FinScope
TANZANIA 2013

TECHNICAL REPORT

Prepared for Financial Sector Deepening Trust
by Yakini Development Consulting

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Yakini

FinScopeTanzania 2013

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Abbreviations

BoT	Bank of Tanzania
DPC	Development Pioneer Consultants
EA	Enumeration Area
FGD	Focus Group Discussion
FSDT	Financial Sector Deepening Trust
HH	Household
IDI	In-Depth Interview
KYC	Know Your Customer (regulatory requirements)
NFIF	National Financial Inclusion Framework
NBS	National Bureau of Statistics
SC	(FinScope) Steering Committee
TC	(FinScope) Technical Committee

EXECUTIVE SUMMARY

Introduction

The role of financial services is to help individuals maximise the benefit from the resources they possess while minimising the impacts of adverse shocks on their lives. However, the "wrong" financial tools, including ones sold by providers such as irresponsible lending can have adverse effects on the household or the individual. This suggests the importance of financial products and services being suitable to meet the demands created by the financial situation of the household/individual. It further points to the importance of effective consumer protection. The ultimate aim of policies and strategies for financial inclusion is therefore increased access to formal financial institutions and increased uptake and usage of formal financial products and services (i.e. those provided by regulated service providers).

Against this background the Bank of Tanzania (BoT) launched their National Financial Inclusion Framework (NFIF) in December 2013. The NFIF set the objective of 50% financial inclusion by 2016.

The FinScope survey supports the drive for greater financial inclusion by providing a holistic understanding of how individuals generate an income and how they manage their financial lives. It identifies the factors that drive financial behaviour and those that prevent individuals from using financial products and services. Implementing the FinScope survey over time further provides the opportunity to assess whether, and how, a country's situation is changing.

The FinScope 2013 survey is the third FinScope survey implemented in Tanzania. The first was carried out in 2006 and the second in 2009. All of these surveys were commissioned and funded by the Financial Sector Deepening Trust (FSDT).

Sample, Instrument Design and Conduct of the Survey

The sample of almost 8,000 people surveyed for FinScope 2013 was designed to be representative at both the national level and for each of the 27 Regions in Tanzania, as well as Zanzibar. The instrument (i.e. questionnaire) was developed in consultation with public and private sector stakeholders to ensure that the findings from the FinScope survey contributed to the promotion of financial inclusion across the country.

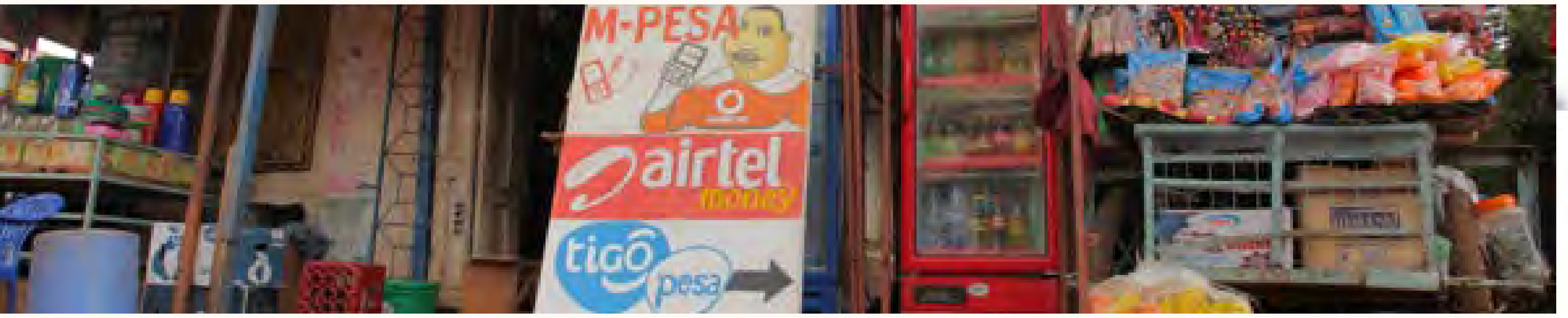
The quantitative survey was complemented by qualitative research in the form of focus groups discussions both before and after the survey. These informed the design of the instrument and then provided some more insight into some of the important findings. For the first time in Tanzania, FinScope was conducted using electronic data capture. This provided greater quality control and allowed for more timely corrections where problems were identified in field. Field teams of enumerators were thoroughly trained before the survey and carefully monitored during its conduct.

Dimensions of Financial Inclusion

Financial inclusion is only effective or functional if individuals have physical access to financial institutions, are eligible to open an account or use a product or service, they actually open an account or take up a product or service and then use it (which indirectly implies that they can afford the product/service and it meets their needs).

In measuring financial inclusion, FinScope 2013 therefore aimed to identify:

- The proportion of the adult population that had physical access to formal financial institutions (i.e. regulated or licenced financial institutions).
- The proportion of the adult population that was eligible to open an account or use a product or service with a formal financial institution – in this regard minimum KYC ("know-your-customer") requirements for product/service uptake were considered.
- The proportion of the adult population that was financially included and used financial products/services.



Levels of Financial Inclusion

In terms of the BoT definition of financial inclusion (i.e. referring to the proportion of adults who are formally served) the FinScope Tanzania 2013 survey findings indicated that:

- Financial inclusion had increased significantly since the last FinScope survey in 2009 when 56.8% of adults aged 16 or over (13,8 million Tanzanians) were formally financially included; whereas four years previously only 15.8% (3.3 million) of Tanzanian adults were financially included. By this measure, NFIF objective of 50% financial inclusion by 2016 has been achieved.
- Although since 2009 there had been a slight increase in the proportion of adults using informal financial mechanisms, there had been a significant decrease in the proportion of adults relying solely on informal financial mechanisms (28.8% of adults in 2009 compared with 15.8% of adults in 2013), rather than using a mixture of formal products and services.
- Financial exclusion had decreased significantly – from 55.4% (11.7 million) of adults being excluded in 2009 to 27.4% (6.6 million) in 2013.

Accessibility and Eligibility

Physical access and eligibility of adults to take up the products/services on offer were treated as key indicators of access for FinScope 2013. The location of financial access points overlaid on the distribution of the adult population of Tanzania showed that more than 25% of adults were within a 5km radius of a formal financial access point, thus achieving the 2016 national target. This was mainly due to the level of access to mobile money agents, the great majority of which had been established over the past four years.

For mobile money services, KYC requirements are limited to proof of identity by means of a valid identification document. However, if a valid identity document cannot be produced, an individual can still be registered as a tier 1 customer albeit with limitations on the value of transactions.

- 37.4% of adults lived within a 5km radius of a bank branch/ATM, MFI/SACCOS or a mobile money agent. Of these, 20.2% of adults lived within a 5km radius of a mobile money agent.

In terms of eligibility, "know-your-customer" (KYC) requirements for the opening of accounts with financial institutions for individuals in Tanzania include:

- Proof of identity by means of a valid identification document
- Proof of residential address by means of either a utility bill, a bank account statement with signature verification by the banker or a cheque drawn on that account for a minimum amount as specified by the bank or a letter from an employer (subject to satisfaction of the bank).

FinScope 2013 findings revealed that the main constraint in terms of compliance with KYC requirements for opening an account with financial institutions was the ability of potential customers to provide valid documentation that could serve as proof of residential address:

- 76.6% of Tanzanian adults had a valid personal identity document, e.g. a voter registration card, passport, driver's license, valid work/staff/student identity card or a Zanzibar resident identity card
- 5.6% of adults received utility bills that could be used as proof of residential address
- Only 5.0% of adults had both a valid identity document as well as proof of residential address such as a utility bill.

Drivers of Increased Levels of Inclusion

FinScope sub-divides formal financial institutions into:

- Banks
- Non-bank formal financial institution sand services such as MFIs, SACCOS, insurance companies, money lenders such as Bayport, remittance/ money transfer companies such as Western Union and Moneygram, and mobile money service providers.

FinScope findings revealed that the increase in financial inclusion in Tanzania since 2009 was the result of an increase in both the proportion of adults who had/used bank products/services, and – in particular - the proportion of adults who had/used non-bank formal financial services/products.

The proportion of adults who had/used bank products or services increased from 9.1% (1.9 million adults) in 2009 to 13.8% (3.4 million) in 2013. A combination of new banks entering the market, greater reach through the deployment of more branches and ATMs, as well as banks making available a greater range of products and services, explain much of the increase in the uptake of bank products and services since 2009. However, the increase appeared most significantly on the mainland, among males and in urban areas – i.e. the traditional target market segments of commercial banks.

The uptake of non-bank formal services was the most significant driver of increased financial inclusion. The proportion of adults who had/used non-bank products or services increased from 13.1% (2.8 million) in 2009 to 55.9% (13.6 million) in 2013. This was mainly due to a significant increase in the uptake of mobile money services.

Introduced in Tanzania in 2008, mobile money services uptake in 2009 was still low. FinScope findings indicated that only 1.1% of adults (0.2 million) were using these services in 2009. FinScope 2013 findings, however, revealed that the proportion of adults using mobile money services had increased to 49.0% (11.9 million adults). With 49.0% of users being rural-based and 61.9% falling into the two lowest categories of the wealth-index, mobile money services seemed to have provided at least basic formal financial services to Tanzanians who most likely would not otherwise have used the formal sector.

Although not nearly as significant as the increase in uptake of mobile money services, there was also an increase in uptake of insurance products. In 2009 6.3% of adults (1.3 million) had insurance, with this proportion increasing to 13% (3.1 million) in 2013.

Barriers to Inclusion

For most Tanzanian adults who were not served by the formal financial sector, the main barriers to financial inclusion were perceived proximity to formal service providers and/or eligibility to take up the products and services on offer. Further analysis of the FinScope 2013 data also identified the lack of information on and knowledge of products and services as significant barriers to uptake.

FinScope 2013 showed that strict enforcement of "know your customer" (KYC) requirements would have a negative impact on the potential increase of the proportion of Tanzanian adults opening accounts with formal financial institutions, as evidenced by:

- 69.1% (7.2million) of adults who were not financially included had a valid personal identity document
- Only 0.9% (0.1million) of adults who were not financially included had both a valid personal identity document and a utility bill to serve as proof of residential address.

Money Management

FinScope 2013 findings indicated that banks were most often used for transacting and savings facilities. The non-bank formal sector (usually mobile money services) was most often used for remittances. And the informal financial sector was most often used for credit.

The proportion of adults who claimed to save or put money away increased significantly from 69.6% (14.7 million adults) in 2009 to 87.4% (21.2 million adults) in 2013. However, savings behaviour of Tanzanian adults was not focused on the long-term and was not driven by a need for investment and wealth accumulation. Most adults (59.9%, 12.5 million) who saved mainly put money away to enable them to cover living expenses during times of financial difficulty;an additional 7.5% were mainly saving for potential emergencies; while a further 5.0% saved mainly for potential medical costs. Tanzanian adults are most likely to keep their savings at home – 75.8% (18.4 million) of those who save do so either using Kibuku or give their savings to someone in the household for safe keeping. In terms of those using formal savings facilities, savers are most likely to keep their savings on their mobile phones (21.0% of savers, 4.5 million). This compares with 11.9% of savers (2.5 million) who keep their savings in a bank.

In terms of credit, FinScope 2013 showed that 54.2% of Tanzanian adults (13.1million) were indebted at the time the survey. 45.7% (11.1 million) borrowed money (including from family and friends) during the 12 months prior to the survey – this proportion increased significantly from 2009, at which time 16.6% (3.5 million) indicated that they had borrowed.

Like savings behaviour, borrowing by Tanzanians was not primarily for the long-term or investment. Most adults (58.8%, 6.8 million) who borrowed money during the 12 months prior to the FinScope 2013 survey did so mainly for consumption purposes, principally general living costs, medical expenses and other emergencies. Such borrowing was most significant among farmers and those depending on others for an income. People were most likely to borrow from family or friends (83.9% of borrowers, 9.3 million), although 13.4% of borrowers(1.5million adults) borrowed from their savings groups, while 25.5% of all adults (6.2 million) had credit from shopkeepers.

Although 51.3% of adults had access to electronic payment systems, payments in Tanzanian were still primarily made in cash. These included paying for food, clothes and even larger appliances. Farming-related transactions were almost entirely cash-based. 53.9% (13.1 million) of adults sent and/or received money during the 12 month period prior to the survey. Although adults who sent money to others used different modes of transfer, most (95.0%, 8.3 million) used mobile money services.

Exploring the financial risks faced by Tanzanians showed that 'unexpected expenses' and 'running out of money for household expenses' were the most prevalent amongst the financial risks people experienced. For most adults, risk mitigation methods were based on self-protection, with very few covering themselves through insurance. 13.0% of adults had formal insurance; 26.7% self-insured by means of buying assets with the intention to sell them during times of financial difficulty; and 10.8% self-insured through membership of a savings group to which they could turn when in financial need.

1.

Introduction

1.

Tanzania, like many other developing countries in sub-Saharan Africa, continues to deal with high levels of poverty, especially in rural areas where most of the Tanzanian population live. In addressing this, the Government of Tanzania has recognised that financial sector development made two mutually reinforcing contributions to poverty reduction, namely: (i) through mobilization of savings and the subsequent investment in the growth of productive sectors – which ultimately contribute to economic growth; and (ii) through direct benefits to the poor – reducing their vulnerability and increasing their income generating capability through access to financial services and finance for all [1]. Although the importance of financial inclusion has been addressed in the Government of Tanzania's national development vision, as well as in its poverty reduction strategies, research (such as the FinScope Tanzania 2009 survey) indicates that financial inclusion remained low.

The role of financial services is to help customers to maximise the benefit from the resources they possess, while minimising the impacts of adverse shocks on their lives. In addition to the limitations imposed by low financial inclusion, the "wrong" financial tools – or irresponsibly delivered financial services such as irresponsible lending– can have adverse effects on the household or the individual. This suggests the importance of financial products and services being suitable to meet the demands created by the financial situation of the household/individual. This further points to the importance of effective consumer protection to ensure positive effects on stability at the micro- or household level[2].

Against this background the Bank of Tanzania (BoT) launched their National Financial Inclusion Framework (NFIF) in December 2013. The NFIF sets the objective of 50% financial inclusion by 2016, with clear targets for a range of indicators (Table 1) and four key priority areas for action during the period 2014 - 2016:

- Increasing the proximity of financial access points to where people live and transact
- Enabling robust payment platforms to be developed and implemented
- Supporting robust electronic information infrastructure for individual and business profiles, credit history, and collateral by establishing an effective KYC ("know your customer") processes, increasing the engagement of credit reference bureaus, and establishing and using a central collateral database
- Ensuring that customers are informed and protected.

[1] National Financial Inclusion Framework. A Public-Private Stakeholders' Initiative (2014 – 2016) (paraphrased)

[2] Cull, R., Demirgüç-Kunt, A., & Lyman, T. (2012). Financial Inclusion and Stability: What Does Research Show? CGAP Brief

2.

FinScope - Background

2.

FinScope is a research tool which was originally developed by FinMark Trust[3] to address the need for credible financial sector information. It provides insights to guide policy makers and regulators in terms of how to address or respond to some of the challenges they face in order to meet financial inclusion aims. It also provides financial service providers with crucial strategic information regarding their target market segments and the financial services these segments need–enabling them to extend their reach and broaden the range of services they provide.

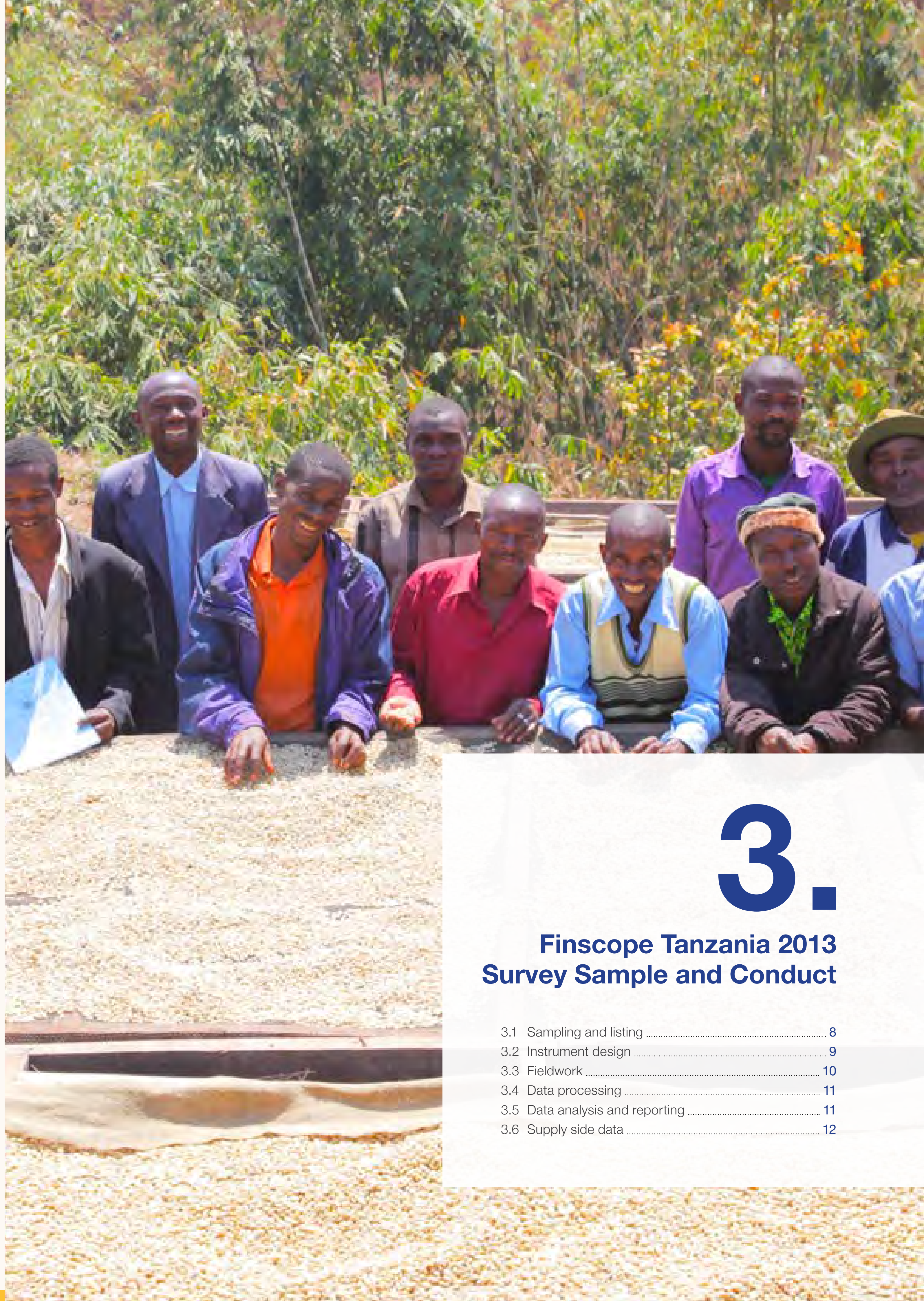
The FinScope survey provides a holistic understanding of how individuals generate an income and how they manage their financial lives. It identifies the factors that drive financial behaviour and those that prevent individuals from using financial products and services. Implementing the FinScope survey overtime further provides the opportunity to assess whether, and how, a country's situation is changing.

The FinScope2013 survey is the third FinScope survey implemented in Tanzania. The first was carried out in 2006 and the second in 2009. All of these surveys were commissioned and funded by the Financial Sector Deepening Trust (FSDT)[4].

In 2009, FinScope revealed that more than half (55.4%) of Tanzanian adults were financially excluded. More than half (64.6%) of those adults who were using financial services relied only on informal mechanisms to transact, save, borrow and mitigate financial risks – only 15.8% of adults used formal financial products or services. This led to more focused financial sector interventions in recent years. The FinScope Tanzania 2013 survey findings provide insight into the impact of these efforts and aims to identify opportunities for further development.

[3] FinMark Trust was established in March 2002and originated FinScope surveys in South Africa. These were then adopted and adapted in Tanzania and other countries where similar FSD entities were established.)

[4] FSDT was established in 2004 by five government donors (Canada, the UK, Sweden and the Netherlands,with Denmark joining in 2005), in close collaboration with the Bank of Tanzania and the Government of Tanzania. One of its key aims to provide greater financial access throughout Tanzania, especially for the poor.



3. Finscope Tanzania 2013 Survey Sample and Conduct

3.

IPSOS Tanzania (IPSOS) was competitively contracted to conduct the FinScope Tanzania 2013Survey with technical support from Yakini Development Consulting (Yakini). The National Bureau of Statistics (NBS) was responsible for sample design, preparing the sample frame drawing up the sample of Enumeration Areas (EAs) and weighting of the final dataset, ensuring that the dataset represented the adult population (i.e. individuals 16 years or older) of Tanzania. Yakini was contracted for data analysis and Development Pioneer Consultants (DPC) for survey coordination and dissemination of the findings.

The FinScope Steering Committee (SC),representing stakeholders of both the public and private sectors, provided overall guidance with regard to the design and implementation of the 2013 survey. The SC served as a platform for the survey implementation team (i.e. FSDT, NBS, IPSOS Tanzania, Yakini and DPC) to engage stakeholders in terms of their information needs, as well as approving a strategy for the dissemination of the findings developed by DPC.

The FinScope Technical Committee (TC), comprising representatives from FSDT, the Bank of Tanzania (BoT), NBS, IPSOS, Yakini and DPC, provided oversight in terms of all technical aspects of how the survey was implemented.

The main objective of the FinScope Tanzania 2013 Survey was to provide information on:

- Current levels of financial inclusion and how these have changed since 2009.
- The landscape of access (i.e. the types of financial services and products being used) and how this has changed since 2009.
- Barriers to financial products and services uptake.
- Drivers of financial products and services uptake.
- New opportunities for increased financial inclusion.

3.1 Sampling and listing

The sample frame of a FinScope survey comprises the Enumeration Areas (EAs) of a country and its validity is crucial for the reliability of the survey.

The FinScope sampling methodology entails three levels of sampling:

- The first level of sampling is conducted at EA level. A nationally representative sample of EAs is drawn from the sample frame using a “probability proportion to size” approach. For the 2013 survey, 800 EAs were selected ensuring urban-rural as well as regional representativeness.
- The second level of sampling is conducted at household level. During this sampling stage,a sample of households is selected at random from the households in each of the sampled EAs. In order to achieve this sample for each EA, the sampling process involves drawing up a list of all households in the EA and selecting a sample of households from the list. For the purpose of the 2013 survey a sample of ten households was drawn at random from the compiled household list for each EA.
- The third level of sampling is conducted at individual level. For the purpose of the 2013 survey, one individual (i.e. the intended respondent) was selected at random from all individuals 16 years or older in each of the sampled households in the EA using a Kish grid[5].

NBS prepared the sample frame for the FinScope Tanzania 2013 survey and conducted the EA sampling. The household listing and sampling for each EA was conducted by IPSOS enumerators.

[5] The Kish grid or Kish selection table is a method for randomly selecting members within a household to be interviewed. It uses a pre-assigned table of random numbers to identify the person to be interviewed.

3.2 Instrument design

The instrument design phase was facilitated by FSDT with technical support provided by Yakini. This phase involved consultation with public and private sector stakeholders to ensure that the data provided by the FinScope survey contributed to the promotion of financial inclusion in Tanzania.

Since the FinScope 2009 survey was conducted in Tanzania, several new financial products such as insurance products targeting low-income consumers, non-interest (Islamic) banking products and various financial products to improve the agricultural sector had entered the market. Mobile money services and products had become increasingly popular and savings groups such as village savings and loans associations (VSLAs) had expanded quite significantly. In order to ensure that new products and services as well as new financial concepts were well understood and effectively taken account of in the 2013 FinScope questionnaire, focus groups were conducted prior to questionnaire design. DPC ran these groups and provided feedback to support the questionnaire design.

Twelve focus groups, each with either eight or nine participants and disaggregated by gender and age, were conducted. The geographical areas covered included Iringa (Ugwachanya and Tarangozi villages), Dar es Salaam (Mbagala and Kinondoni) and Zanzibar (KikwajuniJuu). These areas were purposively selected representing both rural and urban areas, as well as the mainland and Zanzibar.

The final survey instrument was a structured questionnaire aligned with the survey objectives. The final questionnaire was translated into Kiswahili by IPSOS.

A full pilot survey was conducted by IPSOS to test both the Kiswahili and English versions of the questionnaire for validity, flow and respondent comprehension. The questionnaire was revised based on the feedback from the pilot prior to enumerator training. Yakini provided quality control of the English version of the questionnaire) and NBS the Kiswahili version.

As interview data was captured electronically using mobile phones during the course of interviewing, the questionnaire needed to be converted into a format that could be loaded onto mobile devices. Survey to go software was selected for this purpose once the questionnaire was finalised. Both the English and Kiswahili versions of the questionnaire were loaded onto the devices. This enabled enumerators to use the language preferred by each respondent.

3.3 Fieldwork

Data collection was conducted by IPSOS over a four month period during September to December 2013. A total sample of 7,987 (6,800 for the mainland, 1,187 for Zanzibar) interviews was achieved, which represented a 99.8% response rate.

Interview data was captured electronically using mobile phones. This then allowed the data to be immediately uploaded onto the IPSOS server by means of the mobile network on completion of the interview. If the network was not available at the time, the data was stored on the mobile device until the network could be accessed and then uploaded to the server.

To ensure reliability of the data, extensive and comprehensive quality control measures were put in place. These measures were aimed at ensuring not only the quality and accuracy of the data collected during interviews, but also that the survey methodology was effectively implemented. Together, these controls underpinned the validity of the survey data and the accuracy of its subsequent extrapolation.

The main quality control measures were:

- Using electronic data capture during the interview process
  - Incomplete questions were avoided – the script would not allow an enumerator to move to a following question unless a compulsory field was completed
  - Consistency checks were built into the script. Inconsistent responses were flagged and required an enumerator to rectify them before the script allowed the enumerator to continue on to the next question.
  - Skip routines were more effectively applied as they were built into the questionnaire script (i.e. the programmed version of the questionnaire on the mobile devices).
  - Parameter controls were enforced – invalid or obvious outlier values were either queried or rejected for specific fields.
  - Questionnaire flow was improved.
  - Random selection of the respondent (based on the Kish grid) was built into the script and therefore happened automatically, as far as the enumerator was concerned.
- Extensive testing of the script prior to enumerator training and a final version was then exported to the mobile devices.
- Two weeks of extensive enumerator training to ensure that field teams fully understood the requirements of the study, the survey methodology and the questionnaire. Training started using a paper-based questionnaire to ensure that enumerators were comfortable with the content of the questionnaire before training on the mobile device was introduced.

- A pilot survey to test the survey methodology and the readiness of enumerators to go to field was conducted before full fieldwork commenced. The pilot survey also enabled the IPSOS-Yakini team to conduct a final test of the questionnaire script on the devices before going into field.
- Field supervisors conducted spot-checks by attending a number of interviews done by each enumerator. This approach helped ensure that enumerators followed correct procedures and that timely corrective action could be taken where enumerators experienced problems with any aspect of the survey
- IPSOS and Yakini were responsible for data quality control. As interview data were uploaded on completion of each interview, data quality could be assessed while enumerators were at a specific survey location. Prompt feedback allowed enumerators to address data errors before moving to a new location.
- Daily monitoring of incoming data made it possible to identify weak interviewers. These interviewers were visited in field by Yakini and IPSOS field supervisors to ensure that weaknesses were quickly addressed.

To complement these quality control measures,FSDT also conducted independent field visits to verify field teams' implementation of the survey methodology and the interviewing process.

3.4 Data processing

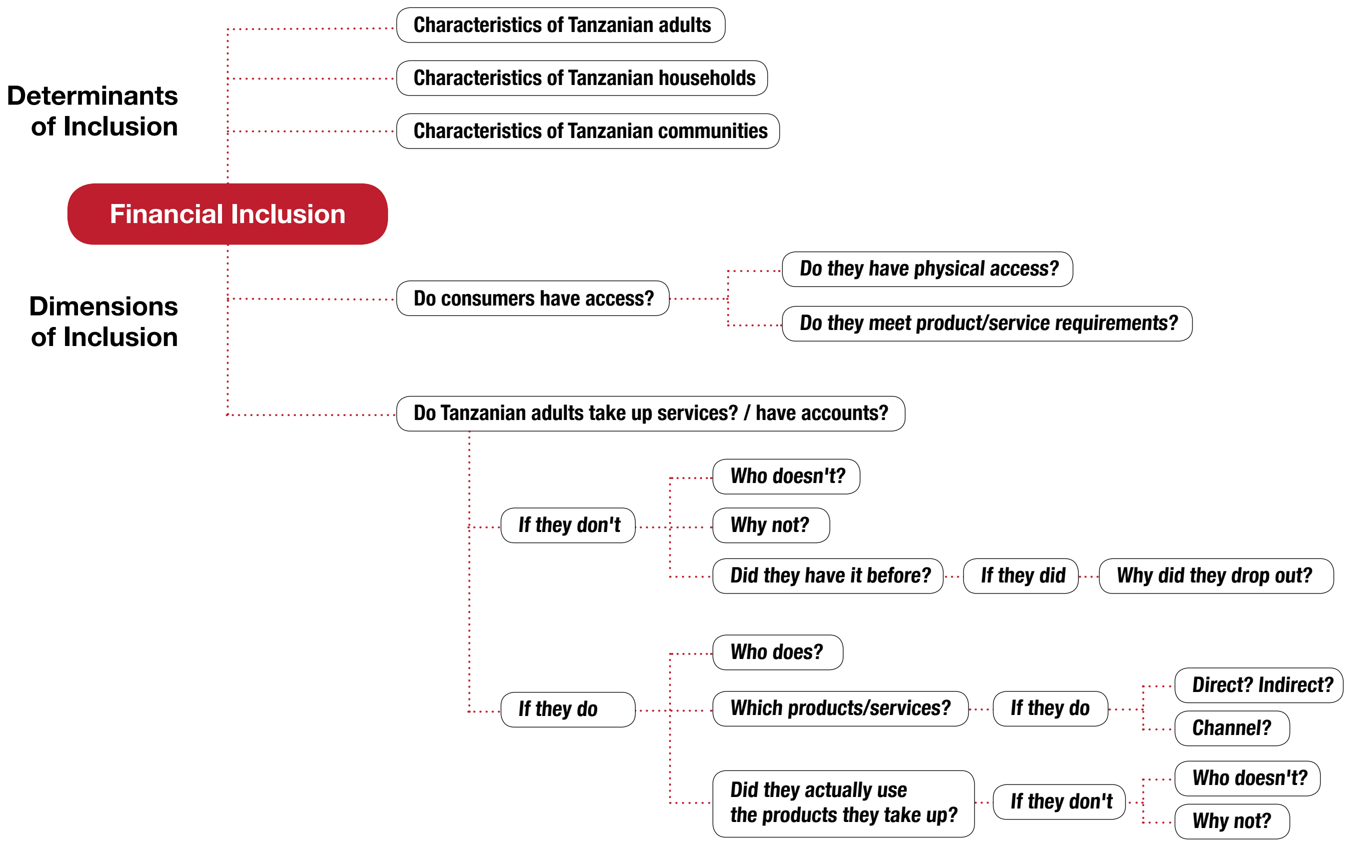
Although data quality was monitored and managed throughout the fieldwork, final checks were conducted once fieldwork was completed to ensure that the data was clean and of high quality. A clean dataset in SPSS format was produced by IPSOS.

The data were weighted by NBS and Yakini (using the 2012 census and listing data, an taking into account the three levels of sampling).This ensured the final data set properly represented the Tanzanian adult population (i.e. 16 years or older). NBS carried out the final validation of the data and signed off the final dataset before analysis began.

3.5 Data analysis and reporting

The FinScope Tanzania 2013 data was analysed by Yakini using SPSS software. Aimed at achieving the survey objectives, the analytical framework shown in Figure 1 was developed[6] to provide insight and understanding. We discuss the main principles behind this analytical framework in section 4.2.

Figure 1: FinScope Tanzania analytical framework



After conducting the FinScope Tanzania 2013 survey and analysing the data, qualitative research was used to explore the findings from the survey in more depth. Focus group discussions (FGDs) and in-depth interviews (IDIs) with perceived key informants were the qualitative methods used. Both FGDs and IDIs were conducted by DPC during February 2014. Focus group participants and key informants who participated in the qualitative research,as well as the geographical locations for this research,were selected from Dar es Salaam - chosen to represent urban areas - and Pwani - to represent rural areas.

- Five mixed gender FGDs were conducted, with groups disaggregated by income generating activity, rural-urban area and age group. With regard to income generating activity the focus was on business owners – of agribusinesses (i.e. farmers who sold more of the produce/products than they consumed) as well as non-farming-related businesses and subsistence farmers.
- Four IDIs with perceived key informants included mobile money agents in urban areas and two mobile money agents in rural areas.

[6] This was done in collaboration with the SC

3.6 Supply Side Data

The Bill & Melinda Gates Foundation has funded a web-based platform (FSP Maps) that make financial inclusion data publicly available. FSP Maps utilise datasets on the location of financial service providers lying on top of demographic data to present financial access geospatially.

In order to effectively assess physical access to formal financial institutions for the purpose of FinScope 2013, data on the location of financial service providers in Tanzania from FSP Maps was overlaid on the distribution of the adult population of Tanzania (obtained from NBS) using geographical information software (MapInfo). The access point dataset contained geographical location data for:

- Bank infrastructure:
  - Branches of commercial banks
  - Community banks
  - ATMs (standalone and at a bank branch)
- Microfinance providers(including MFIs and SACCOS)
- Mobile money agents of all mobile network operators.

We discuss supply-side findings in section 5.1.

4.

Defining Financial Inclusion

Indicators, Dimensions and Determinants

4.

The National Financial Inclusion Framework (NFIF) regards Tanzanians as being financially included if they were 16 years or older and used or had any formal financial products to assist them to manage their financial affairs. In terms of the FinScope approach,however, financial inclusion was assessed in terms of three dimensions:

- The proportion of adults who have/use formal financial products/services to assist them to manage their financial matters – formally served (this is how the BoT defines those financially included)
- The proportion of adults who use informal mechanisms (i.e. those not provided by a regulated or officially supervised financial institution) to transact, save, borrow or manage their financial risks – informally served
- The proportion of adults who have/use neither formal financial products/services, nor informal mechanisms to assist them to transact, save, borrow or manage their financial risks – for credit purposes they rely on family and friends; savings are kept at home or with family members and transactions are cash-based – financially excluded.

4.1 Financial inclusion indicators

The terms increasing and deepening financial inclusion refer to processes that enable more individuals to have access to, take up, and use financial products and services. To assess levels of financial inclusion in Tanzania, FinScope 2013 used the following indicators:

Table1: FinScope Tanzania indicators used to describe the level of financial inclusion among adults

Definition: Adult population	Includes individuals 16 years or older. This population is the universe for all financial inclusion analysis in this report unless otherwise stated
Percentage of adults banked	Includes adults who have or use any product or service from a bank
Percentage of adults served by non-bank formal financial institutions	Includes adults who have or use any product or service from any regulated or officially supervised financial institution which is not a commercial bank, e.g. MFIs and SACCOS, insurance companies, NGO and Government services, mobile money service providers and money transfer operators such as Western Union and Moneygram
Percentage of adults formally served or financially included (as per the BoT definition)	Includes adults who are EITHER banked OR who are served by formal non-bank financial institutions or BOTH
Percentage of adults informaly served	Includes adults who use informal mechanisms to transact, save, borrow or manage their financial risks. This can include,for example, credit or loans provided by agricultural associations, saving with savings groups such as village savings and lending associations (VSLAs), borrowing from community-based money lenders,or sending money in cash to family/friends by means of a taxi/bus driver etc.
Percentage of adults financially excluded	Includes adults who are NEITHER formally NOR informally served– for credit purposes they rely on family and friends, savings are kept at home or with family members, and transactions are cash-based

These definitions changed somewhat between 2009 and 2013. Annex A provides further detail.

4.2 Dimensions of financial inclusion

Financial inclusion is only effective or functional if: (a) consumers have physical access to financial institutions; (b) are eligible to open an account or use a product or service; (c) they actually open an account or take up a product or service; and then (d) use it (which indirectly implies that they can afford the product/service and it meets their needs).

In measuring financial inclusion, FinScope therefore aims to further also identify:

- The proportion of the adult population that has physical access to formal financial institutions (i.e. regulated or licenced financial institutions). Distance from the institution(in kilometres) and the amount of time taken to reach the institution are used for this purpose. We discuss access further in section 5.1.
- The proportion of the adult population that is eligible to open an account or use a product or service with a formal financial institution – in this regard minimum KYC ("know-your-customer") requirements for product/service uptake are considered.
- The proportion of the adult population that is financially included and uses financial products/ services.

4.3 Determinants of financial inclusion

Although physical access to a financial institution and eligibility to open an account or use a product/ service are prerequisites for the uptake of financial services, the actual uptake and usage of a financial service or product depend on the individual. This could be influenced by a range of factors. FinScope attempts to highlight which factors influence uptake and usage by considering:

- Characteristics of the individual such as:
  - Demographics –age, gender, level of education
  - Income generating activities, levels of income and consistency/regularity of income
  - Attitudes and perceptions about money, financial services and institutions
  - Financial literacy,knowledge about financial products and services and an understanding by individuals of how financial products and services can help them improve their lives
  - Money management strategies including financial planning and risk management
- Characteristics of the household such as the structure of the household, role of the individual in the household and the influence that has on the financial decisions of the individual.
- The attributes of the community the in which the individual lives,such as the access to infrastructure and thus the extent to which it provides (or limits) physical access to financial institutions.

5.

Financial Inclusion Dimensions of Access and Eligibility

Using the analytical framework developed for FinScope 2013, as noted in section 4.2, this report assesses levels of financial inclusion through the dimensions of:

- Access to formal financial products and services (i.e. products and services offered by regulated or officially supervised financial institutions).
- The extent of uptake of formal financial products/services among adults and the extent to which these products are being used.

To analyse the issue of access to financial services, it is necessary to have a working definition of this term. There are various dimensions to access – such as physical access to points of service, eligibility to take up products/services offered as well as the suitability, affordability and awareness of products/services for example – which makes it a complex concept to measure.

For the purpose of the FinScope 2013 analysis, physical access and eligibility of adults to take up the products/services on offer will be regarded as key indicators of access, whilst aspects such as suitability, affordability and awareness of products and services will be dealt with as enablers of uptake of products and services. FinScope did not assess these enablers.

In terms of access this report therefore focuses on:

- The geographical distribution of adults in relation to the distribution of formal financial institutions
- Eligibility of adults to take up products and services on offer.

5.1 Physical access to formal financial institutions

Access point location data overlaid on the distribution of the adult population of Tanzania,revealed that the 2016 national target of 25% of adults being within a 5km radius of a formal financial access point has been exceeded and that this was mainly due to the level of access to mobile money agents, as Figures 1 to 4 below show

- 37.4% of adults lived within a 5km radius of a bank branch/ATM, MFI/SACCOS or a mobile money agent.
  - 20.2% of adults lived within a 5km radius of a mobile money agent.

Figure 2: Geographical distribution of commercial bank access points

Figure 3: Geographical distribution of MFI access points

Figure 4: Geographical access of mobile money agents

In addition to the spatial mapping of access, perceived access serves as an important secondary indicator. Based on the premise that the longer it takes to access infrastructure or a service the less likely it is to be used,the adult population's perceptions regarding the amount of time it would take to access formal financial institutions would probably significantly influence product/service uptake.

The findings summarised in Table 2 indicated that financial institutions (banks, MFIs and SACCOS) were perceived to be less accessible (in terms of proximity from place of residence) than other facilities such as markets, schools and health care facilities. Proximity to mobile money agents were perceived to be significantly more favourable than that of other financial service providers, and compared well with proximity to facilities such as markets, schools and health care facilities.

Table 2: Adult population perceptions with regard to access to facilities

Facility	Adults within an hour from facility %				
	Dar es Salaam	Other urban areas	Rural areas	Zanzibar	Total Mainland &) (Zanzibar
Police station	91.0%	82.6%	36.3%	83.7%	53.9%
Primary school	96.2%	96.8%	91.1%	97.4%	93.1%
Secondary school	86.0%	83.6%	60.7%	96.1%	69.6%
Health centre	88.9%	89.3%	66.7%	94.4%	74.9%
Produce/food market	87.6%	87.0%	58.1%	75.8%	68.2%
Bank	64.5%	67.4%	12.7%	51.5%	31.4%
MFI	40.2%	48.3%	9.2%	30.7%	21.6%
SACCOS	44.4%	59.3%	21.6%	58.8%	33.1%
Mobile money agent	99.1%	93.6%	62.8%	75.8%	74.0%

The percentages in the total column in Table 2 show access to formal financial as well as a range of other institutions. It is worth noting that the proportions for formal financial access are significantly lower than those relating to any other facility shown.

Table 3 shows factors related to the accessibility, reliability and affordability of public transport further restricted access to financial institutions, especially in rural communities,where only 46.8% of adults reported that they had access to public transport.

Table 3: Adults' perceptions about public transport in areas where it is available

Perception of adults in communities with public transport	Adults %				
	Dar es Salaam	Other urban areas	Rural areas	Zanzibar	Total (Mainland & (Zanzibar
Public transport is reliable	95.3%	83.7%	58.6%	81.2%	72.9%
Public transport is affordable	81.5%	74.2%	58.9%	81.9%	68.0%
It is safe to carry cash on public transport	30.7%	40.7%	46.7%	79.5%	43.4%

5.2 Eligibility

It is often claimed that the biggest constraint in terms of access is regulatory in nature – specifically with regard to potential customers of financial institutions having to comply with strict KYC requirements – and that potential customers often turn to financial services provided by mobile network operators, as the KYC compliance requirements for using these services are lighter.

KYC requirements for the opening of accounts with financial institutions for individuals include:

- Proof of identity by means of a valid identification document
- Proof of residential address by means of either a utility bill, a bank account statement with signature verification by the banker, or a cheque drawn on that account for a minimum amount as specified by the bank or a letter from an employer (subject to satisfaction of the bank).

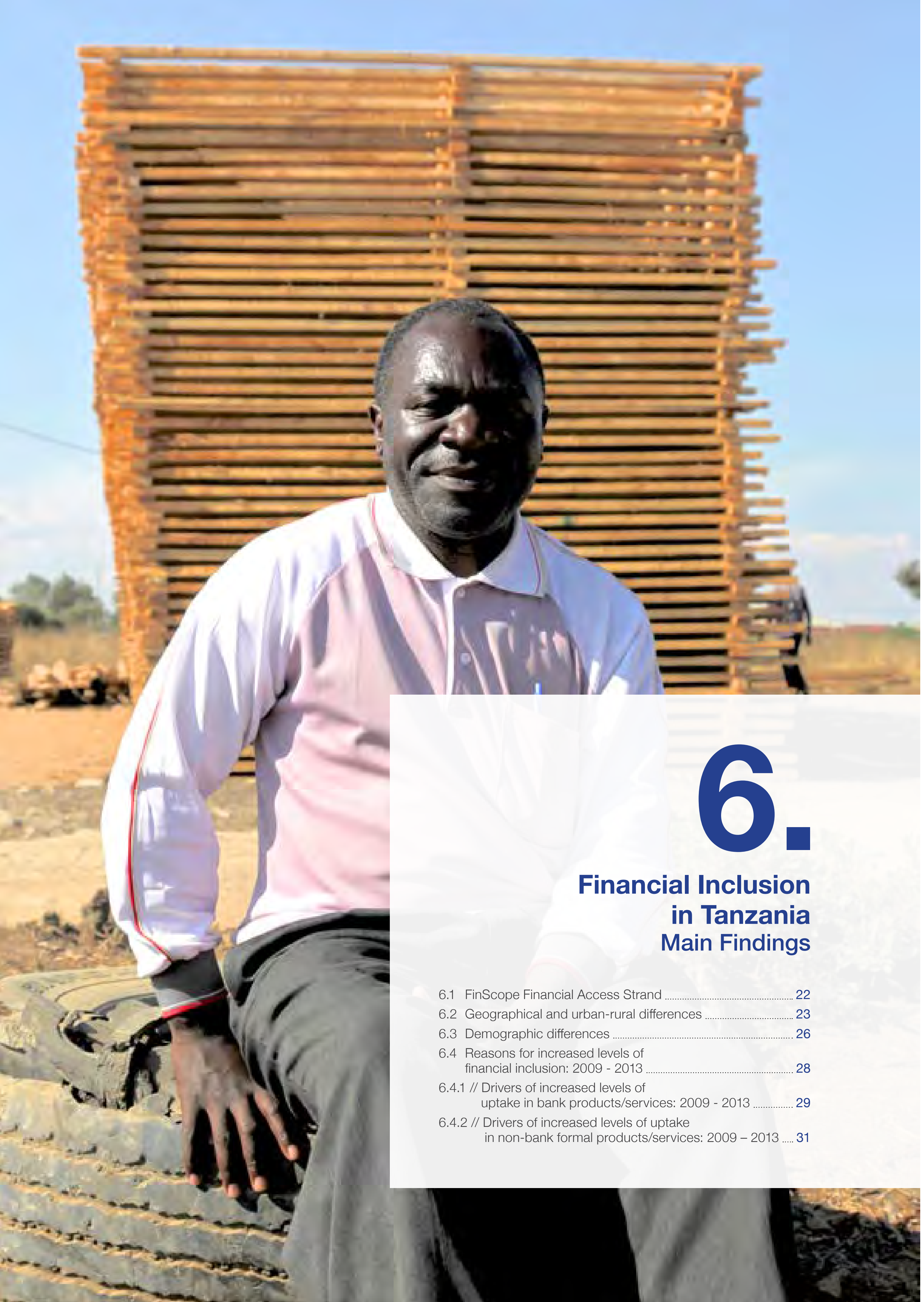
With regard to using mobile money services, KYC requirements are limited to proof of identity by means of a valid identification document. However, if a valid identity document cannot be retained, an individual can still be registered as a tier 1 customer,albeit with limitations on the value of transactions.

FinScope 2013 findings revealed that,in terms of compliance with KYC requirements for opening an account with a financial institution, the main constraint was the ability of potential customers to provide valid documentation that could serve as proof of residential address:

- 76.6% of Tanzanian adults had a valid personal identity document, i.e. a voter registration card, passport, driver's license, valid work/staff/student identity card or a Zanzibar resident identity card
- 5.6% of adults received utility bills that could be used as proof of residential address
- Only 5.0% of adults had both a valid identity document and proof of residential address by means of a utility bill.

That strict enforcement of KYC requirements would have a negative impact on the potential increase of the proportion of Tanzanian adults opening accounts with formal financial institutions is evident from the following FinScope 2013 findings:

- 69.1% of adults (7.2million) who were not formally financially included had a valid personal identity document
- Only 0.9% of adults (0.1million) who were not formally financially included had both a valid personal identity document and a utility bill to serve as proof of residential address.

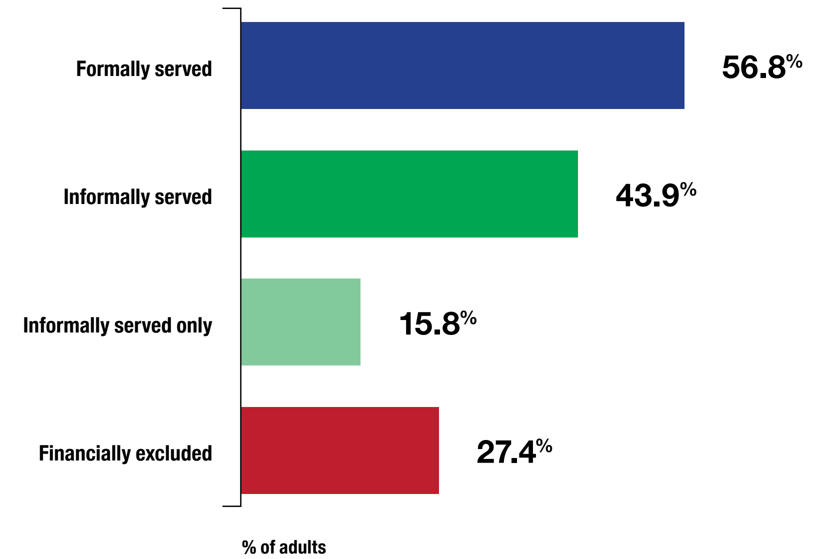


6. Financial Inclusion in Tanzania Main Findings

In terms of total financial inclusion, FinScope Tanzania 2013 findings (Figures 5 and 6) revealed that:

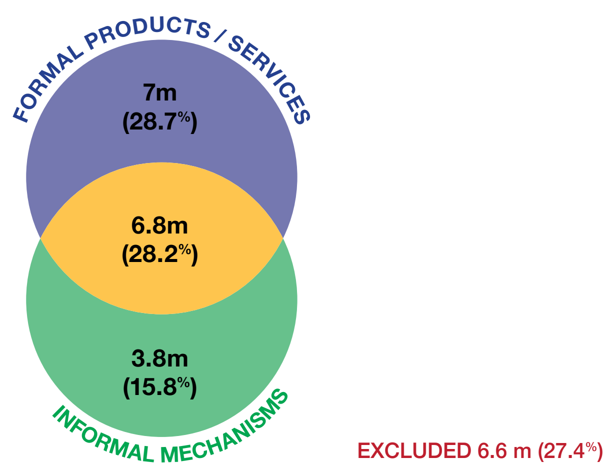
- 56.8% (13.8million) of adults were formally served
- 43.9% (10.7 million) adults were informally served,with 64.0% of these adults also using formal financial products/services
- 15.8% (3.8million) adults relied on informal financial mechanisms only and did not use any formal financial services/products
- 27.4% (6.6million) of adults were financially excluded.

Figure 5: Levels of financial inclusion among Tanzanian adults, 2013



The percentages in Figure 5 differ from those presented in section 6.1 as the Access Strands; the former include overlaps between people using formal and informal financial services. The extent of the overlaps is shown in Figure 6 below.

Figure 6: Overlap in the usage of formal financial products/services and informal mechanisms, 2013



In terms of the BoT definition of financial inclusion (i.e. referring to the proportion of adults who are formally served) these findings indicated that:

- The NFIF objective of 50% financial inclusion by 2016 has been exceeded – 56.8% of Tanzanians were financially included in 2013
- Financial inclusion increased significantly since 2009 when only 15.8% (3.3million) of Tanzanian adults were financially included
- Although there has been a slight increase in the proportion of adults using informal financial mechanisms since 2009, there has been a significant decrease in the proportion of adults relying on informal financial mechanisms rather than using formal products and services (28.8% of adults in 2009 vs. 15.8% of adults in 2013)
- Financial exclusion has decreased significantly – from 55.4% (11.7million) of adults being excluded in 2009 to 27.4% (6.6million) in 2013.

In terms of the level of financial inclusion in different geographical areas, FinScope 2013 findings illustrated significant differences between the mainland and Zanzibar, as well as between urban and rural areas on the mainland:

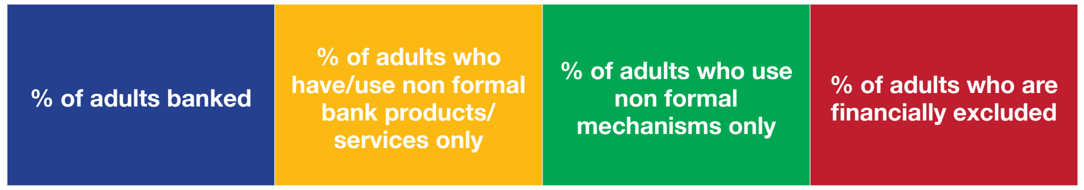
- The level of financial inclusion was significantly higher among adults on the mainland (57.4%) than the level of inclusion for Zanzibar adults (37.1%)
- As there was no significant difference between the proportions of adults relying on informal mechanisms to manage their financial matters (15.8% of adults on the mainland, 17.1% of Zanzibar adults), lower levels of inclusion among Zanzibar adults resulted in the proportion of financial excluded adults for Zanzibar (45.9%) being significantly higher than that for the mainland (26.8%)
- On the mainland, the level of financial inclusion was significantly higher in urban areas than in rural areas, although almost half (45.8%) of rural adults were financially included.

6.1 FinScope Financial Access Strand

The FinScope financial access strand is constructed to illustrate the:

- Proportion of adults who are financially excluded
- Proportion of adults who are financially served but not formally served – i.e. the proportion of adults who rely solely on informally mechanisms to manage their finances
- Proportion of adults who are formally served but not banked – i.e. the proportion of adults who are served by non-bank formal financial institutions but not by banks
- Proportion of adults who are banked – i.e. the proportion of adults who have/use bank products and/or services.

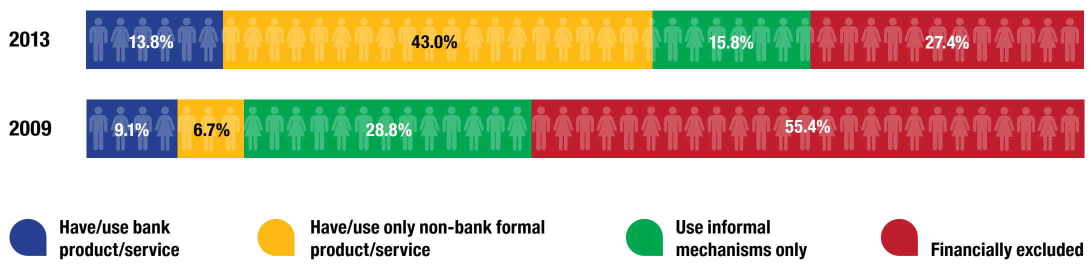
Figure 7: FinScope financial access strand



Comparing the FinScope 2009 access strand for Tanzania with that of 2013, significant changes are clearly seen (Figure 8):

- There was a significant drop (from 55.4% to 27.4%) in the proportion of adults financially excluded,as well as in the proportion of adults relying on informal mechanisms to manage their financial matters (from 28.8% to 15.8%)
- The proportion of banked adults increased from 9.1% to 13.8%
- The most significant shift, however, was the increase in the proportion of adults using formal financial products and/or services, although they were not banked (this represented mostly unbanked adults using mobile money services) – increasing from 6.7% (1.4 million adults) in 2009 to 43.0% (10.4 million adults) in 2013.

Figure 8: FinScope Tanzania financial access strands: 2009 – 2013



Comparative access strand analysis for the period 2009 to 2013 (Figures 9 to14) revealed:

6.2 Geographical and urban-rural differences

- As a result of the growth in the non-bank formal sector being less significant for Zanzibar than for the mainland, the drop in financial exclusion and reliance on informal mechanisms for Zanzibar was not as significant as for the mainland (Figure 9)
- The incremental increase in financial inclusion in the rural areas of the mainland coming from the growth in the non-bank formal sector was less than for urban areas. Also, growth in the banking sector further boosted financial inclusion in urban areas, but did so to a much lesser extent in rural areas. Consequently, the fall in exclusion in rural areas was less than in urban areas (Figure 10).

Figure 9: Financial access strands for the mainland and Zanzibar: 2009 – 2013

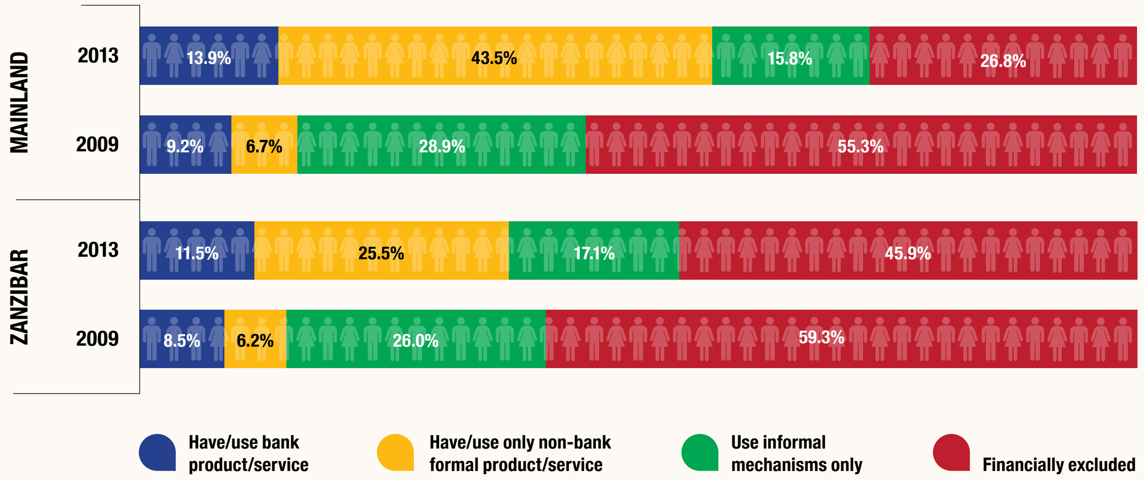


Figure 10: Rural-urban financial access strands: 2009 – 2013

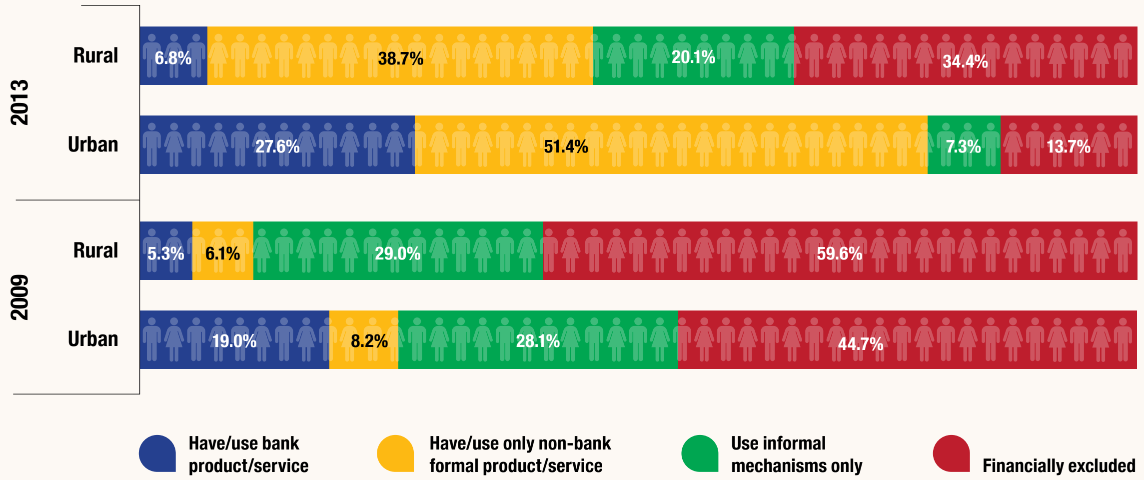
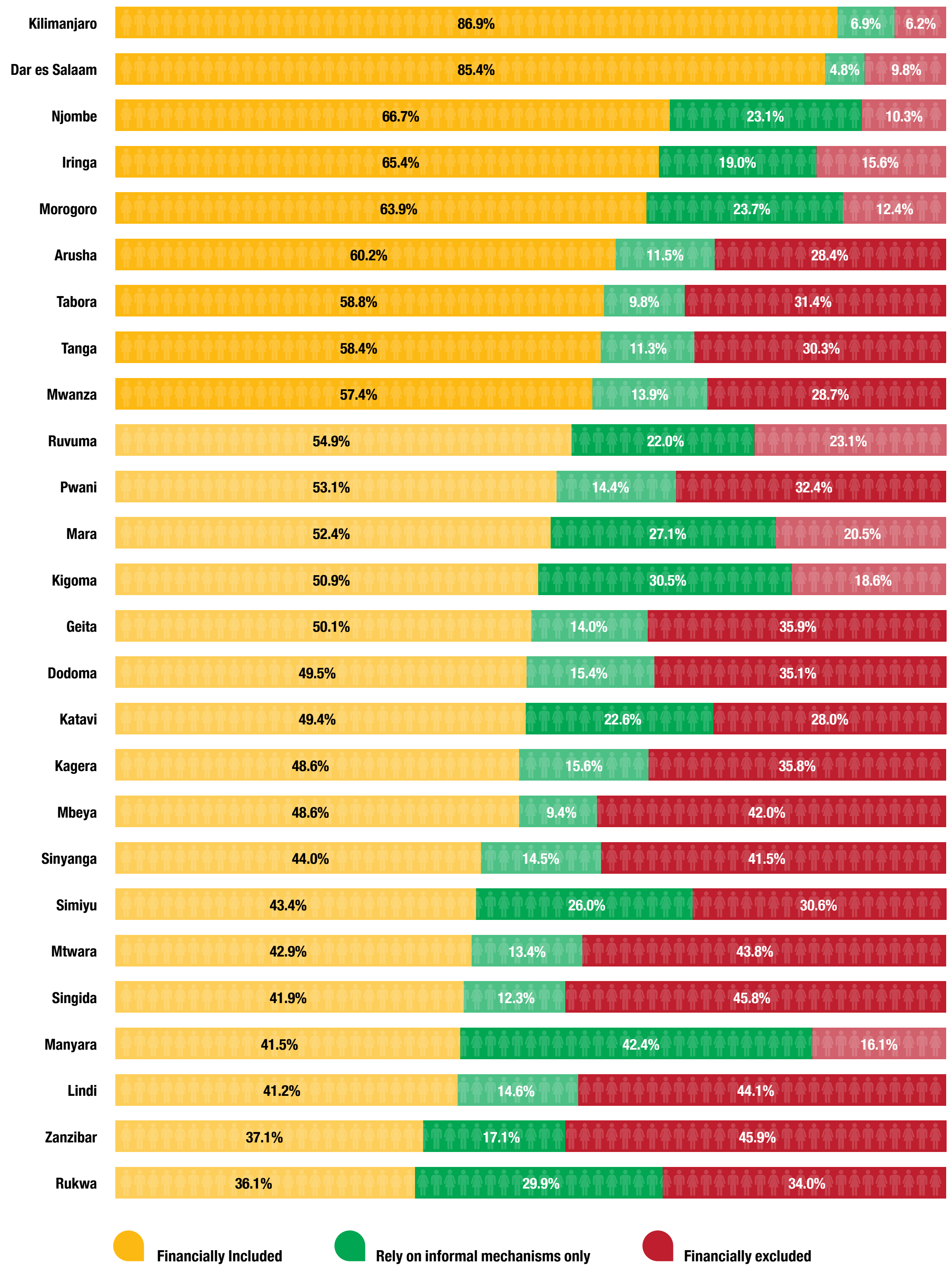


Table 3 shows a breakdown by each of the regions across the country of financial inclusion, reliance on informal finance and exclusion.

Table 3: Levels of financial inclusion among Tanzanian adults by region and Zanzibar, 2013



NOTE: Highlighted are the higher levels than among total mainland adult population.

Table 4a: the five regions with the greatest proportions of people financially excluded in 2013:

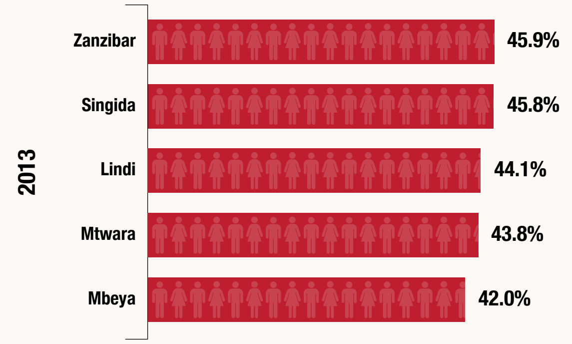


Table 4b: the five regions with the greatest levels of exclusion in 2009

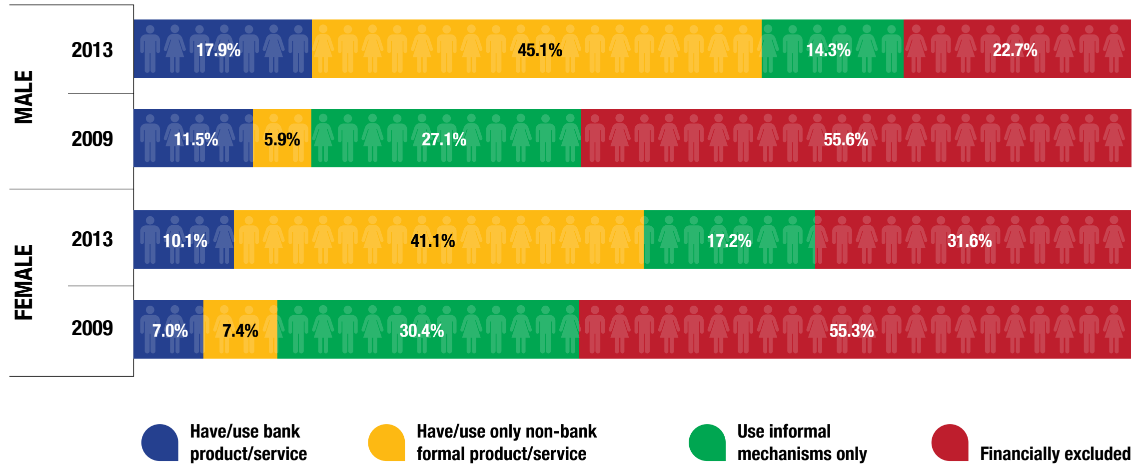
The main implications of these findings are that:

- Growth in inclusion in Zanzibar was significantly less than in other regions
- Lindi and Mtwara are still in the bottom five regions showing that the growth in inclusion has had much less traction in these regions than, for example, in Dodoma and Manyara
- Tabora and Dodoma showed significant improvement in financial access, although these regions have exclusion levels that are still higher than the national average
- Manyara, on the other hand, now has only 16% exclusion – a major fall from 73% in 2009. The main driver was mobile money uptake

6.3 Demographic differences

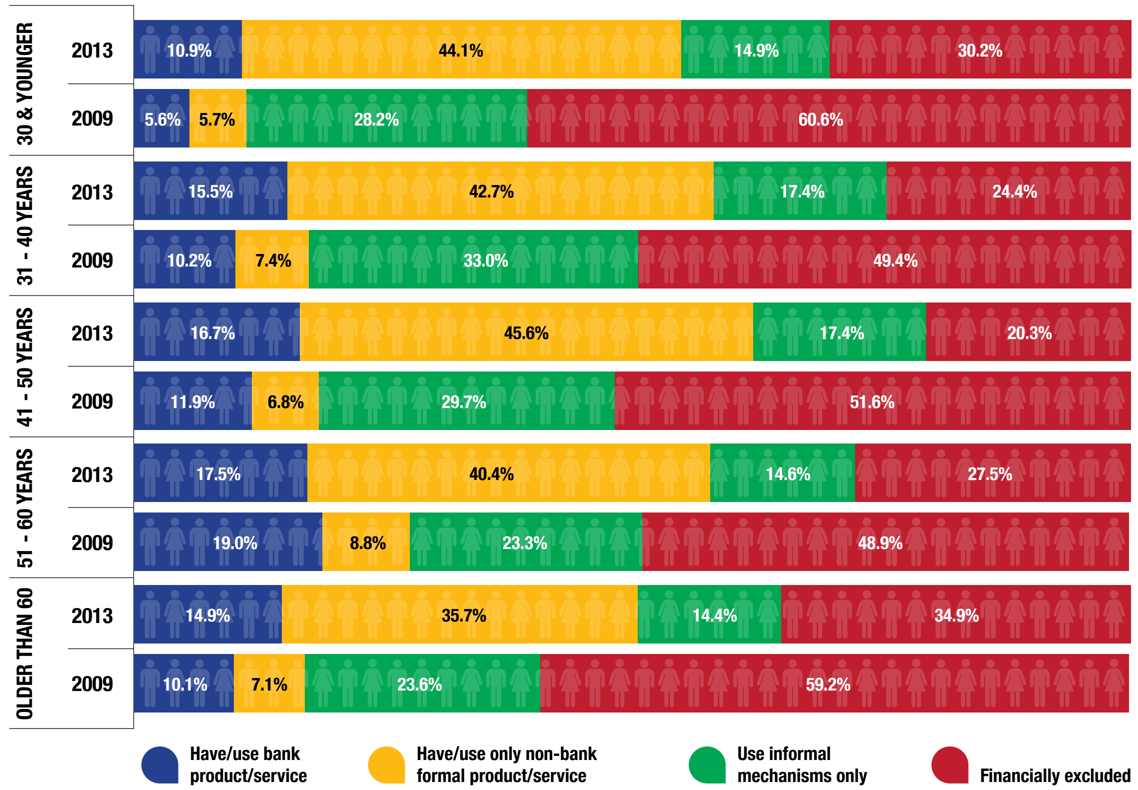
- The incremental increase in financial inclusion between 2009 and 2013 as a result of increased uptake of non-bank formal sector products/services was slightly more significant for women than for men; the drop in financial exclusion was not as significant as for women however – mainly as a result of a less significant increase in the uptake of bank products/services among women (see Figure 11)

Figure 11: Financial access strand by gender: 2009 – 2013



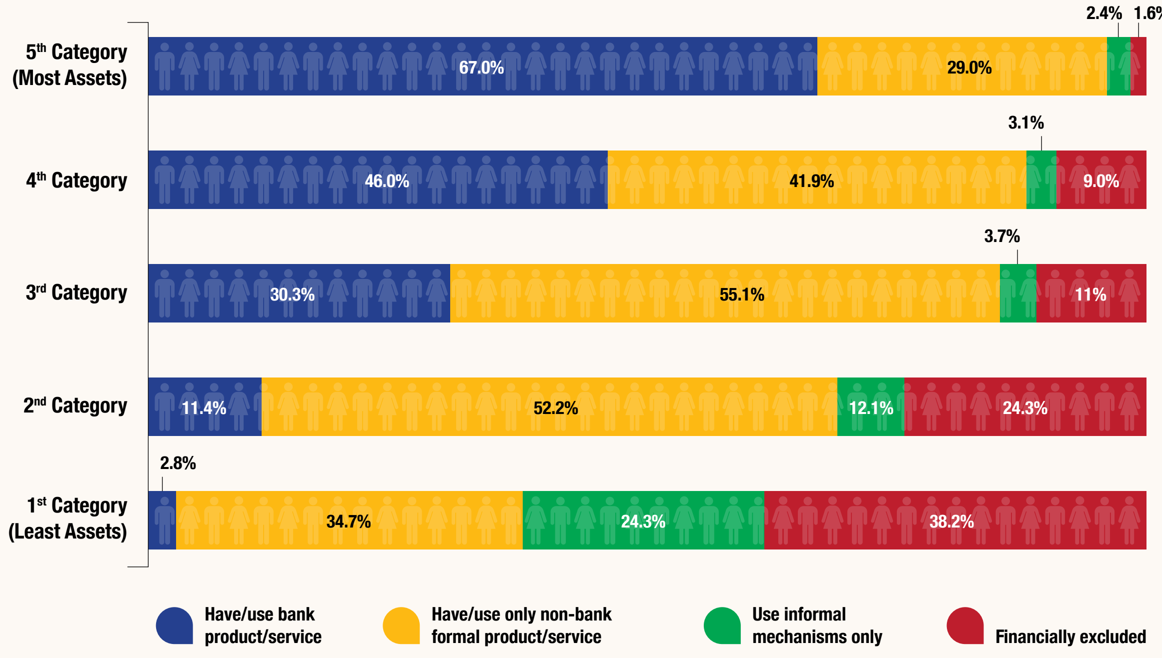
- In terms of age groups, the incremental increase in financial inclusion between 2009 and 2013 was most significant for adults 30 years and younger – this was due to this age group showing the most significant increase in uptake of bank as well as non-bank formal products/services (see Figure 13).

Figure 12: Financial access strand per age group: 2009 – 2013



In terms of the five categories of a five-point scale asset-based wealth index[8], financial inclusion was significantly skewed towards the higher categories of the index. Financial exclusion as well as reliance on informal financial mechanisms was skewed towards the lowest category of the wealth index,in which 38.2% were financially excluded and 24.3% relied on informal financial mechanisms (see Figure 13).

Figure 13: Financial access strand per category of the wealth index: 2013

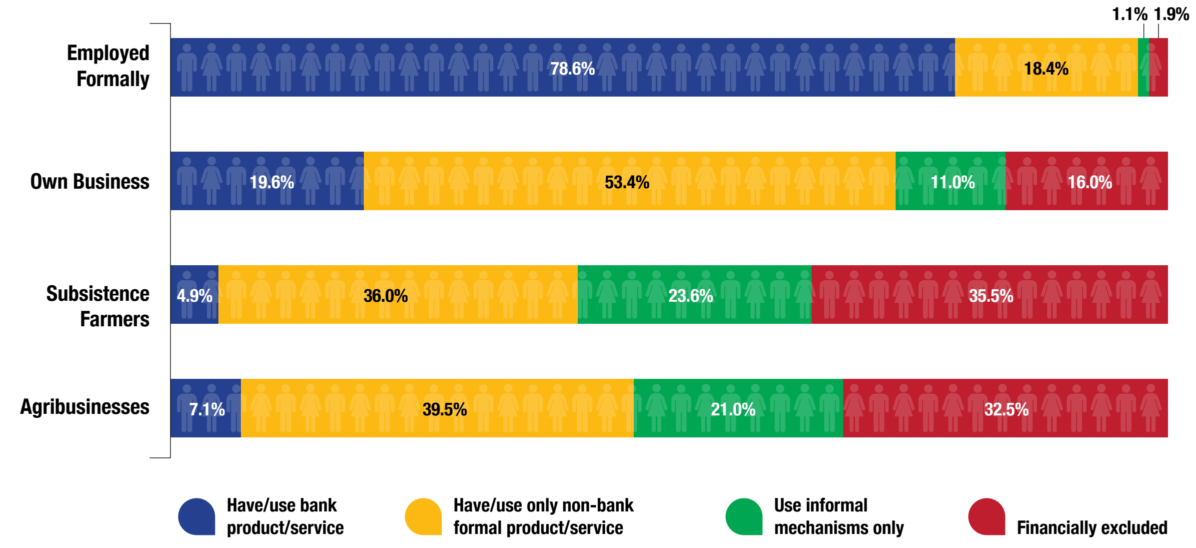


If the adult population of Tanzania is segmented in terms of main income generating activities of individuals (i.e. their most relied upon sources of income), five predominant segments emerge – (i) formally employed adults; (ii) business owners; (iii) agribusiness owners (i.e. farmers who sell more of their produce/products than what is consumed by the household); (iv) subsistence farmers and (v) adults who do not earn/generate an income but who are dependent on others for money or expenses (dependents).

- Findings summarised in Figure 14 illustrate the significant skew of financial inclusion towards formally employed adults (97.0% financially included) and business owners (73.1% included). Financial exclusion was skewed towards subsistence farmers (35.5% financially excluded) and agribusiness owners (32.5% excluded). Subsistence farmers and agribusiness owners were most likely to rely on informal financial mechanisms.

[8] Using the FinScope 2013 data, an asset-based wealth index was developed as an alternative to income as a measure of socio-economic status. The index was constructed from the responses to the questions regarding household assets.

Figure 14: Financial access strand per main income generating activity: 2013



6.4 Reasons for increased levels of financial inclusion: 2009 - 2013

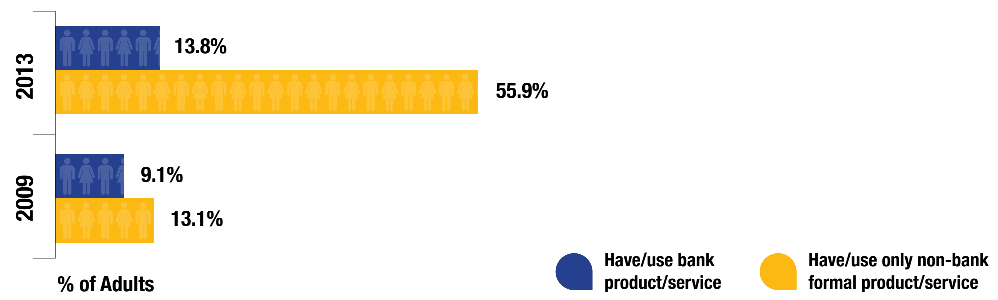
FinScope subdivides formal financial institutions into:

- Banks
- Non-bank formal financial institutions and services such as MFIs, SACCOS, insurance companies, money lenders such as Bayport, remittance/money transfer companies such as Western Union and Moneygram, and mobile money service providers.

FinScope findings, summarised in Figure 15, revealed that the improvement in financial inclusion in Tanzania since 2009 was the result of an increase in both the proportion of adults who had/used bank products/services as well as the proportion of adults who had/used non-bank formal financial services/ products:

- The proportion of adults who had/used bank products or services increased from 9.1% (1.9 million adults) in 2009 to 13.8% (3.4 million) in 2013
- The uptake of non-bank formal services was however the most significant driver of increased financial inclusion. The proportion of adults who had/used non-bank products or services increased from 13.1% (2.8 million) in 2009 to 55.9% (13.6 million) in 2013.

Figure 15: Trends in the uptake of bank and non-bank formal products/services: 2009– 2013



6.4.1 // Drivers of increased levels of uptake in bank products/services: 2009 - 2013

A combination of new banks entering the market, greater reach through the deployment of more branches and ATMs, as well as banks making available a greater range of products and services,explain much of the increase in the uptake of bank products and services since 2009.

A more in-depth assessment of growth of the banking sector (Figures 16 to 19) indicates that the proportion of banked adults increased most significantly on the mainland, among males and in urban areas – i.e. the traditional target market segments for commercial banks. However, there was also an unexpected significant increase in the proportion of adults in the 30 years and younger age group taking up banking products and/or services, driven by a need to save and to keep money safe (see Figure 20).

Figure 16: Banked population trends: 2009 – 2013

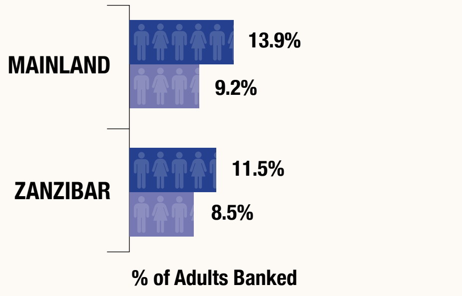


Figure 17: Banked population trends per geographical area on the mainland: 2009 – 2013

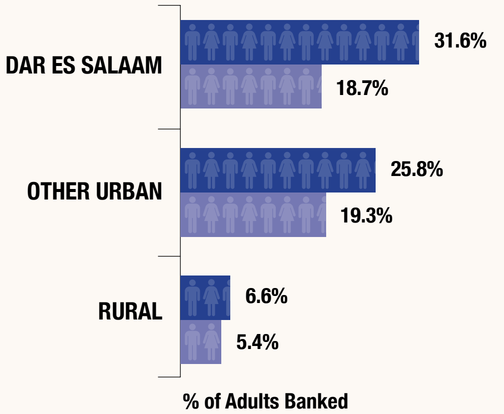


Figure 18: Banked population trends per gender: 2009 – 2013

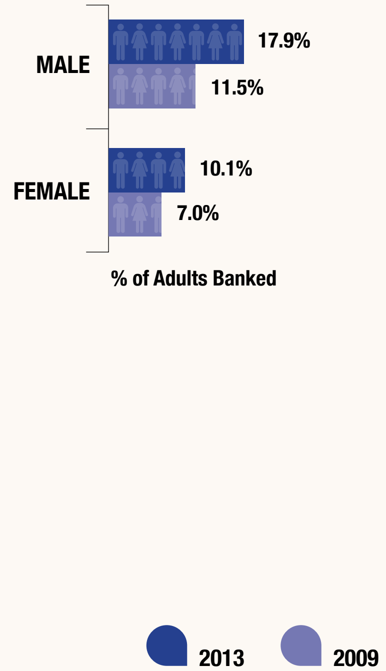


Figure 19: Banked population trends per age group: 2009 – 2013

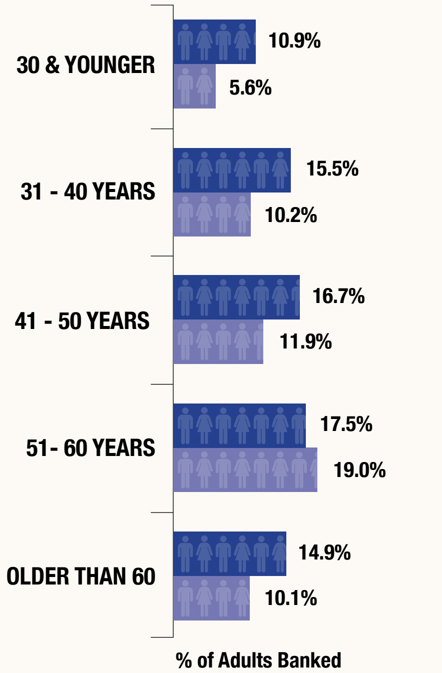
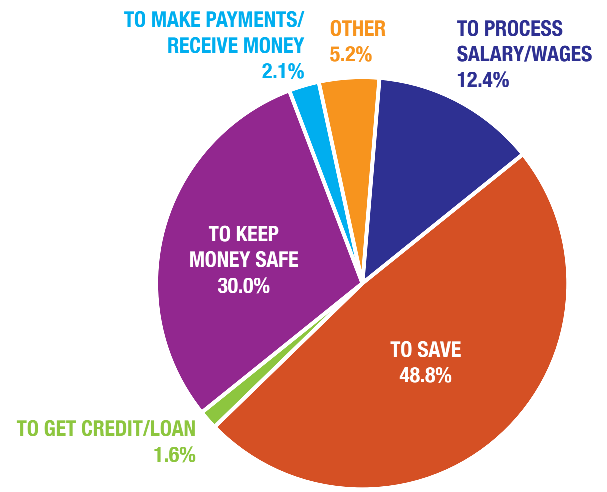


Figure 20: Drivers of bank product uptake 30 years or younger age group, 2013

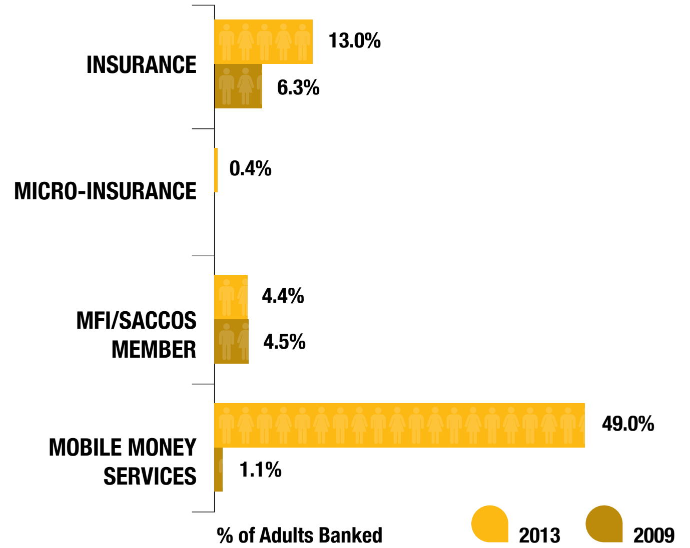


6.4.2 // Drivers of increased levels of uptake in non-bank formal products/services: 2009 – 2013

Figure 21 shows that increased uptake in non-bank formal products/services was mainly the result of a large increase in the proportion of adults using mobile money services.

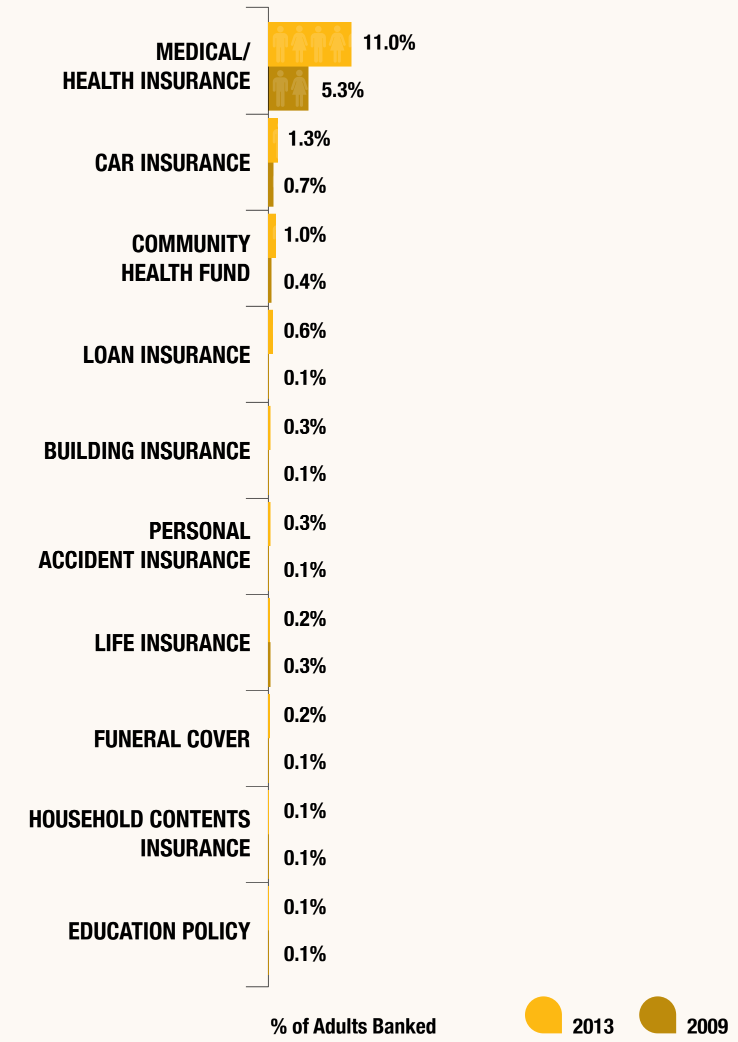
Introduced in Tanzania in 2008, mobile money services uptake in 2009 was still low. FinScope findings indicated that only 1.1% of adults (0.2 million) were using these services in 2009. FinScope2013 findings however, reveal that the proportion of adults using mobile services had increased to 49.0% (11.9million adults) – making uptake of mobile money services the most significant driving force behind the increase in overall inclusion from 15.8% in 2009 to 56.8% in 2013.

Figure 21: Trends in the uptake of non-bank formal products/services: 2009 – 2013



Although not nearly as significant as the increase in uptake of mobile money services, there was also an increase in uptake of insurance products. In 2009 6.3% of adults (1.3 million) had insurance, with this proportion increasing to 13% (3.1 million) in 2013. Findings summarised in Figure 22revealed that this increase was mainly due to an increased uptake in medical/health insurance.

Figure 22: Trends in uptake of insurance products: 2009– 2013



Unlike the growth in the banking sector, the significant growth in the non-bank formal financial sector was evident beyond just the urban areas of the country. Findings summarised in Figures 23and 24illustrate that, although less significant for Zanzibar and the rural areas of the mainland, the increase in uptake of non-bank formal products, specifically mobile money services (Figures 25and 26) was national and benefitted women as well as men and applied across all age groups (Figures 27and 28).Although growth in the insurance sector was skewed towards the mainland – specifically towards urban areas – there was also a significant increase in uptake of insurance in rural areas of the mainland (Figures 25and 26). Growth in the microfinance sector was limited to Dar es Salaam. Across the mainland as a whole, MFIs and SACCOS membership saw no change, but in Zanzibar membership fell slightly between 2009 and 2013 (see also Figures 25and 26).

Figure 23: Trends in uptake of non-bank formal products: Mainland and Zanzibar 2009 – 2013

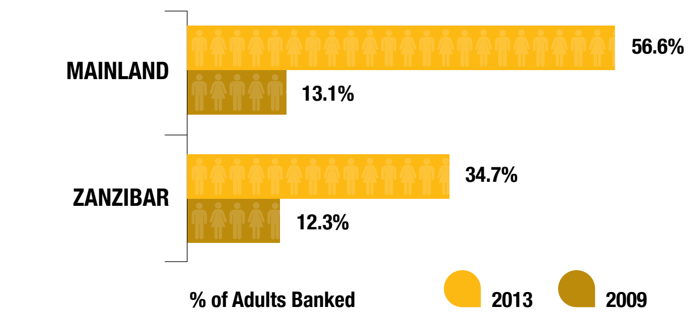


Figure 24: Trends in uptake of non-bank formal products: Mainland 2009 – 2013

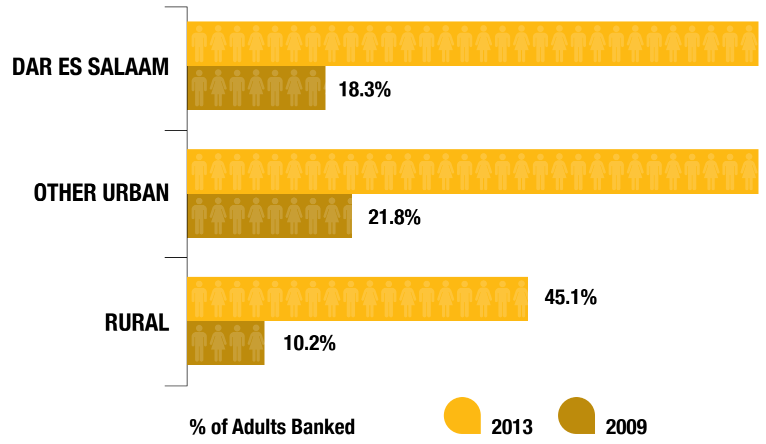


Figure 25: Trends in uptake of non-bank formal products per type of product/service: Mainland and Zanzibar 2009 – 2013

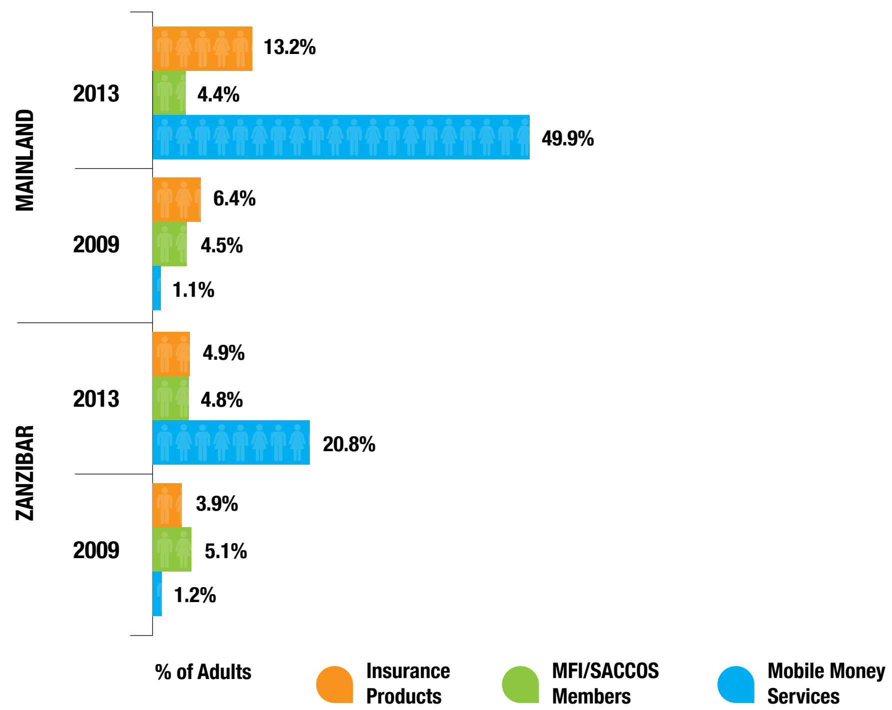


Figure 26: Trends in uptake of non-bank formal products per type of product/service: Mainland 2009 – 2013

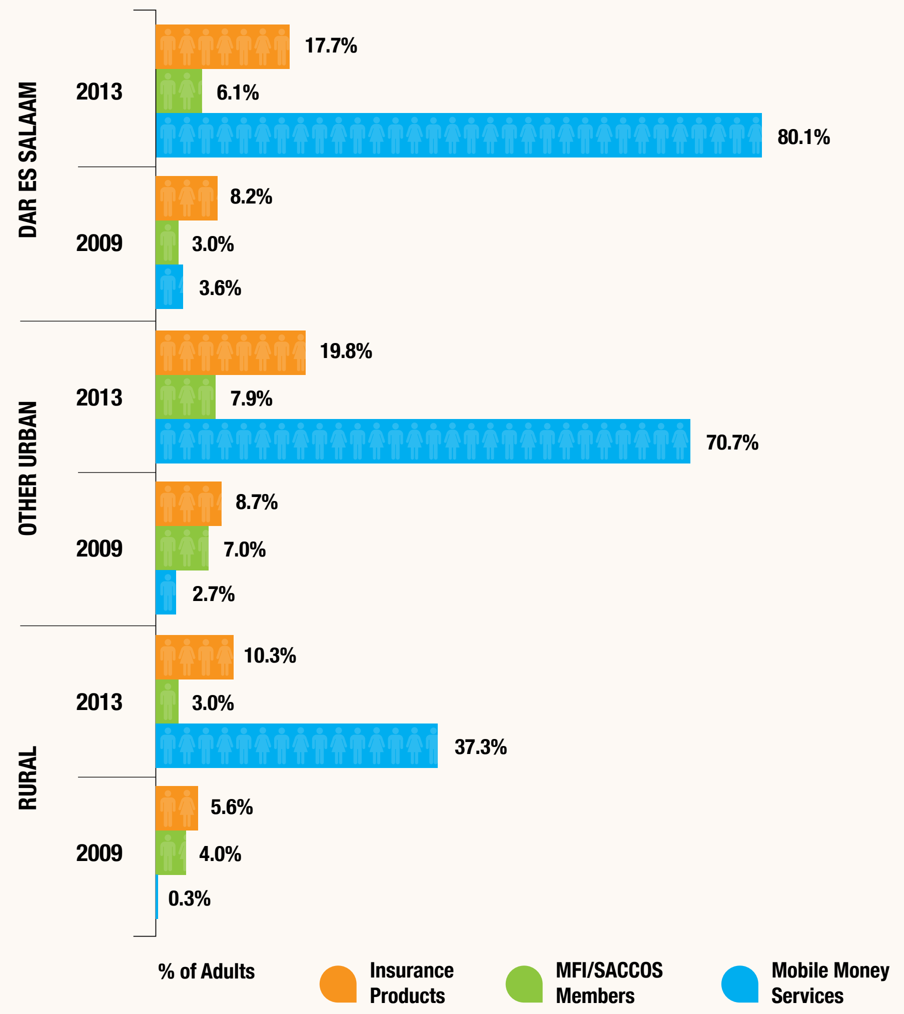


Figure 27: Trends in uptake of non-bank formal products per gender: 2009 – 2013

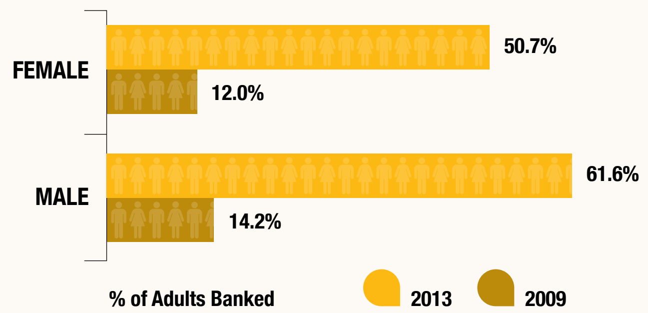
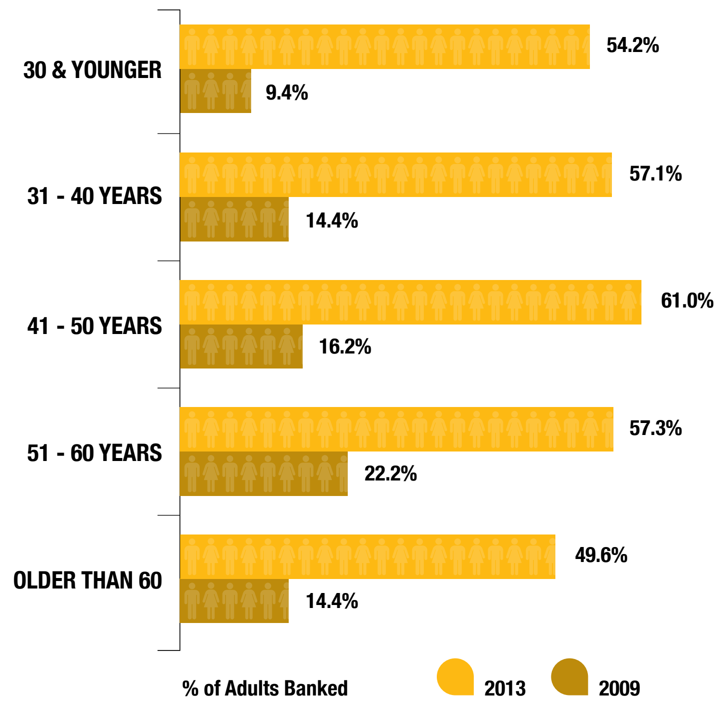
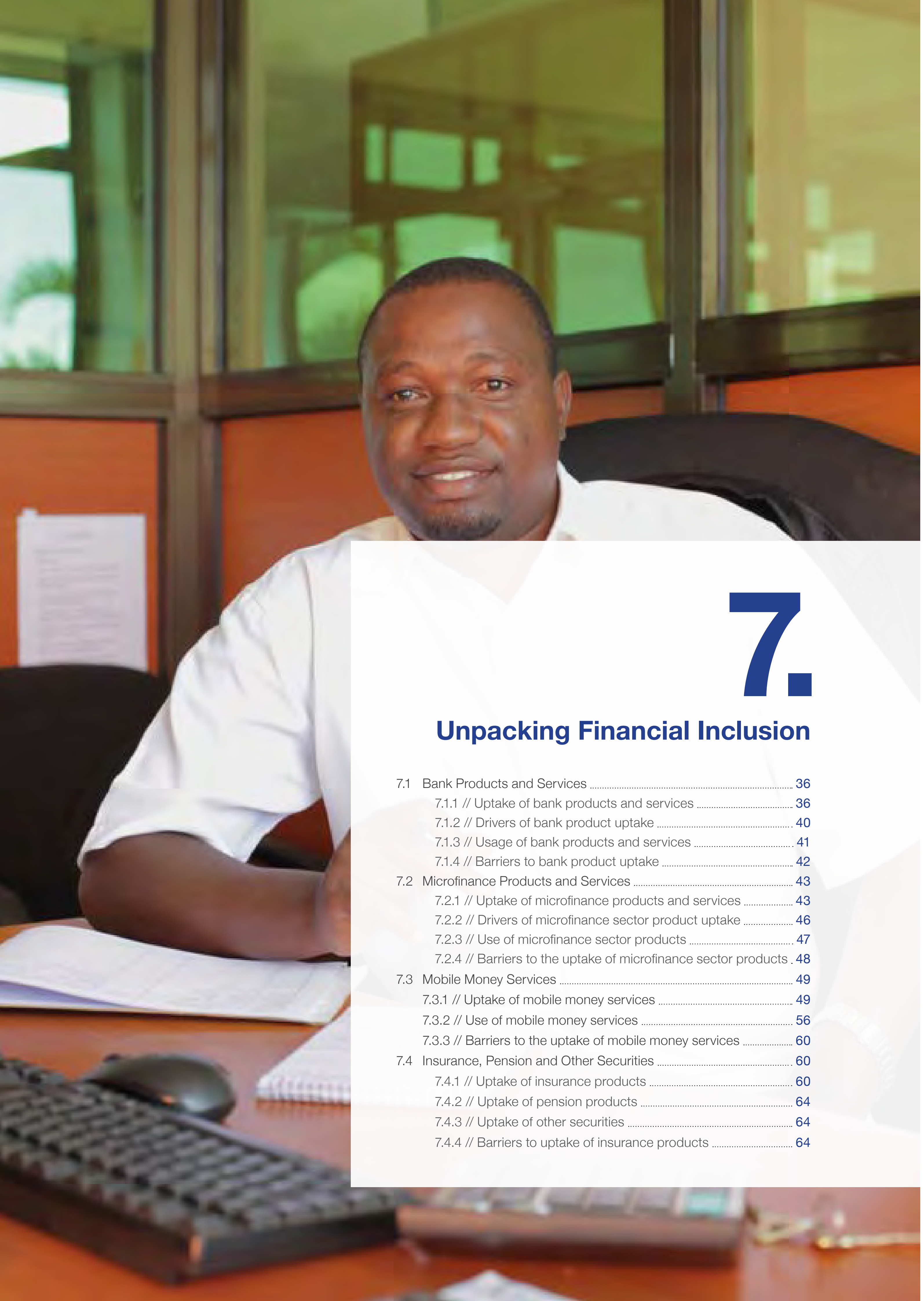


Figure 28: Trends in uptake of non-bank formal products per age group: 2009 – 2013





7. Unpacking Financial Inclusion

This section discusses the uptake and use of formal financial products and services. Specifically, it focuses on bank, microfinance, mobile money, insurance, pensions and other securities. Informal financial products and services are dealt with in Section 8.

All the sub-sections below show findings relating to uptake. Usage is shown specifically for banks, microfinance and mobile money products and services, but not for insurance, pensions and other securities[10]. Uptake is defined in the context of FinScope as having or using a particular product or service. Usage is defined as using it recently within a specified period such as the past month ("active usage") or six months ("less active usage").

7.1 Bank Products and Services

7.1.1 // Uptake of bank products and services

FinScope 2013 findings indicated that 13.8% (3.3 million) of the adult population was banked (i.e. had/used bank products/services). Table 5 and Figures 28 to 32 give an overview of the characteristics of the banked population illustrating that this population was significantly skewed towards:

- Urban areas
- Males
- Adults in the age group 31 – 60 years
- Adults with at least secondary levels of education
- Adults in higher categories of the wealth index. Adults with formal employment or their own businesses as the main income source.

[10] For insurance, pensions and other securities the questionnaire only asked if people had insurance etc. This assumes that if they had these products they also used them; so the figures also represent usage for these.

Table 5: Characteristics of the banked population: 2013

Distribution	Group	Adult population distribution (%)	Adult population distribution (number)	Banked population distribution (number)	Banked population distribution (%)
GEOGRAPHICAL DISTRIBUTION	Dar es Salaam	13.0%	3,161,929	999,178	29.8%
	Other Urban	19.7%	4,781,573	1,233,286	36.8%
	Rural	64.3%	15,576,039	1,033,857	30.9%
	Zanzibar	2.9%	(712,222)	(82,124)	2.5%
GENDER DISTRIBUTION	Male	47.5%	11,514,942	2,059,595	61.5%
	Female	52.5%	12,716,822	1,288,850	38.5%
AGE DISTRIBUTION	30 Years & Younger	43.6%	10,563,701	1,148062	34.3%
	31 to 40 Years	22.9%	5,555,438	859,605	25.7%
	41 to 50 Years	16.0%	3,872,141	646,500	19.3%
	51 to 60 Years	9.9%	(2,410,938)	421,150	12.6%
	Older than 60 Years	7.6%	(1,829,545)	(273,128)	8.2%
HIGHEST LEVEL OF EDUCATION DISTRIBUTION	No Formal Education	12.0%	2,908,670	(21,381)	0.6%
	Pre-primary	0.1%	(36,248)	(8,297)	0.2%
	Some Primary	10.3%	2,495,568	(89,249)	2.7%
	Primary Completed	54.5%	13,204,652	1,281,028	38.3%
	Some Secondary	8.3%	(2,015,428)	(253,313)	7.6%
	Secondary Completed	10.2%	2,472,098	826,480	24.7%
	Post-secondary Training	2.4%	(576,170)	406,942	12.2%
	University or Other Higher Education	2.1%	(507,237)	446,061	13.3%
	Non-responses	0.1%	(15,694)	(15,694)	0.5%
WEALTH INDEX DISTRIBUTION	1st Category (least assets)	47.0%	11,394,051	315,981	9.4%
	2nd Category	29.6%	7,177,517	818,753	24.5%
	3rd Category	12.4%	2,993,316	905,582	27.0%
	4th Category	9.4%	(2,278,260)	1,047,739	31.3%
	5th Category (most assets)	1.6%	(388,619)	(260,389)	7.8%
MOST RELIED UPON SOURCE OF INCOME	Formal Employment	4.5%	(1,099,612)	863,790	25.8%
	Own Business	22.4%	5,428,760	1,066,627	31.9%
	Subsistence Farming	20.6%	4,989,559	(243,363)	7.3%
	Agribusiness	15.8%	3,816,820	(269,671)	8.1%
	Dependent on Others	22.9%	5,554,716	493,526	14.7%

Adult population distribution
Banked population distribution
Significantly under-represented in banked popuation
Significantly over-represented in banked population

Figure 28: Proportion of adults banked by geographical area, 2013

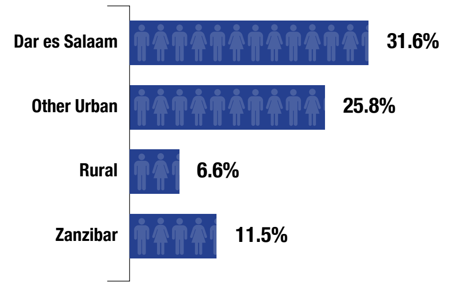


Figure 29: Proportion of adults banked by gender, 2013

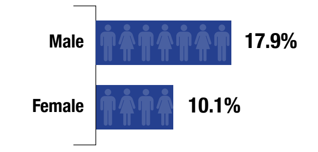


Figure 30: Proportion of adults banked by age group, 2013

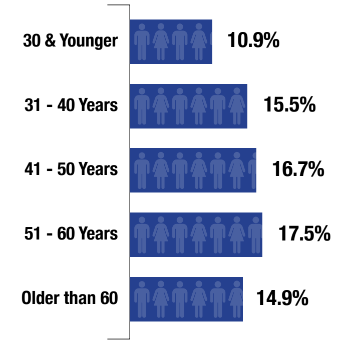


Figure 31: Proportion of adults banked by main income generating activity, 2013

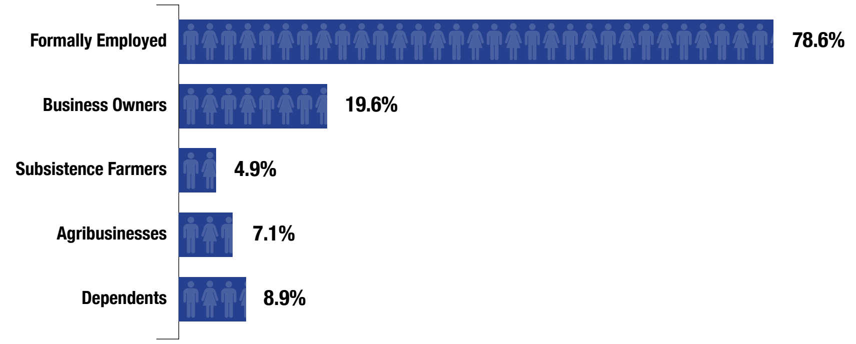


Figure 32: Proportion of adults banked per category of asset-based wealth index, 2013

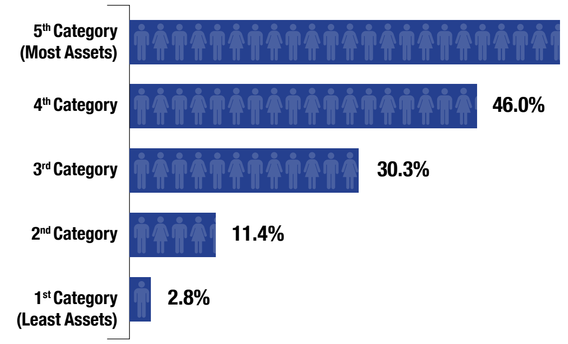


Table 6 summarises the main type of bank products held by the banked population, indicating a significant difference between adults with different income generating activities. Banked adults mainly used transactional products (e.g. ATM/ debit cards) and savings facilities (see also Figure 32). Only 15.4%[11] of the banked population had access to bank credit facilities, with formally employed adults and business owners being the most likely to use such facilities.

Only 8.4% (0.3 million) adults used their bank accounts for the purpose of remitting – subsistence farmers with bank accounts being most likely to do so.

Only 0.1 million Tanzanian (Figure 34) adults relied exclusively on bank products to manage their financial lives.

Table 6: Bank products held by the banked population by main income generating activity, 2013

	% of banked adults with product					
	Formally employed	Business owners	Subsistence farmers	Adults in agribusinesses	Dependents	Total banked population
ATM/Debit card	92.7%	86.0%	78.6%	79.8%	87.8%	87.0%
Savings account	91.4%	84.5%	86.8%	86.0%	75.0%	85.1%
Fixed deposit account	18.3%	26.9%	20.1%	12.1%	13.6%	21.2%
Loan account	20.9%	7.6%	8.7%	6.8%	5.4%	11.1%
Current/cheque account	4.1%	4.3%	0.2%	0.0%	0.0%	2.5%
Credit card	2.8%	1.2%	1.1%	0.0%	0.0%	1.3%

More likely to have product than other banked adults

Less likely to have product than other banked adults

[11] This figure is the proportion of adults with any one or more credit products, e.g. loan accounts, credit cards, overdrafts and other credit related facilities Credit products with insignificant uptake are not shown in Table 6

Figure 33: Landscape of bank product access, 2013

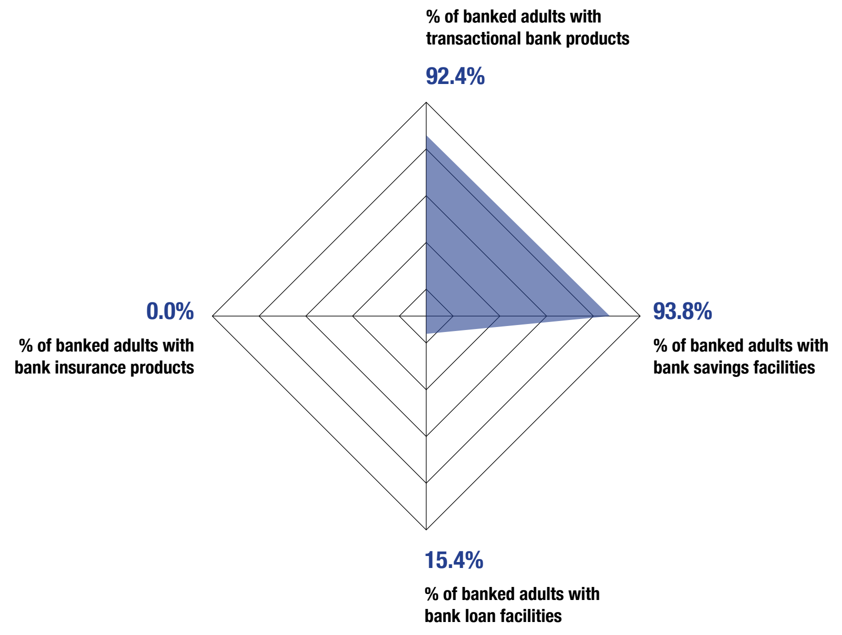
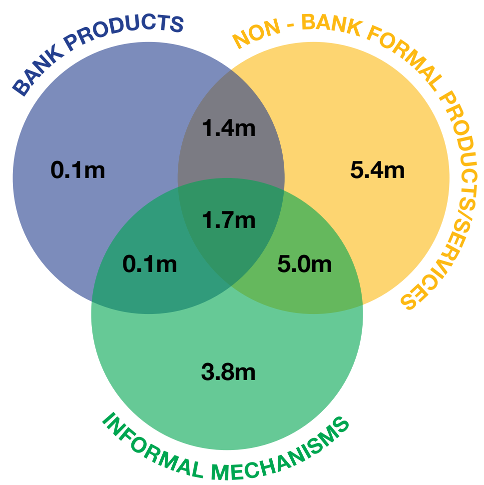


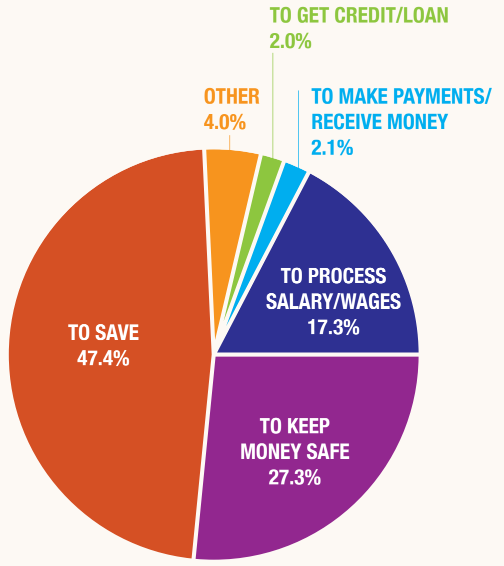
Figure 34: Overlaps in product uptake, 2013



7.1.2 // Drivers of bank product uptake

Most banked adults opened their bank accounts to enable them to save (47.4%) or to keep their money safe (27.3% - see Figure 35). However, in this regard formally employed adults, differed from adults generating their money through other means: 45.2% of the formally employed who were banked opened their accounts to process their salaries, whilst only 26.1% opened their accounts to enable them to save, and 25.0% to keep their money safe.

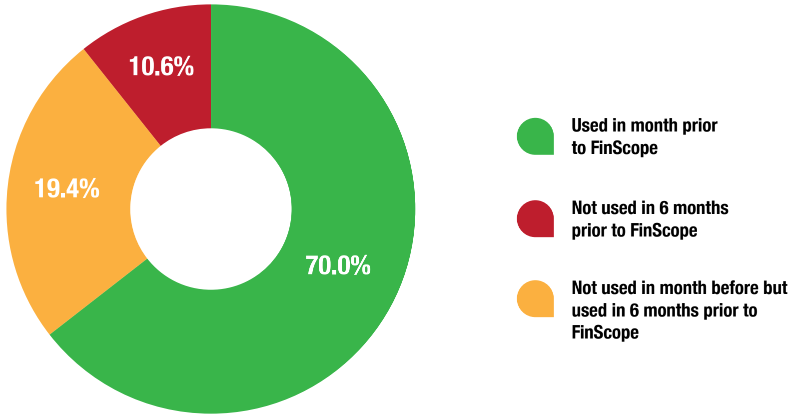
Figure 35: Drivers of bank product uptake, 2013



7.1.3 // Usage of bank products and services

Examining actual usage of the bank products held by the banked population, findings summarised in Figure 36 revealed that 70.0% of banked adults used their bank products in the month prior to the FinScope 2013 survey. One in 10 banked adults (10.6%) did not use any of the bank products they had in the six months prior to the FinScope 2013 survey. Non-usage of bank products in the six months prior to the FinScope 2013 survey was slightly skewed towards farmers and significantly skewed towards banked adults from the lowest categories of the wealth index.

Figure 36: Usage of bank products, 2013



A more in-depth assessment of the products shown in Table 6 revealed that the products which were most likely not to be used in the six months prior to the FinScope 2013 survey included:

- Credit cards – 25.6% of adults with credit cards did not use them
- Fixed deposit accounts – 17.7% of adults with fixed deposit accounts did not use them
- Current/cheque accounts – 16.0% of adults with current accounts did not use them.

For both credit cards and current accounts, non-usage was related to people using other means of transacting and so not needing these particular bank facilities.

FinScope 2013 further revealed that banked adults mainly used their bank accounts for cash deposits and withdrawals. In the six months prior to the FinScope survey:

- 80.1% of banked adults deposited cash into their accounts
- 78.5% withdrew cash from their accounts
- 19.7% received money from someone through their accounts
- 12.7% transferred money to another person's account
- 5.9% cashed a cheque
- 5.6% deposited a cheque into their accounts.

7.1.4 // Barriers to bank product uptake

Exploring the reasons for not taking up bank products and services amongst the unbanked (20.9 million adults), FinScope 2013 showed that:

- 6.4% of unbanked adults (1.3 million) indicated that they had been banked before. The main reasons why people stopped using banks included:
  - Not being able to maintain the minimum balance – 20.7%
  - Not having sufficient money to justify having a bank account – 18.8%
  - Banks being too far away – 13.3%
  - Bank charges too high – 11.9%.
- 19.6 million adults had never been banked. The main reasons cited for this were:
  - Not having sufficient money to justify having a bank account – 29.6%
  - Not being able to maintain the minimum balance – 21.0%
  - Banks being too far away – 12.8%
  - Did not know how to open a bank account – 6.3%
  - Did not know the benefits of a bank account – 4.2%.

In terms of socio-economic status, 33.9% of banked adults were categorised as falling into the lowest two levels of the wealth index, with 9.4%in the lowest level. An assessment of the socio-economic status of the unbanked revealed that their socio-economic status was generally significantly lower:

- Of those adults who had been banked before 61.5% were categorised as falling into the lowest two levels of the wealth index, with 27.2% appearing in the lowest level
- Of those adults who had never been banked 85.0% were categorised as falling into the lowest two levels of the wealth index, with 54.8% coming in lowest level.

Focus groups discussion (FGD) participants illustrated these points by saying:

"A lot of requirements (ID, guarantors, a letter from a ward officer and a deposit) when you ask for a loan from the bank - it takes a long time to get it."

(FGD participant, Business owners group, Kinondoni, Dar es Salaam)

"Lack of education and the financial institutions located very far from us,so we spend a lot of money for transport. Another problem is bureaucracy."

(FGD participant, agribusiness group, Ngeta, Kibaha)

"Conditions and requirements in order to get a loan. Many of us do not meet the requirements because we are poor and their interest rates are very high. Instead of solving a problem, in the end you find you have created another big problem for yourself after failing to repay the loan."

(FGD participant, Agribusiness group Ngeta, Kibaha)

7.2 Microfinance Products and Services

7.2.1 // Uptake of microfinance products and services

According to FinScope 2013,1.1% (4.4 million) of Tanzanian adults used or had products and/or services provided by MFIs and SACCOS.

Table 7 and Figures 37to 40give an overview of the characteristics of Tanzanian adults served by the microfinance sector. They illustrate that this population was similar to the banked population- significantly skewed towards adults who were:

- Living in urban rather than rural areas
- In the age group 31 – 60 years
- Educated to at least secondary levels
- In middle to higher categories of the wealth index
- Formally employed or owned businesses which provided their main sources of income.

Table 7: Characteristics of the adult population served by the microfinance sector, 2013

Figure 37: Proportion of adults with products/services from MFIs and SACCOS by geographical area, 2013

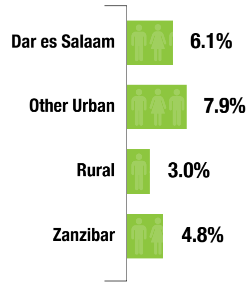


Figure 38: Proportion of adults with products/services from MFIs and SACCOS by gender, 2013

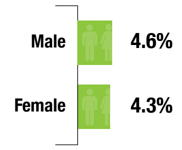


Figure 39: Proportion of adults with products/services from MFIs and SACCOS by age group, 2013

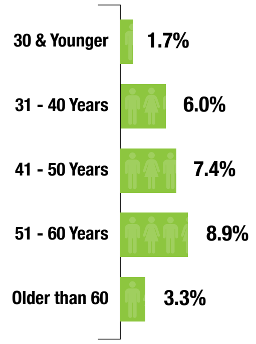


Figure 40: Proportion of adults with products/services from MFIs and SACCOS by main income generating activity, 2013

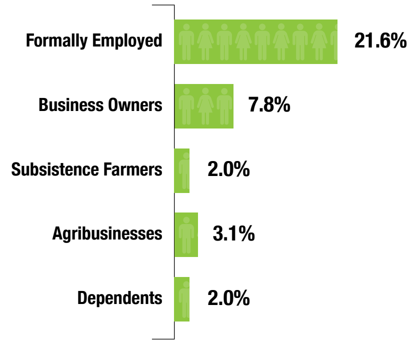


Figure 41: Proportion of adults with products/services from MFIs and SACCOS by wealth status index category, 2013

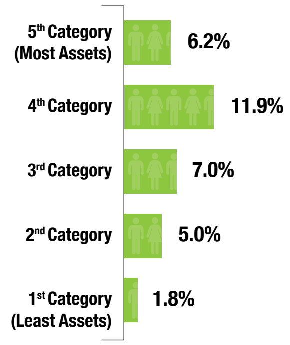


Table 8 gives an overview of the types of products used or held by clients served by the microfinance sector. These indicated that they were as likely to save[12] as they were to borrow.

Table 8: Products held by microfinance sector clients, 2013

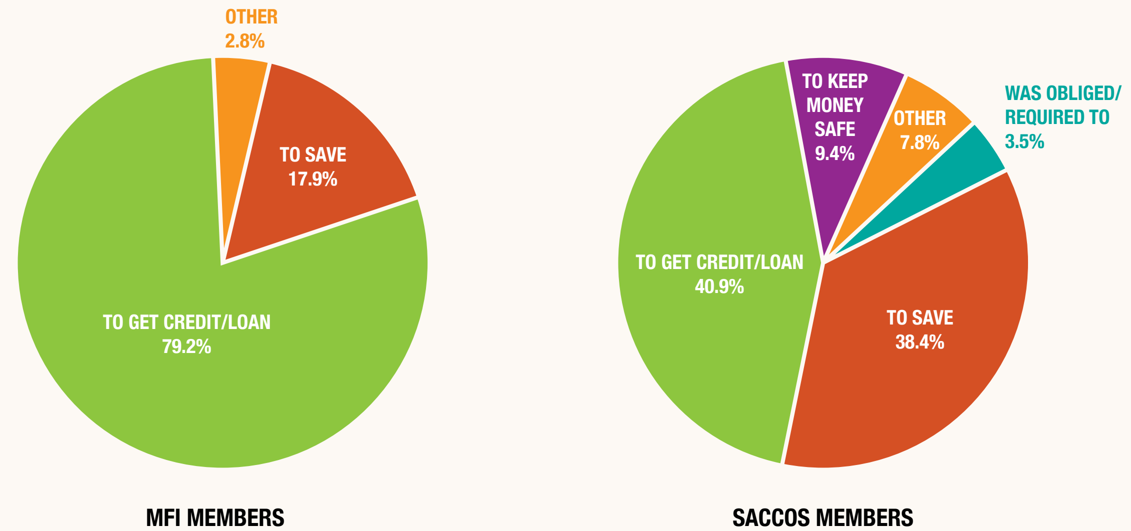
	% of adults served by the microfinance sector with product					
	Formally employed	Business owners	Subsistence farmers	Adults in agribusinesses	Dependents	Total served population
Savings products	87.7%	73.6%	93.6%	79.4%	56.4%	79.4%
Loan products	71.0%	80.1%	74.3%	79.9%	69.3%	76.2%

More likely to have product than other served adults

7.2.2 // Drivers of microfinance sector product uptake

Saving and access to credit were the predominant drivers for uptake of microfinance products (Figure 42). There was, however, a significant difference between MFI product uptake and that of SACCOS in the sense that adults who opened accounts with MFIs were significantly more likely to do so to access credit (79.2%) than adults who became SACCOS members (49.9%). This phenomenon was even more pronounced among business owners: 85.6% of business owners who had MFI accounts opened these to access credit;only 47.0% of business owners who were SACCOS members joined to access credit.

Figure 42: Drivers of uptake of products/services from SACCOS and microfinance institutions, 2013



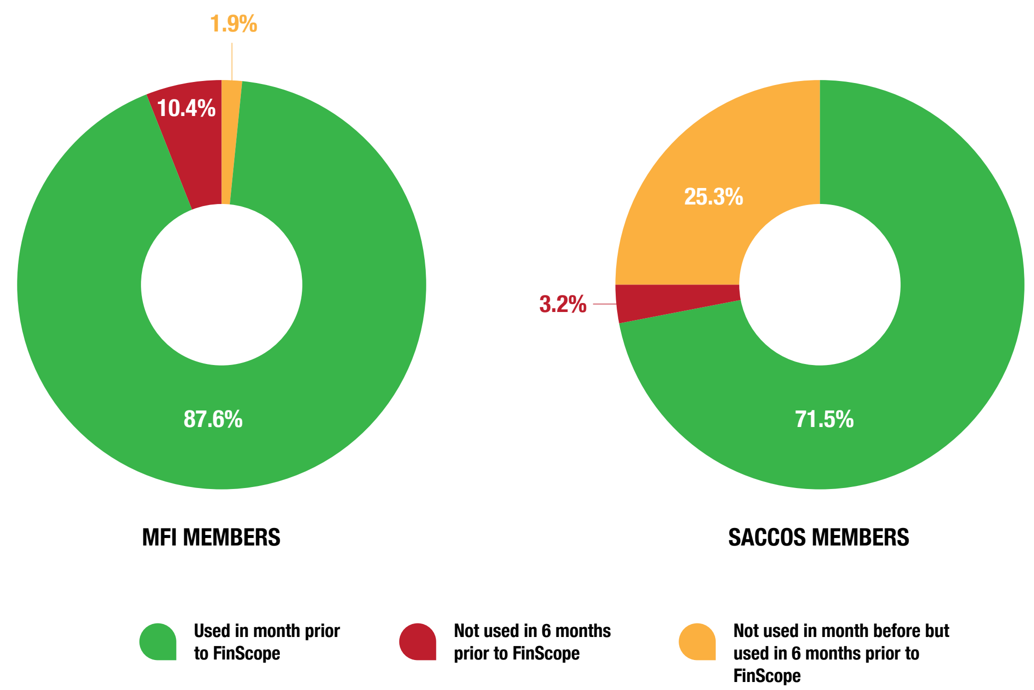
[12] In this context, the savings referred to was found to include upfront deposits required from MFI clients in order to access loans.

7.2.3 // Use of microfinance sector products

The level of product use was found to be high for both MFIs and SACCOS: 87.6% of MFI clients and 71.5% of SACCOS members used these products in the month prior to the FinScope 2013 survey. SACCOS products were however significantly more likely not to have been used in the six month period prior to the FinScope 2013 survey compared with MFI products: 25.3% of SACCOS members did not use these institutions during the six month period prior to the FinScope 2013 survey compared with only 1.9% of MFI clients.

Subsistence farmers were more likely than adults relying on other sources of income not to use their microfinance products and were most likely to report that these products did not meet their needs.

Figure 43: Usage of microfinance products, 2013



7.2.4 // Barriers to the uptake of microfinance sector products

Looking at the reasons for not taking up microfinance products amongst those adults that did not use MFI products (23.8 million adults) and those that did not use SACCOS products (23.6 million), FinScope 2013 showed that:

- The main reasons for adults not using MFIs included:
  - Lack of awareness/knowledge of MFIs/lack of understanding of the products/services MFIs offer – 36.7%
  - Did not need these institutions – 23.0%
  - Perception of group membership being a requirement – 8.8%
  - Perception of high interest rates – 8.2%.
- 1.8% (0.4 million) of adults not using MFIs in 2013 indicated that they had used these institutions before.
- The main reasons for adults not using SACCOS included:
  - Lack of awareness/knowledge of SACCOS – 26.4%
  - Did not have the membership fee – 22.6%
  - Perception of no benefits – 11.9%
  - Lack of trust – 11.8%.
- 2.1% (0.5 million) of adults not using SACCOS in 2013 indicated that they had used these institutions before.

In terms of microfinance product uptake, these findings highlighted that the most significant barrier was lack of awareness of microfinance providers and/or a lack of knowledge and understanding of the products and services they offered.

7.3 Mobile Money Services

7.3.1 // Uptake of mobile money services

The analysis of financial inclusion presented inSection6indicated that the uptake of mobile money services had the single most significant impact on the Tanzanian financial inclusion landscape,driving increased inclusion from 15.8% in 2009 to 56.8% in 2013. This resulted in 13.8 million Tanzanian adults using or having access to formal financial products/services.

Although mobile services uptake was still slightly skewed towards urban areas and males (Table 9 and Figures 44 to 48), 49.0% of mobile money services users (5.8 million) were rural-based and 47.2% (5.6 million) were female. Mobile money service providers were serving 37.3% of the mainland rural adult population and 44.0% of the female adult population.

Table 9: Characteristics of the adult population using mobile money services, 2013

Figure 44: Proportion of adults using mobile money services per geographical area, 2013

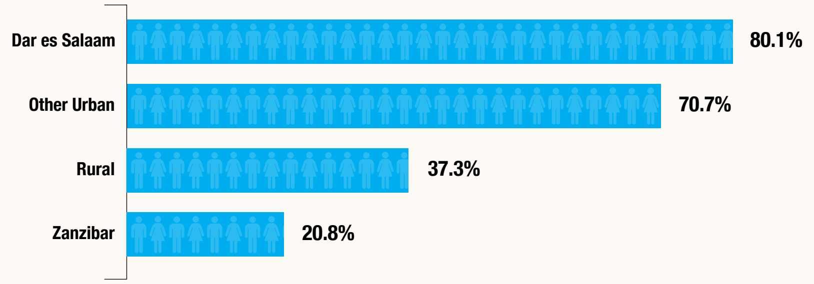


Figure 45: Proportion of adults using mobile money services per gender, 2013

Figure 46: Proportion of adults using mobile money services per age group, 2013

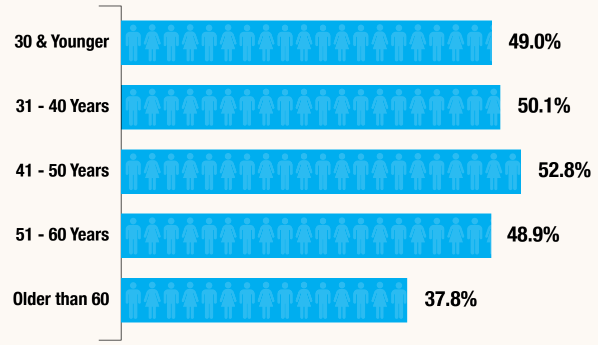


Figure 47: Proportion of adults using mobile money services per income generating activity, 2013

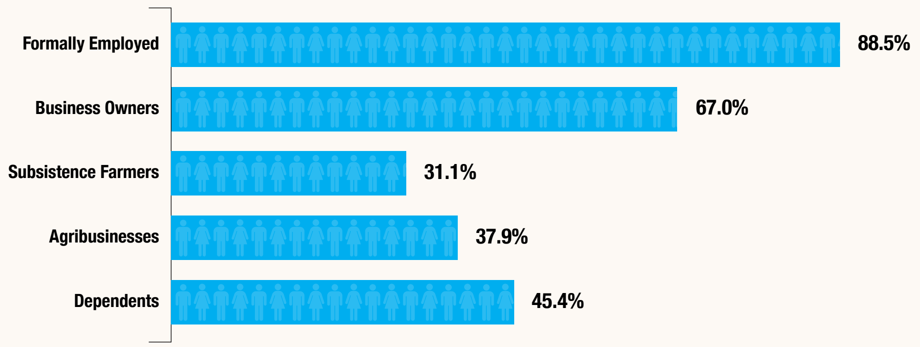
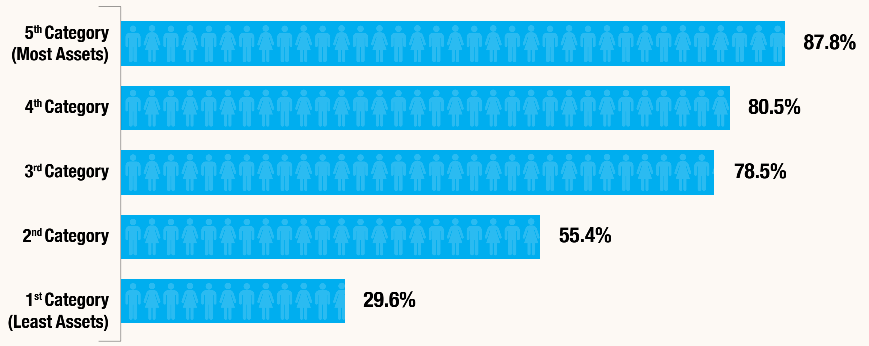


Figure 48: Proportion of adults using mobile money services category of the wealth index, 2013



If the incremental effect of mobile money services uptake on financial inclusion is analysed, the findings summarised in Figures 49 to 55 indicate that:

- 37.0% (9 million) adults used mobile money services but no other formal products/services. Mobile money services have substantially pushed out the boundaries of financial inclusion (i.e. formally served)[13].
- The incremental impact of the uptake mobile money services on financial inclusion is skewed towards:
  - The mainland, where the uptake of mobile money services extended the boundaries of financial inclusion with 65.6% of adults formally served using only mobile money, compared with 39.9% for Zanzibar
  - Rural areas of the mainland where the incremental effect was 70.1%, which compares with61.6% for other urban areas and 59.1% for Dar es Salaam
  - Females – the incremental effect being 68.2%,compared with 62.3% for males
  - Adults 30 years and younger- the incremental effect being 71.2%.

"There is high uptake of mobile money among the youth because they are more educated and also familiar with phone usage."

(FGD participant, Subsistence farmers, Kibaha)

"Nowadays young people are more engaged in production activities like working as labourers on road construction projects, business and farming. Others are still in school therefore their parents send them money via mobile money."

(Individual interview with mobile money agent, Scola-Kibaha)

"Many young people nowadays engage pretty much in economic activities. Mobile money makes it easier for the payments of goods and services in their activities."

(Individual Interview with a mobile money agent, LeodgadTesha-Kinondoni)

- Farmers and business owners- the incremental effect being just below 70%
- Adults in the lowest categories of the wealth index -the incremental effect being 74.4% for the lowest category and 72.1% for the second lowest category.

[13] 37.0% of adults used mobile money services but no other formal financial services or product – this represented 65.1% of the 56.8% of adults that were formally served (Figure 49). The incremental impact of the uptake of mobile money services on financial inclusion was calculated in a similar way for each of the demographic variables considered in Figures 50 to 55).

Figure 49: Incremental effect of mobile money services on financial inclusion, 2013

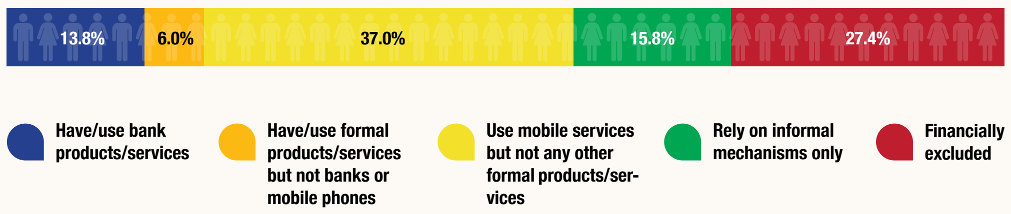


Figure 50: Incremental effect of mobile money services on financial inclusion: Mainland & Zanzibar 2013

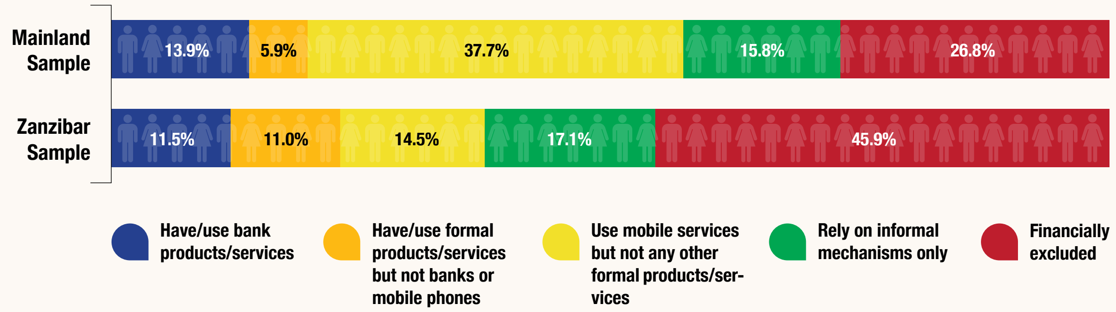


Figure 51: Incremental effect of mobile money services on financial inclusion by geographical area, Mainland 2013

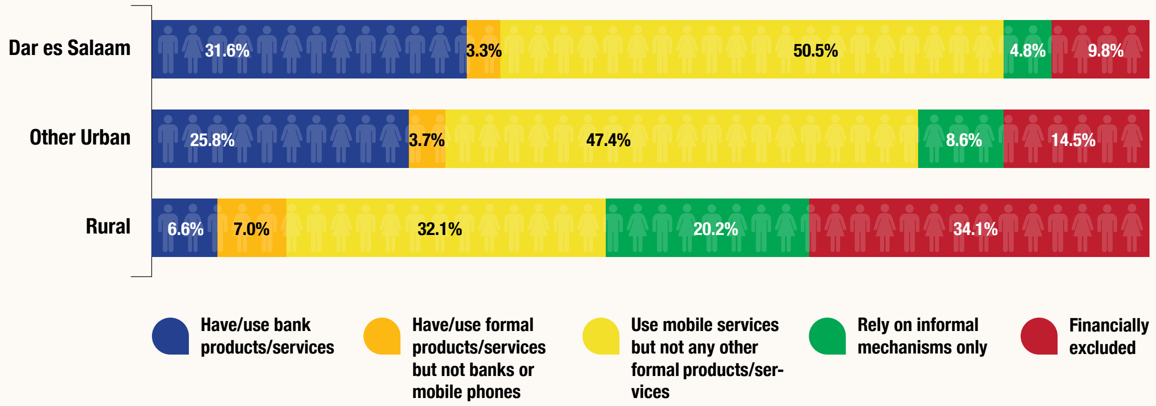


Figure 52: Incremental effect of mobile money services on financial inclusion per gender, 2013

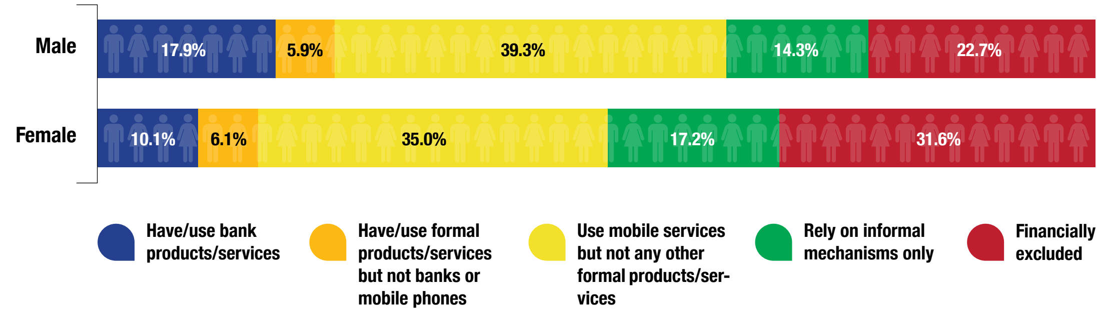


Figure 53: Incremental effect of mobile money services on financial inclusion per age group, 2013

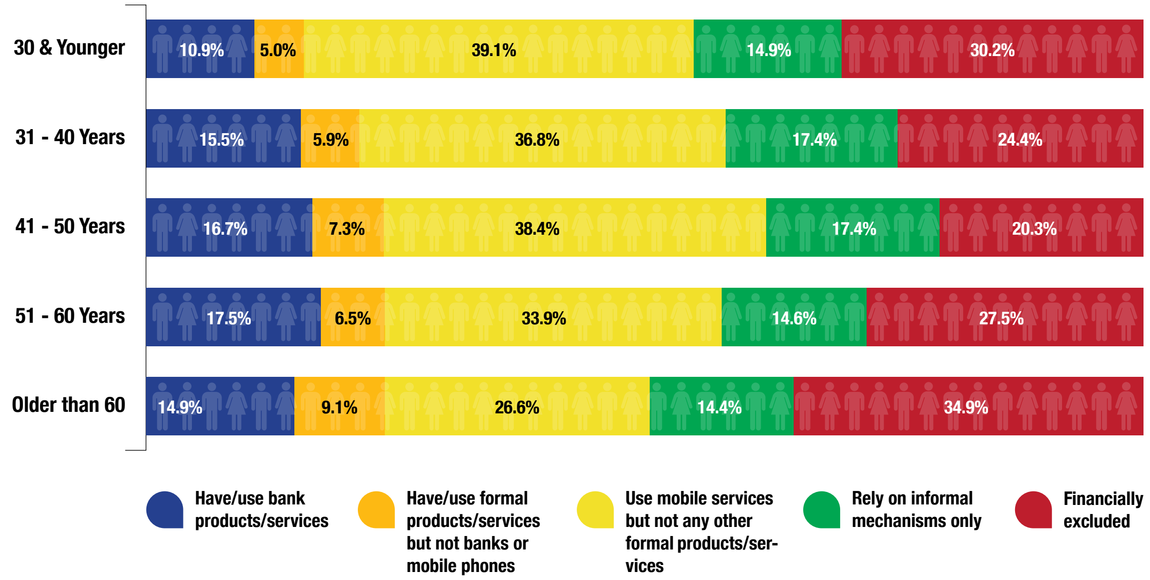


Figure 54: Incremental effect of mobile money services on financial inclusion per main income generating activity, 2013

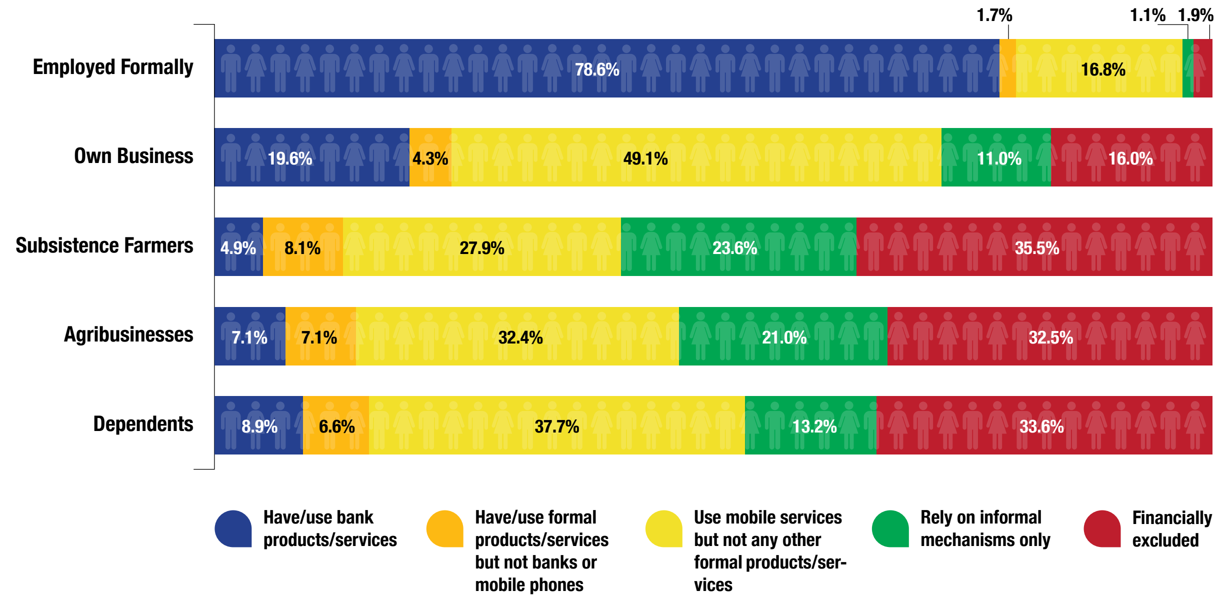
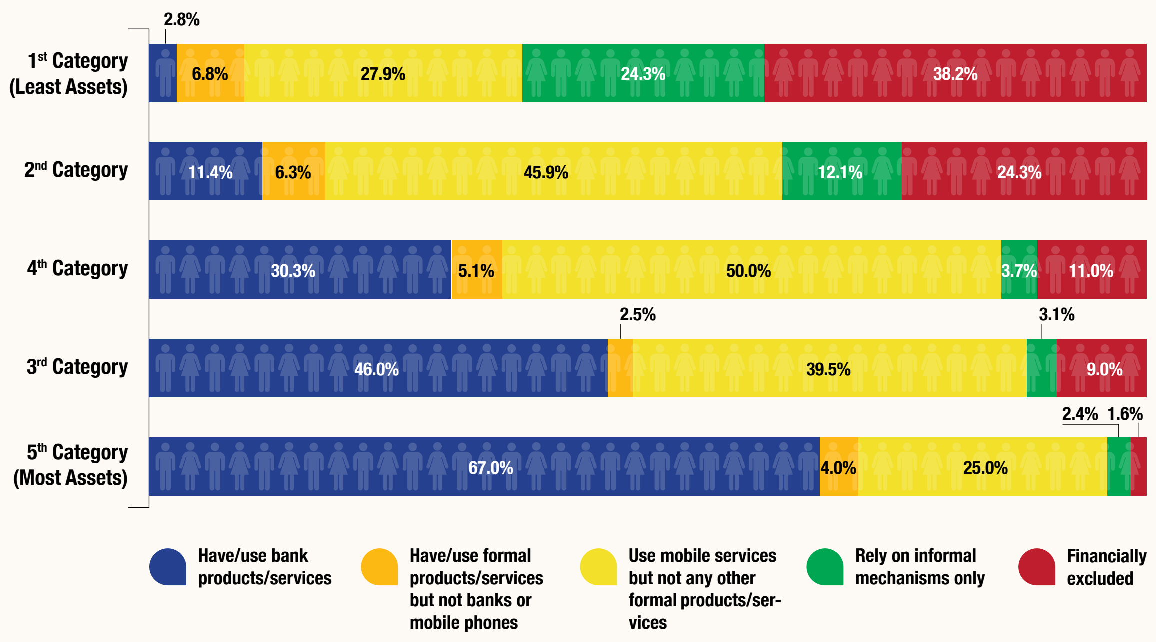


Figure 55: Incremental effect of mobile money services on financial inclusion per category of the wealth index, 2013



7.3.2 // Use of mobile money services

Figure 56 and Table 10 give an overview of the types of financial activities mobile money services that were used for at the time of the FinScope 2013 survey. These findings indicate that mobile money services were used by 33.1% (8 million) adults to send and/or receive money during 2013, and 9.9% (2.4 million) of adults used these services for non-remittance transactions such as paying bills, school fees, business transactions and purchasing goods or services. This finding illustrated the significance of mobile money services in terms of financial inclusion. This was further emphasized by the following findings:

- Banks provided 12.8% of Tanzanian adults with transactional facilities, whilst mobile money services provided such facilities to 49.0% of adults
- 0.1% of adults used bank accounts/cards/cheques for purchases of goods/services, compared with9.9% of adults who conducted non-remittance transactions via mobile money
- 4.0% of adults used banks to send/receive money, whilst33.1% of adults sent/received money using mobile money services
- In terms of financial inclusion,mobile money served as the most significant facility for savings - 25.6% of adults (6.2 million) used mobile money services to save or store money
  - 14.8% of savers used bank savings facilities, 4.0% used savings facilities provided by MFIs/SACCOs, compared with 24% of savers saved who used a mobile money platform.

Figure 56: Proportion of adults using mobile money services per type of financial activity, 2013

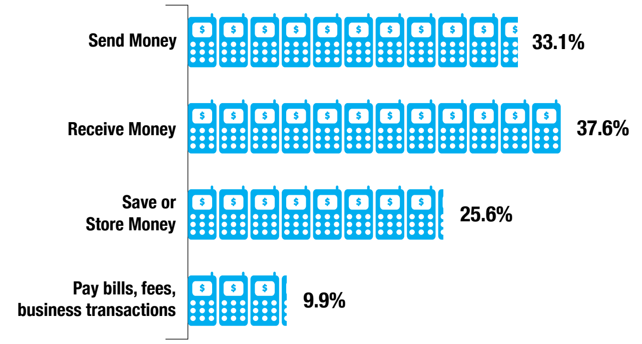


Table 10: Type of financial activities conducted by mobile money users, 2013

Type of Transaction	% of mobile money users per gender		% of mobile money users per age group					% of mobile money users per main income generating activity					% of mobile money users
	Male	Female	≤ 30	31 - 40	41 - 50	51 - 60	Older than 60	Formally employed	Business Owners	Subsistence Farmers	Adults in Agribusinesses	Adults Dependent on Others	
Receive money	84.6	87.4	85.8	86.4	83.2	87.8	89.5	88.1	87.2	85.2	80.9	89.3	**85.9**
Send money	76.9	66.9	75.3	74.2	74.4	62.4	51.1	94.7	79.8	57.3	66.3	61.2	**72.2**
Check account balances	57.7	50.8	58.5	54.8	49.0	52.9	41.9	73.9	60.7	41.1	41.5	53.3	**54.5**
Purchasing airtime/ data bundles	55.6	49.6	60.4	51.6	46.1	44.2	36.0	70.6	58.5	40.2	37.5	53.0	**52.8**
Store money	53.0	45.0	57.0	46.7	45.3	39.5	31.1	63.8	56.7	36.1	38.2	44.2	**49.3**
Pay bills (electricity, water, DSTV...)	9.8	10.8	10.3	13.0	8.3	10.4	4.9	32.3	14.3	1.8	1.9	7.9	**10.3**
Pay school fees	5.3	4.4	3.1	4.5	7.4	9.0	5.6	13.2	5.3	4.5	3.6	3.4	**4.9**
Contributions/donations to social events	3.7	2.8	4.2	3.6	3.0	0.6	0.3	10.4	3.7	1.5	2.8	1.9	**3.3**
Repayment of loans	3.5	2.6	2.8	4.1	4.0	1.9	0.8	3.6	4.7	1.7	2.6	1.6	**3.1**
Business transactions	3.2	2.0	2.1	4.7	2.5	2.0	0.0	3.4	5.1	0.3	1.0	1.2	**2.7**
Receive salary/ wages	2.0	0.9	2.0	1.4	1.6	0.5	0.0	6.0	1.0	0.8	0.9	0.5	**1.5**
0.9Pay wages of other people	1.0	0.6	0.7	1.7	0.7	0.0	0.3	3.3	1.2	0.4	0.0	0.2	**0.9**
Purchasing tickets (e.g. bus, plane...)	0.6	1.1	1.4	0.6	0.5	0.2	0.0	1.3	0.9	0.0	0.3	1.2	**0.8**

Skewed towards

Further assessment of how frequently mobile money was used (Figures 57 and 58) revealed that:

- Actual use of mobile money services was high (see Figure 57) – 73.1% of mobile money users (8.7 million adults) used these services in the month prior to the FinScope 2013 survey, while an additional 19.9% did not, but still did so in the 90 day period before the survey. Those who used mobile money services in the month prior to the FinScope survey were most likely to use these services at least once a week – 39.2% of these users did so at least once a week; and 22.6% of them used it on a daily basis.
- 7.0% of mobile money users did not use these services in the 90 days prior to the FinScope 2013 survey. Subsistence farmers were most likely not to have used their mobile money services in the 90 days prior to the survey; 68.3% of subsistence farmers who used mobile money services used these services less than once a week.

"Young people use their mobile money mostly for luxurious life compared to older ones; sending money to their girlfriends, while older ones use it for family purposes like sending money to children in schools and paying for school fees."

(FGD participant, Business owners group, Kinondoni, Dar es Salaam)

- Just over half of all mobile money services users (50.7%) used these services at least a week (see Figure 58).More frequent use was skewed towards those who lived in urban areas, were formally employed and business owners.

Figure 57: Use of mobile money services, 2013

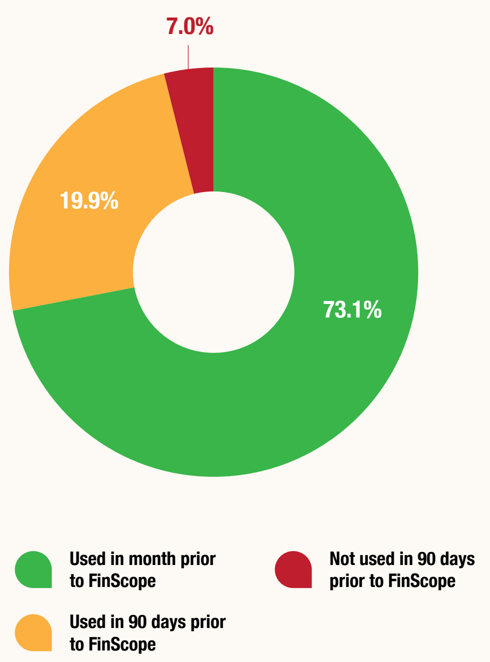
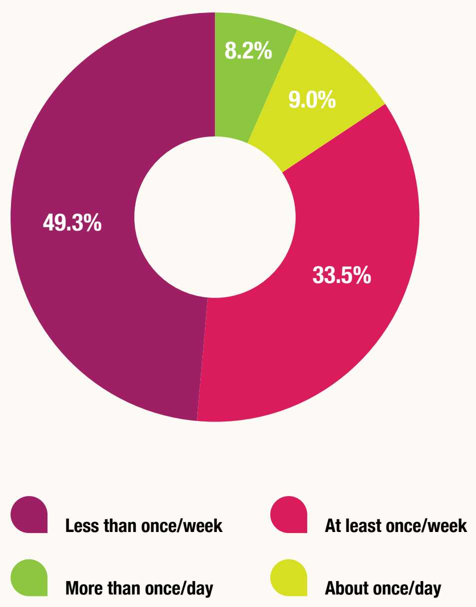


Figure 58: Frequency of use of mobile money services, 2013



7.3.3 // Barriers to the uptake of mobile money services

FinScope 2013 indicated that 11.2 million Tanzanian adults were not using mobile money services. Exploring the reasons for them not doing so revealed that:

- 60.4% (6.8 million) of non-users did not have a mobile phone
- 8.5% (1.0 million) perceived their lack of proximity to mobile money agents as the main barrier to uptake
- 8.3% (0.9 million) cited lack of knowledge of how to activate the service on their phones as the main reason for not using these services
- 4.5% (0.5 million) perceived service costs to be too high.

7.4 Insurance, Pension and Other Securities

7.4.1 // Uptake of insurance products

The analysis of financial inclusion presented in Section6 indicated that, although not nearly as significant as the uptake of mobile money services, the increase in the uptake of insurance products during the period 2009 – 2013 also contributed to the growth of the non-bank formal sector. In 2009 6.3% (1.3 million) adults had some form of insurance. This increased to 13.0% (3.1 million) of adults in 2013, representing a growth of 106% over a period of four years. In order to reach the national target of 25.0% of adults being insured by 2016,this trend would have to be maintained over the next three years.

Findings summarised in Table 11 and Figures 59 to 63 indicated that insurance uptake was significantly skewed towards urban areas,men, formally employed adults, and adults in the higher categories of the wealth index.

Table 11: Characteristics of the adult population being covered by some form of insurance, 2013

Figure 59: Proportion of adults with insurance by geographical area, 2013

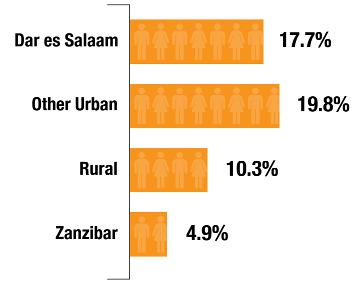


Figure 60: Proportion of adults with insurance by gender, 2013

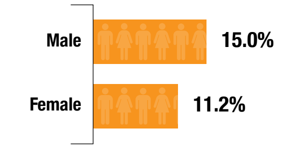


Figure 61: Proportion of adults with insurance by age group, 2013

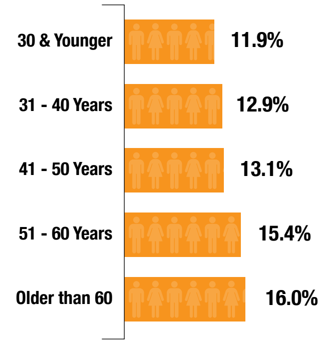


Figure 62: Proportion of adults with insurance by main income generating activity, 2013

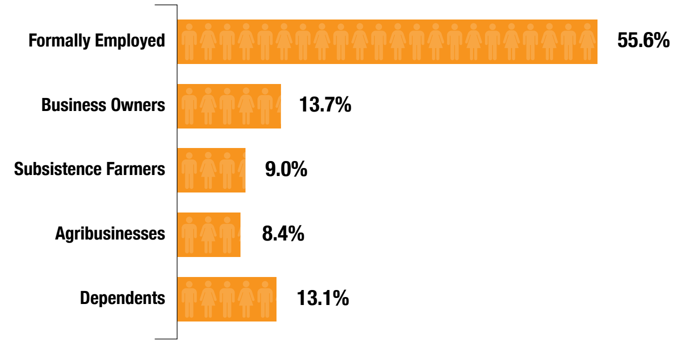


Figure 63: Proportion of adults with insurance by category of the wealth index, 2013

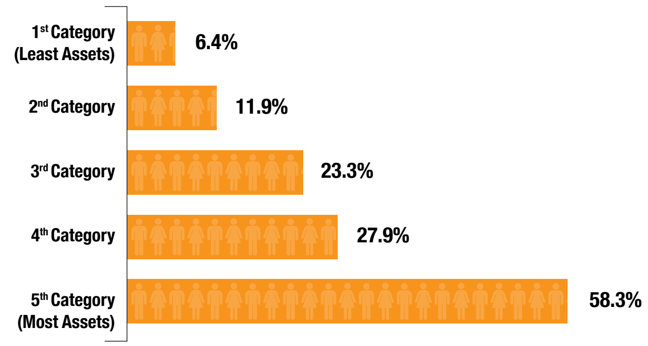
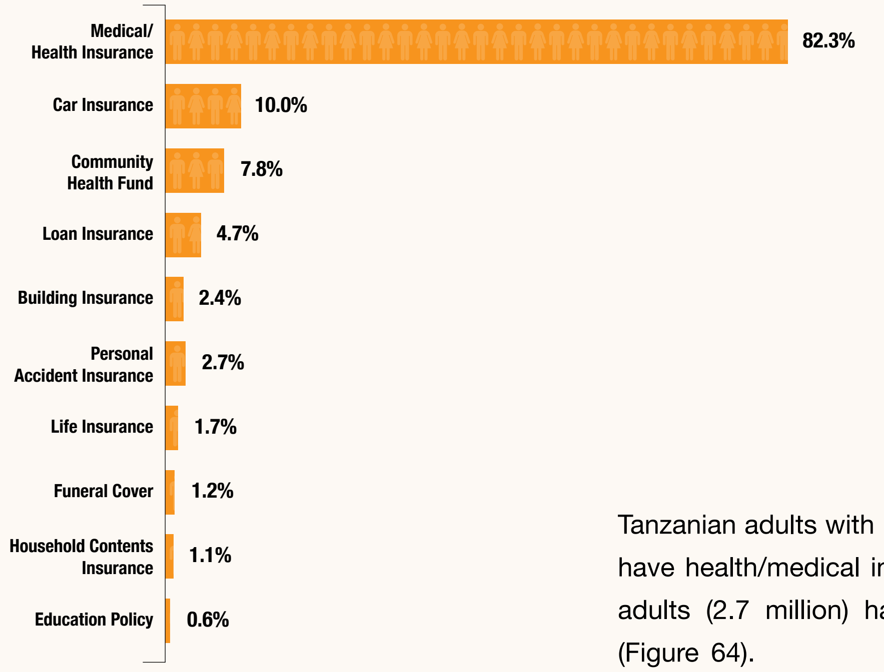


Figure 64: Proportion of adults with insurance by type of insurance, 2013



Tanzanian adults with insurance were most likely to have health/medical insurance – 82.3% of insured adults (2.7 million) had health/medical insurance (Figure 64).

7.4.2 // Uptake of pension products

FinScope 2013 revealed that 3.4% of adults (0.8 million) had pension products. This represented 60% growth from the 2.2% of adults (0.5 million) who had pension products in 2009. If the national target of 10.0% of adults having an active pension account by 2016 is to be achieved, the increase in uptake of pension products will have to be accelerated. Even with a 60% growth rate over the next three years, this would still leave the proportion of adults with active pensions falling short of the NFIF target.

During 2013, 50.8% of formally employed adults had pension products. The national target of is to achieve 100% of those formally employed having pensions by 2016.Considerable progress will still be needed to ensure the target is met.

7.4.3 // Uptake of other securities

One of the key financial inclusion targets for Tanzania is to have 25% of adults investing in securities such as shares, unit trusts, treasury bills and Government or other bonds. FinScope showed that only 0.4% (0.1 million) adults had done so by 2013.

7.4.4 // Barriers to uptake of insurance products

FinScope 2013 indicated that 87.0% of Tanzanian adults (21.0 million) did not have insurance coverage. It further revealed that the main barrier to uptake was a lack of awareness of insurance products, as well as a lack of understanding of how insurance could add value to people's lives:

- 64.2% of uninsured adults (13.5 million) had never heard of insurance or did not know what insurance entailed, while an additional 5.6% (1.2 million) did not know how or where to get insurance, and a further 4.8% (1.0 million) did not know how insurance worked
- 15.4% (3.3 million) of uninsured adults perceived the cost of insurance as being too high.

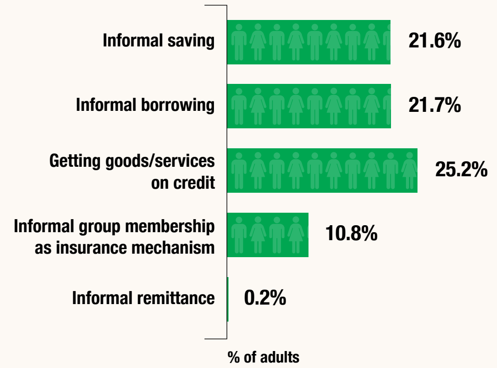
8. Informal Financial Mechanisms

8.

FinScope 2013 illustrated that 43.9% (10.7 million) of Tanzanian adults used informal mechanisms in managing their financial lives, with 15.8% (3.8 million) relying on informal mechanisms alone – i.e. they were not using any of the products or services offered by formal service providers.

Figure 65 provides an overview of the types of informal mechanisms used:

Figure 65: Proportion of adults per type of informal mechanism used, 2013



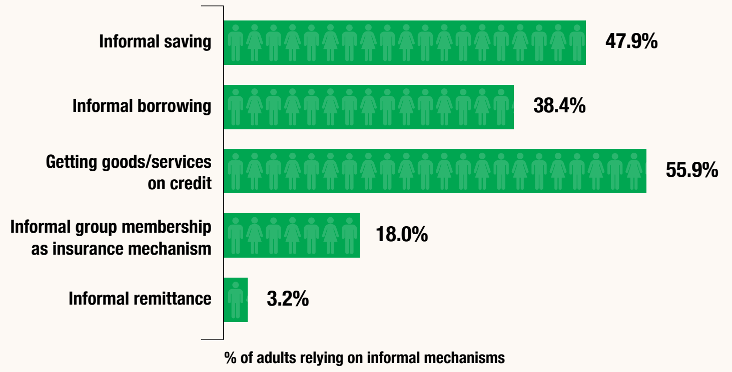
Focussing on those adults who did not use any products/services provided by formal financial service providers and were reliant on informal mechanisms, Table 12 gives an overview of the characteristics of these people. These findings indicated that informal financial sector reliance was skewed towards:

- Adults residing in rural areas
- Women
- Adults with no formal education
- Adults falling into the lowest category of the wealth index
- Subsistence farmers and adults in agribusinesses

Table 12: Characteristics of the adult population relying on informal financial mechanisms, 2013

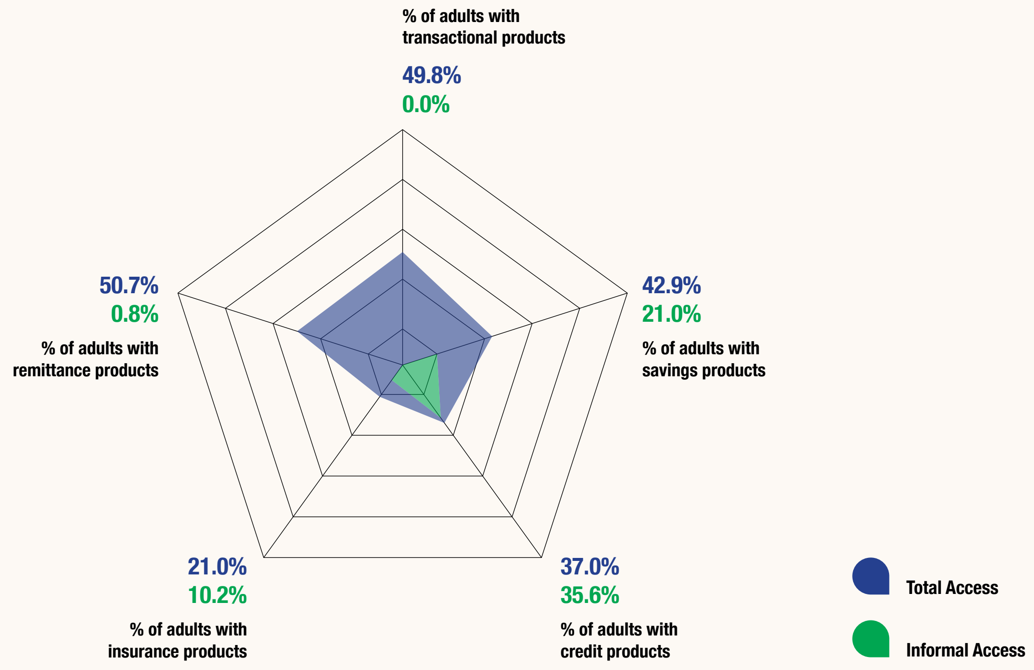
Findings summarised in Figure 66show that most (55.9%) of the adults relying on informal mechanisms used informal types of credit. Further analysis indicated that most of these (77.9%, 1.7 million) used informal credit mechanisms to get items such as food, flour, sugar, cooking ingredients and gas. This leads to the conclusion that, for those adults who relied on the informal financial sector, access to, and usage of these mechanisms, specifically informal credit, provided an important means of coping with their day-to-day needs. It is noteworthy that 75.3% of those relying on informal financial mechanisms were from households that had, in the six months prior to the FinScope survey, skipped a meal or gone without medical treatment as a result of not having enough money.

Figure 66: Proportion of adults who rely on informal mechanisms by type of informal mechanism used, 2013



The significance of the informal sector as a credit provider is clearly illustrated when the landscape of access of the informal sector is overlaid onto the landscape of total access (Figure 67).

Figure 67: Landscape of access: Role of the informal sector, 2013

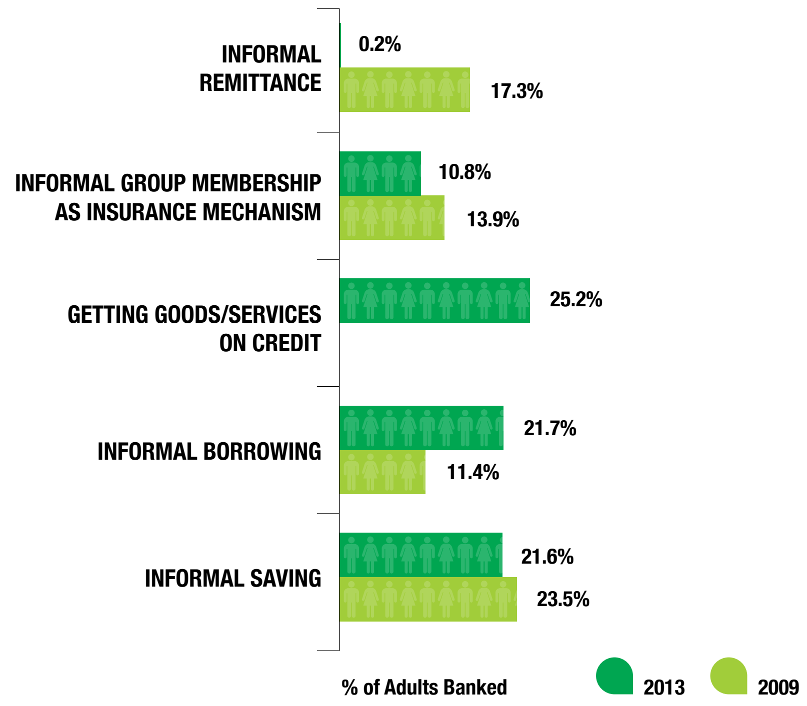


Most (79.3%) of the adults relying on informal financial mechanisms perceived proximity to formal service providers and/or eligibility to take up of the products and services on offer as the main barriers to financial inclusion; 64.1% also regarded a lack of information and knowledge regarding products and services as major barriers to uptake.

Exploring the trends in informal mechanisms used from 2009 to 2013 (Figure 68) it was clear that:

- There was a significant decline in the usage of informal mechanisms such as taxi and bus drivers for the purpose of remittance (used by 17.3% of adults (3.7 million) in 2009 and only 0.2% (0.2 million) in 2013), mostly as a result of the increase in mobile money services being used for remittances .
- Informal borrowing (i.e. such as borrowing from savings groups, moneylenders and/or shop keepers) increased significantly – 11.4% (2.4 million) of adults borrowed informally in 2009,compared with 21.7% (5.3 million) who did so in 2013.

Figure 68: Trends in the usage of informal financial mechanisms: 2009 - 2013



9.

General Drivers of Uptake of Formal Financial Products

Ultimately, the uptake and use of a financial service or product depend on a decision made by an individual. Such decisions could be influenced by a range of factors, but it would be safe to assume that individuals would use financial products and services to help them manage their finances better and so improve their lives. The levels of use of financial services would therefore be the result of the demand for these, as well as the extent to which financial services available in the market meet the needs of the population.

In order for financial service providers to offer products and services that could improve the lives of Tanzanians and to assist them to manage their finances better, it is crucial to understand the characteristics of the population and to understand the factors that could potentially influence adults' decisions on whether or not to use specific products or services.

9.1 Demographic Characteristics of the Adult Population

FinScope surveys implemented across Africa have illustrated links between people's livelihoods and the extent to which they engage with a financial system[14]. Efforts to increase financial inclusion will only be effective if they are based on a clear understanding of these dynamics.

Table 13 gives an overview of the demographic profile of the adult population of Tanzania at the time of theFinScope2013 survey. This profile indicated that the population was:

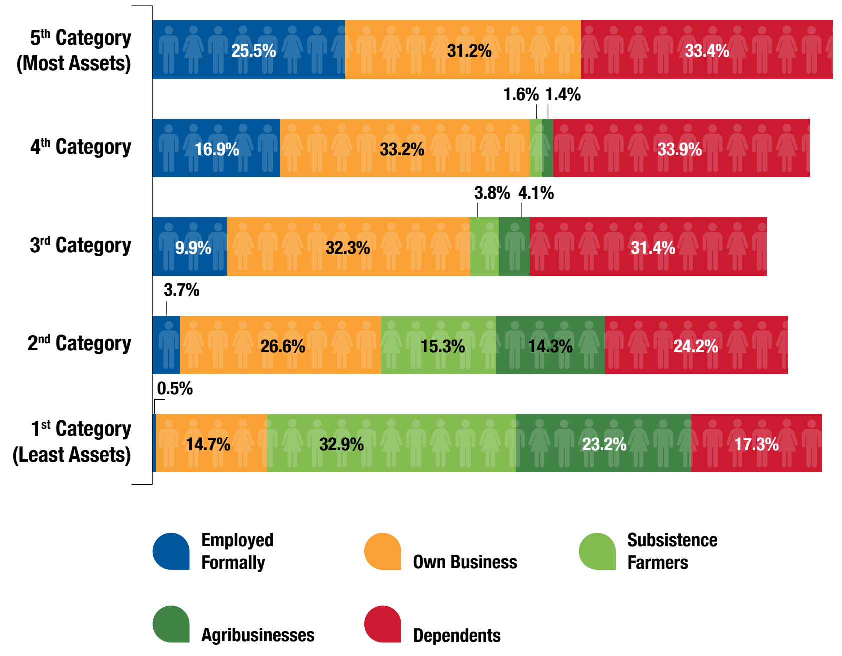
- Largely rural-based, despite increasing urbanization.
- A higher proportion of women than men.
- Young – almost half (43.6%) of the adult population being 30 years or younger.
- Not well educated – more than 70% of adults had, at most, achieved only primary levels of education.
- Skewed towards the lowest category of the wealth index as a result of most adults either being dependent on others for an income or relying on income generating activities that provided them with inconsistent, irregular incomes (see Figure 69).
  - 36.4% of Tanzanian adults mainly relied on an income from farming; 22.9% mainly relied upon others for an income or to cover their expenses; 22.4% mostly relied upon an income from their own businesses.
  - Only 5.3% of adults were formally employed.
  - 4.5% of adults regarded income from formal employment as their main (most relied upon) source of income[15].

[14] Adults who are employed in the formal sector, for example, are most likely to be banked, as employers prefer to transfer salaries/wages into bank accounts; adults who are employed in the informal sector who are more likely to receive their salaries/wages in cash are less likely to be banked; business owners who have to payments to suppliers and who have to receive payments from customers are more likely to use formal transactional products and services than subsistence farmers, for instance, who gain their incomes irregularly and often transact by bartering

[15] This means that some of those formally employed had other sources of income and, for some, these were seen as their main source(s)

Table 13: Demographic characteristics of the adult population in Tanzania, 2013

Table 69: Relationship between wealth index and main income generating activities, 2013



9.2 Choice Criteria, Attitudes and Perceptions

9.2.1 // Criteria of choice of financial mechanisms

Figures 70- 72 give an overview of the criteria applied by Tanzanian adults in choosing savings mechanisms, lenders and financial institutions in general. It is clear from these findings that, in order to increase financial inclusion further, financial service providers will have to focus on quality of service, building trust within communities and providing products and services that facilitate quick access to savings, while loan offerings will have to provide some flexibility in repayment terms.

- Savings mechanisms were mostly chosen based on their ability to facilitate quick access to savings. Formally employed adults differed significantly from adults relying on irregular, inconsistent sources of income; safety of funds was the most significant criterion for those formally employed, while safety was of secondary importance to adults who were not.
- In terms of choosing a lender, 44.4% of adults based their choice on trust. Formally employed adults differed significantly from adults relying on irregular, inconsistent sources of income in terms of secondary choice criteria
  - Formally employed adults were more likely than those not formally employed to regard low interest rates as an important criterion of choice
  - Adults relying on irregular, inconsistent sources of income considered suitability of repayment terms and ability to meet lender/loan requirements as more important than interest rates.
- In terms of choosing a financial service provider, most adults (23.4%) based their choice on quality of service and trust (10.2%).

Figure 70: Criteria applied by Tanzania adults for choosing a savings mechanism, 2013

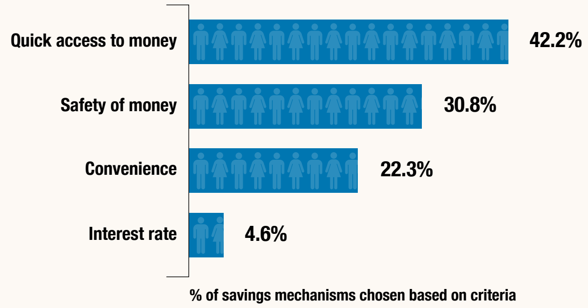


Figure 71: Criteria applied by Tanzania adults for choosing a lender, 2013

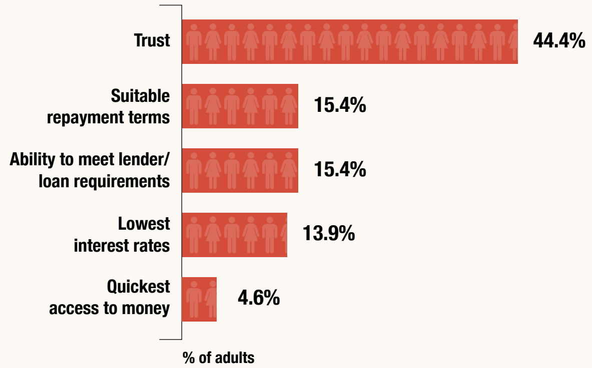
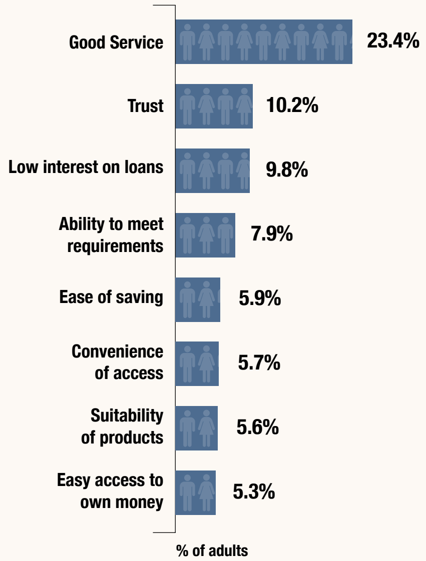


Figure 72: Criteria applied by Tanzania adults for choosing a financial service provider,2013



9.2.2 // Attitudes and perceptions about money management

Table 14 gives an overview of adults' attitudes and perceptions about general money management, saving and borrowing, revealing that:

- In general there was a strong sense of community among Tanzanian adults – they tended to rely on each other and would rather turn to one another for financial assistance than they would to external sources
- In terms of savings:
  - For most (38.8%) saving simply implied putting money aside in order to prevent it being spent, so that it was available during times when they ran out of money; for less than 10% of adults saving was perceived as a means to accumulate wealth
  - There was a strong savings culture; but for most people the realities of their day-to-day lives often meant that they were likely to use their savings to cover expenses for which they were not specifically meant. However, formally employed adults were less likely than adults relying on other income generating activities to face this problem.
- In terms of borrowing:
  - Although most Tanzanian adults (86.2%) preferred not to borrow money, 62.4% were prepared to take a loan if they really needed to – this tendency was significantly skewed towards formally employed adults, as well as business owners and adults involved in agri-businesses.

Table 14: Attitudes and perceptions of Tanzanian adults about money management, 2013

Attitude and Perceptions		% of Adults
General	Being part of the community is important	98.2%
	Have people in the community to turn to for help if needed	81.2%
	People in community have a strong sense of involvement in community – rely on each other for support	77.1%
	Strong tendency in community to form groups	61.5%
	Would rather turn to strangers than people in community if needed financial help	15.6%
Savings Definition	Putting money somewhere to stop you from spending it so that have it when needed	38.8%
	Putting money aside to use later for something special	18.1%
	Putting money somewhere to keep it safe	17.6%
	Savings is the money that is left over from income after expenses	15.8%
	Putting money away so that the total amount increases over time	9.6%
Saving	Save or put money away for specific purpose but end up using it before you used it for that purpose	83.8%
	Sometimes don't buy things that you want in order to save money	56.9%
	Save or put money away for a specific purpose and do not use it for any other purpose	44.1%
Borrowing	Prefer to save for something rather than borrow to get it	88.2%
	Prefer to avoid borrowing money	86.2%
	Regard it acceptable to borrow to settle debt	79.5%
	Regard it acceptable to borrow for household purposes such as buying food	75.0%
	Prepared to take a loan to get something they really need	62.4%
	Regard it better to remain with debt rather than selling something to pay it off	33.6%
	Regard it better to remain with debt rather than using savings to settle it	22.8%
	Regard it acceptable to pay back debt later than agreed	5.6%

The strong sense of community involvement and mutual support among individuals mostly relying on inconsistent, irregular sources of income, often running out of money and having to use savings to meet day-to-day expenses, a willingness to borrow for household expenses (or even to cover debt) but with little to offer in terms of collateral, in many instances lead to the establishment of a community-based informal financial system[16]. This system, once established, starts to evolve and is sustained because,firstly, it meets a need that cannot be met by alternatives offered by formal service providers in an affordable manner and, secondly, it often offers additional non-financial benefits to its users. It was therefore not unexpected to find that almost half (43.9%, 10.7 million) Tanzanian adults used informal financial mechanisms in 2013.

[16] Also shown in various FinScope surveys implemented in several sub-Saharan countries in Africa

9.2.3 // Attitudes and perceptions about financial products and institutions

With regard to money management products and services, trust in a service provider is a necessary prerequisite. Table 15 summarises the FinScope 2013 findings relating to the financial service providers/mechanisms Tanzanian adults trust most with regard to saving, borrowing and money transfers.

In terms of saving:

- Banks were the most trusted service providers – trusted most by 51.6% of adults
  - Although banks were regarded as most trustworthy in terms of savings by adults irrespective of income generating activities, formally employed adults, business owners and adults involved in agribusinesses were most likely to do so
- Keeping money with family/friends was more likely to be regarded as the most trustworthy savings mechanism compared to savings groups, SACCOS and MFIs
  - This tendency was skewed towards subsistence farmers and adults depending on others for an income

"It is very safe and trustful because even if you lost your phone your money will still be there."

(FGD participant, Agribusiness group, Ngeta, Kibaha)

In terms of borrowing:

- Family and friends were regarded as the most trusted lenders – trusted most by 54.2% of adults
- 26.5% of adults regarded banks as the most trustworthy sources of credit
  - Formally employed adults differed significantly from adults depending on irregular/inconsistent sources of income with respect to their perception of most trustworthy lenders – 58.7% of formally employed adults regarded banks as the most trustworthy lenders, while 22.5% regarded family and friends as most trustworthy
- In terms of money transfers, 82.0% of adults regarded mobile money service providers as the most trustworthy.

"For example, my phone was stolen and I just went to the agent to renew my simcard and I did not lose even a coin that was in my M-Pesa."

(FGD participant, Agribusiness group, Ngeta, Kibaha)

Table 15: Financial service providers/mechanisms trusted most by Tanzanian adults, 2013

	Service provider/mechanism trusted most	% of Adults
Saving	Bank	51.6%
	Family/friends/clan	25.6%
	Savings group	2.6%
	SACCOS	1.5%
	MFI	0.2%
Borrowing	Family/friends/clan	54.2%
	Bank	26.5%
	Savings group	5.6%
	SACCO	3.4%
	MFI	1.2%
	Money lending companies	1.0%
	Money lender	0.5%
Money transfers	Mobile money service providers	82.0%
	Friend/family	11.4%
	Bank transfer/payment into a bank account	2.0%
	Bus company	0.5%
	Post Office	0.1%
	Western Union/ Moneygram	0.1%

Although the most significant barrier to financial inclusion seemed to be a lack of awareness and knowledge about financial products and services, FinScope 2013 findings summarised in Figures 73-78clearly illustrated that an increase in financial inclusion was further significantly constrained by the attitudes and perceptions of adults who were not using these services:

- 29.6% (6.2 million) of unbanked adults indicated that they did not need a bank account – inconsistency and irregularity of income often resulted in consumers not seeing any value or benefit in having bank accounts
- 22.6% (5.4 million) of adults not served by MFIs indicated that they did not need them; a further 8.6% thought that group membership was a requirement, while an additional 5.3% did not trust MFIs
- 11.7% (2.8 million) adults not served by SACCOS indicated that there was no benefit for them in using SACCOS; 11.6% did not trust SACCOS
- Perceptions with regard to product and/or service costs had a negative impact on the uptake of both mobile money services and insurance products
- With regard to credit uptake, attitude to debt seemed to be a more significant barrier than factors such as access and eligibility
    - 37.5% of non-borrowers did not borrow because they feared not being able to meet repayment requirements (this proportion has shown a slight increase since 2009 when 34.3% of non-borrowers did not borrow for this reason); 8.0% of non-borrowers did not borrow because they did not want to borrow or did not believe in borrowing.

Figure 73: Perceived barriers to banking: unbanked adults, 2013

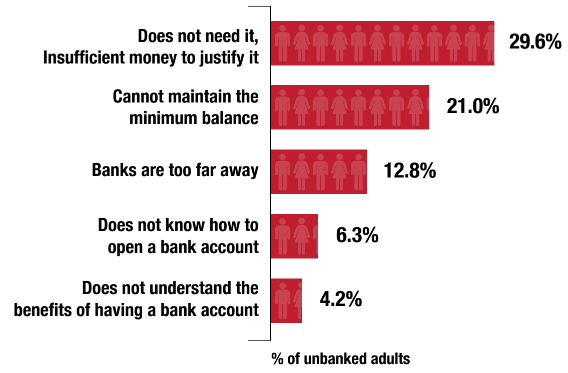


Figure 74: Perceived barriers to MFI product uptake: adults not served by MFIs, 2013

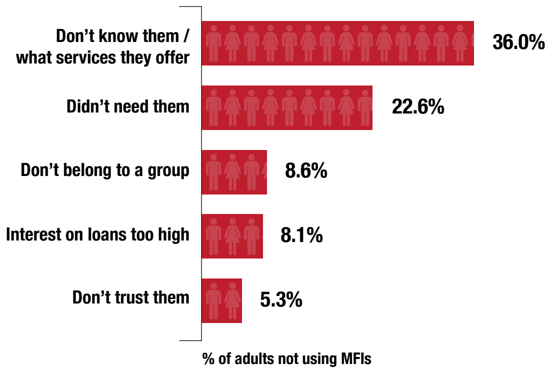


Figure 75: Perceived barriers to SACCOS product uptake: adults not served by SACCOS, 2013

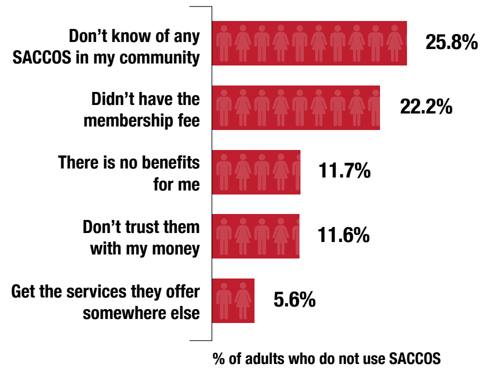


Figure 76: Perceived barriers to insurance product uptake: uninsured adults, 2013

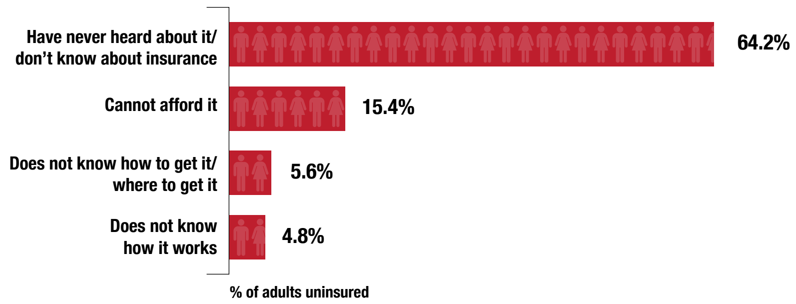


Figure 77: Perceived barriers to mobile money services uptake: non-users, 2013

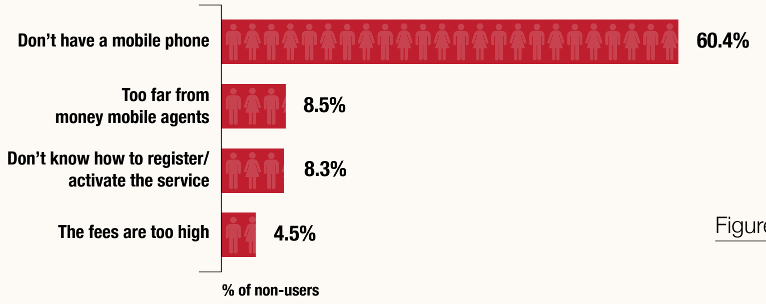
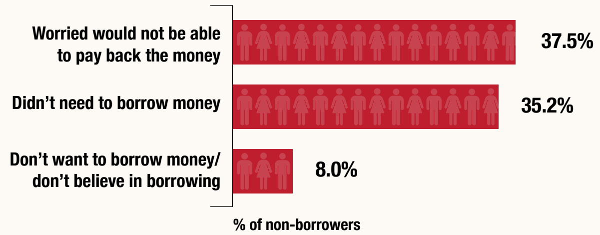


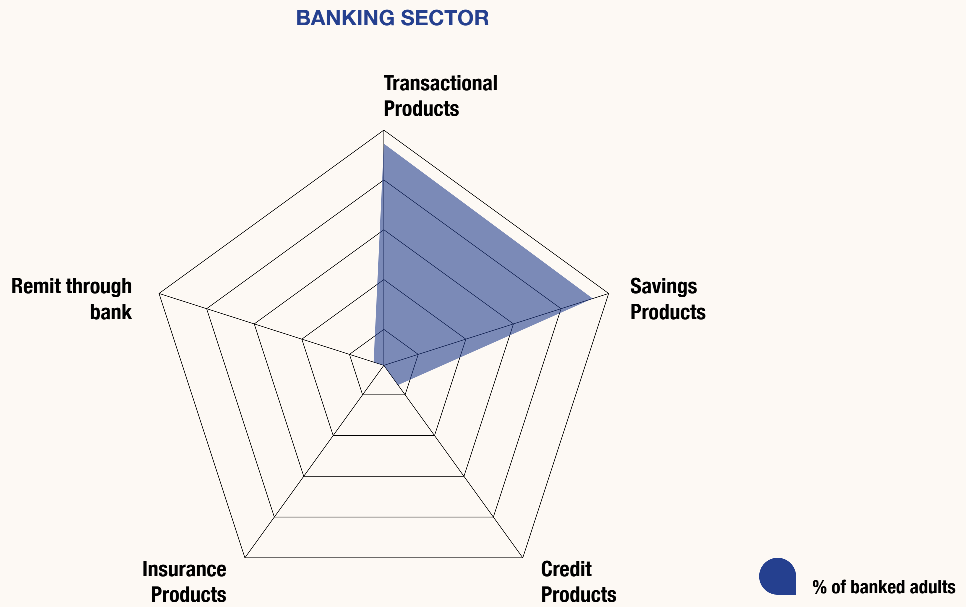
Figure 78: Barriers to credit uptake: Non-borrowers, 2013

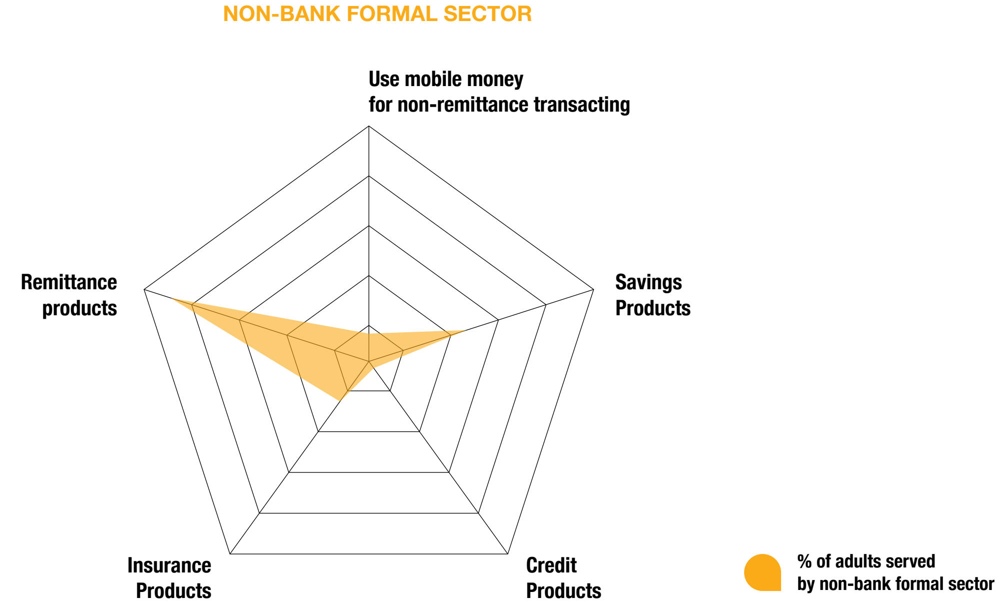


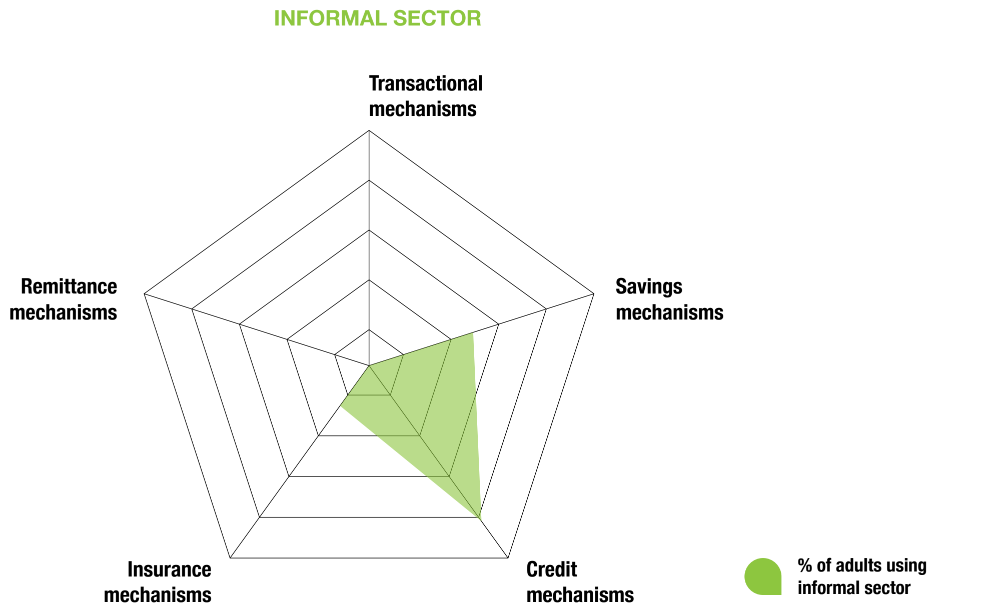
9.3 Money Management

As is illustrated in Figure 79, FinScope 2013 findings indicated that banks were most often used for transacting and savings facilities. The non-bank formal sector (usually mobile money services) was most often used for remittances. And the informal financial sector was most often used for credit.

Figure 79: The roles of the banking, non-bank formal and the informal sectors – Tanzania 2013







9.3.1 // Transacting

FinScope 2013 illustrated that, although 51.3% of adults had access to electronic payment systems, payments in Tanzanian were still primarily made in cash. These included paying for food, clothes and even larger appliances.

Given that farming remains a predominant source of income for Tanzanian adults, and the irregular nature of income from farming, farming-related transactions were specifically explored:

- Farming-related transactions were almost entirely cash-based
- 40.0% of adults who needed farming inputs did not buy these, as they managed with what they had from season to season. To buy farming inputs:
  - 24.4% used savings
  - 12.9% sold crops/livestock/other produce
  - 7.9% used money from other sources of income.

Excluding expenses on food and clothing,almost a third of Tanzanian adults (32.6%) regarded payment for utilities such as water, lighting and cooking fuel as their first priority when income is received; 21.3% regarded payment of school fees and/or items for school as a first priority, while medical expenses were regarded as priority by 14.2% of adults. Formally employed adults were significantly more likely than those informally employed to regard paying rent as a priority and less likely to regard medical expenses as such.

In terms of remittances FinScope 2013 revealed that:

- 53.9% (13.1 million) of adults sent and/or received money during the 12 month period prior to the survey
  - This tendency was significantly skewed towards formally employed adults (88.3% of whom sent/received money) and business owners (69.9%)
- Although adults who sent money to others used different modes of transfer, most (95.0%, 8.3 million)used mobile money services
  - 2.0% of adults sending money used bank transfers – this tendency was skewed towards those formally employed
  - 91.7% of adults who received remittances did so through mobile money services. By contrast, only1.6% of adults who received remittances did so through bank transfers.

Although the payment system is largely cash-based, the significance of the contribution of mobile money services towards the increasing role of e-transacting in Tanzania is illustrated by the following findings:

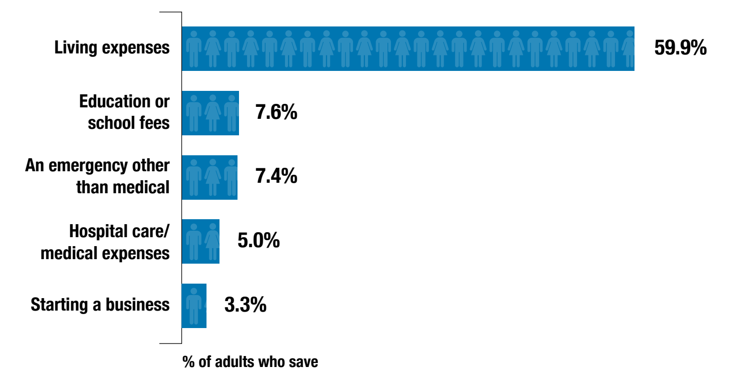
- Banks provided 12.8% of adults with transactional facilities, while 49.0% used mobile money service providers
  - 0.1% of adults used bank accounts/cards/cheques for purchases of goods/services; 3.6% of adults used bank transfers for sending/receiving money
  - 9.9% of adults conducted non-remittance transactions via mobile money services; and 33.1% sent/received money using mobile money services.

9.3.2 // Saving

FinScope 2013 showed that:

- The proportion of adults who claimed to save or put money away increased significantly from 69.6% (14.7 million adults) in 2009 to 87.4% (21.2 million adults) in 2013
- Savings behaviour of Tanzanian adults was not focused on the long-term (Figures 80 and 81) and was not driven by a need for investment and wealth accumulation
  - Most adults (59.9%, 12.5 million) who saved mainly put money away to enable them to cover living expenses during times of financial difficulty;an additional 7.5% were mainly saving for potential emergencies; while a further 5.0% saved mainly for potential medical costs
  - Although the most significant driver for all savers, this tendency to save as a means of smoothing cash-flow was even more significant for subsistence farmers and those depending on others for an income (it was therefore not surprising to find that subsistence farmers and adults who depended on others were most likely to claim to save)
  - Saving for long-term needs and investments[17] was significantly skewed towards adults who were formally employed. Saving for improved output (e.g. investing in business or farming inputs, buying land/equipment for farming or equipment for the business) was significantly skewed towards adults involved in agribusinesses.

Figure 80: Main reasons for saving - adults who were saving at the time FinScope 2013 was conducted



[17] Long term savings and investment included, for example saving for old age, saving to leave something for the family after passing away, saving for home improvements, and saving to buy a house/plot for the household

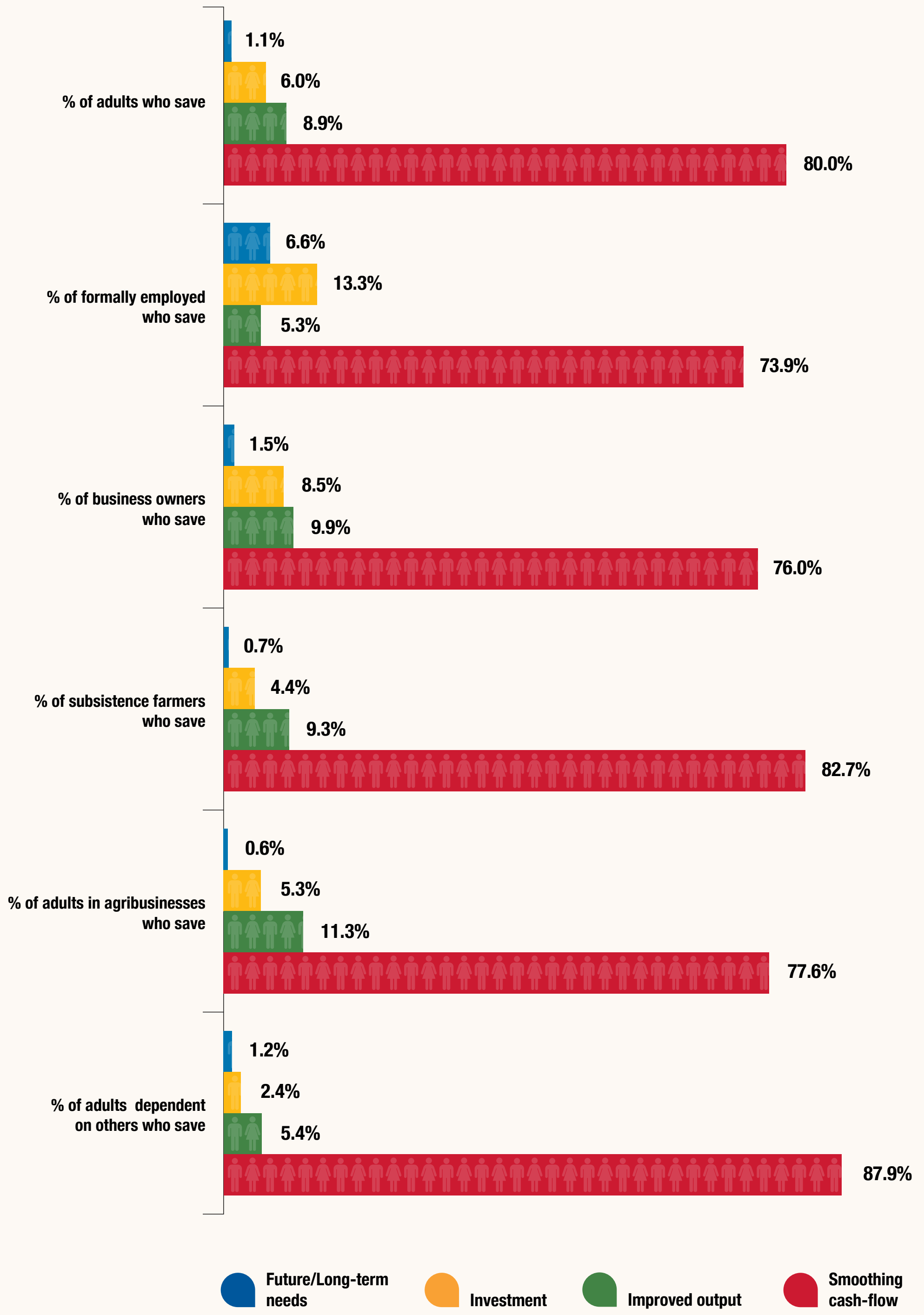


Figure 81: Main reasons for saving by main income generating activity, 2013

Exploring the mechanisms used for saving, Figure 82 shows that:

- Tanzanian adults are most likely to keep their savings at home – 75.8% (18.4 million) of those who save do so at home (either using Kibuku or giving their savings to someone in the household for safe keeping)
- In terms of formal savings facilities, savers are most likely to keep their savings on their mobile phones (21.0% of savers, 4.5 million). This compares with 11.9% of savers (2.5 million) who keep their savings in a bank
- In terms of informal savings mechanisms, savers are most likely to save with a savings group (10.4% of savers, i.e. 2. 2 million).

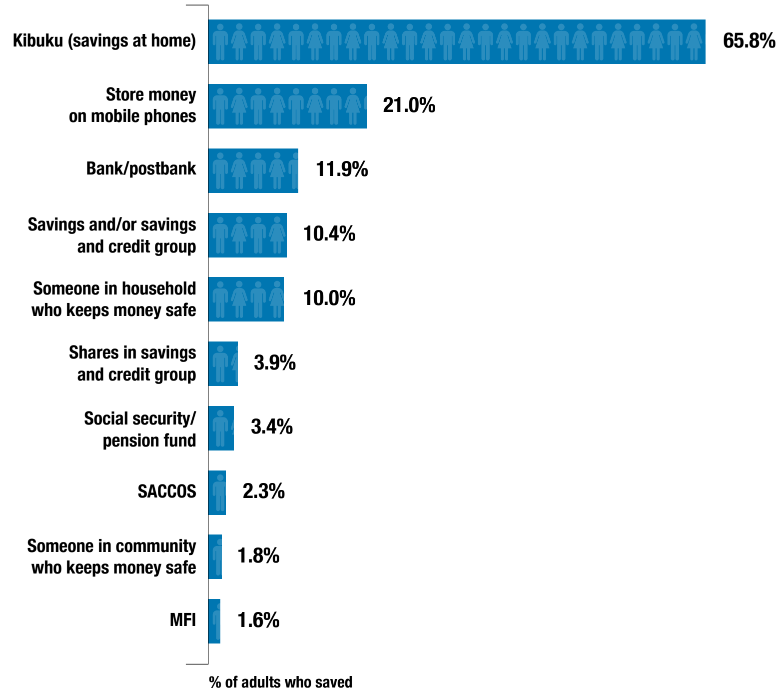


Figure 82: Savings mechanisms used by Tanzanian adults, 2013

The FinScope "Saving Strand" shown in Figure 83 is constructed to illustrate the percentage of adults who were:

- not saving
- saving ONLY at home or in-kind
- using only informal savings products/mechanisms– these individuals might have been saving at home or in-kind too, but their distinguishing characteristic was that they were using informal mechanisms and not formal products
- saving using formal savings products –these individuals might have been saving at home, in-kind or informally too, but their distinguishing characteristic was that they were using formal savings products.

"If I have intention of buying a plot I will start to save on my phone until the amount is sufficient to buy a plot. It's not easy to withdraw because mobile money (agent) is very far and I don't go regularly to that area"

(FGD participant, Agribusiness group, Ngeta, Kibaha)

Comparative savings strand analysis (Figures83- 85) indicates that there was not only a significant difference between 2009 and 2013, but also between adults with different income generating activities:

- A significantly larger proportion of savers used formal savings mechanisms in 2013 than in 2009 (this proportion increasing from 11.8% to 30.4%). This shift was mainly due to the uptake of mobile money services and adults using their phones to store money.

"Storing money on the phone is safer than keeping at home. If you store at home and flood comes it will get lost and never recovered, but once a phone is stolen you just renew your phone number and you can recover the money"

(FGD participant, youth group, Kinondoni, Dar es Salaam)

- Formally employed adults were significantly more likely to save than adults who were not formally employed. They were also significantly more likely to use formal savings mechanisms than those who were not employed (most of the formally employed adults who saved used bank facilities).
    - Formally employed adults were also more likely than those not formally employed to have savings in the form of a pension fund
- Farmers (i.e. subsistence farms and adults involved in agribusinesses) were most likely to rely on informal savings mechanisms (e.g. savings groups) or to save only at home. This trend is also reflected in a comparison of the saving strand for geographical areas – indicating that adults in rural areas were most likely to rely on informal mechanisms and to save only at home.

Figure 83: FinScope Saving Strand: 2008 – 2013

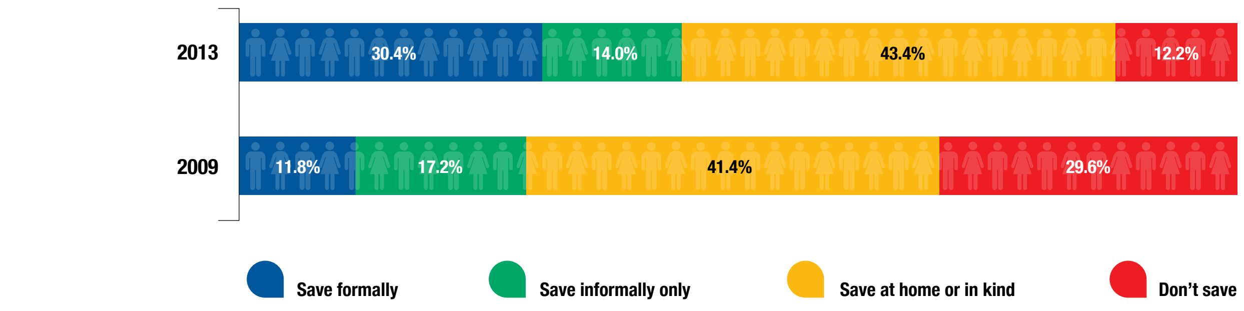


Figure 84: FinScope Saving Strand by main income generating activity, 2013

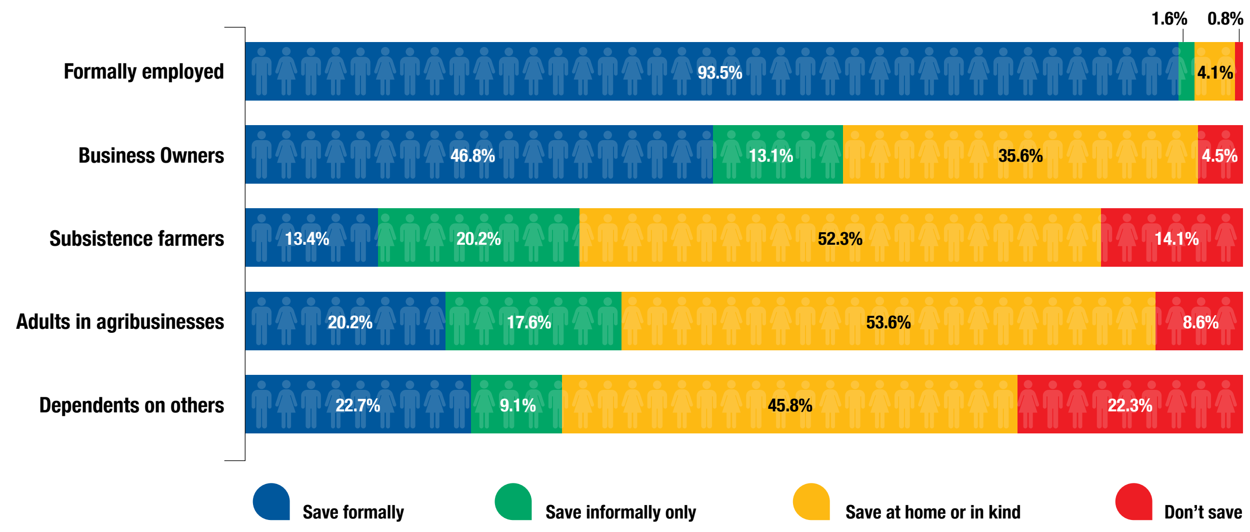
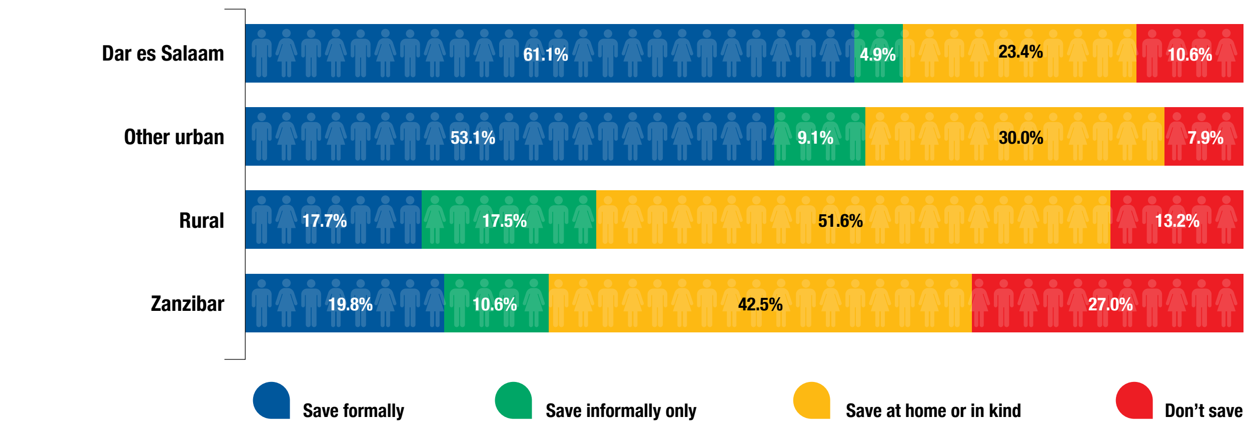


Figure 85: FinScope Saving Strand by geographical area, 2013



Findings summarised in Figure 86indicate that 69.2% of adults who saved did so at least once a month.

- Adults with irregular, inconsistent sources of income were more likely to save more frequently than those who were formally employed – the latter being more likely to save on a monthly basis
- Most (85.3%, Figure 87) savers used their savings facilities at least once in the month prior to the FinScope 2013 survey, while an additional 10.7% did not use it during that period but did use it in the six months prior to the FinScope survey. There was a strong correlation between usage and satisfaction levels – those adults who frequently saved were mostly satisfied that the savings mechanisms they used met their needs.

Figure 86: Frequency of saving per main income generating activity, 2013

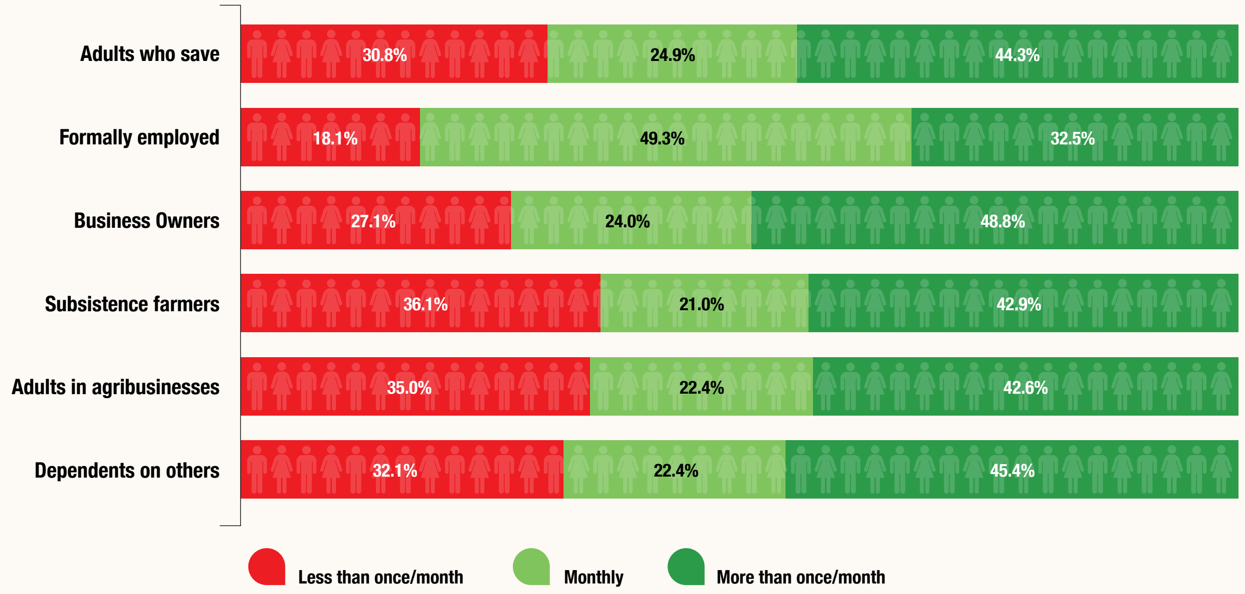
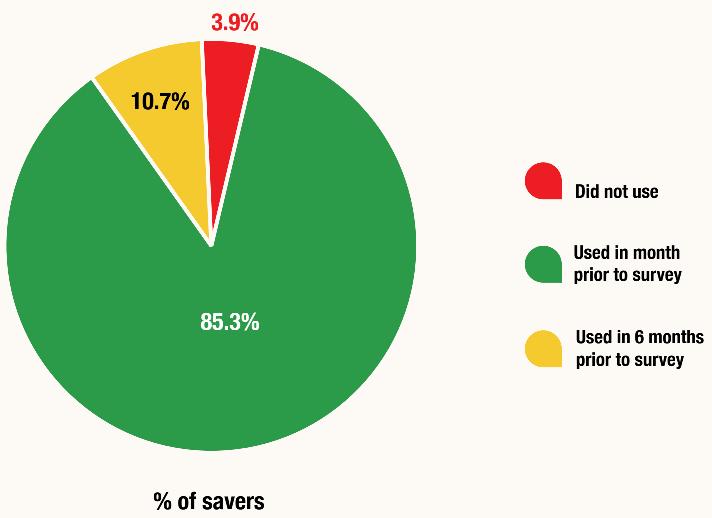


Figure 87: Frequency of using savings mechanisms, 2013



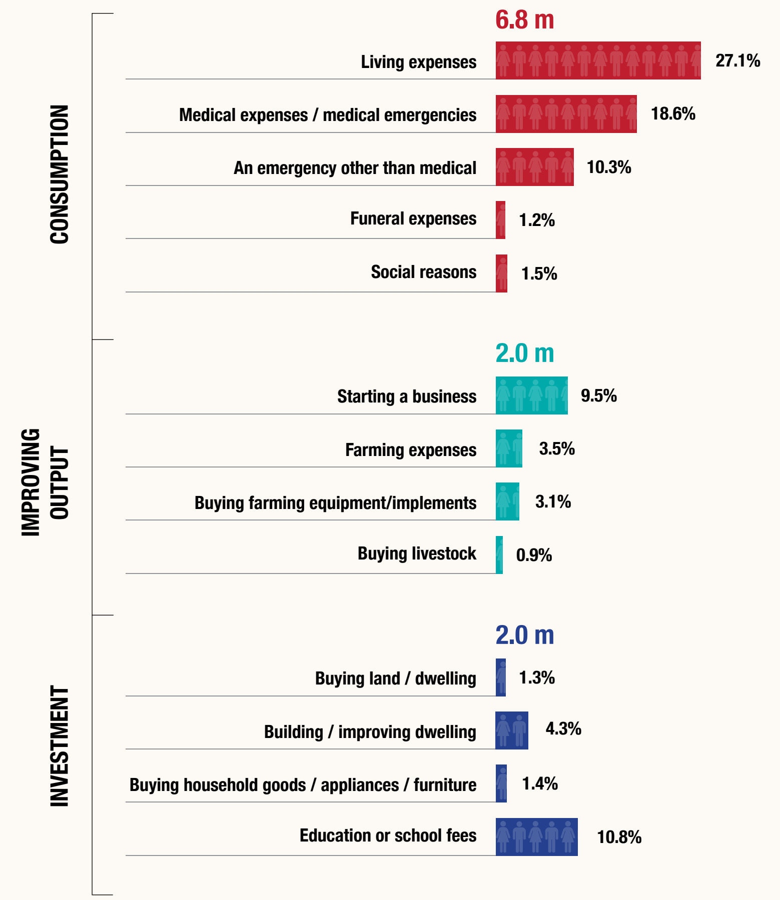
9.3.3 // Borrowing

FinScope 2013 indicated that:

- 54.2% of Tanzanian adults were indebted at the time the survey was conducted
  - 45.7% (11.1 million) borrowed money during the 12 months prior to the survey – this proportion increased significantly from 2009, at which time 16.6% (3.5 million) indicated that they had borrowed[18]
- This tendency was skewed towards formally employed adults (55.0% of whom borrowed during the 12 month period) and business owners (51.8%)
  - 41.9% (10.2 million) indicated that they were paying off debt that they incurred before the 12 month period just before the survey
- This tendency too was skewed towards formally employed adults (57.6% of whom were servicing debt from before) and business owners (47.1%).
- 25.2% of adults took goods/services on credit during the 12 months prior to the FinScope survey – business owners being most likely to do so (28.2%) and formally employed adults least likely (22.2%).
- Like savings behaviour, borrowing by Tanzanians was not primarily for the long-term or investment (Figure 88).Most adults who borrowed money during the 12 months prior to the FinScope 2013 survey did so mainly for consumption purposes (58.8% of all borrowers, 6.8 million)
  - The tendency to borrow for consumption purposes, although the most significant driver of borrowing behaviour for all borrowers, was even more significant for farmers (67.8% borrowing for consumption purposes) and those depending on others for an income (67.3%).
  - Borrowing for investments (such as buying a house/land) was significantly skewed towards adults who were formally employed, (53.4% of whom borrowed for this purpose)
  - Borrowing for the purpose of improving output (e.g. investing in business or farming inputs) was significantly skewed towards business owners (26.6% of whom borrowed for this purpose) and farmers (16.2% of subsistence farmers and 20.7% of agribusiness owners) – those involved in agribusinesses being most likely to borrow money to buy farming equipment and subsistence farmers being most likely to borrow for farming inputs.

[18] This increase includes borrowing from family & friends

Figure 88: Main reasons for borrowing money: adults who borrowed in the 12 months prior to FinScope 2013



An assessment of the sources of credit used by those who borrowed in the 12 month period prior to the FinScope survey (Figure 89) showed that:

- Tanzanian adults were most likely to borrow from family or friends (83.9%, 9.3 million)

"It takes too long to get the loan from a bank and sometimes you have an emergency case but if you took from a friend there is no bureaucracy like in the bank"

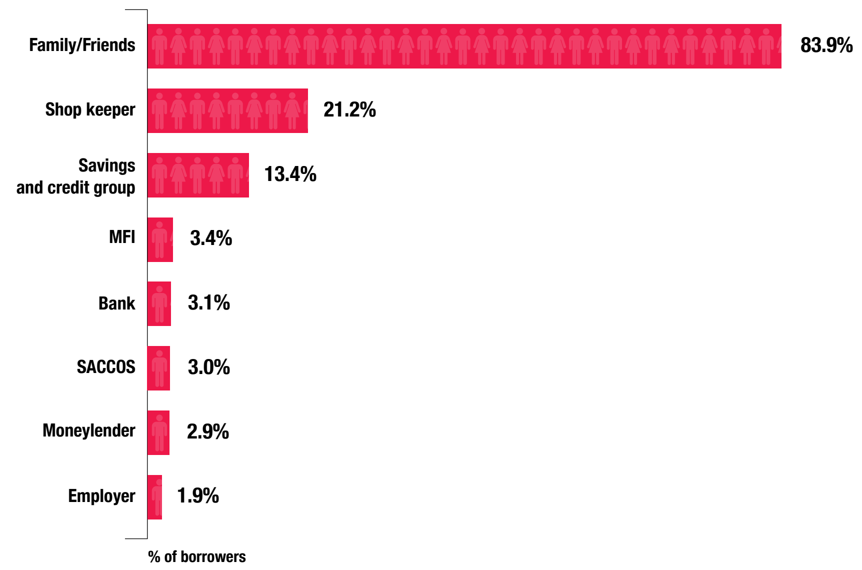
(FGD participant, Agribusiness group, Ngeta, Kibaha)

- Although family or friends was the most used credit source for all borrowers, this tendency was significantly skewed towards subsistence farmers who borrowed (90.5% of whom borrowed from family or friends) and adults depending on others for an income who borrowed (94.8% of borrowers)
- Formally employed adults who borrowed were least likely to borrow from family or friends (57.3% of borrowers)

- Only 3.1% (0.4 million) of borrowers borrowed from banks – there was a significant skew towards formally employed adults who borrowed in this way (28.5% borrowed from banks)
- 3.4% (0.4 million) of borrowers borrowed from a MFI – skewed towards business owners who borrowed (9.1% of whom borrowed from MFIs)
- SACCOS served 3.0% (0.3 million) borrowers – skewed towards formally employed borrowers (20.6% of whom borrowed from SACCOS)

- Informal lenders served more borrowers than the formal sector – shop keepers and savings and credit groups being the main providers in this regard
  - Shop keepers served 21.2% (2.4 million) of borrowers
  - Savings and credit groups served 13.4% (1.5 million) of borrowers - skewed towards business owners and farmers (both subsistence farmers and adults involved in agribusinesses).

Figure 89: Main credit sources used by Tanzanian adults, 2013



Similar to the Saving Strand, the FinScope Credit Strand is constructed to illustrate the percentage of people who:

- Did not borrow
- Borrowed from family and friends ONLY
- Used informal credit only
- Used formal loan products.

Comparative credit strand analysis (Figures 90-92) indicated that there was not only a significant difference between 2009 and 2013, but also between adults with different income generating activities and geographical areas:

Comparing the 2009 and 2013 credit strands showed that the significant increase in the proportion of adults borrowing since 2009 was not due to increased access to formal credit

- The formal sector served 4.1% (0.9 million) of adults in terms of credit in 2009 and was still serving only 5.0% (1.2 million) in 2013
  - Access to formal credit was skewed towards formally employed adults (31.8% of whom used formal credit in the 12 month period prior to the FinScope survey)

- Access to bank credit was skewed towards formally employed adults (23.1% of whom used bank credit in the 12 month period prior to the FinScope survey)

- There was a significant increase in reliance on informal credit sources. In 2009 10.2% (2.2 million) of adults relied on the informal sector for credit, but this proportion increased to 26.3% (6.4 million) in 2013. Reliance on the informal sector for credit was slightly skewed towards adults with their own businesses and those in agribusinesses

- Subsistence farmers were most likely to rely on friends and family for credit – this tendency is also reflected in Figure 92 indicating that adults in rural areas were most likely to rely on family and friends for credit.

> *"I think many people do not meet the requirements such as deposits, many of us have houses without title deeds and non-removable assets. But if I go to my friend to borrow TSh1,000,000 and he knows that I own a house even if I don't have a title deed he will give (the money to) me. Additionally, the interest rate is very high in the formal sector, for instance the interest rate for TSh1,000,000 might be 20% or 30%, that's why many people run away from their home after failing to repay the loan as a result your assets will be confiscated, but a friend will never do that. There are very few cases of debtors who borrowed informally are taken to court compare to those who borrowed from formal sectors."*
>
> *(FGD participant, older group, Mbagala, Dar es Salaam)*

> *"Borrowing between friends and family has increased because of the trust between each other, no interest and the expectation of the credit to be repaid even if by instalment"*
>
> *(FGD participant, youth group, Kinondoni, Dar es Salaam)*

Figure 90: FinScope Credit Strand: 2009 – 2013

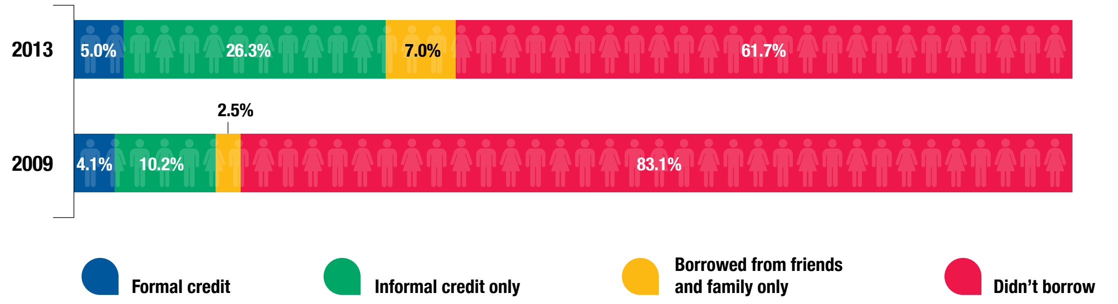


Figure 91: FinScope Credit Strandby main income generating activity, 2013

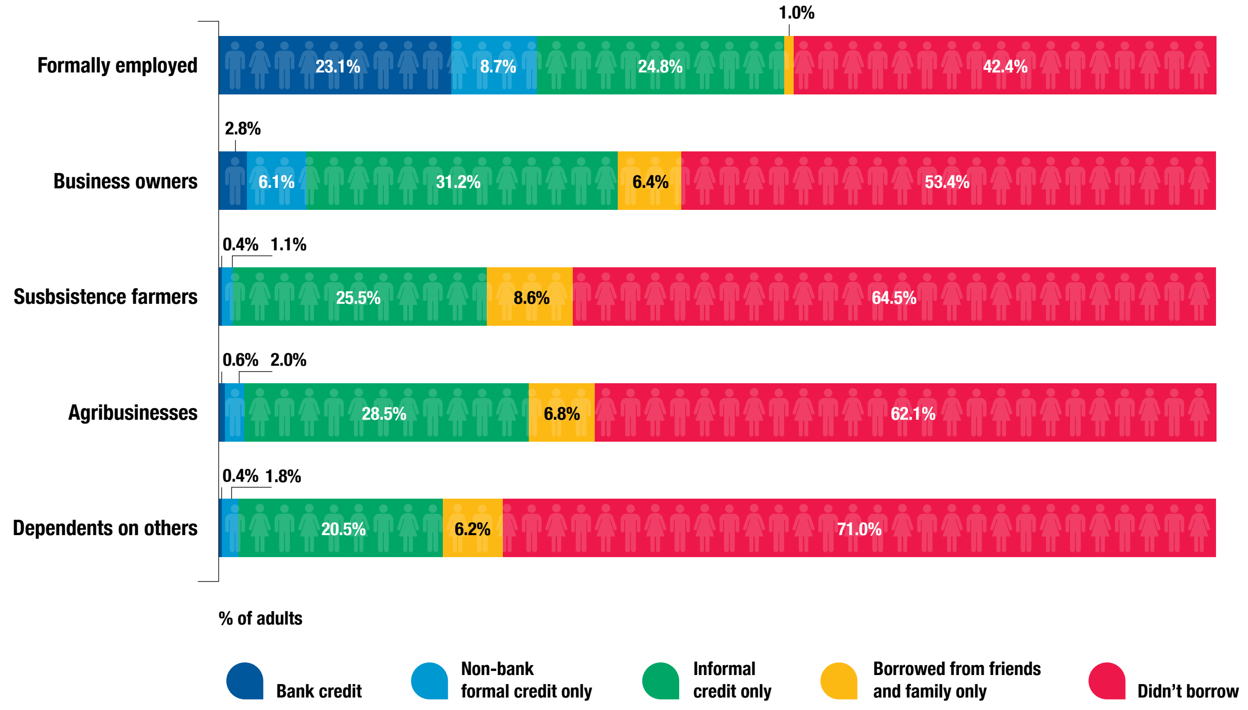


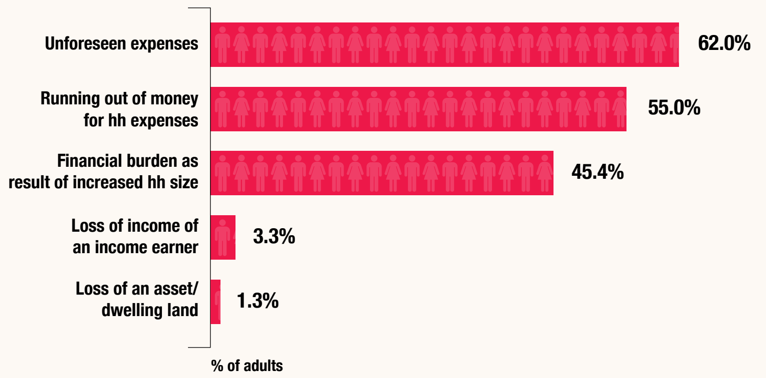
Figure 92: FinScope Credit Strandby geographical area, 2013

9.4 Risks and Mitigation

Exploring the financial risks faced by Tanzanian adults helps put their saving and borrowing behaviour into perspective. 'Unexpected expenses' and 'running out of money for house-hold expenses' were the most prevalent amongst the financial risks experienced by them – 62.0% (15.0 million) had unexpected expenses in the 12 months prior to the FinScope 2013 survey, while 55.0% (13.3 million) ran out of money for household (HH) expenses (Figure 93).

- 45.4% of adults experienced an increase in household size during the 12 month period prior to the FinScope survey, which resulted in an additional financial burden for them
- During the same period a drop in the price of harvest/produce or products affected:
  - 34.3% of adults in agribusinesses
  - 18.0% of small business owners
  - 17.9% of subsistence farmers
- 22.6% of subsistence farmers and 24.1% of adults in agribusinesses suffered losses of their harvest or livestock.

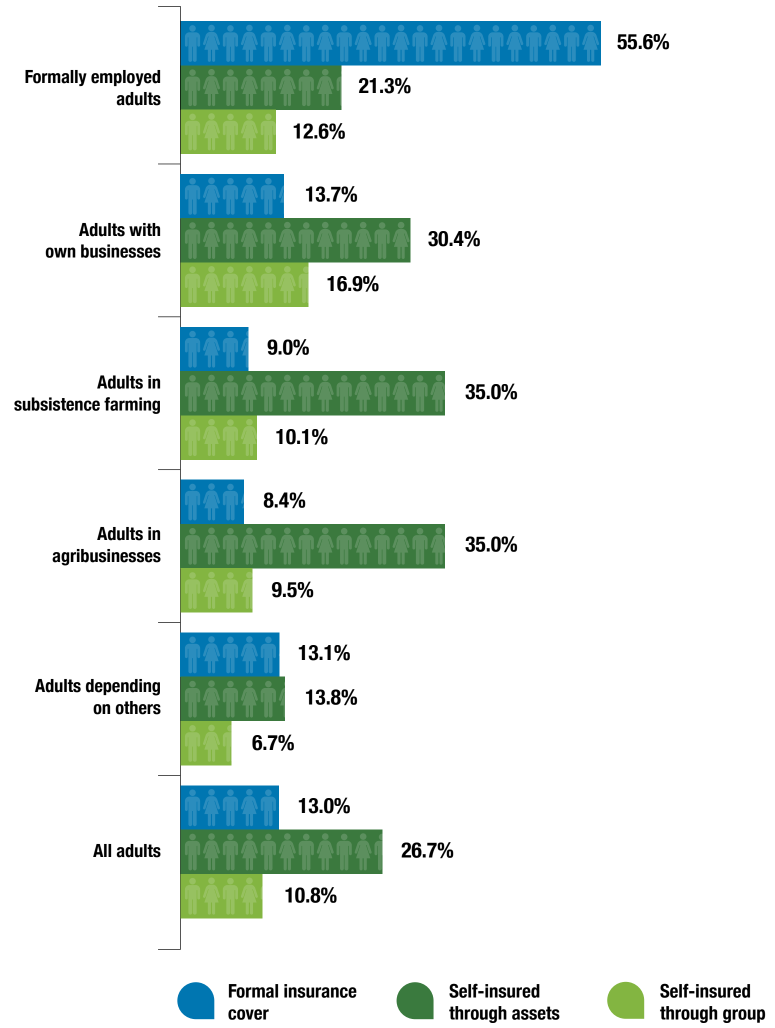
Figure 93: Risk events experienced by Tanzanian adults in the 12 months prior to FinScope 2013



For most Tanzanian adults, risk mitigation methods were based on self-protection, with very few covering themselves through insurance (Figure 94).

- 13.0% of adults had formal insurance; 26.7% self-insured by means of buying assets with the intention to sell them during times of financial difficulty; 10.8% self-insured through membership of a savings group to which they could turn when in financial need.
  - Formal insurance coverage was skewed towards formally employed adults, 55.6% of whom had insurance cover
  - Self-insurance by means of buying assets to sell was more predominant in farmers and owners of small businesses
  - Business owners were more likely than other adults to self-insure through membership of savings groups.

Figure 94: Risk mitigation through formal and informal insurance: Tanzanian adults, 2013



Given that unexpected expenses and running out of money for household use were the main risks faced by Tanzanian adults, saving mainly for living expens-es and borrowing mainly for consumption meant,in effect, that risk mitigation was the main driver of their saving and borrowing behaviour. The nature of their income sources limited their savings potential, re-sulting in some adults having to borrow when faced with a risk event.

- Exploring coping mechanisms of adults experi-encing unforeseen expenses in the 12 months prior to FinScope 2013 (Figure 95) indicated that:
  - 55.3% used savings, 2.0% sold an asset which they bought for that purpose, and 1.3% claimed from insurance(i.e. 58.6% of these adults were in the position to implement the risk mitigation measures they had in place)
    - The use of savings was significantly skewed to-wards formally employed adults and business owners
    - Farmers were most likely to have sold an asset they bought for this purpose
  - 24.8% had to borrow to deal with the event
    - Subsistence farmers were most likely to have to borrow (probably primarily because of seasonal requirements to fund farm inputs).

➜ Assessing the coping mechanisms used by adults who experienced running out of money for household use (Figure 96) revealed that:

- 19.8% used savings and4.4% sold an asset which they bought for that purpose (i.e. 24.2% of these adults were in the position to implement the risk mitigation measures they had in place)
- Business owners were most likely to use savings, while adults in agribusinesses were most likely to sell assets they obtained for this purpose
- 41.1% borrowed to cope with the event
- Formally employed adults and those working in agribusinesses were most likely to borrow if they ran out of money for household use.

➜ Risks such as 'drop in prices of harvest, produce and/or products' and 'harvest/livestock losses' were often regarded as 'part of life' rather than 'risks'– explicit risk mitigation strategies were therefore less likely to be applied when faced with such events and most adults simply cut down on expenses to cope or 'did nothing specific'.

Figure 95: Coping mechanisms of Tanzanian adults faced with unforeseen expenses, 2013

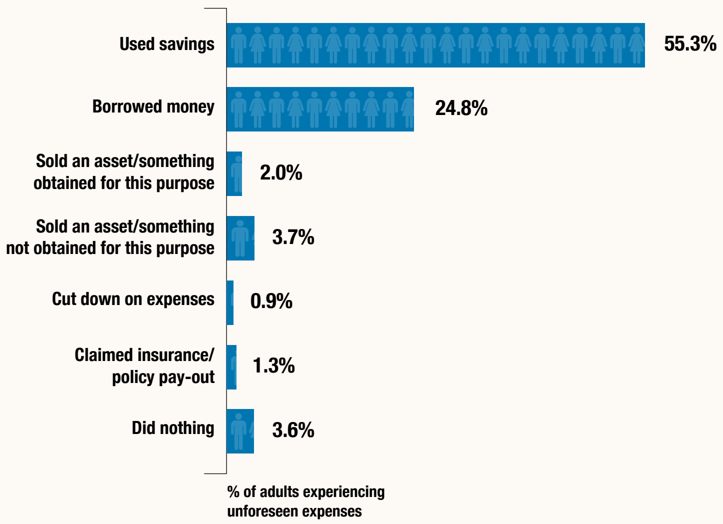
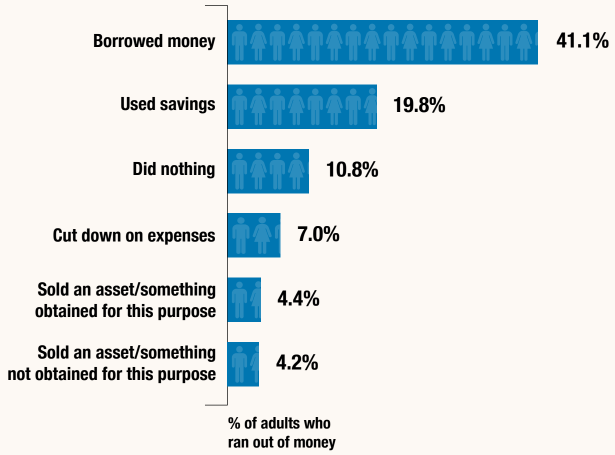


Figure 96: Coping mechanisms of Tanzanian adults running out of money for household use[19] , 2013



[19] The questionnaire referred to "running out of money for household use". This does not include running out of all money that may have been saved, or in the form of assets that could be monetized

10. Conclusions And Cross-Country Comparisons

10.

Findings of the FinScope Tanzania 2013 survey indicated that the financial landscape in Tanzania had changed significantly since 2009. Although the banking and insurance sectors played significant roles in increasing financial inclusion, the uptake of mobile money services was the most significant driver of increased financial inclusion.

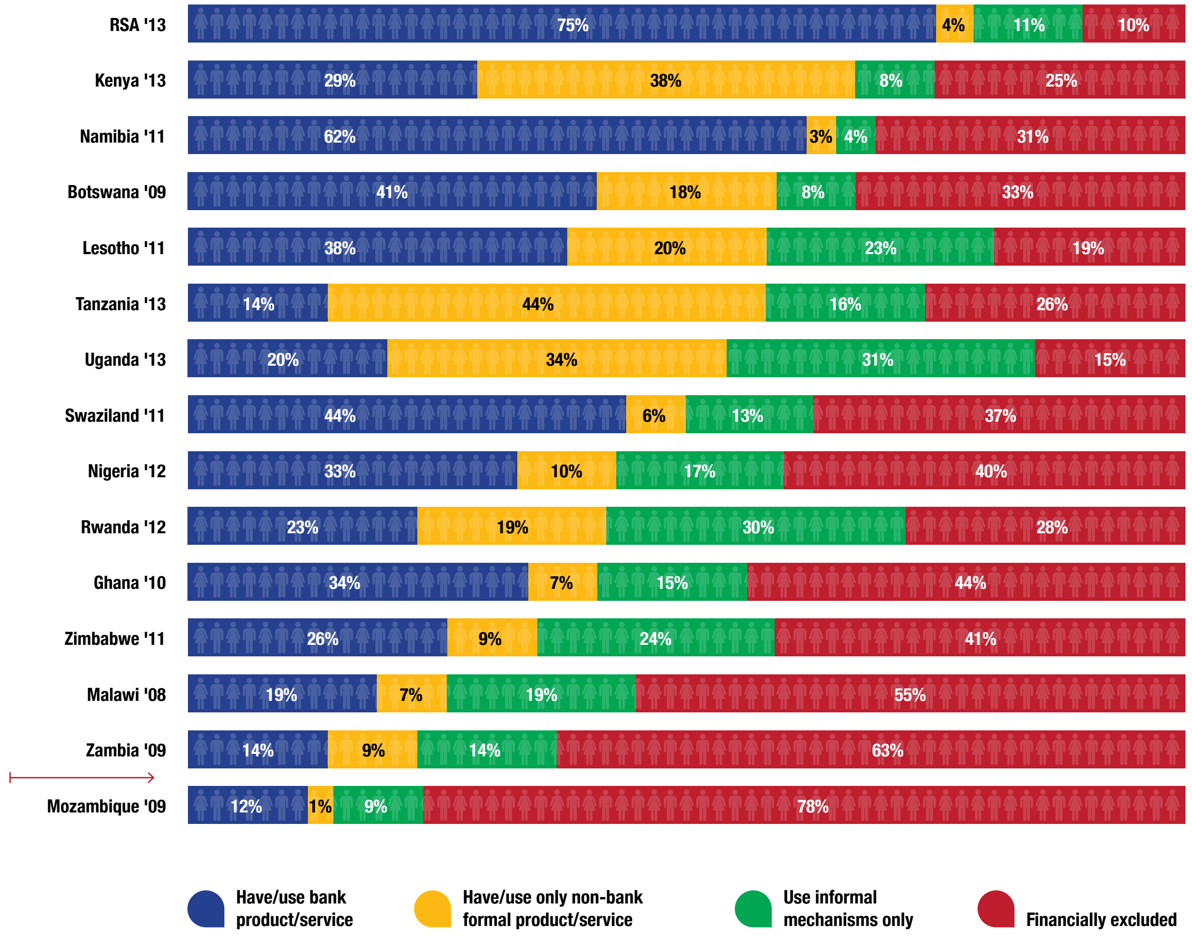
With 49.0% of users being rural-based and 61.9% falling into the two lowest categories of the wealth-index, mobile money services seemed to have provided formal financial services to Tanzanians who most likely would not otherwise have used the formal sector.

Exploring actual usage of mobile money services, FinScope 2013 revealed that mobile money services were used by 33.1% (8 million) adults to send and/or receive money during 2013 and 9.9% (2.4 million) of adults used these services for non-remittance transactions such as paying bills, school fees, business transactions and purchasing goods or services. The significance of mobile money services in terms of financial inclusion was further emphasized by FinScope findings indicating that:

- Mobile money services provided transactional facilities to almost four times as many people as banks did (49.0% used money compared with 12.8% who used banks), whilst
- Almost ten times as many adults used mobile money for non-remittance transactions to buy goods/services as did those who used banks (9.9% of adults conducted via mobile money compared with 0.1% of adults used bank accounts/cards/cheques)
- Over eight times as many adults sent and/or received money using mobile money services as did those who used banks (33.1% compared with 4.0%)
- In terms of financial inclusion, mobile money served as the most significant facility for savings - 25.6% of adults (6.2 million) used mobile money services to save or store money, which compared with 14.8% of savers who used bank savings facilities and 4.0% who used savings facilities provided by MFIs/SACCOS.

Comparing the Tanzanian Financial Access Strand with that of other countries where FinScope surveys have been conducted, illustrated the significant progress Tanzania has made since 2009 (Figure 97).

Figure 97: Cross-country comparison of Financial Access Strands: countries where FinScope surveys have been conducted



2009 charts have been recalculated using the definitions of the 2013 Access Strands.

FinScope 2013 findings indicated that 10.4 million Tanzania adults were not formally served and the barriers they faced were likely to prohibit new opportunities for formal financial inclusion in the short term:

- Most Tanzanian adults who were not served by the formal financial sector perceived proximity to formal service providers and/or eligibility to take up of the products and services on offer as the main barriers to financial inclusion
- Strict enforcement of KYC requirements would have a negative impact on the potential increase of the proportion of Tanzanian adults opening accounts with formal financial institutions
- One of the key barriers to uptake of formal financial products and services was consumers' lack of awareness or understanding of how the uptake and usage of financial products would improve their lives.

Further efforts to increase formal financial inclusion in Tanzania will therefore face significant challenges.

ANNEX A | Changes in definitions used in Finscope 2009 – 2013

2006 / 2009

Classification	Highest level of usage
Formal	Commercial banks Postbank Insurance
Semi-formal	SACCOS MFIs Remittance companies Mobile money
Informal only	Savings / credit groups Shops / supply chain credit Money lenders Friends / Family
Excluded	Save at home / in kind

AGE GROUP: Adults - individuals 16 years or older

2013

Classification		Highest level of usage
FORMAL	Banked	Commercial banks Postbank
FORMAL	Non-bank formal	Insurance SACCOS MFIs Remittance companies Mobile money
	Informal only (external)	Savings / credit groups Shops / supply chain credit Money lenders
	Excluded	Friends / family Save at home / in kind

AGE GROUP: Adults - individuals 16 years or older

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ABOUT FSDT

The Financial Sector Deepening Trust (FSDT) has funded all three FinScope Tanzania surveys: 2006, 2009 and now 2013. The FSDT's purpose is to achieve improved capacity and sustainability of the financial sector to meet the needs of MSMEs and poor men and women. This should contribute to overall economic growth. The FSDT has contributed to the changes seen in the latest FinScope Tanzania survey by supporting interventions across macro, meso and micro levels of the financial sector.

The FSDT was established in 2004. It is currently funded by five development partners: DFATD-Canada, DANIDA, SIDA, DFID and Bill and Melinda Gates Foundation. For more information on the FSDT, please see our website on **www.fsdt.or.tz**

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