Development of Mobile Money Policies in Tanzania

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Economic Development Case Study

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Introduction to Tanzania

The United Republic of Tanzania is the largest country in East Africa bordering the Indian Ocean. With over 67 million living in its territory, Tanzania is the most populous among the East African countries. Tanzania's youthful population – over 60% of the population is under 25 as of 2020 – is growing rapidly because of the high total fertility rate. Progress in reducing the birth rate has stalled, sustaining the country's nearly 3% annual growth rate. This demographic composition presents opportunities and challenges, underscoring the need for investments in education and employment opportunities to harness the potential of the nation's youth.

Tanzanian culture is a delightful mix of influences with over 120 tribes. Tanzania is one of the most culturally diverse countries in the world. Each of the 120 different tribes in Tanzania have their own distinct ways of life but together, they gracefully unite to form Tanzania.

Economically, Tanzania is one of Africa's fastest growing economies. In 2022, the real GDP of Tanzania grew by 4.56% reaching US$75.71 billion versus US$70.66 billion in 2021. This growth made it the 2nd largest economy in East Africa after Kenya, and the 7th largest in Sub-Saharan Africa.

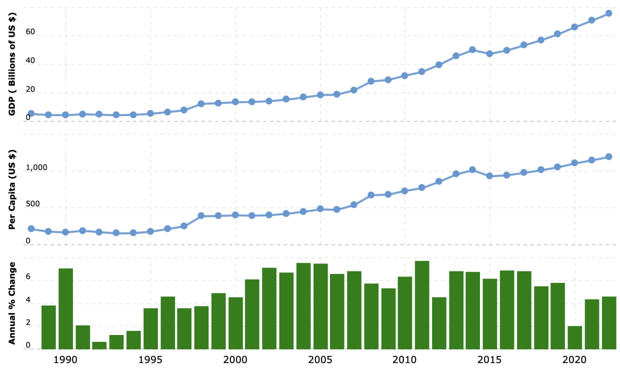

Figure 1 - Tanzania GDP 1988-2022

The country depends heavily on international donors (a fact that has resulted in enormous external debt). The government under President Mwinyi[1] entered into an agreement with the World Bank which resulted in the elimination of price controls as well as most state monopolies. The agreement also prioritised an increase in income per capita, the improvement in the delivery of social services and the promotion of private sector investment.

The IMF has helped with the introduction of economic reforms. These include the cutting of state expenditure, reduction of the civil service, devaluation of the currency and the privatisation of state enterprises. Foreign exchange controls have been lifted and there has been an increase in foreign direct investment.

[1] He is a Tanzanian politician, who served as the second president of the United Republic of Tanzania from 1985 to 1995.

President Mkapa's government[2] has focused on the improvement of fiscal performance and the continued implementation of economic reforms, building on those implemented by the previous government. They include building the administration's capacity for improving development management, maintaining a stable fiscal stance, deregulating foreign investment and improving infrastructure. These measures have resulted in sound macroeconomic foundations that have carried the country through tough global economic conditions. President Samia Suluhu Hassan took office in March 2021 following the passing of President John Magufuli. She has focused on a more open and inclusive approach, emphasizing cooperation and unity. Tanzania has entered into negotiations with Kenya and Uganda for the formation of an East African Joint Chamber of Commerce since September 2005. Talks are apparently progressing slowly although officials have alluded to the establishment of a joint database.

Despite these positive aspects, financial inclusion remains a significant challenge, especially in rural areas - about 90 percent of Tanzanians live in rural areas and live off what they can grow on the land. Many Tanzanians still lack access to formal financial services, hindering their economic participation. Here, technology, particularly mobile money services, has emerged as a transformative force in bridging the financial inclusion gap. Mobile money policies in Tanzania play a pivotal role in extending financial services to remote areas, empowering individuals and communities.

Mobile money plays a crucial role in Tanzania's economic landscape. The country has embraced mobile financial services, allowing people to conduct transactions, pay bills, and access financial services through their mobile phones. This has enhanced financial inclusion and facilitated economic activities, particularly in rural areas where traditional banking infrastructure may be limited. Mobile money policies have been instrumental in driving financial accessibility and empowering the population economically.

Mobile money policies

What are mobile money policies?

Mobile money in Africa first emerged in 2007, with the most notable service M-PESA originally operating in Kenya. This peer-to-peer money transfer solution grew rapidly due to the lack of traditional banking services. The difficulty of establishing banks in rural locations combined with the high penetration of cell phones in Africa during this time allowed for thriving conditions for mobile money services.

Mobile money is a more inclusive and accessible alternative to those excluded from traditional banking, explaining its rapid growth with half of the $1.6 billion registered users being in sub-Saharan Africa in 2022. This development was especially prominent in Tanzania being the largest mobile money market with a market size of 62 billion USD in 2022. With

[2] Third president of Tanzania, in office from 1995 to 2005.

72% of Tanzanians using these financial services in 2023, mobile money is evidentially vital for the economy of Tanzania.

Therefore, in recent years there has been a surge of taxes implemented in mobile money services in sub-Saharan Africa. Governments are recognizing the potential tax revenue they can acquire from these successful services and more and more countries are increasing specific tax on mobile money.

Emergence: when, why, how?

Notably, in July 2021, there was a levy introduced on mobile money transactions ranging from $0.004-$4 (10-10,000 TZS). The main purpose of this tax was to help the government fund development projects. Previously to this tax, there was already an 18% value-added tax, and 10% excise duty on transfers and withdrawal fees. Consequently, there was almost immediate backlash from citizens, as the tax led to negative effects on consumer welfare, profit potential, and financial inclusion. This led to activists filing a lawsuit against the government, arguing that the levy on top of existing taxes was unjust. By September of 2021 the government had reduced the levy by 30%, eventually reaching a further reduction of 43% in July 2022. The effect of the tax quickly became evident as mobile money transactions started to fall as prices rose. The transaction fees increased up to 369% depending on the value and even with the reduction of the levy in August 2021 the transaction cost was still significantly higher than before the tax. This caused Tanzania's average transaction fee to be around three times higher than the average for the rest of the East Africa region.

This sudden increase in price, meant for a sharp reduction in transactions and although there has been recovery since the tax was introduced, the growth rate is much slower than before. As users switched to alternative payments such as cash, mobile money transactions (peer-to-peer) fell by 38%.

The decrease of transactions due to the tax, set the development caused by mobile money backward, making it harder for Tanzania to reach various goals, such as that of a cashless economy. The recovery period was also slow, taking 16 months to reach the same levels as June of 2021 – before the added tax was introduced.

Current situation: how many people use this?

As of March 2023, there has been recovery from the original levy. 72% of Tanzanians use mobile money services. Lower-value peer-to-peer are driving the recovery from the levy and are at levels greater than before the tax was introduced. However, higher-value transactions are still suffering with mid-value transactions being 31% lower, and high-value being 58% lower than before the levy. This highlights the high price sensitivity to mobile money.

It is widely recognized how important mobile money is to the Tanzanian economy, as it is a driver of financial inclusion. Furthermore, as it is more accessible to rural areas and women than previously used traditional banking services, it allows for strong social development possibilities. Therefore, the policies around mobile money and the impact these taxes have on the future of these services and the economy need to be closely monitored and controlled to ensure continuous development in the region.

Economic impact

The major steps towards digital transformation in the Tanzanian legal system have been marked by some milestones, one of which is the The Bank of Tanzania Act 2006 that stipulates in Section 6 that BOT will "conduct oversight functions on the payment, clearing and settlement systems in any bank, financial institution or infrastructure service provider or company". The non-exclusion of non-financial institutions in BOT's oversight of payments providers gives broad powers to the Central Bank to directly supervise mobile money providers. The next year, BOT through the 2007 Electronic Payment Systems Guideline created new rules for electronic payment schemes which specifically allowed for non-bank financial institutions to offer electronic payment schemes and money transfers. Although it did not accommodate mobile money, it opened the door. Then, the National Payment Systems Act 2015 introduced a non-bank based electronic money regulatory model allowing banks and non-banks to operate while giving BOT formal oversight of mobile money services.

GSMA report on the impact of mobile money in Tanzania reveals significant economic contributions, highlighting the increase in formal financial service usage from 16% in 2009 to 76% in 2023. Off-net and cash-out transaction fees increased significantly from 3% to 175%, while on-net P2P transfers suffered the highest fee increase ranging from 38% to 369%; on-net transfers above TZS 10,000 ($4.3) were particularly impacted with fees subject to a twofold to fourfold increase depending of the transaction value.

Between June and September 2021, the cost of P2P transfer increased by 258% (on- net transactions) and 133% (off-net transactions). The cost of cash-out transactions increased by 45% over the same period and increased cost is entirely driven by the tax increase, as the fee element of the transaction cost decreases or remains stable depending on the type of transaction, and further analysis against comparable economies find that from July 2021 Tanzania's average transaction deviates from the norm in East Africa to about 3 times the average fee for East Africa.

As mobile money transactions became more expensive on account of the levy, mobile money users rapidly reduced their usage of mobile money in favour of alternative payment methods such as cash, reflected by the sharp decrease in the total number of P2P transactions (-38%). The change in consumer behaviour likely led to an increase in the use of cash, which reversed gains in financial inclusion and the progress towards a cashless economy in Tanzania. It is estimated that the loss in growth, had the tax not been introduced, is equivalent to 30% less transactions in March 2023 for P2P and 60% for cash- out.

Because mobile money agents' revenue consists of a percentage of MNOs' revenues, it is likely that their revenue has also reduced significantly, leading some of them to stop their mobile money activity and discourage investment in the sector, therefore slowing down innovation of new products and the general development of mobile money services in Tanzania. The new levy, as a result, threatens to reverse the commendable financial inclusion gains as Tanzanians revert to cash. By increasing the cost of mobile money, the new levy makes it more difficult for Tanzanians and the poor in particular to use financial services, pushing them to revert to cash-based alternatives.

The reduction of mobile money revenue and usage means that the economy will not reap the productivity benefits of mobile money services. Several studies on the macroeconomic impacts of mobile money find that it can increase economic growth; for example, the IMF has found that digital financial inclusion can accelerate GDP growth while a study by Vodafone, Safaricom and the United Nations Development Programme (UNDP) found that countries with successful mobile money adoption experienced higher GDP growth compared to countries without mobile money. Recent studies have shown that in markets with mobile money services versus those without, mobile money can increase tax revenue by increasing GDP per capita, improving institutional capacity and simplifying tax collection payment processes. Further research has found that since mobile money was launched in Kenya, total factor productivity (TFP) and real per capita income has grown an estimated 3.3% and 14% respectively between 2006 and 2013. These are all commendable numbers and show the potential Tanzania had with regards to the flourishing of their mobile money sector.

Yet despite the very low levels of bank penetration in Tanzania, mobile money has addressed the financial inclusion needs of more than 33 million people who lack viable alternatives. As per Tanzania's National Financial Inclusion Framework, affordability is one of the main barriers to the frequent use of financial solutions.

Mobile money contributes a great deal to gross value added to the Tanzanian economy as well as employment of thousands of Tanzanians, reduced cash handling costs to government and government-owned utilities and increased direct investment into Tanzania by providers of mobile money services and their ecosystem partners. Indeed, the Tanzania National Financial Inclusion Framework 2018-2022 (TNFI) and the National Council for Financial Inclusion, recognise the key role of mobile money in achieving universal financial inclusion in the country. However, it also presents risks like potential fraud and operational vulnerabilities, and regulatory challenges that impact financial stability and development of the financial sector as demonstrated above. Balancing these aspects is crucial for sustaining the positive impacts of mobile money on Tanzania's socio-economic landscape.

Conclusion, reflections and considerations for the future

The future of mobile money in Tanzania appears promising with potential for further growth through targeted policies and initiatives. Emphasizing digital literacy and financial education could empower domestic users and maximise the benefits of mobile financial services. It is recommended to boost collaboration between the government, financial institutions, and telecom companies as it could lead to improved infrastructure and inter-operability that reduces transaction costs. Additionally, refining tax policies to ensure they do not disproportionately affect low-income users while still supporting national development projects could sustain the growth of the mobile money system. These measures, coupled with continuous monitoring and adaptation to technological advancements and user needs, could solidify Tanzania's position as a leader in mobile financial inclusion and economic development.

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