POLICY BRIEF

Digital Financial Services in Tanzania: Plight for the Poor

STIPRO

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Key Messages

- Good financial services are central to a country's social and economic development, serving as key drivers of growth, employment generation, and income for both the government and individuals. However, financial services can play this role only if their provision is inclusive of everybody in society.
- In this regard, although Tanzania has recorded significant growth in the level of financial service provision, many of the poor are still excluded, with challenges revolving around inappropriate marketing strategies and information packaging and delivery, and inappropriateness of the products for the needs of the poor.
- Existing policies to address these issues have focused on ensuring wider coverage rather than exclusive focus on the poor. This policy brief – emanating from a recent study - provides policy proposals to bridge this exclusion gap.

What is the issue?

There are glaring currently inclusion gaps associated with gender, social and economic status, and geographical location in the provision of financial services in Tanzania. For instance, while the World Bank (2018) reports a 9% gap between women and men in access to financial services worldwide, for Tanzania women exclusion stood at 39.3% percent, and that of men was 29.9% (FinScope, 2017). In addition, while 43.3% of the rural population was excluded from formal financial services, only 18.4 percent of urban were excluded (FinScope, 2017).

Why is it important?

Financial services are the cornerstone of social and economic development. However, they can fulfill this crucial role only if they are accessible to the majority, including the poorest members of society. In this regard, although Tanzania has made efforts to strengthen the provision of financial services—digitalization being a key initiative—the country has experienced significant growth in financial service access in recent years. However, serious exclusion issues remain.

Methodology

Since the reasons for such exclusion are not apparent, research work of which its outcome is used to design this policy brief was designed. Using the concept of inclusive innovation system, the work focused on the poor in its design, specifically towards understanding factors contributing to exclusion in urban and rural settings. The major focus of the project was on the following issues: fitness of the marketing strategies of the digital financial providers; appropriateness of the financial products; adequacy of the infrastructure for financial services; relevance of the policies and regulatory environments.

Key Findings

a) **Inappropriateness of marketing strategies**: The findings indicate that only 20% of the 60 interviewees in the urban setting and 8% in rural areas are aware of the availability of digital financial services that they could use. The reason for this is inappropriate marketing and information sharing strategies.

b) **Inappropriate Financial Services Products for the poor:** One of these inappropriateness is cost**:** Of the 52 (43%) respondents (rural and urban) who are aware of the services, only 14 respondents (27%) said the cost of services is reasonable. Another appropriate issue concerns technology itself: about 67 interviewees (56%) out of 120 complained about the problems associated with mobile lending apps.

c) **Inadequate Infrastructure:** One major complaint here is cost: The findings of this research indicate that 56 out of 60 interviewees, i.e., 93% in the urban area and 100% of the rural areas claimed internet bundles are very expensive.

d) **Inappropriateness of existing policies:** Despite policy frameworks specifically labelled with inclusion issues, the policies have some serious flaws in design and implementation. For instance, policies are not directly focused on the underserved (the poor), but on the general increase in the country's coverage.

Policy Recommendations

a) Incentivize financial service providers to reach underserved populations through measures such as tax incentives and the development of supportive infrastructure.

b) Policies should aim to provide incentives and create an enabling environment for service providers to drive innovation. For instance, this could include facilitating access to finance for innovative initiatives and adopting regulatory sandboxes to support the safe trial of new products.

c) The government should endeavor not only to design appropriate policies that directly target the poor but also to inform policy design through appropriate conceptual frameworks such as the inclusive innovation systems framework. Most importantly, policies must be implemented and monitored regularly to learn and immediately address challenges.

References

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