# Savings at the Frontier

## Briefing note

### What low income savers in Tanzania *really* want from financial service providers

Savings at the Frontier (SatF) is a five and a half year (2015-2021) partnership between Mastercard Foundation and Oxford Policy Management to improve the financial inclusion of low-income individuals and communities in sub-Saharan Africa. The programme is working directly with and funding selected financial service providers in three focus countries – Ghana, Tanzania and Zambia.

SatF, in collaboration with the Financial Sector Deepening Tanzania (FSDT), commissioned Paul Rippey (Savings Revolution) and Development Pioneer Consultants to glean insights on the preferences and usage of financial services by savings groups in Tanzania. The findings, summarised here, show a strong demand for formal financial services, emanating from informal savings mechanisms that go much further than the traditional village savings and loans associations. There are also key recommendations for financial services providers on what they could do to develop mutually beneficial relationships with this largely untapped market. To find out more, read the full report on the SatF webpage (www.opml.co.uk/projects/savings-frontier).

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## Introduction

This study was conducted in Tanzania in 2017 by Development Pioneer Consultants (DPC), a Tanzanian research firm, in collaboration with savings group expert Paul Rippey (Savings Revolution). The study also benefited from active dialogue with SatF team members both during the study design and at various stages of research implementation and report writing.

The objective of the research was to identify the potential for linkages of savings groups to formal financial service providers (FSPs) based on the needs, preferences, and usage of savings groups in Tanzania, and to explore the potential for sustainable commercial relationships between FSPs and savings groups.

The research addressed four clusters of questions: the potential market for FSPs among groups and their members; the products and services used, and desired, by groups and their members; external factors that can have an effect (positive or negative) on FSP-group relations; and questions around the implementation of programmes, including the perception of FSPs by members, various partners, and entry points.

## Findings

### *Potential market*

FSPs have already reached many savings groups and their members, but the majority of groups and the majority of members still do not have accounts, and very generally, they are favourably disposed to having one – if not now, eventually.

Concerning the potential market, the study tested and refined a typology of savings group, settling on a model that classifies groups as follows: (i) whether or not they *accumulate* funds (that is, allow cash to build up between meetings); (ii) if they accumulate, whether they periodically *distribute* the funds collected; and (iii) whether they are *facilitated*, that is, actively supported by an NGO, professional trainer, or apex organisation. In the study sample, distributing Accumulating Savings and Credit Associations (ASCAs) made up slightly more than half the respondents, followed by Rotating Savings and Credit Associations (ROSCAs) and then non-distributing ASCAs. Fewer than half the ASCAs were facilitated, but many of the non-facilitated ones had their roots in procedures that had been disseminated by NGO projects, and then passed on group-to-group or by trainers who continue to do the work they had previously done for NGOs.

To get an estimate of the size of the savings group market, we probed the FinScope 2017 data to gather information about the four regions in the study. According to FinScope 2017 (FSDT, 2017), 16 percent of the adult population was in at least one informal savings group, and 64 percent of group members are women. This number has risen by a third (from 12 percent to 16 percent) since the 2013 FinScope survey (FSDT, 2013). This increase is an even higher increase in absolute terms, as the adult population (16 years and above) grew from 24.2 to 27.9 million during the period. Looking more closely at the four regions, Iringa has the highest share of the population in groups (34 percent of women and 17 percent of men), while Zanzibar has the lowest share (13 percent of women and 6 percent of men).

FinScope 2017 found 4.4 million Tanzanians to be savings group members, one-quarter of whom were banked. That leaves 3.3 million members, most of whom can be presumed to have strengthened their savings and borrowing discipline through their participation in a group, as potential members. In addition, as will be seen below, this study found that many groups already have accounts, but among those who do not, most are either taking steps to open one, or at least think it would be a good idea to open one once the need becomes evident.

**What exactly do we mean by 'savers' and 'savings groups'?**

By savings group, we mean a voluntary assembly usually of 10 to 30 people who come together to save, and usually borrow, and often provide a form of social insurance. They are managed by their members and not regulated by any national body. We note that the term 'savings group' has also been widely used to refer to a subset of the groups we are considering, described below. However, the broader use of the term is used in the FinScope Tanzania reports, and is current in Tanzania.

Within this broad category, two additional terms occur frequently in the full report. ASCAs collect money from members to capitalise a group loan fund from which members may borrow. In ROSCAs, members periodically contribute the same amount to a fund that is given in its totality to each member in turn; ROSCAs do not accumulate.

Many other terms are used to describe the informal financial sector. SatF speaks of Informal Savings Mechanisms (ISMs), which include groups but also other ways people save, such as confiding their savings to an individual. This study, however, was limited to groups, a somewhat narrower category than ISM. Other agencies have their own umbrella terms: The Bank of Tanzania and FSDT refer to Informal Financial Groups (IFGs), while the Government of Tanzania sometimes uses the term Community Financial Group (CFG).

International and local organisations have created a particular type of informal group, the time-bound distributing ASCA. Confusingly, many of the agencies that promote these groups have agreed on the generic term "savings group" to describe any time-bound distributing ASCA, while simultaneously coining other terms to refer to the groups promoted by their particular agency. Three such names appear in this report: *Village Savings and Loan Associations* (VSLAs), a name popularised by CARE, Plan International, and others; *Savings and Internal Lending Communities* (SILC), the name used by CRS; and *VICOBA* (Village Community Bank), a name widely used in Tanzania (although little known elsewhere). Each approach has particular ways of treating such things as bookkeeping, periodic distribution, and meeting procedures, but groups are free to improvise and often do, so that even within VSLAs, VICOBAs and SILCs, there is great variation.

The study sought to better understand the **membership profile of savings groups**. Women made up 87% of the sample, and the two age bands of 25–34 and 35–44 comprised the highest proportions in the sample. Although there were no specific 'youth groups', younger people were well represented in all kinds of groups, particularly in ROSCAs. Notably, non-distributing ASCA members are a bit older, more likely to be male, and better educated than members of the other two groups.

Although an earlier study (DAI, 2015) found dedicated *kuzikana* groups (funeral societies) in such large numbers that they made it a separate category, the present study found no groups that classified themselves as *kuzikana*. It did, however, find that the practice of social insurance has spread widely. Most groups of all types offered their members some form of social insurance in the case of death or emergency, in addition to the other financial services. None of the groups interviewed had insurance coverage through an insurance company.

The field researchers were surprised to find a number of managed ROSCAs in which a manager, called a *kijumbe*, collects savings and distributes funds, while the ROSCA members do not meet as a group and do not necessarily know each other. The *kijumbe* takes a fee for herself (the ones we encountered were all women) and provides other services including making occasional loans to the members. The presence of the *kijumbe*s suggests there is a market for very frequent, very local deposit collection. The reader might look to the *susu* collectors in Ghana[1] who provide a similar service from the user's point of view, but with a totally different financial architecture, as they are sometimes managed by an FSP.

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[1] A reader might look at the following sources for information about the *susu* collectors: a general description at http://www.aaeafrica.org/home/the-susu-collection-system-in-ghana-and-experiences-in-linking-formal-and-informal-financial-intermediaries/; documentation about the growth and evolution of the *susu* collector sector at http://africanbusinessmagazine.com/features/countryfiles/ghana-how-susu-evolved-into-microfinance; a link to one of the collectors' apex organisations: http://www.ghanasusu.com.gh. SatF will be supporting projects in Ghana relating to *susu* collection and will be able to share learning from these projects in due course. A follow-up study to this study looking into Ghana and Zambia (the other SatF countries) will also potentially contain information for FSPs about *susu* collectors.

The study also asked **why people used savings groups**. The motivations of members varied, from those looking for lump sums to invest in their businesses, to housewives who mainly borrow for household expenses, to non-specific savers, who want to build up a savings cushion for security. We also found considerable variations in amounts saved, so much so that it is difficult to define a typical member by their motivation, their wealth, or the amounts they save. The study found that people save the most in distributing ASCAs and the least in ROSCAs.

### *Products and services*

In terms of **which products and services savings group users value the most**, members declared a preference for saving over borrowing, while about one-third of members said they wished they could borrow more. Three-quarters of members of distributing groups said they wished they had a way to save for longer than a single cycle.

About a third of ASCA members interviewed said their group had a bank account. In every case, the first motivation given for having a bank account was security of funds. Only 5% of the groups with bank accounts used them for borrowing. In no case in this study did they borrow from a bank, but rather they took group loans from development programmes.

The study also found that ASCA members use loans and share-outs from their group in about equal measure for long-term investments in land, businesses, or for paying school fees. The ROSCA pay-outs are more likely to be used for immediate household needs than are lump sums from the other types of group.

The research team was not surprised to discover that almost every respondent had a phone (94 percent), but it was surprising to learn that almost a quarter of the phone owners had a smartphone (23 percent). Most members used mobile money but few groups so far were using this service. Challenges due to the availability of agents and of agents having insufficient liquidity varied between the regions. Singida stood out as a region where the agents were perceived to be far apart and where sufficient float was an issue. This resonates with the FinScope findings that Singida was among the most financially excluded regions.

While savings group membership has increased from 12 percent to 16 percent of the adult population, during the same period, commercial bank outreach increased from 14 percent to 17 percent, and an increasing number of people use both informal and formal services.[2] Savings groups and FSPs are not competitors, but rather provide complementary services.

There are some indications from the study that bank accounts might encourage group members to save more by increasing security, by keeping money out of easy reach of savers who have many immediate needs for cash, and by facilitating long-term savings, something that three-quarters of the ASCA members in the study said they would like to have.

### *External factors*

Informal groups by definition are not supervised by any national agency. However, registration of savings groups at the ward level is facilitated by the CDO, who collaborates with the district or municipality, which issues a certificate. Some groups perceive registration as a step on the path to opening a bank account, although a number of groups have opened accounts without being registered. Some groups in the FGDs also said they expected registration to lead to grants from government and NGOs and support from local authorities in solving problems inside the groups. Despite the importance members attach to registration, less than one-third of the groups in the sample were

[2] Data from the FinScope Tanzania 2013 and 2017 studies.

registered. The percentage was higher among facilitated groups, where the partner agencies inform the groups of the steps required to register. As a consequence, there are significantly more registered groups in rural areas, where groups are more likely to be facilitated.

The CDOs interviewed felt themselves underutilised by both I/NGOs and FSPs. Some felt offended because they were paid a visit initially, but as soon as groups were established they were no longer consulted. On the other hand, some groups say they received support from the CDOs during the registration process, but after registration did not receive the services they had expected (for example, training and grants). **Zanzibar** stood out with very few groups registered, and the **registration process was perceived to be more lengthy, costly, and bureaucratic** compared to the mainland.

### *Implementing Programmes*

The study uncovered generally **positive attitudes towards banks**, although the attitudes of members towards their savings groups tended to be even more positive. Group members were asked their preferences among types of institutions for various services and functions: they preferred FSPs for security and long-term savings, but preferred their savings group for everything else, including convenience, the respect they receive, ability to get a loan when they needed it, affordability, and help in times of emergency. Members of groups without bank accounts were asked why they did not have one. Most mentioned the nature of their group—for example, it is too young or too small—and many said they were planning to open an account. Very few mentioned issues with distance to the nearest bank branch or agent, or the cost of bank charges, although in the FGDs some members did express these concerns. Even members who complained about banks wanted bank accounts because of the additional security.

The study also tried to ascertain the **best entry points to savings groups**, and concluded that no one entry point will reach all groups. Groups that appear on the roster of an apex organisation might not even know the organisation; rather, their loyalty is to their trainer and the person who initiated the group. Conversely, an NGO might not be able to locate many of the groups that appear in its database. When asked for their most trusted source of information, members overwhelmingly mentioned radio and (where available) television. Government, churches, billboards, and posters were far down the list of preferred ways to obtain information.

## Conclusion

Drawing on the above findings, the study ends with the following conclusions:

### *Products and services*

1. The savings group sector is large in Tanzania and has grown rapidly over the past four years. It is remarkably diverse and will require flexible financial products. The provision of group savings accounts should be the first priority, as members are concerned about safety of their funds, and security is the principal reason why groups open accounts.

2. FSPs might want to investigate the apparent success of the *kijumbe* ROSCAs; there is a strong demand for mechanisms that allow accumulating lump sums from small but frequent contributions. FSPs could compare the experience of the *susu* collectors in Ghana who provide a similar service, but work as agents for FSPs.

3. The widespread social protection offered by groups, and the absence from the study of any groups participating in an external insurance scheme, show the importance of insurance in the lives of members but leave it uncertain whether and how savings groups constitute a market for external insurance.

### *Potential market*

4. While one-third of members say they would like to have access to larger loans than what they can obtain within their groups, the study was unable to judge the creditworthiness of this demand, and of course FSPs should proceed with caution into the credit arena.

### *External factors*

5. There is no single best entry point to savings groups. NGOs and apex bodies can be a good way to reach groups, but their knowledge is limited to a small subset of groups. CDOs can be utilised as entry points if they have a stable relationship with the groups. Mass media, particularly radio and television, are likely to reach a greater number of savings groups, and once in communication with groups, FSPs can keep in communication through SMSs, which are widely used, including by groups who text and phone members in the course of managing group affairs.

### *Implementation considerations*

6. In general, the study found little evidence that banks should worry about their image among savings group users. On the contrary, many groups were eager to open accounts to keep their money safe. The challenge for FSPs may not be to convince groups of the desirability of a bank account, but rather to show the groups how easy it is for them to open one and use one.

Finally, here are two conclusions concerning **product development** by FSPs, both drawn from worldwide experience and echoed in some of the responses in this study. Two contradictions in client preferences need to be taken into account in product design:

1. Group members simultaneously seek both liquidity and illiquidity; in other words, they want to be able to meet both immediate needs for cash (liquidity preference) and they want to make it difficult to access their savings, to protect them from the many urgent needs that always call to them (illiquidity preference). Savings groups reflect this contradiction, having both obligatory periodic savings, but also ease of borrowing.

2. The need for transparency (the need to know exactly what is happening in their member-managed groups at all times), as well the desire for confidentiality (members don't always want neighbours, friends or family to know how much they have accumulated).

## Methodology

The study consisted of an initial literature review to identify gaps in knowledge, followed by field research in four regions of Tanzania: Dar es Salaam, Zanzibar, Iringa, and Singida. The fieldwork involved visits to 505 households divided among the four regions to ask about savings group membership in the household. This exercise identified 617 members. Of these, 216 users were chosen at random to participate in an extensive interview concerning their personal activities and situation, their group, and their relations, attitude, and desires *vis-à-vis* FSPs. In addition, the researchers conducted 24 focus group discussions (FGDs) with informal financial groups (IFGs), and 30 key informant interviews (KIIs) with Community Development Officers (CDOs), group chairpersons, and representatives of NGOs and apex bodies active in providing formation, training and support to SGs.

The study's mixed methods approach, incorporating insights on the research design and findings from key stakeholders and simultaneous access to insights from SatF team's active dialogue with FSPs, has produced a set of findings which will contribute to the growing evidence base on how best to develop mutually beneficial relationships between FSPs and savings groups. Please note, however, that the study's size and scope were limited, and its research procedures (including no night-time interviews and no call-backs) biased the sample in favour of female respondents. The study should, therefore, be considered along with other more detailed sources of information, including FinScope Tanzania 2017.

SatF seeks to answer the following learning questions during implementation. This study has provided some of the answers to the first learning question. We will supplement the findings of this study with learning from the projects being implemented with SatF partners in Ghana, Tanzania and Zambia.

**SatF Learning Questions**

1. What are the different segments of users/clients of ISMs and how do they differ from each other?
2. How do the financially excluded and underserved ISM users eespond to linkage experiences and opportunities and what are the key benefits derived by ISM users?
3. What can we learn from the SatF-supported models on how best to serve the financially excluded and underserved?
4. How can financial institutions best contribute towards and manage the formation and acquisition of ISMs & users?

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## About the SatF consortium

This programme is being implemented by OPM in collaboration with Bankable Frontier Associates, MicroSave, PSD Consulting, Development Pioneer Consultants and Kadale Consultants.

For more information – and to read the full SatF strategy – visit www.opml.co.uk/projects/savings-frontier

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**Images:** SatF team, research in Tanzania, September 2017