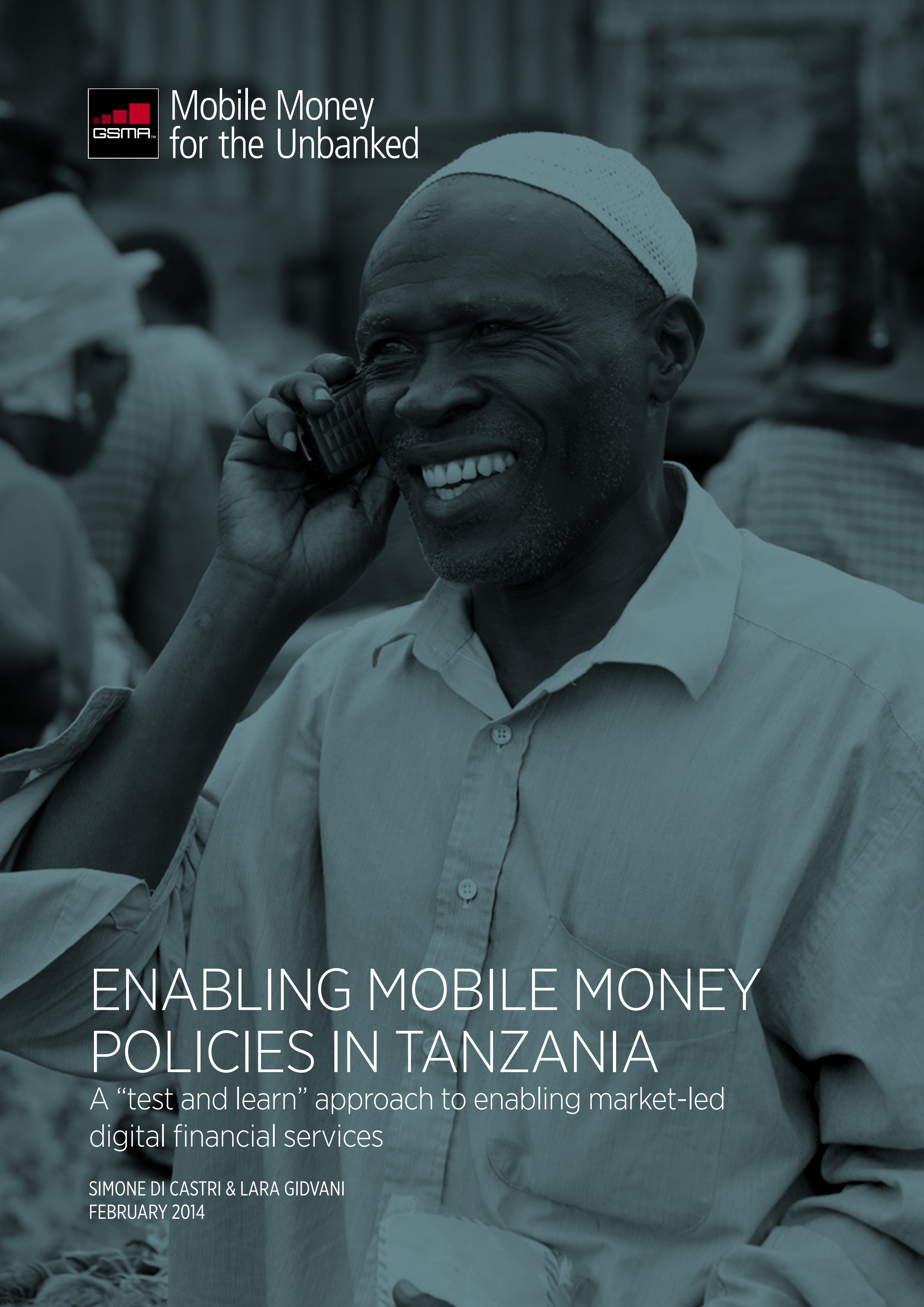

Mobile Money for the Unbanked

ENABLING MOBILE MONEY POLICIES IN TANZANIA

A "test and learn" approach to enabling market-led digital financial services

SIMONE DI CASTRI & LARA GIDVANI

FEBRUARY 2014

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The authors would like to express their gratitude to the Bank of Tanzania for their invaluable contribution to this case study. Our analysis benefited enormously from the data they shared and the inputs provided on early drafts.

We are particularly grateful to the following reviewers: Lucy Kinunda, Kennedy Komba, and George Sije of the National Payment System Directorate at the Bank of Tanzania, Argwings Koyoson and Elinami Mangesho of Airtel, Jacques Voogt of Vodacom, and Duncan Arthur of Millicom/Tigo.

Authors' note

On 26 February 2014, after this case study was finalised, the Governor of Bank of Tanzania (BOT) released Circular n. NPF/MFS/01/2014 "on utilisation of interest from the trust accounts". The Circular points out that interest accrued on the trust accounts should directly benefit mobile money customers. To date, customers have not received any of the interest accrued, which so far has accumulated in the trust accounts.[i] According to the Circular, all mobile money providers shall "submit to the BOT an application for utilization of the funds held in the trust accounts representing interest accrued, detailing the manner in which the funds shall directly benefit the mobile money customer." The interest could be used, for example, in the form of customer education campaigns, for customer care, or be paid out to customers. The payment of the interest to mobile money customers has been advocated by several stakeholders in the past years.[ii] This practice would not change the nature of the trust accounts or the role of the non-bank providers (which are not permitted to intermediate the funds) and therefore the risk associated with the business. Receiving interest on the value stored would be an incentive for mobile money customers to keep the value stored in the system (within the existing maximum balance limits) instead of cashing out, which would have several benefits, including: i) Unbanked people would have an incentive to join the formal financial system via mobile money platforms; ii) Savings behaviors of Tanzanians who have a mobile money account but are still out of the reach of the banking system would be rewarded; iii) Unbanked mobile money customers could become acquainted with the practice of storing value with a formal financial services provider, making them more willing and prepared to open a bank accounts if the opportunity to open a bank account is offered to them; iv) lowering the number and value of cash-outs could ease some pressure on the liquidity management for the providers.

i. The current cumulative balance in the mobile money trust accounts hold by Tanzanian commercial banks in the name of mobile money agents and customers is TZS 254.6 billion (US$ 156 million)

ii. See Tilman Ehrbeck and Michael Tarazi (2011), "Putting the Banking in Branchless Banking: Regulation and the Case for Interest-Bearing and Insured E-money Savings Accounts", in World Economic Forum's Mobile Financial Services Development Report. This position was endorsed by the GSMA, see Simone di Castri (2013), "Mobile money: Enabling Regulatory Solutions", GSMA paper.

MOBILE MONEY IN TANZANIA

15.5M UNIQUE MOBILE SUBSCRIBERS

31.8M REGISTERED MOBILE MONEY ACCOUNTS

11M ACTIVE MOBILE MONEY ACCOUNTS

TZS 38,375 (US$24.49) AVERAGE MOBILE MONEY P2P TRANSACTION

35% OF HOUSEHOLDS IN TANZANIA HAVE AT LEAST ONE M-MONEY USER

33% OF HOUSEHOLDS HAVE AT LEAST ONE REGISTERED M-MONEY USER

48.5M POPULATION[1]
80.4% RURAL / 19.6% URBAN

US$540 GNI/CAPITA[2]

26.6M CONNECTIONS

55% SIM PENETRATION

1,7 BILLION VOLUME OF MOBILE MONEY TRANSFERS/PAYMENTS (CUMULATIVE)

TZS 53 TRILLION (US$ 27,1 BILLION) VALUE OF MOBILE MONEY TRANSACTIONS (CUMULATIVE)

TZS 2.8 TRILLION (US$1,6 BILLION) VALUE OF MOBILE MONEY TRANSACTIONS IN ON MONTH - SEPTEMBER 2013

	2008	2009	2010	2011	2012	2013
OUTREACH			- 7,232,143 ADULTS (28%) OWN A MOBILE PHONE - 1,951,310 ADULTS (9%) ARE BANKED (FINSCOPE 2009)		ADULTS USE A MOBILE PHONE TO PAY BILLS (15.5%), SEND MONEY (14.0%), AND RECEIVE MONEY (19.6%) (GLOBAL FINDEX)	35% OF THE HOUSEHOLDS HAVE AT LEAST ONE MOBILE MONEY USER (FINANCIAL INCLUSION TRACKER SURVEYS PROJECT)
POLICY		TANZANIA COMMUNICATIONS REGULATORY AUTHORITY PASSES NEW KYC REGULATION REQUIRING REGISTRATION FOR ALL NEW AND EXISTING SIM CARDS		TANZANIA COMMUNICATIONS REGULATORY AUTHORITY AND BANK OF TANZANIA SIGN AN M.O.U. ON MOBILE MONEY AFI PEER REVIEW OF DRAFT MOBILE PAYMENTS REGULATIONS BANK OF TANZANIAN MAYA DECLARATION COMMITMENT TO "INCREASE FINANCIAL ACCESS BY UP TO 50% OF THE POPULATION BY 2015"	DRAFT MOBILE PAYMENTS REGULATIONS ISSUED FOR CONSULTATION	NEW MONTHLY TAX OF 1,000 TANZANIAN SHILLINGS ($0.62) ON ALL SIM CARD USERS NEW EXCISE DUTY OF 0.15% ON ALL MONEY TRANSFERS (INCLUDING MOBILE MONEY) NEW WITHOLDING TAX OF 10% APPLIED TO MOBILE MONEY AGENTS' COMMISSIONS BANK OF TANZANIA AND THE GOVERNMENT OF TANZANIA LAUNCH THE NATIONAL FINANCIAL INCLUSION FRAMEWORK
INNOVATION	VODACOM INVESTS IN MARKET RESEARCH TO TAILOR THE M-PESA PRODUCT	VODACOM AND TUJIJENGE (A MAJOR MFI) TEST LOAN REPAYMENTS THROUGH M-PESA VODACOM STARTS TO USE AGENT AGGREGATORS	VODACOM PARTNERS WITH COMPREHENSIVE COMMUNITY BASED REHABILITATION TO PROVIDE HEALTH ASSISTANCE VODACOM AND CARE PILOT USE OF M-PESA FOR VILLAGE SAVINGS AND LOAN ASSOCIATIONS TO PROVIDE A SAFE PLACE TO STORE FUNDS		ZANTEL AND THE NATIONAL INSURANCE CORPORATION PARTNER TO OFFER FARIJIKA HEALTH INSURANCE THROUGH EZY PESA AIRTEL WAIVES FEES FOR MOBILE MONEY TRANSFERS	MOBISOL PREPAID ENERGY USES MOBILE MONEY TO OFFER A PAY-AS-YOU-GO SOLAR SYSTEMS AIRTEL PARTNERS WITH TANZANIA POSTAL BANK TO OFFER EXISTING CLIENTS ACCESS TO THEIR ACCOUNTS VIA AIRTEL MONEY
LAUNCH	VODACOM LAUNCHES M-PESA ZANTEL LAUNCHES Z-PESA	AIRTEL LAUNCHES AIRTEL MONEY	TIGO LAUNCHES TIGO PESA		ZANTEL RELAUNCHES ITS MOBILE MONEY PLATFORM AS EZY PESA	

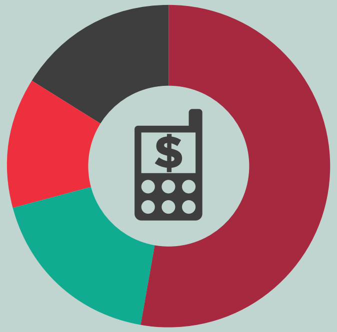
31.8M REGISTERED ACCOUNTS

11M ACTIVE ACCOUNTS

MOBILE SUBSCRIBERS MARKET SHARE - 2013

- 31% AIRTEL
- 35% VODACOM
- 31% TIGO
- 12% ZANTEL

MOBILE MONEY MARKET SHARE - 2013



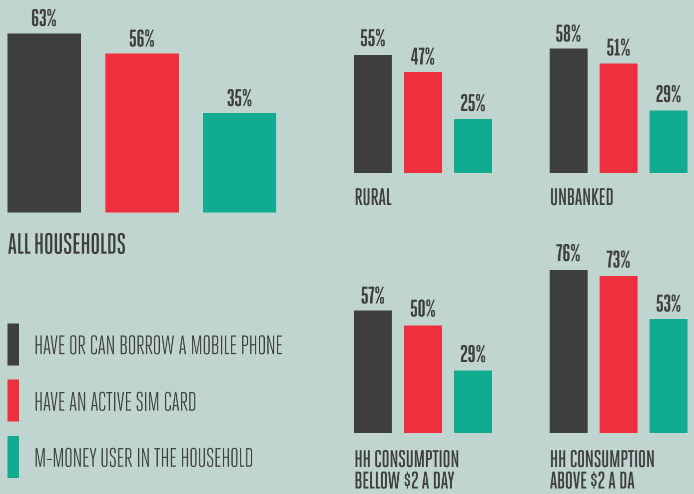
- 13% AIRTEL MONEY
- 53% VODACOM M-PESA
- 18% TIGO PESA
- 16% SUBSCRIBERS USE A COMBINATION OF TWO OR MORE SERVICES

MOBILE MONEY CUSTOMERS' OPINION ON THE SERVICE

COMPARED TO ANY OTHER SERVICE I HAVE EVER TRIED THE M-MONEY SERVICE THAT I CURRENTLY USE IS:

- CHEAPER 87%
- QUICKER 83%
- EASIER TO USE 82%
- SAFER 78%
- MORE CONVENIENT 75%

MOBILE PHONE ACCESS, SIM CARD OWNERSHIP AND MOBILE MONEY ADOPTION RATES, BY HOUSEHOLDS' DEMOGRAPHIC CHRACTERISTICS



- HAVE OR CAN BORROW A MOBILE PHONE
- HAVE AN ACTIVE SIM CARD
- M-MONEY USER IN THE HOUSEHOLD

WHAT METHODS TANZANIAN HOUSEHOLDS USE TO SEND AND RECEIVE CASH REMITTANCES

DELIVERY METHOD	
M-MONEY DELIVERY VIA HOUSEHOLD'S ACCOUNT (ANY PROVIDER)	51%
HAND-DELIVERY (BY SELF OR BY FRIEND)	23%
M-MONEY DELIVERY VIA A THIRD-PARTY ACCOUNT (ANY PROVIDER)	13%
BUS-DALA DALA DELIVERY WITH A FRIEND OR A DRIVER/COURIER	12%
M-MONEY DELIVERY VIA AN AGENT'S ACCOUNT (ANY PROVIDER)	8%
DIRECT DEPOSIT INTO A BANK ACCOUNT	2%
NATIONAL MICROFINANCE BANK (PESA FASTA)	2%
WESTERN UNION OR MONEYGRAM	1%

% OF HOUSEHOLDS USING THIS METHOD FOR AT LEAST ONE REMITTANCE

SOURCES: GSMA INTELLIGENCE, BANK OF TANZANIA, INTERMEDIA (2103), UNITED NATIONS (WORLD POPULATION PROSPECTS 2010), WORLD BANK (WORLD DEVELOPMENT INDICATORS 2012). THE DATA ON ACTIVE CUSTOMERS ARE AVAILABLE ONLY FOR 2012 AND 2013. ALL DATA ARE REPORTED AT DECEMBER 2013, UNLESS OTHERWISE SPECIFIED.

Foreword

Tanzania has witnessed unprecedented uptake of mobile financial services (MFS) in the span of five years. After a humble beginning, when less than 1% of the adult population had access to mobile financial services in 2008, 90% had access by September 2013 – an exponential increase. Likewise, active usage has shown similar improvement, with 43% of the adult population actively using this service in September 2013. These encouraging results have emerged from a conducive regulatory environment, which we envisioned in the early days of mobile money services. Our approach was to test the deployment of the service and monitor its developments, known as the "test and learn" approach. To facilitate this, we amended the Bank of Tanzania Act in 2006 to give the Central Bank powers to oversee and regulate non-bank entities in offering payment services. In 2007 we operationalized this by issuing Guidelines for Electronic Payment Schemes, which we used to allow Mobile Network Operators (MNOs) to offer payment services.

MFS in Tanzania has subsequently become a household name and supported the Bank of Tanzania's objective of financial inclusion. The service has enabled the unbanked population to have convenient access to payment services. In this regard, the recently launched National Financial Inclusion Framework (NFIF) recognise MFS as one of the key technologies for facilitating financial inclusion.

The Bank's regulatory journey has not been a solo trip; we received a great deal of cooperation from the Tanzania Communications Regulatory Authority (TCRA) as the regulatory counterpart of the MNOs that are providing MFS. The positive relationship with the TCRA has enabled MFS to thrive in the country. The Central Bank and the TCRA cooperate on the oversight of the MFS regulatory framework.

It is also worth noting that the private sector has had a significant role in facilitating the growth of MFS. From the beginning, MNOs were required to partner with banks to receive a "letter of no objection", which enabled the Central Bank to ensure that consumer funds are protected in the banking system backed with a 100% liquidity requirement. Commercial banks have since enhanced their partnerships with the MNOs and we are seeing inroads being made with second generation MFS in Tanzania.

We have learned that new technologies that augur well with the Central Bank's objective need to be nurtured and monitored closely to ensure they do not cause any financial instability or reputational risk that may affect the country's payment systems. This approach has made MFS in Tanzania a success story. With the increased uptake of the services and based on the dynamics that we see in the market, we are currently shifting the regulatory approach to a "mandate and monitor" approach, whereby mobile payments regulations will be issued to guide the market without stifling innovation or disrupting the success we have witnessed. Rather, the regulations will ensure that we balance financial stability and financial inclusion objectives. In doing so, we will also continue to ensure that proportionate regulation is applied to the services deployed in the market.

I thank GSMA for compiling this study, which offers us the opportunity to share our experiences with MFS with the rest of the globe.

Prof. Benno Ndulu
Governor, Bank of Tanzania

Picture: World Economic Forum

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Introduction

The National Payment System Directorate (NPSD) at the Bank of Tanzania (BOT) began its mobile money regulatory journey in 2008, when a visit from one of the country's mobile network operators (MNOs) introduced the idea that a simple mobile handset could do much more than make calls. From this first meeting, the BOT was keen to engage with the mobile industry to learn more about the potential of digital financial inclusion – a new and unfamiliar topic to the Bank.

Seeking to enable digital financial inclusion, but lacking national payment systems legislation to issue regulations, the BOT elected to take an interim step. It issued 'letters of no objection'[1] to the partner banks of Vodacom's M-PESA and Zantel's Z-Pesa (relaunched in 2012 as "Ezy Pesa"), allowing them to launch in 2008. Two more deployments followed: Zain's Zap in 2009 and Tigo Pesa in 2010. As the market has continued to develop, the BOT has made concerted efforts to find a legal and regulatory framework that would provide sufficient legal certainty and consistency to support a stable mobile money market, promote financial inclusion, and protect customers. A draft regulation that allows both banks and non-banks to provide mobile payment services has gone through two iterations and will soon be adopted. Meanwhile, the BOT has taken the lead in developing a National Financial Inclusion Framework (NFIF) that articulates the role of mobile money as a key enabler of financial inclusion (see Box 1).

Today, Tanzania is a mobile money and digital financial inclusion success story:

- In December 2013 there were more than 11 million active mobile money accounts and approximately 153,369 agents in Tanzania across four deployments.[2]
- In the same month, mobile money deployments performed transactions worth more than TZS 3 trillion (US$1.8 billion). The number and value of transactions is growing very fast, and today the Tanzania market is performing close to Kenya (see Figure 1).
- 35% of households in Tanzania have at least one mobile money user; 33% of households have at least one registered mobile money user.[3]

The market for mobile money in Tanzania is dynamic and the four providers are highly competitive. The BOT remains actively involved in shaping the market through prospective regulation and guidance on emerging issues, such as interoperability and cross-border payments. This journey has produced a number of lessons for policymaking and regulatory authorities, as well as the industry.

Lessons for regulators

- Anticipate that a developing market will require a corresponding evolution of industry engagement and regulation.
- 'Test and learn' safely and efficiently:
    - It is possible to safely provide space for the industry to launch mobile money services under the oversight of the central bank by establishing provisional prudential and market conduct standards, while moving towards new and more comprehensive regulations.
    - Engage with providers to discuss the lessons of implementing deployments and regulatory oversight activity.
    - Moral suasion is effective in the relationship between the regulator and the service providers.
- Request feedback from service providers on draft regulations and anticipate the need to make changes through market and outside consultation.
- Establish a direct dialogue with both the banks and the MNOs that are providing the service to share your concerns, explain your objectives, and identify cost-effective ways to implement monitoring and reporting processes.
- Recognise that the market is dynamic, and strive to keep up-to-date with new developments through dialogue with the industry.

1. This is similar to the approach taken by the Central Bank of Kenya.
2. Bank of Tanzania (BOT), National Payment System Directorate Statistics, http://www.bot-tz.org/PaymentSystem/statistics.asp.
3. InterMedia (2013), "Mobile Money in Tanzania: Use, Barriers, and Opportunities," Washington, D.C., p. 10. Available at http://www.intermedia.org/wp-content/uploads/FITS_Tanzania_FullReport_final.pdf

Lessons for the industry

- Seek to establish a direct relationship with the regulator, engaging proactively to understand its perspective and concerns.
- Keep the regulator informed of the progresses made in the provision of the services and the lessons of implementing deployments.
- Identify the regulator's objectives and the role of the industry in supporting the regulatory journey over time.
- Expect that the nature and scope of engagement with the regulator will change over time based on the maturity of the market and the provider.

BOX 1

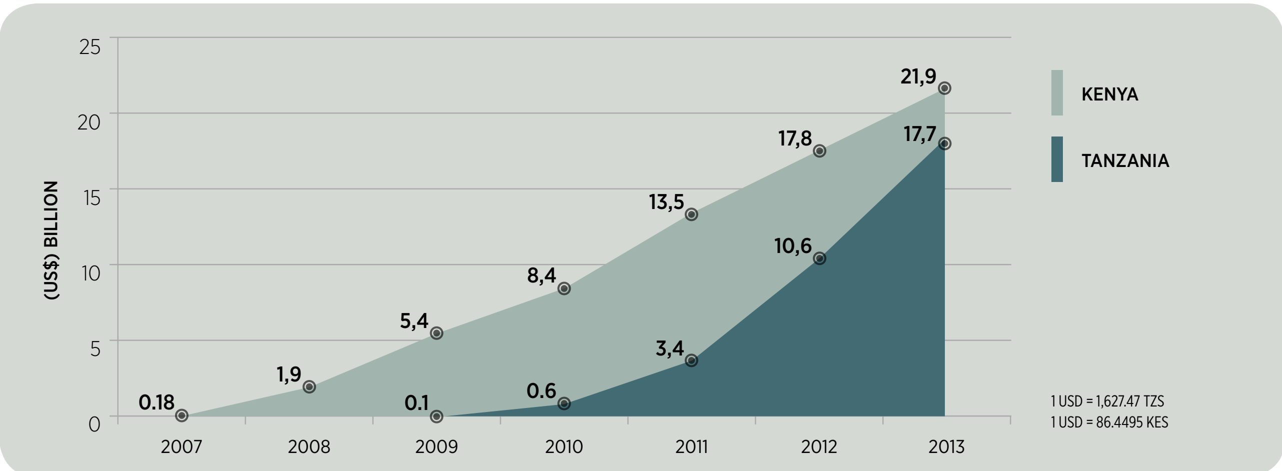
THE BOT'S COMMITMENT TO FINANCIAL INCLUSION AS A PUBLIC POLICY OBJECTIVE

The BOT has embraced financial inclusion as a public policy objective, using the legal and regulatory framework for mobile payments to address the issue. BOT launched their National Financial Inclusion Framework (NFIF) in December 2013,[4] setting the objective of 50% financial inclusion by 2016 with clear targets for a range of indicators (e.g., 25% of people will live within 5 km of a financial access point; 25% of Tanzanians will have at least two weeks of household income in their electronic account). The definition of financial inclusion includes mobile money services. The NFIF recognises the role of mobile money in "revolutionising the landscape of financial services" over the last five years.[5] Furthermore, the NFIF identifies four core enablers of financial inclusion, each closely associated with the characteristics of mobile money: proximity, payments, and the storage of value and information. Building on these core enablers, the NFIF has set priority areas for action from 2014–16 to achieve the above targets:

- increasing the proximity of financial access points to where people live and transact;
- enabling robust payment platforms;
- supporting robust electronic information infrastructure for individual and business profiles, credit history, and collateral by establishing an effective know your customer (KYC) process, increasing the engagement of the credit reference bureau, and establishing and using a central collateral database; and
- ensuring that customers are informed and protected.

FIGURE 1

COMPARING MOBILE MONEY IN TANZANIA AND KENYA: YEARLY TRANSACTION VALUE[6]



4. Tanzania National Council for Financial Inclusion (2012), "National Financial Inclusion Framework", 15, http://www.bot-tz.org/NFIF/National%20Financial%20Inclusion%20Framework.pdf
5. Ibid, 8.
6. Data published on the website of Bank of Tanzania and the Central Bank of Kenya.

1

The growth of mobile money in Tanzania: Policy-enabled and market-led

In 2009, the market for mobile voice services was already very competitive in Tanzania, with six service providers and no dominant player.[7] At that time, 28% (7,232,143) of Tanzania's 22.35 million adults owned a mobile phone and 32% used someone else's mobile phone. Although mobile penetration was still relatively low (32%), mobile network subscriptions were growing quickly and reached 13 million by the end of 2008. While mobile network access and mobile phone usage were increasing, the reach of the financial sector was still very limited; only 9% of adults (1,951,310) were banked.[8]

When Vodacom Tanzania's M-Pesa went live in April 2008, one year after an extremely successful launch of the service in Kenya, analysts were expecting the service to take off in the same way and at the same speed. However, in its first 14 months, the growth of Vodacom's M-Pesa service remained well below that seen by Safaricom's M-Pesa in Kenya. Vodacom registered 280,000 users who were transferring US$5.5 million per month at about 930 agent locations, compared to the 2.7 million users and 3,000 agents registered in Kenya 14 months after launch. To improve customer uptake, Vodacom introduced some significant operational changes: a flat fee for M-Pesa transfers, a simpler marketing approach, utility bill pay, and the use of agent aggregators to grow its agent network.[9] Since then, Vodacom's M-Pesa has taken off, three other MNOs have launched mobile money deployments,[10] and access to digital financial services has increased significantly in the country.

At the end of September 2013, the BOT reported 30,342,540 registered mobile money users and 9,856,440 active users on a 90-day basis. At that time, 714,930,074 transactions valued TZS 19,953,359 million (US$12.3 billion) had been conducted since mobile money was launched. Vodacom has the highest number of clients, followed by Tigo, Airtel, and Zantel. Just over half (53%) of households report that they use M-Pesa exclusively, while 18% use Tigo Pesa only, and 13% of households only use Airtel money. All Ezy Pesa subscribers also use M-Pesa.[11]

The agent network has also expanded significantly. Geographic information system (GIS) data from the Financial Sector Deepening Trust Tanzania (FSDT) indicates mobile money agents outnumber all other financial outlets by almost 10 to one (see Map 1). There are roughly 17,000 M-Pesa agents, which represent 87% of the access points Tanzanians use for financial services (see Map 1). M-Pesa agents also have the greatest potential for outreach: agents are in 29% of the wards where 40% of the population resides. This is in stark comparison to automated teller machines (ATMs), brick-and-mortar bank branches, and microfinance institutions (MFI), which together reach only 17% of wards and 25% of the population.[12]

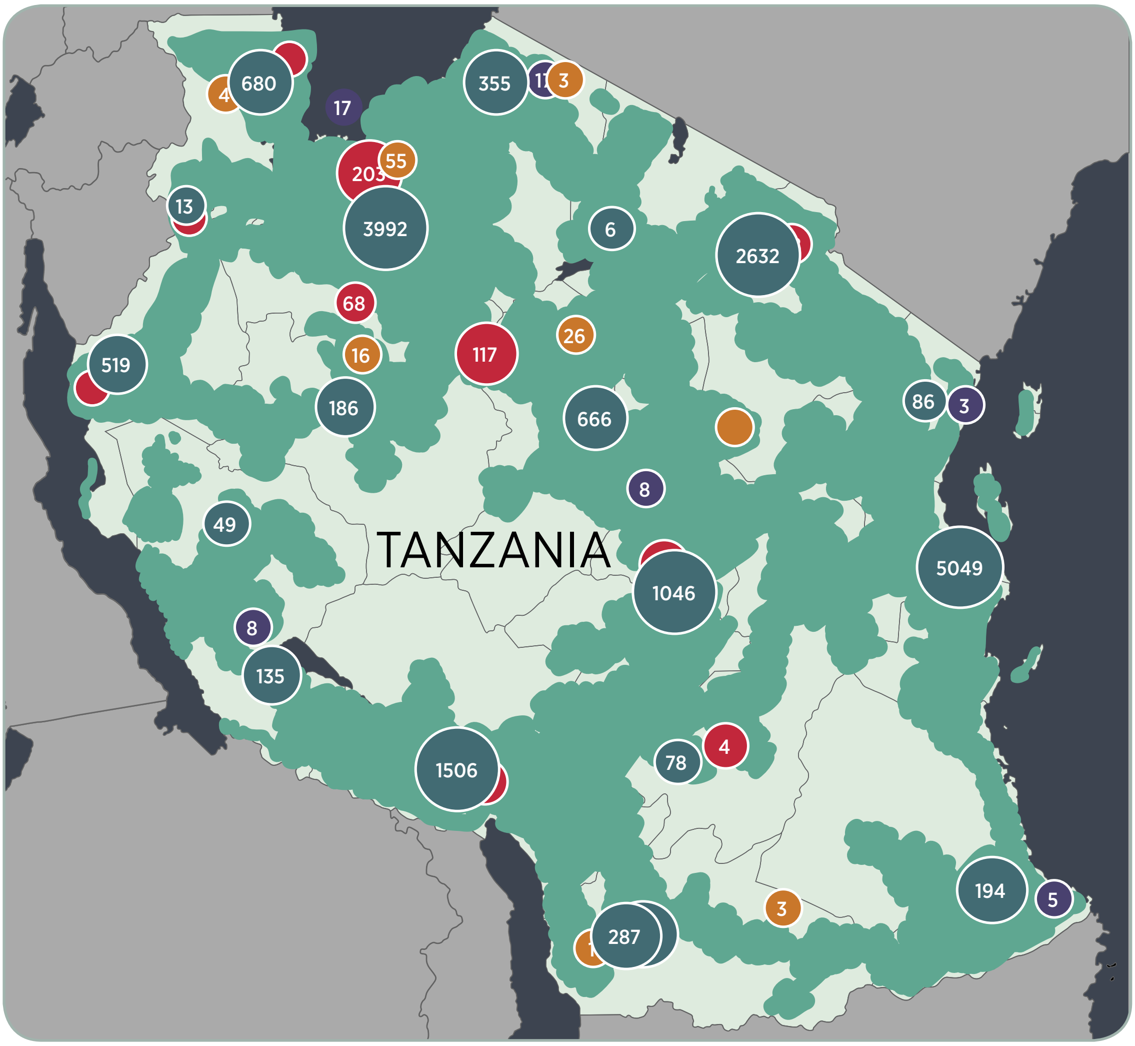
The strong performance of mobile money in Tanzania has been driven by the market and enabled by a regulatory environment that promotes digital financial inclusion.

7. Tanzanian Communication Regulatory Authority data, http://www.tcra.go.tz/images/documents/reports/statusTelecomMarketMarch09.pdf
8. Financial Sector Deepening Trust (2010), "FinScope 2009: The Demand for and Barriers to Accessing Financial Services in Tanzania".
9. Gunnar Camner, Caroline Pulver, and Emil Sjöblom (2009), "What Makes a Successful Mobile Money Implementation? Learnings from M-Pesa in Kenya and Tanzania", GSMA Mobile Money for the Unbanked (MMU) paper. Available at: http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/03/What-makes-a-successful-mobile-money-implementation.pdf
10. GSMA, "Mobile Money for the Unbanked (MMU) Deployment Tracker", http://www.gsma.com/mobilefordevelopment/programmes/mobile-money-for-the-unbanked/tracker
11. Intermedia (2013), cit.
12. Financial Sector Deepening Trust, "Where's the Cash? The Geography of Cash Points in Tanzania", FSDT Focus Note no. 2, January 2013. Available at: http://www.fsdt.or.tz/fileadmin/downloads/Where_is_the_Cash_-_Analysis_of_the_Census_of_Cash_Outlets_in_Tanzania_2012.pdf. For the data set, see www.fspmaps.com

> Financial Inclusion is essentially a multi-faceted concept. It is a holistic approach that allows a layering of all elements. [...] In Tanzania growth and usage of mobile money payment infrastructure has provided an opportunity for increased access to other services such as saving, credit, insurance (risk mitigation), pension (long term saving) and securities (saving for investment), mapping clearly to the concept of core enablers [...]. Tanzania does not have an all-encompassing electronic payment system. The growth of mobile base payments platform/system through mobile money offers a great infrastructure from which both basic and advanced financial services can be delivered to majority of Tanzanians.
>
> **Bank of Tanzania**
> National Financial Inclusion Framework[13]

MAP 1

FINANCIAL ACCESS IN TANZANIA[14]



FINANCIAL SERVICE LOCATIONS

- BANK BRANCHES (504)
- MOBILE MONEY AGENT (17,541)
- MOBILE COVERAGE
- OFFSITE ATMS (393)
- MFIS (1,152)

13. Tanzania National Council for Financial Inclusion (2012), cit., 15.
14. Source: Financial Access Maps, http://www.fspmaps.com/, retrieved on 11 February 2014.

2

'Test and learn': Developing regulations that meet market and customer needs

In Tanzania, the regulator made a progressive decision: to let regulation follow innovation and support financial inclusion while managing risks. This approach has enabled the country's mobile money market to flourish. By engaging closely with MNOs (and their respective partner banks), the BOT has been able to offer the private sector a degree of freedom in rolling out new products, responding with sufficient safeguards where necessary. The BOT has applied the lessons from the oversight of service providers to develop more comprehensive regulations.

When Vodacom and Zantel approached the NPSD at the BOT in 2008, the regulators had to determine how to regulate these newly proposed payments services.

A 2003 amendment to the Bank of Tanzania Act (Section 6)[15] granted the BOT the power to regulate, monitor, and supervise the National Payments System, including payments products and clearing and settlement systems products.[16] However, the existing regulations provided limited guidance for the private sector. Tanzania lacked broader legislation for payment systems, and the Electronic Payment Scheme Guidelines of 2007 only covered risk management for banks and other financial institutions.

Even in the absence of regulation, the BOT was inclined to progress. According to the BOT, "the mobile money deployments offered great opportunity to leverage on enhancing financial inclusion given the high mobile penetration rates compared to bank penetration, it was thus seen imperative within the BOT's objective of financial inclusion that it be allowed and monitored effectively."[17] The BOT was familiar with the regulatory approach taken by the Central Bank of Kenya,[18] and intended to take a similar path: allowing mobile money services to launch while applying sufficient safeguards and carefully monitoring developments. Meanwhile, the BOT became acquainted with the market to determine the appropriate regulatory framework for mobile money.

In this context, the BOT advised MNOs to partner with one commercial bank to offer mobile money services. Having a commercial bank partner allowed the BOT to issue 'letters of no objection' to the partner bank (already under the purview of the BOT) that granted the MNOs the legitimacy to implement mobile money services.[19] The no objection letters specified that mobile money deployments were subject to BOT oversight and the (prudential and non-prudential) regulatory requirements for the provision of the services, including:

- Presentation to the BOT before approval
- Obtaining a Tanzanian Communication Regulatory Authority (TCRA) licence for the provision of value added services
- Providing a risk management plan to the BOT
- Establishing safeguards for customer funds

15. See Section 6 of the Bank of Tanzania Act, 2006, available at: http://www.bot-tz.org/AboutBOT/BOTAct2006.pdf
16. Bank of Tanzania (2003), "Payment Systems in the Southern African Development Community - Tanzania Chapter". Available at: http://www.bot-tz.org/paymentsystem/Green%20book%20draft%2003dec-final.pdf
17. Interview with the National Payments System Directorate, Bank of Tanzania, January 2013.
18. Alliance for Financial Inclusion (2010), Enabling mobile money transfer: The Central Bank of Kenya's Treatment of M-Pesa", Case study. Available at http://www.afi-global.org
19. Note that in Kenya the central bank had issued the 'letter of no objection' to the MNO. See Alliance for Financial Inclusion (2010), cit.

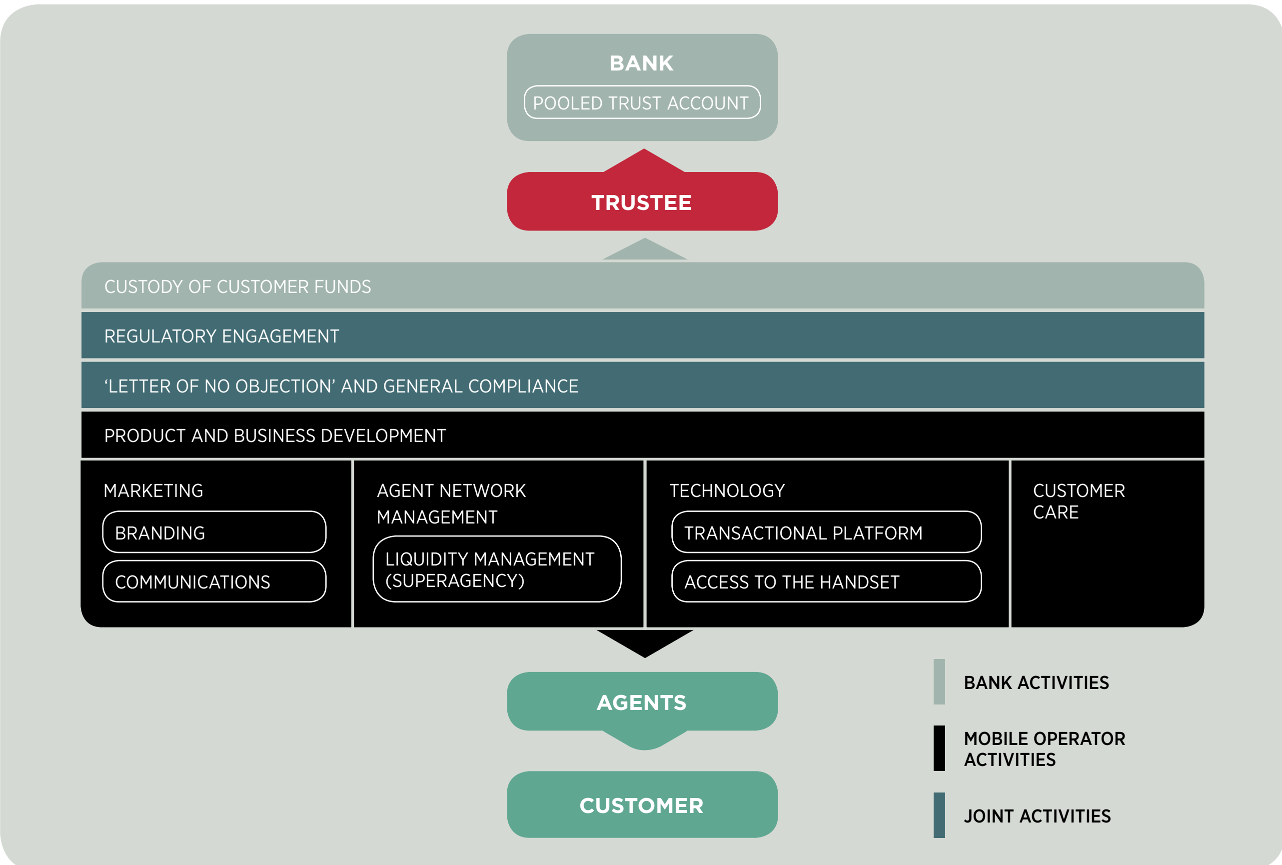
- Submitting monthly data on the volume and value of transactions, as well as trust account balances
- Consumer protection mechanisms
- Distribution requirements
- Know Your Customer (KYC) standards
- Maximum transaction limits
- Restrictions on the use of interest.

These requirements are complemented by the providers' operational policies aimed at making the service sound and safe for customers. In this context, moral suasion was also instrumental in establishing trusted dialogue between the BOT and the mobile money providers.

Issued independently by the BOT to each operator and partner bank, the letters of no objection were intended to be an interim solution. Although they are not public, it is understood that the prudential and market conduct requirements detailed in the letters are similar in nature for all deployments:

- **Safeguarding customer money:** MNOs are required to use a trust account at a bank and abide by BOT account management standards. The partner commercial bank would house a trust account, through which the MNO could issue electronic value and safely deposit the equivalent of the float. MNOs were only permitted to have one bank partner, and the entire float would be maintained in the trust account, therefore, the value was backed by 100% liquidity.[20] To use the trust structure, each MNO registers a local holding company with independent directors to act as a trustee.

FIGURE 2
THE TANZANIAN MOBILE MONEY BUSINESS MODEL DESIGNED IN THE 'LETTERS OF NO OBJECTION'



20. In the draft Mobile Payments Regulations 2012, this value is defined as "electronic money".

- **Distribution:** To become a mobile money agent, the agent must be a registered company with at least five outlets to offer the service. At least two of these outlets should be located in rural areas. An investment of TZS 2,000,000 (approx. USD 1,480) in the cash float is required for each active outlet. There is also a special category of agents who may not have the minimum number of outlets, but would provide services in convenient locations (such as banks, hotels and major supermarkets). These companies only need to operate one outlet to qualify for the services, but the agent must be willing to invest at least TZS 5,000,000 (approx. USD 3,700) in the cash float for each outlet. The providers are permitted to use the agent aggregator model, which contributes greatly to overcoming the challenges of liquidity management[21] and active monitoring of the distribution network. The aggregator model enables master agents to transfer float to their sub-agents as needed, alleviating the burden on service providers to monitor thousands of individual shops. Agents should also be able to demonstrate that they will offer quality service by meeting staff resource requirements and by implementing procedures to keep floats balanced.
- **AML/CFT regime and know your customer (KYC) procedures:** Following the Financial Action Task Force (FATF) guidance,[22] the regulator has adopted a proportionate AML/CFT regime that allows the providers to delegate a number of critical functions to their agents and to implement tiered CDD. Agents are responsible for facilitating cash withdrawals and deposits, registering users and the due diligence of new customers. They are required to comply with the provider's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) policy and are trained to follow specific procedures in the case of suspected fraud or money laundering.
  Since there is no national identity document (ID) system in place in Tanzania, customers often use voter registration cards to validate their identity. Other valid forms of ID include pension cards, passports, and employee cards. Agents are required to make a copy of the ID and submit it to the provider that keeps it on file for future customer validation. If a copy of the ID cannot be retained by the agent then the customer is registered as a tier 1 customer, which limits the customer to an account with an annual throughput value of TZS 1.7 million (approx. USD 1,045). If a copy of the ID can be retained and is sent to the provider for verification then the customer is registered as a tier 2 customer and is eligible for an account with an annual throughput of TZS 50 million (approx. USD 30,750). Even though the regulator allows providers to set up different types of accounts, so far the only operator that has implemented different tiers is Vodacom (see Table 1). In 2009, the TCRA requirement to register all new SIM cards gave Vodacom and the other MNOS the opportunity to conduct KYC verification of all existing subscribers.
  Agents are also required to record transactions by hand in a logbook. For each transaction, the agent enters: account balance, date, agent ID, transaction ID, transaction type (customer deposit or withdrawal, agent cash rebalancing), value, customer phone number, customer name, and the customer's national ID number. Most of this information is copied from the confirmation SMS that the agent receives. Customers are then asked to sign the log for each transaction, which helps to discourage fraud.
- **Customer assistance:** All mobile money deployments provide 24/7 dedicated customer care call centres. Calls to the customer care centre are free.

The BOT crafted the provisions of the letters of no objection to enable mobile money in the early stages, under their watchful eye: "From the onset of mobile financial services in Tanzania, the BOT permitted the service using a regulatory regime that is conducive and supportive of the innovative product that was considered to potentially increase financial inclusion; these include the Bank of Tanzania Act, 2006 and the Guidelines for Electronic Payment Schemes, 2007. This enabled the Central Bank to have effective oversight of the non-bank led service."[23]

TABLE 1
M-PESA TIERED KYC AND TRANSACTION LIMITS IMPLEMENTED BY VODACOM

ACCOUNT TYPE	MAXIMUM TRANSFER SIZE	DAILY TRANSFER LIMIT	MAXIMUM ACCOUNT BALANCE	CUSTOMER DUE DILIGENCE REQUIREMENTS
TIER 1	TZS 1,000,000 (US$ 615)	TZS 1,000,000 (US$ 615)	3,000,000 (US$ 1,845)	Customers shows ID to the agent
TIER 2	3,000,000 (US$ 1,845)	5,000,000 (US$ 3,075)	5,000,000 (US$ 3,075)	Customers shows ID to the agent, who makes a copy that the providers stores
TIER 3	12,000,000 (US$ 7,380)	50,000,000 (US$ 30,750)	1,000,000,000 (US$ 61,500)	Customers shows ID, Taxpayer Identification Number (TIN) and business licence to the agent, who makes copies that the providers stores

21. Liquidity management in Tanzania is challenging for mobile money providers because the formal banking system is relatively undeveloped. The number of bank branches per 100,000 inhabitants is only 0.57, and this low density makes it difficult for agents to manage their cash floats. Agents must travel long distances to find a bank branch where they can renew their floats, which means they spend less time in their shops and may not be able to top up their floats as often as they need to.
22. See Simone di Castri and Raadhika Sihin (2014), "Proportional risk-based AML/CFT regimes for mobile money: A framework for assessing risk factors and mitigants", GSMA Mobile Money for the Unbanked (MMU), http://www.gsma.com/mmu
23. Interview with the National Payments System Directorate, Bank of Tanzania, January 2013.

3

Towards greater regulatory certainty

Tanzania's 'test and learn' approach allowed MNOs to launch and scale mobile money services based on the guidance provided by the BOT's letters of no objection. The BOT maintained close oversight of the services to ensure the industry was sound and safe for customers, and to develop a better understanding of the business and the operational risk factors and mitigants.

By 2010, the market had reached a certain level of maturity, with four providers and more than 10 million registered mobile money customers. The exponential increase in the payment system in all spheres – subscribers, usage, volume, and values – made it necessary for the BOT to consider shifting its regulatory approach to provide certainty and consistency to all market participants. The BOT had progressively increased its operational knowledge of mobile money and was now in a position to draft regulations that would provide more legal certainty to providers. The BOT also had to ensure that the regulatory arrangements were in compliance with supporting laws and regulations, such as the AML/CFT regime.[24]

At the same time, the BOT had become sufficiently comfortable with the performance of mobile money and, armed with the lessons of the market's early years, began transforming the original set of requirements into a more formal regulatory framework. While the draft National Payment Systems Act was in the promulgation process (and still is), in 2012, the NPSD set out to draft mobile payments regulations for the sector.

The BOT has been open to learning from market implementation and other jurisdictions; in 2010, they visited the Philippines to learn firsthand how the Bangko Sentral ng Pilipinas established enabling regulation for banks and non-banks to implement mobile money deployments.[25] The visit was clearly valuable; the BOT released its first draft regulations for comment in March 2012. The draft regulations allowed for "non-bank based models", which ensured that non-banks, such as MNOs, could continue to receive no objection letters to act as mobile payments service providers.

This early draft received detailed discussion from national stakeholders and beyond the country's borders when a panel of regulators from the Alliance for Financial Inclusion's (AFI) Mobile Financial Services Working Group conducted a peer review of the regulations in April 2012. Tanzania's mobile money industry and the GSMA participated in the consultative process by submitting detailed feedback on the regulations, which put forth a number of additional factors for consideration.

In May 2012, the BOT released a new version of the draft Mobile Payments Regulations, introducing a licensing regime[26] for non-banks intending to provide mobile payments services. Prospective non-bank mobile payments providers will be required to seek a licence as "wholly owned subsidiary companies". The Regulations maintain the requirement that a trust account be used at a commercial bank to hold float funds (100% liquidity) and introduce a cap of 25% on the portion of funds that can be kept in a trust account at a single bank. Licensed providers will be allowed to provide a range of services, including:

i. Account to Account funds transfers;

ii. Person to Person funds transfer;

iii. Person to Business funds transfer;

iv. Business to Person funds transfer;

v. Business to Business funds transfer;

vi. Cash in and Cash out services.

24. A detailed list of AML/CFT law and regulation in Tanzania can be found at: http://www.fiu.go.tz/Legislation.asp

25. Alliance for Financial Inclusion, "Knowledge Exchange Insights: The Bank of Tanzania Learns from the Bangko Sentral ng Pilipinas on Mobile Financial Services", December 2, 2011. Available at: http://www.afi-global.org/library/publications/knowledge-exchange-insights-bank-tanzania-learns-bangko-sentral-ng-pilipinas

26. In addition to the existing TCRA licence required for value added services.

BOT reserves to itself the authority to approve to approve new services, a prerogative that will be critical to keep abreast with market innovations.

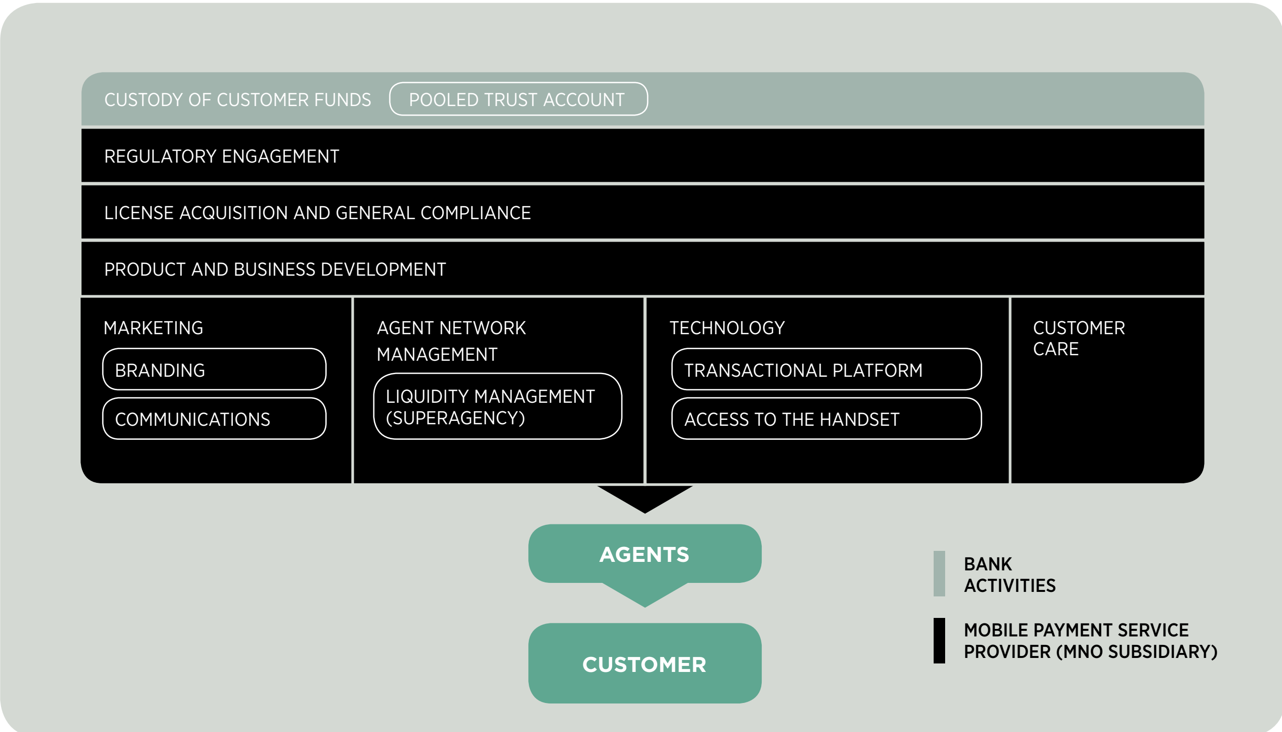
Three customer "tiers" will be introduced for CDD, with "least" requirements for individual, "partial" for small and medium enterprises (SMEs), and full requirements for corporate accounts. For each "tier" the Regulations set maximum transactional limits while additional limits must be agreed between the provider and the BOT. The Regulations call for "relevant and reasonable" KYC requirements at each of the three levels. To comply with verification requirements for the entry level account, individuals can provide their registered phone number, voter's registration card, or a letter from a ward executive. These simplified CDD requirements may boost account registrations since they are aligned with the CDD conducted at the time of SIM registration/purchase. Mobile money service providers must report any suspected or confirmed cases of fraud to the central bank.

Two features of the Regulations may require significant changes for the existing deployments:

- Interest accrued in the trust account can be used "for the benefit of the mobile payment services customers as determined by the BOT." However, it has not yet agreed that interest can be earned on the mobile wallet.
- System interoperability is a stated requirement within the regulations: "A mobile payment service provider shall implement a mobile payment service that is able to provide interoperable services with other mobile payment service providers at various level of interoperability suitable to the market demands. The level of interoperability may be at agent, customer or platform level." The words "able to provide" imply compliance to international standards that allow interoperability. The section does not mandate it but offers a framework for interoperability driven by market value propositions. Agent exclusivity is not permitted, in line with the current market reality.

Providers and stakeholders have had the opportunity to comment on the second draft of the regulations, and the final draft has been submitted to the Ministry of Finance. However, it will only be adopted once the National Payment Systems Act has passed, which is expected in early 2014. This legal certainty will bring more transparency in the licensing process and ensure that new entrants and current service providers are operating on a level playing field.

FIGURE 3
THE TANZANIAN MOBILE MONEY BUSINESS MODEL DESIGNED IN DRAFT MOBILE PAYMENTS REGULATIONS



4

Outlook and next steps

Despite the pending adoption of the new regulatory framework, the mobile money industry continues to progress, with active dialogue between providers and the BOT, which is committed to continue to address market developments and enable innovations with the aim to achieve digital financial inclusion. The new National Financial Inclusion Framework clearly articulates the role of mobile money in Tanzania's development and its potential to guide BOT policy and regulation to meet its financial inclusion goals.

Constructive dialogue and evolving engagement between regulator and the private sector

There has been a marked evolution in the relationship between the BOT and the mobile money industry. Today, MNOs are able to speak with the regulator directly as a trusted party, without their bank partners. This is a significant change, which demonstrates a shift in the regulator's approach and underpins the draft Mobile Payments Regulations. The direct dialogue has enabled effective understanding of both the value proposition of MNOs and the regulatory objectives of the Bank. Direct dialogue with the regulator has been critical for MNOs to better understand the BOT's approach, concerns, and objectives, to present and get approval for new service deployments in a dynamic market, and to receive prompt, direct responses in a competitive environment.

Both the providers and the regulator note positively that engagement has not been limited to specific provisions in the regulations, but rather has supported mutual learning. It has also allowed them to identifying appropriate metrics for monthly reporting. Eventually, this dialogue has allowed the regulator to access more (and more meaningful) data than anticipated and to refine their monitoring approach.

While current discussions with the regulator tend to be bilateral between single provider and the BOT, some industry players are keen to replicate the engagement model that is already in place between MNOs and the TCRA, where the industry often has a common position and addresses the regulator jointly as competition abates and common issues arise.

Market developments

Tanzania is a mature mobile money market with a great level of competition. The regulatory approach to interoperability is followed with great interest, given the potential implications for providers' business models, their current and future investments, and the impact on customers in terms of transactionality of the accounts, but also cost the services and various consumer protection issues. BOT is keen to ensure that interoperability is implemented in an orderly and effective manner that ensures all stakeholders benefit from the efficiencies that interoperability brings. In this regard, the draft Mobile Payments

Regulations allows the market to implement systems that are capable of being interoperable and to deploy market-led interoperable solutions. Publicly, the BOT has stated a preference for the market to arrive at an interoperable solution on its own.

In line with this, the market has already commenced an interoperability project facilitated by the IFC that involves all four MNOs and the banks that are pursuing mobile banking with them.

Providers are also looking to expand into the area of international money transfers and are working closely with the BOT to reach a shared understanding of the potential issues. This will allow the regulator to understand the proposed model, what values are expected, and what regulations are required from a foreign exchange perspective. Other issues, such as transaction limits and corresponding

KYC limits, remain on the industry agenda for discussion with the regulator, particularly with regards to agent viability and in light of increases in volumes driven by payments to and from businesses. BOT guidelines around the use of the interest accrued to trust accounts are expected and will generate ongoing discussion on this topic with industry.

New partnerships and products are leveraging mobile money to increase access to financial services and to meet other basic needs. The simplest example is mobile money providers connecting with banks to allow customers to access their bank accounts via a mobile money wallet. Similarly, village savings and loan associations and MFIs are piloting the use of mobile phones to connect savings groups with banks through mobile money and to perform loan disbursements. Ezy Pesa has expanded into the realm of insurance as part of its new branding, partnering with the National Insurance Corporation of Tanzania Ltd. to offer Farijika health insurance.[27]

Mobile money is being used in a variety of ways to meet more basic needs as well. A recent CGAP landscape study showcases a few examples:[28] farmers are receiving payments and other information services through the Connected Farmer Alliance; Mobisol uses mobile payments to help finance home solar power systems; Angaza Energy Hub accepts payments and controls its solar power systems through mobile money; and Off-Grid Electric uses M-Pesa for remote monitoring and to accept payments.

These are just a few examples of developments in this fast-moving area, where the industry continues to push new initiatives forward. With the draft Mobile Payments Regulations nearly adopted, and with clear policy goals and constructive dialogue established between the industry and the regulator, the future for mobile payments in Tanzania is bright.

"We are all still very new to the mobile money business. The various roll players are working to determine their respective position in the mobile money delivery value chain. As the business models and partnerships take shape it is imperative that the regulatory climate be taken into account and that the business models are forged with the regulator in hand to ensure sustainable commercial and operational delivery going forward. The success of a long term mobile money service in the country is wholly dependent on a viable commercial model and a regulatory environment that creates certainty for the participants and customers of the mobile money service. This is how the mobile money journey has played out in Tanzania, where service providers have worked with the BoT to ensure maximum benefit is delivered to the public and financial access boundaries are pushed back to allow for a more inclusive financial environment."

Jacques Voogt
Chief Officer, M–Commerce, Vodacom Tanzania

27. Courtney Snelling, Microcapital Brief, 22 February 2012, http://www.microcapital.org/microcapital-brief-zantel-tanzania-rebrands-mobile-cash-service-z-pesa-as-ezy-pesa-adds-salary-access-option-microinsurance-linkage-to-crdb-bank-accounts/
28. Camilo Tellez-Merchan and Kabir Kumar, "Global Landscape of Digital Finance Plus", CGAP blog, 13 December 2013 http://www.cgap.org/blog/global-landscape-digital-finance-plus

BOX 2
COORDINATED REGULATION

The BOT and the Tanzanian Communication Regulatory Authority (TCRA) collaborated successfully in the early days of mobile money, and the BOT still recognises the need for coordination between the regulators and within the regulatory bodies themselves. For example, since MNOs traditionally fall under the purview of the TCRA, the draft regulations for mobile financial services make note of the licensing requirements for mobile money as a value-added service. The BoT has also signed a Memorandum of Understanding to support coordination between the two regulators.

It remains the prerogative of BOT to coordinate their efforts internally and with other relevant regulators and policymakers. For instance, mounting pressure from the banking sector looking to find its place as a mobile money provider has created an imperative for coordination between the NPSD and the Banking Supervision Department, though in practice this has been a challenge. BOT's Financial Inclusion Working Group, founded in 2012, has been a step towards this type of internal coordination. In 2013, the BOT worked diligently to prevent internal disharmony from potentially arising from the Banking Supervision department's recently issued Guidelines on Agent Banking for Banking Institutions (2013)[29] and the rules governing agents under the draft mobile banking regulations.

The 0.15% excise duty on all mobile money transfers (along with all other money transfers)[30] proposed in July 2013 threatens to curb uptake and usage of mobile money in a relatively new sector. Coordination with the Revenue Authority may be necessary to ensure policy objectives are aligned.

The new National Financial Inclusion Framework reflects this commitment to coordination. A new coordination structure has been created for three levels of committees: the National Council, the National Steering Committee, and the Financial Inclusion National Technical Committee. The Bank of Tanzania will serve as the secretariat to all three committees.[31]

29. Bank of Tanzania (2013), "Guidelines on Agent Banking for Banking Institutions", http://www.bot-tz.org/BankingSupervision/GUIDELINES%20ON%20AGENT%20BANKING%20FOR%20BANKING%20INSTITUTIONS%202013.pdf

30. Tanzania Revenue Authority (2013), "Introduction of the Excise Duty on Money Transfer", http://www.tra.go.tz/index.php/excise-duty/94-excise-duty/229-introduction-of-the-excise-duty-on-money-transfer. On the taxation of mobile money services, the rationale behind it and its potential effect, see also The Economist, "Charging the mobile. East African governments are targeting telecoms firms", http://www.economist.com/news/finance-and-economics/21579870-east-african-governments-are-targeting-telecoms-firms-charging-mobile, 22 July 2013; and Simone di Castri, "GSMA position on the taxation of mobile money transactions in Kenya", http://www.gsma.com/mobilefordevelopment/gsma-position-on-the-taxation-of-mobile-money-transactions-in-kenya, 19 October 2012, and "On the proposed 10% tax on mobile money transactions in Uganda", http://www.gsma.com/mobilefordevelopment/on-the-proposed-10-tax-on-mobile-money-transactions-in-uganda, 19 July 2013.

31. See Chapter 7 of the NFIF, available at: http://www.bot-tz.org/NFIF/National%20Financial%20Inclusion%20Framework.pdf

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