliza in order that it could develop and maintain a network of financially sustainable SACCOs. In parallel, the project also aimed to develop and strengthen SACCOs in seven regions of Tanzania. In theory, the project aimed to develop both the supply of capacity building services to SACCOs in developing Dunduliza as well as develop the demand for capacity building services in organising SACCOs under the network.

DID was the primary grant recipient and implementer from 2004 to 2006 when in July 2007, DID transferred full management control to Dunduliza. FSDT funds went directly to Dunduliza with DID providing on-going technical assistance. During this project period, Dunduliza set up offices, MIS systems, governance and reporting systems and hired staff for itself and SACCOs within its network.

Project results

As illustrated by Figures 11 and 12 overleaf, in the first phase, there was a steady rise in numbers of SACCOs selected and affiliated with the Dunduliza network. There was also a rise in membership from 7,955 to 52,408. During phase two, this steadily increased to 72,000 members in 38 SACCOs by December 2009. As expected, in absolute numbers the savings balance and the loan portfolio outstanding also increased between June 2004 and December 2009. Membership numbers, savings and loan portfolio outstanding amounts surpassed the targets.[37]

Unfortunately, by mid-2008, the project started to falter due to mismanagement of both Dunduilza and the SACCOs. Within one year, from 2009 to 2010, 14 SACCOs disaffiliated from the network. Interestingly, and recalling that FSDT provided support to CRDB's MFSCL (see Project 1 above), it was reported that from 2009, CRDB started aggressively poaching the better performing SACCOs. Today, fewer that 19 of the original 38 SACCOs that were formally affiliated with Dunduliza are still operating, but a majority of these are functioning at a low level. Dunduliza no longer operates as an apex organisation and is insolvent with negative equity and with large debts (mainly loans) to pay. It has gone into real estate and works on projects for international NGOs in training and developing SACCOs.

Table 10. Project achievements against target

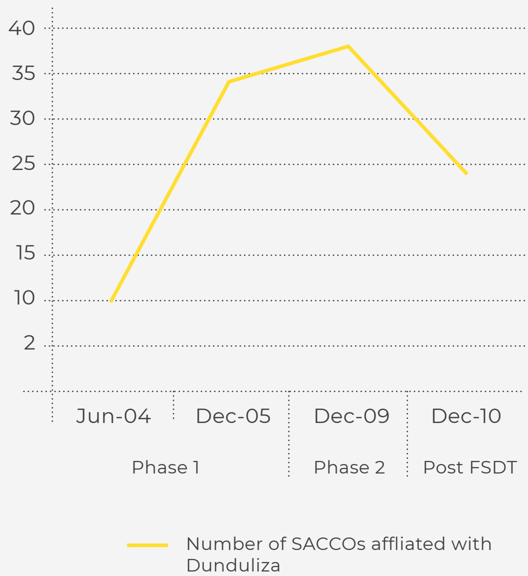
PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
SACCOs in Dunduliza Network	35	38	Exceeded target
SACCO members	72,483 (40% women)	72,000	Target met
Value of deposits (TZS)	5.4bn	4.2bn	Below target
Number of loans disbursed	50,581	12,215 (Dec 2006 – as 2009/project end figures not available)	Below target
PAR over 30 days	<4.5% over 30 days	<10.75% over 30 days	Below target
Operational self-sufficiency	119%	119%	Target met
Financial self-sufficiency	112%	110%	Target met

37. Bearing in mind that in the first phase FSDT set targets for SACCO growth and in the second phase it focused more on the sustainability of Dunduliza

Several problems appear to have contributed to the failure of Dunduliza which we discuss in Annex 3. Perhaps key amongst them were Dunduliza's ambitions, which appear to have been set beyond commercial realities. It was always going to be a huge undertaking to support fledgling SACCOs in disparate locations, while at the same time establishing its own financial independence and capacity to provide services. Related to this, in an effort to meet 'financial exclusion' objectives, Dunduliza appears to have been ambitious in the proportion of rural based SACCOs within its network. A financially self-sustaining model requires having strong SACCOs in the network who are willing to pay fees and in general, these tend to be based in urban areas. Other networks using similar models such as USAWA (Umoja wa SACCOs za Wakulima) have closer to a 2 to 1 urban/rural mix, whereas Dunduliza's mix was 3 to 1 in favour of urban SACCOs. In the end, Dunduliza was entirely dependent on FSDT to the extent that in 2009, when FSDT ended their funding relationship, it ceased all activities.

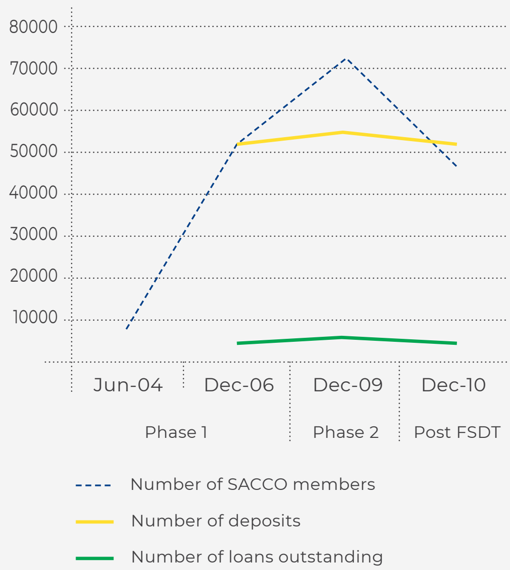
Although the over ambitious project design and operational mismanagement are seen as key reasons for the failure of the project, the policy and regulatory environment significantly contributed to Dunduliza's struggles. The 2003 Cooperatives Act allowed the Registrar of Cooperatives and by extension the Savings and Credit Cooperative Union League of Tanzania (SCCULT) to act as the primary supervisory authority over SACCOs in Tanzania. Dunduliza was not given delegated supervision powers by the Registrar to monitor or supervise the SACCOs in its network. This meant Dunduliza did not have the legal authority to exercise damage control in instances where SACCOs mismanaged their finances, or to force compliance with credit policies. Without these powers, it was difficult to manage a stable and sustainable network of SACCOs.

Figure 11. Number of SACCOs affiliated with Dunduliza



Source: Dunduliza reports to the board

Figure 12. Number of members, savings and loans



Source: Dunduliza reports to the board

PROJECT 6

DUNDULIZA SACCO NETWORK

Project description

To contribute to FSDT's overall goal of a "deeper financial system in Tanzania providing greater access for financial services for more men, women, and businesses," the project aimed to increase the number of Tanzanians with access to formal, semi-formal and informal providers through the use of M-Banking that connects the mobile phone to a personal or business bank account.

FSDT supported NMB through the provision of a USD 300,000 grant – 42% of the total cost of the project with NMB bearing the outstanding balance – to develop an SMS-based mobile banking service called NMB Mobile. Most of the grant went towards payment of the software supplier to develop the payment platform, and the rest contributed towards the cost of technical assistance to NMB staff, a Help Desk and marketing of the first year of the three-year project. The NMB Mobile project was implemented over three years from 2009 to 2011.

Project results

During the project period, NMB opened 775,685 new bank accounts, surpassing the conservative target of 300,000. 16% (121,329) of these new accounts were opened in seven regions with the highest level of financial exclusion in Tanzania. Of these 775,685 new accounts, 51% (394,287) were previously unbanked – the assumption is that all the accounts which were opened in branches where there is no other bank branch could be counted as customers who were previously unbanked. The NMB Mobile service has improved existing customer user experience. The platform was mainly used for balance enquiry. Previously, customers would have had to go to the branch and wait in long queues to check their balances.

It is not possible to say in definite terms what effect the grant had on the market for mobile-banking. However, it is possible to say that once NMB started pushing out the NMB Mobile product, this acted as a signal to other market actors of the market viability of providing services to low-income consumers. Other banks had additional incentives to copy and push out pro-poor business models once lessons had been learned from market trials. NMB had to some extent prepared the market by

Figure 13. NMB new accounts and mobile registrations

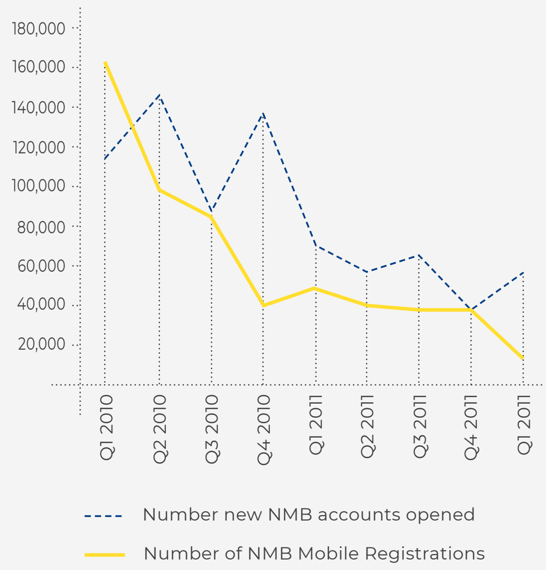
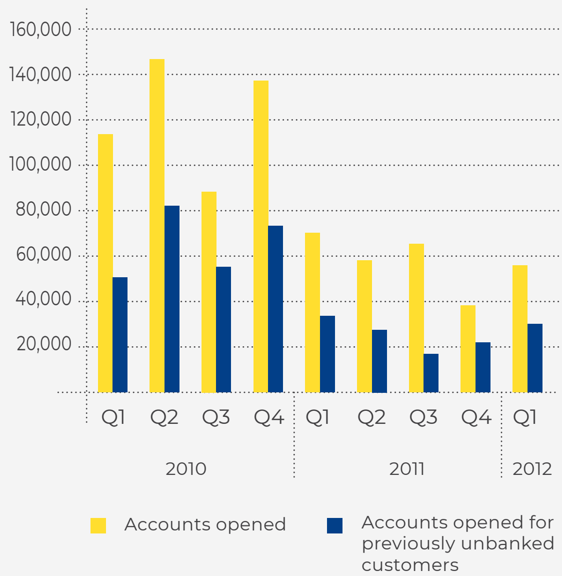


Figure 14. Accounts and accounts from unbanked opened



virtue of being the first to launch such a product stimulated customer awareness and demand, bringing down costs and risks for others. Therefore, FSDT's grant can be said to have contributed towards catalysing and accelerating change to develop the infrastructure for mobile banking and through this, stimulating others to follow in what was unknown territory. Specifically, after the success of NMB Mobile, Akiba Commercial Bank, Mkombozi Bank and Amana Bank approached FSDT for advice on developing its infrastructure for cardless banking[38]

Would this have happened without FSDT funding? In interview, NMB's acting Chief of Retail Banking who originally approached FSDT about the project in 2008, claims that they would have developed a mobile banking service eventually but that FSDT should be credited with speeding up the process. At the time NMB had just gone through a large restructuring and mobile uptake was low, making this a high-risk project for NMB and it is questionable whether NMB would have embarked on this project without FSDT's support.

It is worth noting that the second-mover, CRDB's SIM-Banking, was launched in December 2010[39], within 18 months of NMB's launch. It is hard to say the extent to which CRDB's accelerated their innovation in the light of NMB's. In any case, we can conclude that FSDT's support sped up the launch of mobile banking in Tanzania by 18 months at a minimum.

Of course, other factors such as the enabling environment, improved national payments systems and expanding telecommunications infrastructure across Tanzania were instrumental in the launch of NMB Mobile and others that followed. For example, the world over lauds the BoT's concerted pioneering efforts from 2008 onwards, to find a legal and regulatory framework that would provide sufficient legal certainty and consistency to support a stable mobile money market, promote financial inclusion, and protect customers while allowing for innovations in the market.

Table 11. Project achievements against targets

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
New accounts opened	100,000 per annum	775,685 (3 years of operation)	Exceeded target
New Customers who were previously unbanked	60% of new customers	51%	Below target
Number of customers who opened account because of MPB	25% of new customers	15-18%	Below target

PROJECT 7

MOBILE FINANCIAL SERVICES INTEROPERABILITY SCHEME

Project description

Around 2011/12, the financial services industry expressed a need for a neutral entity to facilitate the process of creating business rules and a business model around mobile financial services interoperability[40]. Banks and mobile network operators indicated that they were willing to participate in such an industry-led solution provided a business rationale existed. The development of a fully interoperable financial system was seen as having the potential to increase financial access by providing more points of access at a lower cost.

To address this need, in 2012, IFC scoped the market in Tanzania to assess the viability of creating an industry-wide platform to enable seamless inter-network payments to deliver low-cost transactions to customers in an interoperable mobile financial services environment. This was co-funded by FSDT and the Bill and Melinda Gates Foundation. The scoping looked for a solution that would operate on a cost recovery (utility) basis.

This scoping study concluded that Tanzania was an appropriate market for the development of a mobile financial services interoperability project. In response to this, the project commenced in April 2013. The objective was to formulate an agreed

38. Interviews with Sosthenis Kewe

39. https://www.ukessays.com/essays/marketing/mobile-banking-as-a-critical-service-marketing-essay.php

40. Interoperability is defined as the possibility to transfer money between customer accounts at different mobile money schemes and between accounts at mobile money schemes and accounts at banks (GSMA, 2014)

path to interoperability through the creation of a set of standards for a Mobile Financial Services scheme that would include banks, mobile network operators and the regulator. The expected outcome of the project was a set of rules, called Operational Regulations, for an interoperable scheme in Tanzania. Beyond its financial contribution, FSDT's involvement helped the IFC team to gain from the credibility that FSDT enjoys with financial service providers and mobile network operators in Tanzania. Additionally, FSDT's endorsement of the value of interoperability encouraged the industry to adopt the scheme.

The expected impacts of the project included:

- Increased convenience and reduced costs for users of financial services and thereby increased use.
- A payment infrastructure that is more efficient, affordable and sustainable.
- Increased capacity on payments systems and interoperability for all participating institutions.

Project results

As part of the project deliverables, a series of use cases[41] were developed, namely, Person-to-Person (P2P), Cash In Cash Out, Agent-to-Agent (A2A), Merchant Payments and Bulk Payments.

Commercial agreements were signed between Airtel, Tigo and Zantel in June 2014. Tanzania is now a full MNO-interoperable country, a first in the world, with all MNOs namely, Zantel, Tigo, Airtel and Vodacom (GSMA, 2016[42]) using interoperability measures. However, to date, P2P is the only use case being implemented. We were informed during interviews that the roll out of other use cases is currently on hold until the P2P pilot has been given more time.

Since its implementation in mid-2015, there has been a very rapid growth in both the value and volume of P2P interoperable transactions. There has also been a corresponding growth in the percentage of P2P transactions that are interoperable.

However, awareness of interoperability remains relatively low: in a survey of interoperability conducted in September 2015, 54% of mobile phone users were unaware of interoperability and only 20% had tried a cross-provider transaction. This implies that greater user awareness has the potential to lead to further growth in the use of interoperability.

5.3 MACRO-LEVEL IMPACTS

PROJECT 8

MOBILE FINANCIAL SERVICES INTEROPERABILITY SCHEME

Project description

Early on, FSDT recognised the need for a robust evidence-based research upon which Tanzania's Government could establish public policy and regulation. In particular, FSDT saw a need to better understand the demand for, access to and use of financial services by different segments of the population. The FinScope surveys were designed to address this need

The first survey was conducted in 2005-2006. It was designed to build a comprehensive understanding of the financial services landscape and provide a baseline for service access and use. The aim was to inform and influence the FSDT activities, GoT policy and private sector investment. In practice, it was used primarily by FSDT, to inform its goal-level targets and to revise its strategy document.

FSDT emphasised its broader ambitions for the second and third surveys conducted in 2008-2009 and 2012-2013 respectively: to influence GoT policy and private sector investment in the service of the expansion and adaptation of financial products to underserved segments of the population.

The FinScope reports are published on FSDT's website.

Project results

Key results can be seen at three levels. First, FinScope appears to have established itself as a credible source of information for the market. This was not always the case. The first FinScope survey was rejected by Government. They cited concerns about its weak design, raising questions about its validity and robustness. Despite FSDT establishing a 'Stakeholder Task Force' to generate interest and buy-in to the survey, they claimed that the survey was not conducted collaboratively. FSDT appears to have learnt from that experience, emphasising collaboration in the second and third surveys. The National Bureau of Statistics for instance, has played a significant role in design and quality assurance. In

41. Cases where a product/service can be used

42.The impact of mobile money interoperability in Tanzania, GSMA, 2016 interviews for this Impact Assessment, both public and private stakeholders were unanimous in their view that Finscope is a credible and robust source of information.

Second, FinScope appears to have had influence on Government policy making. Any policymaking process is subject to a range of influences so we cannot attribute policy change to FinScope alone. However, there is evidence that it has played an important role. Perhaps most notably, one can see FinScope data cited in policies such as the National Financial Inclusion Framework and the National Payment Systems Act. Our interviews confirmed FinScope's contribution. A BoT official commented: *"FinScope has facilitated in fixing country level targets of various policies introduced by the government. It has had a tremendous effect in shaping policy formulation."* Interestingly, the same official reported that the Governor of the BoT uses FinScope data (not just the reports but the raw data) extensively, including when preparing his speeches. Separate teams within the BoT confirmed to us that FinScope is an important source of information for the Bank. An interviewee from the Ministry of Finance stressed that FinScope had played an important role in highlighting the low levels of financial inclusion in Tanzania, and that this had been a trigger for his Ministry to consider policy level changes to address this.

Third, FinScope appears to have had influence on private financial service providers. In interview, several cited FinScope as having informed their strategic plans and refinements in their products. FSDT reported that banks had used FinScope data to inform their strategy. This was confirmed by Akiba Commercial Bank, an actor that has not received any assistance from FSDT, who had used FinScope data to better understand the unbanked population, the needs of rural segments, and penetration of mobile banking.

Further, in interview, the Tanzania Association of MFIs reported that FinScope and other publications from FSDT are being widely used by their members. For example, data is used for feasibility studies; decisions around which geographies to focus on; identifying market gaps; assessing regional strength of financial access; and thinking about products and services to offer. Further, they suggested that FinScope has been quoted widely in parliament, in government and private publications, and at conferences, seminars and workshops. It has become a point of discussion in boardrooms and operations/strategy planning for players in the microfinance and inclusive finance sector.

However, apart from the BoT, we found no evidence that stakeholders are using FinScope beyond the report that is available in the public domain. None of the stakeholders we interviewed reported having used the data sets for further analysis to inform policy formulation. A major reason for the limited use of FinScope data is lack of awareness about its availability. Inadequate technical expertise and know-how within the institutions that might have a use for the data to inform their policy making may also contribute. The NBS also suggested that providing more detailed analysis of FinScope data at the regional level would enable provincial governments to use it to inform their planning and policy making.

Perhaps the most significant issue however, is around the sustainability of FinScope. The first three survey cycles have been funded and conducted entirely by FSDT. FSDT is working on a fourth cycle this year. In interview, various stakeholders agreed that the FinScope surveys need to be institutionalised with permanent market actors. Opinion is divided as to who should perform this function. With FinScope now well established as a credible and useful source of market information, its sustainability is clearly a key issue to which FSDT needs to turn its attention.

PROJECT 9

RURAL FINANCIAL SERVICES STRATEGY

Project description

Commencing in 2007, FSDT supported the BoT and the MoF to develop a Rural Finance Services Strategy (RFSS). The strategy sought to identify constraints to greater financial inclusion in rural areas and, where appropriate, offer options for addressing these constraints. The strategy was also designed to support the private sector by identifying opportunities for investment and funding in microfinance and community banks, including SACCOs.

As the Ministry leading on the RFSS, the MoF presented the strategy for Government adoption to the Inter-Ministerial Committee first in December 2010 and then in June 2011. It was later presented to the Cabinet Secretariat in January 2012. The Cabinet Secretariat raised objections and directed the ministry to present the revised strategy after incorporating their suggestions. The Cabinet secretariat's objections included a failure to adequately show gaps that existed in the provision of financial services in rural areas; a lack of trust in the validity of the FinScope survey of 2009 that had informed the RFSS; and a lack of consultation with government stakeholders.

FSDT supported the MoF to address these concerns. For example, it helped establish a task team comprising a wider group of stakeholders and organised a three-day retreat to generate new information, ideas and recommendations that could be included in the revised strategy.

Project results

Our interviews revealed that the RFSS is with the MoF in its final form. There appears to be some confusion about when, how or if the RFSS will progress. The MoF reported that they were waiting for the Microfinance Policy to be enacted before the RFSS is presented again to the Cabinet. The BoT reported that, if it was to be presented again to Cabinet, the RFSS would need considerable amendment to take into account recent developments in terms of agent banking and technology-led initiatives in financial services delivery.

Clearly, the key aim of the project – an approved and implemented RFSS – has, to date, not been achieved. There are however, some positives that can be drawn from the experience. First, supporting the RFSS was one of FSDT's earliest projects. Arguably, FSDT's work helped position FSDT as a thought leader and a credible partner for Government. While we should not attribute too much to the RFSS experience alone, it is true to say that in almost all subsequent initiatives with a bearing on the market eco-system, FSDT has been approached by the relevant authorities (e.g. Ministry of Finance, Ministry of Agriculture, Bank of Tanzania etc.) to provide support.

Second, the MoF and BoT in particular put significant effort into the development of the RFSS. While hard to substantiate, MoF, BoT and FSDT all report that the momentum created by the RFSS enabled further policy formulations such as mobile money regulations and NFIF. RFSS can therefore be seen as having laid the foundation for subsequent policy level changes.

PROJECT 10

POLICY SUPPORT TO THE MINISTRY OF FINANCE (MOF) - CAPACITY BUILDING AND ESTABLISHMENT OF THE NATIONAL MICROFINANCE POLICY

Project description

The Financial Sector Assessment Programme[43] that eventually laid the foundation for the second-generation reforms emphasised the potential of the microfinance sector as a means to financial inclusion. The findings of the FinScope survey of 2009 had highlighted the disadvantages faced by rural people when compared to their urban counterparts. So, when an opportunity emerged to support the MoF to develop a National Microfinance Policy, FSDT took it up.

The project commenced in April 2013 and cost USD 400,000. The objective was to facilitate the MoF's Microfinance Unit Capacity Building Plan and to support the enactment of the National Microfinance Policy and National Payment Systems Act for Tanzania.

The outcomes of the project were expected to be:

- New laws: National Microfinance Policy and National Payment Systems Act enacted and disseminated for use.
- A deeper financial system in Tanzania providing greater access to financial services for more men, women and businesses.
- Knowledgeable and trained review teams / Technical Committees / MoF staff and other relevant GoT officials.
- Towards this end, FSDT's inputs included:
- The provision of funds for the implementation of the Microfinance Capacity building plan of the MoF.
- Provision of access to existing FinScope, AgFiMS (diagnostic tool for agricultural finance) and MSMEs (MSME baseline survey conducted in 2010 to quantify and profile demand from financial services) analyses.
- Provision of FSDT team member to support the MoF and BoT for consultation and guidance.

43. The Financial Sector Assessment Programme (FSAP) studies were carried out by a joint team of IMF and World Bank in 2003 and 2009.

- Provision of an individual to serve as a member of the BoT-Microfinance Technical Committee and be closely involved in the implementation of and discussions surrounding this project implementation.

Additional underlying objectives of this project were to build the technical capacity of the MoF team and increase its understanding of regulation of microfinance, and to enable it to better fulfil its function as a policy making government agency with respect to financial inclusion.

With FSDT support, BoT/MoF hired a consultant to provide technical support for conducting situational analysis of Tanzanian microfinance as well as develop a comprehensive Microfinance Policy. The activities also included organising study visits (to Ghana and India) for BoT staff developing the Microfinance Policy. The aim was to observe well-developed microfinance regulation and conduct stakeholder discussions as part of wider consultation process.

In interview, the staff overseeing the development of Microfinance Policy in BoT said, *"FSDT is very well exposed to the issues in the sector, they conduct a lot of surveys and they are well informed on the issues on the ground. BoT uses the data to guide their policy."*

Project results

As it stands, the Microfinance Policy is yet to be enacted. It is understood from the discussions with the officials of BoT and MoF that the Act has now been approved by the Cabinet and should be ready to be presented before the Parliament soon. No one interviewed for this Impact Assessment could indicate firm timelines. BoT reported that after drafting of the policy, there would be issues on implementation for which FSDT's help will be needed.

The National Payment Systems Act on the other hand has been passed and enacted.

The main reason for the delay in the Microfinance Policy's enactment is a lack of clarity between the MoF and BoT on which institution should be leading. It was mentioned in several interviews that the in-house capacity within MoF was inadequate which further impacted the progress of this project. The team involved in the Microfinance Policy in the MoF also acknowledged their limited expertise on the subject and appreciated the role played by FSDT in building their capacity. Continued capacity building support to both MoF and BoT, as well as in the institutions responsible for implementation is likely to be required to facilitate successful and timely implementation of the Act.

Stakeholders were unanimous in their opinion when asked a question to establish counterfactual. They believe that without FSDT, these policy formulations might have taken place but they would have done so at a slower rate. They accept that the capacity of government institutions to take up financial inclusion initiatives is limited, not only in terms of their technical know-how and expertise, but also in funding. Therefore, while it is difficult to establish direct attribution of changes in the macro-environment to FSDT, we can say with certainty that FSDT, and the initiatives with which it has been involved, are acknowledged by a range of government stakeholders as having helped shape the financial sector landscape, and having speeded up the process of reform.

PROJECT 11

NATIONAL FINANCIAL INCLUSION FRAMEWORK (NFIF)

Project description

The National Financial Inclusion Framework (NFIF) was conceptualised as a result of a series of engagements that FSDT had with the BoT in its efforts to develop a unified definition and vision of financial inclusion.

Following the signing of the Maya Declaration in 2011, two separate Working Groups on financial inclusion were created: a Financial Inclusion Working Group created by the BoT (BoT-FIWG); and the National Financial Inclusion Working Group (N-FIWG). While both had a similar mandate for achieving the targets under the Maya Declaration, the approach followed by them was not coherent. They applied different definitions of financial inclusion and their understanding of various dimensions of financial inclusion was inconsistent.

FSDT sought to achieve greater coherence between the two Working Groups and to achieve a unified national vision for financial inclusion. It contracted two consultants to facilitate this. Through a series of workshops supported by FSDT, the Working Groups developed a common vision and definition of financial inclusion, and outlined a joint action plan for achieving financial inclusion goals.

This culminated in the development of National Financial Inclusion Framework, which was launched in December 2013 and the establishment of the

National Financial Inclusion Council. The BoT was tasked with driving the implementation of the NFIF.

The total cost of the first phase of the project was USD 160,000. Following the launch of the NFIF, FSDT provided a total of USD 2.5m to support the implementation of the NFIF. USD 1.6m was allocated to the BoT, with the remainder going mainly into training and support to develop NFIF indicators and measurement tools.

Project results

FSDT's technical and financial support to the development of the NFIF has been publicly recognised by both the BoT and MoF. The impact has been an explicitly inclusive vision for the financial sector, aligned with FSDT's own raison d'être, based on an understanding of the need to address significant structural and systemic issues at the macro, meso and micro levels. Policies within the sector were previously fragmented and the NFIF has been successful in achieving a unified framework with a clear set of priorities for implementation. The analysis in the NFIF is consistent with a market development approach, and acknowledges the fundamentally embryonic and evolving state of the Tanzanian financial sector:

- At the macro-level, the need to address the macro-economic policy and legal and regulatory framework.
- At the meso-level, the need to tackle information asymmetry for FSPs, financial incapability of customers, and lack of appropriate market infrastructure.
- At the micro-level, the acceptance that there is both unmet demand and a lack of suitable products for the needs of customers generally.

The NFIF action plan includes a list of time bound deliverables. FSDT support to NFIF implementation sought to contribute to addressing many of the constraints identified in FSDT's third strategy (mostly macro-level constraints, but also including some meso and micro-level constraints). Specifically, the project aims to have a direct impact on 12 constraints and an indirect impact on 5 constraints out of the total of 31 market constraints identified in the strategy.

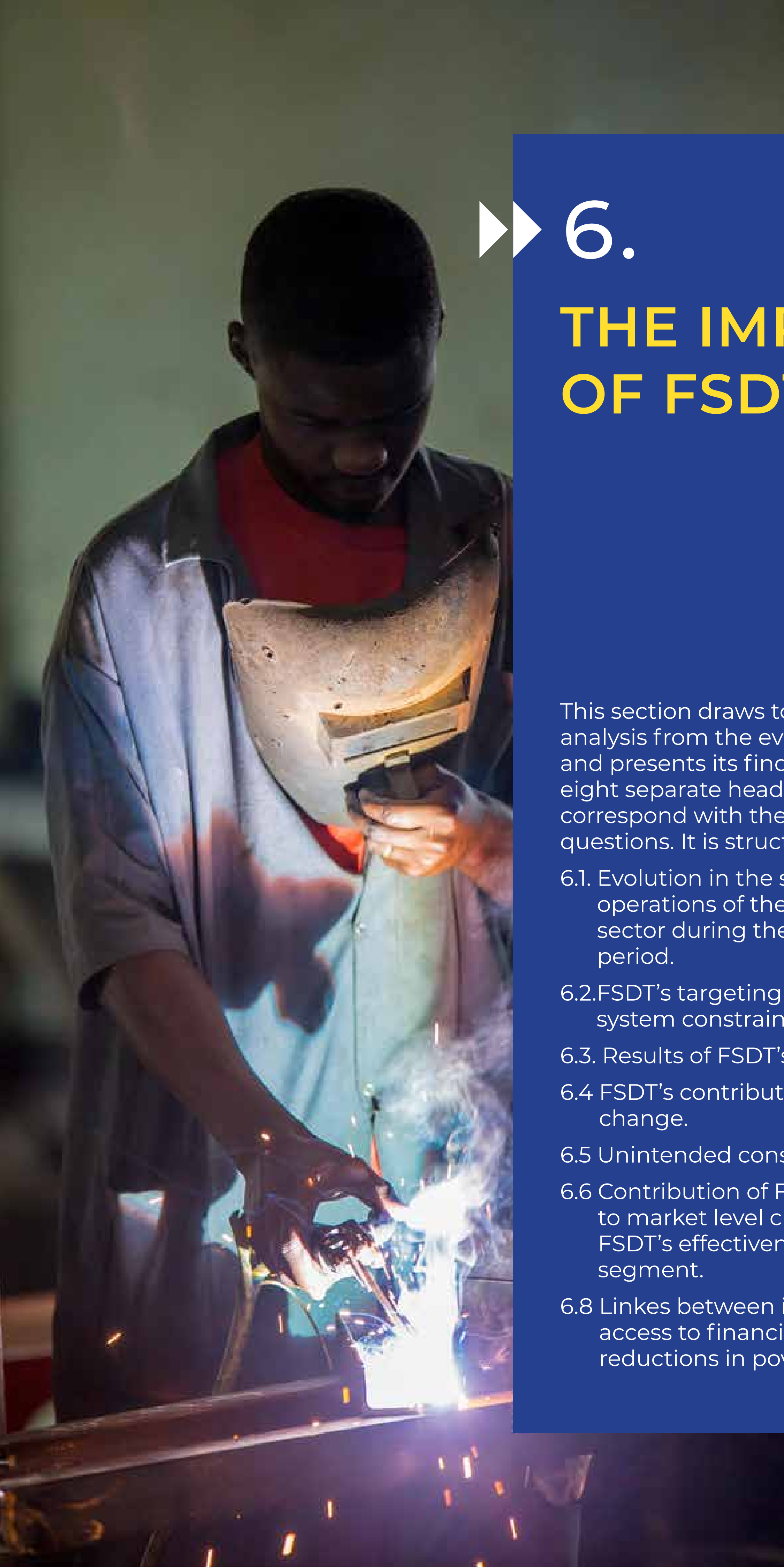
The PAR for the implementation of the NFIF highlights the following key deliverables (separated between those that have been completed to date and those that are ongoing).The project also included the following separate initiatives directly coordinated by FSDT:

- Institutional capacity building for implementation of the NFIF, through training for members of the Tanzania National Council for Financial Inclusion in National Payment Systems, and the Making Markets Work approach.
- Through the establishment of a coordination body for all donors interested in supporting the implementation of the NFIF.

It is difficult to assess the extent to which each of these deliverables would have been tackled in the absence of the NFIF. Many (but not all) had been identified as important by the government before the NFIF was drafted. However, it does appear that the NFIF helped to ensure that constraints to financial inclusion were addressed in a coordinated and systemic manner, thereby raising the chances of their success. The NFIF also provided a useful framework for attracting donor support (mainly via FSDT) for achieving these deliverables.

Project results - National Financial Inclusion Framework

COMPLETED	ONGOING
Enactment of NPS Act. Issuance of MFS regulations. Harmonisation and level playing field between agency banking and MFS guidelines. Interoperability of MFS. Training of National FI Council members on NPS and MM4P approach. Guidelines on bank branch. KPIs for agent banking. Awareness of MF and MFS regulations. Establishment of donor co-ordination structure.	Establishment of Tiered KYC guidelines. Expansion of scope of credit bureau to include MFIs and community banks. Country risk assessment completed. Establishment of alternative collaterals. Basic instant account guidelines.



6. THE IMPACT OF FSDT

This section draws together the analysis from the evaluation and presents its findings under eight separate headings, which correspond with the evaluation questions. It is structured as follows:

6.1. Evolution in the structure and operations of the financial sector during the evaluation period.

6.2.FSDT's targeting of market system constraints.

6.3. Results of FSDT's projects.

6.4 FSDT's contribution to systemic change.

6.5 Unintended consequences.

6.6 Contribution of FSDT's portfolio to market level change.6.7 FSDT's effectiveness by market segment.

6.8 Linkes between improving access to financial services and reductions in poverty.

6.1 EVOLUTION IN THE STRUCTURE AND OPERATIONS OF THE FINANCIAL SECTOR DURING THE EVALUATION PERIOD

Annex 6 presents an analysis of how the level and composition of financial services in Tanzania has evolved over the evaluation period, together with the market system factors that led to these changes. Following the analytical framework set out in Section 3, the annex provides the basis for the 'outward-in' analysis. It is structured as follows:

- **How have the level and composition of financial services changed?**
  - We present time series data on indicators relating to: size; depth and diversity; access and inclusion; efficiency; safety and soundness.
- **What market system changes led to the changes in financial inclusion? What has caused these changes?**
  - Overview of key market system changes.
  - Macro-economic performance.
  - Changes to the policy and regulatory framework.
  - Trends in digital financial services.
  - Capital markets, insurance, and microfinance.

The conclusions of this paper draw on a wide range of data sources, including secondary literature, data analysis undertaken by the evaluation team, interviews with FSDT and key financial sector stakeholders, and a workshop organised as part of the impact assessment which drew nearly 100 participants where participants were asked to reflect on what forces and actors have shaped the financial services sector over the last 10 years.

A summary of the annex is presented below.

Macroeconomic performance

Despite challenging global conditions, economic performance in Tanzania has strengthened in recent years. A number of positive domestic factors are identifiable: political stability; macro-economic management geared towards pro-investment policies; and large-scale sectoral reforms supported by significant multilateral and bilateral Official Development Assistance (ODA). The GDP growth rate has steadily risen from around 3% in the late 1990s to over 7% in 2014 and GDP per capita has risen steadily over this period. The government's intensive efforts to develop non-traditional and non-farm sectors such as mining, communications and financial services have led to lower dependency of the economy on agriculture. Growth has been particularly buoyant in information and communications, mining, construction, manufacturing and financial services.

Inflation has fluctuated considerably over the period, hitting a peak of 16% in 2012, largely as a result of high world market prices for oil and food in 2012. Inflation has since been brought down to single digit levels through prudent monetary policy, improvements in governance, management of food scarcity, and assisted by a global decline in food prices.

There is significant inequality in Tanzania, with more than a quarter (28.2%) of the population living below the basic needs poverty line and 9.7% below the food poverty line[44]. Inequality between urban and rural populations has widened in recent years: of the approximately 12 million Tanzanians living in poverty, 10 million are in rural areas[45]. However, the proportion of people living below the poverty line has decreased significantly from 34% in 2007 to 28% in 2012, with indications that poverty reduction has recently become more responsive to growth[46].

Financial sector performance

The Tanzanian financial sector has experienced phenomenal growth since liberalisation in the 1990s, which was anchored on the First Generation Financial Sector Reforms (1991-2003) and the Second Generation Financial Sector Reforms (2006 onwards). The ratio of bank deposits to GDP has steadily increased, from 13.5% in 2000 to 24.6% in 2013. There has been a gradual rise in domestic credit to the private sector between 2000 and 2013; however, Tanzania lags behind Kenya, Uganda and the overall average sub-Saharan Africa.

The number of formal providers has increased from 32 in 2005 to 53 in 2013. During the same period, the total banking sector assets increased from TZS 4,283bn to TZS 19,523bn and the number of bank branches increased from 253 to 642.

While the favourable macroeconomic environment was a trigger for the growth of the financial sector, a number of sector-specific factors also contributed, including the rise of mobile

44. 2011/12 Household Budget Survey, National Bureau of Statistics, Tanzania.
45. World Bank (2015), Tanzania Mainland Poverty Assessment: A New Picture of Growth for Tanzania Emerges
46. Ibid.

banking, and the integration of banks and mobile banking with SACCOs and mobile money providers. Although the Bank of Tanzania (BoT) significantly increased the capital adequacy requirements (from 10% to 12.5% for core capital and 14.5% for total capital), the banking sector managed significantly higher risk capital rates (16.7% and 18.7% respectively for core and total capital).

In September 2011, the BoT made a commitment to the Alliance of Financial Inclusion (AFI) that by 2015, at least 50% of the population would have access to formal financial services. Increasing access to micro and rural finance has been identified as an important factor to achieving this goal. Commercial banks have implemented agent banking with the approval of the BoT, thereby extending financial opportunities to the underserved. The BoT's access goal was achieved by 2015 and has since been increased to 80% by 2016.

There has been a rapid roll-out of digital financial services during the evaluation period. In 2014, over 13 million[47] people transacted around USD 19 billion through mobile phones. FinScope 2013 revealed that the reduction in financially excluded people from 55.4% in 2009 to 26.8% was driven primarily by the increased uptake of mobile money. From 1.1% (0.2 million) of users of formal non-bank financial services in 2009, mobile banking use increased to 49% (11.9 million) in 2013.

Despite liberalisation, insurance, pensions, capital markets and mutual fund services remain under-developed. The insurance sector reached 13% of the total population in 2014 and is valued at 0.9% of the GDP[48]. The majority of insurance companies are based in urban areas, with a high concentration in Dar es Salaam. The mortgage industry is nascent: mortgages account for 2.3%[49] of the total outstanding loans of the banking sector.

Leasing and factoring services are also underdeveloped[50]: there is only one specialised leasing company (and one provisionally licensed to operate as a leasing company). Two banking institutions also offer some financial leasing products.

Access to financial services

The FinScope survey highlights that between 2009 and 2013, there was a dramatic increase in the number of people accessing formal financial services – from 15.9% to 57.4% of the population[51].

It is notable that the proportion of those using formal financial services that use non-bank products is very high compared to most other Sub-Saharan African countries. This is largely due to heavy reliance on mobile money services. Tanzania has one of the least banked populations in the region.

On the supply side, notable barriers to access include the limited footprint of banks in rural and remote areas and perceived high banking costs. In particular, there is a lack of appropriate options for accessible and secure savings, given the limited outreach of banks and the supervisory challenges surrounding SACCOS. Our user survey (see Annex 7) found that, particularly in rural areas, informal financial service providers are preferred by most users, and the popularity of MFIs has declined.

6.2 FSDT'S TARGETING OF MARKET SYSTEM CONSTRAINTS

Our assessment of the extent to which FSDT targeted key market system constraints is based on a review of FSDT's evolving strategy during the evaluation period (summarised in Section 4) and the prevailing wider view on market system constraints during the periods that the three strategy phases covered.

First strategy (2004-07)

FSDT's first strategy was focused at the micro-level, with an emphasis on supporting microfinance institutions to achieve greater reach. The strategy sought to build a stronger market of financial service providers which deliver services to poorer markets. The identification of constraints did not take a holistic view of the market system and the link between the supply of services and pro-poor access is not articulated in detail. There is little

47. Directorate of Banking Supervision, Annual Report 2014, 18th Edition, Bank of Tanzania.

48. TIRA Tanzania 2014

49. *ibid.*

50. *ibid.*

51. This figure includes both 'adults banked' (those who have or use any product or service from a bank) and 'adults served by non-bank formal financial institutions' (who have or use any product or service from any regulated or officially supervised financial institution which is not a commercial bank). Those actively using formal financial services will naturally be lower than this total. For example, FinScope estimates that 30% of 'adults banked' did

discussion of demand-side capabilities and use of services. The limited number of meso and macro-level interventions that were introduced during the first strategy period were designed to facilitate institution building within the context of existing and emerging policies to support private sector development.

The first strategy was produced shortly after the Financial Sector Assessment Programme (FSAP) in 2003, undertaken jointly by the IMF and the World Bank to review the robustness and soundness of Tanzania's financial sector. The FSAP report highlighted the limited role that the financial sector had played in the country's economic growth and underlined the lack of access to finance for the general population, due to high interest rates, complicated procedures, poorly designed products and lengthy requirements. The report suggested a plethora of reforms in the legal, judicial and institutional arena to enhance access to finance, strengthen the financial sector and deepen the reach of financial services. They included: privatisation of government-owned financial institutions, legal and judicial reforms to increase access to credit, the provision of microfinance, the establishment of a credit registry, the liberalisation of insurance and pension funds, and risk-based supervision of financial institutions.

In this context, FSDT's strategy was relatively narrow and focused on microfinance. It was designed to be consistent with the recently published Microfinance Policy, without major involvement in initiatives to address wider constraints identified in the FSAP, which were led by the World Bank. The strategy also identifies a World Bank lead for initiatives to strengthen the regulatory environment for microfinance. Interviews conducted during the evaluation period indicated that this was a deliberate strategy of FSDT and that a decision was made for FSDT to take a particular focus within the financial sector, leaving it to other organisations to target wider market constraints.

Second strategy (2007-12)

The second strategy initially focused on outreach and scale, rather than addressing more fundamental constraints to market development in the financial sector. This was partly due to pressure from donor agencies for FSDT's interventions to focus in areas where clear tangible results could be achieved in terms of people reached.

The strategy was developed in the context of the Second Generation Financial Sector Reforms (SGFSRs) covering the period 2006-11. These included provision for technical assistance for (i) strengthening the banking sector; (ii) developing financial markets; (iii) strengthening the insurance industry; (iv) facilitating the provision of long-term development finance; and (v) strengthening micro and rural finance. The second FSDT strategy explicitly states that FSDT's focus is on funding most of the interventions under the Micro and Rural Finance component (the fifth component of the SGFSRs), some with the support of the World Bank's Financial Sector Programme.

Following a fundamental review of the strategy in 2008, there was a shift in emphasis to financial deepening. This marked the start of a more holistic view by FSDT of the market system and a recognition that the systemic constraints at the meso and macro-level were so severe that they were hampering the effectiveness of FSDT's interventions at the micro level. Funding for macro and meso-level interventions was increased and FSDT's portfolio was more clearly differentiated by theme, with shift in focus moving beyond microfinance to new areas of activity, including agriculture and rural development, SME development, and mobile phone banking and payment systems.

Third strategy (2013-18)

The third strategy was developed based on a thorough identification and analysis of systemic constraints in the market. The emphasis of FSDT's strategy broadened beyond access, looking also at issues such as the use and quality of financial services (and specific consideration of women / gender and youth). The strategy also recognised the need and opportunity to take into account a reduction of investment in financial sector development by other donor programmes operating in Tanzania. It envisaged a more holistic and market-based approach by FSDT, implying a shift that involves less direct funding of institutions operating in the market to a more facilitative approach targeting specific binding constraints in the market.

The third strategy was organised around three thematic areas: agriculture and rural finance, SME finance and digital finance. These were deemed to impact on: (i) parts of the market where the majority of poor population is engaged; (ii) the imbalance in the financial services access points across the country; and (iii) gaps in products and channels used to offer financial services to low-income people.

not use the financial service in question in the month prior to the FinScope 2013 survey.

Our work undertaken during the MTR of FSDT's third strategy found that the constraints identified in the third strategy are closely aligned with the seven barriers to financial inclusion identified in the NFIF, with the exception of the macroeconomic environment, a constraint that falls outside the capacity and mandate of FSDT.

The MTR also identified that FSDT has actively sought to address the majority of constraints identified in the strategy in some way, with a few exceptions. Of these, some are beyond FSDT's resource capacity and reach for substantive impact (e.g. Government interventions causing market distortions; poor infrastructure in rural areas; lack of effective and speedy operation of commercial courts). Others are not specific to the financial sector and could equally - or perhaps better - be addressed through other institutional actors and agencies (e.g. commercialisation of agriculture; action by financial institutions to tackle fraud / corruption).

6.3 RESULTS OF FSDT'S PROJECTS

The eleven sample projects subjected to in-depth analysis in this evaluation offer a mix of achievement and underachievement against targets set. There have been notable achievements. In particular:

- The establishment of Access Bank in Tanzania, which is now a major player in the market. During the period of FSDT support, Access saw its customer base increase exponentially from just over 1,000 savers in 2007 to over 45,000 in 2010. Its portfolio grew from 151 to 5,505 loans over the same period.
- The FSDT/AGRA guarantee scheme has enabled NMB to lend to nearly 1,000 agro-dealers who would in all likelihood not otherwise not have been creditworthy. FSDT also helped NMB to innovate and launch a mobile banking solution which has contributed to the opening of 775,685 new bank accounts. Around half of these have been opened by individuals who were previously unbanked.
- The FinScope survey has established itself as a credible and useful source of information on financial inclusion that has been used for public policy formulation and by private financial service providers. It played an important role in highlighting to policy makers the challenge of financial inclusion in Tanzania and in pushing financial inclusion up the policy agenda.
- FSDT's support to the development of the NFIF has been successful in achieving an explicitly inclusive vision for the financial sector, aligned with FSDT's own raison d'être, and based on an understanding of the need to address significant structural and systemic issues in the sector.
- The Mobile Financial Services Interoperability Scheme has led to Tanzania becoming a full MNO-interoperable country, a first in the world, with all MNOs using interoperability measures.

There are examples where FSDT projects have underachieved against their targets. For instance, the CRDB/MFSCL network has not reached as many members as was anticipated; the Dunduliza SACCO network did not disburse as many loans as was anticipated; and the Rural Financial Services Strategy has not been operationalised by Government.

In Table 12, we summarise the performance of each project against its key targets and, in relation to the theory of change for FSDT, provide an indication of the categories of input that each project applied, and the categories of constraint that they sought to address.

Whilst it should be emphasised that the eleven projects subjected to detailed analysis are not necessarily representative of FSDT's wider portfolio of 73 projects, the following patterns emerge from the table:

In terms of inputs / activities, there was a strong focus on capacity building and institution building across all categories of project. At the micro and meso-levels, the projects sought to strengthen the capacity of FSPs. One would expect that the meso projects would target the market infrastructure constraint. However, as highlighted in Section 5, of the three meso projects in our sample, only one contributed to the building of market infrastructure and was therefore truly a meso project.

At the macro-level, the projects were predominantly focused on strengthening the legal and regulatory environment, with two of them also seeking to support information generation for the sector.

Tackling demand side constraints has been a relatively recent area of focus of FSDT's strategy (since 2013). None of the projects analysed sought to address this constraint.

In considering the results of the projects under review, an important consideration is whether the achievements made were sustainable. That is, were the market actors through which FSDT has worked able to sustain and build upon these results without FSDT support. Some clearly are. For example: Access Bank continues to grow; NMB mobile banking continues to expand and develop; and the MFS Interoperability Scheme has set the framework for

Table 12: Project achievements against targets

		PROJECT	PERFORMANCE AGAINST KEY TARGETS	INPUT CATEGORIES APPLIED				CONSTRAINT CATEGORIES TARGETED				
				CAPACITY BUILDING & INSTITUTION BUILDING	CONVENING, COORDINATION & ADVOCACY	EVIDENCE & INFORMATION PROVISION	FINANCING	LEGAL, POLICY & EGULATORY	INFORMATION	CAPACITY OF FSPS	MARKET INFRASTRUCTURE	DEMAND SIDE
Micro	1.	Capacity enhancement of CRDB in providing financial services to marginalised community groups	Underachieved	◆						◆		
	2.	TA support to Access Bank Tanzania Limited	Mostly achieved	◆						◆		
	3.	CARE Ongeza Akiba (increase your savings) VSLAs	Mostly underachieved	◆			◆			◆		
Meso	4.	NMB Agro-dealers guarantee scheme	Mostly achieved	◆						◆		
	5.	Dunduliza SACCO Network	Some achieved, some underachieved	◆						◆	◆	
	6.	NMB Mobile Banking Product	Some achieved, some underachieved	◆						◆		
	7.	Mobile Financial Services Interoperability Scheme	Achieved	◆	◆			◆				
Macro	8.	FinScope surveys	Mostly achieved		◆	◆			◆			
	9.	Rural Financial Services Strategy	Underachieved		◆			◆				
	10.	Policy support to the Ministry of Finance – capacity building and establishment of the National Microfinance Policy	Some achieved, some underachieved	◆	◆			◆				
	11.	National Financial Inclusion Framework (NFIF)	Achieved	◆	◆	◆		◆	◆			

sustained ability for customers to transfer money between accounts. However, in several projects, the sustainability of the innovations or changes that FSDT has funded, is questionable. For example:

- **CRDB/MFSCL** On the face of it, the expansion of MFSCL network (from around 498,000 members in 2008 to around 784,000 members in 2014) is impressive. However, MFSCL's business model is not quite the same without subsidy. Following the completion of FSDT's support, there has been a rolling back of its peripheral support – training and infrastructural support – to MFI partners. This is not to say the network has collapsed – it hasn't. But in the absence of further subsidy, it seems unlikely that MFSCL will absorb and professionalise small, remote and rural MFIs in the way that it was able to with FSDT funds. Indeed, MFSCL reported that growing partner MFIs to professionalise them is not self-sustainable and requires grant funding.
- **NMB agro-dealer guarantee** When FSDT support came to an end, the overdraft facility that had been offered to agro-dealers on favourable terms was discontinued. NMB reported to us that they had no intention of offering the facility without a guarantee. If this is true, it appears that the innovation, while delivering strong results during the project period, was inherently unsustainable.
- **Dunduliza SACCO network** DFID and then FSDT have funded Dunduliza over several years. Some of achievements during the FSDT project period – for example, over 70,000 SACCO members in its network – suggest real success. However, Dunduliza is now insolvent with large debts to pay. It is no longer performing as intended, as an apex organisation for SACCOs. As we describe in Section 5, our assessment is that a major part of Dunduliza's problems was that its ambitions were set beyond commercial realities. Dunduliza was a donor construct, originating from collaboration between FISEDA (a Tanzanian NGO), DID, SCC and FSDT and one has to wonder if its fate would have been different had it been a more market-driven organisation.
- **FinScope** There is much to be applauded about the FinScope surveys. They have become an integral part of the financial services system in Tanzania. And therein lies the issue: FSDT identified an important gap in the system revealing the need for better information on the demand for, access to and use of financial services. So far, they have plugged that gap directly rather than supporting permanent market actors to pay for and perform this function themselves. Arguably, FSDT's direct delivery of FinScope may have been an appropriate strategy to date but both FSDT and the stakeholders must now start taking steps towards institutionalising FinScope (or some variation of it) within the system, if it is to be sustained.

Going forward, FSDT needs to place stronger emphasis on the sustainability of the innovations and changes it promotes through partners. This is discussed further in Section 7.1.

FSDT's contribution

While it is not possible to attribute the projects' results quantitatively to FSDT (at least not credibly), the sample projects do help us get a sense of the degree to which FSDT has made a contribution. On the whole, we believe that FSDT has made a significant contribution to the results achieved. For example:

- **TA support to Access Bank Tanzania Limited** Access Bank's senior management claim that some form of subsidy was necessary to establish Access in Tanzania, and that no other donors were willing to provide funds. They claim that without FSDT funds, LFS – the key investors behind AccessHoldings – would have invested in another country.
- **NMB agro-dealers guarantee scheme** The fact that NMB discontinued the overdraft facility for agro-dealers once the FSDT guarantee came to an end is evidence that they would not have offered the product without FSDT subsidy. FSDT can thus claim all the results achieved by the facility.
- **NMB Mobile banking** In interview, NMB's acting Chief of Retail Banking suggested that they would have moved into the mobile space but FSDT enabled them to do so sooner. Given that in 2008, NMB had just emerged from a restructuring (and mobile uptake was low at the time), we agree with this assessment. FSDT can claim to have helped NMB pioneer mobile banking technology and services, thus, increasing pressures for competitors to follow in their wake.

In terms of FSDT's work at the macro-level, stakeholders were unanimous in their view that without FSDT, macro-level changes and/or policy formulations would likely have taken place at a much slower rate. They accept that the capacity of government institutions to design and execute financial inclusion initiatives is limited both in terms of capabilities and funds. We also note the credibility and respect FSDT appears to have amongst government officials we spoke to. It is therefore likely that FSDT has made a significant contribution to the macro-level project results.

At the same time, there are projects in the sample where FSDT may have over contributed. For instance, the existence or extent of its funding may have been detrimental to FSDT's overarching objectives of supporting market-based solutions to enhance financial inclusion. Two examples stand out:

- **CRDB/MFSCL** A model that has relied on donor funding and has scaled back since it stopped.
- **Dunduliza SACCO Network** FSDT's contribution is significant. As we have discussed, Dunduliza was essentially a donor construct. It simply would not have existed without donor money that was provided via FSDT during the project period.

6.4 FSDT'S CONTRIBUTION TO SYSTEMIC CHANGE

In addressing this evaluation question, we have chosen to focus specifically on the systemic change achieved at the project level. Market-level change achieved by FSDT's wider portfolio is considered separately under section 6.6.

Before addressing this question, it is worth defining what we mean by systemic change. In a market development context, systemic change is typically understood to mean a change in a supporting function (what FSDT calls the meso-level) or rule (what FSDT calls the macro-level). The workings of the core market – in this case the exchange between financial service providers and enterprises or individuals – are shaped, influenced and informed by the system – the supporting functions and rules – that surrounds it. A changed supporting function, such as a new service to financial service providers or their customers, constitutes a systemic change if it is widely accessible to actors in the core market. The replication of an innovation or change at this meso-level is desirable as it typically amplifies scale and sustainability (e.g. a new service, delivered by the private sector, to financial service providers is likely to have greater and more lasting impact if multiple private actors adopt it). A change in a market rule (e.g. a change in government regulation or tariff) constitutes a systemic change as it typically broadly affects actors in the core of the market.

Often this understanding of systemic change is broadened to include the introduction and expansion of an innovation in the core of the market. An innovation means something new in the context of the local market – a technology or a means of service delivery for example. By expansion, we mean the replication of that innovation beyond its pioneers. Replication is important because it underpins scale (replication by multiple market actors opens up the possibility of amplifying the innovation's benefits) and sustainability (replication reduces the risk of failure due to for example, internal organisational weaknesses or corporate shifts of policy).

It is with this understanding of systemic change that we examined the sample projects. Of the projects categorised as being at the micro-level, we found little evidence that the FSDT-supported innovations (e.g. the models, the new products) had been replicated:

- **CRDB/MFSCL** As we discussed, the design focussed narrowly on change within a single market actor. What followed was a project which appears to have benefited one bank: CRDB, its subsidiary MFSCL, and its network of partner MFIs. There was an unintended systemic effect: a small number of MFIs was able to attract funding from other non-CRDB sources as a result of their increased capacity. However, we found no evidence that the real systemic potential – the replication of the MFSCL model, or some variant of it, across the banking sector – had taken place.
- **CARE Ongeza Akiba VSLAs** It is not entirely clear what, if any, systemic impact was being aimed for in this project. The model appears to be so grant dependent that it is hard to see how the project could have demonstrated any self-sustaining model to the market. FSDT reports that they anticipated a replication of VSLAs but these were dependent on grant funded mobilisers/trainers and apexes.

FSDT's support to Access Bank provides a more positive story. The design of this project envisaged a demonstration effect. In essence, Access Bank's success in targeting the MSME market would help pull other banks down market. This has happened: CRDB, NMB, Akiba Advans and MFIs such as Tujijenge have started focusing products in the MSME sector. Access Bank's CEO claims the credit. He may be at least partially correct but without a more robust (results chain based) monitoring system, it is hard to be confident about the extent to which Access Bank's activities stimulated those of others.

Two of four projects described to us as meso-level are actually micro-level projects. Both the NMB agro-dealers' overdraft facility and NMB's mobile banking product aimed to promote an innovation in a financial service provider's product offering to its customers. As such, systemic impact is likely to come from a replication of these innovations:

- **NMB Agro-dealers guarantee scheme** Given

NMB was not willing to continue the agro-dealer overdraft facility without a subsidised guarantee scheme, it is perhaps not surprising that we found no evidence of replication by other banks.

- **NMB Mobile Banking Product** It was not long before NMB's competitors started offering mobile banking solutions, beginning with the launch of CRDB's product 18 months later in December 2010. Certainly, the FSDT project contributed to the competitive pressures that they must have felt, and the confidence they had that the new technologies would work in Tanzania. While it is likely that CRDB and others would have launched their products anyway, we believe that FSDT and NMB deserve some credit for speeding up what has been an important systemic change to the Tanzania's financial sector.

Dunduliza SACCO Network had no real systemic impact. The potential was for the introduction of self-sustaining supporting services for SACCOs (a financial service provider). Assuming this was a new function in the market, this would have been a systemic change. If replicated by other service providers, the impacts could have been amplified. However, the Dunduliza model was a commercial failure and this if anything, was what was demonstrated to the market.

By definition, macro-level changes are systemic. They manifest broadly across the market for financial services. While the nature of macro-level changes and weaknesses in FSDT's results measurement system make it difficult to prove definitively, FinScope, the NFIF, and FSDT support to the National Microfinance Policy and National Payment Systems Act, appear to have had systemic impact. That impact will be greatly enhanced if the Microfinance Policy is enacted.

6.5 UNINTENDED CONSEQUENCES

In this section, we highlight the unintended consequences of FSDT's actions which emerged during the evaluation[52].

- **Capacity enhancement of CRDB in providing financial services to marginalised community groups** The design of this project focused narrowly on change within a single market actor: CRDB, its subsidiary MFSCL, and its network of partner MFIs. A seemingly unintended outcome of the project has been that, as a result of their increased capacity, a small number of partner MFIs (3-5%) have been able to attract funding from sources other than CRDB at a reduced interest rate. This highlights the impact of the support that CRDB provided to the partner MFIs with respect to building their credibility in the market and gaining from the reduced interest rates for financial intermediation.
- **NMB Agro-dealers guarantee scheme** Prior to the overdraft facility, NMB's engagement with the agriculture sector was limited. Apart from warehouse financing and the overdraft facility, the bank did not engage in small-scale agriculture. The project helped NMB to strengthen its position in the agri-business sector. The support of both AGRA and FSDT also helped to this end as both organisations have a good reputation for championing pro-poor change. Although this improved image was welcomed, it was not a main objective of the project. NMB has recently opened a separate department in the bank that deals with agriculture finance and is specifically looking at value-chain financing and increasing volume of lending to agricultural SMEs along the supply chain.
- **Dunduliza-DID** A significant unintended result of the underperformance of this project, which was in part caused by the lack of an appropriate legal and supervisory framework for Dunduliza, is that it drove FSDT to actively advocate for changes in the Cooperatives Act. In the RFSS, there is a clear strategy for the improved supervision of SACCOs, including delegated supervision. The 2013 Cooperatives Act also allows for delegated supervision.
- **Rural Financial Services Strategy** Whilst the key aim of the project – an approved and implemented RFSS – has not been achieved to date, there are nevertheless two positive unintended consequences that can be drawn from the experience. First, supporting the RFSS was one of FSDT's earliest projects. Arguably, FSDT's work helped position the organisation as a thought leader and a credible partner for Government. Whilst we should not attribute too much to the RFSS experience alone, it is true to say that in almost all subsequent initiatives with a bearing on the market eco-system, FSDT has been approached by the relevant authorities (e.g.

52. Our assessment of the unintended consequences of FSDT's interventions during the evaluation period is partly hampered by the variable degree to which Project Appraisal Reports and FSDT's wider strategies clearly elaborated on intended results and impact logics at the design phase. This makes it challenging to assess in any detail the degree to which observed results were intended or otherwise.

Ministry of Finance, Ministry of Agriculture, Bank of Tanzania etc.) to provide support. Second, the MoF and BoT in particular put significant effort into the development of the RFSS. Whilst hard to substantiate, MoF, BoT and FSDT all report that the momentum created by the RFSS enabled further policy formulations such as mobile money regulations and NFIF. RFSS can therefore be seen as having laid the foundation for subsequent policy level changes.

Beyond the lens of individual projects, another unintended consequence is that, as a result of some FSDT staff leaving to join other organisations (e.g. banks) in Tanzania, the importance of financial inclusion was further imbedded into the private sector/market.

6.6 CONTRIBUTION OF FSDT'S PORTFOLIO TO MARKET-LEVEL CHANGE

As highlighted above in Section 6.1, the Tanzanian financial sector has experienced phenomenal growth during the evaluation period, and there has been a considerable increase in financial inclusion, from 55% excluded in 2009 to 27% in 2013. This means that FSDT's targets relating to financial inclusion were exceeded, particularly in the latter stages of the evaluation period, when the rapid growth in digital financial services had a major impact on financial inclusion.

Beyond the analysis of eleven sample FSDT projects (summarised in section 5), we have sought to assess the contribution that FSDT has made to these market-level results as follows:

- Used the analysis presented in Annex 6 to determine the key causes of increased financial inclusion during the evaluation period.
- Reviewed FSDT's portfolio to assess the extent to which it addressed constraints in the market that led to greater financial inclusion.

Causes of increased financial inclusion

Our analysis in Annex 6 points to the following four factors being the primary drivers of the development of the financial sector and associated increases in financial inclusion during the evaluation period:

1. **Conducive macro-economic environment** Tanzania has seen a significant improvement in its macroeconomic performance during the evaluation period. Growth has been particularly buoyant in information and communications, mining, construction, manufacturing and financial services. Inflation has been brought down to single digit levels and a range of macroeconomic reforms have provided a basis for increased levels of investment and reduced lending rates.
2. **Commitment by the Government and BoT to financial inclusion** and the wider national emergence of an agenda to address financial inclusion**.** The Government and the Bank of Tanzania have taken proactive measures to resolve the constraints that limit the growth of the financial sector, and the financial inclusion agenda extends more broadly into the wider financial sector and development community in Tanzania. The government's commitment dates back to its endorsement of the Financial Sector Assessment Programme (FSAP) in 2003 and the recommendations from FSAP being reflected in numerous key policy documents. These reflect the importance the government attached to the financial sector in catalysing pro-poor growth. More recently, this has been demonstrated by two significant developments.
   - In 2011, the BoT made a commitment to the Alliance for Financial Inclusion (AFI) that by 2015, at least 50% of the population would have access to formal financial services. Increasing access to micro and rural finance has been identified as an important factor in achieving this goal. The country has gone on to achieve this target, and the Bank of Tanzania has revised the access goal to 80% by 2016.
   - The National Financial Inclusion Framework was introduced in 2013, which provided a national policy coordination mechanism that has brought together relevant stakeholders from government ministries, regulatory authorities and agencies, and private financial institutions and associations.
3. **Pragmatic policy-makers and regulators** The Tanzanian financial market has benefited significantly from the pragmatic approach that policy-makers and regulators have taken. A good example is the advent of mobile money. The BoT initially allowed its introduction without regulatory burden, and used the experience it gained to develop and evolve regulations and policies in response to observed changes in the financial landscape, including in relation to agent banking, payments acts, and micro-insurance.
4. **Digital financial services** Financial inclusion has been greatly boosted by developments in digital financial services. Innovations such as mobile money and agency banking have contributed immensely to achieving reach, as is widely

recognised and was highlighted in the FinScope 2013 report. This has come about as a result of breakthroughs in digital technology which have reduced transaction costs and extended the reach of services, and efforts by the GoT and BoT to create an appropriate regulatory environment for the sector to thrive.

FSDT's contribution to these factors

A review of FSDT's portfolio of projects during the evaluation period highlights that it has made a varying contribution to these factors. The first factor (conducive macro-economic environment) falls outside the mandate of FSDT. Our assessment of FSDT's contribution to the other three factors is discussed below.

FSDT has been a key supporter to the Government and BoT in the formulation of new policies, or refinements of existing ones through capacity building initiatives and the provision of evidence and information, and relevant policy briefing. Our analysis, and consultations with industry stakeholders, suggests that this support has made a significant contribution to the drive within government and across the wider financial sector to address financial inclusion, particularly during the later years of the evaluation period. Whilst two of the projects analysed (support to the Microfinance Policy and the RFSS) have not yet led to the enactment of associated policies or legislation, there are other examples of where FSDT has been successful in this area. These include:

1. **NFIF** Support to the BoT in it is efforts to develop the NFIF. FSDT's policy and resource support in the development of the NFIF has been publicly recognised by BoT and MoF. The impact has been an explicitly inclusive vision for the financial sector, aligned with FSDT's own raison d'être, based on an understanding of the need to address significant structural and systemic issues at the macro, meso and micro-levels.
2. **Financial education-related interventions** FSDT supported the Bank of Tanzania in coordinating public sector interventions in financial education, conducted a National Financial Capability Baseline Study to define financial capability in the context of Tanzania, and helped in the revision of the National Financial Education Framework.
3. **Support to the Ministry of Industries and Trade on SME Policy** FSDT supported the Tanzania Private Sector Foundation in conducting a comprehensive review of the SME Policy of 2003 in order to assess its success and failure and to identify constraints hindering the growth of SMEs.
4. **FinScope** has been cited as important evidence in policies such as the National Financial Inclusion Framework and the National Payment Systems Act., It has prompted renewed focus on financial inclusion by the Government, the BoT and the wider financial sector community, and has facilitated the setting of policy targets.
5. **Wider policy dialogue** FSDT has built strong relationships with other government institutions, including the Ministry of Agriculture (through the work on AgFiMS) and the Ministry of Industry and Trade (through the MSME survey).

The key driver of the boom in availability and use of digital financial services was technological innovation. The BoT worked effectively to ensure that regulations kept pace with the evolving market, providing sufficient legal certainty and consistency to support growth, promote financial inclusion, and protect customers. FSDT's contribution to these regulatory changes appears to have been limited, although its support did help to raise the importance of mobile money to BoT officials through an exposure tour in 2010. Beyond this, FSDT did support a number of initiatives to encourage the development and uptake of digital financial services, including:

1. Organising the first ever mobile money conference in Tanzania in September 2010, which brought together stakeholders in the mobile money space to catalyse development of the industry.
2. Providing support to FinScope (see Section 5) to strengthen data and evidence on the mobile money market and its potential.
3. Support to NMB Mobile (see Section 5), where our analysis suggests that FSDT's support made a significant contribution to speeding up the launch of mobile banking in Tanzania.
4. Support to First Access Finance (FAF) to build an algorithm model to use MNO data to assess user risk levels for credit. By using consumer records like prepaid mobile and mobile money data, this has enabled FSPs to evaluate loan applicants via text message (SMS) at the point of sale, thereby reducing costs for assessing credit-worthiness. It has also enabled them to extend the reach of their financial services by reducing the need for collateral. The model has since been replicated by several digital credit organisations in Tanzania.
5. Funding customer research to improve the M-Pesa and Airtel Money user interface through the provision of empirical evidence on drivers and patterns of use of mobile money in Tanzania.

6. Support to the Mobile Financial Services Interoperability Scheme (see Section 5), which resulted in Tanzania becoming the first country in the world to achieve a universal interoperable mobile money network for peer-to-peer (P2P) transfers.

FSDT's contribution to the development of informal and semi-formal financial systems

The contribution of the informal and semi-formal sector to financial inclusion remains considerable. SACCOs, VSLAs and VICOBAs have all provided important avenues through which people access financial services, particularly in rural areas where they have a high penetration compared to commercial banks and larger MFIs. However, the development of this sector has encountered severe problems in relation to governance, management and institutional capacity. If these problems can be addressed, SACCOs, VSLAs and VICOBAs, combined with branchless and linkage banking, still have significant potential to promote financial inclusion in rural parts of the country. There have been some recent positive developments in this area, including the integration of mobile money to the VSLAs and VICOBAs, which has enabled the disbursement of funds and payments to banks, and hence integration to formal financial services.

FSDT has made significant investments in informal and semi-formal financial systems during the evaluation period. For example, seven FSDT projects had an explicit focus on SACCOs. FSDT's direct support to informal and semi-formal financial institutions has had a very mixed track record. For example, the review of FSDT's strategy (2007-12) highlighted that four of the five failed projects during this period sought to support such institutions. Whilst there have been some successful FSDT interventions in this area, as has been confirmed in reviews of FSDT during the evaluation period, FSDT's contribution to system-level change through these interventions (including strengthening the sustainability of informal FSPs) has been limited. After FSDT's first strategy, its work to strengthen the informal and semi-formal sector was broadened beyond individual FSPs. However, many of these initiatives were of limited success. For example, FSDT support included the development of the Microfinance Policy (which has not yet been enacted) and Dunduliza SACCO network (which was unsuccessful – see Section 5).

FSDT's contribution to the development of market infrastructure and support services

At the meso-level, our analysis suggests that many of FSDT's earlier interventions in this area centred on innovations in single financial service provider's product offerings and had limited systemic impact or were questionable in terms of sustainability (e.g. support to Dunduliza SACCO network). A more recent shift in FSDT's meso portfolio – e.g. support to the Dar es Salaam Stock Exchange and the Enterprise Growth Market (EGM) Initiative[53] – suggests increasing focus on supporting wider market-level change.

6.7 FSDT'S EFFECTIVENESS BY MARKET SEGMENT

We have sought to address this evaluation question in two ways:

- Assess the performance of FSDT's portfolio of projects by market segment by analysing FSDT's internal project implementation performance scoring.
- Undertake a qualitative review of FSDT's portfolio by category.

Project implementation performance by category

FSDT reports quarterly on project implementation performance using a RAG rating[54]. It should be noted that these scores do not relate to impact or effectiveness per se, but rather progress in implementation. However, given that this is the only portfolio-wide data available on project performance, this analysis was undertaken to provide one indicator of project effectiveness.

Tables 13 and 14 present the results of this analysis. They show that of a total of 73 projects, 54 scored green, 3 scored amber and 9 scored red. When the overall project performance is disaggregated by level (macro, meso and micro), the following patterns emerge:

53. The new and now functional Enterprise Market Segment (EGM) has been established at the Dar es Salaam Stock Exchange (DSE) with special focus on SMEs. It aims to provide them with better access equity capital by reducing the cumbersome and stringent listing and issuance requirements that previously existed. However, to date, only six companies – mostly from the financial sector – have raised equity capital through the EGM platform.

54. Green: largely on track;amber: danger of slippage; red: requires urgent attention. Project implementation performance scores change during the lifetime of the project. For our analysis, we used the most recent scoring available for each project.

- **Macro:** 100% of projects with a score were categorised as green.
- **Meso:** 65% of projects with a score were categorised as green (84% by value); 35% were categorised as red (16% by value).
- **Micro:** 83% of projects with a score were categorised as green (67% by value); 3% were categorised as amber (11% by value); 17% red (22% by value).

This data suggests that the implementation of the 20 macro projects funded by FSDT progressed relatively smoothly compared to meso and micro projects, where around 20% of projects were scored red.

When project performance is disaggregated by segment (agriculture & rural finance / AGR; digital financial services / DFS; SME finance / SME; and cross cutting / CC), the following patterns emerge:

- **Agriculture & rural finance:** 71% of projects were categorised as green (74% by value); 6% amber (3% by value); 23% red (23% by value).
- **Digital financial services:** 100% of projects were categorised as green.
- **SME finance:** 75% of projects were categorised as green (58% by value); 8% amber (15% by value); 28% red (23% by value).
- **Cross cutting:** 100% of projects were categorised as green.

This suggests that projects categorised as digital financial services and cross cutting progressed relatively smoothly compared to SME finance and agriculture & rural finance.

Table 13 Project scoring by value and number (by level)

PROJECT SCORING	MACRO	MESO	MICRO	TOTAL
VALUE				
Green	11,518,850	17,203,213	52,756,155	81,478,218
Amber	0	0	3,458,000	3,458,000
Red	0	9,281,457	7,575,000	16,856,457
Not scored	240,000	300,000	0	540,000
Total	11,758,850	26,784,670	63,789,155	102,332,675
NUMBER				
Green	20	16	18	54
Amber	0	0	3	3
Red	0	3	6	9
Not scored	4	3	0	7
Total	**24**	**22**	**27**	**73**

Table 14. Project scoring by value and number (by segment)

PROJECT SCORING	AGR	DFS	SME	CC	NA	TOTAL
VALUE						
Green	45,708,980	18,326,589	5,723,999	10,618,850	1,100,000	81,478,418
Amber	2,008,000	0	1,450,000	0	0	3,458,000
Red	14,081,257	0	2,775,000	0	0	16,856,257
Not scored	100,000	240,000	200,000	0	0	540,000
Total	61,898,237	18,566,589	10,148,999	10,618,850	1,100,000	102,332,675
NUMBER						
Green	22	3	9	17	2	53
Amber	2	0	1	0	0	3
Red	7	0	2	0	0	9
Not scored	1	1	2	4	0	8
Total	**32**	**4**	**14**	**21**	**2**	**73**

FSDT's portfolio by market segment

We have reviewed the performance of FSDT's portfolio in relation to the following categories of market segment:

- Digital financial services
- Agriculture and rural finance
- SME finance
- Policy and regulation
- Research and evidence generation

This review has a necessarily light-touch beyond the 11 projects subjected to more detailed analysis (see Section 5). It has not been possible to review the contribution to financial sector development of all of the 73 projects implemented during the evaluation period. It should also be noted that there is some overlap in the categorisation of FSDT support. For example, many of FSDT's interventions in policy and regulation related to sectoral issues in digital financial services, agriculture and rural finance, and SME finance.

Digital financial services

As highlighted previously in Section 6.6, FSDT has supported several interventions to support the development and uptake of digital financial services, including: support to NMB Mobile, which made a significant contribution to speeding up the launch of mobile banking in Tanzania; customer research to improve the M-Pesa and Airtel Money user interface; support to FinScope to strengthen data and evidence on the mobile money market and its potential; support to First Access Finance to build an algorithm model to use MNO data to assess user risk levels for credit; organising the first ever mobile money conference in Tanzania; and support to the Mobile Financial Services Interoperability Scheme.

FSDT's support in this area has made a significant contribution to one of the key drivers of increased financial inclusion in the past decade.

Agriculture and rural finance

As shown earlier in this section, over half of FSDT's investments during the evaluation period has been categorised into the agriculture and rural finance sector. In terms of the internal scoring of project implementation performance, the proportionate number of projects in this category that were on track was lower than for any other category.

Many of these projects focused on informal and semi-formal financial systems, which provide an important avenue for financial inclusion in rural areas, as was confirmed by the user survey conducted as part of this evaluation. However, the informal and semi-formal sector has faced significant problems in Tanzania during the evaluation period. Problems relating to governance, management and institutional capacity remain and whilst there are examples where FSDT support has contributed to the improved performance of a number of individual FSPs, they are relatively few. FSDT has had limited success to date in supporting more fundamental and market-wide improvements in the performance of this important segment of the financial sector.

At the macro-level, whilst FSDT's support to the development of the RFSS has not to date resulted in its official approval, some important initiatives included in the strategy have been implemented. And although the enactment of the Microfinance Policy has still not happened, when it does, it will improve the legal foundation and regulatory environment for the microfinance sector.

SME finance

FSDT has invested around USD 10 million in SME finance during the evaluation period. Its work in this area has generally focused on supporting a range of financial institutions to develop improved products for SMEs. There are examples of FSDT success in this area, including its contribution to the successful creation of Access Bank, which has earned a good reputation in the market as a specialist financial services provider to SMEs. However, in terms of the internal scoring of project implementation performance, by value, projects in this category had the lowest proportion that were on track.

Beyond direct support to financial institutions, FSDT has supported the development of the wider market system for SME finance, particularly during the third strategy period. It has:

- Supported an MSME baseline survey to quantify and profile the demand for financial services by SMEs, and to identify barriers to access to inform SME policies.
- Conducted an inquiry on how the leasing industry can be catalysed to enhance access to credit to SMEs.
- Supported use of data analytics for lending decisions (through First Access Finance).
- Developed a portal for free exchange of information to MSMEs.

Apart from these interventions, FSDT ran a challenge fund to stimulate product innovation by financial sector market players in order to deepen financial services for MSMEs. Additionally, FSDT supported industry forums to generate discussions and debate amongst the various stakeholders within the financial sector, and the Enterprise Growth Market (EGM) with the Dar es Salaam Stock Exchange.

Policy and regulation

FSDT has built strong relationships with the Government and BoT and provided significant and valued support to the development of policies and regulations for financial services. FSDT has developed a particularly strong relationship with the BoT, and has also provided important support to TIRA (Tanzania Insurance Regulatory Authority), CMSA (Capital Markets and Securities Authority) and the DSE (Dar Es Salaam Stock Exchange), as well as the Ministry of Agriculture / Registrar of Cooperatives, the Ministry of Finance, and Ministry of Industry and Trade.

A number of examples where these engagements have effectively contributed to improved policies and regulations have already been highlighted in Section 6.6 above.

Research and evidence generation

FSDT has played an important role in supporting the generation of research and evidence to inform policy making, and wider national and international discourse on financial sector deepening and inclusion in Tanzania. For example, FinScope has established itself as a credible source of information for the market and has had a demonstrable influence on government policy making (including the NFIF and National Payment Systems Act). It has also informed the strategies of private FSPs and is often referenced by development partners such as the IMF and the World Bank.

The information and data generated by FSDT through its projects on GIS mapping, AgFiMS, MSME survey, and the FinCap Baseline are used and cited by government departments.

Conclusions

Looking across its portfolio of projects since 2005, we can conclude that the effectiveness of FSDT's interventions has been particularly strong in digital financial services and in supporting industry dialogue and policy making – through a combination of technical assistance, evidence generation, and wider facilitation.

The considerable effort that has been made to address the very significant and challenging factors contributing to the underperformance of the informal and semi-formal financial sector have generally only been successful, and had wider market-level impact where they have supported the successful introduction of innovative models which have provided a demonstration effect to others active in the market.

6.8 LINKS BETWEEN IMPROVING ACCESS TO FINANCIAL SERVICES AND REDUCTIONS IN POVERTY

This evaluation seeks to establish whether individual interventions and the programme collectively have helped to develop the financial sector, in particular to expand the reach of the financial sector to sections of the population which were previously excluded.

In addition, the evaluation has sought to shed light on the financial services / poverty reduction link through a literature review on the impact of extending financial services access on poverty (see Annex 5). The literature review draws on existing research in the public domain and discusses the conceptual and theoretical basis for confirming the likely impact on poverty reduction.

The literature review provides good evidence to suggest that where FSDT has contributed to enhanced financial inclusion, this should contribute to poverty reduction in Tanzania, as long as it is implemented alongside other policies (beyond the financial sector) which ensure that economic growth is inclusive (i.e. benefits enjoyed by a wide section of society).

The literature review does not however, provide evidence to make a specific claim that some proportion of the recent reduction in poverty could be attributed to FSDT. This is for the following reasons:

It is inherently difficult to quantify the contribution of FSDT to financial sector changes in a way that would also allow its contribution to poverty reduction to be measured

As highlighted in Section 3.4, in evaluating FSDT's programme, the principle of contribution is the appropriate one. The essential reason for this is that FSDT plays a facilitating role in the financial services sector in Tanzania, working alongside a number of other actors in the public and private sectors. To the extent that it is successful in promoting financial sector deepening and other goals, it does this as one actor among many. Furthermore, methods based on the principle of attribution cannot be used to assess impact where a programme intervenes at different levels (e.g. macro, meso, micro) at the same time. This is because the overlapping nature of the effects means it is not possible to identify (and quantify) the specific impact of a particular intervention, separate from the impacts of other influences.

Accordingly, it is perfectly possible to assess the *degree* of contribution that FSDT makes towards the achievement of observed goals (e.g. significant, moderate, weak, none etc.). This is what the impact evaluation is setting out to achieve. However, it is not possible to attribute (i.e. quantify in numerical terms) observed changes to FSDT, or at least, not possible to do this in a way that would stand up to rigorous scrutiny. According to the World Bank, basic needs poverty in Tanzania declined by 6.2% between 2007 and 2011/12 (from 34.4% to 28.2%). Our understanding is that FSDT would like to know if its work could be attributed as a part of this reduction. As doing so would require some quantification of the impacts of its work, and as this quantification is not realistically possible because of the type of programme FSDT has implemented, it is not possible to make this assessment.

Financial sector deepening tends to promote poverty reduction, but the mechanisms through which it does so are unclear, making it hard to estimate reliably how one leads to the other

A second important issue is the uncertainty about the mechanisms through which financial deepening leads to poverty reduction. There are two broad pathways by which FSDT's impacts on poverty might be achieved. These broadly correspond to the *finance for growth and finance for all* themes of FSDT's work:

- Indirect impacts realised through financial sector reform stimulating economic growth *(finance for growth).*
- Direct impacts realised through extending access to financial services for poor people *(finance for all).*

In relation to *finance for growth,* there is a significant body of empirical evidence at the macro-level that suggests that financial sector deepening promotes poverty reduction. Both cross-country studies and evidence from individual countries illustrate that financial development is associated with lower income inequality, and hence a reduction in poverty. This relationship is particularly evident for lower income countries such as Tanzania, and this in itself provides a solid justification in general terms for FSDT's programme.

However, despite the confirmation of this link at the macro-level, the specific mechanisms through which poverty reduction occur are more obscure. A recent extensive review by the World Bank[55] notes for instance, that the link between access to finance and poverty alleviation is neither certain nor well understood. A similar view is reflected in another recent review[56].

The evidence that promoting finance for all and reducing poverty is not strong, making it difficult to make a case on this basis

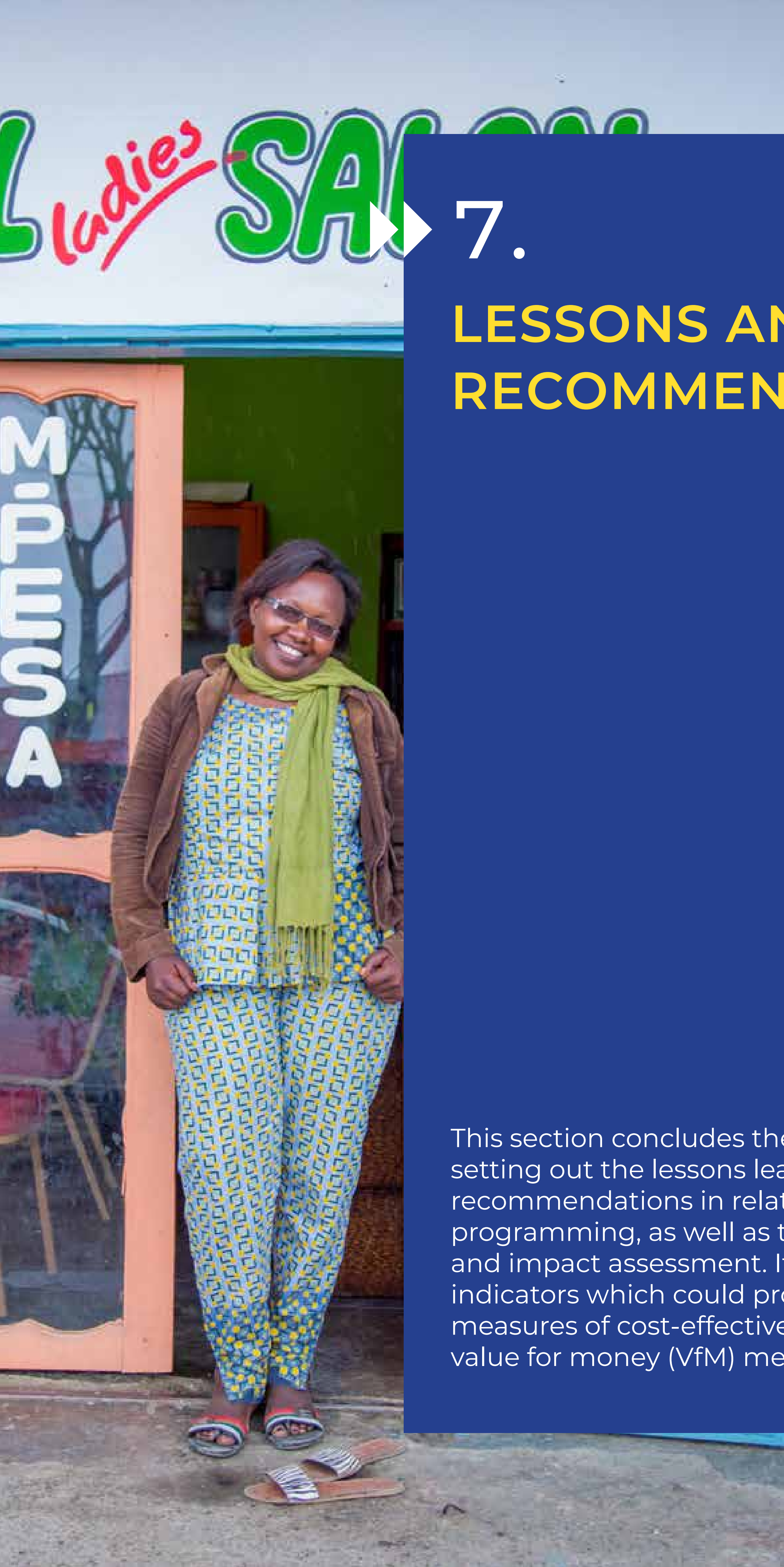
Finally, the relationship between extending access to financial services and reducing poverty *(finance for all)* is much more ambiguous. While some studies we reviewed do illustrate ways in which financial inclusion can benefit poor people, there is no general consensus that promoting finance for all has a significant impact on reducing poverty.

There is some promising evidence that promoting the use of savings accounts, and commitment savings accounts in particular, can contribute to higher levels of consumption and possibly also to women's economic empowerment. Research findings on the impact of health and weather insurance show that these can contribute to reducing poverty. There is not yet much evidence on the impact of mobile money products due to their relatively recent emergence. What evidence is available does suggest though that these services may make a small contribution to poverty reduction. Because the evidence from the literature on the impacts of the finance for all pathway is not strong, it would be difficult to use this evidence to make a case that FSDT's work in this area is responsible for a specified level of poverty reduction.

Overall, evidence does provide strong support in general terms that the FSDT goal of deepening the financial sector in Tanzania is likely to contribute to poverty reduction, other things being equal. Unfortunately, for the reasons set out above it does not provide a good basis for estimating what proportion of the fall in the rate of poverty in Tanzania during the evaluation period might be attributed to FSDT's work. It is important that this point is *not* taken as a judgement on what FSDT has achieved, but rather as a reflection on the limitations of research techniques given the specific nature of the FSDT programme and the way this has been implemented.

55 World Bank (2015) "Financial Inclusion: A Foothold on the Ladder toward Prosperity?" International Financial Corporation, Washington, DC: World Bank.

56 Ledgerwood, J. (2013) "The new microfinance handbook: a financial market system perspective"



7. LESSONS AND RECOMMENDATIONS

This section concludes the report by setting out the lessons learned and recommendations in relation to strategy and programming, as well as the M&E system and impact assessment. It also identifies indicators which could provide relevant measures of cost-effectiveness to aid FSDT's value for money (VfM) measurement.

7.1 STRATEGY AND PROGRAMMING

Introduction

This report has been produced by an Itad team that undertook two concurrent assignments for FSDT: this impact assessment and a mid-term review (MTR) of the current programme (based on the third strategy 2013-2018). There were two reasons for this decision:

- FSDT took the view that the depth of analysis provided by combining a longer historical perspective alongside a contemporary programme review would be particularly useful in providing strategic recommendations to its ongoing programme.
- At a practical level, combining interviews for the two reviews would reduce the burden of transaction costs on FSDT's partners (FSDT has undertaken several reviews recently, and indeed besides the impact assessment and MTR, there was also a parallel 'Strategy Refresh' exercise being undertaken by another team of reviewers).

The implication is that some of the ideas presented here will resonate with recommendations presented in the MTR, since our concomitant work on the IA was meant to inform the MTR analysis. However, there are also significantly different recommendations and nuances for FSDT's strategy and programming presented here, deriving directly from the historical body of work reviewed, and a closer look at the trends over the review period and the underlying assumptions of the theory of change.

Many of these recommendations are not only relevant to FSDT, but also to other FSDs operating elsewhere in Africa. They will also be useful to other agencies (including development partners) working to support financial sector development in Tanzania and further afield. We have therefore categorised our recommendations as follows: A – recommendations of relevance to FSDT and other organisations supporting financial sector development; and B – recommendations of specific relevance to FSDT.

A: Recommendations of relevance to FSDT and other organisations supporting financial sector development

Working with government institutions on macro-level issues

This evaluation has highlighted the important role that FSDT has played in supporting and catalysing policy and regulatory reform in the financial sector in Tanzania over the past decade. FSDT's reputation as a go-to source of advice and technical assistance has grown steadily over the evaluation period, and has accumulated through a range of interventions, including those that have not yet achieved their objectives.

> ***Recommendation 1:*** *FSDT has and should continue to capitalise on the generally strong reputation and relationships that it has built with the financial community and Government – particularly with regard to the research, information generation, and technical assistance that it has provided to support the introduction of new policies, laws and regulations to support the development of the financial sector.*

Two FSDT projects (support to the Microfinance Policy and the Rural Financial Services Strategy) illustrate some of the challenges of promoting policy, legal and regulatory reforms in Tanzania. Addressing constraints at this level requires the support of multiple stakeholders, often with overlapping or ambiguous institutional mandates, a condition that necessitates delicately facilitating government wide collaboration.

> ***Recommendation 2:*** There are four programming implications here:
>
> - *Where possible, clearly delineate the roles of specific agencies and stakeholders involved in FSDT projects and initiatives, especially where the project pertains to policy formulation or enactment of legislation.*
> - *'Go with the grain' - focus on constraints that have been prioritised by a recognised relevant authority (a Presidential priority ranks top).*
> - *Invest in building understanding and consensus among the stakeholders, drawing in key official figures.*
> - *Acknowledge the risk that policy-level change is complex and takes time.*

The tension between reach and systems change

Section 6.4 above highlights that whilst there are examples of projects having systemic impact, the early focus on achieving short-term reach – particularly through direct support to FSPs – in many cases came at the expense of achieving longer term market systems change.

> ***Recommendation 3:*** *Consistent with the recommendations of recent reviews, this implies that FSDT should target market systems change more explicitly in all of its interventions and track this more effectively in its monitoring system (see Section 7.2 below)*
>
> *A market development approach seeks to facilitate innovation and change. This implicitly requires risk taking (and instances of failure should therefore be expected as part of a portfolio approach). It requires that FSDT must be nimble and responsive, adapting to evolving market dynamics and lessons learned from the interventions it pilots.*

Micro-level work

Recommendations 2 and 6 relate to: (i) the questionable value of FSDT interventions that do not target market-wide change; and (ii) the need to examine robustly incentives and drivers of implementing partners. These recommendations particularly apply to programming at the micro-level, where there is the greatest risk that the prioritisation of short impact in terms of financial inclusion (e.g. financing scaling up of a product to broaden access) will distort the market, support an unsustainable business model, and compromise competition.

Structural measures to address this are suggested in Section 7.2. Concomitantly, this requires FSDT's donors to be more sympathetic to playing the long game and being comfortable in reporting measures and indicators of systemic impact – changes in the structure and dynamism of the market – as success to their own constituencies rather than 'reach' numbers.

This does not imply that FSDT should avoid engaging at the micro-level – strengthening sector performance and contribution to financial inclusion at this level is essential in achieving FSDT goals. However strong discipline in project design is required.

> ***Recommendation 4:*** *Where micro-level work is undertaken, we recommend greater clarity around the logic for such work. The logic is that FSDT support to market actors will catalyse and expand an identified innovation in the market. In designing interventions, this requires FSDT to identify innovations that are relevant beyond the individual firms pioneering them: innovations that will generate externalities with the potential to cause other actors to replicate. It is these externalities that justify public subsidy. Conversely, it compels FSDT to avoid funding projects that have little relevance to others in the market, or an innovation that is already being used or performed by a competitor. This requires FSDT to ensure it understands where the innovation frontier is at any one time and how it is evolving. Micro-level interventions are then about testing the commercial viability of innovations and then encouraging replication – through supplementary acts of facilitation if necessary.*

Prioritising sustainability

As highlighted in Section 6.3, the long-term sustainability of several projects in our sample was questionable.

> ***Recommendation 5:*** *In the design and implementation of its interventions, FSDT needs to pay special attention to the sustainability of the changes it is promoting. This means acting as facilitator, working with market actors to encourage them to adopt and run with changes, and 'right-sizing' subsidy to ensure partner ownership. FSDT's exit has to be properly thought through, made clear and agreed (between FSDT and partners) before interventions start. This almost certainly means fewer large and longer-term funding arrangements, of the Ongeza Akiba variety.*

Engagements in the informal and semi-formal sectors

Our evaluation has raised several lessons for engagements in the informal and semi-informal sectors:

- The questionable effectiveness of the direct intermediation model in using the VSL methodology to extend financial services to the rural poor population. There is significant empirical evidence to show that this is less efficient, less effective and more expensive than the indirect incubation model.

- The significant potential that digital technology has to strengthen the efficiency of the informal and semi-formal sector and make product offerings more cost effective and accessible. Existing examples of FSDT's work that seeks to achieve this include Aga Khan's digitising of savings groups and CARE Pesa Kwa Wote.
- Efforts to address the challenges that exist in the informal and semi-formal sector in Tanzania are likely to be particularly risky, and unlikely to succeed when targeted at individual FSPs unless issues of sustainability are rigorously tackled in project design.

> ***Recommendation 6:*** *Given the important role that the informal and semi-formal market segment plays in contributing to financial inclusion, FSDT should continue to look for opportunities to support the strengthening of its performance. To achieve this, interventions at the macro and meso-levels, particularly those that seek to strengthen the regulatory environment for this sector, are important to contribute sustained and market-wide improvement.*

> ***Recommendation 7:*** *More due diligence should be placed on assessing the enabling environment, including the regulatory barriers that impact on the development of FSPs, and the level of risk this poses for projects in the informal and semi-formal sectors.*

B - Recommendations of specific relevance to FSDT

Better definition of projects and understanding of work at the meso-level

As highlighted in Section 5, of the four meso projects in our sample for close scrutiny, only two could justifiably be described as meso (contributing to the building of market infrastructure). The other two demonstrate the risks of supporting a partner without properly examining the incentives and drivers of that partner, and probing how the intervention would address the deep, underlying constraints in the market.

> ***Recommendation 8:*** *Whilst we acknowledge that the supporting infrastructure for the market is weak in Tanzania, it is important that the future design and selection of FSDT's meso-level interventions should include deeper analysis of underlying market constraints and a strategy for how these will be addressed, whilst avoiding market distortions.*

Research

There are notable examples of FSDT's responsiveness to changing market conditions: a growing emphasis on digital finance; development of a financial education strategy, which emerged from empirical research; and the development of a new theme of insurance and social protection, in response to hard evidence that this aspect of the financial services market is weak. These developments affirm the importance of organic use of feedback data and empirical evidence from existing projects. This underpinned the establishment of a dedicated research function in the FSDT structure.

> ***Recommendation 9:*** *Going forward, we recommend that a cogent research strategy is developed by FSDT, based on structured arrangements involving thematic leads, the research function and M&E, informed by emerging trends in the market, un-addressed constraints and demographic and geographical prioritie*

7.2 M&E SYSTEM AND IMPACT ASSESSMENT

High-level recommendations: programming for, measuring, and adapting to market system change

FSDT is a market development programme which aims to facilitate systemic change. This objective is becoming increasingly central to FSDT's strategy, which the findings of this IA endorse. However, the M&E system is not well set up to measure change at this level. Implementing the following high-level recommendations[57] would help to address this shortcoming:

57. These recommendations largely draw on the FSD Africa's January 2016 publication: "Developing an Impact-Oriented Measurement System: A Guidance Paper for Financial Sector Deepening Programmes".

__Recommendation 1:__ Develop and formalise a ToC for FSDT, which should form the bedrock of FSDT's strategy and measurement system. The ToC should be interrogated on a regular basis, informed by regular market analysis of the systemic constraints to financial sector development. At the project level, nested results chains should form the basis of developing indicators for monitoring, enabling FSDT to more effectively measure and report on results achieved throughout its intervention logic

__Recommendation 2:__ Build in a more formal cycle of implementation and reflection to improve programme adaptation and build a robust evidence base for what is causing change in the financial sector.

__Recommendation 3:__ FSDT's measurement lens should be recalibrated, moving beyond a focus on end numbers (such as level of financial access) to how underlying structures, behaviours and incentives of the market have changed to support FSDT's end goal of financial inclusion and poverty reduction[58]. Given the complexity of the market system within which FSDT operates, this requires that FSDT systematically tracks developments in the market, what other market actors are doing, whether FSDT's interventions are relevant to market system change, and the extent to which it is contributing to changes that are occurring. This will help to ensure that FSDT's interventions and strategy remain relevant to evolving market dynamics and that it is better able to tell an accurate 'contribution story'.

This will require adjustments to FSDT's logframe, with tackling of market constraints more clearly integrated into its structure. There should be a visible, logical link between constraints and outputs in the logframe (which should seek to achieve systemic change), and a clear impact pathway showing how a particular output contributes to the outcome.

Specific recommendations

FSDT often leaves monitoring activities to the implementing partner. Where the partner is a private sector actor, its monitoring systems are often not set up to report on anything beyond financial indicators. Analysis of systemic or market-wide impacts is therefore often overlooked.

__Recommendation 4:__ At the project level, FSDT should adapt its Project Appraisal Reports to not only capture the expected outputs and outcome,s but also to capture wider systems changes and the indicators that will capture such change.

FSDT's projects stimulate change through partners – FSDT often provides financial support to other institutions that then affect change in the market and financial inclusion.

__Recommendation 5:__ FSDT should adapt the Project Appraisal Report to include (and report on) not only the impact that partners have on the market and financial inclusion. Reporting should also include outputs/outcomes that demonstrate how FSDT has influenced partners and the change FSDT expects to see in that partner.

These indicators could include qualitative capacity aspects such as attitude and behaviour change that show deeper structural changes. Currently, FSDT focuses too much on financial proxies of OSS and FSS. These are often imperfect ways of measuring subsidy-dependence or whether the institution will continue to include pro-poor products in its offerings (in the case of the private sector) once FSDT stops funding them.

FSDT would also benefit from instituting an internal process whereby it assesses project achievements after the project completes. A post completion follow-up is essential, especially as many of the results take a long time to manifest. FSDT does not appear to have standard internal processes for discussing with colleagues lessons learned during implementation. These should be reflected against the strategy and would help FSDT to discuss synergies between projects and help to guide decisions on new interventions

58. Detailed guidance on how this can be achieved is set out it FSD Africa's January 2016 publication referenced in the footnote above.

Several FSDT projects address similar constraints within the financial sector.

Recommendation 6: *FSDT could benefit from articulating thematic (nested) results chains (of projects) that aim to achieve common objectives, and show how these results chains nest under the programme ToC. It should then use these results chains as a framework for measurement (as advocated by the DCED Standard).*

Recommendation 7: *Thematic assessments (internal/external evaluations) should be made of several projects that address similar constraints to better understand the synergies and accumulated benefits the projects make together. Assessing projects thematically would also allow FSDT to understand the unaddressed gaps or barriers that prevent outcomes from being achieved.*

Related to the last point, FSDT's measurement system is currently intervention-centric. It does not measure the wider impact of its portfolio on the market system and on poor households and businesses. As a result, FSDT risks overlooking the multitude of other factors that influence the changes within the sector. There is a risk of self-importance bias in its measurement system.

Recommendation 8: *FSDT should analyse how key changes in the indicators at impact level were caused by changes in the market dynamics and not by specific FSDT interventions. For e.g. FSDT might find that there was a wider prevailing trend towards market level changes irrespective of FSDT's involvement. General trends tracking will also help FSDT draw links between different types of interventions as well as identify unexpected changes in the market.*

FSDT has reacted to market opportunities in ways that were not foreseen: e.g. supporting NMB on mobile banking. These opportunities (and FSDT's response) needs to be better documented and measurement frameworks need to evolve as new understanding emerges and situations change.

Recommendation 9: *Regular meetings should be held between staff to capture and analyse knowledge / observations of systemic changes and the implications of these changes to programmes. The ToC and project result chains should be adjusted accordingly.*

Intended and unintended influences and impacts should be identified and measured beyond pre-defined indicators. These should be captured in reports.

Changes in FSDT's strategy and ToC – and its subsequent revisions – should be informed by market analysis and research.

FSDT explicitly targets specific groups including women, youth, and marginalised communities. Many of its targets are disaggregated for these groups. However, its monitoring data often does not disaggregate results in this way.

Recommendation 10: *Recommendation 10 Disaggregation of results according to target groups needs to be improved and factored in through the entire M&E system – from the individual project level to disaggregated results at the output level, and onto the purpose and goal levels.*

Resourcing M&E

As part of the Strategy Refresh exercise, FSDT should develop a revised M&E framework and M&E system. Measuring market development – and FSDT's contribution to it – is not simple task, and goes beyond most conventional measurement systems.

Guidance on this is just beginning to emerge. The FSDT framework and system should be informed by the Impact-Oriented Measurement System Guidance Paper developed for all Financial Sector Deepening Programmes commissioned by Financial Sector Deepening Africa in January 2016. This guideline was developed specifically for this purpose. To be effective, this process should be conducted in a participatory manner, drawing on the insights of staff and stakeholder-partners.

Recommendation 11: *To implement an improved M&E system, stronger results measurement capacity is required in FSDT. Whilst FSDT has recently recruited an M&E staff member, further FSDT resource should be set aside to strengthen M&E systems and capacity.*

7.3 INCORPORATING COST EFFECTIVENESS ANALYSIS

The ToR for the IA ask for the identification of financial sector indicators which could provide relevant measures of cost-effectiveness, to aid FSDT's value for money (VfM) measurement. Some important technical considerations that FSDT should be aware of before undertaking cost-effectiveness analysis (CEA) are set out in Annex 10. Our suggestions for possible indicators are provided in the remainder of this section.

The most obvious starting point in considering cost effectiveness metrics is FSDT's logframe. Below, we list the key indicators in the logframe, which have been adjusted slightly to make them an appropriate numerator in a CEA equation, together with the most relevant data sources.

Beyond the logframe indicators two other indicators have been identified as being worthy of consideration. They relate to change that could be reasonably attributed (at least in part) to FSDT and for which numerical values can be calculated.[59]

1. **Proximity to financial services**

This relates to changes in the average distance that users have to travel to access financial services as a result of FSDT-supported innovations. Such an indicator could either encompass access to all types of financial service (including informal, semi-formal or formal outlets), or alternatively, only to formal financial services (if FSDT assumes that formal financial institutions are able better and more secure services than their alternatives). Benefits (relating to lower travel and other time costs of banking) could potentially be monetised.

FinScope provides relevant metrics relating to proximity to (i) commercial bank access points; (ii) MFI access points; and (iii) mobile money agents.

2. **Efficiency of money transfers**

For some FSDT projects, it may be possible to measure impact in terms of increased volumes and values of money transfers made possible by innovations supported by FSDT (in particular relating to mobile money). Metrics might include: (i) reduced transaction costs associated with moving from previous transfers (both monetary – in the case of formal transfers – and non-monetary (e.g. time saved) in the case of informal methods); and (ii) the economic benefits of wholly new transfers made possible by the innovation.

For many FSDT projects, it should be possible for FSDT's monitoring system to estimate the project's impact on some of these indicators, although this will be easier for projects at the micro level than those at the meso and macro levels. As indicated in the table above, this is already done for some indicators.

Where country-level measures exist (e.g. from FinScope or BoT), the key challenge relates to the ability of FSDT to assign credible attribution to observed changes, as highlighted in our methodology for the IA in Section 3.

Suggested financial sector indicators under FSDT's logframe used to measure cost effectiveness.

INDICATOR	DATA SOURCES
Goal	
Increase in the number of adults using financial services	FinScope: Number of people with access to credit / savings / insurance / m-banking/ payment systems (disaggregated by gender) FSDT: – Increase in the number of people accessing financial services from financial institutions targeting clients with financial products under the TZS 1 million mark – Data on accounts/membership numbers for each FSP supported by FSDT
Increase in credit to the private sector	BoT (quarterly)
Purpose	
Increase in volume of credit provided by financial service providers (FSPs) to MSMEs and poor people	FSDT: • Volume of credit provided by a cross section of supported microfinance providers (FSPs) to SMEs and poor people • Number of entrepreneur clients at supported FSPs with loans in excess of TZS 2m
Increase in volume of deposits by FSPs from MSMEs and poor people	FSDT: • Volume of deposits mobilised by a cross section of supported FSPs from SMEs and poor men and women

59. This assessment build on building on work undertaken by OPM for FSD Kenya: OPM (2012), Assessing Value for Money: The case of donor support to FSD Kenya.

ANNEXES

Annex 1. Terms of reference

INTRODUCTION

FSDT set up as an independent Trust registered in Tanzania on 1 July 2004, commenced operations in 2005. FSDT aims to develop a capable and sustainable financial sector to meet the needs of Micro, Small and Medium Enterprises (MSMEs) and poor men and women, and to contribute to economic growth[60] It is a market development programme which seeks to systemically change how the financial market works for poor people. Among its objectives are to:

- Support improvements in the policy, legislative and regulatory framework affecting delivery of services.
- Support initiatives aimed at improving financial market integration such as access to wholesale forms of finance by financial service providers.
- Provide funding to support the development of new financial products and solutions that address the needs of poor households and micro and small enterprises.

Support initiatives aimed at enhancing the supply of appropriate business services to financial service providers in Tanzania.

Five development partners actively support FSDT: Danida, DFATD Canada (previously CIDA), DFID, SIDA, and The Bill and Melinda Gates Foundation (BMGF, since June 2013). FSDT was previously supported by two additional development partners, the Netherlands (until June 2013) and Government of Tanzania through an IDA credit from the World Bank (until June 2012). USD 76.4 million has been disbursed to FSDT by the end of December 2013.

BACKGROUND/CONTEXT

Financial access has grown in recent years in Tanzania with 73.2% financially included in 2013 (FinScope 2013) and with financial exclusion having halved since 2009 (then at 55.3%). However, while subject to annual Output to Purpose reviews, since its incorporation in 2004, FSDT has not yet attempted to assess the role that it has played in these improvements.

These terms of reference (ToR) invite a service provider (SP) to provide consultancy services to evaluate the impacts of the Financial Sector Deepening Trust in Tanzania (FSDT), from the start of its operations in 2005 to the end of 2013.[61] This forms part of a broader impact assessment agenda upon which FSDT is currently embarking, which will in due course include prospective impact assessment (IA) studies.[62]

This ToR has been developed as a result of an Impact Assessment design process conducted by FSDT, with the advice of Oxford Policy Management, in the first half of 2014.

PURPOSE OF IMPACT ASSESSMENT

FSDT's Programme Investment Committee (PIC) has approved the implementation of IA(s) on the overall programme to date (i.e. retrospective IA), as well as the design of prospective IAs (covered by separate ToRs). The drivers for this include: the interests of FSDT's funders to show Ministers and, through them their electorates, that investment of donated money in financial sector development does contribute to the mission of developing financial markets that work better for the poor. Secondly, recent studies have highlighted shortcomings in the evidence base for the development impact of microfinance.[63] In addition, there is greater realisation that poor people need a diversity of financial products (not just micro-credit) and the focus is therefore increasingly on a broader range of financial inclusion. Concurrently, there has been extensive debate over the appropriate

60. Its mission is to "generate sustainable improvements in the livelihoods of poor households through reduced vulnerability to shocks, increased incomes and employment achieved through providing greater access to financial services for more men, women and enterprises."

61. FSDT's last strategy period ended in 2012, and its current strategy is being implemented during 2013-2018. The ToR, suggests the focus is up until the end of 2013 to acknowledge that projects overlap between these two strategy periods.

62. The service provider selected for the retrospective IA, will not be conflicted from applying for the prospective IA, which will be run as a separate competitive tender (with a time lag).

63. See Duvendack M, Palmer-Jones R, Copestake J, Hooper L, Loke Y and Rao N (2011) What is the Evidence of the Impact of Microfinance on the Well-being of Poor People? DFID Systematic Review. University of East Anglia, and, Stewart, R, Van Rooyen C, Dickson K, Majoro M and De Wet T (2010) What is the Impact of Microfinance on Poor People? A Systematic Review of Evidence from Sub Saharan Africa, Technical Report, London, EPPI-Centre, Social Science Research Unit, University of London.

questions and methodologies that should be used for evaluating financial sector programmes (and projects), and market development programmes more generally, and the metrics needed for effective monitoring.

Finally, and just as importantly, FSDT management want to better understand the impacts of their investments so that they can respond and adapt accordingly through a more efficient allocation of resources and effective delivery of the interventions. It should also be noted that similar exercises have already been undertaken by FSD Kenya[64]

The purpose for this IA is therefore two-fold:

1. To provide FSDT management with relevant evidence of their impact during 2005-13 to assist in their planning, prioritisation and implementation of current and future activities.
2. To provide donors with evidence of the impact of their funding (to confirm results of their investments and meet their reporting needs), and to help them prioritise future investments (particularly with regards to market development modalities).

Although not a primary purpose, it is also envisaged that the results of the IA will contribute to the boarder global debate about assessing and measuring the impact of market development programmes in general and of financial sector development programmes in particular, and help to inform FSDT's prospective IA choices.

IMPACT ASSESSMENT OBJECTIVE

The main aim of this evaluation is to assess the impact that FSDT, as a programme, has had on financial access in Tanzania since its inception. Where possible this should also include information on the use of these financial services, for example whether and how accounts created are being used, as well as insights into how livelihood strategies may have changed as a result (see 'Coverage and Scope' section below). Whilst FSDT has implemented a number of discrete projects, which will need to be analysed, it is the total impact of their operations as an overall programme that is the main focus of this IA.65

For the purposes of this evaluation, impact can be defined in accordance with the OCED-DAC definition: 'positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.' But, the evaluators should be mindful that some impact may also have occurred in the short-term, for example, supporting banks directly to increase access, although the long-term sustainability of these actions on the financial sector should be assessed. This definition has a number of implications for the IA: it encourages the search for any effect, not only those that are intended; it recognises that effects may be positive and negative; it predicates that effects of interest are 'produced' (somehow caused) by the intervention, and thus issues of causality need to be addressed; and it suggests the possibility of different kinds of links between all kinds of development interventions (project, programme or policy).66 Service providers (SPs) should make clear how their proposed methodology responds to these implications.

Two secondary objectives of the IA include:

1. Provide lessons for prospective IAs, with particular reference to gaps in data and in measuring FSDT impacts beyond access to finance (i.e. financial inclusion and welfare). This will include recommendations as to how the FSDT monitoring and evaluation (M&E) system could be improved.
2. Identify which financial sector indicators (from FinScope studies or other regularly updated sector wide studies and data-sets) could be monetised to provide relevant measures of cost-effectiveness, to aid FSDT's value for money (VfM) measurement. For example, it may be possible to calculate the additional economic value that the increased proximity of financial services to groups of poor men and women may have.[67]

64. Stone, R., Johnson, S. and Hayes, J. (2010), Impact Assessment of the Financial Sector Deepening Trust, Kenya. FSD Kenya; and Arora, S, Stone, R and Roe, A. (2012) FSD Impact Research and Value for Money Assessment: A Suggested Approach. FSDK have also more recently embarked on their own internal approach to measuring impact but studies arising from this are not yet publicly available.

65. Some projects have had separate stand-alone evaluations that can help inform this.

66. For a discussion on the definition of impact, and what this means for impact studies, see, Davis, R. (2013) Planning Evaluability Assessments: A Synthesis of the Literature with Recommendations, Working Paper 40, commissioned by DFID

67. It is not intended for the SP to carry out a VfM assessment themselves, which will be incorporated as part of the prospective IA. However, they should provide recommendations for the prospective IA SP as to which indicators offer the most relevant and feasible opportunities for cost-effectiveness calculations.

CHALLENGES

There are a number of well documented challenges in assessing the impact of market development programmes such as FSDT.[68]

- A market development approach to stimulating change in any development process does not result in many 'hard' outputs i.e. outputs directly produced by FSDT interventions that can be measured definitively.[69]
- A market development approach provides a means to facilitate a process of change, but it cannot be expected to supply beforehand any detailed statement of the precise activities and events that will eventually emerge from that process.
- An influencing agenda is, by definition part of a process that necessarily involves other players; attributing the success to any one, or any group of contributing players would invariably be judgmental and may be difficult.
- The market development approach is based upon a theory of change (ToC) that involves complex impact pathways operating both directly and indirectly, and at every level of the financial sector. This makes it difficult to distinguish between groups that are "treated" and "untreated."
- The impact trajectory of interventions may not be linear, which means that assessing impact at one point in time may provide a false impression of true impact.

Other challenges the evaluators will be faced with for this specific IA include:

- Limited data hitherto collected by FSDT to measure its systemic market influence, including impacts beyond the institutions it directly supports (e.g. crowding in, competition, replications of products etc.) Whilst the potential systemic impacts from individual projects are identified ex-ante they are rarely tracked and measured.
- Within institutions (e.g. government departments, banks etc.) that FSDT has supported, the institutional memory may be weak, due to staff changes/movements, rapid changes in context and them receiving multiple sources of support.
- Capacity within FSDT is limited, with no dedicated monitoring and evaluation focal point as yet. In addition, senior management's time is often stretched and the evaluators will need to structure their approach accordingly.

The approaches suggested below respond to some of these challenges but the SP in developing their proposal should clearly set out which of these challenges they think are most significant and how it will attempt to mitigate them through their proposed approach.

EVALUATION QUESTIONS

It is intended that the evaluation will use a theory based approach to test the impact of the programme as a whole.[70] An indicative theory of change (ToC) has been set out in Annex B. Based on FSDT documents, the ToC has been retrofitted to aid the IA process. No ToC has been explicitly developed by FSDT before and this ToC should not be viewed as fixed: the SP is encouraged to refine and test this theory further. Individual project ToCs or results chains will also need to be analysed to assess their coherence with the programme.

The evaluation design will be framed to address the questions below. The SP evaluation team is encouraged to suggest changes and to prioritise where they feel this is necessary:

1. **To what extent has the programme been implemented as envisaged by the programme level theory of change?**
   a. To what extent has the implementation of FSDT's projects had the envisaged results?
   b. What have been the mechanisms for change at the macro, meso and micro-level? How does this correspond to what was intended?
   c. Can changes seen in the financial sector and FSDT operations be mapped to this ToC, or should the FSDT ToC be altered?

68. See Arora, S, Stone, R and Roe, A. (2012) Assessing Value for Money – The case of donor support to FSD Kenya, Working Paper. Oxford Policy Management.

69. It may, however, be possible to identify individual projects/interventions within the overall programme that have a more direct impact.

70. There are slightly different representations of what this entails in the literature, although at a conceptual level there is strong overlap. See, Stern et al., 2012 Broadening the Range of designs and methods for impact evaluations, DFID April 2012,White, H. (2009) 'Theory Based Impact Evaluation: Principles and Practice', June 2009, Working Paper 3, International Initiative for Impact Evaluation 3ie http://www.3ieimpact.org/media/filer/2012/05/07/Working_Paper_3.pdf, and Coryn, C., Noakes, L., Westine, C. and D. Schroter (2011) A Systematic Review of Theory-Driven Evaluation Practice From 1990 to 2009. American Journal of Evaluation 32(2) 199–226

2. **Has FSDT enabled service providers (which it has supported) to successfully identify and meet effective demand for financial services, and if so how?**
3. **Has FSDT made a difference to financial access for poor men and women and enterprises in Tanzania? This will include a focus on:**
   a. Direct impact (through directly supported financial institutions) and indirect impact (through contribution towards policy development, adapt/adopt/copy by other financial institutions, market data and infrastructure, promotion of innovation etc.)[71]
   b. Savings and credit, transaction services and where possible risk mitigation measure (e.g. insurance, value chain financing, etc.)
   c. Where possible, differentiate by gender and youth (two cross cutting themes of FSDT interventions).
   d. Where possible this should also attempt to understand how frequently these financial services are being used (i.e. usage) and by what types of customers.
   e. Issue of appropriateness and affordability of financial services made available.
   f. MSME expansion (including agricultural enterprises).
4. **How and why have the impacts of FSDT on financial access come about (or not come about)?**
   a. What causes have been necessary or sufficient for the increase in financial access/inclusion 2006 to 2013? How has FSDT contributed to these changes?
   b. To what extent would these impacts have happened without FSDT? What was the effect of FSDT on timing of changes (i.e. did FSDT accelerate such changes significantly?)
   c. What specific interventions have had the most impact within the programme? What are the factors that have contributed towards this?
   d. Which market segments that FSDT have focused on (e.g. SME finance, rural and agricultural finance, SACCOs, digital finance, informal finance, information, etc) have performed relatively better in terms of FSDT's objectives? Are there any lessons to be learnt from this?
   e. How have the efficiency, depth and inclusiveness of the financial sector changed during 2005-13? What has FSDT's contribution been to these changes?
   f. Were there unintended consequences (positive or negative) of FSDT actions?
5. **What are the external circumstances that have made FSDT's approach to the financial sector more or less effective?**
   - This may include real economy developments; political economy; technological change; lessons learnt from other countries, etc.
6. **To what extent has FSDT used a market development approach to its work? To the extent that a market development approach was used, how did it contribute to FSDT objectives in relation to financial inclusion?**
   a. How were market constraints identified and how was this reflected in FSDT actions?
   b. Were there any significant links between projects and what if (any) impact does this have?
7. **Did FSDT deliver a larger-scale impact beyond the programme's direct sphere of influence (i.e. its systemic impact)? Include a focus on:**[72]
   a. Replication
   b. Competition
   c. Change in knowledge, attitudes and practice (policymakers and market actors)
   d. Sustainability in financial sector structure and operations in relation to the poor

COVERAGE AND SCOPE

The scope of the assignment is for a single comprehensive retrospective IA, looking at FSDT's impact from its inception (2005) to the end of 2013.73As noted above the IA will use a theory based approach to assessing FSDT's programme contribution to impacts.

Although FSDT's end goal is poverty reduction, because of the data limitations and the complexities of assessing the programme's impact on poverty, this IA should focus its resources on the FSDT's purpose, i.e. on the impact FSDT's overall programme has had on *financial access*. As indicated in the evaluation questions above, particular attention should be given to what impacts FSDT has had on the financial sector as a whole – i.e. the impacts beyond

71. See also evaluation question 7

72. FSDT's monitoring system made only limited attempts to capture the impact of systemic change and additional data collection processes are likely to be required to assess the evidence in this regard. For a useful review of measuring systemic change in market development programmes more generally see, http://enterprise-development.org/page/download?id=2113

73. If compared to the OECD-DAC evaluation criteria, then the impact criterion should be the area of focus.

the immediate results of an individual project that promotes financial access.

Where possible, the evaluators should also comment on FSDT's impact on broader financial inclusion indicators, including use of financial services and proxies for client satisfaction of those services (e.g. client retention/portfolio quality). It should also attempt to draw links to secondary data on financial inclusion and poverty impacts, specifically with reference to country, regional and global evidence. At all points the SP should provide an assessment on the strength of evidence for key direct and indirect impacts to help develop a robust contribution narrative.

It is recommended that the sector level analysis is augmented with an in-depth focus on some specific FSDT projects to test the main impact pathways within the ToC.[74] Given that FSDT has completed over 30 projects, it is unlikely to be feasible to undertake detailed analyses of them all. Table 1, therefore, sets out suggestions of which projects may be suitable for more in-depth analysis, and the rationale for these choices (more details on these projects will be provided to the winning bidder). However, the evaluators should also make use of FSDT's monitoring system (covering all projects) including interim and end-line evaluations at project level.

At the level of *specific* projects taken up for detailed analysis, the SP is asked to test the transmission mechanisms within the ToC, as well as providing information to funders, where possible, of their impact on financial inclusion and poverty. Here secondary evidence of poverty impact (i.e. from project reviews/evaluations) could be supplemented with primary data collection of end users of financial services (e.g. focus group discussions, key informant interviews or other participatory techniques). This is likely to be relevant only for FSDT projects that focus on the micro-level of the market, for example, its support to banks, microfinance institutions and informal savings groups. It is not intended, however, that these investigations should be in the form of large scale surveys aimed at developing statistically robust conclusions at project level (see Design and Methods section).

Table 1: Suggested projects for an in-depth assessment

PROJECT	LEVEL OF MARKET	SELECTION CRITERIA
Development of FinScope(s) studies	Macro	Influential in the market, data/research impact pathway
Development of the Rural Financial Services Strategy	Macro	Policy impact pathway
Development of the Microfinance Company Regulations	Macro	Regulatory impact pathway
Support to Dunduliza (development of a SACCO network)	Meso	SACCO project generally seen as challenging
Development of National Microfinance Bank's (NMB) agricultural guarantees	Meso	Agriculture impact pathway/ working with a commercial bank to expand outreach
Development of CRDB SACCOs project	Meso	SACCO project, generally seen as a success
Development of NMB mobile banking product	Meso	New product development
Assistance to establishing Access Bank Tanzania Limited /LFS in the market	Micro	Enterprise finance impact pathway, increase competition in lower end of market
Support to Village Savings & Loans Associations (VSLAs)/CARE	Micro	Large investment, informal finance impact pathway, direct pro-poor access

74. This corresponds to evaluation approaches in market development that seek to analyse broad changes in outcomes/impacts, with a bottom up approach that focuses on specific interventions, to mitigate the weakness in pursuing just one of these approaches. See Ruffer, T. and Wach, E. (2013) Review of M4P Evaluation Methods and Approaches. DFID and Itad, April 2013

In undertaking the IA, the SP is required to identify any significant gaps in existing data and in the measurement of FSDT impacts beyond simple financial access to broader areas such as financial inclusion and welfare. The SP will also identify areas where FSDT can improve its approaches to measuring systemic impact.75 The SP will make recommendations as to how the FSDT monitoring and evaluation (M&E) system can be improved to close those data and measurement gaps for future management of the programme and for prospective IAs.

The scope also includes identifying which financial sector indicators could be monetised to provide relevant measures as to the programme's cost-effectiveness. This is intended to aid FSDT's value for money (VfM) measurement. Given that the interest is in the overall programme's effectiveness on the sector, such indicators are likely to be based on financial sector data-sets. Consideration should be given to: the relevance of the indicator to FSDT's activities, i.e. there should be evidence that FSDT has contributed towards changes in this indicator(s); how regularly they are updated; and the ease with which they can be used for cost-effectiveness calculations. As part of this process, the relevant contributions by funders to FSDT over this time period should also be assessed.

DESIGN AND METHODS

As noted above, the overall intended design for the impact assessment will be theory based. The basis for causal inference will therefore stem from the identification/confirmation of causal processes or chains and the supporting factors at work in context, rather than a specific counter-factual.[76] As a systemic review of such evaluations approaches noted: *"At its core, theory-driven evaluation has two vital components. The first is conceptual, the second empirical. Conceptually, theory-driven evaluations should explicate a program theory or model. Empirically, theory-driven evaluations seek to investigate how programs cause intended or observed outcomes."*[77]

This will require the IA to take the FSDT ToC as a starting point, with some further work to outline assumptions and risks for each link in the causal chain and to set out contextual factors and external influences (see Annex B). The evaluators will then need to decide the best methods for testing each of these links, including being mindful of unexpected impacts. This is likely to mean a mix of methods (quantitative and qualitative), and data sources (programme data, market data and self-attributed data). See Annex D for a list of data that is available on Tanzania's financial sector.

Consideration should be given to the systematic application of the steps of a theory-based approach. The approach proposed should show how the bidders will: (i) include analysis of context; (ii) anticipate and manage heterogeneity; (iii) ensure a rigorous evaluation of impact; (iv) approach rigorous factual analysis; and (v) use mixed methods[78] See Annex C for a more complete list of principles for undertaking theory based evaluations. It will be important for the evaluation team to show how they will judge the robustness of evidence and the quality control methods they will use[79] As noted above, it is envisaged that a selection of FSDT projects will be considered in more depth to help test this programme theory.

While the exact approaches to testing intervention logic will be finalised by the evaluators, the approach should be as rigorous and systematic as possible to build a convincing evidence base – or a plausible contribution narrative - for its findings, while working around the limitations in the availability of data. To the extent possible the design should make use of secondary data in analysis and use primary data to fill gaps.

To assess the evolution of the financial sector, evaluators will need to analyse sector level studies (e.g. FinScope), sector reviews (e.g. FSAPs), sector indicators collected by the Central Bank, along with a range of interviews with market stakeholders (with a historic perspective in this area).

In relation to the assessment of specific projects, again a range of methods is expected. However, large surveys are likely to be outside the scope of this

75. See Kessler, A (2014) Guide to capturing wider changes, DCED, at, http://enterprise-development.org/page/download?id=2113

76. See, Stern et al., 2012, op cit.

77. See, Coryn *et al*. 2011, op cit

78. White, H. and Philips, D (2012) Addressing attribution of cause and effect in small impact evaluations: towards an integrated framework, 3ie Working Paper, June 2012

79. The systematic application of theory based methods such as contribution analysis, process tracing, or realist evaluation could be considered although these in turn are likely to require a range of approaches to building a robust evidence base

assignment, owing to difficulties in sampling given the programme's attributes and to their excessive cost if their use is only to assess the impact of a specific project.

To assess impact beyond access at the project level, the evaluators are encouraged to consider options such as analysis of data on characteristics of end users (already being collected by financial institutions). This will help to analyse outreach expansion, level of account activity, average loan and savings amount as a proportion of GDP per capita, dropout rate, changes in typologies of customers joining to establish proxy indicators for which type of customers are being served and whether customers value the products and are interested in continued use.

Qualitative research could then be designed to give insights into patterns of use identified through this secondary data. This could include key informant interviews of financial institutions (especially front-line staff such as branch managers and customer services agents), and focus group discussions and semi-structured interviews with women and men, in urban and rural areas. Sampling of service and non-service users could be purposefully designed to capture different categories of users/non-users and should be systematically analysed to give detailed insights into pathways of access and use along with household level outcomes such as wealth creation and poverty reduction (both positive and negative). These may involve self-attribution by respondents or discussion with them of possible counterfactuals.

MANAGEMENT AND ROLE OF FSDT

The consultants will liaise closely with FSDT management to ensure that their views are carefully considered in the conduct of this assignment. In addition, there will a reference group for the IA exercise to provide expert inputs in the process and ensure stakeholder buy in. This will include some members of FSDT management team and members of the Programme Investment Committee (which oversees FSDT). FSDT may seek external expertise to provide the technical oversight where necessary.

FSDT management will provide the evaluators with a range of programme and project documentation, including project appraisals, performance monitoring of investments, and past evaluations of projects and the programme as a whole.

On all technical matters, the team will report to IAGC, and on all programme and administrative matters, the team will work in close association with Executive Director.

The consultant will submit the copies of plans, tools, consultation meeting minutes, etc. as part of the evidence of the work.

CONSULTANCY COMPETENCIES

The Consultants should have the following core competences:

- The evaluation team should have a sound understanding of impact assessment designs and research methods; understand the strengths and limitations of different designs and how to accurately interpret and present findings to both researchers and non-researchers.
- In particular, the consultants should have experience in designing and implementing robust theory based evaluations/impact assessments (in particular using mixed methods).
- The team should have in-depth knowledge of financial sector development, preferably in Tanzania, as well as of the market development approach.
- The team will also have a demonstrated ability to communicate complex studies and findings in an accessible way for non-technical readers, including presentation of data in visually appealing ways.

OUTPUTS AND DELIVERABLES

Three main outputs and one secondary output will be provided within this scope of work:

1. **An inception report**

   This should:

   a. Validate/update the ToC and refine the evaluation questions based on a review of the evidence gaps and programme design.
   b. Confirm choices of projects to gather more detailed evidence and explore the ToC80.
   c. Set out the main risks, assumptions and challenges for the IA and how these will be managed.
   d. Identify essential and potential interviewees/target groups along with their relevance to assessment.

80. If the evaluators agree that undertaking an in-depth analysis of all FSDT projects would not be feasible.

e. Set out an approach for linking the main impact pathways to be tested and the data collection and methods of analysis to be used.
f. Assess the quality and credibility of the identified data-sets and sources.
g. Develop, in consultation with FSDT, a communications strategy for the impact assessment with different mediums and forms in which the results will be disseminated, and at what stage.
h. Provide an updated work plan to reconfirm who will do what and when.

2. **Draft Final Impact Assessment Report**
   a. The evaluators will conduct and implement the methodology and collect data against the key indicators developed in the inception report to test FSDT's contribution to financial access in Tanzania. This will include analysis of how the results were achieved and how they can be attributed to the FSDT.
   b. This will include identifying cost-effective ways to monetize certain impacts of FSDT's work to help aide them in VfM assessments.
   c. The consultant will ensure that the evidence base these conclusions are based upon is presented throughout in clear language.
   d. The consultant will also be responsible for producing all the communication materials related to the evaluation required by project such as brief summary papers, focus notes, brochures or power points, as agreed during the inception phase.
3. **Final Impact Assessment Report**
   a. The final IA is expected to be completed six months after its commencement.
   b. The evaluation team will carefully incorporate the feedback provided by the IA reference group on the draft report, and submit a final report.
4. **A separate paper on lessons learnt of relevance to future FSDTs IAs**
   a. This will ensure that a prospective programme IA will take into account lessons from the retrospective IA.
   b. This will be provided at the time of the draft final impact assessment report.
   c. This is likely to include advice on methodology, data collection, FSDT's monitoring system and so on. A draft ToR for the prospective IA study will be shared with the SP, along with important insights from the IA design paper referred to the Background/Context section above.

QUALITY ASSURANCE ARRANGEMENTS

All reports must be rigorous and thorough, and pay especially careful attention to the presentation and interpretation of data, the strength of the evidence being presented and associated claims around causality, correlation or fact. At the same time, the reports should be highly readable and accessible, paying close attention to visualisation of data and presentation of text. Complex ideas and findings should be described using plain language. Bidders should outline what quality assurance mechanisms they would put in place to ensure that these criteria for quality are achieved.

FSDT INPUTS

The FSDT will provide **programme** level important documents such as:

- FSDT Log-frames (past and present)
- FSDT Review 2007-12
- FSDT Current (2013-18) and past strategies
- FSDT Business case and founding documents
- FSDT Quarterly reports provided to the project investment committee
- FSDT Quarterly log-frame template reporting (data provided by financial sector providers against log-frame indicators)
- FSDT past reviews (e.g. Output to Purpose Reviews)
- FSDT Monitoring and Evaluation Plan (2007)

At the **project** level important documents include:

- Project appraisal reviews (PARs) for each project (these set out intervention logic and key performance indicators to be tracked).
- Project performance tracking forms (these collect the data against key indicators outlined in PARs)
- Project evaluations/reviews where available for selected projects (these are not available for all projects).
- FSDT Quarterly reports provided to the project investment committee *(these report current status of projects by quarter).*

Annex 2. Micro-level findings

Project 1

Capacity enhancement of CRDB[81] in providing financial services to marginalised community groups

Project description

To understand the project, it is helpful to chart the history of the entity it supported, the Microfinance Service Company Limited (MFSCL).

- CRDB set up the MFSCL in 2004. CRDB's aim was to expand its presence in rural and remote areas of Tanzania.
- MFSCL started as a unit of CRDB and later became a service company as a subsidiary of CRDB.
- MFSCL was tasked with offering a wholesale lending facility to local financial institutions such as Savings and Credit Cooperatives (SACCOs), finance NGOs, and microfinance companies to expand financial services to low-income households, and micro and small entrepreneurs in rural areas. Now and then, over 90% of supported institutions were SACCOs.
- By the end of 2007, the point at which the FSDT project started, MFSCL's network had a total of 345 MFIs with a membership of 369,000 individuals.
- This expansion had been made possible by funding from DANIDA, who had provided a grant of USD 1.9 million from 2000 to 2007 to CRDB to build and nurture the SACCO network.

The FSDT project commenced in May 2008 and finished in December 2014. Originally, FSDT planned for a project period running from May 2008 to May 2011. However, the end date was pushed back by 19 months to December 2012 and then by a further 24 months to December 2014 as a 'no cost extension'. As is discussed below, these extensions were due to a break in disbursement during which CRDB sought to address project's underperformance.

The project centred on support to MFSCL to scale up its operations. It was estimated that the total project cost would be USD 10.43 million with CRDB contributing USD 6.62m (63%). FSDT provided a grant of USD 3.81m (36%) (box 1 in the results chain in Figure 1). FSDT's grant funded the costs of capacity building, infrastructure support, logistics and transportation. It did not cover the funds for on-lending. The grant enabled MFSCL to provide training and capacity building services to leaders, employees and members of existing partner MFIs and to new MFIs brought into the network (box 2).

Through support to the partner MFIs, CRDB's MFSCL provided the following[82]:

- **Construction of MFI infrastructure:** Before the project, the partner MFIs used to operate like village/voluntary organisations with no formal offices/branches and used to conduct transactions at public places such as markets and warehouses. These institutions had poor record keeping, lacked proper professional management, and money would usually be kept safe with one of the office bearers. This led to low trust and public confidence in savings services and financial transactions provided by these institutions. CRDB's MFSCL supported the partner MFIs to upgrade their infrastructure and front office services through construction of modern office buildings, counters for transactions, safe/strong rooms to keep money, and security at the branches/offices. This led to increased trust and public confidence and resulted in increased savings and financial transactions at the partner MFIs.
- **Capacity building to MFIs.** This included:
  - Capacity building for board members on governance, vision and strategic planning,

81. CRDB is a bank that was earlier known and Cooperative and Rural Development Bank. Since reforms, it is known as CRDB.

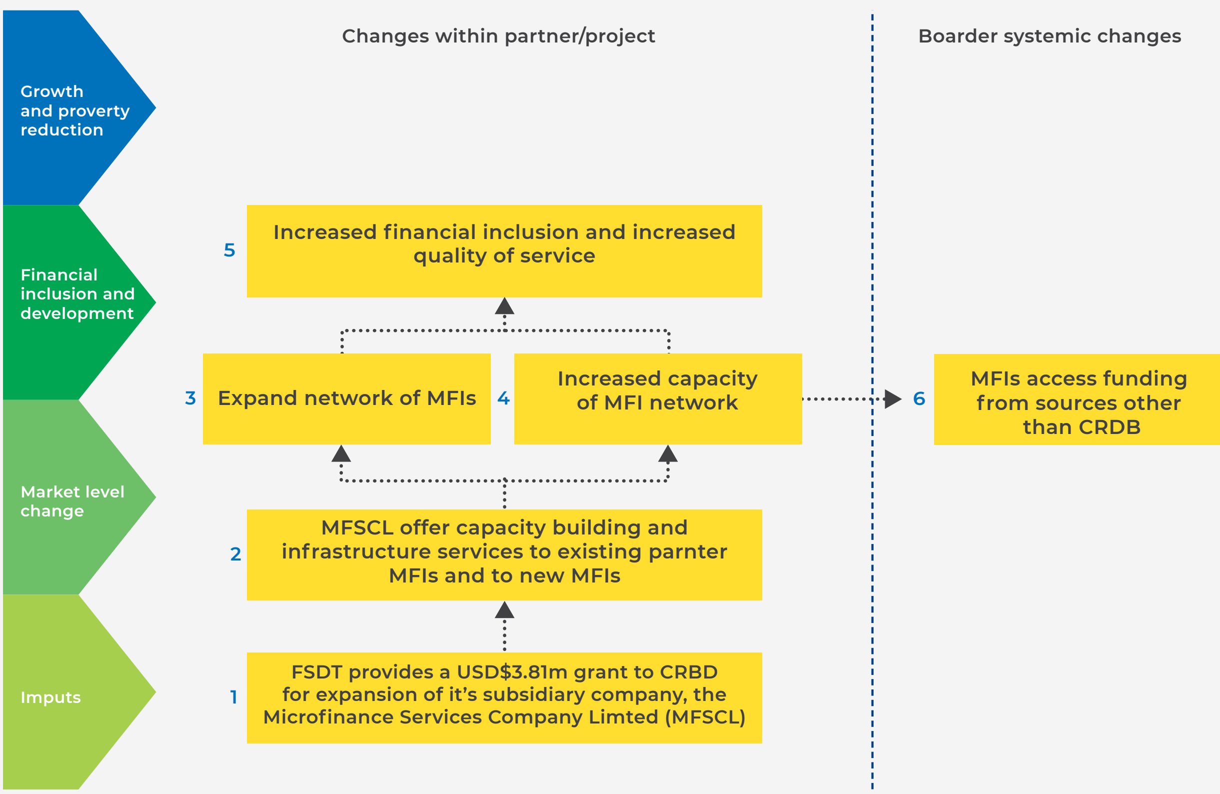
82. Source: discussions with the General Manager of MFSCL.

strategic marketing etc. In the course of the project, over 4,000 board members were trained by CRDB's MFSCL.

  - Capacity building to credit officers, managers, accountants and supervisory committees on credit management, financial management, customer service, risk management, product development, marketing and sales, and human resources management. In the course of the project, over 70 credit officers, 100 managers, 50 accountants, and 1,000 supervisory committee members were trained by CRDB's MFSCL.

- **Product and services development** MFSCL's support to partner MFIs helped them to develop and offer affordable financial products and services to their members. Apart from credit and savings products, most of the partner MFIs introduced insurance products such as credit life and funeral plans (introduced in 2009), general insurance (introduced in 2012), and medical/health insurance (introduced in 2013). Other products introduced included warehouse receipt financing, value chain finance for agriculture, and credit guarantee backed finance for the agriculture sector. MFSCL also supported partners to develop policies and procedures, design staff incentive schemes, and formalise human resource structures.
- **Capacity building support to partner MFI members** relating to their rights and responsibilities as members, financial education and literacy, and understanding of financial products and services. In the course of the project, over 95,000 members were trained by CRDB's MFSCL.
- **Management information systems and mobile banking** In 2008, CRDB's MFSCL acquired Finance Solutions, a core banking solution designed for microfinance institutions to support the partner MFIs to automate their operations, keep track of portfolios and finance, improve efficiency, and produce accurate and timely reports for decision making. By 2014, one third of the partner MFIs were fully automated. Over 725 professional staff from over 200 partner MFIs were trained on the use and management of the Finance Solution software. For some of the partner MFIs who could not afford the Finance Solutions package cost, the Information and Communications Technology team of MFSCL developed a low-cost standalone version to be offered on subsidy.

Figure 15. CRDB Bank project results chain



CRDB's MFSCL has also supported its partners to use mobile phone based money transfer services for deposits and loan repayment collections.

- **The introduction of a mechanism to rate partner MFIs** In 2014, CRDB's MFSCL instituted a mechanism to rate the partner MFIs to encourage innovation, learning and excellence in financial inclusion for the partner MFIs. The rating mechanism provided partner MFIs with insights into their strengths and areas requiring improvement, which were used to enhance their image and thereby retain existing members and attract new ones.

PROJECT RESULTS

The market level changes that followed FSDT's funding and MFSCL service delivery were an expansion and professionalisation of MFSCL's MFI network (boxes 3 and 4). This was designed to lead to an increase in financial inclusion and improvements in the quality of MFI services (box 5).

The key targets and achievements at the end of the project in December 2014 are reflected in the table below.

The key results, in terms of financial inclusion, are reflected in the number of partner MFIs (458 of the targeted 469) and the number of members (783,558 of the targeted 909,075). Originally, the target for partner MFIs was 650 with 1,000,000 members by the end of the original project end date of May 2011. These targets were lowered to 469 MFIs with 909,075 members by the end of December 2014.

The project underperformed marginally against its targets for number of partner MFIs and number of members. In interviews for this Impact Assessment, both CRDB and FSDT put this down to a consolidation of partner MFIs that took place between 2011 and 2014. The objective was to remove under-performing partner MFIs by either combining them or establishing new partner MFIs. The consolidation led to a net reduction of about 80 partner MFIs and over 120,000 members.

The key reasons for this consolidation included:

- Low quality of governance and management of some of the partner MFIs, which led in some cases to fraud and a dilution of portfolio quality.
- The inability of some partner MFIs to carry out changes required to address the needs of members.

In 2012-13, immediately after the consolidation, CRDB's MFSCL employed strategies and measures to improve performance and catch up with the targets assigned to the project. These included:

- Aggressive mobilisation campaigns in collaboration with the partner MFIs.
- Support to MFIs to hire competent managers to resolve governance and management related issues and develop tactics to increase the number of clients.
- Recruitment of additional Relationship Managers to facilitate the achievement of the set targets.

CRDB managed to meet or surpass overall targets for other quantitative indicators such as cumulative loans disbursed by CRDB to partner MFIs, volume of savings mobilised by partner MFIs, average membership per partner MFIs, and volume of loans disbursed by partner MFIs.

It is interesting to note that the average number of members per MFI partner is 1,670. This is extraordinarily high compared to the national average. The national average is approximately 200 members per partner MFI if CRDB partners are excluded, and approximately 400 members per partner MFI if CRDB partners are included.[83] This highlights that MFSCL has had a significant impact on reaching a large number of underserved and financially excluded people through the use of its partner MFIs network.

The user survey conducted as part of this impact assessment indicated that membership of partner MFIs had the following impact:

Project Results - Capacity enhancement of CRDB in providing financial services to marginalized community groups

	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Number of partner MFIs	469	458	Under achieved (97%)
Number of members	783,558	909,075	Under achieved (86%)
Outstanding loans (TZS. Bn.)	158	208	Under achieved (76%)
Value of Deposits (TZS Bn.)	38	52	Under achieved (73%)

Source: CRDB MFSCL Annual Reports, 2007-2014

83. These numbers were provided by the General Manager of CRDB's MFSCL

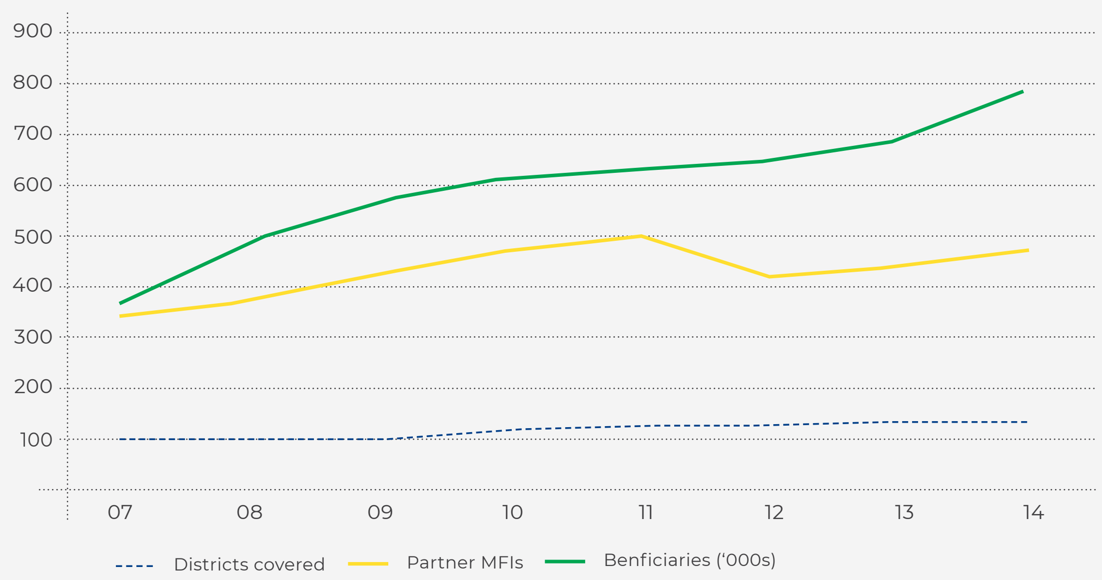
- Reduced financial exclusion (there were many districts where there were no bank branches and the partner MFIs helped low-income households and entrepreneurs to access financial services).
- Access to adequate products and services at reasonable prices through flexible processes and requirements (as the local partner MFIs provide flexible and affordable products).
- Increase in incomes (for example, due to finance available to mechanise farming, use better quality inputs, and arrange for timely labour).
- Increased access to social services (including medical services, education, and social welfare) and assets (including land and housing) as a result of increased incomes.
- In some instances, some MFIs have provided products to meet seasonal demand such as enable traders to stock up on cereal during the harvest season.
- The use of mobile phone services provided low-income households with improved access to payments and remittances.

Systemic results are more difficult to identify and indeed, the project's original design documents suggest that FSDT had no real systemic ambitions for the project. The FSDT design was content with change within a single market actor (a firm-level change, not a market-level change), as long as large numbers of poor people were reached. It follows that we found no evidence of replication. The project appears to have benefited one bank – CRDB, its subsidiary MFSCL, and its network of partner MFIs.

At the same time, one interesting, seemingly unintended outcome has been that, as a result of their increased capacity, some partner MFIs have been able to attract funding from sources other than CRDB at a reduced interest rate. 3-5% of the partner MFIs were able to diversify their funding sources as other funders such as Oikocredit saw the credibility of association with CRDB. CRDB funded the partner MFIs at 15% reducing balance, whilst other funding sources extended their funding support at 11% reducing balance. This highlights the impact of the support that CRDB provided to the partner MFIs with respect to building up credibility in the market and gaining from the reduced interest rates for financial intermediation.

To what extent do FSDT contribute to these results? What would have happened in the absence of the FSDT grant? MFSCL report that, in the absence of FSDT funding, they would not have expanded as extensively as they have. Two pieces of evidence support this claim. First, MFSCL's model of expansion has historically been based on donor

Figure 16. Growth of MFSCL, 2007-2014



Source: CRDB MFSCL Annual Reports, 2007-2014 funding. Their expansion up to 2007 was made possible by a DANIDA grant of £1.9 million to CRDB to build and nurture the MFI network.

Second, MFSCL's Review of 2014-15 notes that since the completion of FSDT's support programme, the peripheral support like training, capacity building, infrastructure support and regular hand-holding to partner MFIs has reduced. This has impacted on the small MFIs in particular, as they are not financially capable of spending on such support on a cost basis from MFSCL. Only those MFIs that were supported earlier in the project, and that have grown to a reasonable size, are now able to afford MFSCL services. MFSCL highlights that growing partner MFIs to professionalise them is not self-sustainable and requires grant funding.

Project 2

TA Support to Access Bank Tanzania Limited

PROJECT DESCRIPTION

FSDT's supported the establishment of a new bank: Access Bank Tanzania Limited, with the objective of providing a broad range of financial services to micro, small and medium-sized enterprises (MSMEs), as well as other clients in the lower income strata.

Access Bank stated mission is to be *"a socially responsible bank for the lower and middle-income strata of the Tanzanian society. It is the one-stop bank of choice for micro and small-enterprises. It strives to be the leading provider of financial services in Tanzania."*[84]

The core target group for the project was growth-oriented businesses in the upper micro and lower SME segment. Access Bank Tanzania aims to become one of the leading retail providers of finance to this target group in Tanzania, and to set standards in terms of efficiency, transparency, and customer service. The bank is part of the international network of banks that operate in the microfinance, enterprise finance and financial inclusion space.

The majority stakes of the bank are owned by Access Microfinance Holding AG (AccessHolding), a Berlin-based investment company established in 2006. Its aim is to make equity investments in start-up and early-stage MFIs in developing and transitional countries. The major shareholders include IFC, EIB, Omidyar-Tufts Microfinance Fund, CDC, and a company called LFS Financial Systems. LFS appears to be the key driving force behind AccessHolding and its investments.

For a price of EUR 2.4m, under a 3½ year contract for design, management and implementation, LFS agreed to set up Access Bank. In 2006, LFS established the bank and commenced its banking operations with two branches in Dar es Salaam.

The FSDT project commenced in June 2007 and ended in December 2010. FSDT extended a grant to LFS Financial Systems for an amount of USD 1,416,000 (box 1 in the results chain). The amount funded by FSDT contributed to the EUR 2.4m required by LFS in part. The remainder was funded by IFC, KfW and AfDB.

FSDT's preference was to provide the grant through the locally domiciled Access Bank Tanzania. However, in the event, the grant was made to LFS, a German registered company on account of tax advantages wherein LFS was able to legally avoid paying Tanzanian tax and pension contributions on their staff salaries. This is mentioned by the Project Appraisal Report and was confirmed in interview by the CEO of Access Bank[85]. This is striking. If accurate, this kind of decision-making would appear to run counter to DFID's efforts to tackle tax avoidance and promote responsible business in Tanzania and globally.

84. http://www.accessbank.co.tz/index.php/home/index/aboutus/mission

85. FSDT was aware of this and it is highlighted in the Project Appraisal Report: *"We need to be careful about tax avoidance that LFS or ABT might seek and ensure that the FSDT is not seen to encourage practices by the client (whichever company it is) that are running excessive tax risk. We will ensure that LFS gets appropriate tax advice from local accountants on this matter."*

The funds provided by FSDT to LFS went towards management, consultancy, information technology, and other technical services to the bank. Specifically, the funds covered the costs of two Senior Managers (a General Manager and a Credit Manager), two long-term advisors on credit and banking operations, as well as a variety of short-term experts for support in areas such as information technology, internal audit, product development and rural finance.

PROJECT RESULTS

The TA funds were designed to support the expansion of Access Bank across Tanzania and therefore its contribution to financial inclusion (results chain box 1).

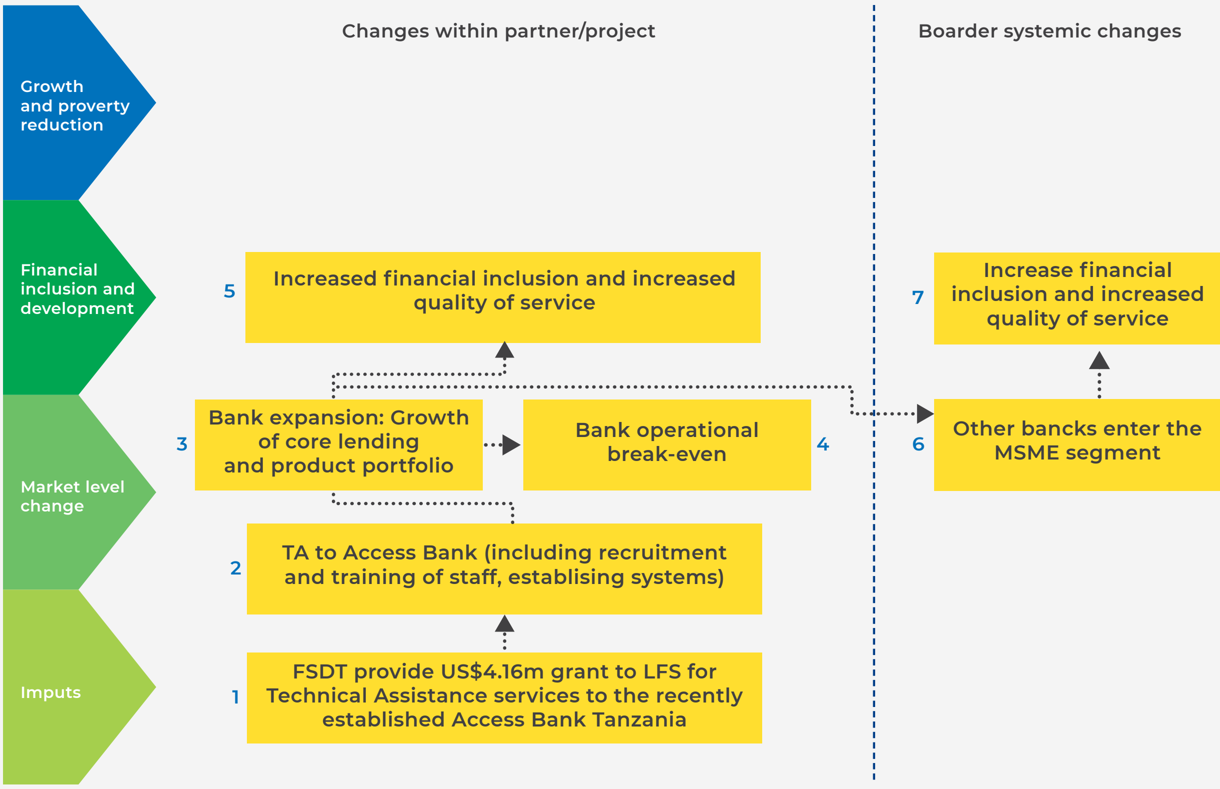
FSDT has rated the project's overall achievement as satisfactory. At the end of the project, as of the end of December 2010, Access Bank's performance against the targets was as follows (see table on next page).

Commercially, Access Bank has performed well. Since its inception, with a market share of 15% (in terms of loans outstanding) in December 2015, the bank has earned a good reputation in the market as one of the customer centric financial services providers for MSMEs and the lower/middle income segments in Tanzania. The bank is among the ten largest employers in the Tanzanian banking sector and is consistently expanding its outreach and footprint through branches, ATMs, agents, and mobile banking.

Beginning with micro-loans and basic accounts, the bank has evolved to offer a variety of financial products and services. The bank's current product portfolio comprises loans to micro, small and medium enterprises, deposit products including current accounts, savings accounts, savings plan accounts and student accounts, cheque book facilities, a variety of money transfer systems including international transfers through Western Union and MoneyGram, national transfers through TISS/SWIFT and M-Pesa.

The bank owns 11 ATMs and is part of the Umoja Network that provides access to over 200 ATMs in the country. The bank's transactions on Umoja network is the third largest trailing behind Azania and Akiba Bank. Also, the bank offers fully interoperable mobile banking services in partnership with Selcom and acts as a Cash-In/Cash-Out (CICO) super-agent for M-Pesa and Airtel Money.

Result Chain: Access Bank Tanzania Limited



Access Bank's performance against the targets by December 2010.

	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Equity (TSH. Mn,)	6,300	8,780	Overachieved
Branches	6	5	Underachieved
Active borrowers	11,967	5,592	Underachieved
Gross Loans Outstanding (USD '000s)	8,455	10,026	Overachieved
Voluntary savers	1,943	45,117	Overachieved
Operational self-sufficiency (%)	97.4	100.7	Overachieved
Operational expense ratio (%)	23.4	38	Underachieved
Portfolio at Risk (PAR)> 30 days (%)	<2.0	2.88	Underachieved

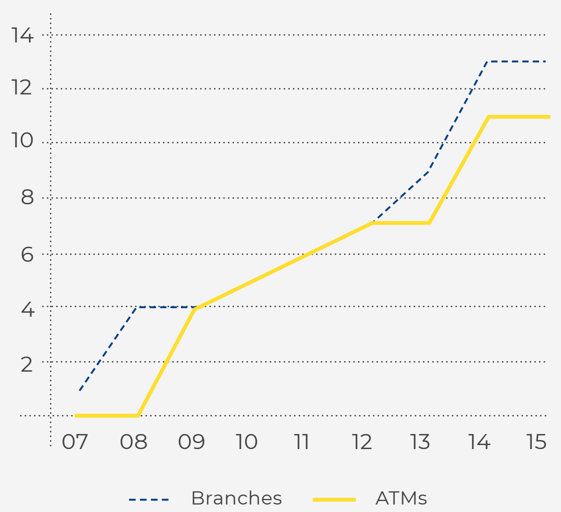
Mobile banking has been a highly successful channel for the bank with over 80% of its transactions going through mobile, 1% transactions through agents, and 15-18% through the ATMs.

The bank achieved an operational breakeven in October 2011 and has been operationally self-sufficient since then.[86]

Perhaps the most notable achievement, from a FSDT perspective, is that at the end of the project in December 2010, Access Bank had just over 5,600 active borrowers and around 45,000 savers. This reach has grown in subsequent years: at the end of 2015 Access Bank had approximately 32,000 borrowers and 238,000 savers. The bank is focused

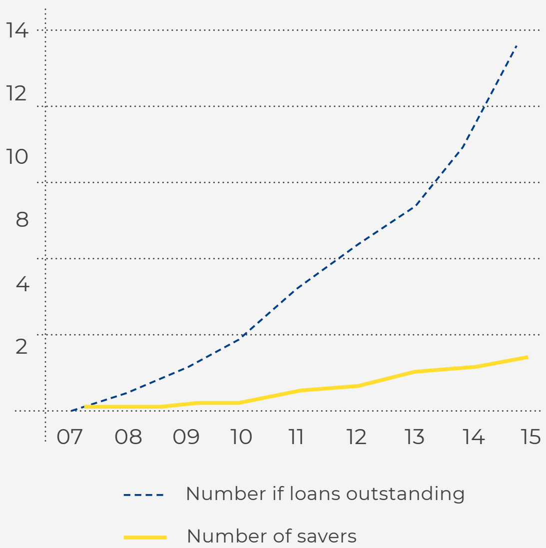
86. However in 2015, the bank had a negative return. The CEO explained to the evaluation team that this was due to investments made in 2015 in digital development (mobile, agents, enhancements on the core banking solutions) that are strategic in nature.

Figure 3. Growth in Access Bank Branches and ATMs, 2007-2015



Source: Access Bank Summary Report 2007-15

Figure 4. Growth in Access Bank loans and savers, 2007-2015



Source: Access Bank Summary Report 2007-15 on expanding financial services to women and youth and as of December 2015: over 40% of its lending portfolio caters to such segments.

Field research conducted during the evaluation indicated that users have experienced increased economic empowerment as a result of the access to financial services provided by Access Bank. The bank provides services to a segment of the population that is traditionally perceived as risky due to a lack of contemporary collateral. Many borrowing entrepreneurs have experienced an expansion in their businesses and generated increased incomes as a result. Customers also now have a better understanding of commercial interest rates and are less likely to seek financing at uncompetitive interest rates.

IFC's Analysis of Client Data Report also points to increased access to finance and growing loan sizes over time, as well as a growth in assets and income as a result of Access Bank. However, the report indicates that there has been very little impact on jobs or employment opportunities.

In terms of systemic impact, while the primary impact envisaged was greater access to finance via Access Bank, FSDT also thought that such a project may contribute via a demonstration effect whereby more MSME focused banks would emerge and/or other banks will copy products successfully trialled by Access Bank (box 6 in the results chain). In practice, since the launch of Access Bank, several banks and MFIs – including for example, CRDB, NMB, Akiba, Advans and MFIs such as Tujijenge – have started focusing products on the MSME sector. In an interview, the CEO of Access Bank attributed this to the credibility Access brought to the sector. Certainly, Access Bank appears to be seen by other banks as pioneers. Several of its staff have been poached their expertise in MSME lending.

Our assessment is that FSDT funds have contributed significantly to the establishment and expansion of Access Bank. It appears too that, with nearly 32,000 loans outstanding and around 238,000 savers in 2015 (five years after the FSDT project ended), Access Bank has contributed significantly to financial inclusion. Unfortunately, we do not know the extent to which these were customers that were new to banking or were customers switching from one bank to another.

But crucially, would Access Bank have been established in the absence of FSDT support? Would it have expanded at the rate that it has?

Here we have some mixed evidence. Our 'outward-in' analysis shows that the number of formal financial service providers in Tanzania has increased from 32 in 2005 to 53 in 2013. Therefore, the launch of Access Bank can be seen as being part of a broader trend. The most likely counterfactual scenario, considering if FSDT would not have funded the support, is that the bank would not have come into existence. LFS's original project design envisaged management support for the first 3½ years of operations. Access Bank's senior management team claim that no other donor was willing to fund this. Further, they claim that without the grant from FSDT, it was likely that LFS and other stakeholders for the bank would have refused to invest and instead would have explored setting up a bank in another country.

Project 3

CARE Ongeza Akiba (increase your savings) VSLAs

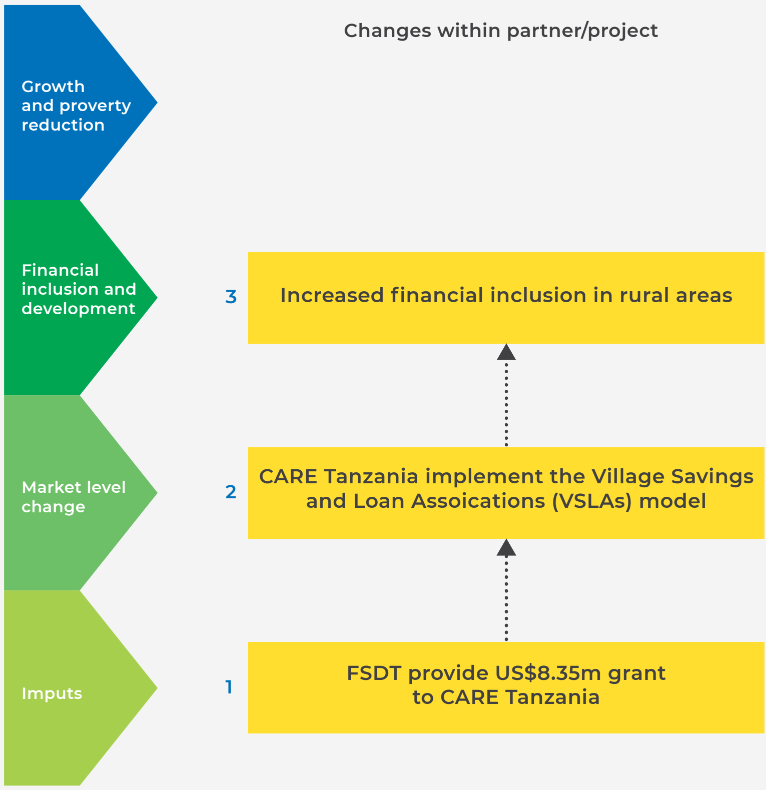
PROJECT DESCRIPTION

The FSDT project commenced in April 2008 and ran to December 2011. FSDT supported CARE to bring financial services to rural areas through Village Savings and Loan Associations (VSLAs) using a direct intermediation model. A direct intermediation model is where the project organisation creates infrastructure and staff strength at the field level to create savings groups, train community members that are part of the groups, and monitor the processes of village savings and loan associations. This is in contrast of indirect intermediation, where the project organisation collaborates with existing NGOs in the local geography and funds them to create savings groups, trains community members that are part of the groups, and monitors the processes of the VSLA. The project was a response to the fact that the poor in rural and remote areas had access to limited financial services. Banks and even MFIs such as SACCOs are not able to justify the time and cost in providing savings and loans to poor in rural and remote areas.

The project aimed to bring over 221,000 people into the informal finance sector through setting up and training VSLAs in 40 districts in 8 regions of mainland Tanzania and Zanzibar over a 44 month period.

CARE Tanzania had significant experience in VSLA establishment, through training and education before the Ongeza Akiba project started. CARE had implemented VSLA projects in Mwanza, Kigoma, Iringa, Morogoro, Coast, Zanzibar and Pemba and had over 90,000 people enrolled and active in groups since 2002. FSDT's strategy until 2012 had highlighted the need to increase access to financial services and to reduce from 54% to 47%

Result Chain: CARE Ongeza Akiba (VSLAs)



the number of people excluded from any form of financial service. In numeric terms, the target for FSDT was to have 700,000 new people enrolled in VSLA or VICOBA groups by 2012. It was therefore envisaged that the Ongeza Akiba project would help significantly to achieve the aim of expanding the access to finance to excluded members in a cost-effective way.

The VSLA methodology had worked in many developing countries throughout the world. It is designed to provide savings and loans but can also be used as an entry point to build social capital (a shared sense of identity built on trust and reciprocity to facilitate cooperation amongst the members of a group) and to address other developmental issues such as managing risks and vulnerabilities, and enable investments in irrigation pumps, roads, dispensaries. In addition to the number of people accessing financial services, the project envisaged a significant improvement in financial literacy amongst trainers and group members.

FSDT provided a grant of USD 8.35 million to CARE. This money went towards:

- Staff salaries and benefits (for mobilisers on formation and training of groups).
- Materials and equipment (vehicles, motorcycles and kits for groups).
- Operational costs (transportation, communications, utilities, insurance).
- Travel and transportation (for CARE's senior staff and zonal management, programme activity costs, consultants, contingencies and reviews).

As the grant fund committed was over 15% of the total funds committed to FSDT, funding for the project was split into two phases – i.e. USD 4.12 million in the first phase and then a second phase, depending on the mid-term review and the recommendations of the report.

PROJECT RESULTS

Field surveys undertaken during the evaluation indicated that, as a result of the project, users' ability to accumulate funds for both capital investments (such as bicycles, iron sheet roofing, land, animals) and to meet basic needs (such as bedding, clothes, and food) has increased and given them a sense of economic empowerment. Group members with capital have started running their own businesses. Anticipation of share outs leads to goal setting, which has led to small but gradual improvements in asset acquisition: group members have increased their entrepreneurial pursuits to ensure the availability of shares to save at each meeting without fail, as this model does not allow those who miss any payments to compensate for missed payments later. Low income groups have a sense of ownership with the VSLAs as they set their own rules and regulations and are provided with flexibility where required on issues such as setting/changing the share amounts, and justifications for accessing the emergency kit.

The systemic impact that was anticipated was self-replication of groups, estimated to be between 5% and 10% per year. Also, FSDT envisioned that apexes formed by CARE would represent the groups at district government level and ensure replication of the groups as well as continued training support to the groups. While there was a replication of groups due to the efforts of the mobilisers/trainers and apexes, it did not have an added impact on the number of groups as it helped to replace the non-functional and disbanded groups.

Discussions with key stakeholders of the project, suggested that the project exhibited a number of challenges:

- The project design did not account for the failures of the direct intermediation model. The core weakness in the project design was

Project results - CARE Ongeza Akiba (Increase your savings) VSLAs

	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Number of VSLA groups formed	10,080	10,385	Over achieved (103 per cent)
Number of VSLA group members	221,760	244,240	Over achieved (110 per cent)
Savings mobilised (USD Mn.)	8.72	8.02	Under achieved (92 per cent)
Apex Associations	40	41	Over achieved (102 per cent)
Community Based Trainers	1,000	1,107	Over achieved (110 per cent)

that it was empirically proven across various countries in Africa that the direct intermediation model was less efficient, less effective and more expensive than the indirect incubation model. Sectoral experts highlighted to FSDT that the Ongeza Akiba design was inefficient and a better design would have involved work with intermediaries. Despite this, FSDT funded the direct intermediation model. Also, sectoral experts highlighted that apex was not an effective model as it was top-heavy and inappropriate for VSLA capacities. However CARE did not carry out any course correction despite being aware of this weakness.

- Sectoral experts highlighted that the budget for the field based mobilisers and trainers was inflated: it was twice the then prevailing rates of field staff remuneration. This element should have been explored at the design/inception phase of the project.
- The use of indirect intermediation channels such as Partner Organisations and Franchisees, and innovations such as links with formal financial institutions, fee-based models etc. could have reduced the operational costs associated with creating and replicating VSLAs. However, these aspects were not considered at the design and/or implementation stage either by CARE Tanzania or by FSDT.
- At the implementation stage, the mid-term review noted that the project did not optimise the value of VSLAs as a financial tool, especially their potential for large impact on the ability of poorer women to increase assets and smooth consumption through savings.
- The mid-term review also highlighted weak operational and information systems at project level, gaps in management oversight on operational management, inflated numbers being reported (although unintentional), skewing incentives for community-based trainers, staff and management of CARE.
- Finally, the project overspent by USD 300,000 and the mid-term review alluded to fraud as the staff members were paid less than presented, the funds for purchase of bicycles for community-based trainers were diverted, ghost groups were created, and incentives were distributed. Lack of effective monitoring and supervision, negligence in critical review of the project design, and poor implementation and supervision were responsible for such an outcome. Also, the mid-term review raised serious doubts about the quality, governance, and sustainability of the groups.

A key lesson from the project relates to the questionable effectiveness of the direct intermediation model in using the VSL methodology to extend financial services to the rural poor population. Whilst community-based trainers and local non- governmental organisations are effective in achieving outreach, there is a need for robust checks and balances on implementation supervision, management, monitoring, and use of funds.

In the light of the mid-term review, the decision to approve the second phase has been questioned. FSDT went on to fund a USD 7.5m follow-on project to Ongeza Akiba entitled Pesa Kwa Wote, again implemented by CARE Tanzania. However, the second phase has been justified by FSDT and CARE on account of the design of Pesa Kwa Wote project being significantly different from Ongeza Akiba in the relation to: the delivery methodology (in addition to the direct implementation, delivery takes place through partner organisations and franchisees); a more rigorous selection process for partners; greater accountability in relation to implementation, supervision, management, monitoring, and fund use; and significant efforts to link VSL groups to formal financial institutions and to digital financial services. The evaluation team did not review Pesa Kwa Wote and so cannot verify the extent to which these measures taken in the second phase have meaningfully addressed the shortcomings of the first phase.

Annex 3. Meso-level findings

Project 4

NMB Agro-dealers guarantee scheme

PROJECT DESCRIPTION

The objective of the project was to develop risk-sharing arrangements using private sector mechanisms to address capital constraints facing small-scale agro-dealers that in turn would support the sustainable agro-input distribution network within rural areas of Tanzania. To this end, FSDT and AGRA (Alliance for a Green Revolution in Africa) supported NMB to develop a financial product (an overdraft facility) appropriate for small-scale agro-dealers: e.g. lower collateral requirements and lower interest rates. In order for NMB to provide this overdraft facility, the project launched a guarantee scheme with a shared risk agreement.

The project term ran from March 2008 to February 2011. The project was implemented in two phases: a pilot phase was implemented in five districts, which was expanded to a further 38 districts in June 2009. FSDT first committed USD 100,000 for the pilot and then a further USD 1.1m. AGRA committed USD 1m. The National Microfinance Bank (NMB) was the recipient of funds and the primary project implementer. Other banks were approached to take part in the scheme but NMB was the only bank that accepted the offer.

FSDT and AGRA supported three main activities:

- The establishment of a credit Guarantee Framework Agreement (GFA) through a 50-50 risk sharing agreement between FSDT/AGRA (i.e. 25% /25%) and NMB (50%) with no first loss to any party.[87] The GFA stipulated that NMB must exhaust all recovery methods before applying to the fund to recover losses. NMB could lend up to TZS 9.5 billion to agro-dealers over the course of the project.
- The development of a financial product appropriate for agro-dealers. With the risk sharing agreement that the GFA provided, NMB developed a one year renewable overdraft facility for agro-dealers lending a maximum of TZS 15 million (renewals to a maximum TZS 30 million) to agro-dealers at an interest rate of 15% (lower than the usual 18-20%). In order to secure the loan, agro-dealers were required to put up collateral valued at 62.5%, as compared to NMB's usual 125% collateral requirement88 of the maximum overdraft amount. In the process, NMB applied its own credit appraisal and due diligence procedures.
- Funds were provided to the Citizen Network for Foreign Affairs (CNFA) to select and train agro-dealers in business and cash flow management. They enabled agro-dealers to prepare proper business plans and accounting records to apply for the overdraft facilities at NMB, and also manage their overdraft if and once they become a NMB customer. This is an important component of the project as the lack of loan management skills by agro-dealers increases the risk of default.

Together, the three activities aimed to address NMB's lack of information on agro-dealers - in particular its inability to determine the risks of lending to segments of the population that have not experienced formal financial services. In interviews, all stakeholders reported that this was considered an innovative project at the time, as it was the first guarantee framework that took a portfolio approach and where the government was not the primary guarantor.[89,90] It was also the first and only such framework that aimed to address credit flow constraints of smaller scale agro-dealers in Tanzania.

87. Stipulated in MoU written in March 2008, later amended in September 2008

88. As required by the Banking and Financial Institutions (Credit Concentration and other Exposure Limits) Regulations of 2008

89. AFD Working Paper 123 (April 2012) Assessing Credit Guarantee Schemes for SME Finance in Africa

90. FSDT (2014) Review of Guarantee Schemes in Tanzania

PROJECT RESULTS

At the level of market-level change, we can see results in three areas: the performance of the guarantee to NMB; the overdraft facility to agro-dealers; and agro-dealer training (results chain boxes 2, 3 and 4).

Performance of guarantee

Over the course of the project, NMB provided 966 agro-dealers with a total of TZS 13.27bn in 2011 prices, meaning the grant leveraged four times its value (4:1). The target leverage ratio had been 4.5-5 of the amount deposited. The degree of leverage is a good indicator for how successful the guarantee is at exploiting NMB funds. Well-functioning guarantee funds attain leverage rates of 5:1 to 10:1[91]; however, in unstable macroeconomic environments these numbers often lean on the more conservative end.

At the end of the project, NMB made a USD 300,000 claim to the guarantors which is 14% of the total (USD 2.1m) guarantee fund. This is moderately high compared to other schemes of this kind in Africa.[92]

Another indicator of the scheme's performance is the number of days from the moment the bank

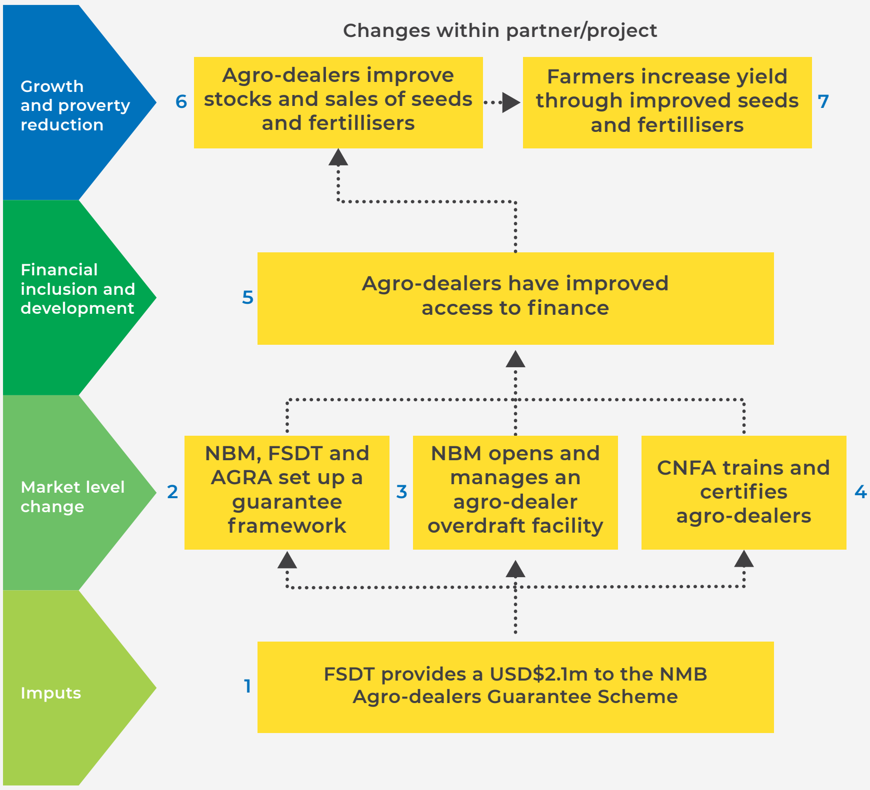
Project results - NMB Agro-dealers guarantee scheme

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
Agro-dealers reached	1,000	966	Target met
Districts reached	23	38	Over achieved
Value of loans	TZS 9.5bn	TZS 13.27bn	Over achieved
Leverage ration	4.5-5 : 1	4:1	Under achieved

91. Deelen and Molenaar, 2004, p.55

92. AFD Working Paper 123 (April 2012) Assessing Credit Guarantee Schemes for SME Finance in Africa' p.46

Result Chain: Dunduliza-DID



sends out a claim to the guarantor to the moment the claim is settled. The claims settlement was completed in April 2016, five years after the project completed.[93] This is predominantly due to the unclear terms of the GFA that left too much room for interpretation. There were misunderstandings over whether NMB could claim for the principle as well as the interest of defaulted loans. This was further confounded by the fact that NMB and the guarantors had different interpretations of the expiry date of the guarantee (e.g. 366 overdraft loans were approved after February 2010 although the GFA stipulated that the credit facilities shall be provided up to one year before the expiry date of the guarantee – February 2011).

Overdraft facility to agro-dealers

The overdraft facility for agro-dealers was developed and launched in March 2008. In line with the terms of the GFA, agro-dealers only paid 15% per annum and a 5% additional penalty if they exceeded their overdraft limit. This was less than the 19% that NMB was charging on its other overdraft products and lower than the 20% being charged by other banks at the time. In addition, agro-dealers only had to provide 62.5% collateral of the maximum overdraft amount. As intended, NMB was more flexible with agro-dealers and allowed different types of collateral and legal documentation to qualify for a loan. NMB was also willing to restructure loans if the agro-dealer had a good reason for defaulting. NMB applied the same loan appraisal, monitoring and recovery policy and process as it would do any other service.

By the end of the project NMB approved an accumulated limit of TZS 13.27bn. Portfolio outstanding is at a relative constant of TZS 5bn. The rate of use (of the total guarantee available) of 77% is high compared to other guarantees,[94] signalling that NMB valued the product, and therefore actively pushed out the service.

The scheme's default rate is 7.6% (74/966). Compared to other schemes this moderate.

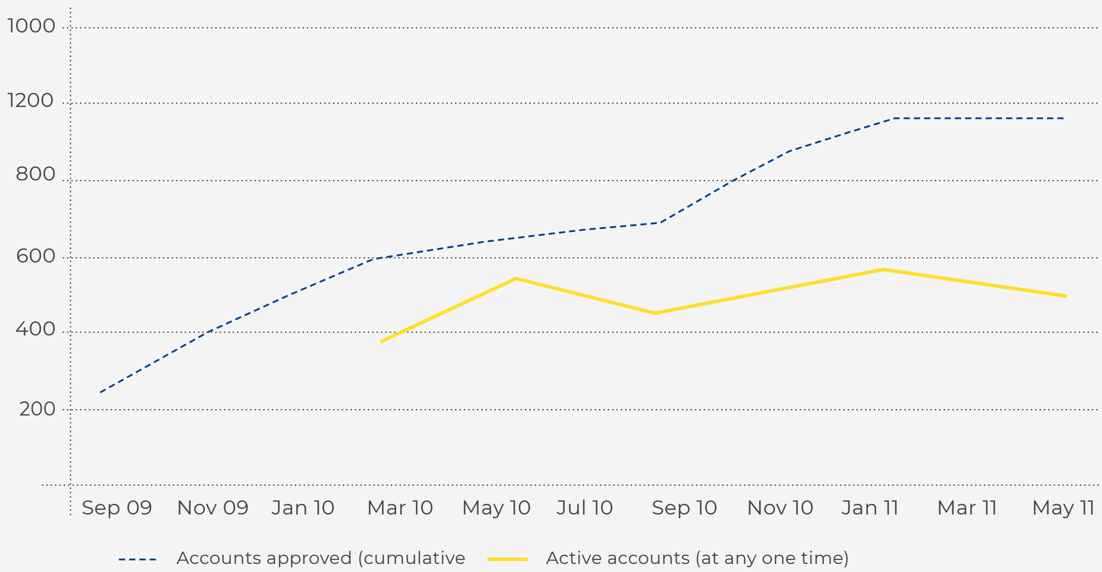
Agro dealer training

CNFA trained 2,700 agro-dealers on business plan development and cash flow management to prepare agro-dealers to access financial services

93. No claims were made during the scheme.

94. Ibid, AFD Working Paper 123

Figure 5. Growth in agro-dealer accounts



Source: NMB monitoring reports to FSDT and further business development training to manage their business once/if they received credit. Each agro-dealer received a certificate upon completion of the training. Although there is no record of the number of agro-dealers who applied, 966 of the 2,700 received the overdraft facility from NMB. Reports stated that "agro-dealers thought the training was of either high (56 out of 70 agro-dealers) or moderate (14 out of 70 agro-dealers) quality". The NMB staff reported that they felt that the training was very relevant although it would have benefited from more tailored follow-on courses.

As stipulated by the project plan, NMB trained their own staff on managing the overdraft facility. Interviews with AGRA and FSDT confirm the findings in the external evaluation that NMB staff (head office to branch level) were sufficiently committed to the programme. A dedicated loan officer was assigned to deal with the agro-dealers overdraft facility. Head office prepared special training for the overdraft facility and trained at branch level. Lessons from the pilot phase were incorporated into the training material to make it more practical. Some staff reported that appraisals were more difficult because they lacked knowledge of the agricultural sector. Others said loan monitoring was more difficult because the clients lived in remote areas and recovery processes were also more difficult in the cases that the type of collateral accepted by NMB differed from the standard practice. The interviewed NMB staff at head office all reported that staff capacity to managing agricultural related businesses in respective branch offices and MSMEs had improved substantially by the end of the project.

Both NMB and CFA remarked on the short length of the programme. Three years (e.g. three loan cycles) was an insufficient amount of time to create deeper behavioural change or imbed a different lending infrastructure in the bank towards small scale agricultural MSMEs. In addition, three years is too short a time frame for NMB to develop its own training capacity if it wished to take over the valuable roll of CNFA.

Financial inclusion

Further along the impact pathway, we can examine the project's results on financial inclusion. As described above, 966 agro-dealers had to access loans that would not have been available in the absence of the scheme. It has not been possible to confirm how many of these were previously unbanked or were not eligible for existing bank products. However anecdotally, a key informant stated that less than 5% had access to formal financial services before the overdraft facility.

At the end of three years, staff from NMB confirmed that 40% of the 966 agro-dealers had graduated from the scheme and were eligible for NMB's standard SME loans. Furthermore, as the project supported these 966 agro-dealers to develop a formal credit history and to gain experience in working with a formal financial institution, the agro-dealers could in principle apply for loans at any bank. To this end, FSDT/AGRA assisted agro-dealers who were bankable (e.g. stronger entrepreneurs) in terms of business performance and prepayment capacity, but lacked sufficient collateral and therefore access to finance.

The scheme was set up to target small-scale unbanked agro-dealers. NMB agreed to provide services to this client segment contingent on the guarantee scheme. Because the guarantee worked to lower the expected risks of a default on a loan, NMB changed its calculation of whether the loan was a worthwhile investment. This enabled NMB to change its normal loan conditions. Although the perceived risk of serving agro-dealers remained the same, because of the risk sharing arrangement, NMB was able to lower its risk calculations. This lowered risk to NMB was reflected in the specific loan conditions to agro-dealers. The lowered interest rate (from 19% p.a. to 15% p.a.) and collateral conditions (from 125% to 62.5%) is reflected in the approach, structure of the agreements found in the Guarantee Framework Agreement. The conditions were also softened because project (e.g. GFA) costs were shared. The cost of the CNFA training for agro-dealers was covered by the project and NMB did not have to restructure its lending infrastructure for this project, as the agreement was that NMB could use its existing appraisal and monitoring procedure to manage the agro-dealer's loans.

Therefore, NMB expressed that there was no reason for it to treat agro-dealers any differently than their other client segments without the guarantee. To this effect, the bank continued to provide services to agro-dealers through its normal channels and under its pre-guarantee loan conditions. However, according to CNFA, these standard SME conditions were not suitable for the majority of small-scale agro- dealers.

Could another product have been developed during the project that would be sustained? During the interviews with both CNFA and NMB, both expressed their surprise (at the time) that the Guarantee Scheme was not extended. CNFA believed that the project was 'very impactful' and believed that AGRA, FSDT and NMB missed an opportunity to develop another suitable product for agro-dealers that could be sustained without the guarantee. When probed on this specific subject, NMB expressed that since they fully expected the project to be extended, there was also no clear exit strategy and no alternative products or services were explored.

Growth and poverty reduction

Reports[95] confirmed that as a result of the guarantee scheme, agro-dealers were in a better position to stock up on inputs (fertilisers, seeds, pesticides, veterinary medicines and farm tools). In trend, agro-dealers reported having higher sales turnover and increased numbers of clientele. The agro-dealers reported three main drivers for this change: improved cash flow and credit as a result of the overdraft, improved knowledge of farmers due to government and NGO projects, and the existence of government subsidies to farmers.

The Triodos Facet review[96] reported further along the impact pathway, farmers reported that access to agricultural inputs was easier because of better-stocked agro-dealers. Farmers also reported that stocks were generally of better quality, and also more reliable in the areas where NMB supported agro-dealers did business. The farmers interviewed by the external reviewers reported that yields had increased because of improved seeds. Fertiliser and farming techniques also improved as a result of better extension services and awareness. However, as mentioned above, multiple other factors including weather, improved knowledge of farmers due to government and NGO projects, and the existence of government subsidies to farmers also made a significant contribution, making it impossible to isolate the effect of the project on farmers' yields.

Sustainability

In terms of results, perhaps the key issue is one of sustainability. Guarantee schemes of this nature aim to change the way banks assess risks and to move them beyond the boundaries of existing lending practices. As set out in more detail below, although difficult to quantify, the scheme had a moderate effect on NMB's assessment of risks of the agro-dealer segment and it thereby enabled more bankable agro-dealers to acquire loans. The scheme had less success in moving the bank beyond its existing practices, e.g. providing a tailored product that would serve additional unbanked small-scale agro-dealers.

Once the FSDT/AGRA guarantee scheme closed, NMB stopped the agro-dealers' overdraft facility. The overdraft facility and its favourable terms and conditions were only possible because risk was shared between many. Therefore, the project cannot be said to have changed NMB's risk appetite to the extent that it was willing to continue to provide different and more relaxed loan terms without the risk-sharing arrangements that the guarantee facility provided. Following the close of the scheme, as a client segment, agro-dealers were treated similarly to regular SME clients and had to apply for fixed term SME loans with the standard loan conditions (19-20% interest rate and 125% collateral). Although the project provided 966 people with financial services, the project cannot be said to have increased the number of financial products in the market nor to have improved outreach in the long-term.

According to NMB, the project did contribute to behavioural changes in the bank, at least in the short-term, evidenced by training loan officers to dedicate part of their time to servicing agro-dealers. The project helped NMB to identify and define the agro-dealer segment and thereby develop criteria for lending to this segment and others of the same risk profile. According to CNFA, "before the project the agro-dealers felt they were looked down upon, for the first time, small agro-dealers actually had a person who would look after them". NMB staff felt that the project contributed positively to their dealings with agro-dealers. In the long-term, NMB staff could not say to what extent the guarantee scheme had an impact on these behavioural changes, but did say that the programme increased their knowledge of the needs of a different client segment and increased agricultural SME's access to finance. Another informant's view was that there was insufficient time to embed the new ways of thinking and change the mind set of staff because the programme only ran for three years.

In interview, FSDT and AGRA reported that they chose a guarantee framework that prioritised outreach and additionality over financial

95. Triodos Facet (Oct 2011) External Review of the Guarantee Fund Supporting the Financing Scheme of Agricultural Inputs in Tanzania

96. During key informant interviews, these findings were checked and confirmed by AGRA, FSDT and CNFA

sustainability. What this means is that the framework stipulated an approach that specifically aimed to reach large numbers of agro-dealers with smaller loans suitable for areas where access to finance is lower. This approach meant that it was a priority to keep operational costs of managing the scheme as low as possible and therefore, NMB would not introduce new procedures to appraise the borrowers.

Informants said that the project helped NMB to strengthen its position in the agri-business sector. The support of both AGRA and FSDT also helped to this end as both organisations have a good reputation as champion pro-poor change. Although this improved image was welcomed, it was not a main objective of the project and could be categorised as an unintended positive effect. Prior to the overdraft facility, NMB's engagement with the agriculture sector was limited. Apart from warehouse financing and the overdraft facility, the bank did not engage in small-scale agriculture. NMB has recently opened a separate department in the bank that deals with agriculture finance and is specifically looking at value-chain financing and increasing volume of lending to agricultural SMEs along the supply chain.

FSDT contribution to results

Our assessment is that FSDT contributed significantly to the (unfortunately, transient) results that were achieved. This is certainly the view of AGRA and NMB. AGRA reported that the project was originally their idea and that they had experience of setting up schemes in other countries. However, all parties agreed that the project would not have happened if it were not for FSDT. According to a former NMB staff, "a very small scheme would not be enticing enough for the bank." Other NMB staff interviewed stressed that FSDT's strong reputation in the Tanzanian financial inclusion space also helped persuade them to get involved.

FSDT's contribution is also evidenced by the unfortunate fact that NMB stopped providing agro-dealers with the new financial product once the FSDT/AGRA guarantee had been removed. In this context, it is difficult to see that NMB, or indeed any other bank, would have been prepared to offer such a product to agro-dealers without a third-party guarantor similar to FSDT.

Project 5

Dunduliza-DID

PROJECT DESCRIPTION

It is widely accepted that the capacity of SACCOs in Tanzania is weak, in part due to poor basic accounting systems, controls and governance. In separate interviews with the CEO and Registrar of Cooperatives and the Executive Secretary of the Savings and Credit Cooperative Union League of Tanzania (SCCULT), each openly discussed the low performance of SACCOs across Tanzania (compared to its neighbours) and the need for significant reform. This has been echoed in recent statements made by the World Bank country director of the urgent need to address the capacity constraints that SACCOs face.[97]

The SACCOs sector was (and is) in need of appropriate business services. There is potentially large-scale demand for low cost, technically relatively simple services, embedded in the local context.

In this context, FSDT provided financial support towards the establishment and development of a network apex ("Dunduliza") that aimed to provide general as well as specialised support to its affiliated SACCOs. Between 2004 and 2009, FSDT (and DFID) have provided significant funding and support to the Dunduliza. The salient features of this support are as follows:

- Dunduliza was set up as an incorporated company in 2004.

97. http://www.worldbank.org/en/news/press-release/2016/02/18/bank-of-tanzania-and-world-bank-group-seek-to-expand-financial-inclusion-in-tanzania

- FSDT's primary intervention mechanism was in the form of funding. In a first phase, the total project budget was £2,407,755. A first tranche (£1,887,016) was provided in 2004 by DFID and in 2005 FSDT provided £1,575,906. The project had a dual purpose. It aimed to strengthen SACCOs that would be affiliated to Dunduliza by building their human and technical capacity. Simultaneously, the project aimed to strengthen the institutional capacity of Dunduliza (the network apex) by developing its own staff skills and systems and strengthening its management capacity to support SACCOs.
- Development International Desjardins (DID) was the primary grant recipient and implementer of DFID/FSDT support. DID specialises in providing technical support and investment to the community finance sector in developing countries. DID had over 80 years' experience in supporting SACCOs directly and building network organisations such as Dunduliza. From 2001 to 2003, DID had implemented and used this model in a three-year demonstration project to turn around SACCOs in three regions across Tanzania with apparent success.
- In October 2006, FSDT granted a further USD 50,000 to DID to provide advice on the various legal entities that Dunduliza could take. The advice was to establish as a Union of Cooperatives (under the Registrar of Cooperatives) or a Microfinance Company (under the jurisdiction of the Central Bank). In July 2007, DID transferred full management and budget control to Dunduliza.
- In a second phase (2007-2009) FSDT provided a further USD 2.88m aimed at taking the network to full sustainability by December 2009. The grant was to be spent on supporting the Dunduliza network and to DID to provide technical assistance to the Dunduliza network. FSDT also provided a separate line of credit (loan) to Dunduliza of USD 430,000[98] in June 2008.

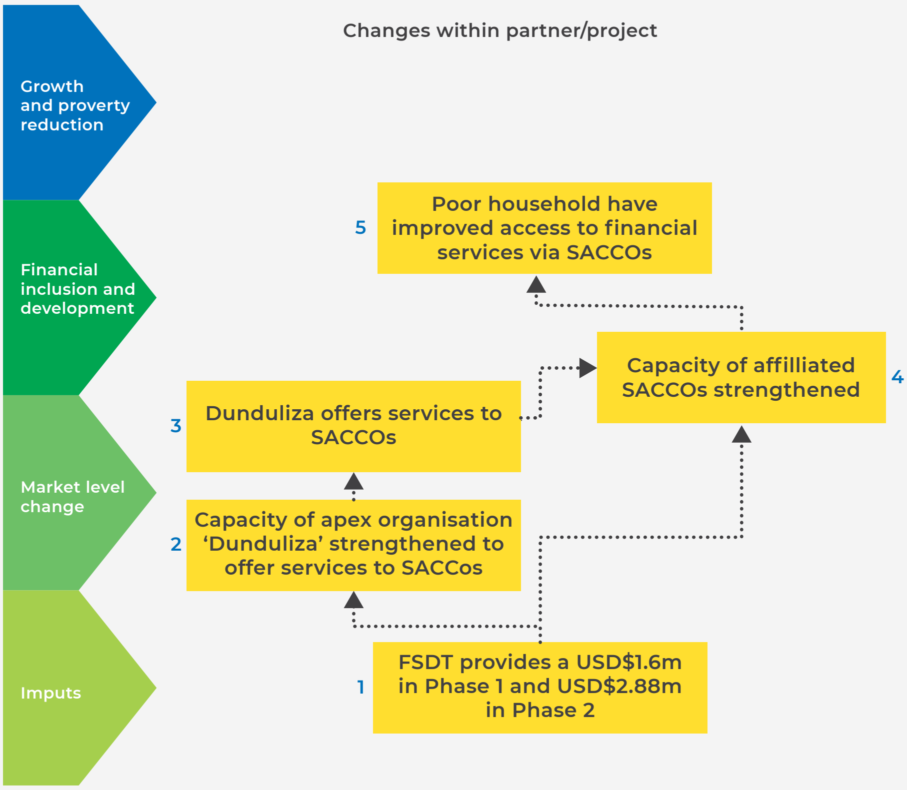
PROJECT RESULTS

Membership, loans and savings

As illustrated by Figures 6 and 7, there was initially a steady rise in the number of SACCOs selected and affiliated with the Dunduliza network. There was a concurrent rise in membership from 7,955

98. TZS 953,471,400 in 2008.

Result Chain: Dunduliza-DID



Project results - Dunduliza-DID

PERFORMANCE TARGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJECT END	STATUS
SACCOs in Dunduliza Network	35	38	Overachieved
SACCO members	72,483 (40% women)	72,000	Achieved
Value of deposits (TZS)	5.4bn	4.2bn	Underachieved
Number of loans disbursed	50,581	12,215 (Dec 2006 – as 2009/ project end figures not available)	Underachieved
PAR over 30 days	<4.5% over 30 days	<10.75% over 30 days	Underachieved
Operational self-sufficiency	119%	119%	Achieved
Financial self-sufficiency	112%	110%	Achieved (although urban SACCOs skew the average up)

to 52,408. During phase 2, this steadily increased to 72,000 members in 38 SACCOs by December 2009. As expected, in absolute numbers, the savings balance and the loan portfolio outstanding also increased between June 2004 and December 2009. Membership numbers, savings and loan portfolio outstanding amounts surpassed targets.[99]

The SACCOs used savings from their members to provide loans to the members (e.g. 85% of total deposits were used). In December 2006, only 9% of members were borrowing. Even at such a low level, the SACCOs were already strapped for cash and could not lend at the speed that members needed. In phase 2, SACCOs continued to have weakened capacity to mobilise deposits that could be converted into loans for members. During this time, external lines of credit were extended to SACCOs. In June 2008, FSDT extended a loan of TZS 953,471,400 for warehouse receipt and input supply.

Portfolio at risk

As illustrated by Figure 8, between 2005 and 2006, the PAR decreased from 7.6% to 5.5% but overall between June 2004 and December 2006, the PAR over 30 days rose from 7.6% to 11.7% with an increasing membership and larger outstanding loan portfolio. In the second phase, PAR dropped slightly to 10.75%. From Phase 1 into Phase 2, the PAR 30 had always been higher than planned. In Phase 2, with a weak management system at both the Dunduliza and SACCO level, neither were able to effectively evaluate and decide on loan applications or to disburse, administer or recover loans. PAR was very high and ultimately ended in a significant number of write-offs.

Operational and financial self-sufficiency

Operational Self Sufficiency (OSS) indicates whether or not enough revenue has been earned to cover the SACCOs' total costs minus operational expenses, loan loss provisions and financial costs. Financial Self Sufficiency (FSS) is similar but it adjusts the figure for inflation and costs of capital. As illustrated by Figure 9, in December 2006 overall OSS stood at 77% and FSS at 75%. Both OSS and FSS exceeded expected targets. Overall, this is a considerable increase from the situation in 2004, when OSS of the 10 SACCOs stood at 34% and FSS at 32%. The six largest urban SACCOs were all financially self-sustainable (OSS 107%, FSS 103%), while the rural ones were not (55% OSS/FSS). By 2009 and 2010, both OSS and FSS had increased to the extent that SACCOs (on average for rural and urban combined) were subsidy-independent.

SACCO capacity

By the end of Phase 1 the service delivery capacity of SACCOs had increased although the target number of staff in SACCOs had not been achieved. By December 2006, all 34 SACCOs were legally registered, had developed by-laws, elected committees and trained staff on the credit policy and how to manage SACCOs. Each SACCO was set up in an office with some kind of security system and basic office equipment. All SACCOs had an

99. Bearing in mind that in the first phase FSDT set targets for SACCO growth and in the second phase it focused more on building the sustainability of Dunduliza

accounting and loan portfolio management system that the staff understood how to use. This system had the capacity to provide monthly performance reports.

During Phase 2 there continued to be very high staff turnover in SACCOs that meant lower overall skill levels and management competencies. SACCO staff did not have the capacity to screen and disburse loans in a timely manner. Overall during Phase 2, weaknesses in governance became very apparent with "leadership who were unwilling to affect proper prudential management regarding loan loss provisioning and write offs and choosing instead to misrepresent the financial position to maintain member support of their continued power and position."[100] Accounting and internal controls were poor, resulting in weak monitoring, oversight and support of its members. In several cases the leaders and management even misappropriated SACCO funds.

Dunduliza organisational performance

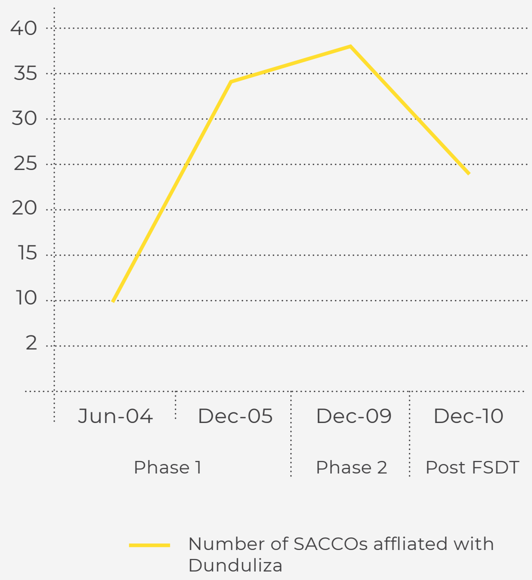
In terms of operational management, in both Phases 1 and 2, Dunduliza's operational costs were high. In phase 1, Dunduliza spent a substantial percentage of its funds on assets to set up the head office, zonal offices and offices for the SACCOs in all three regions. Dunduliza paid for salaries and training for its own staff and for SACCO staff. Dunduliza also paid the costs of SACCOs' assets such as computers and other office equipment. In fact, Dunduliza was subsidising a high percentage of SACCOs' operational costs: e.g. amounting to 18% of total budget in 2005 and 26% of total budget in 2006. At the time, this was flagged as quite high. Due to the widely dispersed locations of the SACCOs across the three regions, the costs of travel added to Dunduliza's high running costs.

By September 2008, all the funds earmarked to cover SACCO and Dunduliza operational costs for 2008 and 2009 had been spent, leaving a funding gap of more than a year. Assessments[101] attributed this to the fact that, *"many SACCO leaders and*

100. Recovery plan for Dunduliza-DID partnership

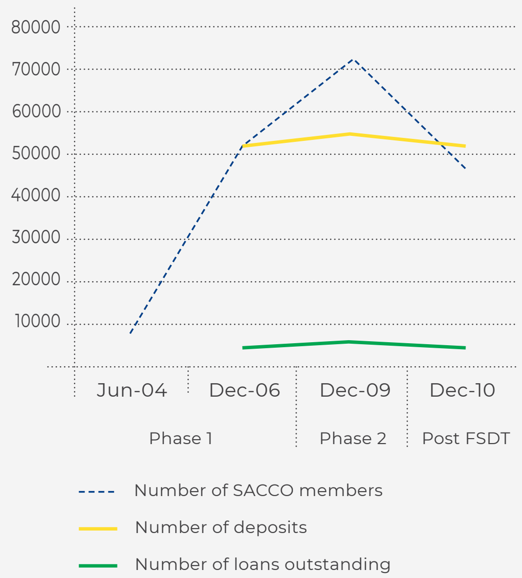
101. Desjardins Development International (April 2010) Recovery Plan for Dunduliza-DID; Lessons learned report p. 9

Figure 6. Number of SACCOs affiliated with Dunduliza



Source: Dunduliza reports to the board

Figure 7. Number of members, savings and loans



Source: Dunduliza reports to the board

managers were claiming additional subsidies on inflated operational losses and frauds, thefts and misappropriation of funds". Dunduliza did not have the capacity to check up on these claims nor enforce legal proceeding in cases of malpractice.

In terms of Dunuliza's revenue generation, by 2006, member SACCOs contributed to 9% of its total income. Although between 2004 and 2006, as a network Dunduliza's OSS stood at 51% and FSS stood at 49% - above the planned targets - SACCOs fees only made a small contribution to Dunduliza's operational costs. Short of charging higher fees, Dunduliza had to find alternative sources of income to sustain itself. In the second phase, lines of credit were extended to SACCOs and interest charged. The loans performed poorly, providing little income to Dunduliza. In Phase 2, as Dunduliza started faltering, a number of the stronger SACCOs started leaving the network and many of those that remained were reluctant to pay any fees to Dunduliza.

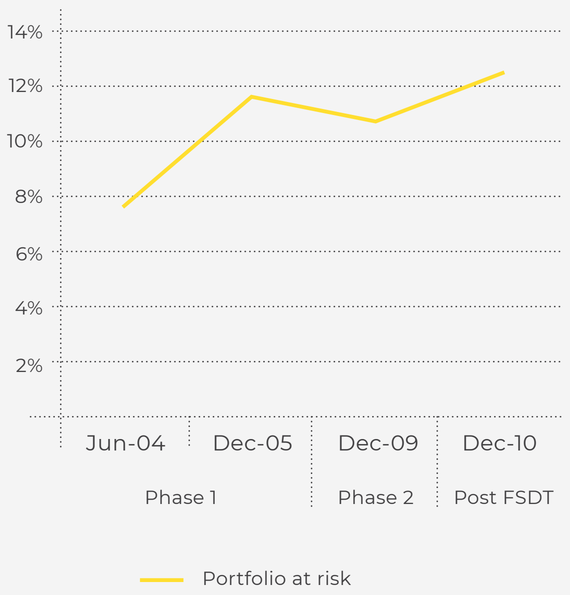
In terms of its institutional capacity, in the first phase, Dunduliza's capacity had increased as planned. Dunduliza was legally registered as a company limited by shares and owned by member SACCOs. Each member was able to buy 1 share at TZS 1,000. It had an operational head office and three zonal offices and a management unit and board of directors. Management and governing policies and procedures were all developed. Training modules were developed for Dunduliza managers, credit officers, tellers and leaders. In Phase 1, SACCOs provided positive responses to questionnaires on the value of role Dunduliza to their own management and accounting systems.

During Phase 2, although systems were developed, they were not implemented effectively. The result was that by 2009, communication between Dunduliza and SACCOs was so bad that Dunduliza's financial records of its affiliated SACCOs were out dated, incomplete or missing all together. In addition, Dunduliza's credit and administration practices did not comply fully with their credit policies and two out of three external credit lines managed by Dunduliza had significant write-offs.

Sustainability

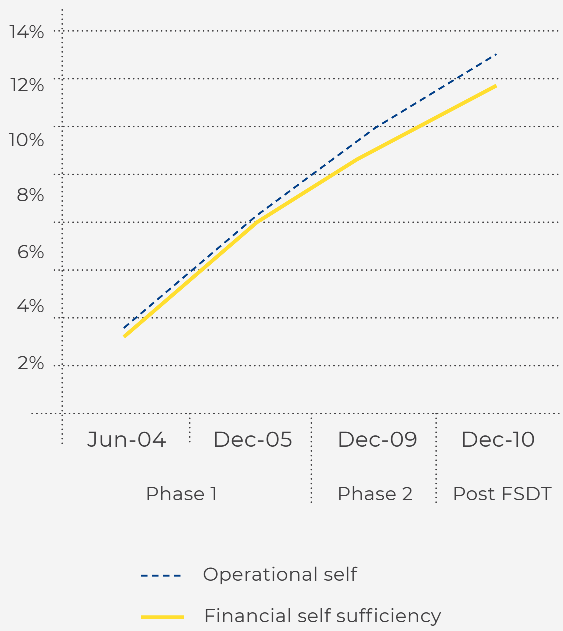
In 2009, some of the larger SACCOs started to disaffiliate from Dunduliza. The Managing Director of Dunduliza reported that in 2009 CRDB also started to aggressively poach the better performing SACCOs. He also reported that in 2016, only 19 of the original 38 SACCOs that were formally affiliated with

Figure 8. Portfolio at risk



Source: Dunduliza reports to the board

Figure 9. Operational and financial self-sufficiency



Source: Dunduliza reports to the board

Dunduliza are said to be operational, with a majority operating at very low levels. Therefore, it can be said that SACCO members do not have access to appropriate financial services in the long-term, indicating little sustainable impact.

By the end of 2010, Dunduliza had no external funding and fees only covered 25-30% of Dunduliza's operational costs. As the benefits of being affiliated to Dunduliza waned, many SACCOS disaffiliated or stopped paying contributions. As a consequence, most of the remaining staff (11) quit the company by mid 2011 and another four left by the end of 2012. In 2016, only five professional and two support staff are still working with the company. The company is insolvent with negative equity and huge debts (mainly loans to pay). Dunduliza owes its member SACCOs TZS 41,000,000.[102]

Although it has been written-off by FSDT, Dunduliza still wishes to pay the TZS 438m debt to FSDT. The Managing Director of Dunduliza spoke of "owning up to the responsibility and doing what was right." In order to repay the loans owed (for example to FSDT and member SACCOs), Dunduliza has gone into real estate and bought land which it intends to sell at a profit. It plans to use this profit to pay off its debt. At the time of the interviews with the Managing Director of Dunduliza, no lands had been sold and no amount had yet been paid off to FSDT. To keep financing its small office, it currently works on small projects for international NGOs in training and developing SACCOs.

Although Dunduliza did not fold, it no longer works with any of the SACCOs in its original portfolio. Dunduliza is now developing syllabi for training SACCOs' leaders and staff with the ambition to become a training centre for management of SACCOs. In other words, rather than aspiring to be a network apex for SACCOs, it aims to provide capacity building services. Dunduliza still uses the DID SACCO training manual for this purpose.

Growth and poverty reduction

An external evaluation conducted by Triodos Facet[103] for the first phase, found anecdotal evidence that the increased access to financial services improved SACCO members' welfare. First, access to savings accounts has helped SACCO members to improve their cash flow management. Members appreciated the safety and accessibility to their savings. Members used savings in times of emergency, school fees, to invest in businesses and use as collateral against loans. The business loans were used to invest in their business, and also provide working capital to help buy inputs in bulk for lower unit costs.

The consistent exception was the agricultural loans that often had lower or negative impacts on the borrower. During the implementation period, the weather had significantly affected crops and with the loan farmers took more risks. The net effect was members went further into debt.

A PROBLEM OF DESIGN

The original business model, locations of the SACCOs, and non-conducive policy environment together played a large role in the project failing. With hindsight, given the objectives of the project (e.g. dual objective to strengthen its own capacity whilst strengthening the capacity of SACCOs in hard to reach rural areas), the emphasis on outreach to rural and poorer clients, and the business model used meant there was little chance that Dunduliza would reach sustainability in five years.

Conceptual model

The financially self-sustaining (subsidy independent) network model requires having strong SACCOs in the network that are willing to pay fees. First, the stronger SACCOs are based in urban areas or those that have the potential to link up with value chains and markets. This reality is at times at odds with the objective of reaching out to financially excluded living in rural areas. To achieve its social objectives, Dunduliza had more rural than urban SACCOs in its network. Other networks using the same model such as USAWA[104] has closer to a 2:1 (urban:rural) ratio, whereas Dunduliza's mix was 3:1 (rural:urban). Larger SACCOs outside the network and those that grew as a result of the network would need incentives to stay in or join the network. Dunduliza was not able to demonstrate its value to the larger SACCOs to outweigh the benefits of autonomy. Newer and smaller SACCOs did see the value of being part of the Dunduliza network but they took take time to grow, generate income and to be able

102. A DID inspection conducted in February to March 2010 estimated that potential liability of Dunduliza to SACCOS was TZS 437,397,186. Dunduliza staff (September, 2010) jointly with cooperative officers undertook verification of each SACCOS claim. The report revealed that SACCOS had a total liability of TZS 120m to Dunduliza and Dunduliza had a liability of TZS 41,000,000 to SACCOS.

103. Triodos Facet (June 2007) *Final Project Completion Report for Dunduliza-DID*

104. Umoja wa SACCOs za Wakulima (USAWA) operating in North Tanzania is a network of rural SACCOs whose objectives is to provide technical assistance. Founded in 2006.

to pay fees to Dunduliza. But these too would leave if Dunduliza could not continue to provide them with additional value.

Operational model

Instead of subsidising SACCOs' running costs, DID and Dunduliza should also have instituted a different business model. The project should not have created and perpetuated a dependency culture from SACCO members.

Compared to other similar networks, a 20% contribution from SACCOs towards the Dunduliza's operational budget is considered high. And as SACCOs only contribute if the apex provided it adds value to them, Dunduliza needed to prove its worth to maintain these contributions. From the start, Dunduliza did not adequately think through how it would realistically generate sufficient revenue over the long term.

Dunduliza needed to support fledgling SACCOs at the same time as setting up its own capacity to provide monitoring and support services to SACCOs whilst building its own financially independence in five years. The desk-based research of similar interventions conducted as part of this evaluation confirmed that similar types of projects mature and are only sustainable after a seven to ten year period.

Geographical spread

Dunduliza started operating in three geographically dispersed regions simultaneously without considering these areas had market potential or good infrastructure. Dunduliza should have started out smaller. This was reflected in discussions with the Managing Director of Dunduliza and repeated by FSDT.

Enabling environment

Dunduliza did not have the legal status to monitor and supervise the SACCOs in its network. All cooperative societies in Tanzania are registered according to the Cooperative Society Act and related rules. Registration, implementation and enforcement of the Act and related rules is done by a government appointed officer referred to as the Registrar of Cooperative Societies. According to the Registrar, the 2003 Cooperatives Act only made allowances for one union of cooperatives (SCCULT) that had supervisory powers over SACCOs in Tanzania. Therefore, Dunduliza did not have the legal authority to monitor or supervise the SACCOs in its network. The result was that Dunduliza signed MoUs with SACCOs wherein agreements between the two parties could not be legally enforced. This was especially an issue in relation to financial intermediation and enforcement over the SACCOs' prudential management. Without these powers, it was difficult to have a stable and sustainable network of SACCOs.

Dunduliza had tried to apply for union status but was refused by the Registrar of Cooperative Societies. In interviews with Dunduliza's managing director, the Cooperatives Act was not as clear-cut on this issue as the Registrar makes it out to be.

Dunduliza was therefore registered as a company under the Registrar of Companies. This status was met with unexpected negative reception from some local government cooperative authorities that believed that Dunduliza's model was not pro-poor. Dunduliza staff reported that in some areas, SACCOs were prohibited from paying Dunduliza for its services or paying contribution fees. There was also limited cooperation between SCCULT and Dunduliza.

Although Dunduliza's legal status affected its supervisory capacity, problems in the initial design and organisational mismanagement had a larger impact on its sustainability. This is evidenced by the existence of another organisation operating in the same regulatory environment and with a similar mandate to Dunduliza's. Umoja wa SACCOs za Wakulima (USAWA) has operated as a registered company in Tanzania since 2006 and provides a similar service as Dunduliza. USAWA also functions through the use of MoUs with its SACCOs although it cannot legally enforce the provisions in the MoUs. USAWA is still in operation and growing slowly but steadily.

A significant unintended result of the underperformance of this project, which was in part causes by the lack of an appropriate legal and supervisory framework for Dunduliza, is that it drove FSDT to actively advocate for changes in the Cooperatives Act. In the RFSS, there is a clear strategy for the improved supervision of SACCOs, including delegated supervision. The 2013 Cooperatives Act also allows for delegated supervision.

FSDT contribution to results

Without FSDT/DFID funding, Dunduliza would not have been set up or continued to operate. FSDT provided two grants as well as an external credit line to finance warehouse receipt and input supply. Dunduliza was entirely dependent on FSDT to the extent that in 2009, when FSDT ended its funding relationship with Dunduliza, it stopped all activities.

Lessons

Several important lessons can be learned from this experience. To avoid subsidy dependence of SACCOs, if the project budget is used to pay for infrastructure costs such as computers and office premises, this should be given as a one-off and the SACCO membership should also contribute to these costs. The project budget can provide for SACCO's running costs as long as it for capacity building such as training and staff recruitment. To avoid being overstretched, Dunduliza staff suggested, it would have been better to start smaller. This would have meant supporting fewer SACCOs to reach maturity using DID training material before bringing others on board. These SACCOS would make up a core and stable group that could contribute to Dunduliza's operational costs. To avoid the larger more established SACCOs feeling that they had to support weaker ones, a flat rate fee alongside a variable rate subject to the services provided would have been appropriate. A clear plan to generate income should have been developed at the beginning of the project knowing that SACCO fees would not cover the whole of Dunduliza's operational budget. A network apex like Dunduliza could have avoided higher overheads by supporting SACCOs in fewer areas or in closer proximity to each other. Lastly, more due diligence should have been placed on assessing the enabling environment. In this case, more care should have been given to assessing the regulatory barriers that impact SACCO development and the level of risk this posed to the project.

Project 6

NMB Mobile banking

PROJECT DESCRIPTION

The traditional bricks and mortar banking business model is not well suited to serving low-income customers, particularly in rural areas. Poor people usually conduct financial transactions frequently and in small amounts. However, banks make money on larger transactions and higher balances. This means that for the FSPs to serve low-income consumers, it is necessary to address this market barrier. FSPs will serve poorer clients if they can lower the costs of serving poor people through scale, e.g. drive volume so that marginal costs diminish per user. Mobile phones provide a channel through which to reach and serve a large number of people in remote areas.

The project aimed to increase the number of Tanzanians with access to formal, semi-formal and informal providers through the use of M-Banking that connects mobile phones to a personal or business bank account.

In 2009, the project was seen as innovative105 as it was the first of its kind in Tanzania. No other bank had launched an SMS-based mobile banking service that would allow customers to transfer funds to non-bank customers. At the time, the mobile banking market was in its infancy, with less than 500,000 mobile users and telecommunication infrastructure was only starting to develop.

While m-money services have been available since 2008, the number of early adopters of these services (those who started using m-money before 2010) was small regardless of the specific provider.106 The Bank of Tanzania (BoT) also began its mobile money regulatory journey in 2008.107

Therefore, it can be said that FSDT extended risk capital to NMB to develop a platform and launch a product in an untested and largely unregulated market. At that time, it was hard to know whether such an innovation would take off in the prevailing market conditions. In addition, in 2008, NMB was going through a complete restructuring process and there were competing priorities for its funds. From conversations with the Acting Chief of Retail

105. http://www.worldfinance.com/banking/driving-financial-inclusion-in-tanzania

106. Mobile Money in Tanzania Use, Barriers, and Opportunities The Financial Inclusion Tracker Survey (Feb 2013) Intermedia

107. S. DiCastri and L. Gidvani (2014) Enabling Mobile Money Policies in Tanzania GSMA

Banking, it appears that at the time, spending funds on the NMB Mobile platform and product was not without risks.

FSDT helped to support NMB through the provision of a USD 300,000 grant – 42% of the total cost of the project with NMB bearing the outstanding balance – to develop an SMS-based mobile banking service called NMB Mobile. Most of the grant went towards payment of the software supplier to develop the payment platform, and the rest contributed towards the cost of technical assistance to NMB staff, a Help Desk, and marketing during the first year of the project. The project was implemented over three years from 2009 to 2011.

Recent interviews with NMB's acting Chief of Retail Banking, who originally approached FSDT in 2008, indicate that he believes that they would have eventually developed a mobile banking service anyway but that the FSDT grant was credited for helping to speed up the process. In 2008, new innovations such as these were low priority to the bank. Given that the potential of digital financial services was untested - it is likely that NMB would not have embarked on this for some time without FSDT's support.

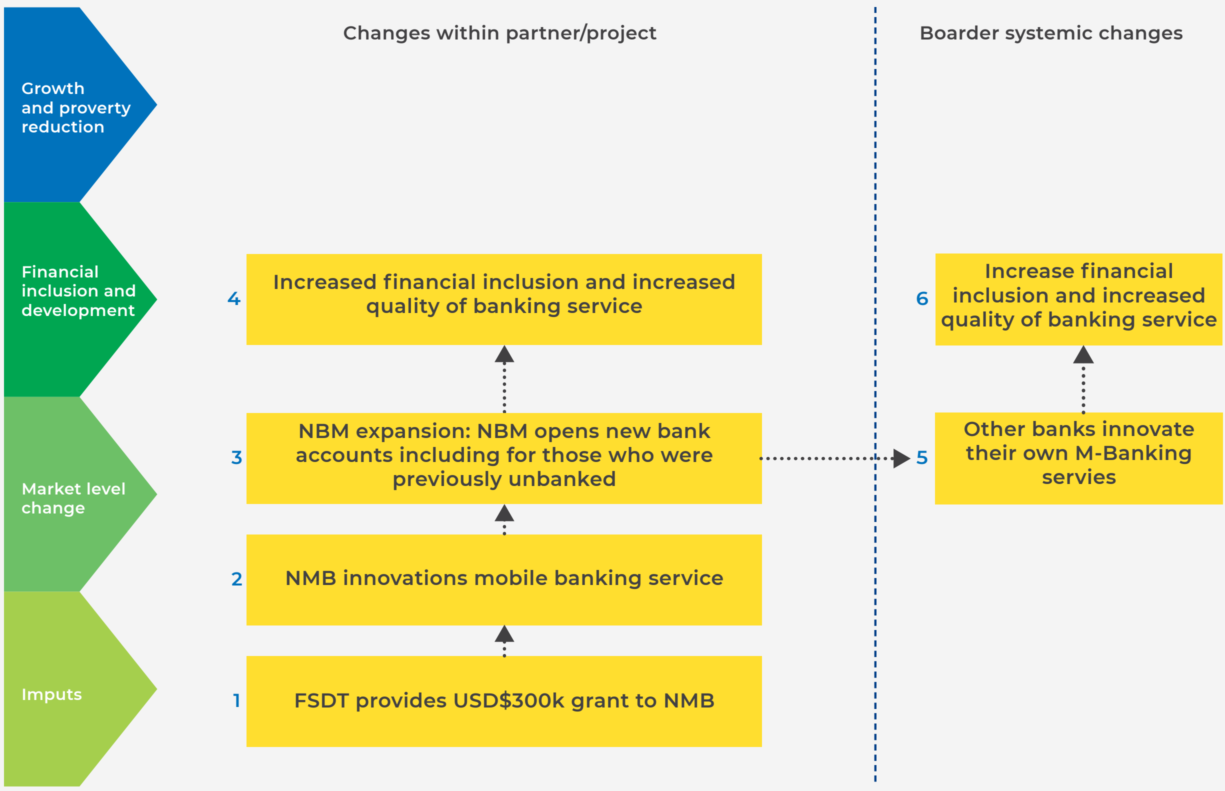
PROJECT RESULTS

Payment Platform

The 2012 external evaluation conducted by MicroSave on the whole commended the technology and software used to deliver NMB mobile services. The switch was designed to be capable of handling high volume transactions. It uses an unstructured supplementary service data (USSD) based application that was and still is considered the best available option to serve low-income customers. This is because USSD works on the vast majority of phones, it does not require changes to the SIM or a new SIM (either of which can be complex and often costly steps), and it has important usability and security advantages over other technologies.[108] In addition, the NMB Mobile user experience (user interface) is considered easy to use, is convenient, and the user is charged based on use. A dedicated E-banking systems team was established to support platform improvements and had the capability to develop standard reports needed to monitor performance.

108. CGAP Brief February 2015 Promoting Competition in Mobile Payments: The Role of USSD

Result Chain: NMB Mobile banking



Project results: NMB Mobile banking

PERFORMANCE TA RGET	TARGET AT PROJECT START	ACHIEVEMENT AT PROJ-ECT END	STATUS
New accounts opened	100,000 per annum	775,685 (3 years of operation)	Exceed target
New Customers who were previously unbanked	60% of new customers	51%	Below target
Number of customers who opened account because of MPB	25% of new customers	15-18%	Below target

Services

The NMB Mobile product extended various new services to its customers. In 2009, the services provided on NMB Mobile were balance enquiry, mini-statement, money transfer to other NMB account, airtime purchase and bill payments (essentially the same as offered by MNOs). In 2011 NMB introduced NMB PesaFasta (transfer to non NMB customers) on the MPB platform based on a pay-as-you-use fixed price. As shown in the figure below, the most frequently used feature was to make balance enquiries and increasingly to buy airtime.

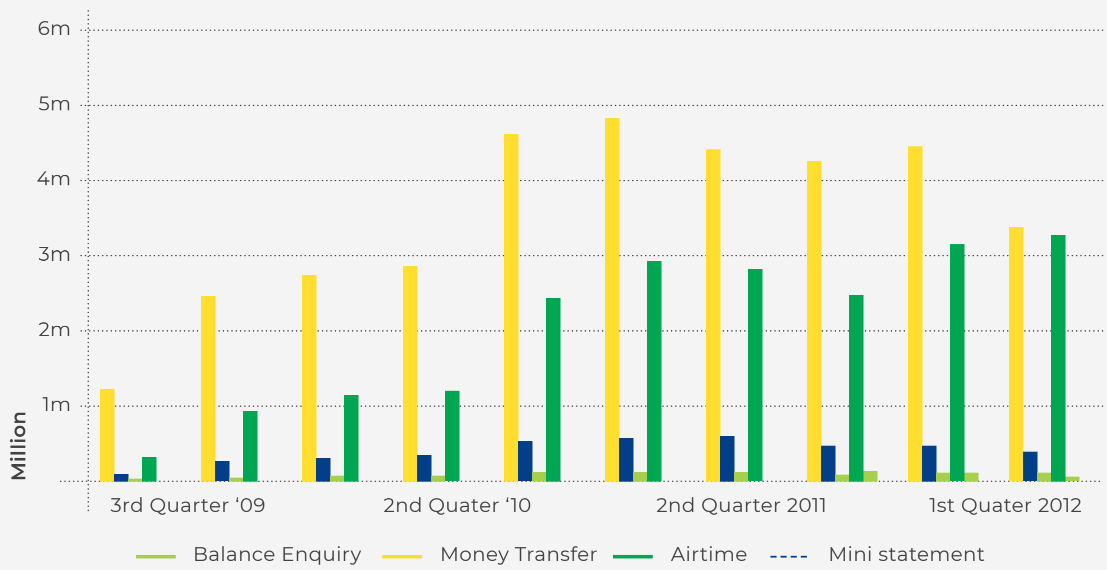
Help Desk

A Help Desk was set up to support NMB Mobile customers as part of the existing customer services offered at the branch and Call Centre. Some NMB Mobile brand ambassadors also supported clients at the branch but this was discontinued after a year. In the 2011 evaluation, the MicroSave evaluators commented on several improvements that needed to be made on customer services.

Marketing

There were considerable marketing efforts when NMB Mobile was first introduced. However, after the first year marketing efforts in the branch and outside dropped correlating with the drop-in registrations.

Activity on NMB Mobile Account



Source: MicroSave 2012

Customers

The project contributed towards FSDT's goal of more and better financial services available to meet the needs of urban and rural enterprises (MSMEs) and poor individuals/household in urban and rural areas.

During the project period, NMB opened 775,685 new bank accounts, surpassing the conservative target of 300,000. 16% (121,329) of these new accounts were opened in seven regions with the highest level of financial exclusion in Tanzania. Of these 775,685 new accounts, 51% (394,287) were previously unbanked. The assumption is that all the accounts which were opened in branches where there is no other bank branch present could be counted as customers who were previously unbanked. This number was below the target.

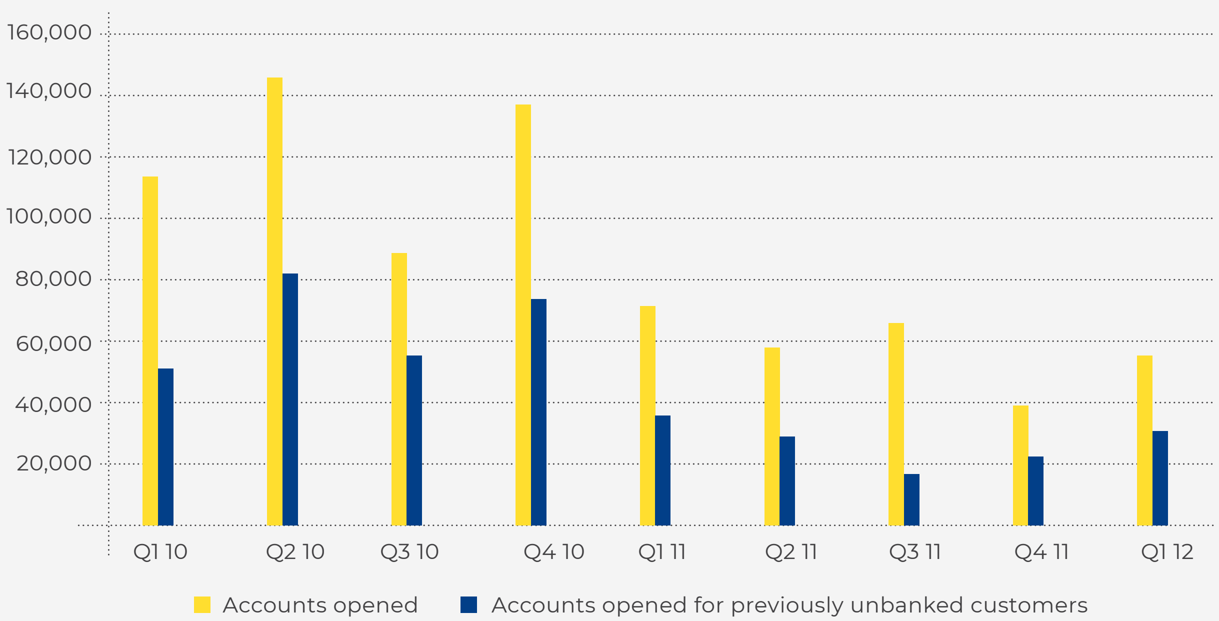
Any NMB account holder is eligible to register for NMB Mobile. As shown in the figure above, the general trend is a decrease in account openings and mobile registrations over 2010 to 2011. Reportedly, 15-18% of the 775,685 accounts had opened accounts due to the NMB Mobile service.[109] In their evaluation, MicroSave attributed the lowering level of registrations between 2010 and 2011 to fewer marketing campaigns and the manner in which customers could register. In the first few months of the project, customers could register/sign-in using their mobile but this was changed later because of fraud. The new process required customers to come to branch or ATM to register.

As reported in interviews with NMB staff, the NMB Mobile service improved existing customer user experience. The platform was mainly used for balance enquiries. Previously, customers would have had to go to the branch and wait in long queues to check their balances. Customers also increasingly used the service to buy airtime and transfer money but to a lesser extent because both these services were offered by Mobile Network Operators that offer more convenient cash in and cash out services.

Beyond the positive effect on the users' experience reported above, it is difficult to draw specific conclusions about whether and what kind of impact the project had on the economic welfare or poverty levels of the individuals that had access to the mobile banking service. Firstly, more than five years have

109. NMB reported 18% in 2010. This survey was only conducted once and we cannot verify the validity of the findings. A subsequent survey that was conducted in 2014 reported 15% of the NMB accounts were opened as a result of NMB Mobile.

A comparison of accounts opened and accounts opened for previously unbanked



lapsed since the project completion and since that time a multitude of factors would have influenced a customer's welfare, making it very difficult to collect information and draw a meaningful contribution story. Moreover, as mentioned above, anyone that opened a physical account was eligible to register for the mobile banking service, so from a practical standpoint, it is not possible to separate the welfare effects of opening and using an account from the impact of registering for the mobile banking services.

One main gap on the part of FSDT was that it had not developed a good monitoring system for the project. Although it was stated as crucial in the Project Appraisal Report and stated as a condition of the funding, there was very little documentation on the results of the project save for the number of registrations. NMB did not collect any data on whether the client had been previously banked or how many had opened bank accounts because of the NMB Mobile. NMB's Chief of Retail Banking expressed that FSDT only asked NMB to start collecting this data a year after the project started, by which date it was too late.

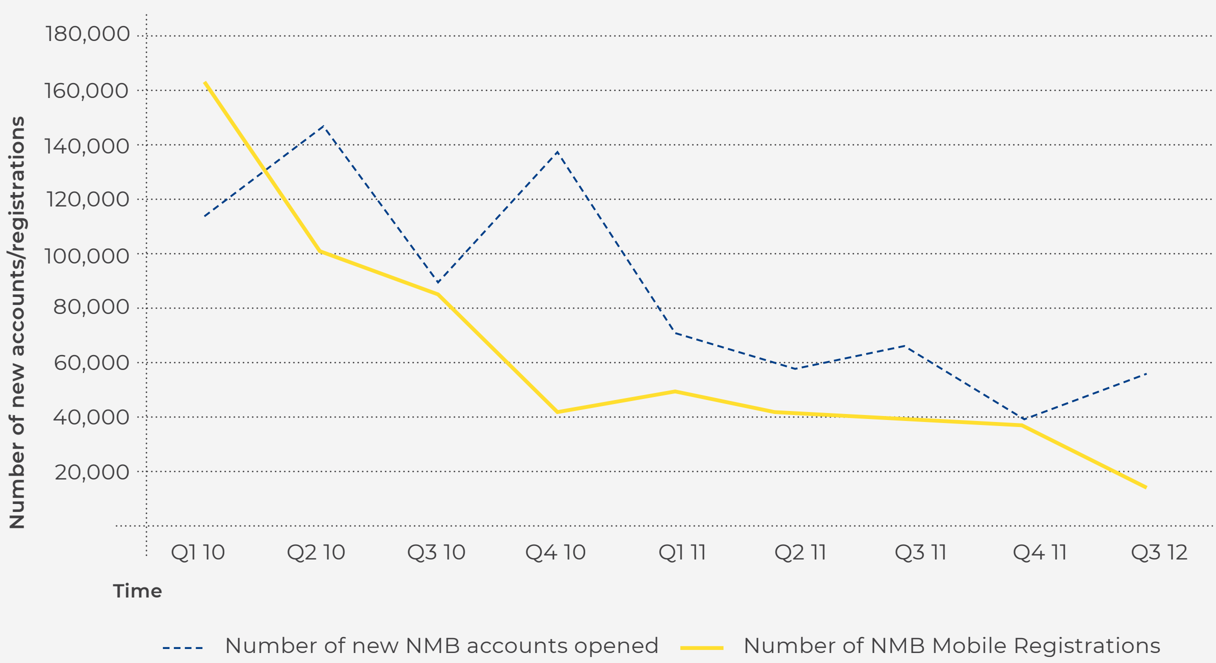
NMB

The NMB Mobile product can be said to have contributed towards the better positioning of the bank in the increasingly competitive retail banking environment, hence maximising their returns while increasing access to financial services and increasing shareholders' value. The entire objective of the project was in line with NMB's long-term goal of being the bank that provides services to Tanzanians across the country.

As was discussed in the paper by Sosthenes Kewe on the evolution of mobile phone financial services in Tanzania, MNOs have a wider outreach capacity than banks and therefore the mobile financial services in Tanzania are largely driven by MNOs, not banks. Through this they can drive down costs and thereby drive down prices for customers. As of 11th November 2012, all the MNOs stopped charging clients for sending money, making their channel cheaper than banks. This has to some extent prevented banks from seeing any real lift in volumes.[110] To ensure that banks can provide a service that adds value in the market, they should

110. S. Kewe and A. Mushi (2012) The evolution of mobile phone financial services in Tanzania: Opportunities and Challenges.

A comparison of the NMB accounts opened and NMB mobile registrations



focus on adding savings and credit products to their mobile platforms.

Market level effects

NMB mobile banking was launched on 21st July 2009, and CRDB's SIM-Banking was launched on 15th December 2010[111]. Specifically, after the success of NMB Mobile, Akiba Commercial Bank, Mkombozi Bank and Amana Bank approached FSDT for advice on developing their infrastructure for cardless banking.[112] These organisations, as well as Exim Bank and National Bank of Commerce, started developing and launching mobile channels soon after.

It is not possible to say in definite terms what affect the project had on mobile-banking. However, it is possible to say that once NMB started pushing out the NMB Mobile product, this acted as a signal to other market actors – the market viability of providing services to low-income consumers. NMB had to some extent prepared the market by virtue of being the first to launch such a product, stimulating customer awareness and demand, thereby bringing down costs and risks for others. Other banks therefore had additional incentives to copy and push out pro-poor business models once lessons had been learned from market trials.

FSDT's grant can be said to have contributed towards catalysing and accelerating change to develop the infrastructure for mobile banking and through this, stimulating others to follow in what was unknown territory.

Other factors such as the enabling environment, improved national payments systems and expanding telecommunications infrastructure across Tanzania helped the launch of NMB Mobile and others that followed. For example, the world over lauds how the BoT made concerted efforts from early on to find a legal and regulatory framework that would provide sufficient legal certainty and consistency to support a stable mobile money market, promote financial inclusion, and protect customers while allowing for innovations in the market.

111. https://www.ukessays.com/essays/marketing/mobile-banking-as-a-critical-service-marketing-essay.php
112. Interviews with Sosthenis Kewe

Project 7

Mobile Financial Services Interoperability Scheme

PROJECT DESCRIPTION[113]

Digital financial services have grown significantly in Tanzania in terms of outreach. However, the lack of an interoperable[114] digital financial service model and absence of a domestic Switch[115] for retail payment transactions has prevented digital financial services from reaching their full potential in terms of use.

Around 2011/12, the financial services industry expressed a need for a neutral entity to facilitate the process of creating business rules and a business model around mobile financial services interoperability. Banks and mobile network operators indicated that they were willing to participate in such an industry-led solution provided a business rationale existed. The development of a fully interoperable financial system was seen as having the potential to increase financial access by providing more points of access at a lower cost.

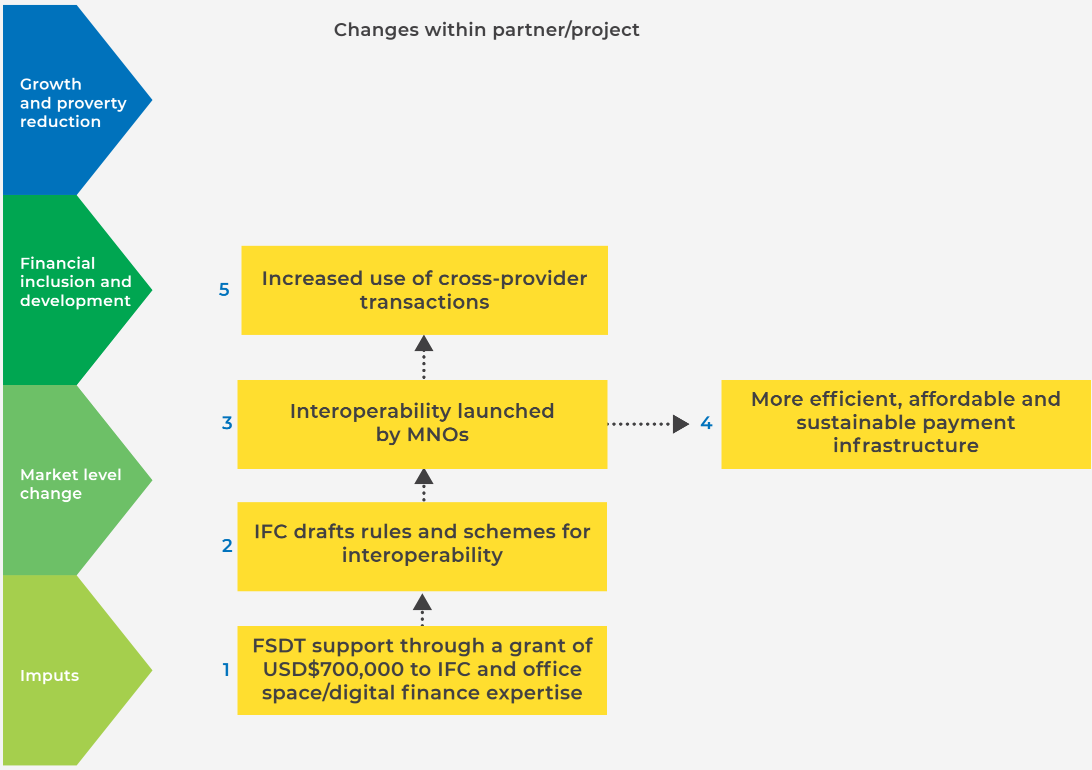
To address this need, in 2012, IFC scoped the market in Tanzania to assess the viability of creating an industry-wide platform to enable seamless inter-network payments to deliver low-cost transactions to customers in an interoperable mobile financial services environment. This was co-funded by FSDT and the Bill and Melinda Gates Foundation. The scoping looked for a solution that would operate on a cost recovery (utility) basis.

113 Project Appraisal Report, MFS Interoperability, FSDT, 2013

114 Interoperability is defined as the possibility to transfer money between customer accounts at different mobile money schemes and between accounts at mobile money schemes and accounts at banks (GSMA, 2014)

115 A Switch facilitates transactions between different banks and financial service providers using a variety of interfaces such as ATM, point of sales, mobile phones, etc.

Result Chain: Mobile Financial Services Interoperability Scheme.



This scoping study[116] concluded that Tanzania was an appropriate market for the development of a mobile financial services interoperability project on account of:

- **Market demand** The Bank of Tanzania and some mobile network operators observed that mobile money users were resorting to alternatives to direct wallet-to-wallet transfers, such as managing multiple Mobile Financial Service (MFS) accounts and making cross-carrier payment via vouchers. These behaviours suggested that there was demand for cross-network payments.
- **Market maturity** The mobile money market was nearing saturation from a customer acquisition perspective. In addition, market awareness and use of mobile money product was quite high.
- **Balanced market** The Tanzanian mobile payments market is more balanced in terms of market share between MFS providers than other East African markets.
- **Supportive regulatory environment** The Bank of Tanzania was seen as a progressive institution that regards itself as an enabling agency rather than an entity that dictates how markets should organise themselves. It generally embraces a 'Test and Learn' regulatory philosophy to allow innovation to enter the market.
- **Providers' demand** There was latent demand for interoperability from both the supply and demand side, but potential competitive pressures and a lack of trust between operators had held the process back. A catalyst was needed to create an enabling environment.

The Mobile Financial Services Interoperability Scheme project commenced in April 2013. The objective was to formulate an agreed path to interoperability through the creation of a set of standards for a Mobile Financial Services scheme that would include banks, mobile network operators and the regulator. The expected outcome of the project was a set of rules, called Operational Regulations for an interoperable scheme in Tanzania. The expected impacts included:

- Increased convenience and reduced costs for to users of financial services and thereby increased use.
- A payment infrastructure that is more efficient, affordable and sustainable.
- Increased capacity on payments systems and interoperability for all participating institutions.
- The project had the following phases:
- **Phase 1 – Preparation:** research to set the foundation for industry engagement. This included a competition review, a review of payments infrastructure, the formation of a project team, a regulatory analysis of MFS Interoperability, and a market demand study. BoT and industry commitment was secured and non-binding MoUs were agreed with industry participants to ensure long term commitment and funding.
- **Phase 2 – Stakeholder engagement:** a series of workshops and training sessions to ensure that participants were speaking the same language and working towards a common objective.
- **Phase 3 – Draft rules for wallet-to-wallet operation:** the rules covered participation criteria, clearing and settlement principles and dispute resolution.
- **Phase 4 – Draft implementation plan:** including budgetary requirements for an interoperable MFS scheme and switch in Tanzania

FSDT's inputs included:

- The provision of funds for the design and implementation of the mobile financial services Interoperability scheme.
- Provision of access to office space for the team responsible for the design and implementation of the interoperability scheme.
- Support from FSDT specialists in the design and implementation of the scheme.

Total project costs were estimated at USD 2,833,359. FSDT provided a contribution of USD 700,000; the remainder was provided by the Bill and Melinda Gates Foundation. Beyond its financial contribution, FSDT's involvement helped the IFC team to gain from the credibility that FSDT enjoys with financial service providers and mobile network operators in Tanzania. In addition, FSDT's endorsement of the value of interoperability encouraged the industry to adopt the scheme.

116. Achieving Interoperability in Mobile Financial Services, Tanzania Case Study, IFC

PROJECT RESULTS

As part of the project deliverables, a series of use cases[117] were developed, namely, Person-to-Person (P2P), Cash- In-Cash-Out, Agent-to-Agent (A2A), Merchant Payments and Bulk Payments.

Commercial agreements were signed between Airtel, Tigo and Zantel in June 2014. Tanzania is now a full MNO-interoperable country, a first in the world, with all MNOs namely, Zantel, Tigo, Airtel and Vodacom (GSMA, 2016[118]) using interoperability measures. However, to date P2P is the only use case being implemented. We were informed during interviews that the roll-out of other use cases is currently on hold until the P2P pilot has been given more time.

The first chart below shows that since its implementation in mid 2015, there has been a very rapid growth in both the value and volume of P2P interoperable transactions. The second chart shows a corresponding growth in the percentage of P2P transactions that are interoperable.

However, awareness of interoperability remains relatively low. In a survey of interoperability conducted in September 2015, 54% of mobile phone users were unaware of interoperability and only 20% had tried a cross-provider transaction. This implies that greater user awareness has the potential to lead to further growth in the use of interoperability.

The following lessons can be drawn from the success of this project in introducing interoperability standards and in other sector reform initiatives in Tanzania[119]:

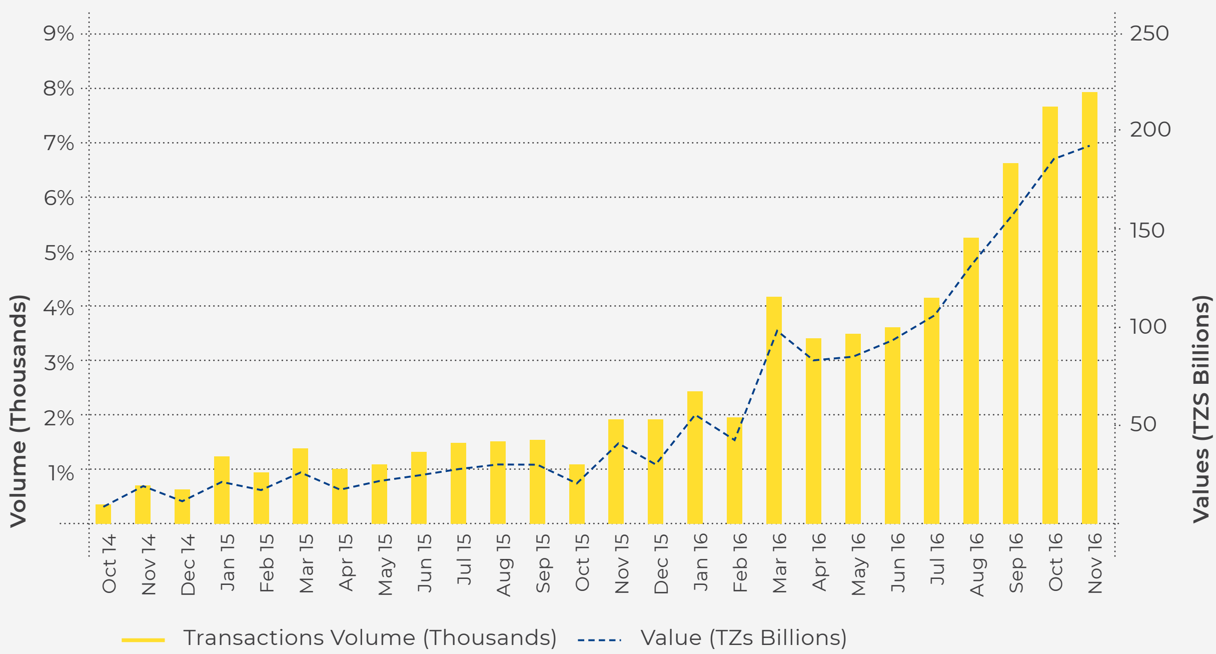
- **Allow industry to define the rules.** IFC did not prescribe pricing as industry participants opted not to settle on a single, multilateral price for interoperable wallet-to-wallet transactions but to rather negotiate price one-on-one, through bilateral commercial agreements (to ensure that they comply with the competition policy). Therefore, each provider wishing to become a final signatory to the rules document needed to negotiate and sign a pricing agreement bilaterally (one-on-one) with another provider.

117. Cases where a product/service can be used

118. The impact of mobile money interoperability in Tanzania, GSMA, 2016

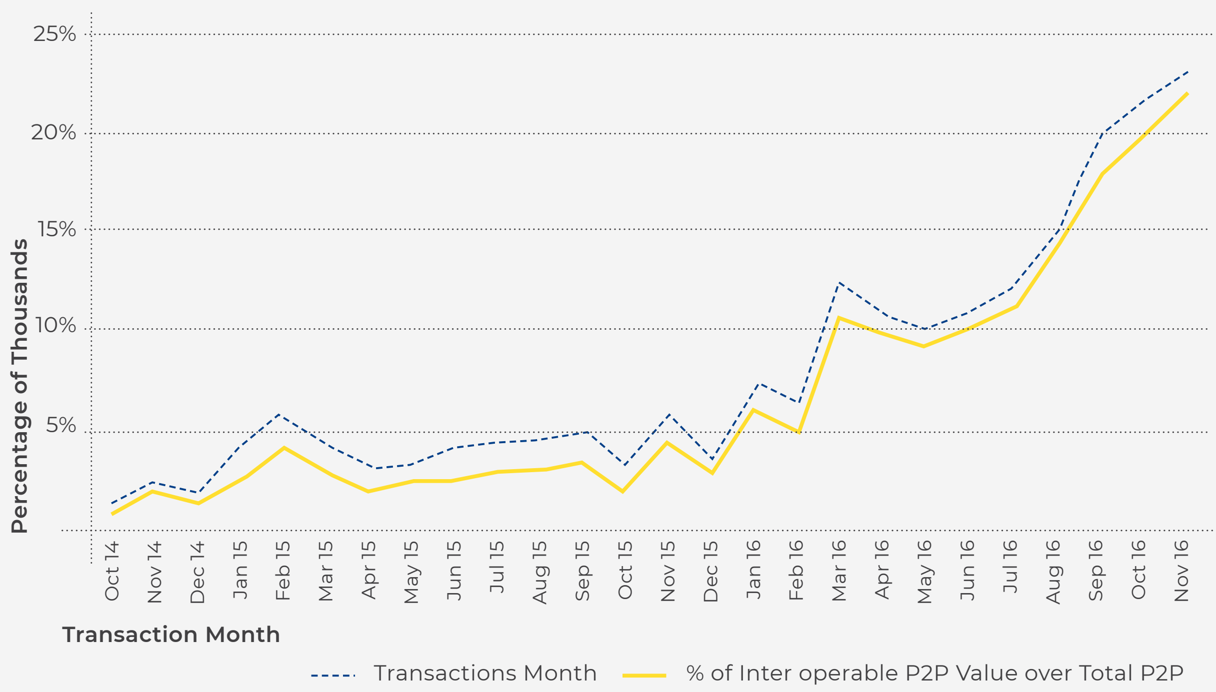
119. Achieving Interoperability in Mobile Financial Services, Tanzania Case Study, IFC; discussions with Martin Warioba, IFC 2016

Figure 1. Direct, off-us P2P tanscations in Tanzania (October 2014 to November 2016)



- **Success requires an industry champion**. Tigo was a staunch supporter of interoperability from the beginning. While the IFC process created the conditions for a collaborative approach, Tigo's close involvement in driving the agenda offset offsets possible claims that the agenda was not in the interests of industry, and compelled competitors to at least monitor and engage in discussion.
- **Identify an independent facilitator and/or neutral broker**. IFC played the role of facilitator by providing expertise and as neutral broker in engaging with various stakeholders at various levels. IFC's engagement assured participants that the process would not be hijacked by a competitor's commercial agenda or by a regulatory mandate.
- **Have a plan.** Starting with a clear outline of the issues to address and mapping an implementation plan to tackle these issues, helped to maintain the focus needed to achieve the levels of detail necessary in interparty payments agreements.

Figure 2. Percentange Growth of Interoperable P2P Transaction vs Total P2P Transactions (October 2014 to November 2016)

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Annex 4. Macro-level findings

Project 8

FinScope Surveys (2006, 2009 and 2013)

PROJECT DESCRIPTION

The first FinScope survey in 2006 ran from October 2005 to July 2006 and cost USD 270,000. FinScope 2009 ran from June 2008 to August 2009 and cost USD 940,000. The 2012 iteration ran from December 2012 to December 2013 at a cost of USD 1.5m. FSDT covered these costs without contribution from third parties.

The first strategy document of FSDT clearly recognised the need for a wider enabling environment for financial inclusion, particularly well-developed financial sector regulation. The commissioning of the first FinScope survey in 2005 was driven by the need to develop a robust, conducive and enabling legal and regulatory environment that would promote a deepening of financial services across the country. The starting point for developing the regulatory framework was to gather evidence upon which it could be based. In particular, there was a need to understand the demand-side situation in the country with respect to access and use of financial services by different segments of the population. The FinScope survey was expected to bridge this information gap by providing a comprehensive and reliable data set that would inform regulators, donors and FSDT itself.

The FinScope Survey of 2006 served as the main source of new information regarding demand for financial services and barriers to access. This was not only used by FSDT in defining its goal level targets[120] but also helped shape its revised strategy document (2007). The strategy document 2007 identified the lack and asymmetry of information as one of the binding constraints to financial sector development. The commissioning of second round of the FinScope survey was therefore influenced by the need to provide reliable data while further building upon the scale and scope of the previous FinScope survey.

While formulating its third strategy document (2013-2018), FSDT added a new dimension to its target segments, by including women and youth as its prime target. This was influenced by the findings of the FinScope survey of 2009. The data showed that there was a significant difference along gender lines with men (11%) using formal banking services more than women (7%). Similarly, a large proportion of young population of the country was found to be predominantly relying on parents for financial access.

The first FinScope survey in Tanzania was carried out in 2005-2006. It was the first nationally representative, countrywide survey, which sought to measure the demand for financial services and barriers to access at a household level across Tanzania. With the budget outlay of USD 270,000, the survey was undertaken with technical assistance from FinMark Trust, South Africa[121]

120. The goal level targets of the revised strategy aimed to reduce the proportion of the adult population totally excluded from 54% in 2006 to 40% by 2011; as well as to double the proportion of the adult population that is formally banked from 9% to 18% over the same period.

121. FinMark Trust, based and registered in South Africa, implements the programme of 'Making Financial Markets Work for the Poor' (FinMark) supported by DFID Southern Africa. The FinScope™ survey, a nationally representative study of consumers' perceptions on financial services and issues, was first piloted in 2002 in South Africa. The survey has since been conducted in many countries with the main objective to measure and profile the levels of access to and uptake of financial products/services (both formal and informal) in the country, across income ranges and other demographics. FinScope assists in establishing credible benchmarks and indicators of financial inclusion, while at the same time providing insights into market obstacles to growth and highlighting opportunities for policy reform

to design the research plan, methodology and sampling. The survey was to be undertaken by a research firm with the involvement of the National Bureau of Statistics (NBS), the state owned research body that is entrusted to carry out the census and other national surveys. The survey was expected to build a comprehensive understanding of the landscape of financial services in Tanzania and provide benchmark for measuring effective access to financial services.

The second round of the FinScope survey took place in 2008-2009. With a budget outlay of USD 940,000, the project objective was to quantify and profile the demand for financial services of consumers, and to identify barriers to access. It was expected that the reliable information provided by the FinScope would be a sound basis for improving policy and facilitating the supply of appropriate financial services. The survey was also expected to inform FSDT's own consumer finance initiatives and provide benchmarks for interventions.

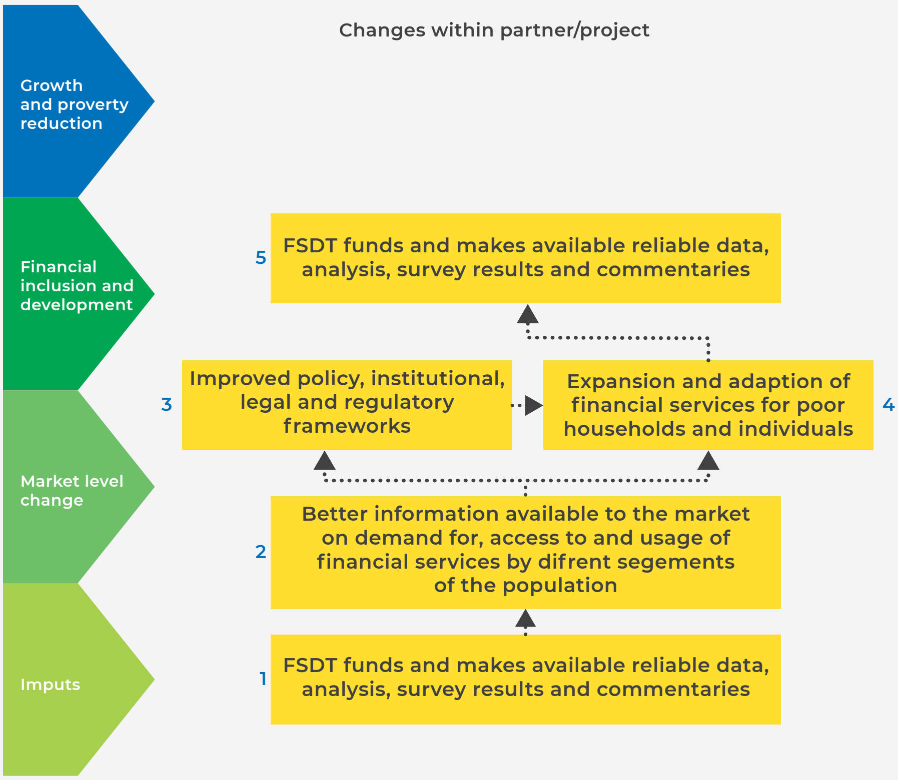
The second FinScope survey was seen as contributing towards FSDT's Output 1, i.e. improved policy, institutional, legal and regulatory framework and data for delivery of financial services. It was also considered to provide crucial input into Output 4, i.e. more and better financial services to meet the needs of adult population not served by the formal sector.

The third FinScope survey commissioned in 2012-2013 was expected to contribute on a much larger scale to achieving the FSDT's logframe objectives. Besides providing the objectively verifiable indicators for financial access and use at the goal level, it was expected to provide useful insights to inform policy and regulatory framework development (Output 1), as well as contribute significantly to Output 5 – 'more and better financial services available to meet the needs of poor urban and rural households and individuals'.

The FinScope reports are published on FSDT's website.

and innovation in product development and delivery. To date, FinScope Consumer surveys have been conducted in 21 countries (12 in SADC, 5 non-SADC Africa and 4 in Asia), while FinScope MSME surveys have been implemented in 6 SADC countries (South Africa, Zimbabwe, Malawi, Mozambique, Tanzania, Zambia).

Result Chain: Mobile Financial Services Interoperability Scheme



PROJECT RESULTS

FinScope as a credible source of market information

The first result has been the degree to which FinScope has established itself as a credible source of information for the market. This was not always the case. The first FinScope survey was rejected by Government. They cited concerns about its weak design, raising questions about its validity and robustness, and above all, claimed that the survey was not conducted collaboratively.

There is evidence that FSDT made efforts to be collaborative. It established a Stakeholder Task Force (STF) to generate interest and buy-in to the survey. The STF was designed to be a public-private forum for discussion and channel for stakeholders' ideas around survey design and analysing and disseminating survey results. The NBS confirmed to us their involvement in FinScope since 2006.

Further, FSDT reported to us that it was the first time that the dismal state of outreach and use of financial services was revealed and that it is possible this had an impact on its reception.

FSDT followed a more collaborative approach in subsequent rounds. Specifically, it has involved the NBS in several aspects of the survey including design and quality assurance. The Government has since accepted (and as we shall discuss, used) the second and third surveys. In interviews for this Impact Assessment, stakeholders were unanimously positive about FinScope and the credibility of its data and findings. By way of example, while discussing FinScope, one government agency remarked: *"the good thing about FSDT's work is that when they do not have the necessary technical skills, they hire experts and consultants, which adds to their strength and credibility"*.

Influence on policy, institutional, legal and regulatory framework

It appears that FinScope surveys have had a significant influence on policy formulation in Tanzania by highlighting the low levels of financial inclusion in Tanzania, which was a trigger for increased policy focus on financial inclusion.

It has also provided a well-evidenced picture of Tanzania's financial sector in terms of, for example, access points and the distribution of financial products. This has helped inform the areas that need to be focused on when drafting policy. FinScope data is cited in policies such as the National Financial Inclusion Framework and the National Payment Systems Act.

A BoT official commented: *"FinScope has facilitated in fixing country level targets of various policies introduced by the government. It has had a tremendous effect in shaping policy formulation."* The same official reported that the Governor of the BoT uses FinScope data (not just the reports but the raw data) extensively including when preparing his speeches. Separate teams within the BoT confirmed to us that FinScope is an important source of information for the Bank.

In only one interview did an official from the Ministry of Agriculture communicate some doubt about the utility of FinScope data in policy-making. Even here though, he went on to stress that FinScope had recognised and evidenced the power of co-operatives in financial services for the poor and that this had been the starting point for his Ministry to consider policy level changes.

Influence on financial service providers

Some of the financial service providers interviewed reported having used the FinScope data to gain insight into the market and clients' needs, and claim to have used this insight to develop their strategic plans and refine their products and processes. For example, a large microfinance bank reported having used the FinScope insights to educate some of their customers (farmers in particular) about their savings needs.

FSDT reported that some FSPs have hired consultants to dissect the FinScope data in order to generate insights that could be used in policy and product design. An interview with Akiba Commercial Bank, an actor that has not received any assistance from FSDT, revealed that they had used FinScope data to better understand the unbanked population, the needs of rural segments, and penetration of mobile banking.

In interview, the Tanzania Association of MFIs reported that FinScope and other publications from FSDT are being widely used by its members. For example, data is used for feasibility studies; decisions around which geographies to focus on; identifying market gaps; assessing regional strength of financial access; and thinking about products and services to offer.

FinScope has been quoted widely in parliament, in government and private publications, and at conferences, seminars and workshops. It has become a point of discussion in boardrooms and operations/strategy planning for players in the microfinance and inclusive finance sector.

The National Financial Inclusion Framework (NFIF), a public-private initiative that articulates a common vision for financial inclusion in Tanzania, also relies on FinScope data to track the progress of some of its indicators.

Limitations

Our research identified areas where the FinScope surveys could have had greater impact. One important stakeholder of the FinScope project observed that it would be beneficial if regional level data is made available to the regional authorities to help them in planning local level government policies. It was felt that detailed analysis at the regional level might help a more context specific public response.

Second, beyond the Governor of the BoT (see above), we found no evidence to show that stakeholders are using the FinScope data beyond the report that is available in public domain. The dataset remains with FSDT and none of the macro-level stakeholders interviewed as part of this Impact Assessment reported having used the data sets for further analysis to inform policy formulation. Most stakeholders we interviewed were unware that the full data sets could be accessed from FSDT. There appear to be two key reasons for this:

- Limited awareness of the availability of data set.
- Lack of technical expertise and know-how within the institutions to use the data set meaningfully and draw out findings that could inform their own policy making.

Perhaps the most significant issue is the sustainability of FinScope. In interviews, the various stakeholders agree that it is time now for the institutionalisation of FinScope surveys in a relevant government/private sector institution. However, opinion is divided on the ownership of the project by the public or private sector (or joint) and regarding the most suitable institution to run the project in future. With FinScope now well established as a credible and useful source of market information, its sustainability is clearly an issue to which FSDT needs to turn its attention.

Project 9

Rural Financial Services Strategy

PROJECT DESCRIPTION

Following the Financial Sector Assessment Programme (FSAP) in May 2003,[122] the GoT set up an Inter-Institutional Committee (IIC) to implement its recommendations and to develop strategies that would form the basis for the second-generation financial sector reforms. Among the priority reform areas identified by the IIC was the provision of financial services to the rural areas.

In this context, FSDT provided consultancy support to the Bank of Tanzania (BoT) and the Ministry of Finance in drafting a Rural Financial Services Strategy (RFSS). The project cost USD 200,000 and took place between 2007 and 2008. The starting point of this exercise was to fund consultants to undertake a critical review of the state of rural finance in the country with the aim of developing a strategy for enhancing financial services in the rural areas.

It was expected that the study would provide a suitable platform for the GoT to develop a policy that would enable more and better tailored financial services to be accessible to rural areas, together with a tailored legal and regulatory framework. The idea was that the RFSS would identify infrastructural and other constraints to greater financial inclusion in rural areas and, where appropriate, options for overcoming such barriers. It was intended that the strategy would also support private sector initiatives by identifying opportunities for investment and funding in microfinance and community banks, including SACCOS. The strategy was intended to cover the full range of financial services (e.g. savings, credit, insurance and money transfer) and to focus on individual households as well as businesses.

122. The Financial Sector Assessment Programme (FSAP) studies were carried out by a joint team of IMF and World Bank in 2003 and 2009.

The draft RFSS strategy document developed by the consultants aimed to bring about the following outputs and outcomes:

Outputs

- Improved enabling environment for rural finance.
- A regulatory framework for credit-only institutions is put in place.
- Increase in rural financial capability.
- Increased number of large rural SACCOs functioning efficiently and sustainably.
- Increased number of formal financial institutions serving rural areas.
- Improved capacities of formal, semi-formal and informal service providers.

Outcomes

- Increased level of access (and use) to financial services by rural population.
- Better and improved livelihoods of the rural population.

As the ministry leading on the RFSS, the MoF presented the strategy for Government adoption to the Inter-Ministerial Committee first in December 2010 and then in June 2011. It was approved and was then presented to the Cabinet Secretariat in January 2012. The Cabinet Secretariat raised objections and directed the Ministry to present the revised strategy after incorporating their suggestions. The observations made by the cabinet secretariat included:

- Lack of a supporting concept note giving the background and the rationale of RFSS.
- Failure to show the gaps that existed in the provision of financial services in rural areas even when the Government had embarked on a number of initiatives such a SELF, TASAF, MKURABITA, etc.
- Lack of trust on the validity of FinScope Survey (2009) results used to make conclusions.
- Lack of consultations with the key government stakeholders and relevant ministries.
- Failure to show the link between RFSS and the policy framework for rural finance provision and rural development strategies in general.
- Lack of an implementation plan showing the key players and their roles; resources required; M&E framework for monitoring and evaluating progress; and a coordination framework with a leader identified and agreed.
- It is impossible for us to verify, but it was reported that another concern held by members of the Cabinet Secretariat was that the process of developing the RFSS, led by the MoF, had not been sufficiently consultative.

The MoF addressed most of the issues raised by the Cabinet including holding consultation with key government stakeholders with the aim to appraise them on the essence of RFSS and their roles before representing the Cabinet Paper to the Inter-Ministerial Committee.

Considering the strategic nature of the RFSS and driven by the need for expeditious enactment and implementation of the strategy, FSDT worked towards creating a task team comprising a wider group of stakeholders to develop the Cabinet Paper. In February 2013, it held a three-day retreat workshop to generate insights, comments, thoughts and recommendations that could be included in the Cabinet Paper for the government.

There is no further documented information available on the outcome of the workshop and later activities that were taken up in this project. As it stands now, the RFSS has not seen the light of the day.

Discussions with key stakeholders such as MoF revealed that the RFSS is with the Ministry in its final shape but it is waiting for the Microfinance Policy to be enacted after which the RFSS (with due amendments) will be presented again before the Cabinet.

Discussions with the Bank of Tanzania indicated that in the wake of the adoption of National Financial Inclusion Framework (NFIF), which is a public private initiative, the RFSS, if presented to the Cabinet again, will need considerable amendment taking into account the recent developments that have been made in terms of agent banking and other technology led initiatives in financial services delivery. Nevertheless, it believes that a national level policy and strategy is certainly needed.

PROJECT RESULTS

Clearly, the key aim – an approved and implemented RFSS – has, to date, not been achieved. Nor is it clear as to whether or how the RFSS will ever move forward.

However, there are positives outcomes from the experience. First, the RFSS was one of FSDT's earliest projects: FSDT's work helped position FSDT as a thought leader and a credible partner for Government. While we should not attribute too much to the RFSS experience alone, it is true to say that in almost all subsequent initiatives that have a bearing on the market eco-system, FSDT has been approached by the relevant authorities (e.g. Ministry of Finance, Ministry of Agriculture, Bank of Tanzania etc.) to provide support.

Second, the MoF and BoT in particular put significant effort into the development of the RFSS. While hard to substantiate, MoF, BoT and FSDT all report that the momentum created by the RFSS enabled further policy formulations such as mobile money regulations, e-money guidelines, and NFIF. RFSS can thus be seen as having laid the foundation for subsequent policy level changes.

Project 10

Policy Support to the Ministry of Finance (MoF) - Capacity building and establishment of the National Microfinance Policy

PROJECT DESCRIPTION

Technical support to the MoF in the formulation of National Microfinance Policy was envisaged in response to the need for MoF to address the lack of legal foundation for new opportunities and innovations in the Tanzanian microfinance sector. The project commenced in April 2013 and cost USD400,000.

The support for this project was further underpinned by the second-generation financial sector reforms, which among other things, had identified the provision of financial services to rural areas as a priority. Microfinance had a special focus in the reform programme. The Financial Sector Assessment Programme[123] that eventually laid the foundation for the second-generation reforms had emphasised the transformation of the microfinance sector to provide more opportunities for poor people to participate in the financial system. The findings of the FinScope surveys of 2009 had highlighted the disadvantages faced by rural people when compared to their urban counterparts. This evidence and the evolving policy thrust of the Government induced FSDT to take up the project.

The objective of the project was to support the MoF's Microfinance Unit Capacity Building Plan with the aim of enacting of the National Microfinance Policy and National Payment Systems Act for Tanzania.

The project was conceptualised to address some of the major systemic constraints in the financial sector of Tanzania:

- Lack of legal foundation for new opportunities and innovations in Tanzanian microfinance sector.
- Lack of comprehensive legislation that could provide for a licensing, authority and regulatory framework for micro credit business.
- Gap in the provision of financial services to low income segment of the population in rural and urban areas.
- Lack of an enabling framework to leverage the benefits of mobile banking for financial inclusion.
- Regulatory restriction on NGO-MFIs to collect deposits.
- Inability of SACCOs and community banks to increase outreach despite having the potential to emerge as an effective institutional mechanism to reach in remote corners of the country.

Through the enactment of national Microfinance Policy, it was intended to enhance the provision of diversified financial services on a long-term, sustainable basis, especially poor and low-income groups, through a conducive legal foundation and regulatory environment.

123. The Financial Sector Assessment Programme (FSAP) studies were carried out by a joint team of IMF and World Bank in 2003 and 2009.

Specifically, the legislation was intended to establish a basis for the evolution of an efficient and effective micro-finance system in the country that serves the low-income segment of the society, and thereby contributes to economic growth and reduction of poverty by:

- Establishing a framework within which micro-finance operations will develop.
- Laying out the principles that will guide operations of the system.
- Serving as a guide for coordinated intervention by the respective participants in the system.
- Describing the roles of the implementing agencies and the tools to be applied to facilitate development.

The outcome of the project was expected to be:

New Laws: National Microfinance Policy and National Payment Systems Act Enacted and Disseminated for use.

- A deeper financial system in Tanzania providing greater access to financial services for more men and women and businesses.
- Knowledgeable and trained review teams/ Technical Committees/ MoF staff and other GoT relevant officials.

Towards this end, FSDT's inputs included:

The provision of funds for the implementation of the Microfinance Capacity building plan of the MoF.

Provision of access to existing FinScope, AgFiMS (diagnostic tool for agricultural finance) and MSMEs (MSME baseline survey conducted in 2010 to quantify and profile demand from financial services) analyses.

Provision of FSDT team member support to the MoF and BoT for consultation and guidance.

Provision of an individual to serve as a member of the BoT-Microfinance Technical Committee and be closely involved in the implementation of and discussions surrounding this project implementation.

An additional underlying objective of the project was not only to build the technical capacity of the MoF team with respect to its understanding of regulation of microfinance, but also to enable it to better fulfil its function as a policy making government agency in respect to financial inclusion.

With FSDT support, BoT/MoF hired a consultant to provide technical support for conducting situational analysis of Tanzanian microfinance as well as develop a comprehensive Microfinance Policy.

The activities also included organising study visits (to Ghana and India) for BoT staff developing the Microfinance Policy to observe well-developed microfinance regulation and conduct stakeholder discussions as part of wider consultation process.

PROJECT RESULTS

In interviews, the staff overseeing the development of Microfinance Policy in BoT said, *"FSDT is very well exposed to the issues in the sector, they conduct a lot of surveys and they are well informed on the issues on the ground. BoT uses the data to guide their policy."*

As it stands, the Microfinance Policy is yet to be enacted. It is understood from discussions with officials of BoT and MoF that the Act has now been approved by the Cabinet and should be ready to be presented before Parliament soon. No one interviewed for this Impact Assessment could indicate firm timelines.

The main reason for the delay in the Act's enactment appears to have been a lack of clarity between the MoF and BoT on which institution should be leading. It was widely mentioned in several interviews that the in-house capacity within MoF was inadequate which further impacted the progress of this project. The team involved in the Microfinance Policy in the MoF also acknowledged their limited expertise on the subject and appreciated the role played by FSDT in building their capacity. Continued capacity building support to both MoF and BoT, as well as in the institutions responsible for implementing the Act is likely to be required to facilitate the successful and timely implementation of the Act.

A key lesson learned from the project is therefore the importance of clearly delineating the roles of specific agencies and stakeholders involved in FSDT projects and initiatives, especially where the project pertains to policy formulation or enactment of legislation.

Stakeholders were unanimous in their opinion when asked a question to establish counterfactual. They believe that without FSDT, these policy formulations might have taken place but they would have done so at a slower rate. They accept that the capacity of government institutions to take up financial inclusion initiatives is limited, not only in terms of their technical know-how and expertise, but also in funding. Therefore, while it is difficult to establish direct attribution of changes in the macro-environment to FSDT, we can say with certainty that FSDT, and the initiatives it has been involved in, are acknowledged by a range of government stakeholders as having helped shape the financial sector landscape and having sped up the process of reform.

Project 11

National Financial Inclusion Framework (NFIF)

PROJECT DESCRIPTION

The National Financial Inclusion Framework (NFIF) was conceptualised as an outcome of a series of engagements that FSDT had been having with the BoT in its efforts to develop a unified definition and vision of financial inclusion.

Following the signing of the Maya Declaration in 2011, two separate Working Groups on Financial Inclusion were created: a Financial Inclusion Working Group created by the BoT (BoT-FIWG); and the National Financial Inclusion Working Group (N-FIWG). While both these groups had a similar mandate for achieving the targets under the Maya Declaration, the approach followed by them was not coherent. They applied different definitions of financial inclusion and their understanding of various dimensions of financial inclusion differed.

FSDT sought to achieve greater coherence between the two Working Groups and to achieve a unified national vision for financial inclusion. It contracted two consultants to facilitate this. Through a series of workshops supported by FSDT, the Working Groups developed a common vision and definition of financial inclusion, and outlined a joint action plan for achieving financial inclusion goals.

This culminated in the development of National Financial Inclusion Framework, which was launched in December 2013 and the establishment of the National Financial Inclusion Council. The BoT was tasked with driving the implementation of the NFIF.

The total cost of the first phased of the project was USD 160,000. Following the launch of the NFIF, FSDT provided a total of USD 2.5m to support the implementation of the NFIF. USD 1.6m was allocated to the BoT, with the remainder mainly allocated to training and support to the development of NFIF indicators and measurement tools.

PROJECT RESULTS

FSDT's technical and financial support to the development of the NFIF has been publicly recognised by both the BoT and MoF. The impact has been an explicitly inclusive vision for the financial sector, aligned with FSDT's own raison d'être, based on an understanding of the need to address significant structural and systemic issues at the macro, meso and micro-levels. Policies within the sector were previously fragmented and the NFIF has been successful in achieving a unified framework with a clear set of priorities for implementation.

- The analysis in the NFIF is consistent with a market development approach, and acknowledges the fundamentally embryonic and evolving state of the Tanzanian financial sector:
- At the macro-level, the need to address the macroeconomic policy and legal and regulatory framework.

A list of completed and ongoing activities in the NFIF

COMPLETED	ONGOING
Enactment of NPS Act.	Establishment of Tiered KYC guidelines.
Issuance of MFS regulations.	Expansion of scope of credit bureau to include MFIs and community banks.
Harmonisation and level playing field between agency banking and MFS guidelines.	Country risk assessment completed.
Interoperability of MFS.	Establishment of alternative collaterals.
Training of National FI Council members on NPS and MM4P approach.	Basic instant account guidelines.
Guidelines on bank branch.	
KPIs for agent banking.	
Awareness of MF and MFS regulations.	
Establishment of donor co-ordination structure.	

- At the meso-level, the need to tackle information asymmetry for FSPs, financial incapability of customers, and lack of appropriate market infrastructure.
- And at the micro-level, the acceptance that there is both unmet demand and a lack of suitable products for the needs of customers generally.

The NFIF action plan includes a list of time bound deliverables. FSDT support to NFIF implementation sought to contribute to addressing many of the constraints identified in FSDT's third strategy (mostly macro-level constraints, but also including some meso and micro-level constraints). Specifically, the project aims to have a direct impact on 12 constraints and an indirect impact on 5 constraints out of the total of 31 market constraints identified in the strategy.

The PAR for the implementation of the NFIF highlights the following key deliverables (separated between those that have been completed to date and those that are still ongoing).

The project also included the following separate initiatives directly coordinated by FSDT:

- Institutional capacity building for implementation of the NFIF, through training for members of the Tanzania National Council for Financial Inclusion in National Payment Systems, and the Making Markets Work approach.
- Through the establishment of a coordination body for all donors interested in supporting the implementation of the NFIF.

It is difficult to assess the extent to which each of these deliverables would have been tackled in the absence of the NFIF. Many (but not all) had been identified as important by the government before the NFIF was drafted. However, it was believed by FSDT that the NFIF offered the opportunity to address constraints to financial inclusion in a coordinated and systemic manner, thereby raising the chances of success. The NFIF also provided a consistent framework for the prioritisation of initiatives, and also provided a useful basis for attracting donor support (mainly via FSDT) for their implementation.

Annex 5. Links between financial services and poverty

1. INTRODUCTION

This background paper summarises research findings on how extending access to financial services impacts on poverty. It has been prepared to contribute to the wider impact evaluation of the Financial Services Deepening Trust (FSDT) programme. The terms of reference (ToR) for the evaluation stated that the study should focus on the impact that FSDT's programme has had on financial access in Tanzania since its inception. Undertaking a detailed and in-depth review of the relationship between improved financial access and poverty reduction was therefore outside the scope of the research.

Nonetheless, the ToR did ask for consideration of this relationship: if FSDT has improved access to financial services, are there reasonable grounds to expect that this will improve the well-being of poor people? Accordingly, the following evaluation question was included in our technical proposal: "what are the linkages between improving access to financial services, and reductions in poverty?"

This paper, based on search and review of available policy and academic studies at global, regional and national levels, is the key piece of evidence to address this question. While it does not set out to provide a comprehensive and systematic review, we do believe enough evidence has been reviewed to draw conclusions about whether FSDT's programme has the potential to contribute to poverty reduction in Tanzania.

FSDT stressed that this background paper should go beyond rehearsing what was already known within the organisation about the relationship between financial inclusion and poverty reduction. This includes, for instance, the results of several randomised control trials that show, at best, a very weak impact of microfinance on poverty.

We have therefore extended the scope of the review in three ways. Firstly, by setting what is known about financial inclusion and poverty within a conceptual framework that covers a broader range of issues than the microfinance/poverty debate. Secondly, by reviewing literature on the link between financial deepening and economic growth[124] Thirdly, by investigating in some detail what is known about how a variety of financial products (such as insurance, savings, credit and mobile money) make a difference to the lives of poor people.

2. NOTE ON SOURCES

An initial search for documents was made using the evaluation team's own knowledge and resources, and through Google, and Google Scholar, using search terms including the following:

"Financial development and economic growth", "finance for growth", "financial depth and growth", "financial development and poverty", "finance for all", "financial depth and poverty reduction", "financial development and income inequality", "microfinance", "microcredit", "credit programme", "RCTs microfinance" and "impact evaluations microfinance".

A 'snowball' approach was then used to identify further documents. For instance, we consulted the bibliographies of the identified journal articles, reports, books and grey literature to identify other relevant documents. Finally, a list of all the documents obtained was prepared, with titles and abstracts being analysed in order to select the evidence used as the basis for this paper.

124. Financial deepening is understood here as the increased provision of financial services, with a wider choice of services geared to all levels of society.

3. FINANCIAL DEEPENING AND POVERTY REDUCTION

This section begins by reviewing evidence at the macro-level that strongly suggests that financial deepening does promote poverty reduction. It then goes on to consider the mechanisms by which this effect might be achieved, focusing on two separate pathways:

- Indirect impacts realised through financial sector reform stimulating economic growth (finance for growth).
- Direct impacts realised through extending access to financial services for poor people (finance for all).

The following sections then consider what the empirical evidence suggests about each of these pathways.

3.1 Macro-level evidence

There is a significant body of empirical evidence at the macro-level that suggests that financial deepening promotes poverty reduction (Demirgüç-Kunt, Beck and Honohan 2008). Both cross-country studies and evidence from individual countries illustrate that financial development is associated with lower income inequality, and hence a reduction in poverty. For instance:

- Honohan (2004) shows a significant relationship between an increase in financial depth (measured as the ratio of private credit to GDP) and a reduction in the incidence of headcount poverty (based on both the $1- and $2-a-day cut-off poverty lines). The regression results suggest that a 10 percentage-point increase in the ratio of private credit to GDP would lead to a 2.5–3.0 percentage-point reduction in poverty ratios.
- Beck, Demirgüç-Kunt and Levine (2004) show that countries with better developed financial intermediaries (also measured in their study as the ratio of private credit to GDP) experience faster reductions in both poverty and income inequality, by disproportionately boosting the incomes of the poor. Their results control for the influence of other factors in each country, and also rule out the possibility of reverse causality being present.
- Clarke and Zou (2006) explore the relationship between financial intermediary development and income inequality in a panel data set of 91 countries from 1960 to 1995. The results show that income inequality decreases as economies develop their financial sector.
- Beck, Demirgüç-Kunt and Levine (2007) conducted a cross-country analysis for varying periods during 1960–2005 in order to assess the relationship between financial depth and income inequality and poverty. The authors conclude that countries with higher levels of financial development experience faster reductions in income inequality and poverty levels.
- At the country level, Beck, Levine and Levkov (2010) show that branch deregulation, implemented at different points of time across the states of the USA in the 1970s and 1980s, helped reduce income inequality.
- Gine and Townsend (2004) show that financial liberalisation can explain the reduction in poverty in Thailand over the period 1975–2000.
- Ayyagari, Beck and Hoseini (2013) show that financial deepening following the 1991 liberalisation in India can explain reductions in rural poverty across India. Their results also suggest that financial deepening contributed to poverty alleviation.

However, despite the confirmation at the macro level, the specific mechanisms through which poverty reduction occurred are more obscure. A recent extensive review by the World Bank (2015) notes for instance, that the link between access to finance and poverty alleviation is neither certain nor well understood. A similar view is reflected in Ledgerwood (2013). This issue can now be discussed in more detail.

3.2 Mechanisms for reducing poverty through financial sector development

Financial systems can be defined in terms of five core functions: mobilising savings from different savers for investment; allocating savings to productive uses; monitoring the behaviour of borrowing firms and therefore exerting corporate governance; facilitating transactions and risk management; and facilitating the exchange of goods and services, leading to economic specialisation, innovation and growth. (Estrada *et al*. 2010 and Chopra 2015). These functions are outlined in Figure 1 below (box on the far left-hand side).

There is an emerging consensus on the possible pathways by which financial sector development can lead towards poverty reduction: through its indirect impact on economic growth ("finance for growth"), and through direct impact of providing direct access to financial services to poor people ("finance for all") (Demirgüç-Kunt, Beck and Honohan 2008). Figure 1 summarises these.

3.3 Finance for growth

There is strong evidence that financial deepening promotes economic growth, as explained below. The ways in which this is achieved are summarised in the following quote:

"When banks screen borrowers effectively and identify firms with the most promising prospects, this is a first step in boosting productivity growth. When financial markets and institutions mobilize savings from disparate households to invest in these promising projects, this represents a second crucial step in fostering growth. When financial institutions monitor the use of investments and scrutinize their managerial performance, this is an additional, essential ingredient in boosting the operational efficiency of corporations, reducing waste and fraud, and spurring economic growth. ... [In contrast,] when financial systems simply collect funds and pass them along to cronies, the wealthy, and politically connected, the result is a misallocation of resources and slower economic growth."[126]

The potential for economic growth to have poverty-reducing effects can be summarised as follows:

- Economic growth can directly create new jobs which are taken up by poor people.
- Higher economic growth rates reduce wage differentials between skilled and unskilled labour at later stages of development, which benefits the poor (Galor and Tsiddon 1996).
- High growth leads to higher tax revenues, enabling governments to allocate more resources on social programmes (Perotti 1993).
- Capital accumulation increases with high economic growth, so more funds become available to poor people for investment purposes (Aghion and Bolton 1997).

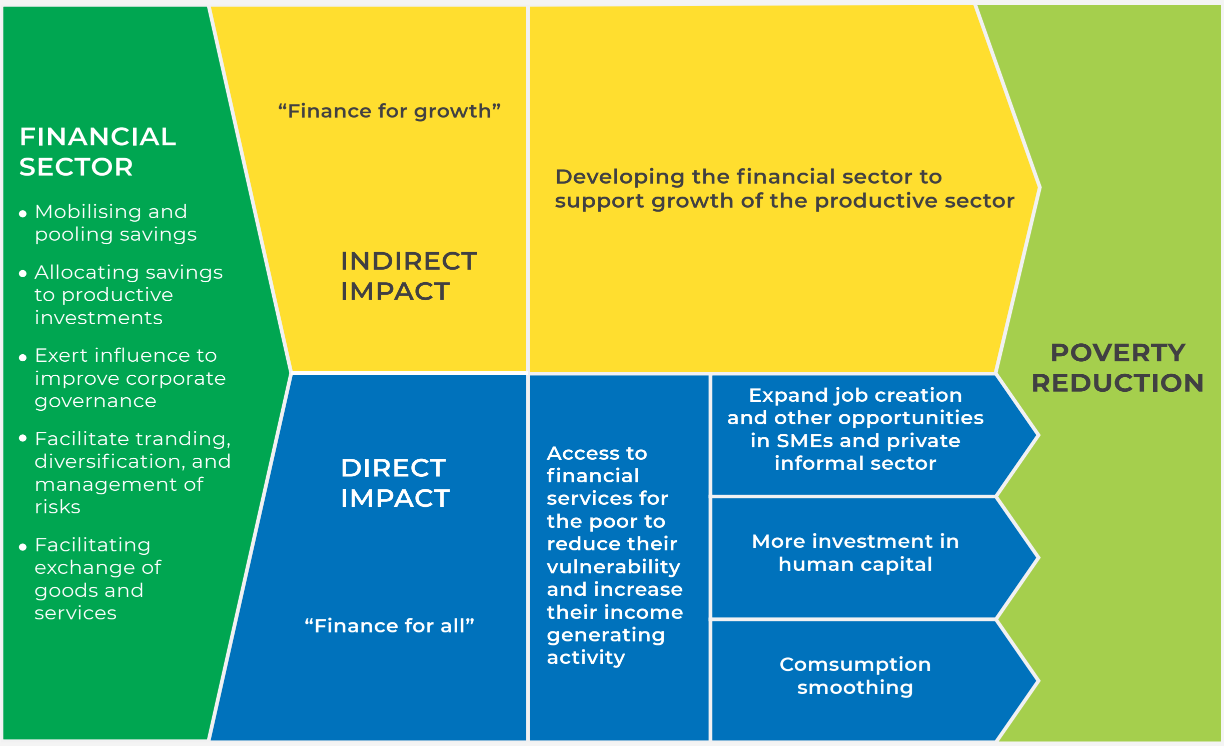
3.4 Finance for all

The central objective of 'finance for all' is to enable groups that are often excluded from accessing financial services to do so. Measures to address these typically include targeting small firms and poor households, with the aim firstly of improving

125. Adaapted from Zhuang *et al.* 2009.

126. Chopra, A. (2015) Financing Productivity- and Innovation-Led Growth in Developing Asia: International Lessons and Policy Issues. Asian Development Bank Working Paper 15-6.

Figure 17. Pathways from financial sector development towards poverty reduction[125]



access to basic financial services such as savings, payments, credit and insurance, and secondly, of promoting actual uptake of these services. Potential mechanisms through which poverty reduction might occur include the following:

- **Expanded job creation and other opportunities in SMEs** and in the informal sector. Increasing access to credit may help poor people overcome financing constraints, allowing them to build working capital and invest in microenterprises. (Banerjee *et al*. 2015; Galor and Zeira 1993; and World Bank 2014). According to the IFC Enterprise Finance Gap Database 2011 for instance, on average one out of two enterprises in Africa does not have access to formal credit or lacks the appropriate financial product needed to grow and innovate.
- **More investment in human capital.** Access to financial products can contribute to human capital accumulation for poor people. For instance, by allowing people to save and pay for training, or to take time to learn a trade. Financial services for poor people may also generate longer-term benefits. For example, where savings are used to pay children's schooling or where insurance cushions households from financial shocks, preventing the need for families having to send their children out to work, allowing to continue their formal education. (Classens and Feijen 2006).
- **Consumption smoothing.** Finance can also facilitate transactions and reduce the costs of remitting funds, providing the opportunity to accumulate assets and to smooth consumption over time. Classens and Feijen (2006) argue for instance that financial services like insurance and savings can help firms and households to cope with economic shocks, reduce their vulnerability in adverse situations and mitigate the risk of falling into poverty. Karlan *et al*. (2014) and Pande *et al*. (2012) also note that poor households without access to a savings mechanism can find it harder to resist immediate spending temptations.

In contrast to the well-established link between financial deepening and economic growth, the relationship between extending access to financial services and reducing poverty is much more ambiguous. While the studies cited below do illustrate ways in which financial inclusion can benefit poor people, there is no general consensus that promoting finance for all has a significant impact on reducing poverty.

4. EVIDENCE ON THE INDIRECT IMPACTS OF "FINANCE FOR GROWTH"

There is a substantial body of evidence using a range of different econometric techniques that demonstrates a strong positive link between a well-developed financial system and long-run economic growth. While some important qualifications regarding this finding are made below, the basic point is that there is good evidence that both financial intermediaries and financial markets matter for economic growth.

While it is beyond the scope of this brief review to cover the factors that ensure that economic growth has a strong role in promoting poverty reduction, the evidence set out in this section does support the case for promoting financial deepening in Tanzania, albeit as part of a wider set of measures to ensure that growth is inclusive.

One of the notable features of the evidence is that results obtained using a broad range of different research designs all tend to confirm the same basic finding, that financial deepening tends to promote economic growth. As Obstfeld (2009) confirms, the evidence base includes firm-level studies, industry-level studies, individual country studies, time-series studies, panel investigations and cross-country comparisons.

The balance of evidence suggests that both financial intermediaries and stock markets matter, and also that the causal link is from financial deepening leading to growth, rather than the other way round. Some examples of this evidence are as follows:

- An early study by King and Levine (1993) examined the link between financial deepening, as measured by liquid liabilities, and three growth measures: real per capita GDP growth, real per capita capital stock growth and total productivity growth. Using data for 77 countries over the period 1960–89, the authors found a statistically significant positive relationship between financial depth and growth.
- A study by Levine and Zervos (1998) found that the initial level of banking development and stock market activity had a statistically significant relationship with average growth in output, capital stock growth and productivity growth. Their study was based on data for 47 countries for the period 1976–93.
- Beck and Levine (2004) used panel econometric techniques to examine the relationship between

stock markets, banks and economic growth. They found both stock markets and banks to be significant in affecting economic growth. Levine, Loayza and Beck (2000) conclude that the significant link between financial intermediary development and economic growth cannot be explained by potential biases induced by omitted variables, simultaneity or reverse causation.

- Estrada *et al*. (2010) undertook econometric analysis on panel data from 125 countries and looked at the impact of financial sector deepening on both growth in output and productivity growth. They found a significant positive effect, particularly for developing countries. This finding held for each of the measures of financial depth that they used: total liquid liabilities, bank credit or stock market capitalisation. They point out that as bank development, capital market development and total liquid liabilities are all beneficial for growth, what seems to matter for growth is overall financial deepening, rather than the structure of the financial system. In other words, having both well-functioning banks and capital markets is more important than any particular balance between these two elements of the financial system.
- There is also evidence that financial development is particularly important for small firms. For instance, Beck *et al*. (2008) found that underdeveloped financial systems are especially detrimental to the growth of firms with fewer than 20 employees, and also that financial development boosts the growth of small-firm industries more than large-firm industries.

While the evidence points to a clear link between financial deepening and economic growth, the available evidence also illustrates a number of important qualifications.

Firstly, a number of studies illustrate that the level of financial development is only good up to a point, after which it can actually inhibit growth (Arcand, Berkes and Panizza 2012; Beck *et al*. 2012; Cecchetti and Kharroubi 2012 and 2013; Gambacorta, Yang and Tsatsaronis 2014; Law and Singh 2014). These studies indicate that negative effects tend to occur once the level of credit to the private sector to GDP ratio reaches between 90% and 120%. However, this is not yet likely to be an indicator of problems for Tanzania, given that the country's private credit to GDP ratio in 2011 was only 15.8%.[127]

The question of who gets the credit is also important. Beck *et al*. (2012) find that the growth effect of financial deepening arises from credit to firms, rather than credit to households. This implies that policies that improve the financial system's ability to provide enterprise credit can be helpful. It also has interesting implications for FSDT. In our inception report, we noted that there is a strategic ambiguity in FSDT's theory of change, between "finance for growth" and "finance for all" imperatives. If "finance for growth" was in fact chosen as the dominant element, this particular finding might imply a greater focus on enterprise credit in FSDT's ongoing programme.

There are important variations in the relationship between financial deepening and growth in different countries. For instance, Barajas *et al*. (2013) found that the finance-growth nexus is weaker for Low Income Countries (LICs – a grouping which includes Tanzania) as a group, and that it increases continuously with income level. In particular, the impact on growth of the credit-GDP ratio is about half as large for LICs relative to other countries with a similar level of financial depth. Their estimations also show that LICs with higher quality supervision, or those that are more open to international trade, perform relatively better than others. The conclusion these authors draw is that while greater depth is undoubtedly desirable, the key is to promote high-quality deepening that facilitates greater access and competition, and with proper supervision in place.

This leads to a final qualification, that while this brief review illustrates that finance is certainly a central factor in promoting economic development, financial crises can also cause extensive economic damage. As Beck (2013) points out, financial history is full of bank failures and boom and bust cycles. By taking in short-term deposits and aggregating these into long-terms loans, banks can promote growth, but in doing so become susceptible to bank runs. Similarly, both poor bank regulation and political interference in credit-granting decisions can lead to excessive risk-taking and fragility. Crises often hit the poor hardest, both through job and income losses, and through cuts in government social spending. While Ranciere, Tornell and Westermann (2006) show that the positive growth effects of financial liberalisation outweigh the negative effects from financial crises for a cross-section of developing countries, historical experience illustrates the key importance of supervision and prudential regulation.

127. World Bank's Global Financial Development Database.

5. EVIDENCE ON DIRECT IMPACTS: "FINANCE FOR ALL"

The potential for different types of financial services to impact on poverty has been investigated in a wide range of studies. However, even though evidence at the macro-level as described above shows a clear link, the evidence from studies at the micro-level is much more ambiguous.

This section presents a review of the most recent impact evaluation studies on the four main financial services: credit, insurance, savings and payments and mobile money, which were designed to support the poor. Results are summarised using different proxies for poverty, including living standards and consumption, education, health and women's empowerment.

5.1 Credit

Impact evaluations of microcredit using a randomised control trial approach (RCT) show two main findings. The first of these findings shows that small businesses do benefit from access to credit. Studies illustrating this include:

- Evidence from Mongolia showing that improved access to credit promoted new business creation, and also benefited existing businesses[128] (Attanasio *et al*. 2011; Augsburg, de Hass, Hamgart and Meghit 2012).
- Studies showing positive impacts of microcredit on the income of existing businesses in India and Mongolia (Field *et al*. 2013 and Attanasio *et al*. 2011) and on business size in Mexico (Bruhn and Love 2013).

The second finding however, is that evidence of the impact of microcredit on broader welfare measures is not clear (CGAP 2014). Results from six experimental studies looking at the impacts of microcredit across the world show for instance that microcredit did not increase borrower's income, help lift poor households out of poverty or have significant impacts on education, empowerment or other measures of well-being. Table 1 summarises the main findings.

Attanasio *et al*. (2015) argue that a possible explanation for this finding is that many of the microcredit clients reported to have used part of their loans for consumption. Another possible explanation is that not all borrowers are necessarily good entrepreneurs, so some are more successful than others.

Case studies and ethnographic evidence have also demonstrated that microfinance can have both positive and adverse effects on the life of the poor (Duvendack *et al*. 2011; Duvendack and Maclean 2015).

These and other results, as well as criticism of poor methodological rigour in studies (Duvendack *et al*. 2011), have provoked an intense debate about whether microcredit is an effective tool for poverty alleviation or a diversion from other interventions with greater potential to benefit poor people.

Insights from behavioural economic theory as well as empirical evidence have also raised concerns about over-borrowing. Microcredit debt traps have also drawn much media and political attention in different countries including India, Bolivia, the United States, Mexico and elsewhere (Angelucci *et al*. 2015). There is also evidence that the rapid expansion of lender competition can tempt some clients to borrow from various lenders (double dipping), which may result in over-borrowing and repayment problems (Guha, B. and Chowdry, P. 2013). A potential mechanism to prevent such problems is to let lenders share borrower information via a credit registry (Attanasio *et al*. 2015b).

Martin and Yasmin (2004) suggest that the needs and aspirations of the 'ultra-poor' should be taken into account in programme design. Recent research also suggests that it is important to offer more flexible products to clients, for instance, providing grace periods to borrowers so they can build a business before starting to repay loans, or providing monthly or seasonal payment schedules that better reflect borrowers' income flows (Field *et al*. 2013).[129]

An assessment of a credit product in Mali designed around agricultural seasons showed positive impacts and did not lead to increased defaults over two agricultural cycles (Beaman *et al*. 2014). More research is needed however to assess the impact of such flexible loan products in terms of repayment rates and poverty outcomes.

128. It is notable, however, that Ashaf *et al*. (2010) did not find the same effects in the Philippines: this relationship between access to credit and business creation should not therefore be taken as automatic.

129. Microfinance institutions like Enda Arabe in Tunisia and FINCA in Armenia offer loan products where repayment schedules are matched with expected cash flows (e.g. seasonality of agricultural products).

Table 1. Summary of studies assessing the impact of microcredit on poverty

AUTHORS	COUNTRY	TYPE OF FINANCIAL PRODUCT	LIVING STANDARDS AND CONSUMPTION	EDUCATION	HEALTH	WOMEN'S EMPOWERMENT
Angelucci *et al.* (2015)	Mexico	Group and individual loans		Very small increase in children's school enrolment	------	Small improvement on women's decision making
Attanasio *et al.* (2015)	Mongolia	Group and individual loans	Food consumption increased in group villages Total asset ownership increased in both group and individual villages	------	------	------
Augsburg *et al.* (2015)	Bosnia and Herzegovina	Individual loans	Negative impact on consumption	No significant differences in children's school attendance	------	------
Banerjee *et al.* (2015a)	India	Group loans	Small shift towards the purchase of durable goods in treatment areas and a decrease in the purchase of temptation goods	No effect on children's school enrolment	------	No improvement in women's empowerment
Crépon *et al.* (2015)	Morocco	Group loans	No effect on overall income and consumption impacts, with the exception of a decrease in spending on nonessential items	------	------	No measured changes in women's empowerment
Tarozzi *et al.* (2015)	Ethiopia	Group loans	A statistically significant increase of an additional 0.5 months of food insecurity	No statistically significant change in school attendance	------	No significant impacts on women's empowerment

5.2 Insurance

Evidence on the impact of micro-insurance to date is focused on relatively few products (e.g. index weather insurance and health insurance). However, it does suggest that micro-insurance can help poor households mitigate risk and manage shocks.

Evidence has shown positive impact of insurance products in the agricultural sector.

- RCTs on the impacts of weather-based index insurance[130] carried out in India by Cole *et al*. (2013) and in Ghana by Karlan *et al*. (2014) identified a strong positive impact on farmers because the insurance gave them the confidence to from subsistence to riskier but higher-earning cash crops. In Ghana, insured farmers bought more fertiliser, planted more acreage, hired more labour and had higher yields and income. The results were fewer missed meals and fewer missed school days for their children.
- Cai *et al*. (2013) found that promoting greater uptake of insurance significantly increased farmers' tendency to raise sows, and also that the short-run effect of insurance on sow production seemed to continue in the long term.
- Janzen and Carter (2013) analysed the impact of a drought-induced insurance payout on both consumption smoothing and asset protection. The results showed that insured households were on average 36% less likely to anticipate drawing down assets and 25% more likely to maintain their food consumption compared to their uninsured neighbours.

Several studies have noted, however, that the take-up of index insurance has often been low. Giné and Yang (2009), for instance, find that take-up for loans with rainfall insurance was only 20%, while take-up was 33% for loans without insurance. Bock and Gelade (2013) argue that key barriers for uptake include a lack of trust and liquidity constraints. Take-up can be enhanced through the design of simple products that pay often and quickly, with endorsements by credible, well regarded institutions, accompanied by consumer education. More research is required to understand the demand for micro-insurance in order to identify strategies of overcoming behavioural constraints and building trust (Matul *et al*. 2013).

Evidence also exists for the broader impact of insurance beyond agriculture. For instance, a study of the effect of extending a mandatory insurance product for members of the National Rural Support Program, a large microfinance institution (MFI) in Pakistan, identified a resulting reduction in child labour (Landmann and Frölich 2013). The study found no differences in child labour outcomes for households that only received assistance in making insurance claims, but did find a reduction in child labour hours for boys in households where additional members became insured, especially in hazardous occupations. The authors suggest that this is because health insurance shields households from catastrophic outcomes that would lead them to send young children to work, even in dangerous occupations. The results therefore demonstrate that reducing household vulnerability through insurance can have beneficial impacts on children in the household.

5.3 Savings

The results of studies on the impact of savings are more consistently positive. Kast and Pomeranz (2014), for instance, find that access to a basic savings account allows households to substitute savings for credit as a mechanism for buffering short-term shocks and smoothing consumption, underscoring the importance of access to a reliable savings mechanism. They conducted an impact evaluation among MFI group members in Chile and found that those with access to a savings account experienced a decline in total outstanding short-term debt of around 20% relative to the control group and a reduction in borrowing from family and friends 38% relative to the control group.

A qualification to this point is that even where improved access to and use of financial services has been shown through an RCT approach to lead to increases in consumption and business investment, these do not always correlate with measures of poverty reduction. Furthermore, the distribution of gains is uneven (O'Dell 2010).

There is also evidence to suggest that commitment savings accounts have a positive impact on well-being beyond that provided by basic savings products. Commitment savings accounts are those which place restrictions on access to deposits for a period of time, or until a goal has been reached. Brune *et al*. (2011) found that farmers who were offered commitment accounts saved more than farmers who were offered checking accounts, and that this had positive effects on agricultural input use, crop sales and household expenditures.

130. Index insurance products differ from traditional insurance in that payouts are linked to a measurable index, such as the amount of rainfall over a given time, or commodity prices at a given date. This reduces the potential for moral hazard because payouts depend on a measurable index which is not influenced by the policyholder.

Table 2. Summary of studies assessing the impact of insurance on poverty

AUTHORS	COUNTRY	TYPE OF FINANCIAL PRODUCT	LIVING STANDARDS AND CONSUMPTION	EDUCATION	HEALTH	WOMEN'S EMPOWERMENT
Karlan *et al.* (2014)	Ghana	Weather-based index insurance	Impacts on farm profits are low	------	------	Small improvement on women's decision making
Janzen and Carter (2013)	Kenya	Weather index-insurance	Insured households less likely to sell livestock and to maintain food consumption.	------	------	------
Landmann and Frölich (2013)	Pakistan	Micro-health insurance	Decrease in child labour	No impact on school attendance	------	------

Table 3. Summary of studies assessing the impact of insurance on poverty

AUTHORS	COUNTRY	TYPE OF FINANCIAL PRODUCT	LIVING STANDARDS AND CONSUMPTION	EDUCATION	HEALTH	WOMEN'S EMPOWERMENT
Kast and Pomeranz (2014)	Chile	Savings accounts	Consumption cutbacks associated with a negative income shock reduced by 44%	------	------	------
Brune *et al.* (2015)	Malawi	Savings accounts	Statistically significant effects on measures of household well-being, such as investments in inputs, agricultural yields, profits and household expenditure	------	------	------
Dupas and Robinson (2013)	Kenya	Non-interest-bearing bank accounts	A significant share of women using the accounts could save more and increased their productive investment and private spending. No impacts for men	------	------	------
Ashraf, Karlan and Yin (2010)	Philippines	Micro-savings accounts	------	------	------	Positive effect on women's empowerment

Brune *et al*. (2015) also compared the impact of offering basic, free savings accounts with that of offering a commitment account with restrictions. They conducted an RCT among farmers in rural Malawi, assigning farmers to groups that were either offered a basic account or a commitment account. They identified a measurable increase in deposits and withdrawals for commitment account holders, land under cultivation and a subsequent increase in crop output relative to a control group. Savers using an ordinary account showed no significant improvements on any of these measures.

Additional studies find evidence that commitment savings services have impact on other measures of welfare. Dupas and Robinson (2013), for instance, conducted an RCT in Kenya and found that access to a commitment account enabled female market vendors to mitigate the effect of health shocks, increase food expenditure for the family (private expenditures were 13% higher) and increase investments in their businesses by 38–56%, compared to female vendors without access to a savings account.

Evidence from the literature also suggests that savings accounts have an impact on female empowerment. Ashraf *et al*. (2010), for instance, defined empowerment as self-reported decision-making power, along with the presence in the home of what they termed 'female oriented durables' (washing machines, sewing machines, electric irons, kitchen appliances, air-conditioning units, fans and stoves). They found that access to commitment savings accounts led to an increase in women's decision-making power, especially for women with below-average power.

5.4 Payments and mobile money

Mobile money has shown great potential as a cost-effective and secure way to scale up the delivery of financial services to poor people, especially those who are hardest to reach (Odell 2015). Evidence suggests that mobile money reduces significantly transaction costs once the necessary infrastructure is in place. To date, a limited number of RCTs on the impact of payments and mobile money have been carried out, due to the relative newness of mobile money, as well as product-specific issues in conducting studies, such as disentangling channel and product.

Aker *et al*. (2013) studied the impacts of the introduction of a mobile money cash transfer programme in Niger. The authors found that randomly switching to mobile delivery of cash grants led to a more diversified diet and consumption of more meals per day by children.

Jack and Suri (2014) analysed the impact of reduced transaction costs on risk sharing by estimating the effects of mobile money on household consumption in Kenya. Their results show that while shocks decrease per capita consumption by 7% for non-user households, the consumption of households with access to mobile money remained unaffected. The main driver for this was an increase

Table 4. Summary of studies assessing the impact of insurance on poverty

AUTHORS	COUNTRY	TYPE OF FINANCIAL PRODUCT	LIVING STANDARDS AND CONSUMPTION	EDUCATION	HEALTH	WOMEN'S EMPOWERMENT
Aker *et al*	Niger	Mobile Money	Households receiving mobile transfers had higher diet diversity and children consumed more meals per day	------	------	------
Jack and Suri (2014)	Kenya	Mobile Money	M-Pesa user households show no statistically significant drop in comsuption when facing a negative income shock, as compared to non-M-Pesa users who faced a 7-10% decrease in per-capita comsumption.	------	------	------

in the remittances received, with a greater number, size and diversity of senders.

These early results are quite positive and suggest that mobile money reduces households' transaction costs and may also improve their ability to share risk. Making government-to-person payments (such as social transfers, wage or pension payments) using mobile money also reduces transaction costs and the potential for corruption and fraud (Jack and Suri 2014).

6. CONCLUSIONS

At the macro-level, there is evidence from both individual countries and cross-country studies to show that financial development is associated with lower income inequality and a reduction in poverty. In terms of the mechanisms through which this might occur, the evidence is much stronger for "finance for growth" and strongly suggests that financial deepening tends to promote economic growth, particularly in lower income countries such as Tanzania. The extent to which economic growth leads to poverty reduction is the subject of an extensive body of research in its own right. Without entering into this debate, it is reasonable to conclude that to the extent that they are successful, FSDT's efforts to promote financial deepening in Tanzania could be expected to promote poverty reduction, as long as they are part of a wider set of policies to ensure that growth is inclusive. It is also notable in this context that both financial deepening and poverty reduction have been occurring in Tanzania in recent years.

The evidence for the link between "finance for all" and poverty reduction is much weaker. The research on microfinance shows little evidence of a significant impact on poverty, with various explanations offered as to why this should be the case. This is particularly clear in the results of the micro credit studies reviewed in this paper, which include negative impacts for poor people.

Some of the evidence for other types of financial services suggests that they can contribute to well-being. There is some promising evidence that promoting the use of savings accounts, and commitment savings accounts in particular, can contribute to higher levels of consumption and possibly also to women's economic empowerment. Research findings on the impact of health and weather insurance show that these can contribute to reducing poverty. Take-up rates for insurance were very low in the studies reviewed however, which underlines a key point relevant to all financial services targeted at poor sections of the population, that improving access to services is not the same as increasing the use of those services.

The growth of mobile money is one of the most dramatic recent changes in financial services in Tanzania, with registered users rising to nearly 32 million people in 2014.[131] The rapid expansion of usage suggests in its own right that poor people value and benefit from mobile money services. Due to the relatively recent emergence of these products, the research in this area is still limited. The available evidence so far does suggest, however, that use of these services may make a small contribution to poverty reduction.

In summary, the evidence on the impact of promoting financial access to reduce poverty is mixed. This is an area where the results of RCTs, considered in some quarters as the gold standard in impact evaluation, have not demonstrated significant improvements in poverty levels resulting from the extension of microcredit services in particular. Some research has also identified some instances where it may have no impact or small negative impacts. At the same time, there is enough evidence to suggest that improving access to a broad suite of carefully designed and targeted products can improve welfare for poor people. There are therefore enough indications from the research covered in this brief review to suggest that, to the extent that it has been effective, FSDT's work to promote finance for all has played a contributory role in poverty reduction efforts in Tanzania during the evaluation period.

131. GSMA Tanzania Mobile Money 2014. Some of these may be multiple accounts held by a single user.

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Annex 6. Evolution of financial services in Tanzania

1. INTRODUCTION

This annex presents an analysis of how the level and composition of financial services in Tanzania has evolved over the evaluation period, and the market system factors that led to these changes. Following the analytical framework set out in Section 3 of the main body of the report, the annex provides the basis for the 'outward-in' analysis.

The approach to the analysis presented in this annex draws on FSD Africa's 'IOM framework'[132]. It is structured as follows:

- **How have the level and composition of financial services changed?**
  - We present time series data on indicators relating to: size; depth and diversity; access and inclusion; efficiency; safety and soundness.
- **What market system changes led to the changes in financial inclusion? What has caused these changes?**
  - Overview of key market system changes.
  - Changes to the policy and regulatory framework.
  - Trends in digital financial services.
  - Capital markets, insurance, credit bureau, and microfinance.

The conclusions of this paper draw on a wide range of data sources, including secondary literature, data analysis undertaken by the evaluation team, interviews with FSDT and key financial sector stakeholders, and a workshop organised as part of the impact assessment which drew nearly 100 participants where participants were asked to reflect on what forces and actors have shaped the financial services sector over the last 10 years.

2. HOW HAS THE LEVEL AND COMPOSITION OF FINANCIAL SERVICES CHANGED?

To provide a quantitative overview of trends in financial sector development this section presents trends in relation to the following indicators:

- **Size:** Changes in savings and credit as a proportion of GDP are used as indicators of the size of the financial sector. We present general analysis of the size of the financial sector and indicators relating to bank deposits as a percentage of GDP and domestic credit to the private sector by banks as a percentage of GDP.
- **Depth and diversity:** Indicators relate to banking sector institutions, assets and networks and non-banking sector metrics relating to stock market capitalisation and insurance markets.
- **Access and inclusion:** Indicators include access points as a proportion to population size and usage of financial services.
- **Efficiency:** This refers to the productivity of financial services providers in delivering financial services. Indicators include bank net interest margins as a percentage of earning, and bank lending and deposit spread.
- **Safety and soundness:** This dimension looks at the stability of the financial sector through the assessment of bank regulatory capital as a ratio of risk-weighted assets and bank non-performing loans as a percentage of gross loans.

The analysis below provides a comparison of Tanzania with some of its regional neighbours – namely Kenya and Uganda – and other developing economies within sub-Saharan Africa.

132. FSD Africa (2016), Developing an Impact-Oriented Measurement System: A Guidance Paper for Financial Sector Deepening Programmes, January.

2.1 Size

The Tanzanian financial sector has experienced phenomenal growth since liberalisation in the 1990s, which was anchored on the First Generation Financial Sector Reforms (1991-2003) and the Second Generation Financial Sector Reforms (2006 onwards).

The graph below compares Tanzania's bank deposits as a percentage of GDP from 2000 to 2013 with those of Kenya, Uganda and sub-Saharan Africa. The ratio of bank deposits to GDP has steadily increased, from 13.5% in 2000 to 24.6% in 2013, highlighting the deepening of the financial sector since 2000. However, this rate remains significantly lower than for Kenya.

Figure 2 on the next page, presents Tanzania's domestic credit to the private sector by banks as a percentage of GDP from 2000 to 2013. There has been a gradual rise in domestic credit to the private sector between 2000 and 2013; however, Tanzania lags behind Kenya, Uganda and the overall average sub-Saharan Africa.

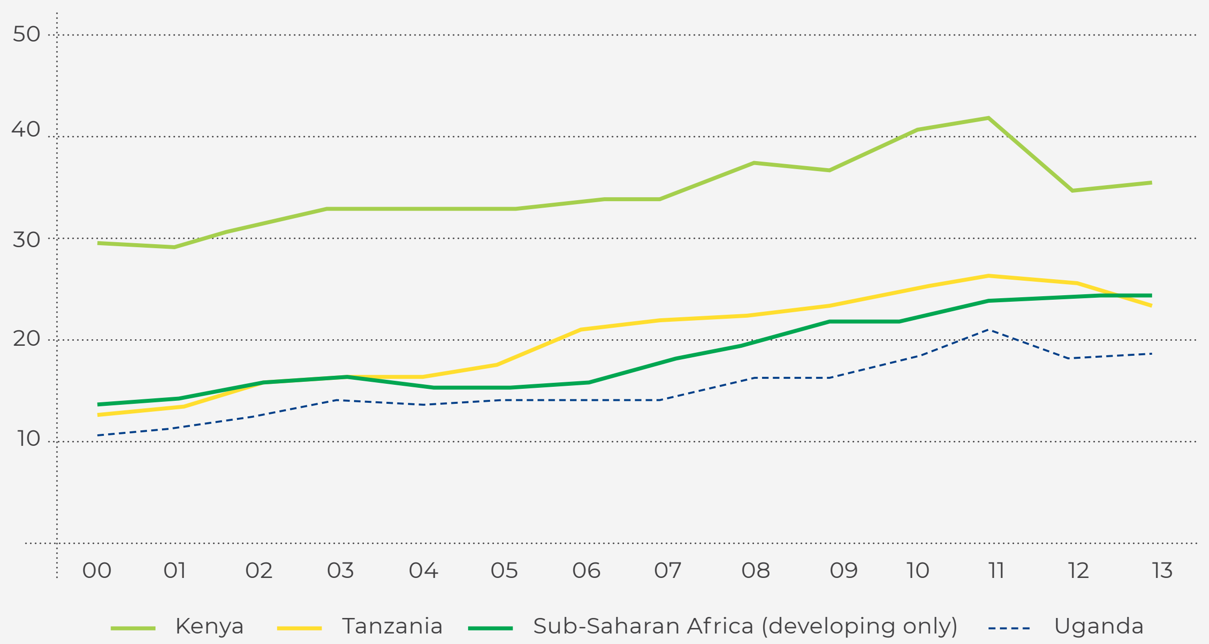
2.2 Depth and diversity

The Tanzanian financial sector is characterised by a variety of financial service providers in the market:

The number of formal providers has increased from 32 in 2005 to 53 in 2013. During the same period, the total banking sector assets increased from TZS 4,283bn to TZS 19,523bn and the number of bank branches increased from 253 to 642. However, despite structural reforms, the banking system in Tanzania remains relatively small and inefficient and dominated by a top tier of larger domestic and foreign banks. The five largest banks account for over 65% of total assets.[133] The top tier mainly caters to a small group of corporates, accounting for up to 70% of the loan portfolios of banks. Bank lending rates remain constrained, standing at less than 48% of assets.

133. Average 2010-13. Source: World Development Indicators, World Bank.

Figure 1. Bank deposits as a percentage of GDP



TYPE	ENTITY	REGULATED BY
Formal	Commercial Banks Community Banks	Bank of Tanzania
Semi-Formal	Non-bank financial institutions Microfinance Companies SACCOs Financial Cooperatives (SACCOs that have deposits greater than TZS 800 million)	Bank of Tanzania
	NGO MFIs that offer credit products only	Registered with nonfinancial government agencies and departments, and are not regulated
Informal	Rotating Savings and Credit Associations (ROSCAs) Village Savings and Loans Association (VSLAs) Village Community Banks (VICOBAs)	Not registered or regulated

Figure 2. Domestic credit to private sector as a percentage of GDP

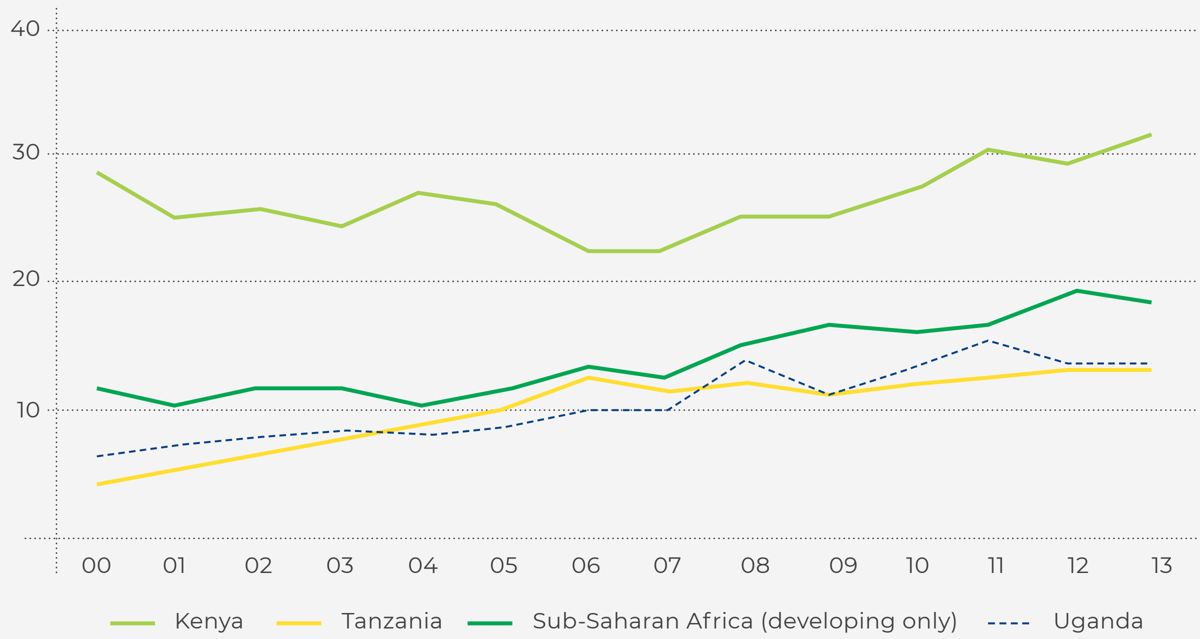


Table 1. Banking sector trends (2005-2014)

YEAR	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Commercial banks	34	34	32	31	28	27	25	23	22	22
Non-bank financial institutions	19	19	18	17	14	13	11	11	10	10
Assets (in TZS billion)	22,473	19,523	16,984	14,537	12,570	10,038	8,442	7,379	6,085	4,286
Assets (in USD billion)	13.59	12.20	10.73	9.25	8.92	7.60	7.06	5.93	4.86	3.80
NPL (%)	6.8	6.4	8.0	6.8	9.3	6.7	6.2	5.9	5.3	4.9
Branch network	702	642	589	503	473	430	393	337	284	253
Agent banking outlets	1,652	591	--	--	--	--	--	--	--	--
ATMs	1,610	1,526	1,358	1,117	1,060	917	867	719	521	--
PoS devices	2,598	2,548	1,910	1,434	1,978	3,728	2,290	1,600	980	770
Number of banking sector employees	15,883	14,770	13,291	11,897	10,647	8,782	--	--	--	--

Source: Directorate of Banking Supervision, Annual Reports from 2005-2014, Bank of Tanzania

SACCOs are the most dominant financial institutions in rural areas in terms of the number and spread of branches or outlets. In urban areas, where many SACCOs are associations of salaried employees, they are often used by people who already have bank accounts, whereas in rural areas a higher proportion of SACCO members are unbanked. There are an estimated 5,300 SACCOs and 100 MFIs operating in Tanzania. However, put together they only serve around 850,000 clients (4.3% of the adult population).

ROSCAs, ASCAs, savings clubs, investment clubs, community-based savings groups, VSLAs and VICOBAs are the main informal services used by low-income households, especially in rural areas. While FinScope 2009 highlighted a strong dominance of these in terms of financial access (28.8% of people used these), in 2013 the FinScope survey revealed reduced use of these (15.8%).

VSLAs (village savings and loan associations) are community-based savings and credit groups. In Tanzania, the average VSLA membership size is 25 people. VSLAs can have men and women as members. However, historically the majority of members have tended to be women. Each VSLA forms its own constitution that lays down its rules and regulations. They carry out weekly savings and lend out the collected money. Borrowing members have to return money with interest. The collected money is then re-lent. Accounts are maintained in very simplified books of accounts. VSLAs run for fixed periods (generally one year), at the end of which the members share all the money out in proportion to their savings.

A village community bank (VICOBA) is a group-based savings and lending scheme in which a group of 25 to 30 individuals get together to save and lend to individuals within the group. VICOBAs are a time-bound rotating savings mechanism where each member of the group will eventually get the opportunity to borrow. At the end of a one-year cycle, the profits of the group are divided pro-rata among the members, and the group then reforms to begin again. Training and capacity-building is key to the operations of these informal groups, as is openness and transparency. Other than the initial training necessary to start each group, the members rely on their own savings and have no access to external funds.

Through VSLAs and VICOBAs, the informal service providers bring sustainable financial services to the rural poor, and therefore get people onto the first rung of the financial ladder. As in the rural areas there are very limited financial services, although this sector represents the bulk of Tanzania's population, such a service helps people to access financial services on their doorstep. Banks, MFIs and SACCOs find it difficult to justify the time and cost in providing savings and loans to low-income households in rural and remote regions.

The non-bank financial service providers' total asset base comprises 7%-9% of that of the banks.[134] This signifies that although the sector is

134. Estimated based on the outreach and number of clients served by non-bank financial institutions.

Table 2. Non-bank depth and diversity indicators

ATTRIBUTE	TANZANIA AVERAGE (2010-2013)	SUB-SAHARAN AFRICA AVERAGE (2010-2013)
Insurance company assets to GDP	1.3	1.8
Life Insurance premium volume to GDP	0.1	0.2
Non-life insurance premium volume to GDP	0.7	0.8
Stock market capitalisation to GDP	4.1	23.5
Stock market-traded total value to GDP	0.1	0.6

Source: World Development Indicators, World Bank

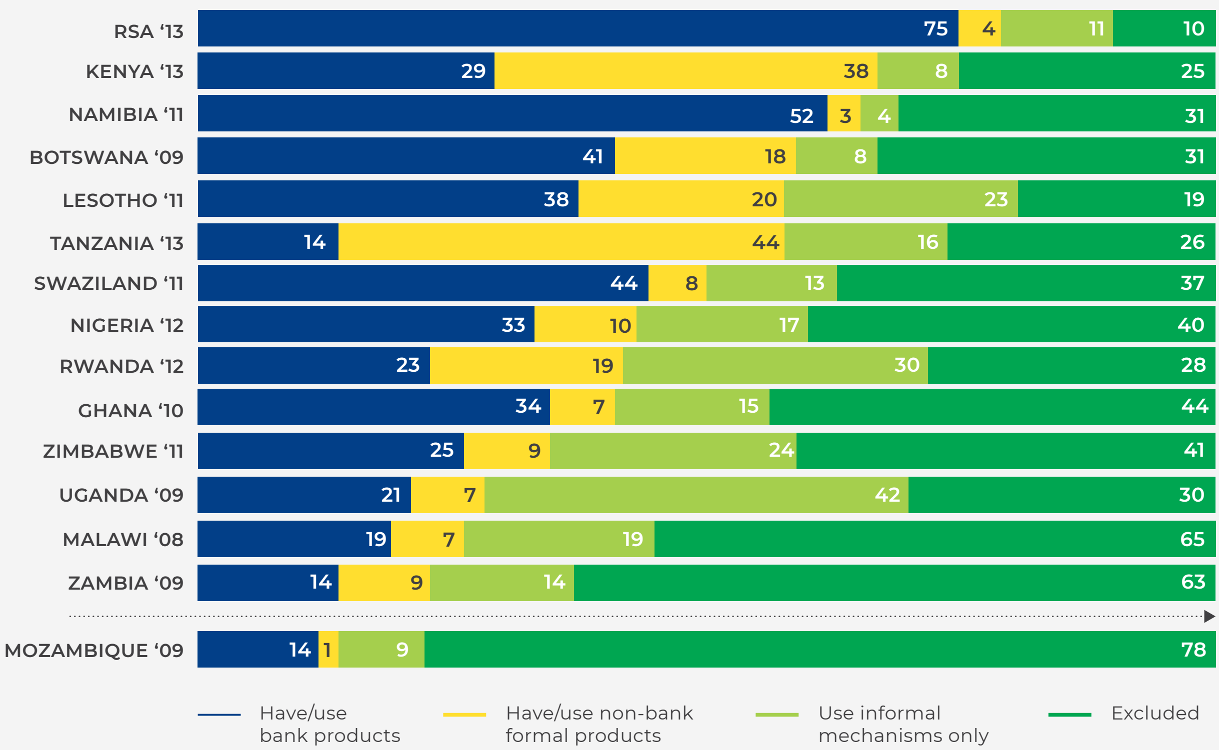
vibrant, with multiple formats of financial services providers, banks largely dominate the sector. The five-bank asset concentration ratio that measures the assets of the five largest banks as a share of total commercial banking assets averaged 65%[135] over the period 2010-2013. This demonstrates a handful of banks dominate the banking sector.

There has been a rapid roll-out of digital financial services during the evaluation period. There are four mobile network operators in Tanzania, namely Airtel Money, EzyPesa, Tigo Pesa and Vodacom M-Pesa, which offer mobile wallets, small-value deposits and person-to-person (P2P) transfers. In 2014, over 13 million[136] people transacted around USD 19 billion

135. World Development Indicators, World Bank.

136. Directorate of Banking Supervision, Annual Report 2014, 18th Edition, Bank of Tanzania.

Figure 3. FinScope access strand – cross-country comparison



Source: FinScope 2013

through mobile phones. FinScope 2013 revealed that the reduction in financially excluded people from 55.4% in 2009 to 26.8% in 2013 was driven primarily by the increased uptake of mobile money. From 1.1% (0.2 million) of users of formal non-bank financial services in 2009, mobile banking use increased to 49% (11.9 million) in 2013.

In terms of the depth of financial services, Tanzania has significantly underdeveloped insurance, pension, capital markets and mutual funds, compared to averages for Sub-Saharan Africa, as highlighted in table 2.

The mortgage industry in Tanzania is nascent. Although there are over 20 financial institutions and one specialised mortgage finance institution in the country, the mortgages account for just 2.3% of the total outstanding loans in the banking sector.[137] Leasing and factoring are also at an immature stage[138]: there is only one specialised leasing company (and one provisionally licensed to operate as a leasing company) in the country. Two banking institutions also offer some financial leasing products.

2.3 Access and inclusion

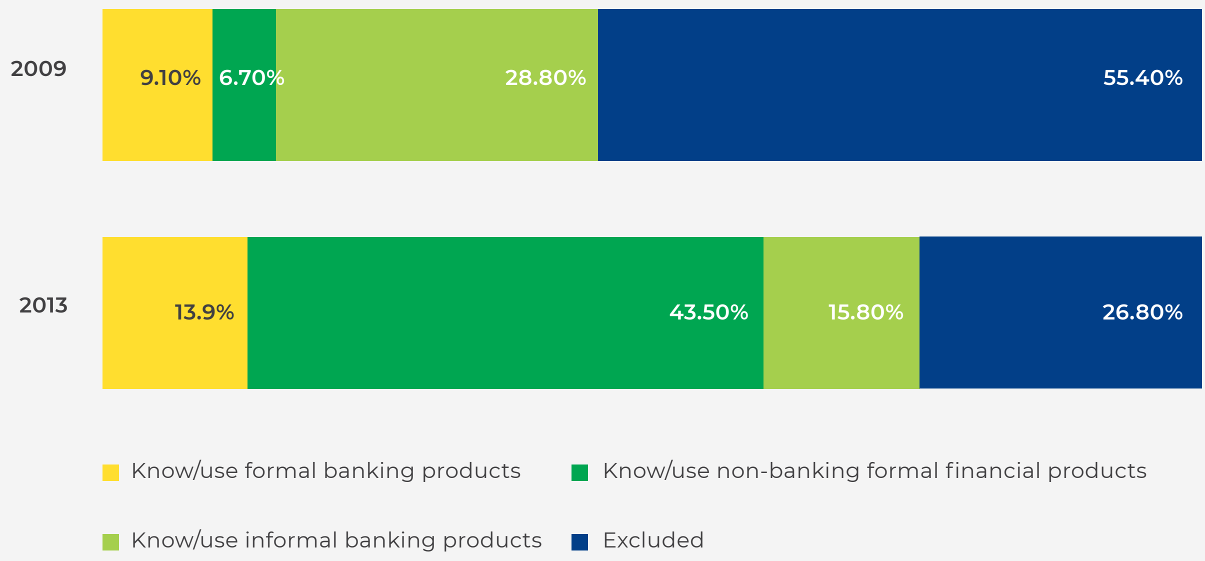
There has been a considerable increase in financial inclusion, from 55% excluded in 2009 to 27% in 2013. However, in comparison with other sub-Saharan African countries, only 14% of the bankable population is formally included in financial services. Access to formal financial services in Tanzania is low compared to other sub-Saharan African countries.

The proportion of the bankable population accessing formal financial services grew from 9.1% in 2009 to 13.9%. There was a far more rapid growth in the use of non-bank formal financial products over the period (from 6.7% to 43.5%), largely as a result of the rise in mobile money. The proportion of people using informal financial products fell.

While data on bank accounts per thousand adults is not readily available, the number of registered bank accounts and mobile wallets in Tanzania has grown from 10 million in 2010 to 41 million in 2014,[139] with the proportion that are active on a 180-day basis growing from 10% to 33%.

137. Ibid.
138. Ibid.
139. Ibid.

Figure 4. Key findings from the FinScope database



Source: FinScope 2013

Table 3. Financial access points (2010-2014)

FINANCIAL ACCESS POINTS PER ONE THOUSAND ADULTS	2014	2013	2012	2011	2010
Bank branches	2.69	2.46	2.26	1.93	1.81
ATMs	6.04	5.85	5.37	4.63	4.06
Point-of-sale devices	9.75	9.84	7.54	5.95	7.58
Mobile money agents	895	588	385	348	112

Table 4. Usage differences in urban and rural areas

TYPE	YEAR	HAVE/USE BANK PRODUCTS	HAVE/USE NON-BANK FORMAL PRODUCTS	USE INFORMAL MECHANISMS ONLY	EXCLUDED
Urban	FinScope 2013	27.6	51.4	7.3	13.7
	FinScope 2009	19.0	8.2	28.1	44.7
Rural	FinScope 2013	6.8	38.7	20.1	34.4
	FinScope 2009	5.3	6.1	29.0	59.6

Source: FinScope 2013

Table 5. Usage differences by gender

TYPE	YEAR	HAVE/USE BANK PRODUCTS	HAVE/USE NON-BANK FORMAL PRODUCTS	USE INFORMAL MECHANISMS ONLY	EXCLUDED
Male	FinScope 2013	17.9	45.1	14.3	22.7
	FinScope 2009	11.5	5.9	27.1	55.6
Female	FinScope 2013	10.1	41.1	17.2	31.6
	FinScope 2009	7.0	7.4	30.4	55.3

Source: FinScope 2013

Table 6. Usage by youth

TYPE	YEAR	HAVE/USE BANK PRODUCTS	HAVE/USE NON-BANK FORMAL PRODUCTS	USE INFORMAL MECHANISMS ONLY	EXCLUDED
Youth (30 years and younger)	FinScope 2013	10.9	44.1	14.9	30.2
	FinScope 2009	5.6	5.7	28.2	60.6

Source: FinScope 2013

The number of financial access points has also grown steadily (see Table 3), with the growth of mobile money agents particularly rapid. In terms of the spatial distribution of financial access points, 60% of bank branches, 59% of ATMs and 64% of agents are located in larger cities, such as Dar es Salaam, Arusha, Mwanza and Mbeya, with significant concentration in Dar es Salaam (36% of bank branches, 40% of ATMs and 42% of agents). The majority of mobile money agents are situated near to main roads.

Due to the lack of financial access points in rural and remote areas, the low-income population depends on semi-formal and informal means of accessing financial services. The 2014 GIS Mapping report shows that around 45% of Tanzanians live within five kilometres of a financial access point (a rise from 29% in 2012). It is noteworthy that around 81% of these access points are mobile money agents.

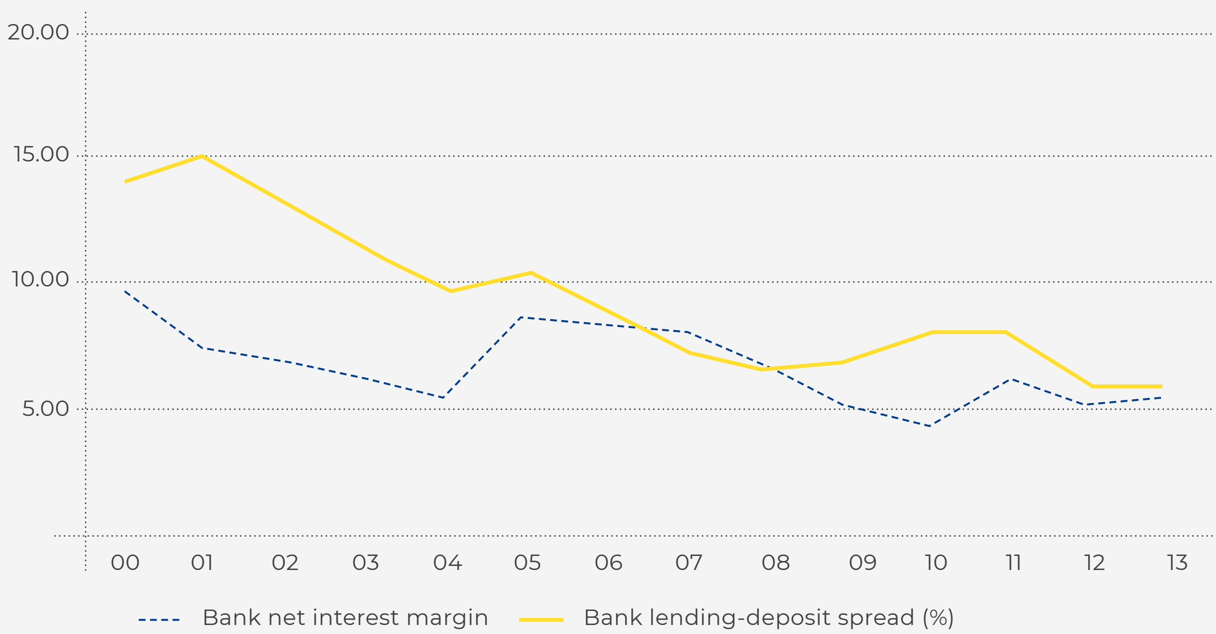
FinScope 2013 highlights the dependence on semi-formal and informal means of accessing money in rural areas (see Table 3). In urban areas, the proportion of the excluded population (sources of finance being friends/family or keeping savings at home/in kind) reduced from 44.7% in 2009 to 13.7% in 2013, with a significant increase in the use of non-bank formal products (insurance, SACCOS, MFIs, money transfer companies and mobile money).

The proportion of the urban population using bank products grew from 19% in 2009 to 29% in 2013. Growth for the rural population was slower (from 5.3% to 6.8%). Financial access in rural areas has been predominantly through the use of formal non-bank products, in particular, mobile money.

Women experience a higher degree of exclusion and informality in the use of financial services than men (see Table 4). In 2009, the exclusion rates were almost the same for men and women. Whilst exclusion has reduced significantly for both men and women, the fall has been considerably greater for men. Furthermore, the movement of women towards the use of formal financial services is slower than that of their male counterparts.

Financial inclusion is significantly lower for youth (people 30 years and younger). However, inclusion has grown significantly for this group, primarily through non-bank financial services.

Figure 5. Bank net interest margin and spread analysis (2000-2013)



Source: World Development Indicators, World Bank

Looking at financial inclusion for enterprises, around 53% of MSMEs lack access to finance.[140] Core constraints to access include lack of knowledge of financing products, lack of documentation and/or collateral, the time it takes to arrange finance, bribe requests, short loan repayments, high interest rates and the processes being too complicated. AgFiMS highlighted that the formal financial sector served over 32% of agribusinesses, while the informal financial sector served over 27%, indicating that these two sectors were of similar importance in terms of addressing the financial needs of these agribusinesses. AgFiMS reported that agribusiness owners were more likely to borrow from informal sources such as their customers, VICOBAs, VSLAs and savings groups.

2.4 Efficiency

Figure 5 presents a decreasing trend in interest margin and lending-deposit rate since 2001, which suggests improvements in the overall efficiency of the banking sector. The average 13-year spread for the Tanzanian banking sector is 9.4%, which is lower than for Kenya (10.1%) and the average for Sub-Saharan Africa (10.4%).

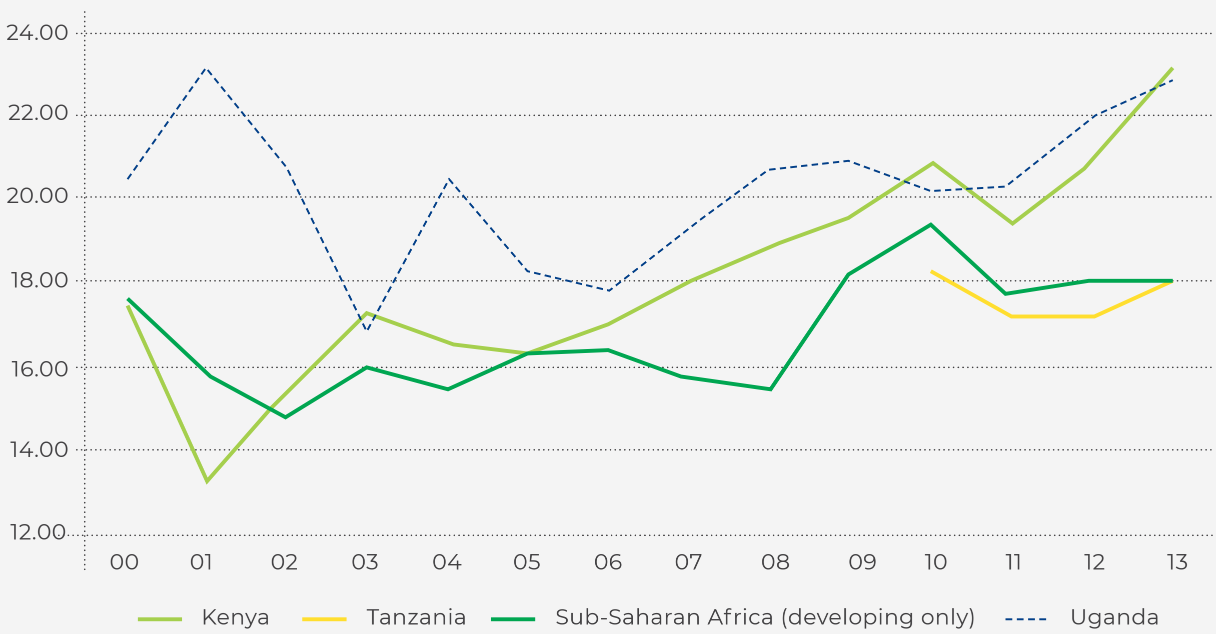
2.5 Safety and soundness

Data on capitalisation ratios for Tanzania is only available from 2010 onwards. From 2010-2013, there has been limited change in capitalisation ratios and these ratios are significantly lower than other countries in the region, highlighting the need for an increase in the minimum regulatory prescription of capitalisation ratios to ensure the stability of the financial sector.

Figure 7 shows that since 2010, there has been a gradual reduction in the number of non-performing loans. This highlights the impact of regulatory supervision and monitoring as well as macroeconomic growth during the period.

140. National Baseline Survey Report for Micro, Small, and Medium Enterprises, FSDT.

Figure 6. Bank regulatory capital to risk-weighted assets (%)



Source: World Development Indicators, World Bank

3. WHAT HAVE BEEN THE MAIN CAUSES OF CHANGES IN THE LEVEL & COMPOSITION OF FINANCIAL SERVICES?

This section begins with an overview of the main causes of changes in the level and composition of financial services. It then provides a deeper description of some of the market system changes that have occurred during the period, covering macroeconomic performance, the policy and regulatory framework, digital financial services, capital markets, insurance, and microfinance.

3.1 Overview

Below, we describe the four key factors that have contributed to the growth and development of the financial sector, and associated increase in financial inclusion: (i) conducive macro-economic environment; (ii) commitment by the government and BoT to financial inclusion; (iii) pragmatic policy makers and regulators; and (iv) digital financial services.

The identification of these factors is based on conclusions drawn from the evaluation team's consultations with sectoral experts, industry stakeholders, bilateral discussions with FSDT and other donors such as DFID, DANIDA, and a literature review of key documents such as the National Financial Inclusion Framework, National Financial Education Framework, and FinScope. Further elaboration of these factors is provided in the remainder of this annex.

Conducive macro-economic environment

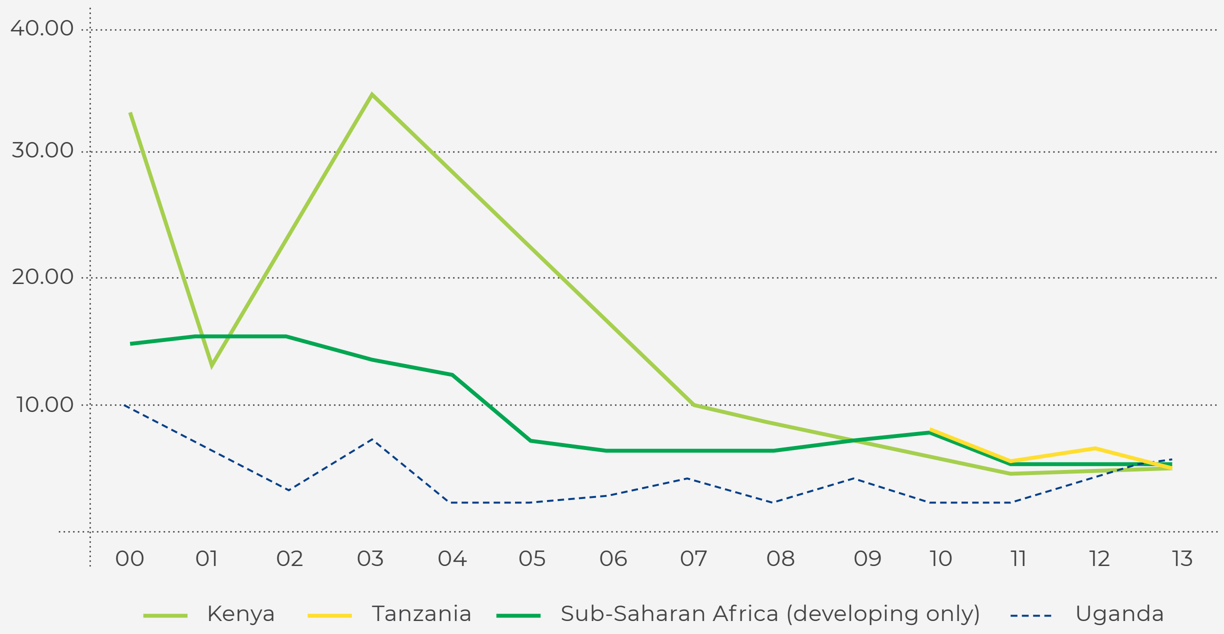
Tanzania has seen a significant improvement in its macroeconomic performance during the evaluation period. Growth has been particularly buoyant in information and communications, mining, construction, manufacturing and financial services. Inflation has been brought down to single digit levels and a range of macroeconomic reforms have provided a basis for increased levels of investment and reduced lending rates.

Commitment by the Government and BoT to financial inclusion[141]

The government and the Bank of Tanzania are committed to financial inclusion, and have taken

141. See Section 3.3 of this Annex for further details.

Figure 7. Bank non-performing loans to gross loans (%)



Source: World Development Indicators, World Bank

proactive measures to resolve the constraints that limit the growth of the financial sector, such as a lack of identification enabling knowledge of customer requirements, and a lack of policy frameworks for financial inclusion, payments and financial services.

This commitment dates back to the government's endorsement of the Financial Sector Assessment Programme (FSAP) in 2003 and the recommendations from FSAP being reflected in numerous key policy documents, which reflects the importance the government has attached to the financial sector in catalysing pro-poor growth.

More recently, this is demonstrated by the introduction of the National Financial Inclusion Framework in 2013, which provided a national policy coordination mechanism that has brought together relevant stakeholders from government ministries, regulatory authorities and agencies, and private financial institutions and associations. This aligned coordination structure has helped to enable the easing of several bottlenecks to financial inclusion, through improvements to KYC requirements, agency banking, payment systems, and mobile financial services regulations. Since the NFIF was introduced, Tanzania has achieved its goal of increasing financial access to 50% of the population by 2015 and the Bank of Tanzania has revised the access goals to 80% adults using a financial access point by 2017.

The development of a refined National Financial Education Framework in 2011 further highlights the focus of the government and regulators to resolve the bottlenecks to financial inclusion.

Pragmatic policy-makers and regulators

The Tanzanian financial market has benefited significantly by the pragmatic approach that policy-makers and regulators have taken. A good example is the advent of mobile money, wherein the Central Bank initially allowed its introduction without regulatory burden, and used the experience it gained to develop and evolve regulations and policies in response to observed changes in the financial landscape,142 including in relation to mobile banking, including agent banking, payments acts, and micro-insurance. Another example of pragmatic policy making is the national microfinance policy.[143]

Digital financial services

Financial inclusion has been greatly boosted by developments in digital financial services. Innovations such as mobile money and agency banking have immensely contributed in achieving reach, as is widely recognised and was highlighted in the FinScope 2013 report.

Between 2009 and 2013, there was a substantial increase in the number of people accessing formal financial services using mobile phones. As described in FinScope 2013, around 44% of the bankable population uses non-bank formal financial services, compared to 25% in 2009. Further, the 2013 FinScope survey revealed progress in the uptake of mobile money, with 50% of adults aged 16 and older using mobile money, compared with just over 1% of adults in 2009.[144]

This has come about as a result of breakthroughs in digital technology which have reduced transaction costs and extended the reach of services, and efforts by the GoT and BoT to create an appropriate regulatory environment for the sector to thrive.

3.2 Macroeconomic performance

Despite challenging global conditions, economic performance in Tanzania has strengthened in recent years. A number of positive domestic factors are identifiable: political stability;[145] macro-economic management geared towards pro-investment policies; large-scale sectoral reforms; supported by significant multilateral and bilateral Official Development Assistance (ODA). The GDP growth rate has steadily risen from just over 3% in 2005 to over 7% in 2014 and GDP per capita has risen steadily over the period. The government's intensive efforts to develop non-traditional and non-farm sectors such as mining, communications and financial services have led to lower dependency of the economy on agriculture. Growth has been particularly buoyant in information and communications, mining, construction, manufacturing and financial services.

Inflation has fluctuated considerably over the

142. See Section 3.4 of this Annex for further details.

143. See Section 3.7 of this Annex for further details.

144. FinScope Tanzania 2013.

145. Chama Cha Mapinduzi (CCM), 'Party of the Revolution', is the longest reigning ruling party in Africa, and has dominated the political landscape in Tanzania since 1977 when it was formed out of the merger of the Tanganyika African Union (TANU) and the Afro-Shirazi Party (ASP), the single legal political parties in mainland and islands of Zanzibar and Pemba, respectively. Since Tanzania adopted a multi-party system in early 1992, CCM has won all four general elections, in 1995, 2000, 2005, 2010 and 2015. The party secured 80% of the vote in winning the 2005 Presidential elections. The share was down to 58.5 % in the 2015 elections. These figures are taken as indicators to suggest increasing competitiveness in the political and policy environments.

period, hitting a peak of 16% in 2012, largely as a result of high world market prices for oil and food in 2012. Inflation has since been brought down to single digit levels through prudent monetary policy, improvements in governance, management of food scarcity, and assisted by a global decline in food prices.

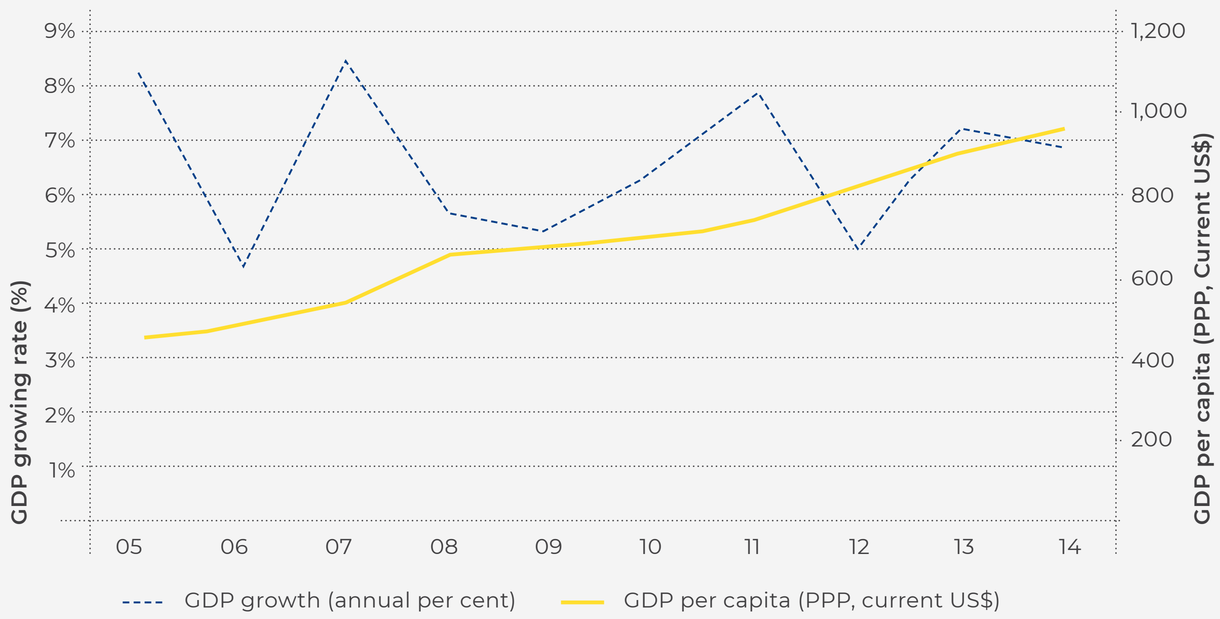
3.3 Policy and regulatory framework

In 2003, at the behest of the Government of Tanzania, a joint mission by IMF and the World Bank conducted a Financial Sector Assessment Programme (FSAP) to review the robustness and soundness of Tanzania's financial sector. The report highlighted the limited role that the financial sector had played in the country's economic growth. It underlined the lack of access to finance for the general population, due to high interest rates, complicated procedures, poorly designed products and lengthy requirements. In addition, the report stated that dependence on agriculture and aid, little credit being given to the productive sector, and an underdeveloped financial sector all risk undoing the progress made by the government since 1996. The report suggested a plethora of reforms in the legal, judicial and institutional arena to enhance access to finance for the masses, strengthening the financial sector and deepening the reach of financial services, to include: privatisation of government-owned financial institutions, legal and judicial reforms to increase access to credit, the provision of microfinance, the establishment of a credit registry, the liberalisation of insurance and pension funds, and risk-based supervision of financial institutions.

Many key government policy frameworks and guidelines had components related to strengthening the financial sector, including Vision 2025, PRSP, NSGRP and MKUZA that. Taking the recommendations from the FSAP and considering the importance of the financial sector in catalysing pro-poor growth, the government appointed a committee chaired by the governor of the Central Bank. The committee developed a roadmap, outlining a plan of action to implement the recommendations from the FSAP. This roadmap, covering 2006 to 2011, was named the Second Generation Financial Sector Reforms146 (SGFSRs). Development partners (donors and international

146 Bank of Tanzania. "Tanzania Mainland's 50 Years Of Independence: A Review of the Role and Functions of the Bank of Tanzania (1961—2011)." Bank of Tanzania, 2011.

Figure 8. GDP growth rate and GDP per capita (2005-2014)



Source: World Development Indicators, World Bank

funding institutions) agreed to support the programme through technical assistance and capacity building. The mandate for SGFSRs anchored on the following:

- Improvement in the Monetary Policy Framework and the Legal and Regulatory Infrastructure to enhance access to finance.
- Introduction and implementation of policies for an efficient payment system.
- Improvement in the supervisory function towards efficient and sound financial systems.
- Development of financial markets with vibrant primary and secondary markets, supported by appropriate and secure settlement systems, as well as a stock exchange with diversified instruments and investors.
- Introduction and implementation of an efficient and competitive pension sector that is responsive to market demands and supported by appropriate legal and regulatory structures.
- Introduction and implementation of a viable and sustainable microfinance industry with a wider outreach, and operating under an enabling legal and regulatory environment.
- Putting in place appropriate labour laws and labour relations policies, which are in line with international best practices that support financial sector development.
- Introduction and implementation of an efficient and harmonious legal and judicial infrastructure for the collateralisation of land and settlement of land disputes.
- Establishing a policy framework and legal infrastructure for the provision of Long-Term Development Financing (LTDF) facilities, with a view to addressing the existing gaps in the provision of long-term credit to productive sectors.

The government held consultations with development partners about these reforms, which culminated in the design of the Financial Sector Support Project (FSPP). The International Development Association (IDA) and the UK Department for International Development (DFID) agreed to support technical assistance in the following areas: a) strengthening the banking sector; b) developing financial markets; c) strengthening the insurance industry; d) facilitating the provision of long-term development finance; and e) strengthening micro and rural finance.

As part of the second-generation reforms, the Bank of Tanzania Act of 2006[147] and the Banking and Financial Institutions Act of 2006[148] were passed into law by the parliament. Through these two acts, the Bank of Tanzania was given independence and power in order to enable effective monetary policies and regulate the country's banking sector.

The Bank of Tanzania Act of 2006 empowered the Bank of Tanzania to formulate and implement monetary policy in line with the bank's mission to maintain price stability conducive to the attainment of financial and macroeconomic stability, with the objective of promoting a high and sustainable rate of economic growth. This is contrary to the 1995 Act, which had laid down the primary objective of the bank as being to establish monetary conditions conducive to price stability. The new Act, among other things, gives the Bank of Tanzania a more responsive regulatory role in relation to the formulation and implementation of monetary policy, and facilitates the supervision of banks and financial institutions.

The Banking and Financial Institutions Act of 2006 encompasses several regulations; namely the Risk Management Guidelines for Banks and Financial Institutions, 2008, the Outsourcing Guidelines for Banks and Financial Institutions, 2008, the Banking and Financial Institutions (Liquidity Management) Regulations, 2008, the Banking and Financial Institutions (Capital Adequacy) Regulations, 2008, the Banking and Financial Institutions (Microfinance Companies and Micro Credit Activities) Regulations, 2005, and the Banking and Financial Institutions (Licensing) Regulations, 2008.

The Second Generation Financial Sector Reform Programme (SGFSRP), which was launched in 2008, sets out an extensive range of financial sector reforms for Tanzania. It sets out specific initiatives, most of them relating to the banking sector as a whole, and supporting services such as payments systems and credit reporting. Notable regulatory initiatives include the Microfinance Company Regulations and the guidelines for mobile financial services and agency banking.

The Second National Strategy for Growth and Reduction of Poverty[149] (NSGRP II) was formulated in 2010, to be implemented between 2010-2011 and 2014-2015. Similar to MKUKUTA I (2005-2006 to

147. Ministry of Finance. "Bank of Tanzania Act, 2006" Ministry of Finance, United Republic of Tanzania, 2006.

148. Ministry of Finance. "Banking and Financial Institutions Act, 2006" Ministry of Finance, United Republic of Tanzania, 2006.

149. IMF, "National Strategy for Growth and Reduction of Poverty." IMF Country Report No. 11/17, 2011.

2009-2010), the focus of NSGRP II continued to be to accelerate economic growth, reduce poverty and improve the standard of living and social welfare of the people of Tanzania, in addition to increasing good governance and accountability. MKUKUTA II, like its predecessor, was a step towards Tanzania's Development Vision 2025, the Millennium Development Goals (MDGs) and the aspirations of the ruling party's Election Manifesto.[150] It was a framework for rallying national efforts during 2010-2011 to 2014-2015 to accelerate poverty-reducing growth by pursuing pro-poor interventions and addressing implementation bottlenecks. It translated Vision 2025 aspirations and MDGs into measurable broad outcomes organised under three clusters: Cluster I: Growth for Reduction of Income Poverty; Cluster II: Improvement of Quality of Life and Social Well-being; and Cluster III: Governance and Accountability.

MKUZA[151] II was formulated in 2010 to be implemented between 2010 and 2015, coinciding with the remaining period of implementation of MDGs. It was built upon the MKUZA I that lasted for three years (2007-2010). MKUZA II maintained the organisational structure of its predecessor, MKUZA I. It translated Vision 2020 aspirations and MDGs into measurable broad outcomes, organised under three clusters: Cluster I: Growth for Reduction of Income Poverty; Cluster II: Wellbeing and Social Services; and Cluster III: Good Governance and National Unity.

In September 2011, the Bank of Tanzania made a commitment to the Alliance for Financial Inclusion (AFI) that by 2015, at least 50% of the population would have access to formal financial services. Increasing access to micro and rural finance has been identified as an important factor in achieving this goal. The bank is a signatory to the Maya Declaration[152] on financial inclusion. In 2013, in a bid to coordinate affairs between the various bodies and entities, the Bank of Tanzania launched the National Financial Inclusion Framework (NFIF). The framework included core financial inclusion indicators identified by the AFI, such as access, quality and usage of financial services. As mentioned by the Governor of the Bank of Tanzania in 2016, the country has gone on to achieve its goal of increasing financial access to 50% of the population by 2015, and commercial banks have implemented agent banking with the approval of the Bank of Tanzania, thus extending financial opportunities to the under-served. The Bank of Tanzania has revised the access goals to 80% by 2016. It has also set up a dedicated unit within the Bank to address complaints from financial consumers who exhaust the redressal mechanisms at their own institutions.

As a step towards financial inclusion, the bank developed an improved legal and regulatory framework for microfinance institutions (MFIs) and savings and credit associations (SACCOs). In 2008, the Bank of Tanzania also developed a Rural Financial Services Strategy (RFSS), as well as a microfinance policy for Zanzibar, which helped the MFIs and SACCOs to understand how to use micro and rural finance to tap the economic potential of the poor.

3.4 Digital financial services

Banks in Tanzania are increasingly utilising innovative information and communication technology (ICT) to expand access to financial services. Such technological advancements include ATMs, cards, internet banking, point of sales devices, mobile banking, and agency banking. The evolving usage of alternative channels[153] is depicted in Table 7.

The Bank of Tanzania 2014 annual supervision report states that there are over 238,000[154] mobile money agents in the country. The 2013 FinAccess survey[155] highlights that there are significantly more mobile money agents than bank branches, ATMs or POS machines. The FinScope survey 2013 in Tanzania points at rapid progress in mobile money uptake with 50% of adults aged 16 and older using mobile money compared with just over 1% of adults in 2009.[156]

150. National Strategy for Growth and Reduction of Poverty, NSGRP II, 2010. Ministry of Finance and Economic Affairs.

151. Revolutionary Government of Zanzibar. "Zanzibar's Strategy for Growth and Reduction of Poverty". Revolutionary Government of Zanzibar, 2010.

152. The Maya Declaration is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion. Over 90 such countries – representing more than 75% of the world's unbanked population – have supported the Declaration. Each country makes measurable commitments in four broad areas on access, quality, usage and welfare.

153. Directorate of Banking Supervision, Annual Report 2005-14, Bank of Tanzania

154. Directorate of Banking Supervision, Annual Report 2005-14, Bank of Tanzania

155. Tanzania," Financial Access Survey (2013), International Monetary Fund, 2014, http://fas.imf.org/Default.aspx.

156. FinScope Tanzania" 2013, 13.

Table 7. Use of alternative channels (2007-2014)

TYPE	CATEGORY	2014	2013	2012	2011	2010	2009	2008	2007
Internet Banking	Volume (million)	2.28	1.89	1.39	1.48	1.31	4.98	3.13	1.48
	Value (TZS billion)	27,174	22,724	17,768	12,040	10,420	8,130	9,380	1,450
	Value (USD billion)	16.43	14.20	11.22	7.66	7.39	6.16	7.84	1.16
Mobile (SMS) Banking	Volume (million)	2.28	1.89	1.39	1.48	1.31	4.98	3.13	1.48
	Value (TZS billion)	27,174	22,724	17,768	12,040	10,420	8,130	9,380	1,450
	Value (USD billion)	16.43	14.20	11.22	7.66	7.39	6.16	7.84	1.16

In the last five years, breakthroughs in digital technology have reduced transaction costs and extended the reach of services. There are four mobile network operators in Tanzania, namely, Airtel Money, EzyPesa, Tigo Pesa, and Vodacom M-PESA that offer mobile wallets, small value deposits and person-to-person (P2P) transfers. In 2014, over 13 million people transacted around USD 19 billion through mobile phones. FinScope 2013 reveals that the reduction in financially excluded people from 55.4% in 2009 to 26.8% in 2013 was driven primarily by increased uptake of mobile money. From 1.1% (0.2 million) users of non-bank formal financial services in 2009, mobile banking use increased to 49% (11.9 million). The key highlights of the mobile money sector in Tanzania includes: diversified providers (four mobile network operators and eight banks offer mobile money services), interoperability (four mobile network operators and two banks have connected their mobile money platforms[157] to offer seamless transactions between networks), cross border payments (although limited to subsidiary companies only), and incentivising users to store value in mobile accounts.

Mobile money is also being used in a variety of ways to meet more basic needs. CGAP[158] highlights that 28,000 farmers are receiving payments and other information services through the Connected Farmer alliance; Mobisol uses mobile payments to help finance home solar power systems; Angaza energy hub accepts payments and controls its solar power systems through mobile money; and off-Grid electric uses m-Pesa for remote monitoring and to accept payments.

A number of policy and institutional developments have facilitated the emergence of digital financial services. With the advent of electronic banking through use of ATM and point of sale devices, the Bank of Tanzania felt the need to amend the Bank of Tanzania Act to include the regulation and supervision of payments through alternate channels. It amended the Bank of Tanzania Act in 2006 to allow for the regulation of non-bank entities offering payment services. Further, the Electronic Payment Schemes Guidelines (2007) permitted MNOs to offer payment services, despite the rules originally being designed to apply specifically to banks and other financial institutions.

In 2008, Vodacom and Zantel approached the National Payment System Directorate at the Bank of Tanzania to enquire how the two mobile network operators would be regulated and supervised if they wished to offer mobile money services such as cash-in and cash-out and person-to-person (P2P) transfers. Grappling with the challenge of increasing financial inclusion, the Bank of Tanzania sensed the potential of digital financial services to expand inclusion beyond brick and mortar branches.

The Bank of Tanzania gathered insights from the Central Bank of Kenya, where the mobile money for financial services was already being implemented. As Mobile Network Operators (MNOs) were not under the direct supervision of the Bank of Tanzania (mobile network operators are regulated by the Tanzanian Communication Regulatory Authority - TCRA), the central bank suggested to cellular providers that they partner with a commercial bank to offer mobile financial services. Once the cellular providers had partnered with a commercial bank, the Bank of Tanzania assessed the project for KYC, AML/CFT, security of funds, risk management plan etc. Subsequently, the central bank issued a letter of

157. Jeffrey Riecke, "Interoperability Agreement Signed Between Leading Tanzanian Mobile Money Providers," Center for Financial Inclusion blog, 6 June 2014.

158. Camilo tellez-merchan and Kabir Kumar, "Global Landscape of digital Finance Plus", CGaP blog, 13 december 2013 http://www.cgap.org/blog/global-landscape-digital-finance-plus

no objection to the collaborating bank thus allowing the cellular providers to implement mobile financial services. The central bank maintained oversight and prudential and non-prudential regulation of the financial service provider.

The approach adopted by the Bank of Tanzania provided time for it to develop adequate provisions for regulation and supervision of mobile financial services. It also enabled service providers to launch mobile financial services without facing regulatory burdens. The mobile financial services market in Tanzania has therefore grown in an environment of broadmindedness by the regulator and a willingness to learn as the market evolves and matures. By providing space for innovative services to emerge, the Bank of Tanzania developed regulations and policies aligned to the evolving trends and lessons learned from the changing financial landscape.

As the market matured and the volumes and value being transacted using mobile financial services reached significant numbers, the Bank of Tanzania felt the need to introduce regulatory guidelines for mobile money. Against this backdrop, the central bank released its first draft of Mobile Payments Regulations in March 2012. After industry wide consultations, the bank revised the draft and released the refined version in May 2012. Consequently, the Agent Banking Guidelines were launched in 2013.

The government approved the legal and regulatory framework for payment systems under the National Payment Systems Act of 2015. Subsequently, the government approved two regulations namely, the Licensing and Approval Regulations 2015 and the Electronic Money Issuance Regulations 2015. The Bank of Tanzania is disseminating the new regulations widely to ensure compliance by April 2016.

The key challenges faced by the mobile money sector include liquidity management by agents, lack of network availability, risk and fraud perpetrated against agents and from agents to users, and insufficient financial capabilities of users. Additionally, the products' offerings on mobile channels are currently limited to person-to-person transfers and payments. In the past, the failure of merchant payments has triggered the industry to rationally think about the use-cases to resolve local issues rather than replicating successful use-cases from the region. Mobile-based credit and savings products, M-Shwari replicators, have met with limited success, therefore forcing providers to develop product concepts with contextual use-cases.

With a view to achieving enhanced access to financial services through the use of digital channels, the industry is forging new partnerships and developing innovative products. VSLAs are piloting the use of digital products for community-based savings groups. MFIs are digitising payments for repayment and disbursing through the use of mobile money. EzyPesa has expanded into the realm of insurance as part of its new branding, partnering with the National Insurance Corporation of Tanzania Ltd. to offer Farijika health insurance.[159] In addition, mobile money is being used in a variety of ways to meet more basic needs. CGAP[160] highlighted that 28 farmers are receiving payments and other information services through the Connected Farmer alliance, Mobisol uses mobile payments to help finance home solar power systems, Angaza energy hub accepts payments and controls its solar power systems through mobile money, and Off-Grid Electric uses M-Pesa for remote monitoring and to accept payments.

3.5 Capital markets

In order to establish a stock exchange and to mobilise capital from the market for the medium to long term, in 1994, the government approved the Capital Markets and Securities Act of 1994. In 1996, the Dar es Salaam Stock Exchange (DSE) was incorporated as a private company under the Act. DSE facilitates capital market formation towards access to capital through the issuance of equities and debt securities. The mission of the DSE is to provide a responsive securities market which mobilises savings and channels them into productive sectors, encouraging a saving culture that contributes to the country's economic growth and facilitates wider access to resources. DSE, a member of the African Stock Exchanges Association, uses the Automated Trading System (ATS) to trade securities. The DSE membership consists of Licensed Dealing Members (LDMs) and Associate Members. LDMs are allowed access to the trading floor. Associate members comprise institutions and companies that support the DSE. The stock market is relatively small, with a market cap below 20% of GDP, and is largely concentrated around two companies.

Despite, the existence of the Dar es Salaam Stock Exchange (DSE) since 1996, it has only listed 16 companies on equity, seven cross-listed companies,

159. Courtney Snelling, Microcapital Brief, 22 February 2012.

160. Camilo Tellez-merchan and Kabir Kumar, Global Landscape of digital Finance Plus, CGAP Blog.

six companies on corporate bonds and eight treasury bonds. The bond market is still in its infancy, as the country lacks a sovereign rating. Parastatal and corporate issuers are largely inactive in the country's primary markets. Secondary markets, for their part, are limited and consist mostly of over-the-counter trades in Treasury bills and bonds. Banks and pension funds continue to be the most active participants in the country's debt markets.

Established in 2013, the Enterprise Growth Market (EGM), an equity market to cater for Small and Medium Enterprises (SMEs) and start-ups, is yet to deepen access to capital for small and medium enterprises. This development enhanced the potential for the deepening of capital markets, widening access to capital and fostering job creation and economic growth. During the year ending March 2014, a regulatory framework was put in place to mitigate the potential risks arising from the new market segment.

3.6 Insurance

Commercial insurance practice in Tanzania started in the early 1920s. To begin with, insurance operations were largely maintained as branches or agencies of foreign-owned insurance companies. In 1967, the government nationalised the insurance business as part of the Arusha Declaration and merged all existing insurance companies into one single corporation, the National Insurance Corporation (NIC), which handled both general and life insurance business. In 1996, as part of the liberalisation processes, the Parliament of the United Republic of Tanzania passed the Insurance Act No.18 of 1996. The Act, among other things, liberalised the insurance business, permitting private participation in the sector.

In 2009, the Parliament enacted the Insurance Act No.10 of 2009 to adopt international insurance supervision best practices prescribed by the International Association of Insurance Supervisors (IAIS) that had hitherto not been provided under the Insurance Act No. 18 of 1996. The Act provided for the establishment of the Tanzania Insurance Regulatory Authority (TIRA), which took over the role of its predecessor, the Insurance Supervisory Department. The Act defined insurance business as the business of assuming the obligation of an insurer in any class of insurance, whether defined in the Act or not, which is not declared to be exempt from the provisions of the Act in terms of Section 2 and includes assurance, reinsurance and reassurance. Insurance business is divided into two main classes:

- General insurance business, which comprises the following classes: accident, sickness, land vehicles, railway rolling, aircraft, ships, goods in transit, fire and natural forces, damage of property, motor vehicle liability, aircraft liability, liability for ships, general liability, credit, suretyship, miscellaneous, legal expenses, and assistance (as per Part B of the Second Schedule of the Insurance Act 2009).
- Long Term Assurance business, which is defined as life and annuity business, marriage and birth business, linked long-term business, and permanent health insurance business (as per Part A of the Second Schedule of the Insurance Act 2009).

The National Insurance Policy 2014 (NIP 2014) envisaged a vibrant and sound insurance sector capable of contributing significantly to financial stability and economic growth. The NIP 2014 aims to address the following challenges:

- Low use of insurance by the government and its MDAs.
- Delay in the adoption of bancassurance as an alternative distribution channel for insurance services.
- Shortage of insurance professionals in the industry.
- Low uptake of insurance in rural areas.
- Low uptake of insurance by the low-income segment of the population.
- Low contribution of life assurance in the overall insurance industry business volume.
- Low underwriting capacity of the insurance industry to participate in key emerging economic sub-sectors.
- Low level of public awareness of insurance products and services.
- Low financial literacy by members of the public.
- Lack of a legal and regulatory framework for emerging insurance products in high demand, including Islamic insurance (Takaful).
- Low use of agriculture insurance.

At the end of 2014,[161] the Tanzanian insurance industry included a total of 30 insurance companies (including one reinsurance company), 112 insurance brokers, 471 insurance agents and 51 loss assessors and adjusters. Most of these were based in urban areas, with a high concentration in Dar es Salaam. The insurance sector

161. Directorate of Banking Supervision, Annual Report 2005-2014, Bank of Tanzania.

in Tanzania reached 13% of the total population and is valued at 0.9% of the GDP.[162] Liberalisation of the insurance sector in Tanzania has seen limited development of the insurance sector in Tanzania, and this has hindered the sector's contribution to the national economy, remaining below 1%.

The general insurance product mix was made up of motor insurance businesses at 37.5%, followed by health at 18.6%, fire at 17.4%, and accident at 10.1%. The group life class, on the other hand, dominated life assurance at 71.9%, followed by individual life at 27.2%.

Government figures show that around 10 million people, or 23% of the population, are accessing medical services through Tanzania's National Health Insurance Fund (NHIF) and the Community Health Fund (CHF). The government aims to have 50% of the population covered by 2050. Not only will improved healthcare access drive improvements in life expectancy, it will also increase awareness of the benefits of insurance cover.

The sector faces a number of challenges and constraints, which have impeded its development. These include:

- Low access to insurance services due to the geographic concentration of insurance touch points in urban areas.
- Low technical and financial capacity of the local insurance industry.
- Insufficient numbers of insurance professionals in the industry in key disciplines, including actuarial science, due to the low capacity of local training institutions that offer qualifications which meet international standards.
- The low-income segment of the population makes little or no use of insurance services as a risk management facility or as a means of enhancing access to loans from financial institutions.
- Delay in the adoption of bancassurance as an alternative distribution channel for insurance services.
- Lack of a legal and regulatory framework for emerging insurance products.
- Low level of public awareness of insurance products and services.

3.7 Microfinance

The microfinance sector in Tanzania transitioned from largely informal practices to formal programmes in the 1990s. In that era, microfinance programmes did not have a proper structure and there was a general lack of regulatory policies to support the growth of institutions offering microfinance. Considering the importance of microfinance for financial inclusion, and in order to expand access to finance to large segments of the population – low-income and those based in rural/remote locations – the Bank of Tanzania established a Directorate of Microfinance. The directorate's mandate was to create an enabling environment for the growth of the microfinance sector. In 2000, the Bank of Tanzania developed a National Microfinance Policy to articulate policy, legal, regulatory and supervisory frameworks for the microfinance sector. The policy was approved and adopted in 2001, making Tanzania the first country in eastern and southern Africa to boast a national policy for the microfinance sector. In 2002, the bank reviewed its relevant laws and policies to develop the regulatory and supervisory framework for microfinance, and this framework was adopted in 2005 as part of the National Microfinance Policy. Given its importance for the government's focus on poverty reduction, human development and social welfare, the microfinance policy was integrated into a large number of national policies that focused on the poorer sector of the country's population.

The National Microfinance Policy (2000) established general guidelines for the promotion and development of microfinance and its integration into the general financial sector. It recognised the institutions providing microfinance services as being the real driving force behind the achievement of the ultimate goal of the development of sustainable microfinance. Banks and non-bank financial institutions, SACCOs and NGOs were given the freedom to develop microfinance services on the basis of their own internal objectives – whether profit, poverty alleviation, self-help or other motivations. The salient features of the National Microfinance Policy relevant to the regulatory and supervisory framework[163] include the following:

- Microfinance will increasingly be an integral part of the financial system, hence the need to adopt a financial systems approach.
- Microfinance is part of the country's financial markets whose behaviour is governed by market forces.
- Microfinance is a line of business that can be undertaken by diverse institutions (including

162. TIRA Tanzania 2014.

163. Rubambey, G. C. "Policy, Regulatory and Supervisory Environment for Microfinance in Tanzania." Essays on Regulation and Supervision. Iris Centre. Washington, DC, CGAP (2005).

commercial banks) applying a variety of service delivery methodologies.

- Microfinance service providers should be at the centre of the implementation of the policy, and the government's role is the creation of an enabling environment, not provision of financial services.

Until 2004, development partners such as SIDA, UK-DFID, CIDA, DANIDA and the Royal Netherlands Embassy individually managed programmes to support the growth of the microfinance sector. This often resulted in the micro-sector programmes interacting with different development partners and reporting on various metrics. Furthermore, at the development partners' end, they had to appoint microfinance specialists to manage the aid fund portfolios and microfinance programmes that the development partners supported. In addition, the aid fund flow to the microfinance sector was channelled through the Ministry of Finance, which had its own processes that often delayed the flow to the micro-sector interventions. Therefore, in order to ensure effective coordination and increase efficiency and effectiveness to the support process, these development partners established the Financial Sector Deepening Trust (FSDT) in 2004. The FSDT was mandated to support the financial sector through capacity building, sector-wide development and the creation of an enabling environment for the wider use of microfinance. In addition, the FSDT became an entity through which the aid fund could be supplied to the pro-poor interventions and programmes without the need for it to be channelled through the Ministry of Finance.

The Microfinance Companies (MFCs) and Micro-credit Activities Regulations adopted in 2005 prescribed conditions related to minimum core capital and other licensing provisions, lending limits, capital adequacy, asset quality and reporting requirements. The prescribed minimum capital is intended to ensure that MFCs have the financial capacity to acquire the necessary infrastructure and technology, as well as to attract qualified personnel. The provisions also allow that MFCs can be established out of existing NGOs, and the minimum capital requirements have been included to facilitate the transformation process. Among such provisions is one that provides for the transfer of assets and clientele from the NGO to the MFC.

Prudential regulations related to micro-credit activities are applicable to all banks and financial institutions engaged in microfinance (including MFCs). For supervisory purposes, all such institutions are required to report on their micro-loan portfolios. In order to facilitate segmented reporting and to avoid regulatory arbitrage, the definition of what constitutes micro-credit is provided in the regulations. The regulations also provide for classification and provisioning schedules. The classification and provisioning of microloans is stricter than that for commercial loans because of the importance of taking immediate action in case of delinquency on unsecured loans. Moreover, the regulations on microcredit activities require all institutions engaged in microcredit to adopt the methodology that will be prescribed by the Bank of Tanzania to assign unique identification numbers to their clients and to report their loan portfolio information to a credit databank in the format prescribed by the Bank of Tanzania. Since microcredit operations are normally highly decentralised, the regulations also require the lending technology of the institutions to include explicit internal control policies and procedures in order to minimise the possibility of fraudulent actions. They additionally require internal auditors to have proven experience in microcredit operations. For the purpose of consumer protection, the regulations also include requirements related to fair lending practices.

The microfinance sector in Tanzania is highly segmented, and includes banks and a variety of non-bank financial institutions, NGOs, SACCOs etc. Microfinance in Tanzania has its own specific legal framework. The Bank of Tanzania is responsible for prudential supervision of the licensed banks, microfinance companies, financial cooperatives (FICOS – SACCOs that have deposits greater than TZS 800 million), and financial institutions. NGO MFIs that offer credit-only products are registered with nonfinancial government agencies and departments, and are not regulated. Credit-only MFIs are not regulated or supervised by the Bank of Tanzania, as they do not mobilise deposits from the public or other financial regulators.

There are over 100 microfinance institutions in Tanzania. In 2014, 23 MFIs in Tanzania reported data to MIX Market,[164] and had a combined loan portfolio of USD 1.6 billion, serving 368,314 active borrowers and 861,265 depositors. Collectively they had over USD 2 billion in deposits. NMB, Equity Tanzania and Akiba are the largest microfinance players in Tanzania. NMB utilises two modes to expand its outreach in the microfinance sector. One: it provides

164. MIX Market Data, 2014, Tanzania.

direct services on loans and deposits to groups of low-income households and small enterprises; and two: through indirect service providers in rural areas via bank linkage programmes with MFIs and SACCOs. Akiba provides microfinance services through group lending and individual micro-enterprise loans to the rural poor. Equity Bank Tanzania utilises mobile phone technology and agency branchless banking to achieve rapid outreach in rural areas and to optimise cost. The bank focuses on youth, women, smallholder farming households and small and micro-business entrepreneurs in both rural centres that lack infrastructure, such as accessible road networks, telephone and electricity, and urban areas. CRDB Bank uses its dedicated microfinance subsidiary, named CRDB MFSC, for microfinance directly, as well as linking SACCOs to indirectly provide access to financial services to low-income customers. Three examples of MFIs that have transformed into banks are Vision Fund, FINCA and Pride.

The Tanzania Association of Microfinance Institutions (TAMFI) is a national network for microfinance institutions and service providers who provide services to the microfinance institutions and clients of microfinance services. It also serves as a platform for all micro-finance institutions, allowing microfinance stakeholders to meet, discuss, present, argue, voice their concerns and interests, network and collaborate for the purpose of developing the microfinance sector in the country. The Tanzanian MFI umbrella organisation, TAMFI, which had 51 participating members in 2015, has published a Code of Conduct that covers interest rate and service cost disclosures.

The Cooperative Societies Act 2003 provided direction as to how cooperatives should be set up and run. The Cooperative Societies Rules of 2004 gave a simplified guide to the step-by-step operation of the Act. The Minister responsible for cooperatives was given the duty of making laws to encourage the development of cooperatives throughout the country. In addition, the Ministry was given the power to appoint the Registrar of cooperative societies and to oversee the implementation and enforcement of these laws and rules.

The Cooperative Societies Act of 2013 provides for the establishment of the Tanzania Cooperative Development Commission, for the formation, constitution, registration and operation of cooperative societies, for promotion of cooperative development, and for other matters incidental to or connected thereto. The new Act restricts politicians' involvement in running cooperatives and bans the existence of cooperative apex bodies, both of which are a burden to farmers.

The Registrar of Cooperatives is responsible for the regulation of SACCOs, and their focus is on registration and cooperative principles rather than financial performance. Prudential regulation and supervision is applied only to those membership-based cooperative financial institutions above a certain size, as may be determined by the Bank of Tanzania.

Savings and Credit Cooperative Societies (SACCOS) have proliferated in Tanzania, and there are now some 6,000 SACCOs across the country. However, there are numerous challenges related to the governance and performance of these cooperatives. Several other financial service providers (such as financial NGOs, credit-only companies and mobile phone banks) also operate in the market, alongside a growing number of informal self-help groups, such as village community banks (VICOBAs) and village savings and loan associations (VSLAs). Many new products have been introduced into the market, including leasing, mortgages, mobile banking and ATMs, and two credit bureaus are in operation. As of 2014, over 6,000 SACCOs[165] in Tanzania served more than 1.1 million members and had a combined loan portfolio of USD 212 million. Over 50% of these SACCOs operate in rural and remote locations.

The microfinance industry has for some time been touted as a tool for reducing poverty. Despite showing positive results in many countries, the microfinance services are yet to develop a significant presence within rural and poor communities in Tanzania. The industry is still witnessing concentration in a few urban areas, with masses of people deprived of financial services in Tanzania. The challenges facing the microfinance industry in Tanzania include:

- Concentration in areas with easy access to markets and high-density populations.
- Microfinance regulations of 2005 are unfriendly to microfinance services providers around the provisioning of current loans, small loan sizes and stringent provisioning requirements.
- Over-indebtedness of borrowers as a result of the overcrowding of MFIs.
- Lack of credit information sharing.
- Human resource development, given the limited training opportunities for staff and boards of directors.

165. WOCCU Report 2014.

Annex 7. User survey results

EXECUTIVE SUMMARY

Methodology

To assess the impact of financial services access on the users and development of markets as a result of FSDT's interventions, the impact assessment team conducted field research using a combination of qualitative research, focus discussion groups, and key informant interviews for the three micro-projects selected for review. The informants included the users and non-users, and front-line staff of financial institutions. The research methodology was designed in collaboration with FSDT and covered an assessment of the transmission mechanisms within the Theory of Change on impact on financial inclusion and poverty. The team used purposive or non-randomised sampling techniques and selected four regions: Dar es Salaam, Mwanza, Morogoro, and Mbeya. Each region held at least two micro-level projects selected for evaluation (from amongst CRDB Bank, Access Bank, and CARE Ongeza Akiba) and assessments were carried out both in the urban and the peri-urban centres of the selected geographies, as well as rural market centres that were between 50-90 kilometres from the towns/cities selected for the research. The team focused on assessing and analysing insights into pathways of access and use along with household level outcomes/impacts along the social and financial dimensions.

Development of the local financial markets

The urban towns have seen a recent proliferation of national and international banks such as CRDB, NMB, Equity, KCB, Exim, Stanchart, and Barclays, alongside microfinance institutions (MFIs) such as FINCA, Pride, BRAC and Tujijenge, and the savings and credit co-operatives (SACCOs). Informal financial service providers such as VICOBAs[166] and money lenders/pawn shops are also prevalent in urban areas.

Rural town centres have also seen significant changes in financial service provision with a proliferation of banks, especially NMB and CRDB. Use of alternative channels including ATMs and agents have especially gained popularity due to innovative products offered through agency banking that have very easy account opening processes and almost free services. In the rural areas, MFIs' popularity has however declined. About five years ago, many people were attracted to MFIs due to their aggressive marketing and relatively higher loan sizes. However, repossession of assets, loss of savings and the embarrassment/public humiliation of members after default have contributed to reduced use of MFIs in rural and remote markets in Tanzania. Clients who preferred MFIs earlier seem to be moving back to VSLA groups on account of the issues involved with dealing with MFIs. The VSLA methodology, one of the informal financial service mechanisms, continues to be the predominant and preferred financial service in the rural market. Awareness and success of this model has been promoted by development organisations such as Plan International and CARE, together with their partner community based organisations. People in the rural areas are attracted to the terms of the VSLA, especially the fact that their savings work for them, assuring them of returns at the end of each VSLA cycle.

SACCOs have been present in rural for a long time. Ten years ago, in many rural locations, SACCOS were the only formal financial service provider. There was however little understanding and use of SACCOs then. In the recent past however, SACCOs have opened their common bonds, thereby providing their services to the public. Some have also opened up front office services (FOSAs), attracting a larger number of customers. Some SACCOs are however, still facing governance issues or lack strategic management skills to guide their SACCOs in the current competitive financial environment. In rural locations, non-users depend on informal mechanisms such as merry go rounds (Upatu), moneyboxes (Kibubu), and moneylenders.

166. A savings and credit group

Client Impact from the use of financial services

The impacts of use of financial services include:

- **Financial impact:**
  - **Economic impact:** Users in the informal groups were able to accumulate funds for capital-intensive purchases. Group members anticipating share-outs have been able to set goals leading to gradual acquisition of assets.
  - **Entrepreneurship development:** Users have increased their entrepreneurial pursuits to ensure availability of shares to save at each meeting without fail and/or cash to repay loans. Users of formal financial services have also expanded their business through loans. Entrepreneurs have therefore been empowered to optimise their entrepreneurship potential through the financial service providers.
  - **Managing shocks:** Due of the immediacy/efficiency from use of financial services, users have been able to mitigate unplanned events - both desirable but unforeseen - such as expansion of business or leveraging business opportunities, managing school fee payments or natural disasters such as floods, sickness/disease. Users of formal financial services have also educated their children to tertiary level through products designed by the banks and SACCOs, streamlining their expenses in the process. However, formal services were not used to accumulate funds/savings to manage shocks. Savings were deposited more as a requirement for borrowing loans.
- **Social Impact**
  - **Dignity maintained** - VSLAs have reduced the risk of social stigma as a result of default.
  - **Improved social status** – Especially for VSLA group members in remote areas, they are now 'seen' and therefore recognised within the community. A member of a group is perceived as hardworking and an asset to the community.
  - **Financial education** – Formal financial institutions provide training to their clients. This has sensitised clients on other products in the market, enabling a comparison between other products' features. Through the VSLA model, community based trainers recruited from the community have continued providing regular support to groups even after the project ended. Users have therefore acquired better understanding of products. In remote locations, we observed non-users using the available options like moneylenders much more than the users despite the exorbitant fees charged by the moneylenders. Group members on the other hand have reduced their use of such expensive sources of funds and only do so in acute emergencies.

Conclusion

Formal and informal financial service providers seek to improve the socio-economic status of users as well as improve their resistance to shocks. Rural respondents are actively using informal service providers for savings and credit partly due to the unavailability of formal service providers, but mostly as a result of the efficiency and reliability of the informal methods. While the standard of living for people using informal services has only slightly improved, there are tangible benefits. For example, respondents are now able to afford basic items like decent blankets, school supplies for their children, or roofing for their houses. While these rural respondents could also use mobile money options such as M-PESA to save, the respondents felt that having their money lie idle does not work for them unlike at the VSLA groups. In addition, options such as M-PESA do not enforce the discipline to save and savings become a choice issue.

Users of formal services such as SACCOs and banks, especially from urban areas, have also enjoyed benefits such as wider product variety and larger loans for capital investments or business expansion, payable in longer terms. However, the costs associated with borrowing from banks are not competitive and users only approached banks in desperate cases – especially business emergencies. SACCOs were found to be friendlier than banks due to their local presence, variety of products and flexible terms. Users found them accommodating especially on their lenient recovery policies. However, the sustainability of such SACCOs is highly questionable as deteriorating portfolio quality poses serious concerns.

To conclude, while formal financial service providers meet specific business needs of uses, their relationships are loose and short term. This is compounded by the fact that some banks in the market do not provide insurance for their loans. Informal groups/financial service mechanisms therefore are perceived as a better option. Some users prefer multiple financial partners if they meet their needs and preference.

1. METHODOLOGY

To assess the impact of financial services access on the users and development of markets as a result of FSDT's interventions, the team conducted a survey using purposive non-randomised sampling techniques. In due consultation with FSDT, four regions were selected: Dar es Salaam, Mwanza, Morogoro, and Mbeya. Each region held at least two micro-level projects selected for evaluation (from amongst CRDB Bank, Access Bank, and CARE Ongeza Akiba). Therefore, we conducted the assessments both in the urban and the peri-urban centres of the selected geographies as well as rural market centres that were 50-90 kilometres from the towns/cities selected for the survey. Dar es Salaam was also particularly selected to assess Access Bank's intervention impact. Access Bank was supported by FSDT as a green-field operation during its establishment and the majority of its branches were established in Dar es Salaam during the support period.

Respondent selection was also purposive, especially since some programmes supported by FSDT during the evaluation period had ended and original project staff had moved on. For instance, the primary beneficiaries of the Ongeza Akiba programme by CARE had to be tracked down to their respective villages across the regions sampled.

The impact assessment surveys were therefore conducted through the following key respondent types: (i) the management and staff of the three key partner institutions selected for assessment (CRDB Bank, Access Bank, and CARE Ongeza Akiba); (ii) the users of the financial products and services during the intervention period; and (iii) user control groups.

The management and staff of Access Bank, CARE and CRDB in the locations sampled were interviewed to determine key changes that had taken place in the local financial services market following to the intervention by FSDT. Since CRDB was supported to further develop rural SACCOs, the staff and management of these SACCOs were also interviewed. A total 36 staff and managers from the four institutions were interviewed.

The users of the financial services were interviewed with two objectives: a) to seek information on the household-level impact of the use of savings and credit services, and, b) to get insights on the trends in financial service provision in their locations over time. Focus discussion groups were conducted for the first objective and a participatory rapid appraisal activity – the financial sector trend analysis tool – was used for the second objective. Non-user groups were also interviewed using these two approaches to determine if the specific interventions by the FSDT's partner institutions had any specific impact on them. As there was no baseline control group, the non-user groups sampled were users of financial services provided by institutions not selected for the micro-level impact assessment.

The third group of respondents, the Micro, Small and Medium Entrepreneurs (MSMEs) were interviewed to assess impact of using specific financial products and services offered by the financial institution under review. The interviews were structured and sought to further establish their household situation and any changes and shocks they might have encountered and coping mechanisms. 18 MSME owners were interviewed.

Respondent Types

Table 1. Sample sizes across regions

RESPONDENT TYPE	DAR ES SALAAM	PWANI REGION	MOROGORO	MWANZA	MBEYA	TOTAL
Staff and Management Interviews	4	6	7	9	10	**36**
User Interviews	16	21	24	62	21	**144**
Non User Interviews	22	29	22	11		**74**
MSME Interviews	1	5	3	3	6	**18**

Table 2. Institutional assessment by location

	DAR ES SALAAM	PWANI	MOROGORO	MWANZA	MBEYA
Access Bank	√	×	×	×	×
CARE International	×	√	√	√	×
CRDB SACCOs	×	√	×	√	√
CRDB Bank	×	√	×	√	√
Peri-urban/Rural locations surveyed	-	Saeni, Kumba and Soga	Manza and Mlali	Mkolani, Kwimba	Tukuyu, Mwanjelwa

As noted earlier, Access Bank has a strong presence mostly in Dar es Salaam with the first set of branches set up there during intervention period. The rest of the user/non-user surveys were conducted in the peri-urban and rural locations of the regions as shown.

Respondent demographic profiles

The majority of responsdents both in the user and non user respondent groups were female (53% and 57% respectively).

31% of users and 46% of non-users had a high school education and above. From the 2013 FinScope survey, more than 70% of adults had, at most, achieved only primary levels of education. Our survey also found that most of the respondents that had secondary education had not completed their secondary education to certification.

Development of the local financial markets

As indicated in the methodology, there were three distinct research location types: urban, rural towns and remote villages. The urban towns (Dar es Salaam, Morogoro, Mwanza and Mbeya) are mature markets with presence of national and international banks such as CRDB, NMB, Equity, KCB, Exim, Stanchart, and Barclays, and, microfinance institutions (MFIs) such as FINCA, Pride, BRAC and Tujijenge. Regional savings and credit co-operatives (SACCOs) also have a strong presence in the four urban towns. Informal financial service providers such as VICOBAs167 and money lenders/pawn shops are also prevalent.

To understand the trends and developments that had taken place in the local markets, staff and management of FSDTs partner institutions were interviewed as it was important to understand the developments that had taken place in these hubs.

Developments in urban centres

Commercial Banks interviewed highlighted some of their recent institutional strategies such as downscaling – now targeting low income groups – and increased outreach to the rural areas by integrating microfinance services into their operations. This will begin to have a direct impact in the provision of services to low income client groups. CRDB, Tanzania Postal Bank, Mkombozi and Akiba commercial bank have ventured into the traditional MFI markets segments, thereby increasing competition for traditional MFIs.

Technological innovations such as the integration of mobile money (SIM banking) and banking for services such as bill payments (e.g. for utilities and fees) have recently been introduced. Agency banking is gaining traction with major banks deploying agents in urban towns. In particular, CRDB, Equity and NMB have deployed agents in these towns. Mobile money adoption has also increased. As also highlighted by the 2013 FinScope data, mobile money services had the single most significant impact on the Tanzanian financial inclusion landscape, driving increased inclusion from 15.8% in 2009 to 56.8% in 2013. There also has been an introduction of digital credit by mobile network operators such as Tigo Pesa or Airtel, increasing the suit of services provided by mobile money.

Institutions such as CRDB have also recently developed targeted products including Malaika account, a goal-oriented interest-earning account to meet unique savings needs of women. The account also offers benefits such as a preferential premium rate (15% discount) on all insurance products from a local insurance company. This is a new development for women specific products.

167. A savings and credit group

Figure 1. Respondent Age Categories

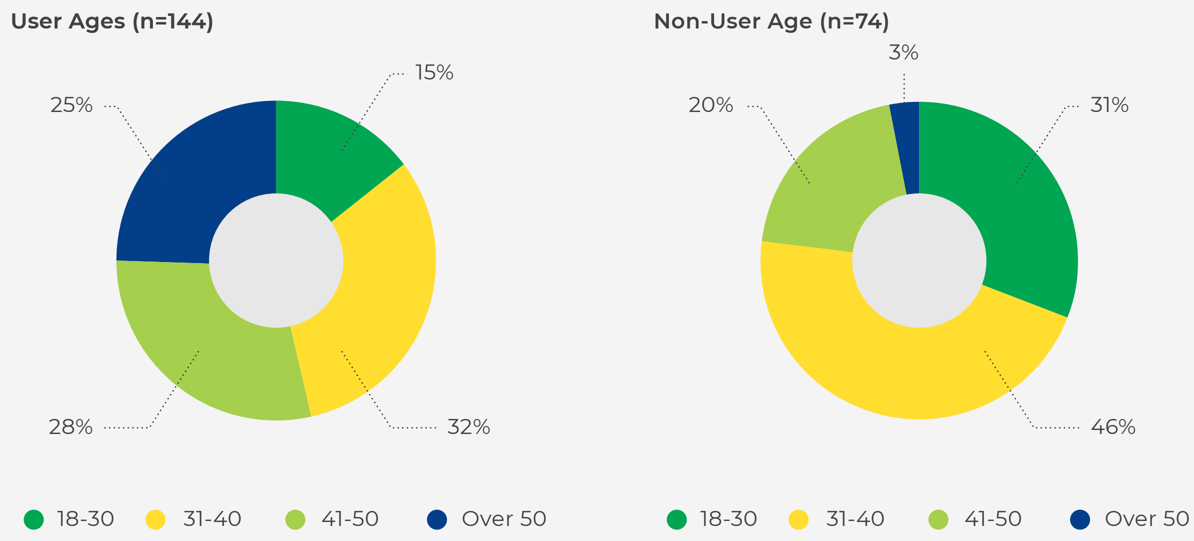
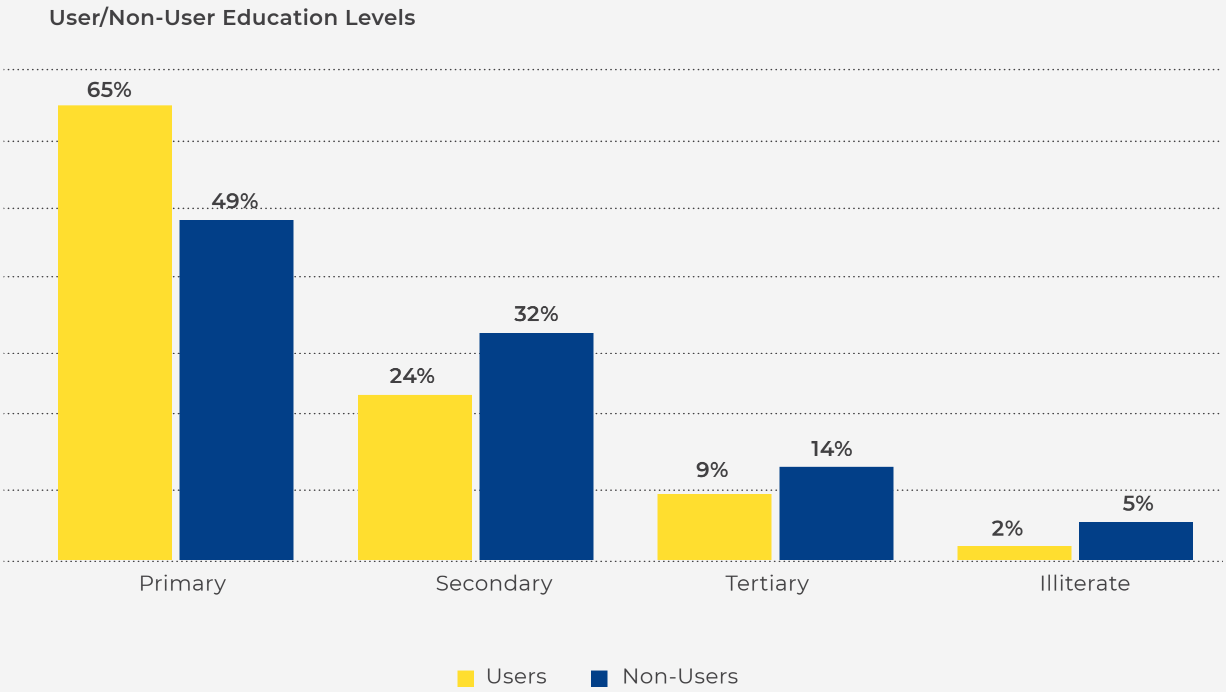


Figure 2. Education levels



Informal providers such as money lenders/pawn shops, whose popularity rides on their efficiency in times of need, are now formalising credit arrangements by involving lawyers/commissioners of oaths during the contracting process with borrowers as a result poor repayment rates of their loans. They continue to be an exorbitant but reliable source of credit.

> *"Wako juu sana.....akaunti ya Chap Chap ni ya bure na masharti machache!"*
>
> *A non-user commending NMB for affordable (free) and limited account opening requirements of the Chap Chap account*

FGD Participates in Manza

Development in the rural and remote markets

Rural town centres such as Mkolani, Mlandizi, Kongowa (situated about 40-60 kilometres from major towns) have also exhibited changes in financial service provision. Banks, particularly NMB, have recently expanded into these areas. Their expansion strategies involve targeting established businesses and also improving access for existing clients, mostly civil servants. CRDB has also begun targeting groups and is attending informal group meetings as a way of marketing their institution and products. Alternative channels including ATMs and agents (for agency banking) for CRDB, NMB, and Equity Bank are active in these rural markets. Bank agents have especially gained popularity due to innovative products offered through agency banking that have very easy account opening processes. They come to the village and open accounts very easily and for free. While the adoption of these account seems high, the actual use of these accounts is unclear.

MFIs' popularity has however declined. FinScope 2013 data has highlighted the characteristics of Tanzanian adults served by the microfinance sector as those living in urban rather than rural areas. 5 years ago, many people were attracted to MFIs due to their aggressive marketing and relatively higher loan sizes. While MFIs might have concentrated their operations in urban areas, among the rural clientele, there was little understanding of terms and conditions, especially the impact of default. The repossession of assets, loss of savings and the embarrassment/public humiliation of members after default has contributed to the low use of MFIs in rural and remote markets in Tanzania. There were examples of rural clients that had previously been loan clients of MFIs but had gone back to VSLA groups on account of the risks involved.

> *"Tunaangalia watu wanavyochukuliwa nyumba na mashamba......pia hawakulindii wakukuwekea".*
>
> *"We see how people lose their houses and land...they (MFIs) also do not secure your savings".*

Infrastructural challenges such as the poor quality roads, has also affected the growth of MFIs in remote rural locations. Some MFIs that had ventured into some of the rural locations like Mwanza in Morogoro region soon left due to infrastructure challenges.

SACCOs have always been in rural locations. Ten years ago, in many rural locations, SACCOs were the only formal financial service provider. There was however little understanding and use of SACCOs at that time. Some were limited to serving specific client groups like employees of resident institutions. For instance, Mlandizi SACCO in Pwani region for a long time only served employees of Dar es Salaam Water and Sewerage Company. In the recent past however, SACCOs have opened their common bonds thereby providing their services to the public. Some have also opened up front office services (FOSAs), attracting a larger number of customers. Uwamu SACCO in Mbeya district has been able to benefit from the CRDB support and have modernised their front office. They now draw cheques during disbursement of loans to customers (over TZS.3 million) managing risks. Some SACCOs are however still facing governance issues or lack strategic management skills to guide their SACCOs

> *"Upatu iko kwa damu, ndiyo tunategemea...asilimia sisi wamama tunapata mtaji kwa haraka"*
>
> *Merry go rounds are part and parcel of us.....most women are able to raise capital fast through merry go rounds*

in the current competitive financial environment.

FinScope 2013 data also shows that informal lenders served more borrowers than the formal sector. Shopkeepers served 21.2% (2.4 million) of borrowers. Savings and credit groups served 13.4% (1.5 million) of borrowers. From our survey, the VSLA methodology, one of the informal financial service mechanisms, continues to be the predominant and preferred financial services provider in the rural market. Awareness and success of this model has been brought by development organisations such as Plan International and CARE together with their partner community based organisations. People in the rural areas are attracted to the terms of the VSLA, especially the fact that their savings work for them, assuring them of returns at the end of each VSLA cycle. Formal financial institutions such as MFIs cannot guarantee returns.

In control groups, other informal mechanisms such as merry-go-rounds (Upatu), moneyboxes (Kibubu) and moneylenders are still prevalent in remote rural locations. Informal groups will continue being relevant in Tanzania due to their many benefits but particularly due to a recent government initiative to support villages with TZS 50 million each in the 2016/2017 financial year. This amount will be disbursed through banks before being channelled to various groups like Village Community Banks, SACCOs and VSLA groups. Many VSLA groups interviewed were aware of this campaign promise by the current president and are keen to benefit.

Client impact from the use of financial services

Users of the different type of financial services from the institutions evaluated were able to highlight the impact of accessing financial services. Some of the positive effects of being in the programmes such as the CARE initiated VSLA groups included the adoption of a consistent savings culture as compared to other forms of voluntary savings mechanisms, reduced risk of social stigma arising from default, and improved analytical thinking and ability to question and compare various financial service options.

Users of the formal providers, such as CRDB SACCOs and Access Bank also spoke of the impact of accessing products and services from the respective institutions. SACCO members particularly felt safe interacting with a down to earth formal provider that was part of their community. Formal institutions were better able to meet capital intensive needs of their customers such as acquisition of land, construction of homes and home improvements due to their higher liquidity.

There were generally two kinds of impact: financial and social impact.

Financial impact

> *"Nilimnunulia mwanangu cherehani apate kuanza biashara ya ushonaji"*
>
> *"I bought my daughter a sewing machine to start a tailoring business"*

User who improved his mud walled house to brick structure

Entrepreneurship development

We interviewed a 37-year-old mother of four residing in Kongowe, a town centre 40 km West of Dar es Salaam. She did not go to school but she currently runs a small-scale fish business. Her husband is a farmer and has cultivated coconuts, cassavas and maize.

She has been a member of a Village Savings and Loan Group for six years. Before joining the group, she sold roasted groundnuts from her house. The group's initial share contribution was TZS 2,500 per week (slightly over USD 1). To keep up with the weekly contributions, she diversified her business to fish trading. Every day, she wakes up at 3.00 am to source fresh fish from Kivukoni Fish Market, in Dar es Salaam. She buys stock worth TZS 50,000-70,000 daily, making about TZS 80,000 in profit.

At the end of the first year, she bought 15 iron sheets for a house improvement project. In the second year, the group revised the weekly share contribution upwards by 100% to TZS 5,000 per week. She used the lump sum from the share out to buy bricks. A year later, she and her husband began the construction of their permanent house. She has been using the proceeds from the group thereafter to install fixtures such as windows and to plaster the walls.

For school fee requirements, she has been borrowing from the group. The group's current share contribution has risen to TZS 10, 000 a week. Last year, she borrowed TZS 500, 000 (USD 250) to connect her house to electricity. Her husband now actively supports her in making contributions, as the benefits of the group have been immense.

Is she member of another financial institution? She has seen her friends in Pride, an MFI but is cautious about joining them. While they give larger loans, her friends' household assets have been impounded severally for failing to repay.

Economic empowerment – Users in the informal groups were able to accumulate funds for both capital-intensive purchases such as oxen for ploughing, bicycles, iron sheet roofing, land, domestic animals, and for basic household items such as mattresses, clothes and food. Group members anticipating share-outs have been able to set goals leading to gradual acquisition of these assets. The model has also encouraged a savings culture as compared to other forms of voluntary savings mechanisms.

The major limitation faced by VSLA members, especially enterprising ones, was the inability to accumulate large reserves of savings to facilitate larger investments or purchases. This was due to the annual share out event. To address this, some mature groups have been seen to extend their group cycle to 104 weeks (2 years). Individual members also join multiple groups to counter this challenge. A respondent from rural Pwani Region was a member of 7 VSLA groups, each having a different maturity dates. This way, he was assured of consistent access to funds and sufficient share-out lump sums. However, he had a thriving retail and grocery store that enabled him to adopt this strategy. He had also significantly improved his house from a mud walled structure to a brick and mortar structure.

Users of formal financial services, on the other hand, used credit to acquire capital assets. This was as a result of the ability of the formal providers to meet the liquidity demands of their customers. However, for a few SACCOs that were supported by CRDB, this came at a cost to the members. The loans were offered at varied interest rates. CRDB funded loans were advanced at 18% p.a. while loans advanced from members' mobilized savings were at 13% p.a. Ultimately, SACCO loans were still much cheaper than what was offered by banks. Access Bank lends at between 3.75-5.5% per month. So, while financial access and efficiency is provided by formal institutions, it comes at a price.

"Watu wamejikita kwa biashara... kila mtu ananjituma kutafuta kwa bidii ndiyo apate za ziada za kuweka kwa kikundi"

Many people are now in business to ensure they earn surplus for saving at the group.

Entrepreneurship development – VSLA members have increased their entrepreneurial pursuits to ensure availability of shares to save at each meeting without fail. The VSLA model does not allow those who miss weekly savings/share contribution to compensate later members.

Managing shocks

We interviewed is a resident of Mlandizi, a town centre 60 km west of Dar es Salaam. She is mother of four children. she has been a member of Mlandizi SACCO since 1998 and is an employee of DAWASCO, a water utility company. At the SACCO, she first borrowed TZS 200,000 (USD 100) that she used to buy a piece of land together with her husband, an employee at the JKT-Jeshi la Kujenga Taifa, Tanzania's National Service.

After clearing the first loan, she then took a TZS 800,000 (USD 400) loan for house improvement. She also used part of the money to make bricks in preparation for building a house on the piece of land. She then borrowed TZS 3,000,000 (USD 1500) and began construction. Once the structure was complete, she roofed the house, and moved into the unfinished house. She then borrowed TZS 4,000,000 (USD 2,000) to finish the house and buy adjacent land where she has now planted cassava.

In 2012, she lost her job at the water utility company. During this time, she also had a TZS 5 million (USD 2,500) loan from the Post Bank that she had used to pay fees for her children. With this unprecedented event, she was unable to keep up with the loan payments and share contribution, as she had no source of income. She therefore started up a small-scale grocery business at her home. She also joined a VSLA, also known as Vikundi vya Hisa where she contributed TZS 22, 000 (USD 11) each week. After five months of saving, she had sufficient shares and borrowed TZS 1.2 million (USD 600). She expanded her grocery kiosk, stocking it with FMCG. At the end of the VSLA's 52-week cycle, she earned TZS 1.8 million (USD 900).

She used this lump sum to settle her arrears with the SACCO. She also eventually settled her bank loan through the remuneration from her employer. At the moment, she still has not begun saving at the SACCO though she is paying double instalments to clear her debts. She is still an active member of the VSLA.

Users of formal financial services have also expanded their businesses through loans. A mechanic in Morogoro bought motorbikes and leased them to secure additional income. An Access Bank customer started by borrowing TZS 500,000 (slightly less than USD 250) in 2010 but can now comfortably borrow TZS 25 million (about USD 1,100).

Innovative products have been developed by some SACCOs to meet entrepreneurs' seasonal demands. In Mbeya region, Uyola area, one SACCO introduced a Mazao (Produce) loan that enabled traders stock up on cereal produce during the harvest season. The traders then pay the principal and interest for the duration/term of the loan, in a lump sum. Entrepreneurs have therefore been empowered to optimize their entrepreneurship potential through the financial service providers.

Managing shocks – Due of the immediacy/efficiency provided by the VSLA groups, members have been able to mitigate for unplanned events such as new business opportunities, managing school fees payments or natural disasters such as floods, sickness/disease. The informal groups in particular have a compulsory contribution separate from savings – called 'kikapu cha dharura' (emergency basket) used to mitigate emergency events like illness and death of a member.

Users of formal financial services have also educated their children to tertiary level through products designed by the banks and SACCOs, streamlining their expenses in the process.

Some institutions through the SACCO support programme of CRDB carried out product modifications. For instance, a life insurance feature on SACCO loans was introduced during the partnership period thereby eliminating stress from dependents in the event of the death of a borrower. While a few institutions still do not have the insurance feature, most have incorporated them into their products. Some banks have also included value adds such as writing off loans of a deceased borrower.

By and large, formal services were not used to accumulate funds/savings to manage shocks. Savings were deposited more as a requirement for borrowing loans. SACCO members saved to the level of loans they needed to borrow. The same was also found to be the case at Access Bank. Due to its orientation as a credit only institution, savings were primarily kept for loan guarantee purposes. The bank has however had to change this outlook and has begun to actively encourage its clients to save through attractive option such as term deposits.

Inclination for informal financial service providers

We interviewed a 40-year-old mother of two living in Kipera, a village 25 km from Morogoro Town. She is a seasoned businesswoman experienced in fish and rice trade where she would travel to Mwanza for fresh fish to sell at Morogoro. She has since retired from the fish business and she currently runs a retail shop and grocery business next to her house.

She has been a member of two VSLA groups since 2012. She contributes a total of TZS 35,000 worth of shares each week to the groups. Before joining CARE, she had joined two microfinance groups: Pride and FINCA that have since disintegrated. She prefers CARE groups to MFI groups as the monthly MFI repayments are financially strenuous due to the larger instalments (larger loan tickets). In addition, group members needed to pay for defaulters and on follow up to impound the defaulters' assets, many were found to have pledged inexistent or overvalued assets.

Comparing the MFIs and VSLA on impact on her overall wellbeing, she feels that while she was a member of the MFI for long, she was not able to buy any assets. "Nimecheza FINCA kwa muda mrefu na siwezi kusema nimenunua kitu".

In the two VSLAs groups however, she has enjoyed four share outs - that is the lump sum of shares and interest shared at the end of every 52-week cycle. She bought a piece of land worth TZS 1 million (USD 500) with the first share out. The last share out of TZS 3 million (USD 1,500) in 2015 December was used to pay for fees and other education expenses for her first child, who joined secondary school early this year.

Social impact

Dignity maintained - VSLAs have reduced the risk of social stigma as a result of default. VSLA group members have their shares to fall back on in case of challenges in repayment. MFI clients' assets are usually repossessed when loans are defaulted. Loan recovery policies of formal institutions have left many rural and urban clients scarred, fearful of the ramifications of credit. The recovery of loans through chattels leaves borrowers with ignominy. In some cases, the belongings sold are not sold at market value, but at throwaway prices, adding to the humiliation. This is typical of MFIs. Some users still struggle with the repercussion of non-repayment. Access Bank has a strict policy on default and any slip usually impacts future applications, something that long serving customers are struggling to accept.

SACCOs however are seen to be lenient and more accommodative to defaulters. However, unlimited leniency has also led to challenges in some SACCOs which have been unable to meet their financial obligations. Customers in a SACCO in Pwani region were forced to borrow less than their shares allowed and were at times asked to make 2-weeks' advance requests for savings withdrawals. Some consumer protection training for financial service providers and their clients could help prevent these scenarios as over-indebtedness by clients can be avoided.

"Heri niweke kidogo nitimize lengo kuliko kuweka kwa nguvu nipate fedheha"

I'd rather save a little and meet my goals than access larger sums (from MFIs) and later regret

Improved social status – VSLA group members in remote areas are now 'seen' and therefore recognised within the community. A member of a group is perceived as hardworking and an asset to the community. This is especially true for women as, "we are now called for community meetings... previously this was not possible."

Financial education – Formal financial institutions provide training to their clients. Access Bank has, for instance, provided its clients with various trainings on products and services. This has sensitised clients on other products in the market, enabling a comparison between other banks' product features. Through the VSLA model as well, community based trainers, recruited from the community, have continued providing regular support to groups even after the project ended. Users have therefore acquired better understanding of products. In remote locations, we observed non-

users using the available options like moneylenders much more than the users despite the exorbitant fees charged by the moneylenders. Group members on the other hand have reduced their use of such expensive sources of funds and only do so in acute emergencies.

Conclusion

Formal and informal financial service providers seek to improve the socio-economic status of users as well as improve their resistance to shocks.

We conclude from this survey that rural respondents are actively using informal service providers for savings and credit partly due to the unavailability of formal service providers but mostly as a result of the efficiency and reliability of informal methods. Compared to formal providers such as MFIs, VSLA groups are consistently being used by the rural populace for savings (weekly) and credit with the lump sums earned at the end of each cycle guaranteed. While the standards of living for people using informal services has only slightly improved, there are tangible benefits such as respondents now being able to afford basic items like decent blankets, school supplies for their children, or roofing for their houses. While these rural respondents could also use mobile money options such as M-PESA to save, the respondents felt that having their money lie idle does not work for them unlike at the VSLA groups. In addition, options such as M-PESA do not enforce the discipline to save. To attract such users to formal services, formal providers that are keen to venture into rural space need to develop products with benefits that match or exceed those of the informal groups.

> *"Nyinyi wenye taasisi za kifedha munafaa kuiga muwe na masharti kama ya vkundi vya hisa"*
>
> *Formal financial service providers need to emulate VSLAs, they have better terms*

Users of formal services such as SACCOs and banks, especially from urban areas, have also enjoyed benefits such as wider product variety and larger loans for capital investments or business expansion payable in longer terms. However, the costs associated with borrowing from formal sources, especially banks, are not competitive. We observed that users only approached banks in desperate cases – especially business emergencies. SACCOs were alternatively found to be friendlier than banks due to their local presence, variety of products and flexible terms. Users found them accommodating especially on their lenient recovery policies. The challenge however is that the sustainability of such SACCOs is highly questionable as deteriorating portfolio quality may pose serious sustainability concerns.

These findings therefore suggest that while formal financial service providers meet specific business needs of their clients, their relationships are loose and short term. This loose relationship is compounded by the fact that some banks in the market do not provide insurance for their loans. Family members service loans advanced to deceased borrowers. Informal groups/financial service mechanisms therefore provide a better fall back option in case of shocks than formal providers do.

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FSDT Documents

FSDT Strategy Documents (2005, 2007, 2013-2018)

Business Plan Documents of FSDT (2013-2014, 2014-2015)

Project Appraisal Reports (PARs) of selected projects

Output to Purpose Review – 2009, 2011

Annual review of FSDT (2013)

Review of Performance October 2006-September 2007, October –December 2015

Strategic Review, 2006

Business plans and associated documentation:

- FSDT Business Plan for 2005-2015
- FSDT Learning and Development Action Plan
- FSDT Logframe Indicators - Actuals against Targets

Performance updates and related documentation:

- FSDT Org Metrics
- FSDT Performance Report Quarterly
- LogFrame data captured
- Appendix 2 FSDT Quarterly Project Matrix
- Appendix 3 Project Performance Targets vs Actual

Project level documentation:

- Project proposals from partner organisations
- Project appraisal reports
- Grant/loan/other financial instrument agreements
- Mid-term reports (where applicable and available)
- Project completion reports (where applicable and available)

Annex 9. Key informants

NAME	DESIGNATION	ORGANISATION
Roland Coulon	Chief Executive Officer	Access Bank
Sebastian Gaissert	Chief Credit Officer	Access Bank
Sebastian Masaki	General Manager	CRDB MFSCL
Brett Matthews	Consultant	Consultant
Hugh Allen	Consultant	Consultant
Ian Robinson	Consultant and Ex-Director FSDT	Consultant
Zenais Matemu	Project Manager – Pesa Kwa Wote	CARE
Oliva Kinabo	Project Leader – Pesa Kwa Wote	CARE
Shelina Bhojani	Deputy Country Director	CARE
Saidi Lipika	Board Chair	Mlandizi SACCO, Pwani
Christina Chema	Board Member and Chair of Credit Committee	Mlandizi SACCO, Pwani
Mzana	SACCO Manager	Mlandizi SACCO, Pwani
Shomari Juma	Chairman	Ruvu Credit Development Organisation
Donald Chacha		Ministry of Finance
Atupele Edward		Ministry of Finance
Habel Lisasi		Ministry of Finance
Flora Rutabanzibwa	Manager, Real Sector & Microfinance, Directorate of Economic Research and Policy.	Bank of Tanzania
James A. Masoy	Manager, Oversight and Policy Deparrtment, Directorate of National Payment Systems	Bank of Tanzania
George Ben Sije	Assistant Manager, Department of Oversight & Policy, Directorate of National Payment Systems	Bank of Tanzania
Julius E. Masota	Senior Principal Bank Officer, Microfinance Supervision Department, Directorate of Banking Supervision	Bank of Tanzania
Nkuvililwa J. Simkanga	Director of Policy & Planning	Ministry of Agriculture, Food Security and Cooperatives
Aberhard Mbepera	Asstt. Registrar, Co-op. Commission	Ministry of Agriculture, Food Security and Cooperatives
Nicodemus D. Mkama	Director Research, Policy & Planning	Capital Markets & Security Authority
Sylvia S. Meku	Manager, Social & Demographic Statistics	National Bureau of Statistics
Sara Spant	Private Sector Development	SDC
Israel Chasosa	Managing Director	Akiba Commercial Bank
Van Reynders	Country Manager	CreditInfo
Samweli Kilua		Danida
Altimius Milinga	Vice Chair	TAMFI

Annex 10. Cost effectiveness analysis

What is cost effectiveness?

Cost-effectiveness analysis (CEA) is a form of economic analysis that measures the cost of achieving intended programme outcomes and impacts. In essence, the analysis calculates unit costs for these results. CEA is distinct from cost-benefit analysis, which assigns a monetary value to the measure of effect. The ToR for the IA ask for consideration of indicators that could be monetised, implying that FSDT is interested in going beyond CEA to consider whether cost-benefit analysis could be undertaken. Therefore, in considering potential CEA indicators, we also consider those that could be monetised.

CEA can provide a sound basis for making choices between programme options based on the relative cost of achieving desired social and economic results. It is generally only meaningful if it incorporates a comparison of the costs of alternative ways of producing the same or similar benefits (benchmarking) - by comparing unit costs with alternative programme options or similar programmes elsewhere.

What is required to undertake CEA?

There are two main requirements for CEA to be undertaken:

- **CEA requires that results can be quantified,** though not necessarily in monetary terms (unless cost-benefit analysis is required). This can sometimes carry the risk that non-quantifiable results are overlooked (see below). It also presents challenges for programmes like FSDT, given the difficulty of providing a single measure of impact.
- **CEA requires a comparison across different interventions** where the effects can be measured in the same units. This requires that interventions that are subject to comparison are aiming to achieve the same results. Such comparisons can either be within a programme (e.g. comparing different FSDT projects) or between programmes (e.g. comparing FSDT with other FSDs in Africa). Where comparisons are made, differing local contexts (for example relating to socio-economic conditions or the cost of implementing interventions) need to be taken into account.

Challenges to consider in undertaking CEA

1. **Integrating qualitative measures**

There is a risk that if the assessment of the VfM of a programme or intervention is solely based on quantitative measures, qualitative aspects of objectives and contextual factors – both for the intervention under review and those with which it is being compared – may be overlooked.

In the case of a market development programme such as FSDT, this consideration is important – as emphasised in recent literature on measuring results for market development programmes, measurement should avoid focusing solely on more easily quantifiable results at the expense of changes to the overall market system, which are less easily quantifiable.

2. **Taking account of the context**

Value for money has to be judged within the context of the initiative. For example, the cost of reaching a particularly hard to reach group of people may be higher than the cost of reaching an urban population. For this reason, cost should be compared with comparable initiatives, and impact should be measured within that context.

Small innovative initiatives may show high cost per impact over a short timeframe but, if they successfully influence a widespread scale up, they will show a higher impact over the medium to long term. This potential needs to be built into CEA calculation and judgement.

3. **Quantifying contribution**

As highlighted in Section 3.4, for most of FSDT's interventions, and certainly for the programme as a whole, any results achieved are produced by several causes at the same time (some of which are beyond the control of FSDT), none of which might be necessary or sufficient for impact. Examining how a programme has made a difference therefore needs to include considering supporting factors and looking at a combination of causes.

For this reason, results achieved will normally not be solely attributable to FSDT. Meaningful CEA therefore requires an estimate (in percentage terms) of the level of contribution that FSDT has made to a result. This is often extremely challenging. The IOM framework[168] suggests the following approach to quantifying a programme's contribution:

- Some FSDs count all (100%) of results that their partners have produced (i.e. change from baseline) attributed to the FSD intervention.
- If other donors are also contributing to a project, the FSD programme may only count a percentage of the results achieved from a partner. For example, if an FSD contributes 20% to a project it will claim 20% of any results achieved. This assumes a very general one-to-one ratio in terms of return on investment.
- An FSD can make an estimate based on the level of contribution it feels it has made to results vis-à-vis other factors (i.e. this may be more or less than the proportion of its project funds, but it could also reflect the criticality of the input).

CEA for multiple interventions

CEA can be undertaken for individual projects, for a cluster of projects, or for a programme as a whole. Undertaking CEA for a cluster of projects or a programme as a whole requires consistent result indicators that can be aggregated.

When undertaking aggregation, care needs to be taken to avoid double counting. In doing this, the DCED recommends that for overlaps of less than 5% the programmes can add all end-users, and for overlaps higher than 95%, only the largest number for the largest project should be counted. For overlaps of between 5% and 95%, the projects are encouraged to estimate each overlap and show calculations.

168. FSD Africa (2016), Developing an Impact-Oriented Measurement System: A Guidance Paper for Financial Sector Deepening Programmes, January.

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