TICGL Economic Case Studies (TECS)

Tanzania's Banking and Finance Sector Growth, Inclusion, and Innovation, Current Insights (2024)

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Key Research Areas

- **Empowering Tanzania's Growth through Public-Private Partnerships for Sustainable Development**
- **Empowering Tanzania's SMEs for Economic Growth**
- **Growth, Inclusion, and Innovation in Banking**
- **Pathways to Formal and Informal Employment in Tanzania: Current Insights (2024)**
- **The Role of Tax Reforms and Policy Planning**
- **Doing Business in Tanzania**
- **Enhancing the MFI Business Landscape for SMEs in Tanzania**

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Abstract

Tanzania's banking and finance sector has experienced remarkable growth over the past two decades, driven by regulatory reforms, digital innovation, and expanding foreign investment. As of 2024, the sector consists of 49 licensed banks, including commercial and community banks, which collectively manage TZS 43 trillion (USD 18 billion) in total assets, representing approximately 20% of Tanzania's GDP. Key drivers include the rapid adoption of mobile banking, increasing financial inclusivity, and the expanding role of microfinance institutions in reaching underserved populations.

Sector Growth and Inclusivity

The sector's digital transformation is one of the most notable developments, with mobile banking becoming integral to financial access. As of 2024, over 55.8 million Tanzanians hold mobile money accounts, a 116.2% increase from 25.8 million accounts in 2019. Monthly transactions across these platforms (led by M-Pesa, Tigo Pesa, and Airtel Money) exceed 310.9 million, with an annual transaction growth rate of 19%. This surge has boosted financial inclusivity significantly, with 70% of adults now having access to financial services, up from only 16% in 2009. However, challenges remain, particularly in rural areas, where access stands at 55%, compared to 85% in urban areas.

Challenges Facing the Sector

While mobile banking adoption has reduced the urban-rural financial access gap, substantial barriers persist:

- **High Compliance Costs**: Compliance with anti-money laundering (AML) and capital adequacy regulations, among other policies, has increased operational expenses, with compliance costs growing by over 20% for banks.
- **Geographic Limitations**: Rural areas still rely on mobile financial services due to the limited presence of physical bank branches, leaving approximately 30% of Tanzanians without formal financial services.
- **Investment Constraints**: High lending rates, averaging 16% on loans, limit credit accessibility for small businesses, impacting private sector growth.

Investment Opportunities

Despite these challenges, investment opportunities remain robust:

1. **Digital and Mobile Banking**: With a projected annual growth rate of 12%, mobile money transactions are expected to exceed 10 billion by 2030. The digital sector's continued expansion offers vast opportunities for investment in fintech infrastructure and mobile banking services.
2. **SME Financing**: Although SMEs constitute over 90% of businesses in Tanzania, only 16% have access to formal financing. This unmet demand represents significant growth potential, with the SME loan market expected to grow by 10% annually.
3. **Green Financing**: The push for environmental sustainability presents a new frontier, with green financing for eco-friendly projects in agriculture and energy projected to grow by 15% per year.

Future Outlook

By 2030, the Tanzania banking sector is expected to grow into a more inclusive and competitive market, with over 90% of adults anticipated to access financial services. The number of mobile money accounts is projected to reach 90 million, and microfinance is forecasted to account for around 30% of total banking assets. Achieving these goals will require continued regulatory improvements, targeted investments, and expanded digital literacy initiatives to address remaining inclusivity and access challenges, ultimately positioning Tanzania as a leader in the regional banking landscape.

Introduction

Growth, Inclusion, and Innovation in Banking

Tanzania's banking sector is rapidly evolving, driven by digital advancements, regulatory reforms, and growing financial inclusivity. As of 2023, the sector's assets reached TZS 43 trillion (USD 18 billion), making up approximately 20% of the nation's GDP. Digital banking has become a cornerstone of growth, with mobile money accounts soaring from 25.8 million in 2019 to 55.8 million in 2024, fueling a 70% financial inclusion rate—a significant leap from 16% in 2009. Yet, challenges remain, particularly for rural areas where only 55% of adults have access to financial services compared to 85% in urban regions. By 2030, the sector aims to achieve nearly universal access, with mobile accounts projected to reach 90 million and financial inclusion reaching up to 90%, creating vast investment opportunities in digital finance, SME lending, and green financing.

Key Highlights

1. **Sector Growth and Assets**:
    - As of 2023, Tanzania's banking sector comprises 49 licensed banks managing TZS 43 trillion (USD 18 billion) in assets, which is about 20% of Tanzania's GDP.
    - This growth is attributed to digital innovation, regulatory reforms, and foreign investments.
2. **Digital and Mobile Banking**:
    - The number of mobile money accounts in Tanzania reached 55.8 million in 2024, a 116.2% increase from 25.8 million accounts in 2019.
    - Monthly transactions via mobile platforms, primarily M-Pesa, Tigo Pesa, and Airtel Money, exceed 310.9 million, with an annual transaction growth rate of 19%.
    - By 2030, mobile money accounts are projected to reach 90 million, with transactions exceeding 10 billion annually.
3. **Financial Inclusivity**:
    - Financial inclusivity rose from 16% in 2009 to 70% in 2024, largely driven by mobile banking.
    - Urban financial access stands at 85%, while rural access is at 55%.

   - The government aims to achieve a 75% inclusion rate by 2025, with further goals to reach up to 90% by 2030.

4. **Challenges**:
   - High compliance costs, averaging a 20% increase in operational expenses due to anti-money laundering and other regulatory requirements.
   - Limited access in rural areas, with only 55% of rural residents having access to financial services.
   - High lending rates averaging 16%, limiting credit access for SMEs and impacting private sector growth.
5. **Investment Opportunities**:
   - **Digital and Mobile Banking**: With an annual growth rate of 12%, the sector offers significant potential for further investments in fintech and mobile banking.
   - **SME Financing**: Only 16% of Tanzanian SMEs have access to formal financing, representing a market with an expected growth of 10% annually.
   - **Green Financing**: Driven by sustainable initiatives, green financing for eco-friendly projects is expected to grow by 15% annually.
6. **Future Outlook for 2030**:
   - The number of banks is expected to increase to 60-65, and microfinance's asset share is projected to reach 30%.
   - Financial inclusion targets suggest nearly 85-90% access to financial services nationwide, with rural areas potentially reaching 70%.
   - Trust and transparency improvements are expected to increase, with 90% of customers likely to prioritize transparency in their banking choices.

Figures

- **Mobile Money Accounts** (2024): 55.8 million, projected to 90 million by 2030.
- **Financial Access**: 70% in 2024, aiming for 85-90% by 2030.
- **Compliance Cost Increase**: Over 20% for banks due to regulatory requirements.
- **Expected Growth Rates**:
   - Digital Banking: 12% annually.
   - SME Loan Market: 10% annually.
   - Green Financing: 15% annually.

Market Landscape in Tanzania's Banking Sector

The analysis of Tanzania's banking sector reveals significant trends, major players, financial inclusivity rates, and evolving customer preferences. This section discusses these findings, supported by quantitative data and visual representations.

1. Market Trends

The banking sector in Tanzania has undergone substantial transformation over the past decade. Key trends identified include:

- **Digital transformation** in Tanzania is reshaping the financial sector through the rapid adoption of mobile banking and fintech solutions, significantly enhancing service delivery and accessibility. As of 2024, the country reports over 55.8 million active mobile money accounts, a remarkable 116.2% increase from 25.8 million accounts in 2019, indicating that more than 80% of Tanzanians now use mobile money services. Mobile money transactions surged to 310.9 million in September 2024, marking a 9% increase from June 2024, with the largest providers, M-Pesa, Tigo Pesa, and Airtel Money, each facilitating over 80 million monthly transactions. Over the last five years, mobile money transactions grew from 3.02 billion in 2019 to 5.27 billion in 2023, at an annual growth rate of 19%. Although total transactions have grown, the average number per user has slightly decreased from 117 in 2019 to 100 in 2023.
- **Growth in Microfinance**: Microfinance institutions have expanded their footprint, catering to low-income populations and SMEs. As of 2023, microfinance accounts for approximately 20% of total banking assets (Bank of Tanzania, 2023).
- **Increased Competition**: The entry of new banks and fintech companies has intensified competition, leading to improved services and lower costs for consumers. The number of commercial banks rose from 30 in 2010 to 49 in 2023 (Bank of Tanzania, 2023).

Table 1: Digital Banking and Mobile Money Statistics

Metric	Value	Year	Change/Notes
Active Mobile Money Accounts	55.8 million	2024	Up from 25.8M in 2019 (116.2% increase)
Monthly Mobile Transactions	310.9 million	Sept 2024	9% increase from June 2024
Annual Mobile Transactions	5.27 billion	2023	Up from 3.02B in 2019
Annual Transaction Growth Rate	19%	2019-2023	-
Transactions per User	100	2023	Down from 117 in 2019

Source: *TICGL, 2024.*

Projected Growth and Transformation in Tanzania's Banking Sector by 2030

By 2030, Tanzania's banking sector is expected to achieve substantial expansion and inclusivity through digital transformation, microfinance growth, and intensified competition. The number of active mobile money accounts is projected to reach 90 million, with annual mobile transactions exceeding 10 billion, as digital and mobile banking become integral to financial access. Microfinance is forecasted to hold around 30% of total banking assets, addressing the needs of low-income populations and SMEs. Competition will further increase, with the number of commercial banks rising to 60-65 as new and digital-focused entrants enhance service delivery and accessibility. These shifts position Tanzania for a more inclusive and robust banking landscape by 2030.

Table 2: Anticipated market shifts in Tanzania's banking sector by 2030

Market Trend	Metric	Forecasted Value by 2030	Explanation
Digital Transformation	Active Mobile Money Accounts	~90 million	Continued growth due to digital accessibility and high mobile penetration rates.
	Mobile Money Transactions	>10 billion annually	Expected 10-12% annual growth, with leading providers potentially handling 200+ million monthly transactions.
	Average Transactions per User	110-120 transactions per year	Stabilized usage as digital options diversifies and market matures.
Growth in Microfinance	Share of Total Banking Assets	~30%	Increased demand from low-income populations and SMEs will expand microfinance's asset share.
Increased Competition	Number of Commercial Banks	60-65 banks	More banks and fintech entries, particularly in niche markets, driving improved service and accessibility.

Source: *TICGL, 2024.*

2. Major Players

The competitive landscape is characterized by several key players, including:

- **Commercial Banks**: The top five commercial banks in Tanzania—CRDB Bank, NMB Bank, Stanbic Bank, Exim Bank, and Bank of Africa—control approximately 60% of the market share (Bank of Tanzania, 2023). These banks dominate retail banking and SME financing.
- **Microfinance Institutions**: Institutions such as FINCA Tanzania and BRAC Tanzania play a crucial role in reaching underserved communities, providing microloans and financial services that traditional banks often overlook.
- **Fintech Companies**: Players like Vodacom (M-Pesa) and Airtel (Airtel Money) have revolutionized the payment landscape, facilitating cash transfers and payments for millions of Tanzanians. The growth of these platforms has expanded financial access significantly.

3. Financial Inclusivity Rates

Financial inclusion in Tanzania has improved markedly, but challenges remain. According to the TICGL Survey (2024), about 70% of Tanzania adults now have access to financial services, up from 16% in 2009. However, disparities exist between urban and rural populations:

- **Urban Areas**: Approximately 85% of urban adults have access to financial services.
- **Rural Areas**: Access in rural areas stands at around 55%, highlighting significant gaps.

Table 3: Financial Inclusion Rates by Region (2024)

Category	Inclusion Rate	Year
National Average	70%	2024
Urban Areas	85%	2024
Rural Areas	55%	2024
Women's Access	64%	2024
Historical Rate	16%	2009
Target Rate	75%	2025

Source: *TICGL, 2024.*

4. Customer Preferences

Customer preferences in Tanzania's banking sector are evolving, influenced by increased digital literacy and changing economic dynamics.

The findings from this analysis illustrate a vibrant and evolving banking sector in Tanzania, characterized by digital innovation, increased competition, and improving financial inclusivity. While substantial progress has been made, particularly in urban areas, significant gaps remain, especially in rural access. Understanding these dynamics is critical for stakeholders aiming to enhance service delivery, promote financial inclusivity, and attract further investment in the sector.

- **Preference for Digital Banking**: A survey indicated that 85% of customers prefer mobile banking apps for transactions due to convenience and accessibility (TICGL, 2024).
- **Demand for Financial Products**: There is a growing interest in savings accounts and microloans among lower-income populations. Approximately 70% of survey respondents expressed a desire for tailored financial products that cater to their specific needs (TICGL, 2024).
- **Trust and Transparency**: Trust in financial institutions remains crucial, with 80% of respondents indicating that transparent fees and customer service quality influence their choice of bank (TICGL, 2024).

Tanzania's Banking Sector in 2030

A Forecast of Growth, Digital Transformation, and Financial Inclusion

By 2030, Tanzania's banking sector is projected to experience significant expansion and inclusivity, supported by technological advancement and market diversification. Active mobile money accounts are anticipated to reach around 90 million, a substantial increase from 55.8 million in 2024, as digital banking becomes integral to everyday transactions. Financial inclusion will see a major boost, with an 85-90% inclusion rate nationwide and 70% in rural areas, up from 55% today. Microfinance's share of total banking assets is forecasted to increase from 20% to 30%, addressing the needs of underserved communities. With the number of commercial banks expected to rise to 60-65, including new digital entrants, Tanzania's banking landscape will be more competitive and accessible, fostering enhanced trust and transparency across the sector.

Table 4: Growth Projections (Annual)

Sector	Projected Growth Rate
Digital Banking	12%
SME Loan Market	10%
Microfinance	8%
Green Financing	15%

Source: *TICGL, 2024.*

Table 5: Tanzania's banking sector by 2030

Category	Metric	Forecasted Value by 2030	Explanation
Digital Banking	Active Mobile Money Accounts	~90 million	With a projected 12% annual growth rate, mobile money accounts could grow substantially.
Market Structure	Microfinance Share of Total Banking Assets	30%	Expected increase due to demand for inclusive finance among underserved populations.
	Top 5 Banks Market Share	50%	Increased competition from new entrants, particularly fintech and digital banks.
Financial Inclusion	National Average	85-90%	Growth driven by digital banking and regulatory efforts to expand access to rural areas.

	Urban Areas	95%	Near-universal access expected in urban areas due to digital and branch-based services.
	Rural Areas	70%	Expansion of mobile and agent banking will enhance access in rural regions.
Customer Preferences	Mobile Banking Preference	95%	Digital convenience and mobile penetration likely to push preference close to 100%.
	Interest in Savings/Microloans	85%	Expected growth due to increased awareness and tailored microfinance products for low-income groups.
	Value Trust & Transparency	90%	Higher trust due to enhanced regulatory frameworks and improved service transparency.
Number of Commercial Banks	-	60-65 banks	Anticipated growth as new banks, especially digital and niche-focused ones, enter the market.

Source: *TICGL, 2024.*

Policy and Regulatory Frameworks

The policy and regulatory environment play a crucial role in shaping the banking sector's operations and growth potential in Tanzania. This section provides insights into how existing policies impact the banking sector, the compliance challenges faced by financial institutions, and recommended areas for improvement.

1. Impact of Existing Policies on the Banking Sector

The regulatory framework in Tanzania, primarily overseen by the Bank of Tanzania (BoT), has been designed to promote financial stability, protect consumers, and encourage growth. Key policies include:

- **Banking and Financial Institutions Act**: This legislation establishes the legal framework for banking operations, licensing, and supervision. It aims to ensure the safety and soundness of banks.
- **National Financial Inclusion Framework (NFIF)**: Launched in 2018, this framework sets ambitious targets for increasing access to financial services, particularly for underserved populations. The NFIF aims to raise the financial inclusion rate from 67% in 2017 to 75% by 2025 (TICGL, 2024).

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT): Regulations in this area have heightened compliance requirements for banks, requiring them to implement robust monitoring and reporting systems (*TICGL, 2024).*

2. Compliance Challenges

While the policies aim to create a stable banking environment, they also present significant compliance challenges for financial institutions:

- **Complex Regulatory Requirements**: Financial institutions often struggle with the complexity of regulations, leading to increased operational costs. Compliance with AML/CFT requirements, for instance, requires significant investment in technology and staff training. According to a survey by KPMG (2022), 60% of banks reported that compliance costs have increased by over 20% in recent years.

Key Regulatory Framework Components

Banking and Financial Institutions Act Legal framework for operations, licensing, and supervision
National Financial Inclusion Framework Target: 75% inclusion by 2025
AML/CFT Regulations Monitoring and reporting requirements

Source: *TICGL, 2024.*

- **Inconsistent Regulatory Guidance**: Banks have expressed concerns about the lack of clear guidelines and support from regulatory bodies. This inconsistency can lead to confusion and potential non-compliance, particularly for smaller institutions that may lack the resources to navigate complex regulations (Bank of Tanzania, 2023).

High Capital Requirements: The capital adequacy requirements set by the BoT can be challenging for smaller banks and microfinance institutions, which often struggle to meet these thresholds. This situation can stifle competition and limit the growth of smaller players in the market (*TICGL, 2024).*

3. Areas for Improvement

Based on the analysis of current policies and compliance challenges, several areas for improvement have been identified.

The policy and regulatory frameworks governing Tanzania's banking sector have a profound impact on its operations, growth potential, and inclusivity efforts. While there have been significant advancements in establishing regulations aimed at promoting stability and financial inclusion, compliance challenges persist that could hinder the sector's progress. By addressing these challenges and implementing recommended improvements, stakeholders can enhance the effectiveness of the regulatory environment and support the banking sector's sustainable growth (*TICGL, 2024).*

- **Simplification of Regulatory Framework**: Streamlining regulations and providing clearer guidance can help reduce compliance burdens. A more straightforward regulatory framework would benefit smaller banks and encourage competition within the sector (*TICGL, 2024).*
- **Capacity Building and Support**: The BoT could enhance support for financial institutions by offering training programs on compliance and best practices, particularly focusing on AML/CFT requirements. This support would help banks navigate regulations more effectively and reduce the risk of non-compliance (*TICGL, 2024).*
- **Incentives for Financial Inclusion**: Additional incentives, such as tax breaks or grants for banks that successfully extend services to underserved populations, could accelerate progress towards financial inclusion goals (*TICGL, 2024).*
- **Regular Review and Stakeholder Engagement**: Establishing a system for regular review of policies and engaging stakeholders in the regulatory process would ensure that regulations remain relevant and effective in addressing current market needs (*TICGL, 2024).*

Identify Investment Opportunities

Tanzania's banking and finance sector presents significant investment potential due to steady economic growth, increasing financial inclusion, and digital transformation. This section identifies high-potential sub-sectors, provides growth forecasts, and compares Tanzania's investment climate with other regional markets.

1. High-Potential Sub-Sectors

Several sub-sectors within Tanzania's banking and finance industry show particularly high potential for investment:

- **Digital and Mobile Banking**: With over 55.8 million mobile money users by 2024, Tanzania's mobile banking sector is one of the fastest-growing in Sub-Saharan Africa (TICGL, 2024). Fintech companies like Vodacom (M-Pesa) and Airtel (Airtel Money) have successfully bridged the access gap, making mobile banking a high-potential area for further investment in technology and infrastructure.
- **SME Financing**: Small and Medium Enterprises (SMEs) make up over 90% of businesses in Tanzania, yet only 16% of them have access to formal financing (World Bank, 2023). The unmet demand for SME financing offers significant investment opportunities in loans, credit facilities, and customized financial products for SMEs.
- **Microfinance and Financial Inclusion Services**: The microfinance sub-sector continues to grow as it targets underserved rural populations. Institutions such as BRAC and FINCA provide microloans, which are essential for financial inclusion. Investment in microfinance could support rural economic development and increase sector profitability (TICGL, 2024).
- **Green Financing**: Environmental sustainability is becoming a priority in Tanzania, with emerging interest in green financing options to support eco-friendly businesses and projects. Investment in

green financing, particularly in sectors like agriculture and energy, can address Tanzania's environmental challenges while providing profitable returns (Bank of Tanzania, 2023).

2. Growth Forecasts

Tanzania's banking and finance sector is expected to experience steady growth over the next five years, driven by increased digital penetration, SME expansion, and foreign investment. Growth forecasts for key sub-sectors include:

- **Digital Banking**: Projected annual growth rate of 12% due to rising mobile and internet penetration (TICGL, 2024).
- **SME Loan Market**: Expected to grow at an average of 10% annually as more SMEs seek formal financing options (World Bank, 2023).
- **Microfinance**: Forecasted growth of 8% per year as demand for rural financial services increases (National Bureau of Statistics, 2022).
- **Green Financing**: Anticipated growth rate of 15% annually, driven by sustainable development goals and environmental funding (Bank of Tanzania, 2023).

3. Comparison with Other Regional Markets

When compared to other East African countries, Tanzania's banking sector offers distinct advantages and challenges.

- **Financial Inclusivity**: Tanzania has achieved a financial inclusion rate of 70%, surpassing Uganda's 58% but lagging behind Kenya's 82% (World Bank, 2023). This suggests that while Tanzania's progress is strong, further efforts could bridge the gap to achieve regional competitiveness.
- **Digital Penetration**: Tanzania's mobile money usage ranks among the highest in Sub-Saharan Africa, with 55.8 million users. Kenya leads in digital banking adoption with widespread M-Pesa usage, indicating further room for growth in Tanzania's digital banking sector (TICGL, 2024).
- **Investment Climate**: According to the 2022 World Bank Doing Business Report, Tanzania ranks 141st globally, with strengths in protecting minority investors but challenges in credit access and tax complexity. Kenya and Rwanda have higher rankings, but Tanzania's recent reforms indicate a positive trajectory (World Bank, 2023).

Table 6: Regional Comparison: Financial Inclusion & Digital Users

Country	Digital Accounts (M)	Rural Financial Inclusion	Green Finance Growth
Tanzania	55.8	55%	15%
Kenya	56.8	65%	12%
Uganda	18	50%	10%

Nigeria	24	40%	20%

Source: *TICGL, 2024.*

Tanzania's banking and finance sector holds promising investment opportunities, especially in digital banking, SME financing, microfinance, and green financing. Growth forecasts indicate steady expansion across these sub-sectors, driven by favorable market conditions and evolving financial needs. However, to fully capitalize on these opportunities, further efforts are required to simplify regulatory requirements, enhance financial literacy, and increase credit accessibility. By addressing these challenges, Tanzania can position itself more competitively in the regional market and attract sustained investment.

Financial Inclusivity

Financial inclusivity in Tanzania has improved significantly in recent years, driven by policy initiatives, the growth of mobile banking, and efforts by financial institutions to reach underserved populations. However, substantial barriers to access remain, particularly in rural areas and among low-income groups. This section analyzes the current state of financial inclusion, identifies barriers, and highlights the impact of mobile banking on bridging access gaps.

1. Inclusivity Efforts and Progress

Tanzania has made commendable strides in expanding access to financial services. The **National Financial Inclusion Framework (NFIF)** has set ambitious goals to enhance financial access, aiming to reach a 75% inclusion rate by 2025. Currently, the inclusion rate stands at 70%, up from 16% in 2009, largely due to the expansion of mobile banking services (TICGL, 2024).

- **National Financial Inclusion Goals**: The NFIF emphasizes reducing exclusion in rural areas, expanding credit access for SMEs, and promoting digital financial literacy programs.
- **Role of Financial Institutions**: Banks and microfinance institutions have introduced simplified account-opening procedures and microloan products tailored to low-income customers, which have contributed to increasing inclusivity (Bank of Tanzania, 2023).

2. Barriers to Access for Underserved Communities

Despite significant progress, several barriers hinder full financial inclusion, especially among rural populations and low-income groups:

- **Geographic Barriers**: Financial services are primarily concentrated in urban areas, while rural communities often lack access to physical bank branches. As a result, around 65% of rural residents have limited or no access to formal financial services, compared to 85% in urban areas (National Bureau of Statistics, 2022).
- **Affordability**: High service fees and minimum balance requirements make banking unaffordable for many low-income individuals. A survey by TICGL (2024) found that 70% of unbanked adults cited costs as a primary reason for exclusion.

- **Financial Literacy**: Low levels of financial literacy, particularly in rural areas, limit people's understanding of financial products and services. This lack of knowledge prevents individuals from making informed decisions, with only 40% of rural residents reporting familiarity with basic financial products (TICGL, 2024).

Table 7: Barriers to Access for Underserved Communities

Barrier	Percentage Affected	Description
Geographic Access	65% of rural population	Limited access to physical bank branches in rural areas.
Affordability	70% of unbanked adults	High fees and minimum balances are deterrents for low-income individuals.
Financial Literacy	40% of rural residents	Limited understanding of banking products hinders informed financial decision-making.

Source: *TICGL, 2024.*

Table 8: Compliance and Operational Metrics

Metric	Value	Year
Compliance Cost Increase	>20%	2024
Banks Reporting Cost Increase	60%	2024
Complex Regulatory Requirements	85% affected institutions	2024
High Capital Requirements	70% affected institutions	2024
Inconsistent Guidance Issues	65% affected institutions	2024

Source: *TICGL, 2024.*

3. Role of Mobile Banking in Financial Inclusion

Mobile banking has been transformative for Tanzania's financial landscape, bridging access gaps and supporting inclusivity. The number of mobile money accounts reached 55.8 million in 2023, representing more than half of the population (TICGL, 2024). Major players like **Vodacom (M-Pesa)**, **Airtel (Airtel Money)**, and **Tigo (Tigo Pesa)** offer services that allow users to perform transactions, pay bills, and transfer funds without needing a traditional bank account.

- **Expansion of Mobile Payment Systems**: Mobile banking has reduced reliance on cash transactions, especially in remote areas where access to bank branches is limited. According to the Bank of Tanzania (2023), mobile transactions accounted for 75% of all financial transactions in rural areas in 2024.

- **Digital Financial Products**: Mobile money platforms have introduced savings and microloan features, further supporting financial inclusion by providing access to small amounts of credit and encouraging savings among low-income users.

4. Key Outcomes of Financial Inclusivity Efforts

The combined impact of policy initiatives, mobile banking, and targeted products by financial institutions has led to several positive outcomes.

- **Increased Account Ownership**: Approximately 70% of adults now have access to financial services, primarily through mobile money accounts (World Bank, 2023).
- **Improved Access for Women**: Inclusivity programs and mobile banking have reduced the gender gap in financial access, with 64% of women now having access to financial services, compared to 36% a decade ago (National Bureau of Statistics, 2022).
- **Economic Empowerment**: Financial inclusion has enabled individuals, particularly in rural areas, to save, access credit, and manage financial risks more effectively. A study by TICGL (2024) found that individuals with access to financial services reported a 15% increase in their ability to meet emergency expenses.

Table 9: **Key Outcomes of Financial Inclusivity Efforts**

Outcome	Statistic	Description
Account Ownership	70% of adults	Increase in financial inclusion through mobile money accounts.
Women's Financial Access	64% of women	Significant reduction in the gender gap in financial access over 10 years.
Economic Empowerment	15% increase in emergency fund ability	Access to financial services has improved financial resilience in rural areas.

Source: *TICGL, 2024.*

The financial inclusion efforts in Tanzania have made notable progress, with mobile banking playing a pivotal role in expanding access, especially in rural and underserved areas. However, barriers such as geographic access, affordability, and financial literacy remain substantial challenges. Addressing these barriers through continued investment in digital finance, financial literacy programs, and policy adjustments will be essential to achieving Tanzania's 75% financial inclusion target by 2025.

Banking and Financial Inclusion Initiatives in Africa and East Africa

1. Digital Transformation and Mobile Money in Banking

Across Africa, digital banking innovations have spurred financial inclusion. For instance, in Nigeria, mobile payment volumes exceeded NGN 18 trillion ($24 billion USD) in 2023, indicating the increasing shift to digital transactions. However, rural populations still face challenges in internet access, where mobile penetration rates average around 30%. Digital finance's potential to reach underserved populations is strong, yet challenges in digital literacy and internet accessibility persist.

East Africa stands out for high mobile banking adoption rates, with Kenya and Uganda leading in mobile money penetration. Kenya's M-Pesa system, for instance, recorded 56.8 million mobile money accounts in 2023, a substantial portion of the population. Tanzania closely follows with 55.8 million mobile accounts and over 310 million monthly transactions. Compared to Tanzania, Uganda has an inclusion rate of 58%, showing the region's success in digital finance while highlighting areas for improvement, particularly in rural reach and financial literacy.

2. Regulatory Frameworks and Compliance Challenges

African banking sectors face regulatory burdens due to complex anti-money laundering (AML) regulations and high capital adequacy requirements. In South Africa, banks spend up to 25% of their budgets on compliance. Compliance costs have grown similarly across Ghana, Nigeria, and Egypt, highlighting a continent-wide need for streamlining processes, especially for smaller banks.

The Bank of Tanzania's compliance requirements are stringent, with compliance costs reported to be over 20% for banks, mirroring challenges faced in Kenya and Rwanda. The National Financial Inclusion Framework (NFIF) in Tanzania is an example of a policy aiming to increase access, though inconsistencies in regulatory guidance still exist, especially for smaller institutions. In Rwanda, financial regulations are actively streamlined, improving the business environment and giving Rwanda an edge in the regional compliance landscape.

3. Investment Opportunities in SME and Green Financing

Across Africa, small and medium enterprises (SMEs) struggle with limited formal financing access, averaging only 18% coverage. Ghana, for example, introduced a $200 million SME fund to boost access to credit, reflecting a growing trend toward SME financing solutions across the continent. Green financing initiatives in Morocco and Egypt are also gaining traction, with green loans expected to grow by 20% annually in the next five years.

East Africa offers robust investment opportunities in SME financing, with Tanzania's SME loan market anticipated to grow at a 10% annual rate. In Kenya, green financing is expanding with investments in sustainable agriculture and renewable energy projected to grow by 12% annually, supported by policy incentives. Compared to Tanzania's projected 15% growth in green financing, Uganda and Rwanda are also seeing green investments grow, particularly in eco-friendly agricultural projects, aligning with regional and global sustainability goals.

4. Financial Inclusivity: Rural and Gender Gaps

Financial inclusion has improved in Africa, yet access disparities between rural and urban areas are notable. In Nigeria, urban areas have an 80% financial inclusion rate, while rural regions lag at 40%. Gender disparities also persist, with women's access to financial services in Africa around 37%, though countries like Ethiopia and Senegal are piloting inclusive banking models to narrow this gap.

Tanzania's rural financial inclusion rate of 55% outpaces some regions but lags behind Kenya's 65%. Gender-specific inclusivity measures in Tanzania have helped close gaps, with 64% of women now having financial access, while Uganda and Rwanda are increasing targeted financial literacy programs for rural women. These initiatives demonstrate a common goal across East Africa to bridge financial service access gaps for rural and gender-specific groups.

Conclusion and Figures

In summary, while Tanzania and its East African counterparts are achieving impressive strides in digital finance, rural inclusivity, and SME and green financing, challenges persist, particularly in regulatory compliance and equal rural service delivery. Figures below provide an overview:

Country	Digital Accounts (Million)	Rural Financial Inclusion (%)	Annual Growth in Green Finance (%)
Tanzania	55.8	55	15
Kenya	56.8	65	12
Uganda	18	50	10
Nigeria	24	40	20

Source: *TICGL, 2024.*

This case study highlights Tanzania's position in East Africa's competitive banking landscape while showcasing how a blend of targeted policies, digital finance, and inclusivity measures can create transformative change across Africa. This insight serves as a foundation for further investment strategies and policy adaptations.

FORECASTED TANZANIA'S BANKING SECTOR BY 2030

Growth, Inclusivity, and Investment Opportunities

By 2030, Tanzania's banking sector is projected to see substantial growth, driven by digital innovation, regulatory improvements, and increased investment opportunities. Financial access is expected to expand to 90% of adults, bolstered by a 12% annual growth rate in digital and mobile transactions. Investment in areas like SME financing and green banking is forecasted to grow by 10-12% annually, providing new opportunities for both local and foreign investors. Additionally, regulatory reforms will simplify compliance and support financial inclusivity, aiming to achieve an inclusion rate of up to 90% nationwide, with rural inclusion nearing 70% as mobile banking bridges access gaps across underserved regions (*TICGL, 2024*).

Overview for 2030

1. **Market Landscape**: With increased digital adoption and growth of mobile and microfinance, the banking sector in Tanzania is likely to see over 90% of adults accessing financial services. The number of banks and fintech firms will continue to rise, enhancing competition and service innovation. Digital and mobile money transactions may grow at an annual rate of about 12%, reaching new levels of inclusivity and financial accessibility.

2. **Policy and Regulatory Frameworks**: By 2030, streamlined regulations are expected to reduce operational costs and increase smaller institutions' competitiveness. Regulatory frameworks will likely evolve to support digital finance security and inclusivity, with a focus on rural and low-income populations, helping drive financial stability.

3. **Investment Opportunities**: Key sectors for investment, such as digital banking, SME financing, and green financing, are projected to grow robustly. SME financing and digital banking could each expand by 10-12% per year as access to technology and financing improves. Green financing, catering to eco-friendly initiatives, may grow significantly, becoming a leading investment focus.

4. **Financial Inclusivity**: The goal to achieve a financial inclusion rate of 75% by 2025 lays the foundation for reaching close to 85-90% by 2030, especially as mobile banking reaches deeper into rural areas. Increased mobile service offerings, alongside targeted literacy programs, will empower underserved populations, potentially bridging the rural-urban divide in financial access and participation.

Table 10: **Overview for 2030**

Objective	Forecast by 2030
Objective 1: Market Landscape	- **Financial Access**: 90% of adults accessing financial services
	- **Digital and Mobile Transactions Growth**: 12% annual growth rate in digital/mobile transactions
	- **Banking Sector Growth**: Increased number of banks and fintech firms with enhanced competition and service options
Objective 2: Policy & Regulatory	- **Operational Cost Reduction**: Simplified regulatory frameworks lower costs for smaller institutions
	- **Regulatory Evolution**: Focus on digital finance security and rural inclusivity
Objective 3: Investment Opportunities	- **Digital Banking**: 12% annual growth, driven by increased access and tech adoption
	- **SME Financing**: 10% annual growth as financing access improves
	- **Green Financing**: Significant growth driven by eco-friendly investments
Objective 4: Financial Inclusivity	- **Overall Financial Inclusion Rate**: 85-90%
	- **Rural Financial Inclusion Rate**: Near 70% inclusion in rural areas due to mobile banking
	- **Financial Literacy Programs**: Expanded, with rural and underserved areas as focus

Source: *TICGL, 2024.*

Tanzania's banking and finance sector, highlighting key growth areas, digital transformations, financial inclusion efforts, challenges, and investment opportunities.

1. Sector Growth and Importance

- **Current Assets**: As of 2023, the sector's assets reached TZS 43 trillion (USD 18 billion), about 20% of Tanzania's GDP. This shows the banking sector's significant role in Tanzania's economy.
- **Growth Drivers**: The sector's growth has been driven by factors like regulatory reforms, digital banking adoption, and foreign investments.

2. Digital and Mobile Banking Expansion

- **Rise in Mobile Accounts**: Mobile banking has seen rapid expansion, with 55.8 million mobile money accounts in 2024 (up 116% from 2019).
- **Transaction Volume**: Monthly mobile transactions now exceed 310 million, highlighting the shift to digital financial services.
- **Future Projections**: By 2030, the number of mobile money accounts is expected to reach 90 million, with annual transactions surpassing 10 billion. This indicates an ongoing transformation toward digital banking as the primary mode of financial access.

3. Financial Inclusion Progress

- **Improved Access**: Financial inclusivity has risen from 16% in 2009 to 70% in 2024, largely due to mobile banking and microfinance initiatives.
- **Urban-Rural Disparities**: Access is higher in urban areas (85%) compared to rural regions (55%), showing gaps in rural banking coverage.
- **Inclusivity Goals**: The government aims to achieve a 75% inclusion rate by 2025, with a broader goal of 85-90% by 2030. This would involve increasing banking options in underserved areas and promoting financial literacy.

4. Challenges and Barriers

- **High Compliance Costs**: Strict regulations have raised operational costs for banks by over 20%, impacting profitability, especially for smaller institutions.
- **Limited Rural Access**: Many rural areas lack physical bank branches, limiting financial access and reliance on mobile banking.
- **High Lending Rates**: Interest rates average around 16%, making it difficult for SMEs to access affordable credit, which in turn affects economic growth.

5. Investment Opportunities

- **Digital and Mobile Banking**: This sector is projected to grow by 12% annually, presenting substantial opportunities for investors in fintech and digital infrastructure.
- **SME Financing**: Despite constituting over 90% of businesses, only 16% of SMEs have access to formal financing. The unmet demand is expected to drive a 10% annual growth in SME financing.
- **Green Financing**: Environmental sustainability is becoming a priority, with green finance expected to grow by 15% annually, particularly in sectors like agriculture and renewable energy.

6. Future Outlook for 2030

- **Increased Financial Access**: The number of people with access to financial services could reach 90%, with mobile banking at the forefront.
- **Competitive Market**: The sector is projected to see more players, with 60-65 banks and expanded microfinance options, leading to better services and increased competition.
- **Trust and Transparency**: By 2030, customer trust is expected to be high, with 90% of customers likely to prioritize transparency in fees and services when choosing banks.

Conclusion

The report underscores that Tanzania's banking and finance sector is on a strong growth path but faces challenges that need targeted policy and investment efforts. Recommendations include regulatory reforms to ease compliance burdens, incentives for rural banking expansion, and enhanced cybersecurity measures. By 2030, the sector aims to be more inclusive, resilient, and competitive, supported by digital transformation, SME growth, and green financing initiatives.