

FINANCIAL SECTOR DEEPENING TRUST

FinScope E-book

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FinScope E-Book

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1 Introduction to FinScope

The FinScope survey was commissioned by the FSDT in 2006 and was completed the following year. It is the first nationally representative consumer survey examining the demand for and barriers to accessing financial services in Tanzania and Zanzibar.

This e-book is an attempt to encapsulate the dissemination process of the FinScope Tanzania survey to date. Between May and June 2007 the FSDT offered a series of workshops each tailored for a specific group of stakeholders. Chapters 1-9 take various themes arising from those workshops and the discussions which took place there, providing analysis which will be of use to all market sectors. Each workshop focused on a particular market segment and each is described in chapters 10 – 16 below, together with a conclusion and summary.

FinScope Tanzania addressed a nationally representative group of 5,000 individuals over the age of 16 years throughout the nation. Their responses have subsequently been analysed and provide a rich fund of information about people's attitude towards financial service provision, how many people actually benefit from them and who is being left out. It identifies gaps in the market from the consumer perspective and detailed information which can provide the means for expanding market provision and helping more people to engage in it.

The analysis can be diced and sliced in numerous different ways to give specific information about small or large groups of rural or urban people. For example, it can examine the attitudes towards financial service provision for women in a particular age group who belong to SACCOs in Bukoba, or how many men in Zanzibar take a loan from both a bank and an MFI. Armed with this kind of information, the financial services industry can tailor make products to suit customers and plan ahead in order to attract more.

This e-book is not a complete analysis of all the data collected during the survey. It is a comprehensive selection which has been analysed and presented for general use. More detailed analysis examining specific areas of interest in individual market sectors can also be prepared. Those interested should contact the FSDT office on 022 2129061.

1.1 Why FinScope

- First national consumer perception survey
 - Individuals' views of total money management
 - Formal and informal services
 - Attitudes and behaviours
- Credible, robust, scientific approach
- Comprehensive market landscape – rich to poor for total market understanding
- Proven multi-nation study within Africa
- Support for Government development initiatives
- Insights for commercial service providers (including MFPs), NGOs and development agencies to innovate services and products
- Allows planning and interventions focused on specific market strata and segments

The survey is the first to ask the average person what he or she does to make and manage money together with their views on available financial services – and why some are inaccessible.

The survey covers Zanzibar as well as the mainland. It builds on a methodology that has been proven first in South Africa and then in a number of other countries in southern Africa. More recently, it has been rolled out in Zambia, Kenya and Uganda.

FinScope provides a baseline measurement of access and barriers to financial services together with the inherent challenges each poses.

The data from the survey can be analysed from multiple perspectives and the chapters in this e-book afford just a small insight into the wealth of information available to FinScope users.

The analysed data will help us to understanding the financial landscape, composition and structure of the consumer market. Users of financial services are classified according to degree of access and it soon becomes clear that a stratified approach to serving the social and economic needs of the people is required.

1.2 Survey methodology

Methodology	<ul style="list-style-type: none"> • Qualitative research • Quantitative research
Sampling	<ul style="list-style-type: none"> • National Master Sample Plan – national estimates • Listing & selection of respondents done by NBS • 16+
Sample achieved	<ul style="list-style-type: none"> • 4,962 • Results weighted to projected population
Reporting domain	<ul style="list-style-type: none"> • Urban / rural and gender
Confidence level	<ul style="list-style-type: none"> • 95%
Field dates	<ul style="list-style-type: none"> • August – September 2006

- Methodology – tests the concepts in focus group discussions and also the questionnaires
- Sampling – National Master sample plan for national estimates
- Confidence level with 95% accuracy allowing prognoses of national estimates from FinScope data
- Reporting domain, setting and gender

Why Workshop?

- Share findings – facilitate learning
- Engage debate
- Catalyse change and innovation
- Support effective market development
- Galvanise market structures

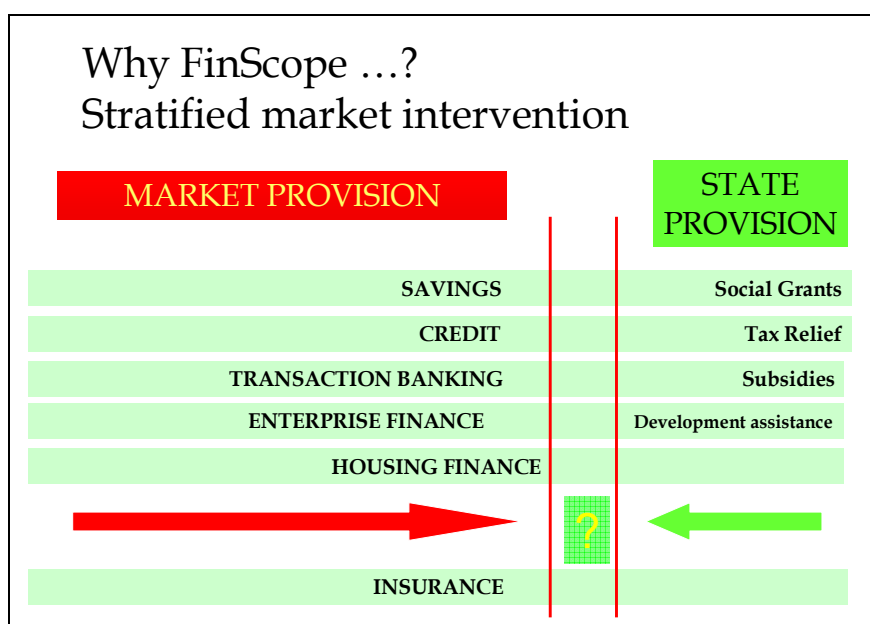


Chart 1-1: Why FinScope? Stratified market intervention

Government has a variety of essential roles, including being a safety net for the poor.

Market service providers cannot be expected to reach 100% of the population, since at a certain point it will be un-economic for them to do so. For sound economics and functioning market places, the trick is to keep the un-served segment as small as possible.

This chart shows a series of examples of possible interventions from both private and public sectors. It does not attempt to show priorities.

FinScope affords a continuum - a landscape - of the market and allows for market interventions focused on specific strata and development from all concerned - Government, development partners (including the FSdT), and, last but certainly not least, commercial service providers.

This HAS to be a collaborative effort. If any parties do not buy into this effort, the whole will be weakened and, at the very least take longer to bear fruit; and it might even fail.

Making financial markets work, especially for the poor, calls for practical solutions and a compelling case for collaboration between the private sector, government and development partners. Financial sector development and access to finance are parallel processes and both need private initiatives and political will.

1.3 Market drivers

Embedded in the left-hand part of the previous chart (market provision), are a variety of market drivers.

These elements are the basic components of any effectively functioning market – if any element is under- or over- provided, then the market becomes in some way impaired.

FinScope allows us to analyse and unpack these elements and to begin assessing the state of play of each of them and what it implies for both public policy-makers and private sector financial services providers.

Workshop approach

- Collected interest areas and queries – via registration forms and meetings.
- Analysis of data by FSDT, consultants and ESRF.
- Creation on a ‘lens’ for quick referencing.
- Creation of appropriate context for the information.
- Specific market dynamics reviewed.

1.4 Market dynamics reviewed

- Population profile
 - Population characteristics
 - Geographical concentrations of people & issues
 - Gender issues
 - Perceptions
- Infrastructure and amenities
- Rural/urban perspectives:
 - Semi-formal and informal categories explained
 - Rural population needs & services to reach them
 - Demand and use of credit facilities in rural areas
- Product & Services
 - In-kind savings and in-kinds loans
 - Co-operatives market – SACCOs
 - Micro-finance
 - Savings borrowing
- Access
 - Barriers to access – physical, non-physical & socio-economic
 - Access costs & perceptions
- General Money Matters
 - Financial literacy and impact on uptake
- Policy and legal impacts....

Population profile

- Total adult population 16 years & older = 21 million people.
- 57% of adult population under 34 years of age.
- The urban / rural split of this population group is 28% and 72%.
- There are more women than men in both urban and rural areas.

So, what has been measured in this survey?

The relative youth of the population poses both an opportunity and a challenge. There is a window of opportunity for both the service providers and the Government to help people acquire greater education and skills to generate income and to adopt and benefit from appropriate financial services.

The high proportion of the rural population adds further weight to the need to ensure basic education, financial literacy and the need for income generating activities.

In addition, there are more women than men in the both urban and rural segments of the total population of 21m covered in the survey. Hence the need to educate women to use financial services effectively is critical.

FinScope gives us (a) the hard facts – a baseline – (b) the scale and scope of the challenge and (c) where we should be targeting our efforts.

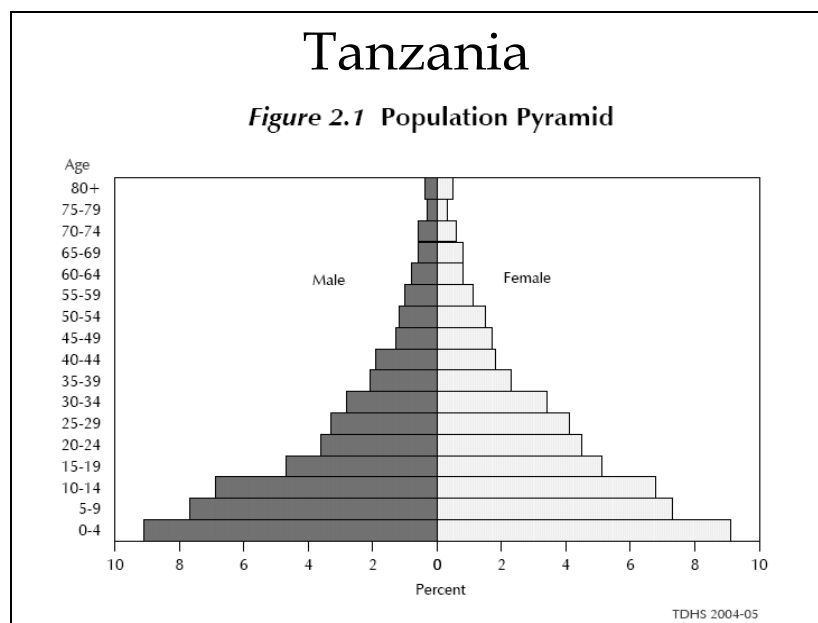


Chart 1-2: Tanzania - Population pyramid

14 million Tanzanians are below the age of 16 and with population growth of 2.5% per annum this could have enormous ramifications for the country.

A major challenge lies in the size and growing proportion of the youth market. Failure to attend to their needs and accommodate them successfully may well compound the problem. The size and scope of the challenges faced by the un- and under-served market segment are going to increase.

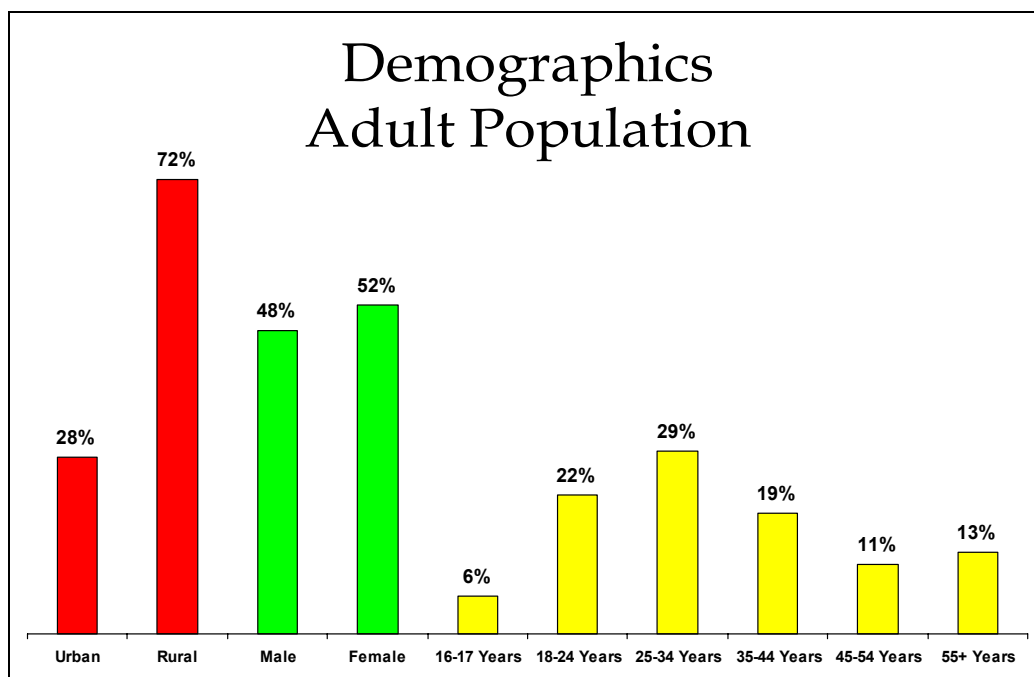


Chart 1-3: Demographics Adult Population

The demographics of the adult population of the Tanzanian mainland and Zanzibar island show us that:

- 72% live in rural areas compared to 28% in rural areas
- 46% are men compared to 52% women
- 6% are 16 to 17 years old
- 22% 18 to 24 years old
- 29% 25 to 34 years old
- 19% 35 to 44 years old
- 11% 45 to 54 years old and
- 13% above 55 years old
- 57% of the adult population is between 16 and 34 and 43% above 34 years old.

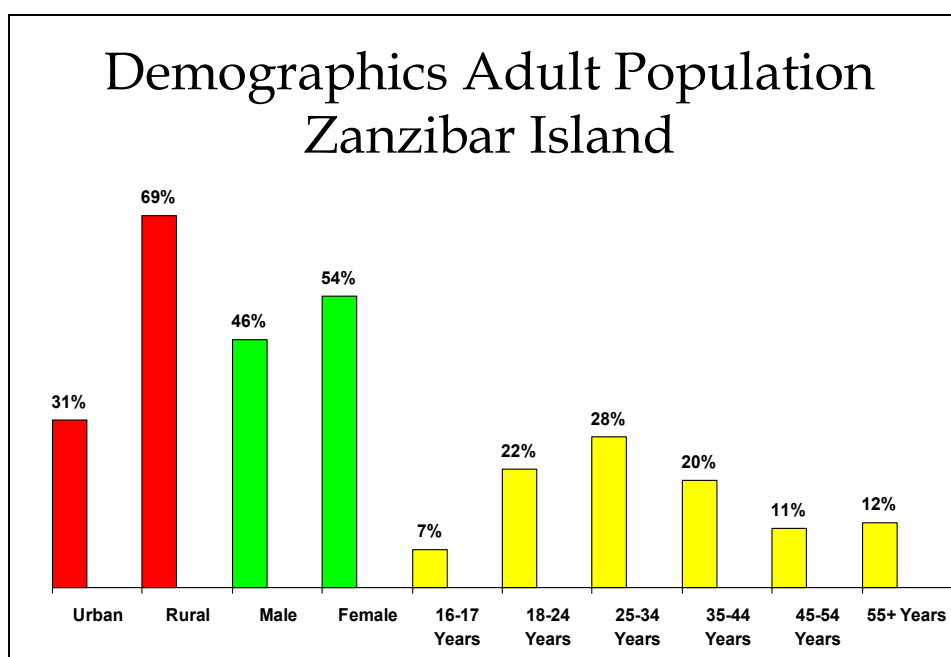


Chart 1-4: Demographics Adult Population Zanzibar Island

The demographics of the adult population of Zanzibar island give a slightly different picture (percentage in brackets is the variance to the percentage for the whole of Tanzania).

- Only 69% (-3%) live in rural areas compared to 31% (+3%) in rural areas.
- 46% (-2%) are men compared to 54% (+2%) of women.
- 7% (+1%) are 16 to 17 years old.
- 22% (equal) are 18 to 24 years old.
- 28% (-1%) are 25 to 34 years old.
- 20% (+1%) are 35 to 44 years old.
- 11% (equal) are 45 to 54 years old.
- 12% (+1%) are above 55 years old
- As can be seen, 57% of the adult population is between 16 and 34 years, and 43% above 34 years old.

2 FinScope dissemination strategy

2.1 FSDT dissemination objectives

Create benefits for users by demonstration how the finding can be applied.

Possible applications:

- Assist in evaluating existing impact on policy.
- Evaluate existing market segments and services.
- Inform decision-making.
- Determine how or where to target support and initiatives.
- Assist in the improvement and innovation of products & services.
- Create improved / informed staff training.
- Develop appropriate communication messages and tools.
- Inform corporate strategy development.
- Assist in expanding markets and market penetration.

2.2 Access to FinScope findings

The FinScope dataset:

- Contains the universe of information. To be used by institutions and individuals able to analyse market research information.

FinScope key findings:

- Analysis which makes sense of the data. Users need information tailored to their specific interests or market challenges.

The FinScope information is not equal to the FinScope dataset. The dataset contains the entire universe of information collected by the survey. It can then be mined and analysed for specific information depending on the needs of the end-user. A firm grasp of the client's needs is therefore as important the skills required to produce the required information.

2.3 Immediate dissemination

Key findings:

- Initial analysis presented at the FinScope Tanzania launch – April 2007.
- Currently: research institutions and consultants mine the dataset, present more analyses and workshop the application of these analyses.
- Materials are published on the FSDT dgroup website: launch brochure, analyses and presentations.
- E-book including all the information presented and collected at workshops published on CD and copied to dgroup website.

Key-findings of the FinScope survey were presented at a launch in April 2007. The information contained in the survey is important for and relevant to all stakeholders, regardless of their particular interests.

However its value still had to be broadcast, understood and digested.

How do stakeholders know what questions to ask, what else FinScope can tell them? In reply, the FSDT offered a series of workshops analysing specific information relevant to various market segments. This e-book, summarizing the analysis of all the workshops in themes is a permanent tool for disseminating information.

2.4 Intermediate dissemination between April and June 2007

In-depth analysis and workshops

The FSDT:

- Hosted workshop for some market segments.
- Is continuing to facilitate to local market research capacity.
- Is developing the means, (possibly including subsidies), to assist users to buy or use analytical services to apply the findings.

The market for FinScope information needs to be developed. The demand is vague and therefore it is difficult for suppliers of market research services to venture out to offer FinScope consulting services (understand the information need of the client, mine and analysis the dataset and present findings in a user-friendly way). FSDT is stimulating the demand for FinScope information and offers simultaneously initial consulting services, which at a later stage shall be offered by private market research institutions. Besides the disseminating the findings and further in-depth analysis FSDT considers subsidies to researchers to encourage them offering services for which there is not yet a continuous demand.

This e-book, summarizing the analysis of all workshops and themes is a permanent tool for disseminating information.

After the FinScope survey was concluded, the key-findings were presented at a launch in April 2007. How do stakeholders know what else FinScope can tell them? How do they get hold of the information they need? In reply, the FSDT offered a series of workshops looking deeper into the survey information, analysed for various market segments. This e-book summarizes themed analysis from all the workshops as a further tool to disseminate the FinScope information. Particular information relevant to, for example, a specific bank wanting information related to a single customer group within a geographical location can also be made available.

Workshop schedule

Date	Market Segment	Subject of analysis	Institutions invited
3 May 2007	Donors and development partners	Support and promotion of 'pro poor' financial services	Donor agencies
4 May 2007	Government	Policy and regulatory issues	Government agencies
16 May 2007	Insurance industry	Client profiles and preferences, useful information for financial sector deepening	Insurance companies and Insurance authorities
17 May 2007	Banking industry	Client profiles and preferences, useful information for financial sector deepening	Commercial Banks and Community Banks, TIOB
6 June 2007	Cooperative movement	Client profiles and preferences, useful information for financial sector deepening	Savings and Credit Co-operative Societies
7 June 2007	Microfinance	Client profiles and preferences, useful information for financial sector deepening	MicroFinance Institutions
27 June	Research	FinScope data and the potential of FinScope market research services	Market research service providers
28 June 2007	Mobile telephone industry	Usage of mobile telephone services and the potential of mobile payment systems	Mobile telephone service providers and regulators

Long term dissemination

From June until the next FinScope survey in 2008

Demand-driven, tailored market research

- Market research institutions to offer services to users.

- Feedback from users of information for the next FinScope.
- The next FinScope survey may reflect and market innovation implemented in the meantime.

In the long term FSDT hopes that the market generated by stakeholders' demand for information will be met by private market research providers. The FSDT is also preparing for an improved second FinScope survey which can then be compared with the first. Any changes in access to the financial market in Tanzania will be recorded and observed over a period of time.

3 Access to financial services

3.1 Analyses and interpretations

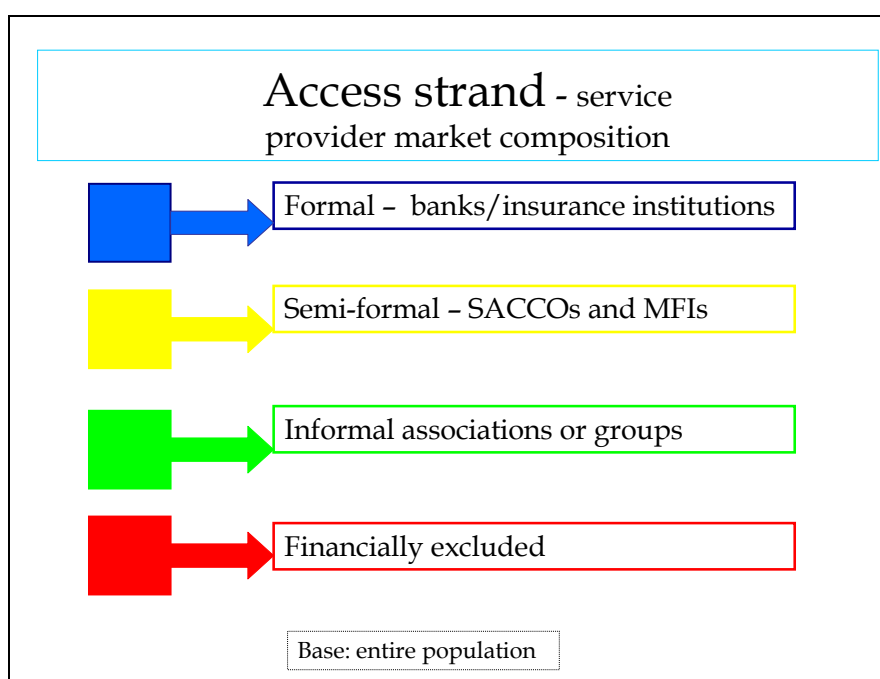


Chart 3-1: Access strand - service provider market composition

We have used the FinScope results to divide the adult (16+) population into four main categories or 'strands' according to which type of financial service they use. These terms will be used often throughout this e-book in the data analysis.

The definitions for formal, semi-formal, informal and totally un-served/excluded are given below and are repeated in the brochure available from FSDT:

Formal financial institutions are those supervised by a financial services regulator now, or (in the case of pension funds) likely to be soon. This category includes banks and insurers.

Semi-formal financial institutions are those with some formal supervision, but not from a financial savings regulator. This category includes the SACCOs and larger MFIs.

The **informal** segment includes small, usually community-based organisations such as ROSCAs, Village Community Banks, upatu and money-lenders.

The totally un-served or **excluded** is everyone else, and includes people who may use non-monetary means to save, borrow or transfer money.

These classifications (market segments or 'strands') are used in similar, but locally tailored formats throughout Africa where the FinScope surveys are conducted. The percentages or numbers of people referred to in each of these market segments relate to mutually exclusive use. For example a SACCO user with a bank account will be classified in the formally served segment. Someone who uses a money-lender but is also borrows from a SACCO will be included in the semi-formal segment. The data base however still affords the opportunity to review all SACCOs users and the consumer referred to above will be counted within the incidence of SACCO usage.

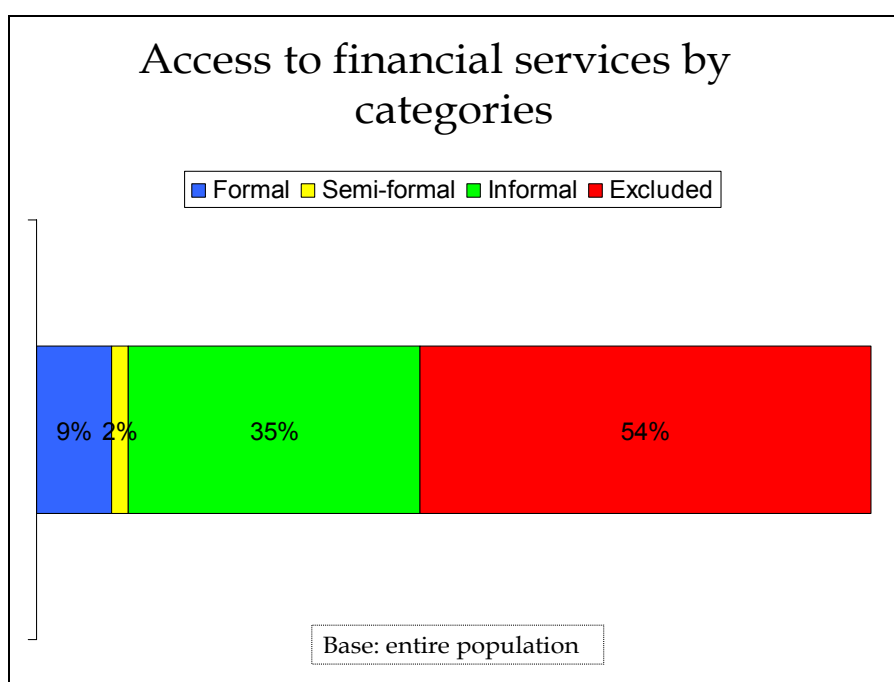


Chart 3-2: Access to financial service by categories

This is what the whole access strand looks when analysed by the segments into which people fall. Several things immediately stand out:

54% of the 21m population surveyed have no access to any financial service – formal, semi-formal or even informal.

Over a third of the people only have access to informal financial services. Together with those who have no access to any financial service, this means that 89% have no access to formal or semi-formal financial institutions in Tanzania. This represents a little under 19m people aged 16 and above!

SACCOs represent only 2% of the population. There are several reasons for this.

- It is not yet known whether people will graduate immediately from accessing only informal financial services to using formal banking services. It may be that they will go to the next level up – i.e. the semi-formal services, which are provided mainly by SACCOs, as well as a few of the larger MFIs. Only further FinScope surveys will provide these answers to these questions.
- As banks and other financial institutions develop links with semi-formal and informal organisations, they are more likely to want to deal initially with semi-formal counterparts than try and understand the nature and risks of the informal sub-sector.
- Recent government initiatives promoting SACCOs has successfully increased the number of these organisations from about 1,800 to some 3,200 – even if the number of people using them has increased at a much slower pace. SACCOs are part of the established financial landscape in Tanzania and Zanzibar and the FSDT is giving high priority to capacity-building in this sector.

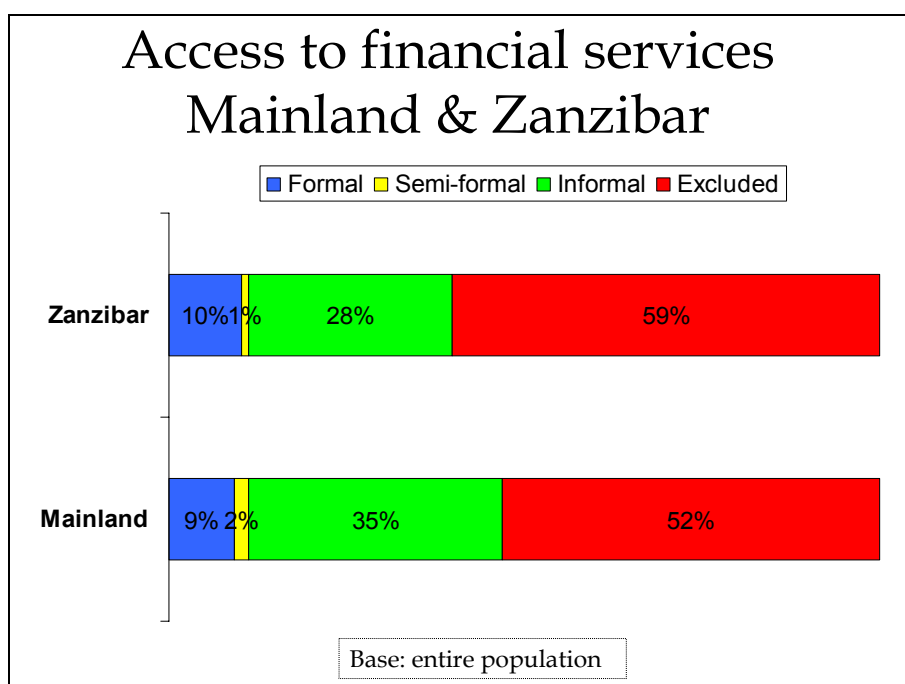


Chart 3-3: Access to financial services Mainland & Zanzibar

The survey was conducted throughout Tanzania and Zanzibar. The chart above shows that, although the numbers in the formal and semi-formal sector are roughly similar, there are 7% fewer Zanzibaris in the informal sector and 7% more in the totally excluded category.

Zanzibar will therefore need at least an equal amount of attention to improve market access, and remove barriers, for the poor.

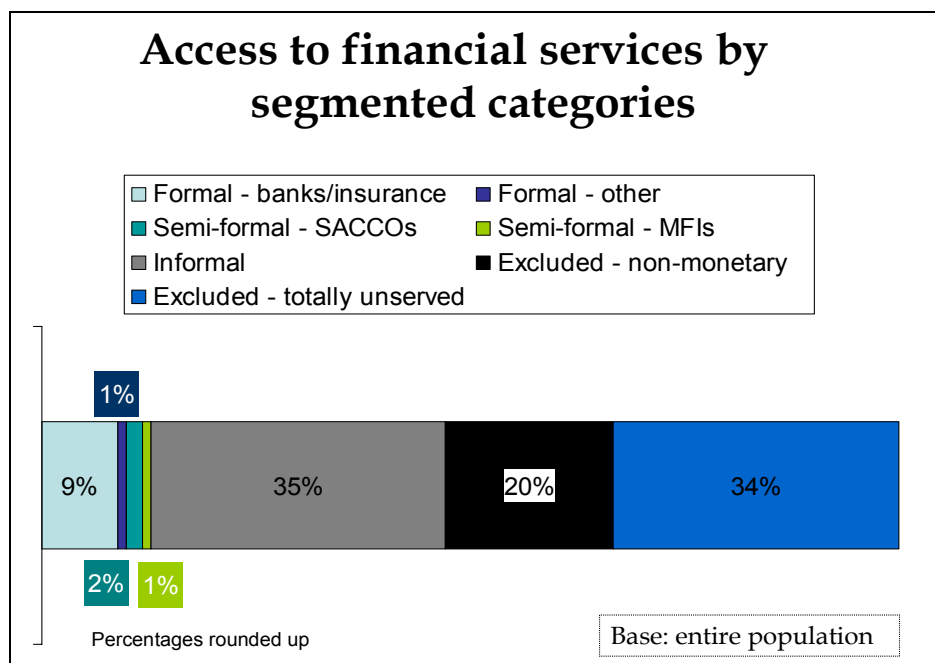


Chart 3-4: Access to financial services by segmented categories

This chart shows the percentages of each category in the access strand. An explanation of how people are sorted into these categories can be found on pages 22 - 23.

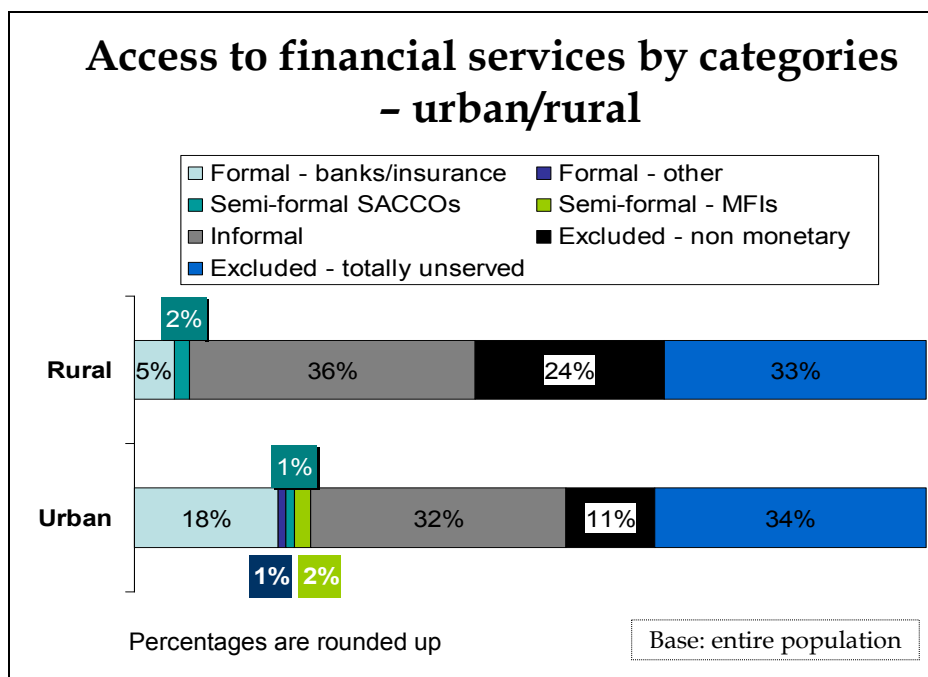


Chart 3-5: Access to financial services by categories - urban/rural

This chart reveals the differences between those living in urban and rural areas throughout the country.

Of the urban population, 18% are formally served compared to 5% of the rural population.

The rural population is almost entirely un-served by MFIs.

A quarter of the rural population and a tenth of the urban population use only non-monetary services.

46% of urban population compared to 57 % rural population are excluded from any financial services.

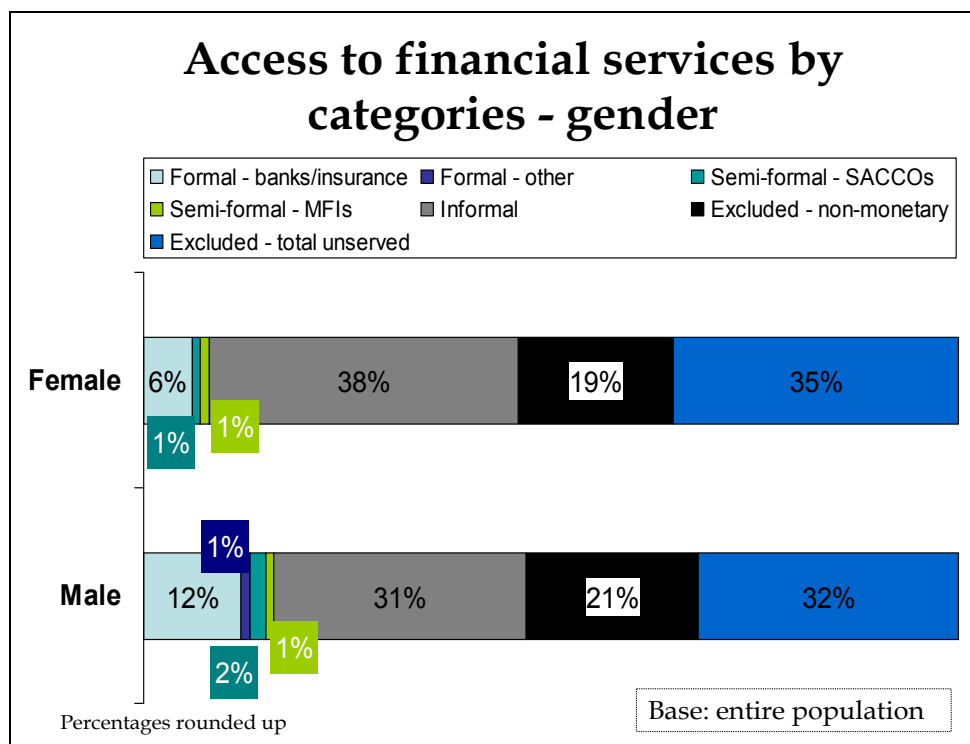


Chart 3-6: Access to financial services by categories - gender

There is little difference between men and women in terms of access to the financial system with a few notable exceptions:

There is twice the number of men than women using the formal sector.

There are 7 % more women in the informal sector.

A third of both adult men and women remain outside the financial system altogether, a figure which should give the industry pause for thought.

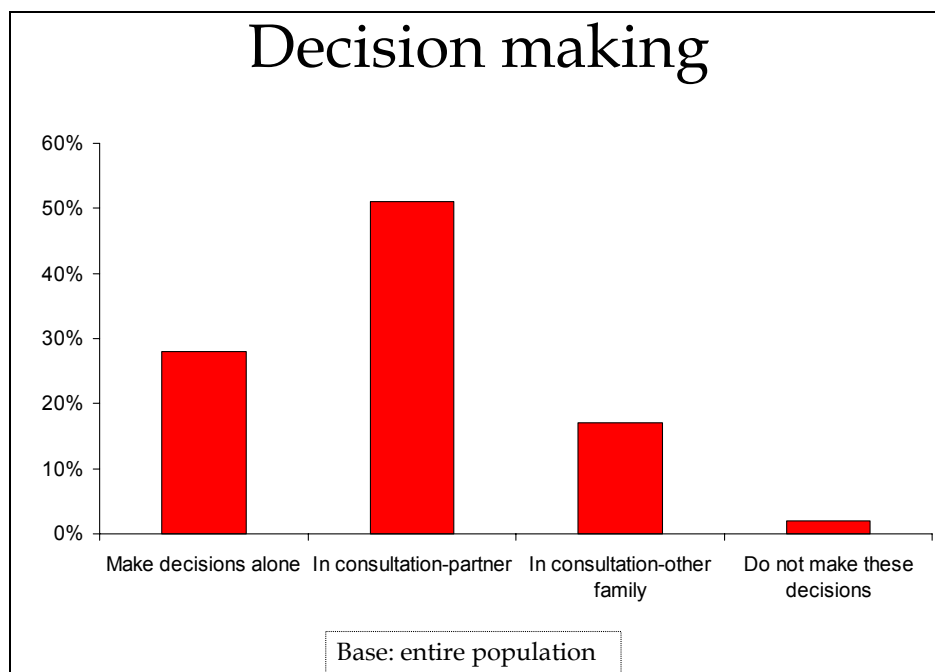


Chart 3-7: Decision making

Data on decision making on financial issues shows a remarkable equality with just over half of the population (51%), consulting their partner before acting, and a further 17% claiming they consult another family member before doing so. It is clear then, that two thirds of the adults in Tanzania and Zanzibar choose to seek the advice before making a decision concerning their finances.

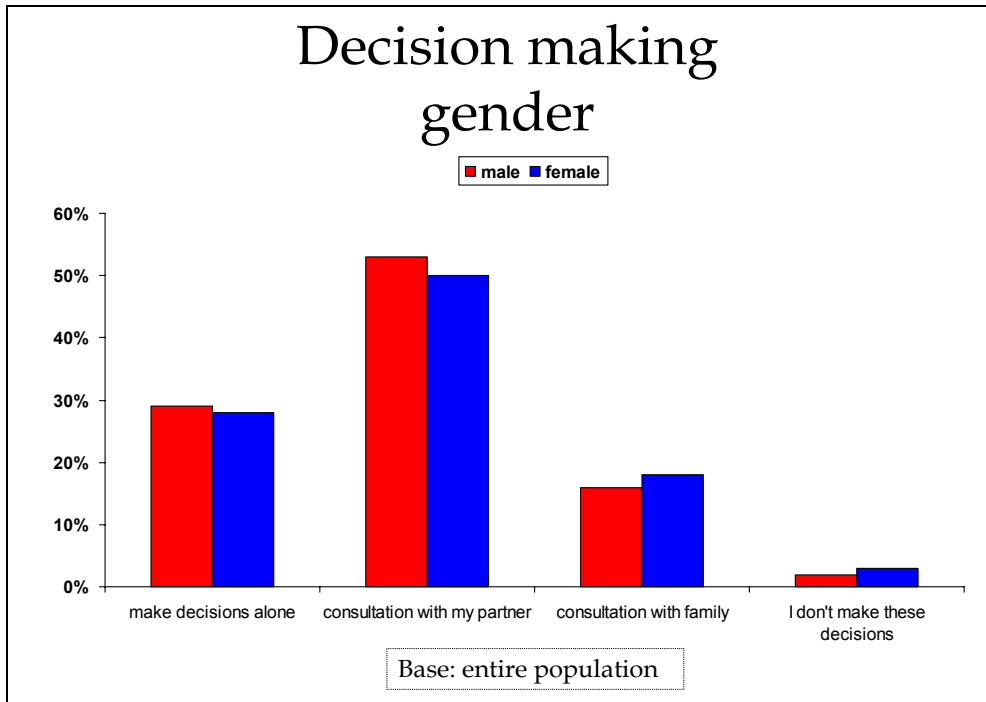


Chart 3-8: Decision making gender

The chart above showing a gender split in financial decision making suggests that there is very little difference between the behaviour of men or women. There is almost an equal number of men and women who take decisions alone, who consult a partner or another family member.

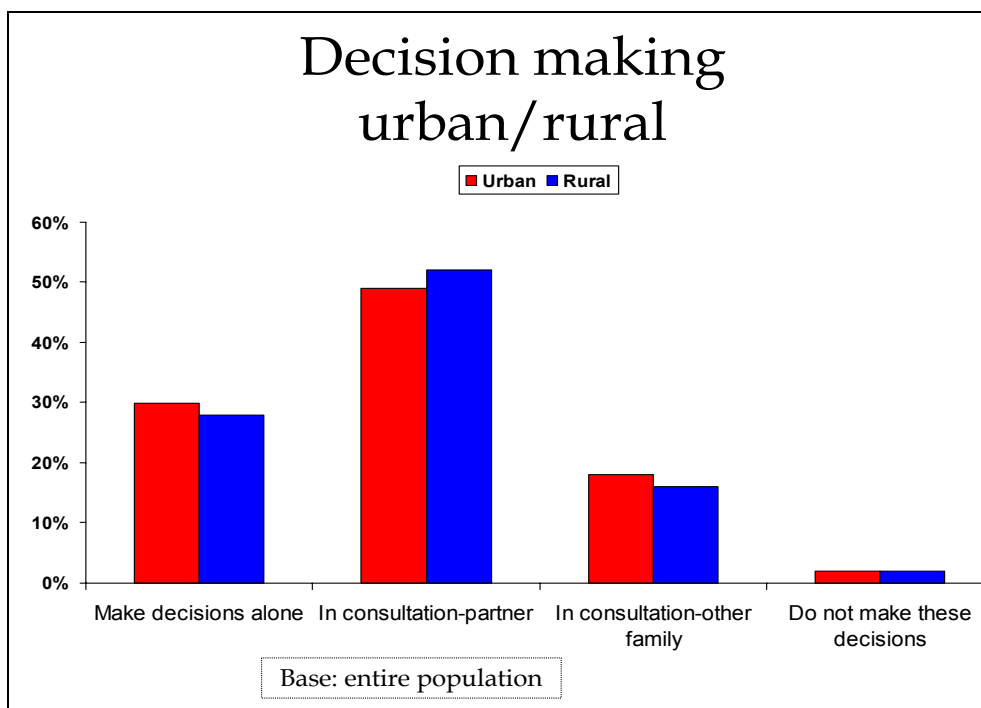


Chart 3-9: Decision making urban/rural

Once again, this chart shows little difference in behaviour of urban and rural dwellers when it comes to making a decision about their finances.

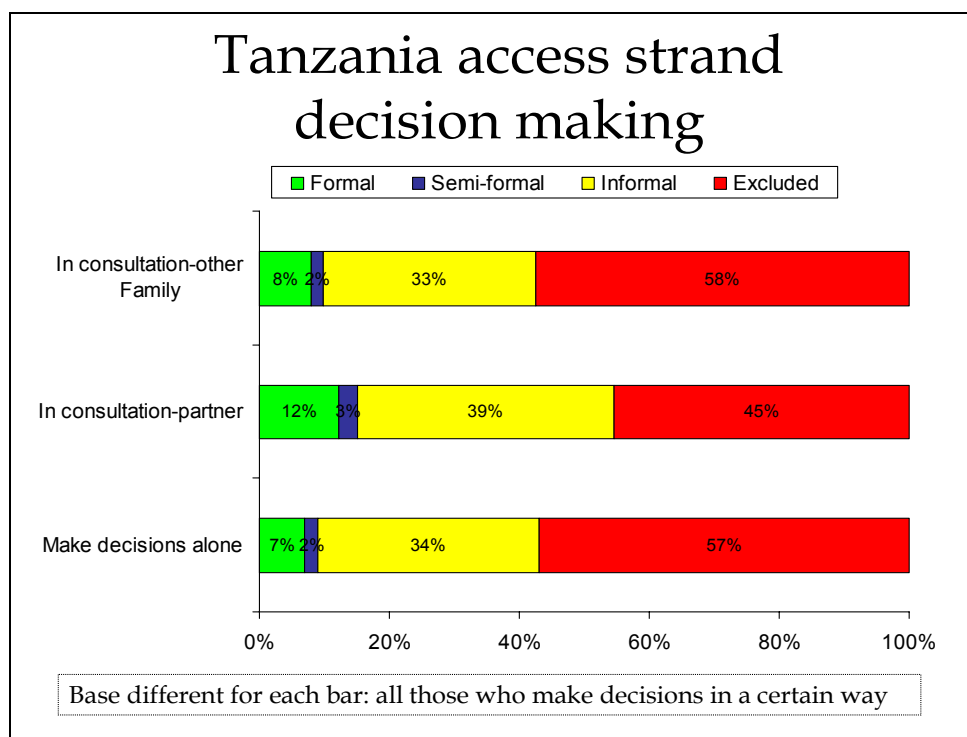


Chart 3-10: Tanzania access strand decision making

If you look at the figures through the 'access strand' lens, the size of the categories is roughly similar. That is, in each instance, the largest number of people who take decisions in consultation with a partner, a family member or alone fall into the largest category of the access strand – the financially excluded. Similarly, the smallest number in both cases can be found in the semi-formal category.

3.2 Drivers of Access

The data contained in the FinScope survey can be viewed from many different perspectives. There are however, common threads which run through the whole: education and information are key drivers to financial access and mobility the fact most often repeated throughout the analysis. The most significant barrier to accessing the financial service industry is perceived to be low levels of education, particularly amongst women and in rural areas. Government, donors and business leaders are working hard to improve the levels and reach of education throughout the country. The pressure must be maintained if real improvement in access to financial services is to become a reality for all Tanzanians.

People need to know what is available, what are the mechanics, how do they work and how do they apply to me? They may be keen to start a business, save and learn more about the financial system, but they need to know how. People are more likely to accept the offer of information and education than they are to pursue it without guidance or assurance.

Entrepreneurial activity can also drive greater access to the financial system and the appetite to go into business is real. It does however, need to be encouraged. The private sector needs to drive the policy makers, to help develop skills in risk management and a better understanding of the markets.

It is clear that formal employment drives financial access, yet a mere 4% of the workforce is employed in this sector. The government, the private sector and the education system all need to address this paucity and combine their efforts to encourage more workers to understand the benefits of joining the formal sector.

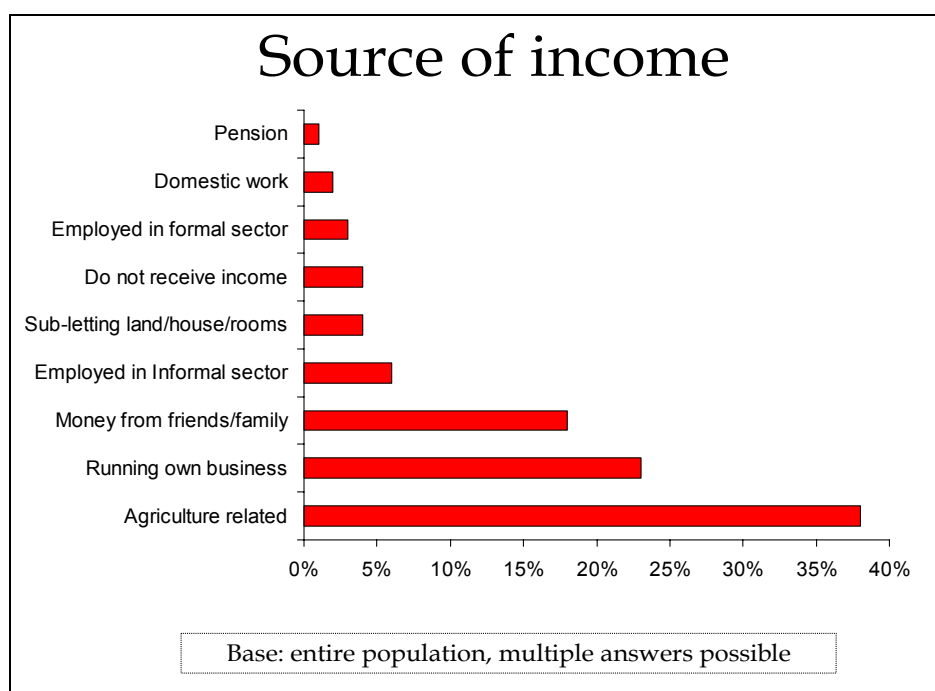


Chart 3-11: Source of income

How do people earn their income? Tanzania's is still largely a rural economy. The highest percentage of people make their living from selling farm produce or running a related business. Perhaps the most startling figure is that 96% of the country's workforce falls outside the formal economy. Low incomes and low productivity provide limited market access for many people and poor infrastructure complicates the picture still further.

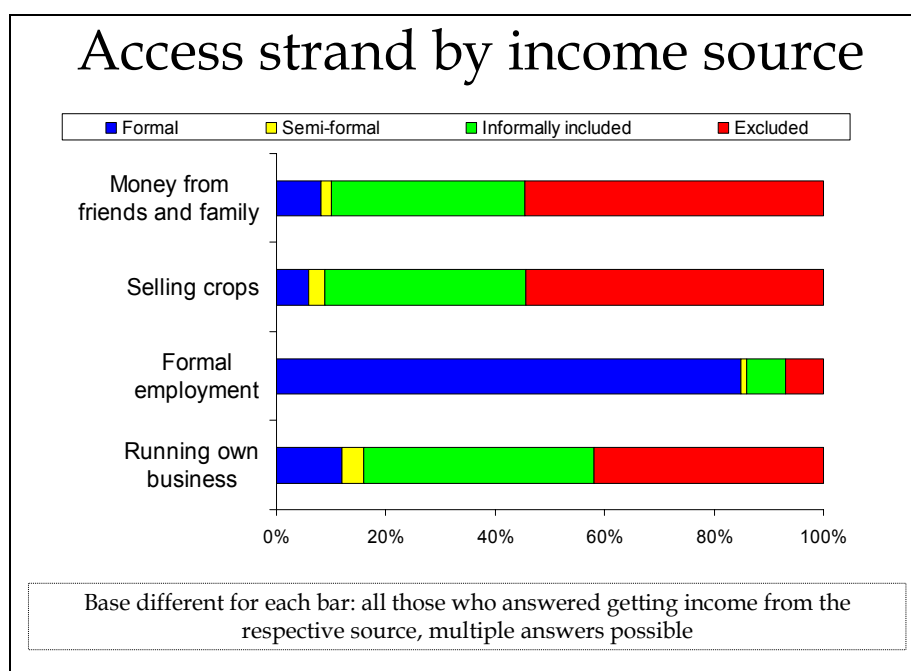


Chart 3-12: Access strand by income source

Which factors influence people's access to finance? What is the type and extent of that access?

This chart shows that earning or receiving money is, with one clear exception (the second bar from the bottom), no guarantee of having access to finance. Look at the proportions of those who sell crops or run their own businesses and who are STILL in the excluded strand.

It is obvious from this chart that formal employment (second bar from the bottom) is directly related to the use of formal banking. There is therefore a clear need either to encourage formal employment or to equip the population with skills that lead to income generating activities and provide beneficial financial services available to them as and when they have acquired them.

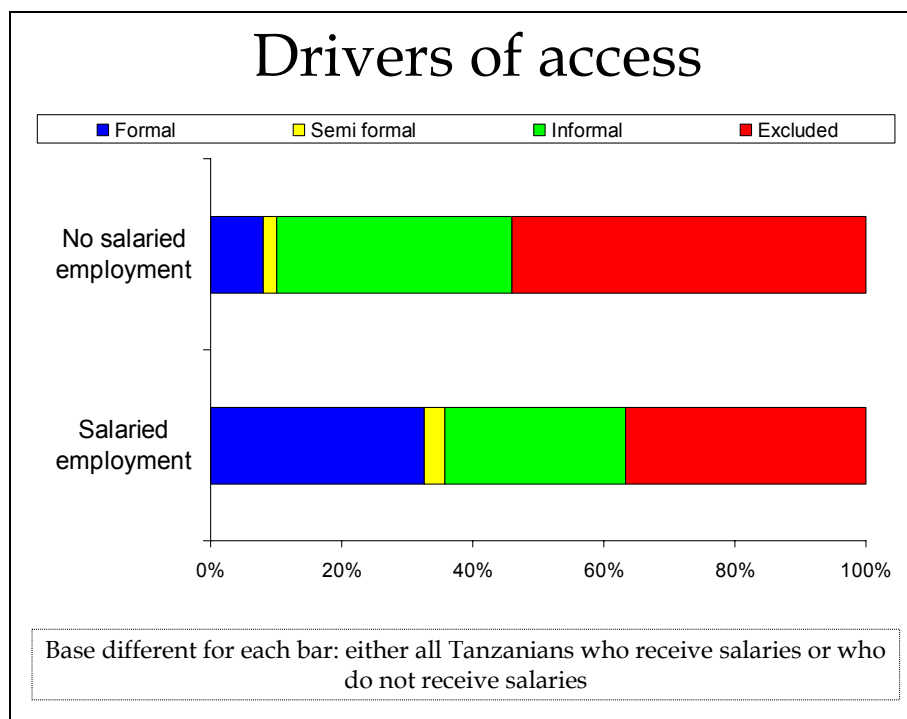


Chart 3-13: Drivers of access

This chart describes the relationship between salaried employment and formal banking. There is still a significant proportion of salaried employees who continue to fall into the financially excluded category. However, many more than their unsalaried counterparts are active in the formal banking sector, and it is reasonable to presume that the more people who gained formal employment, the more would take advantage of the formal banking sector.

Informal financial services provide a significant proportion of the needs of both employed and unemployed. Is it possible that improving the services, standards, connections between and regulation of this category, particularly in more remote areas, may lead to improved access and mobility into the financial service industry?

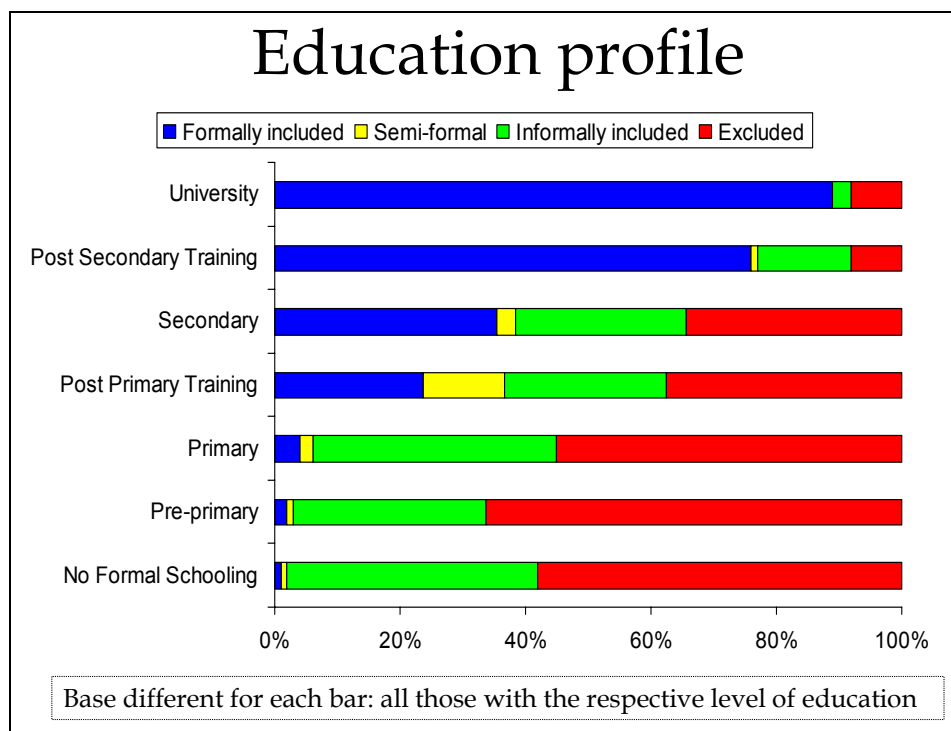


Chart 3-14: Education profile

Does education make much difference to access to finance?

It is obvious from the above chart that access to education is the single most important factor in accessing formal financial services: people with the most education have the most access to the financial services industry, while those with little or no education have a correspondingly low access rate.

It is then, clear that the plight of the poor is exacerbated by the low level of education they report. People in rural areas are the least well served in either education or access to finance.

- 88% of adult females in rural areas have only primary education – if that
- Only 21% of adults in urban areas have secondary education

You can draw a line from the bottom left-hand corner of this chart to the top right-hand corner and, in effect, you have a line dividing the haves and the have-nots. Education is a major contributor to that boundary.

Standards and incidence of education throughout Tanzania are improving; all children now have access to primary education, and the Government's intention is to extend their access to secondary level over the coming decade. It is

reasonable to predict that the activity within the financial services industry will rise correspondingly.

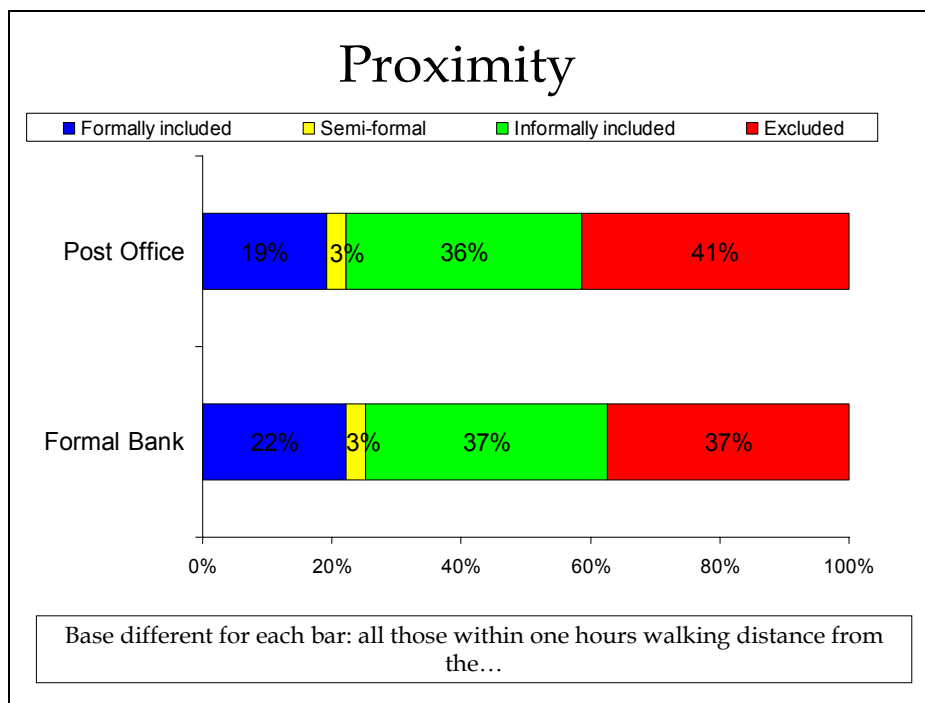


Chart 3-15: Proximity

Does proximity to services affect access? This chart would suggest that there is not necessarily a strong link. Whereas 19% of Tanzanians in the formally included category can reach a bank or post office within one hour's walk, more than double that number (41%) fall in the totally excluded category. Only 3% of people who can reach either a bank or post office within an hour's walk fall into the semi-formal category.

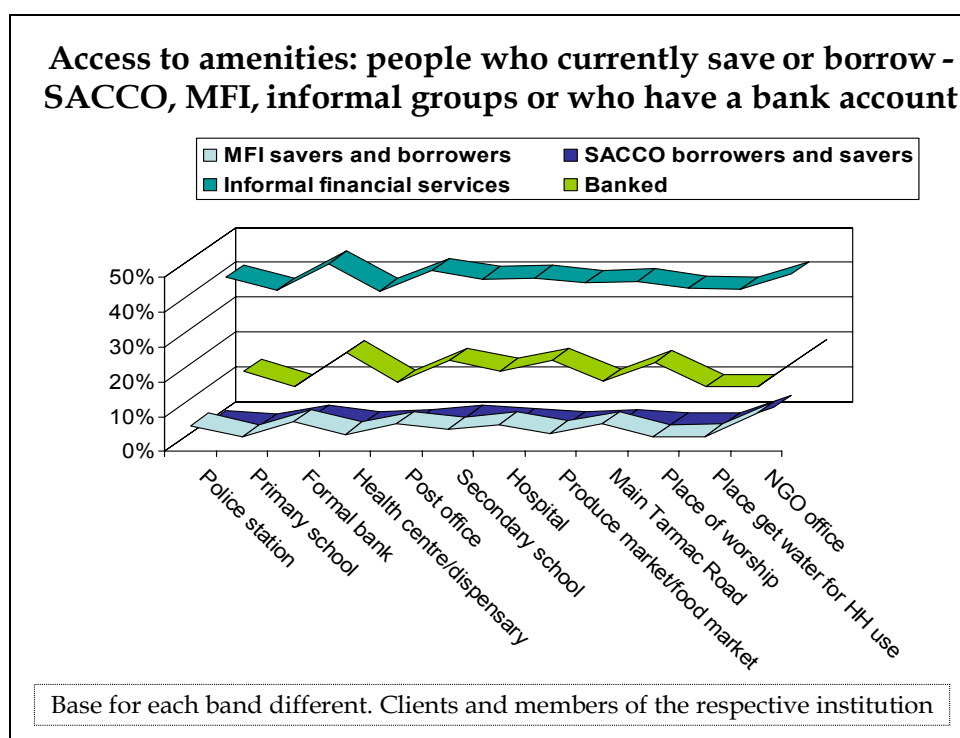


Chart 3-16: Access to amenities: people who currently save or borrow - SACCO, MFI, informal groups or who have a bank account

Contrary to expectations, those using informal services are not the ones suffering most from difficult access to amenities and formal financial institutions. This graph shows clearly that most people currently saving or borrowing in the informal sector - with Rotating Savings and Credit Associations (ROSCAs) or Village Community Banks (VICOBAAs) have the greatest access to the most amenities, although the figure remains largely under 40%.

Those who use an MFI or SACCO appear to have the least access to all amenities – less than 10% in all categories except an NGO office. Those who use the formal sector are the band in the middle whose access to the stated amenities is between 5% and 15%. These figures would therefore suggest that people who choose informal service providers are not doing so simply because they cannot reach the semi-formal or formal providers. Their choice may reflect the fact that the informal sector is more suitable for their needs.

3.3 Attributes and attitudes

What influences the way people engage with the financial services sector?

Respondents were asked which attitudes and attributes they associated with various financial service providers including SACCOs. The closer an attribute or attitude is positioned to a certain financial service provider the more respondents associated it with the particular financial service provider.

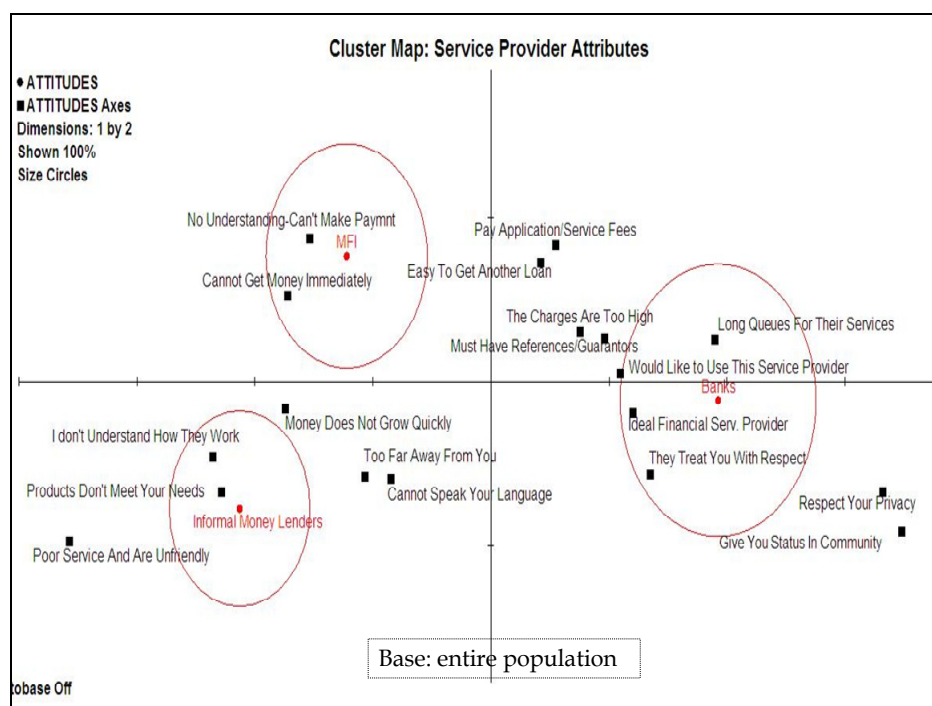


Chart 3-17: Cluster map: Service provider attributes

This map shows the attitudes and attributes people gave to informal money lenders, MFIs and banks. The proximity of the attitude/attribute to the organisation is an indication of how appropriately it is perceived to describe it. For example, it is clear that banks in the formal sector are the most liked because they offer the greatest respect. They are the kind of institution which the majority would like to use.

On the other hand, MFIs and informal money lenders are perceived in a more negative way. People say that they cannot have immediate access to their money, that it doesn't grow very quickly and that the service offered is poor and unfriendly. For many, being too far away and not speaking in their language is also a major handicap.

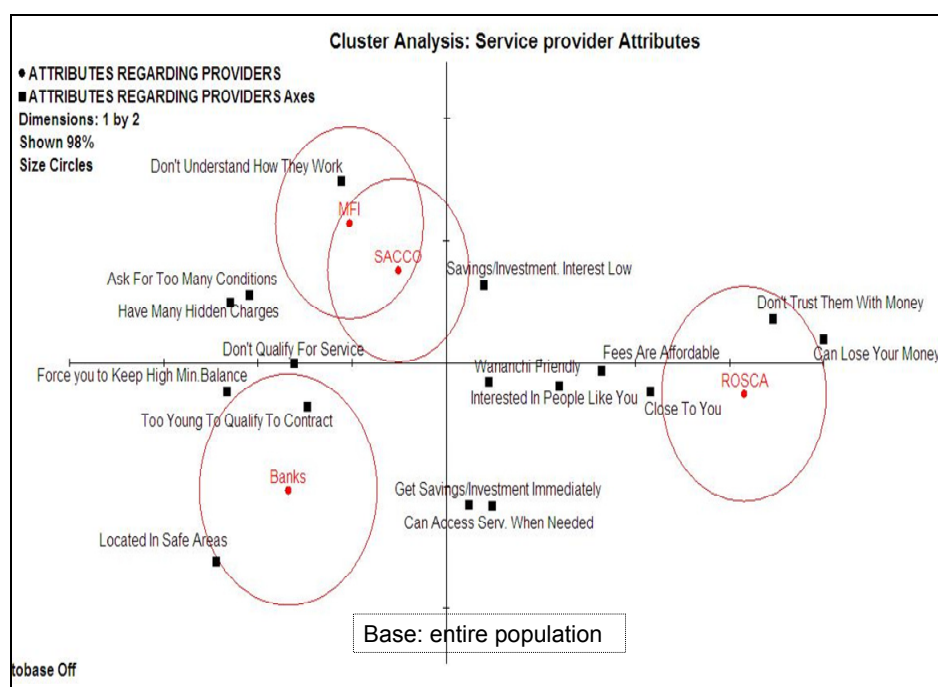


Chart 3-18: Cluster analysis: Service provider attributes

Once again, the distance between each attitude or attribute and financial organisation indicates how closely it is perceived to describe them. Banks come out quite well again – people feel that they are located in a safe place, that they will be able to get going with savings and investments fairly quickly and that they are able to access the services quite well. However, many people don't understand how they work and think that they are too young to open an account.

There is a strong perception that people do not understand how MFIs and SACCOs work and worry that they do not qualify to participate in their services. Also they ask for too many conditions before setting up an account and have a number of hidden charges. In the middle are the ROSCAs. People believe that they are situated close to their customers and that they are interested in them. Fees are affordable but there does seem to be a perception that they cannot entrust their money to them and indeed that you can lose your money.

At the moment, there are few connections linking the various financial service institutions. It is clear that they need to work together and to revise their current methods of working and planning while at the same time be more transparent.

3.4 Profile of users by financial service provider

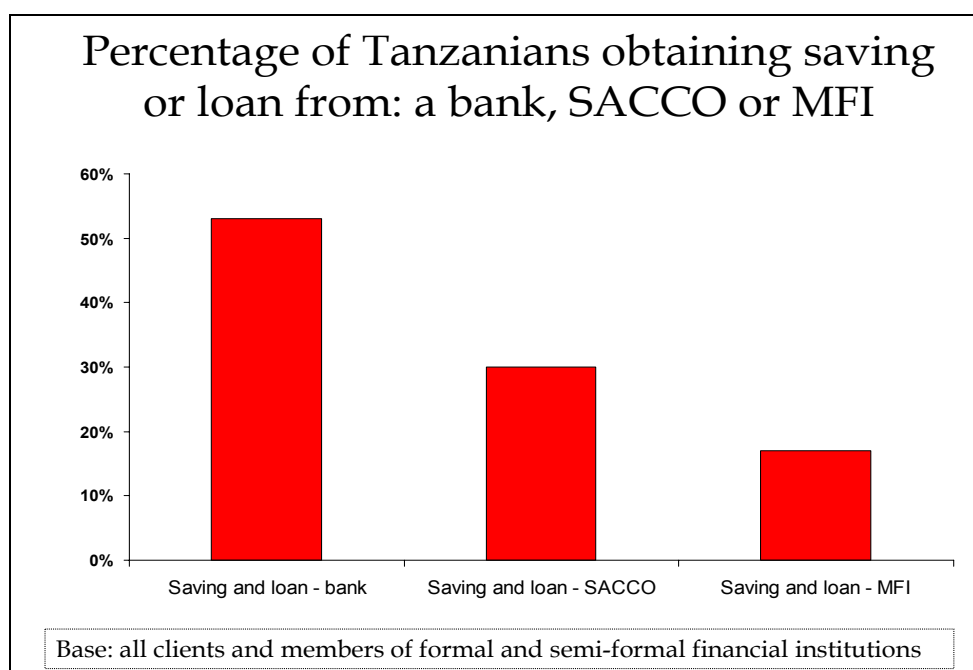


Chart 3-19: Percentage of Tanzanians obtaining saving or loan from: a bank, SACCO or MFI

This graph shows very clearly that when it comes to savings and loans, banks are once again the people's preference. They are followed by 30% who favour SACCOs and 17% who prefer to do business with MFIs. Since most of the population lives in rural areas, it may be that SACCOs and MFIs are missing a substantial amount of business. However, their operations are geared towards low income earners and their potential for outreach to remote areas is greater than that of the banks. The formal sector serves less than 10% of the population yet here we see that it attracts more than 50% of those who take out a loan or choose to save.

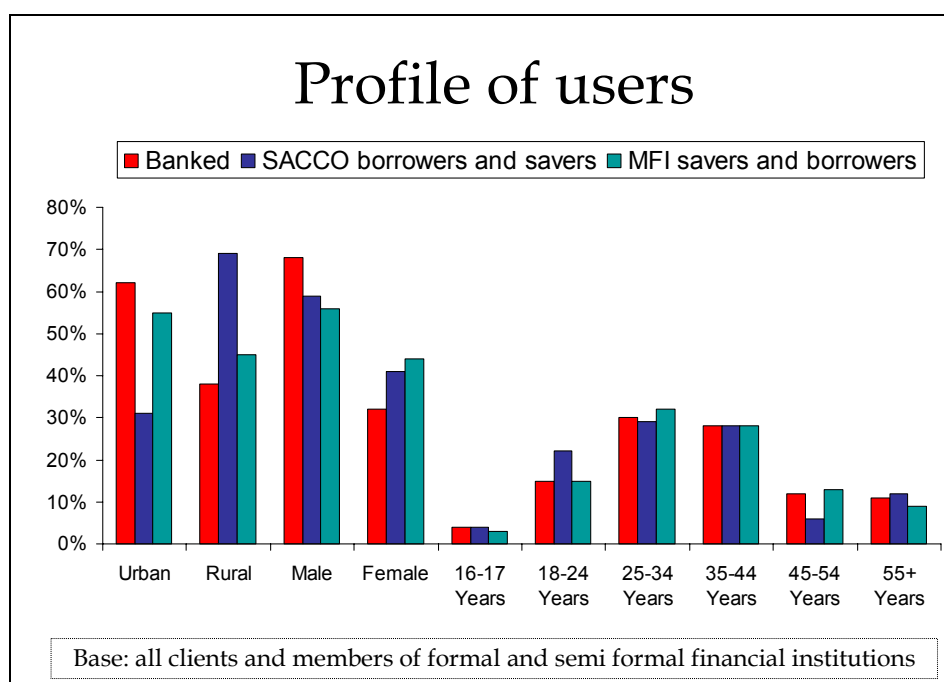


Chart 3-20: Profile of users

One of the most obvious stories this graph tells is that young adults are not being encouraged into the financial system, yet with this age group lies the greatest potential.

More men than women engage with the formal sector in urban areas, and similarly, more men than women use SACCOs in rural areas. Those aged between 25 and 45 years are the most active in any category, after which the numbers drop substantially.

With the aid of this information, and a great deal more data within the survey, banks, SACCOs and MFIs have an enormously valuable resource with which they can reshape their policies and products and expand their market share.

3.5 Moving the frontier between formal and semi-formal

Tanzanians who use Micro-Finance Institutions Savings and Credit Co-operatives and informal service providers

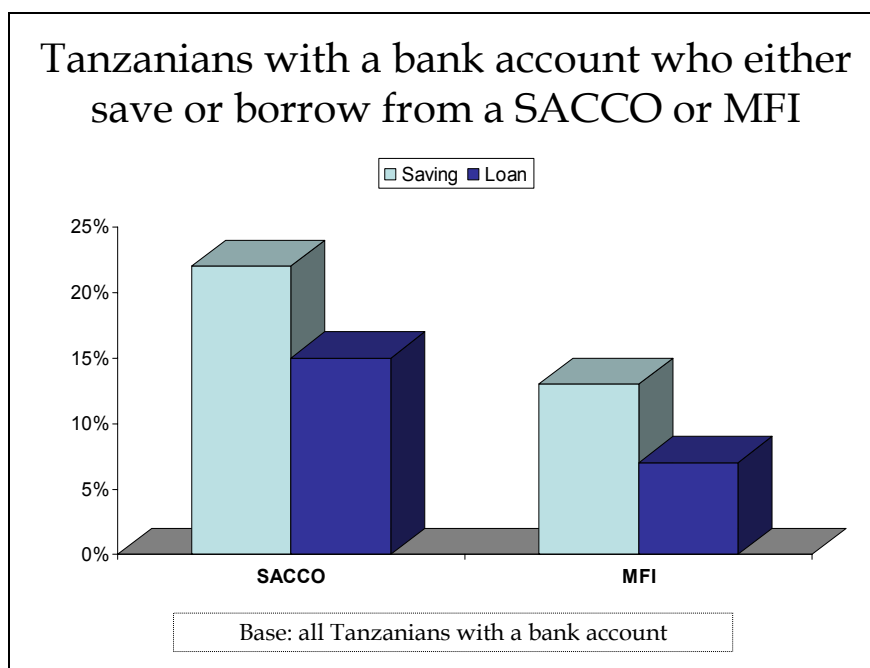


Chart 3-21: Tanzanians with a bank account who either save or borrow from a SACCO or MFI

Evidence in the FinScope survey reveals that even if people have a bank account, they also chose to save and borrow in the semi-formal sector. Why do they turn to a SACCO or MFI? Are the banks unapproachable? Are their charges too high? Are they accessible? What is it about SACCOs and MFIs that people appear to prefer? A closer look at some of the figures may suggest some answers 22% of those people choose to save with a SACCO and 14% with a MFI and to 15% of the same group choose to take out a loan from a SACCO and 7% from a MFI. Why are some people choosing to use a range of products from more than one provider? Can SACCOs increase their business by studying how other service providers work? A closer look at some of the figures may suggest some answers.

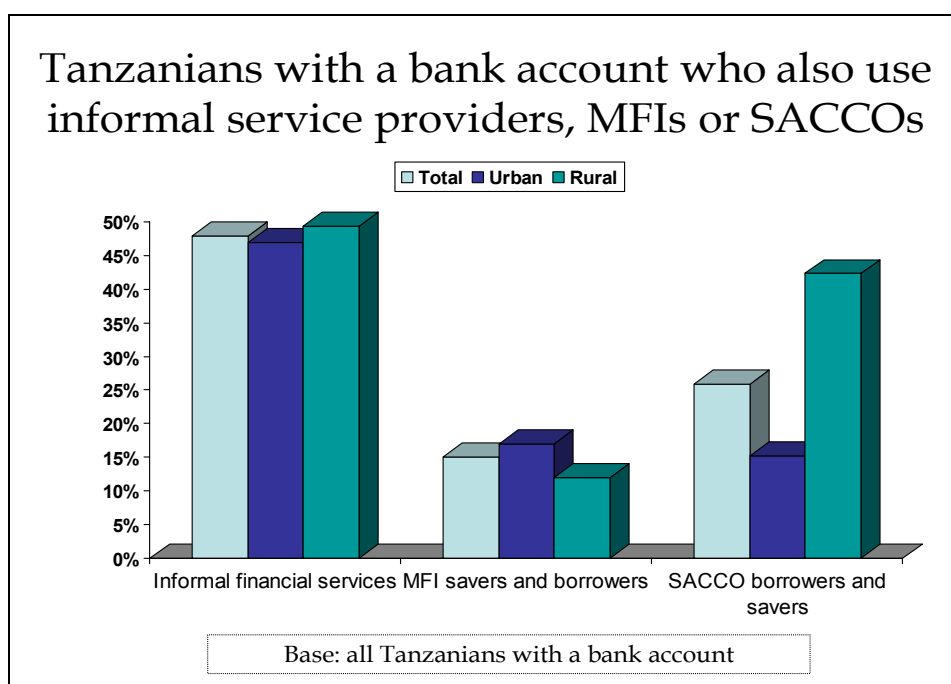


Chart 3-22: Tanzanians with a bank account who also use informal service providers, MFIs or SACCOs

Nearly half of the total number of bank account owners also choose to use informal financial services to save or borrow, while in rural areas 42% are using the services offered by SACCOs. There are low figures of MFI customers in all categories, although they attract slightly more customers in urban than rural areas.

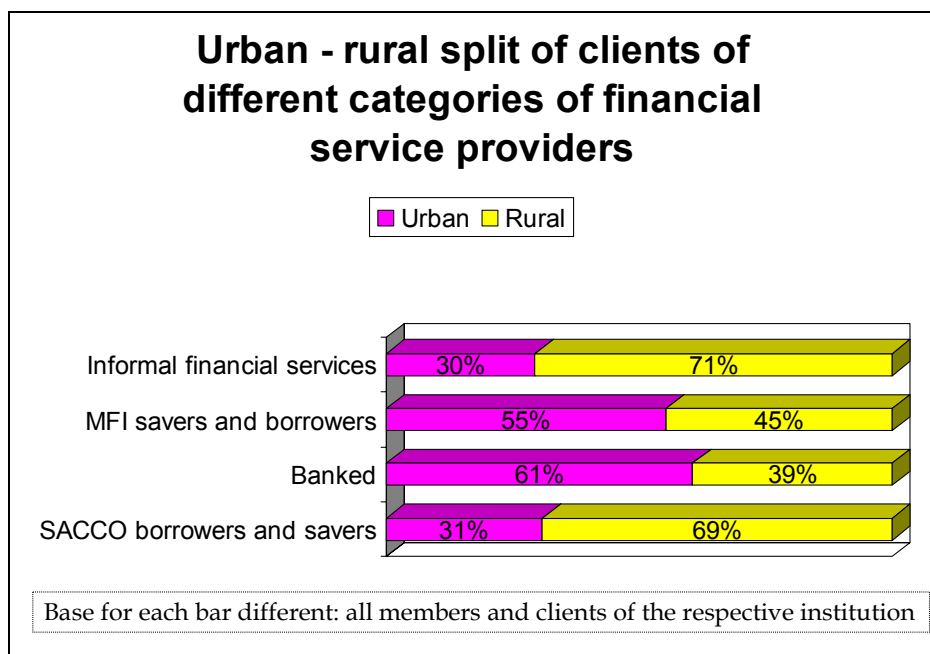


Chart 3-23: Urban-rural split of clients of different categories of financial service providers

FinScope figures offer its users a plethora of information which can be looked at from many different angles. The same information seen from a different perspective can be valuable to separate groups of people whose aims are entirely different. In this graph it is clear that SACCOs, VICOBA and ROSCAs dominate in rural areas while banks and MFIs are favoured in the urban.

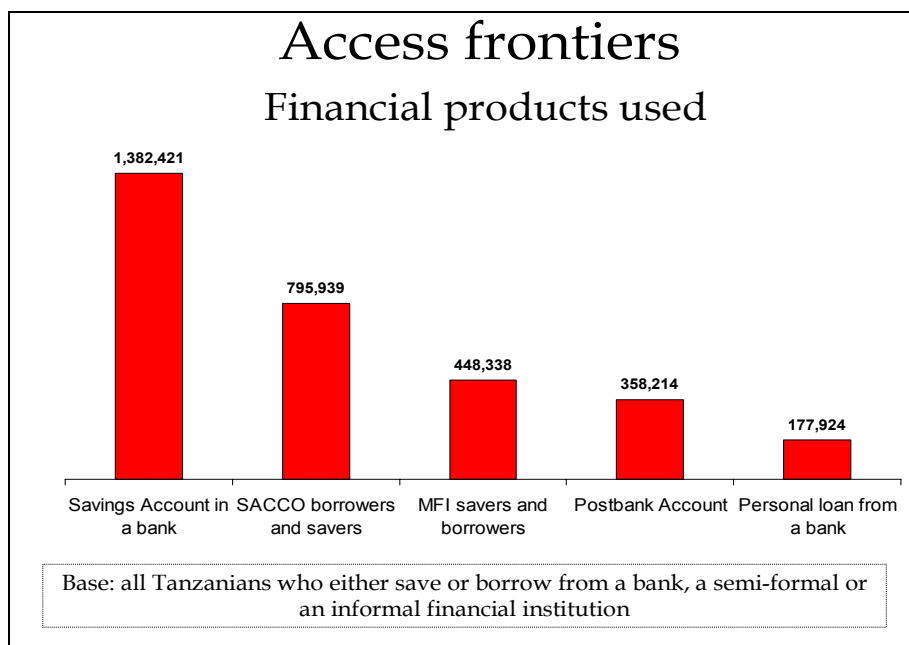


Chart 3-24: Access Frontiers - Financial products used

Here the figures suggest that people are more likely to borrow from a SACCO or an MFI but save with a bank.

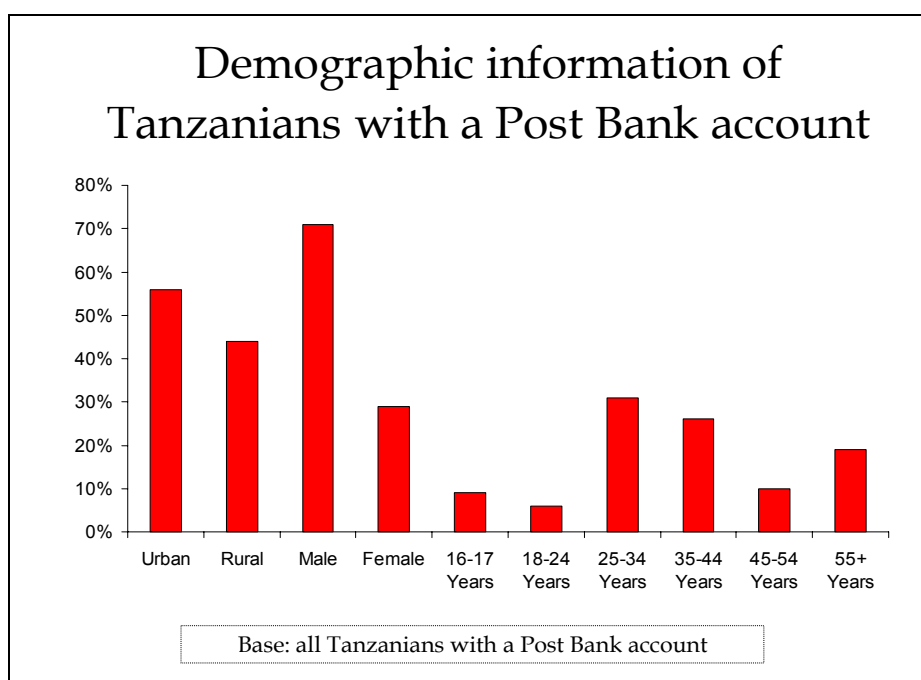


Chart 3-25: Demographic information of Tanzanians with a Post Bank account

The Post Bank may be an under-used resource. Over double the number of men than women use them and while there is not a huge difference between urban and rural use, young people are very definitely not being attracted.

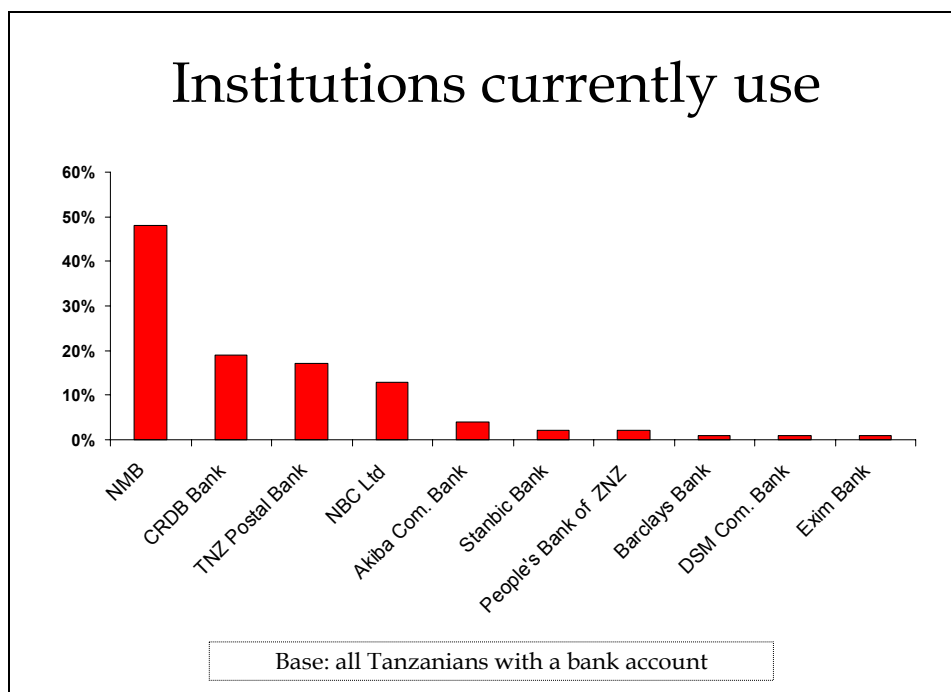


Chart 3-26: Institutions currently use

This graph shows the break down of bank customers, with the CRDB in the lead with just under a fifth of the total and Barclays, Dar es Salaam Community and Exim Banks serving a mere 1%. How is the CRDB attracting more people and how can the others increase their market share? Is it to do with physical infrastructure alone, or might it also be to do with products and services being offered? Are different sections of the community being specifically and appropriately targeted? Is new technology being used to its full potential, especially in rural areas where the largest number of people live but the fewest banks exist?

3.6 Conclusion

There are many, varied and significant problems which are inhibiting the progress of increasing access to, and deepening financial services throughout Tanzania and Zanzibar. A partnership of government, donors and development partners and business leaders needs to address these problems with a view to the immediate, medium and long term. Government policy needs to reflect positive development, public-private initiatives need to be formed, advertising campaigns mounted. Improvements are already being noted, but much more remains to be done.

The most important problem exposed in the survey was perceived to be low levels of education, particularly amongst women and in rural areas. The resulting lack of financial literacy – the failure to understand the language and ideas used to describe financial products and services – is therefore a major barrier to access.

Rural areas need to be far better served so that people can borrow for business initiatives, save what they earn and take out loans when they need them. Services need to be of high quality and standards and must be regulated to build confidence.

Public transport, new roads and standards of living all need to be improved significantly to boost earning potential and help the economy to prosper.

The FinScope data is a valuable resource which can produce a wealth of additional analysis. It will be available to help any sector to improve its goods and services and thereby help make markets work for all Tanzanians.

4 Barriers to access

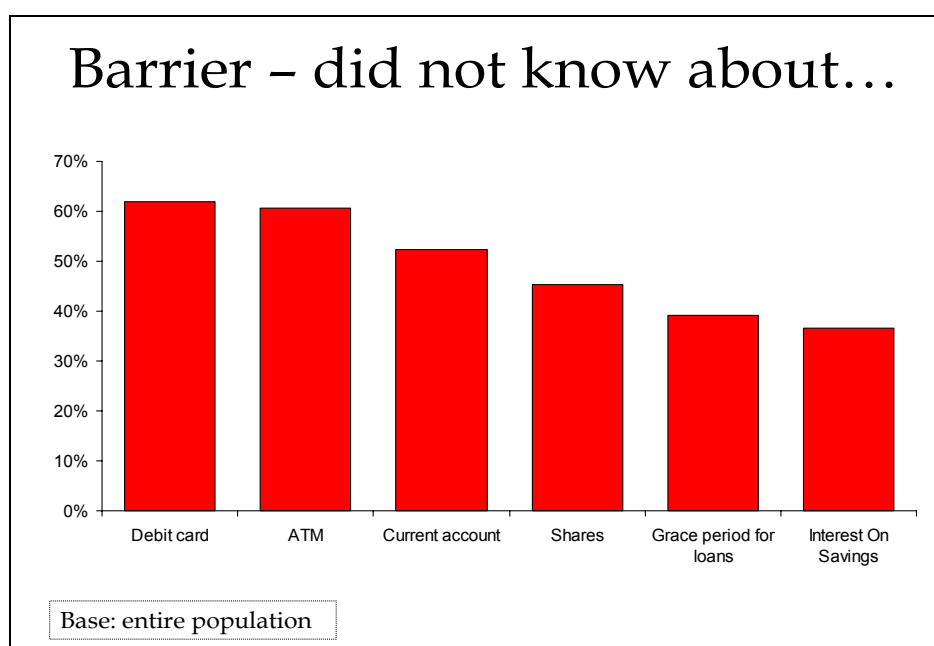


Chart 4-1: Barrier - did not know about...

The following five charts record one of the major barriers to accessing financial services in Tanzania: lack of education in general and financial literacy in particular. More than half the total population has never heard of a debit card, an ATM machine or even a current account. Improved access will require improved levels of education right across the country.

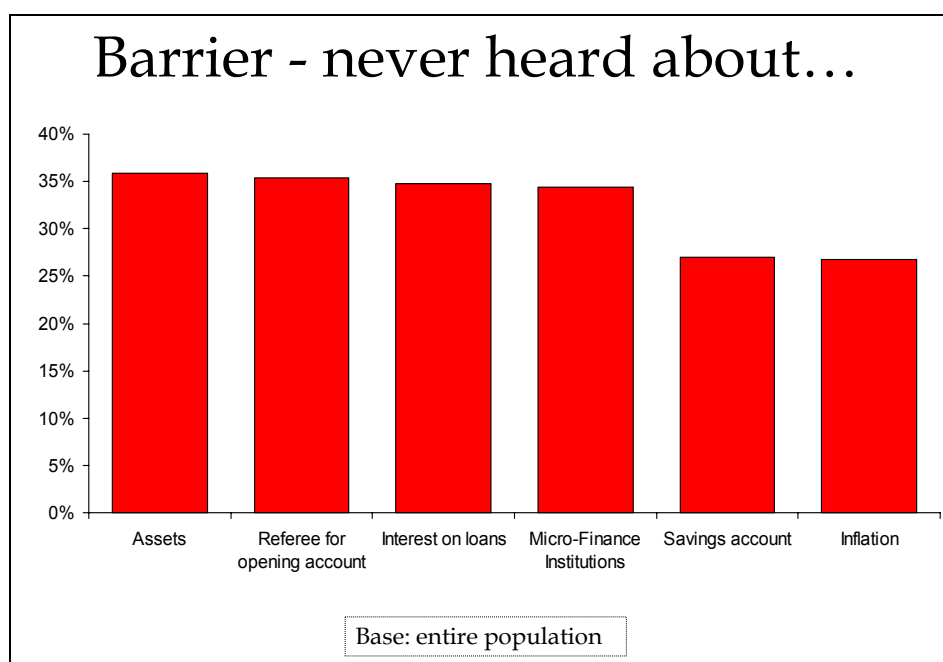


Chart 4-2: Barrier - never heard about...(1)

This chart shows a similar picture although the level of knowledge is slightly higher. Education is key for expansion of the financial services industry.

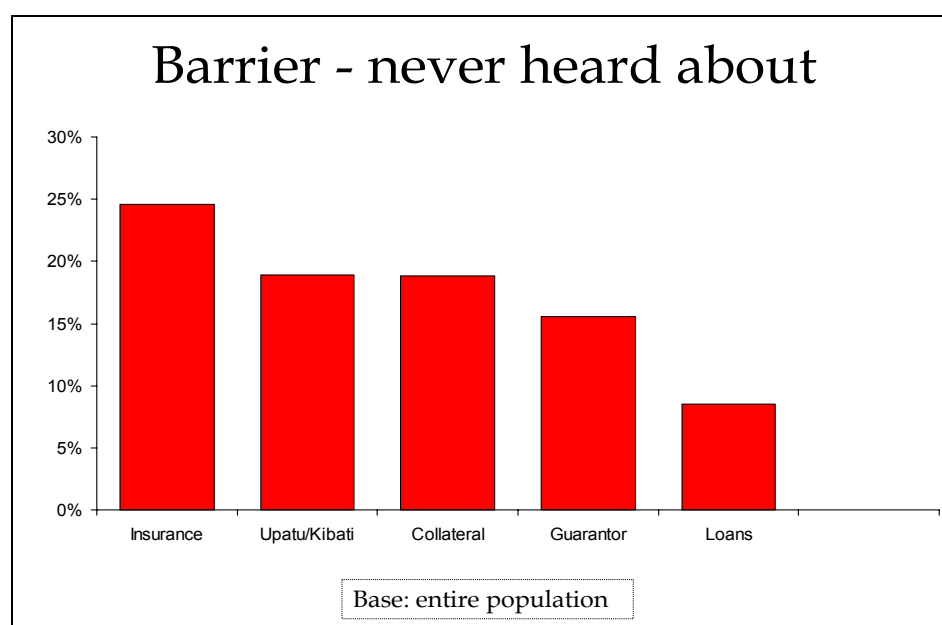


Chart 4-3: Barrier - never heard about...(2)

These figures suggest that three quarters of the population has heard of insurance. Upatu/Kibati, collateral, a guarantor and loans are all slightly more familiar to Tanzanians.

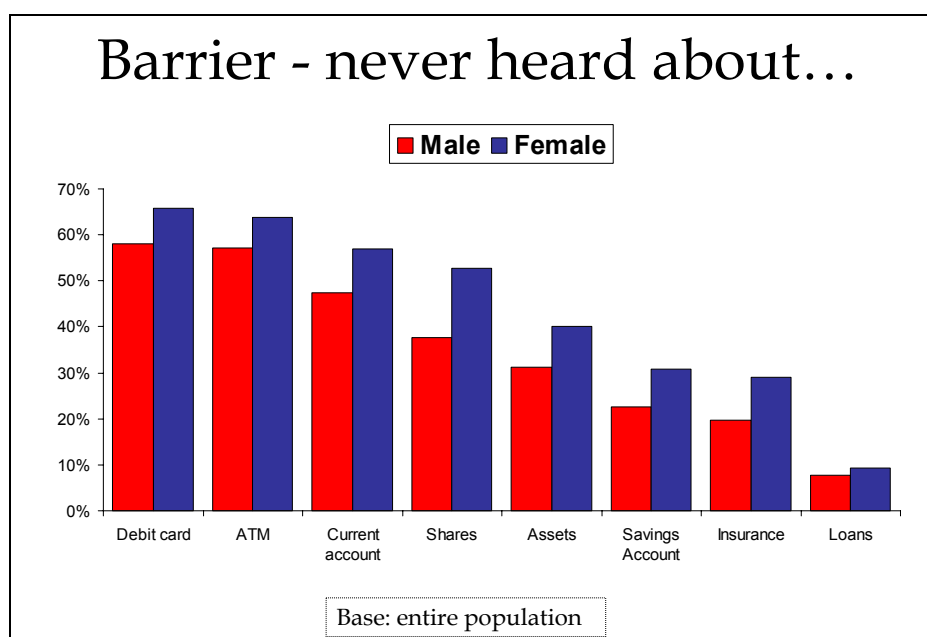


Chart 4-4: Barrier - never heard about...(3)

Women are consistently less aware of a whole range of financial products than men. Targeting female education should be a priority.

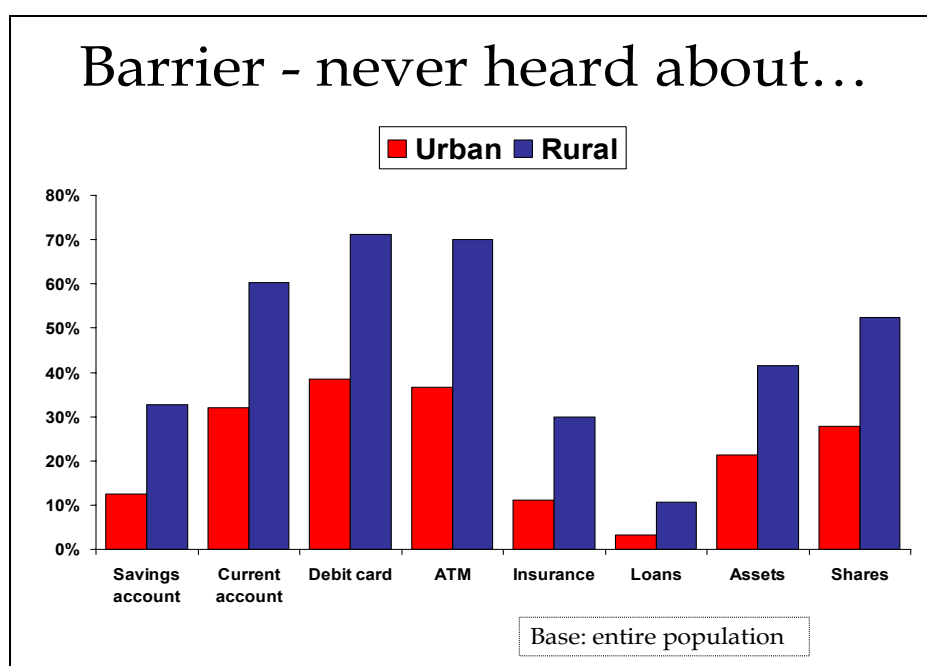


Chart 4-5: Barrier - never heard about...(4)

People in rural areas are consistently and significantly less financially literate than their urban counterparts, and represent a major challenge to the financial services industry.

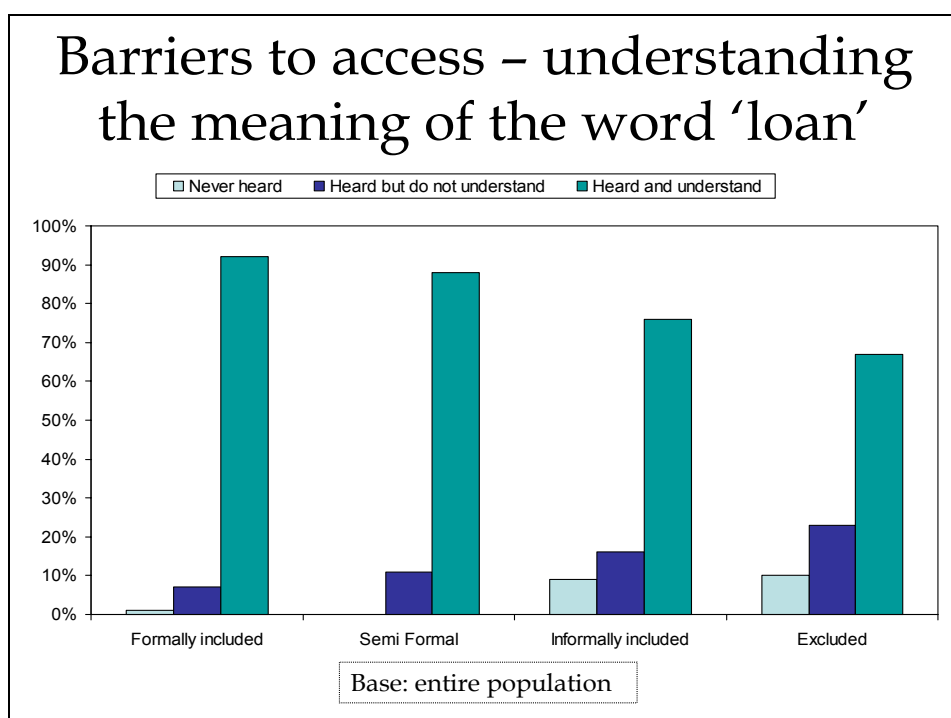


Chart 4-6: Barriers to access - understanding the meaning of the word 'loan'

This is another insight into levels of education and the culture in Tanzania. Most people in all categories have heard of and understand the word ‘loan’, although those in the informal or excluded category show less understanding and knowledge.

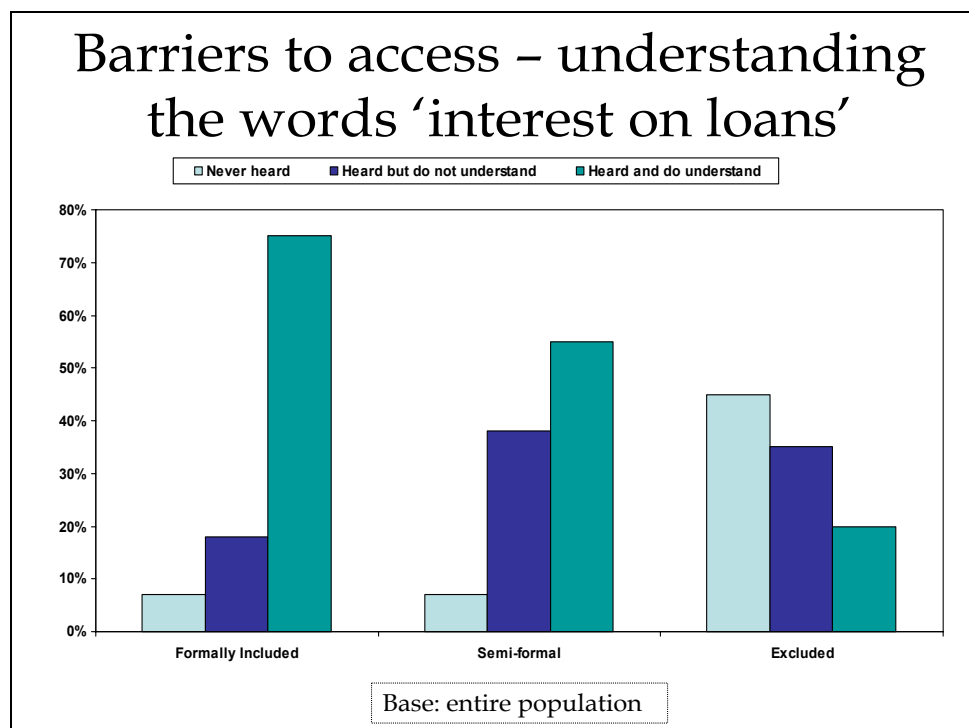


Chart 4-7: Barriers to access - understanding the words 'interest on loans'

The population is more divided when it comes to a slightly less common term. Interest on loans (a very important concept to understand if taking one!) is familiar enough with those people who are formally included but much less so by those who are excluded from the financial services industry. Even those in the semi-formal category include only 55% who have heard and understood the term.

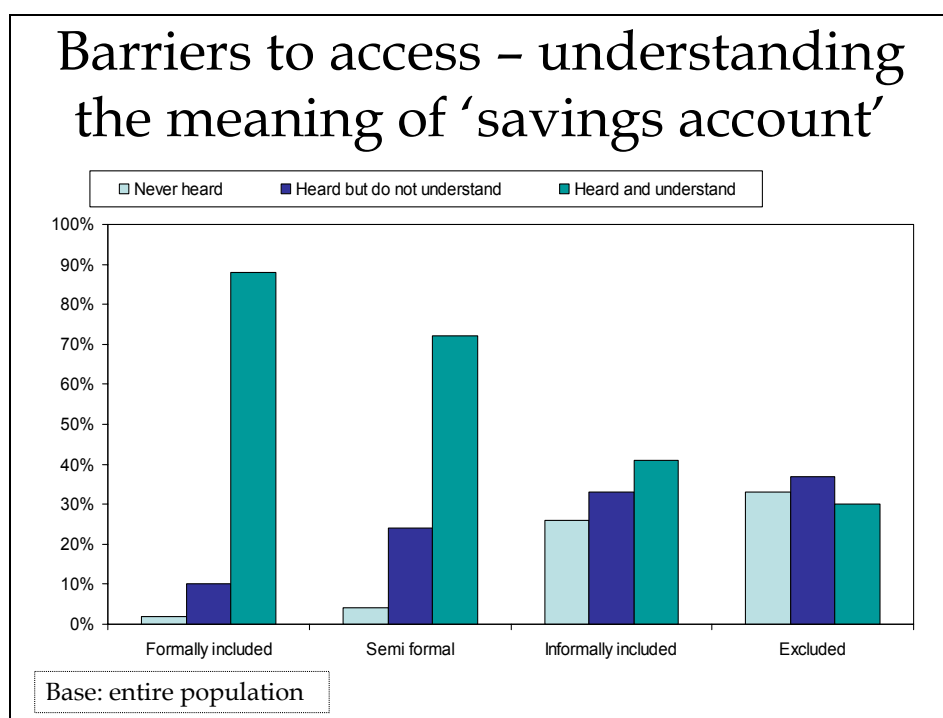


Chart 4-8: Barriers to access - understanding the meaning of 'saving account'

The pattern of increasing lack of awareness and knowledge from the formally included to the excluded can be seen in this chart also. Respondents were asked what they understood by the term ‘savings account’. While the majority of the formally and semi-formally included knew what it meant, fewer in the informal and excluded category as well informed.

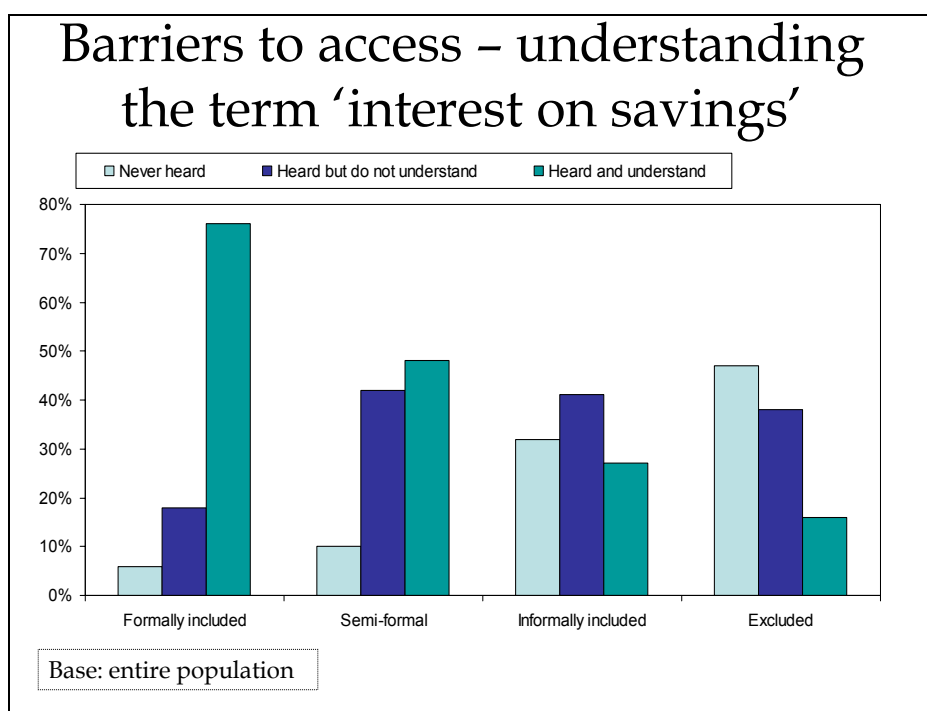


Chart 4-9: Barriers to access - understanding the term 'interest on savings'

Once again we see a familiar pattern: people in the formally included category are more likely to know about and understand financial terms and those who either fall in the informal or excluded categories are more likely to have significant gaps in their knowledge. It is encouraging that nearly half those who are semi-formally included know about and understand the concept of interest on savings.

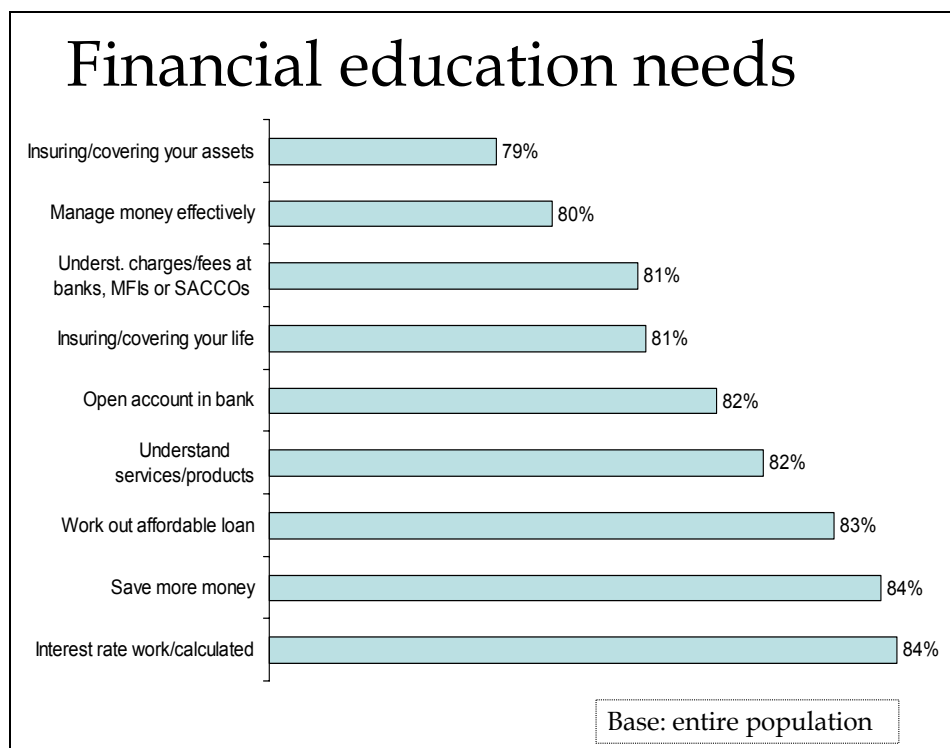


Chart 4-10: Financial education needs

These figures make it very clear that the vast majority of people are keen to know and understand more about a whole range of financial services and products. It is up to the industry to find ways of teaching them, possibly with joint public campaigns.

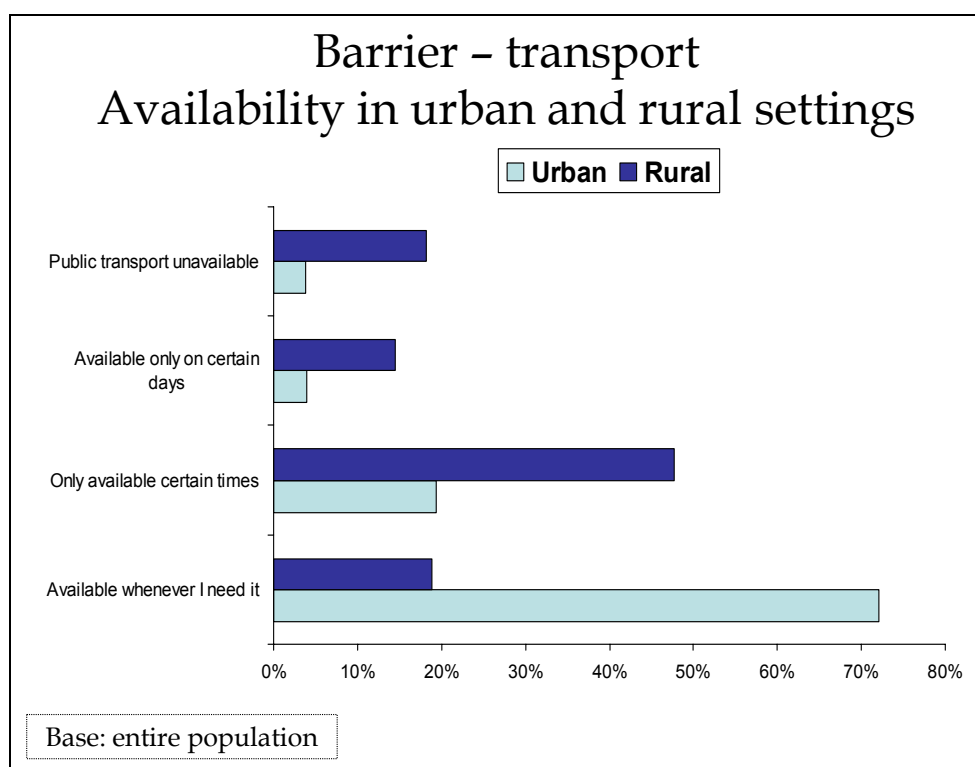


Chart 4-11: Barrier - transport. Availability in urban and rural settings

Being able to travel easily to a bank, SACCO, MFI or indeed any financial organisation is a necessary first step to engaging with their services. This is obviously much easier for urban dwellers than those in rural areas, many of which are very remote in Tanzania. Less than one in five people in these areas say they can get transport whenever they need it compared with three out of four in urban areas.

Beyond the urban areas, transport is only available at certain times at best, and often totally absent, so that actually getting to any financial organisation is virtually impossible. Lack of transport and roads is still a major barrier to access and is a problem which will need a combined and concerted effort by all interested parties – government, public and private industries – to solve.

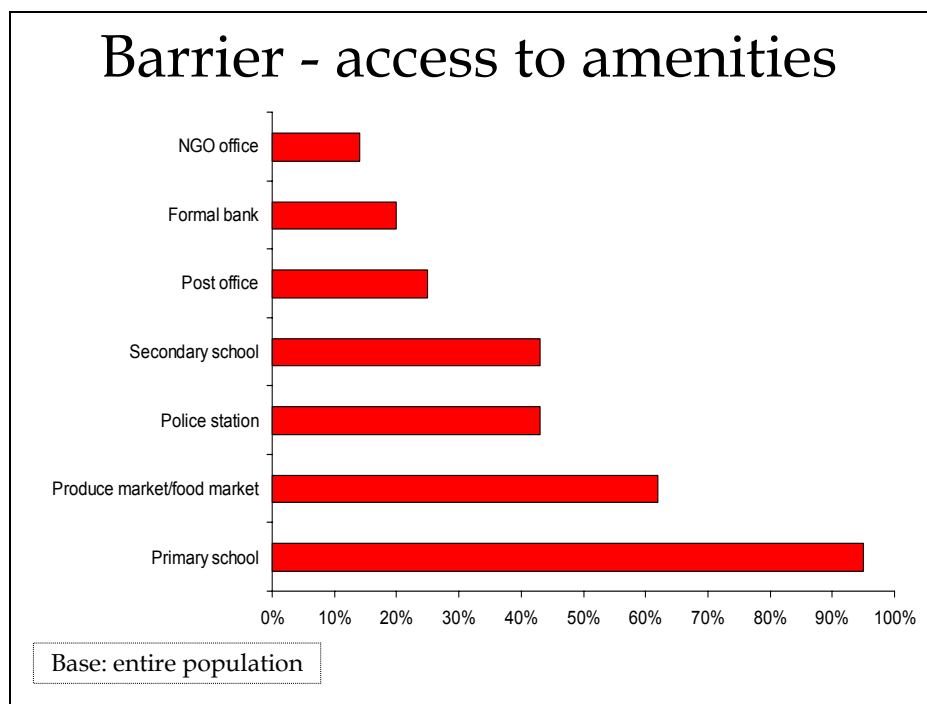


Chart 4-12: Barrier - access to amenities

In the context of overall access to finance, we all know that physical barriers to access have a major impact.

The fact that only 20% of the population (and only 18% of consumers without a bank account) say they have a bank within one hour's distance from them, underscores the challenges in reaching the majority of the population in the rural areas. Commercial service providers may find it difficult to reach rural consumers.

This in turn confirms the importance of banks linking with semi-formal and informal MFPs to extend their outreach and overcome physical barriers to access.

Technology may facilitate extension of services but without resolving the bigger issues of unemployment and education, as well as the basic infrastructure – such as access to electricity and roads, developments in ICT will offer a much more limited improvement in market innovation.

4.1 Poverty indicators

Poverty index

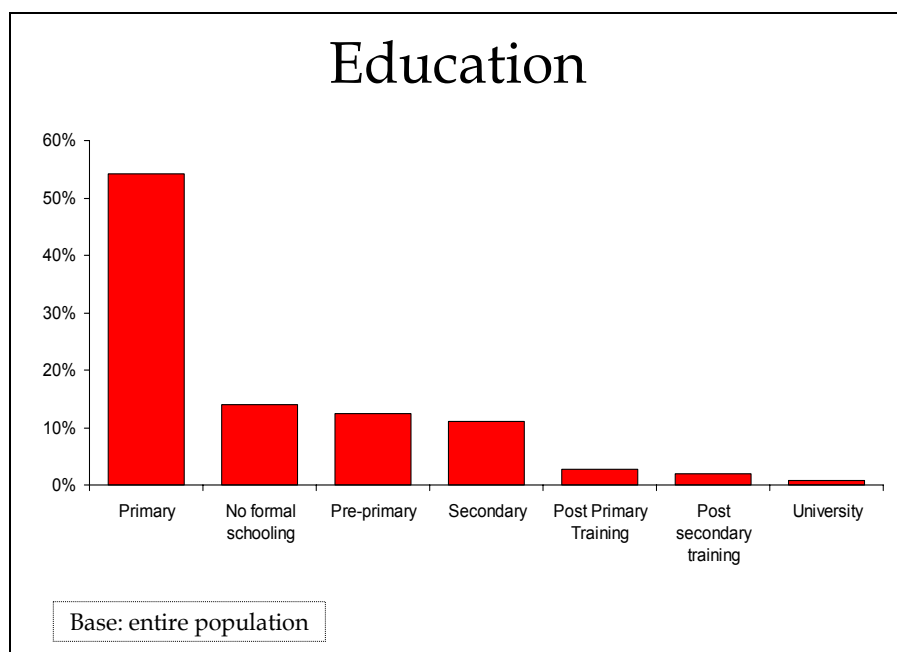


Chart 4-13: Education

Only 54% of Tanzanians currently get a primary education. Although this figure should rise in future, it is a major barrier to access now. The levels of education post primary are very low. Only one in ten currently go on to secondary education and less than 1% reaching university.

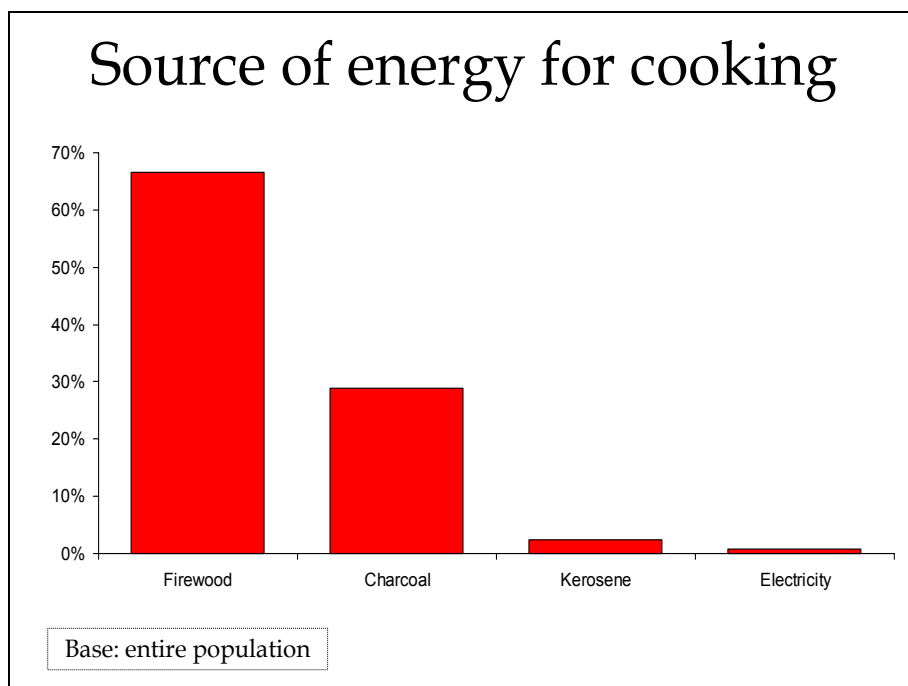


Chart 4-14: Source of energy for cooking

Poverty, and all its implications, underlies all barriers to access. Less than 1% of the population uses electricity to cook, the majority using either firewood or charcoal.

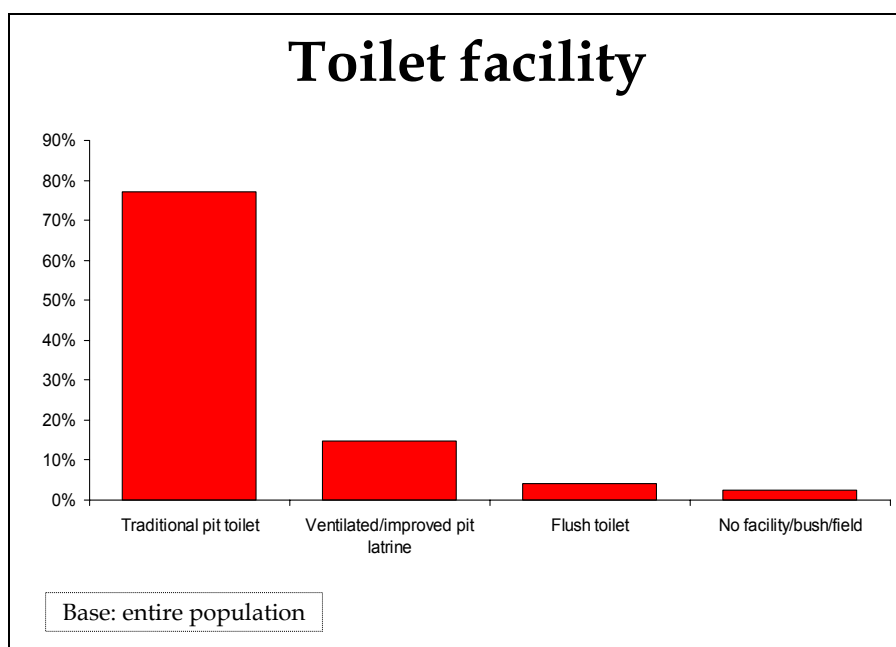


Chart 4-15: Toilet facility

Endemic poverty creates its own barriers to access many modern facilities.

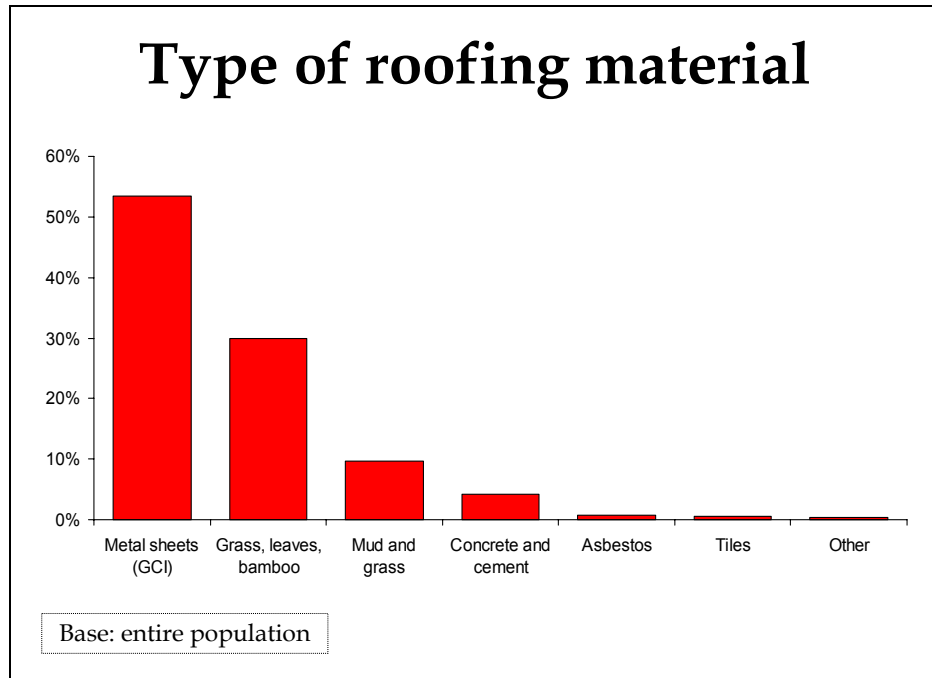


Chart 4-16: Type of roofing material

Just over half of the population has a metal roof, most making do with whatever vegetation is available.

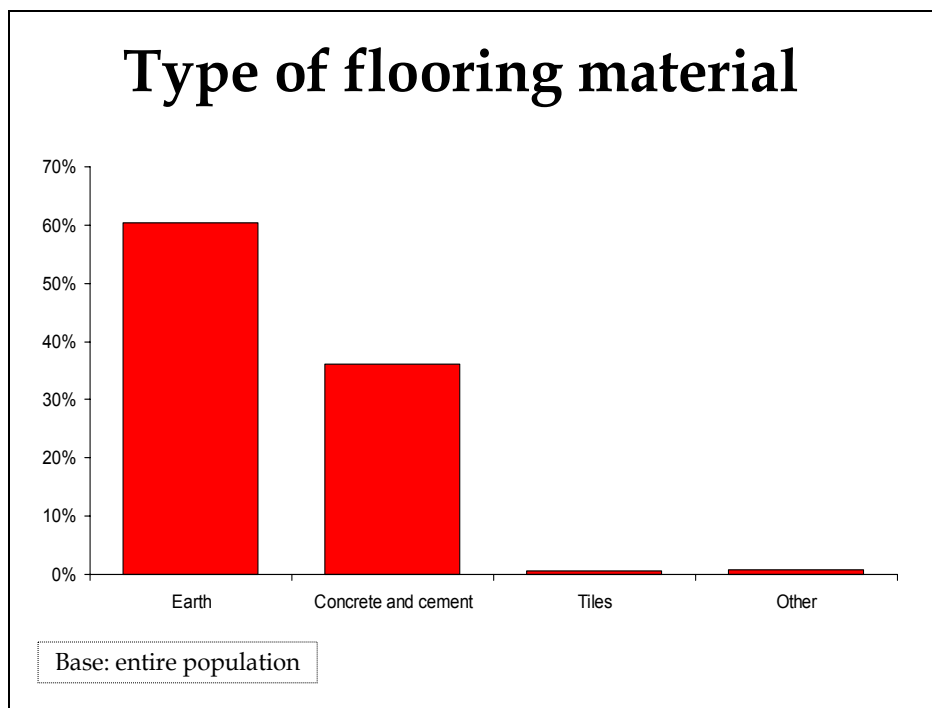


Chart 4-17: Type of flooring material

Only a tiny percentage of people afford a tiled or some other textile floor.

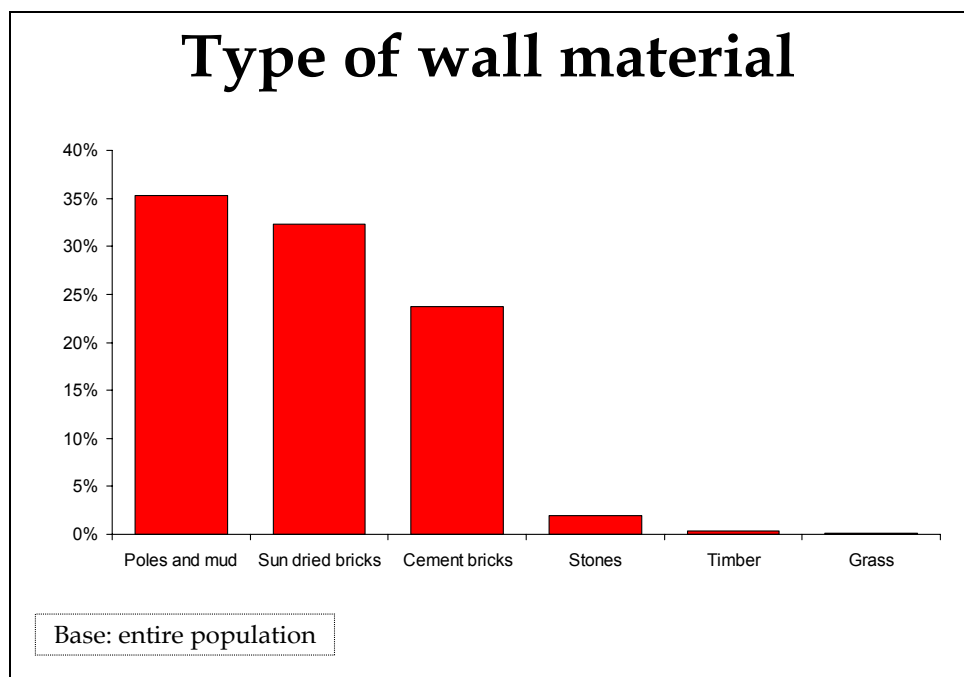


Chart 4-18: Type of wall material

Building materials are fairly basic for most Tanzanians.

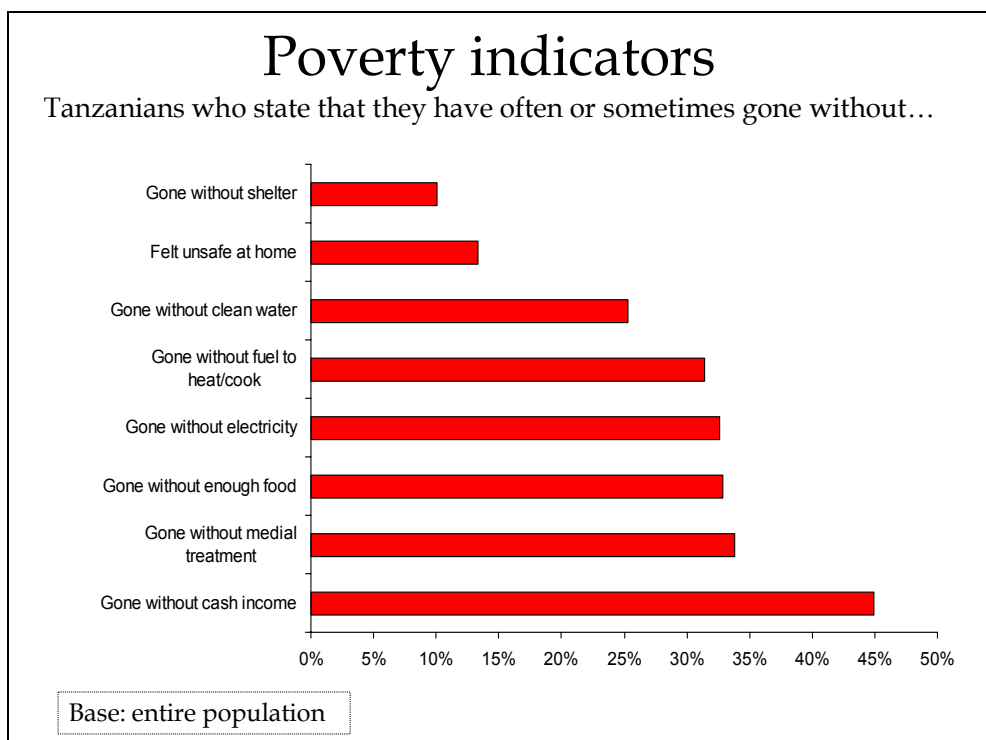


Chart 4-19: Poverty indicators

People were asked if they had gone without a sample of basic needs during the past year. 45% admitted to going without a cash income and one in three said they had gone without enough food. Hungry people who cannot afford medical treatment are likely to give the financial services industry a fairly low priority.

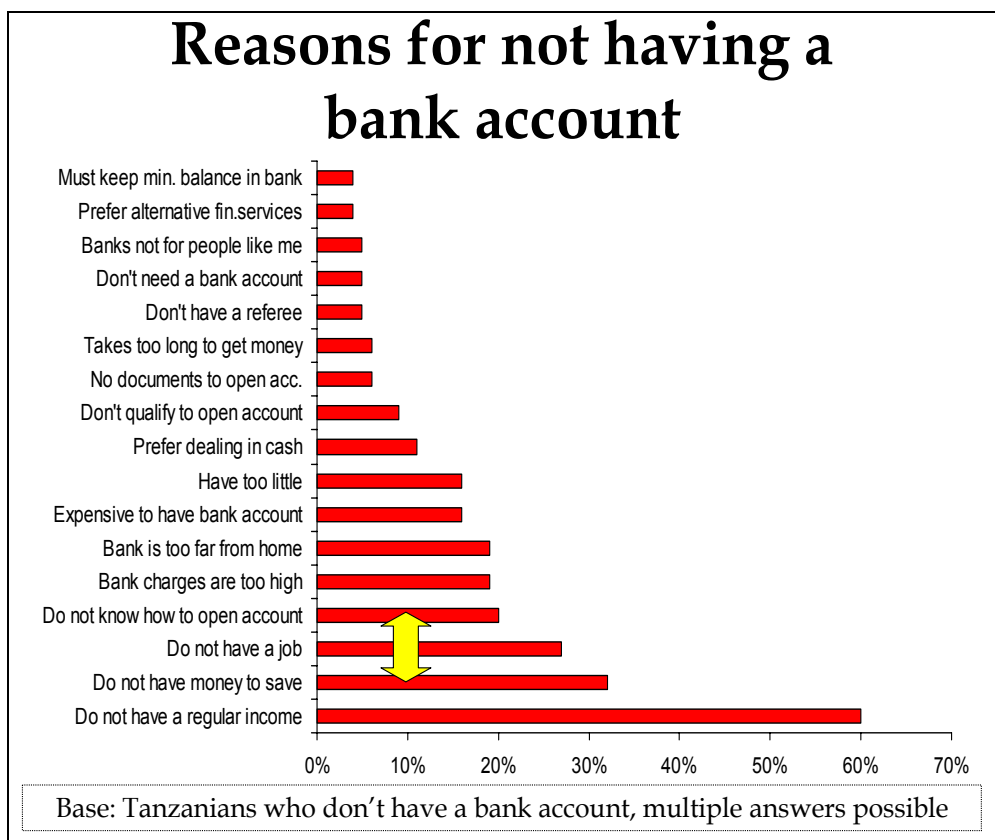


Chart 4-20: Reasons for not having a bank account

For most people insufficient and irregular income is the ultimate barrier to accessing formal bank services. There is a certain amount of misinformation about what is needed to open an account, some feel that it's too difficult to qualify and some simply prefer to deal in cash.

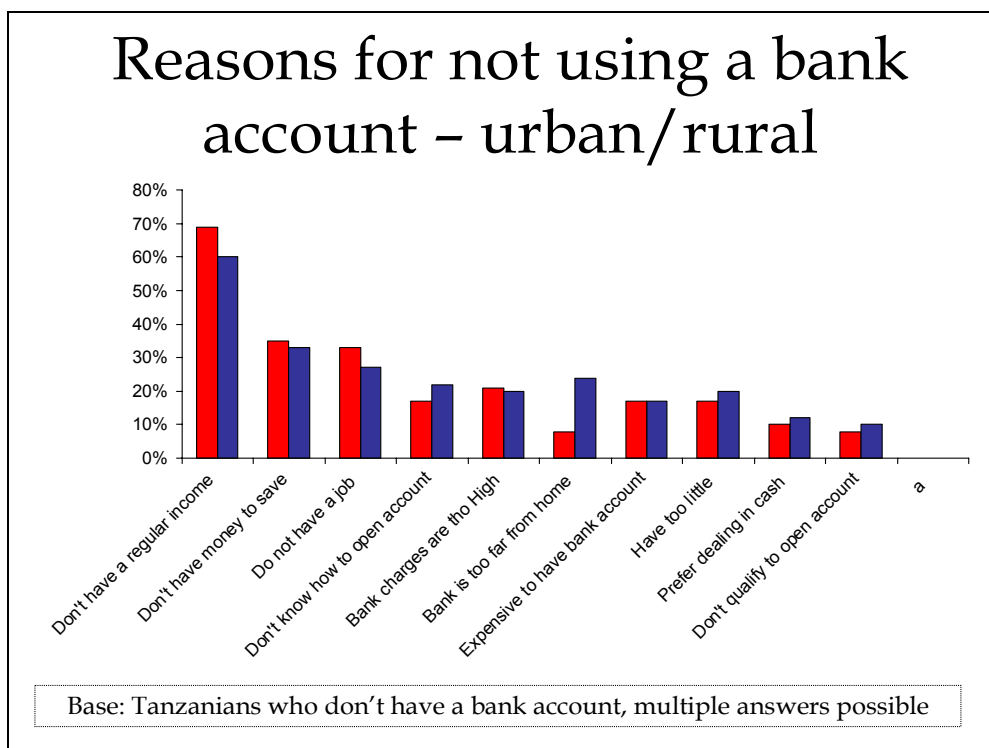


Chart 4-21: Reasons for not using a bank account - urban/rural

People do not have bank accounts if they have an irregular, low or even no income. Increasing levels of employment is key. Further barriers include low levels of financial literacy, poor infrastructure and a preference for dealing only in cash.

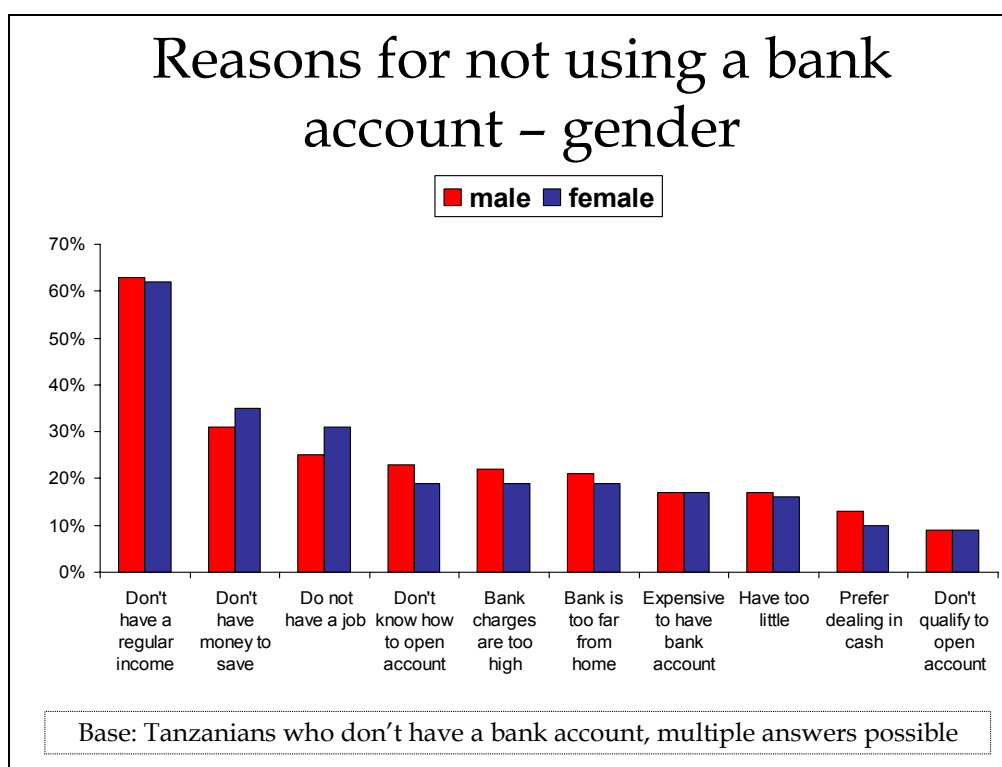


Chart 4-22: Reasons for not using a bank account - gender

There is very little difference between men and women asked to give their reasons for not having a bank account. A few more women sight financial reasons and a few more men feel that banks are too far away and not easy to engage with.

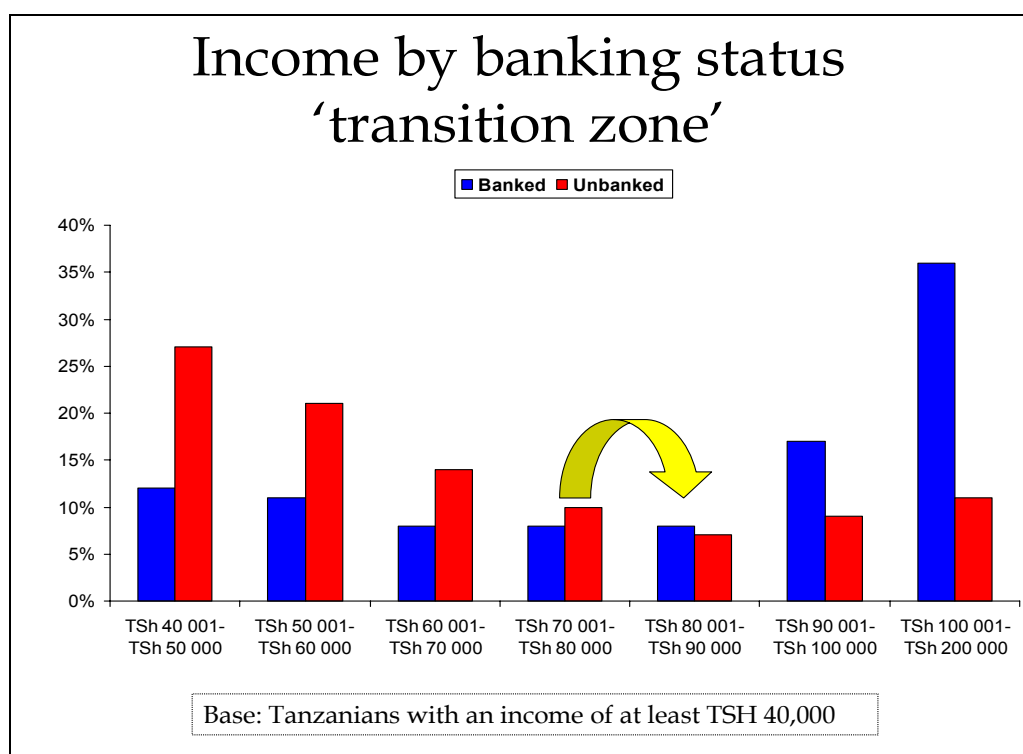


Chart 4-23: Income by banking status 'transition zone'

The trends between income brackets and the extent to which people have access to banks (moving from left to right), suggests that even with higher income brackets, people do not necessarily become bank customers until they reach a certain 'transition zone'. Up to that point however, the proportion of those who have never belonged to a bank drops off sharply with increasing income.

However, when people's income reaches this transition zone – the rate of increase in engaging with banks rises very steeply with the increasing income.

Focusing on the affordability aspects of banking, it would appear that the 'zone of transition' – moving from being without a banking service to opening an account occurs when consumers have a personal monthly income of TSh 70,000 to TSh 90,000. For commercial service providers this is potentially the easiest market to attract into the banking arena.

In the income category from TSh 70-90,000, there are approximately 700,000 people, predominantly male, urban and between the ages of 25-34 years.

Banks interested in increasing their client numbers should target this market segment

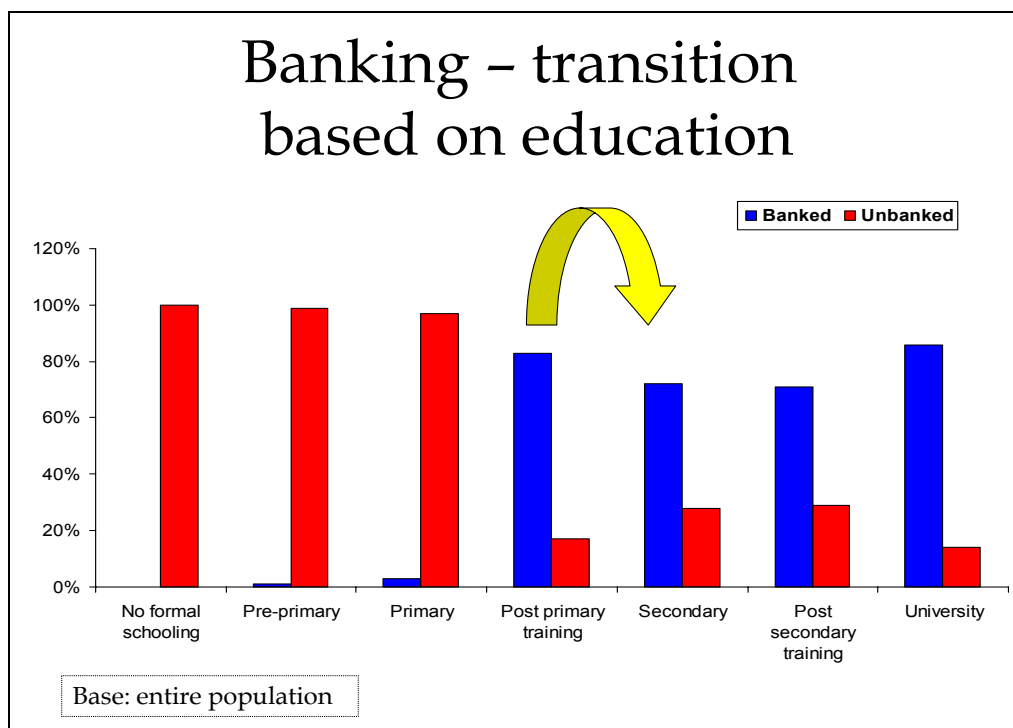


Chart 4-24: Banking - transition based on education

Analysing the same figures through the lens of education, the ‘transition zone’ appears between post-primary and secondary. At the extremes, those who had no formal education have no bank account, while over 80% of those with a university education do so. Education is the highway to engagement with the financial services industry.

5 Savings and insurance

The way in which many Tanzanians understand the terms savings, insurance and investment is often different from the way those same the concepts are understood in modern economies. In the Tanzanian context a commodity can be a saving and an insurance at the same time. The purchase of for example, a radio or TV is both a saving and an insurance policy when it is sold to cover costs in an emergency. It may also be perceived as an investment, providing returns in the form of pleasure and capital should the need arise and it is sold.

By the same token, the modern definition of an investment, for example in a life-stock which generates an income beyond the capital invested, might be perceived by many Tanzanians as a saving and insurance in case of an emergency. From the Tanzanian perspective therefore, the intention behind putting money aside either to save, insure, consume or invest needs to be understood.

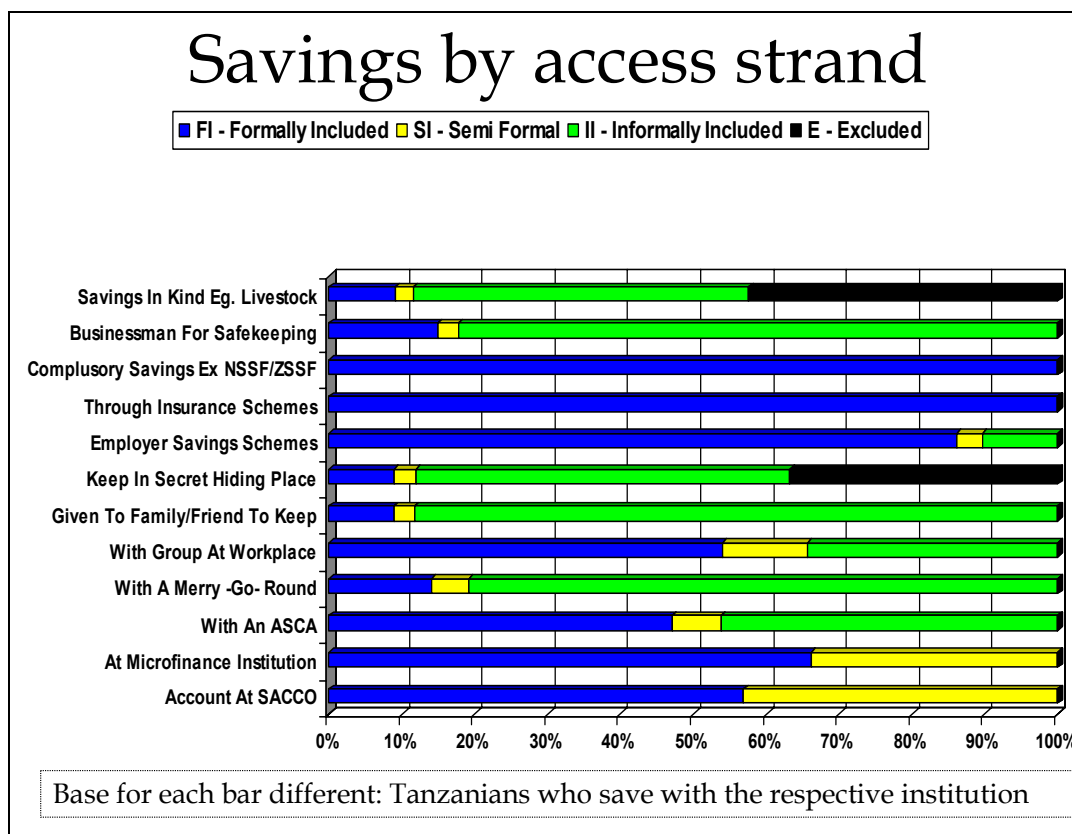


Chart 5-1: Savings by access strand

An investigation into savings from the perspective of the access strand confirms that those who save in a formal financial institution, for example an insurance scheme or NSSF/ZSSF, fall in the formally included strand. It is also clear that those who save in-kind, keep savings in secret hiding place and/or give them to family/friends to keep either lack access to financial services or choose not to use them. Either way, their needs are not being met by the formal banking sector.

Tanzanians save to insure themselves against certain events

It should be noted that the Kiswahili words for saving/investing and insuring are the same, and it is clear that the concepts are interchangeable for many Tanzanians.

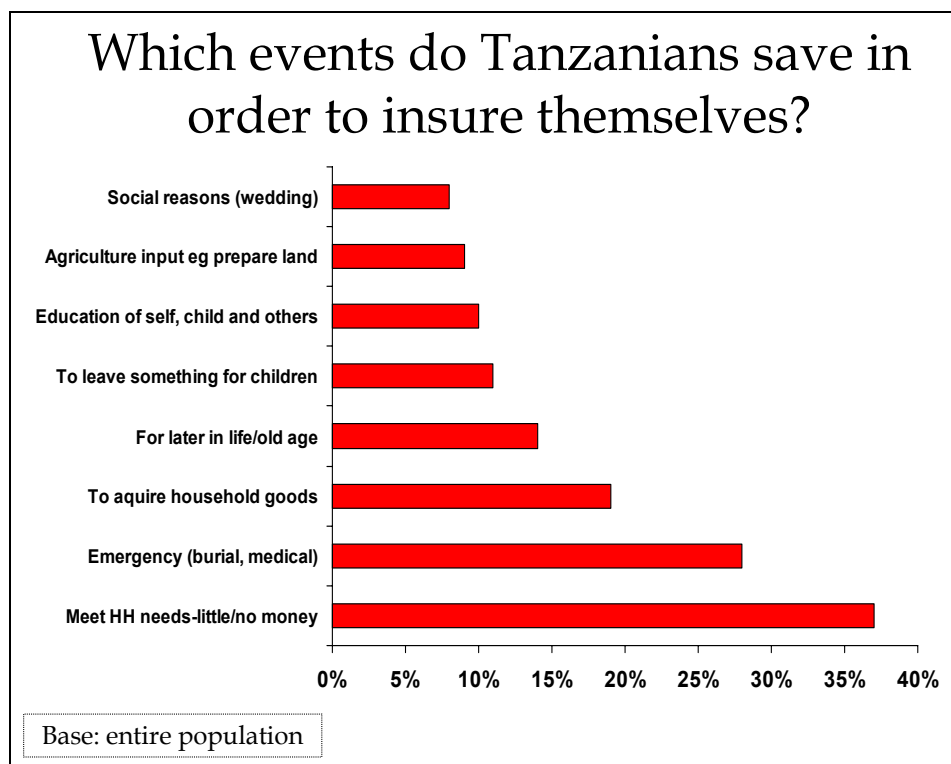


Chart 5-2: Which events do Tanzanians save in order to insure themselves?

Information contained in this chart reflects the instability of many people's lives in Tanzania. Well over a third of those who save to insure themselves against an unknown event do so simply to meet house-hold needs. Just under a third put money aside to pay for funeral expenses and half that number for their old age. Others save for education or to be able to leave an inheritance for their children (1/10).

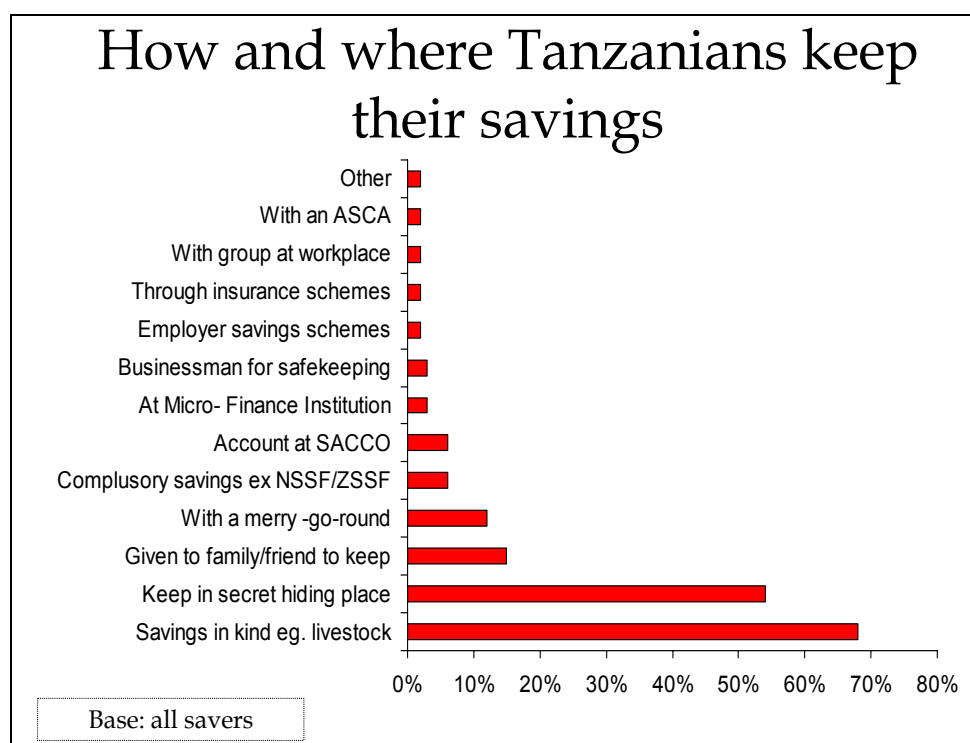


Chart 5-3: How and where Tanzanians keep their savings

Preferences about saving are shown very clearly in this chart. By far the most popular method of the *12.5 million savers in Tanzania* is to put money into goods or livestock – nearly 70% – or in a secret hiding place – 50%. This suggests that many people are already familiar with the concept of putting their money into another product in order that it may grow or at least keep its value. Merry-go-rounds or giving money to family or a friend to keep constitute a small but significant minority while employer or group savings schemes or going through an insurance company measured very low in the responses.

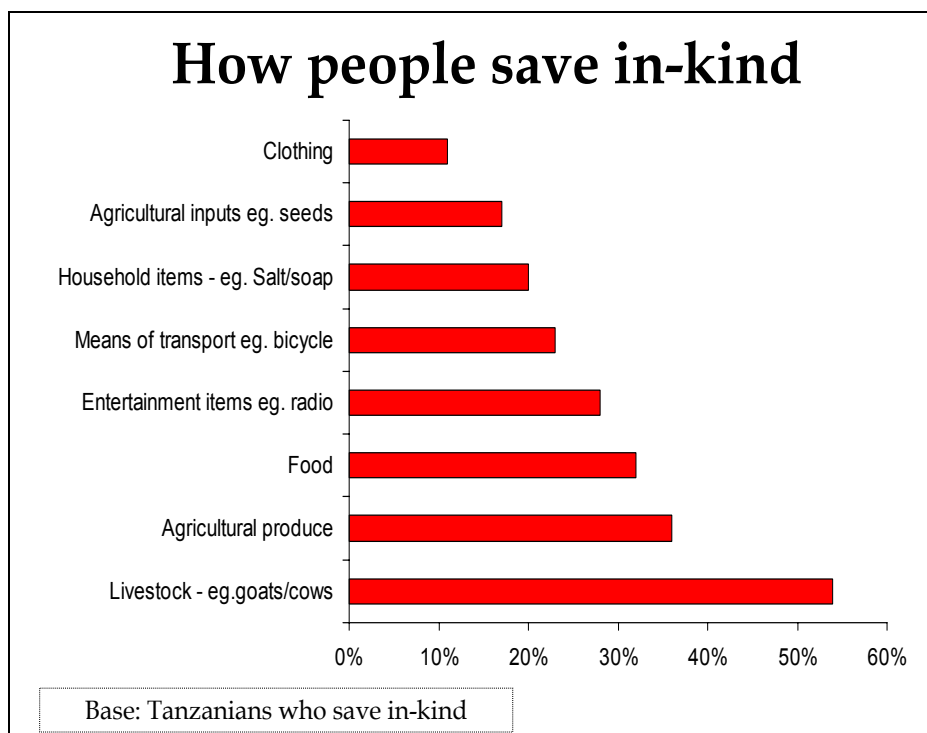


Chart 5-4: How people save in-kind

The breakdown of various goods people choose to put their savings into gives an insight into the lives and ingenuity of ordinary Tanzanians. For most, livestock is the best option, followed by agricultural produce, food and items such as a radio. All of these can be sold to produce cash at short notice as and when the need arises, and many produce dividends in the meantime.

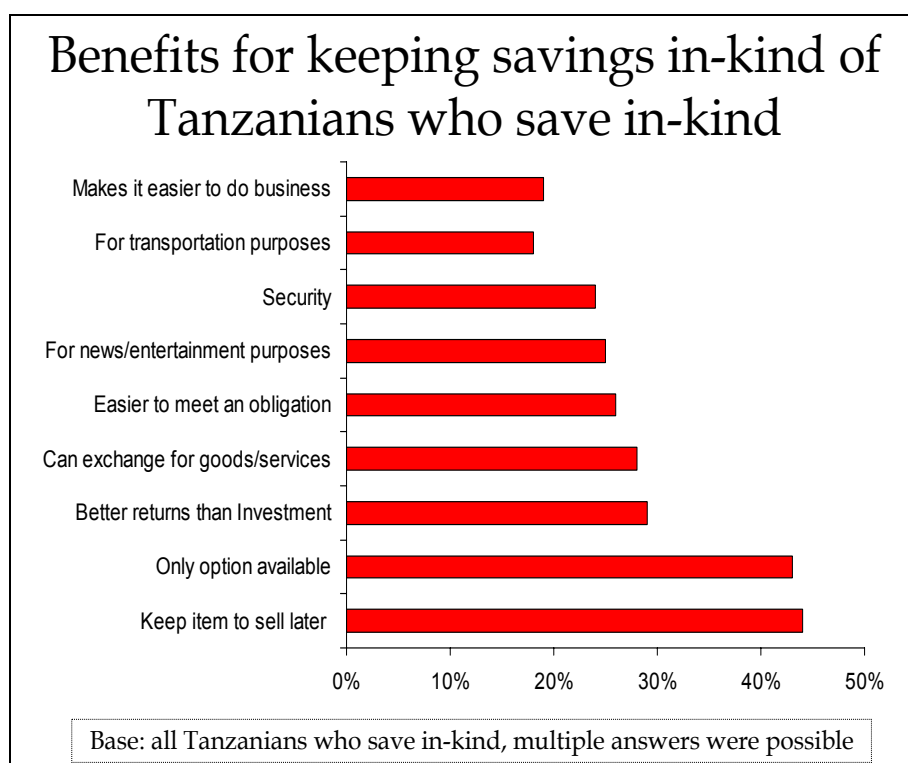


Chart 5-5: Benefits for keeping savings in-kind of Tanzanians who save in-kind

Information contained in this chart suggests that many Tanzanians are resourceful and forward thinking. Livestock, the biggest form of *saving*/investment, can produce dividends in the form of milk before being sold at a later date and many believe that it will bring a better return than a financial investment. Savings in-kind can also be exchanged for goods or services, and in the case of a radio, be used for news and entertainment before possibly being sold.

Savings of this nature make it easier for people to meet various obligations and give security in an otherwise uncertain world. A bicycle can be rented out or used, generating an income or providing transport, and can still be sold if necessary. It is clear that people throughout the country understand and enjoy the flexible nature of savings in-kind and are confident that there will be a satisfactory return on their investment. For the financial services industry to compete, it would have to develop products which did the same job even better.

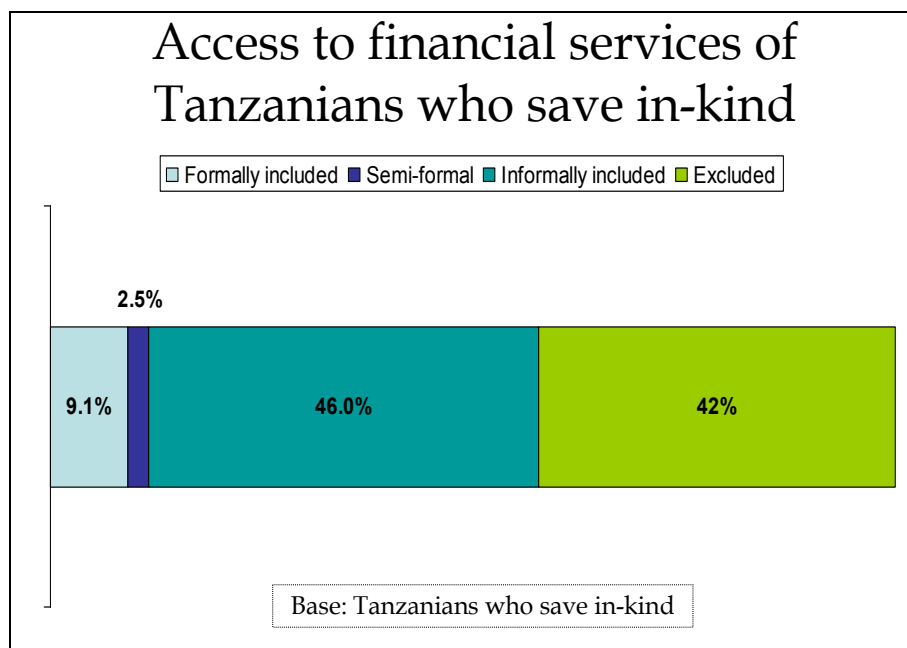


Chart 5-6: Access to financial services of Tanzanians who save in-kind

Of all those people who save in-kind, the largest percentage (48%) falls into the informal financial category. They are followed by 40% of those who are totally excluded. Less than 10% of those who save in-kind come from the formal financial category and oddly, only 2.5% from the semi-formal. People will have to change their behaviour before more are persuaded into the financial services market in any significant numbers.

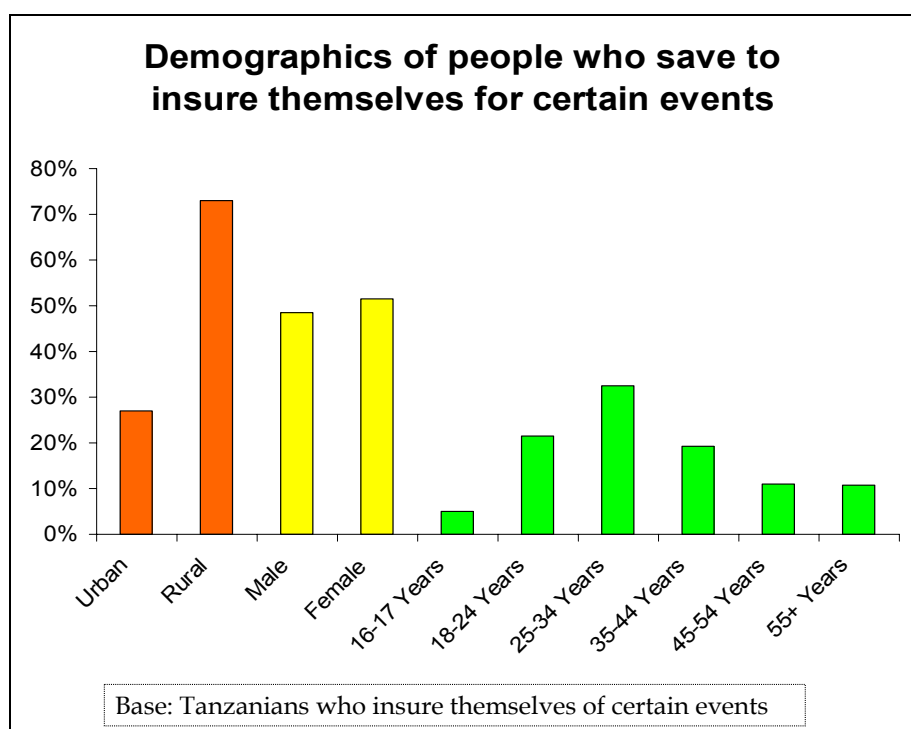


Chart 5-7: Demographics of people who save to insure themselves for certain events

These figures reveal some unexpected facts: more rural people save to insure themselves than their urban counterparts, while men and women are equally concerned to save for the unforeseen. Less surprisingly, the youngest adults are least likely to save for the future, those between the ages of 25 and 34 years being the most likely. After this age, the numbers drop again, levelling out after 54 years.

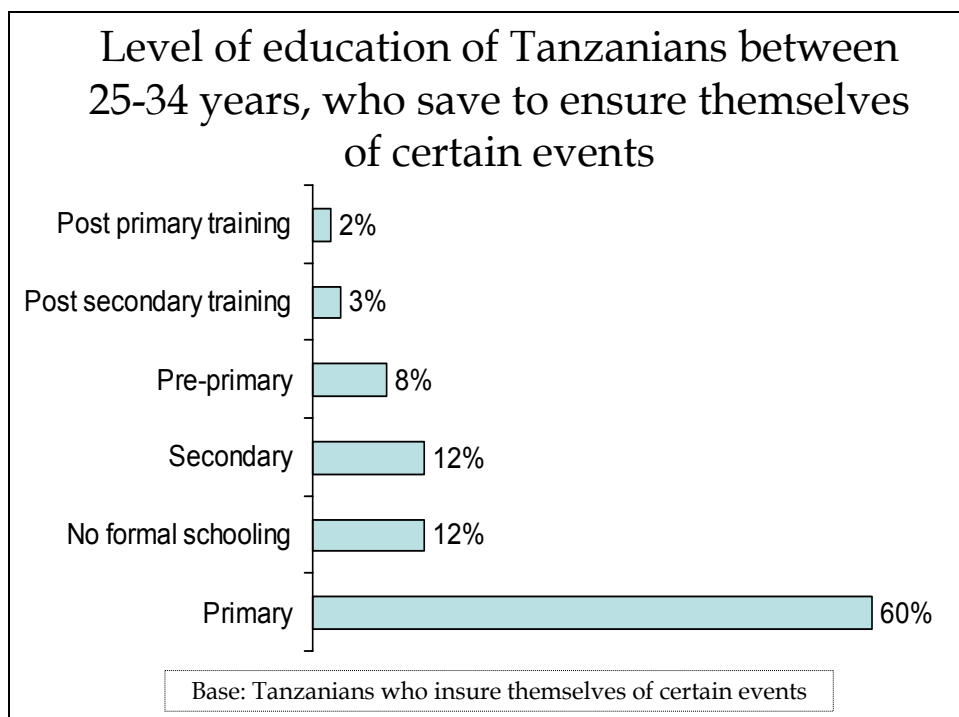


Chart 5-8: Level of education of Tanzanians between 25-34 years, who save to ensure themselves of certain events

People between the ages of 25 and 34 years form the cohort who are most likely to save in order to insure themselves for events in the future. The majority, 60%, have been educated to primary level. Interestingly, further education does not increase this figure.

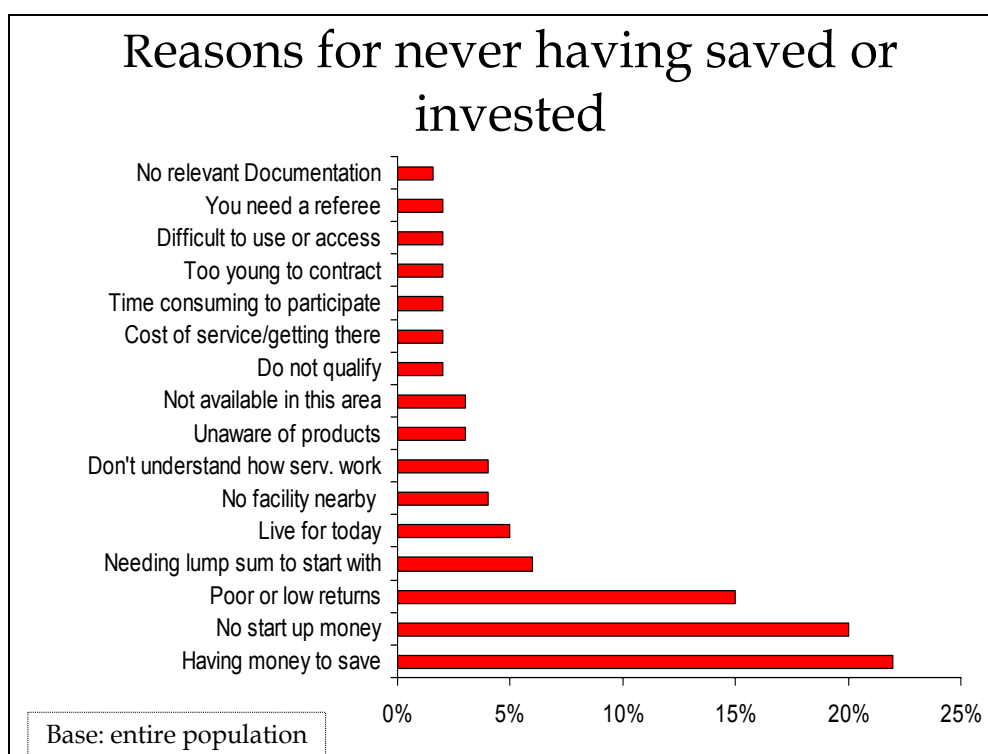


Chart 5-9: Reasons for never having saved or invested

The principal reasons for low savings and investment is lack of money. In a developing economy with a high percentage of people without a regular income, this is unsurprising. However, the figures also suggest that the financial services industry could improve the situation by informing their potential clientele better. Lack of financial literacy, and insufficient facilities are significant barriers which need to be addressed if the culture of saving and investing is to become widespread in Tanzania.

6 Credit and loans

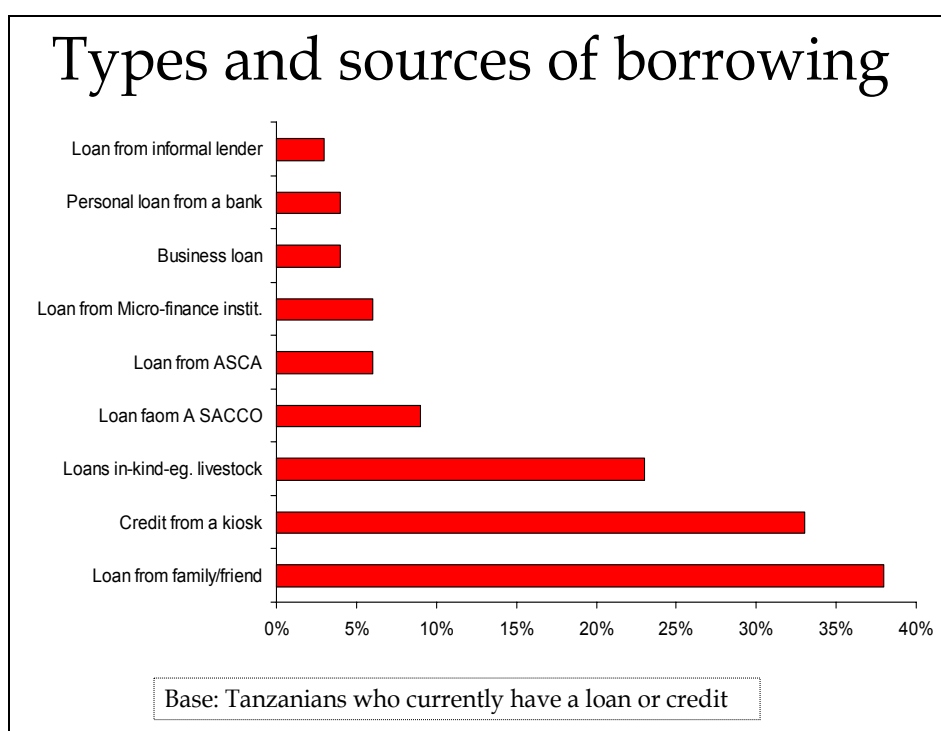


Chart 6-1: Types and sources of borrowing

The picture shown in this chart is typical of a poor but developing economy. It is clear that many people take out loans of various kinds most commonly from a friend or family member (38%) or from kiosks (34%).

Loans from a bank or from a SACCO, 4% and 9%, and indeed any financial services provider, are very low by comparison. Almost a quarter of the people who have a loan borrow in-kind.

The lending market in Tanzania is clearly thriving, but as yet, financial service providers are getting only a very small share of the action.

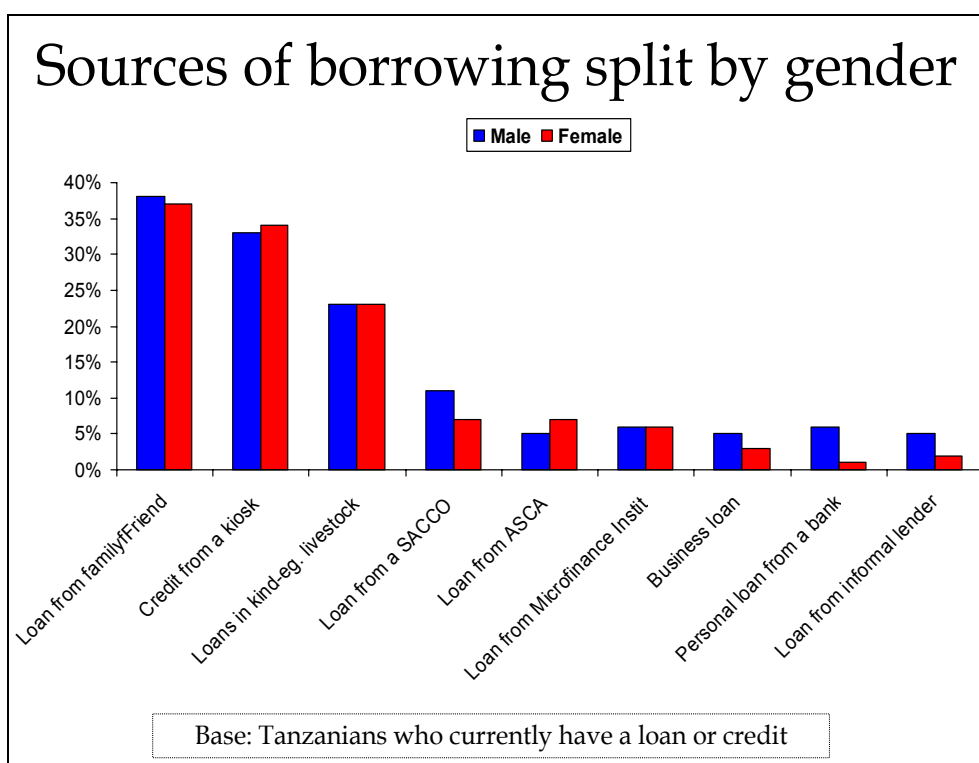


Chart 6-2: Sources of borrowing split by gender

The borrowing patterns of men and women in Tanzania do not differ much when the source is a family member, friend, kiosk, in-kind or a Microfinance Institution. However, more men than women take loans from a SACCO, a business, bank or informal money lender.

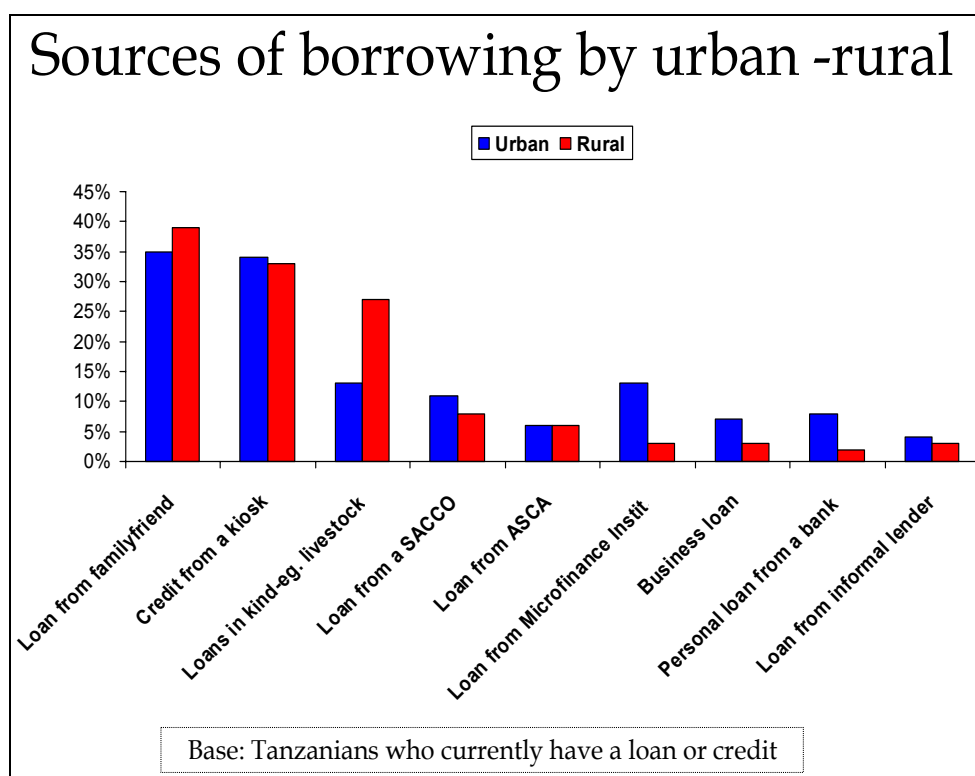


Chart 6-3: Sources of borrowing by urban-rural

MFIs and SACCOs are financing more of the urban than rural population, though the need is clearly across the country. Perhaps unsurprisingly, 27% of rural population currently have an in-kind loan compared with 13% urban population, and only 2% from rural areas currently have a loan from a bank compared with 8% from urban areas.

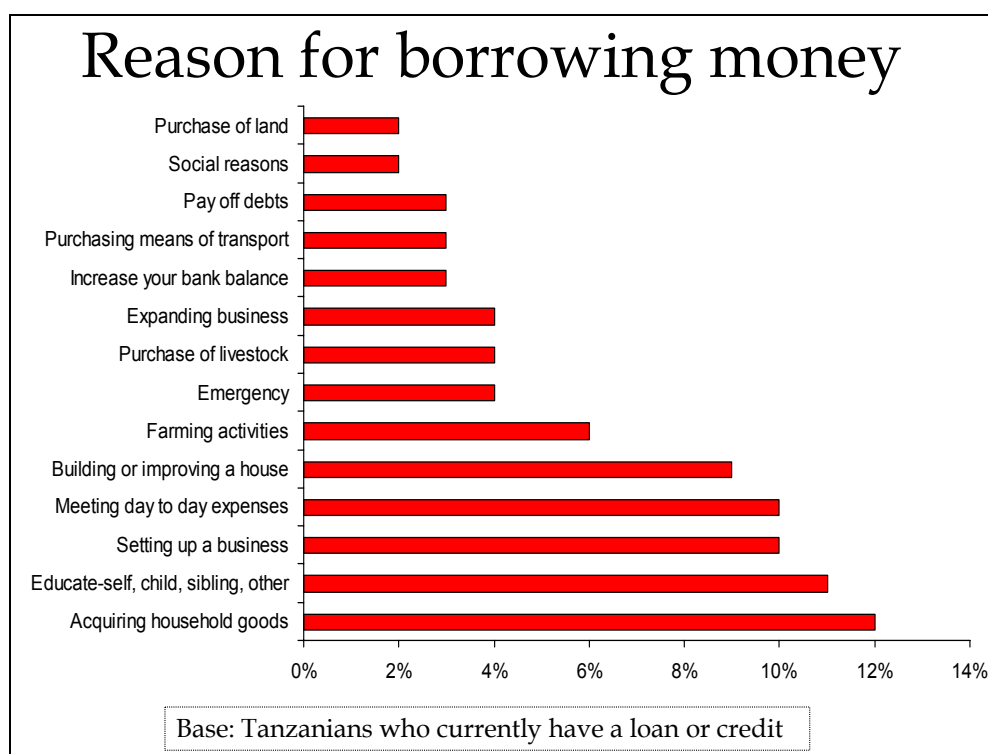


Chart 6-4: Reason for borrowing money

The reasons people borrow money in Tanzania are diverse if unsurprising in a developing economy. The most common need is for household goods, education, setting up a business, simply meeting day to day expenses or to improve a house.

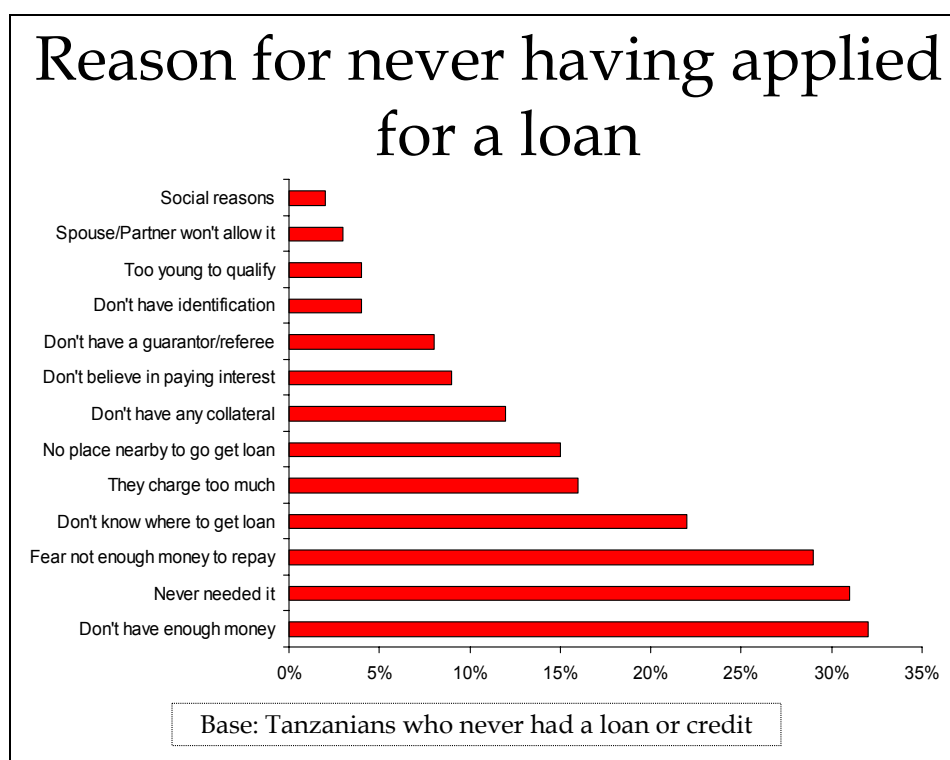


Chart 6-5: Reason for never having applied for a loan

Once again the picture described here is typical of a poor, developing country. The most common reason cited for never having applied for a loan is lack of money or fear of not being able to repay. Perhaps surprisingly, a third of respondents said they had never felt the need for a loan, others that they don't know where to get one from or that facilities are too far away.

7 Remittances

7.1 Remittance in Tanzania

How do people send money in Tanzania and Zanzibar

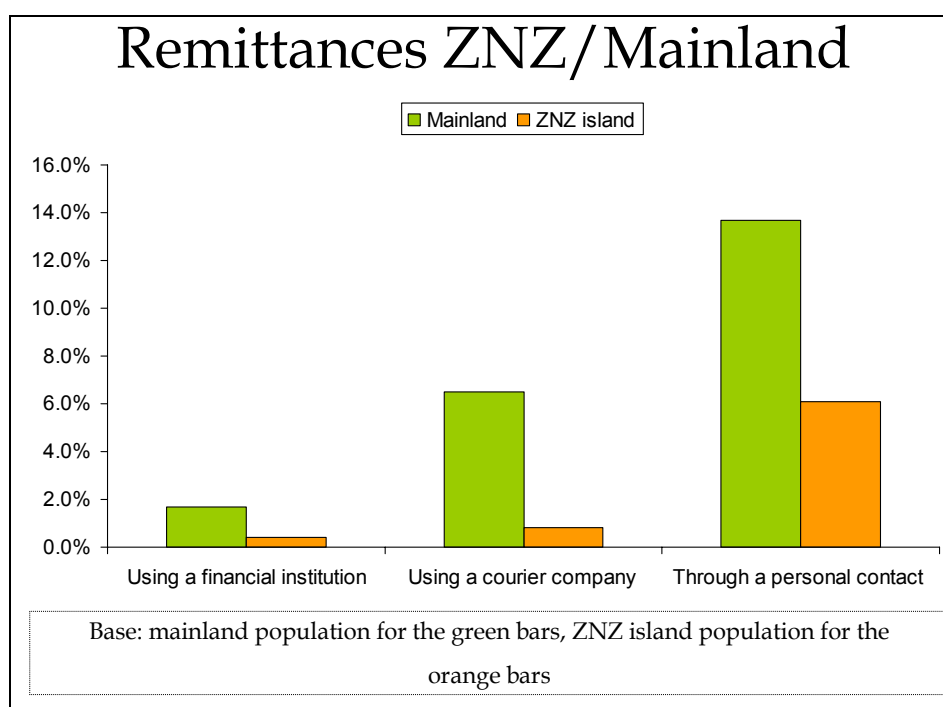


Chart 7-1: Remittances ZNZ/Mainland

It seems that the island population is remitting much less than the mainland population. However the most commonly used means for remitting are personal contacts.

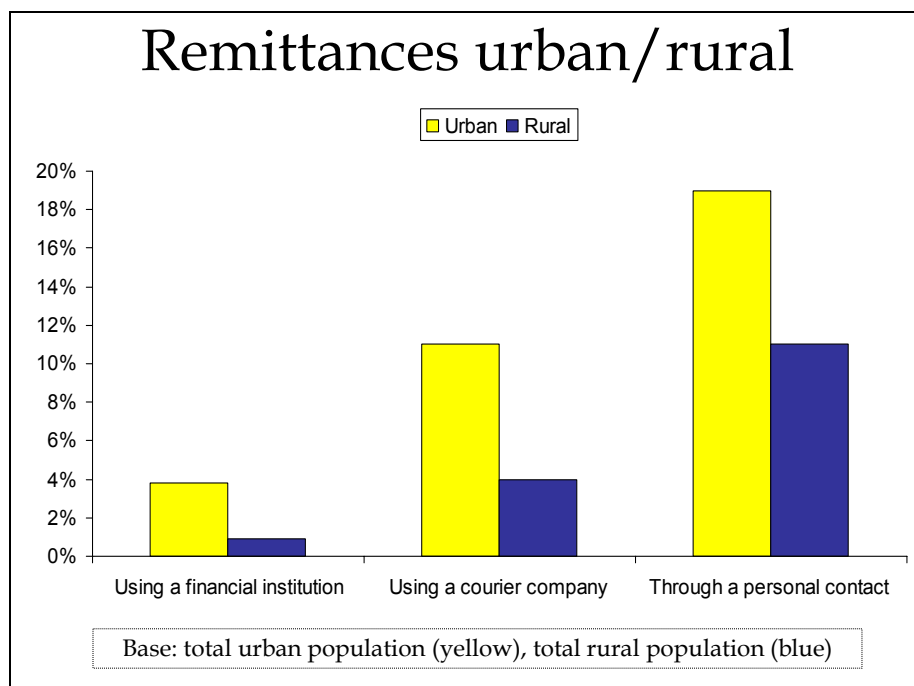


Chart 7-2: Remittances urban/rural

There is an obvious money transfer trend from urban to rural areas by all means chosen for remitting. The most popular method chosen by both cohorts is a personal contact, rather than a financial institution or courier.

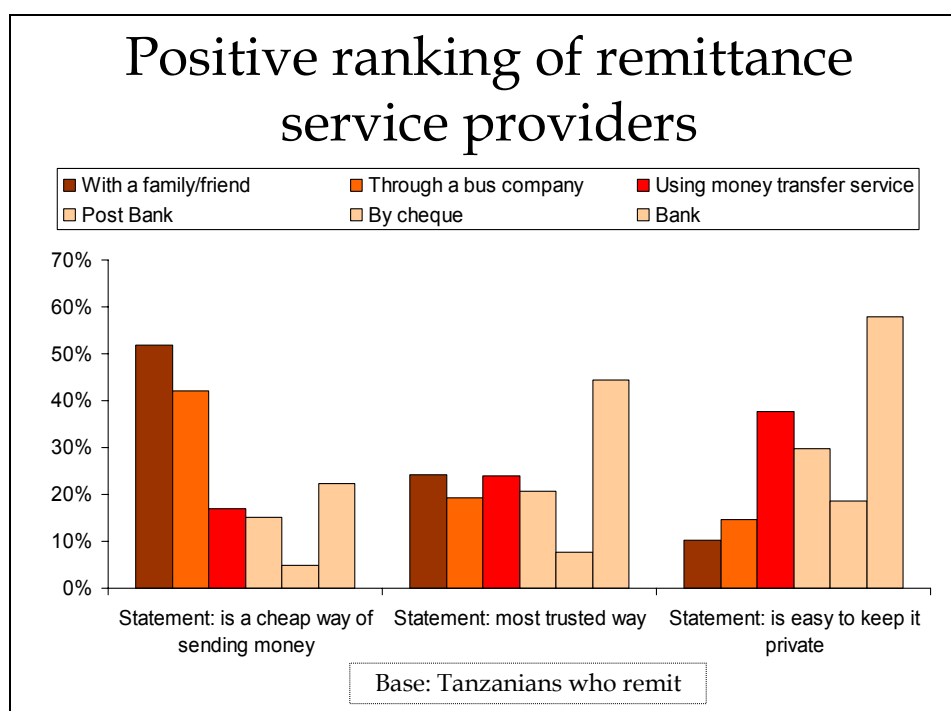


Chart 7-3: Positive ranking of remittance service providers

Although sending money with a personal contact is the most common method used, it is clear that it is perceived to be both less trustworthy and less private than using a bank. People choose not to use a bank however, because it is more expensive than other methods.

Columns for Post Bank, cheque and Bank are in the same colour because they all fall in the formal category.

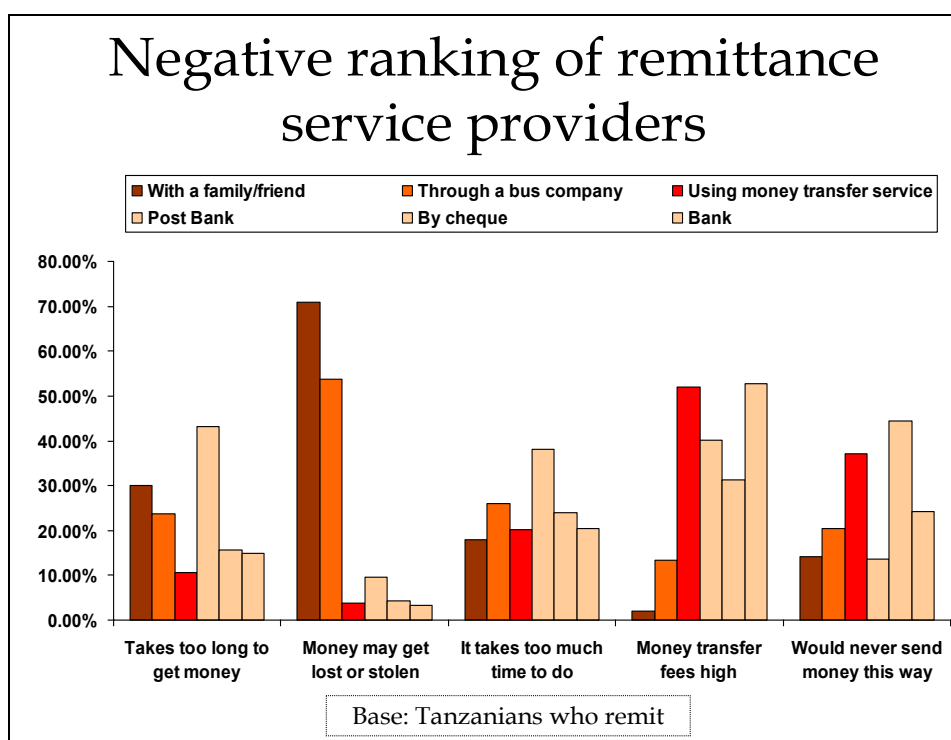


Chart 7-4: Negative ranking of remittance service providers

Of the 2.7 million Tanzanians who remit money, 40% do so only occasionally, when they can. 24% remit only when they are asked to do so and 18% remit in case of an emergency.

8 Technology

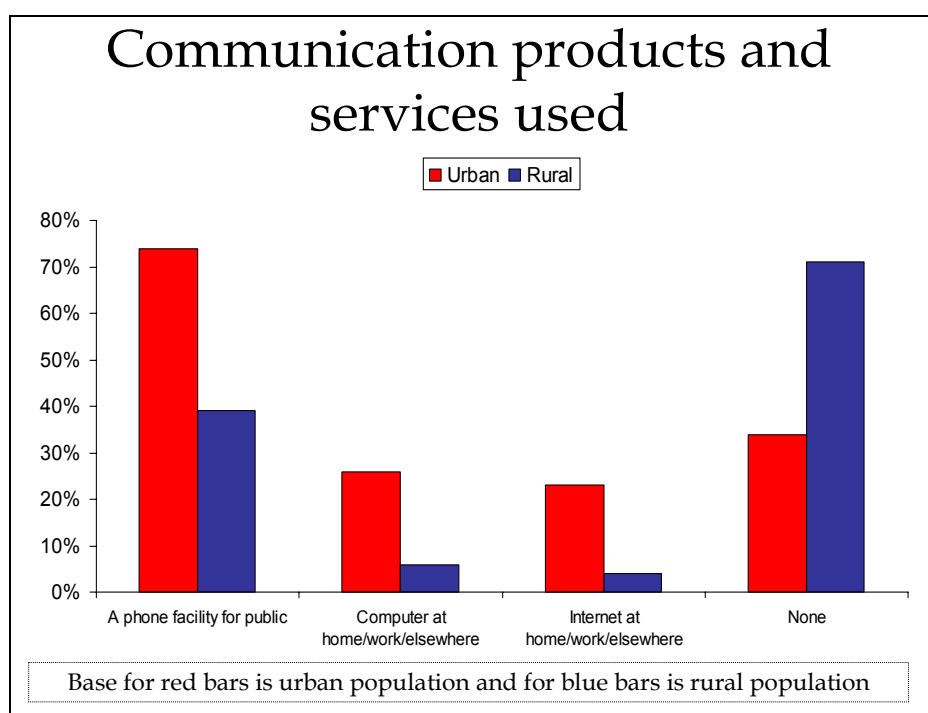


Chart 8-1: Communication products and services used

New technologies in Tanzania reflect the world trend. They are changing the face of communications industry across the country, and the opportunities they offer to the financial services industry across the economic board are huge. Already nearly three quarters of urban dwellers have access to a phone and a little under a quarter to a computer and the internet.

The picture in rural areas is, inevitably less advanced. Although the majority have no access to any new technology, well over a third of people in rural areas have access to a phone. Computers and the Internet are beginning to make an impact though figures are currently still low. FinScope data confirms that people in both urban and rural areas are keen to learn more about new technologies and are certainly not afraid of using them. Exploiting new technology probably offers the financial services industry the biggest single growth opportunity ever.

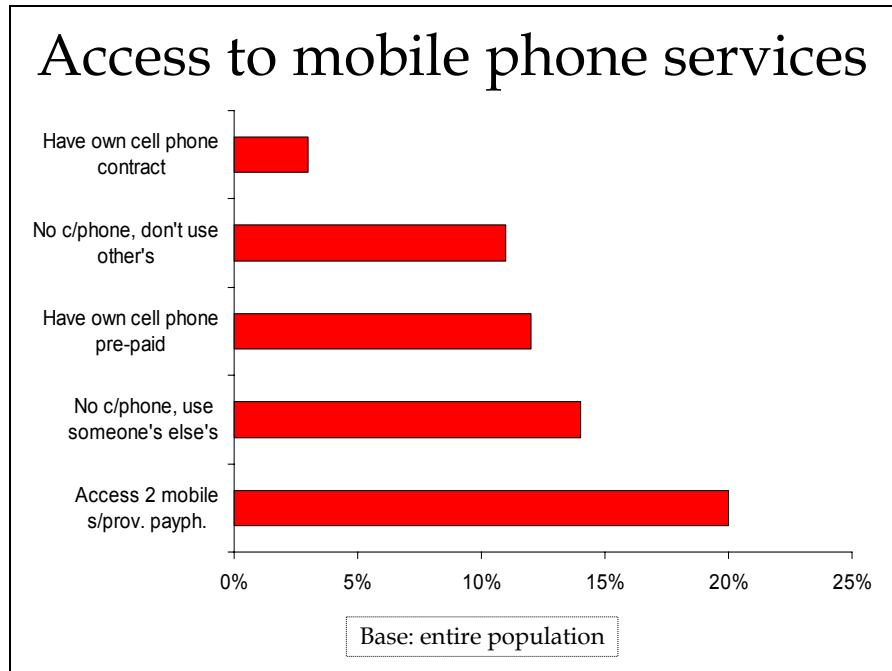


Chart 8-2: Access to mobile phone services

Mobile phones are already being used to remit money and make financial transactions and the opportunities for the banking industry to expand in this area are enormous. The majority of people (70%) have access to a mobile phone, either their own, a public payphone or one belonging to someone else. There is still a significant minority (22%) who neither have access to nor use a mobile phone, but this figure is likely to decrease over the next few years.

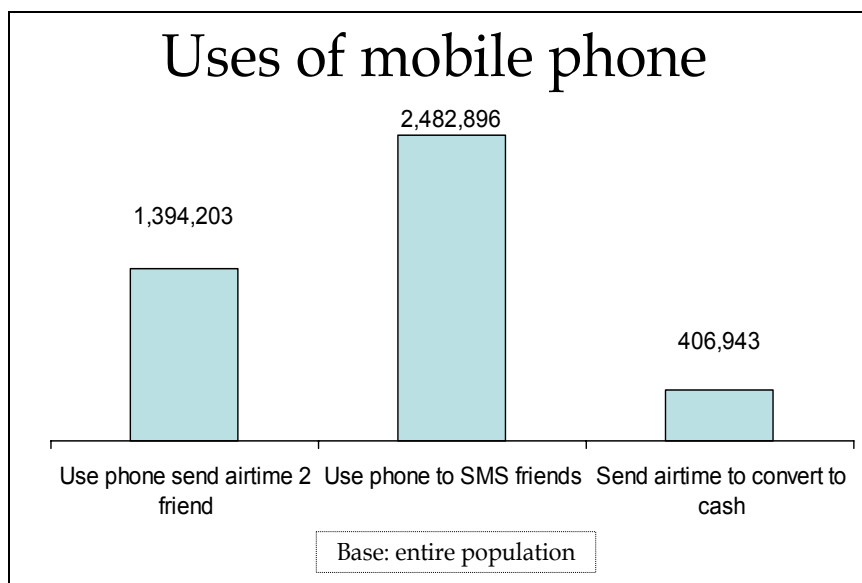


Chart 8-3: Uses of mobile phone

Currently, people use their mobile phones in Tanzania principally to send text messages to their friends. However, a significant minority are beginning to use their phones to make financial transactions such as sending airtime to a friend either to use or to convert into cash. The range of transactions which can be made with mobile phones is increasing all the time, and the evidence suggests that the public is keen to keep up. The potential for growth in this area is therefore huge.

9 Non-monetary services

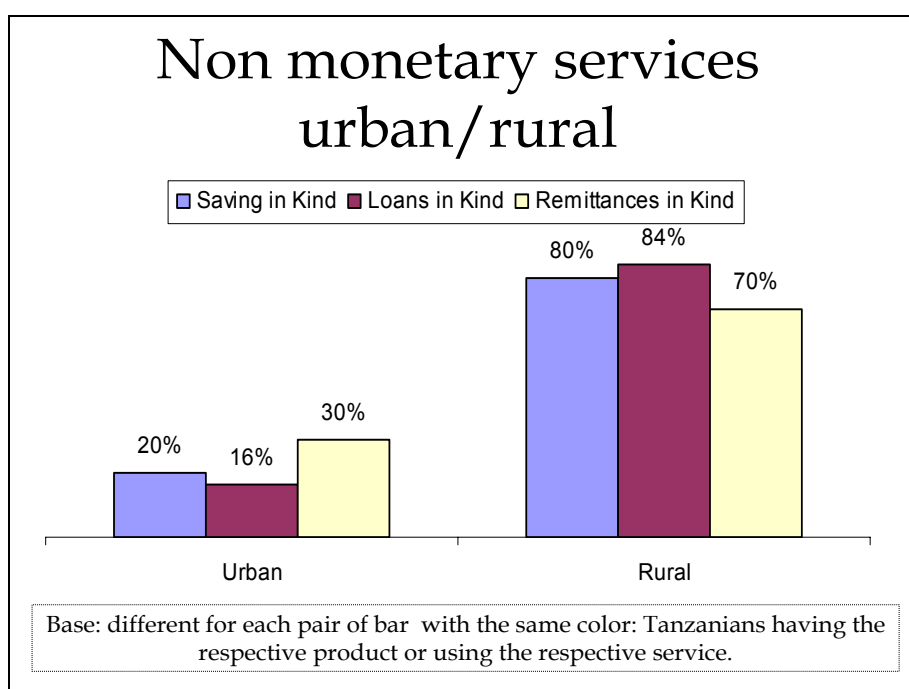


Chart 9-1: Non monetary services urban/rural

The great majority – 72% – of Tanzanians live in rural areas. They also represent the largest percentage of people who conduct their finances through non-monetary means. It is this cohort which presents one of the greatest challenges to the financial services industry.

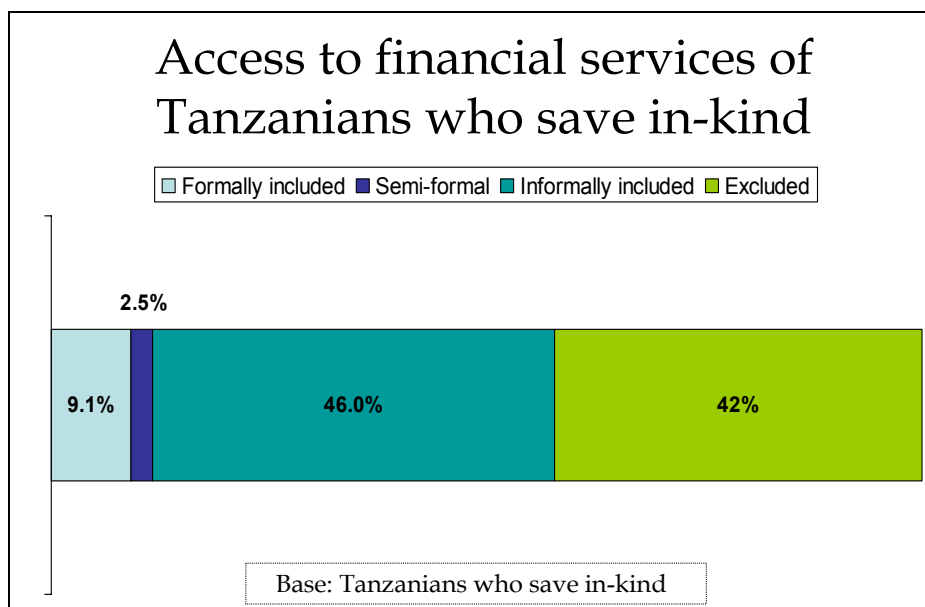


Chart 9-2: Access to financial services of Tanzanians who save in-kind

Approximately 40% of the entire population said that they are saving in-kind. Compared to the access strand of the entire population less in-kind savers are excluded and more are informally served.

9.1 Prohibitive reasons for using non-monetary services – lack of access to monetary products and services

There are two main reasons why people use non-monetary services: firstly, there are perceived to be prohibitive restrictions for using alternative monetary products (bank account, loan and savings products) and services. Secondly, many believe that the return on non-monetary goods is superior to monetary products.

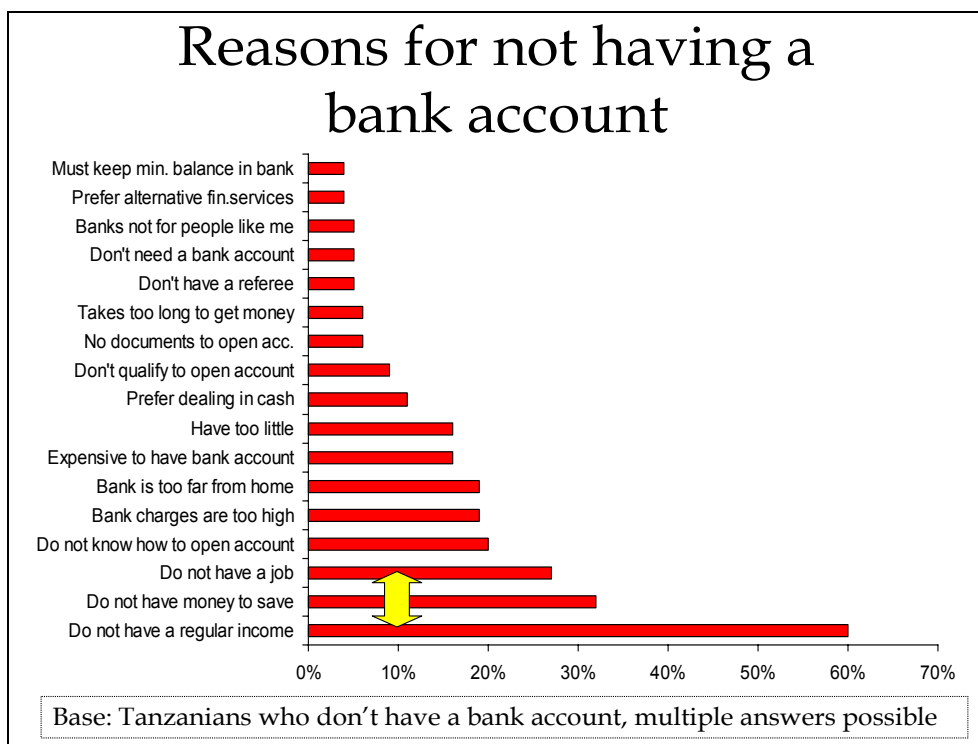


Chart 9-3: Reasons for not having a bank account

For most people insufficient and irregular income is the ultimate barrier to accessing formal bank services. There is a certain amount of misinformation about what is needed to open an account, some feel that it's too difficult to qualify and some simply prefer to deal in cash.

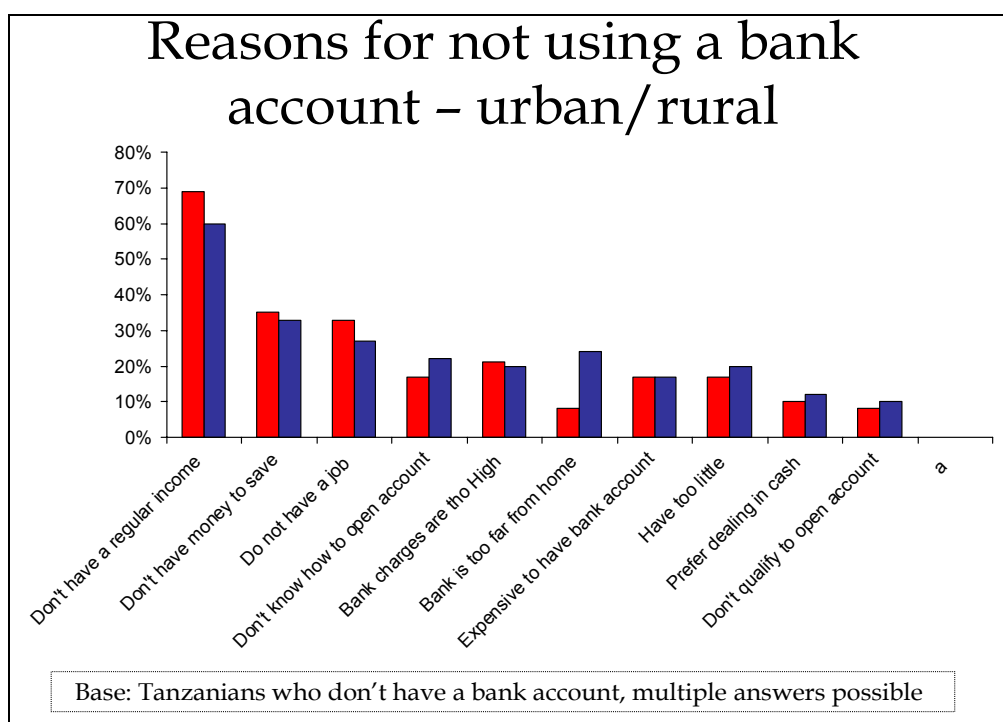


Chart 9-4: Reasons for not using a bank account - urban/rural

People do not have bank accounts if they have an irregular, low or even no income. Increasing levels of employment is key. Further barriers include low levels of financial literacy, poor infrastructure and a preference for dealing only in cash.

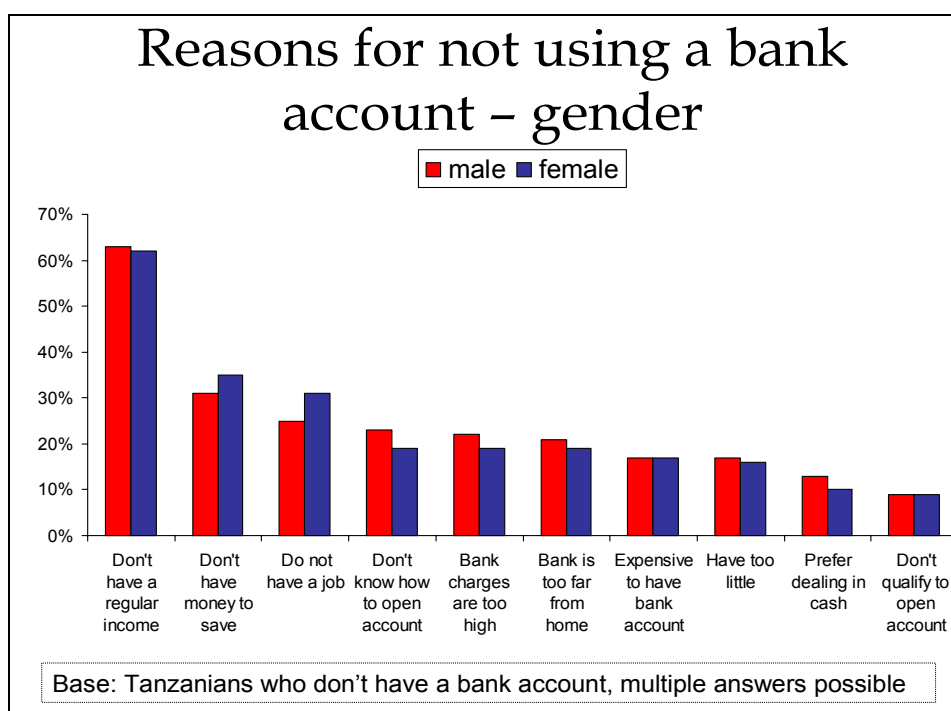


Chart 9-5: Reasons for using a bank account - gender

There is very little difference between men and women asked to give their reasons for not having a bank account. A few more women sight financial reasons and a few more men feel that banks are too far away and not easy to engage with.

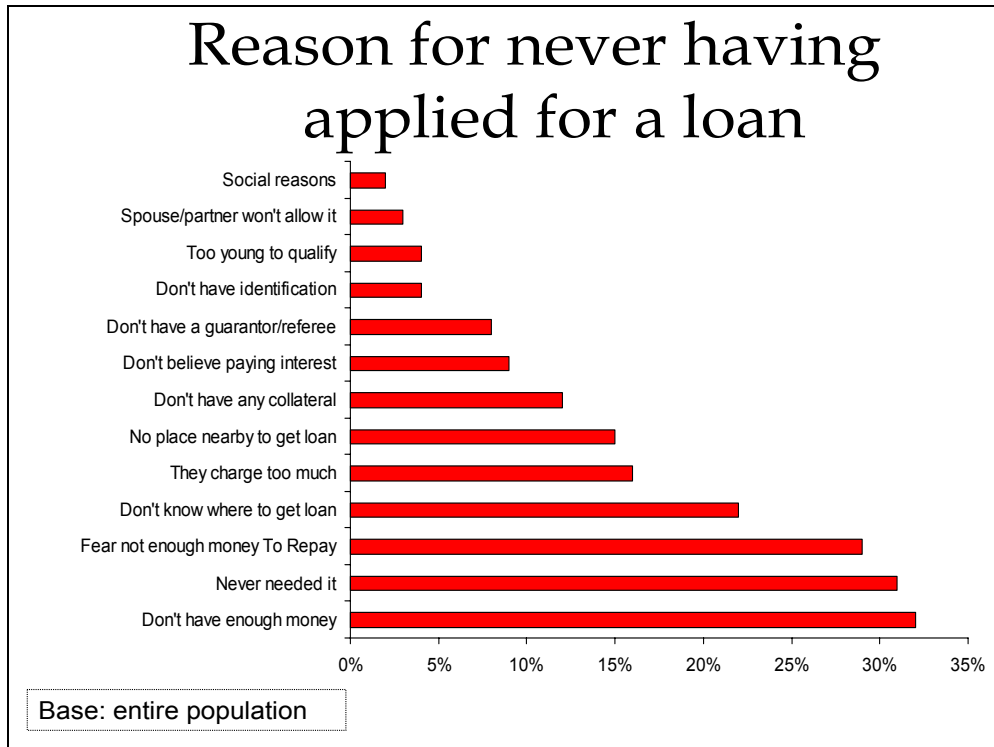


Chart 9-6: Reason for never having applied for a loan

The reasons for never having applied for a loan partly explain why people prefer to borrow and lend in-kind.

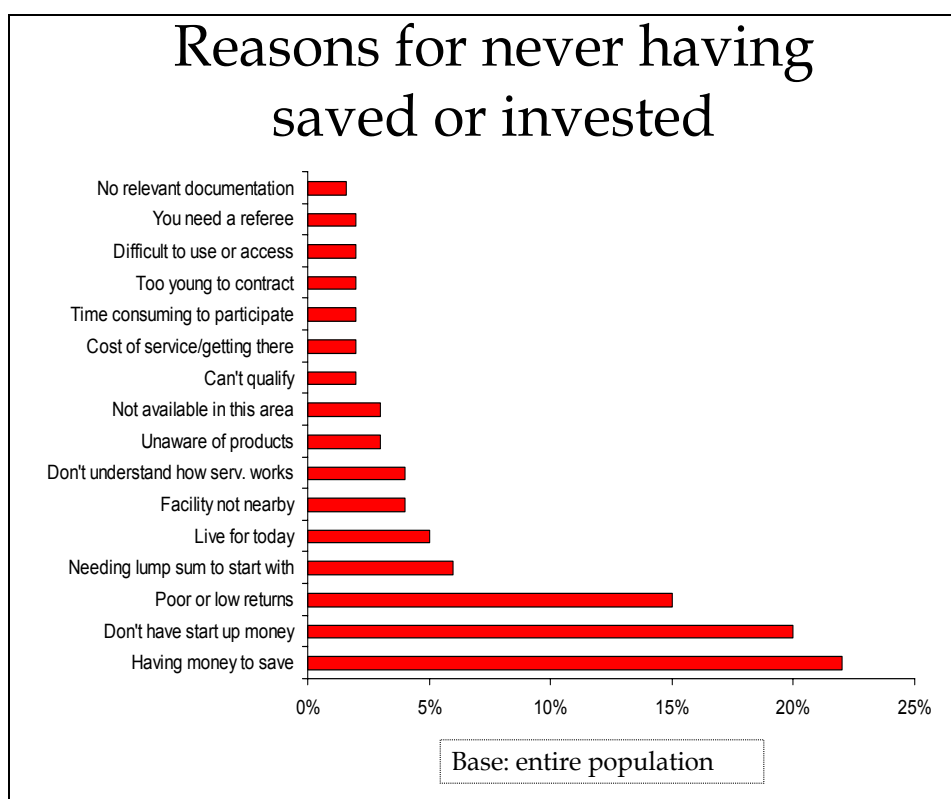


Chart 9-7: Reasons for never having saved or invested

The reasons given by respondents for not saving or investing are typical of a poor population: lack of money, lack of information and lack of understanding. However, these are all problems that can be addressed with the right attitudes, plans and resources.

9.2 Consumer decision for non-monetary services

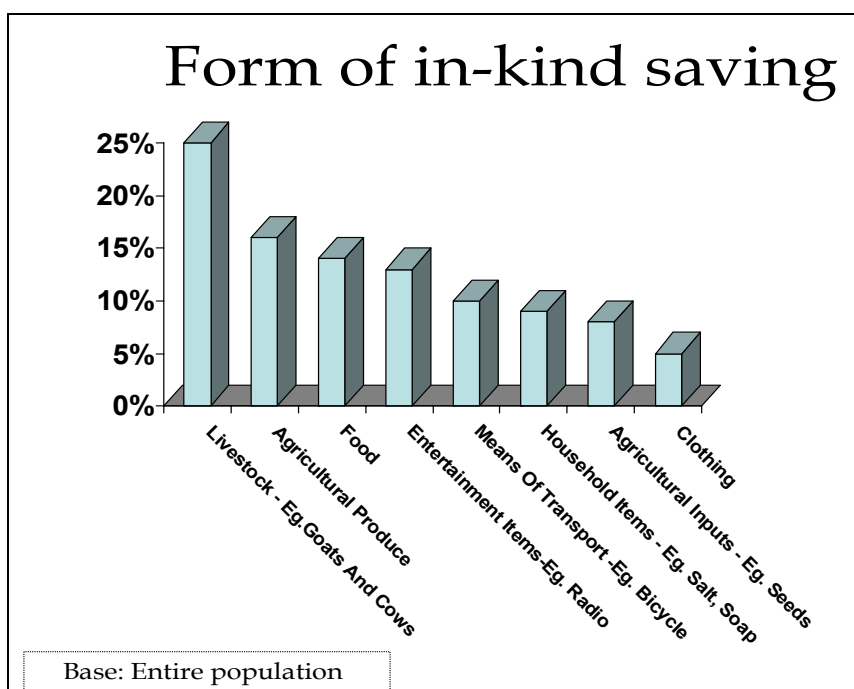


Chart 9-8: Form of in-kind saving

A quarter of in-kind savings are invested in livestock which is at least productive and may generate an income before being sold. Those investing in e.g. a bicycle or agricultural in-puts may also earn from their saving before it is sold on. Other goods have no value beyond the price at which they can be traded. Agricultural produce stocking food and household goods are also popular methods of saving in-kind.

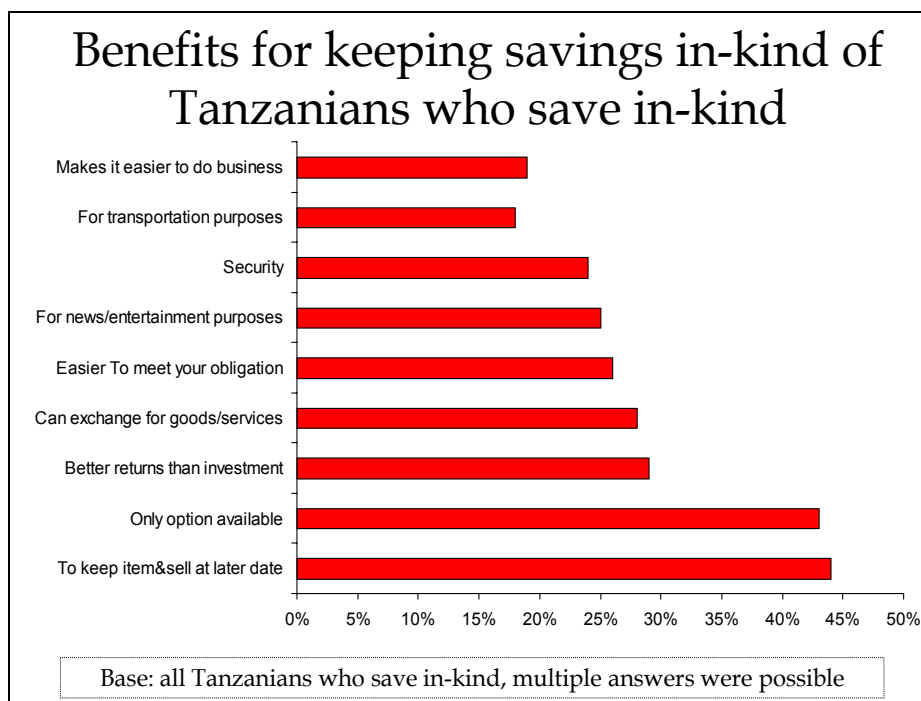


Chart 9-9: Benefits for keeping savings in-kind of Tanzanians who save in-kind

Tanzanians have good reasons for saving in-kind, and many believe that the benefits are greater than those offered by savings products from financial services providers. A challenge for the industry!

10 Analysis with focus on policy issues

10.1 Summary of challenges for financial markets and the role of government

Barriers to financial markets

- Poor financial literacy
- Poverty
 - Rural dwellers are generally poorer than their urban counterparts
- Poorly developed infrastructure
 - Roads, communications, electricity, transportation, etc

A combination of these factors leads to:

- Lower participation and poor financial accessibility.
- Increased transaction costs per monetary unit of financial intermediation.
- Increased risks for any financial institution attempting to serve rural clients.
- Formal financial institutions largely avoided serving rural areas, but picture slowly changing.
- Financial services available often provided by informal agents or mechanisms which offer a narrow range of financial services to a limited number of customers.

The role of government

- Providing a sympathetic environment
 - Ensure macro-economic stability
 - Improve information flow and education
 - Reduce legal impediments to efficient and low cost intermediation
 - Improve contract enforcement

10.2 Improving institutional capacity

There is a need to build the capacity and educate those wanting to use financial products so they can understand their rights and obligations.

1. Design and provide training for better understanding of dynamics of financial markets
2. Build the capacity of financial institutions so that they can respond to demands from rural households and enterprises by providing cost-effective training and technical assistance to financial institutions about:
 - business management
 - sound and transparent risk management
 - management of information systems
3. Introduce incentive structures e.g. performance based grants to help improve the management of information systems and cover costs of reaching new clients in rural areas
4. Introduce credit guarantee schemes

10.3 Supporting innovation and forging links with potential clients and Tanzanian commerce

There is a need to encourage the introduction and diffusion of other financial services more suited to the rural setting (e.g. crop insurance and warehouse receipts system). This will assist in risk and liquidity management as well as lowering transaction costs.

Supporting links to commercial funds will ensure that financial institutions can expand to rural markets, for example through commercial guarantees for wholesale credit from banks to micro-finance institutions.

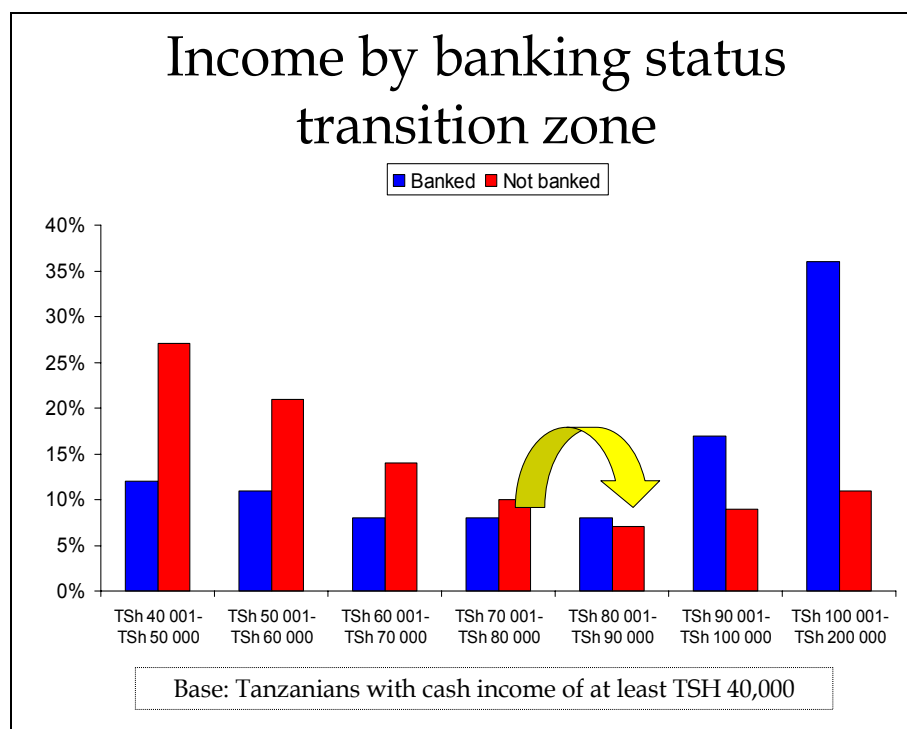


Chart 10-1: Income by banking status transition zone

This chart shows some of the trends between income brackets and the extent to which people use banks. Moving from left to right, it is clear that in higher income brackets, people do not necessarily become bank customers until they reach a certain level of income – a transition zone – in this case between TSh 70,000 – 80,000 Month. After that point, the proportion of those who do not have a bank account drops sharply with increasing income. This transition in behaviour suggests that increased income is directly related to increased banking activity.

When it comes to affordability of banking, it would appear that the transition zone shifts. As consumers reach a personal monthly income of between TSh 70,000 and TSh 90,000 so they consider having a bank account. For commercial service providers this is potentially the easiest market to attract into the banking arena.

In the income category from TSh 70-90,000, there are approximately 700,000 people – predominantly male, predominantly urban and between the ages of 25-34 years.

This is possibly a clear pointer for banks to target this particular youth segment in the market.

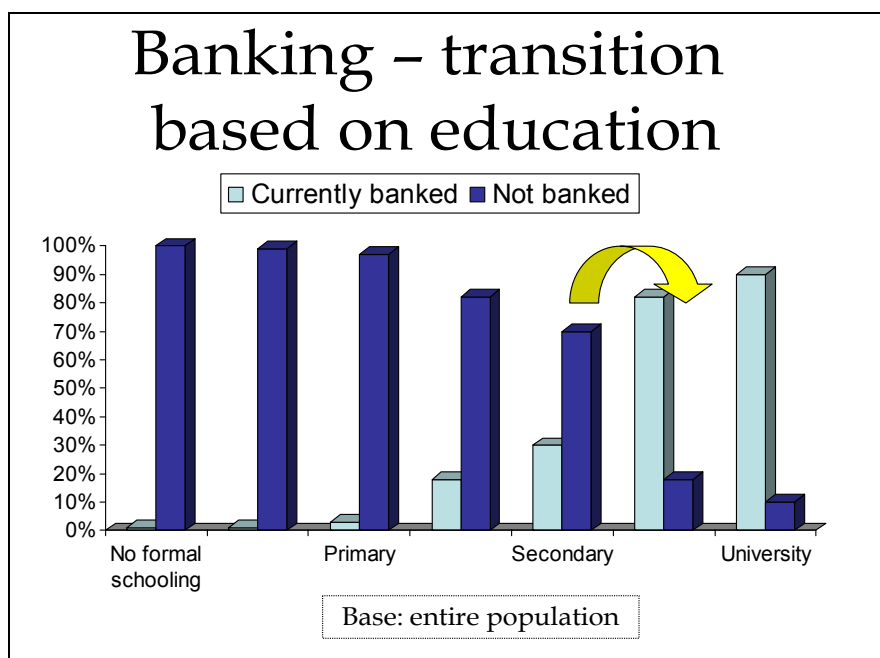


Chart 10-2: Banking - transition based on education

Nothing could express more clearly the need for increased levels of education throughout the country than this chart. Banking activity is negligible until post-primary training is acquired, and significant only with post secondary training and university are reached. The transition is from secondary to post secondary training, and it is this cohort of people who should be targeted in a drive to increase engagement with the formal financial services industry.

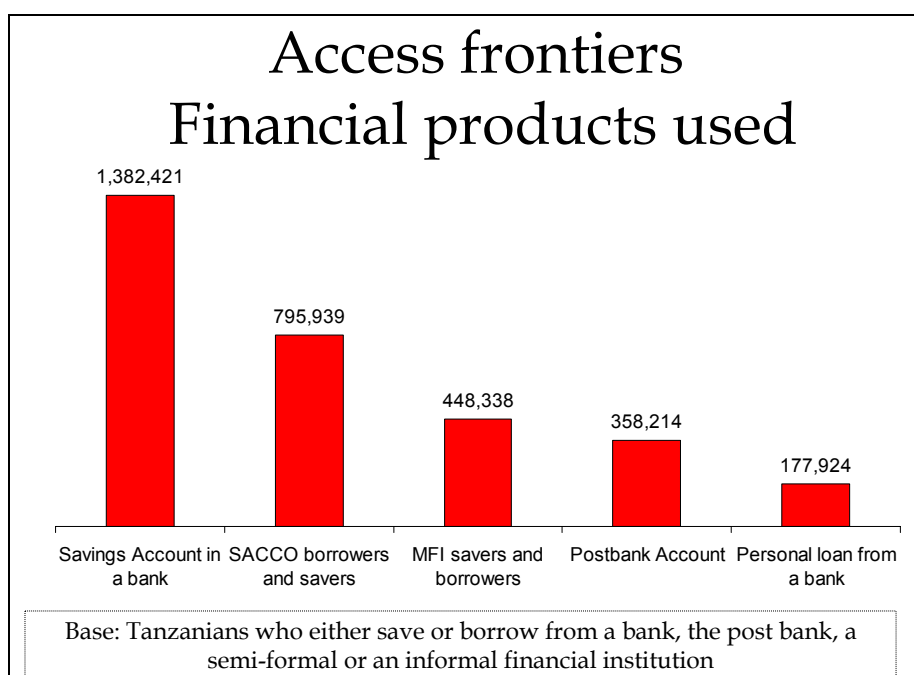


Chart 10-3: Access frontiers financial products used (1)

This chart reveals the numbers of people saving or taking out a loan and the places they choose to do their business. Banks are most popular by far, but still only represent 1,382,000 people in a population of 21 million. SACCOs are their principle rival, attracting just under 800,000 savers with MFIs and the Post Bank trailing behind.

- Why are more people not using the facilities available to them?
- Are procedures too difficult, do they take too long, are the requirements demanded to open an account too stringent?
- In what way are people being encouraged to open an account with any of the organisations mentioned above, and how can this be improved on?

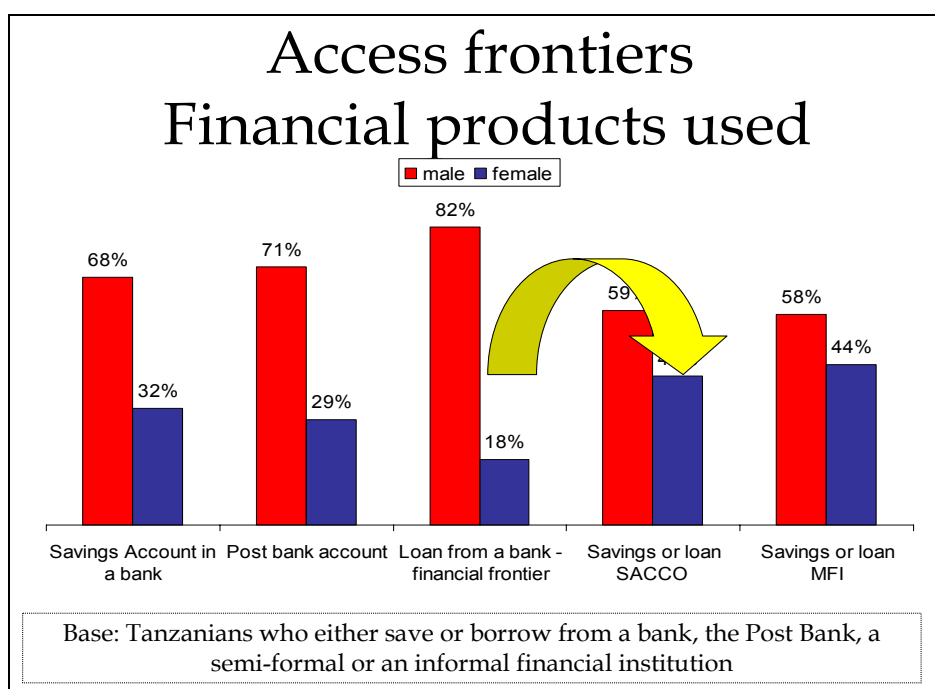


Chart 10-4: Access frontiers financial products used (2)

Here the same figures are diced differently to reveal the gender divide. Women are consistently in a smaller number than men in each category, with the greatest division being formal bank loans. Why are women not engaging with the financial system with the same enthusiasm as their men-folk? That can financial organisations do to redress the balance? SACCOs and MFIs show the least gender division. Perhaps the formal sector could learn from them?

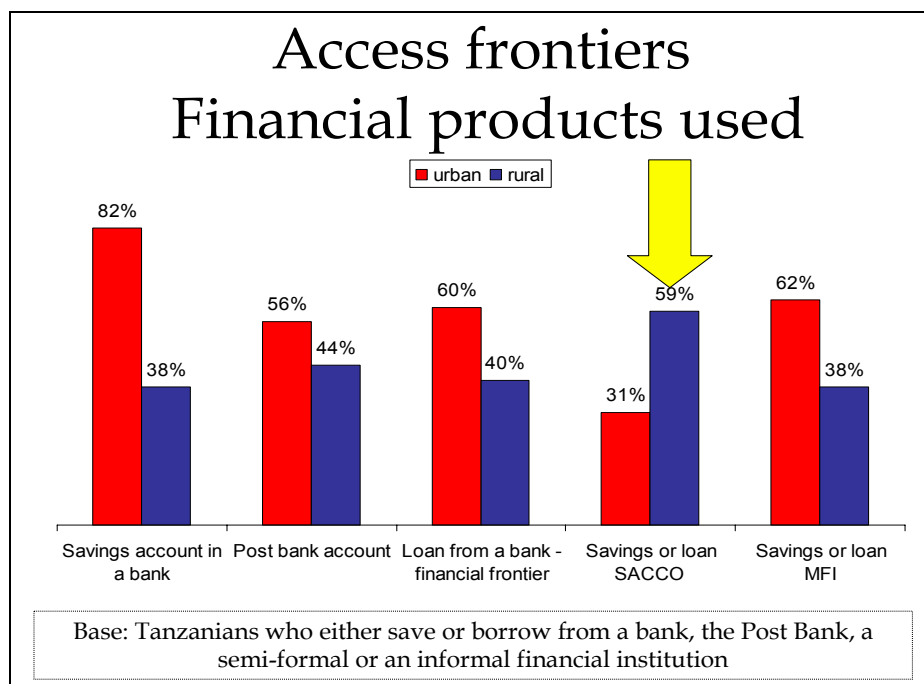


Chart 10-5: Access frontiers financial products used (3)

This chart shows us the difference between urban and rural areas and holds no surprises. Rural dwellers, who make up over 72% of the population, are consistently under represented in the financial services industry with one exception – the SACCOs. What are they doing to attract them? Can any lessons be learned from this? What can banks in the formal and MFIs in the semi-formal category do to attract more rural customers?

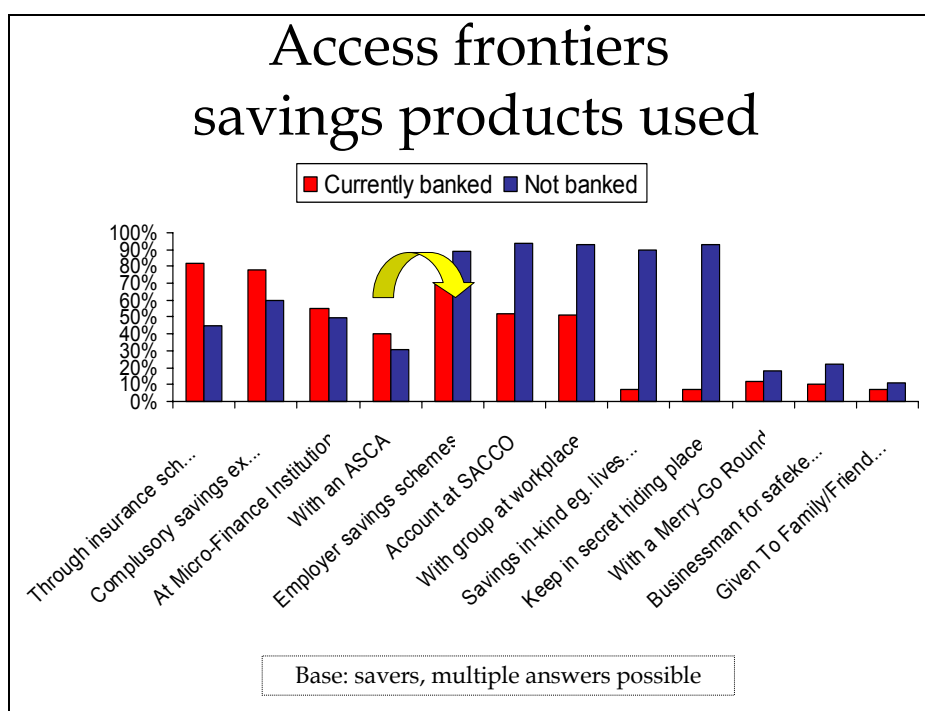


Chart 10-6: Access frontiers saving products used

Tanzanians who keep their savings in a secret a hiding place, a SACCO or in an employer savings scheme are less likely to have a bank account, while those saving through an insurance scheme or having compulsory savings through a pension scheme, or even with an MFI, are more likely to do so.

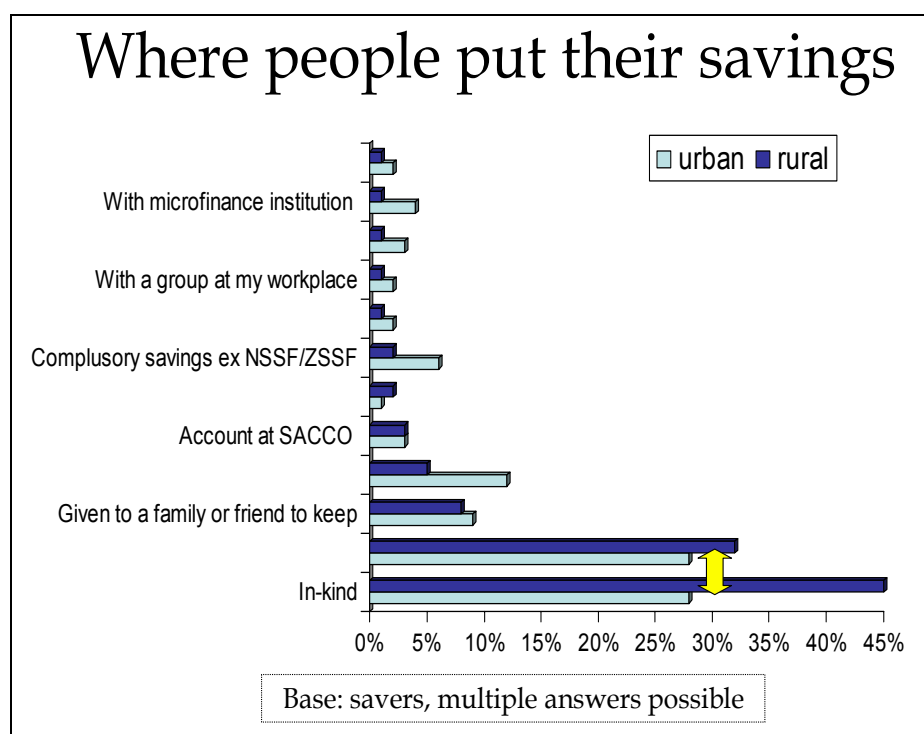


Chart 10-7: Where people put their savings

This chart shows the saving habits of a predominantly poor nation. The most popular places to keep savings in both urban and rural areas is in goods or livestock or a secret hiding places.

Merry-go-rounds are used by 12% of urban savers but only 5% in rural areas. The figures suggest that money is considered to be less reliable as a savings resource than goods or animals, and financial institutions less attractive than a secret hiding place. The industry has a great deal of ground to make up if it is going to attract more people to use their products and services.

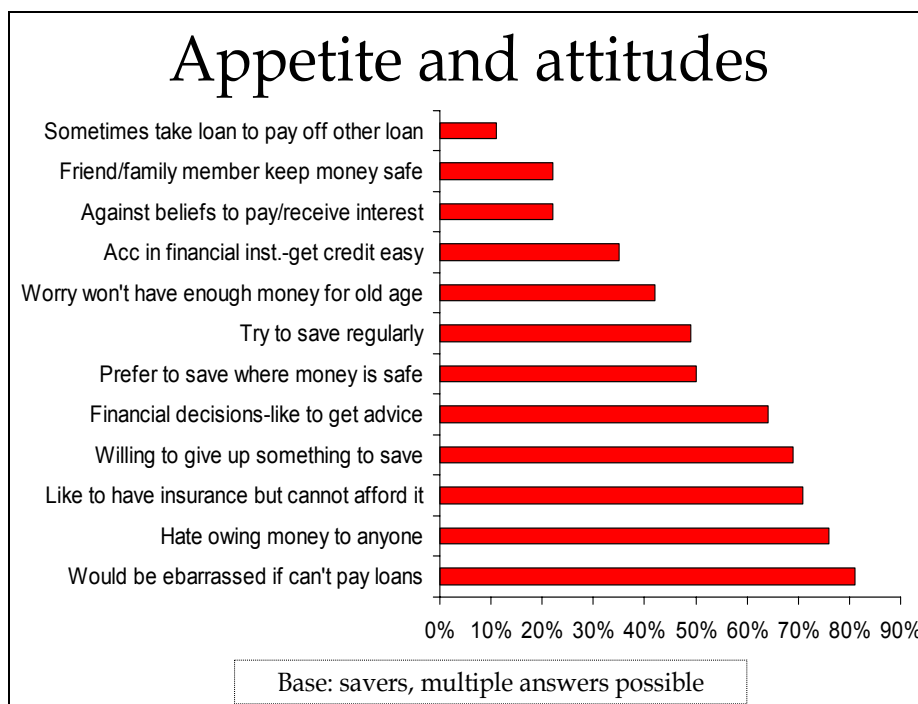


Chart 10-8: Appetite and attitudes

This chart gives us an insight into the appetite for and attitudes towards saving and borrowing. Even though it offers only a slice of a bigger picture, three main features about Tanzanians jump out.

- There is clearly a appetite for more financial services
- People want to save, not least for old age – and they want to save regularly
- They want more insurance but feel they cannot afford it

The chart also indicates that Tanzanians are a conscientious population with a mix of attitudes that ought to be attractive to financial institutions.

Three examples:

- They would be embarrassed if they could not repay their loans
- They are willing to give up something in order to save
- They like to get advice when they take financial decisions

All this creates a fertile field for commercial service providers.

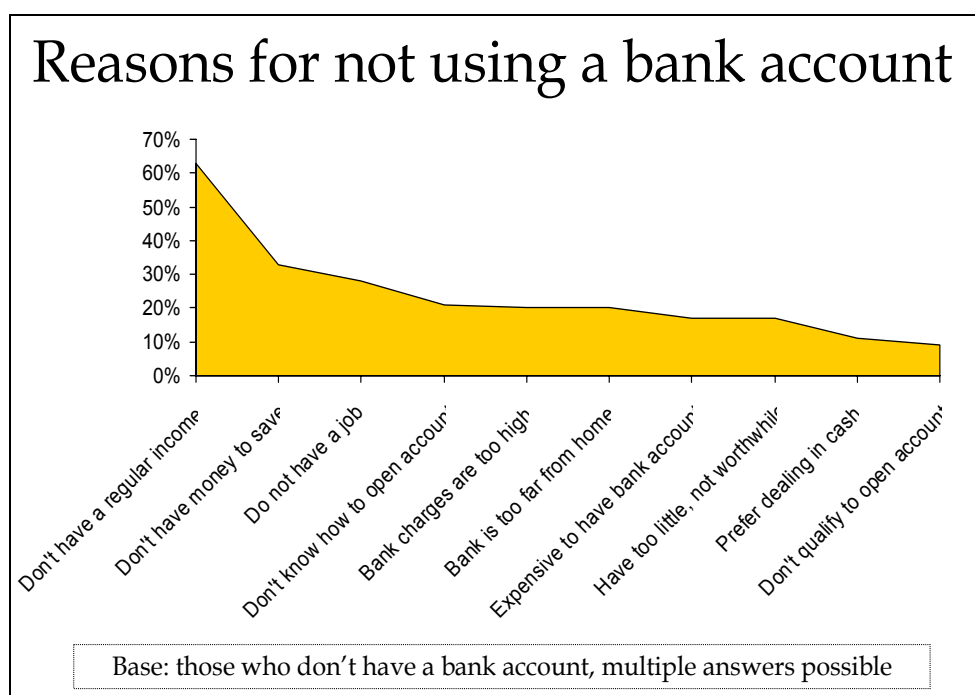


Chart 10-9: Reasons for not using a bank account

The reasons people gave for not having a bank account are lack of financial literacy and money, the two sharing an obvious connection. That there are 63% of people without a regular income is an endemic problem, and one which damages the future potential of the financial services industry. There is a direct relationship between employment (particularly formal employment) and engagement with the industry. Increasing employment opportunities is clearly an important policy issue.

10.4 Conclusion

The FinScope survey contains plenty of evidence which could be used to inform policy reform in Tanzania. Financial, employment, social and education policies could be strengthened and improved using its data.

Results gleaned from the survey so far reveal great potential for the financial services industry. Right now, there are very few products or initiatives designed to attract the poorest people, who are in any case struggling with low levels of education and poor living conditions. They are however, keen to learn, want to engage and willing to give up other things in order to both learn and engage.

There is still a huge amount of data from the FinScope survey waiting to be analysed. It is possible to look at various figures in many different ways to suit any industry or market segment. The same figures can be looked at from

different angles and provide fresh insights into how people think, feel and act. Analysis is available to anyone who asks (at a fee to cover costs). It is an extremely valuable resource whose potential for your business is equally rewarding.

10.5 Government workshop 4th May 2007

Number of participants: 12
Completed evaluation forms: 12

Market segments represented in this workshop included:

- Financial services 4
- Education 3
- Business development 2
- Agriculture 1
- Communications 1

All participants agreed that this workshop was not too long, though some felt it had been too short and required more detail and depth of discussion.

All attendees were able to understand the advice, analysis and language presented during the workshop. However, one official found the information too broad and would have appreciated more in-depth detail, while the regulator found it too narrow and wanted more analysis.

Most agreed that the advice was both clear and useful, though many had suggestions for improvements. One official wanted more detail in specific areas, while representative of another government agency wanted the FinScope information to be disseminated out in the villages and to small rural groups. A research house and the regulator would have liked to see more stakeholders present and official wanted the banks and financial service providers more involved.

The representative was very keen that the FinScope information should reach government leaders. All attendees agreed that they would like to attend further workshops, subjects for discussion including a focus on how financial services facilitate local production and bring about local currency stability.

10.6 Donors and development partners workshop May 3rd 2007

17 people attended this workshop coming from various market segments including financial services, agriculture, business service development, education and development.

Of the six who filled in the evaluation form, only one representative found the workshop too short and together with the representative one diplomatic mission, wanted more time for discussion. Only the one donor agency representative felt that the analysis was too broad.

All attendees agreed that the language and analysis used in the workshop was clear and easy to understand, though the attendees from one diplomatic mission, one development partner and one consultancy firm found that the advice on how to use FinScope material was sometimes not so clear. Their comments included the request for more summarised analysis to facilitate greater depth of discussion, as well as sharing experiences with other participants more thoroughly.

Many offered positive criticism for future improvements. The representative from the one donor agency and suggested that written analysis based on target consumer groups together with the policy, strategy and demographic implications would have been useful. The representative of a Microfinance Institution who attended this workshop also requested more information and suggested handouts, while the participant from one consultancy firm wanted to look more closely at the progression of people in the informal financial sector. Looking more deeply into the kind of support required for improving financial literacy, education and travel costs were also suggested.

11 Analysis with focus on banking industry

11.1 Patterns of behaviour in banking

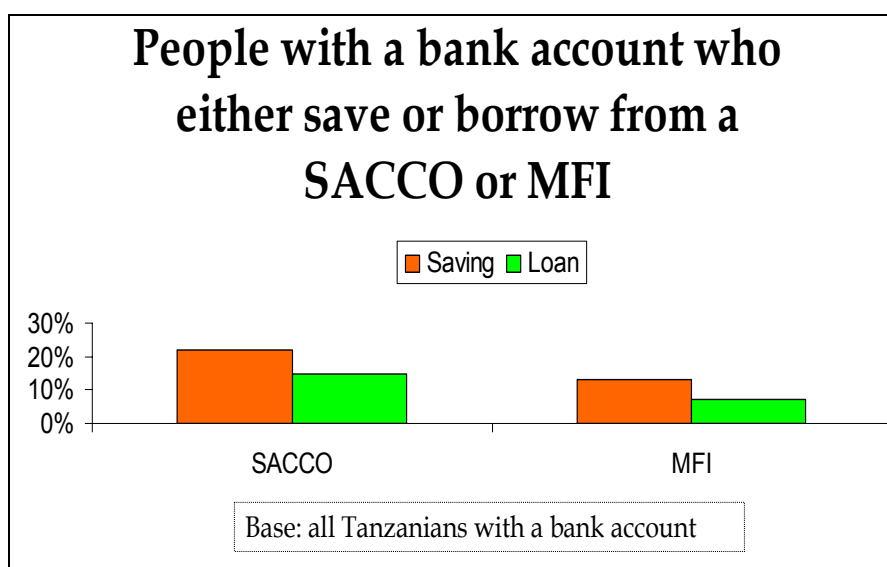


Chart 11-1: People with a bank account who either save or borrow from a SACCO or MFI

Respondents who already had a bank account were asked if they either saved or borrowed from the semi-formal category. As you can see, more people have associations with SACCOs than MFIs. This is probably due to the fact that MFIs are generally confined to urban areas whereas SACCOs also reach into rural areas. However, why are people saving in the semi-formal category when they already have a relationship with a bank which surely offers the same services?

NB: Figures are not mutually exclusive.

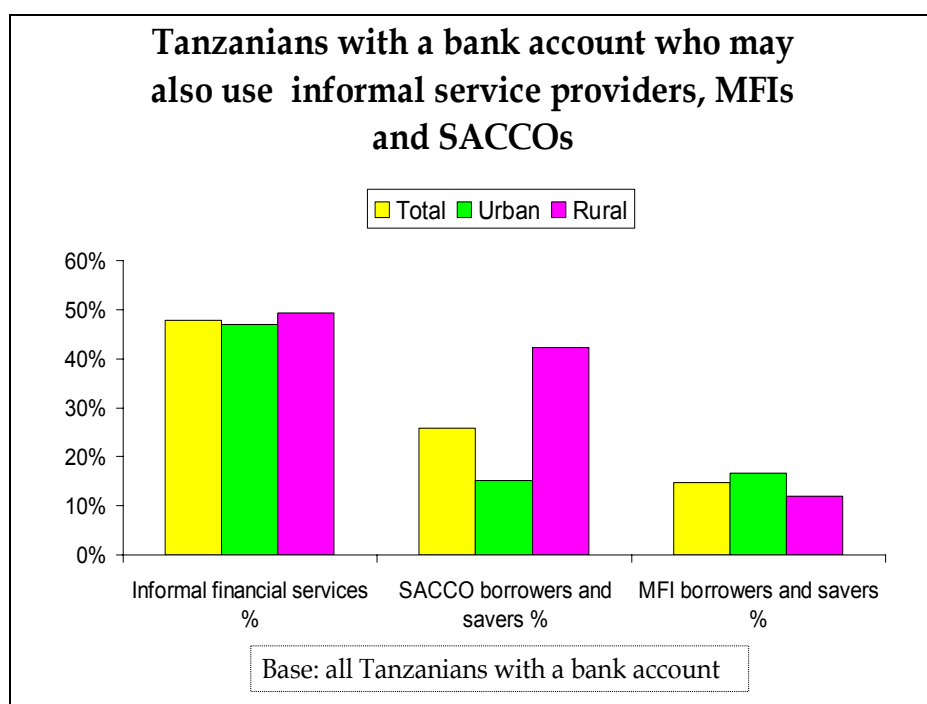


Chart 11-2: Tanzanians with a bank account who may also use informal service providers, MFIs and SACCOs

The graph above shows that people with an existing bank account prefer to go to the semi-formal or informal sector to take out savings or a loan. In total 15% use MFIs, with the larger proportion being in urban areas. SACCOs have more customers in rural areas - 42%, but the informal sector attracts nearly half of all savers and borrowers. These figures could be a cause for concern for the banks in the formal sector. Their rivals are clearly encroaching on market share, and their experience of with the poor may be something banks could learn from.

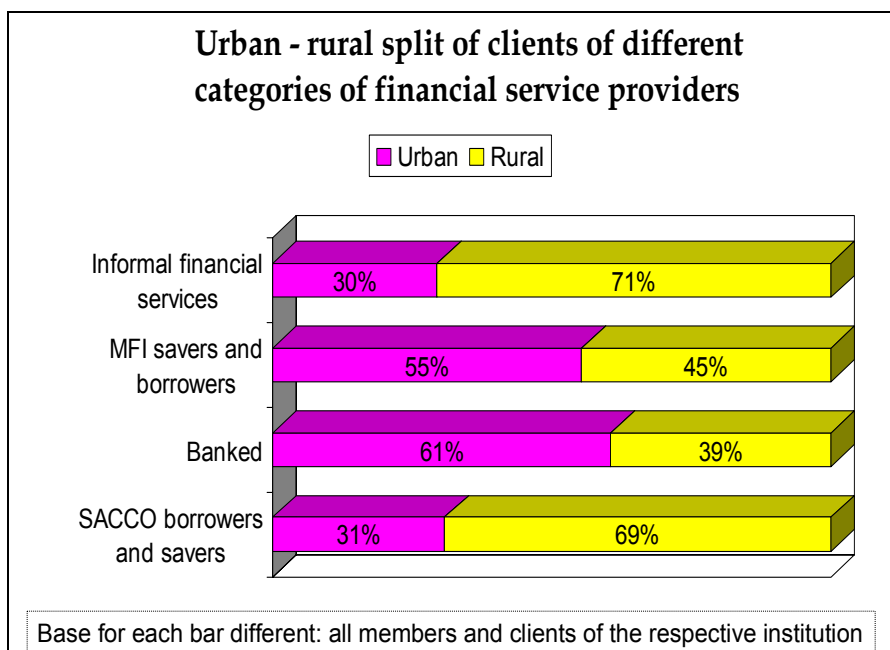


Chart 11-3: Urban - rural split of clients of different categories of financial service providers

Banks serve more people in urban areas while both informal financial service providers and SACCOs are more often used in rural areas. MFIs are used by roughly as many urban as rural dwellers.

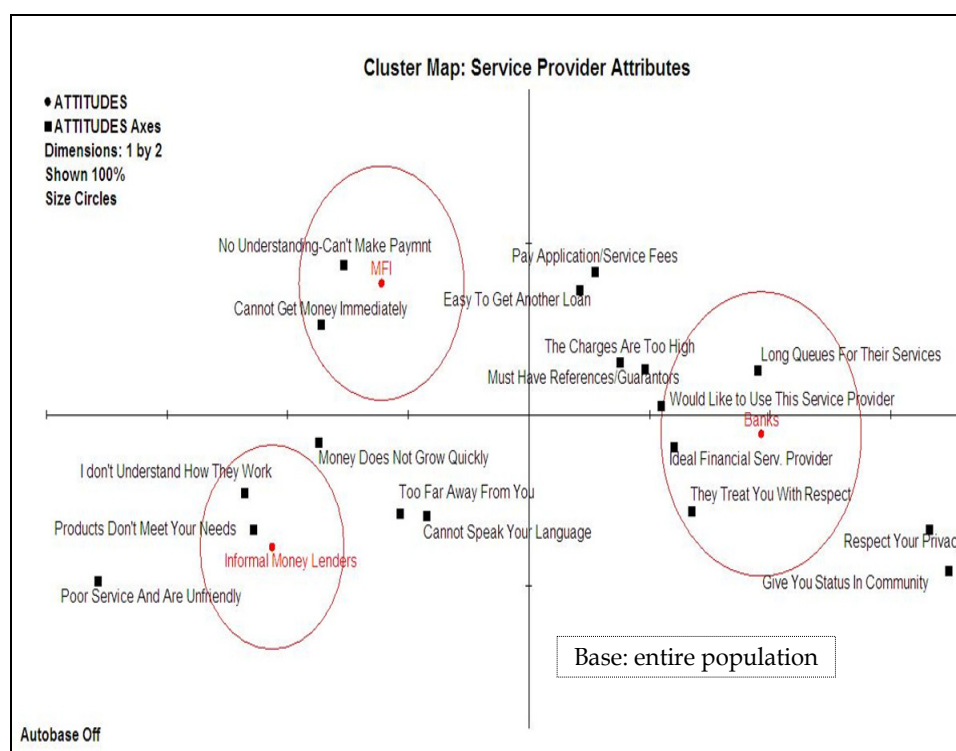


Chart 11-4: Cluster map: service provider attributes

This chart gives valuable information about what people like and dislike, understand and fail to understand about various financial service providers. It shows for example, that people lack understanding about how MFIs operate. They do not understand why they are not able to make payments, nor why they cannot have immediate access to their money when they need it. It also suggests that the semi-formal providers need to improve their customer and public relations in order to get their message across more clearly.

Banks fare rather better. Although they are associated with long queues, high charges and require references and guarantors, respondents reported that they would like to use their services because they are perceived to treat people with respect. However, the percentage of the population which is engaged with the industry is minute. Why? What are the banks doing about it?

The informal money lenders are generally not well regarded. All the attitudes and attributes associated with them are negative: they offer poor, unfriendly service, often in a language they cannot speak, and offer products which do not meet the needs of their clients.

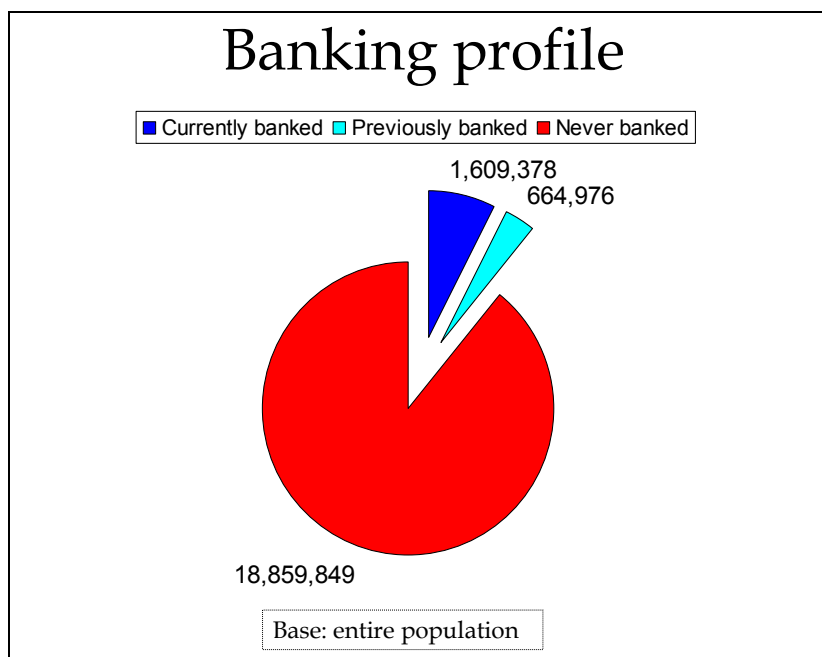


Chart 11-5: Banking profile

This chart shows the status of those who have access to regulated banks. It indicates the enormity of the challenge – as well as its latent opportunity to help lift more people out of poverty, move into higher economic brackets and help with economic development in general.

Nearly 19 million people are totally excluded from any kind of formal banking. Co-operation, common focus and carefully crafted and targeted interventions are the only solution for Tanzania's immediate and future development. Banks might consider collaborating with SACCOs and MFIs and informal service providers, pooling resources and experience in order to improve the lot of all their potential customer base. They must also educate about and encourage them to use the services and new products available to them.

Banks might consider increasing their use of new technology to overcome the barrier of physical accessibility.

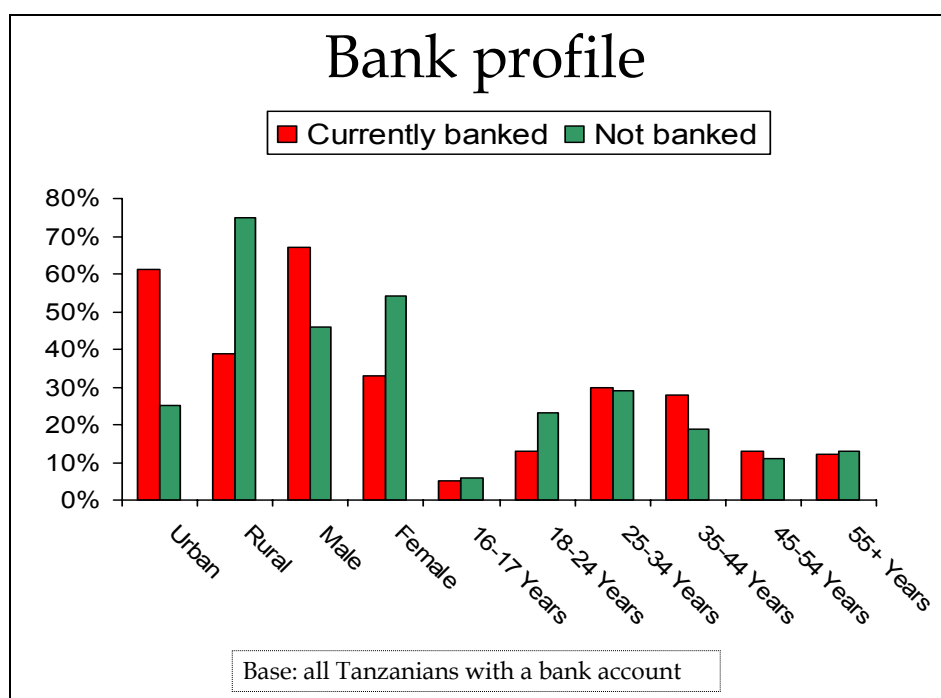


Chart 11-6: Bank profile

It is no surprise that two thirds of the bank's customers are urban dwellers nor that most of them are men. It is also clear that adults between the ages of 16-24 years are not well served, in spite of the fact that they represent the future.

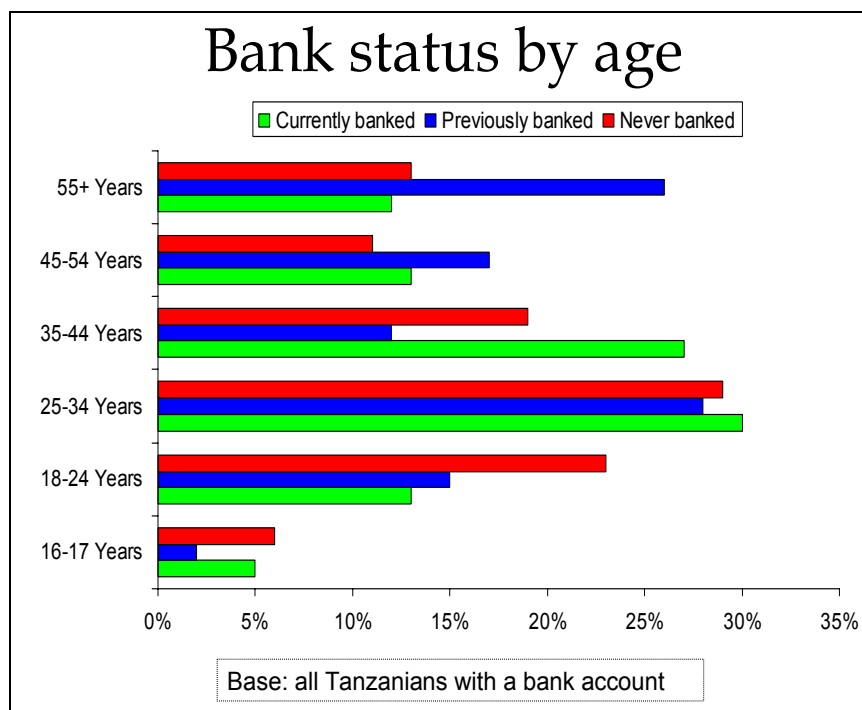


Chart 11-7: Bank status by age

There are several points made by this chart:

- Young people (16-24 years) are underserved by banks
- The 25 - 44 year olds seem most attracted to banking though a significant number of this cohort also appears in the 'never banked' category
- After 55 years, the number of people who used to have a bank account rises as those who still have one drops

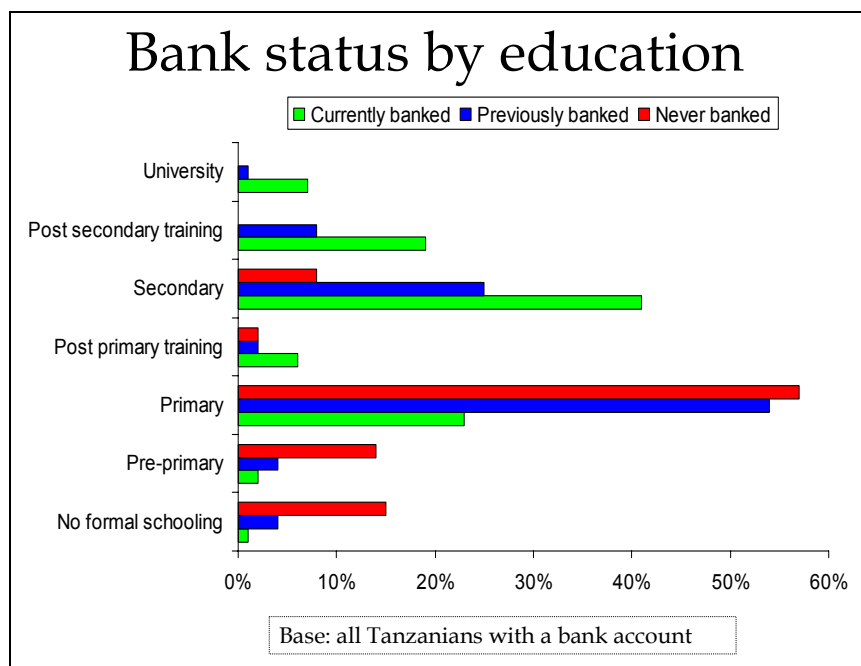


Chart 11-8: Bank status by education

Here the link between engaging with the banking industry and education is clear: those who are educated particularly as far as secondary level, are more likely to have a bank account. Worrying for the industry is the high proportion of people at primary school (54%), who use to, but no longer have a bank account. Why are they falling by the wayside and what can be done to prevent their doing so?

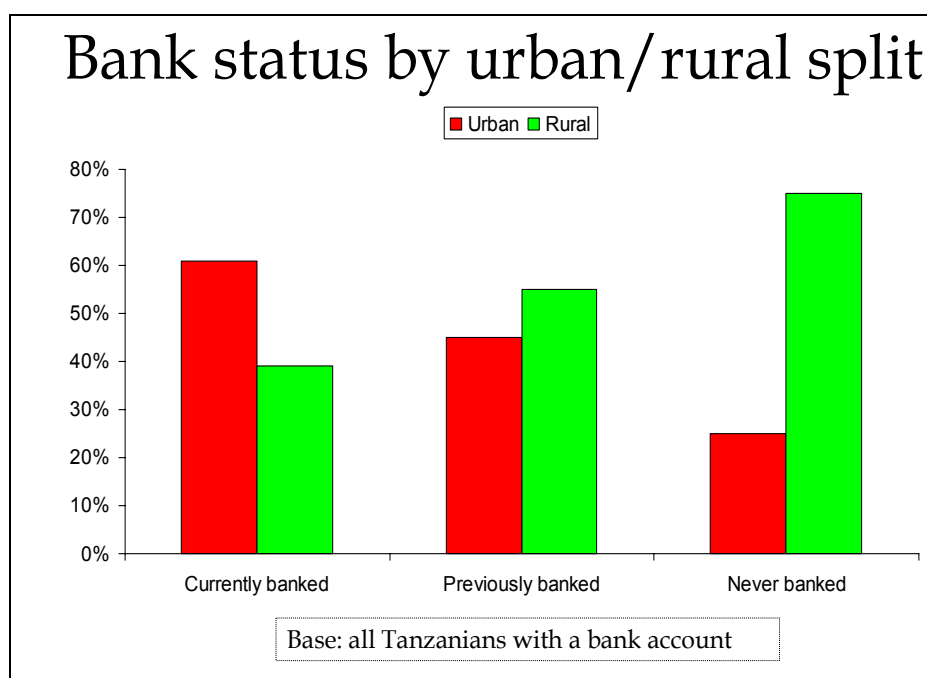


Chart 11-9: Bank status by urban / rural split

Unsurprisingly, most of those currently holding a bank account are urban dwellers while three quarters of those in the country have never had one. Roughly half in both urban and rural areas used to have an account but do not now which is worrying for the industry. Why are these people falling away? What can the banks do to attract them back again?

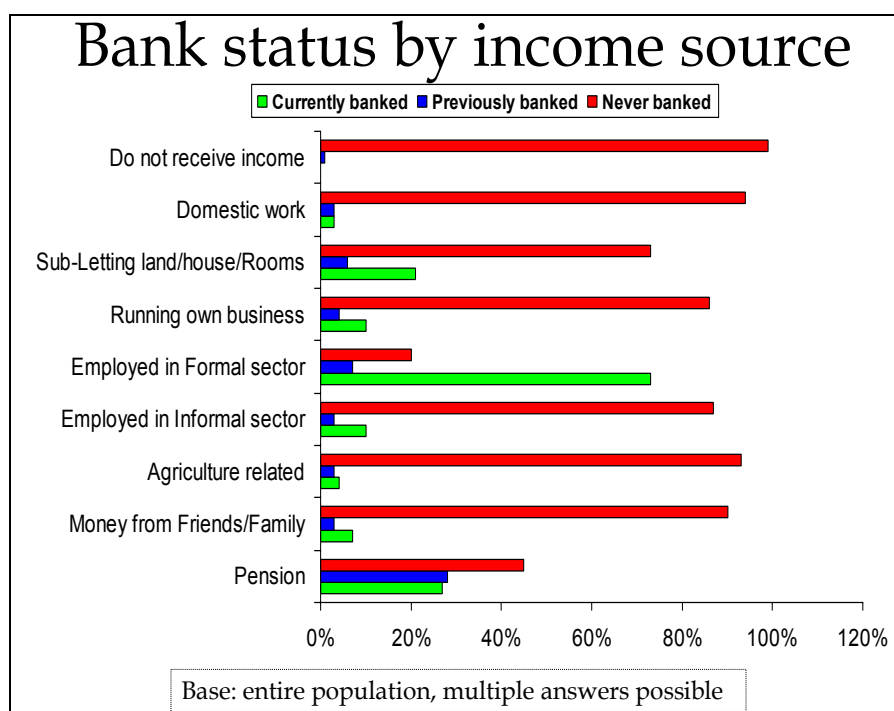


Chart 11-10: Bank status by income source

This chart shows clearly that employment in the formal sector is a major driver for access to banking. Only 10% of the informal sector has an account, the same figure as those running their own business. Attracting potential customers from these areas is crucial if the balance is to be tipped.

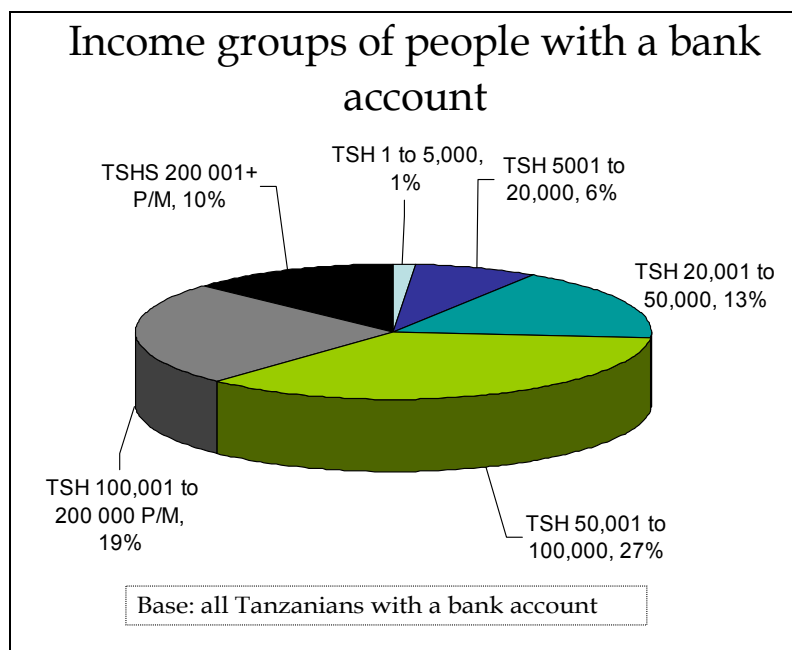


Chart 11-11: Income groups of people with a bank account

The information contained in this pie chart suggests that the income group most likely to have a bank account are those who earn between TSh 50,000 -100,000. We know that levels of literacy are low and that to attract more people into banks, a great deal of persuasion will be necessary.

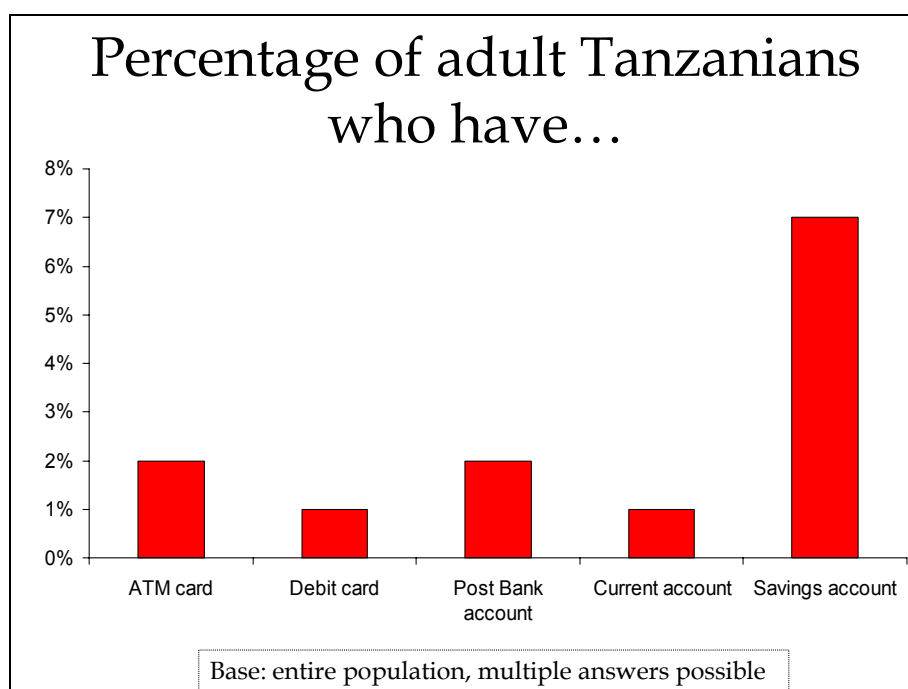


Chart 11-12: Percentage of adult Tanzanians who have...

This graph indicates how few Tanzanians engage with products in formal banking industry. Many will be insufficiently literate to understand what some of the terms mean and their potential as future customers is therefore currently being lost.

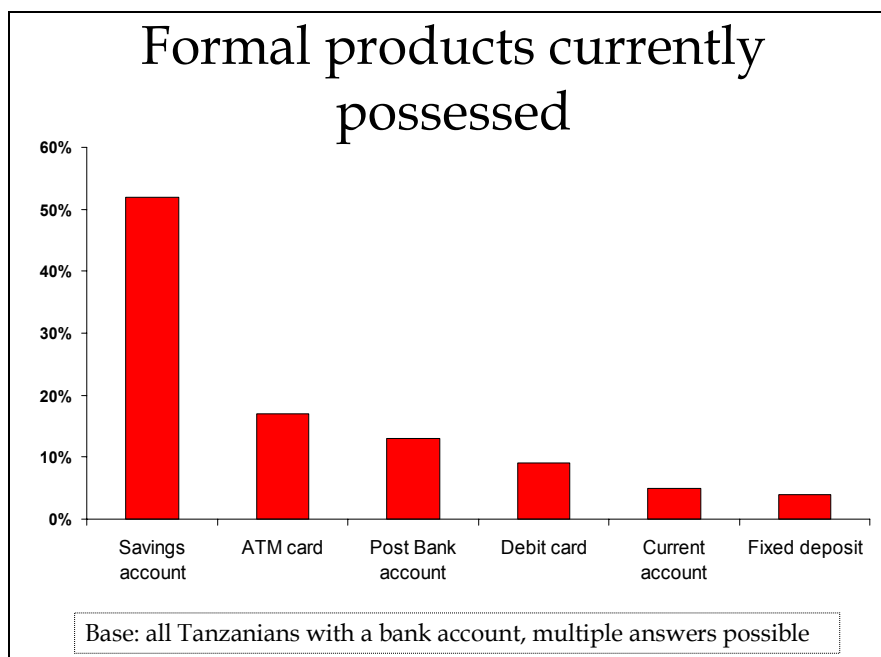


Chart 11-13: Formal products currently possessed

Just over 50% of consumers in the formal category have a savings account. However, there is apparently little appetite for other products such as the ATM card, debit card, current and fixed deposit accounts. Though some of these products have only recently been introduced it is another example which underscores the fact that education in general and financial literacy in particular are crucial to the success of a healthy banking industry in Tanzania.

More and better accessibility is needed as well as more and better services geared towards income earners.

Banking habits of Tanzanians who currently have a bank account

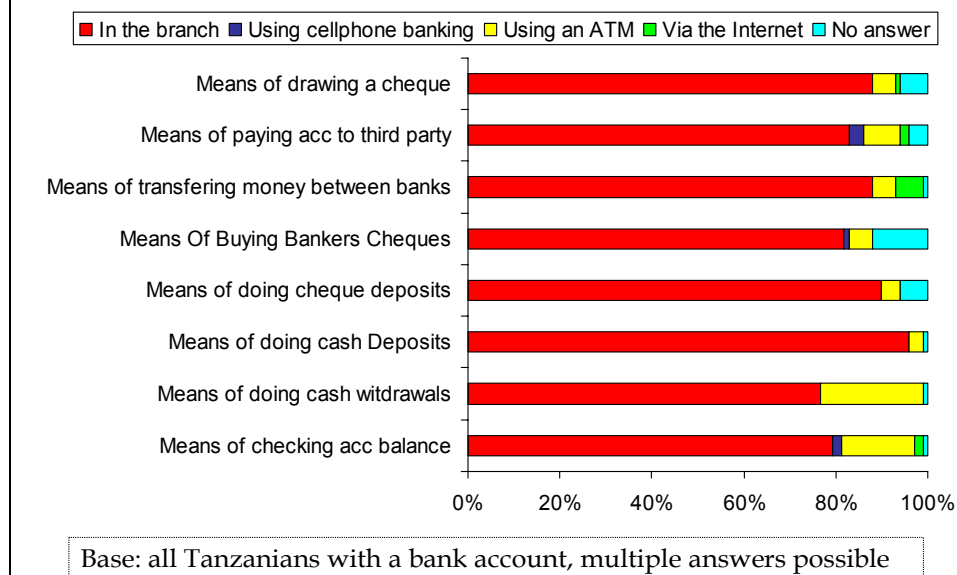


Chart 11-14: Banking habits of Tanzanians who currently have a bank account

New technology – mobile telephony and the internet for example – may be increasing in Tanzania but so far, bank branches are still far more widely used to undertake most transactions. Deposits and withdrawals, checking account details, transferring money or drawing a cheque – all these are far more likely to be undertaken in a bank than in any other financial institution. Perhaps there is an opportunity here for the banks to engage in the new technologies available and begin to plan for a future in which it is likely to be widespread.

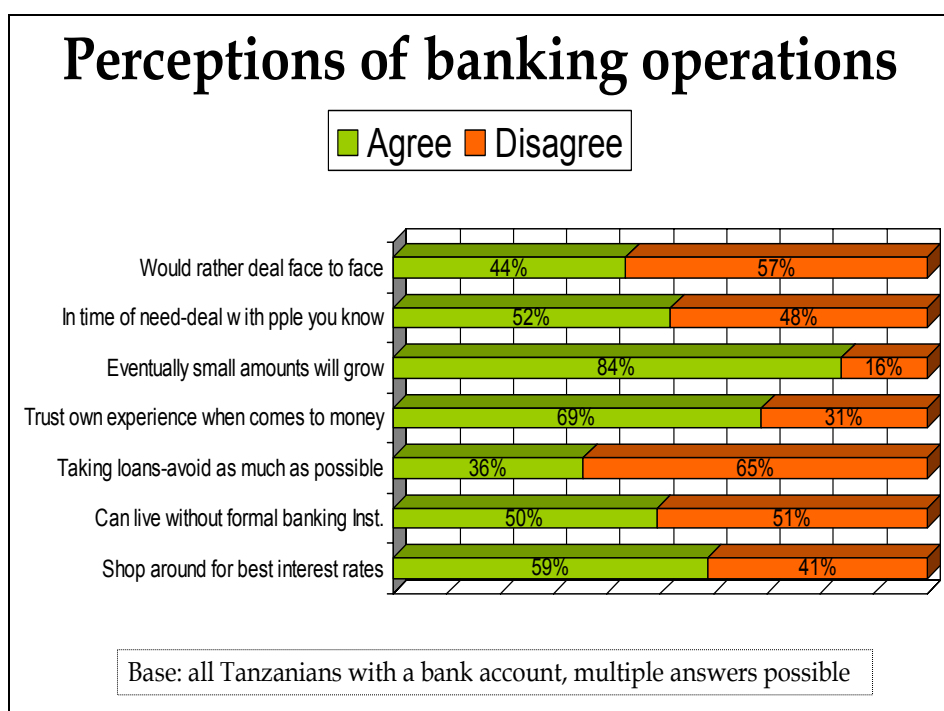


Chart 11-15: Perceptions of banking operations

The information in this chart would suggest that the banking industry in Tanzania needs to take a long, hard look at itself: roughly half of the population say they can easily live without one, and two thirds admit to trusting their own instinct before taking advice from others. The one really positive figure reflects the numbers of people – more than 75% - who understand that saving a little and often eventually mounts up.

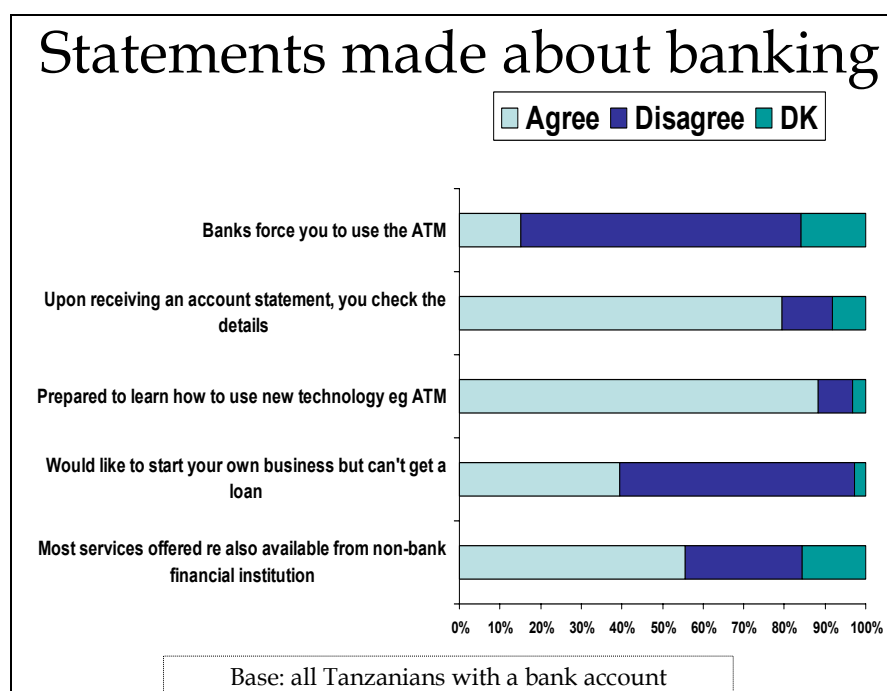


Chart 11-16: Statements made about banking

Respondents were asked a number of different questions about banking to discover how much is known, understood or misunderstood. Nearly 90% agreed that they were prepared to learn how to use new technology, and only slightly fewer admitted that they checked their statements when they received the. Over half think they can get similar products and services from non-bank financial institutions.

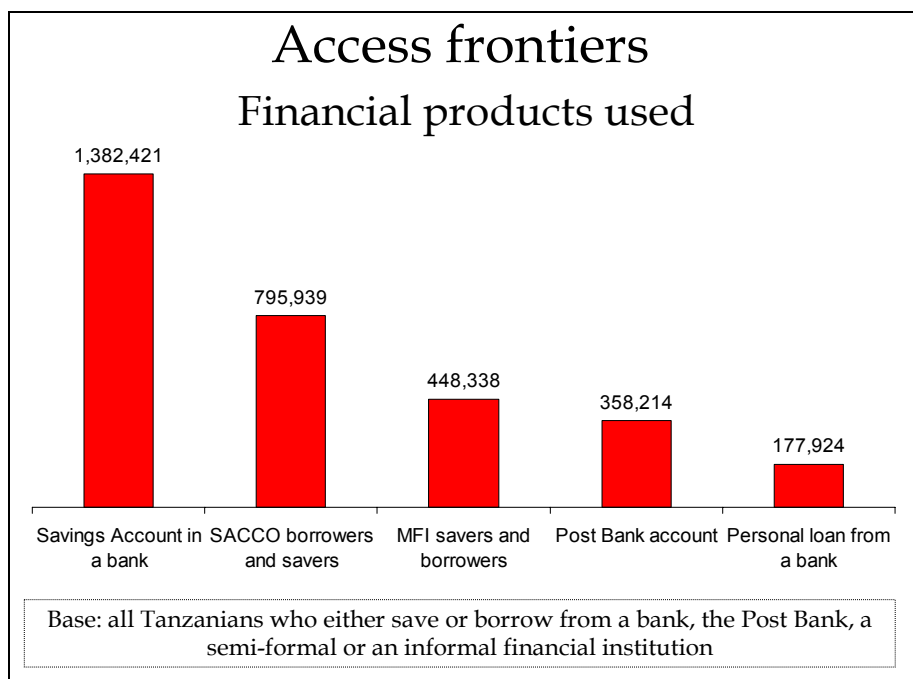


Chart 11-17: Access frontiers financial products used

Here we can see what kind of products people use and where they prefer to locate them. Once again, the savings account in a bank is the most popular with nearly 1,400,000 people, followed by saving with a SACCO which accounts for 800,000 people. Interestingly people turn elsewhere for taking out a loan. MFIs are thinly spread in rural areas and the Post Bank is an underused resource.

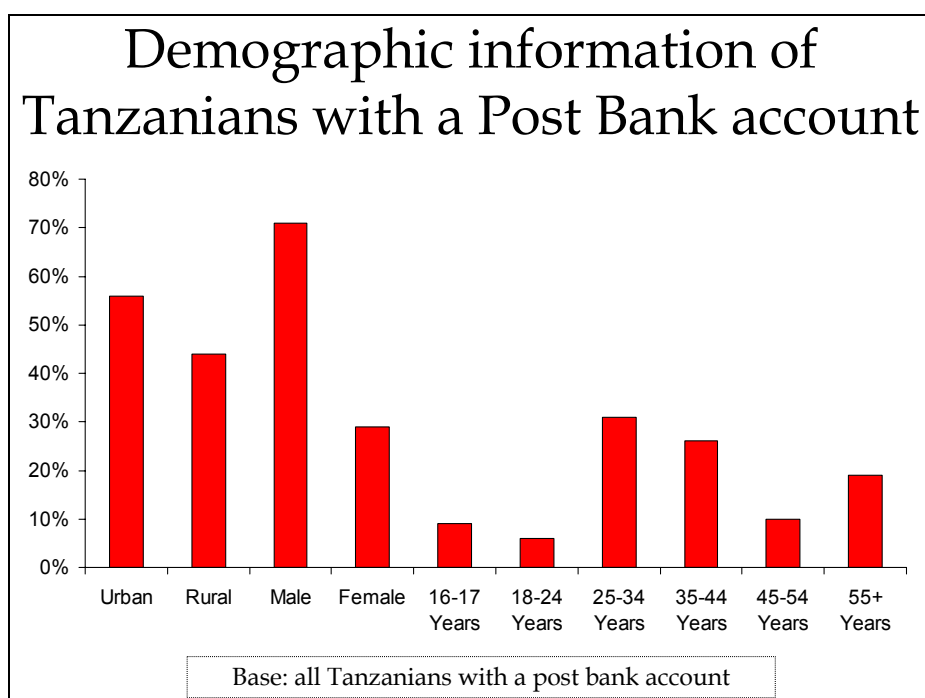


Chart 11-18: Demographic information of Tanzanians with a Post Bank account

The Post Bank is often used by the urban male between the ages of 25 and 34 years. It is however, an important resource in rural areas also, 44% of people taking advantage of their services here. Once again, the youngest cohort, between the ages of 16 and 24 years use the facility least, the figures falling off again after the age of 45. Why are more women not using the Post Bank? What can it do to attract both them, and the younger population to use its resources?

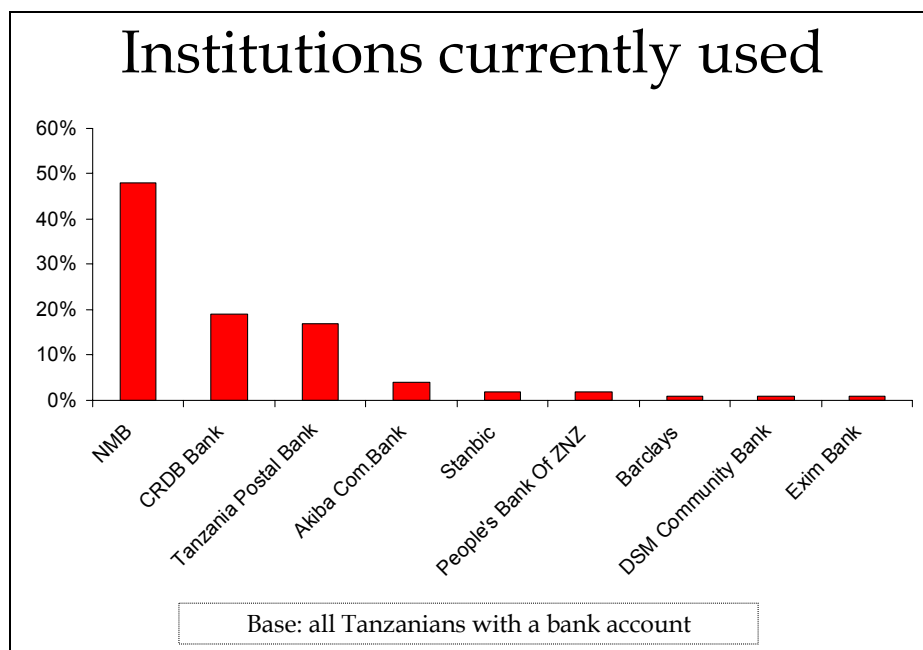


Chart 11-19: Institutions currently used

The most popular bank is the CRDB (19%) closely followed by the Tanzanian Postal Bank (17%). NBC attracts 13% of the total after which figures for the other banks fall away sharply. Banks need to do more to attract customers through their door. It has been shown in earlier charts that people trust banks and regard them as the best place to have an account, and yet few of them actually do. Why? What can the banks do to redress the balance?

Reasons for not having a bank account

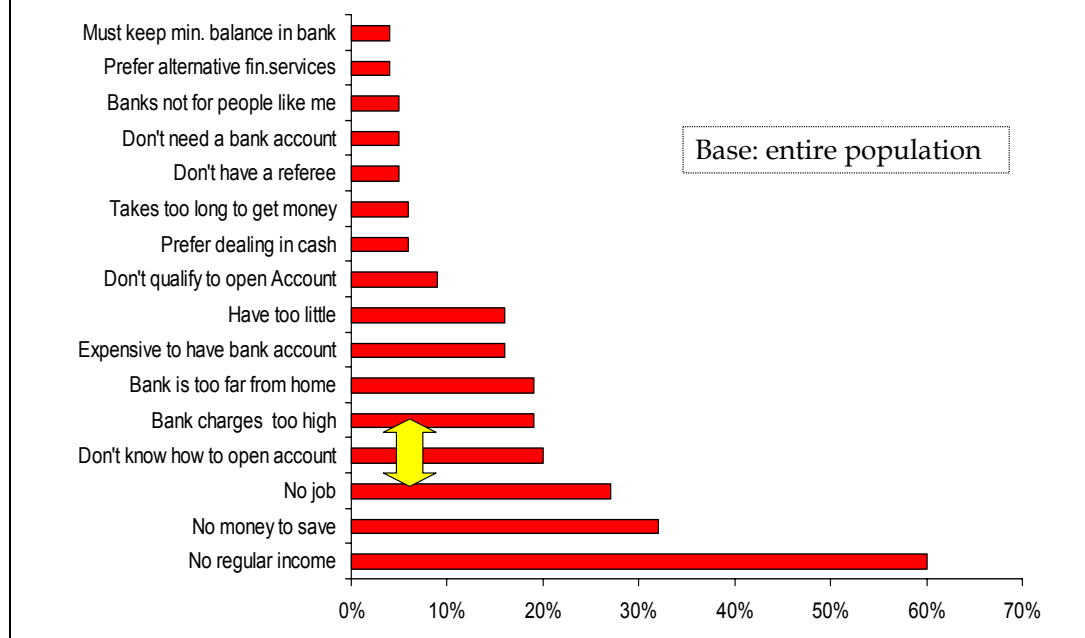


Chart 11-20: Reasons for not having a bank account

Many of the reasons given by respondents to explain why they do not have a bank account are founded on a false premise: for example, banks are not for people like me, I have no documents to open an account, I don't qualify, it's too expensive. Others are purely negative: takes too long to get money, banks are too far away and charges too high. For the majority however, the reason they do not have an account is because they do not have a regular income.

The yellow arrow shows that the reasons most frequently stated are related to consumers' income.

Banks need to address the issues raised in these statements and develop products to fit the profile of these and potential customers. Flexibility is key to attracting a wider range of people.

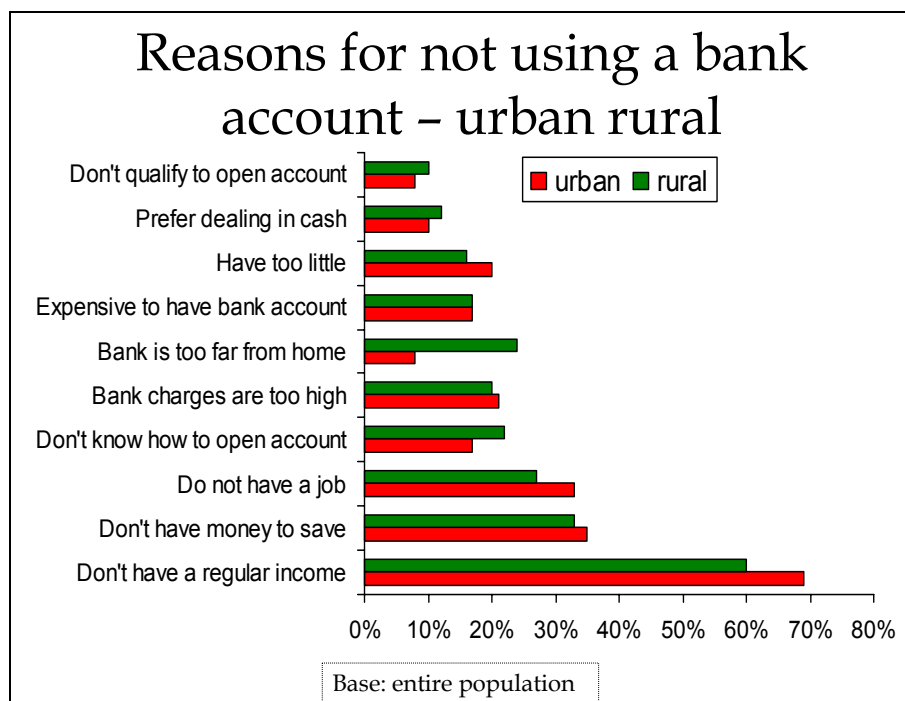


Chart 11-21: Reasons for not using a bank account - urban rural

There are no real surprises when looking at the same figures split between rural and urban dwellers and suggest that the industry needs to be as active in one as the other.

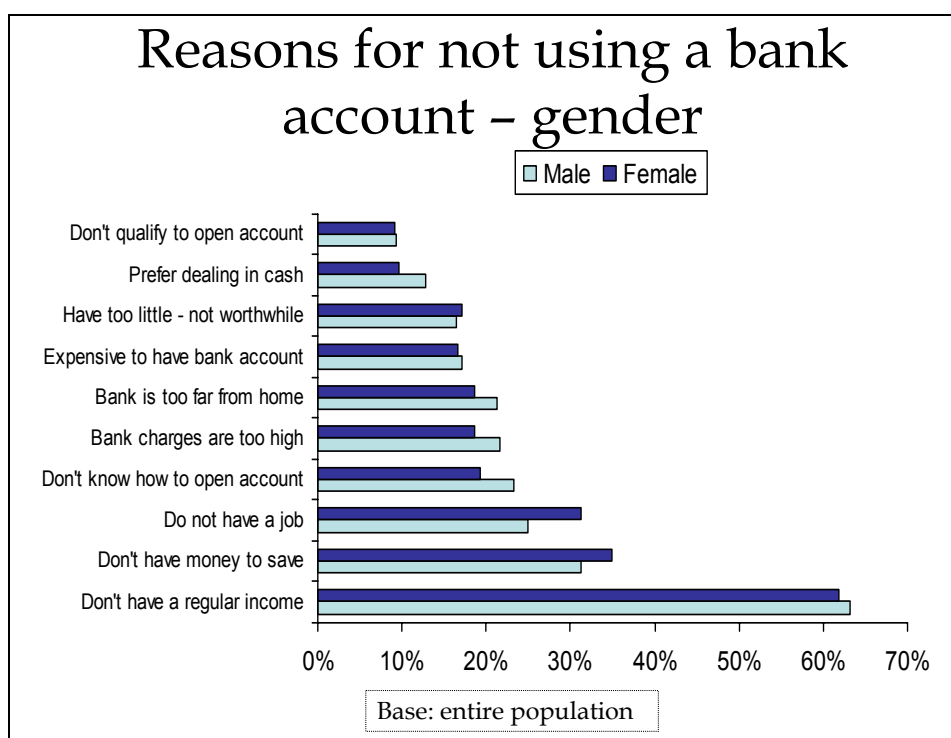


Chart 11-22: Reasons for not using a bank account - gender

Similarly, there is little difference to be found between men and women. Banks therefore need to be careful not to discriminate, but to extend their goods and services to both genders equally.

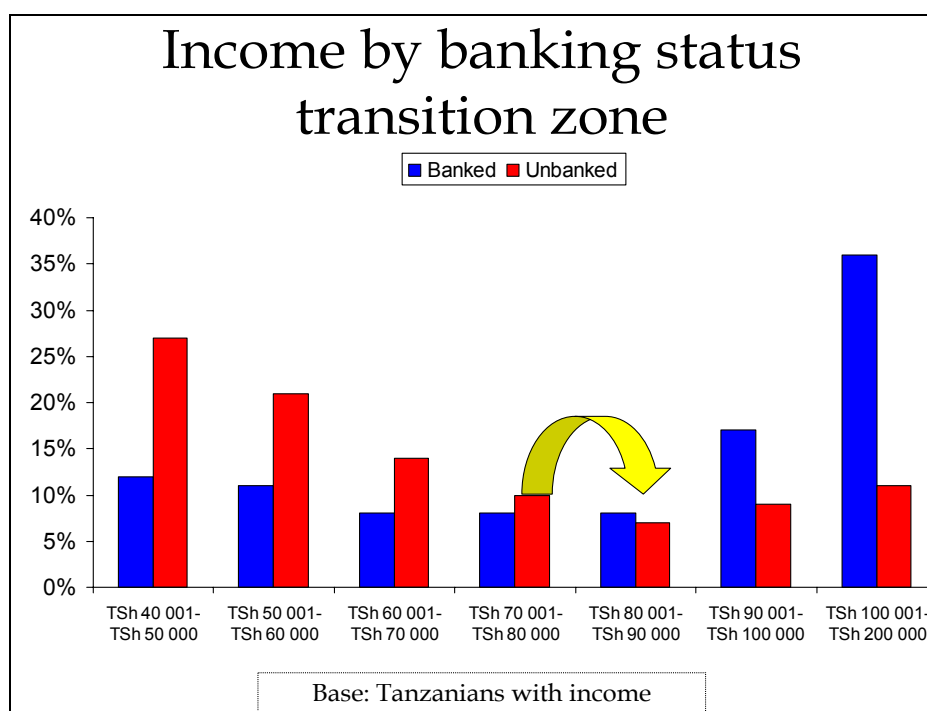


Chart 11-23: Income by banking status transition zone

There are some interesting trends between income brackets and the extent to which people use banks.

Moving from left to right, it is clear that with higher income brackets, people do not necessarily become bank customers until they reach a certain transition zone. Up to that point however, the proportion of those who have never banked drops with increasing income.

However, when income reaches this transition zone, the rate of increase in opening an account rises very steeply with the increasing income.

Looking at the affordability, it would appear that the transition zone – moving from not using to using bank services - occurs when consumers have a personal monthly income of TSh 70,000 to TSh 90,000. Examined more closely, of the approximately 700,000 people in this category, the majority are young, urban males, suggesting this is a market segment which should be of particular interest to the industry.

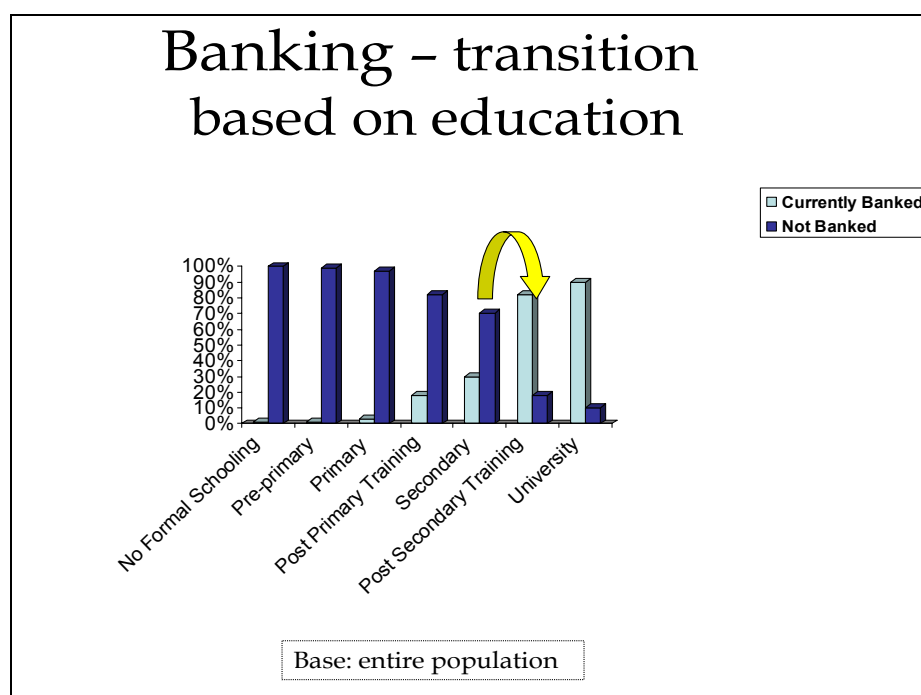


Chart 11-24: Banking - transition based on education

This chart shows the influence of education on banking. The more education a person has, the more they are likely to engage with the formal banking industry. The transition comes between secondary and post-secondary education. Banks which concentrate effort into educating their potential customers are likely to reap the benefit.

11.2 Conclusion

Too few people are being educated to secondary & tertiary level, and although more women receive a primary education than men, fewer progress through the system. This balance needs redressing. While financial literacy remains low, particularly in rural areas and amongst women, expansion in the banking industry will remain limited. It is clear that people want to know how to save more, and more efficiently but the financial service industry is not selling itself well, nor doing enough to attract more custom.

Less than 10% of the population has access to any kind of formal financial service. SACCOs, MFIs and banks all need to serve more people in rural areas but inefficient and insufficient public transport and a lack of good roads, particularly in rural areas, are inhibiting progress. The standard of living is still fairly primitive: only 1% of population have access to electricity (even fewer to gas), while a third said there were times when they had not had enough to eat over the past 12 months. New technology, particularly in rural areas needs to improve, regulatory issues need to be resolved and standards established.

The private sector, and particularly the banks, need to drive government/policy makers to increase formal employment. Skills like risk management and understanding the market need to be encouraged and developed alongside an entrepreneurial attitude.

It is clear that there are many challenges for the future. 14 million people are under the age of 16 years and this huge cohort – representing two thirds of the population – tomorrow’s market – be ready!

640,450 people (3%), say they used to have a bank account, but don’t now. Why? Too many 18-34 year olds have no bank account. Why? These people need to be attracted into the system. 19 million people (89%) say they have never had a bank account or used bank products, the majority of whom are in rural areas. Almost half the population say they can live without a formal bank. There is clearly a need to change perceptions if the banking industry is to prosper in Tanzania. Of those who are excluded from the financial system, 20% do their business in-kind. This should be a target market for which financial institutions need to tailor products.

The financial industry needs to initiate discussions with regulators and government. There is a perception that banks are not trustworthy, even though they are regulated. Customer protection and greater transparency are needed and Kiswahili must be the primary language used.

Positive change will come: most women receive primary education, so why not start financial literacy at school? Government and the financial services industry have to work together to educate the public. Technology is beginning to have an impact, and 90% of people are prepared to use it. 350,000 already send credit on their mobile phones - so there is great potential for expansion.

Innovative products are being introduced into neighbouring African countries which use a range of new technologies. Tanzania must grab the opportunity and do the same. Products like the TEMBO card have already been very successful, and it is clear that people are generally receptive to innovation.

The Minister of Finance is already quoting FinScope – she understands its value. The FinScope data contains opportunities for everyone. It is up to the banks and other financial institutions and organisations to use it. Information contained within the data can be used to plan new products, new strategies and new ways of thinking about the future of financial services in Tanzania. It is a powerful tool which can help to both broaden and deepen access and make markets work for the poor.

11.3 Workshop for banking industry 17th May 2007

Number of participants: 19
Completed evaluation forms: 9

The participants in this workshop represented a number of market segments including:

- Financial services 6
- Business development 2
- Communications 1
- They were generally happy with its length and opportunities for discussion, though many found the information too broad.

The participant expressed the wish for a more detailed breakdown to reveal regional differences between savings and loans in order to understand the demand better. The request for more detailed information was often repeated.

Further comments offered included:

- should be used in every industry. Very important information for Tanzanian development.
- a hand out containing more summarised analysis to help inform decision makers would be useful.
- more information about mobile phone usage.
- electronic copy of the presentation requested. Also encourage participants to improve the communication between themselves.
- circulate experiences from other countries which have already used FinSchope.
- access to dataset and data mapping would be useful. Also, more information about the informal sector.
- requested regional grouping of findings.

12 Analysis with focus on insurance industry

- What do people understand about the insurance industry?
- How many and who engages with it in Tanzania and Zanzibar?
- Are there sufficient products to cover demand?
- Is there room for adjustment or expansion?
- How can the industry help make markets work better for the poor?

12.1 Tanzanians save to insure themselves for certain events

Lines between concept of saving / investing and insuring are blurred

Respondents were asked a variety of questions about how they saved and whether they insured. The words to express each are the same in Kiswahili, and many of the answers given indicated why. By saving or investing in, for example, a cow or a radio, a person was also insuring against the need to find money quickly in the future. If the need arose, the cow or radio could be sold to cover the cost of the emergency. The insurance industry in Tanzania is in its infancy and much work needs to be done before the industry is understood throughout the country.

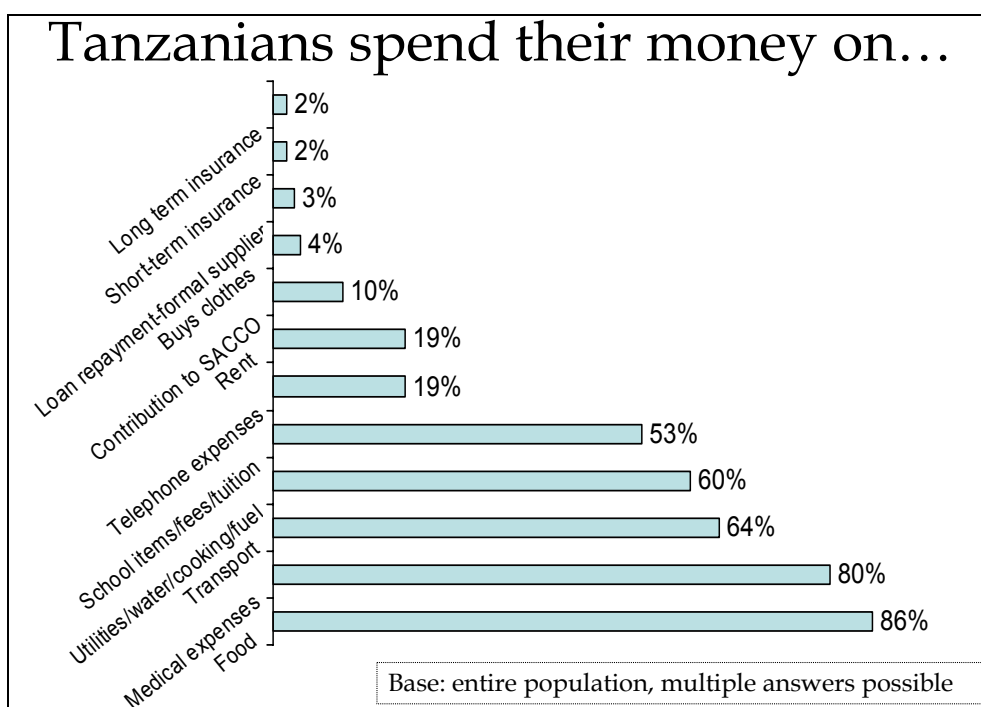


Chart 12-1: Tanzanians spend their money on...

It is unsurprising to find that most people spend most money on basics to sustain life: food, medical expenses, transport, education, rent and utilities. Only 2% choose to spend any money on short or long-term insurance, a commodity probably considered a luxury which few can afford.

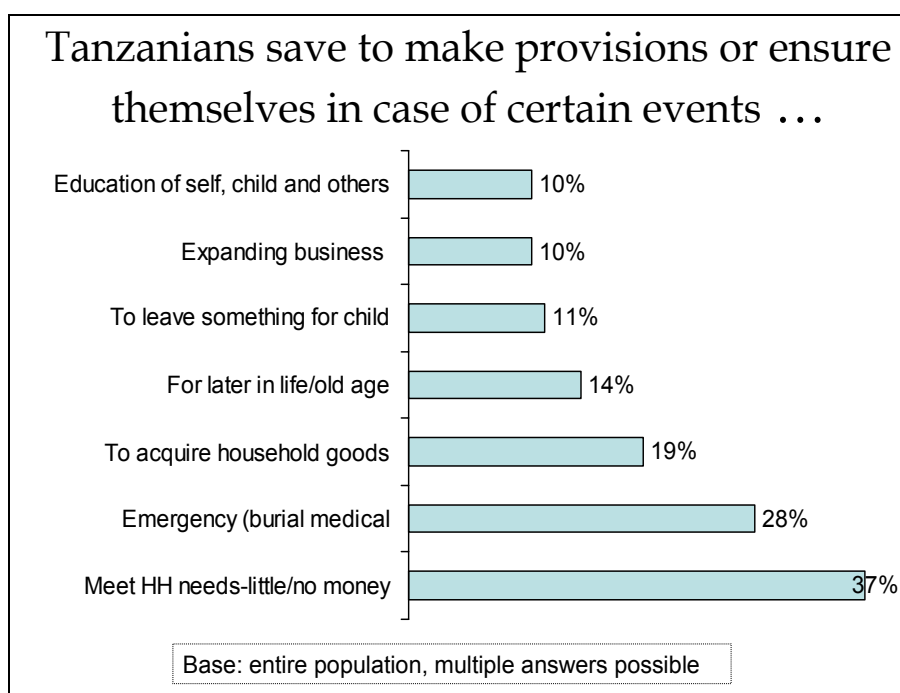


Chart 12-2: Tanzanians save to make provisions or ensure themselves in case of certain events...

The reasons for which people may need sudden and large amounts of money are similar all over the world: for a wedding or funeral, education, retirement from work, to leave an inheritance. Putting money aside for a funeral accounts for 28% of money saved for the future, a very large percentage.

Tanzanians are clearly used to saving for a variety of possibilities in an uncertain future. Their behaviour will be of interest to insurance companies for whom these savings could be potential insurance products.

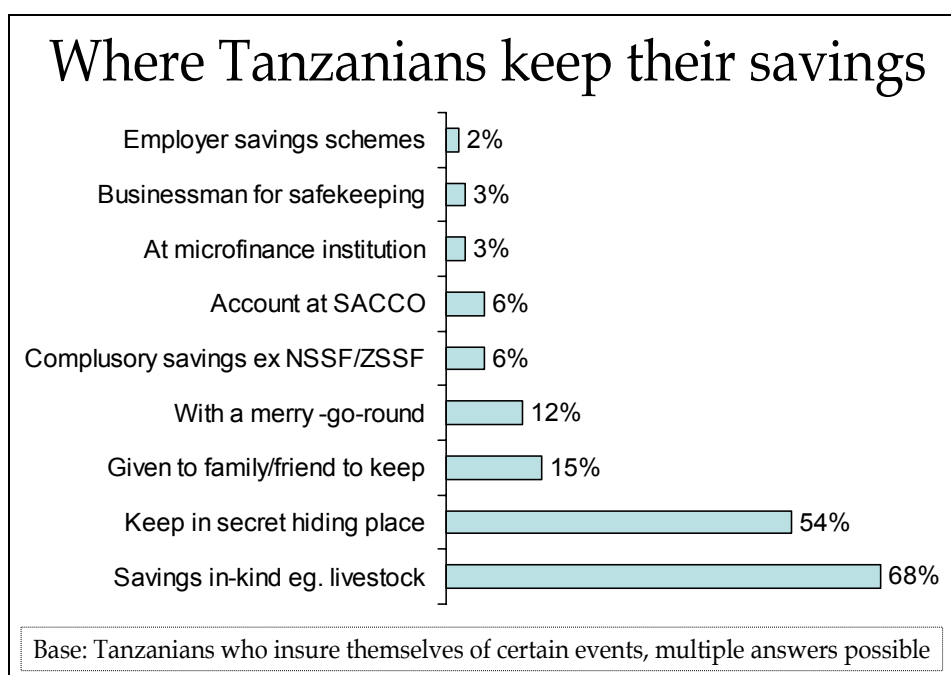


Chart 12-3: Where Tanzanians keep their savings

There are many different places to keep savings, including with an insurer. However, the majority choose to do so either in the form of livestock or in a secret hiding place. The industry needs to ask itself why people prefer these options to putting their money in the safe keeping of an insurance product. It will have to change attitudes and alter the prevailing culture before this practice is weakened, a huge task to accomplish.

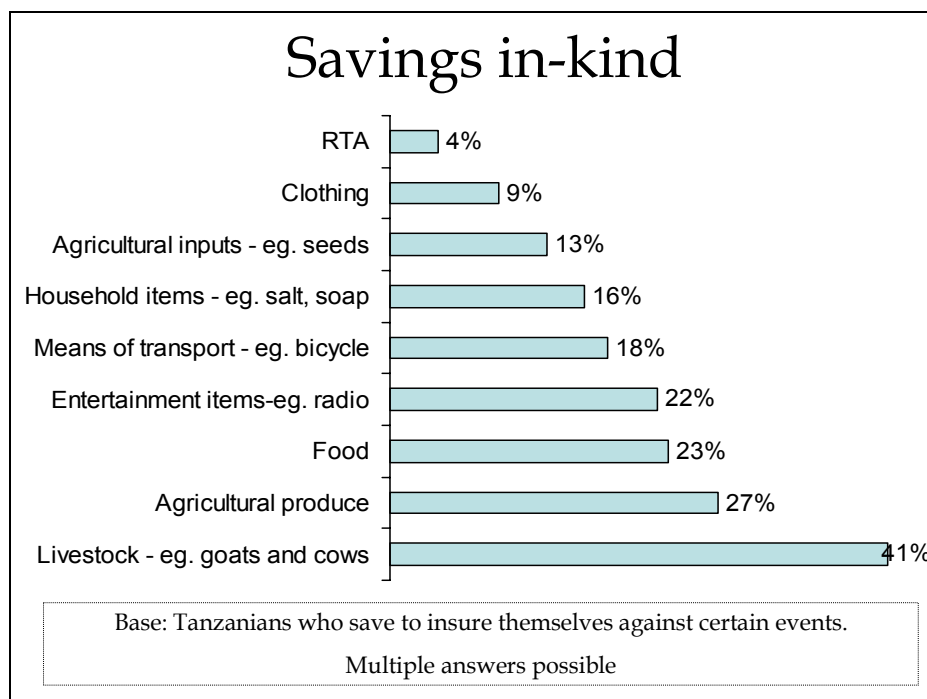


Chart 12-4: Savings in-kind

For those who save, large numbers choose to do so in-kind. The most common method of this sort of saving is to put any spare money into livestock. 41% do so while 27% put their savings into agricultural produce. Radios, bicycles, household items and seeds are among those things favoured. Clothing, coming at the bottom of the list, is apparently regarded as a poor investment.

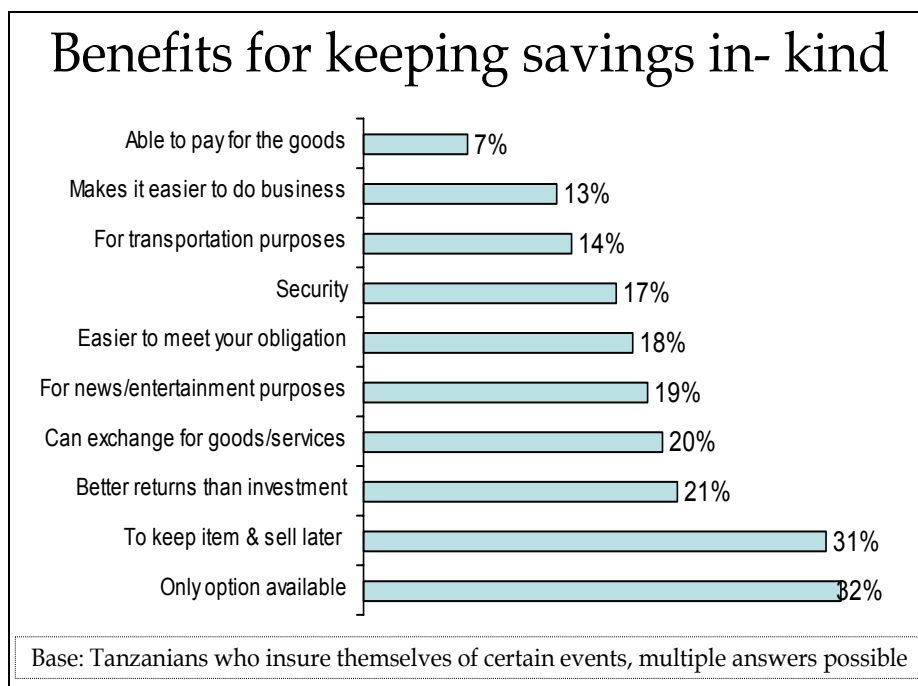


Chart 12-5: Benefits for keeping savings in-kind

Respondents gave many reasons for saving, the most common being in order to sell at a point in the future to cover unexpected costs. Others include better returns than an investment (21%), the ability to exchange for goods/services (20%), to acquire news and for entertainment purposes (19%), and for transport costs (14%). The culture of saving for the future is therefore well established within the community.

How that saving is translated is the variable. It is clear that most people make provisions for the future in commodities which will produce a return until it is sold on. Their investment works for them and is not lost in an insurance premium. This behaviour suggests that the industry needs to develop products which combine elements of insurance and investment to satisfy this demand.

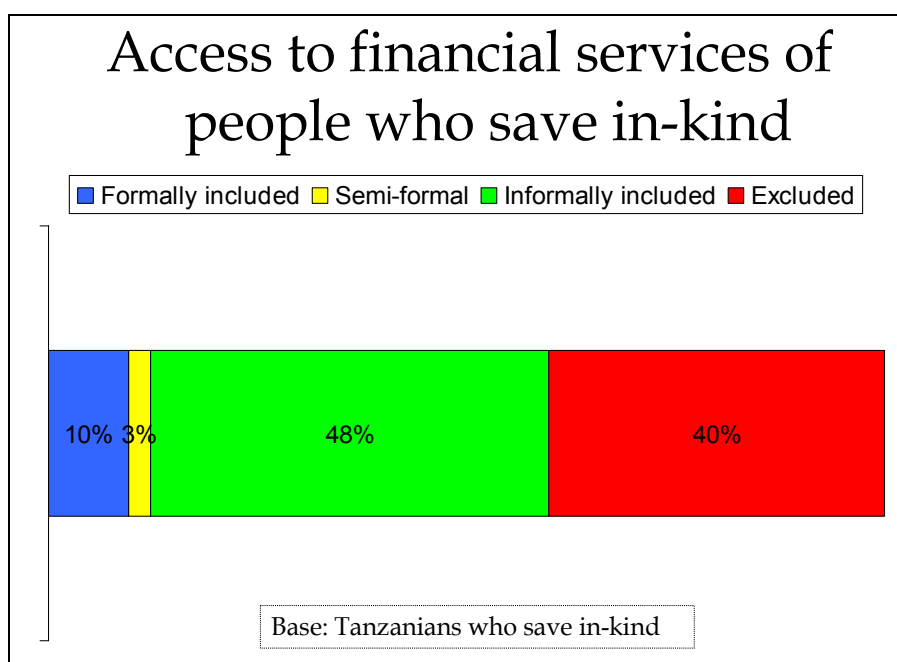


Chart 12-6: Access to financial services of people who save in-kind

Just over 40% people who save in-kind are totally excluded from the financial services industry. Nearly half fall into the informal category, leaving the formal and semi-formal sectors well behind at 9.6% and 2.6% respectively.

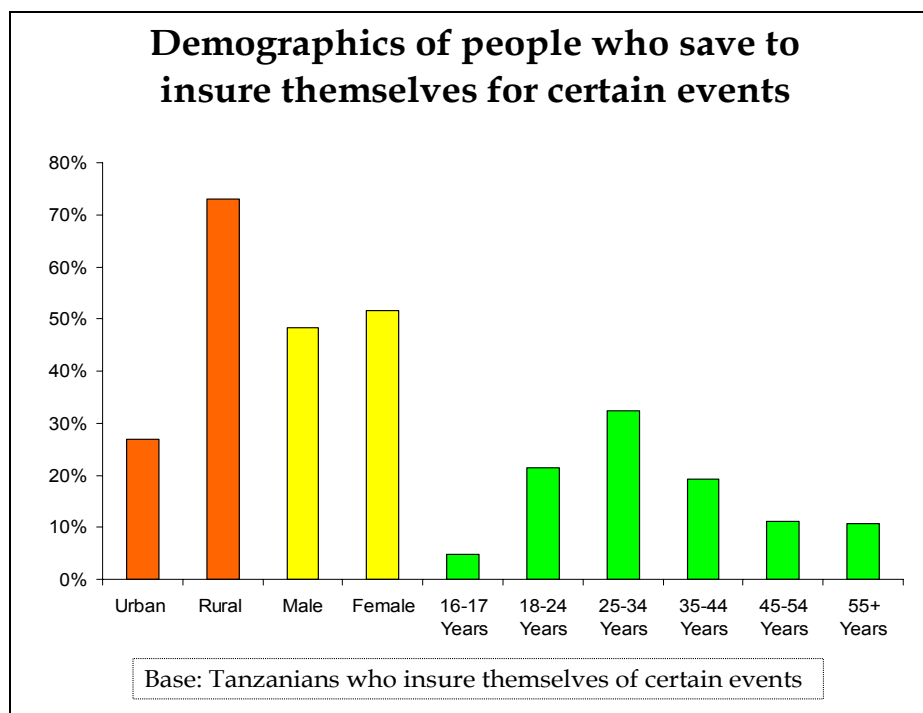


Chart 12-7: Demographics of people who save to insure themselves for certain events

Nearly three quarters of people in rural areas insure against certain events, as opposed to just over a quarter of their urban counterparts. Men and women are roughly equal in number, saving a similar amount, and young adults save virtually nothing. People seem most able to save between the ages of 25 and 30 years, and tail off in their forties. It is the fact that they save which is of importance to the insurance industry. There is already a culture of saving. The industry needs to develop products which will attract these same people to choose them to keep their savings safe, and make them work for them until they are needed.

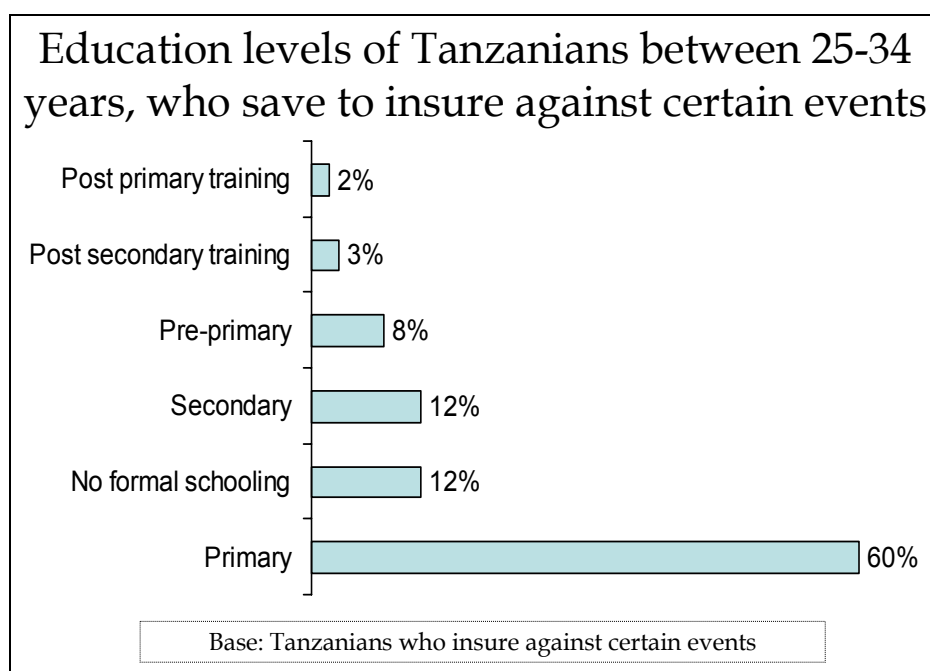


Chart 12-8: Education levels of Tanzanians between 25-34 years, who save to insure against certain events

These figures suggest that the majority (60%), of 25-34 year olds who insure against future events have attained primary education. The numbers drop dramatically thereafter, suggesting that this basic level of education is enough to provide an incentive to want some kind of insurance.

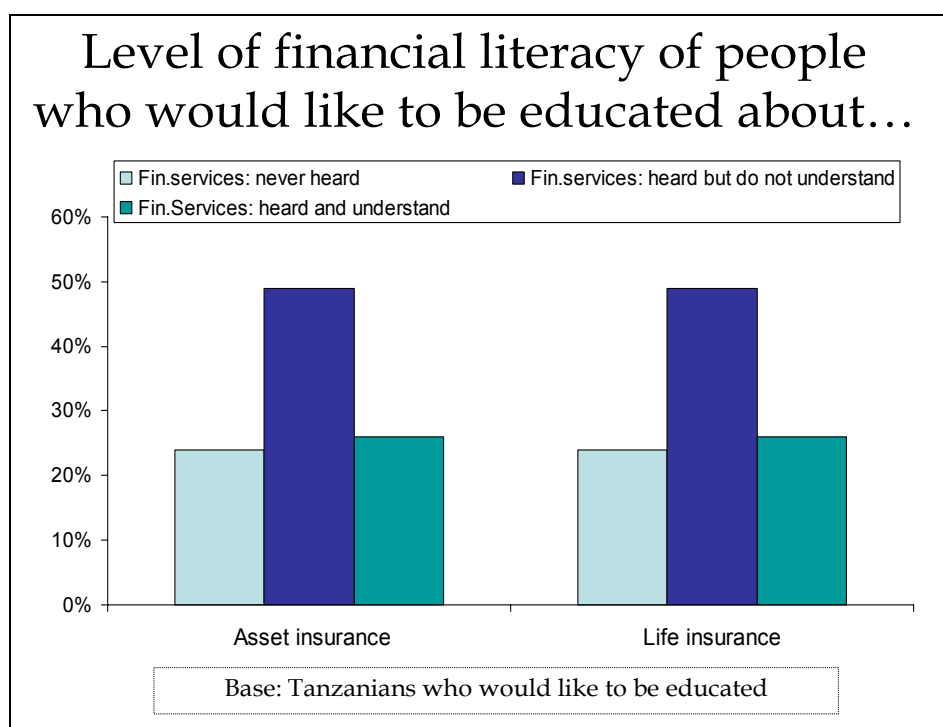


Chart 12-9: Level of financial literacy of people who would like to be educated about...

Nearly half of those who have heard about financial services but don't understand how they work, take out some kind of asset or life insurance. Just over a quarter who have heard and understand about financial services choose insurance, about the same number as those who have never heard of financial services at all. This suggests that most people have some understanding of the value of insurance.

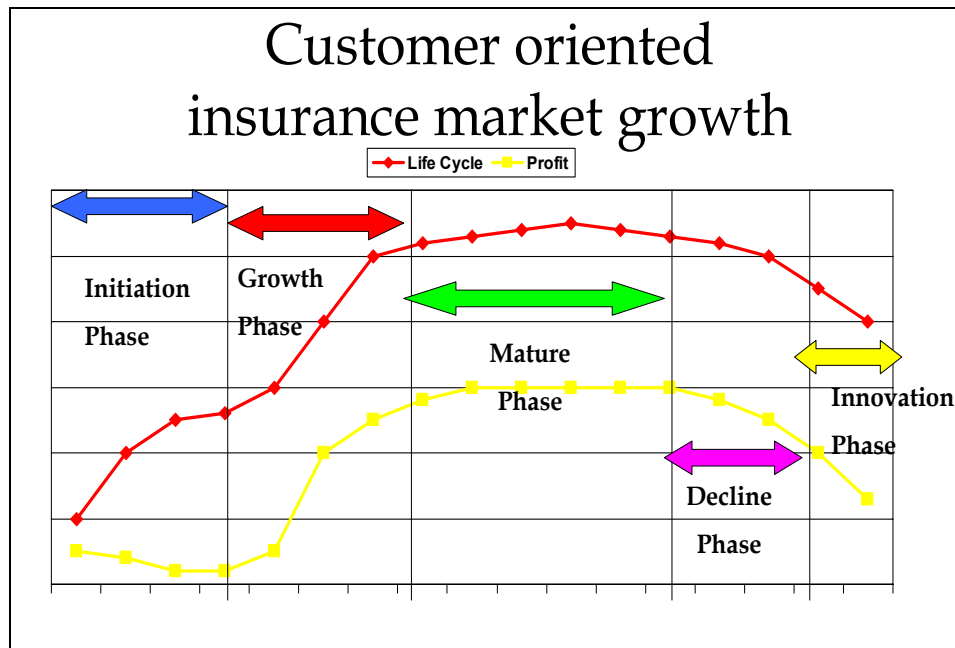


Chart 12-10: Customer oriented insurance market growth

This chart shows the market projection phases of customer oriented insurance market growth. Often slow to begin, the growth phase can be steep, but a new innovative phase needs to be ready to mitigate a declining mature phase.

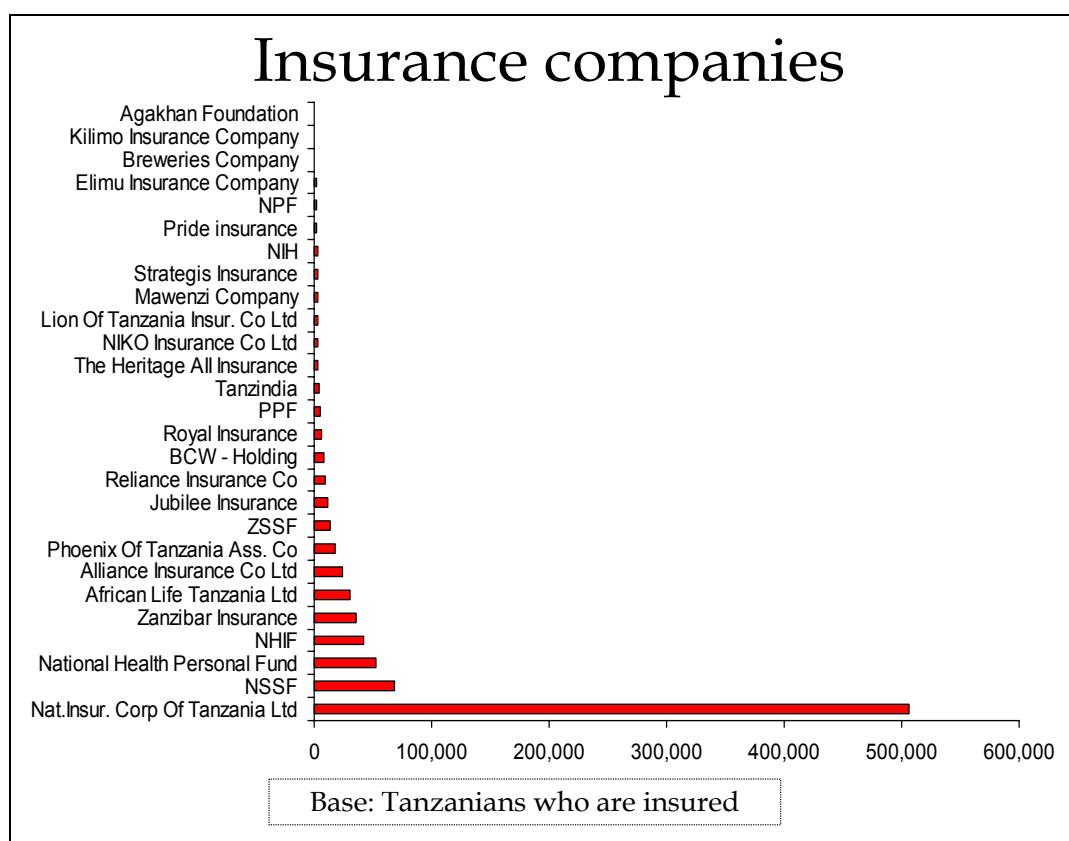


Chart 12-11: Insurance companies

There are a large number of public and private companies and institutions offering a variety of insurance packages in Tanzania and Zanzibar to a relatively small market. Are there in fact, too many? Are market forces working properly here? Should the industry try to become more flexible and collaborate more? There are many public and private companies and institutions offering a variety of insurance packages in Tanzania and Zanzibar. The most used by far is the National Insurance Corporation of Tanzania Ltd followed, though a long way behind, by the NSSF and National Health Personal Fund. There is clearly room for expansion in the market.

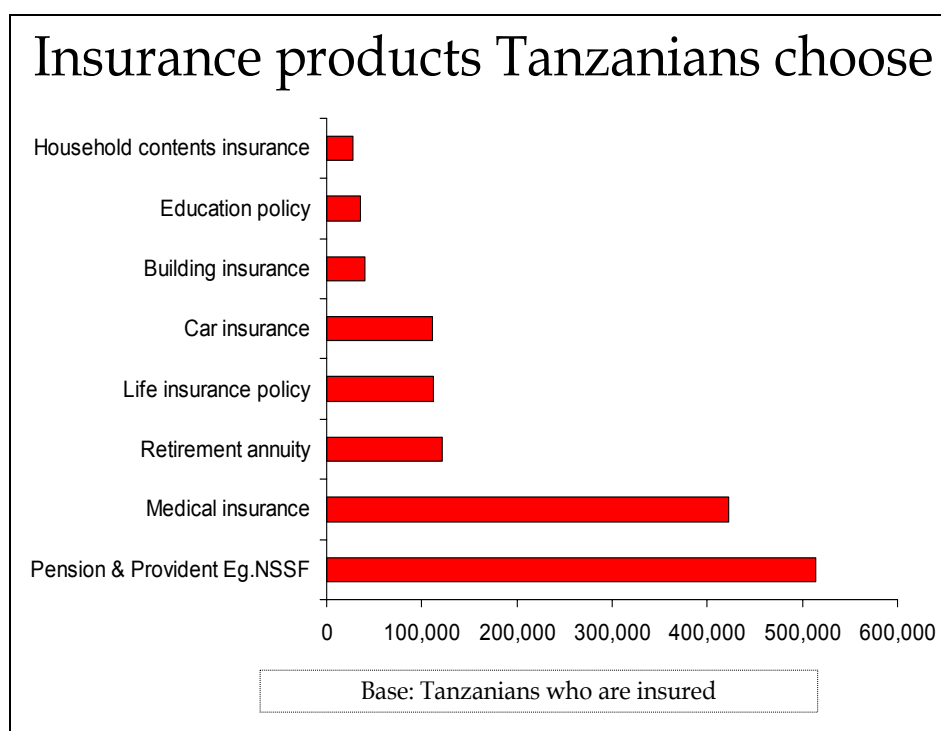


Chart 12-12: Insurance products Tanzanians choose

For those who afford insurance, most spend most money on pension provision and medical expenses. Household contents, education and building insurance all come below car, life and retirement policies.

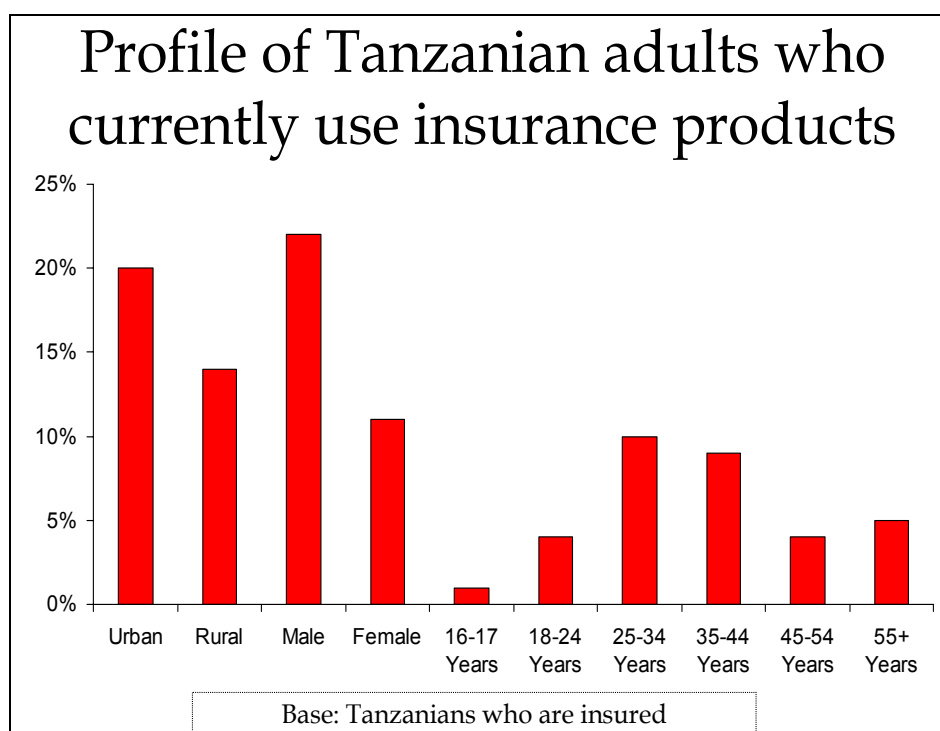


Chart 12-13: Profile of Tanzanian adults who currently use insurance products

The urban male spends most on insurance (22%), although the figure is still less than a quarter of the whole. Twice the number of men than women buy insurance products, and the age grouping reveals a similar pattern to that we have seen in previous charts: the youngest cohort spends least on insurance while those between the ages of 25 and 44 years spend the most. While figures dip for the 45-54 year olds, it rises again slightly subsequently.

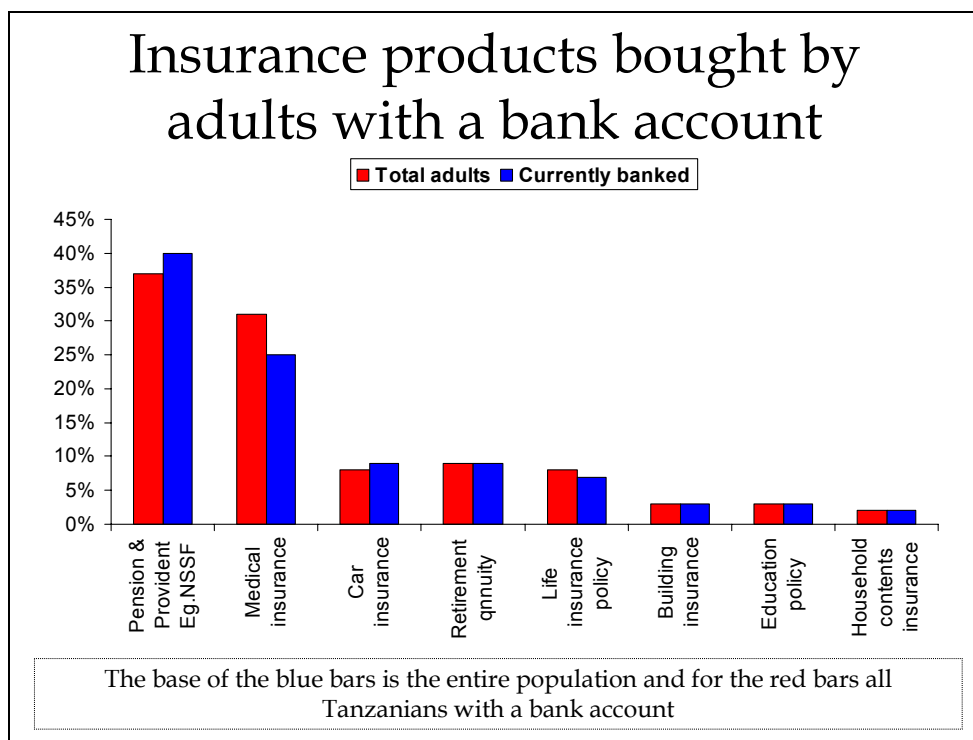


Chart 12-14: Insurance products bought by adults with a bank account

There seems to be little difference between the figures indicating insurance levels amongst those with a bank account and those without. Slightly more people with an account buy pension insurance and slightly fewer take out medical insurance. After that, insurance for cars, retirement, life, buildings, education or household contents is pretty much the same whether account holder or not.

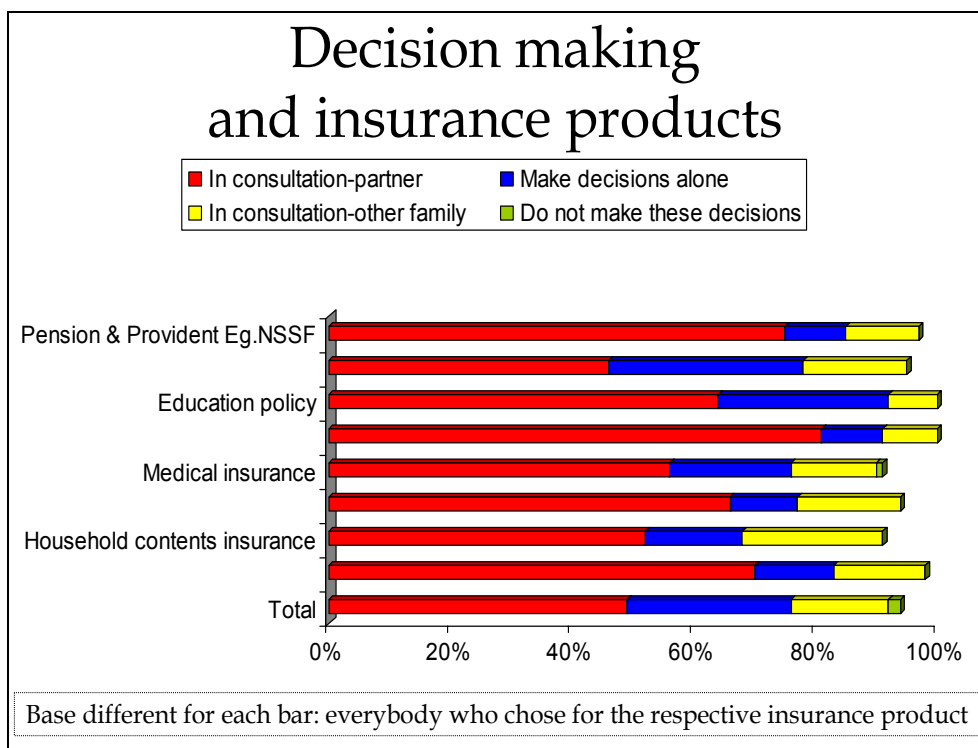


Chart 12-15: Decision making and insurance products

Interestingly, plans for retirement are more likely to be taken alone, but in all other cases decisions are more likely to be taken either with a partner or family member.

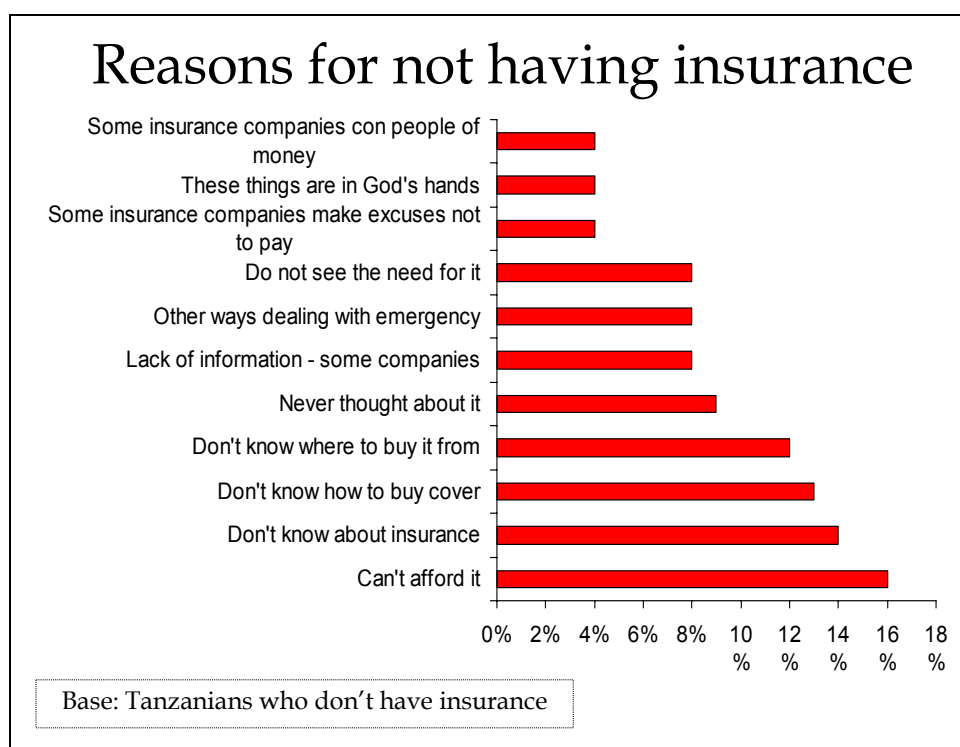


Chart 12-16: Reasons for not having insurance

Most people who do not have insurance say that lack of money is the main reason. However, almost as many say they do not know about it, don't know how to buy it nor where to buy it from. 9% of people had not even thought about it, and only 1% fewer either didn't see the need for it or felt there were other ways of dealing with emergencies. A few, (4%), thought insurance companies conned people while others made excuses not to pay up. An equal number believed it was all in God's hands.

These figures make it very clear that insurance companies have a great deal of public relations work to do, including educating their potential market.

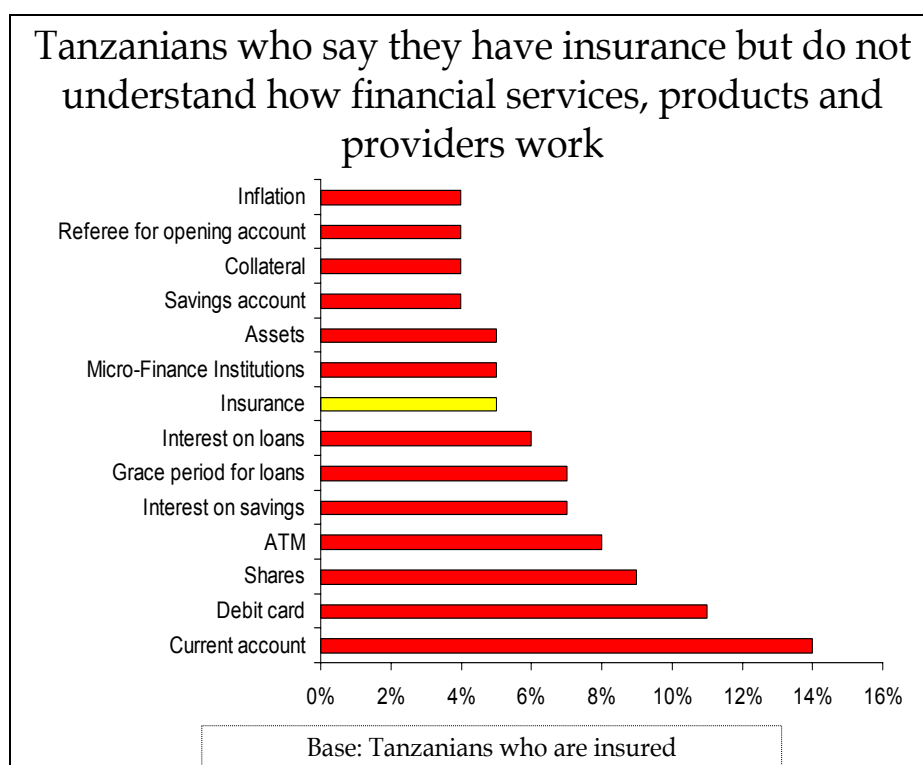


Chart 12-17: Tanzanians who say they have insurance but do not understand how financial services, products and providers work

Of those who have insurance, only 5% claim they do not understand how it works. The level of financial literacy across the board is higher amongst this cohort than the national average though the insurance industry still needs to inform and educate its potential market.

12.2 Conclusion

Barriers to the insurance market

- Low levels of financial literacy
- Poverty
- Lower awareness
- Urban/rural divide

There are some clear barriers which prevent people from engaging with the insurance market including poverty, low levels of education and sophistication, and a deep urban rural divide. People must eat before they can insure against the possibility of a bad harvest. However, the figures suggest that there is great potential for certain kinds of policies. Most people would like to have some cover for funeral expenses and medical emergencies. With more education and explanation about how different products and policies work, it is likely that many more people could be encouraged to enter the market and insure against more eventualities.

Insurance is still considered a luxury by some and in the lap of the gods by others. As the standard of living and levels of education increases, so participation in the insurance industry will expand. But it will do so only if people both know about and understand what is on offer and how it works. Firm foundations of trust and confidence need to be built, regulations and standards need to be devised, set and adhered to. With these provisos in place, the insurance industry could help markets work better for the poor.

Information contained within the dataset of the FinScope survey is available for further, detailed mining. It is a very valuable resource. With careful and expert analysis, it can provide a key to growth and prosperity in financial markets throughout Tanzania, whilst improving the potential of the poorest to engage in them.

13 Analysis with focus on SACCOS

13.1 Attributes and attitudes

What are SACCOS contributing to Tanzania?

What do people think and feel about the SACCOS?

Respondents were asked which attitudes and attributes they associated with various financial service providers including SACCOs. The closer an attribute or attitude is positioned to a certain financial service provider the more respondents associated it with the particular financial service provider.

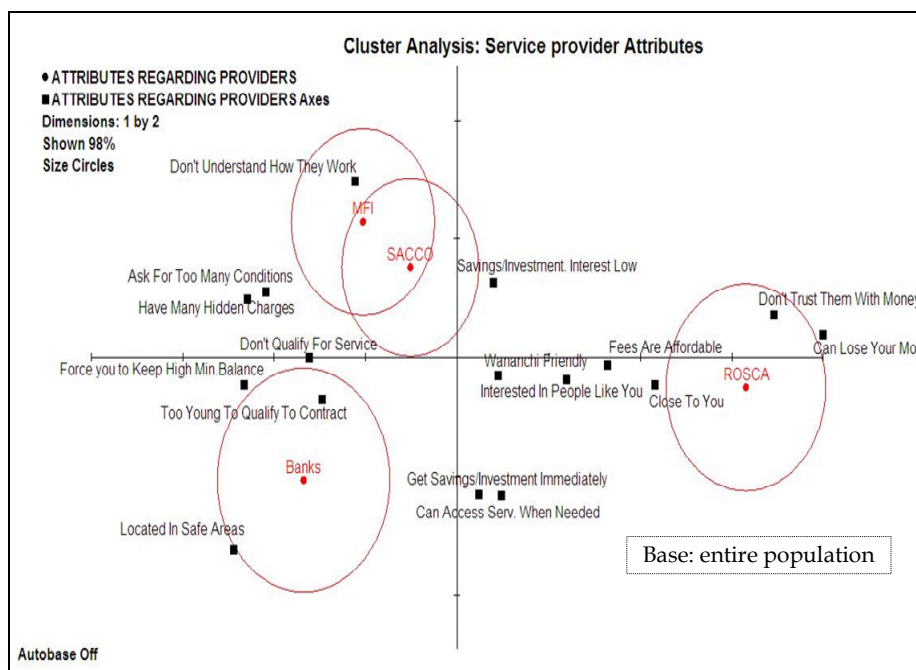


Chart 13-1: Cluster analysis: service provider attributes (1)

This map shows the attitudes and attributes people gave to SACCOs, MFIs, informal money lenders and banks. The proximity of the attitude/attribute to the organisation is an indication of how appropriately it is perceived to describe

it. For example, it is clear that banks in the formal sector are the most liked because they offer the greatest respect.

SACCOs and MFIs over-lap in many people's perception. Both are accused of being difficult to understand, for asking for too many conditions, having hidden charges and offering low interest returns.

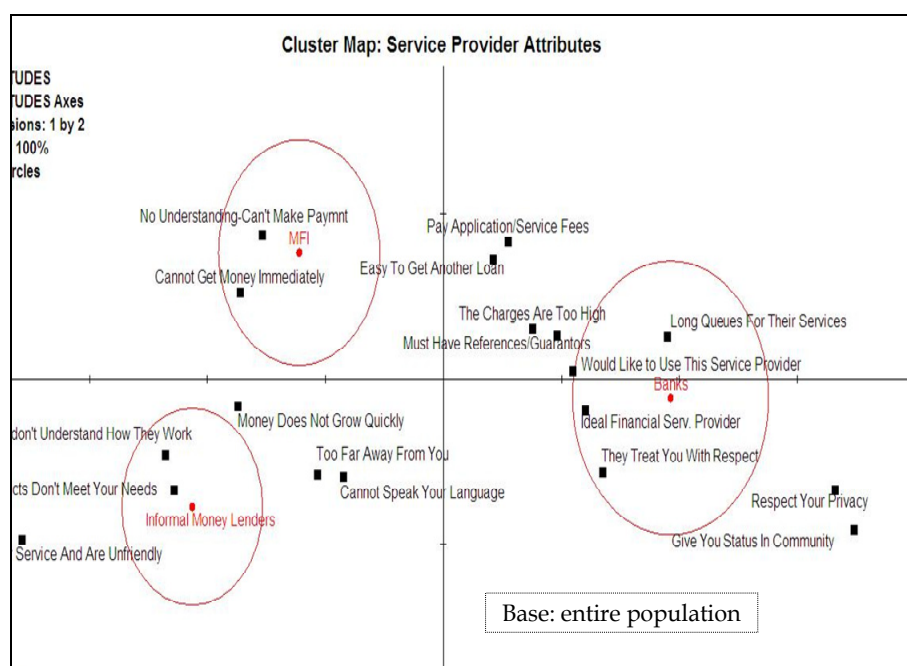


Chart 13-2: Cluster map: service provider attributes (2)

This chart gives valuable information about what people like and dislike, understand and fail to understand about various financial service providers. It shows, for example, that people lack understanding about how MFIs operate. They do not understand why they are not able to make payments, nor why they cannot have immediate access to their money when they need it. It also suggests that the semi-formal providers need to improve their customer and public relations in order to get their message across more clearly.

Banks fare rather better. Although they are associated with long queues, high charges and require references and guarantors, respondents reported that they would like to use their services because they are perceived to be the ideal financial service provider treating people with respect.

The informal money lenders fare badly. All the attitudes and attributes associated with them are negative: they offer poor service and products which do not meet the needs of its clients often in a language they cannot speak. Customers do not understand how they work, and their money does not grow

quickly when entrusted to them. Many are too far away, though in remote areas they may be the only available option.

13.2 Profile of users by financial service provider

Who uses which financial service provider?

What are customers getting from them and what do they want to get?

Why do they choose certain products from certain providers?

Where is the provision and does it cater for all customers?

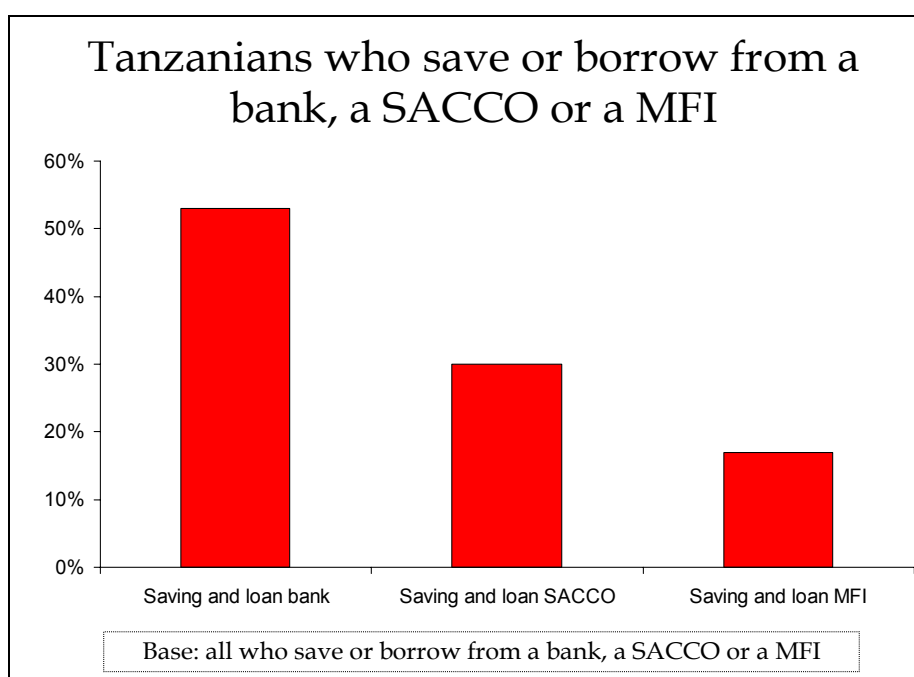


Chart 13-3: Tanzanians who save or borrow from a bank, a SACCO or a MFI

This chart confirms that banks are in a strong position, with over half those who save or take out a loan choosing a bank to do business with. SACCOs account for nearly a third of savers and borrowers while MFIs bring up the rear with just over one sixth.

How can SACCOs and MFIs attract a wider client base?

What, if anything, can they learn from banks?

What are their strengths and can they build on them?

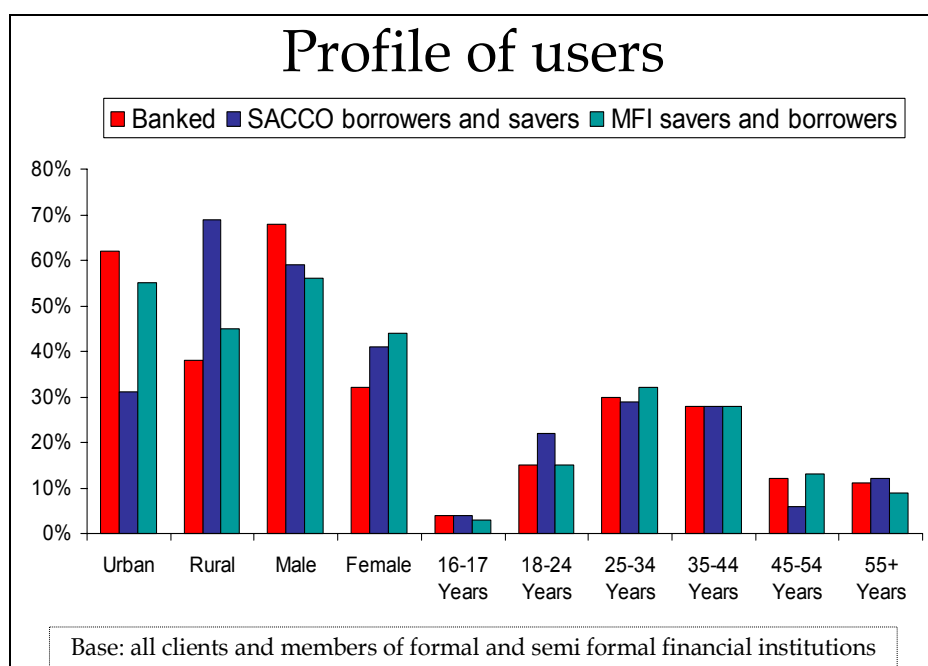


Chart 13-4: Profile of users

One of the most obvious stories this graph tells is that young adults are not being encouraged into the financial system, yet with this age group lies the greatest potential.

More men than women engage with the formal sector in urban areas, and similarly, more men than women use SACCOs in rural areas. Those aged between 25 and 45 years are the most active in any category, after which the numbers drop substantially.

With the aid of this information, and a great deal more data within the survey, SACCOs, MFIs and banks have an enormously valuable resource with which they can reshape their policies and products to expand their market share.

13.3 Moving the frontier between formal and semi-formal

Tanzanians served by Micro-Finance Institutions Savings and Credit Societies and informal service providers

Is there any mobility between service providers?

In which direction?

How are transitions from one to another made?

Is the trend towards upwardly mobility, and is the progression from one to another, or can some categories be jumped over?

Where do people say they want to get to?

How do they expect to do it?

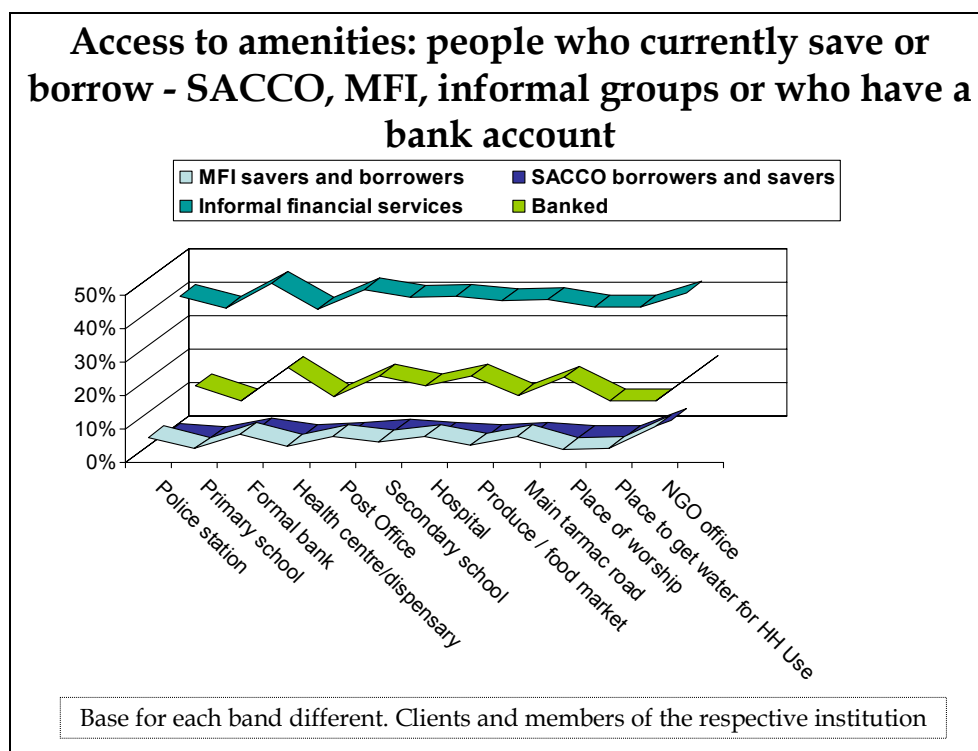


Chart 13-5: Access to amenities: people who currently save or borrow - SACCO, MFI, informal groups or who have a bank account

This graph shows clearly that most people currently saving or borrowing in the informal sector - with Rotating Savings and Credit Associations (ROSCAs) or Village Community Banks (VICOBAAs) have the greatest access to the most amenities, although the figure remains largely under 40%. Those who use an MFI or SACCO appear to have the least access to all amenities – less than 10% in all categories except an NGO office. Those who use the formal sector are the band in the middle whose access to the stated amenities is between 5% and 15%. This would suggest that when formal and semi-formal provision is out of reach people do not necessarily choose informal providers instead.

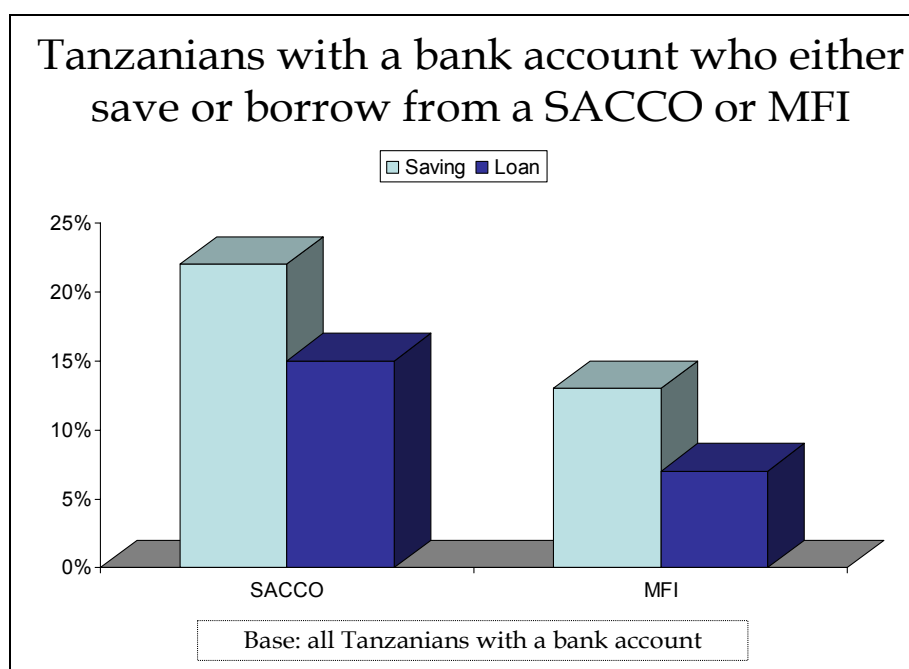


Chart 13-6: Tanzanians with a bank account who either save or borrow from a SACCO or MFI

Tanzanians with a bank account may also use other financial service providers. As represented in this chart, the categories are not mutually exclusive, i.e. one person may appear in more than one category.

Evidence in the FinScope survey reveals that even if people have a bank account, they also choose to save and borrow in the semi-formal sector. Why do they turn to a SACCO or MFI? Are the banks unapproachable? Are their charges too high? Are they accessible? What is it about SACCOs and MFIs that people appear to prefer? A closer look at some of the figures may suggest some answers.

22% of bank account holders choose to save with a SACCO and 14% with an MFI. In the same group, 15% choose to take out a loan from a SACCO and 7% from an MFI. Why are some people choosing to use a range of products from more than one provider? Can SACCOs increase their business by studying how other service providers work? A closer look at some of the figures may suggest some answers.

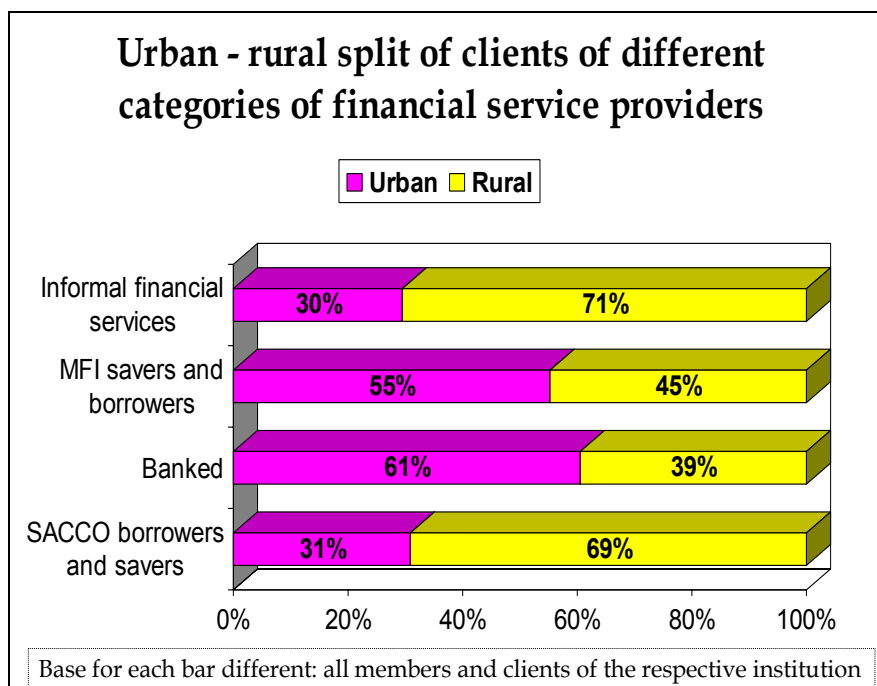


Chart 13-7: Urban - rural split of clients of different categories of financial service providers

Both SACCOs and informal financial service providers are more popular in rural areas while MFIs are used by roughly as many urban as rural dwellers. Banks, unsurprisingly are used by more people in urban areas.

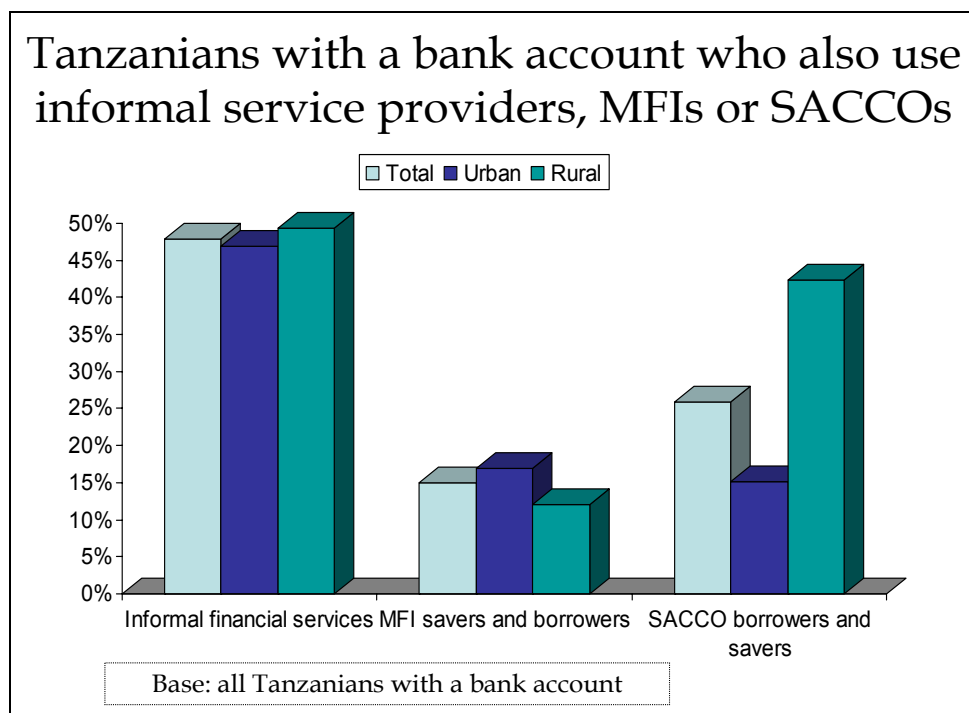


Chart 13-8: Tanzanians with a bank account who also use informal service providers, MFIs or SACCOs

Nearly half of the total number of bank account owners also chooses to use informal financial services to save or borrow, while in rural areas 42% are using the services offered by SACCOs. There are low figures of MFI customers in all categories, although they attract slightly more customers in urban than rural areas.

Informal savings societies

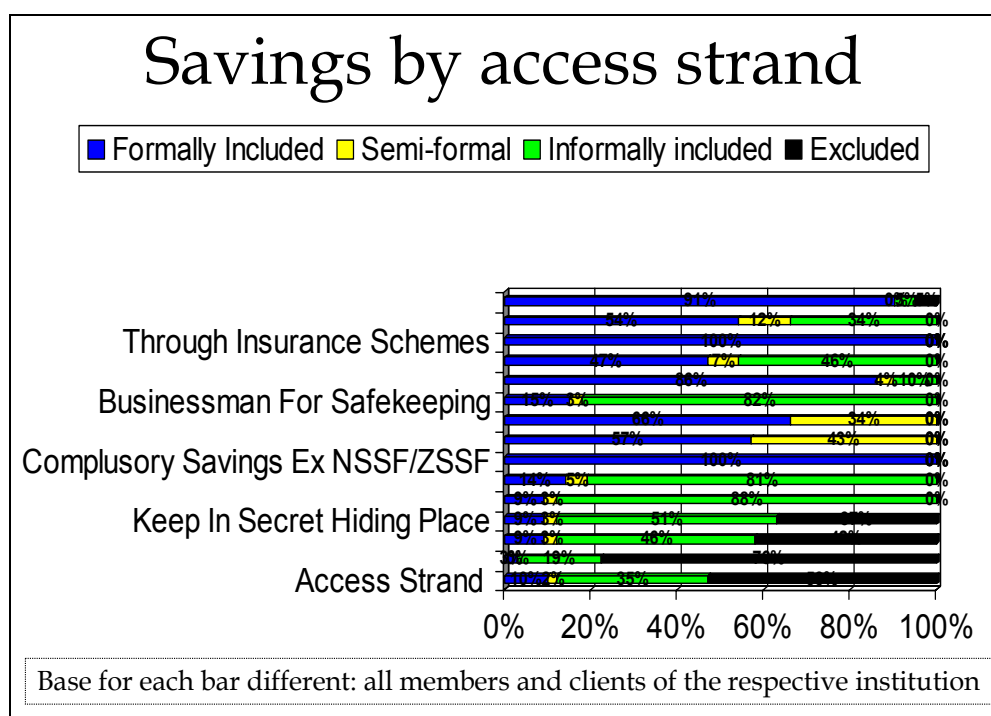


Chart 13-9: Savings by access strand

The access strand lens is used here to look at which people save what and where. The two solid blue lines indicate that all those who pay compulsory savings, NSSF and insurance come from the formally included cohort. The same cohort favours ASCAs (Accumulating savings and Credit Associations) into which 60% of savers put their money.

Those in the semi-formal category are also interesting to look at. A significant 64% of those who save or borrow in this group choose to do so with a SACCO.

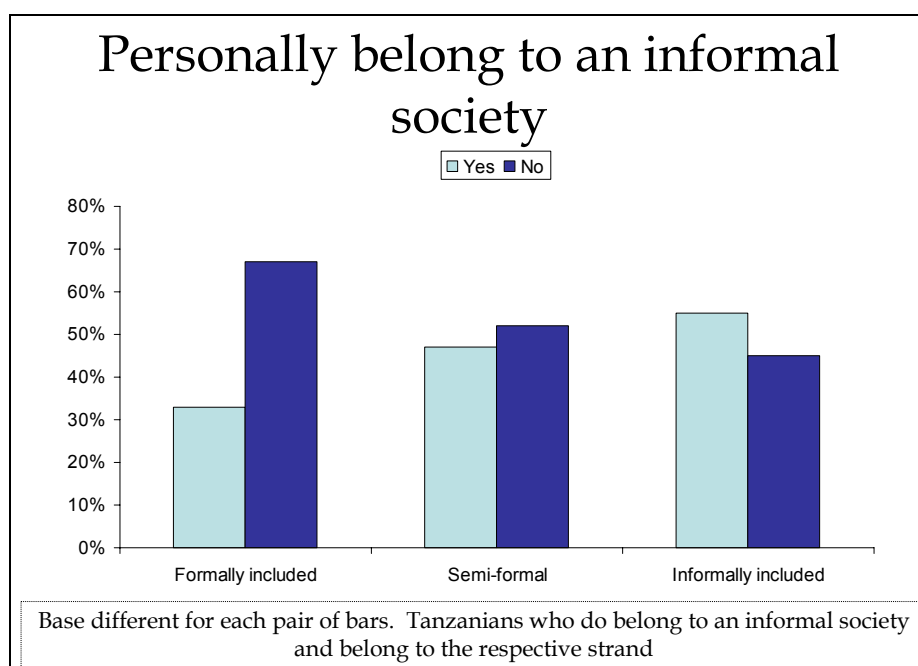


Chart 13-10: Personally belong to an informal society

This chart shows people who have a personal membership within each access category. Of the formally included a third say their relationship is personal while in the semi-formal it is approaching half. More than half of people in the informal category say they belong to the institution personally. This would suggest that banks tend to have more corporate members than their counterparts in the semi-formal and informal categories.

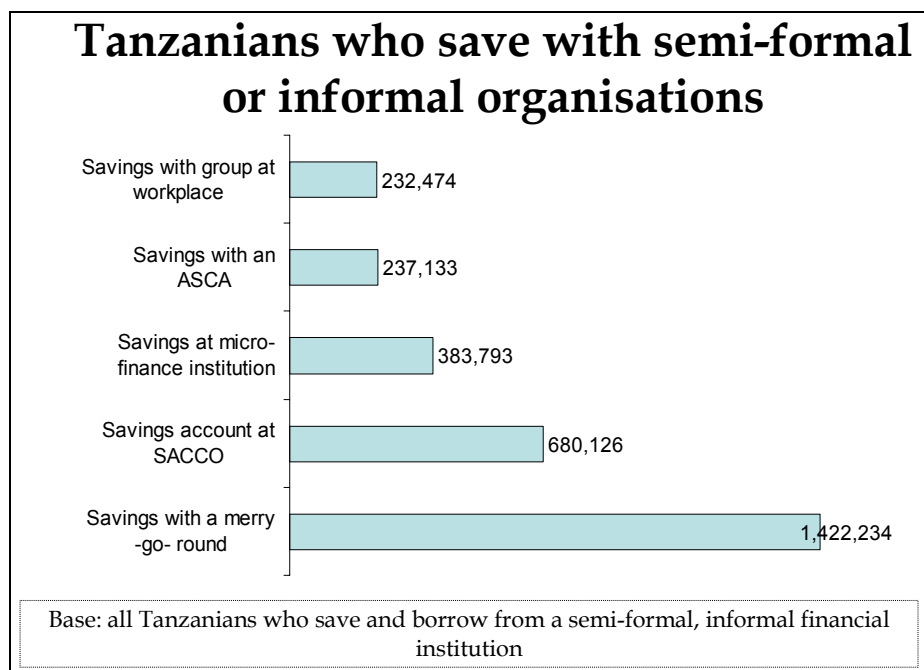


Chart 13-11: Tanzanians who save with semi-formal or informal organisations

Here the figures suggest saving with a merry-go-round is the most popular method, claiming more than 1,400,000 subscribers. Less than a fifth of that number save with a group at the work place and saving with an MFI or SACCO comes between the two.

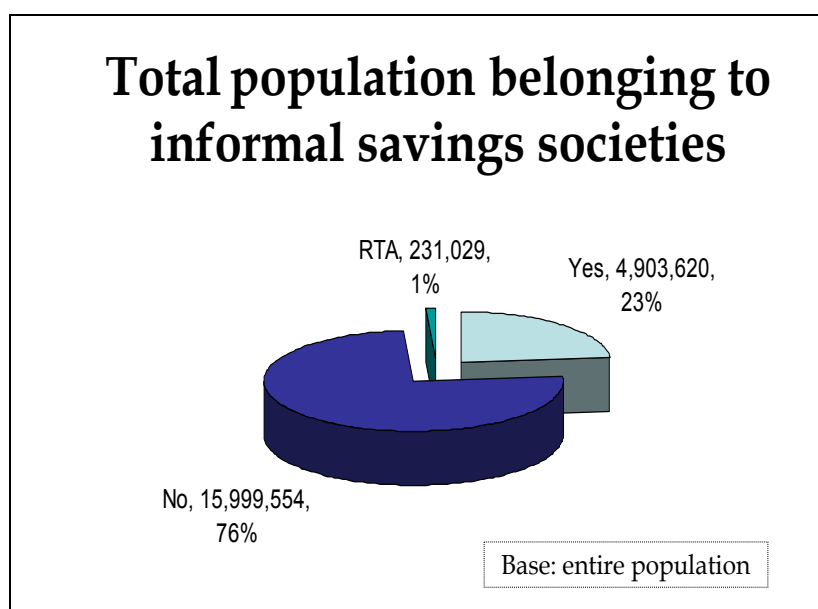


Chart 13-12: Total population belonging to informal savings societies

Three quarters of the population said they did not belong to an informal savings society – a huge potential market for financial service providers.

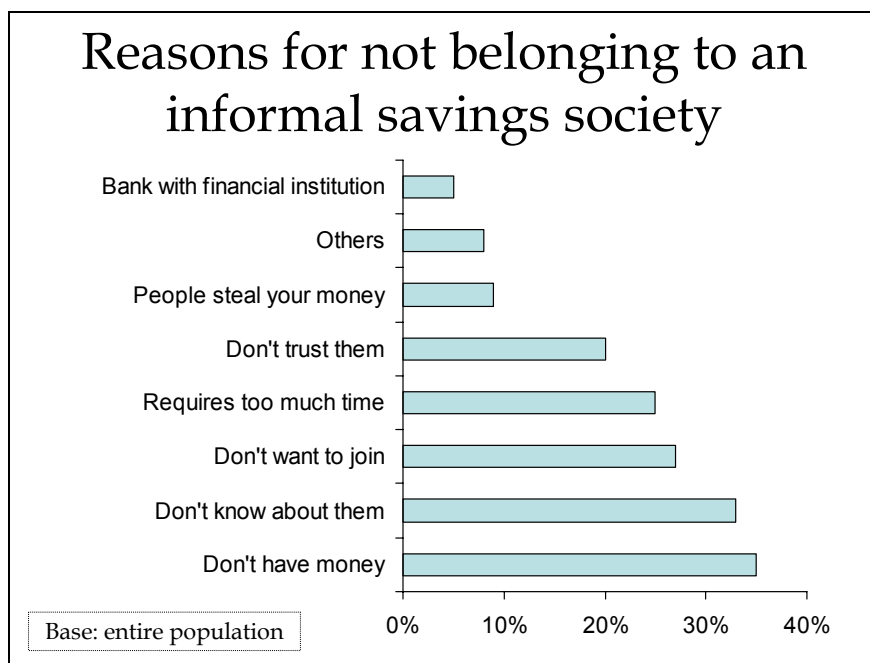


Chart 13-13: Reasons for not belonging to an informal savings society

Respondents claimed many other reasons for not belonging to an informal savings society including the fact that they simply did not know of their existence – 33%. Lack of knowledge and trust account for many more. A population which is not financially literate cannot be expected to engage with the financial industry. Education is key.

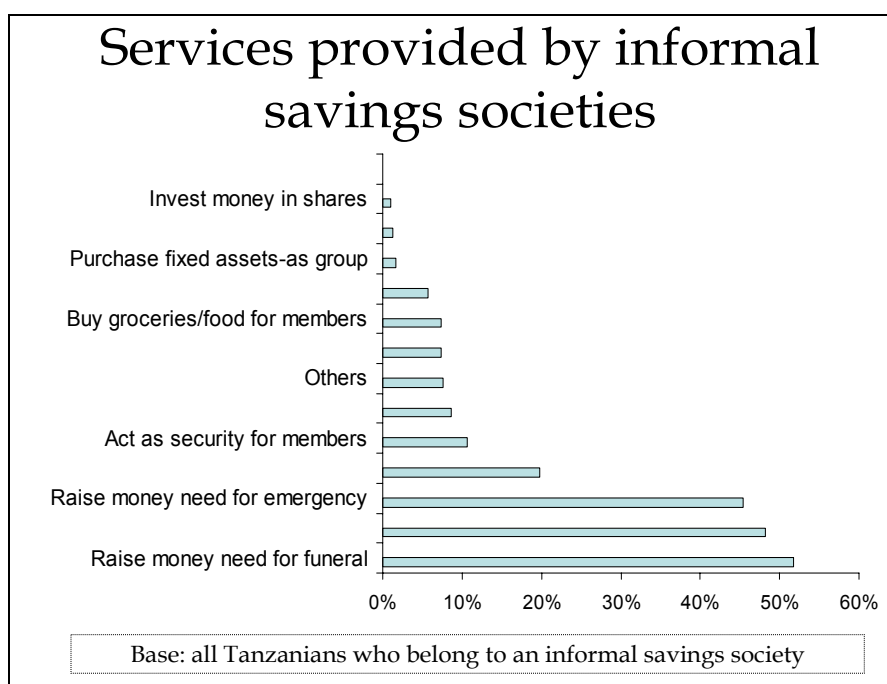


Chart 13-14: Services provided by informal saving societies

Perhaps the most startling fact made clear in this chart is that half of the money provided by informal savings societies is used to cover funeral expenses. Emergencies constitute another large proportion - 45%.

Members can, in an emergency, take money from the collective savings pot.

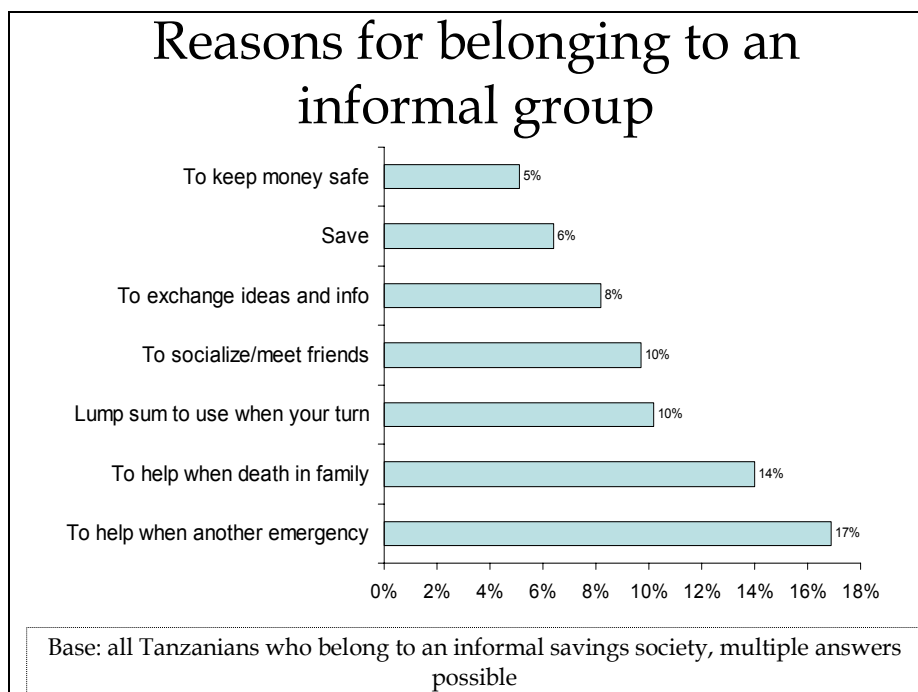


Chart 13-15: Reasons for belonging to an informal group (1)

The most common reason people gave for belonging to an informal group was to have help in an emergency. Funeral expenses were mentioned again as a priority and others admitted that their membership was as much to do with the social aspect and the exchange of ideas and information as it was to gain any kind of financial advantage.

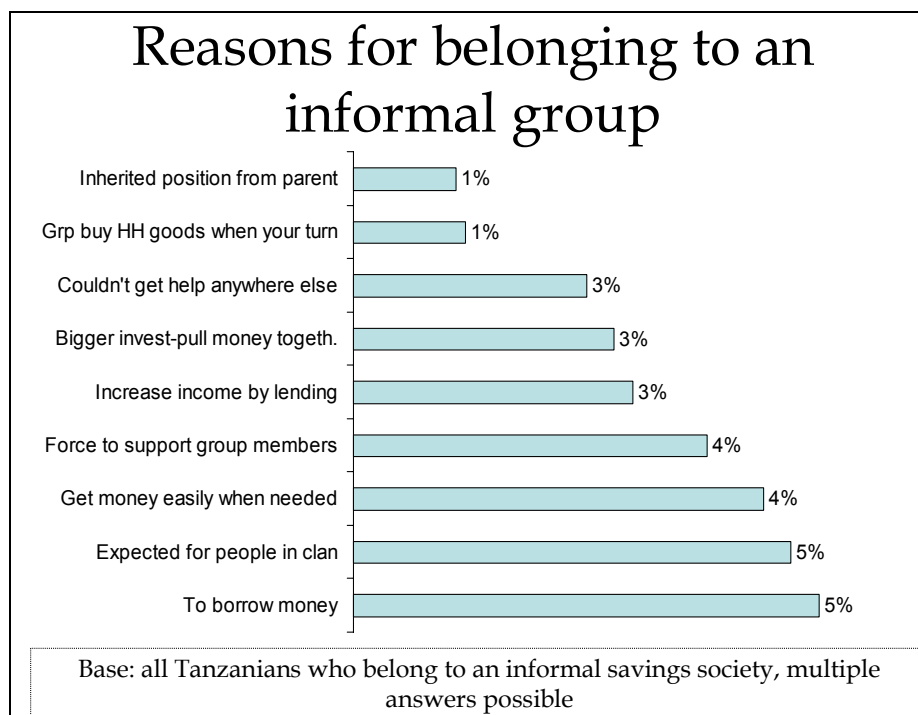


Chart 13-16: Reasons for belonging to an informal group (2)

A primary reason people want to join an informal group is to borrow money either for themselves or their families. It is considered a relatively easy way of getting hold of money quickly, and often there is no way of finding finance anywhere else.

13.4 Conclusion

The evidence contained in these charts is a sample of the whole. FinScope can provide more information and reveal further opportunities if it is mined thoroughly. Information contained within the data can be used to plan new products, new strategies and new ways of thinking about the future of financial services in Tanzania. It is a powerful tool which can help to both broaden and deepen access and make markets work more effectively for the poor.

What is already clear is that the relationship between the banks and MFIs needs to be developed. Capacity building needs to be a top priority. The perception that people find MFIs unfriendly and difficult to understand needs to be addressed, as does good governance and the re-establishment of trust and respect.

There is a great need for more MFIs in rural areas and the agricultural sector in particular needs examining closely. Of those who are excluded from the

financial system, 20% do their business in kind. This should be a target market for which financial institutions need to tailor their products.

Finally, the financial industry needs to initiate discussions with regulators and the Government. Common, safe standards are a policy issue and their implementation crucial to the success of the financial services industry in Tanzania.

13.5 Workshop 6th June 2007

Number of participants: 53
Completed evaluation forms: 28

The participants in this workshop represented a number of market segments including:

• Financial services	17
• Business service development	14
• Insurance	4
• Development co-operatives	4
• Agriculture	4
• Communications	4
• Education	8

Only those from representatives from two organizations felt that the workshop too long, and expressed a preference for more focused work on specific topics. Seven however, found it too short.

Many also said they would have liked more time for discussion, which is clearly regarded as one of the most valuable parts of the workshop.

The consultants who delivered the workshop were generally praised for their thoroughness and clarity. However, four representatives found the subject material difficult to understand.

As the workshop was conducted in Kiswahili, all the participants found the language used easy to understand, though eleven found it too broad:

These participants would have liked more specific details on areas of particular interest to them, and the opportunity to discuss them. Many for instance, queried why so many people appeared to have more than one account in a co-operative movement when it is against the law. Further workshops to focus on their specific interests might offer a solution.

Although most who attended the workshop found that it was tailored to their needs, the representative from one organization was concerned that the subject of disability was not addressed at all – a serious criticism.

The majority found the advice was clear, though the participants from two institutions dissented from this view. Those two also claimed that the workshop had not been useful, though happily the rest of the participants were more positive.

There were many suggestions offering improvements for the future, including:

- more depth
- more focus, hand outs to take home
- Invite MFIs and banks to future workshops

Additional comments suggested that further workshops to examine specific ideas would be appreciated. These included:

- Taking account of the position of disabled people – social as well as financial
- Supply side comparison needed/concern re. reasons for borrowing which appear to be largely non-productive, not entrepreneurial
- More research and service outreach – specific analysis
- More workshops in rural areas and for central government Why do people choose banks instead of SACCOs?
- Identify opportunities of working with banks
- Risk management on loans

Many people requested that invitations to any future workshops be sent out earlier, and include a summary of findings which can be reviewed before attending.

14 Analysis with focus on MFIs

14.1 Attributes and attitudes

What do people think and feel about MFI provision?

The following two charts show some attitudes towards and attributes given to various financial organisations. The following two charts show what people think and feel about various financial organisations. The proximity of the attitude/attribute to each organisation is an indication of how appropriately it is perceived to describe it. For example, an attitude/attribute which is close in proximity to the MFI label is one which most people felt described it best. An attribute which is a long way from the MFI is felt not to describe it well.

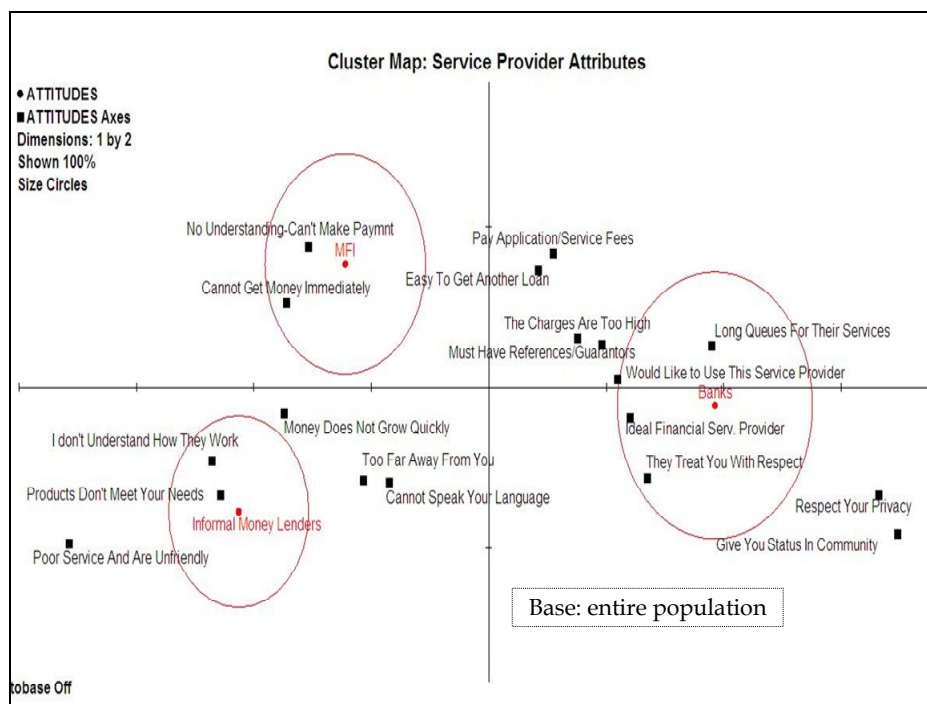


Chart 14-1: Cluster map: service provider attributes (1)

This map shows the attitudes and attributes people gave to MFIs, informal money lenders and banks. The proximity of the attitude/attribute to the organisation is an indication of how appropriately it is perceived to describe it. For example, it is clear that banks in the formal sector are the most liked because they offer the greatest respect. They are the kind of institution which the majority would like to use. On the other hand, MFIs and informal money lenders are perceived in a more negative way. People say that they cannot have immediate access to their money, that it doesn't grow very quickly and that the service offered is poor and unfriendly. For many, being too far away and not speaking in their language is also a major handicap.

The chart also shows that people lack understanding about how MFIs operate. People do not understand why they are not able to make payments, nor why they cannot have immediate access to their money when they need it.

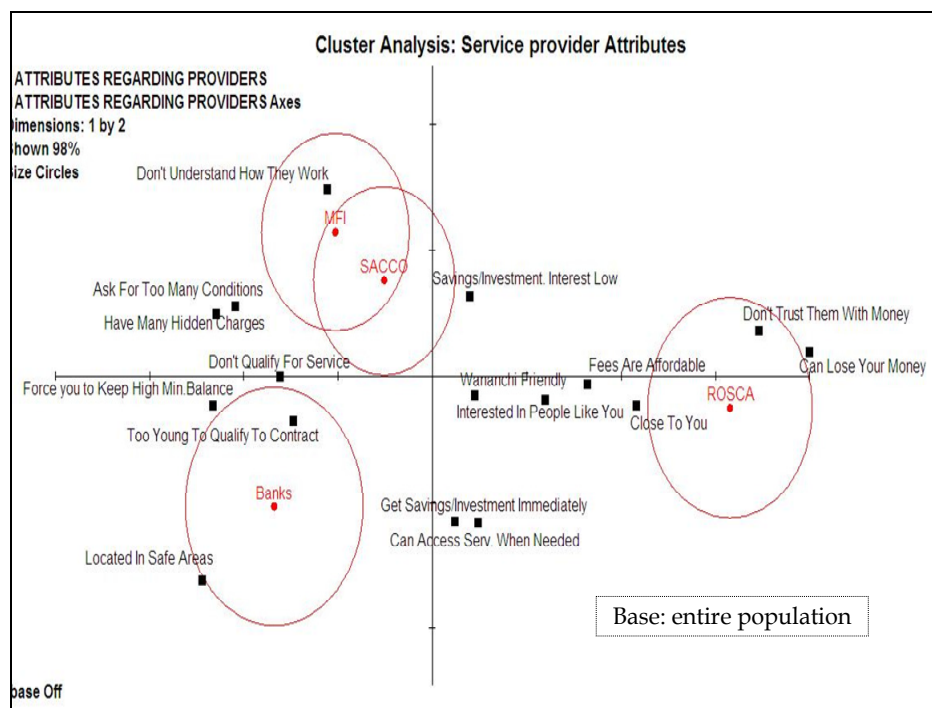


Chart 14-2: Cluster analysis: service provider attributes (2)

Here again the picture shows that respondents do not understand how MFIs and SACCOs work, and are unhappy that they pay low interest on savings.

When it comes to ROSCAs, customers do not trust them with their money and even feel that they risk losing it.

Many respondents feel that although banks are located in safe areas, they believe they are too young to be a client, and in any case are forced to keep high minimum balance in the account. This could be made into a potential advantage by MFIs who may be able to develop more flexible products for people who are not turning to banks.

14.2 Profile of users by financial service provider

Who uses which financial service provider?

What are customers getting from them and what do they want to get?

Why do they choose certain products from certain providers?

Where is the provision and does it cater for all customers?

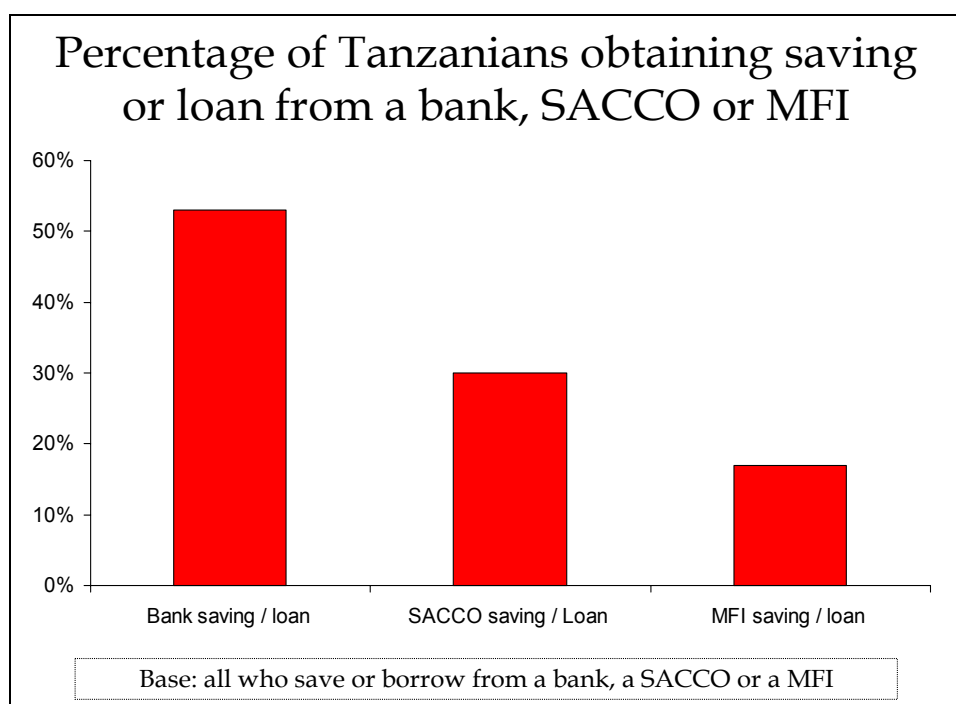


Chart 14-3: Percentage of Tanzanians obtaining saving or loan from a bank, SACCO or MFI

This chart looks at those people who save or borrow and where they choose to do it. MFIs capture only 17% of the total. Banks represent over half and SACCOs nearly a third. Can the MFI sector of the market expand and if so, which group or groups of the population should it target?

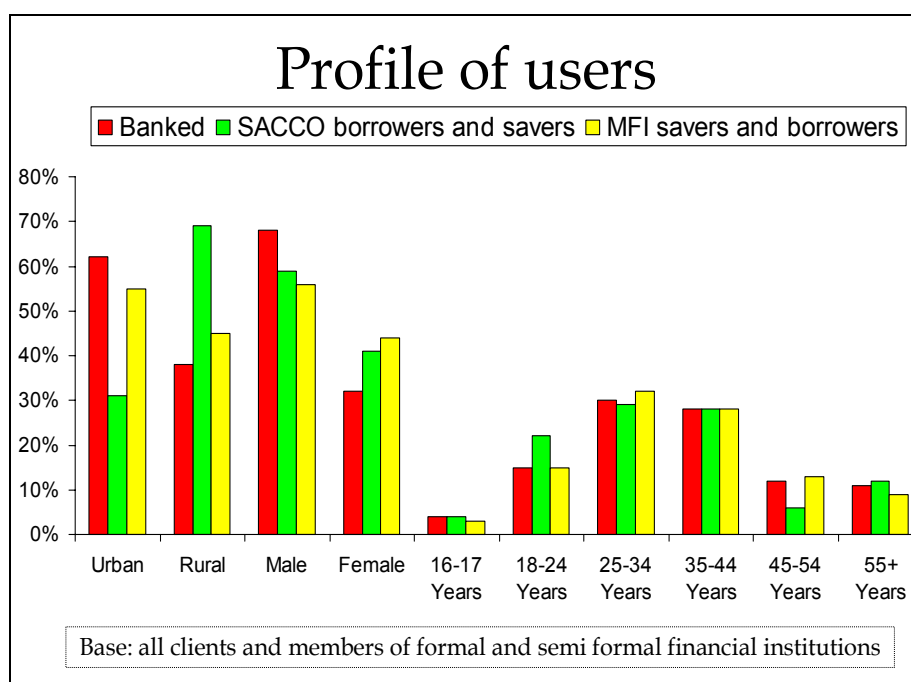


Chart 14-4: Profile of users

The base for this chart is, again, those who save or borrow. It is not mutually exclusive, that is, a person may have savings or borrow from more than one institution. Just over half of those who save or borrow with an MFI are urban males. More women use MFIs than any other service provider included above, and more people between 25 and 54 years choose to use their services rather than those of a SACCO or a bank. They cater less well for the very young and those over 55 years of age.

14.3 Moving the frontier between formal and semi-formal

Who is using Micro-Finance Institutions Savings and Credit Co-operatives and informal service providers?

Is there any mobility between service providers? How are transitions from one to another made? What would encourage more people to engage with the financial services industry?

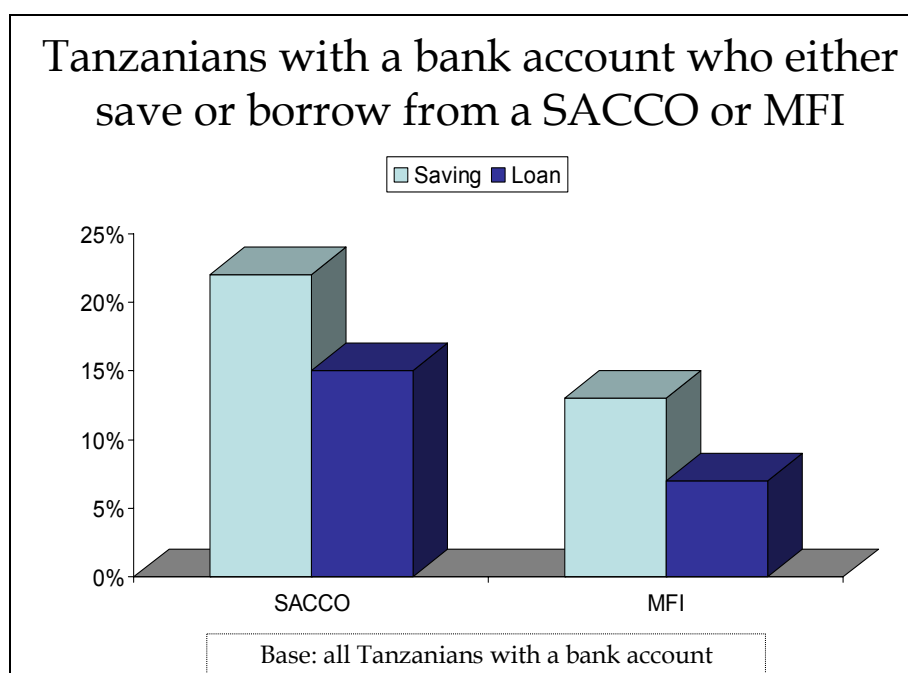


Chart 14-5: Tanzanians with a bank account who either save or borrow from a SACCO or MFI

Tanzanians with a bank account may also use other financial service providers. As represented in this chart, the categories are not mutually exclusive, i.e. one person may appear in more than one category.

Evidence in the FinScope survey reveals that even if people have a bank account, they also chose to save and borrow in the semi-formal sector. 35% of those people choose to save with a SACCO or MFI and 22% of the same group choose to take out a loan. Why are some people choosing to use a range of products from more than one provider? Can MFIs increase their business by studying how other service providers work? A closer look at some of the figures may suggest some answers.

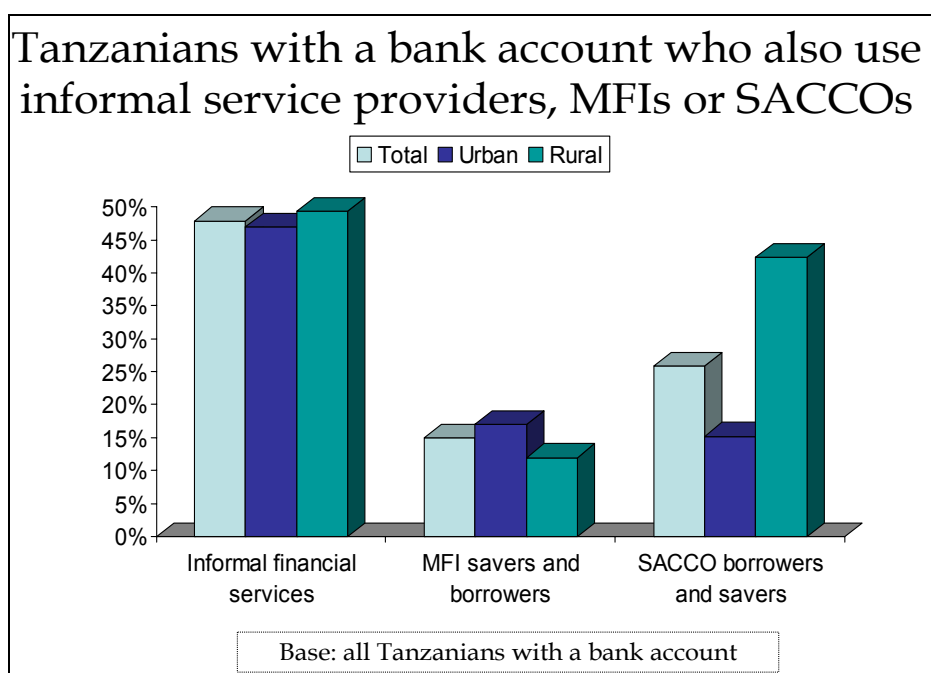


Chart 14-6: Tanzanians with a bank account who also use informal service providers, MFIs or SACCOs

Once again, the chart above looks at people who have a bank account and use other service providers. It is striking that nearly half choose to save or borrow from the informal sector as well. A fifth use MFIs in rural and urban areas but only 15% in urban areas choose a SACCO. The percentage of people who use SACCOs in rural areas is greater, at 42%.

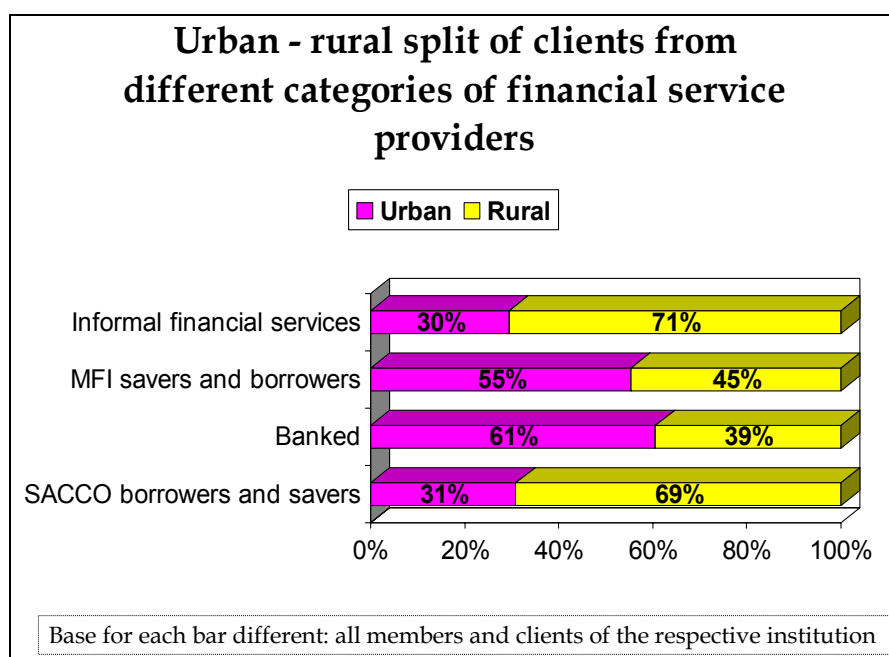


Chart 14-7: Urban - rural split of clients from different categories of financial service providers

MFIs are used by roughly as many urban as rural dwellers. Banks serve more people in urban areas while both informal financial service providers and SACCOs are more often used in rural areas.

14.4 MFI target market

NB – base sizes sometime very small

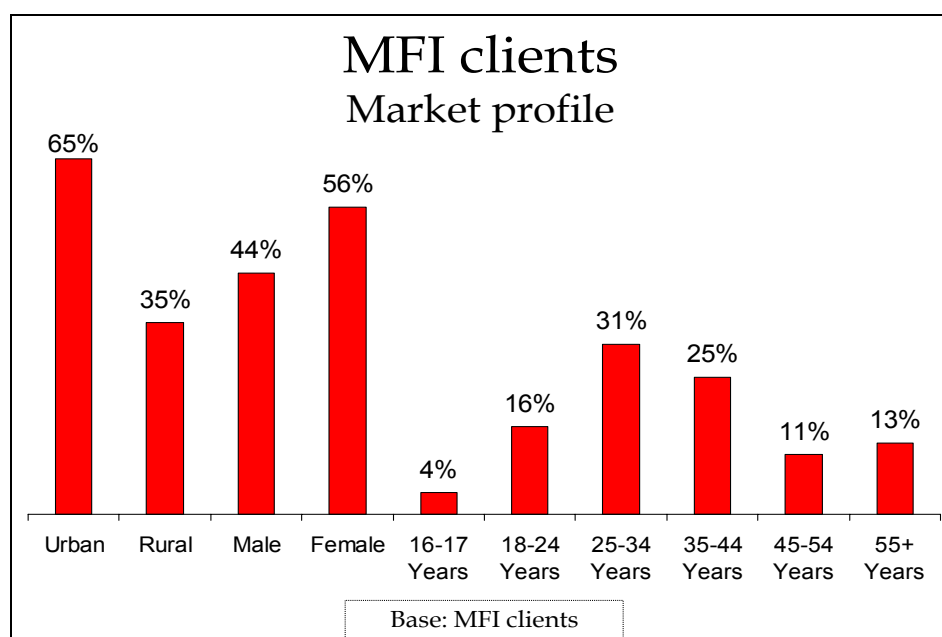


Chart 14-8: MFI clients - market profile

The graph above reveals a picture of micro-finance in Tanzania and Zanzibar in which the urban female dominates. As is often the case, the youngest adults are the least well served, a situation which clearly needs attention, as they represent the future.

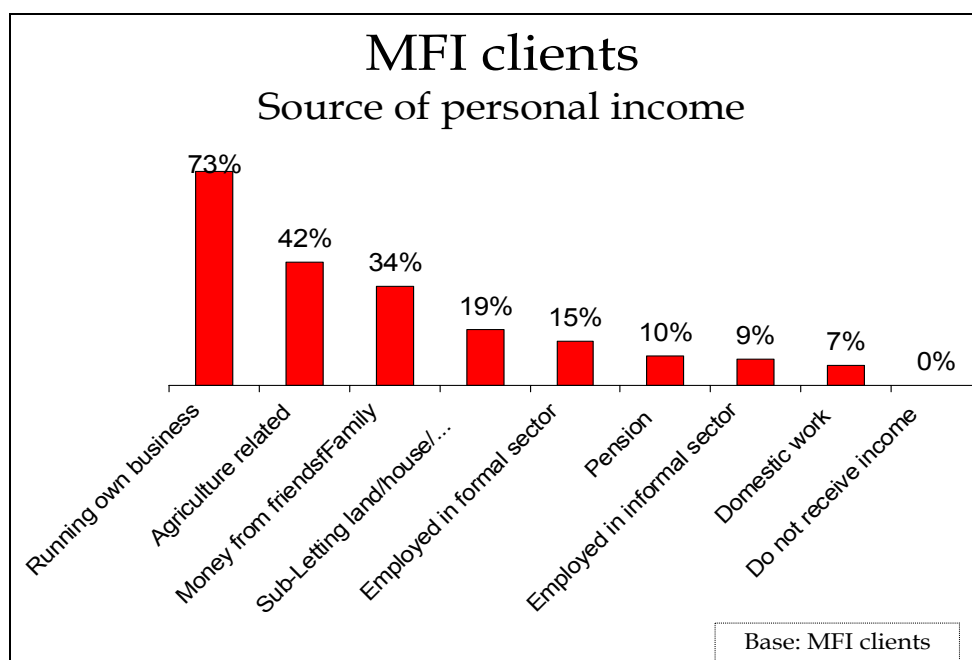


Chart 14-9: MFI clients - Source of personal income

By far the largest number of people who are MFI customers derive their income from running their own business – nearly three quarters of the total. Agriculture

related income and receiving money from friends and family are the next largest sources followed by a fifth who sub-let land, house or rooms. Interestingly, 15% of MFI customers are in formal employment.

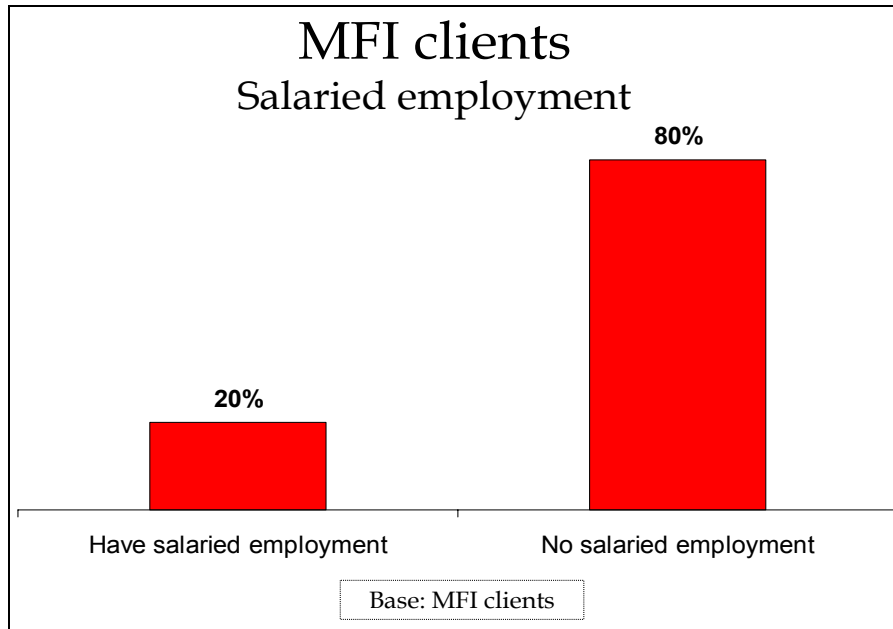


Chart 14-10: MFI clients - Salaried employment

The chart here shows very clearly that the vast majority of people who use MFIs do not have a regular salary and are likely to be self employed. This is no real surprise as those wanting to finance the set-up or expansion of a business are the bedrock of an MFI client base.

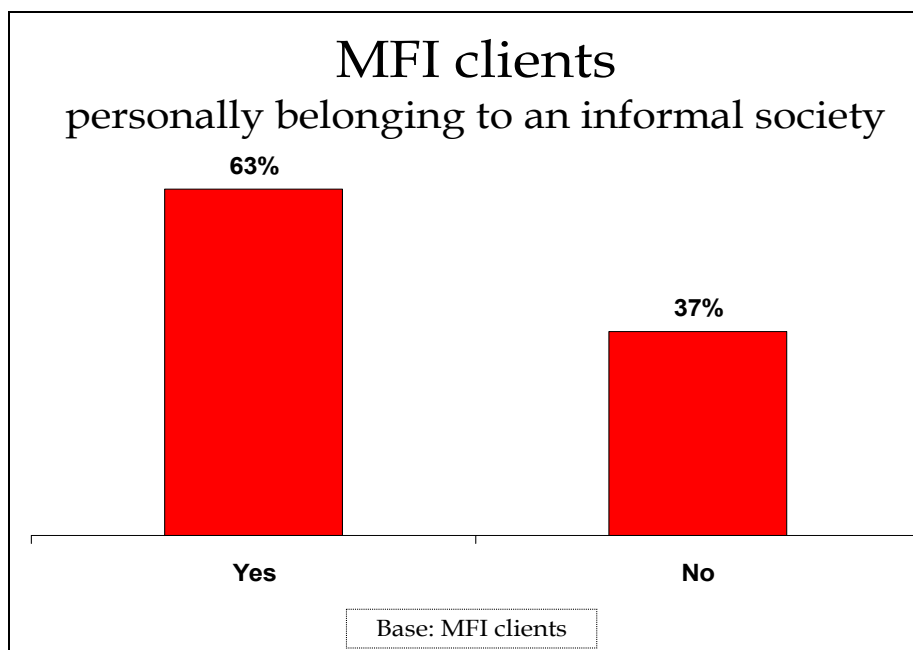


Chart 14-11: MFI clients personally belonging to an informal society

Respondents were asked whether they belong to an informal society in a personal capacity. Two thirds answered positively.

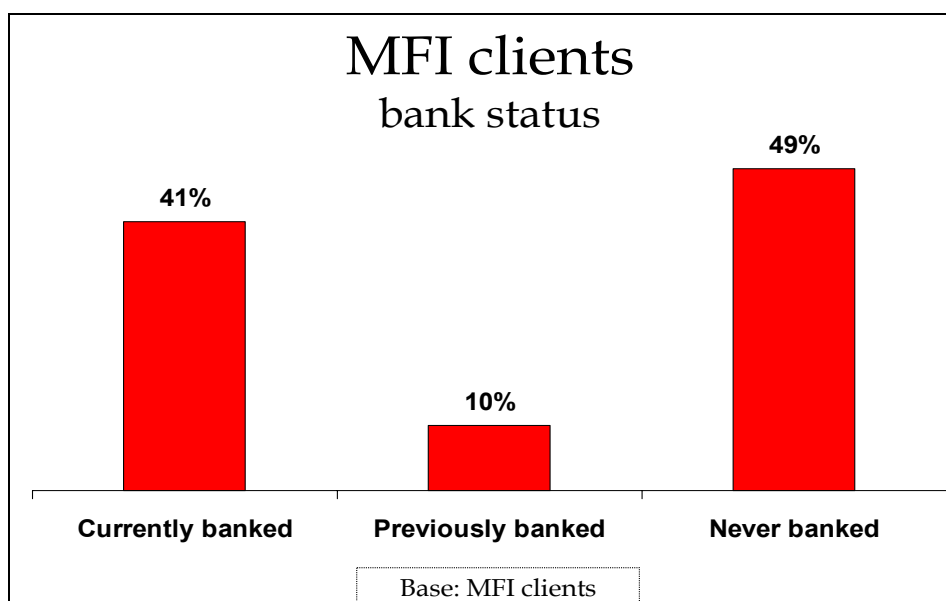


Chart 14-12: MFI clients bank status

Half of MFI customers either have, or have had a bank account in the past. The other half has never used services provided by a bank.

Is there any scope for entering into communication with the banks to discuss client base and how to expand it? Develop any joint products?

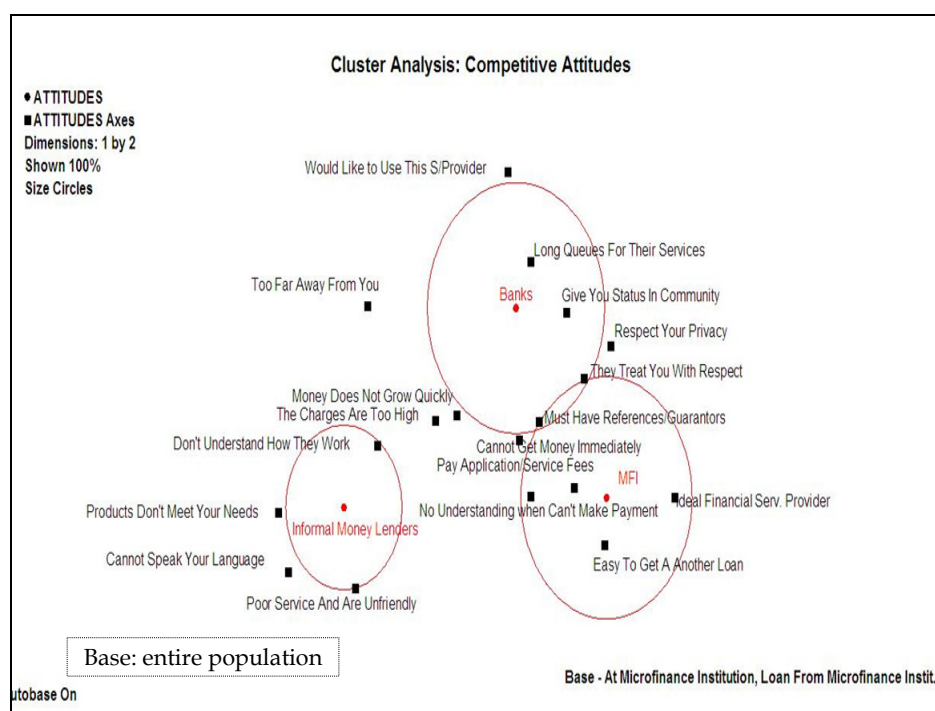


Chart 14-13: Cluster analysis: competitive attitudes

The information revealed in this picture shows that the perceived advantages of being an MFI customer include the facts that these institutions are easy to get a loan from and can be an ideal financial service provider. On the other hand, a customer must pay application or service fees and may not be able to understand why s/he is unable to withdraw money immediately on demand.

By contrast, banks are perceived to give their client's status within the community, respect their privacy and treat their clients with respect. The disadvantages which are perceived about banks is that long queues are expected before service is given.

Can service providers learn from each other?

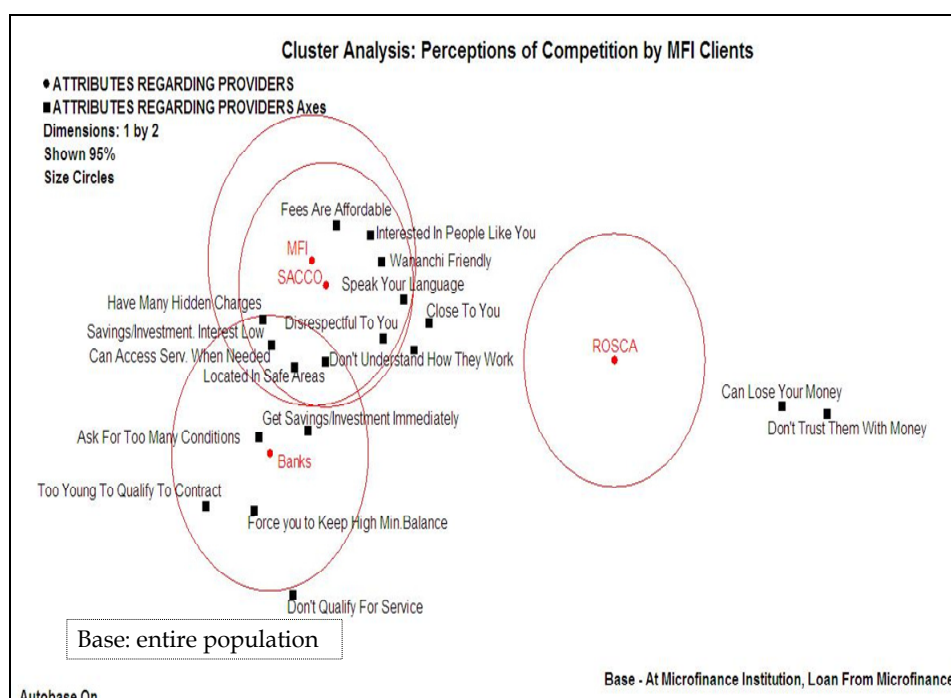


Chart 14-14: Cluster analysis: perceptions of competition by MFI clients

This cluster chart shows how people perceive the competition for MFIs. It suggests that the advantages and disadvantages of MFIs and SACCOs are thought to be similar: fees are seen to be affordable, they are wananchi friendly, speak the local language and are often quite close and convenient. However, few understand how they operate or feel they are respected by them. Many fear hidden charges and low interest rates.

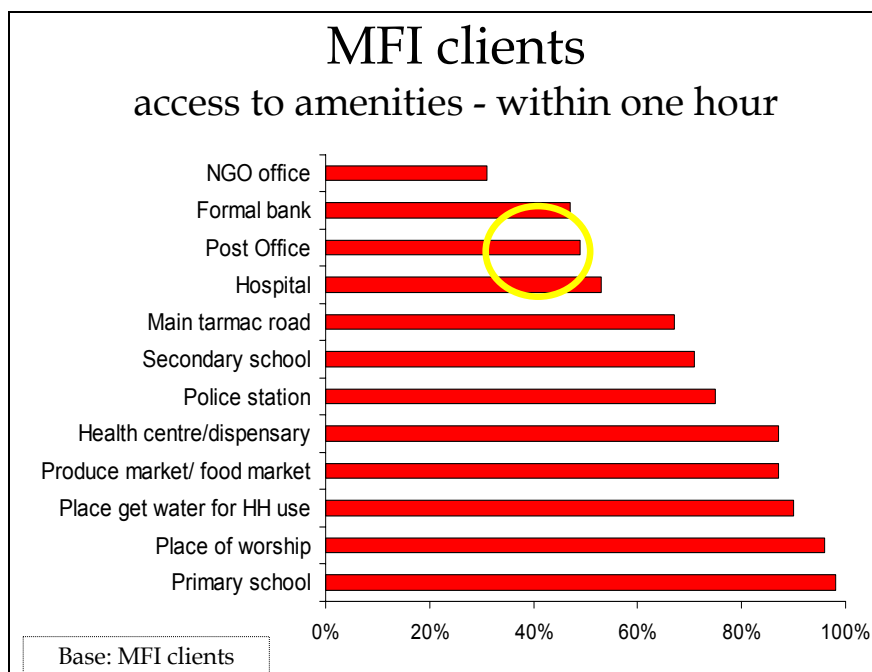


Chart 14-15: MFI clients - access to amenities - within one hour

It is encouraging to note here that 98% of MFI clients are within one hour of a primary school. When it comes to access to formal financial organisations, the figure drops to less than half: 47% agreed that they were within reasonable distance of a formal bank, while 49% said a Post Office was within reach. It should be remembered that most MFIs are in urban areas. The picture also shows that the barrier of physical access to a formal financial institution is not the only problem.

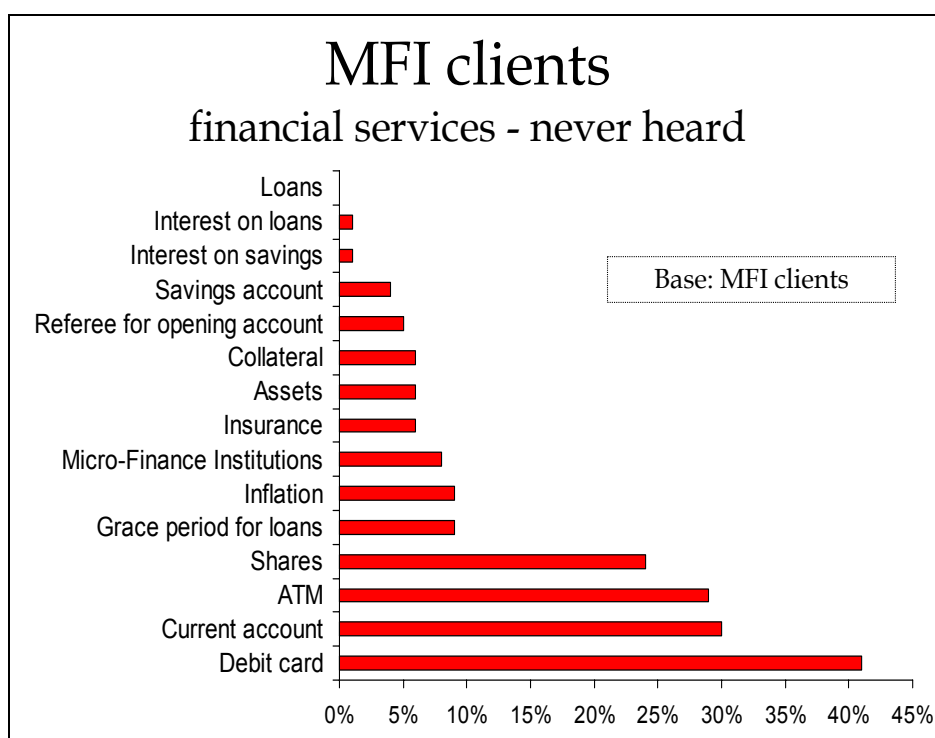


Chart 14-16: MFI clients - financial services - never heard

MFI clients were asked which financial services they knew about. Most people had heard of savings accounts and interest rates, the need for a referee, collateral, assets and insurance. A fifth of those questioned had never heard of shares and two fifths said they had not heard of a Debit card. Clearly there is a need to improve financial literacy. Since the incidence of primary schools within reach of MFI customers is so high, perhaps children could be taught about the various terms and common products at school?

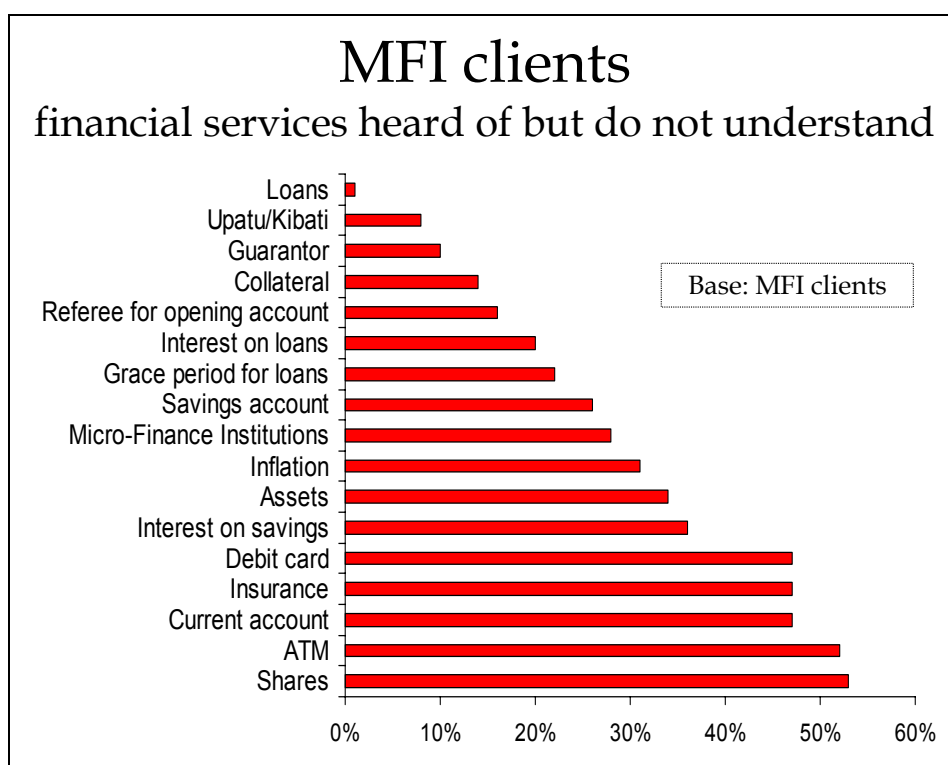


Chart 14-17: MFI clients - financial services heard of but do not understand

MFI customers were also asked about a number of difference terms describing various financial products and services about which they had heard and asked whether they understood them clearly. Once again a need for more and better education was indicated by their replies: about half of those questioned had heard but failed to understand the terms debit card, insurance, current account, ATM or shares. Nearly everyone asked had both heard about and understood the meaning of a loan.

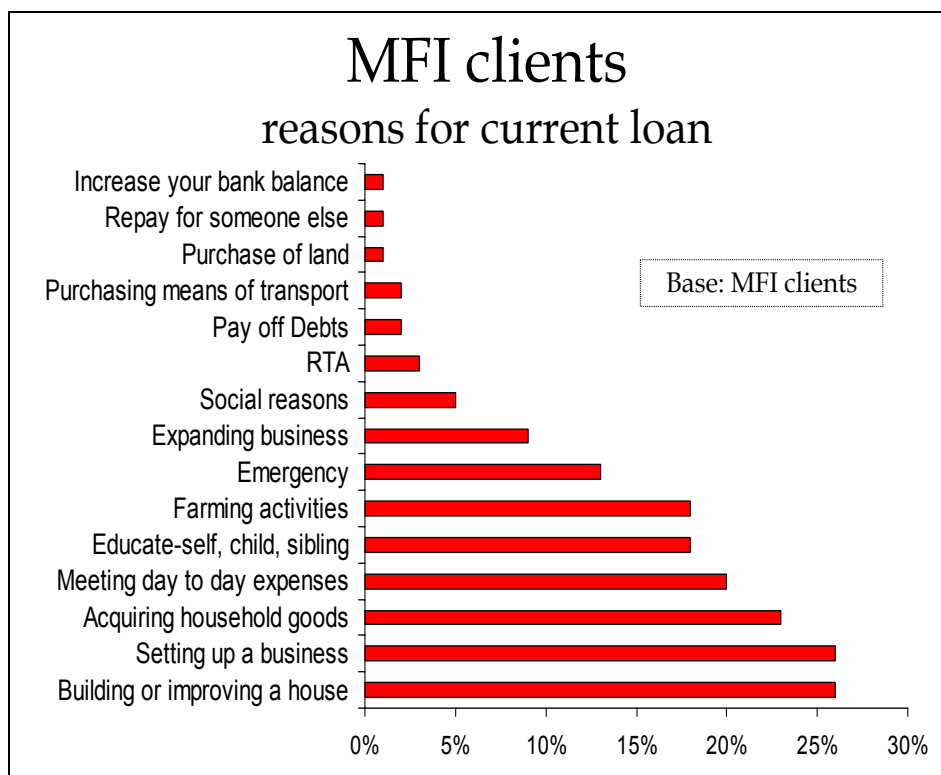


Chart 14-18: MFI clients - reasons for current loan

MFI customers were asked for what purpose they wanted their loan. Just over a quarter replied that they wanted to either build or improve a house or set up a business. A little under that number wanted the money to buy household goods and a fifth said they needed the loan to meet day to day expenses. Another fifth needed the money for educating either themselves, a child or sibling.

14.5 Informal savings societies

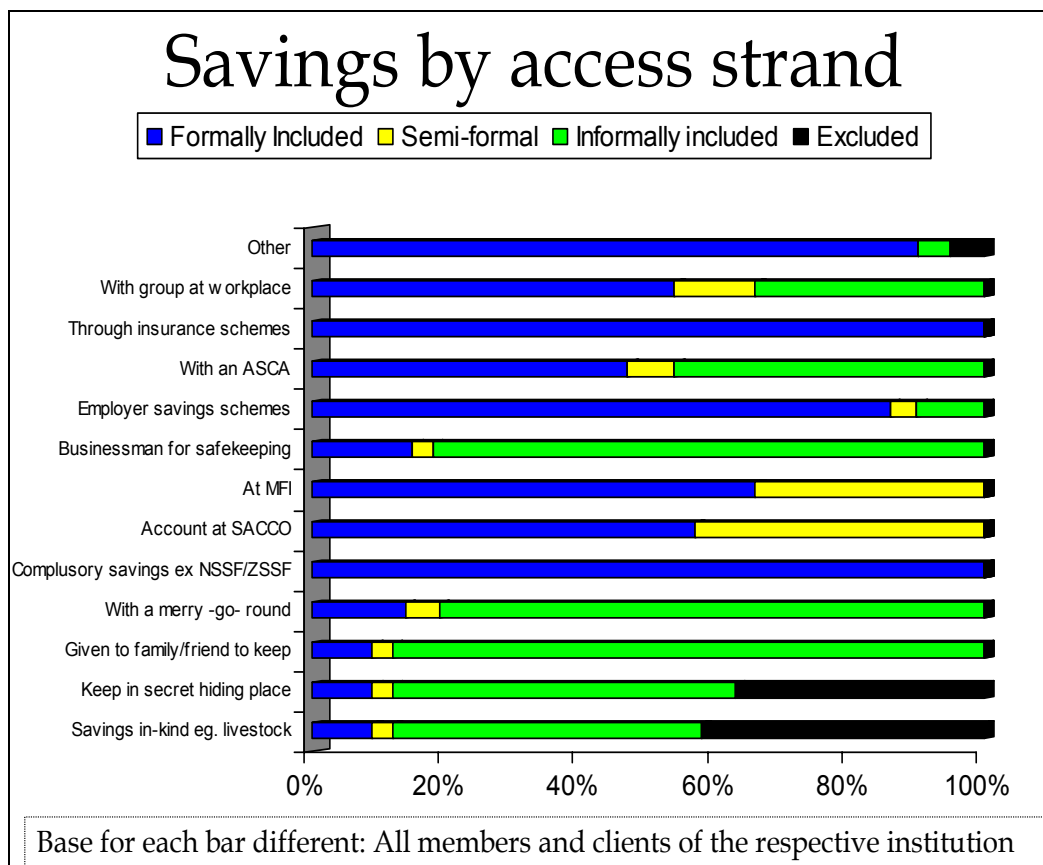


Chart 14-19: Savings by access strand

In this graph each bar has its own base. For example in the first bar, of those people who save in-kind, 9% are formally included, 3% are in the semi-formal category and 46% in the informal. Of those who used to make compulsory savings (ex-NSSF) 100% are formally included, etc. The figures are not mutually exclusive.

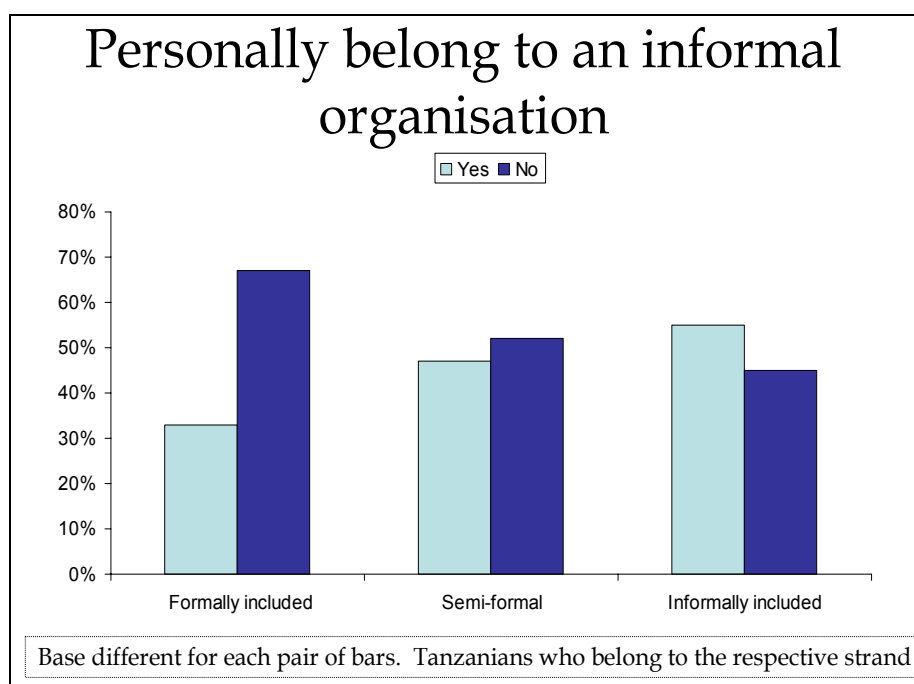


Chart 14-20: Personally belong to an informal organisation

Respondents were asked whether their membership to a informal society was in a personal capacity. Just under half those belonging to the semi-formal category replied that it was. The highest incidence of belonging to an informal society are informally included only.

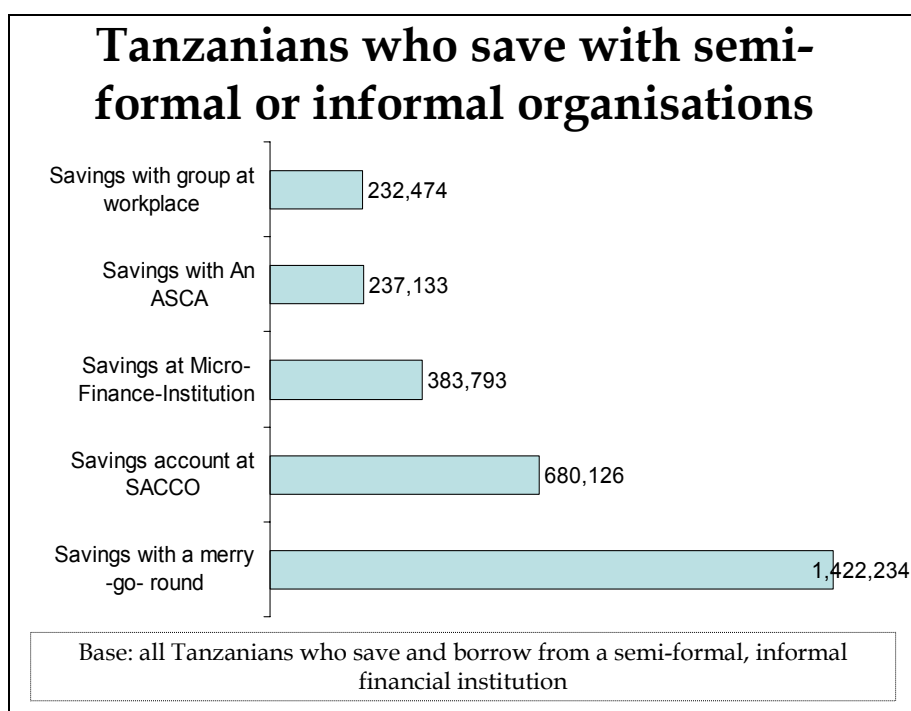


Chart 14-21: Tanzanians who save with semi-formal or informal organisations

Respondents were asked if they currently had savings with various different organisations and institutions. The greatest number, just over 1,400,000 admitted to saving with a merry-go-round, falling to 680,000 who use SACCOs. This figure drops to just under 400,000 who have a savings account with an MFI. Fewest people saved with a group at the workplace. There is clearly scope to increase the numbers of people who choose and MFI to save with.

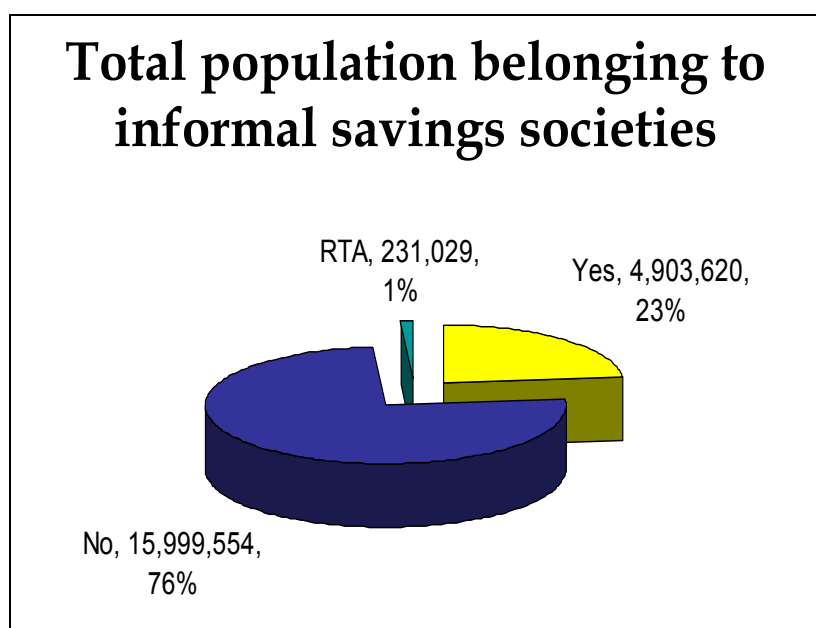


Chart 14-22: Total population belonging to informal saving societies

Three quarters of the population said they did not belong to an informal savings society – a huge potential market for financial service providers.

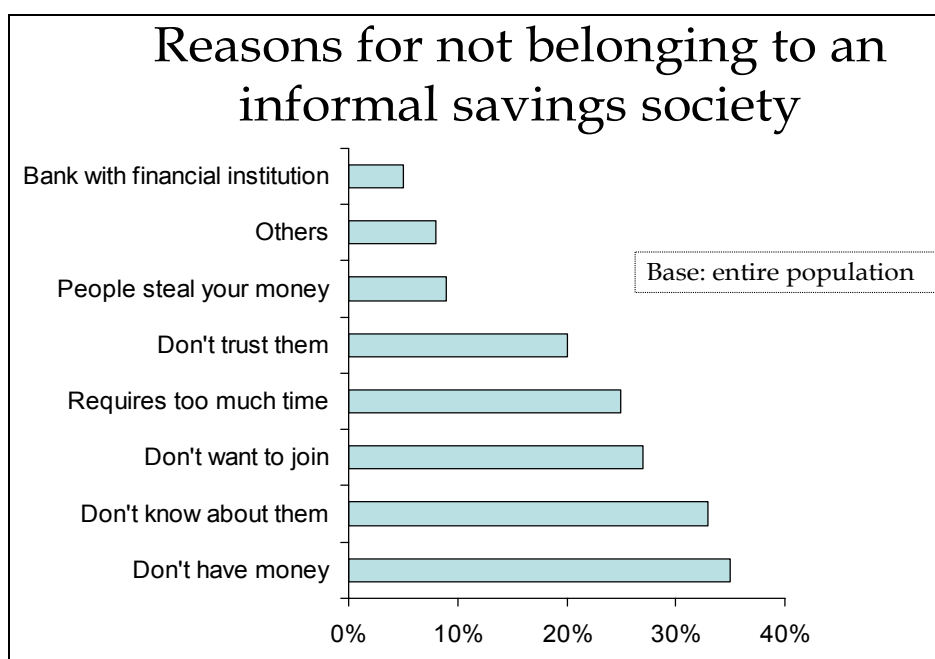


Chart 14-23: Reasons for not belonging to an informal savings society

Respondents claimed many other reasons for not belonging to an informal savings society including the fact that they simply did not know of their existence – 33%. Lack of knowledge and trust account for many more. A

population which is not financially literate cannot be expected to engage with the financial industry. Education is key.

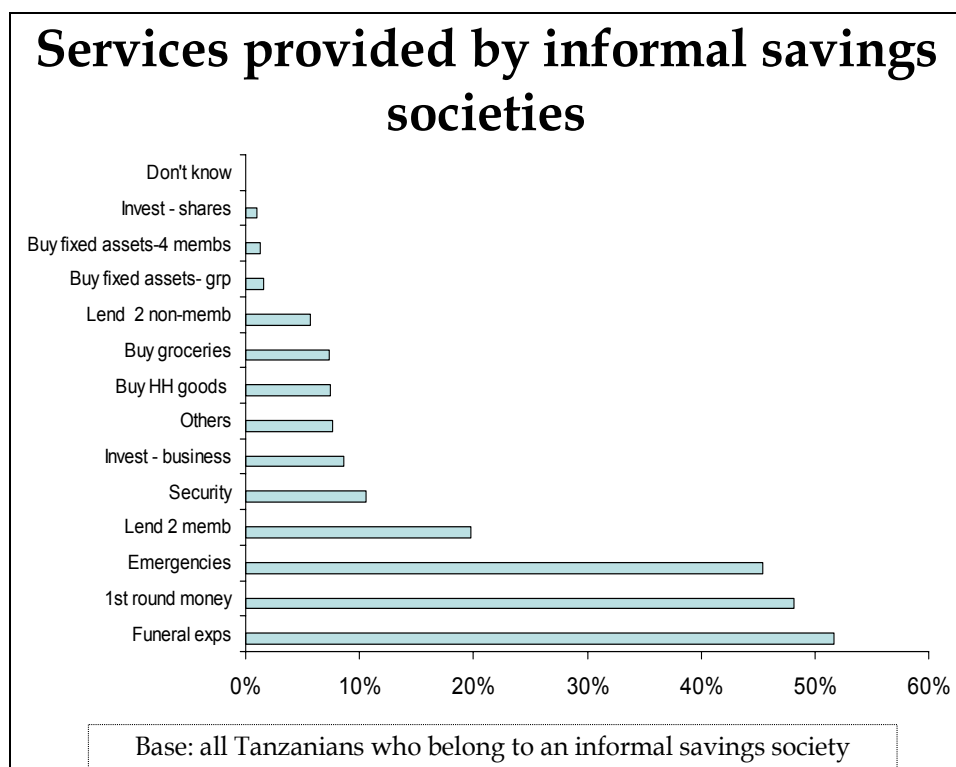


Chart 14-24: Services provided by informal savings societies

Perhaps the most startling fact made clear in this chart is that funeral expenses are the most common reason people need extra money. Emergencies of various kinds constitute another large proportion - 45%.

Members can, in an emergency, take money from the collective savings pot- 1st round money

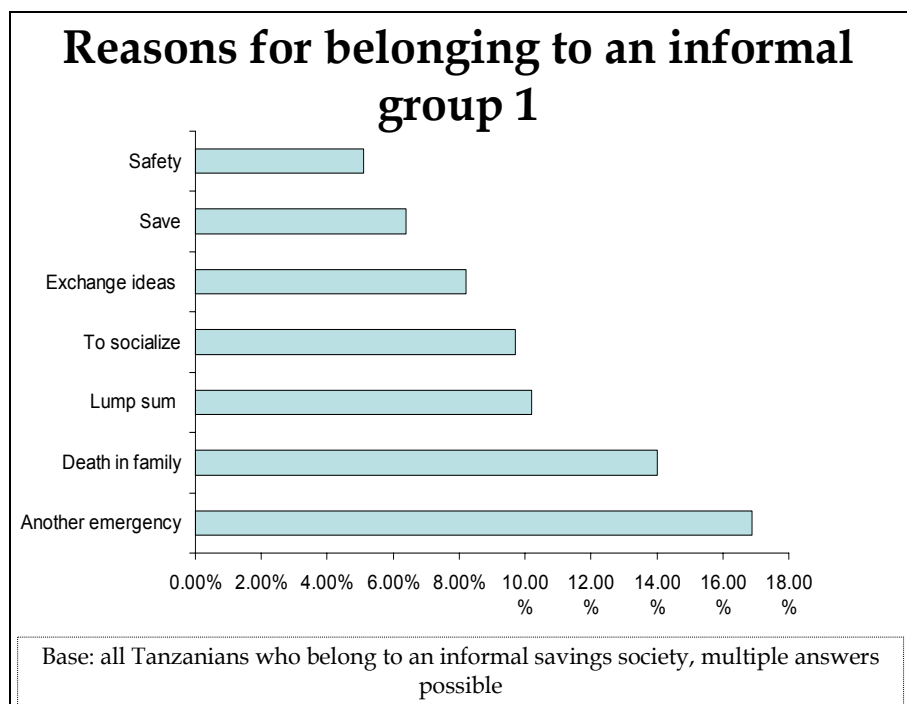


Chart 14-25: Reasons for belonging to an informal group (1)

The most common reason people gave for belonging to an informal group was to have help in an emergency. Funeral expenses were mentioned again as a priority and others admitted that their membership was as much to do with the social aspect and the exchange of ideas and information as it was to gain any kind of financial advantage.

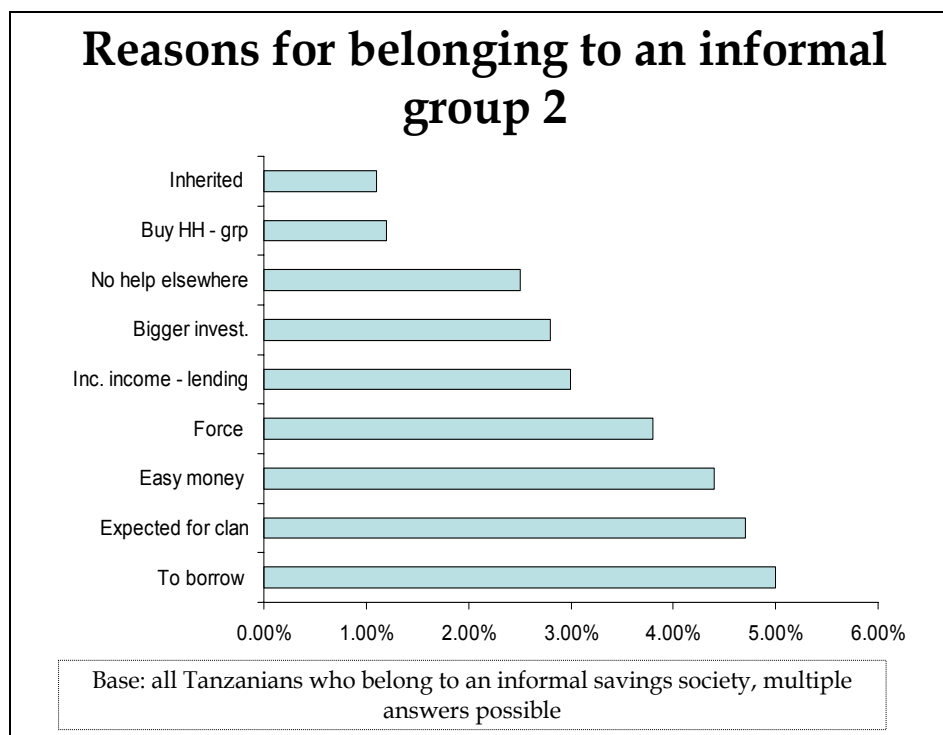


Chart 14-26: Reasons for belonging to an informal group (2)

A primary reason people want to join an informal group is to borrow money either for themselves or their families. It is considered a relatively easy way of getting hold of money quickly, and often there is no way of finding finance anywhere else.

14.6 Workshop 7th June 2007

25 representatives from a wide range of microfinance institutions took part in this workshop, 20 of whom said financial services was their main focus. Other market segments included business development services, agriculture, communication and education.

- Most people found the workshop was about the right length, though a significant 20% claimed it was too short, that they were eager to learn more and would have been willing to spend one or two days doing so!
- It is clear that many people would have appreciated more time for the discussion, typically at the end of the morning, in which all participants could exchange views and opinions.
- This workshop was conducted in English which all found easy to understand. The majority understood the analysis, though 8 found it too broad.

15 FinScope for research professionals

- Information contained in FinScope dataset
- How to use FinScope data

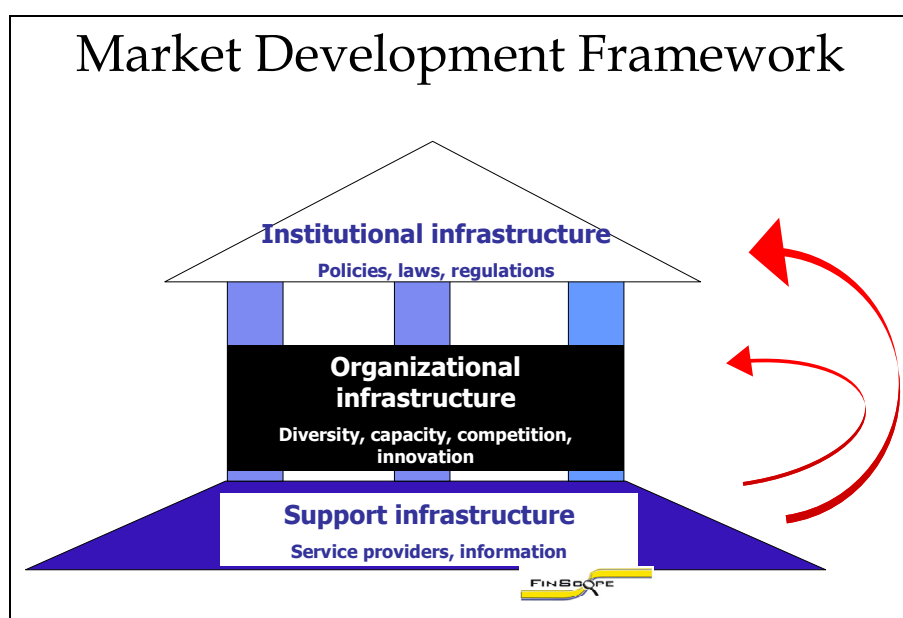


Chart 15-1: Market development framework

For FinScope information to be used effectively it needs to be prepared, processed and digested. Research professionals and marketing people will have to interpret FinScope data for individual and/or institutional users. What makes sense to whom, depends on the particular need of each client.

The first task for the researcher is to discover exactly what the client needs from the FinScope analysis. Having decided, the s/he then needs to select the corresponding raw data so that it can be mined and analysed. Once the relevant information has been teased from the data, it can be used to inform and guide decisions on diversification, capacity building and the development of new

products and services. It can also sharpen competition within the industry and help to improve services for the customer.

FinScope information can also inform the decisions of legislative and executive authorities to adjust and adapt the policy and regulatory framework.

15.1 Demands responses from private sector, governments and donors

1. Private sector (*Organizational Infrastructure*)
 - How can we deliver services profitably to the poor? What products are appropriate for them?
 - Where are the new market opportunities?
2. Governments (*Institutional Infrastructure*)
 - How should we support private/MFI/informal provision?
 - Can we change the regulatory regime to
 - i. remove market obstacles
 - ii. encourage competition?
 - How can we encourage innovation?
 - Should we supply the services ourselves?

The term organisational infrastructure is used to describe the response of the private sector financial service providers to demand.

The term institutional infrastructure is used to describe the public/government response to demand. This includes for example, the Bank of Tanzania, Ministry of Finance and other authorities with impact on the financial sector.

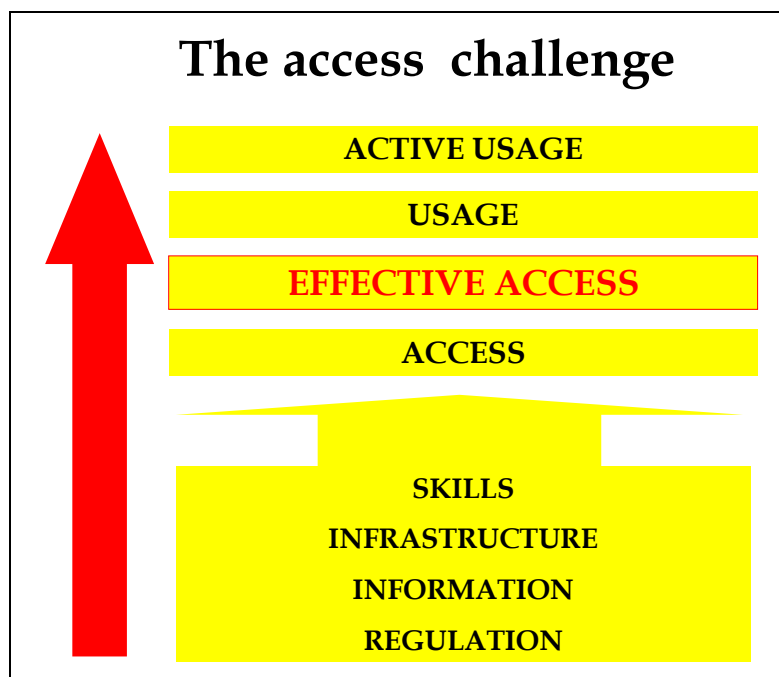


Chart 15-2: The access challenge

The chart explains the process of deepening the financial sector. FinScope information is an important tool and can be used in many tasks: to inform regulation, help define and promote necessary infrastructure, and highlight the need for certain skills development. Together these add up to create greater access for more people, especially the poor.

In the first instance, access means offering the financial services which already exist in a more attractive and utilitarian way. Much more needs to be done to allow people easy and efficient use of the facilities which best suits their individual needs.

15.2 Measuring access to finance

- Access is important, but usage is key
- It is necessary for governments to know:
 - what the state of access is
 - how policy initiatives are improving access over time
 - how it compares with other countries
- Private sector wants to know:
 - who is using a particular product
 - where they are (or are not)
 - opportunities for innovation and expansion

- Financial markets must take into account:
 - physical access
 - appropriateness of products
 - affordability
- Informal is as important as formal – therefore demand-side measurement is key
- Evaluate the context in which financial decisions are made
- Spatial mapping completes the picture
- What does the community tell us about people's attitude towards risk?
- What access do people have to advertising media?
- What do people aspire to in life? How do they feel about their outlook, an important factor when measuring their propensity to buy
- Location – where are consumers in relation to communication links – roads, rail, rivers, retail outlets, etc?

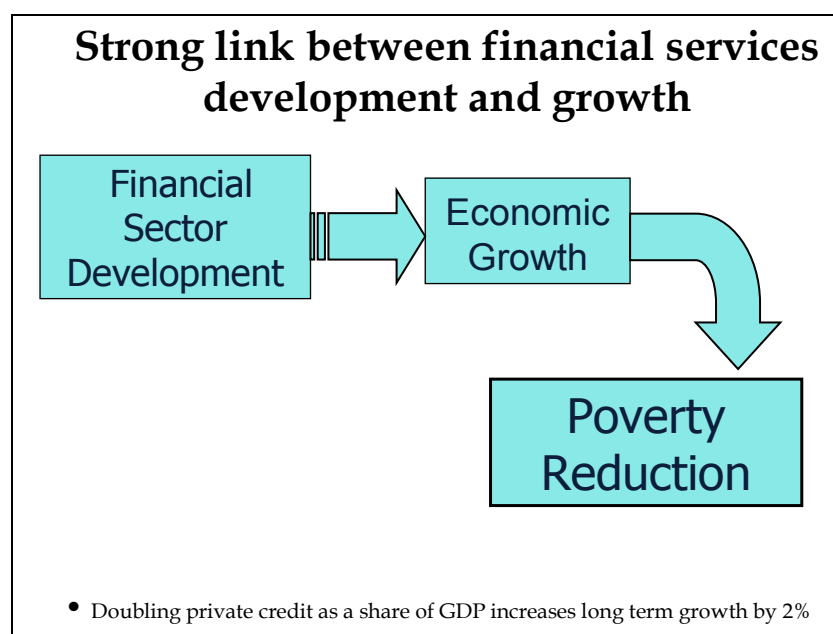


Chart 15-3: Strong link between financial services development and growth

There is a correlation between the development of the private sector and poverty reduction. Of course it is only one among many other conditions for poverty reduction.

15.3 Questionnaire content

Financial literacy

FinScope collects information related to financial literacy. People were asked questions related to these three areas.

15.4 Reach of financial services

- Experience of formal products and services – ba accounts, housing products, loans, etc.
- Where product / service is located.
- Banking classification – banked, un-banked, previously banked.
- Other informal services used.

FinScope collects information related to the penetration of financial services. Respondents were asked questions related to these four areas, their information revealing the extent to which different types of financial service are being used.

Reasons for not having services

- Reasons for not having a bank account
- Reasons for not having an insurance policy
- Reasons for not having a personal loan

FinScope asked people to give their reasons for not using formal financial products. They were asked questions related to these three products.

Overall perceptions of financial products and institutions

- Image perceptions of banks, insurance companies, micro-lenders, informal lenders, financial attitudes.
- Agree / disagree statements relating to financial activity.

FinScope has collected information related to the overall perceptions people had towards products, services and various financial service providers – in other words what they think and feel about products and services and certain service providers. People were asked to choose the attributes which they associated with certain providers, together with their attitude towards certain financial products and services.

15.5 Banks

- Reasons to have a bank account
- Personal account used
- Frequency of banking
- Transactions regularly conducted
- Usage of channels e.g. branch, ATM
- Banks currently used
- Negative bank experiences
- Banking behaviour patterns

FinScope has collected information related to bank products, the way they are used and experience people have with them product, service or provider. Respondents were asked questions related to these areas in order to understand their motives and habits.

Credit and loans

FinScope has collected information related to credit and loans – if and where they have been used and the reasons for doing so.

Savings and investments

Tanzanians view the concept of savings and investments differently from their developed world counterparts. People save, but often in a way that it is also an investment, for example in-kind savings in livestock. A cow or goat will produce an income while it is kept, and another lump sum when it is sold. Savings which are also investments are favoured because of this dual return.

Therefore FinScope has collected information related to savings and investments. Respondents were asked what they did with any excess money, and whether or not they perceived it as investment.

Decision making

FinScope has collected information related to decision making. Respondents were asked about their involvement in financial decisions of the household, whether risks involved were assessed and what coping strategies and basic needs they adopted.

Everyday quality of life

FinScope has collected information related to everyday quality of life. Psychographic variables can be defined as any attributes relating to personality, values, attitudes, interests, or lifestyles. They are also called IAO variables (Interests, Attitudes, and Opinions). These can be contrasted with demographic (such as age and gender), and behavioural variables (such as usage rate of financial services).

Housing

FinScope has collected information related to the housing situation to explore what problems people face and how they deal with them.

Informal savings societies

FinScope collects information related to informal savings societies. Many Tanzanians are members of informal savings societies with no formal character.

Cellphone ownership / usage

FinScope collects information related to access and use and type of phone facility.

Source of money

- Ways in which people obtain money
- Frequency of getting money from source
- How money is received (cash etc)

Income demographics

- Monthly personal income
- Monthly household income
- Employment status

Personal demographics

- Age
- Gender
- Community size
- Dwelling details
- Education level

Household demographics

- Household size – total
- Household size – income earners
- Household size – looking for work
- Household size – under 16
- Whether head of household

Questionnaire themes

After concluding the first entire cycle of FinScope Tanzania, it becomes clear which questions need to be omitted, edited or added to the next survey.

FinScope is not....

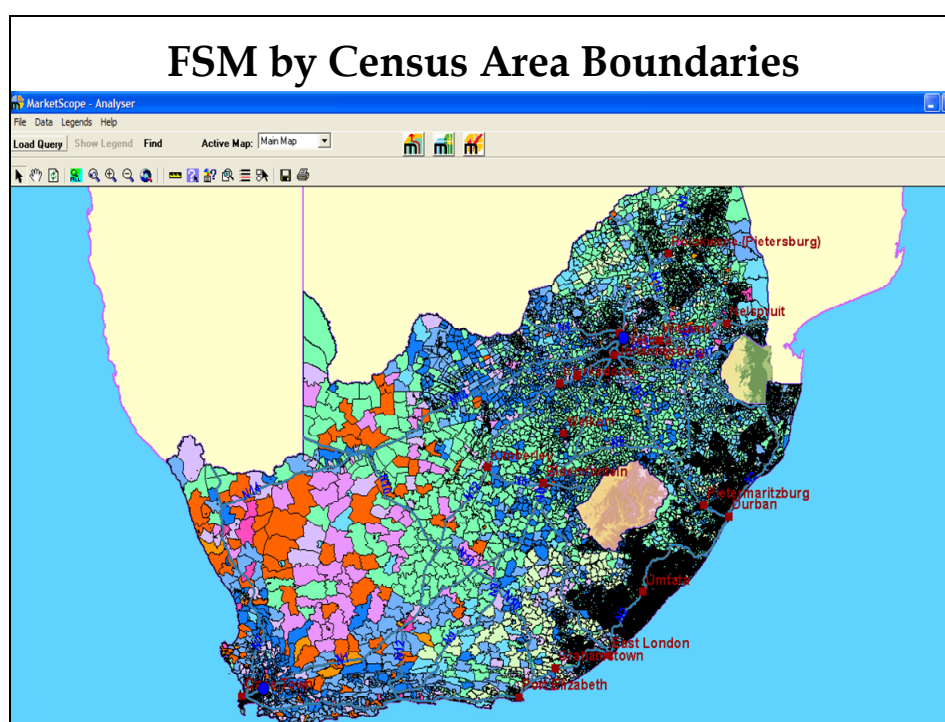
- an enterprise / SME financial survey
 - Questions on informal employment are proxy
 - SME pilot being planned
- a supply side survey
- a banking only survey
- a proprietary solution
 - Questionnaire freely available
- a profit making venture
 - Seeks a self-finance through public / private funding
- the only solution
 - Information requires interpretation
 - Advocacy needs complementary tools

FinScope is a consumer demand survey and is often erroneously expected to provide information related the other socio-economic phenomena. FinScope investigates the individual demand for financial services.

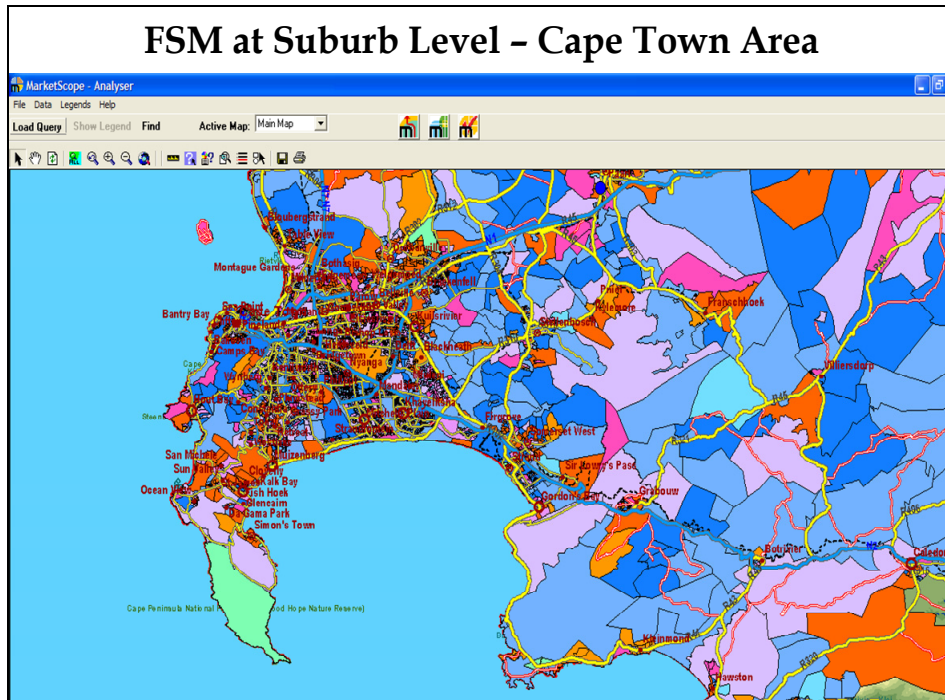
Survey mapping

The FinScope data can be fed into a geographic map of Tanzania which then becomes a Geographic Information System (GIS). FinScope data can be combined and overlaid with other research data sets, such as the supply of financial services. Market gaps (unsatisfied demand for financial services), then become geographically visible. However a precondition for a GIS is the spatial mapping of Tanzania, which is beyond the scope of FinScope and any individual research project.

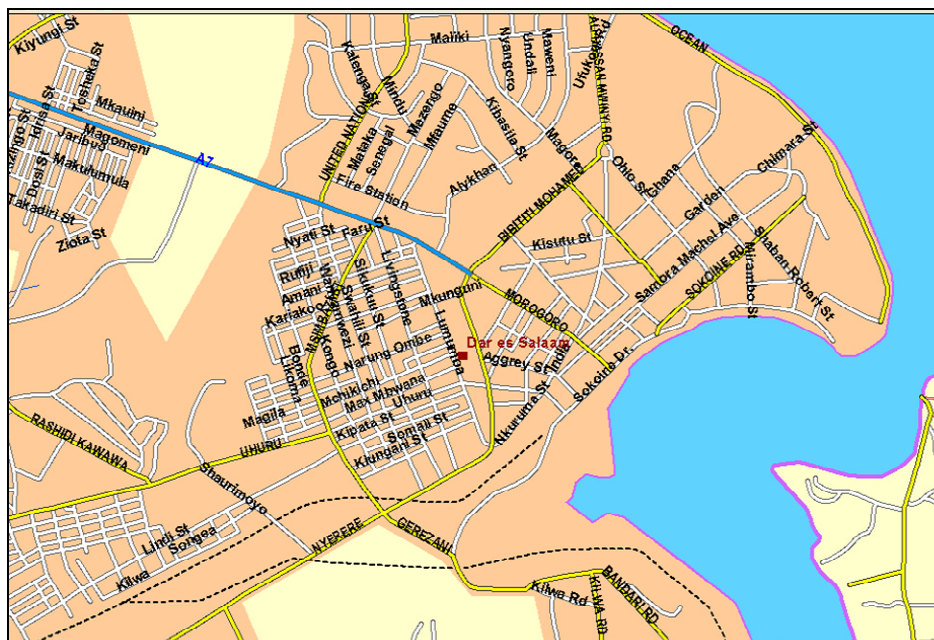
Mapping



This is a Geographic Information System of SA. Two sets information are overlaid as layers: firstly it displays the census area boundaries (geographical units determined by the census by population density). Secondly it displays the occurrence of FSM categories (colours). FSM categories are segments of the population grouped together by a set of characteristics related to the demand of financial services.



This map displays segments of the population (FSM categories), in the suburbs of Cape Town. The information it contains allows financial service providers to diversify and extend their customer portfolio and supply a specific group of customers.



This electronic map of the city centre of DSM has the potential to display FinScope information.

15.6 Summary of challenges within financial markets

Impediments to financial markets

- Low levels of financial literacy
 - real exclusion
 - self exclusion
- Poverty as a barrier
 - levels of unemployment
 - income levels
 - rural dwellers are generally poorer than their urban counterparts
- Poorly developed infrastructure
 - roads, communications, electricity, transportation etc
- Access to amenities

A combination of these factors to:

- Lower participation and poor financial accessibility
- Increased transaction costs per monetary unit of financial intermediation
- Increased risks for any financial institution attempting to serve rural clients
- Financial services available are provided by informal agents or mechanisms which offer a narrow range of financial services to limited customers

15.7 Workshop 27th June 2007

Number of participants: 18
 Completed evaluation forms: 18

Representatives from the following market sectors attended this workshop:

- | | |
|------------------------|----|
| • Business development | 12 |
| • Financial services | 6 |
| • Insurance | 4 |
| • Pensions | 3 |
| • Hire purchase | 1 |
| • Telecommunications | 1 |
| • Agriculture | 1 |
| • Communications | 1 |
| • Development | 1 |
| • Education | 1 |

Happily, none found it too long, though the representatives of two institutions would have liked more time and detail. All attendees claimed that the discussion time allowed was sufficient and that the language used was easy to understand.

One institution admitted finding some parts of the analysis difficult to understand while two said it was too broad, that although they learned many things they would have preferred a narrower focus. Participants of three institutions also wanted more detail and less range.

However, it is difficult to please all the people all the time, and while one research house thought the workshop was too narrow, while another research house did not find the information provided catered for their specific needs.

More positive were comments on clarity and usefulness of the advice given during the presentation, with which all attendees seemed content.

One research house offered as suggestion for improvements more time for discussion and to leave time to decide what to do next would. One institutions thought that the workshop would have been better had there been more people in attendance and if more of them had been young, possibly university students.

Participants of two institutions thought the workshop had been very good and would like to be involved in anything similar in the future. Representatives of one institution remarked that it would have liked to see more publicity, particularly on the television, so that the public and the Government could be better informed. One research institute felt that there was a need to coordinate researchers.

16 Analysis with focus on mobile telephone service providers

16.1 The use of technology

The increase in and spread of new technology, especially mobile telephony, across Africa is revolutionising the way we do business, the way we communicate, and the way we handle our finances. Tanzania is no exception.

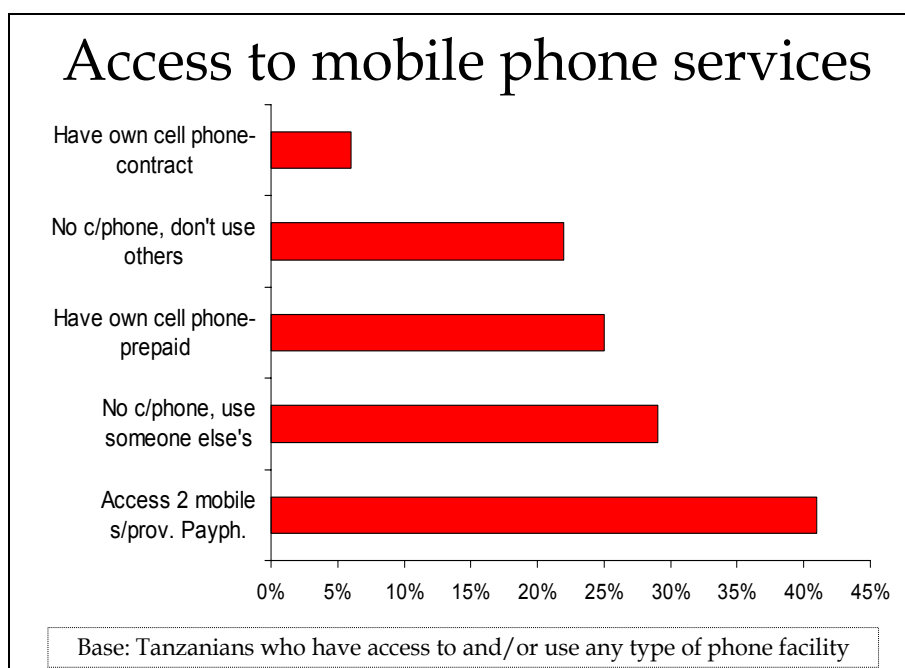


Chart 16-1: Access to mobile phone services

Use of mobile telephone services is increasing by the day. Of those with access of some kind, 41% say they can use a public phone and another 29% say they can use someone else's. A quarter (25%), of the population has a personal, pre-paid cell phone. Just under a quarter (22%) neither has nor use a phone.

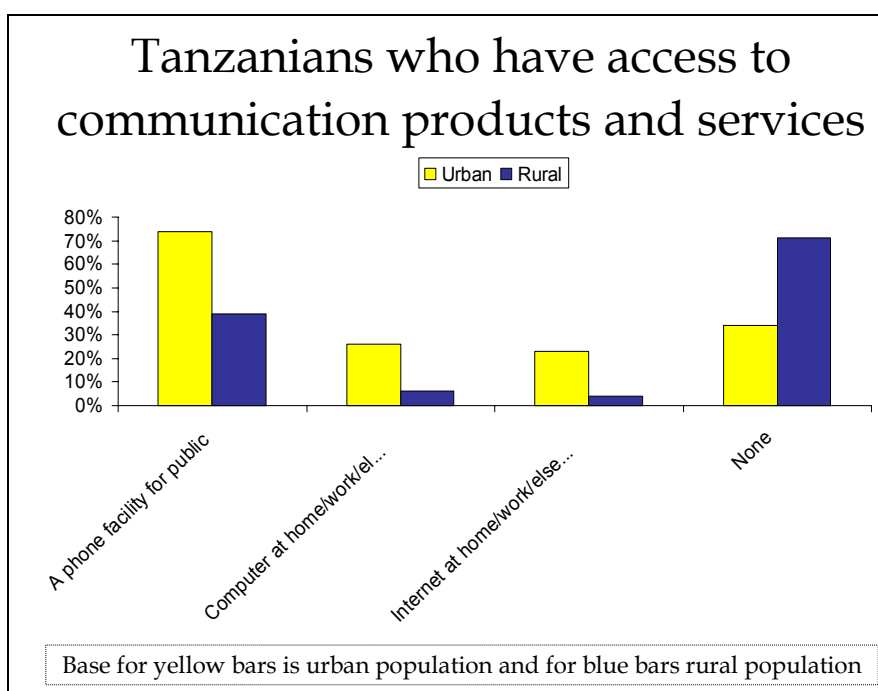


Chart 16-2: Tanzanians who have access to communication products and services

FinScope data indicates that while there is still a long way to go, new technology is already having a significant impact on Tanzanians. Three quarters of the urban population either has a phone or has access to one, while a quarter have a computer at home, work or elsewhere which they are able to use. A quarter also has access to the internet.

In rural areas the picture is rather different, and there is massive potential for development. Very few have access to either a computer or the internet but even so, 30% have access to some new technology. Nevertheless, a huge majority (over 90%) of the population admitted that they would like to learn more about the various technologies and how to exploit them.

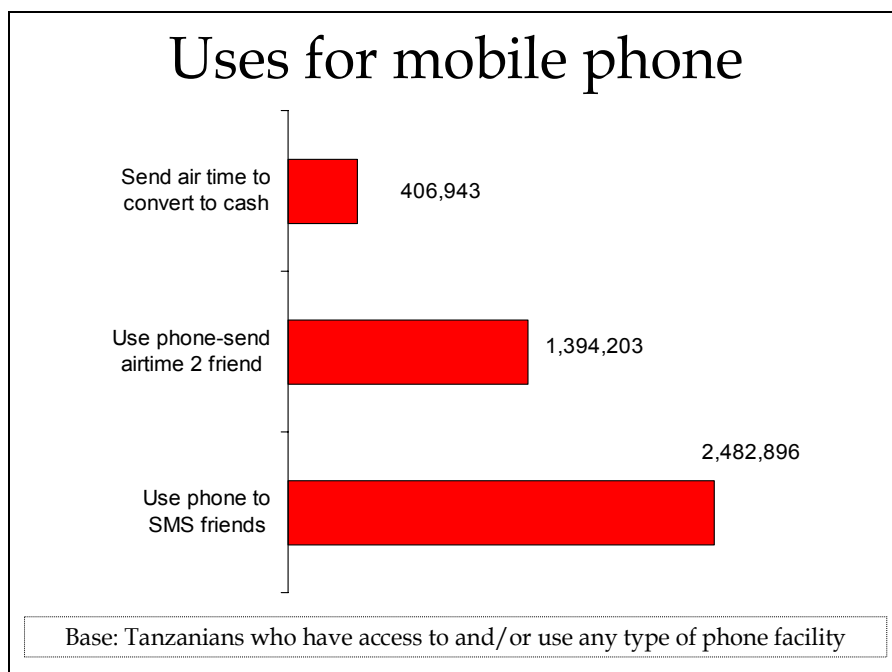


Chart 16-3: Uses for mobile phone

The majority of phone users in Tanzania use them to sms friends. Others send airtime to a friend or to someone who can convert it into cash, a sign that people are already beginning to understand the scope of technology for themselves. Although most Tanzanians do not own a phone, the potential to do so is enormous. New methods of telephone banking are being developed as well as a variety of other options using the new technology.

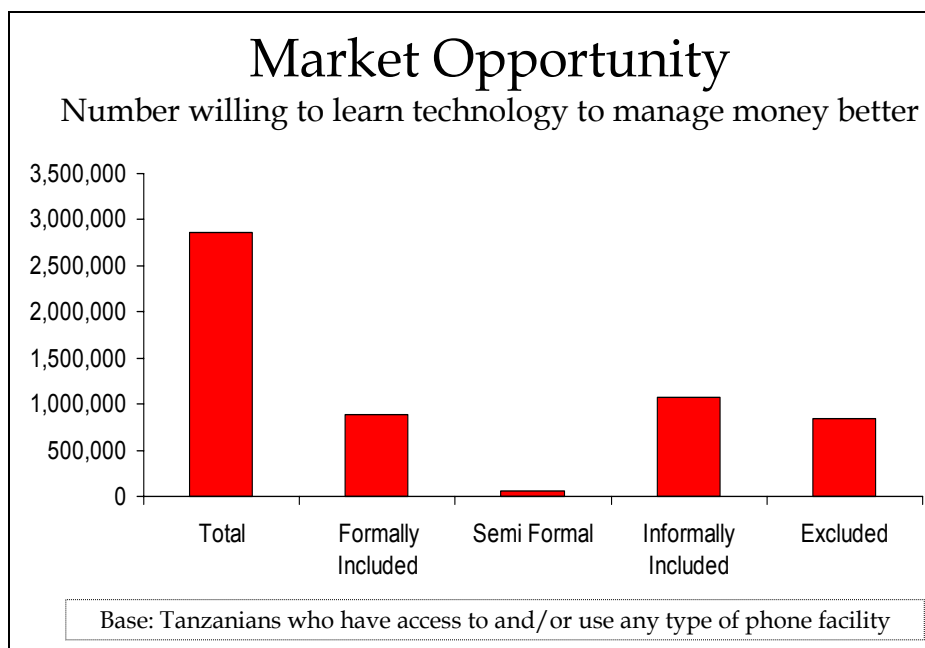


Chart 16-4: Market opportunity

Respondents were asked if they would be willing to learn about new technologies to manage their money more efficiently, and nearly 300,000 of those who have some kind of access said they would. Oddly, the least willing seem to be those fall in the semi formal category. The most willing are informally included, followed by the formally and then totally excluded. The potential to develop different methods of business and banking is huge, particularly in rural areas where infrastructure can be sparse.

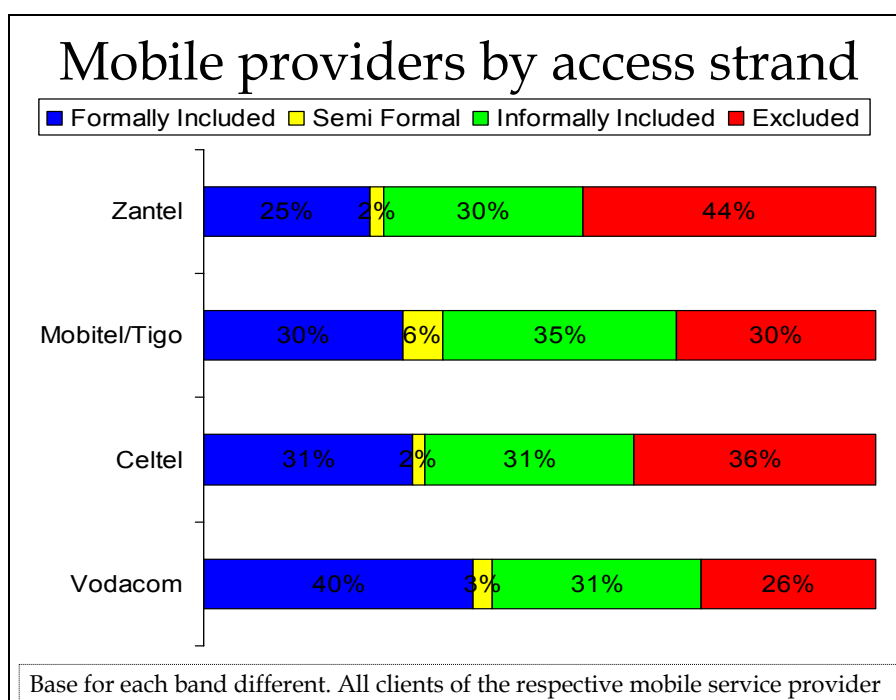


Chart 16-5: Mobile providers by access strand

There are several different mobile phone companies selling in Tanzania. Vodacom, one of the largest, takes 40% of its market from those who are in the formally included category, and fewest from the semi-formal groups. Interestingly, Zantel has the highest number of customers in the financially excluded sector.

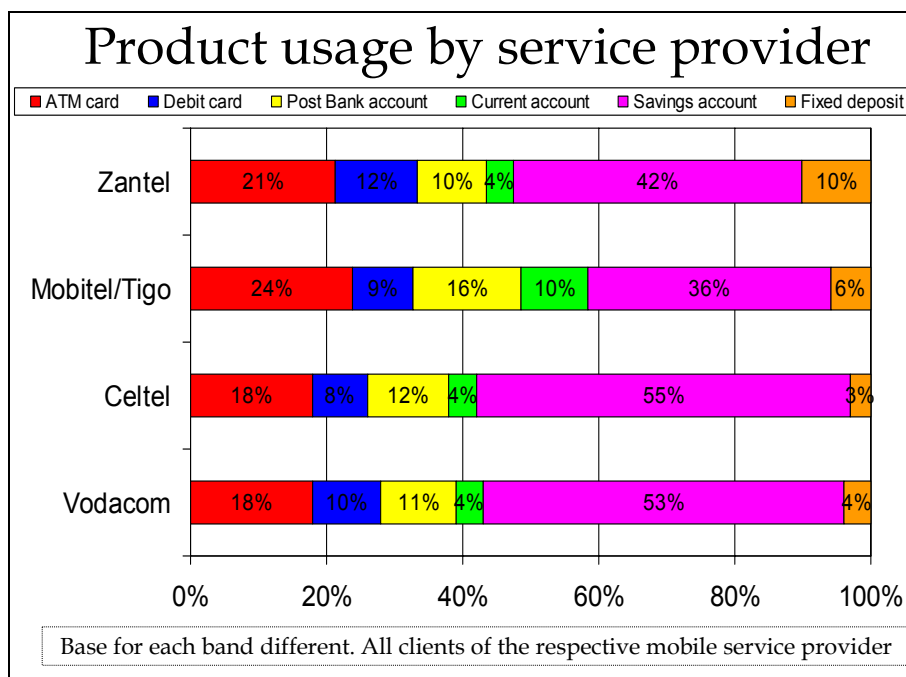


Chart 16-6: Product usage by service provider

This chart gives another perspective, looking at financial products in relation to service provider. For all phone companies, the largest category of people is those who have a savings account, followed by ATM card holders. Is there an opportunity to work with the banks to promote technology and educate the market about how it can transform the way customers deal with their finances?

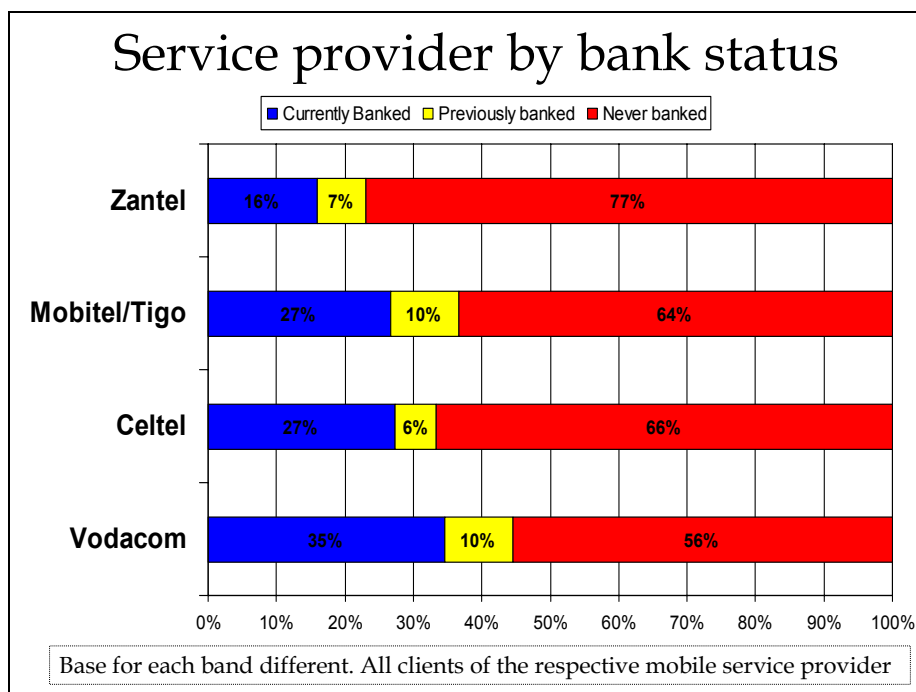


Chart 16-7: Service provider by bank status

The chart above shows that people who have never had a bank account form the majority of customers of each mobile phone company. Vodacom can boast the largest number of customers (35%), who fall into the formal banking sector while Mobitel/Tigo and Celtel both have 27% of customers in the same category. Zantel is the most common service provider in Zanzibar where the numbers of people who have never banked are higher than the mainland. This accounts for the high percentage in this category.

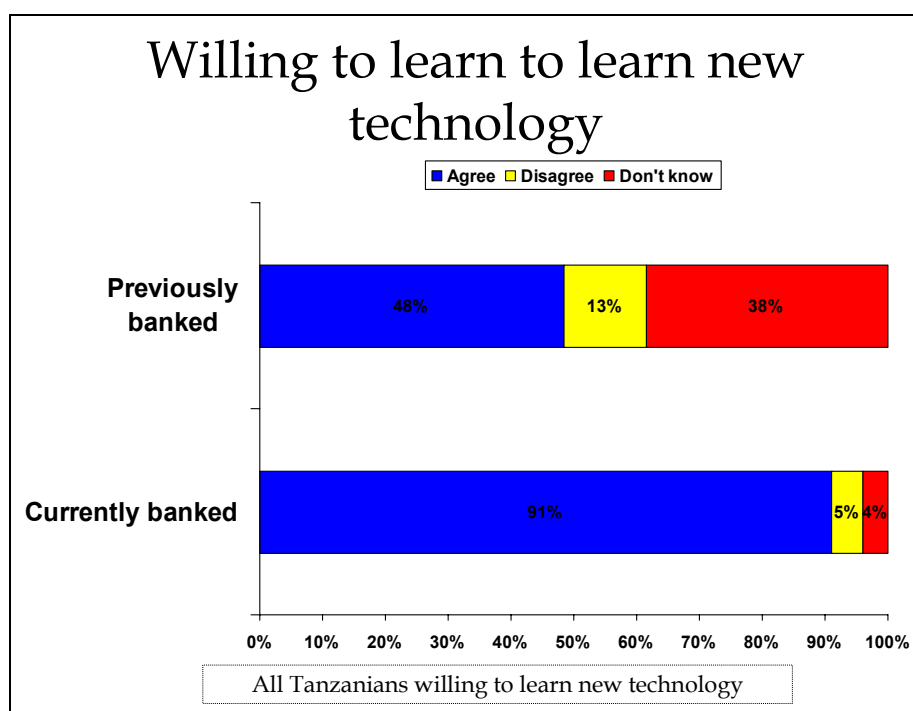
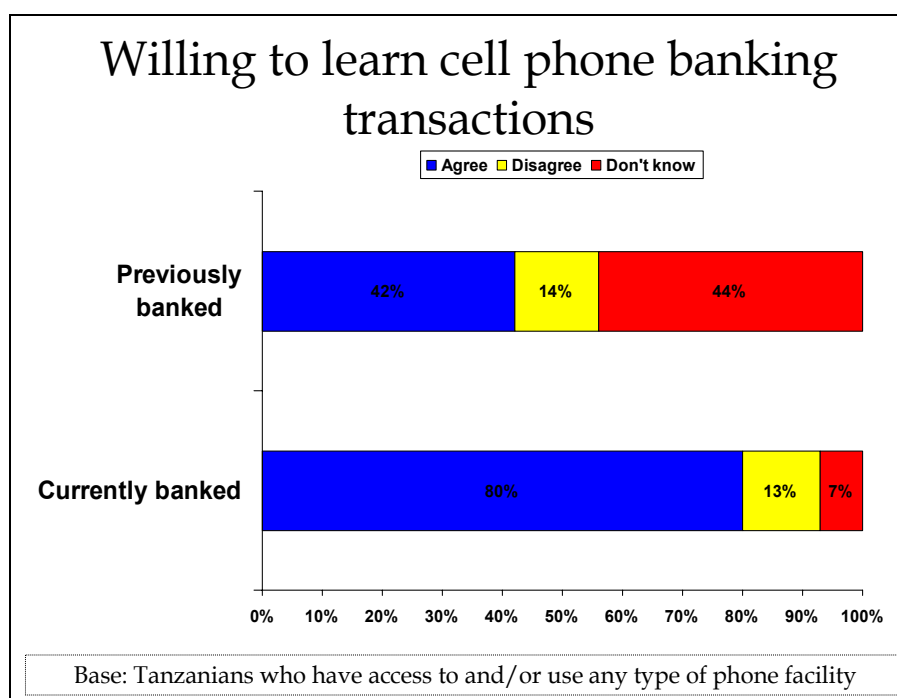


Chart 16-8: Willing to learn new technology

People who have a bank account (who tend to be better educated), form 91% of those willing to learn more new technologies. The figure drops to just under 50% of those who previously had a bank account. It is clear that those who are better informed and educated are more open to learning about – and how to use – new technologies.



Focusing on mobile phone banking, respondents were asked if they would be willing to learn how to undertake bank transactions. A massive 80% of people who have a bank account responded positively. However, those who had once had a bank account but no longer keep it, are less willing to learn. The figures make it clear once again, that education and an improvement in the financial literacy rates are key to the expansion of this sector.

16.2 Conclusion

Current trends and the future of new technology in Tanzania

It is clear that new technologies, particularly mobile telephony, the internet, wireless and satellite communication are becoming a major part of every day life for urban dwellers in Tanzania, and that it is only a matter of time before they reach the more remote areas. The potential and power of such technology is being experienced throughout the world. Tanzanians will undoubtedly benefit from the lessons they learned first.

The FinScope data reveals an enthusiastic energy waiting to be instructed about the new technologies. There is a great appetite to learn more, to use more and to benefit more from these new developments. Banks and other organisations throughout the financial sector together with business leaders and the government need to be aware and ready to exploit new methods of undertaking business offered by all new technologies.

There are several opportunities waiting to be exploited. 90% of the population is prepared to use new technology, a figure which represents huge potential for application. Innovative products are being introduced into neighbouring African countries which use a range of new technologies. Tanzania should take note and do the same!

Results already published suggest that people are ready, waiting and hungry. More data is available for analysis in this sector, data which could be invaluable to the future of this industry in Tanzania. You are invited to ask for analysis which would best support your industry and help to it grow. At the same time, you will be helping to make markets work for the poor in Tanzania.

16.3 Workshop 28th June 2007

Number of participants:	6
Completed evaluation forms:	5

Participants from business development services, communications and telecommunications attended this workshop. All seemed happy with the length and felt they had been given sufficient time for discussion. Equally, they found the analysis and language easy to understand. The representative from Tanzania Bankers was the only participant who expressed the view that the information had been too broad and would have appreciated more detail.

One mobile service provider suggested that the workshop could have been improved by inviting more attendees and by providing a follow up workshop coordinating the Bank of Tanzania, more mobile phone operators and banks.

17 Launch presentation

The following copy of the presentation has been included in this ebook so that it can be re-used by anyone wishing to give an instant overview of FinScope Tanzania to interested parties.

FinScope Survey 2006

Demand for financial services
and barriers to access

Presentation Programme

1. Welcome speech, Canadian High Commissioner
2. Key-note speech, Hon. Minister of Finance
3. Introduction to FinScope
4. Top-line findings
5. Dissemination strategy
6. Questions and answers
7. Press conference

Introduction to FinScope

Ian Robinson
Technical Director
FSDT

Why FinScope?

- First national consumer perception survey:
 - Individuals' views of total money management
 - Formal and informal services
 - Attitudes and behaviours
- Credible, robust, scientific approach
- Comprehensive market landscape – rich to poor
- Proven multi-nation study within Africa

The survey is the first to ask the average person what he or she does to source and manage money and for their views on the available financial services – and why they can't get them.

The survey covers Zanzibar as well as the mainland.

It builds on a methodology that has been proven first in South Africa and then in a number of other countries in southern Africa. More recently, it has been rolled out in Zambia, Kenya and Uganda, as well as Tanzania.

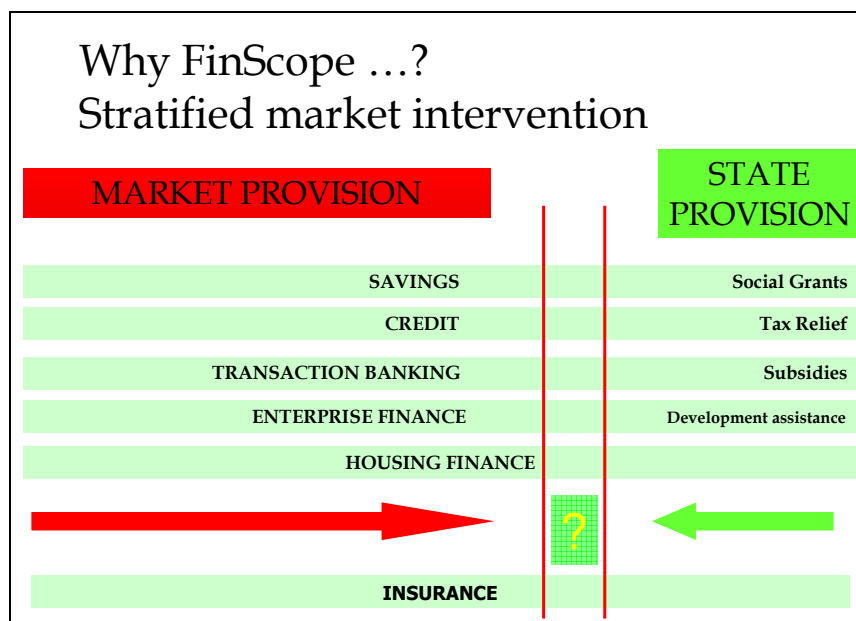
Why FinScope?

- Support for Government development initiatives
- Insights for commercial service providers (including MFPs), NGOs and development agencies to innovate services and products
- Allows planning and interventions focused on specific market strata and segments

FinScope ensures a baseline measurement of the extent of access to financial services and the barriers and challenges inherent in accessing these.

Data from the survey can be analysed from multiple perspectives and this presentation affords just a small insight into the wealth of information available to FinScope users.

FinScope is an invaluable tool in understanding the financial landscape, composition and structure of the consumer market. Through this we are able to classify users of financial services along the continuum of access. Having done this it becomes apparent that a need for a stratified approach to serving the social and economic needs of the people is needed.



Government has a variety of essential roles, including being a safety net for the poor.

Market service providers cannot be expected to reach 100% of the population, since at a certain point it will be un-economic for them to do so. For sound economics and functioning market places, the trick is to keep the un-served segment as small as possible.

This chart shows a series of examples of possible interventions from both private and public sectors. It does not attempt to show priorities.

FinScope affords a continuum - a landscape - of the market and allows for market interventions focused on specific strata and development from all concerned – Government, development partners (including the FSDT), and, last but certainly not least, commercial service providers.

This HAS to be a collaborative effort. If any parties do not buy into this effort, the whole will be weakened and, at the very least take longer to bear fruit; and it might even fail.

Making financial markets work, especially for the poor, calls for practical solutions and a compelling case for collaboration between the private sector, government and development partners. Financial sector development and access to finance are parallel processes and both need private initiatives and political will.

Market drivers

- Demand
- Access
- Affordability
- Financial literacy
- Technology

Embedded in the left-hand part of the previous chart (market provision), are a variety of market drivers.

These elements are the basic components of any effectively functioning market – if any element is under- or over- provided, then the market becomes in some way impaired.

FinScope allows us to analyse and unpack these elements and to begin assessing the state of play of each of them and what it implies for both public policy-makers and private sector financial services providers.

Population profile

- Total adult population 16 years & older = 21 million people
- 57% of adult population under 34 years of age
- The urban/rural split of this population group is 28% and 72%
- There are more women than men in both urban and rural areas

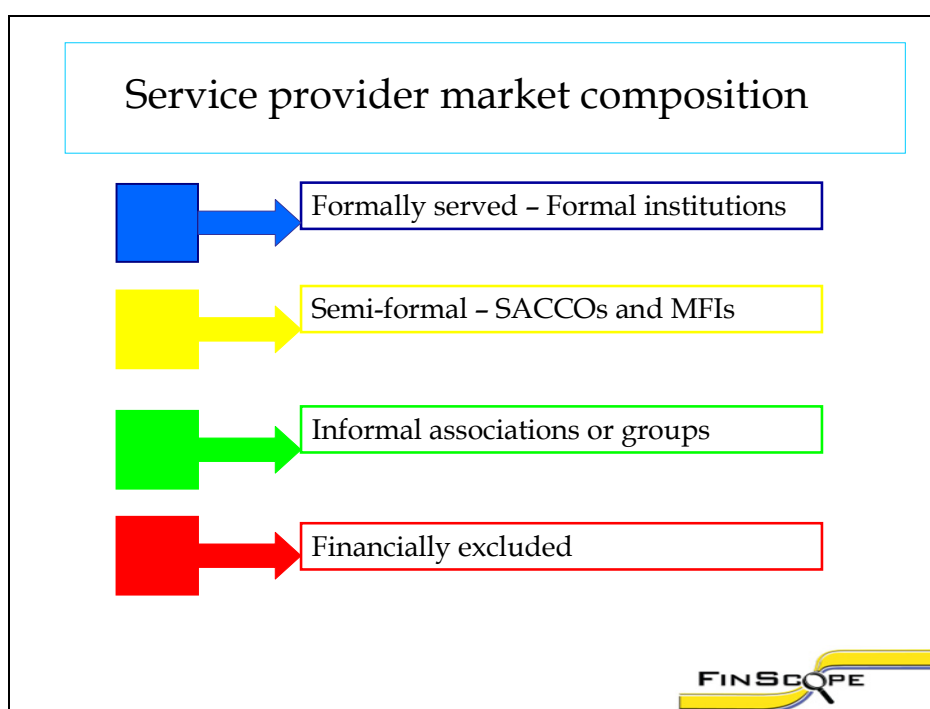
So, what has been measured in this survey?

The relative youth of the population poses both an opportunity and a challenge. There is a window of opportunity for both the service providers and the Government to help people acquire greater education and skills to generate income and to adopt and benefit from appropriate financial services.

The high proportion of the rural population adds further weight to the need to ensure basic education, financial literacy and the need for income generating activities.

In addition, there are more women than men in the both urban and rural segments of the total population of 21m covered in the survey. Hence the need to educate women to use financial services effectively is critical.

FinScope gives us (a) the hard facts – a baseline – (b) the scale and scope of the challenge and (c) where we should be targeting our efforts.



We have used the FinScope results to divide the adult (16+) population into four main categories or 'strands' according to which type of financial service they use. These terms will be used often throughout this e-book in the data analysis.

The definitions for formal, semi-formal, informal and totally un-served/excluded are given below and are repeated in the brochure available from FSDT:

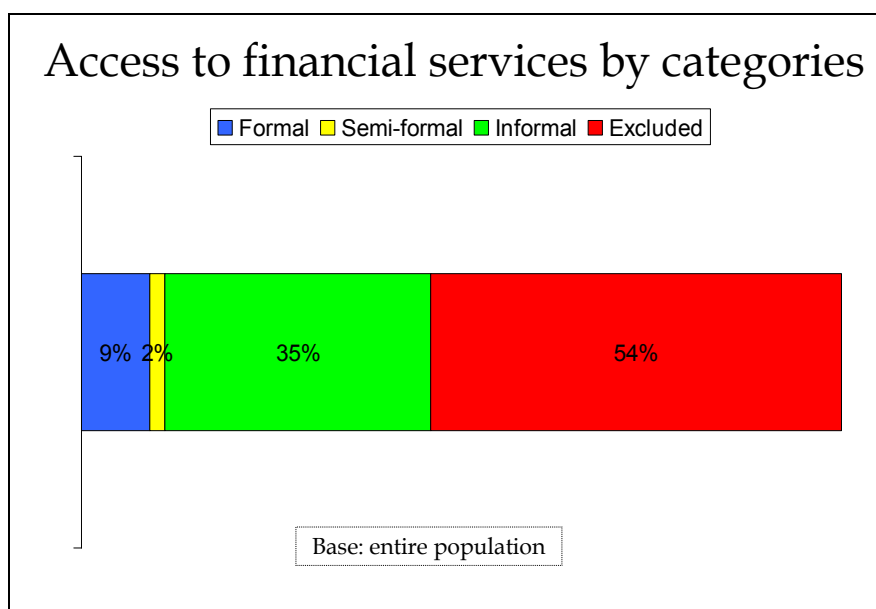
Formal financial institutions are those supervised by a financial services regulator now, or (in the case of pension funds) likely to be soon. This category includes banks and insurers.

Semi-formal financial institutions are those with some formal supervision, but not from a financial savings regulator. This category includes the SACCOs and larger MFIs.

The **informal** segment includes small, usually community-based organisations such as ROSCAs, Village Community Banks, upatu and money-lenders.

The totally un-served or **excluded** is everyone else, and includes people who may use non-monetary means to save, borrow or transfer money.

These classifications (market segments or 'strands') are used in similar, but locally tailored formats throughout Africa where the FinScope surveys are conducted. The percentages or numbers of people referred to in each of these market segments relate to mutually exclusive use. For example a SACCO user with a bank account will be classified in the formally served segment. Someone who uses a money-lender but is also borrows from a SACCO will be included in the semi-formal segment. The data base however still affords the opportunity to review all SACCOs users and the consumer referred to above will be counted within the incidence of SACCO usage.



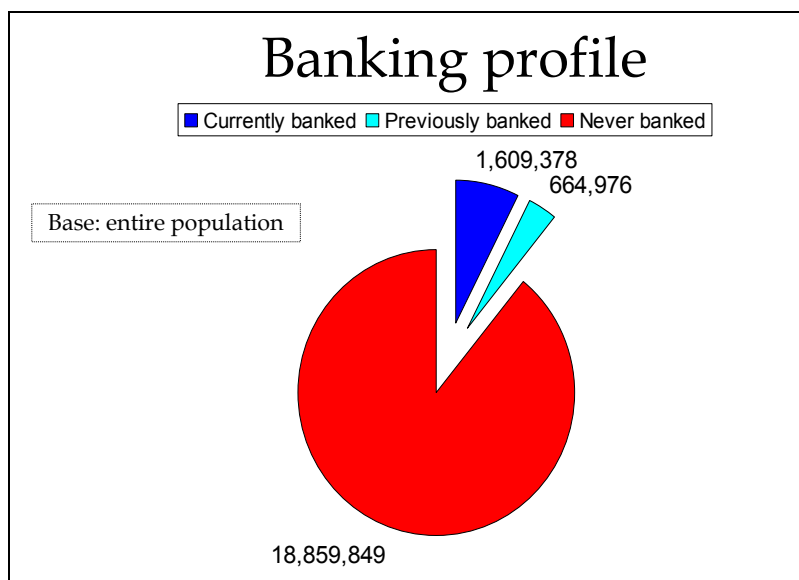
This is what the whole access strand looks when analysed by the segments into which people fall. Several things immediately stand out:

54% of the 21m population surveyed have no access to any financial service – formal, semi-formal or even informal.

Over a third of the people only have access to informal financial services. Together with those who have no access to any financial service, this means that 89% have no access to formal or semi-formal financial institutions in Tanzania. This represents a little under 19m people aged 16 and above!

SACCOs represent only 2% of the population. There are several reasons for this.

- It is not yet known whether people will graduate immediately from accessing only informal financial services to using formal banking services. It may be that they will go to the next level up – i.e. the semi-formal services, which are provided mainly by SACCOs, as well as a few of the larger MFIs. Only further FinScope surveys will provide these answers to these questions.
- As banks and other financial institutions develop links with semi-formal and informal organisations, they are more likely to want to deal initially with semi-formal counterparts than try and understand the nature and risks of the informal sub-sector.
- Recent government initiatives promoting SACCOs has successfully increased the number of these organisations from about 1,800 to some 3,200 – even if the number of people using them has increased at a much slower pace. SACCOs are part of the established financial landscape in Tanzania and Zanzibar and the FSDT is giving high priority to capacity-building in this sector.

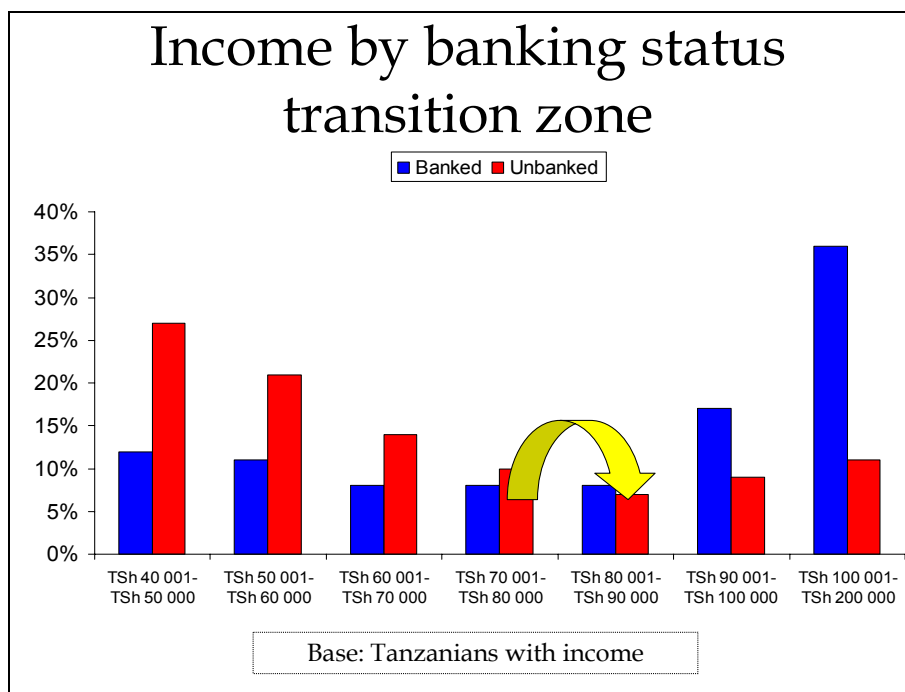


This chart shows the status of those who have access to regulated banks. It indicates the enormity of the challenge – as well as its latent opportunity to help lift more people out of poverty, move into higher economic brackets and help with economic development in general.

Nearly 19 million people are totally excluded from any kind of formal banking.

Co-operation, common focus and carefully crafted and targeted interventions are the only solution for Tanzania's immediate and future development. Banks might consider collaborating with SACCOs and MFIs and informal service providers, pooling resources and experience in order to improve the lot of all their potential customer base. They must also educate about and encourage them to use the services and new products available to them.

Banks might consider increasing their use of new technology to overcome the barrier of physical accessibility.

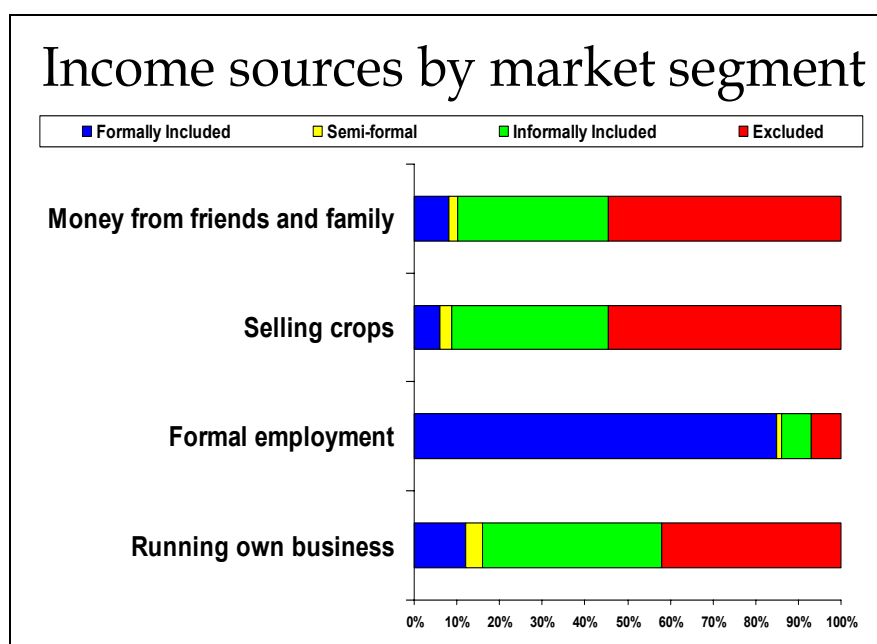


There are some interesting trends between income brackets and the extent to which people use banks.

Moving from left to right, it is clear that with higher income brackets, people do not necessarily become bank customers until they reach a certain transition zone. Up to that point however, the proportion of those who have never banked drops with increasing income.

However, when income reaches this transition zone, the rate of increase in opening an account rises very steeply with the increasing income.

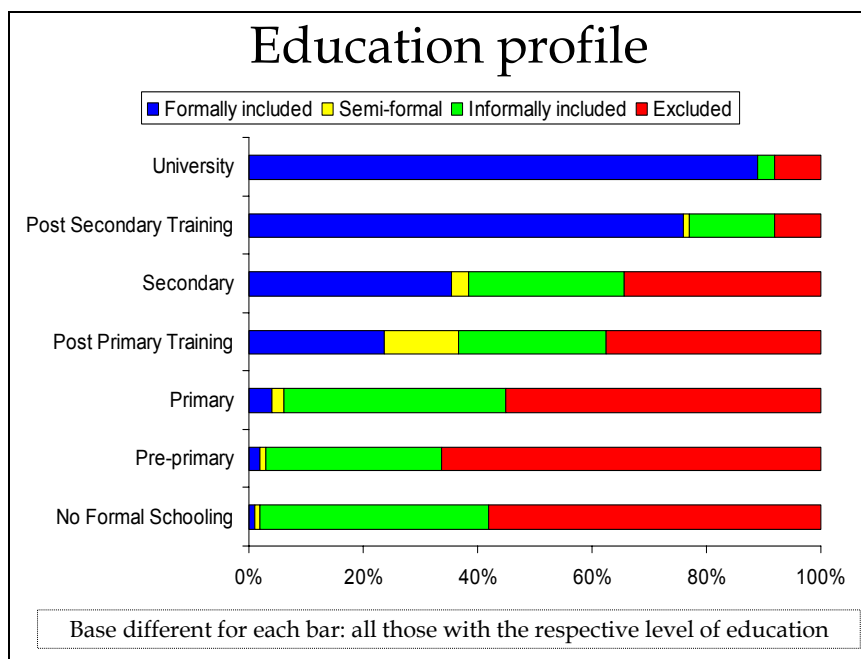
Looking at the affordability, it would appear that the transition zone – moving from not using to using bank services – occurs when consumers have a personal monthly income of TSh 70,000 to TSh 90,000. Examined more closely, of the approximately 700,000 people in this category, the majority are young, urban males, suggesting this is a market segment which should be of particular interest to the industry.



Some of the factors that shape whether people have access to finance, as well as the type and extent of that access are examined now.

This next chart shows that earning or receiving money is, with one clear exception (the third bar), no guarantee of having access to finance. For example, the proportions of those who sell crops or run their own businesses remain in the excluded strand.

It is obvious from this chart that formal employment (third bar) contributes significantly to the incidence of being banked. There is therefore a need either to expand formal employment or to equip the population with skills that lead to income generating activities. Beneficial financial services also need to be available for consumers.



Does education make much difference to access to finance?

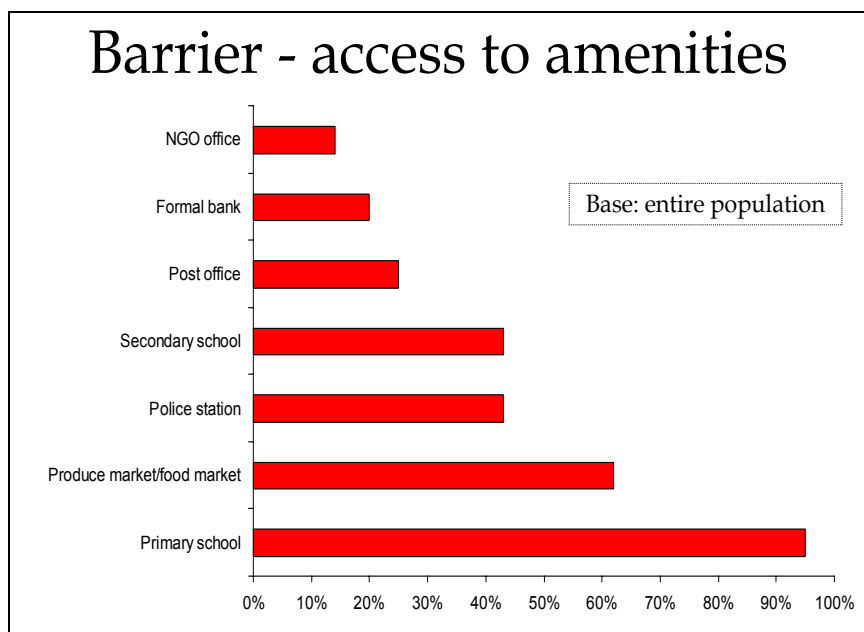
It is obvious from the above chart that access to education is the single most important factor in accessing formal financial services: people with the most education have the most access to the financial services industry, while those with little or no education have a correspondingly low access rate.

It is then, clear that the plight of the poor is exacerbated by the low level of education they report. People in rural areas are the least well served in either education or access to finance.

- 88% of adult females in rural areas have only primary education – if that
- Only 21% of adults in urban areas have secondary education

You can draw a line from the bottom left-hand corner of this chart to the top right-hand corner and, in effect, you have a line dividing the haves and the have-nots. Education is a major contributor to that boundary.

Standards and incidence of education throughout Tanzania are improving; all children now have access to primary education, and the Government's intention is to extend their access to secondary level over the coming decade. It is reasonable to predict that the activity within the financial services industry will rise correspondingly.

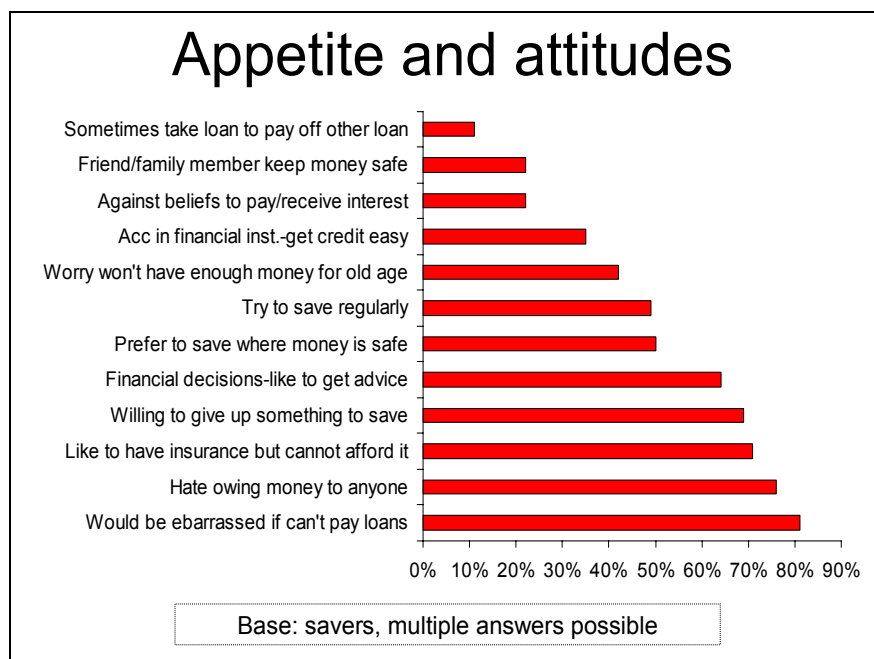


In the context of overall access to finance, we all know that physical barriers to access have a major impact.

The fact that only 20% of the population (and only 18% of consumers without a bank account) say they have a bank within one hour's distance from them, underscores the challenges in reaching the majority of the population in the rural areas. Commercial service providers may find it difficult to reach rural consumers.

This in turn confirms the importance of banks linking with semi-formal and informal MFPs to extend their outreach and overcome physical barriers to access.

Technology may facilitate extension of services but without resolving the bigger issues of unemployment and education, as well as the basic infrastructure – such as access to electricity and roads, developments in ICT will offer a much more limited improvement in market innovation.



This chart gives us an insight into the appetite for and attitudes towards saving and borrowing. Even though it offers only a slice of a bigger picture, three main features about Tanzanians jump out.

- There is clearly an appetite for more financial services
- People want to save, not least for old age – and they want to save regularly
- They want more insurance but feel they cannot afford it

The chart also indicates that Tanzanians are a conscientious population with a mix of attitudes that ought to be attractive to financial institutions.

Three examples:

- They would be embarrassed if they could not repay their loans
- They are willing to give up something in order to save
- They like to get advice when they take financial decisions

All this creates a fertile field for commercial service providers.

Summary – challenges and opportunities

- Capitalise on the window of opportunity
- The access strand sets out the scale of the challenges we all face
- Stratify the market interventions and support
- Employment and/ or income generation skills – especially for younger people
- Education - and financial literacy
- Female focus – gender disparity
- Service innovation and extending outreach and better tailored products

It is worth noting that almost all points raised in this chart need collaboration between the private and public sectors.

The full benefit of the FinScope survey will only be realised when the data is thoroughly mined and analysed.

Key findings

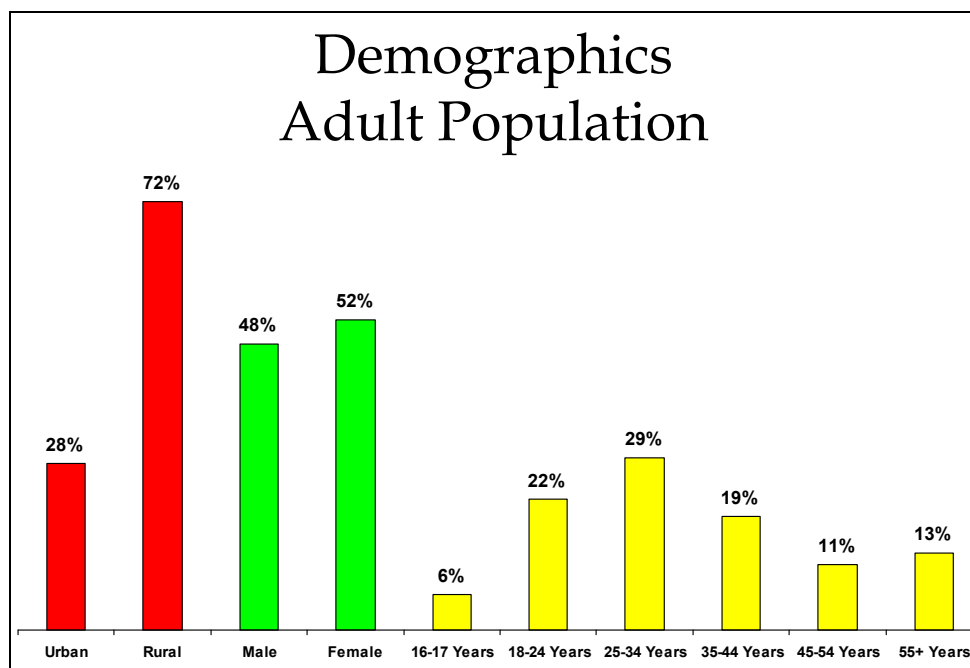
Sequence of the presentation

- Survey methodology
- Survey validation
- People of Tanzania
- Access to financial services
- Barriers
- Credit and Loans
- Savings
- Non-monetary services
- Remittances
- Cell-phone and technology

Survey methodology

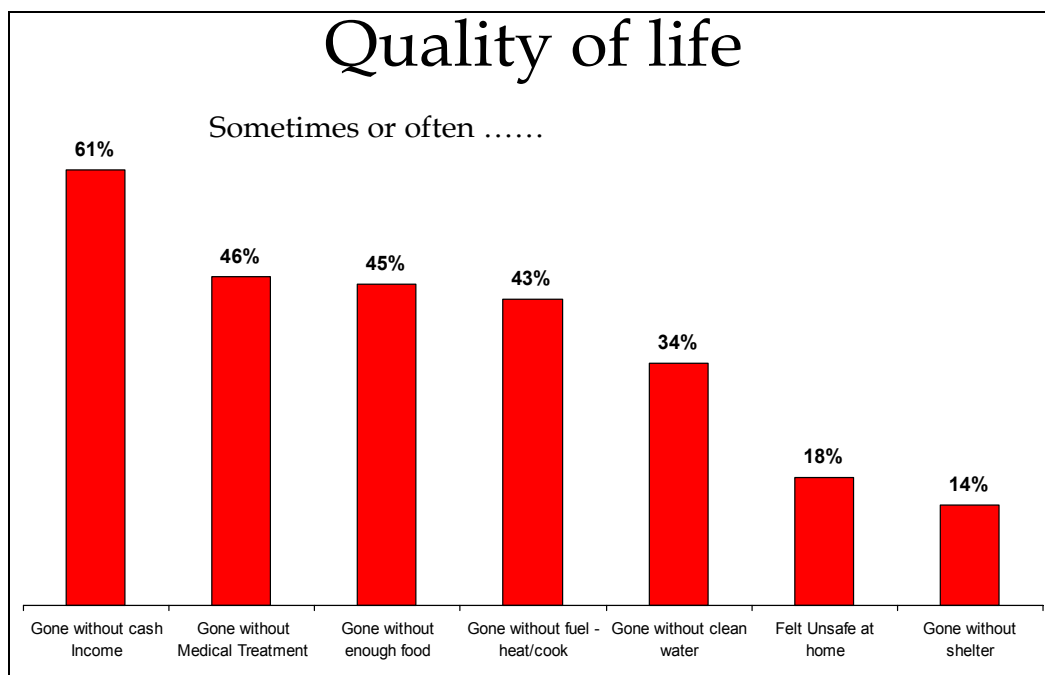
Methodology	<ul style="list-style-type: none"> • Qualitative research • Quantitative research
Sampling	<ul style="list-style-type: none"> • National Master Sample Plan – national estimates • Listing & selection of respondents done by NBS • 16+
Sample achieved	<ul style="list-style-type: none"> • 4,962 • Results weighted to projected population
Reporting domain	<ul style="list-style-type: none"> • Urban/rural and gender
Confidence level	<ul style="list-style-type: none"> • 95%
Field dates	<ul style="list-style-type: none"> • August – September 2006

- Methodology – tests the concepts in focus group discussions and also the questionnaires
- Sampling – National Master sample plan for national estimates
- Confidence level with an 95% accuracy allowing prognoses of national estimates from FinScope data
- Reporting domain, setting and gender



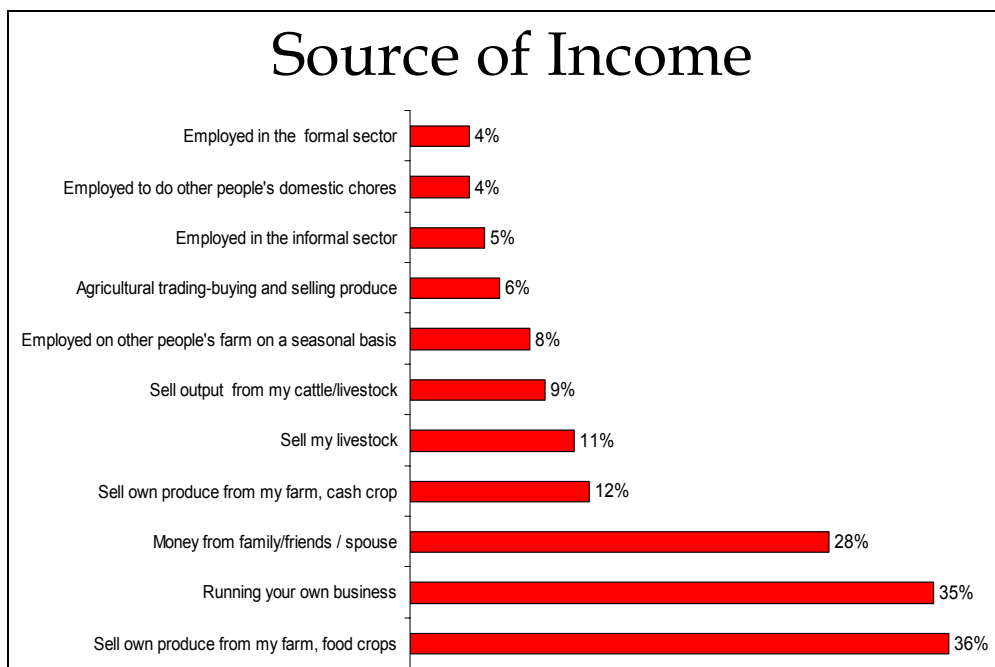
The demographics of the adult population of the Tanzanian mainland and Zanzibar show us that:

- 72% live in rural areas compared to 28% in rural areas
- 46% are men compared to 52% women
- 6% are 16 to 17 years old
- 22% 18 to 24 years old
- 29% 25 to 34 years old
- 19% 35 to 44 years old
- 11% 45 to 54 years old and
- 13% above 55 years old
- 57% of the adult population is between 16 and 34 and 43% above 34 years old.



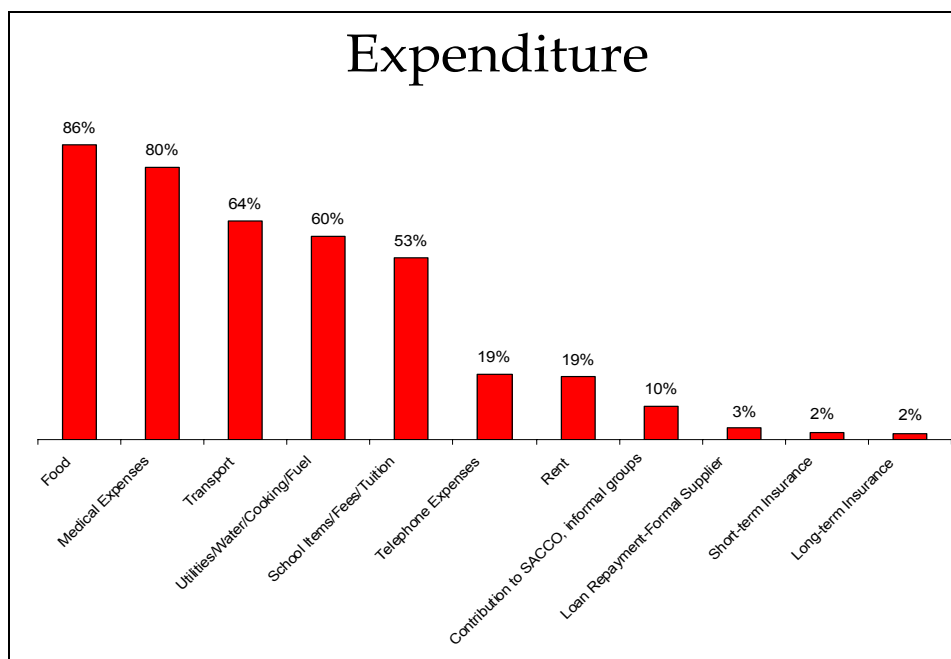
More than half of the population reported lack of cash income.

However on the positive, many people feel safe in their households



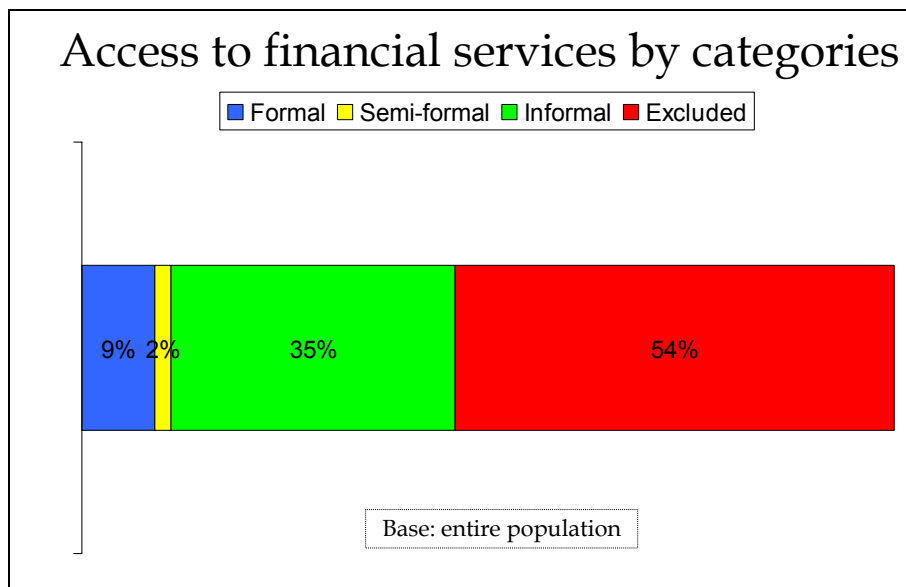
- Income is largely driven from the agriculture

- Food crops, business and monetary receipts from family/friends are the major source
- Only 4% of the population are engaged in the formal sector



- The expenditure charts identify where money is spent. Multiple answers are possible and the percentages shown do not indicate the proportion of income spent on each item
- Food and medical expenses incur the greatest proportion of expenditure in many households
- Interestingly, transport constitutes a larger percentage than school fees
- Expenditure on mobile phone is greater than savings reported

Access to financial services



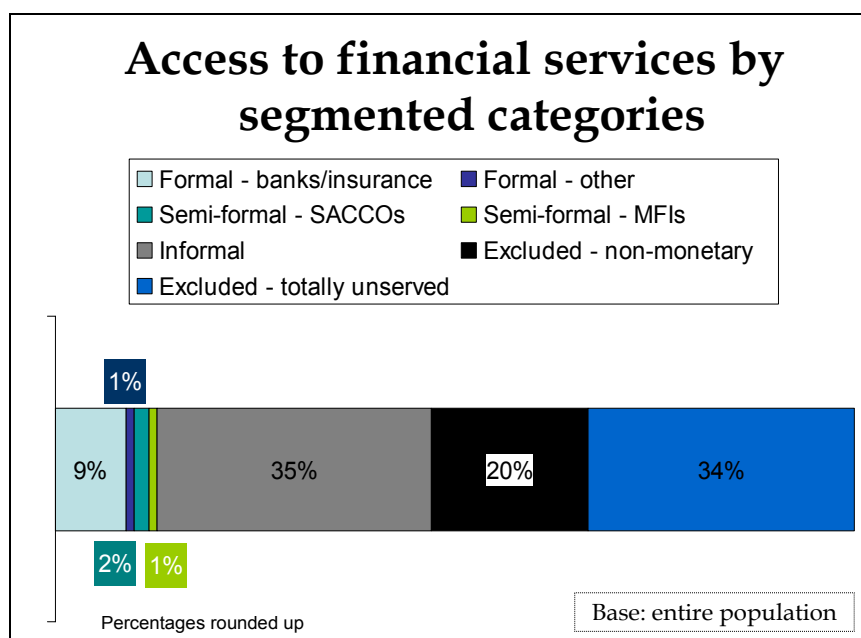
This is what the whole access strand looks when analysed by the segments into which people fall. Several things immediately stand out:

54% of the 21m population surveyed have no access to any financial service – formal, semi-formal or even informal.

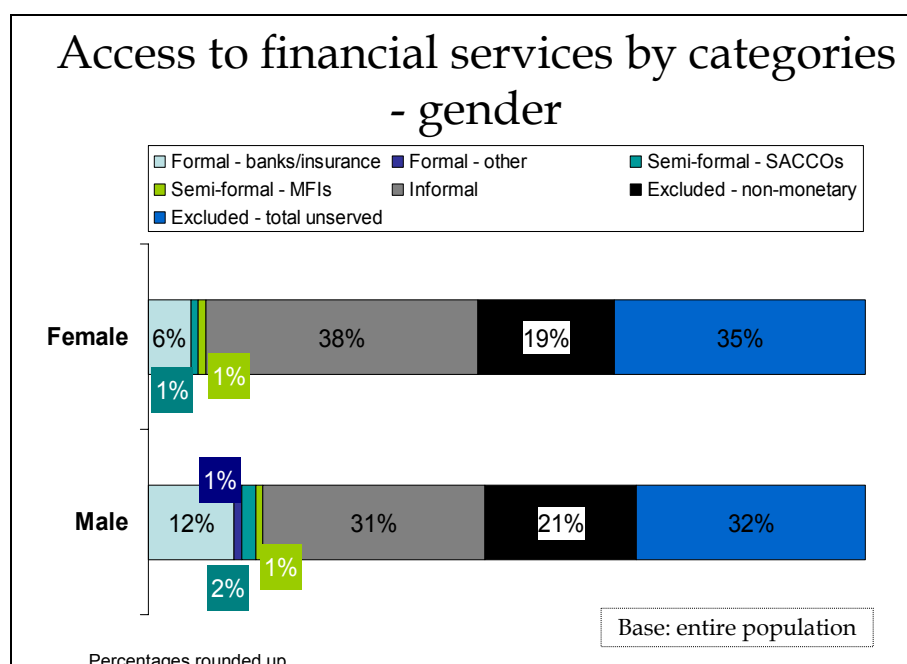
Over a third of the people only have access to informal financial services. Together with those who have no access to any financial service, this means that 89% have no access to formal or semi-formal financial institutions in Tanzania. This represents a little under 19m people aged 16 and above! SACCOs represent only 2% of the population. There are several reasons for this:

- It is not yet known whether people will graduate immediately from accessing only informal financial services to using formal banking services. It may be that they will go to the next level up – i.e. the semi-formal services, which are provided mainly by SACCOs, as well as a few of the larger MFIs. Only further FinScope surveys will provide these answers to these questions.

- As banks and other financial institutions develop links with semi-formal and informal organisations, they are more likely to want to deal initially with semi-formal counterparts than try and understand the nature and risks of the informal sub-sector.
- Recent government initiatives promoting SACCOs has successfully increased the number of these organisations from about 1,800 to some 3,200 – even if the number of people using them has increased at a much slower pace. SACCOs are part of the established financial landscape in Tanzania and Zanzibar and the FSDT is giving high priority to capacity-building in this sector.



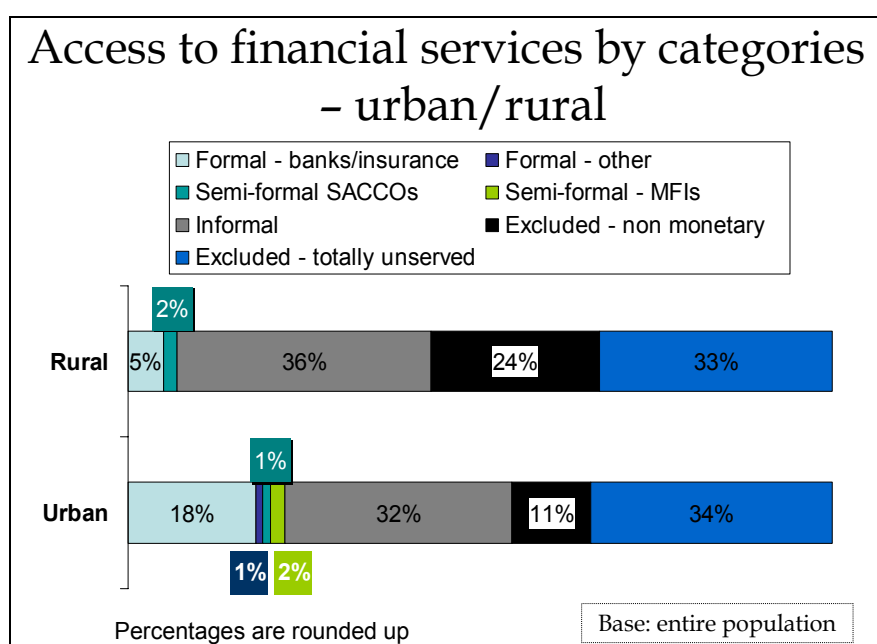
An explanation of how the categories have been built can be found on page 229.



There is little difference between men and women in terms of access to the financial system with a few notable exceptions:

There are twice the number of men than women using the formal sector.
There are 7 % more women in the informal sector.

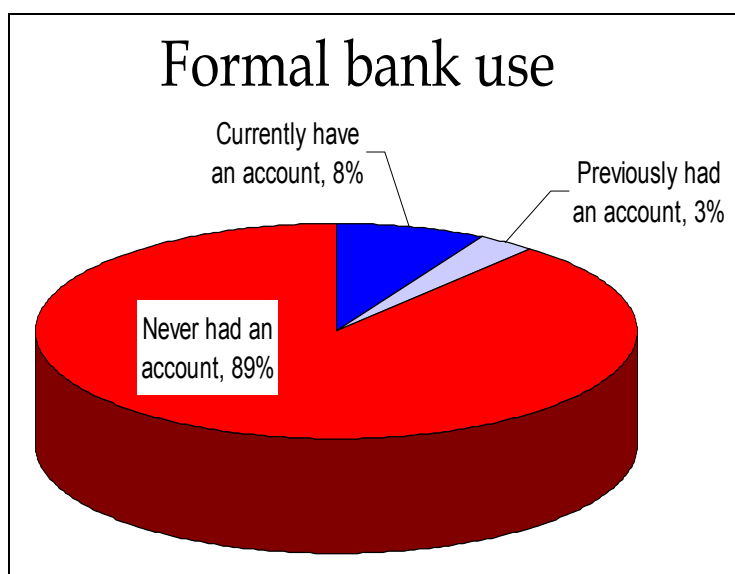
A third of both adult men and women remain outside the financial system altogether, a figure which should give the industry pause for thought.



This chart, examining access to financial services, reveals the differences between those living in urban and rural areas throughout the country.

- Of the urban population, 18% are formally served compared to 5% of the rural population
- The rural population is almost entirely un-served by MFIs
- A quarter of the rural population and a tenth of the urban population use only non-monetary services
- 46% of urban population compared to 57 % rural population are excluded from any financial services

People and financial service providers

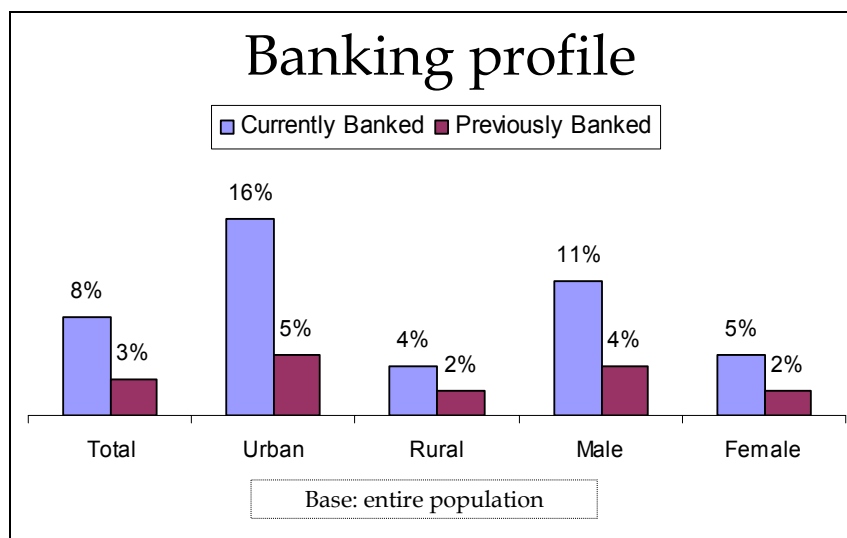


This chart shows the status of those who have access to regulated banks. It indicates the enormity of the challenge – as well as its latent opportunity to help lift more people out of poverty, move into higher economic brackets and help with economic development in general.

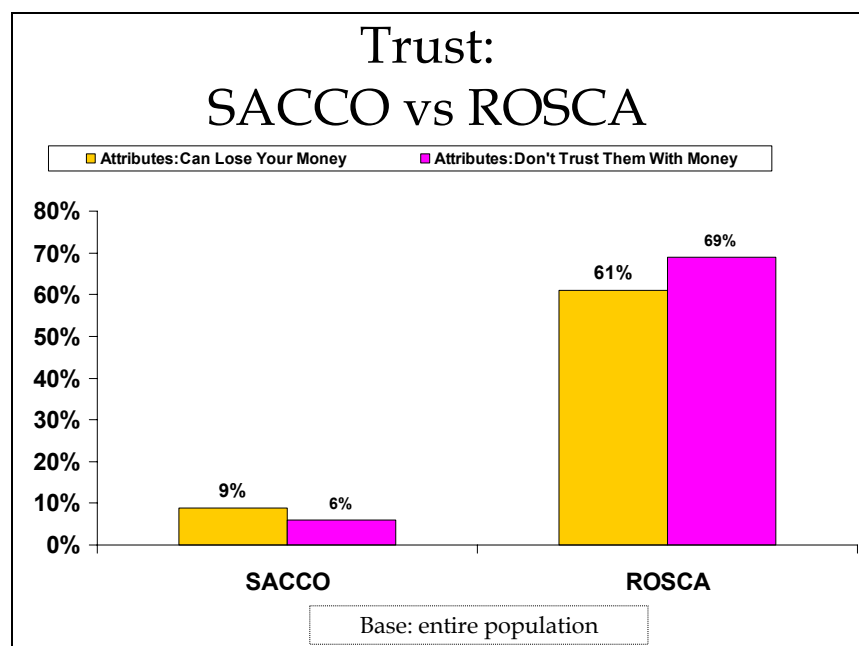
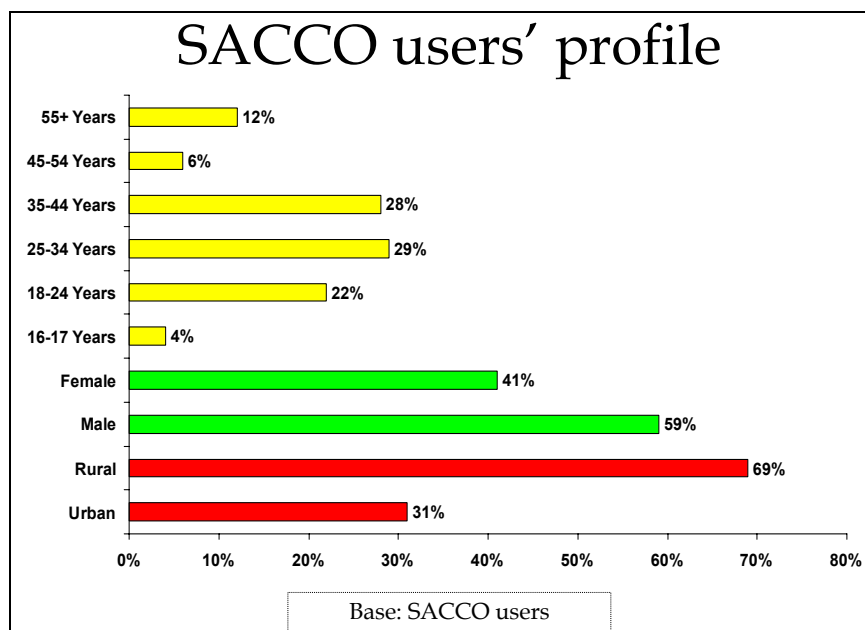
Nearly 19 million people are totally excluded from any kind of formal banking.

Co-operation, common focus and carefully crafted and targeted interventions are the only solution for Tanzania's immediate and future development. Banks might consider collaborating with SACCOs and MFIs and informal service providers, pooling resources and experience in order to improve the lot of their potential customer base. They must also educate about and encourage them to use the services and new products available to them.

Banks might consider increasing their use of new technology to overcome the barrier of physical accessibility.



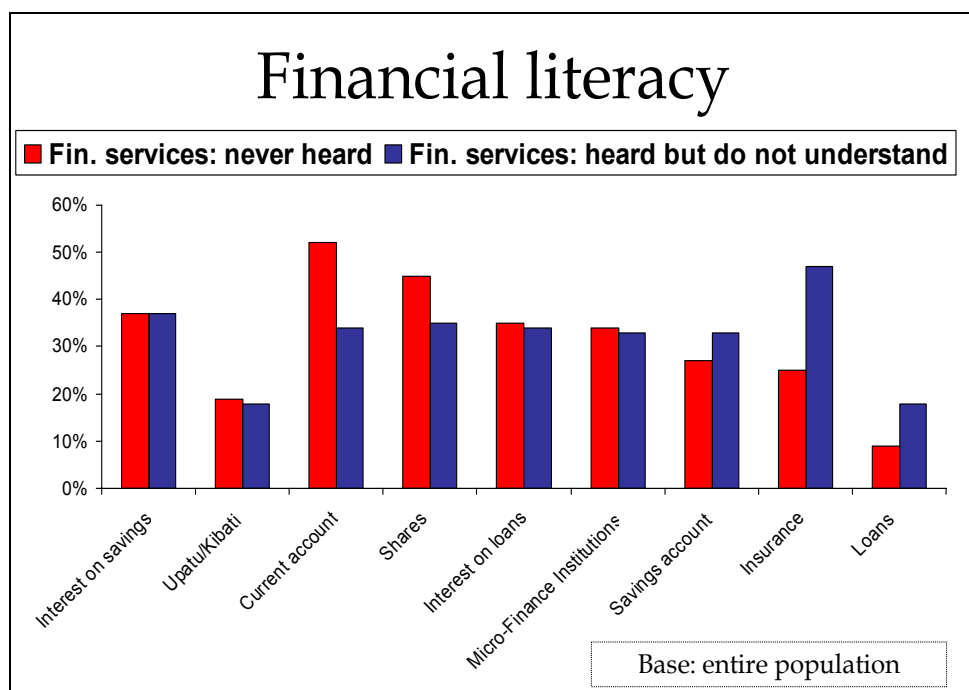
This graph holds few surprises: more people in urban areas, and more men than women, currently have bank accounts. There is however, little difference between the urban and rural, male and female cohorts who have been banked.



There is a very clear picture presented in this graph: SACCOs are regarded as far more reliable and trustworthy than ROSCAs.

There is a very blunt message here for ROSCAs. Judging from these figures, as the number of SACCOs grow, so business is likely to be drawn from ROSCAs unless they can make radical changes to the way in which they operate and to the way they communicate to their clients.

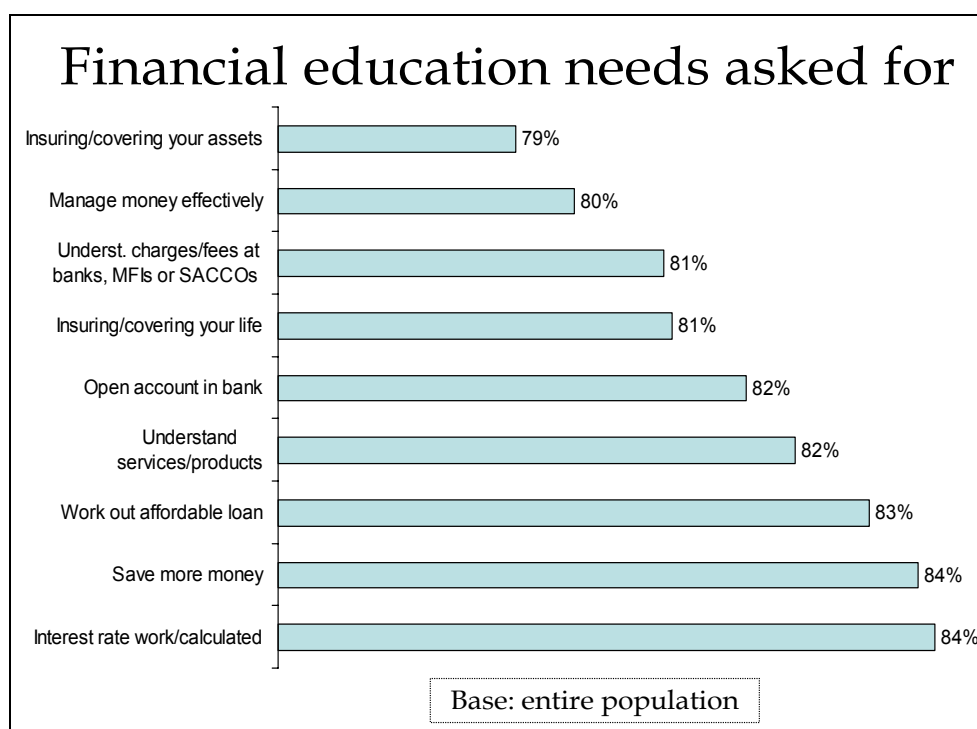
Barriers to access



These figures suggest that there are insufficient levels of financial literacy in the population as a whole to properly understand the meaning of many financial products and how they work.

The industry is therefore unlikely to be reaching many potential clients. Nearly half the population for example has heard about insurance but does not understand what it means. A third do not know what a savings or current account is, and only a handful more understand the meaning of interest on savings.

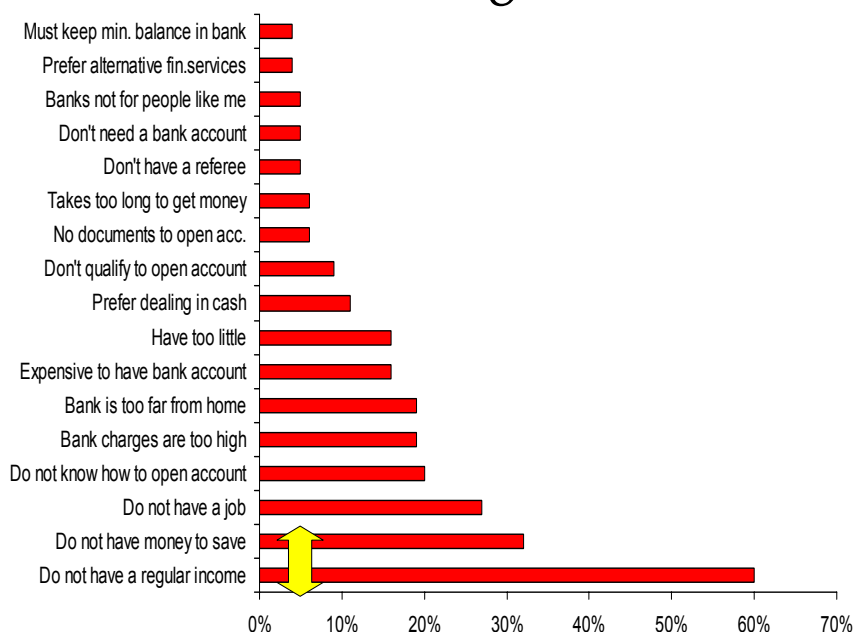
The message is very clear: education is key to attracting a wider market.



These figures make it very clear that the vast majority of people are keen to know and understand more about a whole range of financial services and products. It is up to the industry to find ways of teaching them, possibly with joint public campaigns.

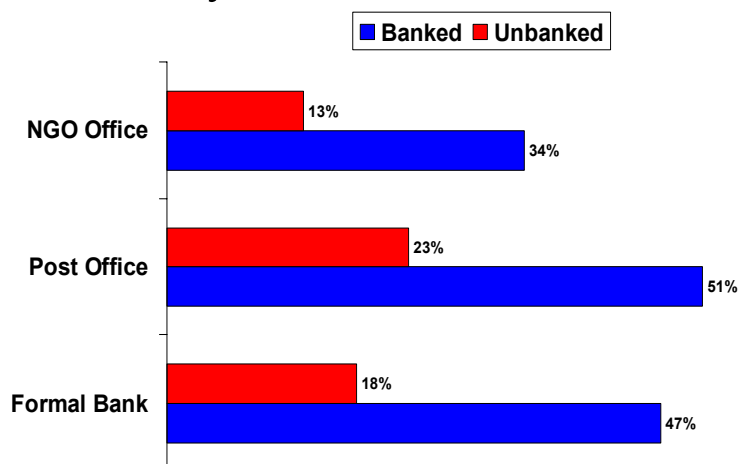
For most people insufficient and irregular income is the ultimate barrier to accessing formal bank services. There is a certain amount of misinformation about what is needed to open an account, some feel that it's too difficult to qualify and some simply prefer to deal in cash.

Reasons for not having a Bank account



Base: Tanzanians who don't have a bank account, multiple answers possible

Physical access barriers



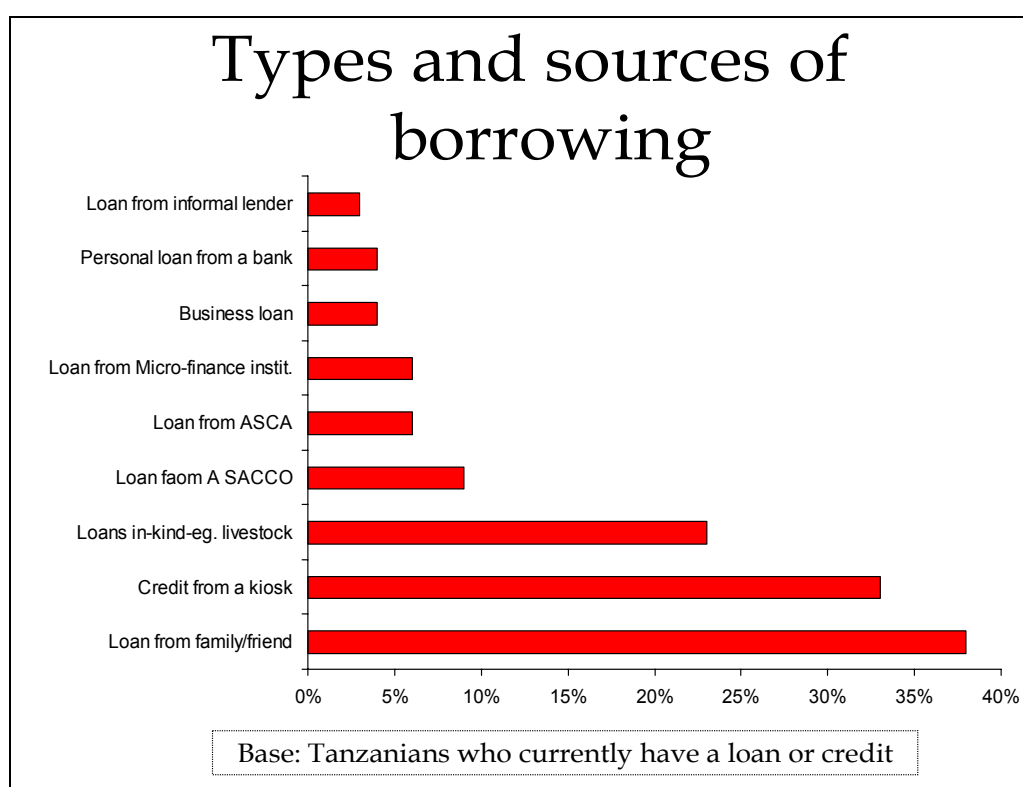
Base: all Tanzanians with a bank account for the blue bars, and all Tanzanians without a bank account for the red bars

This graph records one of the barriers to accessing various institutions. It shows that nearly half of those people with a bank account are within one hour's walk

of a formal bank and a post office, and a third within an hours walk of an NGO office. Unsurprisingly, fewer who do not have a bank account are within reach of these institutions. Physical barriers are a major deterrent to engaging with financial services and need to be carefully analysed by the industry.

The use of new technologies maybe one way in which these problems can be overcome.

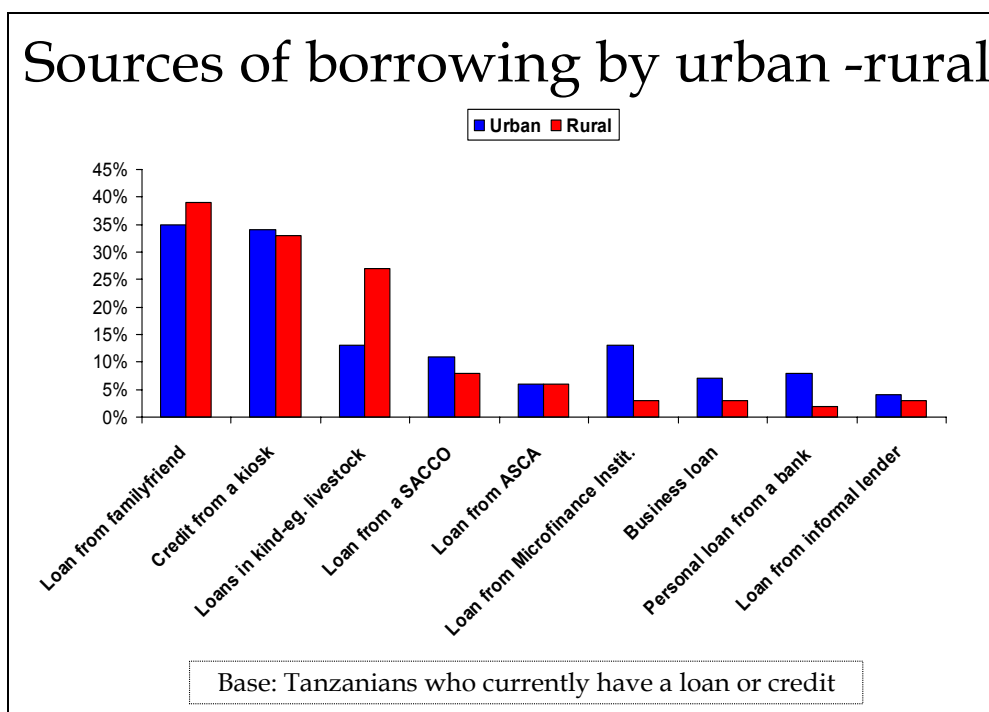
Credit and Loans



The picture shown in this chart is typical of a poor but developing economy. It is clear that many people take out loans of various kinds most commonly from a friend or family member (38%) or from kiosks (34%).

Loans from a bank or from a SACCO, 4% and 9%, and indeed any financial services provider, are very low by comparison. Almost a quarter of the people who have a loan borrow in-kind.

The lending market in Tanzania is clearly thriving, but as yet, financial service providers are getting only a very small share of the action.



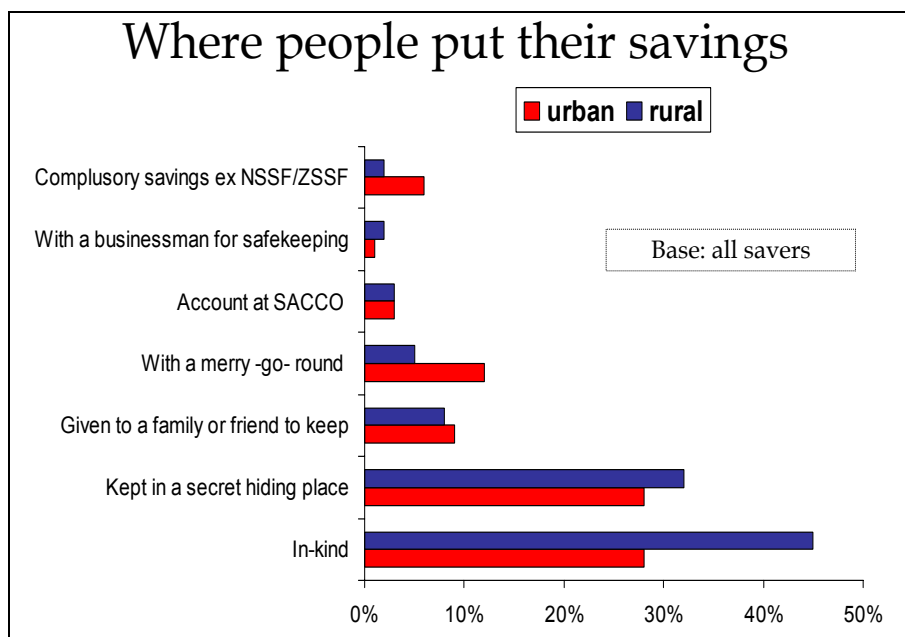
MFIs and SACCOs are financing more of the urban than rural population, though the need is clearly across the country. Perhaps unsurprisingly, 27% of rural population currently have an in-kind loan compared with 13% urban population, and only 2% from rural areas currently have a loan from a bank compared with 8% from urban areas.

Savings and investment

Where people put their savings in rural/urban areas

by Using									
	Gender								
	Male	Female							
	2625	2337							
	10127961	11006242							
	1%	1%			in-kind	kept in a s	given to a	with a mer	
	1%	1%		0.01	28%	28%	9%	12%	
	2%	1%		0.01	45%	32%	8%	5%	
	2%	1%							
	1%	1%							
	2%	2%							
	1%	2%							
	4%	3%							
	5%	2%							
	4%	9%							
	8%	9%							
	31%	31%							

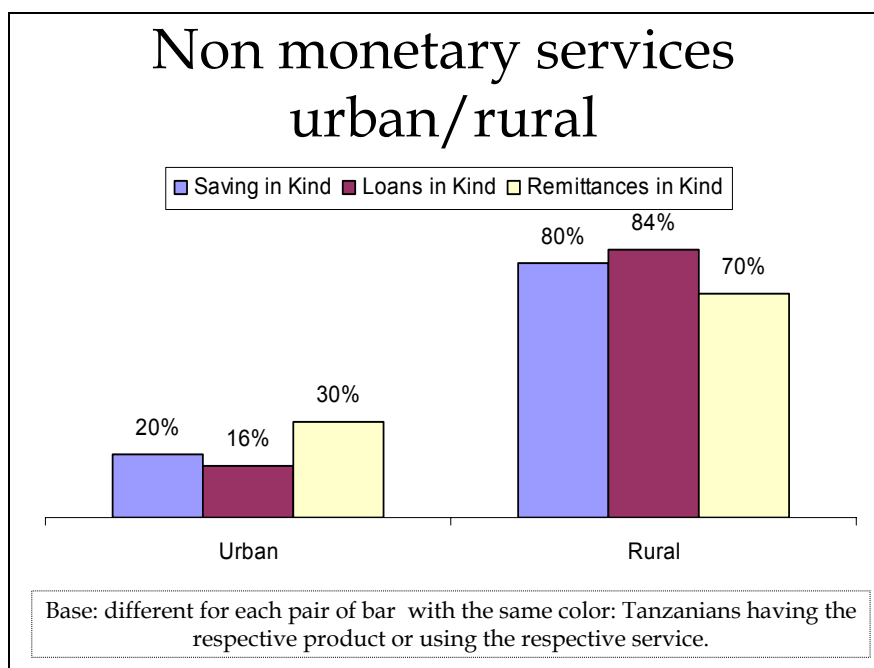
Merry-go-rounds are used by 12% of urban savers but only 5% in rural areas. Understandably more rural dwellers chose to invest in livestock than urban counterparts.



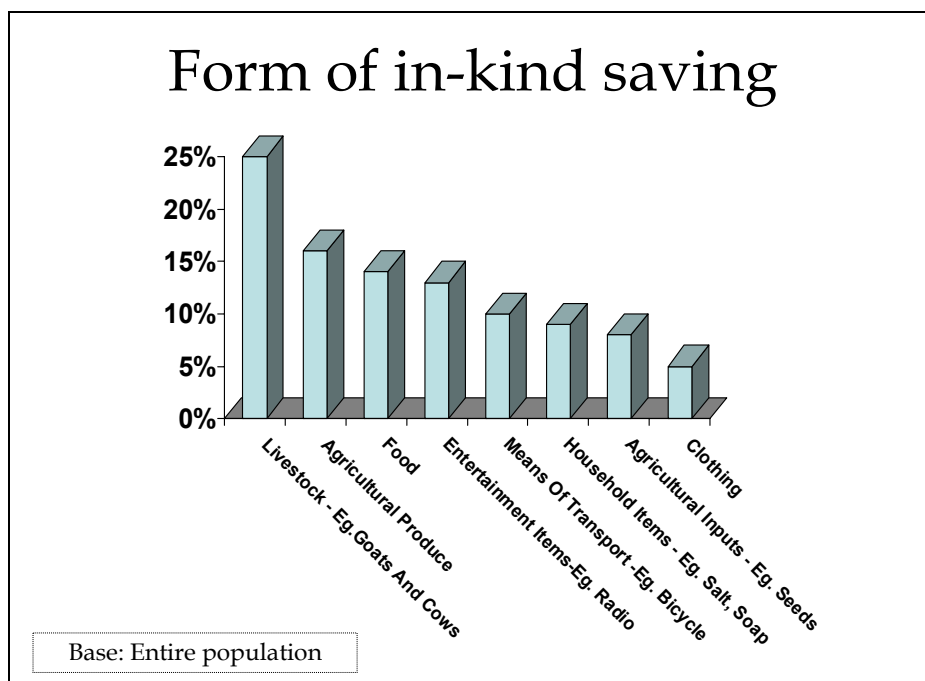
Significant number of people in both urban and rural areas choose to invest their savings in-kind or in a secret hiding place.

At the time of this survey, only three % in each cohort saved with a SACCO. A tiny 2% of rural and 6% of urban dwellers paid into compulsory savings in the formal economy.

Non-monetary services



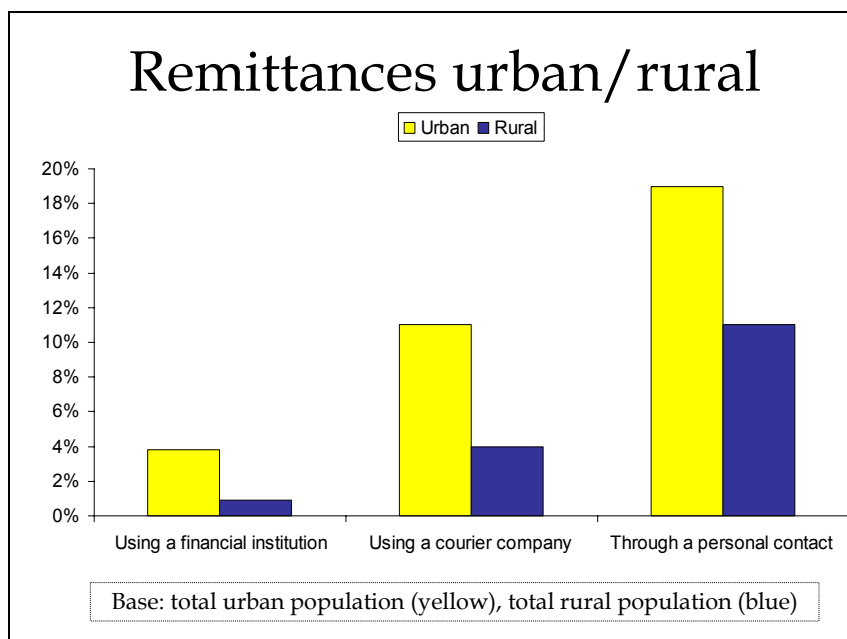
The great majority – 72% - of Tanzanians live in rural areas. They also represent the largest percentage of people who conduct their finances through non-monetary means. It is this cohort which presents one of the greatest challenges to the financial services industry.



A quarter of in-kind savings are invested in livestock which is at least productive and may generate an income before being sold. Those investing in e.g. a bicycle or agricultural in-puts may also earn from their saving before it is sold on. Other goods have no value beyond the price at which they can be traded.

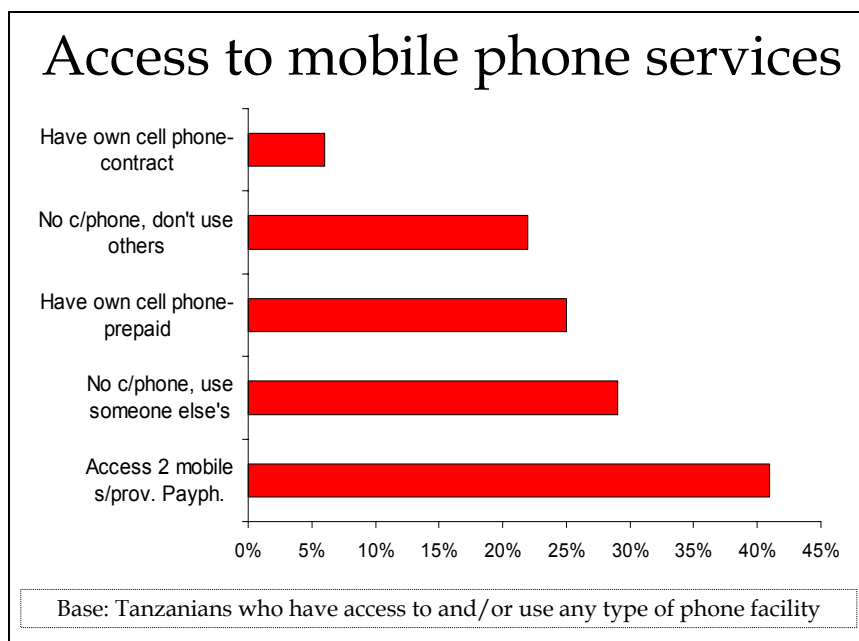
- One in four who are saving in kind are saving in livestock
- Savings in agricultural produce and food stocks are also common

Remittances

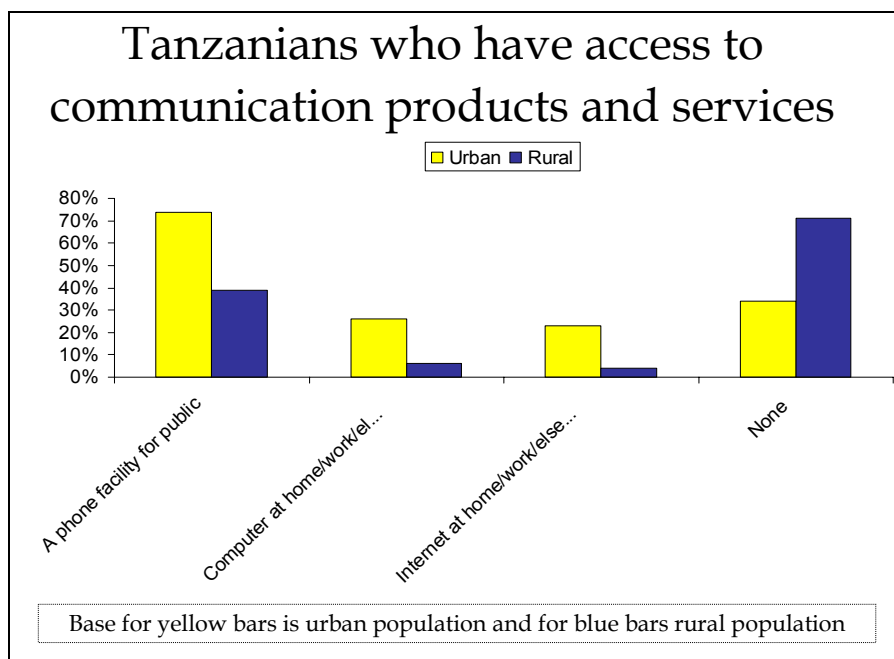


There is an obvious money transfer trend from urban to rural areas by all means chosen for remitting. The most popular method chosen by both cohorts is a personal contact, rather than a financial institution or courier.

The use of technology



Use of mobile telephone services is increasing by the day. Of those with access of some kind, 41% say they can use a public phone and another 29% say they can use someone else's. A quarter (25%), of the population has personal pre-paid cell phone. Just under a quarter (22%) neither has nor use a phone.



FinScope data indicates that while there is still a long way to go, new technology is already having a significant impact on Tanzanians. Three quarters of the urban population either has a phone or has access to one, while a quarter have a computer at home, work or elsewhere which they are able to use. A quarter also has access to the internet.

In rural areas the picture is rather different, and there is massive potential for development. Very few have access to either a computer or the internet but even so, 30% have access to some new technology. Nevertheless, a huge majority (over 90%) of the population admitted that they would like to learn more about the various technologies and how to exploit them.

The dissemination strategy

Annette Altvater
FinScope Coordinator
FSDT

FSDT dissemination objectives

Users benefit by:

- evaluating existing policies
- evaluating existing market segments and services
- making informed decisions
- targeting support or initiatives
- product improvements and innovations
- improved staff training
- developing appropriate communication platforms and tools
- developing corporate strategy
- expanding markets and market shares

Access to FinScope findings

The FinScope dataset:

- contains the universe of information
 - To be used by institutions and individuals able to analyse market research information

FinScope key findings:

- analysis which makes sense of the data
 - Users need information tailored to their specific interests or market challenges

The FinScope information is not equal to the FinScope dataset. The dataset contains the entire universe of information collected by the survey which is not

yet de-coded, means not informative for the end-user. The dataset needs to be mined and analysed depending on the information need of the end-user. Therefore it is equally important to understand the demand for information from FinScope from the end-user as the skills and ability to mine and analysis the dataset respectively.

Immediate dissemination

Key findings:

- initial analysis presented at the FinScope Tanzania launch - April 2007
- currently: research institutions and consultants mine the dataset, present more analyses and workshop the application of these analyses
- materials are published on the FSDT dgroup website: launch brochure, analyses and presentations
- e-book including all the information presented and collected at workshops published on CD and copied to dgroup website

Key-findings of the FinScope survey were presented at a launch in April 2007. The information contained in the survey is important for and relevant to all stakeholders, regardless of their particular interests.

However its value still had to be broadcast, understood and digested.

How do stakeholders know what questions to ask, what else FinScope can tell them? In reply, the FSDT offered a series of workshops analysing specific information relevant to various market segments. This e-book, summarizing the analysis of all the workshops in themes is a permanent tool for disseminating information.

Intermediate dissemination between April and June 2007

In-depth analysis and workshops.

The FSDT:

- hosted workshops for some market segments
- is continuing to facilitate local market research capacity
- Is developing the means, (possibly including subsidies), to assist users to buy or use analytical services to apply the findings

The market for FinScope information needs to be developed. The demand is vague and therefore it is difficult for suppliers of market research services to venture out to offer FinScope consulting services (understand the information need of the client, mine and analysis the dataset and present findings in a user-friendly way). FSDT is stimulating the demand for FinScope information and offers simultaneously initial consulting services, which at a later stage shall be offered by private market research institutions. Besides the disseminating the findings and further in-depth analysis FSDT considers subsidies to researchers to encourage them offering services for which there is not yet a continuous demand.

This e-book, summarizing the analysis of all workshops and themes is a permanent tool for disseminating information.

After the FinScope survey was concluded, the key-findings were presented at a launch in April 2007. How do stakeholders know what else FinScope can tell them? How do they get hold of the information they need? In reply, the FSDT offered a series of workshops looking deeper into the survey information, analysed for various market segments.

This e-book summarizes themed analysis from all the workshops as a further tool to disseminate the FinScope information. Particular information relevant to, for example, a specific bank wanting information related to a single customer group within a geographical location can also be made available.

Workshop schedule

Date	Market segment	Subject of analysis	Institutions invited
3 May 2007	Donors and development partners	Support and promotion of 'pro poor' financial services	Donor agencies
4 May 2007	Government	Policy and regulatory issues	Government agencies
16 May 2007	Insurance industry	Client profiles and preferences, useful information for financial sector deepening	Insurance companies and Insurance authorities
17 May 2007	Banking industry	Client profiles and preferences, useful information for financial sector deepening	Commercial Banks and Community Banks, TIOB

Workshop schedule

Date	Market segment	Subject of analysis	Institutions invited
6 June 2007	Cooperative movement	Client profiles and preferences, useful information for financial sector deepening	Savings- and Credit Co-operative Societies
7 June 2007	Microfinance	Client profiles and preferences, useful information for financial sector deepening	MicroFinance Institutions
27 June 2007	Research	FinScope data and the potential of FinScope market research services	Market research service providers
28 June 2007	Mobile telephone industry	Usage of mobile telephone services and the potential of mobile payment systems	Mobile telephone service providers and regulators

Long term dissemination

from June until the next FinScope survey in 2008

Demand-driven, tailored market research

- Market research institutions to offer services to users
- Feedback from users of information for the next FinScope survey
- The next FinScope survey may reflect any market innovation implemented in the meantime

In the long term FSDT hopes that the market generated by stakeholders' demand for information will be met by private market research providers. The FSDT is also preparing for an improved second FinScope survey which can then be compared with the first. Any changes in access to the financial market in Tanzania will be recorded and observed over a period of time.