MICRO FINANCIAL INSTITUTIONS (MFIS) AND SAVINGS MOBILIZATION SERVICES FOR THE POOR IN TANZANIA

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Abstract: Poor households save in various forms for various purposes. Although empirical evidence suggests that the poor would deposit if appropriate financial institutions and savings facilities were available, little progress has been made to establish Micro Financial Institutions (MFIs) as full-fledged financial intermediaries. MFIs offer only credit, and savings mobilization remains the forgotten half of micro-finance.

Qualitative research design using case study approach was used. It was generally observed that, low-income business owners are not so poor as suggested in the vicious cycle of low income, low savings and low investment because they demonstrated their ability to save. It is recommended that formal and informal financial services be created so that they can identify needs and opportunities for establishing savings mobilization services for the poor.

The paper is organized into five sections. Section one deals with theoretical aspects of savings and savings mobilization while section two deals with literature review. Section three deals with the research problem and study methodology while section four presents the findings and section five presents conclusions and recommendations.

INTRODUCTION

It has been contended that households experience a vicious cycle of poverty in developing countries because they have low incomes, and thus have limited amounts of money available for spending. They may not necessarily be poor because they do not save during times of plenty to spend during rainy days. There are three arguments on the cost of savings mobilization and the role of the process in improving the lives in these households. These are: first the interest rates are too high for the poor to benefit; second the poor demand high liquidity to an extent that this demand may make the transaction costs for MFIs too high and hence collection of small amounts of savings from the poor may be too expensive; finally that savings from the poor are too small to be able to fund large loan portfolios (Marguerite 2000).

CONCEPT OF SAVINGS

Savings are cash or physical products set aside for future use. People in rural and other low-income communities can save if they are guided and encouraged. In rural communities, savings are made through traditional credit rotation groups, purchase of domestic animals, etc. Kimaro (2000) defines savings as a process of accumulation through monetary and non-monetary assets. They include human capital savings (educating a child), saving in crops, jewellery, land and monetary accumulation. Saving has been defined by Zella (1997) as net change in equity that involves monetary and non-monetary assets such as jewellery, cattle and grains.

SAVINGS MOBILIZATION

People will want to save so that they can start a business enterprise, provide for a growing family's health, education and build a house, buy new equipment; provide for old age; provide for unforeseen circumstances like drought, buy physical assets like land and to develop a relationship with lending institutions that will provide credit (Bartle, 2001).

Savings mobilization is a process of studying the financial behaviour of the low-income groups in order to understand their financial behaviour and risks involved in dealing with them on financial activities. *Micro Save-Africa* project defines savings mobilization as a process that involves establishing financial service needs and preferences of the poor, understanding their financial behavior and risk profile, and designing appropriate financial products based on better market information.

Saving mobilization is an innovative way of stretching resources, widening partnerships and empowering the poor. Savings promotes resource maximization. The more one takes care of resources the more resources are entrusted into him/her. Savings mobililization promotes resource maximization. By using appropriate technology, household costs can be reduced without sacrificing quality. It involves shorter repayment period, thus the length of amortization need not be stretched out. There is faster turnover as the revolving fund can advance more than one cycle, as well as a wider scope of partnership and empowerment of the home partner and the community to promote resource maximization (Ashele 2000).

There are three suggested ways through which small savings can be accumulated to large sums of money (Mutesasira, 1999). These are: Saving Up (SU) whereby low-income groups which lack safe and reliable opportunity to save are assisted to put aside lots of small savings that can amount to large amounts over a time. Second is Saving Down (SD) whereby a loan is used as a saving for loan repayment. It is an advance to the borrowers so that they can pay for emergencies and this is given by moneylenders but at a very high cost. Thirdly there is the Saving Through (ST) whereby savings are collected on a continuous basis and the collected amount is given to the saver at some point.

LITERATURE REVIEW

Why Savings Mobilization?

It has been observed that length and regularity represent essential elements of the savings discipline that help rural populations resist social pressure and avoid ordinary waste. They are also basic elements that enable a longer-term vision for rural populations who continue to live from season to season and lack the capacity to make longer-term plans (Renee Chao Beroff (2003) (cidr@comp) The rationale of saving mobilization therefore to guard the poor against seasonal shocks and especially if such shocks will occur in shortage seasons.

Nevertheless, these savings mechanisms do not really provide incentives, above and beyond the simple protection from shocks that household's experience like disease, drought, and social events. They do not develop the capacity to manage and accumulate wealth and do not favour the progressive development of real economic strategies. Savings in this argument is considered as a *vehicle* to build asset, creation of working capital for investment. This relationship is shown in the diagram 1.

The five 'C's in the MSEs's box in the diagram represent the type of information required by the credit institutions from their clients before they are proved credit worthy. This information includes:

i) Personal information about the owner;
ii) Business ability to repay the loan;
iii) Owners' investment in the business; and
iv) Loan securities hindrance to the business ability to repay the loan.

This information is based on the ability of the business owner to prove credit worth to the MFIs. The only vehicle that can enable the owners to cross over is their savings.

Choice of Savings Mobilization: Costs and Opportunities

It has been contended that despite the advantages of savings mobilization for the poor, the costs attached to interest rates, risk and administrative requirements when compared to the amounts of savings colleted may not yield the expected outcomes for the MFIS. It has also been evidenced that what the small savers require is accessibility to flexible saving services, and that they are not interested in high returns (Renee ibid).

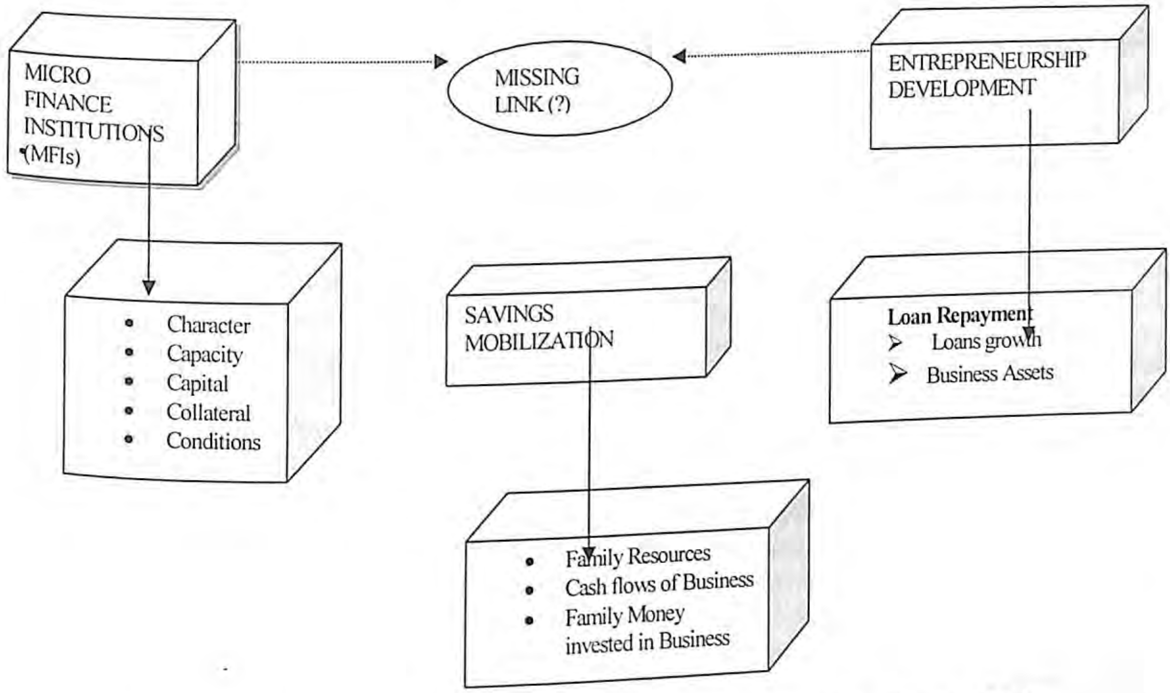

Diagram 1: *Savings mobilisation Model: The Need to Establish the Missing Link*

Source: Author 2003 (Modification of SIDO's Lending Model, 1983)

That is why it is advised that the poor save with the informal financial systems that are easy to organize, offer discipline in savings and take small deposits, and they are not restricted to micro-enterprise lending. Some offer savers very high returns (10%) per week, doorstep services and mixes well with social activities.

It has further been argued that what the poor need are not high interest rates but the security and the possibility of withdrawing when they want to withdraw. Taking many savers with small amounts of savings may lead to large sums and hence minimization of the large loan portfolios costs. The main argument is to assist the poor to save during the plenty periods so that they can use the savings during scarcity.

Experience has shown that voluntary savings can be a low economic means for clients to self or co-finance their productive projects thus the advantages of security, convenience, confidentiality and good service for the poor from their savings are attained from savings mobilization despite the costs.

The field-research conducted as part of the preparation for Rural Finance component of the EU-funded Central Cordillera Agriculture Programme, revealed that the most important financial services-related problem facing the poor in the Cordillera was how to manage school expenses. As a result of a remarkable commitment to educating their children, households all over the Cordillera had to find substantial sums of money to meet the costs of buying uniforms and books. In the absence of savings facilities, households were taking loans (at 10% interest per month) from moneylenders in order to finance school expenses. There was a clear need and demand for secure savings products to help meet education costs without going into debt.

The Grameen Model and Savings Mobilization

The Grameen Model of Bangladesh offers some insights on the need for savings mobilization from low-income groups for either reinvestment or consumption during periods of shortages (Yunus, 1989). Savings mobilization in this model is done through bank deposits. Each member is requested to deposit a certain amount of Taka[1] on weekly basis. The aim of encouraging borrowers to save is not only to facilitate lending mechanisms but more so to overcome market imperfections and promote financial security of the member borrowers.

These savings are used as alternative sources of credit for borrowers and helps lenders to sustain themselves so that they don't have to depend on external borrowing all the time. This trend enables the bank to lend to many borrowers. Individual savings are refunded once the member decides to quit the program. The members upon the permission of the group members can use group savings. The bank recorded an increase of growth in savings from 94Tk. to 131.7 Tk. million in 1995 (WB 306:1995).

Classical Theories on Savings Mobilization

It has been contended by neo classical authors that the problem is not so much about the amount of savings one can make; it is more related to consumption pattern and tendency to invest in fixed assets and family obligations. As such, profits from business or incomes from other sources are not used for venturing in business. Myriad's vicious cycle of savings and investment indicate that, the small holders cannot save because they do not have enough capital to invest and if they cannot invest then they cannot produce and hence the vicious cycle in diagram 2 overleaf

According to these theories on capital and productivity (Classical and Keynesian theories) it is demonstrated that, there is a close relationship between savings and investment. As such inadequate capital leads into low productivity and low productivity leads to low savings and low savings leads to low investment and this creates a vicious cycle.

Micro Savings in Tanzania

Savings mobilization in Tanzania has been encouraged through various informal strategies. Informal sources of credit in Tanzania are various (Musinguzi 1995; Giichira, 1994; Bagachwa, 1997; Ndanshau, 1996). These sources it has been observed have contributed positively to the initial capital for entrepreneurship development.

Several micro finance services are currently been offered in Tanzania. Such services include credit delivery, training and supervision of the production activities of small business owners. Saving mobilization, which is a service that could support and make these services more sustainable, has been forgotten as argued by (Mutesasira, 1999; Kimaro, 2000). For small-scale entrepreneurs saving mobilization service shall be a means of enabling them to earn incomes that may enhance their economic strength and hence unchain them from the vicious cycle of low savings, low investments and low incomes.

Micro financial systems sustainability will depend on the ability of the borrowers to save. It has been observed that such a relationship has not been attained (Ndanshau, 1995; Buitumilo, *et al.*, 1995). Various studies that have been conducted in the area of financing services in relation to formal and semi formal financing have demonstrated that informal financial services are available in this country. The informal borrowing exists, and it has played a very important role in smallholder economy. It has further been proved that, the poor are able to save through various forms of wealth storage such as cattle, grains and assets (Ndanshau, 1991; Mutesasira, 1999; Kimaro, 2000).

[1] Taka (Tk) is a currency used in Bangldesh.

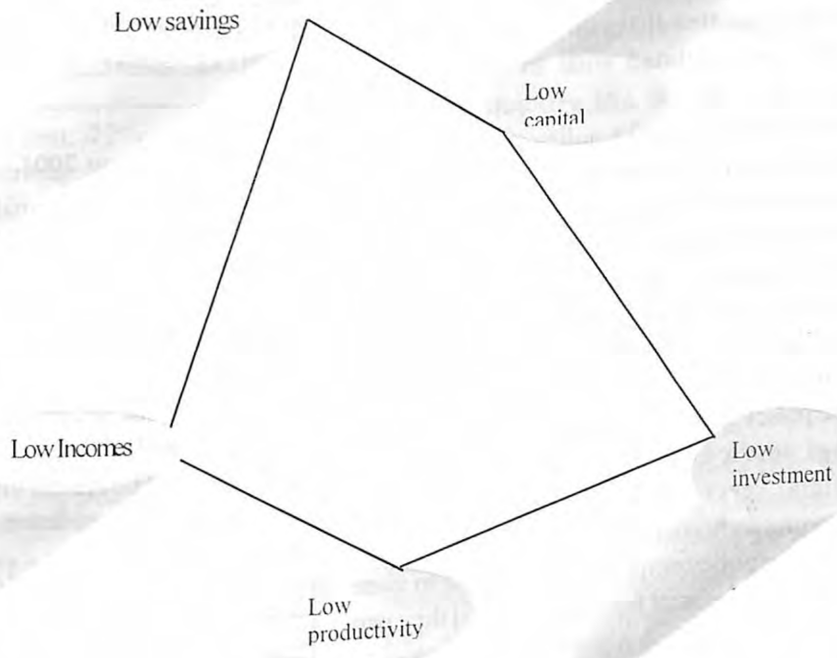

Diagram 2: *Savings and Investment Vicious Cycle*

Source: *Modified From Myrid's Version in Kularin*

RESEARCH PROBLEM

Savings are expected to play various roles. Boehl (1978) puts small business owners savings in the contest of their role in the community school, religion, and political contributions.

The National Micro Finance Policy of 2000 (NMFP) stipulates that, the financial sector reforms were initiated with an objective of creating an effective and efficient financial system. Section 1.2 of the policy stipulates that, the majority of Tanzanians earn low incomes. Access to micro financial services offers them a possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities for economic returns.

The policy gives a priority to efforts towards savings services and states that these are beneficial services for low-income groups. Savings protect households against periods of low income. The policy emphasizes on a need to store the value accumulated form profits until they can be invested for earning higher returns.

This calls for a need for developing informal and formal financial services that will assist in coordinating the mobilization of savings from low-income households and hence the basis of the research problem in whether there is a relationship between savings and small-scale business development and whether small-scale development leads to more savings.

Methodologies

The data that forms the background to this paper was collected in Tanga and Mbeya regions where the two credit institutions MEDA and CREW are based. The two research areas were purposively sampled out because of the researcher's intention to study the schemes. The target population in CREW included women receiving credit and their spouses as indicated below:

Table 1: *Sample Population (CREW)*

District	Villages	Clients	Women	Men
Muheza	Amani Kisiwani	03	02	01
	Mkanyageni	27	15	12
	Mbaramo	25	20	05
	Kivindo (a&b)	50	42	08
	Mkumba	05	04	01
Total		110	83	27

Source: *Survey Data,* 2001.

The criteria for being included in the sample included being a client of the named credit scheme for women and being a spouse of the client. Data form MEDA was obtained from loan registers. All those who were pointed out by the credit officers were included in the sample as indicated below:

Table 2: *Sample Population (MEDA)*

Mbeya Urban	Locality	Clients	Women	Men
	Mwanjelwa	21	06	15
	Uyole	11	02	09
	Sterio	03	02	01
	Mbalizi	05	04	01
Total		40	14	26

Source: *Survey Data,* 2001

A qualitative research design using case study approach was used to arrive at the information. Cases sampled were the two credit institutions and their clients. The whole process of analyzing and synthesizing evidence has been refereed to as "Analytical generalizations" which makes use of previously developed theoretical arguments as template with which to compare the empirical results from the case studies and survey data.

THEORETICAL AND EMPIRICAL FINDINGS

Theoretical work surveyed indicated that there is a link between the entrepreneur's level of savings and level of investment. The question here was whether savings were a condition before one was eligible forgetting credit. Savings the entrepreneurs were taken as indicators for measuring how the borrowing costs influenced the development of entrepreneurship. Bagachwa (1983) in a study conducted in Arusha observed that family savings accounted for about 85% of the initial investment in small business development initiatives.

The study observed that, 72% of the initial capital originated from entrepreneur savings. One condition before getting a loan from all the sampled credit institutions was the owner's savings. According to these institutions, savings determined the amount of loans each entrepreneur would get. The study was based on assumption that, in order for a credit scheme to prove the trust worth of the borrowers, he/she must have a given amount of savings. The following are the loan conditions that were observed in MEDA and CREW financial institutions:

MEDA Credit Lending Conditions and Savings

MEDA is an NGO based in Mbeya that offers credit to micro and small entrepreneurs. It has three approaches for delivering credit to the MSEs. These are: Individual credits lending (ICL), Solidarity lending (SL) and Market associations lending (MAL).

For the purpose of this paper the ICL is taken for elaborating on the need for savings mobilization. In ICL, an individual borrower is given a loan on condition that s/he has a guarantor or what MEDA refereed to as guarantor lending condition. The guarantor is required to pledge any asset that is not movable as a collateral asset. Assets according to the Neo-Classical theories are a form of saving in the low-income groups.

CREW and Savings Conditions

CREW is a Pilot Credit Scheme for Productive Activities of Women in Tanzania. The scheme was established in 1989 and implemented by the Ministry of Community Development, Women Affairs and Children. Some of the objectives of this pilot scheme were to:

i) Establish viable women economic groups and improving their agricultural, technical, managerial and marketing skills;
ii) Mobilizing savings and providing loans

The following are the findings on savings mobilization in as far as CREW and MEDA credit institutions are concerned. The owner of a business (borrower) must fulfill the following conditions before s/he is considered for the loan:

i) Ownership of a business;
ii) Guarantee for the loan (10% of the loan);
iii) Must posses a bank account;
iv) Savings (Tshs.1,000.00 Payable to the group account);
v) Provision of physical collateral (e.g. house) The findings indicated that, most entrepreneurs surveyed were not constrained by access to financing. This is because they could at least pay the 10% down payment that was a prerequisite for getting credit. It was further observed that a bank account was supposed to act as insurance to the borrower in case of defaulters in-group borrowing.

Similar results complemented the theoretical assumptions that, the poor can save only if they have fixed economic expectations. All the surveyed entrepreneurs had business expectations they wished to attain through small business and hence their reasons for taking the loan. One of the requirements of all the lending schemes models studied was that, their client's deposits. Savings mobilization has been taken as possible way of enabling the MFIs to sustain themselves in all the credit schemes surveyed. The following observation elaborates further on assessment of borrowers by the MFIs before they get the loan and the need for a sound cash flow.

1) ***Pre-conditions for loan application***
- A sound business idea
- A good Knowledge of the market
- The personal qualities needed in small business

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2) ***The evaluation***
- Is the underlying idea really sound?
- Will it survive early cash flow difficulties
- Can financial support be obtained (savings)

Diagram 3: *Loan Application Conditions and Savings*
Source: Starting a small business (Lambden and Target, 1990)

The diagram above illustrates on the need for preparedness of the borrower in terms of business idea and financial security. The return arrows show the checkpoints that the scheme may intervene for the interest of its borrowers. The financial liquidity on the evaluation box (2) takes into consideration the savings of an entrepreneur before they qualify for the loan. Savings of an entrepreneur were further taken as an indicator for measuring how the borrowing costs influences the performance of a business in the hypothesis that: The performance of a business is determined by the level of savings of an entrepreneur.

To search information for this presupposition, the question on the sources of income before taking the loan was posed to the respondents and the following was observed:

Table 3: *Sources of Initial Capital*

BUSINESS FUNCTION	MEDA		CREW	
	Os(%)	Cm(%)	Os(%)	Cm(%)
Buying Equipment	27	73	27	73
Raw materials	22	78	24	76
Advertisement	00	100	00	100
Transportation	33	67	12	88
Renting Premises	16	74	100	00

Source: *Survey Data*
Key
Os = own savings
Cm = credit money

The responses above indicate that, most entrepreneurs surveyed were not constrained by access to financing. This is because they could pay for the equipment and raw materials costs before they went for the credit loans. Respondents were further requested to indicate how their businesses were affected by the amount of savings they had before getting the loan. A Rheimann Scale (1988) for measuring scale was used to allow the respondents to choose the extent of the influence.

There was a general observation from the respondents (78%) indicating that, if the owner managers were given enough time to prepare themselves for the credit in terms of savings and business idea, then loan conditions would not have affected their businesses very much. Theoretical literature contended that the problem of savings mobilization is associated more with consumption patterns rather than failure of entrepreneurs to save. The Ashura's case study of maize selling business below to some extent proves this contention because profits from the business were used for other purposes. At the on set of the business, earnings from the business were used for business expansion and diversifying into another business of buying and selling fish. When the savings were diverted to other expenditures the business collapsed. She failed to repay the loan. The case is herebelow narrated for elaboration.

A Case Study of Ashura Maize Stall in Muheza

The Entrepreneur

The business owner was a certain lady aged forty-two by the name of Ashura. She was a class seven leaver. She decided to start this business because she heard from a friend that

CREW was providing loans for women income generating activities.

The Enterprise

The owner under study was engaged in buying and selling maize at a market stall. The owner used to travel from Muheza to Kilimanjaro and Dodoma regions to buy maize for selling. At the peak of this business Ashura decided to incorporate the assistance of her husband and hence the couple started to diversify into other trades like buying fish and selling at the same trading premises. She was buying maize from the same areas.

Entrepreneurship Development

She knew and utilized the peak harvesting periods (July and August) when the maize was sold at a cheap price and used indigenous technology for preserving the maize and selling it at difficult times (January to April). Diversification into other trade of fish buying from the same regions and starting a fish stall at the same premises. She was buying fish from Mtera and Nyumba ya Mungu in Dodoma and Kilimanjaro regions respectively.

Savings Mobilizations

CREW like other credit schemes had a savings program that was used to act as a group guarantor or insurance. Each group member is supposed to have a savings account. On top of the group guarantee savings, Ashura used her savings to start the fish business on the same lines. The owner of this business was at the same time able to retire the monthly repayments without any problem. She was also paying rent for the stall without any delays.

Problems Facing the Business

A few days later, she discovered that her husband whom she thought had gone to purchase maize and fish had swindled all the money she had given her for purchasing fish and maize. The husband claimed that he had been robbed something that Ashura failed to comprehend. Her fellow traders she used to travel with told her a different story. From this time on wards Ashura started to experience problems in loan repayment, she could not get bus fares to go for more maize and fish. She was forced to close the business.

Using the summary of empirical findings, the survey results from credit recipient's businesses and the lending institutions models, we are arguing that there is a relationship between savings and entrepreneurship development because:

i) Similar results are complementing the theoretical assumptions (Jones, op cit, Ashelle, 2000, Lee, 1993 and Marguerite, R. 2000 that, the poor can save only if they have fixed economic expectations, and that, the requirements of all the lending schemes models studied insisted that, their clients deposits will earn then a competitive position in business and if possible real returns if they had savings before taking the loan.

ii) Saving was a must as one of the securities. That is why each borrower was required to possess a savings account. The role savings on the borrower worthiness for credit was dealt with in the lending mechanisms and performance of MSEs. All the schemes surveyed conducted an evaluation of cash flows for the perspective borrowers before they qualified for credit (CREW and MEDA) models respectively.

iii) It has further been proved that, owners' investments in the business for which the loan was applied for and assets were also evaluated by the before one qualified to borrow. Such assets it was observed were bought using own savings.

CONCLUSIONS AND RECOMMENDATIONS

Savings mobilization has been discussed in this paper as a forgotten half of micro financial services in both urban and rural entrepreneurship development efforts. Savings mobilization is therefore recommended because of the following reasons:

i) It will assist micro financial Institutions and NGOs to expand and deepen their out reach to the low-income households.
ii) Savings will contribute to self-sustainability of the micro financial Institutions by providing cheaper funds for lending than those from conventional banks, government subsidies (if any) and donor agencies.
iii) Saving with the informal sector is recommended because it easy to organize, it is not restricted to lending, and may offer a door to door service and hence mixing with savers social activities
iv) Encouraging depositors may be a way of creating demand- oriented micro financial operations and instill public confidence in as far as MFIs operations and efficiency are concerned.
v) Strong and sustainable institutions with strong financial and good governance structures should be encouraged to mobilize savings like what has so far be done by the Tanzania postal bank programm of "WADU"[2]

Despite these recommendations, the following are envisaged as possible challenges that may face the whole initiative of savings mobilization:

i) Unfavorable macroeconomic and financial sector environment like inflation rates interferences through interest rates control and subsidized credit.
ii) Problem of interest rate spread i.e. the balancing of the difference between the costs of mobilizing savings and the earnings on loan to ensure institutional sustainability.

2 WADU is a Swahili abbreviation of Weka Akiba Daima Upatapo

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