

DEVELOPING FINANCIAL INCLUSION IN TANZANIA

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Can Digital Savings Groups Bridge the Digital Divide?

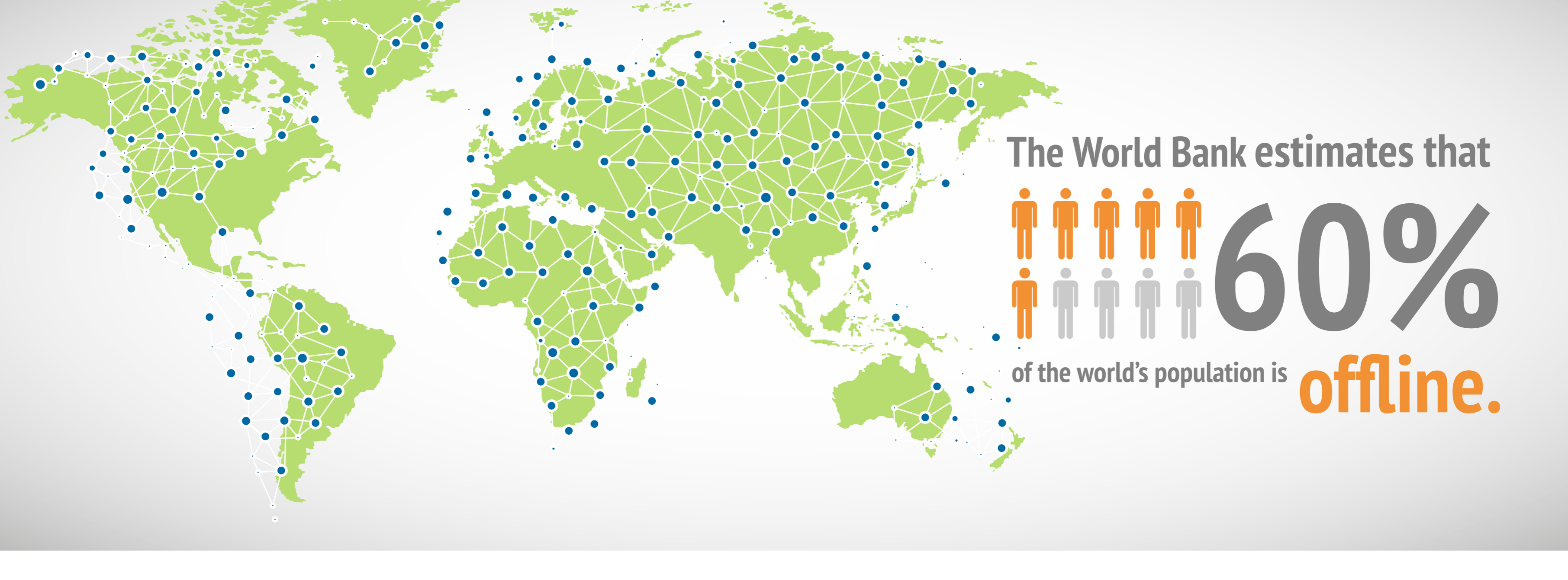
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Technology is an inevitability, it is everywhere. The world is connecting now at ever-increasing speeds. Data flows are increasing rapidly and the speed of transfer is accelerating every day. The developed world is more connected than ever, yet the developing world is struggling to keep up. The World Bank estimates that 60% of the world's population is offline. The digital divide continues to broaden and threatens to leave more than half the world's population behind.

As the digital world grows exponentially, becoming an ever-faster engine for knowledge, services and employment, the challenge lies in how to connect the world's poorest. How can we create a more digitally inclusive world?

One potential solution is the digitization of a homegrown practice among low-income communities across the world - the practice of participating in a savings group. Savings groups are informal groups of people who contribute money into a collective "pot" which is then shared out. These informal mechanisms have been around for hundreds of years. They feel convenient, familiar and safe.



The challenge lies in how to connect the world's poorest.

Digitizing savings groups provide an opportunity for members to grow accustomed to using digital financial services within the "comfort of friends" leading to a more confident use of mobile payments for other financial activities. In a broader, more futuristic vision, it means providing low-income rural residents, especially women, a safe space to assess and navigate the broader information in the digital ecosystem.²



The Opportunity

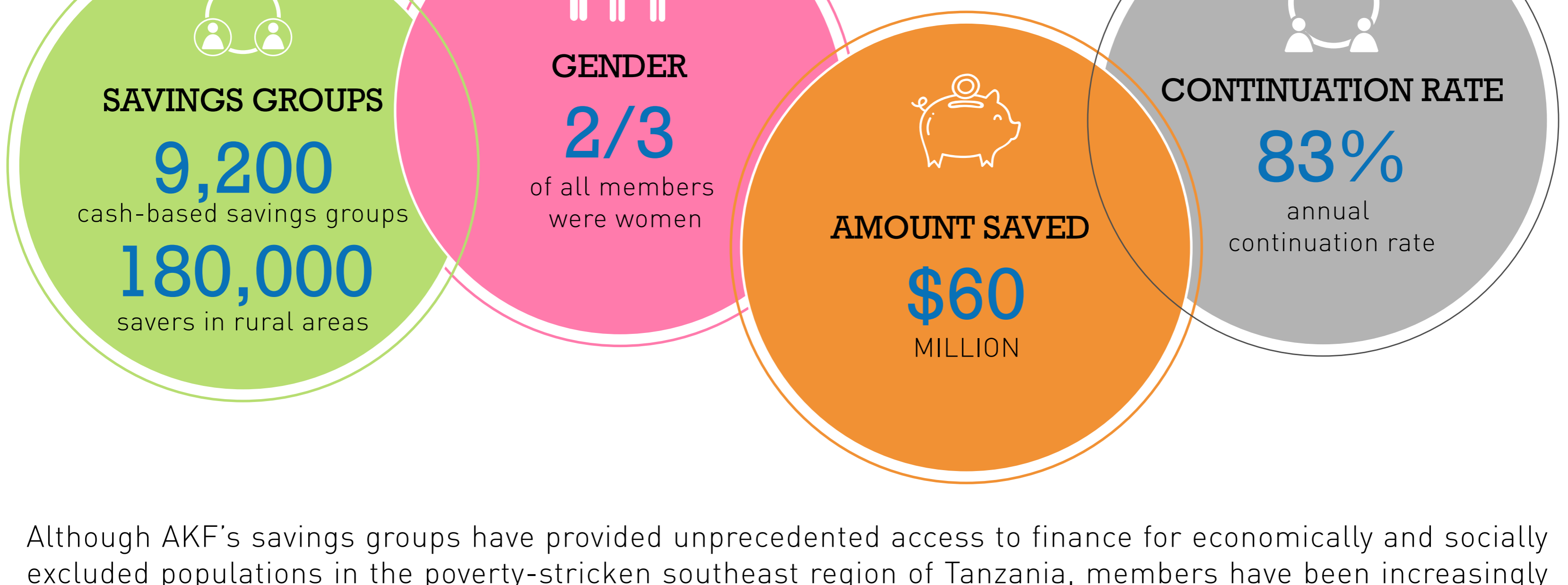
Digital Financial Services (DFS) are scaling in Tanzania, and access to cash-in, cash-out points are improving. This means that fully digital (cashless) savings groups have the potential to meet a critical concern of group members, i.e. eliminate the risk of theft for cash pooled by the group, and to provide a service that can bring rural group members across the digital divide. It empowers people, building new skills and their confidence as they begin to engage with the digital world.

Despite the rapid increase in Digital Financial Services (DFS) accounts, dormancy rates for mobile wallets are high; at least two-thirds globally. Many users stop using the service altogether after registering, finding the system hard to use, or simply not finding enough utility in it. A model for creating a culture of rural DFS users is needed to balance corresponding efforts to build the ecosystem for payments via DFS.

Savings groups are an ideal vehicle for building a culture of end users for DFS because as members, they are part of a mutual support group based on small, frequent transactions. By virtue of the basic requirements of membership, most digital savings group members make at least two mobile payments per month. This, and the opportunity to learn from peers, creates a solid foundation for becoming active DFS users in all aspects of their financial lives.

The Aga Khan Foundation Boresha Maisha Digital Savings Group Platform

By 2016, AKF in partnership with the Financial Sector Deepening Trust (FSDT), had established more than 9,200 cash-based savings groups³ with 180,000 savers in rural areas. Two-thirds of all members were women. Collectively, these groups have saved more than \$60 million since they began, and have an 83% annual continuation rate.



Although AKF's savings groups have provided unprecedented access to finance for economically and socially excluded populations in the poverty-stricken southeast region of Tanzania, members have been increasingly concerned with a lack of safety for their cash boxes, (which can store millions of shillings at a time). Moreover, cash counting and bookkeeping have become a tedious, time-consuming and labor-intensive exercise. Mistakes made undermine group cohesion.

With the support and guidance of the Financial Sector Deepening Trust (FSDT), the Aga Khan Foundation (AKF), Selcom and BFA are working together to leapfrog the 'savings group linkage' models and fully digitize savings groups.

The Boresha Maisha (Improve Life!) DSG design process began in 2015 with the objective of eliminating cash and bookkeeping without undermining the cohesiveness of groups. AKF's Boresha Maisha platform is cashless and paperless, but otherwise similar to the traditional community based savings group approach. Group members continue to meet physically, retaining the socially supportive role that savings groups play. Today, AKF is testing the platform and user experience with live groups in a pilot project to research behavioral change and further improve the offering.

This product will complement ongoing efforts to build an ecosystem of digital payment opportunities for financial services, and very critically, for the micro-businesses that generate the majority of employment in Tanzania. Also significant, this product will cultivate a culture of female DFS users given savings groups' membership is 66% women. This fact alone carries a meaningful benefit: it strengthens efforts to achieve the Sustainable Development Goals (SDG), specifically, to enhance the use of enabling technology to promote the empowerment of women.



SDG Goal 5: Achieve gender equality and empower all women and girls



The Digitization Gateway: Where to Start

When we examined savings transaction types we identified a variety of use cases: paying in, sharing out, checking balances, keeping track of loans, and getting paid out on a loan. Each use provided an opportunity for client based service offerings. We found that for these applications, savings groups are a natural entry point to familiarize new users with mobile payments, to acquire consistent transactions, and build a relationship with clients that has them using many different types of financial services and not just one.

These savings groups, undoubtedly, provide members an opportunity to get used to using digital financial services within a safe community. The more sophisticated members of the group are incentivized to help those less digitally literate to make their own transactions. This allows not only financial inclusion, but can also become an important leverage to decrease the digital divide.

AKF's Boresha Maisha DSG platform is now being piloted in Southeastern Tanzania with 11 savings groups for a full 9 month savings group lifecycle.

Throughout the pilot, groups are being trained and evaluated on their use of the platform. Insights will feedback into product development as a key component of the design process.

At the same time, AKF will be comparing participating digital groups to cash groups as a means to provide evidence of how, and whether digital groups really do encourage confidence amongst group members in their use of digital financial services and build a bridge to crossing the digital divide.

The Proof of the Pudding is in the Tasting

There are a number of benefits found in a fully digitized system: the ability to capture data that would generate a credit score leading to loans, the ability to generate a share-out report, time saved by not having to make weekly payments in person, etc. Operating savings groups over mobile payments eliminates cash, and therefore eliminates the present risk of cash held in lockboxes. Within a year, savings group members will have their own place to develop a store of value, as share-out money is deposited into and accessed through individual wallets.

Once the private sector develops the incentive to form savings groups as a customer acquisition strategy, scarce donor funding can be redeployed to increase the opportunity for this offering to reach remote areas through improvements to GSM coverage and agent network management.

In the process, AKF has found that members can reduce up to 80% of the time that they invest in meetings if they opt to cancel weekly savings meetings, and likewise, terminate the 3-4 hours dedicated to calculate share-out values at the end of the cycle. By replacing the need for face to face contact with digital contact, the 'cost' of savings group participation from a member's perspective will fall as dramatically as the cost to train groups. In turn, this can empower groups and enable members to choose when to meet based on needs, rather than as required by cash based procedures.



The opportunity is obvious and the implementation is unraveling as you read these words.

It makes sense to start connecting people to a digital world through mechanisms that they trust and that feel familiar.

The more comfort someone can feel using a product, especially when supported by known community, the easier it becomes to promote adoption. A product or service that is born from the client's world, not an unknown world, is the key to use and the best way to unlock digital inclusion.

¹Digital Inclusion is defined as the "ability of individuals and groups to access and use information and communication technologies (ICTs). Digital inclusion encompasses not only access to the Internet but also the availability of hardware and software, relevant content and services, and training for the digital literacy skills required for effective use of information and communication technologies."
²There is a wide body of literature about why learning in a group, or cooperative learning, is more effective, but to cite one well-known paper Roger T. and David W. Johnson (1988) in Cooperative Learning: Two heads learn better than one, cooperative learning is more powerful in producing achievement, create a more positive attitude towards learning, enhance how the group feels about each other, and create better interpersonal skills.
³The savings groups we refer to in this blog are Accumulating Savings and Credit Associations (ASCA).

