

Building Resilience Through Digital Financial Services

Africa COVID-19
Digital Finance Market Impact Series

Tanzania

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Tanzania is East Africa's second-largest economy, behind Kenya. Services comprise 45% of GDP, and the economy depends heavily on agriculture for exports and employment. For decades, the country has had a focus on raising agricultural productivity and pursuing growth led by agro-industrialization. Tanzania avoided a coronavirus-induced recession in 2020, recording only a slowdown in real GDP growth, supported by agriculture and the absence of a lockdown.¹

Financial access is slightly above regional average with 40% of adults having a transactional account and 32% active mobile money users. The rising number of bank customers is matched by a growing number of banking agents that are also expanding to rural areas. However, mobile money agents remain the largest agent network in the country. The country has a high level of interoperability in mobile money transfers and payments. There is a growing network of merchants that accept mobile money payments from multiple mobile network operator (MNO) wallets and bank accounts. **Tanzania is therefore a dynamic DFS market with tremendous potential for financial inclusion.**



TANZANIA: KEY COUNTRY STATISTICS



60.1 million

Population

(Source: GCMA 2020)



\$2,770

GDP per Capita (PPP) (2019)

(Source: Worldbank)



\$99 million

Remittances (2018)

(Source: Worldbank)

Account Penetration

Source: Worldbank (FINDEX), 2014



40%

all transaction accounts



19%

account with financial institution



32%

Mobile account

Source: IFC Market-scan 2019; NMB Annual Report 2019

Source:

¹ The Economist Intelligence Unit, Tanzania Briefing Sheet, May 19th, 2021

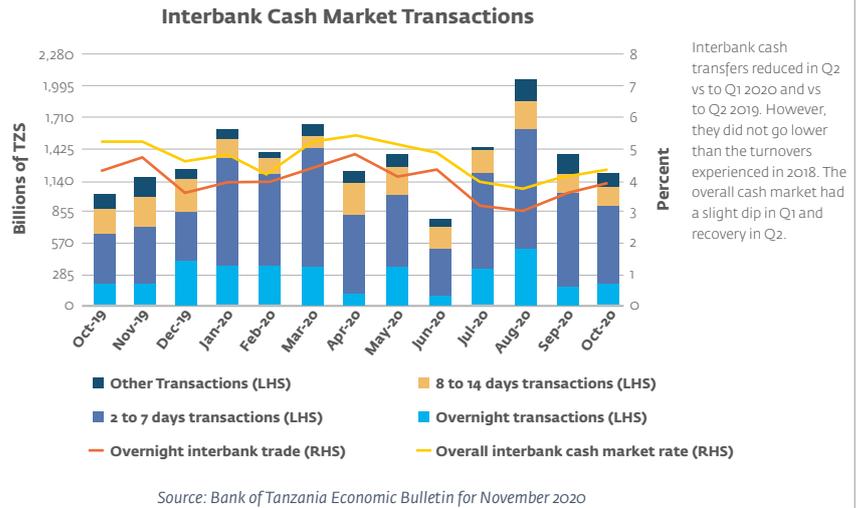
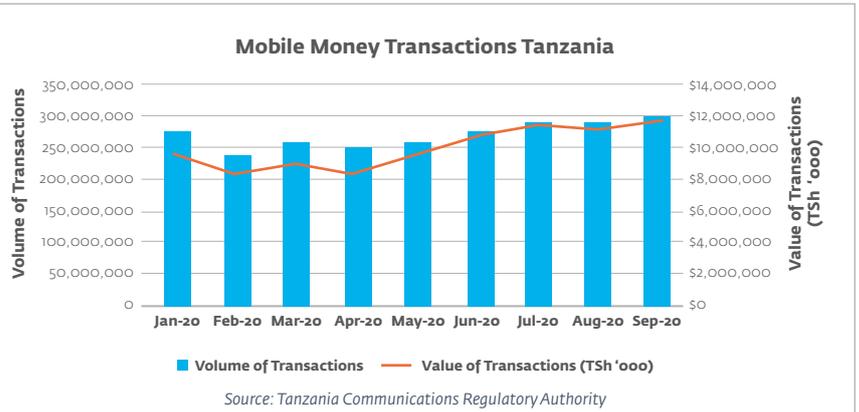
IMPACT OF THE COVID-19 PANDEMIC

- Real GDP growth dropped from 5.8% in 2019 to 2.0% in 2020 with recovery to 4.5% in 2021 and 5.5% in 2022.
- Inflation remained constant at 3.4% in 2020. Inflation is expected to remain however well within the targets set by national and regional authorities.
- The tourism sector which contributes an estimated 1% GDP growth suffered a revenue decline of 80% in 2020 as reported by operators.
- Lower transit trade significantly decreased Tanzanian exports of transport services to its neighbors.
- While the pandemic had a negligible impact on the value of the Tanzania Shilling, the DARSDSEI dropped 18.5% in 12 months. This was the worst-performing index with losses of 55.4% year-to-date by June 2020, attributable to continued selloffs as concerns mounted over a possible pandemic-related economic fallout.
- In May 2020, Bank of Tanzania (BoT) lowered its benchmark lending rate from 7% to 5% to cushion banks from Covid-19 impact. Since the beginning of the pandemic, the banking sector remained stable and profitable, with capital and liquidity levels above the regulatory requirements.
- BoT also increased limits on the value of mobile money transaction from USD 1,300 (TZs 3 million) to USD 2,200 (TZs 5 million) and the daily balance from USD 2,200 (TZs 5 million) to TZs USD 4,400 (10 million).
- Due to their high market penetration and minimal physical contact to transact, the internet and mobile banking channels supported uninterrupted transactions during the pandemic.

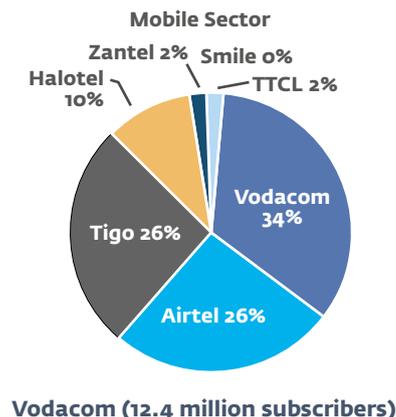
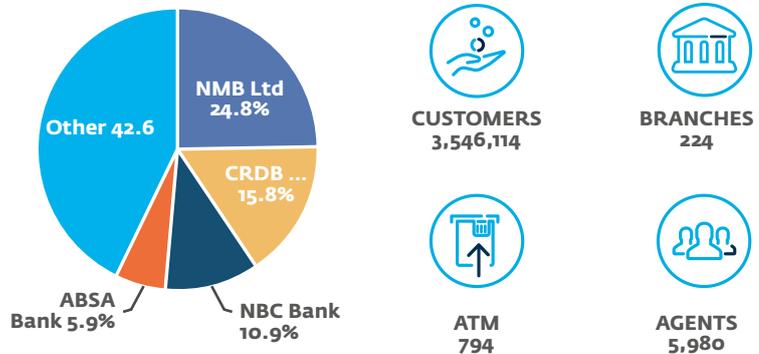
DFS MARKET OVERVIEW

All banks have embraced digital technology

- Bank branch growth is flat and expected to start declining.
- All commercial banks offer mobile banking including, for example, TPB Popote, NBC Mkononi, Equity Eazzy 24/7.
- Major commercial banks have rolled out agent banking including NMB, DTB, NBC, FINCA and Equity Bank. This has led to increased deposit mobilization, brand visibility and account opening.
- Key service integrations include:
 - Send money from bank to mobile phones (M-Pesa, Tigopesa, Airtel Money, And Ezy pesa)
 - Bill pay (LUKU, DAWASCO, TTCL, Ferry, ZUKU, Smile, StarTimes, DSTV, etc.)
 - UmojaSwitch interbank ATM switch integration to TigoPesa and HaloPesa.



Bank Market Shares and Evolving Channels



The mobile sector is thriving

- Vodacom’s M-Pesa remains the market leader, closely followed by Tigo Pesa.
- The telecom sector has dramatically improved financial access through mobile money.
- Over 40% of mobile money subscribers are active on a 90-day basis.
- However, distribution in rural areas remains difficult due to low population density and poor infrastructure.
- In the fourth quarter of 2019, there was a phased switching-off of non-compliant users and businesses following a NIDA requirement that all mobile money customers and merchants provide know-your-customer (KYC) registration details include biometrics.
- BoT requires mobile money services to provide a profit share from their trust account holdings.

There is a competitive hub of interoperability in payments

- In sharp contrast to markets like Ghana, Uganda or Côte d'Ivoire where monopolies or duopolies are established, Tanzania is a market with flexible mobile payments acceptance as interoperability across channels and providers is commonplace. Merchants that accept mobile money payments from a particular MNO or bank typically also accept multiple customer DFS mobile wallets including:
 - Bank accounts
 - Tigo Cash/M-Pesa/Airtel money
 - Masterpass
 - Debit/Credit Cards
- Payment flexibility is such that some MNOs have adopted the more generic tagline “Pay with your phone” (Lipa kwa simu yako) rather than Pay with M-Pesa, Tigo Cash or other specific network.

The main implication of this are:

- There is stiff competition between MNOs to recruit and retain merchants. The dominant MNO at a merchant will benefit from increased float and transactions fees not just from their own customers but customer of all the other players.
- Pricing on cash out fees has decreased by up to 1%.
- Merchant liquidation cycles have improved from on demand from one cycle to the next as a standard offering.
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EVENTS SHAPING DFS

- The Tanzania Instant Payment System (TIPS) is due to be rolled out in 2021
- Agency banking is increasingly incorporated into channel strategies, fostering deposit mobilization, account opening and rural penetration.
- Financial inclusion has increased through mobile money. Over 5 billion USD (TZs 11.5 trillion) were transacted in September 2020 alone by 30.5 million active users, in the aftermath of the pandemic.
- A number of strong partnerships have been forged, driving adoption and usage up. For example:
 - Tigo’s partnership with MasterCard and Selcom has led to the ‘Masterpass’ QR Code gaining significant presence in the merchant payment space.
 - Vodacom’s ‘Songesha’ mobile overdraft facility has seen unprecedented growth.
 - Airtel’s recent partnership with Mastercard promises increase ease of merchant payments across the group.
- Interoperability between the financial institutions and mobile money players has led to strong year-on-year increases in both volume and value of mobile money transactions.
- Conversely, charges on mobile money transactions, especially cash-out fees, are among the highest in the region.

DFS Industry Partnerships In Innovation

VAS	Tigo	Vodacom	Airtel	Others
Remittances	Corridors to KE (Safcom), UG (MTN), RW (MTN & Airtel)	World Remit; MoneyGram, Safcom, MTN (UG) EcoCash	World Remit; Western Union	BOT (TIPS) exploring IoV with Mojaloop
Mobile Lending, Saving and Overdrafts	Tigo Nivushe*	M-Pawa/NCBA, Songesha/TPB	Timiza Akiba, ‘Timiza wakala’*/Letshego Bank/ JUMO	Branch
Merchant Payments / Cards	MasterPass QR/ MasterCard/Selcom	M-Pesa Master Card, 1st M-Pesa Vending Machine	Airtel Money virtual Mastercard	Halotel Visa*
Others	Free Facebook in Swa-hili	M-Koba group savings		

Source: BMK IFC research – Nov ’20

OPPORTUNITIES FOR MARKET GROWTH

DFS can leverage the existing high level of payments interoperability and become a key driver of Tanzania's financial inclusion and economic growth in key sectors.



Sector Value Chain upgrades with Digital Payments

Upstream B2B mobile money payments can be enabled for key industry sectors and clusters. These include FMCG, drinks distribution, LPG and hardware supply chains. Mobile money payments by customers are used for inventory supply without the need for cash-outs.



Cashless Public Transport Payments

'Mwendo kasi', a rapid bus service, already provides a structured opportunity for digital payments. Phase 1 of DART is already implemented with phase II and III pending. NFC technology presents a quick and easy payment method that can be interfaced to various wallets.



Bank – MNO Partnerships for Merchants & Agent Lending

38% of merchants identified access to finance as the top business obstacle after Electricity (38%) and Taxation (8%). This presents an estimated US\$6bn gap in MSME credit in Tanzania.



DFS for Agriculture

This includes C2B and B2C payments, savings, credit, agri equip-ment leasing, insurance and information services. USSD is key for ubiquity. Putting the farmer at the centre is crucial for innovation adoption.



Digital access to the commodity exchange

DFS can be enabled to connect producers to warehouses and commodity exchanges like the TMX. There is a vibrant but non-digitized local trade and export of cashew nuts, coffee, sesame, rice, sunflowers, maize and gold.



Democratizing Interoperability

Current based on bilateral agreements between MNO's and FI's.

The BOT can foster multilateral agreement with open API's and an open payment switch.



Scale up of Merchant Mobile Money and Card Acceptance

Only 18% of merchants accept mobile money (IFC-HiFi Merchant Survey Mar. '20). There is a major opportunity to penetrate the cash payment space with the multiple interoperable wallets available.

In addition, more merchants have set up online shops, and feature their products on apps, Facebook and Instagram. This is a growing opportunity for online mobile money payments, boosted further by the Covid pandemic

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