CASE STUDY | MARCH 2017

Catalysing Investment Finance for SMEs:

FSD Tanzania's Foray into the Enterprise Growth Market

REDUCING POVERTY
THROUGH FINANCIAL SECTOR DEVELOPMENT

FSDT
FINANCIAL SECTOR DEEPENING TRUST

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Foreword

Since January 1949, when a U.S. President Truman speech ushered in the modern era of international development, successive generations of theorists and practitioners have wrestled to determine the best means to deliver international development assistance to the world's poor.

Progress has followed a steady trajectory with the number of people living in extreme poverty falling from 1.99 billion in 1981 to 896 million in 2012. In spite of such progress, many questioned the prevailing relief-based approach to poverty reduction. The direct delivery by international aid agencies of welfare-enhancing goods and services to the poor would, they argued, lead to a temporary spike in poverty impact, but leave little behind once priorities changed or the money ran out.

It is against this backdrop that the 'making markets work for the poor' approach was born. This approach – also known as 'M4P', 'market systems development' or 'market facilitation' – gathered momentum during the late 1990s and 2000s. In July 2008, the Springfield Centre ran its inaugural 'Making Markets Work' training course in Glasgow, Scotland. In September 2015, the World Bank's Consultative Group for the Assistance of the Poor (CGAP) issued: 'A Markets Systems Approach to Financial Inclusion: Guideline for Funders.'

Today, 'making markets work for the poor' is a relatively well-understood concept. It focuses on harnessing the power of market systems, including their full range of participants – from suppliers and consumers to rule-makers and support services providers – to deliver benefits for poor men and women on a lasting basis. It seeks to achieve and maintain a careful balance between public and private sector interests, between the bottom-line and the bottom of the pyramid.

To do this, M4P programmes work closely with market players to understand market dynamics and test whether or not necessary behaviour changes can endure (see Adopt, Adapt below). At other times, M4P programmes work with a diversity of players to encourage behaviour and practice changes to deepen and broaden the market system responses and improve the functioning of support systems (see Expand, Respond below).

None the less, evidence from the field about how to apply the market facilitation approach in practice remains fairly limited and is often poorly documented. Despite some good examples,[1] there is a general dearth of material that captures which interventions work, which do not, and why. Accordingly, there remain important unanswered questions, such as: How to balance pressure for short-term results with slow-burn market development activities? What does effective communication and measurement look like, and what can it achieve? What attributes do successful market facilitators possess? How does crowding in and replication take place in practice? How and when do market facilitators look to exit? How is it best to select, engage and work with partners? What to measure, when and why?

This case study process emerged as a response to this challenge - a desire to learn more about the art of market facilitation in the field. In June 2015, FSD Africa commissioned the Springfield Centre to produce: a) one comprehensive case study of FSD Kenya – a financial market facilitation agency in Nairobi, Kenya; and b) six mini-case studies of financial market facilitation interventions from the wider FSD Network, by the FinMark Trust, FSD Kenya, FSD Tanzania and FSD Zambia.

This particular case study looks at FSD Tanzania's (FSDT) initiative to establish an effective alternative investment channel of the Dar es Salaam Stock Exchange for micro, small and medium enterprises (MSME), the Enterprise Growth Market (EGM). The EGM aims to supply long-term equity capital for growth oriented SMEs in various areas such as agribusiness, agro processing, mining, tourism, manufacturing, banking and financial services.

Taken together, we hope that these case studies contribute useful learning to the theorists and practitioners that work in the field of 'making markets work for the poor', and beyond. For FSD Africa, the case study material will be put to immediate use in the FSD Academy M4P course – a five-day training programme for staff from the FSD Network and beyond. We warmly invite others to use and share them as appropriate.

Throughout, this process has benefitted greatly from input by FSD Network staff, as well as colleagues at CGAP – Barbara Scola and Matthew Soursourian, and at DCED – Jim Tanburn. We're also extremely grateful to the case study authors – Alan Gibson, David Elliott and Diane Johnson of the Springfield Centre. The views included in the case studies are their own.

We hope that you find them engaging and informative, and that they refine and strengthen our ongoing effort to reduce poverty by making markets work for the poor.

Joe Huxley
Co-ordinator, Strategic Partnerships & Opportunities
FSD Africa

1. The Operational Guide for the Making Markets for the Poor Approach, 2014. SDC, DFID, Springfield Centre

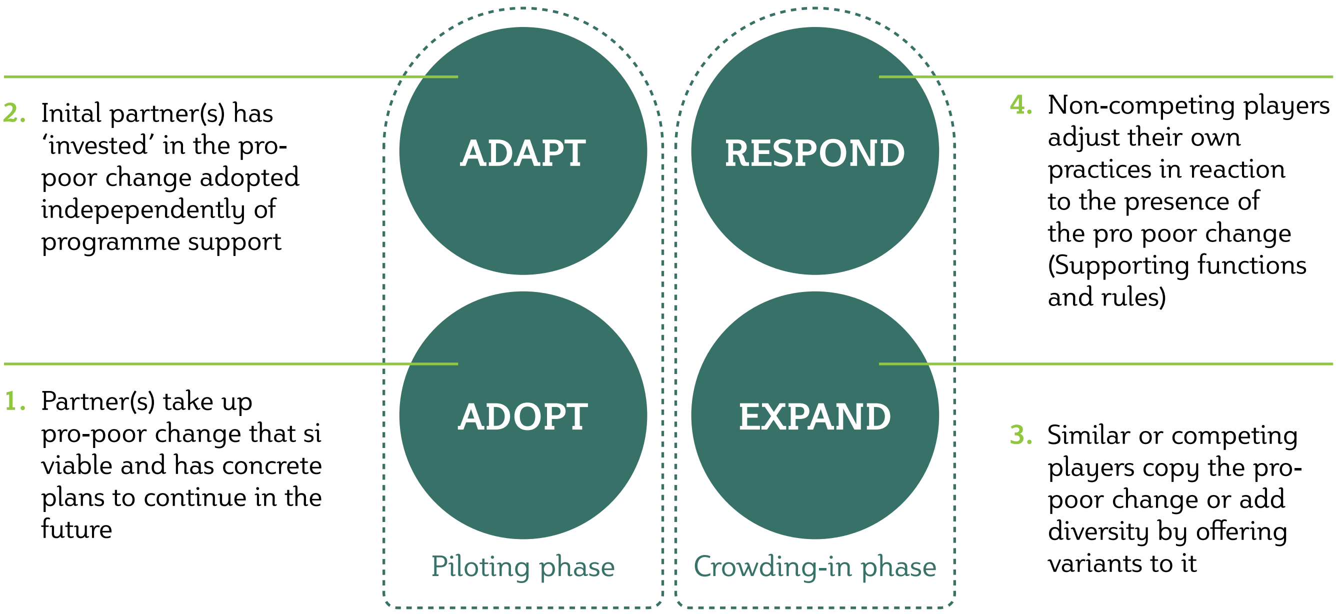
AAER – The Systemic Change Framework

The AAER framework aims to codify the process of systemic change. It helps us to recognise market system evolution and the role of development actors, such as FSDs, within it.

To ensure coherence and the emergence of common facilitation lessons across the six mini-cases studies, the AAER Systemic Change Framework is used as the main organising structure.

However, it can only be a guide. Market system change is messy – hard to instigate, detect and attribute to specific actors. Though we attempt to use the framework as an organising the narrative, there are a number of exceptions.

AAER: Systemic change framework



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1. Introduction

This section outlines FSD Tanzania's (FSDT) initiative to establish an effective alternative investment channel of the Dar es Salaam Stock Exchange for micro, small and medium enterprises (MSME), the Enterprise Growth Market (EGM). It will describe: what it is and why it is important to financial inclusion and economic growth in Tanzania.

Tanzania's annual growth rate has averaged 6.7% since 2006, one of the best in sub-Saharan Africa[3]. Poverty has been responsive to growth where poverty declined from 34.4 in 2007 to 28.2% in 2012 in mainland Tanzania and extreme poverty declined from 17.7% to 9.7%. Given rapid population growth, the absolute number of poor people has actually decreased. It is estimated that 28.2% of Tanzania's population of 51 million people live below the poverty line.[4]

Tanzania has made significant strides to improve financial inclusion. Between 2009 and 2013, the numbers of financially excluded adults halved from 55.4% to 26.8.[3] However, MSMEs' inability to access finance is one of the most frequently cited constraints to growth. In 2010, only 10% of the 3.1 million MSMEs in Tanzania had access to banking financial services.[5] The importance of MSMEs to economic growth and competitiveness, employment and poverty reduction is widely recognised. MSMEs employ 5.2 million people in leading sectors such as trade, accommodation and food services and manufacturing; provide 71% of household income and contribute 27% to Gross Domestic Product in Tanzania.[6]

"MSMEs' inability to access finance is one of the most frequently cited constraints to growth"

Key sources of capital for MSMEs are household savings, MFI or bank loans, money lenders, suppliers or savings groups. In addition businesses can raise longer term investment capital for growth by issuing securities - shares (stocks) and corporate bonds, which can be bought and sold on a stock exchange. In Tanzania, the establishment of the Capital Markets and Securities Authority (CMSA), in 1995, followed comprehensive financial sector reforms in the early 1990s that were aimed at developing capital markets in Tanzania. The CSMA acts as the regulator and supervisor of the Dar es Salaam Stock Exchange (DSE).

The DSE was created in 1998 as the first initiative of the Capital Markets and Securities Act. Its mission is *'to provide a responsive securities market which mobilises savings and channels them into productive sectors, encouraging a savings culture that contributes to the country's economic growth and facilitates wider access to resources'*.[7] In its first 15 years, the DSE listed only 12 companies for equity and 6 for bond trading; while 6 were cross-listed on other countries' stock exchanges and 8 treasury bonds were issued. Of these issues, none included MSMEs.

In 2006, the CMSA conducted an extensive study to determine the most appropriate stock market structure for Tanzania.[8] The study found that: (a) there was a low level of awareness about capital market institutions and transactions; (b) the existing listing conditions were too complicated for small, but growing enterprises; and (c) a majority of companies surveyed would be willing to list on the DSE if conditions were relaxed.

CMSA's study also indicated that firms would be interested to list on an alternative market segment of the DSE. Of the 300 surveyed, 20.8% of firms stated that they would either immediately opt to list on an alternative market segment, while 47.9% would consider the option if they met the listing requirements. On the investor side, 81.3% of existing shareholders of listed companies surveyed were positive about listings on an alternative market segment (81.3%) and potential individual investors overwhelmingly (86%) supported the idea of establishing an alternative market segment.

In 2014, FSDT's Financial Capability Baseline found that 59% of Tanzanian adults had heard of and

2. BBC Profile of Tanzania; bbc.com
3. World Bank Tanzania profile, 2011-2014 figures
4. FinScope Tanzania 2013 Survey
5. ibid
6. MSME Baseline Survey; FSDT and the Ministry of Industry and Trade; 2010
7. FSDT: Project Appraisal Review; DSE Grant, 23 Aug, 2012

A metal workshop: MSMEs employ 5.2 million people in leading sectors in the economy such as trade, manufacturing / © FSD Tanzania

understood stocks and bonds, while 24% had heard of them but did not know what they were. Although the DSE had grown from 33,500 investors in 1998 to nearly 200,000 by 2013, this represented less than 1% of the Tanzanian adult population.[9]

In April 2010, the CMSA amended regulations to better cater for small, medium and those 'well-researched' start-up businesses i.e. those with a convincing business plan that could not meet the listing criteria of the main DSE market. Specifically, DSE trading rules were altered to allow the listing and trading of Enterprise Growth Market securities on the exchange. A comparison of the listing qualifications for the DSE and the EGM segment is provided in Annex A.

'The EGM aimed to supply long-term equity capital for growth oriented SMEs in various areas such as agri-business, agro-processing, mining, tourism, manufacturing, banking and financial services. *The resulting process should not only cater for the access to finance challenge but also: Improve corporate governance. If we could institute a strong disclosure regime and train nominated advisors to incubate these companies, then the resulting framework would enable investors to make investment decisions and consider their investment as safe.*[10]

Although these changes established a more enabling legal framework for financing MSMEs via the EGM, the capacity of the regulator and supervisor, CMSA and the DSE to develop, operate and oversee this additional market segment was relatively low. At the same time, awareness of this alternative capital generating source for and investment class amongst MSMEs and potential investors was low. A regulatory structure was in place, but it was not operating efficiently - firms were not listing.

FSDT sought to catalyse investment finance in MSMEs through the DSE's EGM. Providing approximately USD1,360,000 to CMSA and DSE in 2011, FSDT supported the operationalisation of the EGM and stimulated take up by firms and investors. This work included public awareness campaigns, providing technical support to MSMEs and nominated advisers and building the regulator's ability to supervise the EGM segment.

In the two years since the launch of the EGM segment, five companies have been listed: (1) Maendeleo Commercial Bank; (2) Swala Oil & Gas; (3) Mkombozi Commercial Bank; (4) Mwalimu Commercial Bank and (5) Yetu Microfinance Bank. An initial public offering (IPO) have also been concluded for Mufindi Community

8. A Study on Feasibility and Implementation of the Appropriate Market Segments for the Capital Markets in Tanzania; Capital Markets and Securities Authority; 2006
9. CMSA's 2006 study found that 62.8% of individual investors were professionals, 17.1% were business people and the balance were politicians, retirees and housewives. This indicates that the poor were not using the investment channel as a means to channel their savings.

Bank. Profiles of the three companies interviewed for this case study are provided below: Total funds raised through the EGM is about TZS 46 billion raised from a total of 242,518 investors, an increase of over 100% of shareholders. It is possible that some of the investors have invested in more than one EGM companies.

– **Maendeleo Bank** is linked to the Lutheran Church and was established in 2013. Its motto is 'giving back to our society' and it targets people of all income levels. The church wanted to mobilise capital for a formally-registered bank that could provide lower-end financial services. Church members were unable to mobilise sufficient capital to meet the central bank's capital requirements, consequently Maendeleo Bank was listed on the EGM and raised capital through an IPO. The bank has one branch in the capital, serving over 10,000 clients, and it plans to open two new branches, to be financed through a new public offering in the near future.

– **Mkombozi Bank** was established in 2009 as an initiative of the Tanzania Episcopal Conference, with the objective of providing financial services to emerging businesses. It was unable to raise sufficient funds from members to meet revised central bank capital requirements. Consequently, it undertook an IPO through the EGM in 2014. Mkombozi currently has 13,000 shareholders, 56% of which are church members. With two new branches opening soon, it will have six branches, including in rural areas. Mkombozi provides loans to groups of up to fifty people, with a starting limit of approximately USD90. Loans are combined with financial literacy training and require 30% mandatory savings of the total amount of the loan borrowed. Mkombozi also provides financial services to SACCOS and social enterprises such as schools and universities, and is considering offering microinsurance.

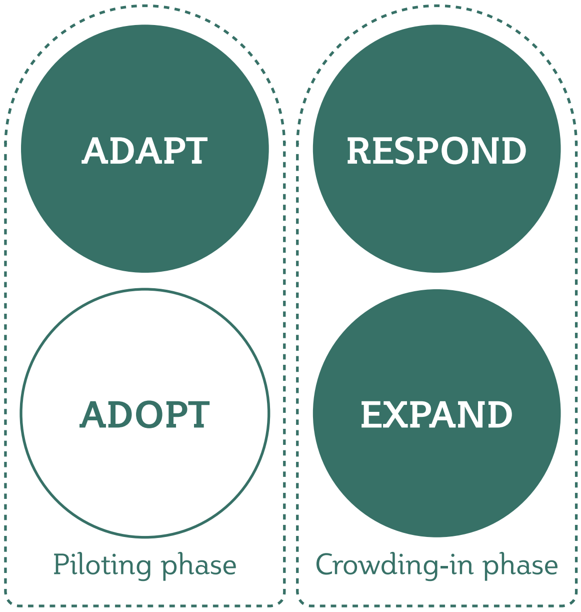
– **Mwalimu Commercial Bank** is represented by the Tanzania Teachers' Union (TTU), an umbrella trade union of all teachers in Tanzania, and the Teachers Development Company Limited. The bank will have professional staff and will be owned by its shareholders, including all members of the TTU, as well as new investors. Its mission is to 'improve, advocate for, protect the welfare of teachers both social and economic welfare; this includes the functioning of, and protecting the status and dignity of the teaching career and making sure that quality education is accessible to every Tanzanian child and adult'. The TTU is present in all regions of Tanzania; most of its 200,000 members live in rural areas where banking services are limited. Initial funds for the bank were collected from teachers' monthly membership fees. The TTU will give approximately USD22.40 to each teacher, paid out of members' contributions, to enable them to become founder shareholders and receive dividends. Mwalimu listed late November 2015 and has changed the landscape of capital markets in Tanzania by adding 235,000 new subscribers. The EGM in November 2015, potentially doubling the number of investors in the DSE.

"Total funds raised through the EGM is about TZS 46 billion raised from a total of 242,518 investors. shareholders."

2. Enterprise Growth Market – unpacking the extent of market system change

2.1. Adopt – has the initial pro-poor innovation been taken up and is it viable?

As a result of development intervention, a market player(s) has successfully adopted a behaviour or practice change to the ultimate benefit of the poor, has recognised the value of continuing with these changes, and has accordingly made plans to invest in upholding these changes and covering any associated recurrent costs.



The CMSA laid the foundation for the growth of the EGM by altering the qualifications for listing and easing of some of the restrictions for potential investors. For the EGM to be effective, however, more than a permissive regulatory framework was required. It would need on-going active promotion and technical assistance to ensure that firms and investors are adequately informed about the EGM and firms have the skills and capacities to list. FSDT's support therefore focused on these areas, working in two-grant financed partnerships with CMSA and DSE, to:

– Raise the awareness of potential investors and MSMEs about the new market segment,
– Impart knowledge to NOMADs about the new market segment operations, and
– Prepare initial candidate firms for listing on the EGM through assistance with meeting listing criteria and administrative support.

To do this, FSDT also provided support to build the capacity of CMSA and DSE to perform their core roles more effectively. This focussed on the CMSA's ability to supervise and DSE's ability to run the EGM segment.

The FSDT grant to CMSA: *'Building Regulatory and Market Capacity'* totalled USD821,500 was matched by a USD 200,000 in-kind contribution in the form of dedicated staff time, computer and office facilities. The grant was initially intended to be for 12 months (January-December 2012) but was extended several times to permit project completion. It has recently been extended to 2018 to monitor EGM progress and performance of a revolving fund, one component in this bigger funding.

The purpose of the grant was to: *'orient the regulator's practical skills and experience in developing and supervising the EGM segment'*. The specific goals as listed in the grant documents included:

– Building regulatory oversight capability,
– Establishing technical oversight capability through business advisors including certified NOMADs,
– Increasing policy makers' and the public's knowledge and understanding of capital markets,
– Mobilising and empowering SMEs and well-researched start-ups to list, and
– Fostering confidence in the new market segment

Support took a variety of forms, including study visits to established markets with segments for smaller companies in the UK, Malaysia and South Africa; capacity building of business advisors including training for NOMAD certification; and public awareness campaigns and events to launch the EGM.[11]

The grant to DSE: *'Capacity Building and Public Awareness Campaign'* totalled USD548,455 was matched by a USD70,000 in-kind contribution from DSE, in the form of dedicated staff time. The grant was initially intended to be for 12 months (January 2012-January 2013), but was extended to December 2014 to permit project completion. The purpose of the grant was to: *'kick off the operations of the EGM segment'*. Its own specific goals included:

– Building DSE capability to run the EGM segment,
– Acquiring technical knowledge to identify, sponsor and nurture SMEs (through trained NOMADs and other business advisers),
– Increasing the public's knowledge and understanding about capital markets,

10. EGM Stakeholders Forum Proceedings; February 2016

- Mobilising and empowering SMEs and well-researched start-ups to list, and
- Fostering confidence in the new market segment.
- Support took a variety of forms, including two-day training programmes for MSMEs across the country, a one-day event with the goal to prepare potential MSMEs to list on the DSE; three-day training programmes for NOMADs; and promotional programmes on TV and radio.[12]

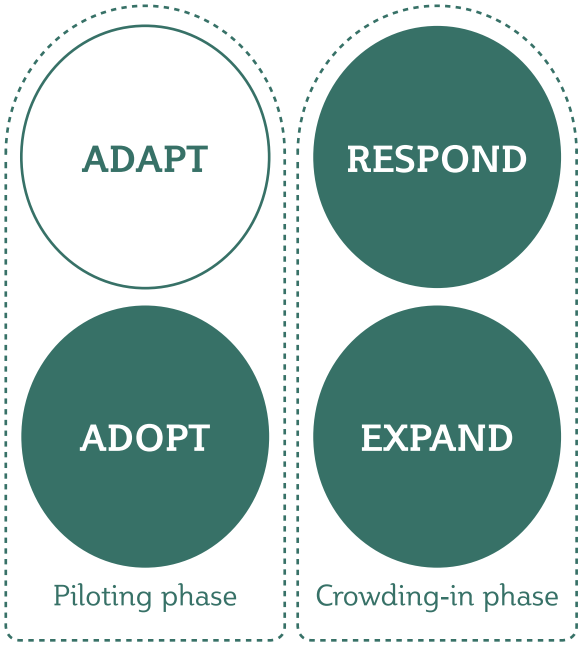
As a result of the two strands of support the following progress has been achieved:[13]

- **Technical oversight:** CMSA reports there are currently six service providers registered as NOMADS. A service provider must have at least one officer with NOMAD certification to qualify.
- **Knowledge, understanding and capability of CMSA and DSE:** The CMSA and DSE report having a higher level of knowledge and understanding of the EGM segment.
- **Knowledge and understanding of capital markets by the public:** The three listings that followed the awareness-raising campaigns were oversubscribed. This may indicate that public awareness had increased although specific measurement plans were not in place to determine a change in knowledge and understanding.
- **Mobilisation and empowerment of firms:** Training materials have been translated into Swahili. Country-wide MSME training programmes were followed up by one-on-one engagement between firms hoping to list and the DSE. The DSE conducted awareness-raising seminars with the Community Banks Association and the Tanzania Association of Microfinance Institutions.

"The CMSA and DSE report having a higher level of knowledge and understanding of the EGM segment."

2.2. Adapt – has the market partner continued the innovation without further aid-funded support?

> The market player(s) that adopted the behaviour or practice changes with the support of the development intervention has made qualitative and/or quantitative investments that allow them to continue with or augment changed practices, without further programme support. These actions, independent of the programme, constitute an 'acid test' for whether pro-poor outcomes will sustain at any level.



FSDT recently extended the CMSA contractual arrangement to 2018 to set up a revolving fund, to assist small firms and start-ups pay for the services of a NOMAD to develop a prospectus and increase their chances of listing on the EGM. The revolving fund; pegged at US$200,000 is meant to support in the transition potential start up/medium sized companies that will have difficulties in raising initial listing costs. It is given as a short-term concessional loan payable after the IPO; following thorough assessment by CMSA and endorsed by FSDT. Recognising that the skills-building of NOMADS to engage with the EGM is not a one-off activity, CMSA will also receive FSDT support to set up a sustainable source of training in the future, to be determined.

The DSE has agreed to set aside funds from its revenue streams i.e. listing, transactions, membership,

11. FSDT CSMA Project Appraisal Review
12. DT DSE Project Appraisal Review
13. These are combined between the two grants as there is significant overlap

and Central Securities Depository fees, as well as a government budget allocation, to conduct training and awareness-raising in the future. The DSE in collaboration with Maxicom Africa Limited[13] introduced a mobile platform which allowed virtual investment i.e. no physical presence required, with the goal of increasing retail investor participation. Experience with the platform showed that it also increased the ability of companies to find advisers, an unexpected but welcome benefit. More exciting innovations are proving possible including an introduction of an e-broker. This will make the existing brokers more active as competition is introduced.

Tanzania has conducted a 'Top 100' Businesses' listing organised by KPMG, which has been co-sponsored the last three years by the DSE with some financial support from FSDT. The purpose of the listing is to stimulate MSMEs to compete on business plans for growth. The DSE saw the potential of the listing to provide a database for prospective firms. To date, more than 400 firms have been surveyed as part of this Top 100 listing.

All stakeholders in the EGM have stated that MSMEs and 'well-researched start-ups' are worthy of, and able to handle, increased investment, so long as they receive additional technical assistance. The CMSA and DSE have shown support for the EGM by changing regulations and practices. Members of both agencies report that *'we have more capacity and increased confidence to supervise and run the EGM. But its' a nascent market and we will continue to need technical and financial support'.*

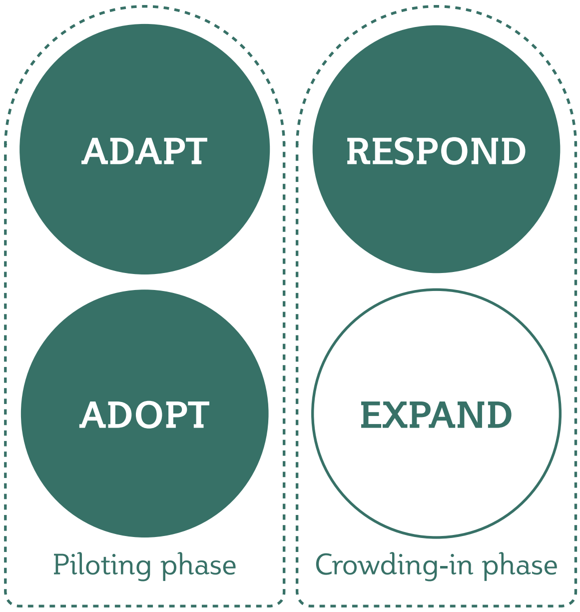
FSDT and their partners recognise that the EGM needs further nurturing to achieve its intended objectives and impact. An EGM Stakeholders Forum took place in February 2016 to review the experience to date. Challenges identified include;

- Low liquidity – secondary markets are few resulting in low capital gain (static back to IPO price), no dividend which dis-incentivizes new entrants
- Lack of future placements for already listed companies
- Lack of participants in core sectors– Agricultural, Mining, Real Estate, Transport, Tourism
- MSMEs have limited managerial skills for transforming the companies into properly governed companies that can be listed at the EGM.
- Capacity of the currently licensed nominated advisors of transform/incubate these companies is also limited.

The Forum noted a need to; a) segment EGMs for regulatory oversight; b) harmonize regulations between Bank of Tanzania and CSMA; c) revisit fee structures and d) revise Know Your Customer regulations.

2.3. Expand – has the innovation spread across the system?

A number of market players similar to those that pioneered the pro-poor behaviour or practice changes have adopted comparable changes either pure copies or variants on the original innovation – that are upheld without programme support



Whilst there has been limited expansion to date, the establishment of the EGM has demonstrated that the stock exchange can provide an investment finance channel that's relevant to medium-sized companies that do not meet the requirements to list on the main market segment;The potential for growth remains huge due to the large number of MSMEs in Tanzania but will rely on ongoing information dissemination, awareness raising and support to firms, in order to increase both the number and type of companies listing, and attract more investors.

Potential areas of growth include:

- **Smaller companies and start-ups**: The purpose of the EGM is to also serve small companies and start-ups but this has not happened yet. These types of firms need assistance if they are to list. The revolving fund recently put in place with CMSA is intended to help smaller companies and start-ups meet the costs of engaging NOMADs. Funds are given as loans with no interest to be repaid to the revolving fund after listing. The EGM Forum established the need to nurture real sector star-up enterprises linking them with Angel, Venture Capital and Private Equity Investors as well as linking the existing government supported

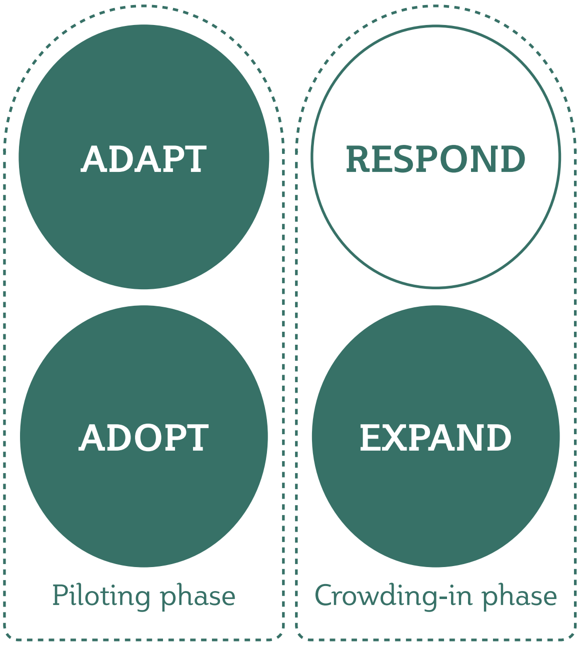
The EGM aims to supply long-term equity capital for growth oriented SMEs in areas such as agri-business and agro-processing / © FSD Tanzania

Innovation Hub – Commission for Science and Technology (COSTECH-DTBi) with the EGM segment.

- **Companies based outside the capital:** All firm listed to date have been based in the capital, although several of the banks have district branches. The country-wide awareness-raising campaign targeted businesses outside the capital, but the DSE realised that one-on-one engagements were needed to follow up on basic awareness-raising. The DSE also intends to use awareness-raising campaigns to make it easier for firms to access the services of NOMADs. Currently all NOMADs are based in the capital although several of those interviewed stated they are seeking potential clients outside the capital.
- **Economic growth:** Overall growth in the economy is expected to lead to a rise in the number of companies listing on the EGM. The CMSA anticipates growth in the gas and oil sector and in the telecommunications sector in response to reforms. The Tanzanian Mercantile Exchange, a commodities exchange, was launched in November 2015 and is being hosted at the CSMA. Would enable firms in the commodities sector to list on the EGM.
- **Parastatals:** The CMSA and the Ministry of Finance are discussing proposals to divest 30 parastatals through the stock exchange, some of which may qualify for the EGM.
- **Pension fund reform:** Recent reforms allow pensions funds to invest up to 40% of their funds into equities and 25% into fixed income securities, which is expected to drive some investment in the EGM.
- **Investor growth:** It is expected that institutional investors, i.e. banks, pension funds and government, will continue to grow. The government is setting up a sovereign wealth fund based on the mining sector which could be an additional channel of investment in the EGM. The Dar es Salaam City Council is expected to issue municipal bonds to raise finance for building infrastructure. It is unclear how much growth is likely to come from individual investors, particularly those from lower income groups.
- **Technology platforms:** New technologies can accelerate awareness-raising and facilitate investment. A good example is the DSE Scholar Investment Challenge, a promotional/awareness raising campaign by DSE to public and private university students. DSE staff meet with university students face to face, run training on capital markets and the EGM segment. Those who show interest are given virtue capital of up to TSh 1M to invest in shares, bonds or saving accounts through the Mobile Phone Platform. Students are able to access live DSE trade data and supported by a virtue broker. The platform has an avenue for interactions where investing students are able to post

reasons for every transactions they have done. The programme covers between 2000 to 5000 students

The emergence and continued presence of the pro-poor changes have incited market players in supporting systems to react to the new market reality by re-organising, assuming new/improved roles, developing their own offers, or moving to take advantage of any opportunities that have been created. The response enables pro-poor behaviour/practice changes to develop further, or evolve, and indicates a new capability within the system, suggesting that it can and wants to support pro-poor solutions to emerge and grow.



and has run for three years running. Winners are given cash prizes including internships /attachments with DSE/CMSA, brokers and listed companies.

2.4. Respond – has the innovation stimulated wider changes within the system?

The regulator and supervisor, CMSA, has been very supportive of the EGM. Rules and regulations governing the establishment of the EGM were passed prior to, and were a pre-requisite for, FSDT's intervention. Reforms are now underway at the Ministry of Finance's Treasury Registrar, which acts as the custodian of government interests in companies in Tanzania. There appears to be some regulatory duplication or conflict between the CMSA and the Central Bank (under the Ministry of Finance) over firms listed under the EGM that needs to be resolved and the Forum recently resolved to address this challenge.

As discussed above, the activities hitherto funded by grants by FSDT are not one-off activities but constitute on-going supporting functions essential to the future of the EGM:

- **Public awareness.** The DSE regards raising public awareness about the EGM as a continuous process and has plans to set aside funds from their revenues to create and broadcast information programmes in the media and conduct outreach campaigns.
- **Financial literacy:** There is a huge need to increase financial literacy in Tanzania. Public awareness campaigns for the EGM cannot in and of themselves address financial literacy. In 2014, FSDT funded the 'Financial Capabilities Survey' which is currently being disseminated. FSDT supports the National Financial Education Framework for Tanzania launched in February 2016, and sees potential for public-private partnerships to increase financial literacy.
- **SME capacity development:** Building the capability of firms interested in and capable of listing is critical to expanding the EGM. Firms need to be able to prepare business plans and projections, understand the potential and risks of 'going public', and be able to engage professionally with their business advisors. At present, there is not a clear strategy for how SME capacity development will be provided and – in particular – paid for in the absence of FSDT. NOMADs are clearly expected to be a significant part of this, as are the DSE's one-on-one engagements with firms intending to list, but both these roles need to be financed on a recurrent basis, in some way. Incubation and graduation platforms to listing are being considered.
- **NOMAD capacity building and certification:** Nominated advisors are mandatory for firms wishing to list on the EGM, and they obviously play a role in building the capability of these MSMEs. NOMADs and other business advisers require skills-building and must undergo a securities industry certification process, conducted by the CMSA. NOMADs report that continuous education is needed to meet these certification requirements, which are annual and paid for by NOMADs.

3. FSDT: Strategy and Approach

As a market facilitation (M4P) programme, this section considers the extent to which FSDT's strategy and approach governing support to the EGM was consistent with basic good practice M4P principles, as codified in the *"The Operational Guide for the Making Markets Work for the Poor (M4P) Approach"* (August 2015).

3.1. Strategy

A multi-donor trust established in 2004, FSDT's mission is: *"to generate sustainable improvements in the livelihoods of the poor via reduced vulnerability to shocks, increased incomes and employment."* More specifically, FSDT has a stated goal of: *"a deeper financial system providing greater access to financial services for more people and businesses"* and a purpose of 'improved capacity of Tanzania's financial sector to meet the needs of MSMEs and poor rural and urban people and to contribute to economic growth".[14]

The EGM intervention fell under the SME development theme area, introduced in 2007 and staffed in 2010. The goal of FSDT's engagement was: *'outreach to the majority of Tanzanians to tap their savings and provide more funds to the productive sectors for growth. Increased access to equity capital by SMEs and start-up companies and expansion of the main market means more incomes for the businesses which in turn means more employment to the people and more taxes to the government.'*[15]

While FSDT has not articulated a results chain incorporating systemic change for the EGM, there is a plausible pathway connecting support to the EGM to the SME theme are and the broader goal of FSDT.

3.2. Diagnosis

The FSDT SME team conducted a MSME Baseline Survey of 2010, which found that: *"There are demand-side barriers such as lack of viable businesses and financial management skills, lack of collateral, absent or patchy record-keeping and a poor repayment culture among business owners. Supply-side barriers include a small number of banks with the interest or capability of serving MSMEs and a low level of innovation leading to a very limited range of appropriate products for financing MSMEs"*.[16] The team determined that an alternative investment channel was a viable option for financing MSMEs. FSDT drew heavily upon CSMA's 2006 study, which extensively examined the current and potential future of the stock market in Tanzania to shape their EGM interventions.

"FSD Tanzania has obtained some in-kind cost-share from partners"

3.3. Vision

While FSDT has project plans and a sense of overall direction for the EGM, it has yet to determine who might perform and pay for key market functions which have to date been supported directly by FSDT, i.e. awareness-raising, SME and NOMAD FSDT would benefit from scrutinising feasible options for the sustainability of these functions.

3.4. Intervention

The CMSA and the DSE were appropriate partners for the FSDT's interventions. As the stock market regulator/supervisor and operator respectively, the EGM segment could not have been operationalised without their engagement and commitment. FSDT provided some support on technical issues related to SME finance, but the technical knowledge about stock market functioning sat with CMSA and DSE, as it should. FSDT helped build their knowledge about the EGM segment through exposure visits and literature related to other similar markets.

Other partnerships such as the companies registered as NOMADs were selected by CMSA based on qualification through mandatory securities industry certification exams, their company profiles, interest and ability to engage with the EGM.

FSDT has obtained some in-kind cost-share from partners, but the bulk of activity costs have been grant-funded. This was deemed necessary to catalyse a nascent market, but does present sustainability challenges going

14. Maxicom Africa was established by a former employee of Vodacom and has received some government support via the Innovation Hub under the Commission of Science and Technology.
15. FSDT Strategic Plan 'Our Work 2005-2012' and FSDT SME Strategy Brief
16. FSDT SME Strategy Brief

Overall growth in the economy is expected to lead to a rise in the number of companies listing on the EGM/ © FSD Tanzania

forward. FSDT intends to ensure that CMSA and DSE have funds available to regulate, supervise and grow the operations of the EGM without further external funding.

3.5. Measurement

At the time of writing, no results chains have been articulated for the EGM interventions, making it difficult to assign targets and create a measurement plan, to assess and attribute progress towards systemic change and contribution to growth and poverty reduction, as well as reducing the ability to learn from an evidence-base.

Output indicators for the two grants were monitored quarterly via submission of reports from partners. The SME team also had regular engagement with partners and attended many of the intervention activities. Reliance on partners' internal quarterly reports is appropriate in terms of obtaining information on the listed companies and internal processes of the CMSA and DSE. However, it misses the opportunity to gain insights from the listed and potential companies, NOMADs, investors and the public.

Listed companies are mandated by law to disclose information publicly. This could provide some insights into investor profiles and those of employees and customers. FSDT believed it was necessary to establish working relationships prior to intensive data gathering, and that the regulator would be able to get sensitive information more effectively than FSDT themselves.

4. FSDT: Summary Facilitation Lessons

There are several salient lessons from FSDT's experience:

Technical understanding to add value and establish credibility: The FSDT SME team's knowledge and experience in SME financing allowed it to offer new analysis and distinctive insights to its partners, and demonstrated competence which gave them credibility with both CSMA and DSE. Conversely, the team relied on the analysis of its partners where this was closer to their core competence, i.e. regulating and operating a stock exchange.

Effective communication and joint decision-making to build trust: The partnerships between FSDT, CMSA and DSE were defined by mutually-compatible goals and a consensual way of working. FSDT communicated openly with its partners, and established a high level of trust with them. This has been crucial to effective working relationships. However, measurement and documentation could be improved, to more clearly frame objectives, assess progress and generate learning across the two partnerships, and externally.

Iterative approach in a risky market: FSDT, CMSA and DSE recognised that the EGM was essentially a new 'industry' in Tanzania. Pioneering an innovation has required an iterative and flexible approach.

Co-invest to engender ownership: Counterpart contribution is a vital test of commitment and a way of engendering ownership in the long term. Gauging the right level of contribution is a challenge, however. In a nascent industry, it can be argued that grant subsidy needs to be relatively high in the initial years, and then reduce over time, as the business case is proven and stakeholders' confidence and willingness to invest rises. However, if the relative level of subsidy is too high, or goes on for too long, it can have the opposite effect: it displaces stakeholders' willingness to invest and undermines the sustainability of key market functions.

"Counterpart contribution is a vital test of commitment and a way of engendering ownership in the long term"

About FSD Africa

FSD Africa is a non-profit company funded by the UK Government which aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in SSA and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households.

Through access to finance initiatives, it seeks to build financial inclusion. Through capital market development, it looks to promote economic growth and increase investment. As a regional programme, it seeks to encourage collaboration, knowledge transfer and market-building activities – especially in fragile states.

Where there are opportunities to drive financial market transformation more quickly and intensively through capital investment, FSD Africa will deploy equity, loans or guarantees as the situation requires.

FSD Network

The FSD Network is an alliance of organisations or 'FSDs' that reduce poverty through financial sector development in sub-Saharan Africa.

Today, the FSD Network:

- Comprises two regional FSDs in South Africa (est. 2002) and Kenya (est. 2013) and eight national FSDs in Kenya (est. 2005), Mozambique (est. 2014), Nigeria (est. 2007), Rwanda (est. 2010), Tanzania (est. 2005), Uganda (est. 2014) and Zambia (est. 2013).
- Is a leading proponent of the 'making markets work for the poor' approach.
- Specialises in a number of themes from agriculture finance and savings groups to payments, SME finance and capital market development.
- Represents a collective investment of $450+ million by DFID; Bill & Melinda Gates Foundation; SIDA; DANIDA; Foreign Affairs, KfW Development Bank; the MasterCard Foundation; RNE (Netherlands); Trade and Development Canada; and the World Bank.
- Spends $55+ million per year, predominantly through grant instruments
- Employs over 130 full time members of staff and a used wide range of consultants

Financial Sector Deepening Africa (FSDA), which is funded by the U.K. Department for International Development (DFID), commissioned the Springfield Centre to produce a series of case studies on financial market facilitation interventions from the FSD Network. This case study looks at FSD Tanzania's (FSDT) initiative to establish an effective alternative investment channel of the Dar es Salaam Stock Exchange for Micro, Small and Medium Enterprises (MSME), the Enterprise Growth Market (EGM).

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