M-Money Channel Distribution Case – Tanzania

Vodacom Tanzania M-PESA
In April 2008, Vodacom Tanzania went live with the second East African implementation of Vodafone Group’s revolutionary mobile money transfer platform, M-PESA. After an extremely successful launch of the system in Kenya just one year earlier, analysts were expecting the service to show the same signs of rapid uptake and acceptance amongst Tanzanian mobile phone users. In June 2009, 14 months after the launch of M-PESA in Tanzania, Vodacom announced that registrations had reached 280,000 users who were transferring USD 5.5 million per month at about 930 agent locations. When this is compared to the 2.7 million users and 3,000 agents that had been registered in Kenya 14 months after the local launch of M-PESA, it is clear that some key differences exist between the two implementations. The discrepancy in registrations is a result of some important distinctions in country demographics, cultures, market characteristics and strategic implementation decisions.

Over the last several months, Vodacom has made a number of strategic changes that have resulted in increased subscriber registrations and has enabled a more rapid roll out of the agent network in Tanzania. The changes include a simpler pricing model, a more targeted education-based marketing campaign, and the introduction of an aggregator model to better manage and support its distribution network. Recently the company announced that M-PESA now has more than a million customers transferring USD 12.8 million per month at about 2,000 agent locations since launching in April 2008.

Vodacom uses a trust structure that is similar to the operation in Kenya to protect deposits in the service. A holding company has been registered in Tanzania, with independent directors, to act as a trustee of all funds from the M-PESA business.

Vodacom Tanzania is a subsidiary company of South African Vodacom Group (Pty) Limited who owns a majority share position of 65%, and is in turn 65% owned by Vodafone Group. The remaining 35% of Vodacom Tanzania is privately owned by a Tanzanian shareholder; Mirambo Ltd. Vodacom Tanzania was one of the first mobile operators in Tanzania and went live in August 2000. It now services 5.9 million of the country’s 14 million mobile phone subscribers. It is still the leading mobile operator in Tanzania but faces strong competition from 3 other providers, Zain, Tigo and Zantel.2

This paper discusses the original strategic tactics that Vodacom Tanzania employed during the launch of M-PESA in April 2008 and describes how those tactics have evolved since to improve delivery and penetration of the system in Tanzania.

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1 International Telecommunications Union (ITU) Report, 2009
2 Zantel is a member of the Etisalat Group
Anchor Product or Products

Since national remittance proved to be a successful anchor product for M-PESA in Kenya, Vodacom also positioned the M-PESA service in Tanzania around national remittance. They adopted the familiar ‘send money home’ campaign to initially advertise the service. However, money transfer services are less needed in Tanzania than Kenya since the behavior of urban migrants sending money back to family is not as prevalent in Tanzania and since there is less crime and insecurity in Tanzania. Since its launch, M-PESA in Tanzania has also been extended to offer bill payment, airtime purchase, and microfinance loan repayments.

Mobile Phone Penetration

Low – For the past eight years, mobile phone subscribers in Tanzania have increased from less than 300,000 to over 14.09 million, translating to only 25% penetration. However, according to a recent report from Business Monitor International, mobile phone penetration in Tanzania will surpass the 100% mark by the year 2013.

Literacy Levels

Medium – Approximately 70% of the Tanzanian population is literate including 77.5% of the males and 62.2% of females.

Access to Finance

Low – In Tanzania 54% of people didn’t use any form of financial service; formal, semi formal or informal prior to the launch of M-PESA while only 9% of the population had access to formal financial services.

Demand for Services

High – Payments play an important role in enabling informal economic activity. Early uptake of the service was in high demand by rural retailers sending payments to urban wholesalers, thereby contributing to a strong rural-urban flow. However, unlike Kenya where 70% of remittances flow from urban to rural areas, Tanzania does not demonstrate a clear dominant remittance pattern and flows tend to be a mix of urban-rural, rural-urban, urban-urban and rural-rural.

Regulatory Environment

Conducive – The Central Bank of Tanzania is currently supportive of the deployment of mobile money services and does not require the mobile network operator to officially partner with a bank. The various mobile payment systems in Tanzania are regulated under different structures since some provide formal banking services while others are positioned only as remittance and bill payment products.

Technology Adoption

Unprepared - prior to the launch of M-PESA many Tanzanian mobile phone users were familiar with the basic operations of a mobile such as texting and making voice calls. However, only 15% of the adult

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4 CIA World Factbook
5 FinScope, 2006. FinScope National Survey on Access to and Demand for Financial Services in Tanzania
population owned a mobile phone and only another 14% had access to someone else’s phone. Furthermore, not many users, including those that owned phones, were familiar with USSD which is the technology protocol that Vodacom used to launch M-PESA.

**Marketing Campaigns**

Vodacom Tanzania launched their service with a similar marketing tagline to the one that was used in Kenya, ‘send money home’. However, their ad campaign was not as simple and as clear as Safaricom’s. As a result, the initial campaign was completely unsuccessful since it did not capture the target market and portrayed the product as a premium service for high end users. Vodacom quickly corrected this situation by re-launching their campaign to be more customer friendly and to depict usage scenarios for the un-banked, rural population.

**Ecosystem**

The development of Vodacom’s M-PESA agent network was slow to start and this can be attributed to a few factors. First, Vodacom initially pursued partnerships with their airtime distribution network of which they only had 6 strong relationships so their ability to exert influence over the dealers was limited. Second, Tanzania is a large country with a dispersed population so quickly reaching dealers in rural areas was difficult and once they were reached they were not easily convinced of the business case since they serve a much smaller local population. Finally, Vodacom did not invest as many resources in training and managing the agent network in Tanzania as Safaricom did in Kenya.
Lack of Customer Education & Financial Literacy

Figure 1 shows that the number of mobile subscribers in East Africa is far greater than the number of bank account holders which illustrates that financial literacy and exposure to the formal financial sector in Tanzania is generally low.

Figure 1: Mobile Subscribers vs. Bank Account Holders in East Africa

Source: Frost & Sullivan, 2009

Furthermore, as shown in Figure 2, more than half of the total population in Tanzania has never heard of a debit card, an ATM machine or a current account. Only 9% of the population has access to formal financial services and 54% don’t use any form of financial services. When compared to Kenya, we see that 19% of the population there has access to formal financial services and only 38% don’t have access to any form of financial service. Kenya also has a stronger economy, a higher GDP (USD 890 per capita in Kenya versus USD 520 in Tanzania) and a more developed banking system (1.38 bank branches per 100,000 inhabitants in Kenya versus 0.57 in Tanzania) making it easier for a service like M-PESA to be communicated.

Initially, Vodacom did not invest a lot of resources in consumer education and this may be one of the key reasons that the service was slow to start. Recently, the company has started nationwide communication campaigns to help users understand the product better. Furthermore, 2 of their 3 competitors have also launched similar money transfer services and their efforts to educate the general public have increased the overall level of financial understanding in Tanzania.

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7 FinAccess, 2006
8 The Swedish Institute of International Affairs, 2008
10 Zantel launched Z-PESA in April 2008 and Zain launched Zap in May 2009. Tigo has yet to offer a mobile money transfer service in Tanzania
Figure 2: Percent of the Tanzanian population that has never heard about...

Source: Finscope, 2006

Very Competitive Environment

M-PESA was launched at roughly the same time (April 2008) in Tanzania as Zantel’s competing service, ZPesa. Zain followed with the launch of ZAP in February 2009 and the existence of these products has made it difficult for Vodacom Tanzania to capitalize on the churn reduction and stickiness that a mobile payment product usually offers to help justify the initial high investment required for the telecom operator.

M-PESA in Tanzania also faces competition from informal money transfer channels such as the use of airtime as a currency. A significant number of Tanzanian mobile phone users send airtime to friends and family, often with the intention that this airtime will be converted back to cash. In this situation, a sender buys an airtime voucher and then texts the code in the voucher to the recipient who will sell the code to people who want to buy airtime. Although M-PESA may be a cheaper option since airtime vouchers can often be discounted anywhere from 10% to 40%, sending airtime is more convenient for the sender and receiver due to the extensive airtime distribution network that exists in Tanzania. Airtime transfers are not legal, but they have provided strong competition for recent mobile money launches in Tanzania.

Finally, in Tanzania, people can send money through bus companies, at a commission of 10% but this poses a significant risk of theft.

Large Geographic Spread

The population of Tanzania is roughly around 40 million people but Tanzania is a large country with a dispersed population. This makes it difficult for operators to effectively roll out an extensive nationwide network of agents. The coverage area is large, requiring more training and management resources, and the revenue per agent is lower since they are serving a smaller base of local customers. Furthermore, with a dispersed population, consumer education tactics such as road shows and product demos can be costly and less effective.
Figure 3: Population Density of Tanzania

Source: Best Country Reports, 2009
Business Model Assumed Dramatic Growth

After launching M-PESA in Kenya, Vodafone Global Services was restructured and a dedicated department was formed to manage the roll-out of the platform in other countries. During this shift, the Vodafone team decided that future implementations of the service would be offered to local subsidiaries on a license fee model instead of the shared revenue model that was agreed with Safaricom in Kenya. As a result, Vodacom Tanzania pays a fee to Vodafone Global Services for each registered M-PESA customer. Given the success in Kenya, Vodacom had anticipated a much higher volume of transactions than they actually received and this led to a proportionally higher cost than expected. Due to lower transaction volumes than expected, fewer funds were available for further investment in the project in areas such as increased consumer education campaigns and further agent network roll-out.

In addition to the lack of available funds, Vodacom Tanzania is purposely controlling the subscriber growth in an attempt to limit registrations to active users because Vodacom Tanzania does not want to pay fees to Vodafone Global Services for customers that may not transact over the Vodacom network. These additional “non-Vodacom” customers have too much potential to be a cost rather than a revenue stream for Vodacom. Because Safaricom has a shared revenue model with Vodafone, they are not concerned with hosting inactive M-PESA subscribers on their platform.

Vodafone Global Services recently adjusted the fee amounts to accommodate for the poor subscriber growth in Tanzania and to help improve Vodacom Tanzania’s business case but the model is still based on the number of registered customers, meaning that it is likely that they will continue to show sustained but careful subscriber growth.

Limited Market Share

Although both Safaricom and Vodacom are the leading operators in their respective markets, Vodacom’s market share in Tanzania (41%) is significantly less than Safaricom’s in Kenya (79%) which translates into a base of 13 million customers for Safaricom as opposed to only 5.9 million for Vodacom. This difference may be another reason that the initial registration uptake for M-PESA in Tanzania was less than that in Kenya.

Figure 4: M-PESA in Kenya and Tanzania (USD)

<table>
<thead>
<tr>
<th></th>
<th>Safaricom</th>
<th>Vodacom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscribers (millions)</td>
<td>41%</td>
<td>79%</td>
</tr>
<tr>
<td>Revenue (millions $)</td>
<td>13</td>
<td>5.9</td>
</tr>
<tr>
<td>M-PESA Launch Date</td>
<td>March 2007</td>
<td>April 2008</td>
</tr>
<tr>
<td>M-PESA Technology</td>
<td>STK</td>
<td>USSD</td>
</tr>
<tr>
<td># M-PESA Users (May 2009)</td>
<td>6.5 million</td>
<td>280,000</td>
</tr>
<tr>
<td>Value Transactions as of May 2009 (million $)</td>
<td>170</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Company Information, 2009

Ease of Registration Countered by Regulatory Environment

M-PESA is delivered in Tanzania using USSD which does not require any application to be stored on the SIM card. Rather, the user dials a short number to receive a set of menu options. After each user selection from the menu, data is sent back to the M-PESA server and a new menu, input field or confirmation screen is sent back to the user. This process of query and result can be time consuming for the user but is still relatively simple to use. The biggest benefit of USSD is that it does not require the SIM to be swapped, making registration much simpler for both the agent and the customer. However, it can be argued that the benefits of this technology on the registration process were eliminated by the strict regulatory requirements and the lack of national ID in the country. As a result, even though Vodacom
took a positive step forward from the implementation in Kenya by investing in technology that would improve the customer experience, they were not able to leverage the benefits of this technology due to the regulatory environment and this may be one of the reasons that subscriber growth was not as high as they originally predicted.

**Broad Range of Services Required in Competitive Market**

While M-PESA was originally launched as a service to ‘send money home’ Vodacom has recently introduced a number of other value added services such as the ability to pay electricity, water and television bills. Charitable donation payments and microfinance loan repayments have also been introduced. This has helped to differentiate the service from competitors and may be one of the reasons that subscriber adoption has increased since the middle of 2009. Competitive differentiation is especially important for M-PESA since the other available services (ZAP and ZPesa) are closely linked to banks and allow users to transfer funds between their bank account and mobile payment account.
Regulations

Responsibility for, and regulations related to, mobile money transfer were given to the Central Bank under the Financial Institutions Statute (FIS) of 1993. However, the regulatory environment for mobile money transfer in Tanzania is relatively similar to that of Kenya where the Central Bank of Tanzania has approved the service for operation but has not fully regulated it under normal banking regulation.

In Tanzania, where there is no national ID, registration processes can be cumbersome, and it is not uncommon for account activations to be delayed until further customer vetting has been done. Voter registration cards are often used in replacement of national IDs to verify customer identity. Also, anti-money laundering (AML) requirements in Tanzania make registration procedures more complex for consumers who wish to transact above around USD 1,300.

Vodacom has implemented a strict AML policy and a copy of an AML manual is distributed to each agent for their compliance. Vodacom reviews the policy annually to update it according to changes in the regulatory environment.

On July 1st 2009, a new KYC legislation was passed by the Tanzanian Communication Regulatory Authority requiring all mobile operators to officially register customers purchasing a new SIM card. The buyer must now show a valid ID with photo, which is far from easy in a country where there is no national ID system. The legislation also required that by January 1st 2010, all existing pre-paid mobile phone subscribers would have to undergo the same process of registration and providing formal ID for identification or their accounts would be terminated. This presented an excellent opportunity for the uptake of mobile money services since the KYC requirements for registering for an M-PESA account are now similar to those for mobile phone activation.

Market Research

Based on the success of M-PESA in Kenya, little market research was conducted prior to the M-PESA Tanzania pilot. This ended up being a fatal decision for Vodacom Tanzania since the market conditions in the two countries proved to be quite different and in depth market research may have prevented Vodacom from making some of the early mistakes they did.

After the launch in April 2008, the team realized that there was a need to better understand the market and drivers of the service. A marketing agency was engaged to conduct secret shop visits and to observe customer behavior. Customer surveys were also conducted. Based on the results of this research, Vodacom expanded the product offering to include transactions such as electricity and water bill payment and microfinance loan repayments.

Pilot Implementation

Vodacom conducted a short technical pilot of the M-PESA service in Tanzania but mainly relied on the results from the Kenya launch in order to make strategic decisions regarding channel distribution tactics and customer value proposition. The main focus of the pilot was to test the USSD gateway since the USSD channel was not used in the Kenyan implementation.

Making the assumption that the Tanzanian market would mimic the results in Kenya was a critical error for the project. In reality, although Tanzania is geographically close to Kenya and many of the market factors are similar (such as language and certain cultural practices) there are also significant differences between the two countries (such as population dispersion, crime rates, financial literacy and mobile penetration). A full market pilot would have likely been able to identify these key differences and may have persuaded the team to tweak their launch strategy accordingly.

A lengthy pilot was also not conducted in Tanzania since Vodacom was under a lot of pressure to be first to market with their service. At that time, Zantel was actively developing their mobile money transfer
service, ZPesa, and Vodacom was well aware that the being first to market would create a significant competitive advantage. Eventually M-PESA and ZPesa were launched around the same time frame (April 2008).

**Marketing Strategy**

Vodacom’s marketing strategy did not get off to a good start. The initial campaign targeted the wrong audience and did not clearly identify the use of the product. One early advert showed images of people buying textbooks in city bookstores which incorrectly positioned the service as something to be used by the upper class. Vodacom did adopt the familiar M-PESA Kenya tagline, ‘send money home’ but their ads did not clearly identify how the system could be used to do this and what the benefits would be to users.

To correct this misconception, Vodacom has recently adjusted its marketing to make it more relevant to the average customer. It is now focusing its marketing campaign on being more educational and highlighting cases where “M-PESA is easy, affordable and for everyone.” Latest market surveys show that customers now seem to be aware of the brand but the majority is still not aware of what the service can offer and how they can register for it. Since the second half of 2009, the service has been marketed by presenting different usage scenarios which over time should help to rectify this finding. The operator has also recently shifted its campaign from above the line initiatives to below the line tactics since they can be more effective as educational campaigns.

When the service was first launched in Tanzania, fees were tiered for all transaction types including person-to-person transfers to registered users and cash withdrawals by registered users. This proved to be extremely confusing and difficult to remember for the majority of customers. M-PESA in Tanzania now uses a pricing scheme that is similar to M-PESA Kenya where a flat fee is charged for person-to-person transfers to registered customers and tiered fees are charged for money transfers to unregistered customers. Cash deposits are free along with cash withdrawals by unregistered users. Registered users pay a withdrawal fee that ranges according to the amount they wish to withdraw. Customers are charged a small fee for balance enquiries and when they wish to change their PIN. A detailed fee structure can be found in Figure 5.
**Figure 5: M-PESA Tanzania Transaction Fees (USD)**

<table>
<thead>
<tr>
<th>Value Transaction</th>
<th>Value ($)</th>
<th>Charge ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Deposit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 3.70 To 370.00</td>
<td></td>
<td>Free</td>
</tr>
<tr>
<td><strong>Send Money To Registered Customer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 0.74 To 370.00</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td><strong>Send Money To Unregistered Customer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 0.74 To 370.00</td>
<td>0.74</td>
<td></td>
</tr>
<tr>
<td>From 7.41 To 14.80</td>
<td>1.11</td>
<td></td>
</tr>
<tr>
<td>From 14.81 To 37.00</td>
<td>1.85</td>
<td></td>
</tr>
<tr>
<td>From 37.01 To 74.00</td>
<td>2.96</td>
<td></td>
</tr>
<tr>
<td>From 74.01 To 148.00</td>
<td>4.44</td>
<td></td>
</tr>
<tr>
<td>From 148.01 To 222.06</td>
<td>5.92</td>
<td></td>
</tr>
<tr>
<td>From 222.07 To 370.00</td>
<td>8.14</td>
<td></td>
</tr>
<tr>
<td><strong>Withdraw Money - Registered Customer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From 3.70 To 7.40</td>
<td>0.26</td>
<td></td>
</tr>
<tr>
<td>From 7.41 To 14.80</td>
<td>0.37</td>
<td></td>
</tr>
<tr>
<td>From 14.81 To 37.00</td>
<td>0.74</td>
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<td>1.11</td>
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<td>From 74.01 To 148.00</td>
<td>1.85</td>
<td></td>
</tr>
<tr>
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<td>2.96</td>
<td></td>
</tr>
<tr>
<td>From 222.07 To 370.00</td>
<td>5.18</td>
<td></td>
</tr>
<tr>
<td><strong>Withdraw Money - Unregistered Customer</strong></td>
<td>0.74</td>
<td>Free</td>
</tr>
<tr>
<td>From 0.74 To 370.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Transactions</th>
<th>Value ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Enquiry</strong></td>
<td>0.04</td>
</tr>
<tr>
<td><strong>Change PIN</strong></td>
<td>0.04</td>
</tr>
</tbody>
</table>

**SOURCE: Company Information, 2010**

As shown in Figure 6 a significant difference in pricing between Safaricom's and Vodacom's M-PESA does not exist. At lower transaction amounts, it is much more expensive to send money in Kenya but Safaricom’s service quickly becomes cheaper at higher transaction levels. For the most popular amount to send, which is just over 20 USD in both countries, Safaricom charges 3.6% and Vodacom 4.5% of the amount sent. The prices have been calculated to include the deposit fee (free), the transfer fee and the fee to withdraw the money.\(^\text{11}\)

\(^{11}\) Camner, Gunner and Sjöblom, Emil, 2009. “Can the Success of M-PESA be Repeated?”
Figure 6: Safaricom vs. Vodacom Fees (% of Amount Sent in USD)

Source: Camner & Sjöblom, 2009
Network Development

M-PESA agents in Tanzania consist of Vodacom airtime dealers, operating one or more outlets around Tanzania and other retailers with a substantial distribution network, such as banks, petrol stations and super markets.

Initially, Vodacom used a similar strategy as Safaricom to roll out the agent network in Tanzania by approaching existing airtime distribution channel partners to become M-PESA Agents. However, while Safaricom had 1,000 retail partners, Vodacom only had relationships with 6 such dealers. This severely limited their ability to scale quickly and exert enough influence over the dealers. After a few months, Vodacom started focusing on establishing direct relationships with end retailers and these independent businesses now make up 80% of Vodacom’s M-PESA agent network.12

Recently, Vodacom also began to notice the success of Safaricom’s aggregator model in Kenya.13 In this model, a single agency agreement is signed with a large master agent that in turn registers and manages several M-PESA retail agent outlets. This tactic enables the operator to bring on a number of retail agents by only signing agreements with a few master agents. Vodacom has started to implement the aggregator model and is building a tiered network of agents that is separate from their airtime distribution partners. This should help to alleviate the complex network recruitment and management processes that they currently experience.

Vodacom uses M-PESA street promoters to recruit customers to the service. The promoters are hired by retail agents and are required to sign up users and direct them to the agent location to make their first transaction. In turn, the promoter receives a small portion of the commission that is paid to the agent by Vodacom for the user registration. However, it has been found that only about 10% of these customers continue to actively use the service after subscribing.14 Since Vodacom pays Vodafone a license fee for each registered subscriber, they are now considering stopping the promoter model to avoid paying high license fees for users that are not generating any profits.

In July 2009, Vodacom Tanzania signed the Bank of Africa as the first bank in the country to service M-PESA customers. Pre-paid and post-paid Vodacom customers can register for M-PESA and transact at any Bank of Africa branch.15 The company will also be signing deals with other banks in order to expand its network of available agents.

One issue that continues to hinder the development of the agent network is that in Tanzania, business-licensing requirements for agents not only impose direct costs of licensing, but also may create a tax burden on businesses that might have previously operated informally.

Selection Criteria

To become a M-PESA agent in Tanzania, the agent must be a registered company with at least 5 outlets ready to offer M-PESA services. At least 2 of these outlets should be located in rural areas. Agents are required to comply with Vodacom’s anti money laundering policy, which stipulates they know the customer regulations and procedures to be followed in the case of suspected fraud or money laundering. Agents should also be able to show that they will be able to offer quality service by meeting staff resource requirements and by implementing procedures to keep floats balanced. An investment in cash float of Tsh 2,000,000 (approx. USD 1,480) is required for each active M-PESA outlet.

13 For more details on the aggregator model, please refer to M-Money Channel Distribution Case: Kenya
There also exists a category of special agents who may not have the minimum number of outlets but would be beneficial to have as agents (such as banks, hotels and major supermarkets). These companies only need to operate one outlet to qualify for M-PESA services. However, the agent must be willing to at least invest Tsh 5,000,000 (approx. USD 3,700) as the cash float for each outlet they apply for.

**Roles & Responsibilities**

Agents are responsible for facilitating cash withdrawals and deposits, registering users, following ‘know your customer’ (KYC) rules, and educating users. The agents are provided with a handset and M-PESA SIM that enables them to fulfill their role. Since there is no national ID system in place in Tanzania, agents often use voter registration cards to validate a customer’s identity. Other valid forms of ID include Pension Cards, Passports, and Company ID. The agents are required to take a copy of the ID and to submit it Vodacom to keep on file for future customer validation.

If a copy of the ID document provided cannot be retained by the agent then the customer is registered as a tier 1 customer and this means that the customer will be limited to an annual account through-put value of Tsh1.7 million (approx. USD 1,258). If a copy of the identify document can be retained and is sent to Vodacom for verification then the customer will be registered as a tier 2 customer and will be limited to an annual account through-put of Tsh 50 million per annum (approx. USD 37,000).

Agents are also required to record transactions in a paper log book. For each transaction, the agent enters: the MPESA balance, the 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.

**Value Proposition**

Due to the highly competitive telecom environment in Tanzania and the fact that 2 other mobile payment services are available in the country, attracting and incentivizing agents is a difficult task. It seems that the value proposition for M-PESA agents in Tanzania is not as clear cut as in Kenya but still includes some attractive elements such as:

**Revenue:** Agents earn commissions on every deposit, withdrawal and new customer registration that they process. The commission for a deposit is 0.4% of the transaction value and 0.6% for a withdrawal. A flat fee of between USD 0.37 and USD 1.48 is paid for new customer registrations. Agents in Tanzania also earn 5% of the face value of airtime sales through M-PESA.

**Increased Footfall:** One of the key benefits communicated to agents is that M-PESA transactions will drive traffic into their place of business and this serves as an opportunity for them to increase their bottom line as customers have increased occasion to shop at their retail outlets.

**Meeting Customer Demand:** By providing a service that is in high demand by the customer, agents improve overall customer perception and loyalty for their core business. As an example, one textile shop owner in Stone Town, Zanzibar started offering mobile money services after he noticed it was in high demand with his customers. He then encouraged a friend in neighboring Pemba to also open an outlet and created his own remittance corridor since many users travel between these locations. The service has been extremely successful and has enabled him to open 3 other retail outlets in Tanzania.\(^{16}\)

**Commission Structures**

As shown in Figure 7, commissions paid to M-PESA agents for deposits and withdrawals in Tanzania is based on a percentage of the transaction value whereas in Kenya, the commission is based on the transaction value tier. Both services pay a commission for new subscriber registrations and on average, this is roughly the same amount of USD 1 per new customer. Vodacom also offers their agents 5%

commission on airtime sold through M-PESA. The commission paid to agents by Zain for their ZAP service is competitive with M-PESA.

**Figure 7: Agent Commission Structures in Kenya and Tanzania (USD)**

<table>
<thead>
<tr>
<th>Product</th>
<th>Deposit</th>
<th>Withdrawal</th>
<th>Registration</th>
<th>Extras</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-PESA Kenya</td>
<td>$0.13-$0.19</td>
<td>$0.19-$0.45</td>
<td>$1.02</td>
<td></td>
</tr>
<tr>
<td>M-PESA Tanzania</td>
<td>0.4%</td>
<td>0.6%</td>
<td>$0.37-$1.48</td>
<td>5% of airtime recharge value</td>
</tr>
<tr>
<td>Zain ZAP</td>
<td>$0.15</td>
<td>$0.37</td>
<td>$0.37-$1.11</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Company Information, 2010*

**Liquidity Management**

Vodacom Tanzania uses similar liquidity management tactics for M-PESA as Safaricom in Kenya. The agent aggregator model enables master agents to transfer float to their sub agents as required and this alleviates the burden on the network operator of monitoring thousands of individual shops.

However, one of the factors that contribute to the challenge of liquidity management in Tanzania is the fact that the formal banking system is relatively undeveloped. The number of bank branches per 100,000 inhabitants is only 0.57 and this low level of density makes it difficult for agents to easily manage their cash floats. Agents must travel long distances to find a bank branch where they can renew their floats which means that they have less time in their shops and may not be able to top-up their floats as often as they need to. As a result, agents in Tanzania face increased float management problems and customers have often complained about this. Vodacom is still struggling with managing this problem and it is yet to be seen if further implementation of the aggregator model will help to improve this situation.
Agent Training

The agent training program in Tanzania is very similar to the program that was designed for M-PESA in Kenya. Agents are trained on all aspects of the operation of the system including Vodacom’s anti-money laundering (AML) policies. The training is delivered by an external agency and is tailored to the role of the person being trained, meaning that shop assistants receive training on the operation of the handsets while head office staff receive training on the web screens and procedures for processing float deposits and withdrawals. Training is an ongoing process that is updated regularly to reflect developments to the platform and changes to AML laws and regulations, as well as money laundering and terrorist financing trends and developments.

The AML training outlines how to comply with M-PESA Anti-Money Laundering Procedures and to makes agents aware of the criminal and civil liability that they may face in the case of failure to report suspicious activity. The agents are also required to ensure that any staff they hire or assign to process M-PESA transactions have received the appropriate training. An AML test is administered by the agency to ensure that agents have clearly understood the training. The training records are then kept on file by Vodacom for a period of seven years.

Network Management

Following the same network management model as M-PESA in Kenya, Vodacom uses a small external marketing agency named Afrikings PTY Ltd (headquartered in South Africa) to monitor agent activity. A team of about 10 local Afrikings representatives are responsible for managing the M-PESA network. The agency is responsible for training agents and providing them with copies point-of-sale material such as brochures, banners, posters and agent number stickers. The agency is also responsible for collecting training records and customer registration forms and delivering these to Vodacom Head Office for storage.

Secret shop visits has been an effective tool in monitoring and scoring agent compliance. In this situation, the external agency sends a member of staff to pose as a customer and to score the agent on criteria such as AML compliance, quality of service, adherence to branding requirements, availability of float and knowledge of the service. This information is then used to help correct any issues identified at the agent location.

Risk

Since M-PESA in Tanzania is based on the same platform as M-PESA in Kenya, similar risk mitigation tools are available. This includes the detailed system audit trail, ability to flag suspicious activity, and maker-checker functionality that requires more than one member of back-office staff to process large transactions and bank reconciliations.

One key difference between the systems is the use of USSD in Tanzania versus the use of STK in Kenya. STK is generally considered more secure since the application on the SIM card can generate encrypted messages. However, to date the USSD platform has been relatively secure in Tanzania and the number fraud attempts is still lower than in Kenya. This may also be due to the fact that there are significantly less users in Tanzania.

While Safaricom spends a considerable amount of its budget on mitigating risk, Vodacom currently seems to be focusing its resources (staff and budget) on scaling up usage and rolling out the agent network. It is likely that when they see increased subscriber growth and value movement, they will begin to allocate more resources towards risk mitigation.

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17 For more details and a sample schedule of the training program, please refer to M-Money Channel Distribution Case: Kenya

6/14/10
**Staff Requirements**

Vodacom has formed a dedicated local team to support the development and management of M-PESA including over 15 members of staff from Product Development, Customer Care, Technical, Finance, Sales and Marketing. In addition, the operator has recruited an external agency to manage and train their agent network.

**Customer Training & Support**

With three different mobile money services available in Tanzania, customers are receiving numerous and varied messages regarding the value and use of these products. M-PESA has been communicated only as a way of sending money while ZPesa has been promoted as mobile banking service and a bank in your pocket. It’s no wonder that customers are confused about the capabilities of the different services. To date, customer education campaigns offered by Vodacom have been limited but this is slowly starting to change. Vodacom is now investing more resources in radio ads and print publications to clearly communicate the benefits and use of their service. Agents are also being trained to offer increased customer support and education.

An additional challenge with regards to customer education for Vodacom is the fact that they opted for a USSD service as opposed to the SIM Application Toolkit (STK) that was used by Safaricom in Kenya. While they both have their advantages and disadvantages, STK is known to be easier to maneuver, an especially important characteristic when targeting an often illiterate customer base.

Like Safaricom, Vodacom provides a 24/7 dedicated customer care call center for users of M-PESA. Calls to the customer care center are free and response times are quite good when compared to the support provided for other Vodacom services. The queries that the call center receives for M-PESA are still of a very basic nature, further indicating the high need for customer education.