



Tanzania Mobile Money Levy Impact Analysis

Period from 1st July until 31st December 2021





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Introduction



This report analyses the impact of a new levy on mobile money transactions in Tanzania. The analysis covers the first six months' period after the introduction of the levy, from July to December 2021.

Mobile money is a key driver of socio-economic growth by creating employment, driving business productivity, facilitating savings and facilitating investment, contributing to formalising the economy, and providing stability during economic downturns.¹ It is a main driver of financial inclusion, contributing directly to Tanzania's economic growth and social development objectives. As set out in Tanzania's National Financial Inclusion Framework, "mobile money services have been the main driver in the provision of financial services to the under-served especially women and people living in rural areas".²

Our evidence is already showing that Tanzanians are turning away from using mobile money since the introduction of the mobile money levy. This will especially affect the poorest and most vulnerable, and could lead to the reversal of digital and financial gains that Tanzania have made.

1. GSMA (2019). Harnessing the power of mobile money to achieve the sustainable development goals.

2. The United Republic of Tanzania (2018). National Financial Inclusion Framework 2018-2022. Page 16.

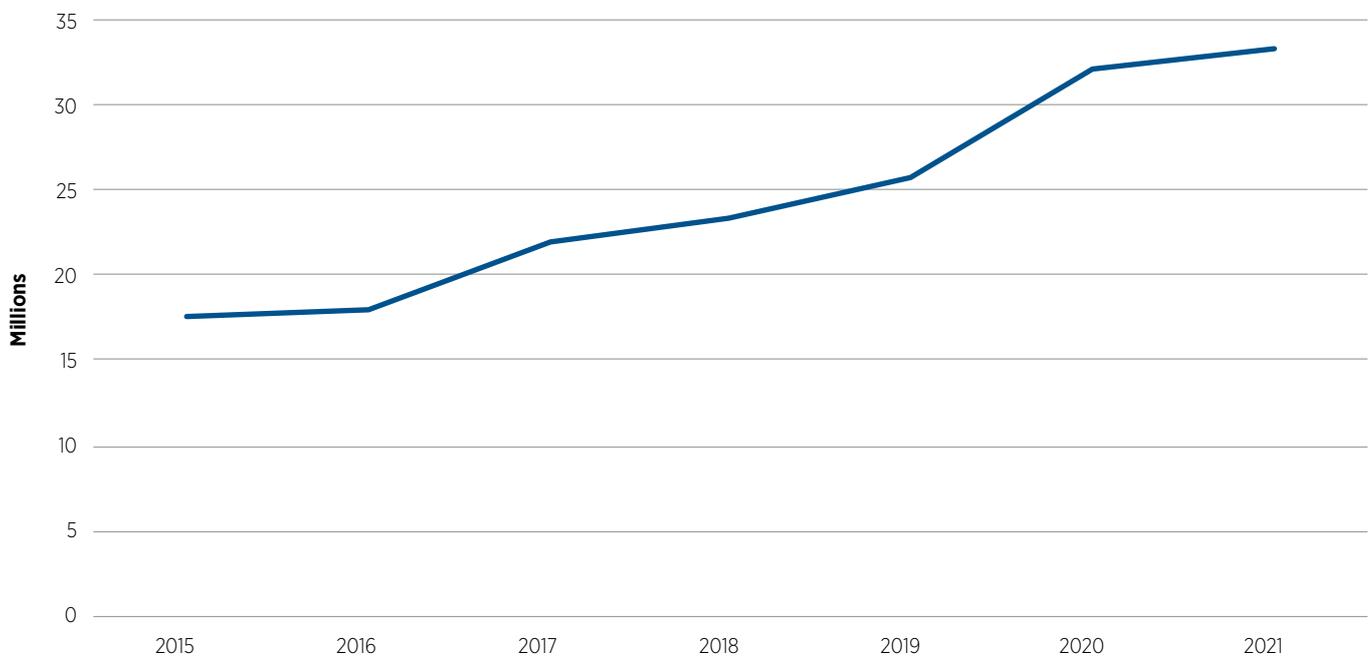
With the right policy and regulatory conditions in place, mobile money is set to become the backbone of payments in the digital economy. Mobile money stimulates the development of other sectors such as agriculture, health, transport and education by creating convenience of access to services, improving resource management and aiding distribution. As part of the mobile money ecosystem, MSMEs can perform financial transactions with other ecosystem participants, increasing their business opportunities.³

The enablement impact of mobile money services has seen the percentage of Tanzanian citizens using formal financial services increase from 16% to 65% between 2009 and 2017.⁴ As of June 2021, Tanzania had 33.2 million mobile money accounts relying on a network of agents managing transactions across rural and urban areas.⁵

It is important to recognise that although the steps may be the same for each country, the detailed activities under each may vary. Consultation with interested parties during the process is important to achieving optimum outcomes.

FIGURE 1

TOTAL NUMBER MOBILE MONEY ACCOUNTS (2015-2021)



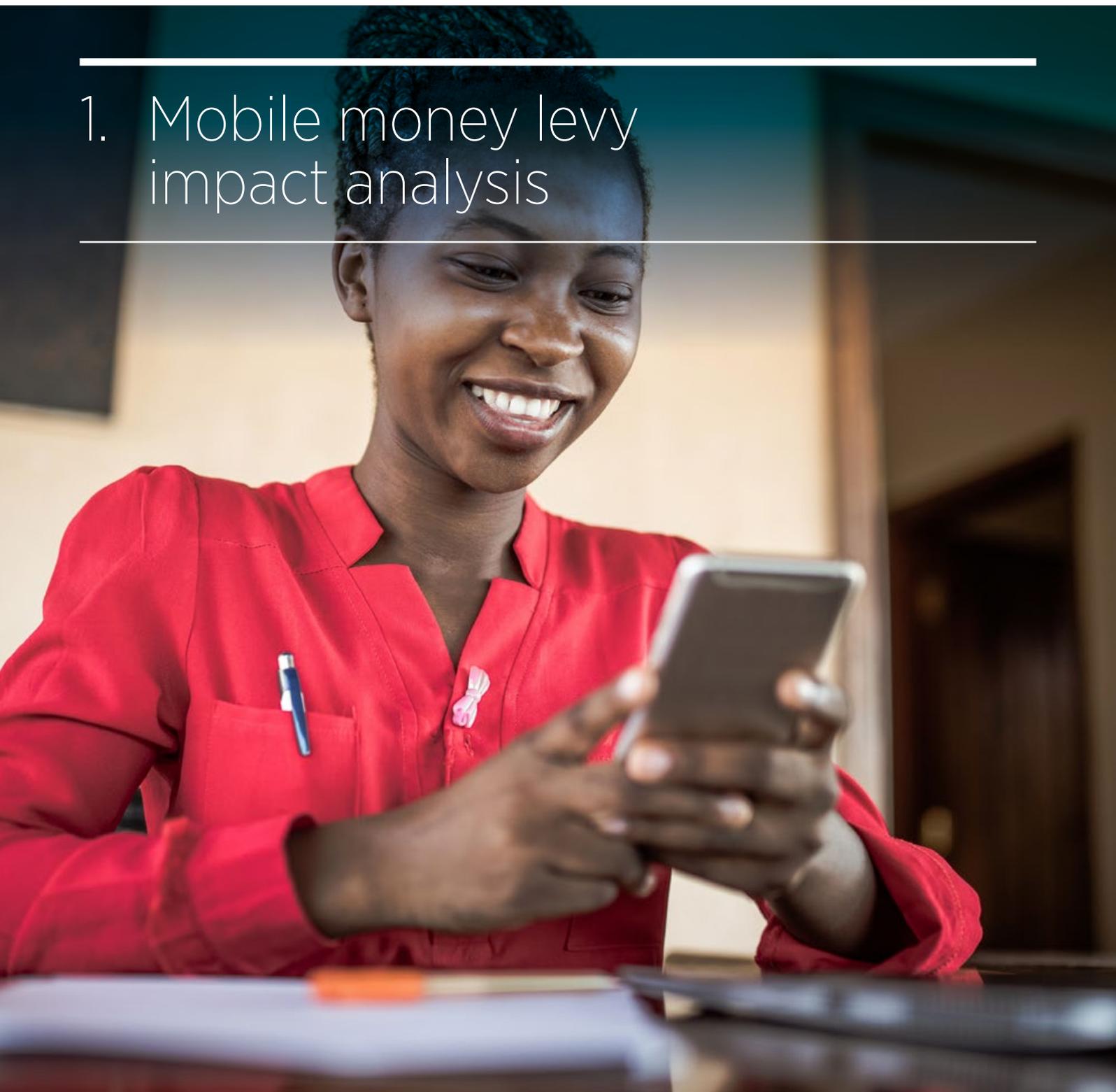
Source: Tanzania Communications Regulatory Authority

3. GSMA (2016). Mobile financial services and MSMEs.

4. Finscope Tanzania (2017). Insights that drive innovation.

5. Tanzania Communications Regulatory Authority. Quarterly Communications Statistics.

1. Mobile money levy impact analysis



From 1 July 2021, Tanzania introduced a new tax on mobile money transfer and withdrawal transactions, excluding merchant, business and government payment transactions effective 15 July. This levy applies in addition to VAT (18%) and excise duty on mobile money transfer and withdrawal fees (10%).

In August 2021, the government announced the reduction of the new mobile money transfer and withdrawal transaction levy by 30%, effective from 1 September 2021.⁶ On 19 July 2021, the President of Tanzania tasked the Minister of Finance and Planning to review the mobile money levy⁷ following concerns from the general public regarding the cost of mobile money transactions. Simultaneously, the application base was extended to include bank and financial institution transactions

performed through a mobile phone. Other types of bank and financial institution transactions such as over the counter, ATM transactions and transactions performed through devices other than mobile phones (e.g. personal computers) are not subject to the mobile money levy.

The rates applicable per transaction are presented in the following schedule.⁸

	Value of mobile money transfer or withdrawal (TZS)	Rate of mobile money Levy (TZS)	
		July-August 2021	From September 2021
1	Levy (TZS)	-	-
2	1,000 to 1,999	10	10
3	2,000 to 2,999	16	11
4	3,000 to 3,999	27	19
5	4,000 to 4,999	56	39
6	5,000 to 6,999	100	70
7	7,000 to 9,999	125	88
8	10,000 to 14,999	320	224
9	15,000 to 19,999	610	427
10	20,000 to 29,999	960	672
11	30,000 to 39,999	1,100	770
12	40,000 to 49,999	1,500	1,050
13	50,000 to 99,999	2,050	1,435
14	100,00 to 199,999	2,530	1,771
15	200,000 to 299,999	2,940	2,058
16	300,000 to 399,999	3,500	2,450
17	400,000 to 499,999	4,100	2,870
18	500,000 to 599,999	5,200	3,640
19	600,000 to 699,999	6,400	4,480
20	700,000 to 799,999	7,100	4,970
21	800,000 to 899,999	7,520	5,264
22	900,000 to 1,000,000	8,900	6,230
23	1,000,001 to 3,000,000	9,400	6,580
24	3,000,001 and above	10,000	7,000

6. The United Republic of Tanzania (2021). Special Supplement. The National Payment Systems (Electronic mobile money transfer and withdrawal transactions levy) (Amendment) regulations, 2021

7. Find letter in the annex.

8. Sources: The United Republic of Tanzania (2021). The National Payment Systems (Electronic mobile money transfer and withdrawal transactions levy) regulations, 2021. Pages 7 – 8. The United Republic of Tanzania (2021). Special Supplement. The National Payment Systems (Electronic mobile money transfer and withdrawal transactions levy) (Amendment) regulations, 2021. Page 3.

1.1 Price impact

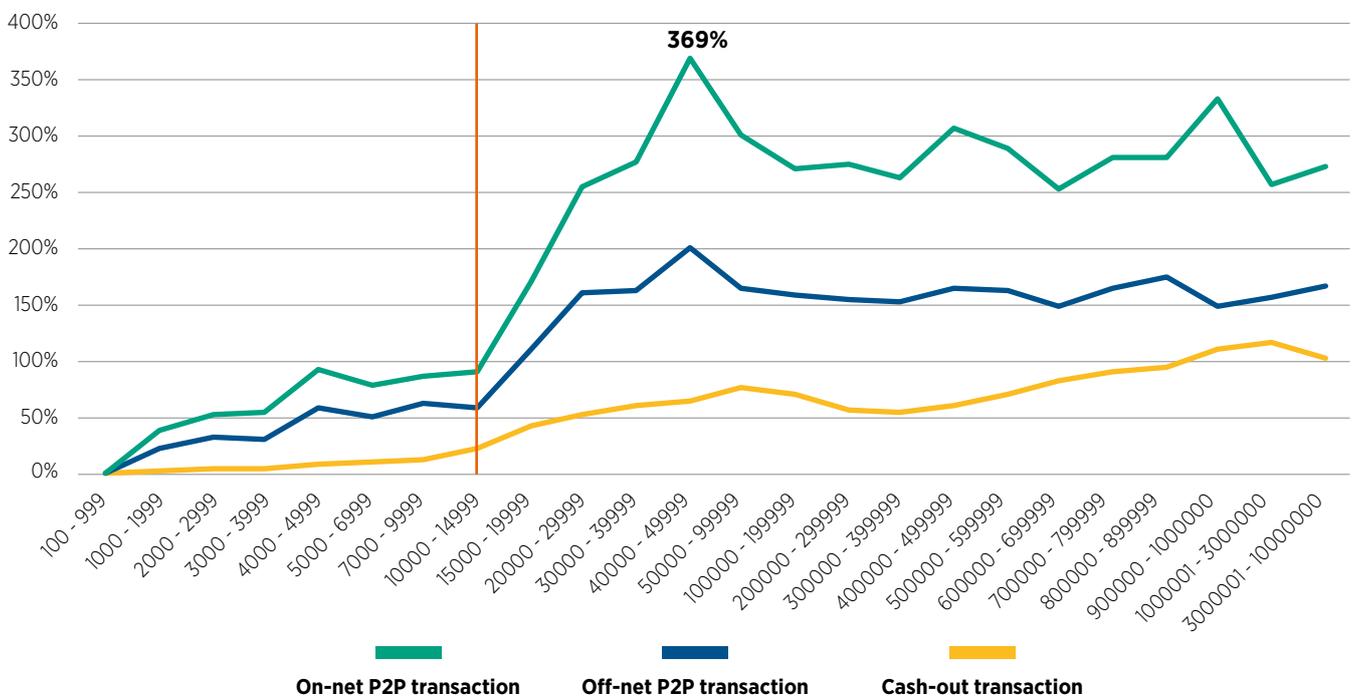
Following the introduction of the new mobile money levy, the average transaction fee increased from 3% to 369% depending on the transaction value (see figure 2).

More specifically, off-net and cash-out transaction fees increased significantly from 3% to 175%. On-net P2P transfers suffered the highest fee increase ranging from

38% to 369%. On-net transfers above TZS 10,000 (\$4.3) were particularly impacted with fees subject to a twofold to fourfold increase depending of the transaction value. For example, the average fee for a transfer between TZS 40,000 and 49,999 (\$17 – \$22) increased by 369%, from TZS 407 to 1907 (\$0.18 - \$0.83).⁹

FIGURE 2

PERCENTAGE INCREASE OF AVERAGE TRANSACTION FEE IN JULY 2021 COMPARED TO JUNE 2021, PER TRANSACTION VALUE.



Source: GSMA analysis and operator's data

Until June 2021, taxes on mobile money fees represented 23% of total transfer cost and included VAT (18%) and excise duty (10%).¹⁰ In July and August 2021, taxes on mobile money fees represented 60% of total transfer cost, on average, due to the new mobile money levy.¹¹ In particular, the average share of taxes increased

significantly for on-net P2P transactions as taxes represented up to 84% of total transfer cost. From September 2021, the proportion of tax reduced to 56% of mobile money fees following the reduction of the levy by the Government and the reduction of fees by mobile money operators.

9. In June 2021, the average P2P transaction value was TZS 42,000.

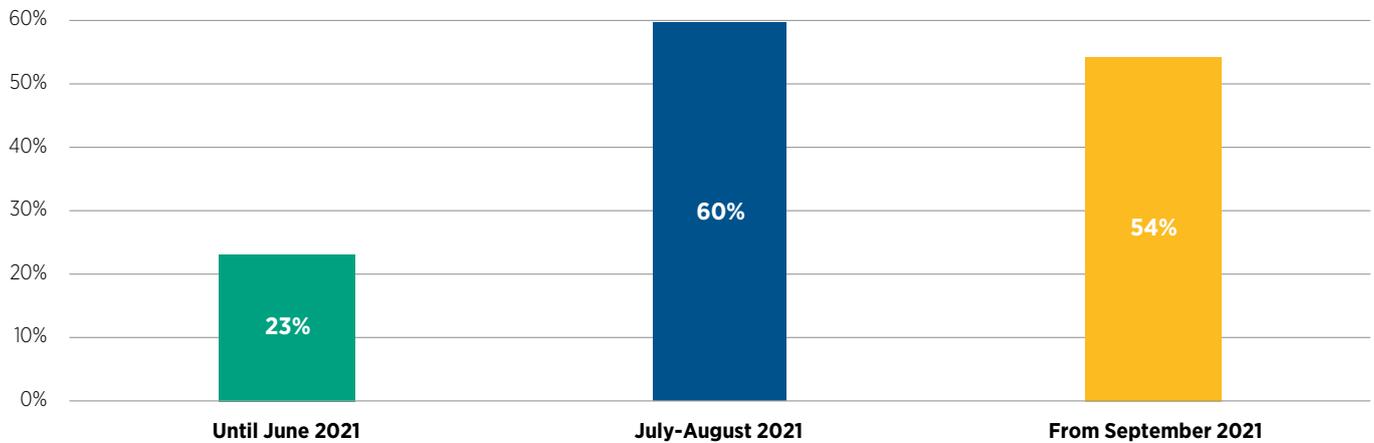
10. For example, a transaction fee of TZS 130 includes: 20 TZS of VAT, TZS 10 of excise duty and 100 of fee. VAT applies on fee plus excise duty.

11. Average tax proportion for on-net, off-net and cash-out transaction cost.



FIGURE 3

TAXES AS A PROPORTION OF TRANSACTION FEE



Note: The above figure includes the following taxes: VAT (18%), excise duty (10%) and mobile money levy (various rates).

Source: GSMA analysis and operator's data

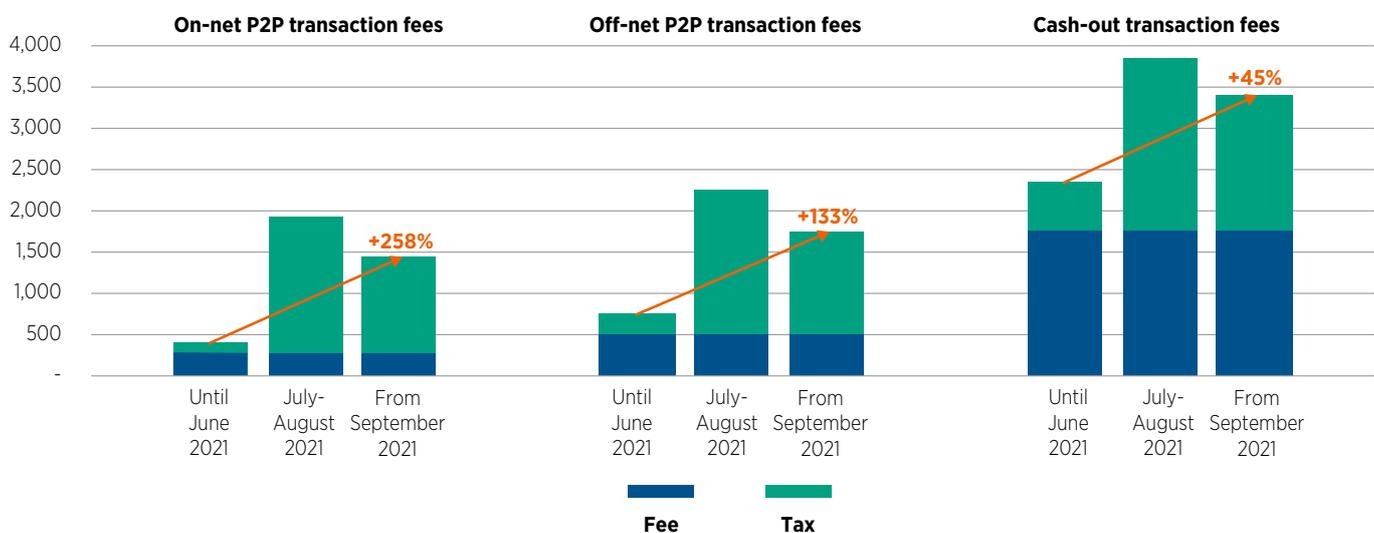
In September 2021, mobile money fees reduced marginally by 15% on average compared to fees applicable in July and August due to the levy reduction by the government and the reduction of fees by mobile money operators. From September 2021, mobile money operators reduced their fees to make mobile money services more affordable and counter the negative effects of new levy.

example, the figure below illustrates how the average fee for a transfer between TZS 40,000 and 49,999 (\$17 – \$22) evolved between June and September 2021.¹³ Between June and September 2021, the cost of P2P transfer increased by 258% (on-net transactions) and 133% (off-net transactions). The cost of cash-out transactions increased by 45% over the same period. Figure 4 demonstrates that the significant increase of the current transaction cost is entirely driven by the tax increase, as the fee element of the transaction cost decreases or remains stable depending on the type of transaction.

Despite the reduction of mobile money transaction costs in September 2021, mobile money users still face significant increase in transaction cost compared to June 2021.¹² For

FIGURE 4

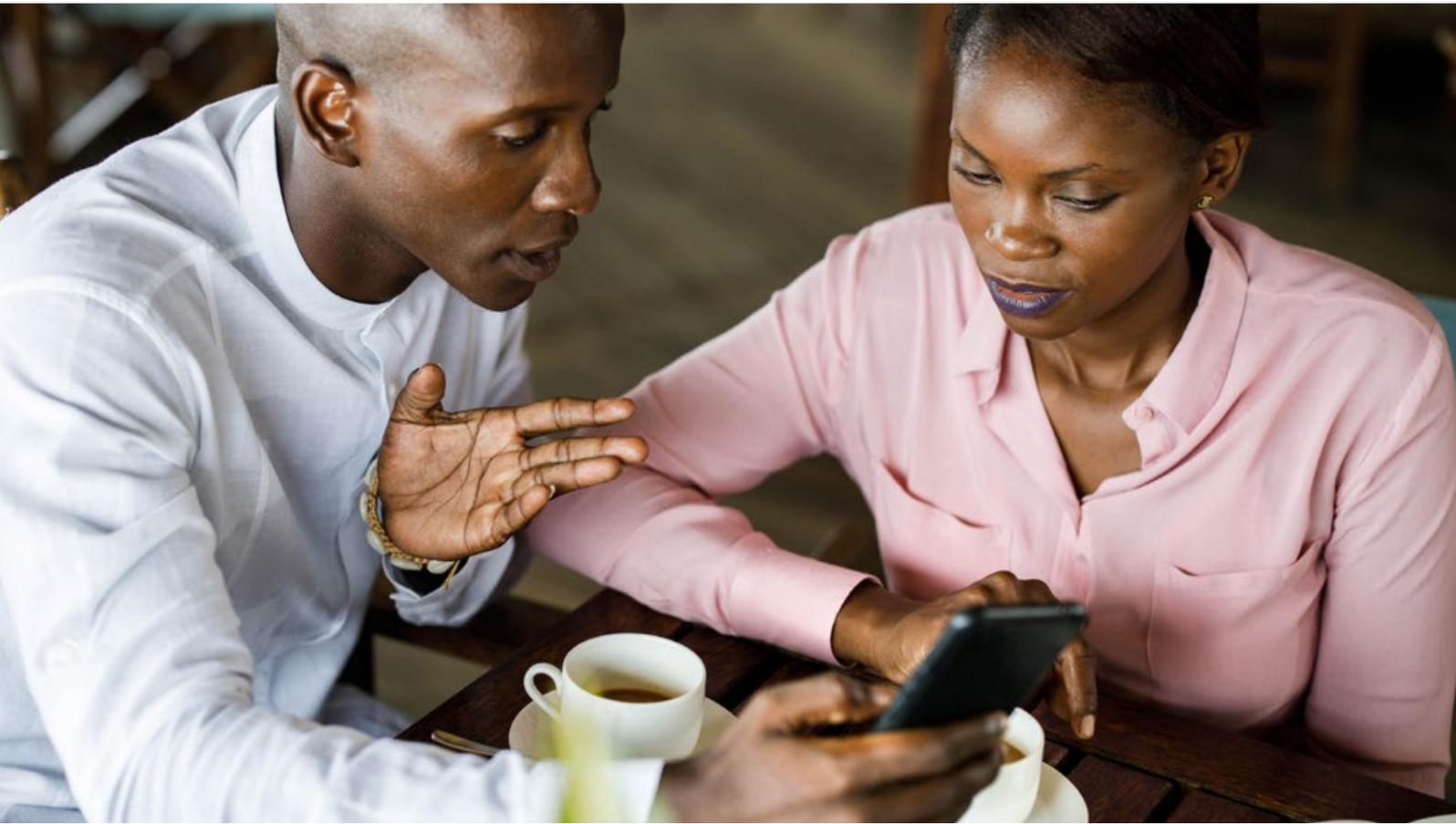
AVERAGE FEE, PER TRANSFER TYPE, FOR A TRANSACTION VALUE FROM 40,000 TZS TO 49,999



Source: GSMA analysis and operator's data

12. Between June and September 2021, average fee increase ranges from 3% to 258% (average of 87%), across all types of transactions (on-net, off-net and cash-out).

13. In June 2021, the average transaction fee was about TZS 42,000.

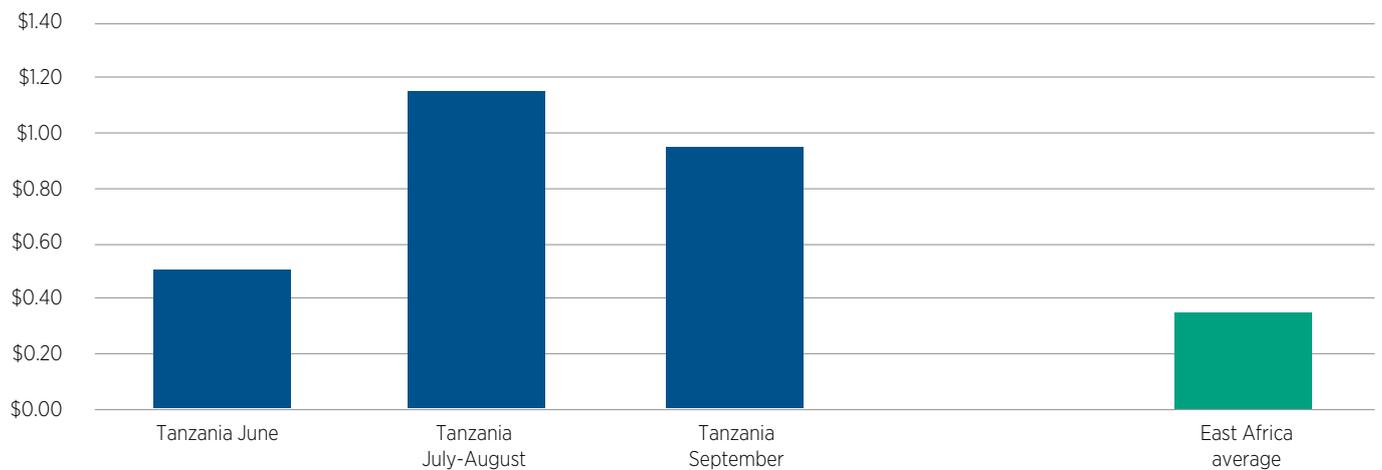


Until June 2021, Tanzania's average transaction fee was in line with the average for East Africa. However, from July

2021 Tanzania's average transaction increases to about 3 times the average fee for East Africa.

FIGURE 5

AVERAGE MOBILE MONEY TRANSACTION FEE (ON-NET P2P, OFF-NET P2P AND CASH-OUT) FOR A TRANSACTION VALUE OF \$18 (2021)



Source: Mobile money operator data collected by the GSMA¹⁴

14. The East Africa average include data from Kenya, Rwanda and Uganda. The average transaction fee consists in the average fee for an on-net P2P transaction, off-net P2P transaction and cash-out transaction, for a value of \$18 (\$18 being the average transaction value in Tanzania).



1.2 Impact on transactions

Following the introduction of the mobile money levy, the number of P2P transfers and cash-out transactions fell heavily in July and August 2021 to only slightly stabilise in September 2021. Since then and until December 2021, the market has slowly started to recover but on a lower growth trajectory.

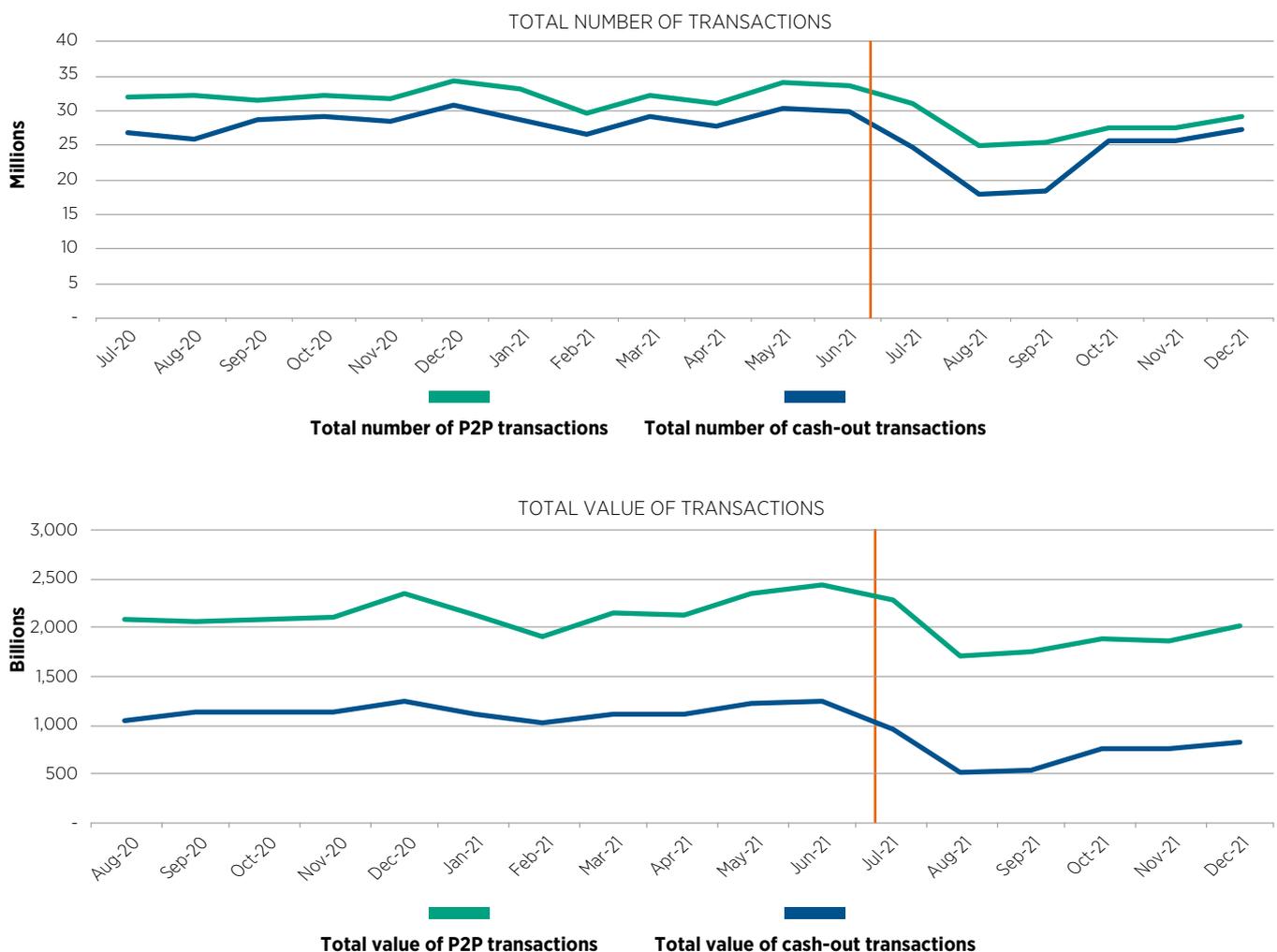
As mobile money transactions became more expensive on account of the new levy, mobile money users rapidly reduced their usage of mobile money in favour of alternative payment methods such as cash. This is reflected by the sharp decrease in the total number of P2P transactions

(-38%). The change in consumer behaviour leads to increased use of cash, reversing gains Tanzania had made in going cashless. Transitioning to cashless increases convenience and efficiency in the economy and reduces the cost of cash for the Government.

Between June and September 2021, the total number of P2P transactions reduced drastically from 30 to 18 million (-38%) per month, while the total number cash-out transactions reduced from 33 to 25 million (-25%) per month.

FIGURE 6

TOTAL NUMBER AND VALUE OF TRANSACTIONS, PER TRANSACTION TYPE



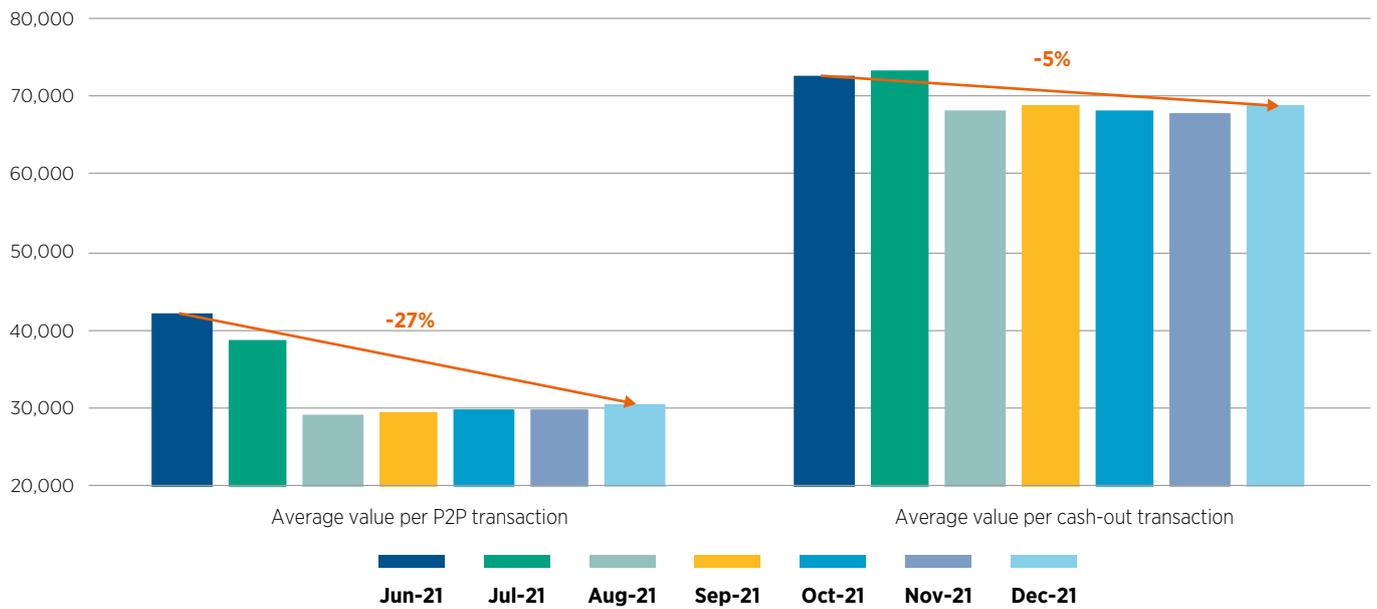
Source: GSMA analysis and operator's data

In addition to reducing their usage of mobile money, users also removed their assets from their mobile money accounts to use them through alternative payment methods such as cash. Indeed, despite the transaction cost increase and the high reduction in cash-out transactions, the average value

per cash-out transaction increased by 7% from TZS 72,700 to 73,400 between June and July 2021. This suggests that while mobile money users made less cash-out transactions to avoid paying the increased fees, they cashed-out higher amounts in July compared to June.

FIGURE 7

AVERAGE VALUE PER TRANSACTION TYPE



Transactions in the middle (TZS 15,000 – TZS 399,999) and high (above TZS 400,00) bands suffered the highest reductions in P2P transfers. While the number of low-value P2P transactions reduced by 26% between June and September, the number of middle and high-value

transactions reduced by 54% and 63% respectively.¹⁵ This may reflect the sensitivity of mobile money users to price. As shown on Figure 2, transactions in the bands above TZS 15,000 supported the highest transaction cost increases.

15. Low, middle and high value transactions are defined as follow: low: transactions below TZS 14,999; middle: transactions between TZS 15,000 and TZS 399,999; high: transactions above TZS 400,000.

1.3 Impact on the mobile money sector and Tanzania's economic and social growth

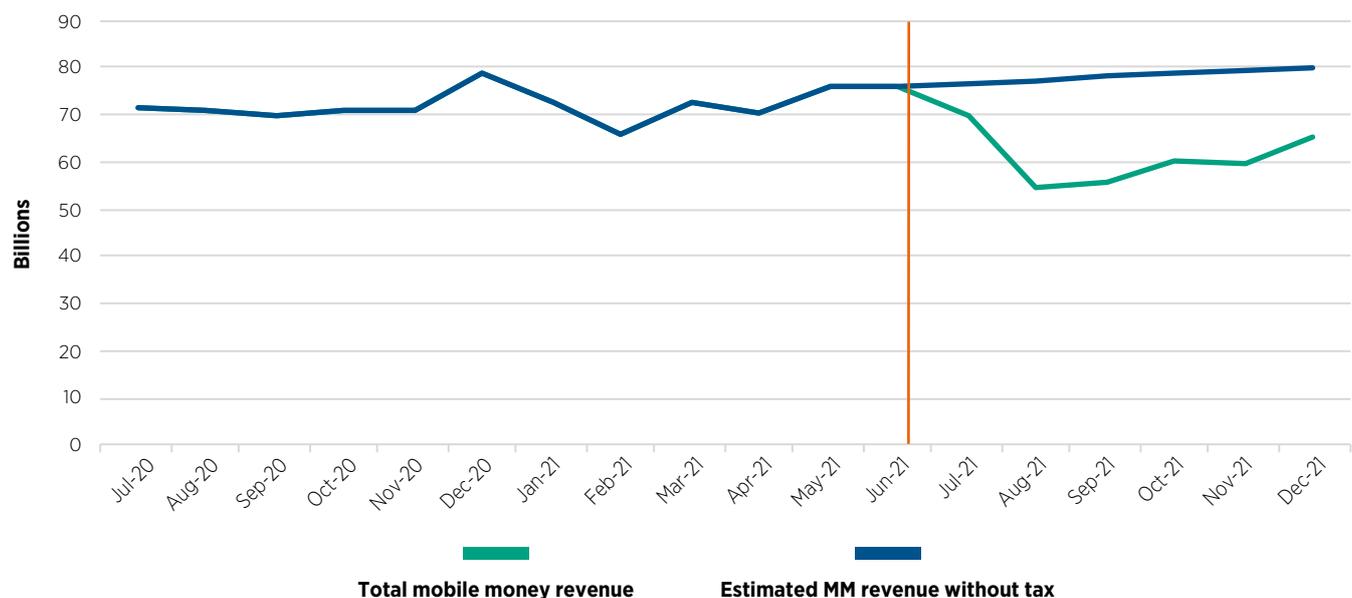
Following the introduction of the mobile money levy, mobile money revenue reduced sharply from TZS 76 to 54 billion (-28%) per month between June and August, to only stabilise to TZS 55 billion in September 2021. Since then, mobile money revenues have started to recover and grew to TZS 65 billion in December 2021. However, they are on a much lower growth trajectory than before the tax was introduced and it is estimated that there has been a 12% contraction in the market compared to pre-tax levels. This reduction in revenue put at risk the financial stability of the mobile sector and its capacity to invest in the development of mobile money. This would in turn put at risk Tanzania's economic growth as mobile money

directly contributes to GDP growth through its impact on financial inclusion and productivity. For example, research has found that since mobile money was launched in Kenya, total factor productivity (TFP) and real per capita income has grown an estimated 3.3% and 14% respectively, between 2006 and 2013.¹⁶

Because mobile money agents' revenue consists of a percentage of MNOs' revenues, it is likely that their revenue has reduced significantly too from July, leading some of them to stop their mobile money activity.

FIGURE 8

MOBILE MONEY REVENUE



The reduced revenues will discourage investment in the sector therefore slowing down innovation of new products and the general development of mobile money services in Tanzania. The new levy therefore threatens to reverse the commendable financial inclusion gains as Tanzanians revert to cash. By increasing the cost of mobile money, the new levy makes it more difficult for Tanzanians, and the poor in particular, to use financial services pushing them to revert to cash-based alternatives. According to Finscope

(2017), mobile money is the main way for Tanzanians to access formal financial services with 60% of Tanzanians reporting using mobile money services and 13% reporting using commercial bank services. The reduction in mobile money usage could have a negative impact on the wider financial sectors. Indeed, Finscope (2017) reports that the increment in bank service uptake between 2013 and 2017 can be attributed to the collaboration between banks and mobile money providers.¹⁷

16. Beck, T (2015). How mobile money is driving economic growth. World Economic Forum.

17. Finscope Tanzania (2017) Insights that drive innovation.

Tanzanians living in rural areas particularly suffer from the introduction of the new levy as mobile money is often the only way to access financial services. By reverting to cash and moving away from mobile money, these users lose wider benefits such as savings, loans, government benefits and insurance. The new levy is regressive and impacts the poorest the most. Mobile money services aim to provide financial access to the unbanked and are mainly used by those with low-incomes and those living in rural areas. Most of these users do not have access to other formal financial services such as bank accounts.

The reduction of mobile money revenue means that the sector is shrinking. The impact of this is lower financial inclusion, lower employment opportunities and lower growth. At the current rate, the levy would increase the tax burden on the mobile sector by TZS 356 billion (\$153 million) in 2021. Mobile sector total tax contribution would increase from 34% to 47% of revenue.¹⁸ This is more than double the Sub-Saharan Africa average of 22%.

Finally, mobile money greatly increases the visibility of the government on money circulation and the monitoring of transactions against money laundering and terrorist financing.¹⁹ As some customers revert to cash as a result of the levy, such visibility is hindered and can reduce the governments' ability to formulate economic strategies and fight illegal activities.

The analysis of 2021 data shows that after the levy was introduced, the whole mobile industry revenue went down by 2%. This points to longer term impacts on mobile connections and the wider economy, which could imply up to 2% lost GDP over 5 years. In terms of tax revenues to the government, the immediate benefit is calculated at TZS 360 billion, with TZS 35 billion lost from corporation tax and other taxes on mobile operators. However, due to the wider economic impact the government could be losing up to TZS 700 billion per year by 2025.

Economic impacts in 2021	
Tax payments for the levy in 2021 (TZS)	360,452,873,397
Estimated loss in mobile revenue compared to pre-tax (TZS)	-1,702,966,834,408
Mobile industry tax payments as a % of revenues	34%
Immediate loss in government revenues (TZS)	-35,526,198,021
Economic impacts per year by 2025	
Economic impacts in 2021	-2.17%
Loss in government revenue per year	-703,091,171,483

Note:

Mobile industry tax payments as a % of revenues are sourced from:

https://www.gsma.com/publicpolicy/wp-content/uploads/2021/04/GSMA_Mobile_taxation_in_Tanzania_2021.pdf

The economic impact analysis is based on the following assumptions:

- The additional costs from the tax are assumed to be distributed uniformly across all mobile services (not only MM)
- Elasticities of demand of mobile services are assumed to be between -1.08 and -1.24
- The economic impact coefficient is assumed to be 0.28% (for 1% increase in mobile penetration, there is a 0.28% increase in GDP)
- Pass-through of cost is 50%

18. In 2019, the total tax contribution of the mobile sector was estimated at 932 billion TZS (\$404 million), about 34% of total market revenue.

19. Mutual Evaluation Report June 2021 – Executive Summary, Findings (<https://www.fiu.go.tz/MER%20of%20Tanzania-June%202021.pdf>)

1.4 Impact on consumers

Despite the very low levels of bank penetration in Tanzania, mobile money has addressed the financial inclusion needs of more than 33 million²⁰ people who lack viable alternatives. These are ordinary Tanzanians who would otherwise have depended on cash. As the evidence above points out, consumers have shown an aversion to the use of mobile money since the introduction of the mobile money levy and despite mobile money providers' efforts to reduce the impact on the consumer by lowering their fee tariffs.

As per Tanzania's National Financial Inclusion Framework, affordability is one of the main barriers to the frequent use of financial solutions. The Framework identifies affordability as one of the five drivers that will promote

usage of financial inclusion, along with appropriateness, convenience, safety and reliability and financial capability. From our analysis it is clear that this levy impacts the vulnerable and the poorest the most leading to reversal of the digital and financial inclusion gains that Tanzania has achieved over time, the potential exclusion from the formal economy for millions of Tanzanians and the increased risk to financial integrity brought on by the heightened use of cash.

The multiplier effects of financial exclusion and/or the reduced usage of mobile money services can be felt across other sectors of the economy.



20. Tanzania Communications Regulatory Authority, Quarterly Communications Statistics.

2. Conclusion and recommendations



Mobile money contributes a great deal to gross value added to the Tanzanian economy; employment of tens of thousands of Tanzanians; reduced cash handling costs to the government and government owned utilities; and direct investment into Tanzania by providers of mobile money services and their ecosystem partners. One of the unintended consequences of the mobile money levy will be the erosion of value added to the economy, reduced incomes of agents and loss of investment confidence.

One of the key objectives of the Tanzania National Financial Inclusion Framework 2018-2022 (TNFI) is to ensure that 85% of Tanzanians have registered financial accounts by 2022. The National Council for Financial inclusion, through the TNFI framework, recognises that the ownership of a mobile phone and an active account is a pre-requisite for access to mobile money services.²¹ The mobile money levy presents a significant risk to the attainment of this objective.

Reforming taxation policy has the potential to accelerate financial inclusion and Tanzania's transition to a digital economy.

In principle, sector specific taxation is regressive and its unintended consequences are far reaching. In order to sustain the rapid pace of growth of the mobile money sector without compromising the government's revenue collection targets, the following recommendations based on recognised tax principles are made:

- **Taxation should be as broad-based as possible:** the proposed taxes are specific to the mobile and mobile money users. This unfairly discriminates against users of mobile and mobile money services. The government should be impartial in the implementation of taxes especially where there are similar payment services and over the counter cash transaction services provided by other financial sector players. This is key in ensuring healthy competition that supports a thriving environment for innovation and growth in the sector.
- **Taxation should consider sector and product externalities:** mobile money sector-specific taxes fail to account for the positive externalities of mobile money and the social and economic benefits of mobile technology on other sectors such as agriculture, healthcare and education.

- **Taxation should be simple, understandable and enforceable:** frequent tax increases result in consumer pricing uncertainty and complexities further complicating understanding of mobile payments to the users, the majority of whom have no alternatives to mobile money. Additionally, the hurried imposition of new taxes and levies is difficult to enforce as appropriate collection methodologies may be non-existent at the time of imposition of the levies.
- **Taxation should not discourage investment:** high mobile money taxes and levies create investment anxiety and reduce the incentives for investment in robust infrastructure, ultimately decreasing competition within the telecommunication and financial sectors.
- **Taxation should avoid regressive impact and should not undermine affordability and access to services:** taxes on mobile money transactions will raise the barrier for users to connect and use mobile and mobile money services. This will be felt hardest by poorer Tanzanians putting at risk the attainment of wider development goals.

The elimination or significant reduction of this mobile money levy coupled with the adoption of these tax principles would not only sustain financial inclusion in Tanzania but would also positively impact the mobile industry, whose multiplier effects positively impact sectors such as agriculture, education, health and the wider Tanzanian economy.

21. Tanzania National Financial Inclusion Framework (2018 -2022)







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