The African Financial Inclusion Policy Forum

Scaling up financial services through mobile technology

Zanzibar, March 1-2, 2012

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Executive Summary

Africa has one of the largest and most rapidly growing numbers of mobile phone subscribers in the world, providing a unique opportunity for the region to accelerate financial inclusion through mobile financial services (MFS). While several countries such as Kenya and Tanzania have made considerable progress in this arena, the provision of MFS has not reached its full potential across Africa and is predominantly limited to 'first-generation' payment systems like money transfers or remittances, bill payments and loan repayments.

To find ways to unlock the region's full potential in MFS, the Bank of Tanzania (BoT), the Central Bank of Kenya (CBK), and the Alliance for Financial Inclusion (AFI) hosted The African Financial Inclusion Policy Forum: Scaling Up Financial Services through Mobile Technology, in Zanzibar, Tanzania, on March 1st and 2nd 2012. This event built on the insights of an earlier high-level forum at the Brookings Institution in Washington, D.C. in May 2011 that examined how MFS could be used to enhance economic growth in Africa.[1]

Key conclusions from the Zanzibar Forum, which was attended by over 80 policymakers, regulators and private sector representatives from Africa, include:

Regulators need to take into account the private sector's 'value proposition', especially if second-generation MFS services such as savings products are to flourish.

Private sector players will be critical to the success of MFS but they are motivated by profits, not the broader socioeconomic benefits of financial inclusion. To provide appropriate incentives, regulators must acquire a deeper understanding of stakeholders' needs, the value propositions, the products and associated risks, and the technology. Ways to foster partnerships between different players such as banks and telcos – for example, through service-level agreements – will also be needed to advance second-generation services. Another key form of partnership will be interoperability between mobile network operators (MNOs) but any regulation here also needs to factor in value propositions and maturity of market development.

A large, widespread agent network is essential for growing MFS, but should operators be required to share their agents with others or allowed some exclusivity?

Regulators favor sharing networks as the most efficient way to reach scale rapidly but certain private sector players argue that some exclusivity is essential to generate a return on their initial investment in establishing and training their networks of agents. However there is little consensus among regulators on the best path for sharing networks (and its timing): should it be imposed or left to the market? Regulators also expressed concerns about the liquidity of agents, although the private sector believes agents can find an entrepreneurial solution themselves.

To stimulate private sector supply and consumer demand, a proportionate regulatory and supervisory framework is required.

MFS suppliers require a flexible regulatory framework that allows them to innovate and provide low-cost products and services. Consumers, in turn, need the assurance of safety and stability combined with risk-based compliance costs that reflect the practical realities of their circumstances. Particular attention should be paid to simplifying AML/CFT requirements. To achieve these twin goals, regulators should cooperate, nationally and regionally, especially as many MFS transactions are cross-border, requiring harmonized policies.

Regulators face new technical questions which would benefit from the collective expertise and problem solving of the peer-to-peer network of AFI working groups, including the AFI Mobile Financial Services Working Group and AFI Financial Integrity Working Group.

These working groups facilitate peer-to-peer exchanges amongst AFI members of which a key function is to create a transformational network that collects and disseminates real time information to its members.

African policymakers agreed to create an Africa Mobile Financial Services Policy Initiative (AMPI) to share their knowledge and set regional targets, in line with the Maya Declaration.

The policymakers at the Forum recognized that Africa presents unique challenges and opportunities for the growth of MFS that would benefit from a collective, regional response. With the assistance of AFI's global MFS Working Group (MFSWG),[2] AMPI will place particular emphasis on setting measurable regulatory and policy targets under the Maya Declaration. Since the Forum, AMPI has been established and further regional groupings of AFI members are expected to emerge to address their particular regional issues.

The following pages describe the Forum's insights and recommendations in more detail. There are four main sections:

- Background: Africa's massive potential in mobile financial services;
- The need to take into account the private sector's value proposition;
- Should operators be required to share their agent networks or allowed some exclusivity; and
- Policymakers agree to create an AFI Africa Mobile Financial Services Policy Initiative (AMPI).

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[1] View more information on the Brookings Institution's MFS event here: http://www.brookings.edu/~/media/events/2011/5/16%20mobile%20financial/0516_mfs_event_summary.pdf

[2] The AFI Mobile Financial Services Working Group (MFSWG) provides a platform for policy maker discussion concerning regulatory issues over mobile financial services (m-financial services) and promotes the broad use of m-financial services as a key solution for greater financial inclusion in developing countries.

The African Financial Inclusion Policy Forum in pictures

Regulators discuss the potential of mobile financial services in Africa

Deputy Governor Monique Nsanzabaganwa, National Bank of Rwanda

Kennedy Komba, Bank of Tanzania

Deputy Governor Andrina Rosa Coker, Bank of Sierra Leone

Professor Njuguna Ndung'u, Governor, Central Bank of Kenya

Prof. Benno Ndulu, Governor, Bank of Tanzania

Tanzania's successful scale-up of MFS: Since the country introduced MFS in 2007, more than US$ 4.3 billion worth of MFS transactions have been made

Background: Africa's massive potential in mobile financial services

Africa's mobile phone market has expanded dramatically over the last decade, laying the foundations and potential for an equally sharp increase in financial inclusion. Between 2002 and 2010, the number of mobile phone subscriptions leapt from just 18 million to more than 400 million – equivalent to approximately 70% of the population. However, only 20% of these people have access to formal financial services. While it would be unrealistic to expect all the unbanked mobile phone users to embrace mobile financial services (MFS), there is nevertheless enormous potential to increase financial inclusion via MFS. In fact, the region's huge mobile customer base, coupled with the absence of an extensive network of bricks-and-mortar banks, could enable Africa to leap-frog beyond the traditional banking model and establish itself as a world leader in MFS.

Several countries in Africa have already made considerable progress in this direction. In Tanzania, for example, more than US$ 4.3 billion of MFS transactions have been made since the country introduced MFS in 2007 – equivalent to 40% of the country's annual GDP – while Kenya's 40,000 M-PESA agents handle over US$ 30 million of transactions daily. Yet such advances are still more the exception than the rule across the Continent.

Moreover, the vast majority of MFS transactions involve person-to-person (P2P) payments, as opposed to second-generation financial services such as savings, credit and insurance that not only help consumers mitigate risks[3] but importantly, contribute to growth, reduced unemployment and reduced income inequalities in the long-run. Some advances with second-generation services have been made, typically by countries that have provided a conducive regulatory environment, but, again, progress has been limited. The Bank of Tanzania, for instance, has started to encourage the market to go beyond P2P services and offer other mobile financial services, including business-to-person (B2P), business-to-business (B2B), micro-savings, micro-insurance, micro-loans, and even credit history information. Initial results have been promising, with some MFS providers partnering with local savings groups to provide savings services and others encouraging consumers to link their mobile e-wallet accounts with financial institutions.

The challenge is not just to scale up these successes but to learn from them and replicate them across Africa. At the Zanzibar Forum, policymakers and regulators reaffirmed that their role in any scaling up should go beyond regulation and involve enabling the appropriate markets to develop. Inevitably, this will involve working more closely with the private sector.

[3] The focus on payment services might not contribute to reducing consumers' risks but a recent World Bank study has found that payment services have helped increase financial inclusion. See: Payment Systems Worldwide: a Snapshot. Outcomes of the Global Payment Systems Survey 2010. Available at: http://go.worldbank.org/5MYOUCYBR0

The need to take into account the private sector's value proposition

Private sector, namely telcos and banks, are critical to the success of MFS but their primary goal is to make an appropriate profit, not to increase financial inclusion. Moreover, the business models required to succeed in MFS are often very different to those used in more traditional, bricks-and-mortar financial services. The role of the policymakers and regulators to develop MFS includes creating the right market structure, taking into account the different private sector dimensions. Specifically, it is essential to understand stakeholders' needs, providers' value propositions, and the technologies involved.

Understanding the business model and incentives: The primary goal of traditional financial institutions has always been to make profits and while they initially struggled to make a business case out of the low-value, high-volume transactions that characterize the bottom of the pyramid, there has been a paradigm shift where they now see the potential of this untapped market. This was different for MNOs on the other hand, with their business models for pre-paid airtime in low values and large volumes; they infiltrate this market quite naturally, as reflected in the massive growth of mobile subscriptions in Africa.

This offers an opportunity for MNOs to enter aggressively into the MFS ecosystem or for financial institutions to leverage an MNO's infrastructure to reach the unbanked. However, not all mobile money deployments that are launched are successful. At each step, from client acquisition to agent selection, the appropriate incentives need to be in place to drive business interests. These incentives are not always calculated in strict monetary terms. As a representative of an MNO at the Forum pointed out, some companies might offer MFS primarily as a means of strengthening brand loyalty through service diversity, rather than as a pure profit-generating vehicle. Nevertheless, regulators need to gain a deep knowledge of both the incentives at different stages and the products offered if they are to develop smart policies that spur on, rather than stifle, innovation. For example, greater knowledge of the relative risks of low-value, high-volume MFS transactions could enable regulators to design simplified know your customer (KYC) and know your agent (KYA) requirements that lower the barriers to entry for both consumers and providers.

Fostering partnerships for second-generation MFS: It is equally important to create a regulatory environment that fosters cooperation between private sector players, especially to unlock their ability to deliver second-generation MFS products such as savings, credit, insurance and other add-ons. Although there might be some initial tensions between banks and MNOs in this second-generation space, cooperation and service level agreements between banks and telcos will be essential for leveraging their respective expertise in voice and data, and financial services. Partnerships will also lower costs and encourage other, possibly smaller, players to come to the table. As second-generation services evolve, regulation must keep pace with these partnerships

The role of policymakers and regulators to develop MFS includes creating the right market structure, taking into account the different private sector dimensions.

and provide for coordination and information sharing amongst regulators.

Governments can also become partners in MFS systems, notably by using the systems to disburse salaries and social benefits. In fact, this strategy can provide the private sector with an incentive to invest as the additional government volumes will help lower costs. The government will also benefit from reduced payment processing costs.

In all cases, regulators need to maintain an open dialogue with the various parties. This is especially important when addressing the issue of interoperability between MNOs.

Letting the market determine interoperability: In more mature MFS markets, interoperability is considered an important aspect of enhancing MFS to bring down prices and foster innovation through competition. A case was even made for interoperability as a prerequisite for reaching scale with MFS, as has been the lesson learned in the card space. However, the private sector has raised concerns on the cost implications introduced by regulators mandating interoperability by regulation.

Generally, market development and consensus should be the basis for considering interoperability, as imposing interoperability could curb the private sector's incentive to invest. To identify the best moment for interoperability, regulators should maintain a regular dialogue with all the private sector players to help clarify their concerns. Typically these concerns center on recovering investment costs incurred by pioneers of MFS, increasing volumes, maintaining a competitive edge, retaining customers, and increasing value-added services. Nevertheless, regulators recognize they may need to step-in and take a more active role if the absence of interoperability proves to be an impediment to progress. The solution will depend on the level of market development and the readiness of market players to compete effectively while remaining profitable.

Options might include price sharing, where the initial investor gets a greater portion of fees or profits, or the use of a 'sunset' provision, where exclusivity is time-bound. Competition can also be increased by establishing a framework for competing providers to interact. Regulators also acknowledged that greater knowledge of interoperability is required, including the implications of imposing it and even how it is defined. Further research is necessary.

Should operators be required to share their agent networks or allowed some exclusivity?

The issue of agent networks raises interoperability questions of a slightly different nature. There was widespread agreement at the Forum that a robust and extensive network of agents capable of performing the cash-in and cash-out functions is essential for scaling up MFS. Indeed, all the countries that have successfully grown MFS have large networks of agents. However, with greater understanding of the role of agents, the debate has shifted from "who can be an agent?" and "what services can agents provide?", to "should operators have agent exclusivity or be required to share their networks with other operators?". Currently, the jury is out on this question: some countries only have exclusivity arrangements while others ban exclusivity. So what is the way forward?

Lack of consensus on how to resolve the issue: Regulators are increasingly in favor of sharing agent networks because it creates the scale and accompanying efficiencies needed to expand MFS. But some private sector players assert that preventing agent exclusivity at the early stages of the market takes away private sector incentives to invest in developing agency networks, in terms of identifying and training agents, which would limit the growth of MFS and, consequently, restrict financial inclusion.

Even if sharing is the way forward, there is little consensus on the best way to enable it. Should it be imposed by regulators or left to the market to determine? And at what point should it occur? Proponents of market solutions argue that even where exclusive agents are allowed, providers may see the business case to share agents for a fee, as some banks do with proprietary ATM networks.

The issue of exclusivity, and the underlying assumption that this creates the potential for anti-competitive behavior by establishing a dominant player, also highlights the need for a definition of the "market" and its parameters. For example, the market can be broadly defined as "payments" or more narrowly defined as "mobile payments" with a different approach to exclusivity for each. In Kenya, for instance, e-money agents are allowed to be exclusive while bank agents are not.

Generally, there is growing recognition that to support the creation of agent networks regulators should avoid over-regulating agents, supervision should focus on the service provider rather than the agents themselves, and agents should be free to subcontract.

Regardless of whether agents are exclusive or not, there is agreement that agents, as the frontline service providers, play a critical role in consumers' perceptions of the safety and credibility of MFS systems. As a result, some countries such as Nigeria and Tanzania apply rigorous know your agent (KYA) vetting processes for quality control and assurance of agent networks. This can include requiring that agents are traceable in some jurisdictions, and that they keep collateral with the MNO, as well as requiring providers to purchase fidelity insurance to maintain the credibility and safety of the agent scheme.

Regulators need to gain a deep knowledge of both the incentives at different stages and the products offered if they are to develop smart policies that spur on, rather than stifle, innovation.

Participants engage in lively discussions outside the formal sessions

Dr. Badreldin Ahmed, Central Bank of Sudan

Concerns about agents' liquidity: Agent liquidity is another concern for regulators, although the private sector has faith that agents are entrepreneurs and will keep sufficient floats available.

The importance of a proportionate regulatory and supervisory framework

As suggested, it is important to look at the credibility of the MFS system from the perspective of the consumers in order to instill the trust needed to stimulate demand and to ensure market stability. A regulatory and supervisory framework is a fundamental first step towards providing this safety and credibility. However, rigid regulations can be detrimental to the growth of MFS. Instead, a proportionate framework is required.

A proportionate framework follows market innovation, allowing regulators to understand the emerging MFS market and assess inherent risks before introducing regulations.

The need for flexibility to adapt to market innovations: A proportionate framework follows market innovation, allowing regulators to understand the emerging MFS market and assess inherent risks before introducing regulations. Once risks are identified, regulators must establish appropriate ways to mitigate these risks.

Nigeria and Tanzania, for example, have developed electronic money guidelines to protect and build confidence and credibility in the entire payments system. Liberia, on the other hand, has tried to develop an inter-related regulatory framework that allows MNOs and financial institutions regulators to harmonize efforts to provide appropriate oversight over the MFS market. Namibia, in turn, has produced guidelines that define and clarify the distinctions between transfers and deposits.

Regulators discuss the need for a proportionate approach to AML/CFT

Adopting a proportionate approach to AML/CFT: Particular attention needs to be paid to anti-money laundering and combating of terrorist financing (AML/CFT) measures, using a proportionate, "risk-based approach" to regulation, as endorsed by the Financial Action Task Force (FATF). Understanding the risks of MFS and adopting appropriate AML/CFT standards commensurate with these risks can result in a lower cost of compliance without limiting outreach to the unbanked. For example, in many jurisdictions, regulators have assessed low-value, large-volume transactions, which are typically associated with poor clients, as low-risk. Risk mitigation measures such as transaction limits and regular suspicious transaction monitoring can also help satisfy AML requirements. However, regulators and providers are still looking for innovative ways to fulfill KYC requirements such as SIM card registration databases and surmounting requirements for hardcopy documentation to keep costs low.

Ensuring regulators cooperate, nationally and regionally: To create an appropriate proportionate framework, it is important that the related functions within regulatory bodies cooperate. For MFS, this requires deep cooperation between financial and communication regulators, departments or institutions handling banking supervision and payments, and the private sector to overcome the knowledge gap introduced by this new business and its players. This cooperation needs to be underpinned by clearly demarcated roles in order to harness the complementarities of the different regulatory and supervisory functions, such as developing regulation, licensing and supervision. Countries such as Namibia have demonstrated the value of a transparent, well-structured and open dialogue between both the different regulatory functions and the private sector. Private sector involvement is essential to ensure any regulations spur on, rather stifle, any innovations.

Due to the fact that mobile communications transgress national borders, and their ability to facilitate international transactions such as the transfer of remittances, it is equally important that regulators view MFS from a regional and international perspective. Specifically, countries should consider harmonizing policies for cross-border MFS payments.

Unresolved technical issues: Participants at the Forum also recognized that regulators face new technical questions that would benefit from the collective international expertise and problem-solving capabilities of AFI's global MFS Working Group (MFSWG) and the Financial Integrity Working Group (FINTWG). These include: What are the monitoring tools for offsite and onsite monitoring of agents? Should cash merchants for banks and cash merchants for telcos be subject to the same regulations? How can banking supervision and payment services come together to address supervision issues? How do you reconcile traditional banking supervision with emerging oversight of payment systems?

Policymakers agree to create an AFI Africa Mobile Financial Services Policy Initiative (AMPI)

While many of the issues that can help or hinder the scaling-up of MFS will benefit from global cooperation and knowledge-sharing, it is clear that Africa faces distinct regional challenges and opportunities. To address these issues systematically, Governors Prof. Benno Ndulu of BoT and Prof. Njuguna Ndung'u of the CBK proposed the creation of a new AFI "Africa Mobile Financial Services Policy Initiative" (AMPI).

The purpose of AMPI is to launch new, or expand on, existing MFS policy and regulatory initiatives. The objective is to deepen the penetration of MFS on the continent in line with national policy priorities. This will lead to a wider impact on financial inclusion in the markets. To support this drive, AMPI will commission Africa-specific research and, with the assistance of AFI's MFSWG, facilitate regular peer-to-peer dialogue between its regional participants in order to share knowledge and develop policy and regulation knowledge products. The initiative will be governed by an Africa Leaders' Roundtable and organize annual regional forum meetings. The idea of replicating other AFI working groups for the region, to focus on issues that specifically pertain to the region, was also discussed at the conference.

Moving towards the 2012 GPF in Cape Town: AMPI will be further conceptualized and discussed among leaders in the coming months and provide a progress report at the next AFI Global Policy Forum (GPF) in Cape Town, South Africa, in September 2012. The results from the Zanzibar Forum will also be carried forward by ongoing dialogue at the regional level through AMPI and brought to the GPF in Cape Town.

Building on the Maya Declaration

The Maya Declaration

The AFI member commitment to financial inclusion

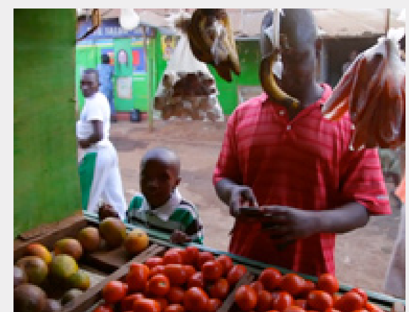
One of the key roles of AMPI will be to encourage and help AFI's members in Africa make and deliver measurable commitments on MFS policies and regulations under the Maya Declaration. The Maya Declaration is the first global and measurable set of commitments, spearheaded by developing and emerging country policymakers, to unlock the economic and social potential of the world's 2.5 billion poorest people through greater financial inclusion. In the Declaration, AFI members recognize the key role that financial inclusion policy plays in bringing stability and integrity, its role in fighting poverty, and its essential contribution toward inclusive economic growth. It also reaffirms a fundamental tenet of AFI's mission: the importance of peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions.

To date, 25 AFI member institutions have made individual commitments under the Maya Declaration, 14 of which are from the African region. Countries such as the Democratic Republic of Congo, Ghana, Malawi, Guinea, and Senegal have all expressed strong commitments in increasing financial access through mobile financial services (MFS), while countries such as Kenya and Tanzania committed to strengthening the regulatory environment for MFS innovations and ensuring that they remain robust.

Africa is one of the fastest-growing mobile phone markets in the world

Mobile phone subscriptions have soared across Africa over the past 10 years, providing enormous potential to increase financial inclusion via MFS
http://www.youtube.com/user/AFIglobal

Policymakers discuss regional MFS challenges in Africa
http://www.youtube.com/user/AFIglobal



New MFS policy initiatives will lead to a wider impact on financial inclusion in the markets
http://www.youtube.com/user/AFIglobal

Country experiences

Africa's MFS landscape: four countries' experiences and the Bank of Tanzania's MFS success story

Africa's MFS landscape has seen various developments in regulation, market uptake, and penetration levels across the continent.

The following pages present snapshots of Tanzania's success story and the MFS experiences of four countries: Senegal, Democratic Republic of Congo, Rwanda, and Malawi.

Country experiences

Senegal:

Mobile phone penetration is quite high at 77%, providing a tremendous opportunity for MFS services to widen financial inclusion in the country

In Senegal, 58.5% of the population of 12.5 million people lives in rural areas, yet financial service providers are clustered closer to the capital and other cities. Bank penetration is low at 12% whereas mobile phone penetration is quite high at 77%, providing a tremendous opportunity for MFS services to widen financial inclusion in the country. The country has three mobile network operators (MNOs) which currently provide money transfer and mobile wallet services in partnership with banks. A feasibility study is underway for an ambitious five-year project to develop a software platform to link all MNOs, MFIs, and banks in the provision of MFS.

Democratic Republic of the Congo (DRC):

The Central Bank of the DRC took a strong leadership role and set its immediate focus on enabling a transformational model

In Congo, four MNOs - Vodacom, Orange, Tigo and Airtel - reach 55% of the population, far exceeding the bank penetration rate of 1% to 2%. This landscape presents a great opportunity to expand financial inclusion in the country through MFS. The Central Bank of the DRC took a strong leadership role and set its immediate focus on enabling a transformational model, allowing the direct licensing of non-bank, e-money issuers to reach unbanked customers. These new private sector players bring new assets to the table, such as an ability to manage agent networks, proactive marketing strategies, and new strategies for partnerships with banks. At the same time, the banking sector is able to use mobile technology to improve its outreach.

With AFI's support, the Central Bank had a chance to visit Kenya, Colombia and Mexico to exchange knowledge that helped the DRC establish a regulatory framework for MFS, adopted in November 2011. The first MFS provider, Airtel, was due to launch in March 2012.

Rwanda:

The National Bank of Rwanda (NBR) is taking steps to encourage the use of cashless means of payments to reduce risks and costs in terms of money and time

The National Bank of Rwanda (NBR) is taking steps to encourage the use of cashless means of payments to reduce risks and costs in terms of money and time. These initiatives have been supported by an amendment to the Banking Act that allows for the regulation and supervision of payment systems, as well as a new National Payments Systems law that recognizes e-money as a means of payment.

Fifty percent of the country's population has a mobile phone. To date, 16% of these people have subscribed to mobile payments and 8% have subscribed to mobile banking, provided by two telcos and seven banks respectively. In the meantime, the country continues to develop an enabling policy and regulatory environment for MFS, with plans to tackle interoperability for MFS (existing regulations do not allow exclusivity of MNOs' agents) and to address consumer protection and low financial literacy. By the end of 2012, after conducting an updated FinScope survey, Rwanda intends to draft a National Financial Inclusion Policy.

Malawi:

Malawi has issued mobile payment guidelines and drafted regulations on agent banking after a series of AFI knowledge exchange visits to Kenya, Tanzania, Colombia, and Mexico

Eighty percent of Malawi's population lives in rural areas and only 19% of the adult population is banked. Malawi has issued mobile payment guidelines and drafted regulations on agent banking after a series of AFI knowledge exchange visits to Kenya, Tanzania, Colombia, and Mexico. The mobile payment guidelines allow MNOs to provide services and address consumer protection, awareness, and redress mechanisms. They also provide a reduced, risk-based KYC process for MFS that makes use of transaction limits to mitigate risks. MNOs customers are allowed to use voting cards or a letter from a local government administrator to access MFS. With the new guidelines in place, Airtel Money, the first provider in the country to offer MFS, launched in February 2012. Given the number of players involved in MFS, greater coordination will be necessary between the Reserve Bank, Financial Intelligence Unit (FIU), telcos' regulators, and the Consumer Association of Malawi among others.

Dispersed rural populations and limited outreach of the banking sector coupled with high rates of mobile phone penetration bodes well for the extension of MFS in all four markets showcased above. In each, the regulator is approaching MFS deliberately with a clear policy vision, and has been careful to put in place an enabling regulatory framework, most often with openness to MNOs taking a lead in money transfer services. Despite this action, there is an understanding that this is only the beginning - the mobile financial services have yet to reach the desired scale. In Malawi and the DRC, there is still only one new provider, and in Rwanda and Senegal outreach remains low despite multiple providers. In markets with new deployments, continued regulatory engagement may be required as appropriate models are developed. Where there are more players in the market, ongoing questions such as interoperability, appropriate identification, low levels of financial literacy, and risk-based KYC are still being contended with.

How Tanzania successfully scaled up MFS

Tanzania illustrates how stakeholders have persevered to expand the reach of financial services through mobile phones, tackling many of the policy questions and private sector concerns common across countries.

In 2007, Tanzania introduced mobile financial services (MFS). By 2009, 12% of the population was using a mobile payment system, and by 2012 that proportion had risen to an estimated 46%, supported by four MFS providers: Vodacom, Airtel, Tigo and Zantel.

The benefits of the country's MFS advances have included:

- Enhanced financial inclusion for the poor.
- Increased employment opportunities due to this widespread growth of agent networks.
- A cumulative increase in transactions of US$ 4.3 billion by the end of 2011, equivalent to 40% of Tanzania's GDP.

Key factors behind Tanzania's MFS success include:

An enabling regulatory environment

BoT has provided a conducive legal and regulatory environment for MFS in Tanzania. After ensuring appropriate risk-mitigating measures were in place for MFS, BoT adopted a test-and-see approach. BoT also ensured that MFS systems complied with the Bank's guidelines for introducing electronic payment services and ISO messaging standards. The Bank is currently issuing regulations for mobile payment services and enacting a National Payment Systems law, as well as developing agency banking regulations to deepen the provision of financial services.

These new regulations cement BoT's commitment to supporting innovation and growth of agent networks for financial inclusion. Under these regulations, MFS providers will be expected to establish subsidiaries to operate MFS. The current draft regulations were considered a positive step forward by the industry.

Taking on board private sector views

Regulators in Tanzania have sought to embrace the dynamic nature of the MFS ecosystem and its unique characteristics. This has included engaging in an open dialogue with the private sector in various fora to understand their business concerns and the associated risks. Private sector e-money issuers have been happy to be regulated, taking into consideration that they are simply electronic money systems, rather than banks.

Competition

BoT's open and flexible regulatory framework has enabled competition and scale in the MFS spectrum, attracting four MFS providers and helping to reduce costs. As a result, the country has seen an exponential increase in the number of mobile phone financial services subscribers, who currently total more than 21.2 million.

Agents for cash-in and cash-out are open to all four MFS providers. This non-exclusivity for agent networks has helped spur MFS in Tanzania and the number of agents soared from 2,757 to 83,795 in less than four years. Financial institutions have also joined the bandwagon by providing agency services for cash-in and cash-out, which increases competition, wider access, provision of liquidity and financial deepening.

Interoperability

Interoperability is a contentious issue in MFS. BoT has encouraged the MFS providers to work towards interconnecting through interoperable systems, to allow consumers to have better services in terms of cross-network payment services. To date, consumers can send and receive money to users outside their network using encrypted SMS and codes, although the systems are not connected. This interconnection has facilitated the first stage of interoperability. BoT continues to encourage the market to go for enhanced interoperability where the mobile phone menus are used and money can be sent across e-wallets. The industry is split on whether the costs of investment in interoperability can easily be recovered by the increase in business, or whether these costs will have to be passed on to the consumer.

Safety, credibility, and consumer protection

Given the significant client uptake in the last year, BoT is keen to ensure MFS delivery does not compromise the safety and credibility of the financial system. This is emphasized throughout the deployment of the service, starting with licensing. This has facilitated consumer confidence in MFS and contributed to increased uptake. BoT regularly monitors the MNOs to ensure that safety and credibility is maintained.

In Tanzania, consumer issues are addressed through collaborative efforts of regulators in ensuring that products that are implemented adhere to basic consumer protection requirements (safety and credibility). Other cross-cutting concerns such as pricing are addressed through consumer awareness campaigns and empowerment initiatives.

AML/CFT

In compliance with AML and CFT requirements, all mobile phone subscribers in Tanzania are required to be registered by the Tanzanian Communications Regulatory Authority (TCRA). In addition, minimum KYC requirements and value limits on MFS payments are placed by BoT. The industry claims to be comfortable being regulated by both the BoT and TCRA. However, a tiered risk-based KYC approach that harmonizes BoT and TCRA requirements may be considered.

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