FINTECH IN TANZANIA

1. **INTRODUCTION**

While the coronavirus pandemic sweeps the entire world, governments' response to the international health crisis has led the global economy to a standstill. Extensive lockdowns and social distancing measures are leading to massive unemployment spikes and numerous businesses are already seeing the dramatic loss of revenue and struggling to maintain their operations.

While it makes economic sense that many businesses will contract and decline in the context of the emerging financial crisis, the question is whether, in an environment that forces consumers to switch to online channels, digital financial services will thrive and fintech will be seen as the natural remedy. After all, the fintech revolution did emerge partially from the ashes of the previous global financial crisis, so fintech is used to being agile, flexible, and faster in responding to uncertainty.

While the fintech ecosystem has proved to be transformative for the sector, the demand for fintech services is dependent on the economic activity across the globe. Research suggests that transactional services and revenues from payments will decline as spending decreases. This will affect the business model of many fintech who relied on scaling up their customer base and making small profit margins from money transfer and payment services. In particular, fintech that relies on cross-border transactions, e.g. from travel spending or international payments, will be more affected as travel is banned and commercial restrictions on international trade imposed. Combined with lack of funding, this may mean that several fintech will fail or be acquired on a discount as fintech valuations decline. This kind of speculation may have knock-on effects as consumers will be less likely to hold their investments or savings with smaller institutions that are more likely to go bust leading to a "fintech run".[1]

In order to avoid companies defaulting and people going bankrupt, governments are rushing to inject cash in the economy and capitalize on businesses and the self-employed through financial aid. Fintechs can certainly benefit from that. However, the circulation of large amounts of cash, in such a short amount of time, is a difficult exercise that requires a solid financial infrastructure and supply chain. In that respect, fintech can be uniquely positioned to step in and facilitate credit requests from businesses and monetary aid to individuals.

Technologies such as machine learning algorithms can put fintechs – from P2P lending platforms such as Funding Circle to digital banks that provide lending at an advantage as they are called to assess the creditworthiness of businesses and distribute loans rapidly by automating the due diligence process.

In addition, fintech may be able to serve customers that are usually excluded by the traditional banks, for instance, due to lack of collateral. Bigger and older financial institutions that operate with legacy technologies and models can potentially struggle to work at this pace and be more reluctant to offer lending to businesses using alternative data for their credit assessment. [2]

2. FINTECH IN TANZANIA

Financial technology (Fintech) has been growing at a rapid pace in Tanzania. Part of the reason for this rise is that Tanzanian regulators are actively encouraging Fintech innovation. Fintech, done well, is a powerful tool for achieving financial inclusion for Tanzania's large unbanked population.

We have the privilege of representing clients dealing with Fintech who have positive remarks and compliments, on our expertise such as PESAKIT and NALA.

The government is taking steps to accommodate firms operating in the financial sector. One of the examples of government efforts is the harmonization of all mobile-money platforms through the National Switch Interoperability Agreement by the Tanzania Communication Regulatory Authority (TCRA). This allows customers from different mobile wallets to transfer money from one mobile wallet to another.

The government has also established the Information and Communications Technologies Commission which is mandated with coordinating and facilitating the implementation of national ICT initiatives. Recently the government entered into an MoU with the Financial Sector Deepening Trust (FSDT) pursuant to which FSDT can provide funding and technical know-how in the financial sector while the government provides supports through the legal and regulatory framework.

The potential for the success of Fintech businesses is being driven by Tanzania's challenges with financial inclusion. In the last decade, the usage of informal financial services narrowed from 29 percent to 7 percent, while the size of the adult population using formal financial services quadrupled in the same period. The penetration of Mobile Network Operators (MNOs) in the Fintech business has resulted in the growth of active mobile wallets to over 21 million while those actively using mobile financial services now stand at 16.6 million.

3. **MAJOR PLAYERS IN FINTECH**

Currently, Tanzania has six MNOs who have partnered with financial services to provide mobile wallets, peer to peer payment and digital banking services. Some of MNOs electronic money platforms include Vodacom (M-PESA), Tigo (TIGOPESA), Airtel (Airtel Money), Zantel (EZYPESA), Halotel (HALOPESA) and TTCL (TTCL PESA). Different MNOs also issue a number of financial products that allow customers to save and take micro-loans such as M-PAWA (CBA Bank with Vodacom), Timiza (Airtel with Jumo) and TigoNivushe (Tigo with Jumo). With the government's recent launch of the Government Electronic Payment Gateway, (the GEPG) different government authorities are now accepting different MNOs' electronic money payments that are integrated with the GEPG.

Apart from MNOs, there are several companies innovating in the Fintech space such as Jumo, which offer financial services through MNOs and Masterpass QR payment, a smart and cashless way to make payments in-store and online using an app which is provided by Mastercard and Ecobank Tanzania (and recently being offered by Tigo in partnership with Mastercard and Selcom). Further, Humaniq, a London-based firm, has an app for the unbanked population, which is available in Tanzania. The app can be used on low-end mobile devices and it is connecting individuals with no access to traditional banking services with opportunities equivalent to banking services.

4. **LAWS GOVERNING FINTECH**

The national strategy in this area has meant that regulators are receptive to Fintech innovation. Generally the financial sector in Tanzania is heavily regulated and as such, applications for licensing are rigorous, expensive, and time-consuming. Regulators will normally assess the availability of funding, credibility, competence, and capacity of the proposed investors and their employees. The Bank of Tanzania (BoT) is the regulator of the financial sector (including Fintech businesses). Fintech businesses may (depending on the nature of their activities) also be regulated by the TCRA under the Electronic and Postal Communications Act 2010 (EPOCA).

Having a multiplicity of regulators is usually a recipe for stagnation and slow delivery of services, but in the Tanzanian context, this has not been the case. A good example of pragmatism is the BoT decision to allow electronic money transfer platforms to operate even before a proper legal framework was in place in 2008.

When a Fintech looks to introduce new products, the relevant regulator will assess consumer protection, market stability, prevention of money laundering, and fraud. Given this, it is recommended that companies offering Fintech products and services ensure they have consulted and obtained all of the relevant clearance, licenses and approvals from the relevant regulators and provide extensive, transparent and upfront disclosures.

In our experience, potential investors should plan to meet with the regulators prior to making license applications to ensure that regulators fully understand how the product will function. In explaining the product's benefits, the proponent should also highlight the precautions taken to provide consumer protection, ensure market stability, and (for money transfer products) prevent money laundering and fraud.

5. **CONCLUSION**

Flipping the coin, this also means that despite the economic hardship expected to follow the Covid-19 crisis, now is the time for investors to support fintechs whose services can increase customers' financial wellbeing. The incoming financial crisis (even before it starts!) has already proven that digital financial services will be the future and are more necessary than ever in an increasingly digitized world. It's difficult to assess whether the impact of the COVID-19 crisis will be positive or negative in the aggregate. As mentioned above, payments businesses may struggle – VISA has already reported a sharp slowdown of cross-border activity. On the other hand, demand for digital financial services (e.g. such as credit) will be on the rise and this may be the point where certain fintech businesses can grow their customer base. For example, Greensill Capital, a trade finance platform, suggested that demand tripled in March as many businesses experienced cash-flow constraints but hesitated to approach large banks for credit. Digital banks may also be able to attract more customers who seek a better banking experience that relies exclusively on digital channels. In addition, the fintech community has been a force for good in this crisis. Several fintech stepped in quickly to help people during this time of need.

[1] https://blogs.lse.ac.uk/businessreview/2020/04/13/the-covid-19-impact-on-fintech-now-is-the-time-to-boost-investment/

[2] ibid