

Financial Inclusion and Challenges in Tanzania

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Abstract
Financial inclusion is said to be very important for economic growth and policymakers had high expectation about the prospect of their financial sector which encourage financial inclusion. The year 1990 marked changing point in Tanzania financial sector following financial liberalization. Since then the level of financial sector has steadily increased supported by an increase in the number of banks and financial services. However Tanzanian banks have not been able to include various segments of the population into the banking services. This paper highlights the overall status of financial inclusion in Tanzania through looking at existing statics on people access to various financial services and institutions. The overall people's perception and understanding over the accessing of these financial services were also observed through simple questionnaire. The paper found that despite the increase in financial services the level of access to these services especially in the formal banking sector remain very low. According to the FinScope survey Tanzania 2013, the proportion of adult population in Tanzania with access to formal banking services was approximately 14%. The paper also found that issues like cost, lack of robust technology, lack of awareness and regulatory requirements are among the challenges hindering financial inclusion.
Keywords: Financial Inclusion, Financial sector, Financial Liberalization and challenges.

1. Introduction

Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allowing broad access to financial services, without price or nonprime barriers to their use are especially likely to benefit poor people and other disadvantaged groups (Demirgüç-Kunt and Klapper, 2013). Hence in order for a financial system to be beneficial, it must be inclusive (Claessens, 2005; Rojas-Suárez, 2012). Financial inclusion can be defined as a "state in which all people of working age have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients" (Accion International 2009). A UN report in 2006 which was focused on building inclusive financial sectors for development defined an inclusive financial system as one which provides credit to all "bankable" individuals and firms; insurance to all insurable individuals and firms; and savings and payment services for everyone.

Over the last decade, financial inclusion (banking the poor) has made its way into the center stage of development policy (FinAccess, 2009). Worldwide, it is estimated that 2.5 billion of adults do not have access to basic formal financial services. The main reported barriers for this include: costs of services, physical distance to access points and lack of documentations (Isern and de Koker, 2009; Allen et.al, 2012). Until now, in Africa and elsewhere, little had been known about the reach of the financial sector the extent of financial inclusion and the degree to which such groups as the poor, women, and youth are excluded from formal financial systems (De Koker and Symington, 2011;). Systematic indicators of the use of different financial services had been lacking for most economies (OECD, 2008; World Bank. 2012). In Tanzania, the level of Financial Inclusion is still low despite various initiatives deployed by public and private sectors. By 2012, only 17 percent of adult population (about 3.7 million) had access to bank accounts (Demirguc-Kunt and Klapper, 2012 ;). This is more than it was recorded in FinScope survey Tanzania 2013 that, the proportion of adult population in Tanzania with access to formal banking services was only 14%. According to the 2011 Agriculture Finance Markets Scoping Survey (AgFiMS), of 519 450 agri-business SMEs only 168,300 (32 percent of the total) accessed formal financial services, approximately 13 percent were informally served and slightly over 54 percent were totally excluded from any formal or informal financial services. Though this data comes from a small sample, a point to note is that the generalization of this data provides a clear picture of financial inclusion in the country, which shows financial inclusion in Tanzania, is still not inclusive as the term itself stipulates. Hence, basing on these statistics, the rest of the paper seeks to review the literature and establish the status of financial inclusion in Tanzania and intentionally looking at challenges hindering accesses in financial sector.

2. Methodology

The paper used both secondary and primary data collection methods to explore the relevant information needed. Different literatures were reviewed and a simple structured questionnaire was used to collect data from 100 respondents through purposive sampling method and from the selected individual and institutions. Five point

Linker Scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure responses.

3. Literature reviews

During last few decades there has been an increase in literature on financial inclusion. Joseph Massey (2010) said that, role of financial institutions in a developing country is vital in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further enhanced by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in fostering financial inclusion. National and international forum have recognized this and efforts are seen on domestic and global levels to encourage the financial institutions to take up larger responsibilities in including the financially excluded lot.

A number of researchers have investigated the link between financial inclusion and economic growth, focusing primarily on whether there is a positive relationship between the two concepts (Center for Financial Inclusion, 2011). Consistent with economic theory that would suggest that financial inclusion should promote economic growth, existing research generally demonstrates a positive correlation between financial development, economic growth, and the alleviation of income inequality. Financial development has typically accompanied economic growth and broader participation in the mainstream financial sector by all segments of the population and generally strengthens this connection. The security of a savings account, access to credit, and lower costs of basic financial transactions tend to increase households' abilities to insulate themselves from a variety of shocks and may enhance consumer confidence. Wider access to financial services also tends to distribute economic opportunities more broadly, particularly among poorer households and businesses.

Furthermore, recent global financial crisis identifies the weaknesses of financial markets routed in institutional flaws like absence of good credit appraisal, risk management etc. An efficient and organized financial sector can contribute to economic growth through savings mobilization and capital formation. Governments and central banks have an important role to play to avoid pervasive market failures and financial inclusion could help overcome frictions in the market mechanism by expanding coverage to poor and underprivileged people (Islam and Al Mamun, 2011).

In broad perspectives, financial inclusion widens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development (Allen et.al, 2012). Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances (Beck, et al. 2006). Financial inclusion also mitigates the exploitation of vulnerable sections by the various money lenders by facilitating easy access to formal credit. Basically, there is recognition that in countries at all income levels, there are population groups that are not adequately serviced by the formal financial system, hence Financial inclusion involves expanding their access to the financial system at an affordable cost (Shankar,2013). In term of challenges many authors talk about demand and supply sides of the coin. On the supply side they include challenges like transaction cost and regulatory frameworks that hinder the quality and quantity of financial products and services. On the demand side they include lack of national identification system, inability to track individuals' financial history and low level of financial literacy. All in all, Klapper at el, (2012) indicated that cost, distance and documentation requirements were big challenges for financial inclusion.

4. Current state of financial inclusion in Tanzania

Constructing inclusive financial sector has increasingly become a priority of academician, practitioners and policymakers both nationally and internationally. Tanzania recognizes this role of inclusive finance in empowering individuals economically and socially.

At national level, the Government has initiated various policies, which contribute to the promotion of financial access. Tanzania financial inclusion was spearheaded by the enactment of the Banking and Financial Institutions Act (BFIA) in 1991 which allowed the entrance of private sector (both local and foreign) in the Tanzanian financial sector. The new Act also paved way for the introduction of financial markets in the economy. This was followed by an enactment of the Bank of Tanzania Act of 1995 which relieved the Bank from multiple objectives in order to focus on a single objective of price stability. In the conduct of monetary policy, the Bank of Tanzania introduced indirect instruments of monetary policy namely: open market operations; repurchase agreements; discount window and Lombard facility; foreign exchange market operations; statutory minimum reserve requirement; and moral suasion.

The financial sector intermediation and deepening have improved quite appreciably with the number of banks increasing from 3 before the 1990s to currently almost 53. The opening up of the financial sector necessitated the Bank of Tanzania to put in place a robust system of licensing, regulating and supervising commercial banks. In addition, the Bank has undertaken deliberate measures to modernize the National Payment Systems (NPS) in the country with the objective of enhancing safety, soundness and efficiency in the payment and settlement systems. The Bank of Tanzania has also facilitated the development of a Microfinance Policy and regulations focusing on promoting a viable and sustainable microfinance industry with a wide outreach. The Government has approved the transformation of Tanzania Investment Bank (TIB) into a Development Finance Institution and was officially launched in November 2010, whereas the Finance Lease and Mortgage Finance Laws were enacted in 2008.

Technological changes relating to telecommunication and data processing have also motivated financial inclusions that have altered financial product and services and production processes. The change was also supported by establishment of new banks including foreign banks, expansion of branch network, growing banks linkage with SACCOS, introduction of agent banking, expansion of mobile banking and integration of mobile financial services to the banking system.

The usage of electronic payment system also has grown significantly overtime and contributed toward wide outreach of financial services to unbanked population of both rural and urban area of the country. There has been a rapid growth in the use of the new financial products over the 2009 – 2013 periods as shown in the table 1

Table 1: New financial products.

Category	2009	2010	2011	2012	2013
Internet banking (TZS million.)	8,130	10,420	12,040	17,768	22,725
Mobile (SMS) banking	124	155	224	302	587
Mobile payment system	158,538	1,006,430	5,563,281	17,407,726	28,852,294
Automated Teller Machine (ATM) value of transaction(TZS billion)	7,747	8,200	9,642	5,279	7,637
Point of sales (POS) value of transaction(TZS billion)	1,149	279	203	198	347

Last year, Tanzania launched a National financial inclusion framework with the ambitious goal of expanding access to more than half of the country population by 2016. The framework , alongside the goal of 50% account ownership aims to achieve 50% regular usage, 25% of adult with at least two weeks worth of income in formal saving accounts and 25% of adult with electronic personal records.

Although there are now 53 different banks in the country, there is only a small rise in the total number of adult who use bank products (Finscope Tanzania 2013). Table 2 shows the usage of bank products by adult population

Table 2: %age of bank products usage by adults.

	Use bank product	Use only non bank product	Use informal mechanisms only	excluded
2013	13.8%	43%	15.8%	27.4%
2009	9.1%	6.7%	28.8%	55.5%

Source: FinScope 2013

Despite disappointing account ownership figure, the country has achieved progress in other areas. Between sept 2012 and 2013, access to mobile money services increased from 63 to 90% nationally, with nearly 43% of the population actively using mobile money services.

According to FinScope survey Tanzania 2013, those employed in agriculture are the least likely to use bank products and services, though access to non bank product has shown a significant impact. The distribution is shown in table 3

Table 3 : Access strand comparison by main source of income

	Use bank product	Use only non bank product	Use informal mechanisms only	excluded
Employed formally	78.6	18.4	1.1%	1.9%
Own business	19.6%	53.4%	11.0%	16.0%
Subsistence farmer	4.9%	36%	23.5%	35.5%
Agribusiness	7.1%	39.5%	21.0%	32.5%

Sources: FinScope 2013

4.1 Respondent's answer on access of financial services

In order to establish the respondent's perception over the access to financial services, establishing the overall respondents answer on access to financial services required the presence of a common standard that will suit all the respondents. In order to do so, the researcher established a set of statements that were distributed equally to all respondents of this research. The statements that were provided to the respondents aimed at establish the overall feelings of the respondents concerning access to financial services in a country, such statements include: Access to basic financial services is a significant problem in my country; Access to finance is a significant barrier to the growth of enterprises in my country; The lack of knowledge about basic financial products and services is a major barrier to financial access among the poor in my country; and access to finance has improved significantly over the last 5 years.

On average, large percentage of the respondents agreed and strongly agreed on the issues, meaning majority of the statements that were provided to them. An exception was seen in on the last statement which aimed at establishment the improvement of access to financial services over the five years. This statement shows the existence of a close relationship between the respondents who agreed and those who disagreed. Implication derived from this statement is that, in actual practices there has been an improvements in the overall access to financial services however, such an improvement cannot be assumed to be of significant to change the overall number of people having access to these financial institutions. Improvements explained in this section are in terms of variations of bank accounts from different banks, increase in overall number of banks and the general reduction in the overall charges of opening accounts and access to credit in general, Branchless Banking. Below is the figure presenting the general response from the respondents over the access to financial services.

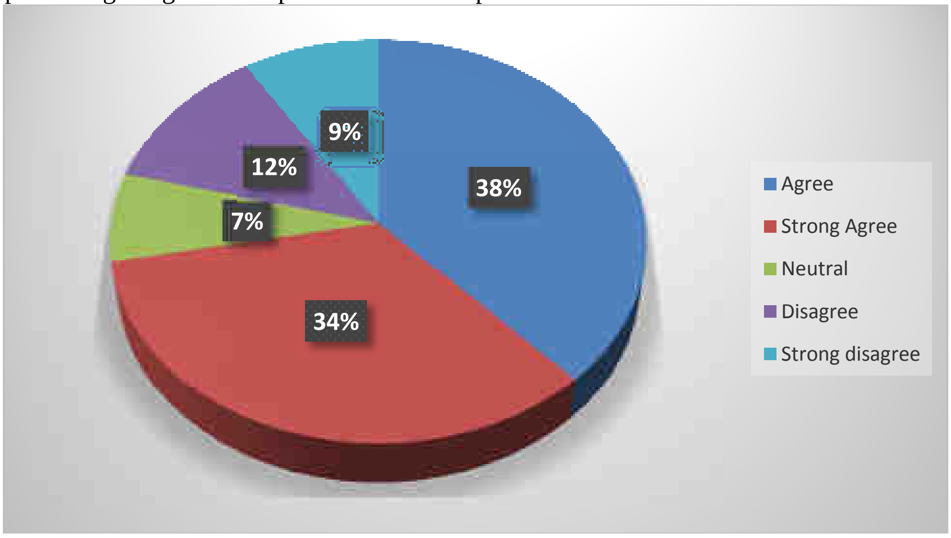


Figure 4.1: Respondent's answer on access of financial services

Basically, as explained in the beginning of this part, huge percentage of the respondents agreed on majority of the statements that were provided. Looking at the table out of all respondents questioned 38% agreed while 34% strongly agreed. This data indicates that more than a half of the respondents agreed with majority of the statement which all of them were specifically designed to measure the level of financial inclusion in the country. Basing on this fact, very small number of the respondents disagreed with the statements, indicating that in the country we still face the problem of accessing various financial services such as bank accounts.

4.2 Access to Credit

The rate of origination of new loans formal and informal is relatively high in Sub-Saharan Africa with 47% of adults reporting having borrowed money in the past 12 months compared to 34% worldwide and North Africa (Demirguc-Kunt and Klapper, 2012). In Tanzania, the case was not different in terms of access of loans. Looking at the loans issued, majority of the respondents revealed the existence of problems with loan access, where despite of the presence of several institutions, accessing such loans has been a problem to large part of the populations. Among the factors mentioned, collateral and high interest rates were the dominating factors hindering effective access of loans services to all the respondents. Out of all 100 respondents that were questioned from various sectors, only 37% of the respondents answered they have accessed the loans, 33% selected No they haven't accessed, while the 22% of the respondents said they lacked the required information and knowledge in general to access such particular loans. further analysis shows that those who have access with loan have taken from informal sources like money lenders, relatives, friends and neibour. The evidence is supported by FinScope survey 2013 as shown in table No. 5

Table 5: Sources of credits

Sources	%
Family/ Friend – No interest	71.8
Family /Friend- With interest	6.9
Family / Friend – No payback	5.2
Shopkeeper	21.2
Saving and credit group	13.4
MFI	3.4
Banks	3.1
SACCOS	3.0
Money lenders	2.9

Source: FinScope Survey 2013

4.3 Distribution of Coverage of banking services in Tanzania

For better understanding of the distribution of Microfinance and banking services the researcher adapted a statement of Tanzania being a big country with a dispersed population of roughly only 45 million people. However it is estimated that nearly 40% of adult are within a 5 km radius of bank branches, an ATM, MFI or SACCOS or a mobile money agent.

The overall analysis of this indicated that regions in the south and west are generally less served then the rest of the country. Basically, the fact in this was obvious these east and north regions that serve various roles such as Centre for business, Tourism, and the presence of various education institutions which are the main determinants of establishing financial services. However, the overall data still show a general low level of access to financial services as still there is a huge portion of the country currently lacking potential access to financial services. The evidence of inclusion is supported by the FinScope survey of 2013 as shown in table 6 and 7 :

Table 6 : Areas with highest level of financial inclusion:

	Use bank product	Use only non bank product	Use informal mechanisms only	excluded
Kilimanjaro	16.8	70.1	6.9	6.2
Dar es salaam	31.6	53.8	4.8	9.8
Njombe	16.4	50.3	23.1	10.3
Morogoro	17.3	46.5	23.7	12.4
Iringa	25.9	39.5	19	15.6
Manyara	5.4	36.1	42.4	16.1

Source: FinScope survey 2013

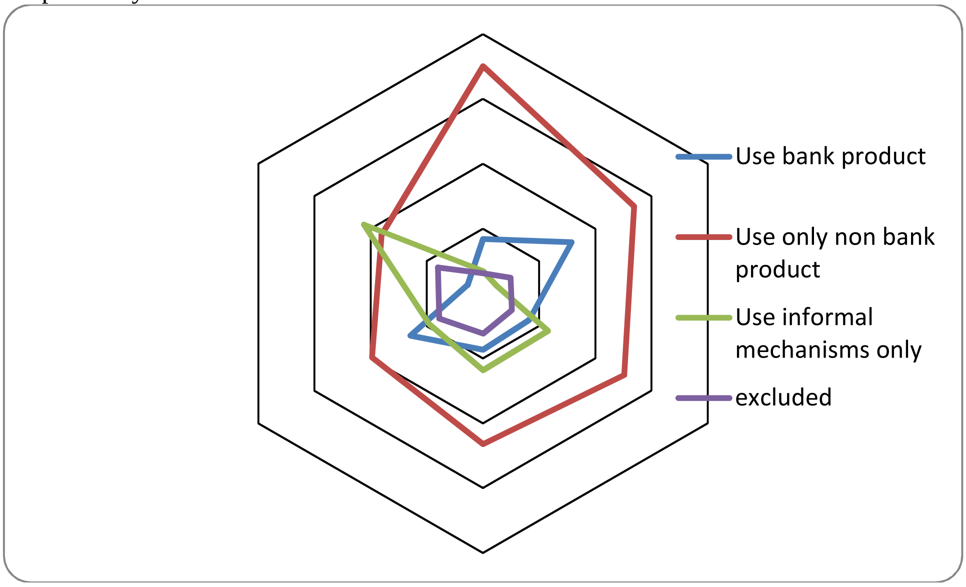
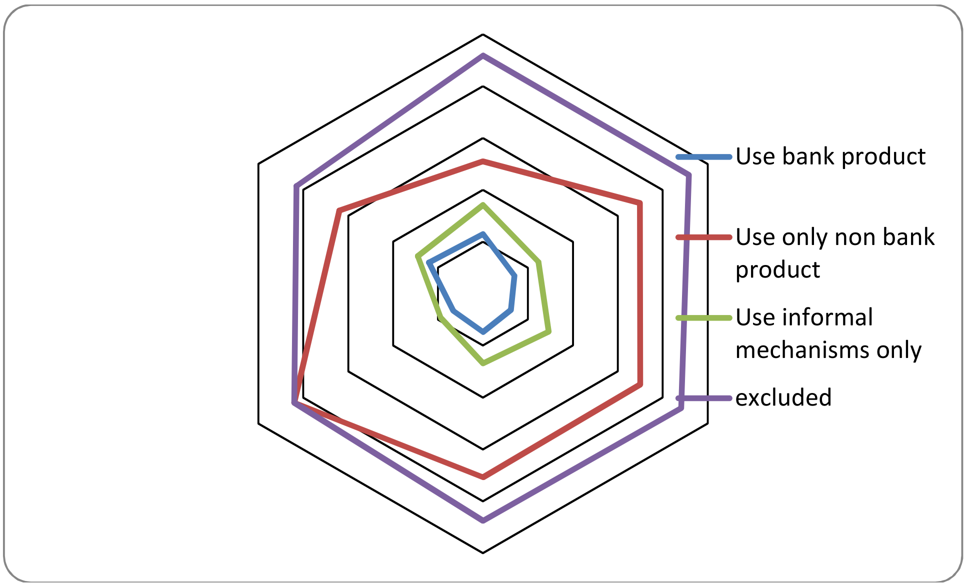


Table 7: Areas with highest level of financial exclusion:

	Use bank product	Use only non bank product	Use informal mechanisms only	Excluded
Zanzibar	11.5	25.5	17.1	45.9
Singida	7.0	34.9	12.3	45.8
Lindi	6.2	35.0	14.6	44.1
Mtwara	7.4	35.4	13.4	43.8
Mbeya	6.6	42.0	9.4	42
Shinyanga	12	32	14.5	41.5



Overall observation indicate that mobile phones provide a convenient way through which basic banking services can be distributed quickly and relatively cheap. As we have seen above, almost all this increase in financial inclusion is driven by the telecommunication companies and the increased penetration of services such as MPESA, Tigo Pesa, Airtel Money and Z-Pesa. If we exclude this category of financial services we see that banks have done little to increase financial inclusion in the country.

4.4 Challenges hindering financial inclusion in Tanzania

Overall, there was a need to look at the challenges that hinders financial inclusion in Tanzania. Though not in big scale financial inclusion in the country is still at lower scale as the statistics provided are not convincing and promising over the extent of financial inclusion in the country. The most mentioned challenges that were identified by huge number of the respondents as they hinder effective financial inclusion include

a) Lack of education

In this, it was established that, lack of sufficient education or knowledge concerning with access to various financial services is a problem to majority of Tanzanians which in turn affects the overall people's access to finances. Basically, it was realized that , majority of people within the country lacks information on various services particularly loans in terms of access and repayments. Also other seems to lack the important knowledge on the requirements for securing such loans. Hence, due to this, one of the basic ways that can be used to improve people's access to financial services is the provision of education to the public, so as to remove the wrong long-stuck mentality on various services to the public.

b) Low technology (ICT)

In this part the major problem was realized to be the low information communication technology infrastructure which causes uneven distribution of information between the financial institutions and the people utilizing the financial services. In this, banks need to make significant improvements in various areas such as Management Information System. The improvements of technology will assists in uniting many people in different geographical locations.

c) High costs associated with the important financial services

Another challenge that was highlighted was the costs that are associated with the consumption of financial services. In this various charges such as the interest rates and service charges on using ATMs were sought to exert pressure on the customers which in turn affects their general usage of the services. Basically, in this, it was realized that the charges that are put on various services are in most cases destructive to the overall mood of the respondents to utilize the services of the financial institution. In order to curb this, there is a need to harmonize the overall charges so that the users can be comfortable in paying them without any problem.

d) Regulatory requirements

Regulatory requirements such as know your customers rules that have been introduced to prevent money laundering can also make it difficult for poor people to open even a bank account as they may not have the necessary documentation. It has also been observed that many people do not have collateral or credit record due to the lack of proper credit bureau.

5. Conclusion and Recommendations

Generally, the overall statics has identified weakness in the financial inclusion system in Tanzania. Several dimensions that were used by this study (access to financial services; distribution of financial institution and access to credit) revealed weakness in the overall access to these services by large number of the respondents. In general, despite the recent financial sector growth and development in Africa as the continent over the past decades, many individuals and firms are still excluded from access to financial services in Tanzania. Although the number is reducing over time, the rate of reduction is small as measurements of overall growth in financial inclusion show a minimal increase in the overall inclusion of both firm and individuals. Due to this, this paper recommends the following

First and foremost the government should advise all banks to open Basic Saving Bank Deposit (BSBD) accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.

Secondly, both the interest rate and the requirements of property to be used as collateral should be reduced. Although this can be argued as detrimental to the responsible financial institutions, over time as the number of people will increase and the bank again will meet it original profits.

Thirdly, policy maker should recognize the importance of Microfinance Institutions as potentially useful for promotion of financial inclusion. These institutions as they grow they are likely to expand their product range to include other services and definitely could also expand their outreach.

Finally, as policy makers have recognized the challenges attributing to financial exclusion, there should be a comprehensive variety of providers, products and technologies that best suits the social-economic, political, cultural and geographical condition. For example there should be a diversification of products including Islamic finance products which would foster financial depth and inclusion by catering to individuals who do not participate in the conventional financial sector because of the religious reasons.

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Appendix 1: Respondent's answers on access to financial services

	Statement	A.	SA	N	D	SD
1.	Access to basic financial services is a significant problem in my country	41	34	6	11	8
2.	Access to finance is a significant barrier to the growth of enterprises in my country	43	29	7	11	10
3.	The lack of knowledge about basic financial products and services is a major barrier to financial access among the poor in my country	38	38	7	10	7
4.	In my country, access to finance has improved significantly over the last 5 years	29	36	8	16	11
	AVERAGE	**38**	**34**	**7**	**12**	**9**

KEY: A- AGREE; SA- STRONG AGREE; N- NEUTRAL; D- DISAGREE SD- STRONG DISAGREE