

RETROSPECTIVE IMPACT ASSESSMENT 2005–2015

Financial Sector Deepening Trust Tanzania



**SUMMARY
PAPER**





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A full version of the impact assessment report is available on the FSDT website.

INTRODUCTION

Financial Sector Deepening Trust (FSDT) Tanzania is a market development programme which seeks to influence 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.

During 2016, Itad in association with MicroSave undertook an impact assessment of FSDT's programme of work from 2005 to 2015. The purpose of this impact assessment was two-fold:

1. **Learning:** To provide FSDT management with 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. **Accountability:** To provide FSDT's 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.

The evaluation looked 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?



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.

	2009 TARGET	2009 ACTUAL		2011 TARGET	2011 ACTUAL	
GOAL: Financial Inclusion						
% population with access	50%	56%	▲	53%	73% (2013)	▲
% population formally banked	13%	12.4%	▶	18%	14% (2013)	▼
PURPOSE: Access to Credit						
Credit extended to the private sector (%GDP)	11%	19%	▲	18%	16%	▼
Increase in credit for MSMEs and poor people	64%	147%	▲	230%	219%	▶
Increase in deposits for MSMEs and poor people	81%	144%	▲	225%	155%	▼

Comparing FSDT's high-level results to its 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.

ANALYTICAL APPROACH

The analytical approach to the impact assessment was based on existing best practice on how to evaluate market development programmes, including those working in the area of financial inclusion. The evaluation applied a theory-based approach to investigate causality by focusing on the mechanisms by which change has been achieved. Importantly, it combined 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 enabled an assessment of to what extent changes observed in the financial sector were contributed to by FSDT.



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:

- Capacity building and institution building.
- Convening, coordination and advocacy.
- Evidence and information provision.
- Financing.

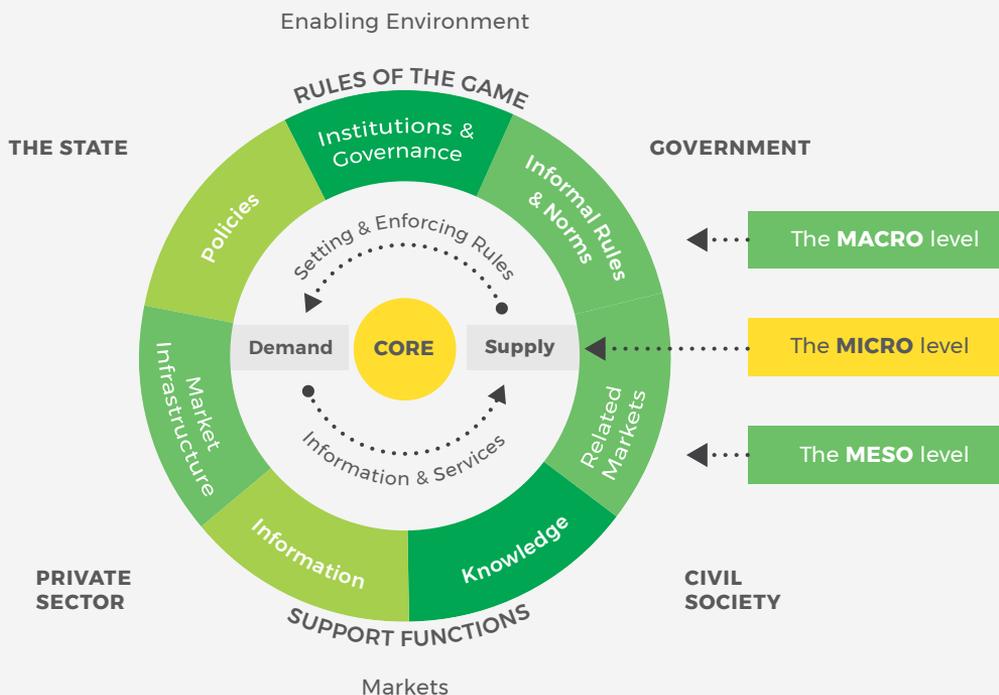
These activities worked to catalyse positive and sustained change at three levels of the market system for financial services:

- **Macro:** to improve the policy, institutional, legal and regulatory framework for financial inclusion.
- **Meso:** to improve business services and market infrastructure for financial service providers.
- **Micro:** to achieve more and better financial services being available to meet the needs of urban and rural enterprises and households.

Through its contribution to change at these three levels, FSDT sought to strengthen the 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 or project it supported. 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 though:

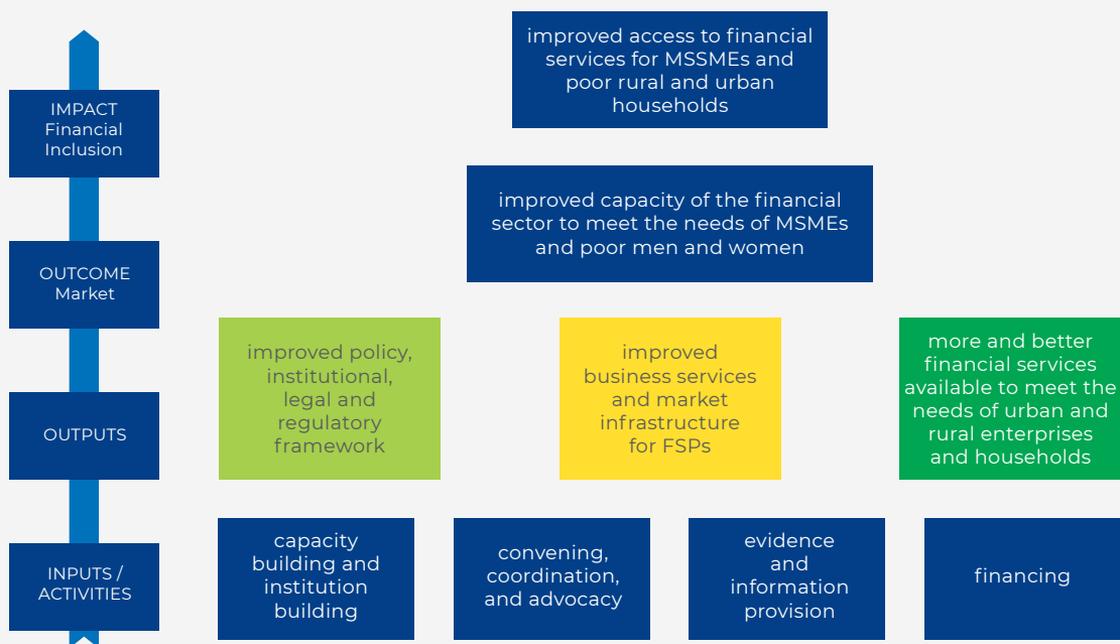
- **Supply side:** changes in the level and type of sustainable financial services
- **Demand side:** changes in the level and type of access to, and usage of, financial services.



Source: FSDT: Our work 2005-12



FSDT's Theory of Change



FSDT'S STRATEGY AND TARGETING OF MARKET LEVEL CONSTRAINTS

Three strategic frameworks shaped the portfolio for the period under review:



The first strategy (2005-07) 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 (2007-13) 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 the SGFSRs were left to other funding organisations. Following a fundamental review of FSDT's 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

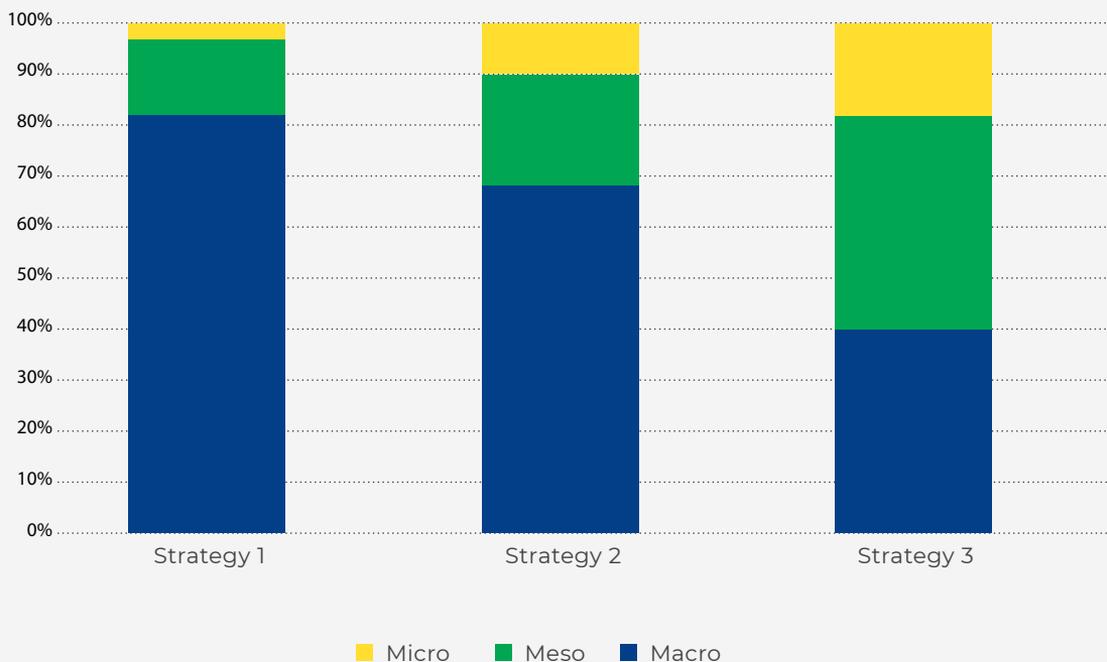


agriculture and rural development, SME development, and mobile phone banking and payment systems.

The third strategy (2013-18) 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 usage 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 National Financial Inclusion Framework. FSDT has actively sought to address the majority of constraints identified in the strategy in some way.

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.

FSDT Allocation of FSDT project spend



RESULTS OF FSDT'S PROJECTS

A sample of eleven projects was selected for in-depth analysis to assess the impact of FSDT's work. The performance of these projects against specified targets and the achievement of wider market-level change was variable. It is notable that the projects that met or exceeded the targets set in FSDT's the results frameworks were not in all cases the projects that achieved sustainable and market system level change.

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 the roll out of digital financial services, which has been an important contributor to increased financial inclusion in recent years.
- 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 were reviewed, it was 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:

- A conducive macro-economic environment
- The commitment by the Government and Bank of Tanzania to financial inclusion and the wider national emergence of an agenda to address financial inclusion.
- The pragmatic approach taken by policy-makers and regulators to the development of financial sector.
- 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



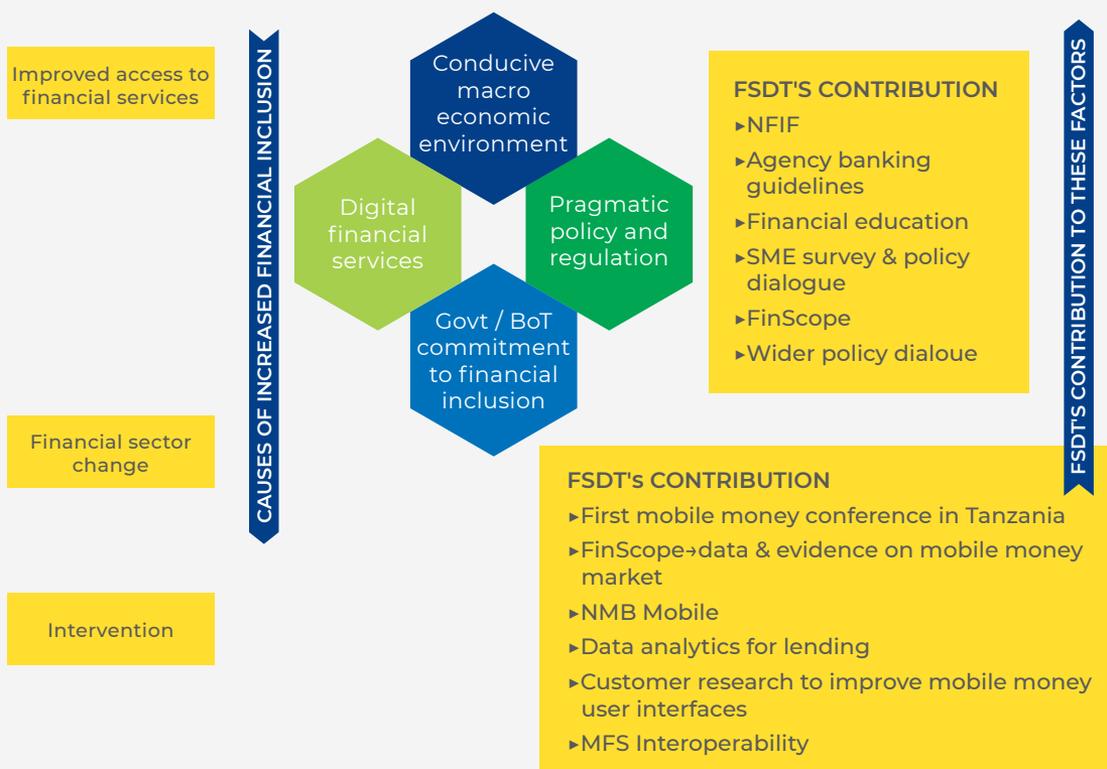
ensure that regulations kept pace with the evolving market, providing sufficient legal certainty and consistency to support growth, promote financial inclusion, and protect customers. FSDT helped to raise the importance of mobile money to BoT officials and supported a number of initiatives to encourage 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 demonstration effect to others active in the market.

Contribution of FSDT's portfolio to market level change



LINKAGES BETWEEN IMPROVING ACCESS TO FINANCIAL SERVICES AND REDUCTIONS IN POVERTY

The impact assessment focused 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 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.

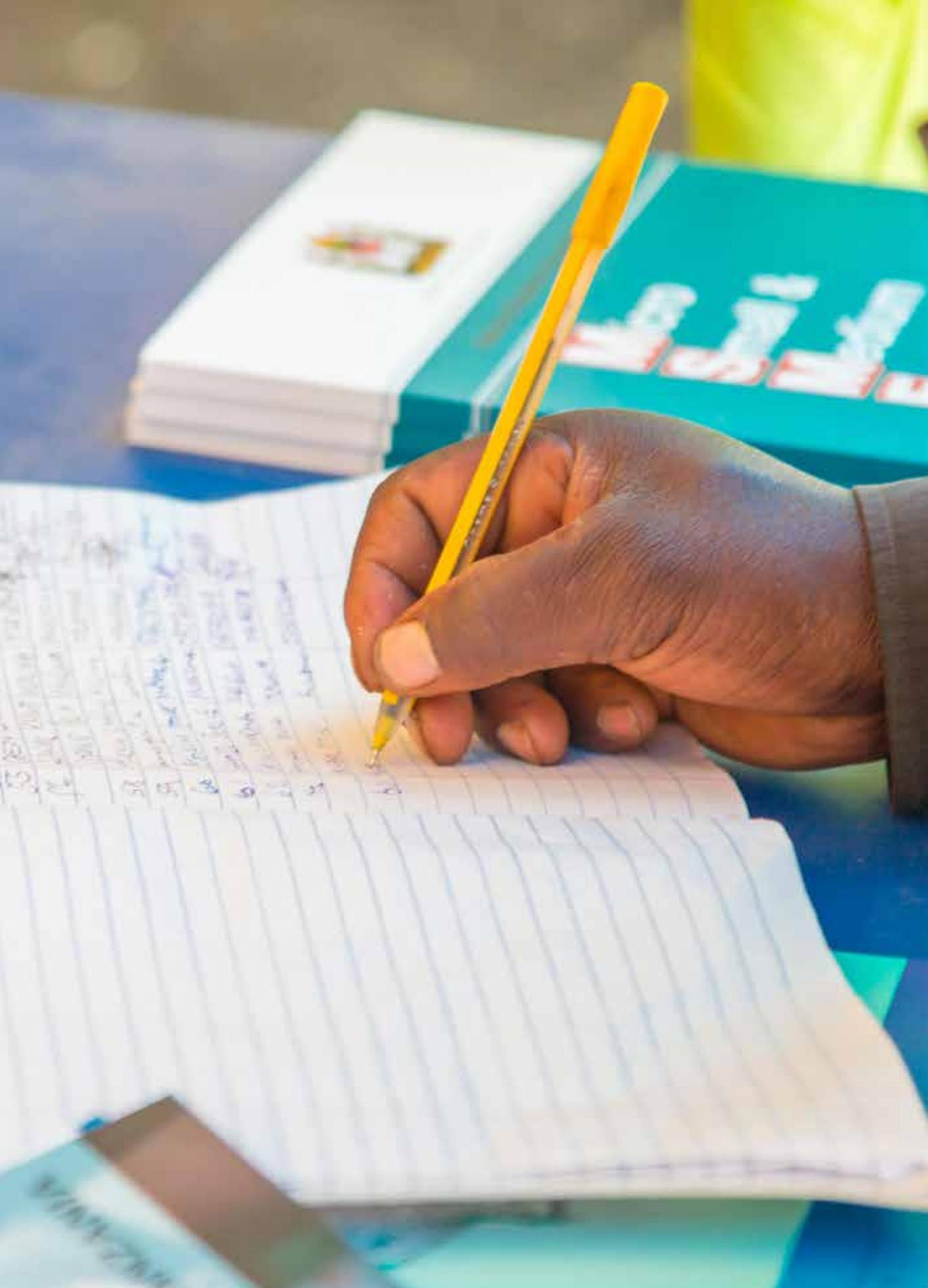
RECOMMENDATIONS RELATING TO M&E AND IMPACT ASSESSMENT

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'.







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