



FinScope
TANZANIA

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17

**ZANZIBAR
REPORT**

INSIGHTS THAT
DRIVE

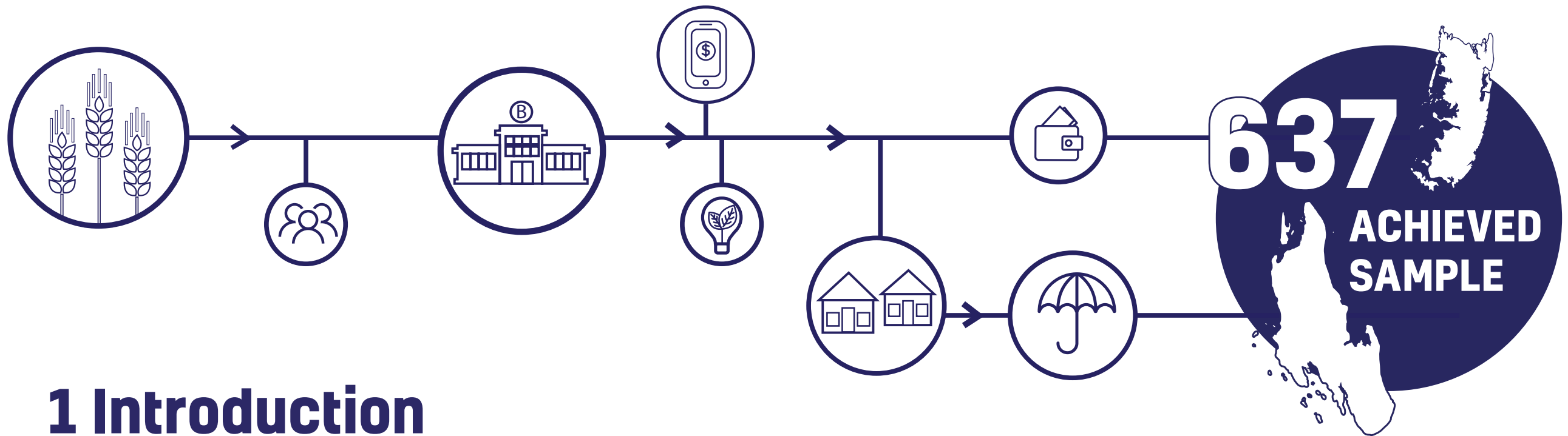
INNOVATION

ACKNOWLEDGEMENTS

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1 Introduction

In 2014, the National Financial Inclusion Framework (NFIF) set the stage for a national financial inclusion vision with goals for concrete improvements in the lives of all Tanzanians through improved access and use of financial services. The framework galvanized all relevant stakeholders in financial services under one common vision of success and provided strategic direction for all initiatives for financial inclusion in the country.

The NFIF is a Public Private Partnership (PPP) that used FinScope Tanzania 2013, a nationally and regionally-representative demand-side survey, to obtain baseline values and set targets for the future of Tanzania’s financial inclusion agenda. Using the survey’s data, key players in financial services set objectives for growth in financial inclusion and implemented innovative policy, product and service development strategies.

In order to assess the development of the market, the Financial Sector Deepening Trust (FSDT), in partnership with the Bank of Tanzania (BoT), Ministry of Finance and Planning (MoF), the National Bureau of Statistics (NBS), Office of Chief Government Statistician Zanzibar (OCGS), financial services providers and other private sector players and nongovernmental organisations, engaged in the rigorous design, data collection, and analysis of FinScope Tanzania 2017.

FinScope Tanzania presents a comprehensive understanding of the financial services landscape across the country, a measure for demand and usage of financial services by population segments and insights into the barriers to financial inclusion.

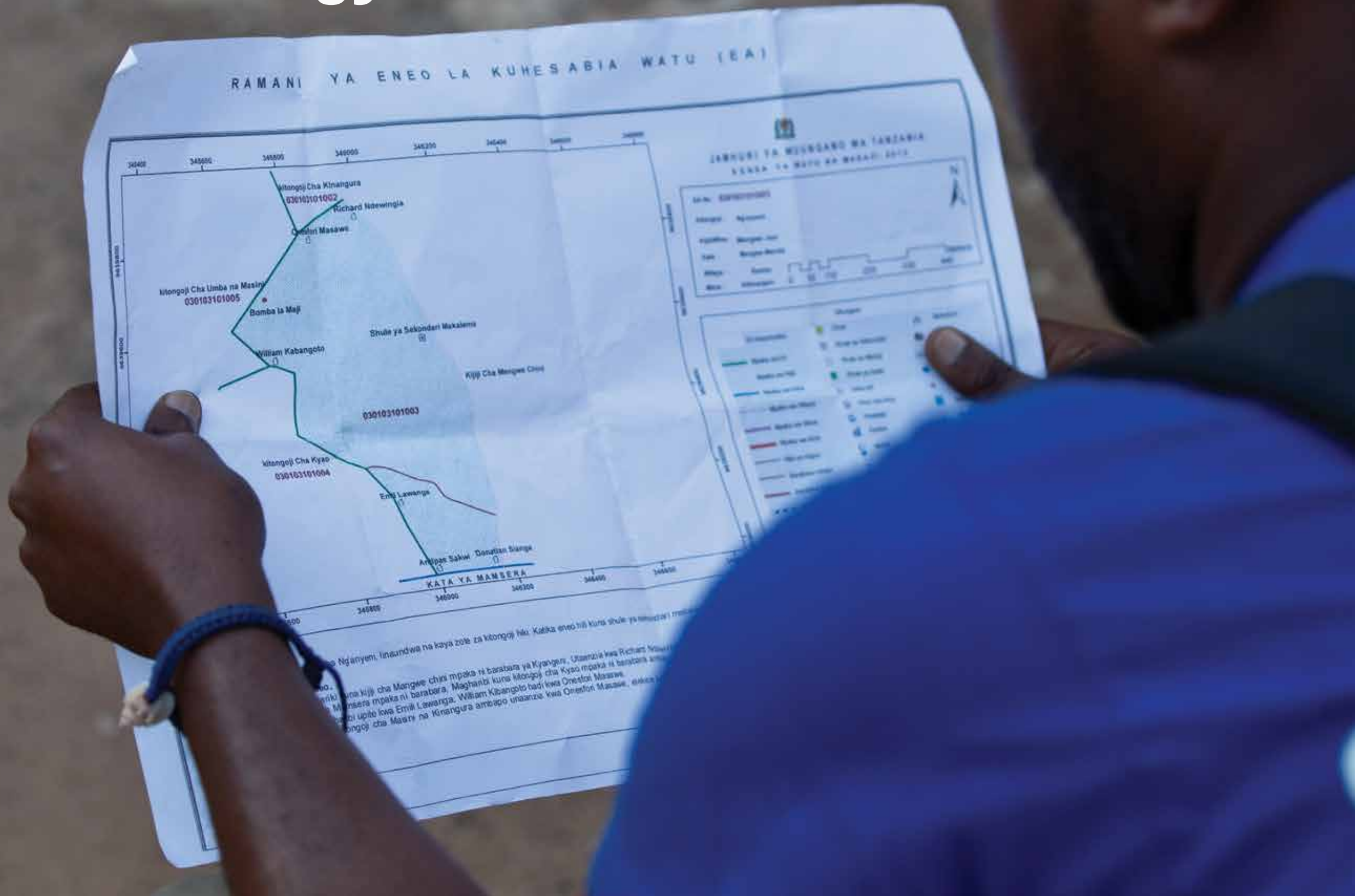
The survey has five main objectives:

- To understand the behaviour (cash flow management, investing, saving etc.) and define the financial service needs of consumers (individuals, farmers and business owners)
- To establish credible benchmarks and measure the effectiveness of financial inclusion
- To provide insights into policy, regulatory and market obstacles to access and usage of financial services
- To provide insights which will feed into innovation within the financial and real sectors
- To highlight opportunities for policy review needed to drive financial sector development

FinScope Tanzania 2017 is the fourth wave in the FinScope Tanzania series with previous waves in 2006, 2009 and 2013. FinScope Tanzania reports have been made available on the key partners’ websites (MoF, BoT, NBS and FSDT). FinScope Tanzania surveys are implemented under the guidance of a steering committee which consists of core implementation partners, financial sector regulators, financial institutions, researchers and academics as well as economic sector stakeholders, whose mandate and operations impact on financial sector development in Tanzania.

To ensure a more targeted approach towards financial inclusion hurdles across Tanzania, FinScope Tanzania 2017 has set out to not only report its result on a national level, but also within selected areas in Tanzania, Zanzibar being one of them. The report presented here deliberates on findings that focus on Zanzibar.

2 Methodology



The FinScope Tanzania 2017 survey is representative of individuals aged 16 years or older, living in Tanzania. According to the National Bureau of Statistics (www.nbs.go.tz), the size of the Tanzanian adult population (16 years and above) is currently estimated at 27,864,302 (54%) people out of the 51,598,357 projected total population. This survey considers an adult to be any Tanzanian who is 16 years or older at the time when the survey was implemented. FinScope Tanzania 2017 mapped all financial service access points found in all the EAs (Enumeration Areas) in urban areas and within a radius of 5 kilometres (km) in rural areas. The purpose was to complement the quality of information generated by the FinScope Tanzania study.

FinScope Tanzania 2017 data analysis was complemented by qualitative analysis which used information from focus group discussions and in-depth interviews in both Unguja and Pemba. The interviews involved financial service providers and users including banks (PBZ, NMB and Postal Bank) insurance companies and regulators (ZIC and TIRA), SACCOs (GESACCOS and Muwape SACCOs), community groups (UWAZI and Gando Entrepreneurship Program), mobile money service providers (Zantel), tourism businesses (ZATO and ZATI), Zanzibar Freight Forwarders Bureau, and government institutions (ZRB, TRA, ZECO and ZAWA). The aim of this qualitative research was to obtain a deeper understanding of the drivers and blockers of financial inclusion in Zanzibar and to clarify on financial inclusion challenges noted in the previous quantitative analysis of FinScope Tanzania 2017 Zanzibar data.

2A SAMPLING DESIGN

A multi-stage stratified sampling approach was used to achieve a representative sample of individuals aged 16 years and older. The sample frame was based on the 2012 Tanzania Population and Housing Census. The various stages of the selection of the sample are discussed below.

The goal of the sampling was to give every person who is 16 years or older an equal and known chance of selection for interview purposes. This objective was reached by (a) strictly applying random selections at every stage of sampling and (b) applying sampling with probability proportionate to population size (PPS) at the Enumeration Area (EA)¹ sampling stage.

The survey excluded anyone who was not 16 years or older on the day of the survey. The FinScope Tanzania approach selected this minimum age because it is considered the age at which people start engaging in income-generating activities. The approach adopted that of NBS, to exclude households or individuals residing in institutionalised settings, such as students in dormitories and persons in prisons, army barracks or nursing homes.

1 An EA is the smallest geographical unit usually allocated to a single enumerator during census enumeration. In other words, it constituted a small piece of land for an enumerator to cover in order to administer a questionnaire during a census survey. An EA, according to the last census is, on average, a cluster of 86 households

FinScope Tanzania 2017 survey sampling was conducted in three stages:

- in the first stage EAs were sampled randomly from specified strata using a PPS approach,
- a sampling method which takes into account differences in sample sizes across the strata and helps to avoid underrepresentation of one subgroup in a study and hence yields more accurate results;
- in the second stage households were sampled randomly from a list of all the households in a sampled EA;
- and in the third stage one adult household member (i.e. the intended respondent) was selected at random from the adult household roster.

As was the case with previous FinScope Tanzania surveys, the sampling design was done by NBS in consultation with the Technical Committee².

Unlike previous FinScope Tanzania surveys, this wave did not provide for a replacement strategy of households or individuals who were unable to participate in the survey. The main reasons for non-participation were language barriers and travel.

Results from the survey can be disaggregated by main economic activity (here defined by the main source of income, such as farming and/or small business activities) as well demographics (e.g. gender, age), location (rural or urban) and the socio-economic status of adults. The scope for FinScope Tanzania 2017 has been expanded to allow results to be representative at regional level in Zanzibar – Mjini Magharibi, Kaskazini Pemba, Kusini Pemba, Kaskazini Unguja, and Kusini Unguja. To achieve this aim, respondents were over-sampled within these five regions. The analysis on regional level allows us to gain a deeper understanding of the state of financial inclusion in Zanzibar, considering each region's peculiarities as far as economic activities and demographics are concerned.

2 The Technical Committee had representatives from MoF, BoT, NBS, FSOT and Yakini Development Consulting (the survey's technical advisor).

2B KEY SAMPLING STATISTICS - NATIONAL

Targeted EAs: 1,000 Enumeration Areas, 10 Interviews per EA

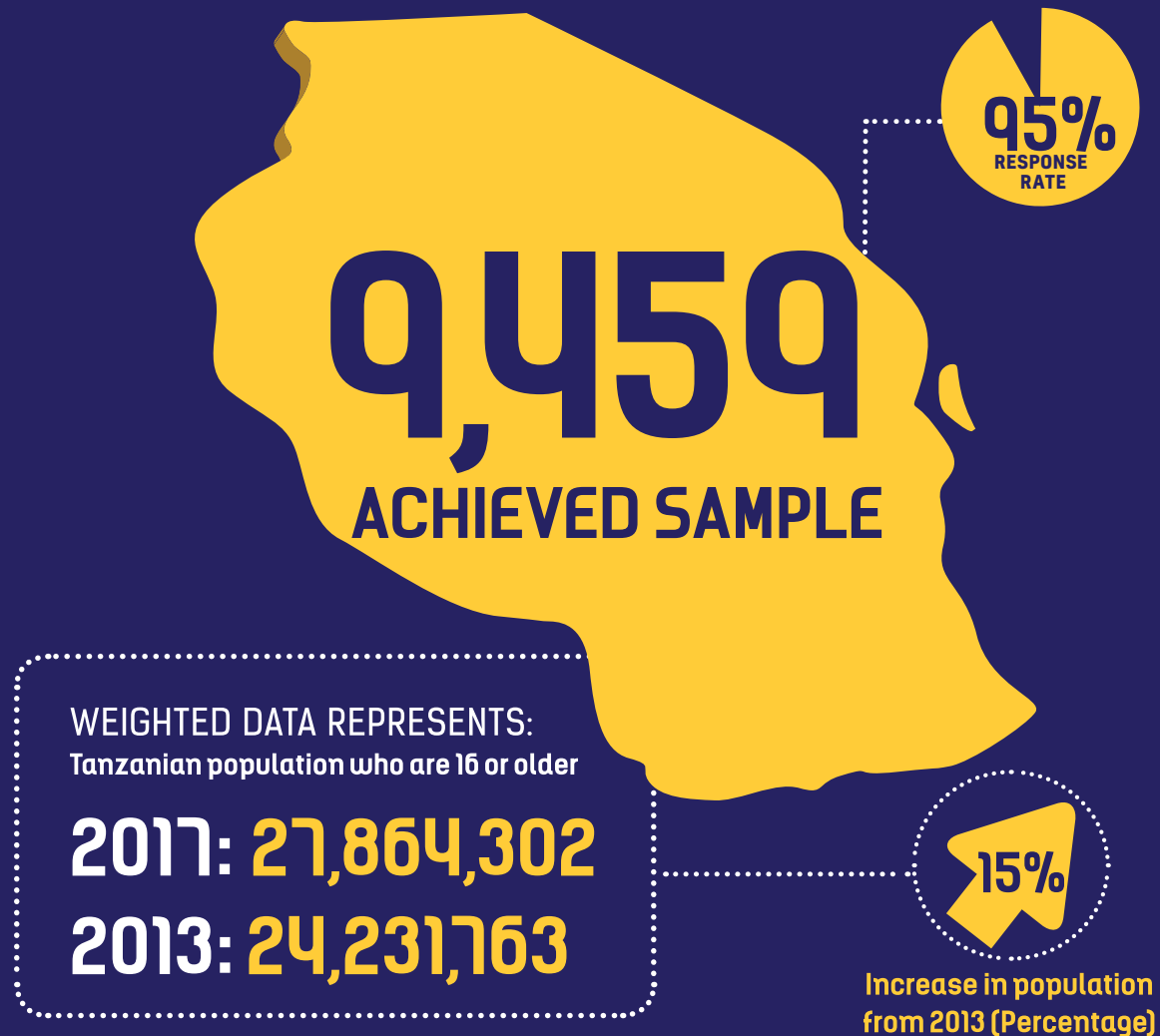
Achieved EAs: 998 EAs

Targeted Sample: 10,000 Respondents

Margin of error: Maximum 5%³

Confidence Interval: 95%⁴

Data collection period: April to July 2017



³ Margin of error: Depends on the level of disaggregation of data and hence the sample utilised within a certain question. The margin of error is usually defined as the "radius" (or half the width) of a confidence interval for a particular statistic from a survey. In other words, the 'true' population value may vary not more than this percentage.

2B KEY SAMPLING STATISTICS - ZANZIBAR

Targeted EAs: 66 Enumeration Areas, 10 Interviews per EA

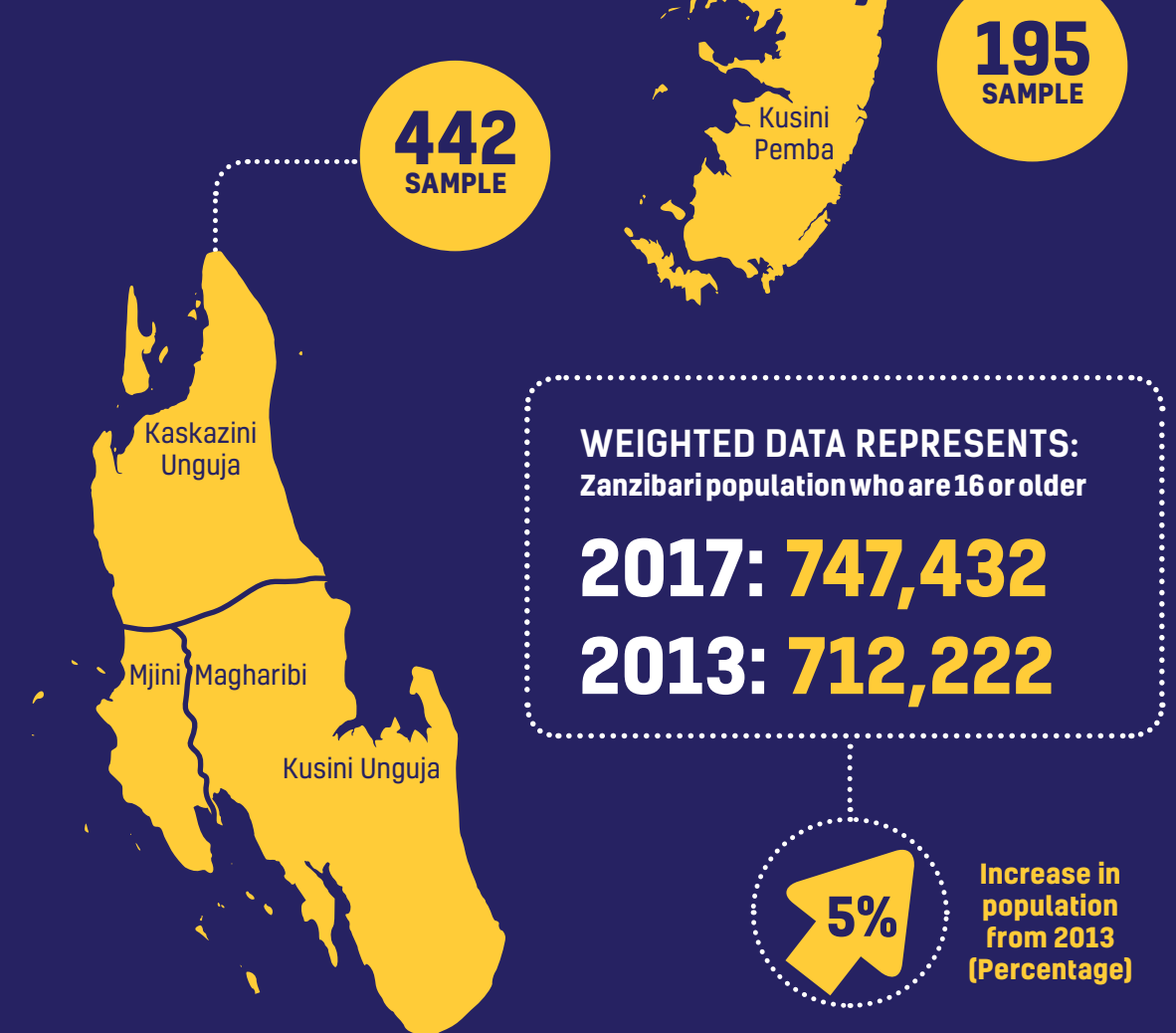
Achieved EAs: 66 EAs

Targeted Sample: 660 Respondents

Margin of error: Maximum 5%³

Confidence Interval: 95%⁴

Data collection period: April to July 2017



⁴ Confidence Interval: A 95% confidence interval has a 0.95 probability of containing the population mean. 95% of the population distribution is contained in the confidence interval.

3 Findings/Results

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3A. DEMOGRAPHICS

This section of the report describes the characteristics of the respondents interviewed for FinScope Tanzania 2017. This demographic analysis presents differences in residence, age, education attainment, main economic activities and income distribution among social groups.

The demographic characteristics of the sample presented in the report are based on 2017 population projection weights provided and approved by the National Bureau of Statistics

Survey Demographics

Proportionate to the population distribution, results presented in Charts 1 and slightly more than half (55%) of Zanzibaris reside in rural Zanzibar and there are slightly more women (52%). Mjini Magharibi has more people (83%) in urban areas as compared to other regions where more than 80% live in rural areas.

Chart 1: **Setting:**
Rural-Urban Split

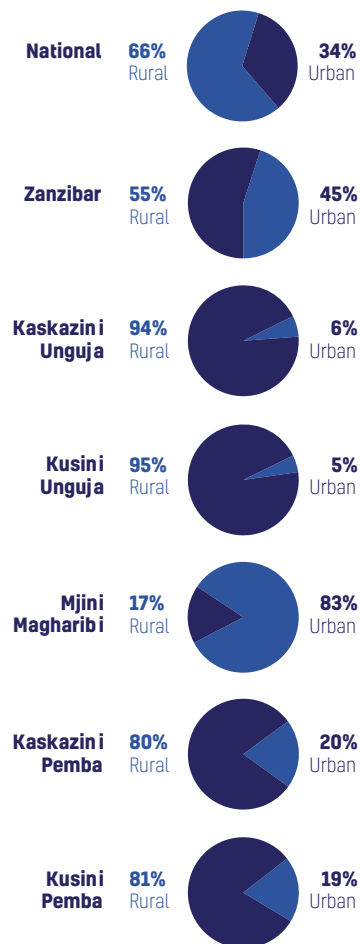
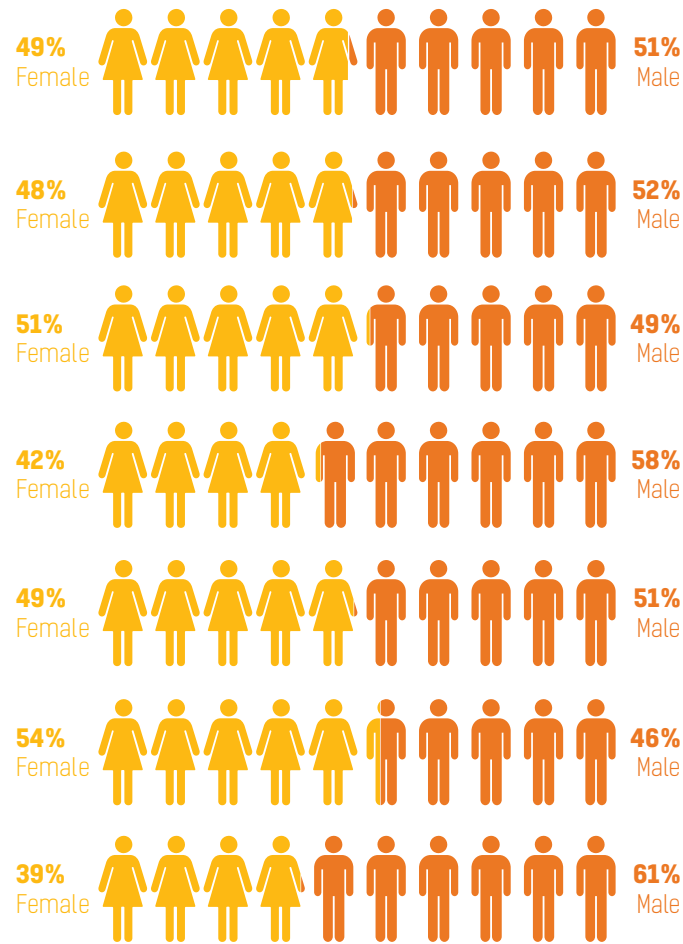


Chart 2: **Gender:**
Male-Female Split



Source: FinScope Tanzania 2017 April-July

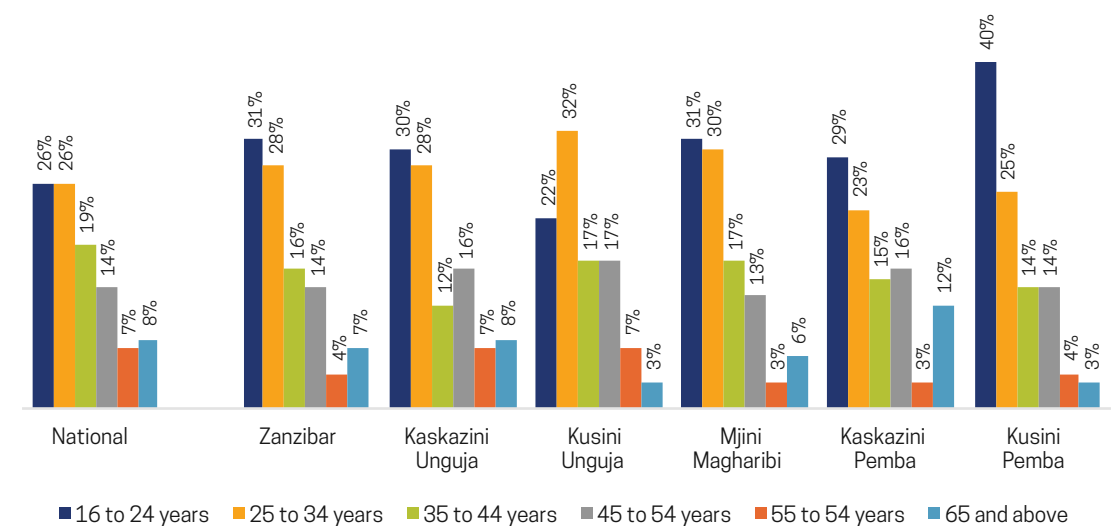
FACT 1

Almost 4 in 10 Zanzibaris are either below 25 or above 54 and hence in less economically active age groups



The survey revealed that 16 to 24 year olds are mainly dependent and reliant on others to cover their expenses (38%), another 35% of them receive remittances from someone else or are involved in casual work (34%) which does not offer them a consistent source of income. There are also high levels of dependency among adults aged 65 years and above, where the majority (55%) depend on others to pay for their expenses.

Chart 3: **Age Distribution**



Source: FinScope Tanzania 2017 April-July

FACT 2

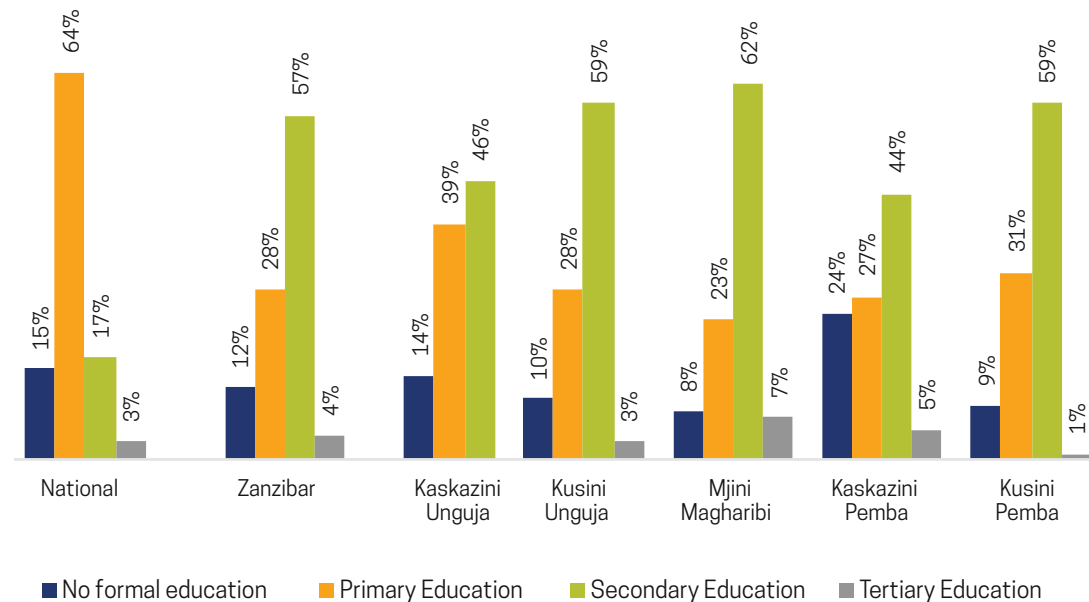
About 6 in 10

adults in Zanzibar have attended secondary school



The majority of the adult population in Zanzibar (88%) have received some form of formal education which is similar to the national average (85%). However, significantly more Zanzibaris have attained education beyond primary school (61%) compared to the national average of 20% (Chart 4). Overall, the formal education attainment by 88% of the population indicates significant progress towards reaching the 90% target by 2015, as per MKUZA II. However, despite higher levels of education attainment in Zanzibar, financial services uptake remains low compared to national average (Chart 23a). Although higher levels of education generally seem to drive levels of financial inclusion, in Zanzibar other factors appear to influence these trends.

Chart 4: Highest Level of Education



Source: FinScope Tanzania 2017 April-July

FACT 3

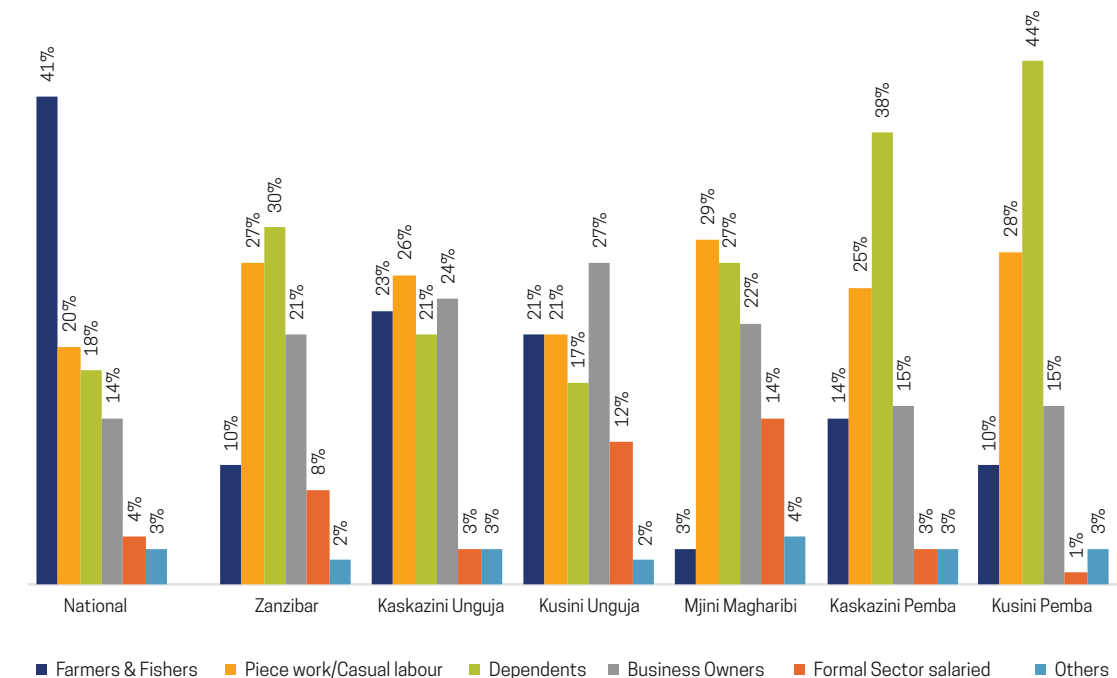
3 in 10 ADULT

Zanzibaris depend on others for income and to meet their daily expenses



Apart from high levels of dependency, which are mainly driven by the younger population of 16 to 24-year olds (47%) and women (84%), slightly more than a quarter of Zanzibaris (27%) consider piece work or casual labour as their main source of income and another 2 in 10 are sole proprietors. The predominance of casual or seasonal jobs may be explained by the tourism sector that is the leading provider of employment in Zanzibar. Most jobs in this sector such as tour guiding, handicrafts, hotel services, etc. are seasonal. Other dominant income-generating activities include trade of non-agricultural products (11%), farming (10%), salaries (10%) and service provision (8%). 74% of adults in Zanzibar depend on only one source of income, while the rest have more than one source.

Chart 5: Main Income-Generating Activity



Source: FinScope Tanzania 2017 April-July

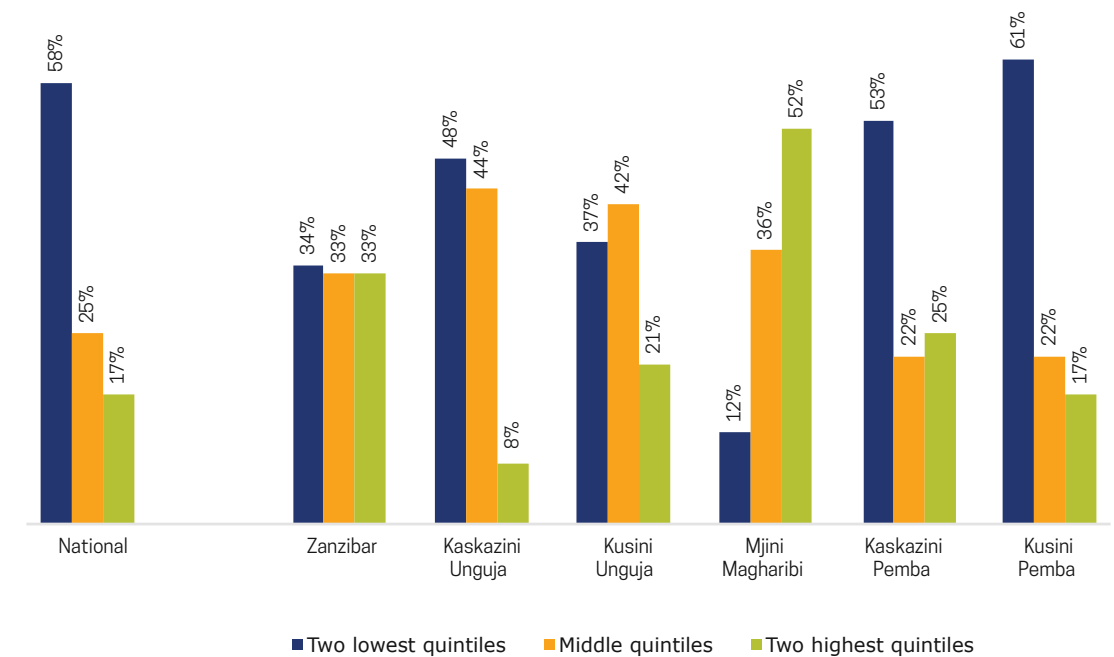


FACT 4

83% of those who fall under the two lowest quintiles are in rural areas

Generally, there is a more equitable distribution of wealth in Zanzibar than the Mainland. Nearly one third of Zanzibaris falls within the two lowest quintiles. However, proportionately, the greater population within two lowest quintiles in Zanzibar are in the Pemba regions. Generally, there is a more equitable distribution of wealth in Zanzibar than the Mainland. Nearly one third of Zanzibaris fall within the two lowest quintiles. However, in Pemba the wealth distribution is clearly skewed towards the lowest two quintiles with more than half of the population falling in the two lowest quintiles.

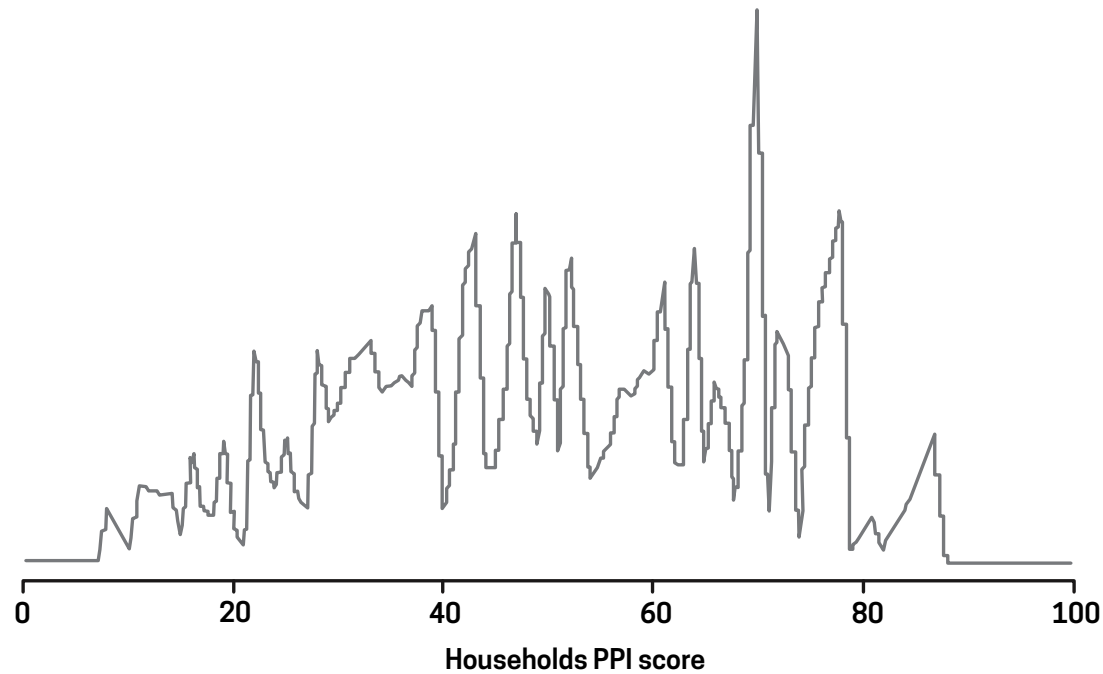
Chart 7: **Wealth Index Distribution (PPI)**



Source: FinScope Tanzania 2017 April-July

In order to offer tailor-made financial services in Zanzibar, it is important to understand the profiles of the individuals. To assess the wealth status, FinScope Tanzania 2017 used the Progress out of Poverty Index (PPI). The PPI is a statistically sound, simple, and country-specific calibrated index (based on the 2011/2012 household budget survey). The index uses scores given to answers on 10 questions about a household's characteristics. Using the PPI scores, households can be classified according to different wealth levels.

Chart 8: PPI Distribution



The PPI scores are then divided into 5 buckets in which each household will be clearly defined in one bucket:

- First Quintile (0-20)
- Second Quintile (21-40)
- Third Quintile (41-60)
- Fourth Quintile (61-80)
- Fifth Quintile (81-100)

The first and last intervals generated show small samples and hence have been combined as follows:

- Intervals 1 and 2 are combined to two lowest quintiles
- Intervals 3 and 4 are combined to two highest quintiles

It is important to note that by dividing the PPI score in five equal levels, the wealth levels shown here provide an indication of relative wealth within the sampled population, while measures of absolute wealth, such as poverty lines, anchor sample populations' poverty to a universal standard.

34% of Zanzibaris fall within the "two lowest quintiles" with **83%** (THE MAJORITY) coming from rural areas

■ Rural ■ Urban

The finding that 34% of the population is within the "two lowest PPI quintiles" is, in one way, an indication of the proportion of the population leaning towards poverty. Compared with a benchmark of 49% of basic needs poverty in 2005 and the target of 25% in 2015 as per MKUZA II, it can be seen that there has been significant progress towards poverty reduction in Zanzibar. However, since most of those who are in the two lowest quintiles are the most financially excluded may undermine efforts towards poverty reduction in the future, considering that access to finance is a core enabler to drive economic activities

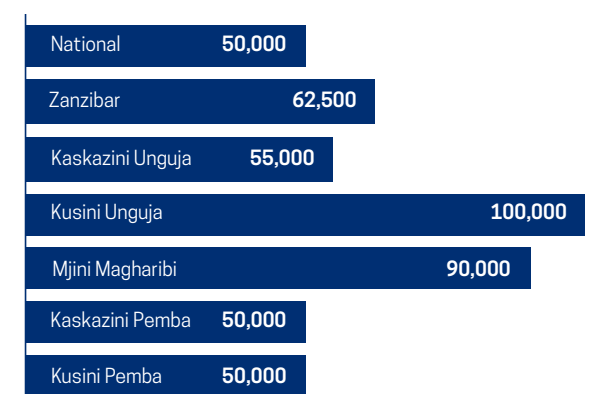
Based on the respondents' self-reported income, the table below displays monthly income in TZS as well as daily income in USD. While comparing mean income values with median (middle values) income values, it becomes evident that income varies greatly within the quintiles and hence the median value provides a better projection of the reported income level for each of the respective quintiles.

PPI quintiles	Tanzania Shillings per month		US Dollars per day	
	Mean	Middle value (Median)	Mean	Middle value (Median)
Two lowest quintiles	18,042	50,000	0.3	0.8
Middle quintiles	228,370	90,000	3.5	1.4
Two highest quintiles	475,794	130,000	7.2	2.0

Source: FinScope Tanzania 2017 April-July

Median incomes in Zanzibar are slightly above the national average with Kusini Unguja and Mjini Magharibi pushing the needle.

Chart 9: Median Monthly Income (Middle value) in Tsh



Source: FinScope Tanzania 2017 April-July

Addressability

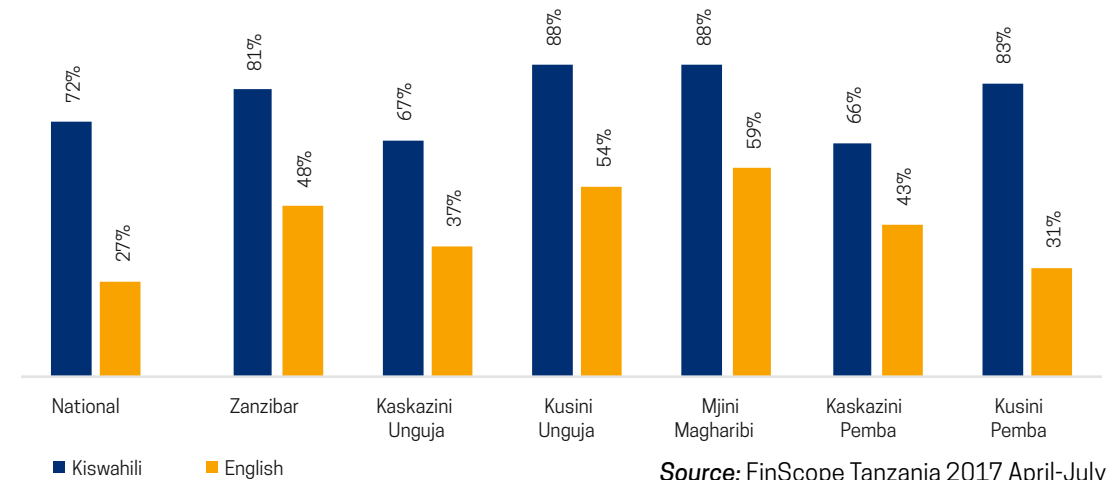


3B. ADDRESSABILITY: Can adult Zanzibaris be served by financial service providers?

For adults in Zanzibar to be served by financial service providers, certain eligibility criteria need to be met. This section looks at consumers' literacy and numeracy skills, proximity to financial service providers, assets ownership and Know-Your-Customer (KYC) requirements.

KISWAHILI LANGUAGE OF THE CONSUMER

Chart 10: Numeracy Levels



Source: FinScope Tanzania 2017 April-July

LITERACY ASSESSMENT BASED ON TEST ADMINISTERED:

LITERACY QUESTION 1: this may sound very basic to you, but this is just a routine question for us and I will appreciate your cooperation. Please read each question on this card out loud to me and write the answer to each (Interviewer Instructions: Use Showcard)

SENTENCE DISPLAYED: Unapenda chakula gani? Andika Jibu: _____

LITERACY QUESTION 2: Now let us do the same for English. (Interviewer Instruction: Use Showcard)

SENTENCE DISPLAYED: Do you have a dog? Write Answer: _____

Source: FinScope Tanzania 2017 April-July

In order to serve the majority of the population, financial service providers need to know which language consumers are comfortable with. In line with that, the survey presented the respondents with basic English and Kiswahili questions to read and respond to in writing. As can be seen in Chart 10, the results reveal that most individuals in Zanzibar are more literate in Kiswahili than English. However, English literacy is higher in Zanzibar than the national

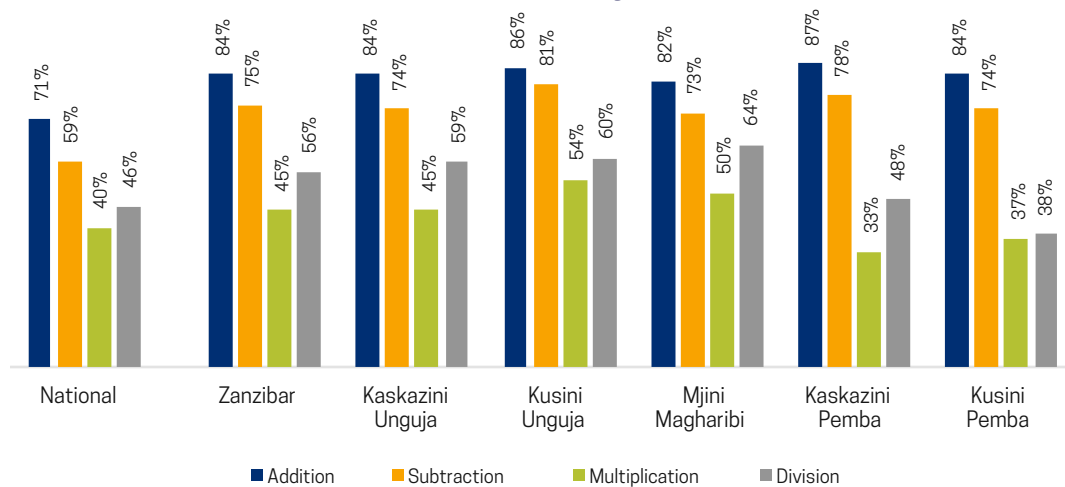
average where almost 63% can neither read nor write in English. Higher English literacy levels in Zanzibar are driven by higher post-primary education attainment and interaction with foreign tourists.

Furthermore, most adults in Zanzibar are comfortable with addition, subtraction and division, while they have difficulties in multiplication. Comparatively, numeracy skills are higher in Zanzibar than the Mainland (see Chart 10 below)

FACT 1

Adults in Zanzibar can add and subtract but **few can divide and multiply**

Chart 11: Numeracy Levels



Source: FinScope Tanzania 2017 April-July

NUMERACY ASSESSMENT BASED ON TEST ADMINISTERED:

Numeracy Question 1: A person spent TZS 13,000 to buy food one day but only TZS 8,000 the next day. How much did they spend to buy food over the two days?

Numeracy Question 2: A person has TZS 50,000 in cash and spends TZS 13,000 on food and TZS 8,000 on clothing. How much money is remaining?

Numeracy Question 3: 20 people each won a prize of TZS 35,000. What was the total amount of money received by the 20 people?

Numeracy Question 4: A prize of TZS 180,000 is shared equally between six people. How much will each person receive?

Source: FinScope Tanzania 2017 April-July



FACT 2

Only 3 in 10

of adults in Zanzibar own the land they live on while only 46% have a respective Title Deed

Chart 12: Ownership of land they live on

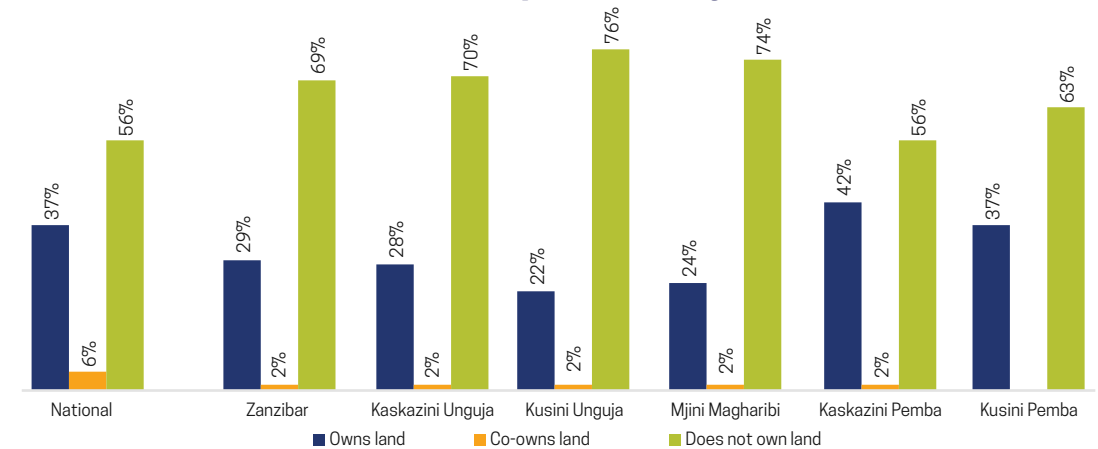
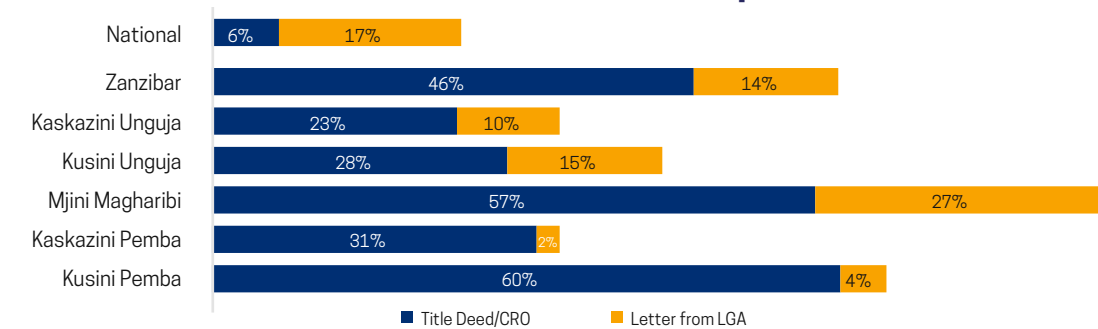


Chart 13: Proof of Ownership



Source: FinScope Tanzania 2017 April-July

Asset ownership is key to accessing both long and short-term credit from the majority of formal financial service providers. In order to assess whether adults in Zanzibar own assets and have a proof of ownership of those assets, we asked respondents if they owned the piece of land they live on. About 29% of adults in Zanzibar own the land they live on in sole ownership. While about 42% of men in Zanzibar are sole owners of the piece of land they live on, less than a fifth of women in Zanzibar own the land they live on. Considering that there is limited access among women to productive resources, including land, as well as low levels of participation in economic activities, women have limited pathways towards formal credit. MKUZA II gives focus to access to secure agricultural land tenure and women's access to productive resources including land, income and credit. As of 2017 only few women in Zanzibar were able to access these.

FACT 3

BASIC ID (IDENTIFICATION) is not a major barrier to accessing financial services in Zanzibar

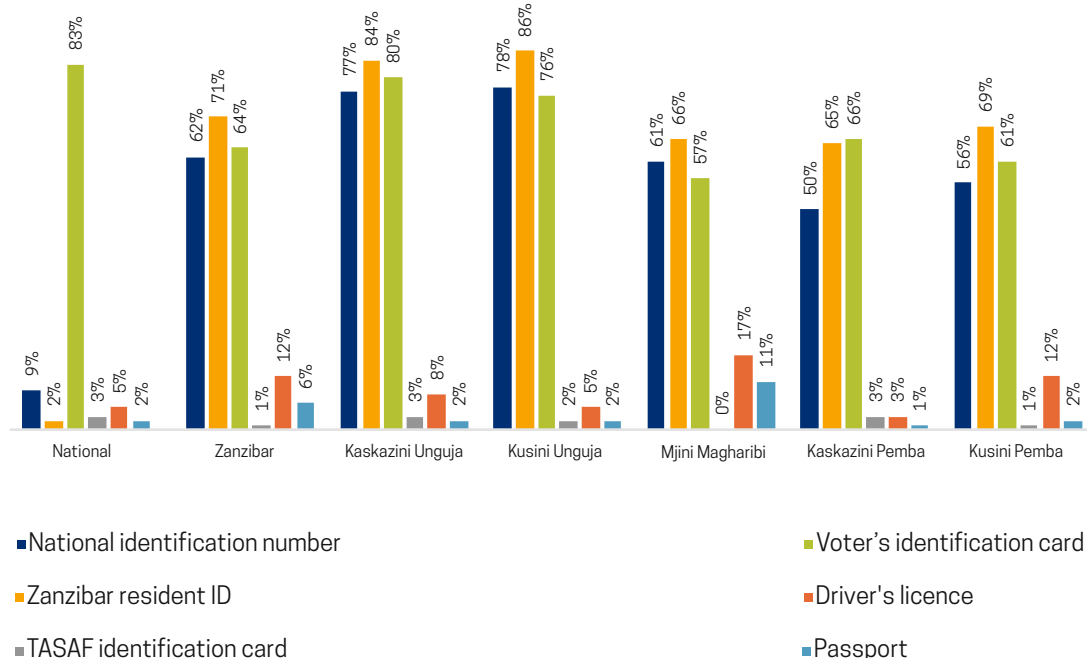


FACT 4

73% of adult Zanzibaris own a mobile phone



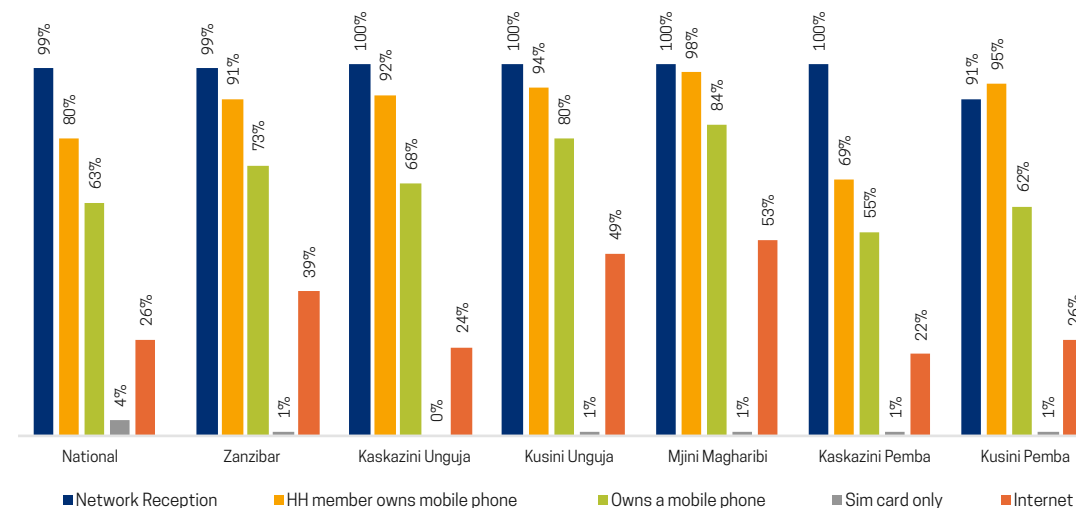
Chart 14: Form of Identification



Source: FinScope Tanzania 2017 April-July

All formal financial service providers require their customers to have a recognised form of identification. FinScope Tanzania 2017 sought to identify the form of identification that the majority of respondents possessed, and the results show that the majority (71%) have a Zanzibar residence card followed by a voter ID card (64%).

Chart 15: Communication Networks



Source: FinScope Tanzania 2017 April-July

Findings from FinScope Tanzania 2017 indicate that one of the main drivers of access to financial services in Tanzania has been the take-up of digital financial services, which correlates with the ownership of mobile phones, though it does not depend entirely on this, as even some current mobile money users (23%) utilize other people's wallets or access mobile financial services through an agent.

A key factor in phone ownership is living in an area with network reception. Mobile phones were used during data collection to assess network receipt in all the enumeration areas visited. 100% of the enumeration areas in Zanzibar were found to have network reception.

About 91% of the respondents live in households with a mobile phone.

Given the difficulty of accessing mobile financial services through a phone owned by someone else, respondents were asked if they themselves owned a phone. 73% of adult Zanzibaris own a phone, while 1% have a SIM card which they insert in other people's phones. Groups which are less likely to own a phone or a SIM card include adults from poor households, people living in rural areas, young people and farmers

FACT 5

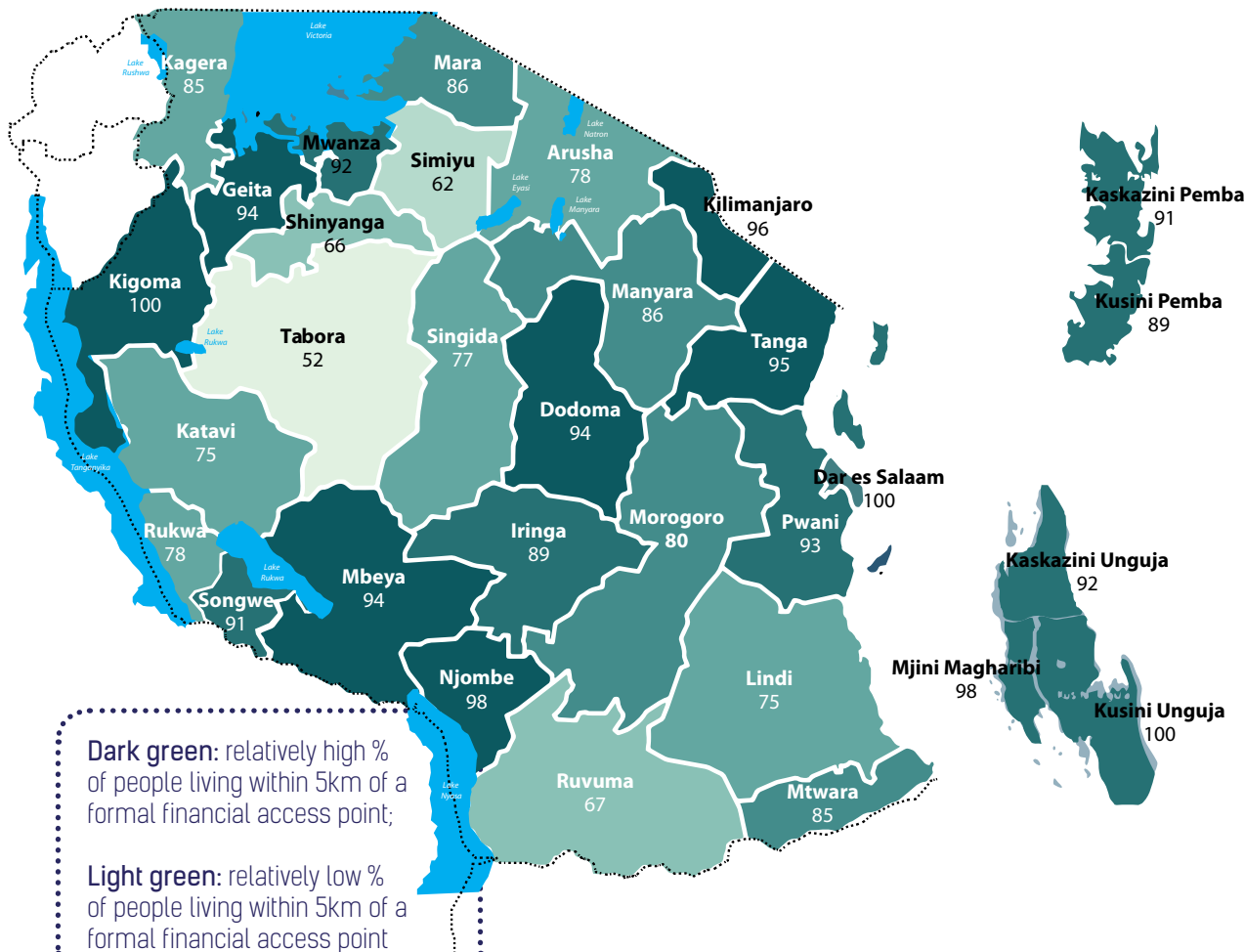
95%

of adult Zanzibaris live within a 5km radius of a formal financial access point.

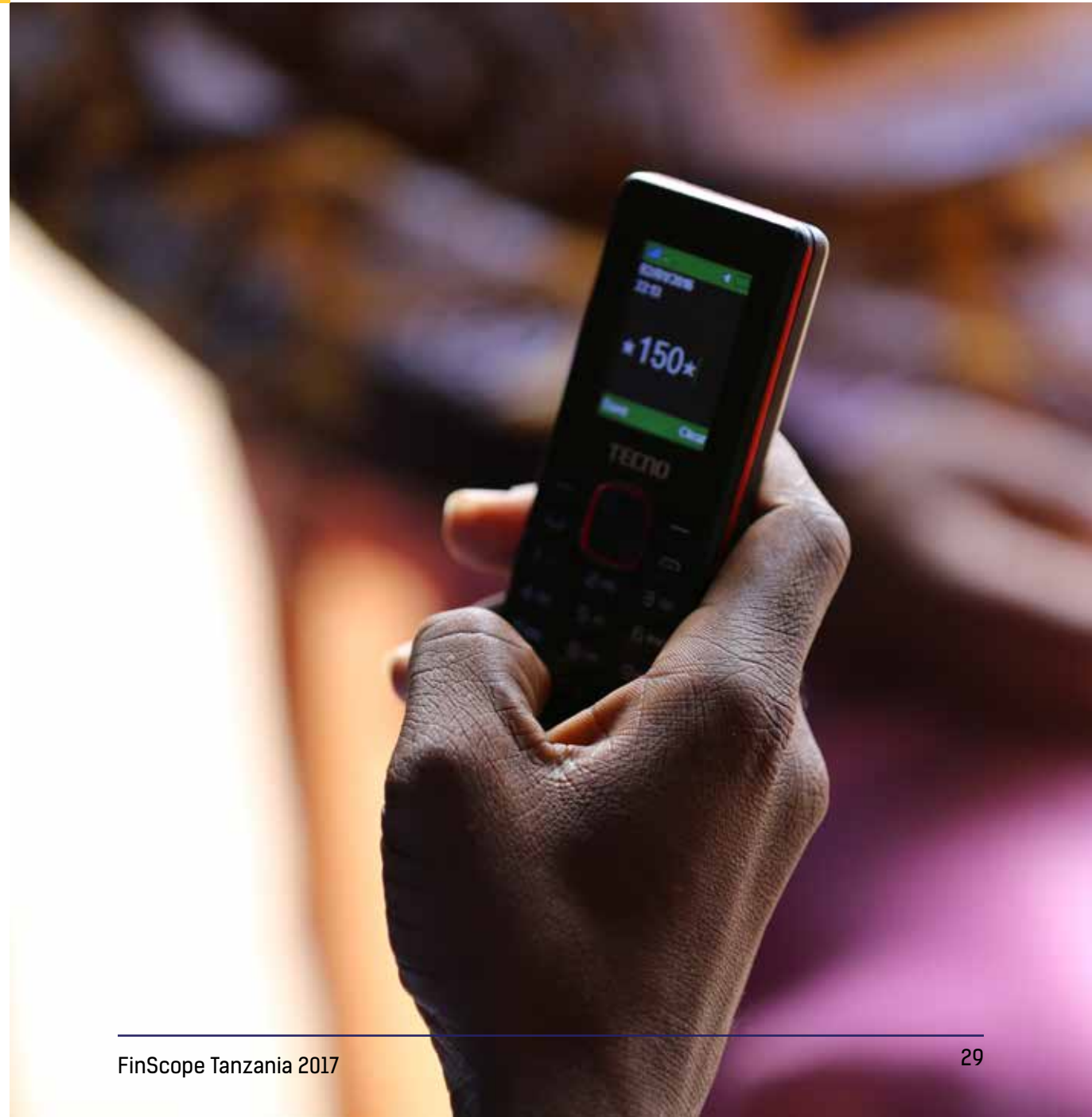


FinScope Tanzania mapped all financial service providers in the randomly selected enumeration areas (EAs) and those which are in a 5km radius in rural areas. FinScope Tanzania 2017 results show that Zanzibar is well covered with financial access points and 95% of Zanzibaris live within a 5km radius of a financial access point.

Map 1: Tanzanians living within 5km of a financial access point



Source: FinScope Tanzania 2017 April-July



Financial Behaviour



3C. FINANCIAL BEHAVIOUR: How do Zanzibaris manage their finances?

Previous sections described characteristics of FinScope Tanzania respondents and whether they can be served by financial services providers. This section of the report dwells on providing a deeper understanding on how Zanzibaris manage their finances.

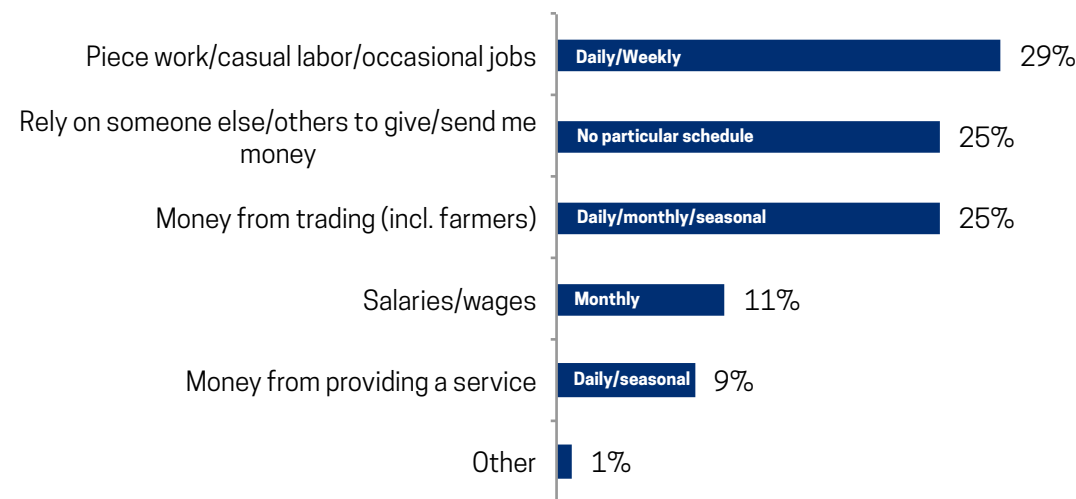
FACT 1 Zanzibaris **do not** have consistent sources of income



FinScope Tanzania asked respondents how they generate income. About 29% responded that they get income from casual jobs, 25% rely on others to give them money, 25% from trading including sales of crops and livestock (farmers), 11% from salaries and 9% from providing services. Less than 1% gets money from government grants and transfers, including pensions. The dominance of piece, casual and occasional jobs is the result of tourism, one of the dominant sectors in Zanzibar, which mostly provide casual and seasonal jobs, like tour guiding and service provision. The frequency of receiving money from these income sources differs from one activity to another. Of these sources, only salaries and pension have a constant stream. MKUZA II aims at enhancing financial inclusion and increased employment and job creation through supporting the establishment of business incubators and youth organizations. This will help diversify and stabilize income sources.

Chart 16: **How is personal revenue generated and how frequently is money received from these sources of income?**

Base = Zanzibar Only



FACT 2

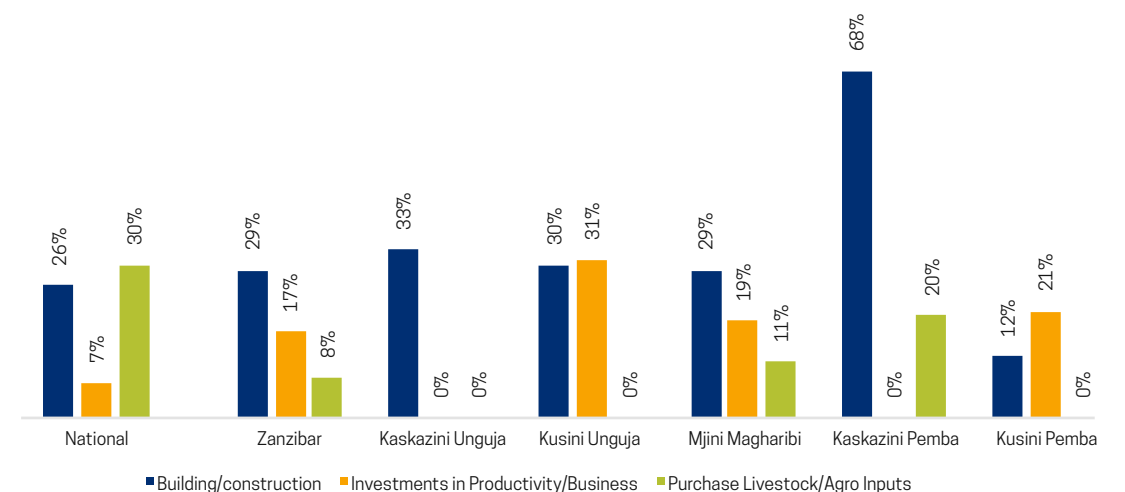


Building Construction expenses are regarded as **priority expenses**



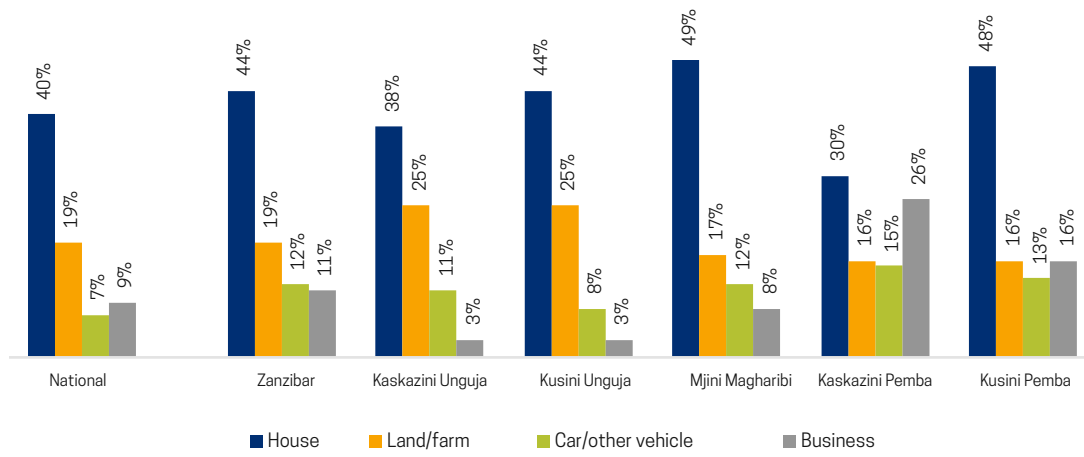
The survey sought to elicit adults' priority expenses, excluding food and clothes. Results indicate that building construction is the top priority expense (29%) followed by investments in productivity as well as business expenses (17%) and purchases of livestock/agro inputs (8%). Generally, these priorities in spending are linked towards securing future income flows (Chart 17). Further prodding supported the earlier conclusion that greater priority is placed on investment as revealed in Chart 18 as available income is most likely to be spent on housing (44%), buying land (19%) or business (11%); house construction/buying is a top priority in all regions. The fact that the majority wish to buy or construct houses which they cannot afford is an indicator of the potential market for formal financial mortgage solutions. Since the majority do not have proof of land ownership, access to mid-term and long-term credit from banks is a challenge and therefore MFIs have a big role to play in catering for these needs and ensuring that housing is guaranteed.

Chart 17: **Priority expenses across the regions (excluding food and clothes)**

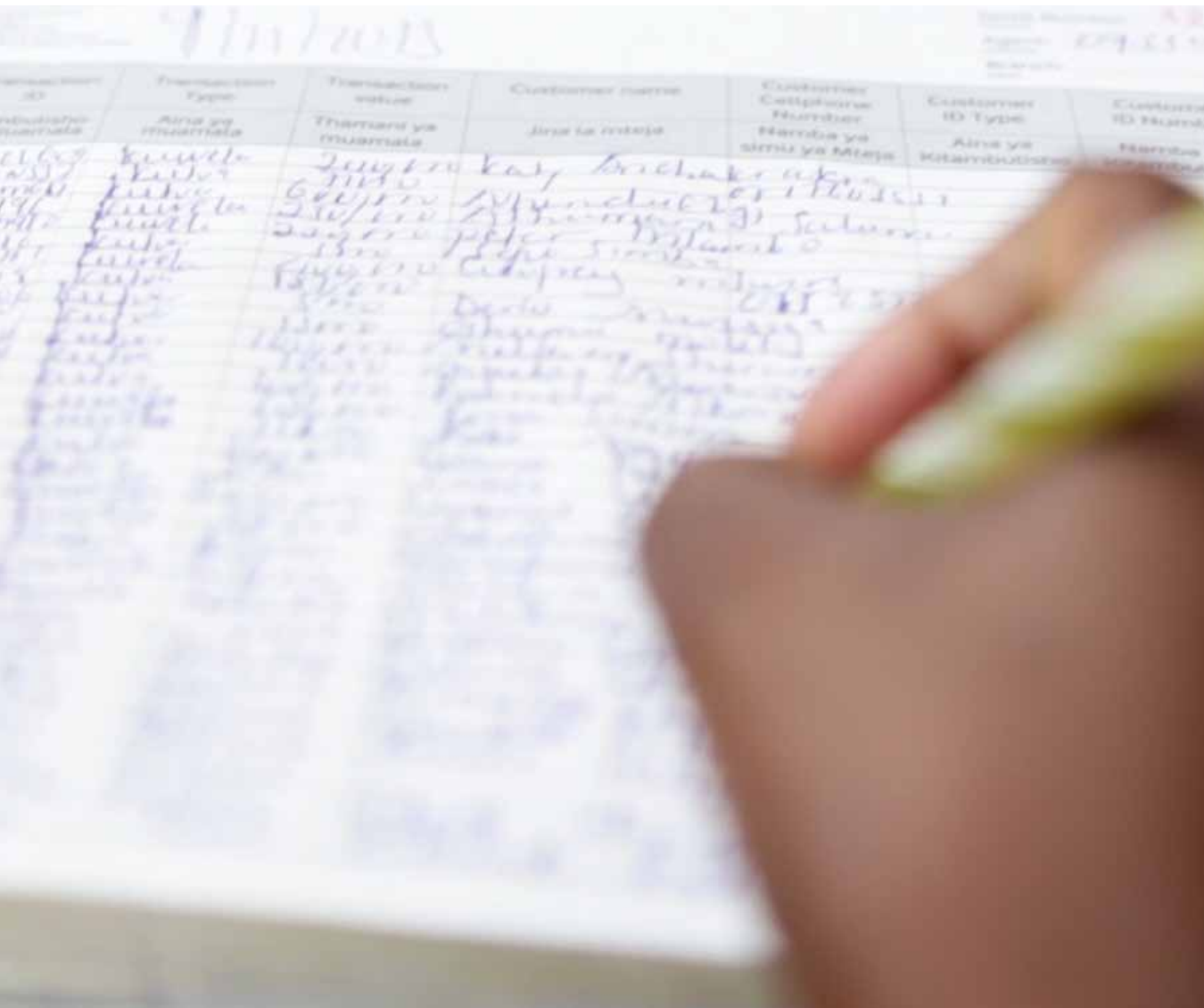


Source: FinScope Tanzania 2017 April-July

Chart 18: Aspirations for future acquisitions



Source: FinScope Tanzania 2017 April-July



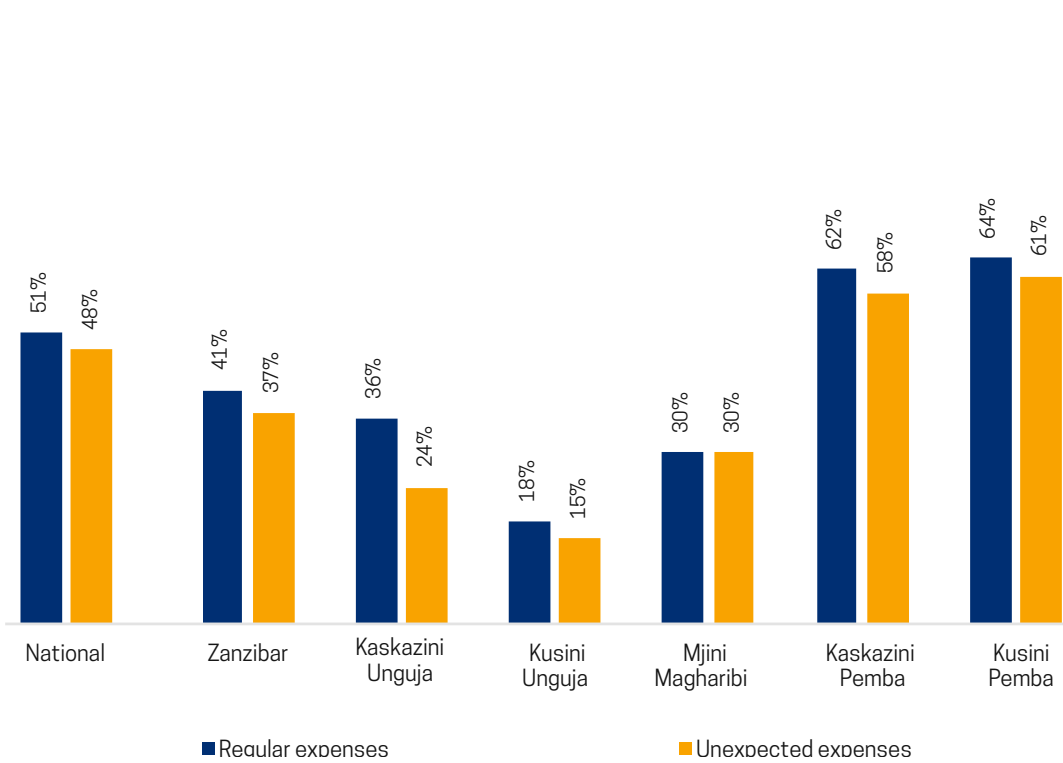
FACT 3

4 in 10 adult

Zanzibaris struggle with keeping up with both regular and unexpected expenses



Chart 19: Percentage of adults who often/always struggle to meet regular and/or unexpected expenses



Source: FinScope Tanzania 2017 April-July

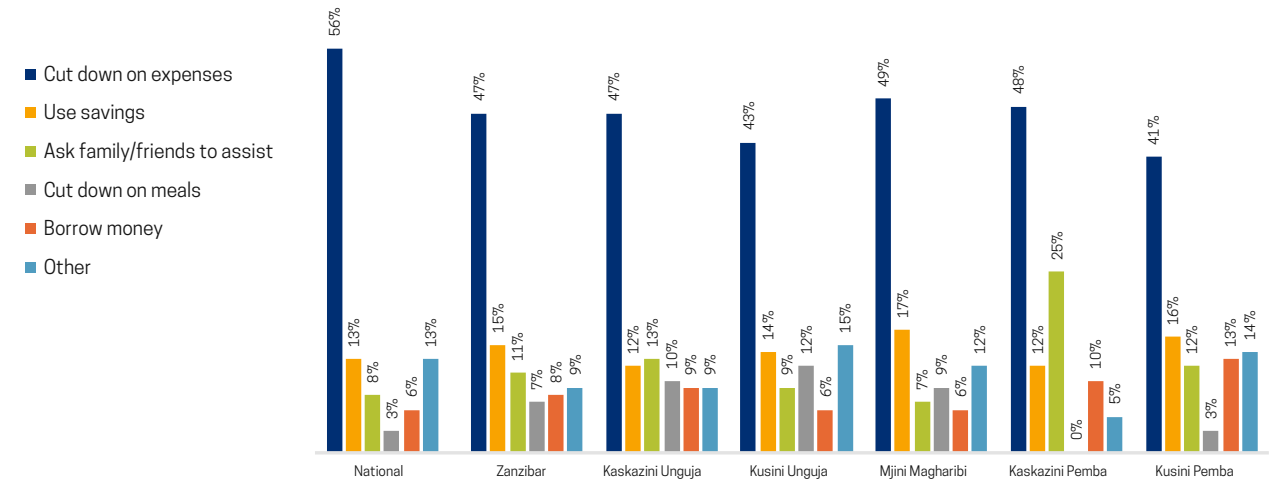
Respondents were asked whether they struggle to meet regular as well as unexpected expenses. The results showed that they struggle with both. More young people struggle with regular expenses than adults, while more adults struggle with unexpected expenses than young people. Respondents in the two lowest quintiles struggle more than those in the middle and two highest quintiles and likewise more females than males struggle with keeping up with both regular and unexpected expenses. Casual labourers, who have more irregular cash flows than traders, struggle more with keeping up with both regular and unexpected expenses compared to traders.

FACT 4

47%

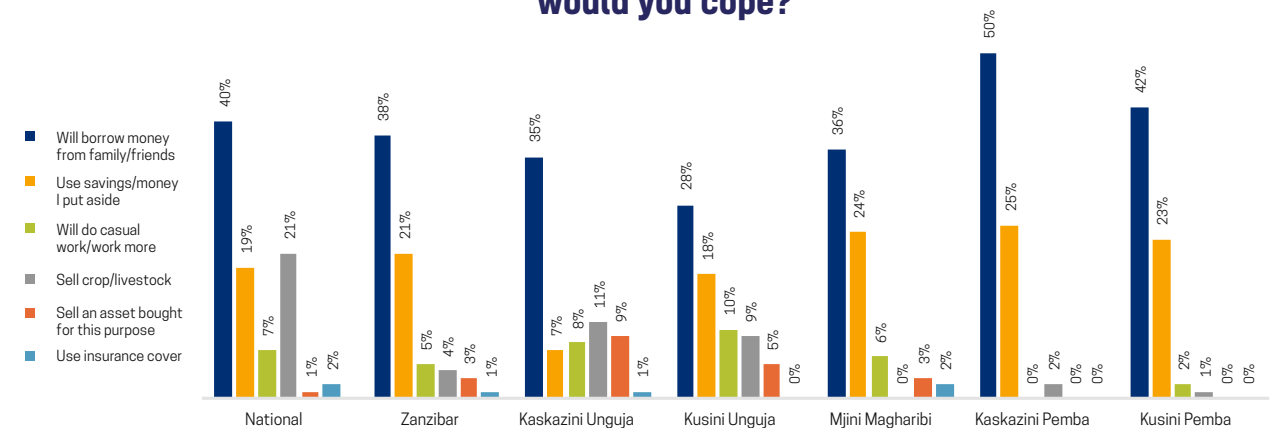
of adults cut down on expenses when they are about to run out of money

Chart 20: When you see that you are going to run out of money, how do you ensure you cope until you get money again?



Respondents were asked how they cope during periods of limited cash flow. Results in Chart 20 indicate that the majority of them (47%) reduce expenses to cope with the situation. Almost 3 in 10 are not sure of what they will do in order to meet expenses when they start running out of money. This evidence supports the enhancement of savings and access to credit for smoothing cash flows and reducing subsequent challenges.

Chart 21: If you should have an unexpected expense tomorrow, how would you cope?



Source: FinScope Tanzania 2017 April-July

FACT 5

ONLY 4 in 10

Adult Zanzibaris know how much they spent in the previous week



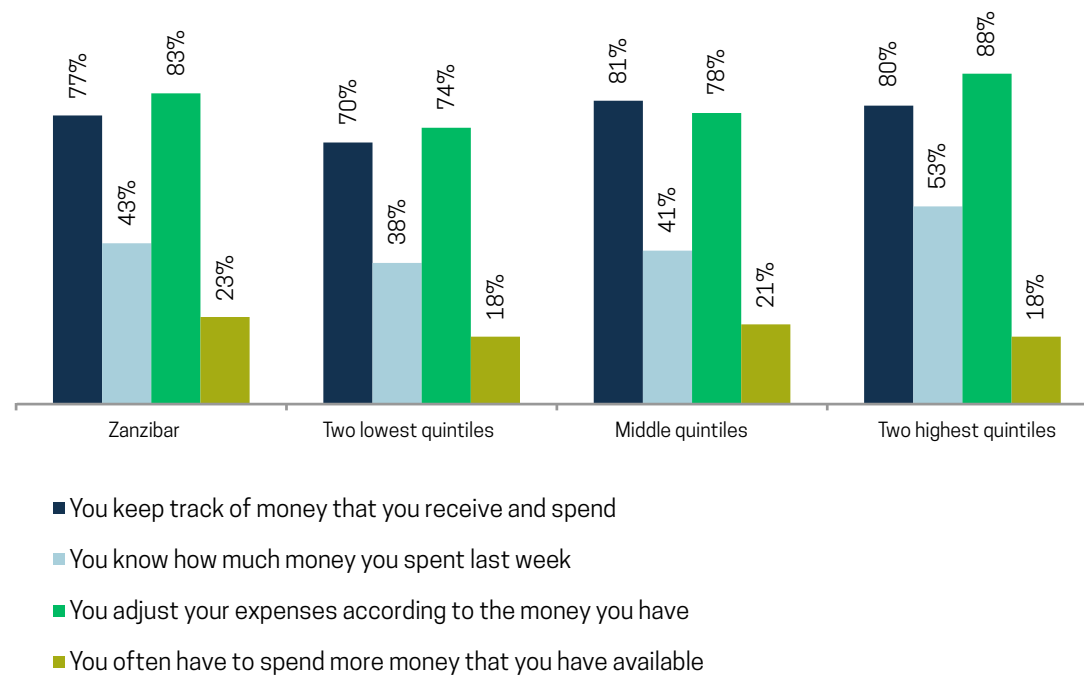
FACT 6

4 in 10

adults aged 55 and below have no retirement plans



Chart 22: **Do you...?**

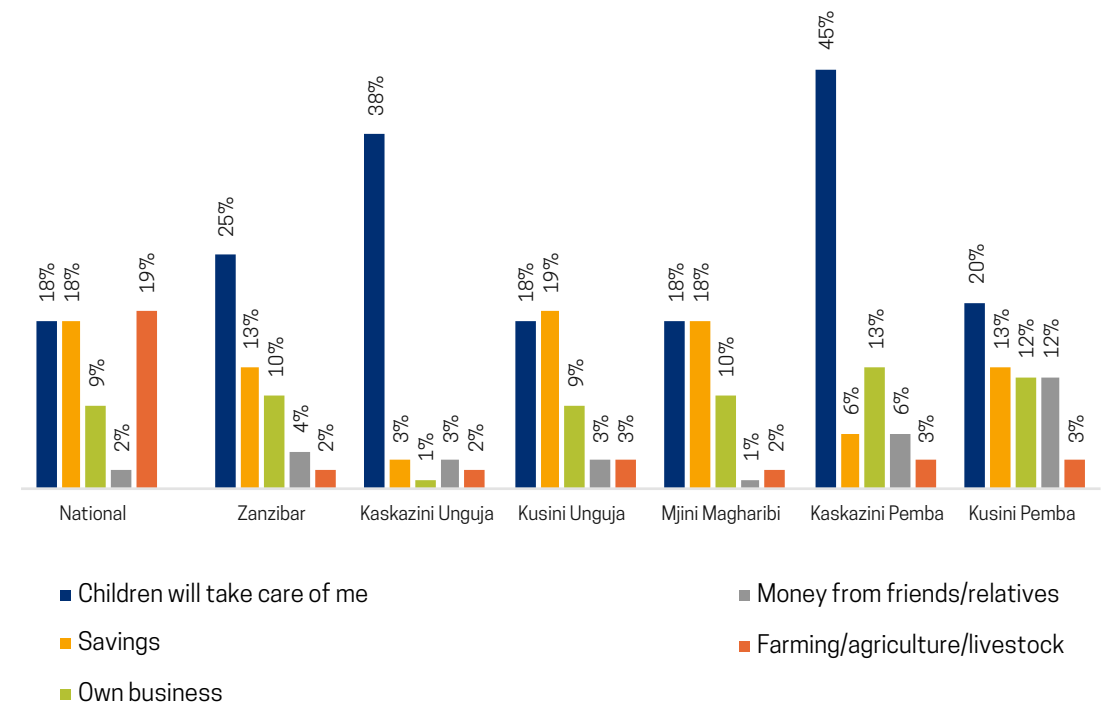


Source: FinScope Tanzania 2017 April-July

Although 77% of adults in Zanzibar claim to keep track of what they receive and spend, only 43% know how much they spent in the previous week. Slightly more (53%) wealthier people, in the two highest quintiles keep track of how much they spent in the previous week. The majority of respondents adjust their expenses according to the money they have. Knowledge on financial spending is key to allow long-term investment and financial planning to meet future aspirations

25% of those who have made plans thus far reported that they would rely on their children to take care of them 13% would rely on savings, 10% on their own businesses, while only 2% would rely on pensions. This evidence provides the opportunity for designing solutions that help people to meet their long-term goals and plan for their future. Kaskazini Pemba has the lowest proportion of adults aged 55 years or less who do not have retirement plans (20%), although it has the highest proportion (45%) of those who would rely on their children (45%).

Chart 23: **How do Tanzanians aged 55 and below plan for retirement?**



Source: FinScope Tanzania 2017 April-July

Financial Inclusion

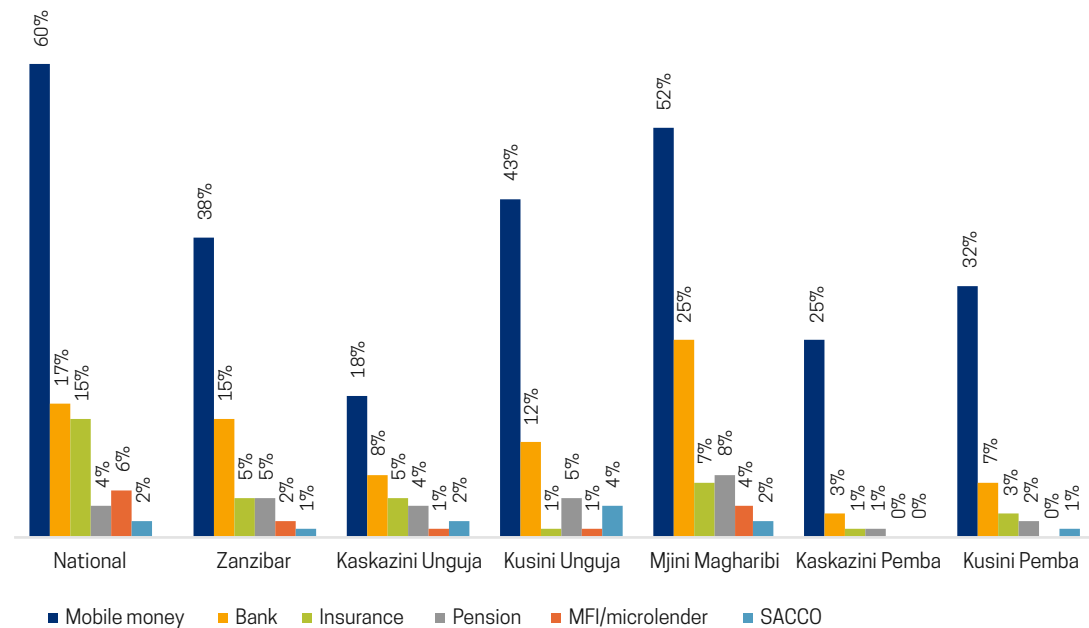


3D: FINANCIAL INCLUSION: Which channels are people accessing?

One of the key objectives of FinScope is to track progress in uptake and usage of financial services. Having looked at the core enablers of taking up financial services in Section 3B, financial behaviour with some discussion of the channels that people use to manage their finances in Section 3C, this section looks at the range of financial services accessed by adult Zanzibaris.

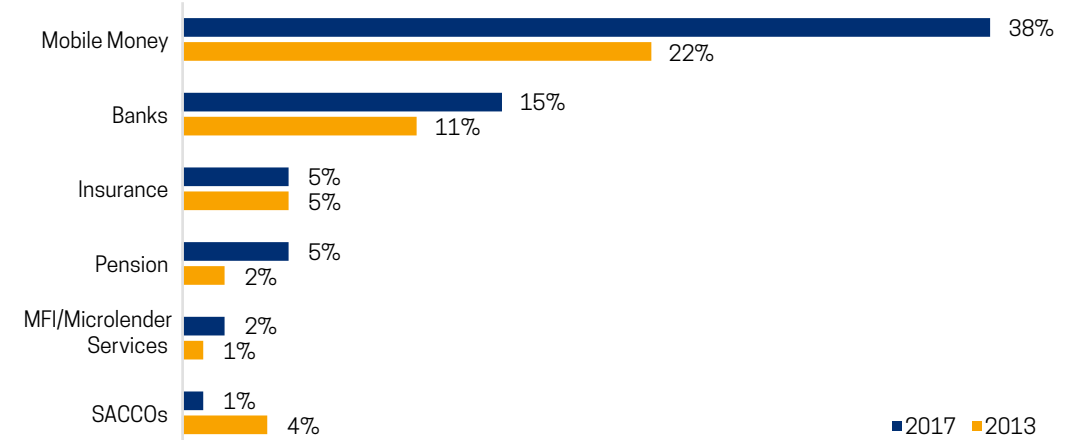
FACT 1
Uptake of mobile money has grown **16%** - point from 2013

Chart 24: Uptake of formal financial services



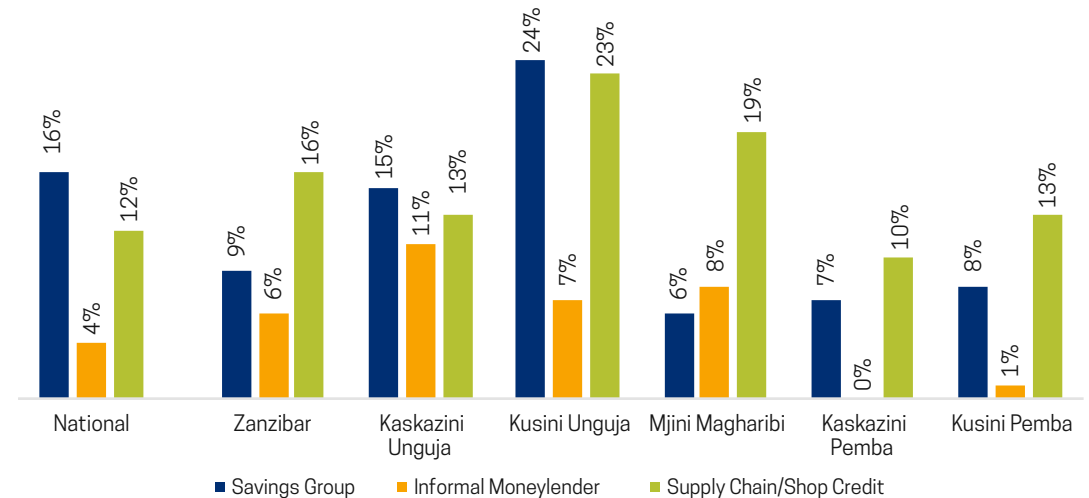
Source: FinScope Tanzania 2017

Chart 25: Uptake of formal financial services between 2013 and 2017
Base=Zanzibar only



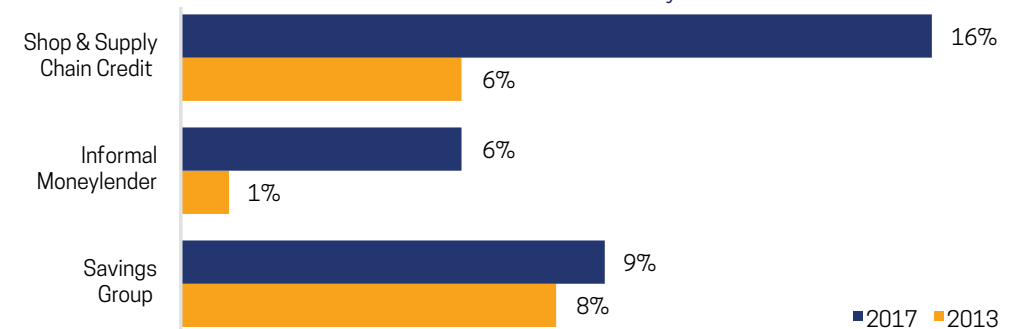
Source: FinScope Tanzania 2017 April – July and FinScope Tanzania 2013

Chart 26: Uptake of informal financial services



Source: FinScope Tanzania 2017

Chart 27: Uptake of informal financial services
Base=Zanzibar only



Source: FinScope Tanzania 2017 April – July and FinScope Tanzania 2013

FinScope Tanzania 2017 shows that the uptake in Zanzibar and the Mainland. High usage of bank services was expected in Zanzibar, given the relatively high literacy levels and greater urbanized population than in most of the mainland regions. However, barriers to uptake such as customers' perception of high bank charges, lack of convenience in accessing money and social cultural factors keep the uptake level at par with national average. The introduction of Islamic banking services is thought to boost usage⁵. Significant difference is shown in the use of mobile money services which stands at 38% of the population in Zanzibar and 60% on national level.. Another area where uptake differs is with insurance services which are used by 5% of the population in Zanzibar and 15% on national scale. The difference in financial services uptake levels between Zanzibar and the national average is largely driven by the uptake gap mobile money services (Chart 24).

POSITIONING SPECIFIC NEEDS IS A REAL NICHE IN BANKING PENETRATION

Interviews with banks revealed that, given the social cultural environment in Zanzibar, customers have specific needs not catered for by conventional bank services. Customers are increasingly asking and are ready to take "halal services and products" rather than conventional ones. PBZ has a division which caters for such services and products, but other banks make no specific provision. This results in low uptake of loans and also deposits and savings. One officer of a commercial bank in Unguja told a story about a long-term customer who took a conventional loan for his business but did not want others to know that he is taking this loan. When the bank officer visited his business premises, he felt ashamed that this would show he is taking loans and decided to abandon the service and close his accounts.

There has been a national increase in the uptake of mobile money services between 2013 and 2017. For Zanzibar, mobile money uptake increased by 16%-points, a significant increase compared to other formal financial services (banks, MFI and pensions) which increased marginally. The increase in mobile money usage is a result of the introduction of mobile money payment for some government services like electricity, government charges and fees, as well as the convenience in receiving and sending money. Another reason is the substitution of traditional bank services. For instance, WorldRemit provides a service for customers to be enabled to receive money from abroad through mobile phones⁵. It is, however, important to note that the uptake of SACCO services dropped slightly, though within the margin or error, (Chart 24), which is contrary to growth and poverty reduction strategies in Zanzibar. On the reasons for the drop in uptake of SACCO services, interviews with SACCO groups reveal that capital is a major problem due to high bank charges on loans for SACCO operations. Problems in SACCO management are also another reason. Some SACCOs took loans from banks but failed to recover the money from members, which marred their credibility with the banks⁶. MKUZA II places focus on the motivation and mobilization of MFIs and SACCOs to lend to farmers to buy agro inputs to improve farm productivity, increase income and reduce poverty.

The usage of informal mechanisms has increased. There is a significant increase in the use of informal moneylenders from 1% in 2013 to 6% in 2017 as well as shop and supply chain

⁵ Qualitative analysis of interviews with service providers and community groups.

⁶ Qualitative analysis of interviews with SACCO and community groups

credit from 6% in 2013 to 16% in 2017 (Chart 27). These results are also a reflection of financial service uptake overlaps (Chart 25).

Chart 29 below shows that between 2013 and 2017, the total number of has grown by 5%, while those that have taken up banking and mobile financial services has grown by 38% and 81% respectively, while the number of pensions beneficiaries has almost tripled and usage of MFIs has more than doubled. Considering the number of mobile wallets as reported by the FinScope Tanzania respondents, it becomes evident that about 53% of all mobile wallet owners utilise multiple mobile wallets

Chart 28: **Overlaps in financial service/product uptake**
(Numbers displayed are in Millions)

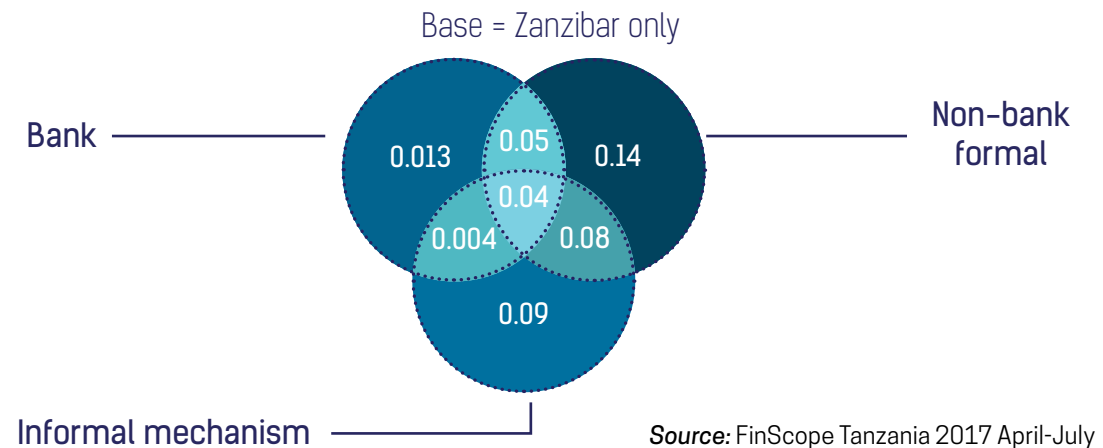
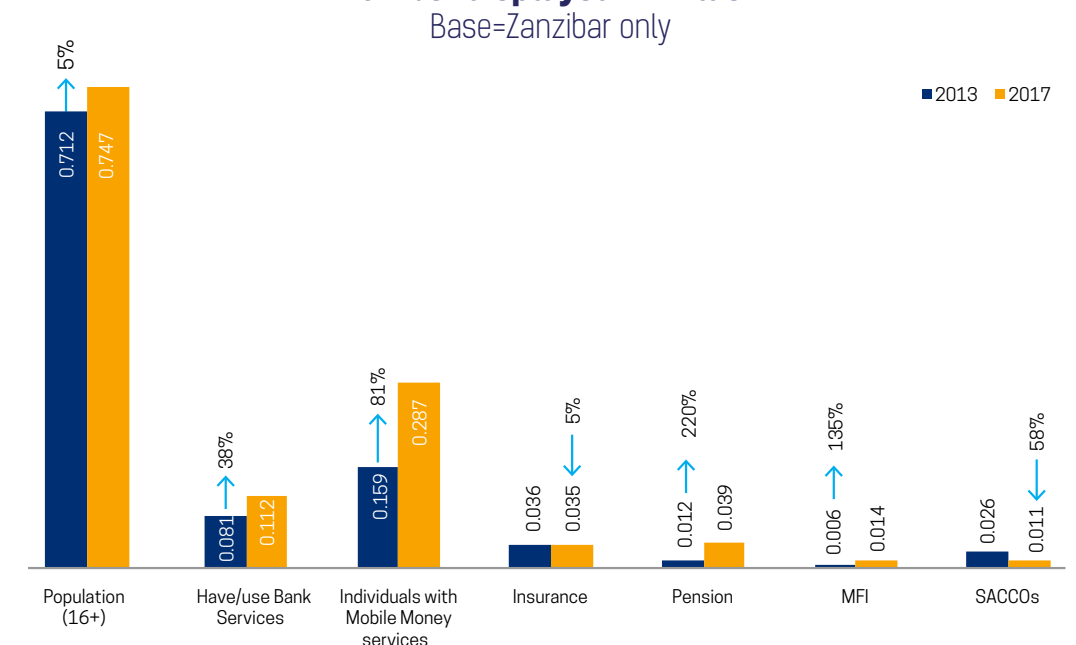
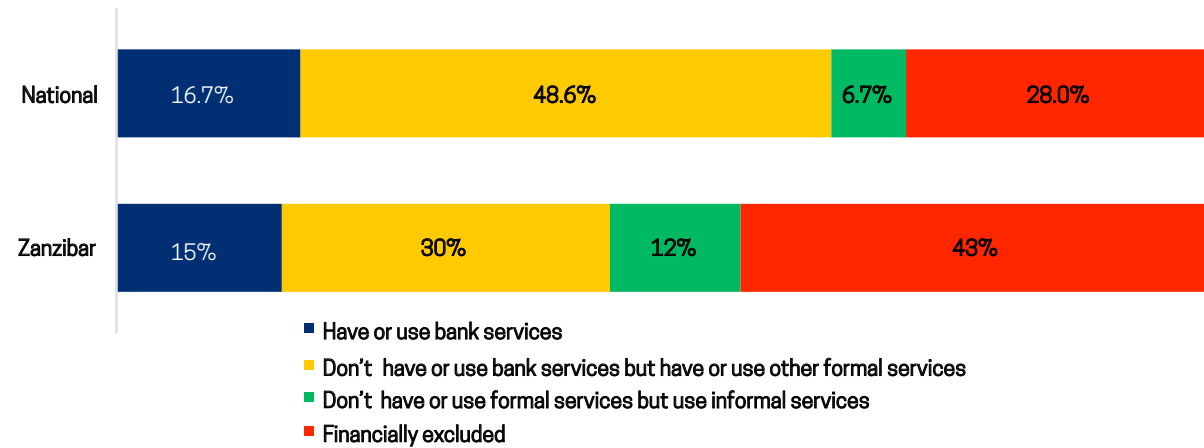


Chart 29: **Number of people taking up different financial services**
Number displayed in million



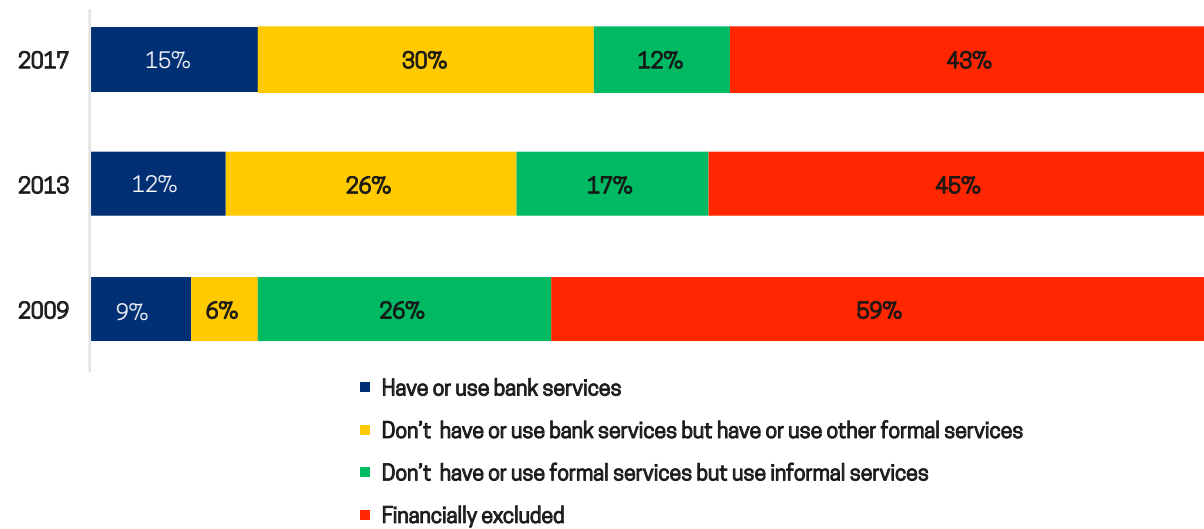
Source: FinScope Tanzania 2017 April – July and FinScope Tanzania 2013

Chart 30: **Uptake of financial services**



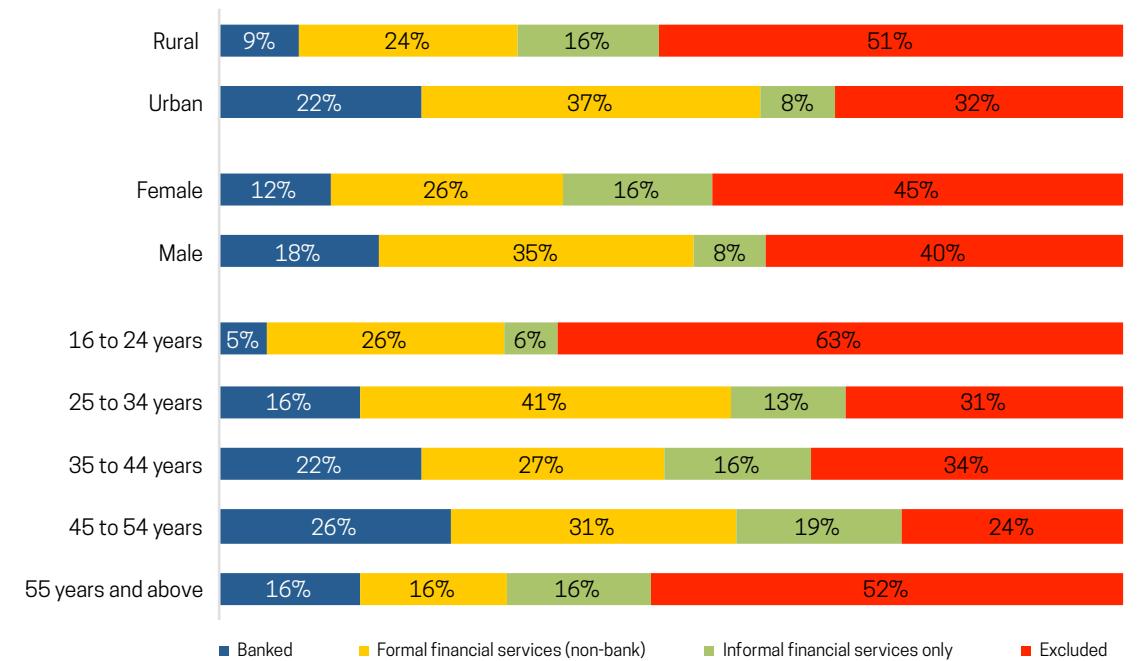
Source: FinScope Tanzania 2017 April – July and FinScope Tanzania 2013

Chart 31: **Level of Financial Inclusion**
Base=Zanzibar only



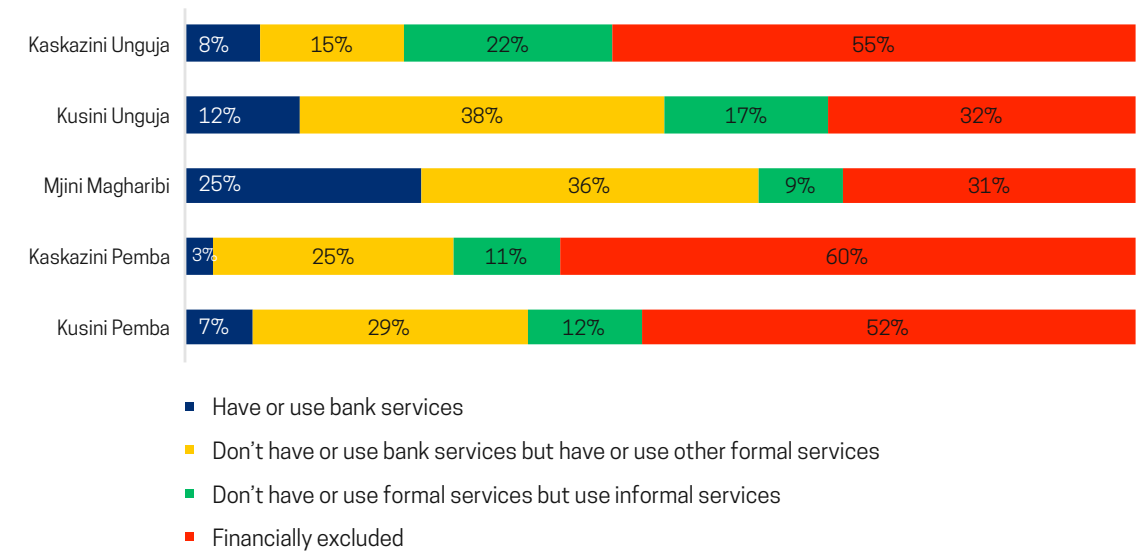
Source: FinScope Tanzania 2017 April – July and FinScope Tanzania 2013

Chart 32: **Uptake of financial services - demographic**
Base=Zanzibar only



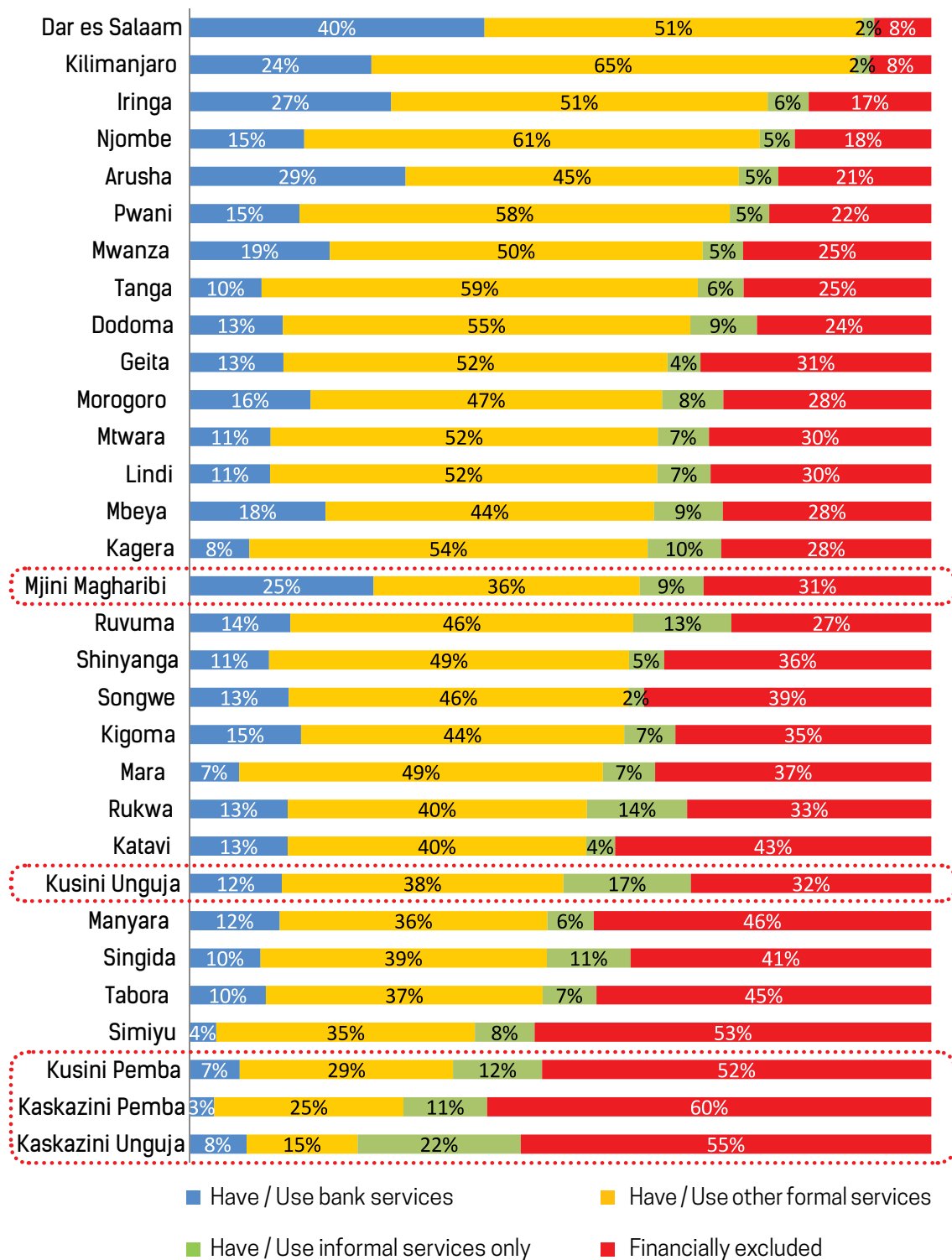
Source: FinScope Tanzania 2017 April – July

Chart 33: **Level of Financial Inclusion**



Source: FinScope Tanzania 2017 April – July

Chart 34: Regions in Zanzibar and all other regions in Tanzania



Source: FinScope Tanzania 2017 April-July

THE TABLE BELOW REPORTS ON VALUES AND PREFERENCES OF DIFFERENT FINANCIAL INSTRUMENTS



	Banks	MFIs	SACCOs	Mobile Money	Insurance
VALUED FOR	Safety of money is high	Easy access to loans	Social funds Guarantors for loans	Quick and easy to use	It is legal requirement (e.g. MV/Bajaji) Peace of mind since it covers unexpected expenses
CONCERNS	Not suitable for respondents' needs Two lowest quintiles - Staff cannot solve my problem Middle quintile - Fee and interest are high Two highest quintiles - Services are not suitable for my needs	Interest on loans is too high Two lowest quintiles - Service is offered far from respondents Middle quintile - Interest is high Two highest quintiles - Staff are not helpful/cannot solve my problems Two highest quintiles - Staff are not helpful/cannot solve my problems	Two lowest quintiles - Can sell my share for profit Middle quintile - Negotiate price for things I sell Two highest quintiles - Negotiate price for things I sell	Don't need it Two lowest quintiles - Service is offered far from respondents Don't have phone Middle quintile - Use only in emergency Two highest quintiles - Service is not good	Quality of Service is poor Two lowest quintiles - Requirement to pay in lump sum Middle quintile - Service is not good Two highest quintiles - Requirement to pay in lump sum

Source: FinScope Tanzania 2017 April-July

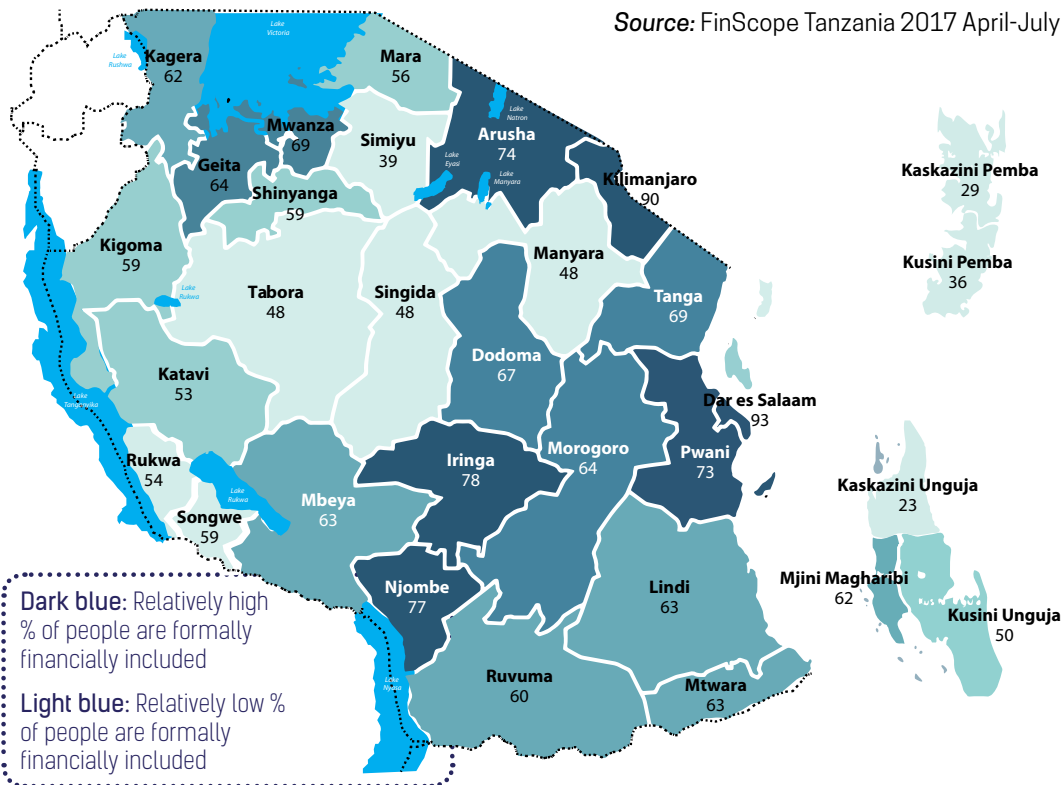
Base = Zanzibar only

People who are formally included are considered to be individuals aged 16 years or older who have or use financial products and services provided by a financial service provider that is regulated or officially supervised. Individuals considered informally included are individuals aged 16 years or older who use financial mechanisms not provided by a regulated or supervised financial institution.

People who are financially excluded are considered to be individuals aged 16 years or older, who use no financial mechanisms and rely only on themselves, family or friends for saving, borrowing and remitting, with their transactions being cash-based or in-kind. FinScope Tanzania 2017 finds that 45% of the adult population in Zanzibar is formally financially included. This is 7%-point growth from 38% in 2013. Furthermore, sole dependency on informal financial services only is now slightly less (12%) as compared to 17% in 2013. Financial exclusion rates went down slightly from 2013 to 2017, however the difference is within the survey's margin of error.

Formal financial inclusion rates vary greatly across Zanzibar, from 23% formal financial inclusion in the Kaskazini Unguja to 69% in Mjini Magharibi. Generally, there is more exclusion in Pemba's regions than in Unguja's regions (Chart 33)

Map 2: **Distribution of formal financial inclusion across all the regions**



Comparing results of financial inclusion across regions in Tanzania shows that regions in Pemba and Kaskazini Unguja are relatively more financially excluded (Chart 34).




Usage

3E: USAGE: What are people doing with their money?

This section expands on what mechanisms Zanzibaris are using to manage their cash flows (saving, borrowing, family or friend remittances, investment needs and asset building) and which risk-coping mechanisms they rely on.

FACT 1

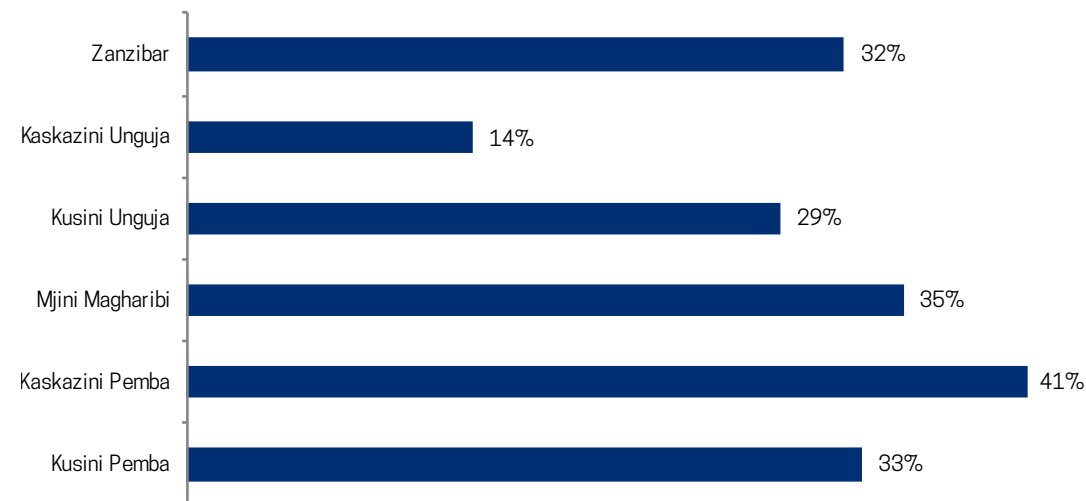
32% of adult Zanzibaris saved in the past 12 months



Savings are defined as money put aside for a specific purpose and using such definition FinScope Tanzania results show that 32% of adult Zanzibaris saved in the last 12 months. The majority of respondents are saving for cash flow smoothing purposes, which are savings that are used on a short term basis to cover routine expenses. Less than 20% of the respondents are saving for asset building and productive investment (Chart 36).

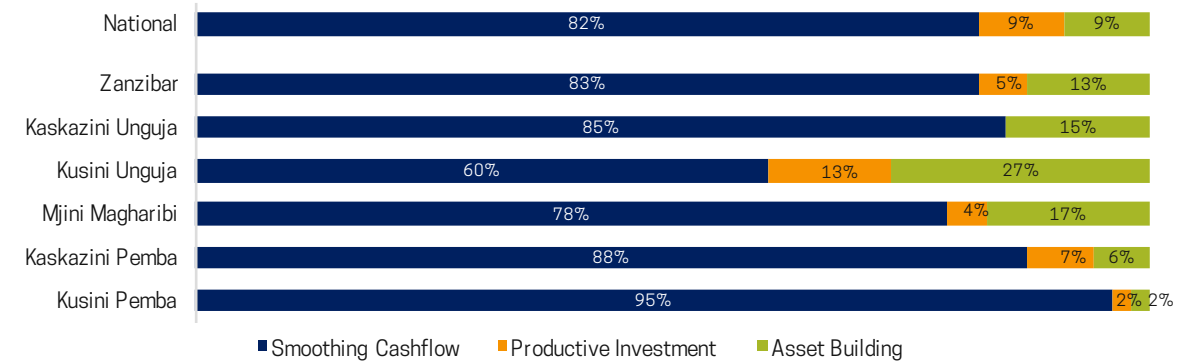
Among the Zanzibar regions, Kaskazini Pemba has the highest level of savings (41%) whereas Kaskazini Unguja has the least (14%) (Chart 35).

Chart 35: Savings



Source: FinScope Tanzania 2017 April-July

Chart 36: What do they save for?
Base=only those who save



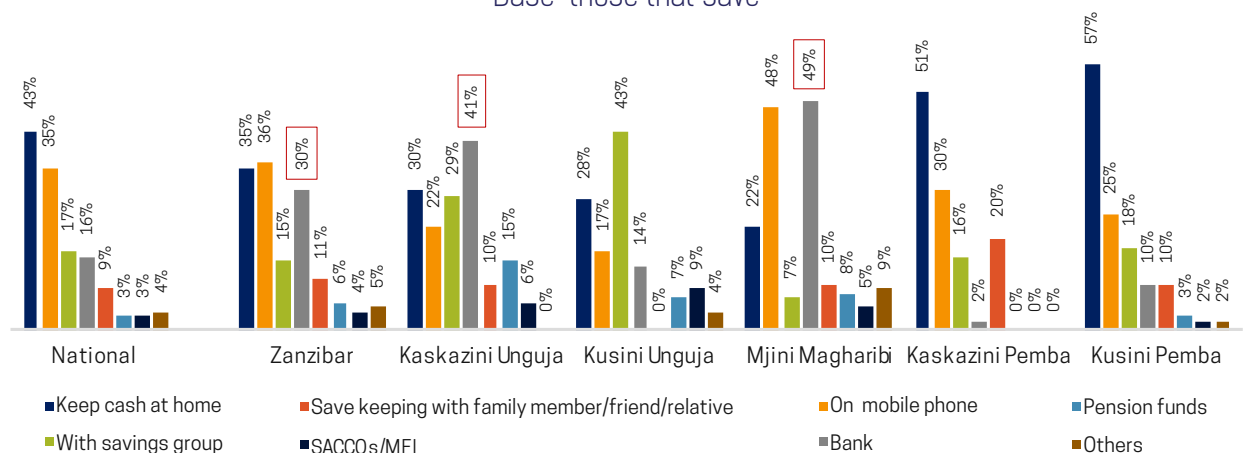
Source: FinScope Tanzania 2017 April-July

FACT 2

19% -point increase in people saving in mobile wallets

A significant increase of those who save using their mobile phones and banks can be observed. Nonetheless, more than one third of Zanzibaris are still utilizing in-house savings. There is also an increase in informal savings through savings group and household members. Quick access and safety of money were the main drivers for their choices of savings channels.

Chart 37: Where are people saving?
Base=those that save



Source: FinScope Tanzania 2017 April-July

FACT 3

42% of adult Zanzibaris borrowed in the past 12 months

42% of Zanzibaris borrowed in the past 12 months, the majority of whom borrowed in order to smooth their cash flow. Compared to the proportion of saving for productive investment, there is a greater proportion of borrowing for productive investment (Chart 38). Although the proportion of those who borrowed increased between 2013 and 2017, the majority do so via family and friends due to, among other factors, quick access to money. A very small proportion borrowed from formal financial services like banks and SACCOs. Interviews revealed that the cost of borrowing, borrowing conditions and social cultural factors are major barriers. It was further revealed that those who borrow from banks are mainly formal employees and pensioners. Service providers should consider social factors in designing their financial products. The observed increase in borrowing from banks is attributed to developments in Islamic banking⁷

SACCOS MANAGEMENT A BIG CHALLENGE

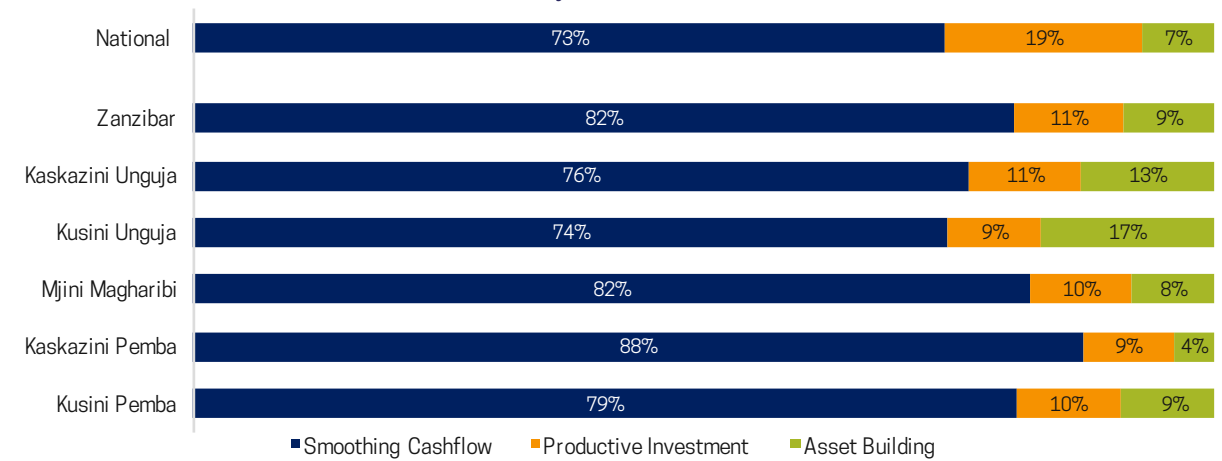
A story narrated by Muwape SACCOS in Pemba is a sad one. The management of a SACCO is a big challenge! The group was established in 2011 with 35 members who later formed a SACCO with capital obtained from members' contributions and a loan from the CRDB bank. They managed to pay the first loan of TZS 62 million. The SACCO was once one of the most progressive groups in Pemba and achieved a membership of 134. At that level of membership they applied for a second loan of TZS 300 million using members' contributions and group leaders' assets as collateral. When they obtained the loan from bank, they started to extend credits to members up to a maximum of TZS 5 million per member. Later they experienced problems in recovery of loans from some members who misused the credits and become incapable of paying and, as a result, the group could not meet obligations with the bank. The bank sued them and they lost some of their capital which they had used as collateral. All in all, the bank could not recover the money in full and the group lost its reputation with the bank. Now the group has a capital of only TZS 4.5 million and many members have left the group. The Chairperson stated that it was the consequence of poor scrutiny of members who applied for credit. Adding to that, the Chair and other leaders said that they are now looking for another loan, but each member has to guarantee himself using his own collateral.

The observation that almost three quarters of borrowing is linked to cash flow smoothing becomes emphasised when considering the frequency of borrowing. Almost 72% of those who borrowed did so more than once in the last 12 months; this once more links back to the observation raised around self-awareness of spending patterns, and hence misjudgement.

⁷ Qualitative analysis of interviews with service providers and community groups

Chart 38: **Why do they borrow?**

Base=only those who borrow



Source: FinScope Tanzania 2017 April-July

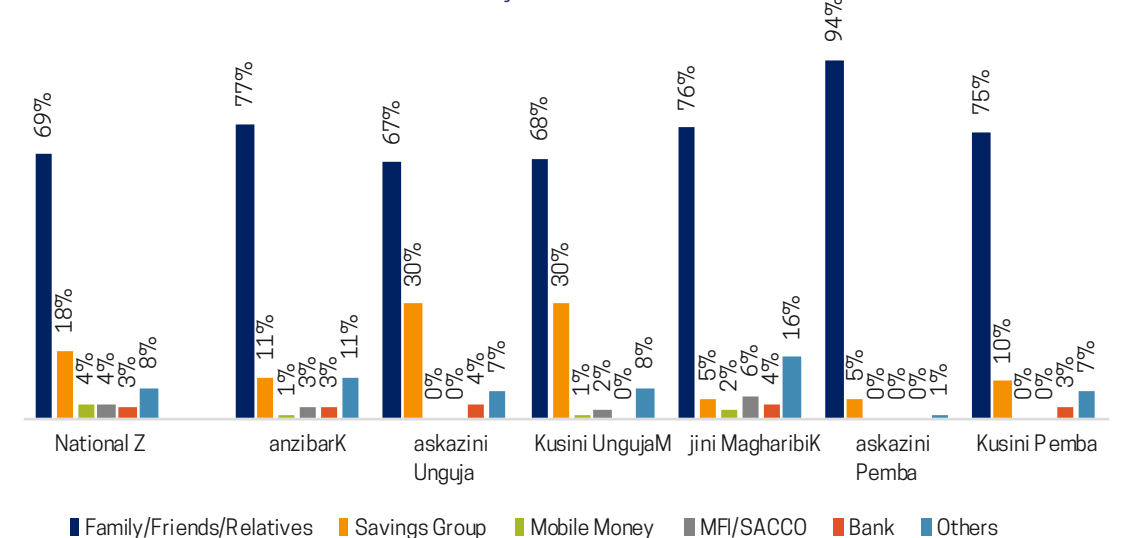
FACT 4

Friends and family remain key sources of credit



Chart 39: **Where do they borrow from?**

Base=only those who borrow



Source: FinScope Tanzania 2017 April-July

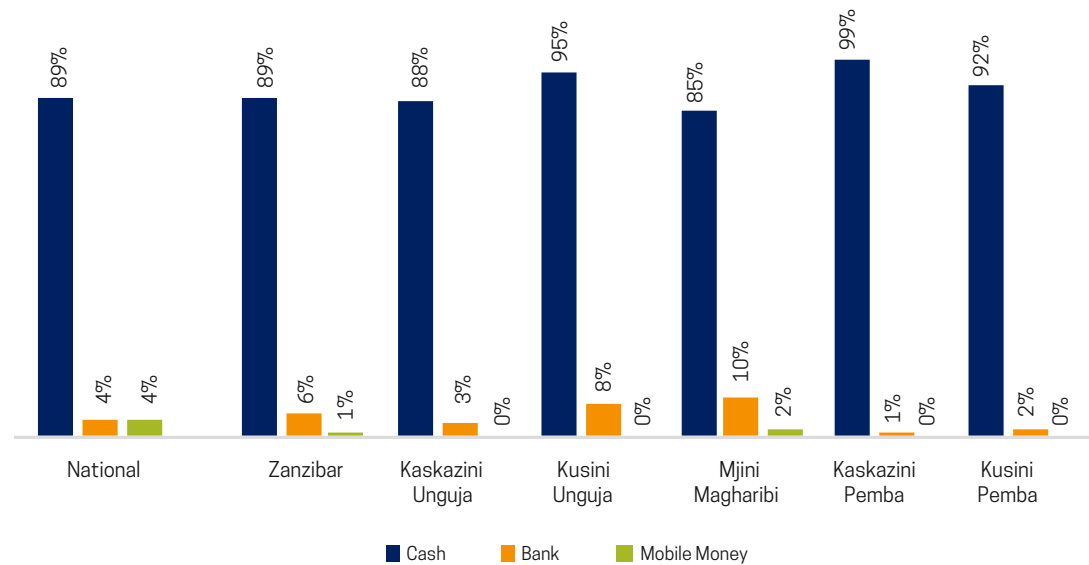
As was the case within the last FinScope Tanzania survey, people are still borrowing from family and friends due to, among other factors, quick access to money. Generally there is an increase in borrowing through various channels, though formal borrowing remains low. Mobile money credit products increased their range and base. However, digital credit solutions have thus far seen low uptake in Zanzibar, with only 3% of Zanzibaris having borrowed through a mobile phone.

The observation from the sources of credit used is reflective of the nature of needs for which those credits are sought. Borrowing from family and friends serves the purpose of smoothing cash flow but not of long term investments. The increase in borrowing (demand side) indicates the potential for financial service providers (supply side) including formal channels. Access to formal credits for investments for job creation, youth employment and economic growth is in line with growth strategies including MKUZA II, which seeks an increased economic growth rate from 6.7% to 10% annually through enhancement and promotion of investments in the productive and service sector.

FACT 5
The payment space is largely untapped



Chart 40: How do they receive their income?

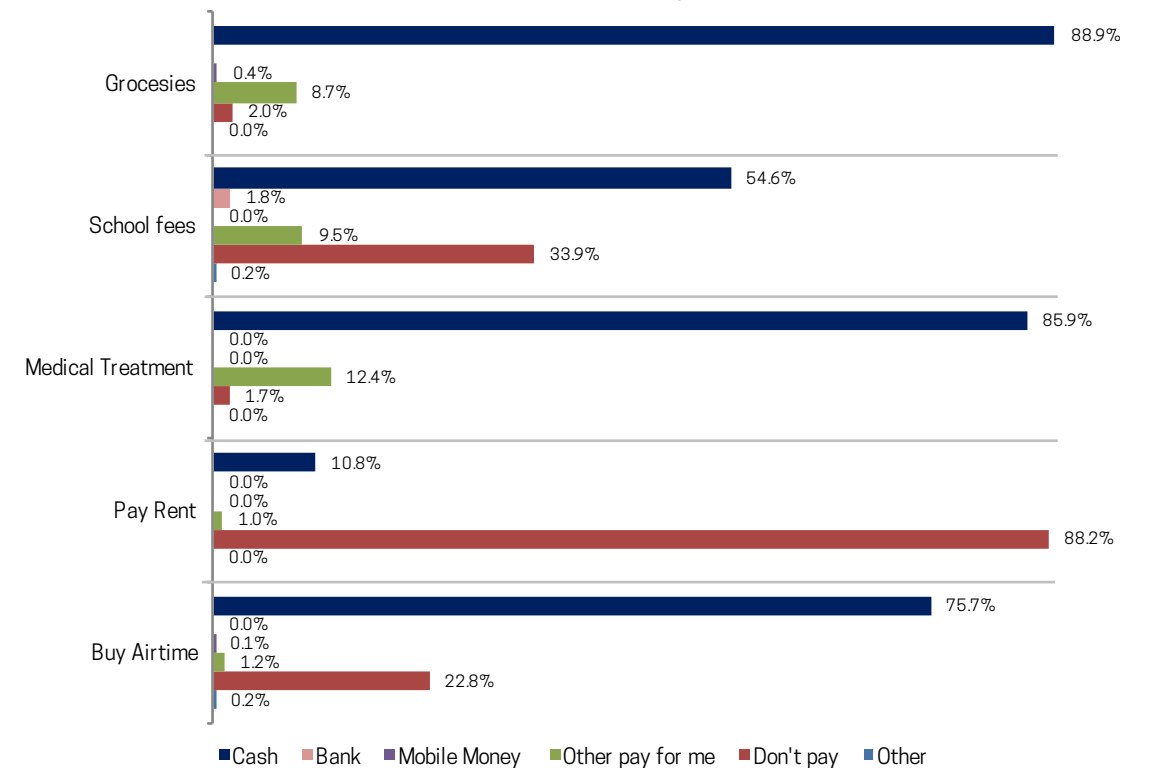


Source: FinScope Tanzania 2017 April-July

When FinScope asked respondents how they receive income and make payments, an overwhelming majority of the respondents mentioned doing so using cash. It is very clear that, as most money is received in cash, most outgoing payments are also likely to be made using cash. Kaskazini Pemba and Kusini Pemba have more respondents, 99% and 92% respectively, who receive income in cash (Chart 40). Interviews revealed that rural areas are agrarian, dominated by smallholders who sell produce for cash. Social prestige in holding cash was revealed as another reason. Unlike agriculture which is more informal, it is surprising that most of the transactions from tourism are in cash. Few businesses like restaurants, shops, and tour sites accept other forms of payment other than cash⁸. More bank usage in receiving payments is reported in Mjini Magharibi which is a more commercial town. Moreover, all banks which operate in Zanzibar have branches in Mjini Magharibi compared to other regions⁹.

It was further revealed that few government services are paid through mobile money services due to lack of integration; the only public utilities and services that are paid through mobile money services are electricity (TUKUZA) and payment of taxes to the Zanzibar Revenue Board (ZRB). Payment of union taxes (TRA) is not yet integrated.

Chart 41: How do you make payments?
Base=Zanzibar only

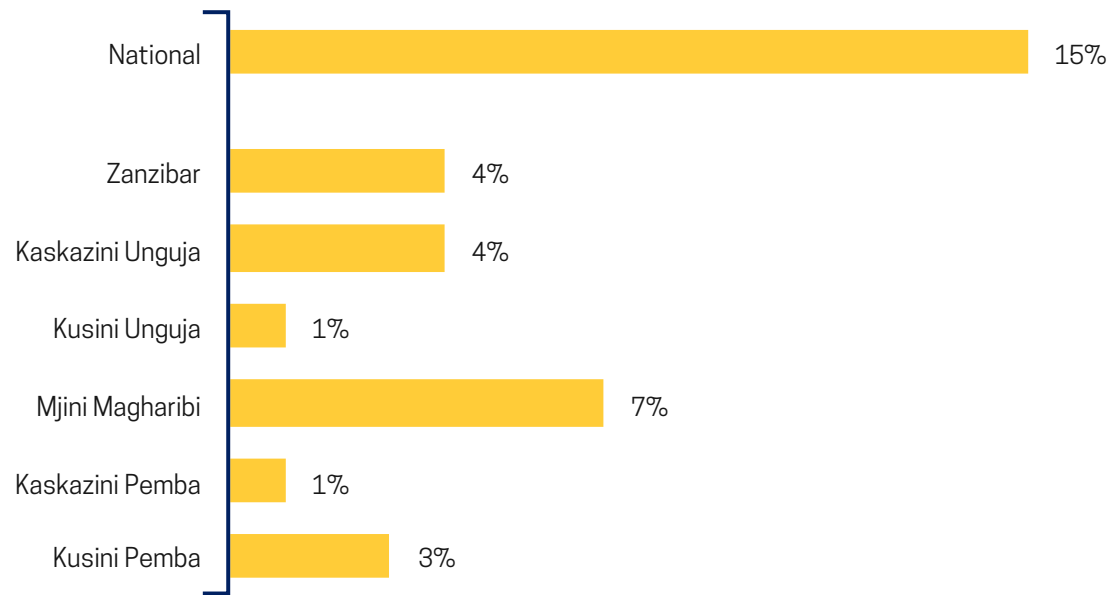


Source: FinScope Tanzania 2017 April-July

8 Qualitative analysis of interviews with tour operators

9 Qualitative analysis of interviews with government institutions

Chart 42: **Are they insured?**



Source: FinScope Tanzania 2017 April-July

LOW EDUCATION ON INSURANCE IS ONE OF THE MAJOR UPTAKE BARRIERS

One community group in Pemba stated that insurance is a waste of money because when an event occurs they are not compensated. They cite a case where three members of the group were involved in a road accident and the insurance officer did not visit them to ask if they had a claim. According to insurance procedures, it is their obligation to provide evidence of an accident, any losses and for them to initiate their claim. They added that they are not willing to pay motorcycle insurance because they have never been compensated. One member said that one time he was caught without insurance by the police and insurance officers during an inspection. He told them that he will only comply because of police enforcement, otherwise he would not pay for insurance because it is waste of money.

Although the majority of the 5% who are insured use health insurance, the most significant health insurance uptake is for NHIF and SHIB and these are the key uptake drivers, while on the national scale CHF contributes with 48%. Overall, there has been an increase in the uptake of health insurance products between 2013 and 2017 from 1.9% to 3% respectively. This increase is in line with the Zanzibar Health Sector Strategic Plan III (2013/14-2018/19) which places focus on the mobilization of funds to ensure the availability of improved services to the general public, through the implementation of a Health Insurance Scheme.

FACT 6

Medical insurance leads insurance usage



FACT 7

4 out of 10 financial service users have active wallets



FinScope Tanzania 2017 found that only 5% of Zanzibaris have insurance cover. The insurance market is dominated by take-up of health insurance products and motor vehicle insurance. High uptake in motor vehicle insurance is due to the legal requirement for owners of motor vehicles and motorcycles. Interviews reveal that the low uptake of insurance is attributed to social factors like social cohesion in mitigating unforeseen events and religious factors – regulators are working to introduce services which are compatible with the social cultural environment of Zanzibar. Low education on insurance is another reason; interviews reveal that people perceive insurance as a waste of resources and some expect automatic compensation when events occur despite formal procedures for claiming¹⁰

¹⁰ Qualitative analysis of interviews with insurance operators and community groups

Frequent usage of formal financial services is still limited, with only 4 out of 10 financial service users in Zanzibar accessing their financial services within the past 30 days.

FACT 8

Adults from the two lowest quintiles, young people and dependents are more likely to be excluded



Chart 45: **Who is being left behind?**

Base = excluded in Zanzibar only



Source: FinScope Tanzania 2017 April-July

Overall, there has been a slight decrease in the overall levels of exclusion, shown by the 2017 survey results of 43% down from 45% of the adult population who were financially excluded in 2013. This is mainly attributed to an increase in the usage of mobile money services.






Most of the respondents who are financially excluded come from the two lowest quintiles, youth and dependents, where proximity to financial services is lower. They are also more likely to be women, farmers and those from rural Zanzibar. However, those who are most prone to exclusion are people with no formal education in rural areas.

51% of people who are financially excluded do not have any form of identification, which, by default, restricts them from accessing formal financial services directly. Furthermore, a moderate negative correlation between proximity and exclusion has been observed.

Further analysis shows that only slightly less than a quarter (24%) of people who are financially excluded claim to have saved in the past 12 months and the majority keep their money in a safe place at home or have given it to family or friends for safe keeping. About (23%) of people who are financially excluded borrowed in the past 12 months and were almost solely reliant on friends and family.

In sum, the above findings show that the most vulnerable to economic hardship are predominantly financially excluded in both formal and informal financial access strands. This may limit their active participation in economic activities and ability to meet daily needs including food, clothing, paying school fees for their children, etc.

THE TABLE BELOW REPORTS WHY THEY ARE EXCLUDED

	 Banks	 MFIs	 SACCOs	 Mobile Money	 Insurance
PRIMARY BARRIER	Insufficient income to even consider opening an account	I don't have the right documents	Lack of awareness of how SACCOs operate and how to join them	Don't need it, don't have frequent transactions	Perceived high cost of insurance and inability to afford insurance payment
SECONDARY BARRIER	Insufficient income Cannot maintain minimum balance for the account	Lack of awareness Insufficient income	Membership fee is perceived to be too high They are too far from the respondent	I don't have a phone/device to be able to use services	Lack of awareness of how insurance services work and how to obtain them

Source: FinScope Tanzania 2017 April-July

Base = Zanzibar only

Conclusion



Zanzibar has made remarkable progress in expanding the opportunities for people to use financial services. Formal inclusion has reached 45%, growing by 7% points between 2013 and 2017. Mobile financial services continue to make a higher contribution (38%) to usage compared to other channels. It is worth noting the modest growth in banking services (11.2% to 15%) and pension uptake (2% to 5%) as well as a reduction in the sole-reliance on informal mechanisms. Further increase in financial inclusion is expected from the introduction of financial services which cater for specific customer requirements e.g. Islamic banking as well as Islamic insurance. More integration of government services and mobile money payment is also envisaged to expand financial inclusion in Zanzibar.

ADDRESSABILITY

Over the past three years, improvements in accessibility of financial services have been impressive. Greater proximity of financial services to where people live and greater access to mobile phones have made considerable contributions to this phenomenal growth. The proportion of the rural adult population living within 5km of an access point has now reached over 87% nationally and 95% in Zanzibar, signifying that the barrier of distance, reported to be critical by a majority of respondents in the 2013 survey, has now eased. The increased adoption of mobile phones 73% of Zanzibaris owning a mobile phone allows people to access mobile financial services more conveniently. These developments provide an opportunity for Zanzibar to deepen the financial system by leveraging technology to drive up usage and reduce transaction costs.

Notable progress has been made in providing proof of identification with the majority of people having a Zanzibar residence ID card (71%), National Identification Number (66%) or Voter ID card (64%). Zanzibar residence ID cards are used as the main form of identification when registering for services from financial providers. There are two main advantages of relying on this form of identification. First, the fact that Zanzibar ID cards are issued upon application to any person who is 18 years old and above means that young people who enter the adult category may obtain cards easily, and therefore be eligible to use financial services. Second, it is easier to verify information particulars of an individual who hold either Zanzibar residence ID card or National ID card than any other form of identification, which facilitates usage of financial services. Hence, the future for financial sector development and the economy in general is therefore placed on sound identification system to deliver the most modern, reliable, secure and verifiable ID system.

UPTAKE AND USAGE

Whilst the usage of financial services through formal providers has grown, the most popular way to make and receive payment is still cash. The proliferation of digital wallets is yet to replace this reality. The results show that a good number of people are saving using mobile platforms (36%) and banks (30%), which could help explain the reduction in the number of people keeping their money at home from 57% in 2013 to 35% in 2017.

There are signs, too, of an emerging market in accessing digital credit, which shows growth potential through savings orientation and data analytics. Mobile solutions are also beginning to be used to make payments, particularly groceries which provide an opportunity to expand the remit of the current digital space to allow many people, including smallholders, women, small enterprise owners, and those living in rural areas, to use digital solutions that are appropriate and affordable.

FinScope Tanzania 2017 has provided valuable insights on peoples' financial behaviour and how it relates to their daily lives. It is evident from FinScope Tanzania data that many Zanzibaris face challenges of cash flow management, coping with risks and fulfilling aspirations for asset building and productive investment. Such insights into the daily struggles and future aspirations of many Zanzibaris provide an opportunity for financial service providers to design solutions that prioritise customers' needs. For customers with access to financial services and products, key concerns are suitability and affordability, which raise issues for service providers of how to maintain affordable transaction costs. Generally, it is as important as ever to encourage and support innovation and partnerships between key players to deliver financial services that are convenient and affordable.

The main challenge that remains is how to address the financially excluded proportion of the population. Rural people, smallholder farmers, younger people and women are still left behind in greater proportions compared to other segments. Although proximity and access to mobile wallets are no longer the major constraints, the reality for many people who are financially excluded can partly be explained by the growth in the population without reliable identification. Of those that are excluded (43%), almost half of them do not have identification documents.

WHO IS LEFT BEHIND?

Lack of literacy and financial incapability were reported to be among the main challenges to improved financial inclusion. Illiteracy continues to be one of the main barriers to uptake and usage of financial services to date. On the aspect of financial literacy and how it affects financial inclusion, a case in point are SACCOs which failed to expand services after taking bank loans. Interviews have revealed that there are significant knowledge gaps on financial matters among users¹¹. Concerted efforts are still necessary to address this challenge, especially among the younger generation and people living in rural areas.

Low and inconsistent cash flow appears to significantly limit many people in engaging in financial systems. Half of the respondents mentioned struggling to keep up with their expenses, both regular and unexpected. A popular mechanism for coping with financial needs is borrowing from friends and family. This translates into a significant tax on economically productive members of these networks of families and friends.

11. Qualitative analysis of interviews with SACCO and community groups

Dubbed by economists as “kin” tax, this arrangement also presents challenges in making sophisticated financial investments if a considerable amount of available financial assets is required for kin tax contributions. Perhaps there is a need for further exploration within these segments to develop interventions to build their capacities to generate income.

OUTLOOK

Looking ahead, there are great opportunities to deepen the financial sector by expanding the uptake and utilisation of financial solutions in particular around the mobile money space. The drive for improved financial inclusion will need to consider appropriateness of solutions proposed, plus the convenience and affordability as determined by users. Building on people’s aspirations, there are opportunities to expand insurance, particularly health related, pension solutions, payments, capital markets products, in addition to developing the savings and credit markets. Pursuing economic efficiency and growth will undoubtedly require rethinking of the design and implementation of financial sector policies and regulations to ensure they also encourage and support increased usage of financial services. Improved financial inclusion is essential to achieving Tanzania’s development goals.

KEY DEFINITIONS

Financially included - Individuals 16 years or older who have or use financial products and services to manage their financial lives

Financially excluded - Individuals 16 years or older who use NO financial mechanisms - rely only on themselves/family/friends for saving, borrowing and remitting; their transactions are cash-based or in-kind

Formally included - Individuals 16 years or older who have/use financial products/services provided by a financial service provider that is regulated or officially supervised

Informally included - Individuals 16 years or older who use financial mechanisms not provided by a regulated or supervised financial institution

ABBREVIATION

BoT	Bank of Tanzania
EA	Enumeration area
FSDT	Financial Sector Deepening Trust
HH	Household
KYC	Know-Your-Customer
MFI	Microfinance Institution
MoF	Ministry of Finance and Planning
NBS	National Bureau of Statistics
NFIF	National Financial Inclusion Framework
OCGS	Office of Chief Government Statistician Zanzibar
PPP	Public Private Partnership
PPS	Proportionate to Population Size
SACCO	Savings and Credit Cooperative Organization

NOTES