

## Savings at the Frontier (SatF)

*A Mastercard Foundation partnership with Oxford Policy Management*

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### **Blog 7: Bridging the gap between formal and informal savings in Tanzania**

*By Steve Peachey*

**Across Africa, millions of people use and trust savings groups and other informal savings mechanisms (ISMs). They provide financial services that formal financial services providers (FSPs) often can't. Savings at the Frontier (SatF) is a multi-year partnership between Mastercard Foundation and Oxford Policy Management to help FSPs find ways to link with ISMs, benefitting both service providers and savings group members.**

**In this blog, Steve Peachey of Oxford Policy Management explains why SatF took a slightly different approach in Tanzania compared with that taken in Ghana. The aim was the same: demonstrate to financial service providers the potential value of linking to ISMs, but in a country where mobile money reaches more people than do formal financial institutions.**

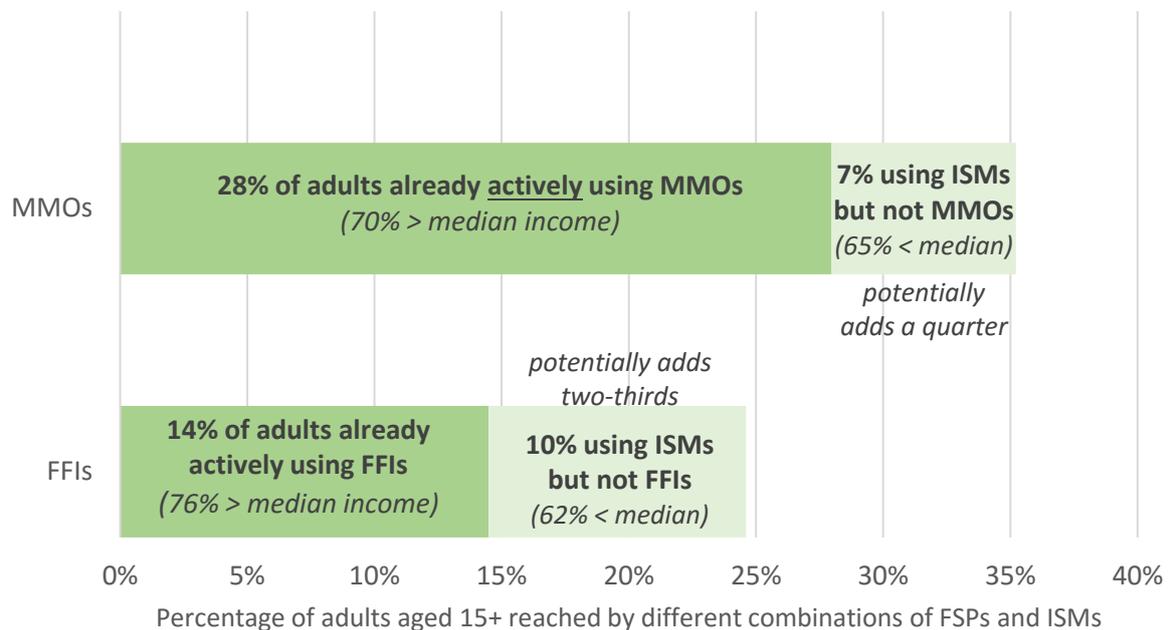
The SatF team first visited Tanzania in July 2016. Based on 2014 World Bank: Global Financial Inclusion ([Findex](#)) data, we estimated that up to 40 per cent of Tanzanians had a relationship with some sort of formal FSP, either through an account at a formal financial institution (FFI) and/ or some sort of wallet with a mobile network operator (MNO).

In Tanzania, including people using mobile money in their own name at least doubles overall formal FSP reach. If one also adds in indirect access (i.e., people who are using someone else's mobile wallet) more than half the adult population is reached by some sort of formal FSP.

We used the same data model as in Ghana to estimate the potential extra customer base that linking to ISMs might bring to FSPs. However, given the relatively higher usage of mobile money in Tanzania compared to Ghana, we decided to address FFIs separately from MNOs and only looked at active users of each:

- The potential addition to existing active FFI customer bases (60-70 per cent) represented by ISM users with no active FFI account is proportionately much larger than the potential addition to the active mobile money user base from a similar move (only 25 per cent); but
- For both types of FSPs, particularly FFIs, reaching active ISM users that do not otherwise actively use FSPs would represent a distinct move downmarket.

This mapping enabled us to highlight to the FFIs in Tanzania some of the gaps that they would need to consider if they wanted to link with ISMs. Linking can offer a significant potential extension of active users of finance but it will mean dealing with lower-income consumers than those FFIs currently serve.



Our analysis highlighted that affordability is likely to be an issue. However, when surplus ISM float money is deposited with FFIs, the interest earned or saved by the FFI when it uses that money may be sufficient to justify the concessions on transactions pricing needed to make user-to-ISM and ISM-to-user transfers competitive with the purely cash-in/out model most ISMs use.

SatF funding can help with some of the capacity gaps that might be involved in dealing with higher frequency and lower average value transactions than FFIs historically handle. Proximity will also be an issue. FFIs often have largely urban/peri-urban network footprints (even where they have agent networks) but ISMs are much more accessible to those in remote rural villages.

Reflecting on the issues of affordability and proximity, we know that creating linkage that gets used will be a challenge but we believe it can be done. We are, therefore, supporting three banks to turn interesting concepts involving configuring mobile banking to meet the specific needs of ISMs into evidence-based plans for full projects for SatF to support.

SatF also received three potentially interesting concepts from two MNOs and an aggregator in Tanzania. These are still being considered. Data indicates that mobile money is reaching more low-income Tanzanians than FFIs currently serve. This suggests that the affordability gap is less of an issue and mobile money also closes more of the proximity gap than FFIs appear able to do working alone. This does not mean, however, that [mobile money](#) is the magic bullet needed to make rural linkage work.

As shown in the chart above, ISM users not currently using mobile money are a relatively small potential extension of the existing active mobile money user-base. This makes it harder to find pricing strategies that potentially work for the very specific needs of ISM users without disrupting the pricing that already works for the much larger established business of major providers. Again, however, this may be possible with a bit of help from SatF.

**Read Stephen's first entry in this blog series: "Look Before You Link: The Value for Banks in Working with Savings Groups", and the second entry: "Bridging the Gap Between Formal and Informal Savings in Ghana."**

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*Savings at the Frontier is a \$17.6 million partnership between Oxford Policy Management and Mastercard Foundation. For more information, please visit <http://www.opml.co.uk/projects/savings-frontier>*