

Approaches to the Payment of Interest on E-Money/Mobile Money Case Study: Tanzania*

Tanzania's improvements in financial inclusion are well-known and are attributed to its rapidly expanding financial sector and through the uptake of mobile money. **Around two thirds of Tanzanians now have access to some form of financial services – be that through a traditional bank account or through their mobile money accounts.** Just one decade ago, this comparable level of financial inclusion was only 11 per cent.¹ With the success of mobile money, Tanzania is considered to be at the forefront of African nations in terms of financial access.

According to a World Bank report, **over 50 per cent of electronic transfers in Tanzania now go through Mobile Financial Services (MFS).**² The volume of transactions is estimated to be equivalent to 50 per cent of GDP.³ The success of MFS has contributed to a general increase (35 percent p.a. in 2016) in electronic payments.⁴

Registered active users of MFS numbered over 17.6 million at the end of April 2017.⁵ In June 2017, it was [reported](#) that between July 2016 and April 2017, 1,444.6 million transactions valued at TZS 49,997.1 billion were transacted in mobile money transfers in Tanzania. This is 14% more than the TZS 43,867.9 billion transacted via 1,217.70 million transactions during the similar period of the preceding year.

¹ World Bank Group (2017), "Tanzania Economic Update, Money Within Reach - Extending Financial Inclusion in Tanzania" *African Region Macroeconomics and Fiscal Management Global Practice*, Issue 9, April 2017, p23,

<http://documents.worldbank.org/curated/en/340591491579331322/pdf/114125-NWP-P156957-PUBLIC-add-series-9th-TEU-April-7-2017-reduced.pdf>.

² Ibid., p26.

³ World Bank Group (2017), above n 1, p26,

⁴ World Bank Group (2017), above n 1, p33.

⁵ Active users are those who have conducted at least one transaction within the previous thirty days. Citizen (2017), "Tanzania: 47% of GDP Transferred in Mobile Money Revolution" *All Africa*, 16 April 2017 <http://allafrica.com/stories/201704170135.html>

Factors contributing to the success of MFS in Tanzania

Competitive yet interoperable agents

The success of MFS is attributed to both competition between providers but also the fact that the extensive agent networks are shared between providers.⁶ There are at least 240,000 MFS agents across the country and 52 per cent of these agents serve multiple providers compared to only 4 per cent in Kenya.⁷ The competitive market along with interoperability among agents has seen customers benefit from both reduced transaction costs and increased access points.

Tanzania is the first country in the African region to achieve interoperability between MFS as the norm.⁸

Enabling Regulator

The success of MFS has also been underpinned by the Bank of Tanzania (BOT) adopting an enabling approach to the supervision of mobile money providers so as to not stifle innovation. BOT initially adopted a ‘test and learn’ approach, then some legislative amendments were made which provided BOT with powers to oversee and regulate MFS providers, and then later, in 2015, more comprehensive legislative and regulatory changes were introduced after BOT witnessed the success of MFS (see further detail in Box 1). **The Electronic Money (E-Money) Regulations (BoT 2015) requires providers to use interest for the benefit of customers.** Providers are given discretion under the regulations as to how they ensure customers would benefit – but the regulation is clear – customers must benefit. Ensuring the customer would benefit was the guiding principle behind BOT’s policy on what to do with the interest being earned on the e-money float which was being held on trust in accounts with banks.⁹

⁶ The interoperability enables customers to conduct p2p payments with customers using different service providers, Citizen (2017), above n 5.

⁷ World Bank Group (2017), above n 1, pp26, 34 (on page 32 of this same report there is reference to 260,000 active mobile money access points and therefore we have added “at least” to the number of MFS agents of 240,000).

⁸ Deloitte (2017), “Tanzania Economic Outlook 2017” *Deloitte*, 2017, p11
<https://www2.deloitte.com/content/dam/Deloitte/tz/Documents/tax/tz-budget-economic-outlook-2017.pdf>

⁹ McKay, Claudia (2016), “Interest Payments Mobile Wallets: Bank Tanzania's Approach” *CGAP Blog*, 28 June 2016 <http://www.cgap.org/blog/interest-payments-mobile-wallets-bank-tanzania%E2%80%99s-approach>

Box 1: The Mobile Money Revolution in Tanzania

sourced from the World Bank Group Report (2017)
*Tanzania Economic Update, Money Within Reach,
Extending Financial Inclusion in Tanzania*¹⁰

Soon after mobile money started in Tanzania there were 112,000 users in 2008 and the growth in the total number of registered mobile money user accounts has just continued - reaching 53.3 million by the end of February 2016 (see Figure 8), with 17.6 million active users (those who had conducted at least one transaction within a window of thirty days). The providers network of agents stood at around 260, 000 in February 2016. This agent network has supported the enormous success for mobile money as agents are shared and the infrastructure is interoperable, albeit it customers still use their own provider's agents for cash withdrawals. The e-money float is held in trust accounts across several different commercial banks. While the number of users and agents has continued to increase, the service fees have progressively decreased; for an average size transaction of TZS 32,500 (US\$ 16.25), the average fee for the transfer is TZS 325 (US\$ 0.16), equivalent to 1 percent of the value of an average transaction.

Several factors have facilitated the development of mobile money in Tanzania.

The highly competitive mobile telecommunication sector has leading players all with experience of developing mobile money platforms elsewhere in the region. Recent new entrants have been able to drive prices down further assisting the boost in registered users. Tanzanians enjoy good mobile coverage across the country. Interoperability among the providers was introduced in 2015 enabling customers to transfer value to a much broader recipient base; P2P transactions are convenient.

The Bank of Tanzania has facilitated these developments. Ensuring adequate supervision but not acting to stifle market developments. The test and learn approach, followed by initial legislative amendments to the BoT Act gave BoT the power to oversee and regulate non-bank entities offering payment services. The Electronic Payment Schemes Guidelines of 2007 operationalised this new regulatory framework and MNOs could offer payment services. MNOs were required to establish a trust account with a partner commercial bank, where they would deposit funds to cover mobile payments. The commercial bank would in turn seek a letter of no objection (which remained confidential) from the Central Bank that would allow the service provider to operate. Only after witnessing a boom in MFS did the BoT strengthen the regulatory framework through the development of the National Payment Systems (NPS) Act (2015) and the related Electronic Money (E-Money) Regulations (BoT 2015). The NPS Act improved transparency and the homogeneity of the system by issuing licenses to MFS providers, by establishing clear requirements and procedures applicable to all of them, and by imposing penalties for non-compliance.

Interest income benefiting customers

In the case of Tanzania, it was at the insistence of BOT that the interest income being shared with customers would not be referred to as interest payments in the traditional way in which bank customers would earn a specific interest rate on their savings accounts.¹¹ Instead, providers were able to share their mobile money revenue by distributing it to customers. Presumably this was to make a clear distinction between deposits with banks versus funds

¹⁰, World Bank Group (2017), above n 1, p34.

¹¹ McKay, Claudia (2016), above n 9.

stored as mobile money, because mobile money providers cannot take deposits.¹² Three MFS providers (Vodacom, Tigo and Airtel) have now shared their mobile money revenues with their clients and each of these providers use different approaches on how to calculate how much interest to share with customers.¹³ In September 2017, **Vodacom Tanzania** distributed TSH6 billion stored in its M-Pesa trust accounts to its customers.¹⁴ This money was part of earnings from April 1 to June 30 2017, taking Vodacom's total distributions since it started sharing interest earned to TSH86 billion up until end June 2017.¹⁵ (Vodacom has the biggest market share in mobile money in Tanzania, with Tigo following closely behind.) As at the first quarter of 2017, **Tigo** had cumulatively distributed a total of TSH63.58 billion in profit share since the scheme started.¹⁶ As at the first quarter of 2017, **Airtel** had cumulatively distributed TSH10 billion.¹⁷

Tigo's 2017 first quarterly interest payout recorded a growth of 11% which it attributed to improved market conditions, a steady growth in user base and favourable rates received on the trust funds.¹⁸

Consequence of successful MFS

Tanzanians use MFS to Save

Mobile money is now, reportedly, the most popular instrument used by Tanzanians to save.¹⁹ Data on this savings phenomenon in Tanzania is interesting. There has been a decline in the proportion of people who save using traditional institutions (from 11.9 to 9 per cent) but an increase in overall national level of savings. This data indicates some individuals may have moved away from banks towards mobile money.²⁰ Customers can store up to TZS 3 million in their accounts with interest rates ranging between 2 and 5 per cent,

¹² McKay, Claudia (2016), above n 9.

¹³ McKay, Claudia (2016), above n 9.

¹⁴ Businessdaily (2017), "Tanzania mobile money users receive Sh7.6b bonuses in 3 years" *Business daily*, September 21 2017 <https://www.businessdailyafrica.com/news/539546-4105942-format-xhtml-gbk487z/index.html>

¹⁵ Businessdaily (2017), above n 14.

¹⁶ Businessdaily (2017), "Tanzania mobile money users receive Sh7.6b bonuses in 3 years" *Business daily*, September 21 2017 <https://www.businessdailyafrica.com/news/539546-4105942-format-xhtml-gbk487z/index.html>

¹⁷ Businessdaily (2017), above n 16.

¹⁸ Aptantech (2017), "Tigo Tanzania pays out \$ 2.6million in quarterly profit share to Tigo Pesa subscribers" *Aptantech*, February 8 2017 <http://aptantech.com/2017/02/tigo-tanzania-pays-out-2-6million-in-quarterly-profit-share-to-tigo-pesa-subscribers/>

¹⁹ World Bank Group (2017), above n 1, p37.

²⁰ World Bank Group (2017), above n 1, p37.

compared to the average bank interest rate of 3.14 per cent for the comparable time period.²¹ In 2015, just over one-fifth of the population in Tanzania were reported as using MFS accounts to save.²²

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²¹ World Bank Group (2017), above n 1, p37.

²²World Bank Group (2017), above n 1, p37.