ESTABLISHING A NATIONAL FINANCIAL INCLUSION NETWORKING FRAMEWORK

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By Generose Tabaro
Bank of Tanzania
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Problem Statement

The economic reforms undertaken during the 1990s in Tanzania led to significant developments in the financial sector, resulting in an increase in the number of banks and financial services. However, despite the increase in financial services, the level of access to these services remains very low. According to FinScope Survey, 2009\(^1\) the proportion of the adult population in Tanzania with access to formal financial services was 12.4%, while 4.3% accessed financial services through semi-formal services, and 27.3% through informal services.\(^2\) The FinScope survey was followed by another African Development Bank survey in the year 2010, which indicated that the formal financial services access level had reached 22\(^{\%}\).\(^3\) More current statistics indicate that it is closer to 33\(^{\%}\), which suggests that there is additional potential for growth of formal services. All in all, although the yearly incremental change is significant, access to formal financial services is still limited to a few.

Those excluded from formal financial services, mainly the poor, cannot integrate fully into the kinds of economic development enjoyed by those who do have access to formal services. This exclusion renders them particularly vulnerable to social and economic shocks. Access to financial services is crucial for economic growth and poverty eradication. Furthermore the level of population accessing informal services suggests that there is significant demand for financial services. Thus, in line with existing initiatives for poverty reduction, there is a need for constructing a strategic, coherent framework to minimize the access gap.

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1 Ibid 2009
2 These are registered entities subject to all relevant general laws but not subject to bank regulations and supervision
3 The African Development Bank Survey
This paper reviews Tanzania’s current financial inclusion framework and recommends a policy strategy that will accelerate the closure of the financial services access gap in the country.

“Together, we can and must build inclusive financial sectors that help people improve their lives.”

UN Secretary-General Kofi Annan, 29 December 2003

1.0 Summary
The level of access to formal financial services in Tanzania remains low. In order to reach improved levels of financial access, there is a need for a policy strategy that shall have a leapfrogging effect. The goal of financial inclusion initiatives should be to extend formal financial services to the entire adult population, which is 53%\textsuperscript{4} of the total.

Tanzania has initiated various sectoral policies, which promote financial access. However, the existing frameworks are fragmented and lack a clear mandate or focal point for the coordination of strategies. The financial inclusion coordination principle requires creating an institutional environment with clear lines of accountability and coordination while encouraging partnerships.

In order to maximize progress, the government, regulators, and private sector must establish a coordinated approach to financial inclusion policy. Existing initiatives within the Bank, coupled with strategic cooperation among stakeholders shall speed up closure of the financial services access gap in the country.

2.0 Existing Financial Inclusion Initiatives
Building inclusive financial sectors has increasingly become a priority of practitioners and policy makers both nationally and internationally.

\textsuperscript{4}Tanzania National Bureau of Statistics
Tanzania recognises the role of inclusive finance in empowering individuals economically and socially.

At the national level, the Government has initiated various sectoral policies, which contribute to the promotion of financial access. These include:

- The National Strategy for Growth and Poverty Reduction, which is an operational strategy for implementing the country’s Development Vision 2025.
- The Cooperative Societies Act of 1991 provides a framework for registration of Savings and Credit Cooperatives Societies (SACCOS) as privately owned financial intermediaries at community levels.
- The Bank of Tanzania Act of 2006 and The Banking and Financial Institutions Act of 1992, which provide powers to regulate commercial banks and financial institutions.
- The Second Generation Financial Sector Reforms which articulates the objective of deepening financial access; and
- The National Microfinance Policy of 2001 provides a framework for coordinating development of the microfinance sector in the economy.

However these policies and the existing institutional frameworks are not coordinated. They neither separately nor together offer a clear mandate or have a focal point for coordination of inter-related financial inclusion initiatives. Lack of coordination results in duplication of efforts and a low level of efficiency and effectiveness.

3.0 The Need for Coordination of Financial Inclusion Initiatives

Financial inclusion is a multifaceted agenda with very broad categories including microfinance, micro-insurance, micro-saving, payment systems, agent banking, and the like. Stakeholders include the
Government ministries, non-governmental organizations, interested members of the international community, regulators, financial, and non-financial service providers, consumers, and the public.

The G20 countries have spelled out innovative financial inclusion principles to help create an enabling policy and regulatory environment for financial inclusion. These have been derived from the experiences and lessons learned from policymakers throughout the world, especially the leaders from developing counties. These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers.

The principles articulate the need for a broad-based government commitment and policies that promote competition and provide market-based incentives for the delivery of sustainable financial access, promoting innovation, consumer protection, institutional cooperation, and accountability. The principles also advocate for improved data to make evidence-based policy and to measure progress, within a proportionate policy and regulatory framework.

Whereas the principles give equal emphasis on the requirement, they all converge around commitment, coordination, and accountability for sustainable development. Thus, in order to hasten the closure of the access gap, there is a need for a firmer and more coherent strategic framework to ensure commitment, accountability and coordination at the national level.

4.0 **Financial Inclusion Coordination Framework**

The coordination principle requires creating an institutional environment with clear lines of accountability and coordination within the government and regulators and also encourages partnerships and direct consultation across government, business, and other stakeholders. A coordination
strategy calls for a ‘champion’ that shall communicate and harmonize the strategies not only to those directly involved, but also to those involved in other, related strategies and policies. The champion’s task will be to ensure that financial inclusion is supported by, and integrated with, the whole complex of activities relating to financial system development. The champion will also monitor developments and implementation, and take an advisory role for financial inclusion initiatives.

In this regard, the Bank of Tanzania, as the regulator of the financial systems, is a natural candidate for the role of ‘champion.’

5.0 Coordinating Financial Inclusion Activities

The Bank has a number of initiatives which are geared towards achieving financial inclusion. Apart from incorporating the financial inclusion agenda in its Corporate Plan and Strategic Framework, there are functional units within the Bank, which contribute towards achieving financial inclusion. These include the Directorate of National Payment Systems, which has the overall mandate of overseeing and regulating payment systems; the Directorate of Banks Supervision, which deals with regulation and supervision of banking and microfinance institutions; and the Real Sector and Microfinance Policy Department in the Directorate of Economic Research and Policy, which deals with microfinance promotion policies.

Currently the Bank has also initiated a workgroup, which involves staff for coordination purposes within the Bank. However, in order to provide the much needed attention to financial inclusion initiatives, the Bank may consider the following options.
5.1 Strengthening the Existing Functional Units
The Bank may consider granting one of the existing units a mandate to coordinate financial inclusion issues. However, placing the task under the existing functional units may have the following operational implications:

- Concentration on core functional activities, and giving poor concentration on financial inclusion; and
- Assigning poor resources, such as staff and capacity, to address financial inclusion.

5.2 Establishing a Financial Inclusion Unit
The second option, which is more viable, is to establish a unit within the Bank which shall specifically deal with financial inclusion issues. This unit will ensure that there is a coordinated approach towards implementing various financial inclusion initiatives and act as a focal point of the same. The unit shall be responsible for conducting studies and coming up with strategies for improving the existing situation. (See some of the suggested activities to be conducted by the unit in Annex 1).

The unit team should also formulate a mechanism for coordinating financial inclusion initiatives with the Bank and external stakeholders. To stimulate the sense of ownership and continuous involvement of stakeholders, the Bank may consider setting up a National Financial Inclusion Workgroup, which will draw members from the central bank, microfinance regulatory agencies, MOF, the Local Government Ministry and leading financial sector development agencies. The proposed unit at the Bank will provide secretariat support to the Working Group (WG).

The workgroup may also have some sub workgroups specifically dealing with the core pillars of financial inclusion which may correspond with those of the Alliance of Financial Inclusion (AFI). These include a:

- Financial Inclusion Data WG;
- Consumer Protection and Literacy WG;
- Financial Integrity WG; and a
- Market infrastructure WG.

These workgroups would include members from relevant regulators and service providers and include representation of users from the public. Chart I below illustrates the institutional set up of the National Financial Inclusion Workgroup

**NATIONAL FINANCIAL INCLUSION WORK GROUP STRUCTURE**

6.0 **The Success of Financial Inclusion Strategic Frameworks Abroad**

The advantage of a financial inclusion framework is that there would be an accountable organization constantly working on financial inclusion initiatives and closely monitoring implementation progress. The framework will also have a consistent and time framework output with foreseeable outcomes. A coherent framework for coordination will also
bring about unified strategies and interrelated activities which are known to all parties.

Countries with financial inclusion strategic frameworks have made considerable progress. These include the Philippines, Mexico, Indonesia, Brazil and Peru. For example Sentral Bangko Pilipinas (SBP) established financial inclusion advocacy units with the explicit mandate to coordinate the development and provision of consultation to the Government and stakeholders in issues related to the development of the sound and balanced development of the financial system. The unit reports directly to the Deputy Governor. The work group model is also being used in Indonesia.

National Banking and Securities Commission (CNBV) of Mexico has been able to conduct various studies and developed qualitative and quantitative measurements on financial capabilities at a national level by having a coordination strategy, which is spearheaded by CNBV. Achievements made include the implementation of an electronic payment project whereby withdrawal of government payments by employees and pensioners can be made through a store-based agent network, thus bringing people into the formal financial system. Currently they are in the process of implementing Government saving bonds for individuals to encourage saving.

Apart from the increase in product services, such as mobile and agent banking and microfinance services, these countries have not made comprehensive studies to conclude on the increase of the number of people accessing formal financial services given the period of implementation. In other words, it is too early to know the impact.

The only disadvantage of this option is the added costs which the Bank has to incur in establishing the unit, which include reallocation or
employment of staff and the necessary support. However, comparing with the benefits this may bring, the costs may be considered minimal.

7.0 Recommendations
Financial services are increasingly becoming a public good, such that the availability of banking and payment services to the entire population without discrimination is a key goal of national policymakers. Safe savings, appropriately designed loans for low income households, and appropriate insurance and payment services can increase production and help people to support themselves, acquire assets, decrease risk, and work their way to reduced poverty. Experience has shown that even the poor demand credit and savings opportunities.

Recent surveys made by Daryl Collins with Stuart Rutherford and Orlanda Ruthven show that the poor are active money managers; they often numerate and track their transactions. They can and do save. They rely on informal savings mechanisms which can be flexible, but are frequently very expensive and unreliable. The majority of Tanzanians would be willing and able to save and borrow if appropriate products and savings mechanisms, terms, and conditions were available.

Our national financial inclusion efforts should include the formulation of a national networking framework that shall engage the basic principles for innovative financial inclusion, which are commitment, coordination, and accountability.

Tanzania should begin by establishing a dedicated unit at the Bank and a National Financial Inclusion Workgroup. The Financial Inclusion unit at the Bank shall specifically deal with implementation and oversight of financial inclusion activities and act as a focal point for the financial inclusion agenda in the Bank and at national level. The National Financial Inclusion Workgroup, which consists of relevant stakeholders from the public and regulators should work with the Bank in order to
align the individual strategies and put in place a reporting strategy for monitoring implementation of broader goals. The Bank shall act as secretariat of this Workgroup. The Workgroup should be chaired by the Ministry of Finance.

With the benefit of enhanced coordination, it is conceivable that up to 50% of the population could be enjoying the benefits of financial services within the next three years.
8.0 Annex 2: Financial Inclusion Main Activities

1. Review the current situation with a view to identify gaps in the existing policies that have an impact on financial inclusion and propose changes;

2. Coordinate financial inclusion initiatives among stakeholders;

3. Analyze the present situation of financial inclusion, particularly looking at the opportunities for developing inclusive finance initiatives;

4. Identify the potential demand for Financial Inclusion and the key economic indicators which are likely to influence the development of Financial Inclusion Policy;

5. Evaluate the current services in the market by different players;

6. Liaise with donors with a view to determine their strategy to support microfinance industry;

7. Identify best practices of financial inclusion available in other developing countries which suit the economic situation of Tanzania;

8. Provide an overview of the current legal, financial, and institutional setting for financial intermediary services, making recommendations on changes to promote a more enabling environment;

9. Define clearly the objectives, scope and methodology for financial inclusion policy;

10. Develop financial performance standards for supporting institutions, especially those outside the regulatory framework to advance;

Key Actors’ Roles and Responsibilities

11. Outline policy actions to mitigate low financial education and challenges in addressing them;

12. Identify problems that necessitate a need for improved financial education; and
13. Identify long-term risks to financial inclusion from the excluded segment of the population that is associated with poor financial education.

9.0 References


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