

TANZANIA



Community-Based Savings Groups in Mtwara and Lindi

In recent years, stakeholders have increasingly acknowledged that formal financial institutions are not able to address the financial service needs of the very poor, particularly those living in remote areas. Small transaction sizes, sparse populations and poor infrastructure limit the ability of commercial banks and microfinance institutions to reach rural areas where many of the world's poorest and most marginalised populations live.

In Southern Tanzania, the economy of Mtwara and Lindi regions is based on subsistence agriculture, with about 87 percent of the population engaged in rain-fed agriculture. Despite good agricultural potential and sufficient average rainfall, low agricultural yield in these regions puts many rural households at an increased risk of food insecurity. Most of these households are not able to access savings or credit to address their food insecu-

rity, as over half of Tanzanians above 16 years are excluded from semi-formal or formal financial services, and services that do exist are restricted to urban and peri-urban areas.

Recognising that quick and flexible access to a small amount of credit or accumulated savings can substantially improve the livelihood of farmers, in 2010, the Coastal Rural Support Programme in Tanzania – or CRSP(T), a multi-input area development programme of the Aga Khan Foundation (AKF) – initiated the Community Based Savings Groups (CBSGs) project to provide such access to rural households across selected areas in Lindi and Mtwara. In collaboration with the government of Tanzania, under its MKUKUTA poverty alleviation programme, CRSP(T) takes a market development approach to support rural livelihoods and improve the quality of life through increased rural income.

The programme's overall goal is to improve the quality of life and social well-being of target communities in Lindi and Mtwara regions through sustainable socio-economic interventions in food security, income generation, health and education.

By 2013, 110,000 people (66 percent women) had joined over 5,500 AKF community-based savings groups. Supported groups have a savings portfolio of nearly US\$ 1.4 million; an average savings of US\$ 40 per member; and an average loan fund utilisation rate of 80 percent (average loan size US\$ 80). Importantly, over 75 percent of these groups have continued to operate and expand after AKF's support has ended.

In March 2013, a qualitative study of 12 savings groups was conducted by AKF, to better understand how group membership affects saving and

Members reported that the CBSG methodology enables them to make deposits regularly and accumulate greater savings over time. The savings box, which is kept under lock by several group members to ensure against theft, is considered a secure alternative by many.



“Through the group we have become like family. We are all very close friends now...we respect and help each other.”

-- Female members from urban site

loan-taking behaviour, responses to socio-economic shocks and household financial decision-making; complementarities between AKF's savings group and agriculture-related interventions; and issues and opportunities arising when comparing two different implementation models. This report highlights the main findings of the study.

How the programme works

A CBSG is a voluntary group of 15 to 25 people who save together and take small loans from those savings. The group's activities run in yearly cycles, after which the accumulated savings and the loan profits are shared out to members according to the amount they have saved. An AKF facilitator trains the groups to manage their transactions independently. The facilitator does not handle the groups' money or the record-keeping. AKF does not provide any capital.

According to the CBSG methodology, the loan size should not exceed three times the amount of individual savings, so as to allow multiple members to access loans and to avoid loan-takers being over indebted. In Mtwara and Lindi, this was of concern for a few members as they were not able to access the larger sized loans they wanted. Other members were dissatisfied when they were unable to take a loan because the entire loan fund had been disbursed.

As a result, many members belong to several CBSGs to access multiple

and/or larger loans. Others combine different sources of formal and informal credit to meet their needs.

How the study was done

Four sites (two villages, one peri-urban area and one urban centre) were selected for the study based on the following criteria: predominant livelihood strategy, number of households in the village, distance from urban centre, and overlap of CBSG and other AKF-supported activities. In each site, two to three savings groups were selected based on the groups' maturity (number of completed cycles) and the implementation model¹ used. A few members from each group were interviewed to capture diversity between groups within a single site. In addition, non-group members were interviewed to provide yet another point of comparison. Overall, focus group discussions and in-depth individual interviews were conducted with 110 community members: over half of whom were CBSG members, nearly a third non-CBSG members

¹ The establishment of CBSGs is done through two delivery models. In the first model, CRSP(T) is directly involved in forming the CBSGs through paid personnel, who are selected from the programme area and trained over the course of two weeks. The secondary model, which was introduced a year into the intervention owing to difficulties in recruiting suitable personnel, helps the groups replicate and achieve greater scale in a more self-sustainable manner. Here, a CBSG member with the skills and motivation to train a new group takes over the facilitating role of the paid personnel (whose role becomes principally supervisory) and is paid a fee directly by the group itself.

and the remainder key informants (village leaders, influential community members and financial service providers). Of the 110 community members, 49 percent were female. Interviewed members represented 12 CBSGs, 10 of which had completed at least one savings cycle and share-out.

A pilot study helped address potential challenges prior to data collection. While the field team's limited experience in implementing qualitative studies affected its ability to ask probing questions in a non-leading way, especially for sensitive issues, only one major limitation arose during data collection. Data collected around socio-economic shocks should be treated with caution because respondents and facilitators felt awkward talking about this subject, perhaps due to the lack of familiarity with each other and the sensitivity of the topic.

Key findings of the study

Finding 1: Savings groups help motivate more regular savings.

Prior to the CBSG initiative, many members of the community were saving either at home, in informal community groups or with banks, relatives, friends and/or shopkeepers. More than one-third of interviewees belonged to savings and loans associations not affiliated with AKF. However, CBSG members noted that these activities did not necessarily improve their ability to save. Savings stashed away in the home ran the risk of being stolen, either by an outsider

or by a member of the family. With other individuals, shopkeepers and associations, a lack of trust prevented any significant accumulation of savings. As for banks, very few people accessed them because of fees, distance, perceived complexity of process and the perception that banks serve only high-income earners and government employees.

While the commonly known location of savings boxes appears to dissuade some from joining CBSGs, these groups are still considered a safe alternative for many. Members reported that the CBSG methodology enables them to make deposits regularly, allowing them to accumulate greater savings over time.

Higher membership amongst women was explained by many as being the result of men's greater access to the formal sector. Other reasons cited for greater female participation were: Women save better and more consistently than men; women are more open to participating in new or unknown initiatives; and, there may not be enough money in the household for two members to join.

Finding 2: Savings groups help promote financial inclusion.

With regard to credit, most respondents – irrespective of membership – reported limited loan sources and those that existed were unreliable in terms of availability and sometimes exploitative. Only a few managed to take loans outside of the CBSG.

"People need to borrow money. The problem is finding places to borrow from."

-- Female member from rural site

Respondents felt that reliance on informal sources came with financial and social costs because neighbours and friends only lend money if they are confident that the borrower can repay promptly. Late or non repayments often lead to public disgrace.

"Borrowing from a private person you get money quickly but it has disadvantages because the person who lent you money could tell everybody or argue with you if you are late to pay."

-- Male member from rural site

As a result, CBSGs appear to be an important source of loans for productive purposes (farm labour and businesses) and for other immediate needs such as sickness or daily household expenses. Most members appreciated that the terms of loans taken from the CBSG were transparent and the interest rates (mostly 2-10 percent) and other terms were decided on a consensual basis.

Finding 3: Savings groups may to a limited extent encourage more consultation between spouses with regard to household financial decisions.

In most member and non-member households in urban and rural



"At the bank the interest you pay has no benefit for the borrower, but in CBSG the interest benefits the borrower."

-- Male member from rural site



areas, men make decisions relating to household finances, except for in households headed by single or widowed women. Also, in some rarer cases, men with multiple wives choose to live with one woman only. As a result, the remaining wives are the heads of their respective households and make decisions relating to household finances. However, in other cases where wives contribute to meeting household expenses, either by saving or generating supplementary income, financial decisions are more likely to be made jointly. In such cases, women members either took a CBSG loan or used their share-out to support business activities such as small sweet bread shops or buying and selling fish and vegetables.

As a result, some women are now able to contribute to household expenses and, in some cases, this contribution has increased their participation in household financial decisions. According to most members, spousal relationships have improved since the wife started contributing.

“Before all of our fees were his responsibility. My relationship with my husband has changed. It is improving.”

– Female member from rural site

Finding 4: Savings groups help cushion socio-economic shocks.

The main coping strategy used by members and non-members alike in response to emergencies that require

quick access to cash is using their savings or requesting a loan. The main difference appears to be that most CBSG members are able to adequately address their urgent needs through group savings and loans. While this often means forgoing or delaying other plans, these transactions do not affect the member's ability to meet his or her household's basic needs. Whereas with non-members, savings used in an emergency generally comes from money kept at home. Given that many people have difficulties saving larger sums of money at home, these funds are not always adequate for dealing with shocks. Moreover, when home-kept savings are depleted, families sometimes do not have enough to eat. If loans were used, they were borrowed from relatives, neighbours or money-lenders and were often accompanied by the afore-mentioned financial and social costs.

“There is a big difference between those in groups and those not in the groups. This year those in the groups will have enough to eat.”

– Male member from peri-urban site

Finding 5: Savings groups help improve social cohesion.

Saving collectively fosters a sense of harmony and solidarity amongst members. For example, one female member explained that her group made an exception that allowed her to take a loan during a savings meeting because of her urgent need.

“Before I, as a woman, had not properly recognised myself. Now, I am not afraid to do anything. I know that I can do things – business and other things – myself.”

-- Female member in urban site

“Simply put, the poor in the developing world require access to just about every kind of financial product and social service that individuals or small-enterprise owners require in the developed world...”

– His Highness the Aga Khan, speaking at the inauguration of the Aga Khan Agency for Microfinance, Geneva, Switzerland, 22 February 2005

In March 2013, a qualitative study of 12 savings groups was conducted by AKF, to better understand how group membership affects saving and loan-taking behaviour, responses to socio-economic shocks and household financial decision-making; complementarities between AKF's savings group and agriculture related interventions; and issues and opportunities arising when comparing two different implementation models. This report highlights the main findings of the study.

- 1. Savings groups help motivate more regular savings.*
- 2. Savings groups help promote financial inclusion.*
- 3. Savings groups may to a limited extent encourage more consultation between spouses with regard to household financial decisions.*
- 4. Savings groups help cushion socio-economic shocks.*
- 5. Savings groups help improve social cohesion.*
- 6. Savings groups help members meet agricultural financing needs.*
- 7. Savings groups function similarly independent of their implementation model.*

It appears that some CBSG members are now better able to address their agricultural financial needs because of their accumulated CBSG savings, improved access to loans and improved social cohesion, which for one group has led to collective farming.

The social fund also appears to play an important role. A female member commented on the usefulness of the social fund to help members in times of crisis. She and many other members, particularly women, commented that they felt secure in knowing that they could go to the group for help in times of sickness or other household emergencies.

Finding 6: Savings groups help members meet agricultural financing needs.

While most farmers rely on their disposable income or sell their livestock to meet agricultural financing needs, some CBSG members reinvest their share-out money in their farms.

"There is a change now that I have joined CBSG. When working alone you can only have a small field. With labour [made possible by CBSG share-out money] your field can grow."

-- Male member from peri-urban site

Some members synchronise their loan taking with the agricultural season. However, the stipulated three-month repayment period does not allow for farmers to take a loan for the most costly agricultural activities: land preparation and weeding, which happen roughly five months before harvest. Yet, even when the timing of the loan repayment does not fall after harvest, some members use their CBSG loans for agricultural purposes. Only those members who have a second source of income do so, since these loans are considered high-risk. It appears that some CBSG members

are now better able to address their agricultural financial needs because of their accumulated CBSG savings, improved access to loans and improved social cohesion, which for one group has led to collective farming.

Finding 7: Savings groups function similarly independent of their implementation model.

The establishment of CBSGs is done through the Field Officer (FO) model and the Village Agent (VA) model. In the former, AKF is directly involved in forming CBSGs through paid trained personnel. Owing to difficulties in recruiting suitable personnel, in mid-2011, AKF introduced the VA model by recruiting CBSG members with the skills and motivation to train a new group for a fee paid by the group itself.

Since this shift, stakeholders have questioned the programme's ability to maintain high-quality service delivery. However, the qualitative study conducted by AKF in March 2013, as well as findings from monitoring visits and an external assessment commissioned by the Financial Sector Deepening Trust for Tanzania (FSDT) in October 2012, showed no differences between the functioning of VA and FO facilitated groups. Also, no problems were reported with the payment of VAs.

Issues to consider for future implementation

Issue 1: Agricultural financial needs

Ongoing pilot initiatives (e.g., training





“Sometimes it is difficult to get the full amount of the loan that you want if many people need loans and there is not enough in the box.”

-- Male member from peri-urban site

for Village Agents to promote CBSGs amongst their clients, coinciding CBSG share-outs with the agricultural calendar) should be further explored to help CBSG members to better address their agricultural financial needs.

Issue 2: Contract farming

There is demand for agro-inputs and agro-equipment from members who have access to finance. AKF should identify members who may be able to engage in contract farming.

Issue 3: Collective farming

Collective farming is a useful option to promote amongst groups who want to access labour when access to finance is limited.

Issue 4: Savings strategies that are to a household's detriment

Negative household strategies adopted to increase savings ability (e.g., skipping meals, purchasing less expensive food items and choosing

not to buy household items) should be further investigated by AKF. Importantly, some members in rural sites experience greater difficulty in saving and tend to adopt these potentially negative strategies in order to save.

Issue 5: Having enough in the box

The loan fund utilisation rate in 2013 in the programme area was 80 percent with 48 percent of members having an outstanding loan. While this reflects normal functioning, many members expressed concern about not being able to take loans because of limited money in the fund. These two indicators should be more closely monitored.

Issue 6: Membership as insurance

Although they appreciate the benefits of the social fund, few CBSG members are able to articulate it as a form of community-based insurance. Financial literacy training may, amongst other benefits, enable members to better understand community-based insurance.

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Financial Sector Deepening Trust for Tanzania (FSDT)

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The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

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