

EXECUTIVE SUMMARY

Person-to-Government payments: Lessons from Tanzania's digitization efforts



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BETTER THAN CASH
ALLIANCE



TANZANIA

Case Study

This case study explores the factors both supporting and impeding the widespread adoption of Person-to-Government (P2G) and Business-to-Government (B2G) payments in Tanzania, focusing on the period from 2012 to 2016. It also extrapolates from these findings to show that digitization of payments could increase Tanzania's annual tax revenue by at least \$477million per annum, which would help push up the country's tax/GDP ratio, currently at 12%. The policy initiatives taken by Tanzania's Central Bank and actions taken by Tanzanian government agencies and the private sector have provided valuable lessons from which policymakers and businesses in other countries can learn as they go about digitizing P2G and B2G payments.

1. EXECUTIVE SUMMARY

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The lessons from this case study are intended to serve as a starting point for more detailed diagnostic research into specific payment issues to inform future policymaking in Tanzania. Substantial savings could be achieved by digitizing bulk disbursements such as Government-to-Person (G2P) payments (e.g., wages for government employees, social support transfers, and pensions), particularly by reducing "leakage" through inaccurate or fraudulent payments. Further digitizing payments could also deliver a major boost to Tanzania's efforts to modernize its economy, and create a dynamic and productive business environment, driving new investment and economic growth.

This executive summary provides highlights of both the direct benefits of digitization and the lessons from Tanzania.

Direct benefits of digitization: the evidence of increased revenues, reduction in leakages and efficiency gains

1. Digitizing P2G and B2G payments can significantly cut transaction costs and increase efficiencies. However, an overarching digital payments strategy, along with connectivity and interoperability between payment instruments and across payment systems, is crucial to maximizing these gains.

- Annual motor vehicle license fee payments account for less than 2% of the Tanzanian Revenue Authority's (TRA) domestic taxes, but traditionally have posed a very substantial administrative burden. Digitization of these taxes is delivering significant efficiency gains in tax collection, with nearly **42% of motor vehicle taxes being collected via mobile money** within three weeks of the launch of the digital payment option in 2013.²
- Digitization of customs clearance and duties resulted in major efficiency gains – reducing the country's import clearance times from **nine days to less than a day**.³ Specifically, the development of the Tanzania Customs Integrated System (TANCIS), launched in 2014, was part of a targeted program by the TRA to modernize the country's customs processing and payment systems, driving efficiency and reducing transaction costs in order to attract more international trade activity in Tanzania. The TANCIS system, coupled with the digitization of import and export clearance payments, aims to reduce the US\$ 1.8 billion annual cost to Tanzania's GDP⁴ (2013 estimates).

In Tanzania, separate government agencies have developed digital payment acceptance solutions in isolation. These solutions reflect their specific needs, often partly driven by the payment capabilities of private sector entities. While these developments are encouraging, the lack of interconnectivity between a range of closed loop and open loop payment instruments raises questions about the implications for formalization and financial inclusion. An overarching strategy for P2G and B2G payments is needed to support interconnectedness between payment instruments and provide an opportunity for the private sector, particularly industry telecom and banking associations, and government entities, to work together on collaborative solutions.

2. Shifting to digital P2G and B2G payments in cash-heavy industries like tourism can reduce leakage by up to 40%.

In Tanzania's tourism sector – which produces around 13%⁵ of Tanzania's GDP – government entities reported large increases in revenues which they attribute to reduced leakage when moving from cash-based systems to digital systems for payments like conservation park entrance fees paid by tourists and tourism operators. Tanzania's payment digitization efforts in the tourism sector serve as a valuable example to countries where tourism is a major revenue stream and a major source of foreign exchange.

For example, the Ngorongoro Conservation Area Authority (NCAA) switched to smart cards (prepaid store value cards) and credit cards, and banned cash payments for park entrance fees in 2011.⁶ Two years after going cashless, NCAA reported an impressive 40% jump in revenue for the same volume of tourists. Park gate fee revenues went from averaging around TZS 37 billion (US\$ 16 million) to TZS 52 billion (US\$ 23 million).⁷

Lessons from Tanzania: Enabling factors that boost trust and adoption of digital payments.

3. New digital payment instruments and payment options are acting as a gateway to financial inclusion.

New payment instruments, like the closed loop prepaid card for hospital payments introduced by the Cooperative Rural Development Bank (CRDB), are not only bringing in efficiency gains but also introducing people to the concept of digital payments. While closed loop payments serve a limited purpose, they act as an on-ramp to financial inclusion by increasing customer adoption of and trust in digital payments.

4. Seamless digital payments require a robust backend for a better integration and user experience.

A technology backend – that is, technology and functions that process P2G and B2G payments – plays a crucial role in the efficiency and accuracy of digital payments, in turn impacting on public trust in digital payments. A critical first step is ensuring backend technology is capable not only of accepting payments from multiple payment instruments, but also of real-time validation, acknowledgment and periodic reconciliation. Attributes like instant acknowledgment of payments go a long way in building confidence among new users of digital payments instruments.

5. Both the public and private sectors should consider taking proactive steps to increase public awareness of digital payments options.

Interviews of businesses and individuals conducted for this study highlighted a substantial lack of awareness around the various payment digitization efforts undertaken by the government. For example, most micro and small businesses interviewed for this case study did not know that they could pay their presumptive income taxes electronically if they had a bank account. Furthermore, not a single respondent interviewed stated that their bank had encouraged them to use a digital means to pay the revenue authority.

In order to drive adoption of P2G and B2G digital payments, both government and private sector entities – particularly banks and MNOs – have a major role to play in increasing awareness of digital payment options available to them, and the benefits of using those options. Not just in Tanzania, but in any economy seeking to increase P2G and B2G digital payments, governments and private sector entities need to take proactive steps to drive this awareness in order to realize more of the gains available in terms of both financial inclusion and expanded revenues.

6. An integrated policy approach helps maximize the benefits of digital payments and drive adoption of digital B2G payments by businesses.

To pay income taxes in Tanzania, most micro, small, and medium businesses are required to go through an assessment process. Businesses submit their sales records or receipt books to the closest TRA office for assessment, and receive a paper confirmation of the amount of their tax liability. Since most payers are required to travel to the TRA offices anyway, the convenience that emerges from the ability to pay remotely through digital payments is marginal. Since most banks already have branches in or around TRA offices, customers directly pay at the bank in cash or physically sign and authorize a wire transfer to the TRA.

To address this situation, and substantially increase the practical benefit of being able to pay taxes remotely, efforts are needed to enable the initial tax assessment to be conducted remotely. This is a good example from this case study of the need for holistic and integrated policy development to maximize the practical benefits of digital B2G payments and drive further usage among businesses and business people.

7. P2G and B2G payers are likely to resist bearing the full costs of digitization.

In 2013, under the second phase of Value-Added-Tax digitization in Tanzania, the TRA required small traders to purchase electronic billing machines costing anywhere between US\$ 274 (TZS 599,512) and US\$ 460 (1,006,480).⁸ The billing machines automatically gave the TRA visibility into sales, and hence into approximate amounts of taxes payable. Most small traders resisted bearing these costs – leading to some instances of violent demonstrations. This case study also found small traders were resistant to providing full visibility into their revenues, for fear of being taxed on their entire revenue, and as a result often offered lower prices to customers prepared to pay in cash, thus avoiding the use of the electronic billing machines. This outcome militates against a key objective of digitizing B2G payment, that is – to decrease the size of the informal economy that operates outside of the taxation system.

As a result of these and other issues, in January 2016 the newly elected Tanzanian government reached an agreement with the Tanzania Traders' Association offering to subsidize the purchase price of the electronic billing machines for small traders.⁹

8. Shifting the audit trail from paper receipts to electronic acknowledgments might require systemic changes

There is a need for a systemic shift around hard copy acknowledgments or receipts of payments. This case study found many P2G and B2G payers prefer cash payments or over-the-counter payments, as they receive physical copies of payment acknowledgments. These acknowledgments not only have short-term but also long-term value. For example, hard copies of utility payments receipts are often required as proof of residence, while hard-copy proof of tax payments can be mandatory in order to obtain short-term loans.

To address these challenges, governments need to work with the private sector to develop alternative forms of proof, including electronically generated and stored receipts that are widely accepted in place of hard copy receipts.

It is important to note this study is not a country diagnostic study which sets out in detail all quantitative elements of various payment flows, achievements, and challenges of P2G and B2G payments in Tanzania. Instead it aims to provide the reader with a broader overview of the state of digital P2G and B2G payments in Tanzania, the key players, successful P2G and B2G payment use cases, and the key lessons from Tanzania for policymakers and other stakeholders who are looking to accelerate the transition from cash to digital economies.

In order to most effectively drive financial inclusion and expand revenue bases, countries including Tanzania need to undertake deeper and more specific diagnostic research and analysis to pinpoint exactly the technical, financial, cultural, and legal impediments to greater usage of digital payments. The BTCA's previous diagnostic studies that were focused on specific countries have demonstrated how such a detailed examination can inform the policy design and implementation process, supporting far superior policy outcomes for governments, businesses, and individuals.

TANZANIA CONTEXT INDICATORS

POPULATION, ¹⁰ 2015 (WB)	51.82 million	ADULT POPULATION (15+), 2014 (WB) ¹¹	39.8 million
% OF ADULTS (15 YEARS+), WITH ACCOUNT AT A FORMAL FINANCIAL INSTITUTION ¹² (FINDEX, WB, 2014)	19%	% OF ADULTS (15 YEARS +), WITH A MOBILE MONEY ACCOUNT ¹³ (FII, DECEMBER 2015) ¹⁴	61%
TELECOM SUBSCRIPTIONS, DECEMBER 2015 (TCRA) ¹⁵	39.8 million	INTERNET USERS / 100 PEOPLE (WB, 2013) ¹⁶	4.9%
ADULT (15 YEARS +) LITERACY RATE ¹⁷ (NATIONAL BUREAU OF STATISTICS, 2014, TANZANIA)	78.1%	COUNTRY INCOME CATEGORY ¹⁸ (WB)	Low-income

The Payment Grid

The matrix below lists the various types of payments that take place among people, businesses, and government within a country.

In order to provide the reader with the latest movements on digital payments in Tanzania, where needed this study makes use of demand side data such as, number of digital accounts (mobile money and banks), digital payment use cases, and user requirement for digital payment account registration and usage, from the recently concluded Financial Inclusion Insights study of December 2015.

RECIPIENT	GOVERNMENT	BUSINESS	PERSON
ENTITY INVOLVED IN PAYMENTS	G 2 G	G 2 B	G 2 P
	G From one government body to the other	Government ministries and other bodies making payments to suppliers, vendors, and other service providers. Industry subsidies. (e.g., IT services or security services)	Payments by government to individual recipients (e.g., salary payments for government employees, welfare payments)
	B 2 G	B 2 B	B 2 P
	B Payments by businesses to government (e.g., mandatory payments like taxes, government service payments like business licenses)	Payments between businesses (e.g., suppliers, wholesalers, and retailers)	Payments from businesses to individuals (e.g., salary payments, reimbursements)
	P 2 G	P 2 B	P 2 P
	P Payments by individuals to government (e.g., mandatory payments like taxes, government service payments like birth / death certificates, payments for government-supplied utilities)	Payments by individuals to businesses (e.g., payments for purchase from retailers or other merchants, payments for medical and insurance services provided by private sector entities, etc.)	Transfers between individuals (e.g., the mobile money payments between individuals that are already prevalent in Tanzania)

KEY: P=PERSON B=BUSINESS G=GOVERNMENT

FOCUS OF THE STUDY

The Better Than Cash Alliance Case Study Series

Our case study series seeks to highlight specific examples of shifts from cash to digital payments by government agencies, companies and development partners. Each case study aims to provide insights for a wide audience on the factors that have helped or hindered the digitization process, and also present key results and benefits of the transition away from cash. We hope that readers will be able to adapt the lessons from these cases to their own contexts and local conditions.

Acknowledgments

This is a first of its kind case study mapping key digital Person-to-Government (P2G) and Business-to-Government (B2G) payments and trends in an individual country – in this case Tanzania. This endeavor would have been impossible without the constant commitment, encouragement, and support of a few key individuals and organizations that played an instrumental role in shaping this study.

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About The Better Than Cash Alliance

The Better Than Cash Alliance is a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth. Based at the United Nations, the Alliance has over 50 members, works closely with other global organizations, and is an implementing partner for the G20 Global Partnership for Financial Inclusion.