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Use and Impact of Savings Services among the Poor in Tanzania

Research by
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Introduction

Until recently Microfinance focused primarily on providing credit, leaving savings to remain Vogel's (1984) "forgotten half", extracted from clients as compulsory contributions meant to secure borrowing. The compulsory savings are often "locked"[1] until members leave the organisation. From the clients perspective, and indeed increasingly among practitioners, this saving "service" is viewed more as a tax or cost of borrowing. It is partly for this reason that most of the poor use alternative savings mechanisms.

Throughout Tanzania and indeed the rest of Africa, there is a vibrant and diverse informal financial sector (Adams et al., 1992; Ardener and Sandra (eds), 1995; Aredo, 1993; Aryeetey and Gockel, 1991; Aryeetey et al., 1997; Osuntugun and Adeyemo, 1981). The purpose of this report to share findings and improve knowledge and understanding of (if and) how poor people in Tanzania save, how they use different savings mechanisms and the impact of those savings facilities on their household budgets/lives.

The report:

- pays particular attention to savings services used and those not used by poor people;
- examines the perceived advantages and disadvantages of this variety of savings services;
- examines the social-economic characteristics of the people using these savings services;
- explores how savings services are used to manage household income/expenditure flows;
- explores why some people save in-kind and what financial services might induce them to start monetized savings; and
- draws lessons for MFIs seeking to develop poor-responsive savings services.

Methods

In addition to reviewing studies already completed, this study used qualitative research methods, including Focus Group Discussions, a wide variety of Participatory Rapid Appraisal techniques and in-depth interviews with a wide variety of people especially in the Dar-es-Salaam, Arusha and Moshi areas. Below is are a few comments regarding the rationale for each of the tools

Focus Group Discussion provided the research team with an opportunity to interview homogenous groups which provided insights into what challenges they face, the various mechanisms the poor use to save money, what they use the savings for, and the kind of products and services they want to see in a financial institution.

Preference ranking provided the attributes that clients would like to see in a financial service institutions and allowed the researcher to understand the clients' or potential clients' perception of the institution and why they do or do not use it.

Seasonality analysis of income, expenditure, savings and credit provided the researchers with insights into the seasonal patterns of the income, expenditure, savings and credit variables. Knowledge of this will be useful for designing or re-design products that are sensitive to the local conditions and allows one to understand the best timing for promotional activities with sensitivity to the local savings fluctuations.

[1] as loan guarantee funds

Lifecycle profile provided the researchers with insights into what lifecycle events require lump sums of money. The common lifecycle events include setting up a house, sending children to school, obtaining seed capital for starting a business, wedding ceremonies and death. Understanding the most pressing of these enables MFIs to design products that respond to those events that require the most money and promote them as solutions to those needs.

Matrix of financial services helped the researchers to understand the competitive environment both in the formal and informal sector. It allowed one to quickly have a understanding of the most prevalent financial management strategies/mechanisms and who uses them. The matrix included formal banks, NGO-MFIs, Savings and Credit Co-operatives (SACCOs), Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), money guards, deposit collectors and saving at home. Understanding the most prevalent of the mechanisms allowed the researchers to identify the features that make them popular and then try to make recommendations for product design that adopts the attractive characteristics. These include frequency of deposits, size of deposits, delivery channel, quality of service, convenience etc

In-depth individual interviews allowed the researchers to get more in-depth insights regarding financial services used by small and micro-clients and why they use them. They were also used to cross-check the information gathered in the group setting.

A Brief Overview Of The Financial Sector In Tanzania

Beginning 1984, there has been a shift in policy from a state-controlled economy where private initiatives were discouraged, and all financial institutions were state owned. Tanzania gradually introduced reforms towards a market economy. The public sector has been reduced considerably; and private sector is now playing a much bigger role in the economy.

In 1982 the government re-introduced co-operatives and they were used as intermediaries between formal banks and small-scale farmers. They provided micro credit, mainly crop-input loans in kind. Repayment was effected through deductions from client's crop sales, which was also done through the co-operatives or state owned marketing boards. The performance of co-operatives and marketing boards was characterised with huge debts and poor performance. Gradually government changed strategy and decided to liberalise crop-input supply and marketing; this was completed in 1994. In 1991 the Co-operative Act was amended making co-operatives independent entities, owned by people rather than the government. Non viable co-operatives were left to close.

The developments within SACCOs were not any different from those in other co-operatives. Burdened with limited management capacity, poor supervisory and auditing capacities, and a narrow understanding of member's needs rights, they could not withstand the harsh demands of change. To date there are only a handful of successful SACCOs especially in places of work and in the Kilimanjaro region of the country where they have been able to re-organise themselves into a bank.

The financial sector reforms included; liberalisation of interest rate, the banking sector, insurance, foreign exchange and creation of stock exchange markets.

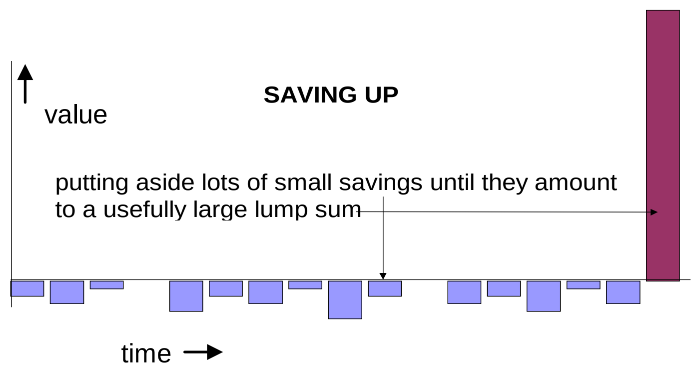
As the reforms were being introduced, unemployment increased, and the informal sector became an important means of livelihood for a considerable and growing proportion of the population. At the same time the need to support women as a specific marginal group came on the agenda of many development agents. The government, donors and NGOs (which emerged after liberalisation) initiated credit programmes in support of the informal sector and women being a specific target.

The majority of the credit schemes that were initiated in the 1980s and early 1990s have remained small, unsustainable, reaching only a few people with minimal impact. Many were politicised, heavily subsidised, and were not designed to achieve sustainability. It is for these reasons that the informal financial sector continues to play a critical role in the financial management strategies of the poor.

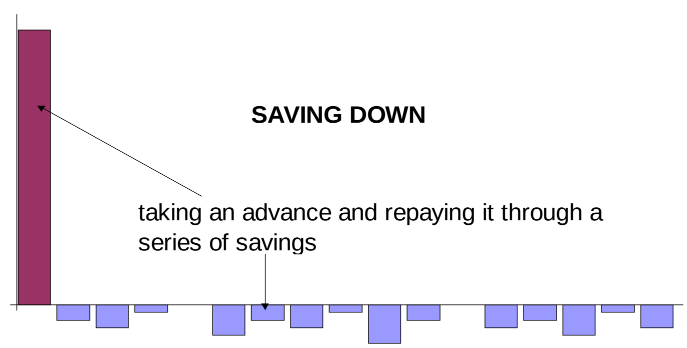
How The Poor Manage Their Money – A Framework Of Analysis.
The poor face countless problems in managing money. These include it accumulation, storage and transportation. This report will focus mainly on the commonest and most pressing needs – *building large lump sums and storing* them. Lump sums, especially in the urban areas, are mainly built out of small and often irregular and fluctuating incomes. Rural areas tend to build lump sums after the sale of a harvest or the sale of an animal. The framework below is taken from Rutherford 1999a an is the basis for the analysis of financial services for the poor for most of the report.

There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows (Rutherford,1999a):

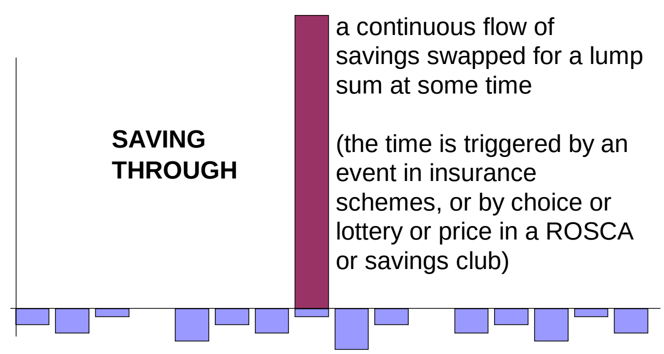
Saving up. Savings are accumulated in some safe place until they have grown into a usefully large sum. The majority of poor people in Tanzania lack a safe and reliable opportunity to "save up".



Saving down. In "saving down", the poor have somebody give them an *advance* against future savings. The savings then take the form of loan repayments. MFIs, relatives/friends, moneylenders etc offer this service. For example the recipient of a PRIDE Tanzania makes a large number of repayments at short intervals based on their capacity to save[2].



Saving through. In this third case savings are made on a continuous and regular basis, and a lump sum usually equal to the total periodic contributions is made available to the save along the way. "Saving through" is offered by many forms of savings club, including ROSCAs (known in Tanzania *Upatu* or *Kibati*) and funeral clubs. Since ROSCAs are the most prevalent mechanism of money management, "saving through" constitutes the most common category. Although rarely used by the poor, it is important to observe that



[2] As many MFIs have come to learn the advance is not always spent on 'income generating activities' that produce an immediate stream of additional income. The source of the savings that are used to make the repayments may or may not be a business.

insurance is a “savings through” device because the periodic premiums are a form of saving.

Financial Landscape – How Do The Poor Save ?
In section we shall use the framework above and the variables defined below for a comparative analysis of the various savings mechanisms found by the research team in Tanzania. This will enable us to see the differences and similarities between them and finally identify institutional opportunities for MFIs.

For purposes of analysis, the report shall explore and compare the different devices along some major variables. The report shall look at prevalence, the swap type (savings up, down or through), the term of the swap, the volumes/amounts involves, the frequency of contribution, characteristics of main users (rich, poor, women, urban, rural), eligibility criteria, the transaction costs, the price of the swap, and the risks involved.

Tanzania’s Financial Sector Landscape

Informal Sector	***Semi-Informal Sector***	***Formal Sector***
Saving at home	Saving and Credit Associations	Development Banks
Reciprocal lending among friends and relatives	MicroFinance Institutions	Commercial Banks
Rotating Savings and Credit Associations (ROSCAs)		Insurance Companies
Accumulated Savings and Credit Association (ASCAs)		Registered Finance Companies
Self-help groups		National Social Security Fund
Money Lenders		
Money Guards		
Deposit Collectors		

Note: The table provides a quick overview of the various savings mechanisms in Tanzania

The report will attempt to discuss the savings mechanisms in order of perceived prevalence and popularity of use among the poor. For that reason the report begins with the informal sector, moves to the semi-formal sector and concludes with the formal sector. At this point we would like to acknowledge that the report has very little emphasis on in-kind savings. This not because in-kind savings are not an important mechanism for saving, but because the focus of this report is on how poor people save cash money.

Informal Financial Sector
Statistics indicate that out of Tanzania’s approximately 15 million working age population, approximately 3 million are employed in 1.8 million enterprises the majority of which are in rural areas. Only 0.4% of these enterprises obtained their credit needs from formal sources and less than 0.3% from the savings and credit associations (SACCOs). These facts make the informal sector a very significant player in the national financial landscape and demand careful attention if mutually beneficial financial services are to be extended by the formal financial sector to the majority of people (PRIDE Tanzania, 1997).

The Home Bank or Saving at Home[3] is arguably the most prevalent savings mechanism in Tanzania. The “swap type” is a “saving up” approach with terms ranging from a few days or weeks to many years (long

[3] The commonest form of home saving is a home box also called “*vibubu*”

term). It is rarely successful as a long-term savings strategy because the savings are susceptible to the endless stream of domestic and relatives' demands and crisis. It is for this reason that some find it necessary to construct a small box they can not open or a pot they do not break until they need the savings desperately. The volumes commonly involved are small. The frequency of contribution ranges from daily to weekly, however, relative to other mechanisms, it takes a lot of discipline to maintain the daily contribution. This weakness curtails the potential for large-scale accumulation of savings through this mechanism.

The users of this device are mainly women and children who have no alternative - especially where the other savings mechanisms are not available. This device is also commonly used by all including the very poor since it has no entry barriers and has no transaction costs (requires no special journeys) and imposes no interest charges (price). This device tends to bear high risks associated with theft, forceful extraction by violent domineering spouses and damage by rodents. It is also an easy target for marauding relatives and neighbours with endless emergencies that demand financing.

Special Pocket Bank In An Over Crowded House

A lot of youths have numerous creative ways of saving and storing money. One youth reports "For instance, I have a special pocket on my trousers which I sewed in to keep my money. My pair of trousers and I do not part - day or night. This safeguards the money from the other youths who share the same accommodation and ensures that the money is there all the time. Sometimes we live with dishonest people who take what does not belong to them".

Reciprocal Lending

This is by far the most prevalent device in Tanzania. However, it is on the decline because of the increasing dishonesty and lack of trust among many people. This represents a "saving through" swap since reciprocal lending is effectively an insurance device. Under this arrangement the lender extends credit with a hope that the favour will be reciprocated by the borrower if ever he or she (lender) ever needs. This happens especially among friends, neighbours and relatives. The term of the swap tends to be short involving a few days to a month although periods as long as two years were mentioned among the farmers in Mashaati, Rombo District. It is usually at no interest although in some cases there are conditions set that can be viewed as both interest or an incentive to repay, and the arrangement borders on a typical money-lending system. However, compared to other financial mechanisms the cost is generally low. The story in the box serves as an illustration.

Collaterised Reciprocal Lending

Although this is not typical it illustrated the variations in practice across Tanzania. In Moshi, a respondent reported that long term reciprocal lending is common and has unique collateral requirements. If you have a piece of land you can take a two year loan from your neighbour. The sums involved are range from Tsh. 50,000 ($71.43) to Tsh. 300,000 ($428.57). The borrowers give the land to the lender for the term of the loan. The lender cultivates it and is entitled to the harvest as long as the loan is outstanding. "This works well here because we have a scarcity of land. The lender can let you have the money for as long as you want provided he has the land," said an informant. "It is also looked- down upon to have your land perpetually in debt, so you are constantly under pressure to repay and redeem your land".

The volumes reported in the majority of cases tended to be small. The frequency of repayments tended to vary according to the terms of agreement from periodic daily, weekly to balloon payments at the end of the term. Balloon payments were common among people that anticipate to make a big one time sale while small periodic payments are for people who borrowed for working capital purposes. Reciprocal lending is used mainly among friends and relatives. This presents barriers because one needs to know someone in order to have access to the financial exchange especially since it is often not collaterised. Reciprocal lending is commonly practised among people of the same social class. Transaction costs vary based on the length of journey and the time of waiting one may have to invest but most friends live in close proximity the transaction costs are relatively low. The *risks* involved are relatively low since one tends to lend to people they know and most people in small communities are interested in maintaining access to credit for future needs.

Savings in-Kind

This when an individual opts to use physical assets as a store of value that can be liquidated when one needs liquid cash. This is a "saving up" swap type and is very prevalent in many parts of Tanzania. The most popular items are animals and produce. Some of the savings in-kind are more of speculative business. This is particularly the case with maize which is bought during harvest seasons and stored only to be sold four months later at twice the original price. This is mainly practised by traders in rural area, but is also common among individual households as an emergency fund. These practices are popular because most of these places have no banks, and where there are banks the interest rates are too low to attract savers whose motivation is to earn interest income. This form of savings is fraught with risk. In-kind savings, especially produce, are susceptible to disease, rodents and the destructive tendency of moisture, which tend to destroy over 15% of the produce in some cases. It is also susceptible to theft. In case of animals they are not only vulnerable to theft but also to illnesses, not forgetting about the daily expense of feeding them.

Savings In-Kind are My Kind of Savings

"A lot of people save in-kind" says one resident of Marongo, Kilimanjaro. "This takes the form of animals, maize, beans coffee, and farm-in-puts. For example, people who save in term of produce can sell the produce for twice the amount before 4 months are over. This is over 100% return in just a matter of months. For this reason they find it extremely difficult to keep their money with an institution that can barely give 5% interest on savings, in addition to which they make it exceedingly hard to access your money. It is for this reason of access that some will keep a bag of maize, or coffee or whatever can be easily sold in case of an emergency." Asked whether he is aware of any risks involved he said "Yes there are many risks involved including thieves and rats but considering the alternatives, some people find it easier to take a chance with produce".

Rotating Savings and Credit Associations (ROSCAs)

A ROSCA is a financial device that involves several of people each of whom agrees to contribute a pre-determined amount of money at every meeting. The periodic collection is pooled together and given to one person in turn until every person has got a lump sum equivalent to the total periodic contribution they made. This marks the end of the cycle and may mark the beginning of a new one if the members so choose. This description is generic because there are many variants. In Tanzania, ROSCAs go by a variety of names which include *upatu* and *kibati*. The names vary from one part of the country to another.

A ROSCA is essentially a "savings through" mechanism, but it has all three types of Rutehrford's "swap" depending on the position the participant has in the cycle. Those that receive first are effectively "saving down" while those that receive last are "saving up". This is one of the most prevalent financial intermediation device in all the areas where research was conducted (Arusha, Moshi and Dar-es-Salaam). The swap varies between short-term (one week) and long term (one year) depending on the number of people involved and the frequency of contribution. The most prevalent term in the area of research was 10 weeks. The amounts commonly involved vary from small to large but usually were modest. Volumes range from a low of Tsh. 6,000 ($8.57) to Tsh. 50,000 ($71.43) per month. The frequency of contribution ranges from daily, to weekly to monthly. In most of the areas researched weekly contributions seem to be the norm.

The Discipline of the ROSCA

Like many women, Joy, a cleaner in one of the hotels in Dar-es-Salaam belongs to two ROSCAs. The first one involves four people and requires a daily contribution of Tsh. 200 ($0.29) per person. The daily contribution goes to one person for a whole month in rotation. The monthly aggregate "prize" is Tsh. 18,600 ($26.57).

The second ROSCA or *kibati* consists of four people and requires a Tsh. 2,000 ($2.90) weekly contribution per person resulting in Tsh. 6,000 ($8.57)“prize” per week. “I like the first one better because it forces me to look and put aside that Tsh. 200 everyday”. She uses this money to make deposits on the desired item in some shops that offer that facility until it is fully paid for. “Every month, I am able to put aside over Tsh. 12,000 ($17.14) through the *kibati*” she says, “Other women save much more this way. I cannot use the banks because it is too much trouble collecting ones own money”.

Users of *upatu* come from all classes of wealth although there seems to be a higher concentration among the not-so-poor women. A ROSCA is built around trust, which is developed over time. This is why ROSCAs have a heterogeneous composition. Eligibility therefore requires that you are known to the group, which in turn means that you are from the same area, or trade or have a certain common bond. Finally, members need to be sure you will raise the required contribution. Extra care is taken in accepting members because in case of default there is no legally binding agreement and besides, no one is interested in getting involved in legal struggles.

Transaction costs are relatively low because most ROSCAs are conducted at the place of work or home and therefore need no special journeys and often minimise the need for meeting which can be a high transaction cost. Aside from the transaction costs is the low price of the swap. In a typical ROSCA, no interest in charged.

The risks involved are associated with defaulting members. Losses were generally related to declines in members’ income, members relocating, death of a member and straightforward dishonest default. Overall, however, the risks of ROSCAs are relatively low, probably because of the often rigorous selection criteria, which is usually based on a high level of mutual knowledge in terms of character and capacity to make the periodic contributions. Although their were clear indication of ROSCAs that had ended, in the majority of cases, the researchers found that closure had not led to the loss of members’ money.

Why We Keep Men Out Of Upatu - A Point Of View

During a focus group discussion in Manzese, Dar-es-Salaam, respondent explained why males are sometimes kept out of ROSCAs and why male ROSCAs usually fail. “ROSCAs are mainly done successfully by women. ROSCAs done by men are not common because of lack of mutual trust among men. When men’s ROSCAs are established, they soon collapse because the first recipients default before the end of the cycle. The only places it can work is if it is a work place based ROSCA and they all agree that contributions will be directly deducted from the salaries by the payroll cashier”.

Lwoga, C (1999) found that in Tanzania the success of *upatu* is dependent on the trust which members have in each other and the ability of the individual to save/lend the amount regarded as a daily, weekly or monthly contribution. He observes that this means of saving and accessing credit is selective and discriminatory as the formal financial institutions. The difference between the two is that *upatu* serves the poor but generally excludes the very poor, whereas the formal institutions only serve the better off.

ASCAs or Accumulating Savings and Credit Associations,

An ASCA is a savings-and-credit club. ASCAs offer both a “saving up” and “saving down” swap type. These are not as prevalent as ROSCAs, mainly because of the need for accounting skills, which are usually in short supply among the poor. The research team did not come across many ASCAs and where they were found they were built into a ROSCA or an MFI’s solidarity groups. The contribution to ASCAs are usually weekly or monthly and the amounts contributed range from Tsh. 1,000 ($1.43) to Tsh. 10,000 ($14.30). The amounts borrowed tend to be as high as Tsh.100,000 ($143.00) at an interest rate of 15% to 20% per month. These tend to be short-term loans averaging one month. A typical ASCA runs for about a year at the end of which members choose to disband it or to renew it depending mainly on how well it was run. As a consequence well run ASCAs can last for years, while poorly run ones will not be given another chance.

Unlike ROSCAs, the periodic cash contributions to ASCAs accumulate, rather than being given to a member at the end of each meeting. This is because in an ASCA every member makes periodic deposits while only some of the members borrow from the accumulated fund. If the fund is too small to attract a borrower, or so large that it exceeds members' demands for credit, it must be stored temporarily. These peculiar characteristics mean that the ASCA is a more flexible, more complex and more risky device than the ROSCA because it demands book-keeping skills which, as pointed out earlier, tend not to be in abundance among the poor. Secondly, it lends itself to fraud and mismanagement because the accumulated fund is not disbursed immediately. It is for this reason, perhaps, that ROSCAs seem to be more popular than ASCAs.

In Tanzania, Lwoga (1999) and Rutherford (1999) report on an example of an ASCA that is run by members of groups belonging to a certain MFI, and known as a *kibindo* ("last resort"). The *kibindo* takes in weekly deposits from members and these are stored with the cashier. When an emergency strikes – most often when a member of the MFI cannot pay her loan instalment – a very short-term loan (up to three weeks) is given at a high interest rate (5% a week).

The Kibindo System – The Lender of Last Resort

The *kibindo* system, which translates to "last resort" is an ASCA organised with an MFI client group, which is typically 40 members. It is found mainly among Presidential Trust Fund (PTF) members. All PTF groups have a *kibindo* and is managed and controlled by the members themselves - PTF has no hand in it. The most common weekly contribution to a *kibindo* is Tsh.500, with a range from Tsh.200 ($0.29) - Tsh.1,000 ($1.43). Members take loans from *kibindo* and they range between Tsh.5,000 ($7.14) to Tsh..50,000 ($71.40) at a 5% weekly interest rate repayable in three weeks. *Kibindo* fund is distributed to the members at the end of the loan cycle according to contributions. In an average cycle about 10 members out of 40 members in the centre will take a loan from it with some members take more than once.

The *kibindo* is thus very good for both the MFI and the clients. It acts as a short term saving device and as a short-term emergency loan facility. It helps the members to deal with pressing financial problems. It is also used by the groups to pay loan instalments for members who fail to meet their repayments. The major risk with the *kibindo* is that it is based on trust: an individual, designated as treasurer (popularly referred to as "Mama Kibindo") keeps the money in her custody, keeps records of deposits, loans and interest paid by each loanee, a job that is often challenging.

Source: Lwoga, C: Use and Impact of Saving Services in Tanzania,1999

This review of ASCAs is only cursory and illustrative because they are many variants. That not withstanding, important lessons in micro-savers' behaviour, product development, and service delivery can be gleaned from reviewing ASCAs.

Informal Emergency Insurance Groups

Informal emergency fund groups are made up people who agree to contribute a pre-determined amount of money to cater for such emergencies as death and occasionally celebrations including baptism etc. They are reported to be prevalent in Dar-es-Salaam and other major urban areas. They constitute a "saving through" swap type operating on a long-term basis (many years).

The amounts handled are relatively high reported as high Tsh. 20,000 ($28.57) per month in groups with a membership of over 100 people. The frequency of contribution varies but is generally monthly. These insurance groups are used by better off and poor people alike. Most of them are organised along tribal lines, especially among people that find it extremely important to be buried in their, often distant, places of origin. The transaction costs are relatively low except for the social cost of remaining an active member. In addition some provide an emergency loan facility to the members.

The Emergency Fund

Mary, a low wage earner in Dar-es-Salaam, used to belong to an informal insurance group organised along ethnic lines mainly to cover funeral related expenses. This is extremely important especially for people who have to transport their dead to the extreme ends of the country. The group has approximately hundred members. Every member contributes Tsh. 10,000 ($14.29) per month and is then assured of financing in the event of a funeral or a celebration within their immediate family. A serious background check is done on prospective members to establish their character. "It is very important to get a decent burial in my tribe" she says, "this means taking the body to our land of origin. That is why I joined the group so that just in case of an emergency, I have a source of money and people to help me". She reported that some groups have a monthly contribution of Tsh. 20,000.

Accessibility of funds will depend on the speed and efficiency of the fund organisers. In most surviving organisations "savings" are easily accessible when needed. It is because of this reliability that some have operated for years. The price of the swap is free-of-cost except for the need to invest time in the monthly meetings. Based on the limited interviews, the risks involved are relatively low especially if the groups remain single purpose and keep away from transactions that require extensive bookkeeping.

Pawnbrokers

These are people who extend small loan secured by an asset. This "saving down" swap is not as prevalent as ROSCAs or reciprocal lending, but was mentioned by respondents in Arusha. The volumes involved are usually ranging between Tsh. 15,000 ($21.43) to Tsh. 30,000 ($42.86) at interest rates ranging from 10-30% per month. The transaction costs tend to be low involving very little paper work. The transaction does not require too much information about the borrower because the loan is secured by a marketable asset. The loan is usually less than 50% of the value of the asset and the lender is more than happy to seize it in case of default for he can sell it at a profit.

Commercial Money lenders

This is a "saving down" swap type. Apart from occasional reference to their existence, the research team did not find this swap type to be a common service[4]. Therefore the research team is unable to make substantive comments regarding the term, volumes involved, frequency of deposits, users, the transaction time and the price. The cases reported were fairly scattered. For example, in the Marango, Kilimanjaro area, respondents indicated that money can be borrowed from shop-keeper and friends at an interest rate of about 5-10% per month. In another instance in Mashati, Kirimanjaro, it was reported that 2 year loans are extended with the condition that the borrower relinquishes the right to use the land until the loan is fully paid. In the case of default, the borrower completely loses the right to the land. Since time did not permit the researchers to do a follow-up of these cases, the truth was hard to establish.

Part-Time Money Lenders In Dar

"There are no full-time money lenders in Dar-es-Salaam that we know of," says the Ward Executive Secretary in Manzese slums, "There are however traders who lend money to people they know very well with interest of between 10% and 30%. They do not require collateral. Sometimes the borrowers fail to repay the loans and the traders (lenders) bring them to the ward office where the cases are settled. Our office receives about two such cases per month".

However Bagachwa (1995) also indicates in his study that there are moneylenders in Tanzania. Beyond non-commercial money lending evidence suggests that the urban and rural segments contain various types of commercially oriented moneylenders. Landlord- or farmer-lenders are reported to exist in Iringa, Dar-es-Salaam, Morogoro, and Mtwara regions. It is evident that they are do not seem to be as prevalent as other forms of financial devices and Bagachwa (19995) offers an explanation. "The relatively low profile

[4] Some researchers think that in a lot of case some areas people who use the services of a money lender will prefer not discuss this subject because lending at interest is not considered a socially accepted practice in a lot of cultures.

allegedly assumed by moneylenders in channelling credit could be a camouflage, reflecting in part the traditional view that commercial lending is exploitative … Given the rather hostile environment … most moneylenders do not admit to engaging in this practice. Therefore, their number and their roles tend to be underestimated".

Bagachwa (1995) reports that rural moneylenders have special types of collateral, which he calls market inter-linkages. Loans may be linked to the sale of output to the lender or to the purchase of inputs or equipment from the lender or transfer of land right or the provision of labour services to lender. He adds that the expansion of informal lending reflects the responsiveness of informal lenders to the client's economic and social requirements – easily understood procedures, flexible lending arrangements, the absence of restrictions on how loans are used, credit at short notice and local adaptability. Finally, informal financial institutions face relatively low transaction costs, in particular, extremely low costs for assessing the borrower's creditworthiness and collecting loans, due to strong pressure.

Deposit with Suppliers

This is a "saving up" swap type, which was reported to be fairly prevalent in urban areas, especially in Dar-es-Salaam. It is used by the poor and not-so-poor for business stock and for purchase of consumer durables. For example, the micro-client interested in a particular consumer durable will organise an initial amount of money (usually a "prize" from a ROSCA) that they deposit with a supplier (usually a shopkeeper). They in turn obtain a receipt for partial payment and continue to bring small periodic contributions until they have paid up the full amount. At this point they are able to take the item from the supplier.

The volumes range from Tsh. 50,000 ($71.43) to Tsh. 500,000 ($714.29) to purchase such items as TVs, radios, refrigerators, beds, mattresses, etc. The frequency of contributions ranges from weekly to monthly depending on the buyer's source of income. The term ranges from a few weeks to three months depending on the cost of the item and the buyer's cash flow capacity.

Making Deposits With A ShopKeeper Makes A World Of A Difference

"One of the commonest ways to acquire a TV, music systems, beds, mattresses and other consumer durables is by making deposits with the shop. I acquired my TV by making four deposits at a shop before I could pay up in full to take the TV home. I used part of my salary and sometimes the proceeds from one of the *upatus* I belong to. In about 3 months I had a TV in my house. This method of saving for consumer durables increasing in popularity". Asked whether she sensed a risk in depositing money she responded, "Of course there are risks depending on which shop you go to, however, there are shops that have a good reputation. You give you a receipt indicating the deposited amount and the outstanding balance on the item. This works well and I have not heard any complaints".

Anyone can use this system because the seller does not let go of the item until it is fully paid for. Because of the opportunity to hold the item, the seller will not give a discount as they would for a one-time cash purchase. In some cases the seller will add a premium (interest) on goods purchased under this facility.

This swap type comes with a few risks because it is heavily dependent on the character and financial management skills of the seller and in the case of disagreement, the dispute may be hard to resolve because the agreements are not legally enforceable. The risk range from complete loss of the purchase to obtaining goods that did not fit the agreed upon specifications.

Deposit collectors

This is a "saving up" swap type, which is not prevalent in East Africa. Although this is a very common practice in West Africa, the research team did not find any mention of deposit collectors in Tanzania.

Money Guards

This is a "saving up" swap type, which was not found to be as prevalent as the ROSCA and reciprocal lending in Tanzania. The few instances where it was reported, it involved women keeping money with a shop keeper for a certain period of time until the owner needs it. It is based on trust for no receipts are issued. The research team found isolated cases in Ngaramtoni where a few butchers were rendering this service for a few women in the market at no fee. Perhaps the benefit is that they get the opportunity to use the money. Since there were so few it was hard to establish any patterns. In some cases respondents said that it was extremely difficult to trust anybody with money these days.

Semi-Formal Financial Sector

Savings and Credit Associations (SACCOs)

SACCOs are the most prevalent semi-formal savings device. It offers both the "saving up" (savings accounts) and "saving down" (loans) swap types**.** They are very prevalent in Tanzania although they have suffered set backs in the recent past.

SACCOs share a lot in common with ASCAs, indeed one could argue that they are an advanced form of ASCAs. Just as in an ASCA people pool their savings and use that pool to extend interest yielding loans used to reward the savers. Most SACCOs are capitalised by illiquid (sometimes non-returnable) shares. Lately a lot of SACCOs have obtained external capital injections from donors.

In Tanzania, SACCOs have registered different degrees of success. SACCOs whose common bond is the work place and composed of educated people have endured the test of time and have recorded some degree of success.

Well functioning SACCOs are popular because of their ability to provide low-cost emergency or consumption loans without the burdensome bureaucratic procedures associated with formal banks. They do not require long complicated application procedures. They provide safe and convenient deposit facilities, which are normally easily accessible and located near members' workplaces or homes. In addition, the hours of operation tend to be sensitive to the members' hours of business operation while others have some have mobile daily deposit collection services. Perhaps one variable that makes distinguishes well functioning SACCOs from others is that savings and loan repayments are often directly deducted from the payroll. This significantly diminishes the possibility of default and ensures the discipline for regular deposits.

In some places, especially in rural areas especially among less educated groups, running SACCOs is has been more challenging. SACCOs requires good book-keeping skills, which are often conspicuously absent in rural areas. This makes this device less user-friendly to the poor who are often illiterate.

In addition rural SACCOs do not inspire confidence in the depositor especially with regard to the physical security of their deposits. Interviews with members indicated that they would deposit more money with their local SACCO if only it had a safe, the deposits were insured, the officers demonstrated skill, and if the SACCO extended credit to the members and offered reasonable interest rates (11-13%) on savings.

The SACCOs have an apex body supposed to set rules, enforce them and extend technical assistance. For a variety of reasons the apex body has not been able to do is job in a satisfactory manner. This has had disastrous results and injured the viability of numerous primary SACCOs and has indirectly driven many into functional extinction.

What is Important in a SACCO – Mashaati Client Perspectives

Rank	*Men-Only Group*	*Women-only Group*
1	Experienced, knowledgeable and honest staff	High interest on savings (11-13%)
2	Fast service (currently it can take days before one can withdraw their money)	Security of deposits including insurance for deposits
3	Security of deposits – SACCO must have own safe	Skilled and honest employees
4	Computerised system of record keeping	Fast service
5	11 – 13% interest on savings deposits	Access to loans by members on reasonable terms
6		Computerised record keeping system
7		Must be open six days A week save Sundays
8		Should provide educational seminars

The table above illustrates the key issues that were highlighted by both men and women members of a SACCO using preference ranking technique. Although the preferences are vary significantly probably because of gender differences, several common preferences came out strongly as key influences on the use of the SACCO by the local community. These include honest skilled staff, safety of the deposits, speed of service and access to credit. One observation though is that the while men ranked interest on savings as last attribute, women put it as number one.

NGO MicroFinance Institutions

There are over 20 NGO-MFIs in Tanzania ranging from village level to national level[5]. NGO-MFIs offer a "saving down" swap type. The *term* of the swap ranges between short term (16 weeks) and medium term (100 weeks) This swap type handles modest sums of money ranging between Tsh. 25,000 ($35.71) to Tsh. 1,000,000 ($1,428.57) depending on the MFI, and how long one has been in the programme. The loan amounts are usually graduated increasing based on how long one has been in the programme and the client's repayment record. Most NGO-MFIs have a peer evaluation and guarantee mechanism that is designed to limit individual borrowing to realistic limits.

The frequency of payments ranges between weekly to bi-monthly. The payment normally includes principal, interest and compulsory savings. Most NGO-MFIs are by law barred from accepting voluntary savings deposit, although there are indications that clients would like some of the MFIs to provide savings services as well. There are varying eligibility criteria that usually include ownership of an enterprise for more than a year. The majority of MFIs target only women clients. Most use collateral substitutes especially group guarantee. This makes them accessible to the poor who are kept out of the formal credit market for lack of collateral.

Because of the requirement that one has a business, a lot of poor people are unable to access the services of most NGO-MFIs. This is made worse by the credit-only focus to which NGO-MFIs are currently confined. NGO-MFIs are, by law, not allowed to accept savings deposits except those used as collateral. The very poor are left out the very poor are often risk averse and therefore would rather get a safe place to store their meagre savings for emergencies etc. than take on a loan and its associated risks. On the other hand even those that would like debt are unable to access it because group selection procedures eliminate those perceived to be very high risk (normally the very poor). Because of the exclusive focus on women[6] a lot of men are unable to access the services of NGO-MFIs.

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[5] . These include PRIDE-Tanzania, Small Scale Industries Development Organization (SIDO), The Presidential Trust Fund, The FAIDA Credit Scheme, TYDEF, Juhudi ya Akina Mama Scheme, RYTE, Poverty Africa Credit Shop, The Credit Scheme for Women, Action to Assist Rural Women, WEDTF, Monduli Credit for Women, SEDA, Zanzibar Fund for Self-Reliance, SKUVI

[6] Except for such groups as PRIDE Tanzania

NGO-MFIs come with very high transaction costs. Most require that members assemble for a compulsory weekly meeting. Some of the MFIs go to the village (take the service to the doorstep) while others require the client to make a trip to an often distant place of meeting. This journey represents a very high transaction cost that may serve as a disincentive to some. The price of the swap (interest) tend to be a nominal rate of 30% per annum in addition to various transaction fees, which is relatively high compared to the formal sector banks. However, compared to moneylenders, and loans from ASCAs (which often charge members 10% per month [120% APR]), this rate is low. However, the price is very high when one takes into consideration the transaction costs and the amount of time and social capital required to make sure that everybody attends the meetings and that any defaulter is helped or forced to pay. Compared to most of the other financial devises discussed so far, the risk involved in this swap is relatively low for the saver, especially if the MFI is large and well established. However, new MFIs run by inexperienced people expose the poor to the risk of losing their compulsory savings, especially those that are about to receive a loan. However, since most MFIs use the group guarantee system, clients constantly run the risk of losing hard-earned savings because of fellow defaulting members. This guarantee risk has forced many clients to leave MFI lending programme[7].

The NGO-MFI model has several weaknesses. It has rigid format requiring weekly or bi-monthly meetings. It penalises the best clients since they have to meet repayments missed by the defaulting clients. It has a limited rural outreach since most of the NGO-MFIs tend to concentrate in accessible rural areas in order to run on a sustainable basis. It fails to cater for individual credit needs and does not address the need for voluntary savings. Most tend not to allow clients access to their savings unless they are withdrawing from the programme. These weaknesses impose limits on the depth and breadth of their financial services.

Formal Financial Sector

Formal financial sector is composed of those institutions that fall under the supervisory and regulatory jurisdiction of the Bank of Tanzania. This includes bank and non-bank financial institutions. (See Appendix for a full list of these institutions). The sector also includes the insurance industry[8]. The research found that the poor rarely use the formal financial sector and that the trend has even become worse after the financial sector restructuring which saw the closure of several upcountry branches.

There are many formal banks and non-bank financial institutions most of which, especially after the financial sector restructuring tend to be concentrated in urban centres especially Dar-es-Salaam. Save for development banks which offer only "savings down", and the Tanzania Postal Bank which focuses on "saving up", the rest of the banks offer all three swap types. Apart from Tanzania Postal Bank all the other banks are designed for use mainly by the wealthier segment of society.

The poor rarely use formal banks except in instances where payroll is directed to a bank for payment services. Other occasions are when MFIs extend loans to the micro-clients using a cheque that must be cashed at a bank which normally requires that the client have an account with a bank. The research found that the poor rarely use formal banks because the following reasons:

- They normally require high account opening balances
- They normally require high minimum balances to maintain the account
- They have unrealistic limits on withdraws
- They have an intimidating appearance
- They lend only to the rich and so give the poor no chance to borrow
- The staff are not pleasant and friendly – they have terrible attitudes.
- The staff are not trustworthy

[7] For a more detailed discussion of issues related to drop-out read "MFI Drop-Out Study , Tanzania by Maximbali (1999)

[8] The study did not focus on the insurance industry although it is a form of saving (savings through). Suffice it to say however, that through-out the study the poor did not mention much direct use of insurance services save for the desire to see the SACCO deposits insured against all manner of risks

- They are too far from the poor people's homes and places of work which means that one would have to use as much money for transport when they want to transact
- They operate during inconvenient opening hours – tend to close before the end of most people's business days
- They have relatively complicated withdraw and deposit forms which come as a challenge to most people who are functionally illiterate
- They impose high transaction costs especially in terms of waiting time, journey to the banks etc.
- The poor have low and unsteady incomes – and therefore cannot afford formal sector banks
- Ineffective advertising of services offered and the corresponding conditions. For example most people did not know that Tanzania Postal Bank has only Tsh. 5,000 ($7.14) as an opening balance. This amount was considered appropriate by the majority of interviewees who where hearing this for the first time.

The findings of this study are not that different from the Aryeetey and Gockel (1991) Ghana study. These are namely that:
- The poor feel that their incomes were too low – suggesting that they expected only those with high incomes to deal with banks;
- They feel there is too much formality at banks – related to paper work which leads to an unnecessarily extended transaction time; and
- They feel that banks were uninterested in small frequent deposits of torn notes and discouraged them from making them.[9]

In addition, another study (Bagachwa, 1994) of the Tanzania formal financial sector
indicates that the overall use of formal financial has declined because of:
- Inefficiency in banking systems especially poor and cumbersome customer service which undermine trust in banks;
- A preference of physical to financial assets given the high rates of inflation;
- Limited rural branch network;
- Lack of confidence in personal checks;
- Inadequate specialised personnel to handle needs of depositors; and
- Delays of 2-4 months in posting amounts deposited[10].

What Are The Main Uses Of These Savings ?

The research team found and other studies concur (Rutherford, 1999 and Johnson and Rogaly, 1997) that the poor use there savings for a variety of reasons which include daily expenditure, consumption smoothing, accumulation to meet life-cycle needs and events and financing emergencies. The report deals with these individually in turn.

Finance Emergencies: The poor use their savings in order to cope with emergencies such as illness, accident, death, funerals, bereavement, desertion, divorce, theft and fires. These emergencies demand large sums of money. Therefore the poor build up savings to hedge against these irregular, unanticipated events. Savings tend to range from highly liquid to semi-liquid.

The savings required to finance emergencies need to be in a highly liquid and fast in response. One of the most popular devices are the ethnic based self-help emergency fund groups whose emphasis is usually financing household emergencies especially death and the related funeral expenses.

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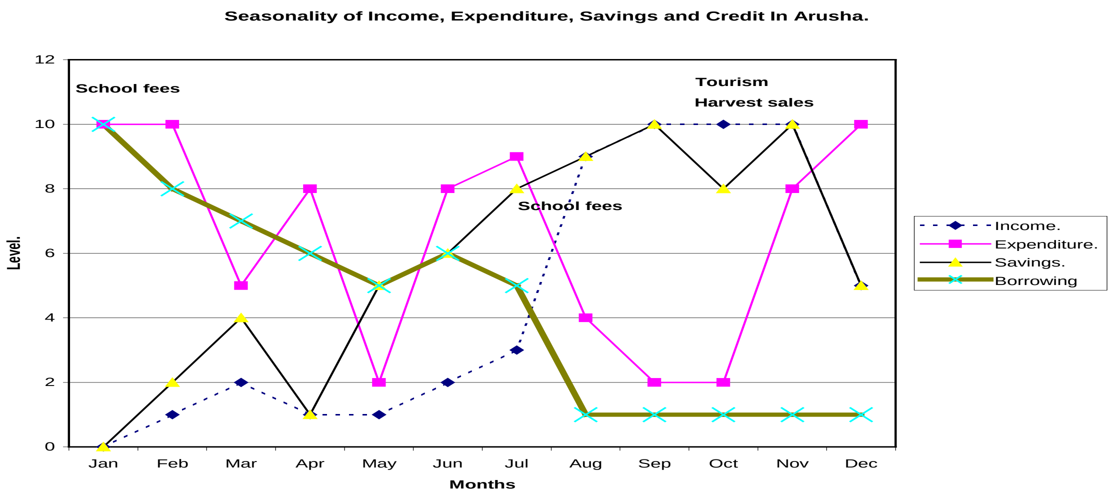
[9] Given these concerns it is not surprising to find the authors concluding "Thus in the urban area," [of Accra] "it is estimated that the formal sector controls only 55 percent of financial savings mobilized in a month." [p.16]. It wouldn't be surprising to find Tanzania's situation similar to this.

[10] These delays are with particular reference to the Tanzania Postal Bank with regard to posting of amounts deposited at Post Offices (agency) to the TPB account.

Consumption smoothing: Because of the seasonal fluctuations in income characteristic of rural areas, the poor save money during high income seasons in order to have what to spend during low income seasons.

Based on the PRA exercise on seasonality, fluctuations in income over the year are very pronounced and therefore require people to save for the low income season or to borrow in order to smooth consumption. Consumption smoothing normally covers such expenditures as food, medical care and school fees. The table below illustrates.



The table above is illustrative of the need for consumption smoothing in the Arusha areas. It is based in several PRA exercises conducted at different sites in the Arusha areas. It is evident that during the last half of the year (July to December), the area enjoys high income and the people tend to save a lot of money in preparation for the low income part of the year which runs from January to June.

According the calendar consumption (high expenditure) during the January to June is smoothed by depleting savings or borrowing in order to finance school fees in January and finance healthcare during the months of April through June when the incidence of disease is highest.

Accumulation to meet life cycle needs and events. Poor people need usefully large sums of money to deal with life cycle events such as purchase of plot, construction materials, wedding ceremonies, education and establishing a home, widowhood, old age and death, and the need to leave something behind for one's heirs. This involves building up longer-term savings balances in order to make future large expenditures.

Financing Opportunities: As well as needs, there are opportunities that require large sums of money, such as starting or running a business, acquiring productive assets or buying life-enhancing consumer-durables such as TVs and refrigerators.

Working Capital Financing

Joe is a client of PRIDE Tanzania – Kijenge Branch (Arusha) but also is a member of a 4 member ROSCA where each member contributes Tsh. 50,000 ($71.43) per month. All of the members are in the timber business. Each usually uses the Tsh. 150,000 ($214.29) pay-out to re-stock logs. "Using the ROSCA savings for working capital is very common among small business people although some use it for other things," says Joe. "I know PRIDE clients that have used the money to build a house, for shopping, paying labourers, buy more stock for the business and sometimes to make loan repayments".

Daily expenditure: The need to keep cash safely in order to manage and deal with day-to-day expenses and occurrences, including financing small emergencies. These are usually small amounts held in highly liquid form.

These findings are similar to those of Bagachwa (1995) who reports that, "These more liquid forms of savings are being used to finance education of children, to meet such irregular needs as funerals and weddings; and to invest or expand investments (for example buy or build a home, purchase inputs or equipment and improve or enlarge farms)".

Issues Of Importance For Poor – Consideration For Choosing And Keeping A Financial Management Device

A Wish List - What Should A Bank Be Like?
The Poor's Perspectives

In the various preference ranking exercises conducted in the areas of research, respondents described what features they wanted to see in a bank they would love to use. The following is a compilation of the attributes they thought important:

"We would like a bank whose services are close to the customers. One where savings deposits can be used as collateral. The bank should issue micro-loans and should have simple repayment procedures for loans, which should also have affordable interest rates. The banks should be flexible and allow unlimited withdraws with the ability to withdraw all over the country. The banks should construct business stalls for renting to micro customers. It should have efficient operations that ensure speed of service".

"The employees should be disciplined and should be able to tirelessly give customers education on the services available. Workers should also have a sense of humour and be charming for this will make the bank a less intimidating place for us. The banks should have computerised services because this helps in delivering fast and good services. The banks should be opening at 7:30am and closing at 6:00pm. The banks should have no premature withdrawal charges and should offer interest on deposits on a quarterly basis. Interest on deposits to be at least 10-15% APR and loans should have affordable conditions like group guarantees".

"Opening and minimum balances should be between Tsh. 2,000 ($2.86) to Tsh. 10,000 ($14.29). The bank should care for its customers and be understanding when they have problems. The staff must be trustworthy, know what they are doing and should respect customers especially the ones with small deposits. The bank should accept even small deposits of Tsh. 500 ($0.71). It should make it possible for one to open an account without any conditions like references etc.".

"The bank should have simple clear instructions for customers and should have no service charges on customers' accounts. The bank should be able to offer a wide range of products including payment of salaries through the bank. The bank should issue bank statements and do away with passbooks. The bank should have relaxed withdrawal conditions and should visit customers and provide education on bank services and products".

> "The banks should have sound capital base to avoid closures and should ensure deposits and cash in transit. Minimum interest bearing balances should be Tsh. 20,000 ($28.57) and calculation of interest on deposits should be done every six months. Interest should be high ranging from 10-15% APR. The banks should be indigenous, have it own premises and have adequate security. It should extend loans in materials instead of money. Repayment should be on weekly basis for six months with 10% interest. Banks to have standby generators for computers in case of power failure and should offer 24 hours services."

Responding To The Poor's Needs And Preferences – Preliminary Ideas For Demand Driven Financial Institutions

Products that Respond to the Need to Finance Emergencies:
This need requires highly liquid savings instruments to meet such emergencies as healthcare, death, and funeral expenses.

These products could be in form of savings products as in the form of a healthcare insurance products that demand periodic payment or an emergency loan borrowed against a deposit account. The same principle would apply for funeral insurance products.

Products that Respond to the Need for Consumption Smoothing:
Consumption smoothing needs are fairly predictable especially in rural areas where they are governed by seasonal changes. Therefore the product need not be highly liquid because the event is fairly predictable. Some of the chief reasons for saving for consumption smoothing in the areas of research were: school fees, healthcare, planting, weeding and harvesting labour expenses. Short term fixed deposits or contractual savings products maturing around the low income season are worth serious consideration. In some cases, it would make sense to extend short term loans to farmers who are interested in hiring labour for harvesting.

Product that Respond to the Need for Financing Lifecycle Events:
Since life cycle events are fairly predictable, the product can afford low liquidity with variable terms depending on the event and how early a client signs up for it. They should be designed to reflect the net-income flows of target market. They could be contractual savings products with the options of adjusting the periodic contribution based on the seasonality of income , expenditure, savings and credit.

One of the most often mentioned lifecycle event is education and in view of the liberalised university education, the need to save for children education over time has become imperative. It is for this reason that short term contractual savings accounts as well as long term contractual savings products targeting financing children's education need serious consideration. Short term contractual savings could be six months and designed to accumulate money for the six-monthly recurrent school related expenses. The longer term contractual savings accounts would be designed to finance college education.

The second most common lifecycle event is construction of a house. The current coping mechanism is to buy materials and store them until one has enough materials to complete a pre-determined phase. This is fraught with all manner of problems, including savings being locked up in "unproductive bricks" for years before one can even live in the house. A longer term contractual savings account with flexible contributions and built-in incentive to maintain high periodic deposits would meet this need by helping people to accumulate an interest bearing lump sum over time which they can use in turn to put up a house fairly quickly. This will save people a lot of money from being unproductively locked at a building site for years.

The Need for Change in Service Delivery Strategy:
Based on the observations made in the popular informal sectors, MFIs that are keen on targeting this huge poor market segment need to copy and adopt, to extent possible the product and service delivery features that make the informal sector very attractive to the poor. This will include providing for more frequent small deposits. Presently it is mainly women that have mechanisms that provide for small periodic

contribution through ROSCAs. Men have been left out because of dishonesty among themselves. Perhaps a financial institution that provides the same features, to the extent possible, in addition to honesty would be able to mobilise men's savings.

Bringing the bank closer to the people (this may call for offering a mobile tellers service), and be responsive to seasonal variations. The last element means that during high savings months, the MFI might consider introducing mobile banking services to communities with high savings volumes. Finally the MFI must ensure that they select personnel with the right attitude who will make the poor feel welcome and satisfied in terms of their needs and expectations.

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Appendix 1
Tanzania Commercial Banks Interest rates. (1999)

Name of bank	***Saving Deposit***		***Fixed deposits interest rates***				***Lending***
	Minimum	***Interest Rate***	***Minimum***	***3 Months***	***6 Months***	***12 Months***	***Rates***
Akiba Commercial Bank	100,000	8%	250,000	9%	10%	11%	25%
Bank of Malaysia	100,000	10.50%	-	11.25%	13.10%	14.10%	-
Citibank	-	-	-	6%	7%	7.50%	-
CRDB (1996) Ltd.	50,000	9%	-	9%	9.50%	10.50%	22%
Diamond Trust Bank	100,000	10%	1.00million	7%	8%	9.50%	-
Exim Bank (T) Ltd.	1mil.for cheque 0.5m for non cheque	10%	500,000	11%	13%	14%	22%
Eurafrica Bank	-	-	500,000	9%	11%	13%	-
First Adill Bank	100,000	8.5%	400,000	9.5%	10%	11.5%	25%
Furaha Finance Ltd.	50,000	12%	200,000	10%	12%	14%	-
Kenya Commercial Bank	100,000	5-12%	1,000,000	7-8%	7.5-8.5%	8% -9%	-
National Microfinance Bank	-	-	-	-	-	-	-
NBC (1997) Ltd.	20,000	9%	50,000	6%	7%	10%	22%
Stanbic Bank (T) Ltd.	-	-	1.00million	6.5%	9%	12.50%	20%
Standard Chartered Bank	-	5%	-	5%	5.25%	7.50%	24%
Trust Bank (T) Ltd.	200,000	11%	-	9%	11%	13.50%	28%