The Evolution of Mobile Money in Zimbabwe

A pocket guide on Mobile Money Usage and Trends in Zimbabwe

RESERVE BANK OF ZIMBABWE

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Background

This pocket guide provides an overview of the evolution of mobile money in Zimbabwe, highlighting its growth, challenges, and impact on the country's economy and financial landscape. This publication summarises the milestones, regulatory framework, risks and concerns, and societal implications of mobile money services in Zimbabwe.

All the descriptive statistics used for this study and analysis were sourced from the Reserve Bank of Zimbabwe (RBZ) covering the period 2018 – 2021. The data was collected from mobile money service providers in the country and was aggregated from quarterly reports submitted to the regulatory authority. Additionally, exchange rate data for supplementary analysis was acquired from the RBZ website.

Introduction

Mobile money has emerged as a transformative financial technology in Zimbabwe, providing convenient and secure financial services to a significant portion of the population. Its adoption has been instrumental in expanding financial inclusion, particularly in areas with limited access to traditional banking services.

According to the National Financial Inclusion Strategy 2022-2026, the increased uptake and usage of mobile money (embraced by 63% of the total population) was a key driver in formal financial inclusion. Additionally, 72% of households had access to a bank, micro-finance, or mobile money account, enabling them to transact digitally[1]. The Strategy aims to foster an environment that is conducive to developing innovative inclusive financial technologies to increase the uptake and usage of financial products. Mobile money platforms play a crucial role in achieving this objective.

This widely used financial solution has effectively integrated people in rural areas, informal settlements and vulnerable communities who were largely unbanked. Through mobile money platforms, Zimbabweans gained access to various transactions such as bill payments, merchant payments, and airtime purchases, while enabling safe and convenient money transfers.

[1] https://www.afi-global.org/wp-content/uploads/2022/11/Zimbabwe_National_Financial_Inclusion_Strategy_II_2022-2026.pdf

The rapid growth of mobile money in Zimbabwe may be attributed to several factors, including distrust in traditional banking institutions, geographic challenges for people to reach banks, and customer challenges in meeting the due diligence requirements to open bank accounts. Despite this growth, the government imposed a ban on mobile money agents in 2020 due to critical anti-money laundering, know-your-customer (KYC), and customer due diligence (CDD) risks and concerns.

As a result of the ban, mobile money customers were no longer able to perform cash-in and cash-out transactions (CICO) at mobile money agents.

The advantages of mobile money for the Zimbabwean economy and its citizens, however, are substantial with far-reaching effects that often outweigh the concerns that led to the ban. As mobile money platforms continue to evolve and enhance security measures, they have the potential to offer convenient, efficient, and inclusive financial solutions to a diverse user base and in turn, enable them to contribute to economic growth and poverty reduction.

A balanced approach that addresses regulatory requirements while harnessing the potential for economic empowerment through mobile money warrants exploration for the benefit of all stakeholders involved.

Early adoption and key milestones

The evolution of mobile money in Zimbabwe can be traced back to 2011 when mobile money operator companies launched their mobile money services. OneMoney was the first to be introduced in the market followed by EcoCash and later TeleCash. This marked the beginning of a new era in access to financial services by the underserved population. With mobile money, users gained the ability to perform financial transactions without the need to physically visit the bank. This wave of innovation empowered people to perform transactions such as sending and receiving money, paying bills and buying airtime using their mobile devices. This innovation provided individuals with a secure, affordable and accessible means to engage in digital transactions.

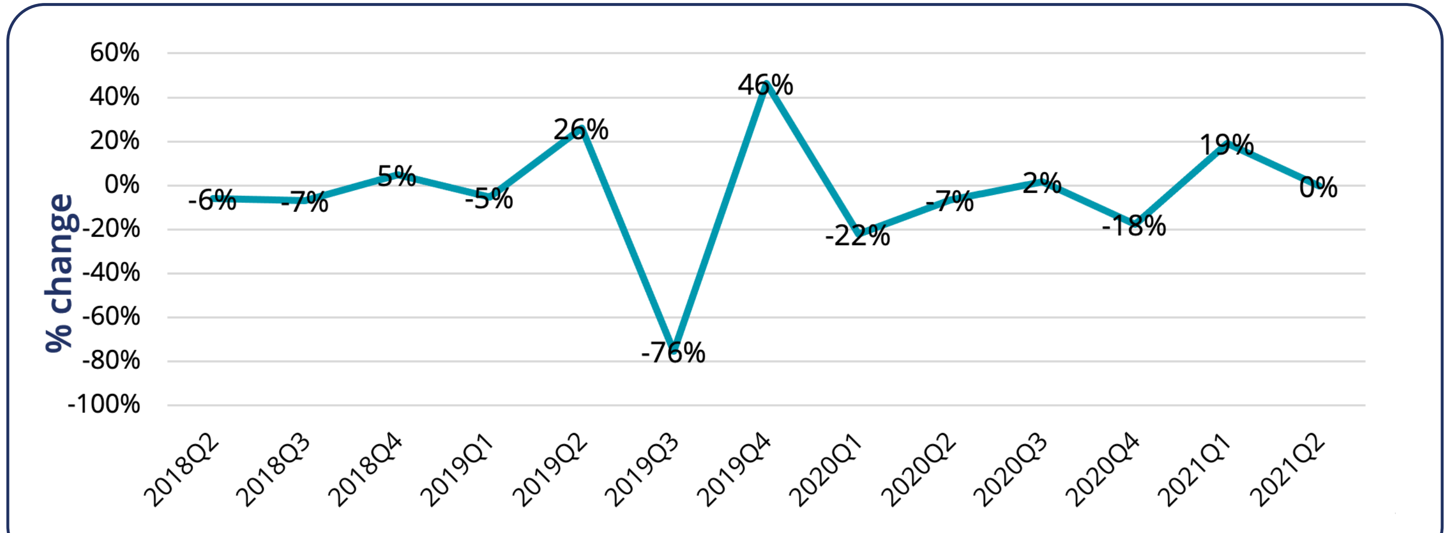
The coverage of the mobile phone network and the ability of mobile money service providers to establish agent networks reaching remote villages, informal settlements, and other areas where traditional banking services are limited, are key factors contributing to the success of mobile money as it unblocks access to financial services for underserved communities.

Growth and expansion

In 2014, the FinScope Consumer Zimbabwe survey reported that 45% of adults use mobile money products. In 2022, mobile money users increased to 63% of the adult population. This provides a demand-side perspective on the uptake of mobile money.

The appeal of mobile money's safety and convenience extends beyond domestic remittances. EcoCash established partners with mobile money operators like MTN in Rwanda and Zambia, Orange Money Botswana, and Airtel Uganda, enabling customers to engage in cross-border remittances using mobile money. EcoCash further partnered with international remittances service providers, facilitating direct remittances reception into customers' wallets within Zimbabwe. In the East African region, Orange enables mobile subscribers in France to send remittances to Orange Money customers in Côte d'Ivoire, Guinea, Madagascar and Mali. Similarly, MTN Mobile Money facilitates both inbound and outbound intra-Africa remittances and remittances from Europe to Africa. Figure 1 provides a supply-side data-informed perspective on the number of subscribers.

Figure 1: Mobile money subscribers' percentage change



Source: *Reserve Bank of Zimbabwe (RBZ)*

According to figures from the RBZ, the number of subscribers stood at 12.5 million at the end of the first quarter of 2018. Subsequently, the number experienced a decline to about 8.5 million in the third quarter of 2019, before increasing to 12.9 million in the second quarter of 2021[2]. Generally, there was a 8.6% increase in the number of subscribers from quarter two of 2018 to quarter two of 2021. A sharp decline of 76% in the number of subscribers was witnessed in quarter three of 2019, likely due to the closure of two or more accounts from one service provider from quarter one of 2019. However, the number of subscribers increased to 46% in quarter four of 2019.

Zimbabwe currently uses a multi-currency regime that allows customers the flexibility to choose their preferred currency for transacting. The most used currencies are the Zimbabwean dollar (ZWL) and the United States dollar (USD). Given the volatility of the ZWL, customers tend to keep USD in their wallets for longer periods. For domestic transactions, depending on the exchange rate, customers opt for the currency that offers a stronger purchasing power. For international transactions, the USD is often the preferred currency, largely because it is more stable in the global market.

[2] Data does not account for dormant subscribers.

Regulatory framework

Recognising the potential of mobile money services to increase financial inclusion, the RBZ took strides to establish a regulatory framework to ensure its stability and security. Guidelines and regulations were laid down to oversee the operations of mobile money service providers, safeguarding adherence to anti-money laundering (AML) and know-your-customer (KYC) standards.

The Reserve Bank Act (Chapter 22:15) is the main regulatory framework while the National Payment Systems (NPS) Act (Chapter 24:23) is the primary legislation for payment systems in the country. In addition to the NPS Act and other regulatory frameworks, Statutory Instruments were developed and gazetted for the effective operations of mobile money. These include Statutory Instrument 80 of 2020 (Money Transmission, Mobile Banking and Mobile Money Interoperability Regulations) and Statutory Instrument 65A of 2020 (Banking and Savings). SI 80 of 2020 was intended to enforce interoperability across all mobile banking and money transmission services, whereas SI 65A of 2020 aimed to incentivise the public to engage in long-term savings. The implementation of the latter is pending, as the government is working to resolve the structural challenges related to the payment of interest on customers' wallets.

In 2017, the RBZ developed Retail Payment Systems and Instruments guidelines to provide a framework that supports the development of retail payment systems and retail payment instruments in Zimbabwe. The objective of the framework is to ensure the safety and soundness of payment schemes and products, ultimately to enhance user confidence in electronic payment means and increase their uptake. Additionally, the guidelines mandate that operators establish adequate operational infrastructure for their schemes, including sufficient interfaces to ensure interoperability as well as safety, security and operational reliability of the system.

For the past decade, Zimbabwe has grappled with high inflation levels. During this period, the government has maintained a tight money supply stance including refraining from printing money to control the hyperinflationary environment. As a result, the country has been experiencing cash shortages, including physical banknotes and coins in both the Zimbabwean and the United States dollars. Considering these shortages, the RBZ actively advocates for a cashless society, endorsing online transactions, including the use of mobile money. However, the mandatory intermediated money transfer tax (IMTT) on mobile money transactions disproportionately affects the rural underprivileged, who have low disposable incomes and limited payment options, and often rely on remittances.

The governance of mobile money operations within the country is regulated by the National Payments System Act and other policy directives. These transactions bear the IMTT, currently set at 2% of the transaction value in local currency, while foreign currency-denominated transactions carry a 1% levy. Notably, the IMTT on foreign currency-denominated transactions underwent revisions, decreasing from 4% in 2022 to 2% in January 2023 and subsequently to 1% in June 2023.

Despite the impact of taxes, the convenience of using mobile money resonates with customers, motivating the continued use of these services.

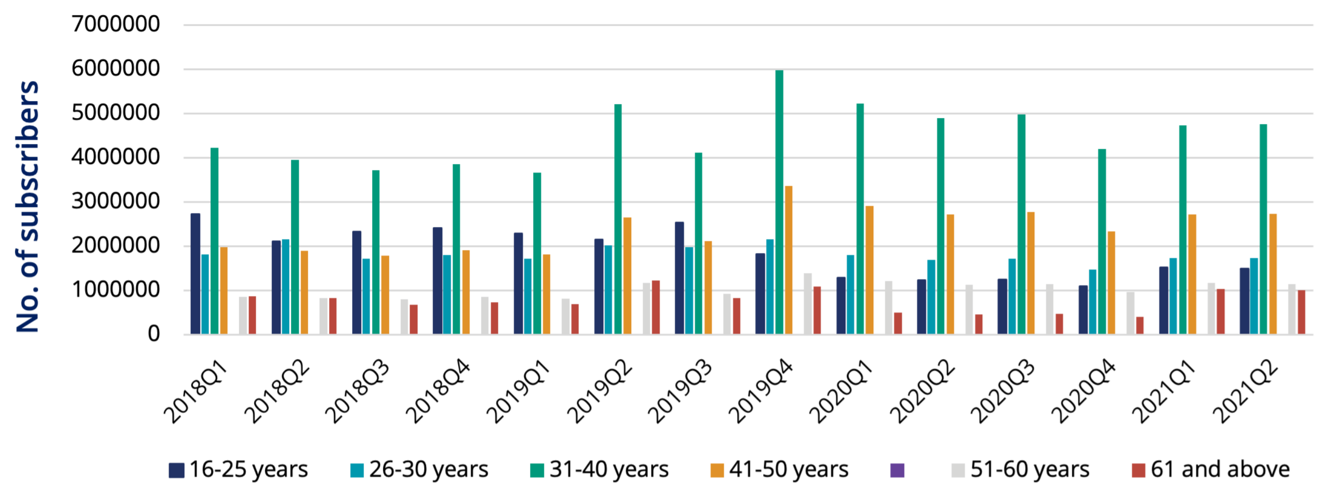
Impact on financial inclusion

Despite the RBZ's Mid-term Monetary Policy Statement dictating that customers maintain a single account with a service provider, the count of mobile money subscribers remains strong, while active subscriber numbers lag. In terms of age distribution, the 30-40-year age bracket has a higher subscriber count than other groups, largely because of their heightened economic engagement.

While more men subscribe to mobile money than women, the gender gap is gradually narrowing over the review period. Factors contributing to women's underrepresentation include limited mobile phone subscriptions[3] and insufficient awareness of mobile money.

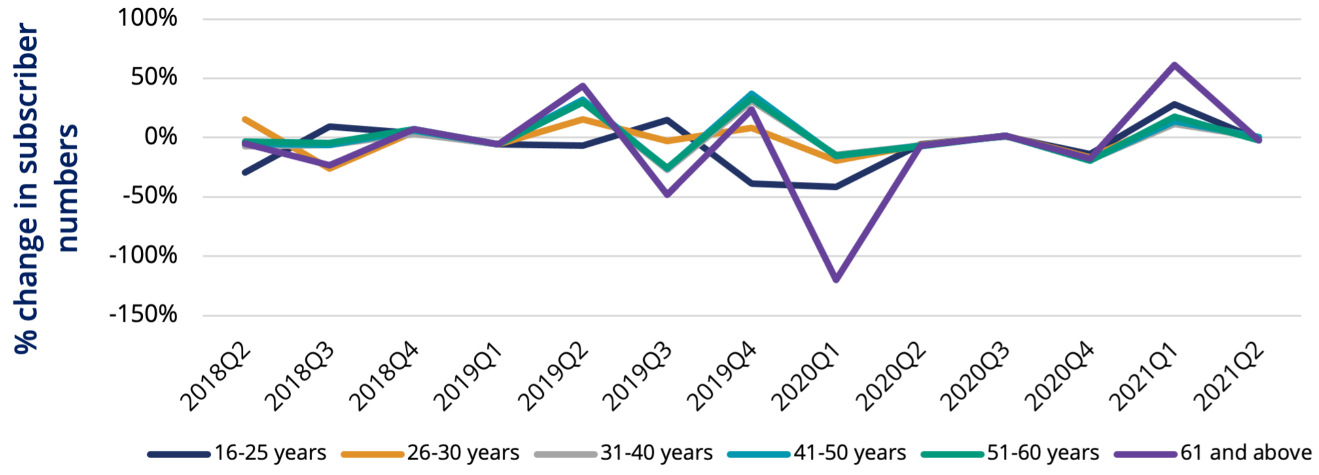
[3] Postal and Telecommunication Regulatory Authority of Zimbabwe 2021 Quarter 1 Report

Figure 2: Mobile money subscribers by age



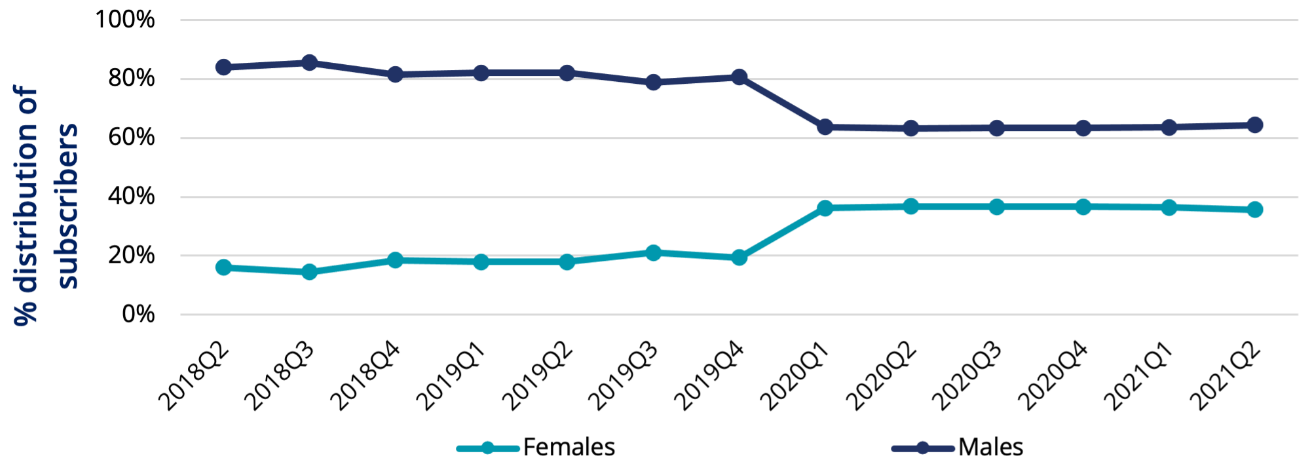
***Source:** Reserve Bank of Zimbabwe (RBZ)*

Figure 3: Mobile money subscribers by age distribution



***Source:** Reserve Bank of Zimbabwe (RBZ)*

Figure 4: Mobile money subscriber by gender



***Source:** Reserve Bank of Zimbabwe (RBZ)*

The National Financial Inclusion Strategy (NFIS) (2016-2020) identified the potential of branchless banking, encompassing mobile financial services and e-money, to extend financial accessibility to marginalised consumers, particularly in remote pockets of the nation. Subsequently, the NFIS (2022-2026) unveiled in the fourth quarter of 2022, prioritised the use of quality financial services with a special emphasis on the vital role of mobile money in facilitating formal financial inclusion. In support of this, banks are collaborating with mobile money operators to access a broader market, employing branchless banking to offer a comprehensive range of secure and efficient digital financial services to meet the needs of the diverse demographic segments across Zimbabwe.

The collaboration between the bank and the mobile money operator allows customers to transfer money easily between their bank account and mobile money wallet. However, this convenience comes at a cost as both the bank and the mobile money operator charge a commission fee for these transactions. This interoperability is more convenient for customers who have both a bank account and mobile money account, although those who only have a mobile money account can still receive transfers from a bank account to their wallet.

Challenges and concerns

Despite its positive impact, the mobile money landscape in Zimbabwe has encountered several challenges. These include concerns over fraud and cybersecurity, shifts in regulations, and occasional service outages. Regulatory changes aimed at stabilising the local currency also influenced the operations of mobile money platforms.

In 2020, a mobile money market audit conducted by the RBZ exposed non-compliance with CDD/KYC regulations by mobile money operators. Key risk factors concerning mobile money include anonymity, elusiveness, rapidity, misuse for money laundering schemes, fraudulent overdrafts, fictitious credits, and unauthorised foreign currency trading outside formal channels. The audit identified instances of mobile money accounts opened with fictitious and unverified identity documents. To address this issue, the RBZ instituted remedial actions, mandating mobile money customers to maintain a single account with a service provider as well as using the national identity number as a unique identifier. The dip in growth rates indicated in Figure 3 during this period may likely be attributed to this action.

The audit also revealed instances of mobile money account misuse for money laundering schemes, fraudulent overdrafts, fictitious credits, and unauthorised foreign currency trading outside formal channels. The RBZ leveraged the National Payments System Act and other policy directives to regulate and supervise mobile money to mitigate risks and ensure it remains resistant to exploitation by criminal entities.

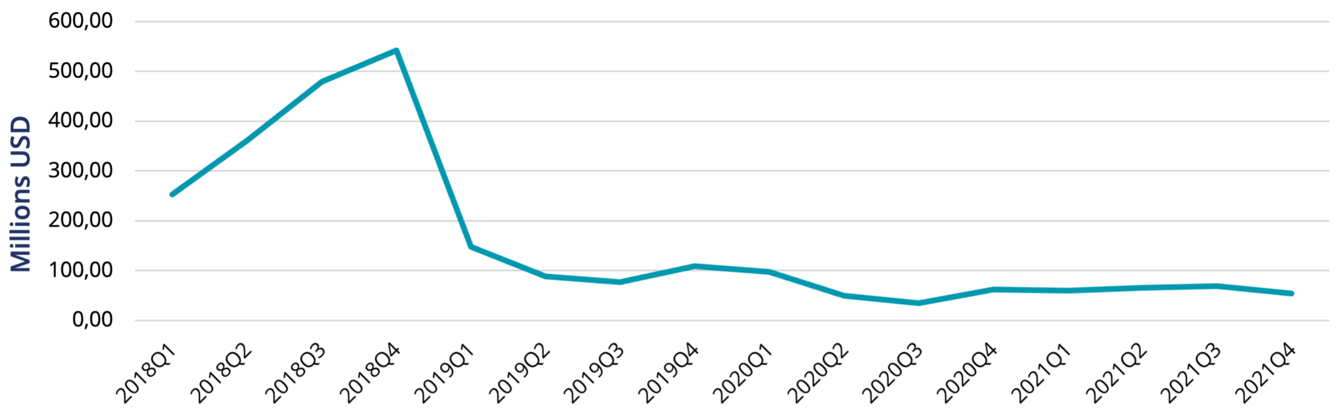
Further constraints were placed on mobile money operations by the RBZ. In the latter half of 2020, mobile money agents were prohibited from conducting cash-in and cash-out transactions.

[4] https://www.rbz.co.zw/documents/mps/2020/MPS--MID-TERM.pdf

Mobile money use

Mobile money is a popular option for sending money, making merchant and bill payments, and purchasing airtime. During the Covid-19 pandemic in 2020, sending money was recorded at USD 506 million during the end of the first quarter of 2020 before declining to USD 137 million by the end of the second quarter of 2020. It remained low until the end of the third quarter of 2020 at USD 76 million, before increasing in the fourth quarter of 2020 at USD 129 million. By the end of the first quarter of 2021, sending money showed a rising trend at USD 133 million, likely due to people supporting each other during the pandemic.

Figure 5: Quarterly mobile money electronic balances



Source: Reserve Bank of Zimbabwe (RBZ)

Figure 5 shows the rise in electronic money (e-money) balances from January 2018 to December 2018, followed by a steep decline starting from January 2019 through to November 2021. The decline in the value of the total mobile money balance is in alignment with the increase in cash-out activities. Throughout the Covid-19 period, these balances maintained a relative steadiness, which may be attributed to the restricted availability of cash-in and cash-out transactions due to the ban on mobile money agent activities.

Individuals could only conduct cash-in activities through bank-to-wallet transactions. Cash-out could only be done through wallet to bank transactions and other arrangements between mobile money users exchanging cash for an equivalent inbound wallet transfer.

In 2018, the exchange rate between USD and ZWL was 1:1. However, following the introduction of a multi-currency regime, fluctuations in exchange rates led customers to prefer keeping physical USD at home due to its higher purchasing power compared to ZWL. Some products and services required payment strictly in local currency. In these instances, customers converted their USD to local currency and transferred it to their wallets for transactions. Despite ZWL's volatility, people maintained positive ZWL balances for incidental transactions. The inflationary pressures on the ZWL diminished its value for Zimbabweans, prompting a preference for holding physical cash in USD. This preference might also explain the decrease in the value of electronic balances between 2018 and 2021.

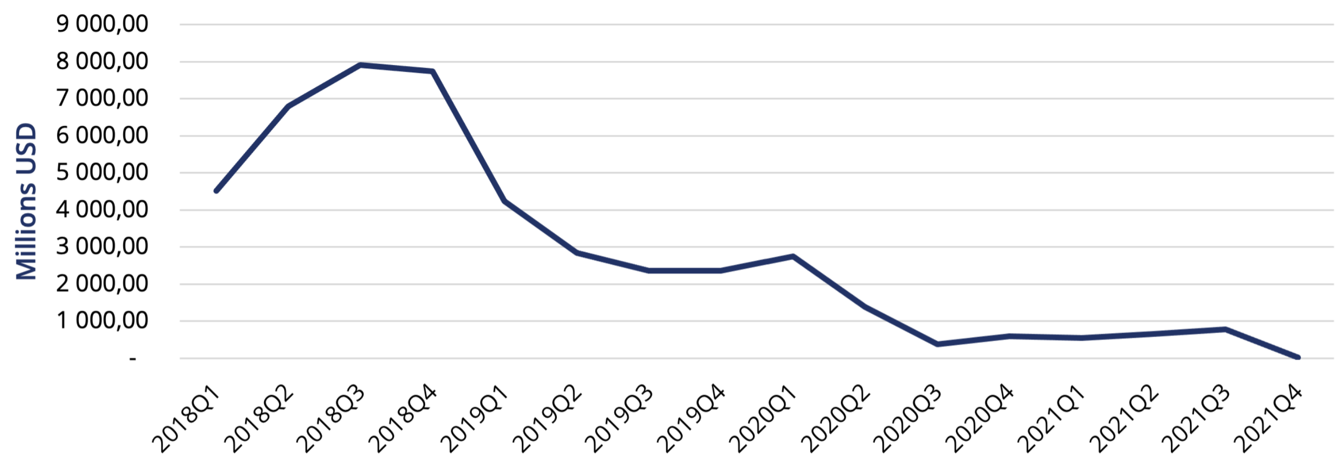
Cash management in Zimbabwe involved converting income, whether through remittances or salaries, into local currency. The IMF[5] confirmed the existence of a significant premium in the parallel foreign exchange market, hence individuals converted their income at parallel market rates as arbitrage from exchange rate disparities and cash discounts when making purchases. Zimbabweans had the option of either transferring the converted money directly to a merchant or grocery shop to avoid extra transaction charges or as arbitrage, converting their cash at parallel market rates into local currency and transferring the money into their wallets for later use.

[5] https://www.elibrary.imf.org/view/journals/002/2022/112/article-A001-en.xml)

Mobile money use cases

Figure 6 shows a decline in the value of total mobile money transactions. This showed that despite an increase in the uptake of mobile money according to the demand-side data, the total amount of digital payments transactions was reduced between 2008 and 2022.

Figure 6: Quarterly mobile money transaction values



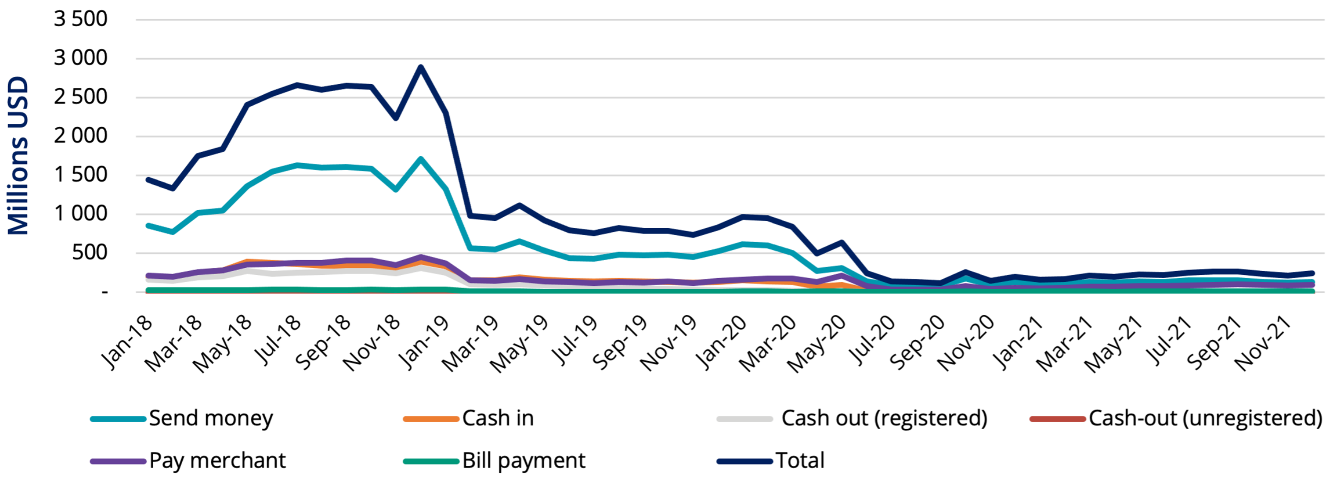
Source: Reserve Bank of Zimbabwe (RBZ)

According to regulatory data, bill payments[6], such as water and electricity are less common than sending money and merchant payments[7], which occur more frequently.

[6] Bill payments refer to the payment for goods and services that are recurring every month including water and electricity among other utilities. The biller is usually provided with a biller code to facilitate payments.

[7] Merchant payments refer to payments to wholesale and retail outlets for goods and services and these service charges are not routine every month. Merchants are also provided with merchant codes to facilitate payments.

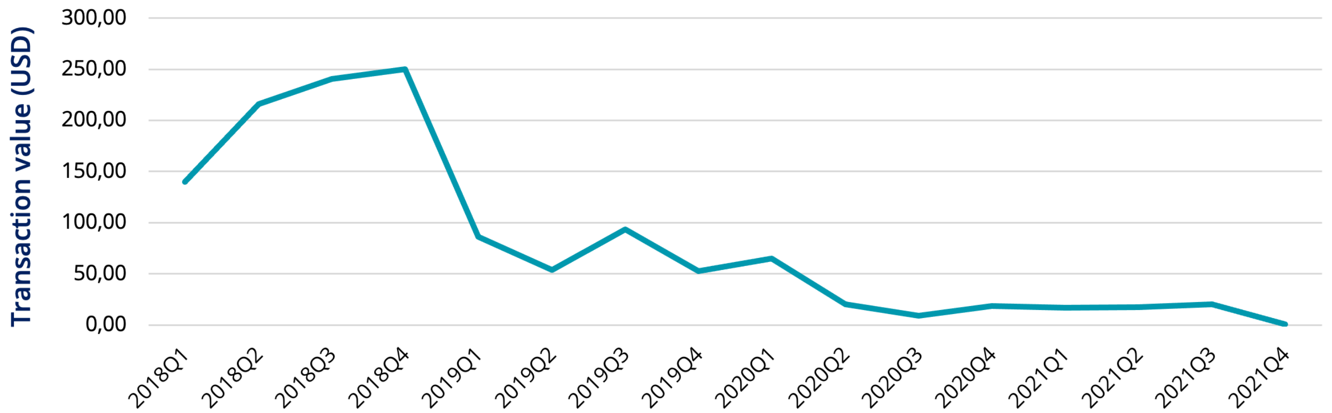
Figure 7: Mobile money transaction values by transaction type



Source: Reserve Bank of Zimbabwe (RBZ)

From a demand-side perspective, mobile money is effectively driving the use of digital payments compared to traditional banking services. Of the total merchant payments, including bills, 73% of total adults used mobile money compared to 27% of adults, according to the 2022 FinScope Consumer Survey. Sending and receiving money (remittances) is also dominated by mobile money with 71% of adults using mobile money compared to 27% of adults that used traditional banking services.

Figure 8: Quarterly mobile money average transaction values per user

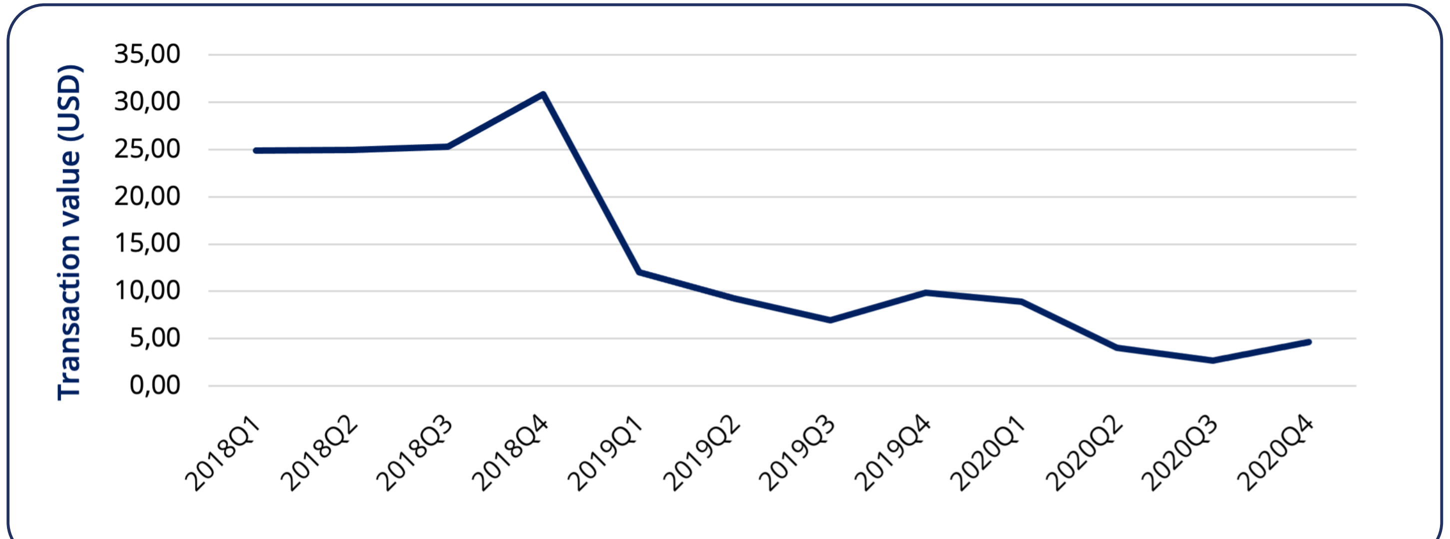


Source: Reserve Bank of Zimbabwe (RBZ)

The mobile money average transaction value per adult in USD has been on a downward trend since January 2019. Similarly, the transaction value per user has also experienced a downward trend due to low disposable incomes. **This could also be indicative of mobile money serving mostly low-income adults (pro-poor) in Zimbabwe, which has reduced the arithmetic average of transaction sizes between 2018 and 2021.**

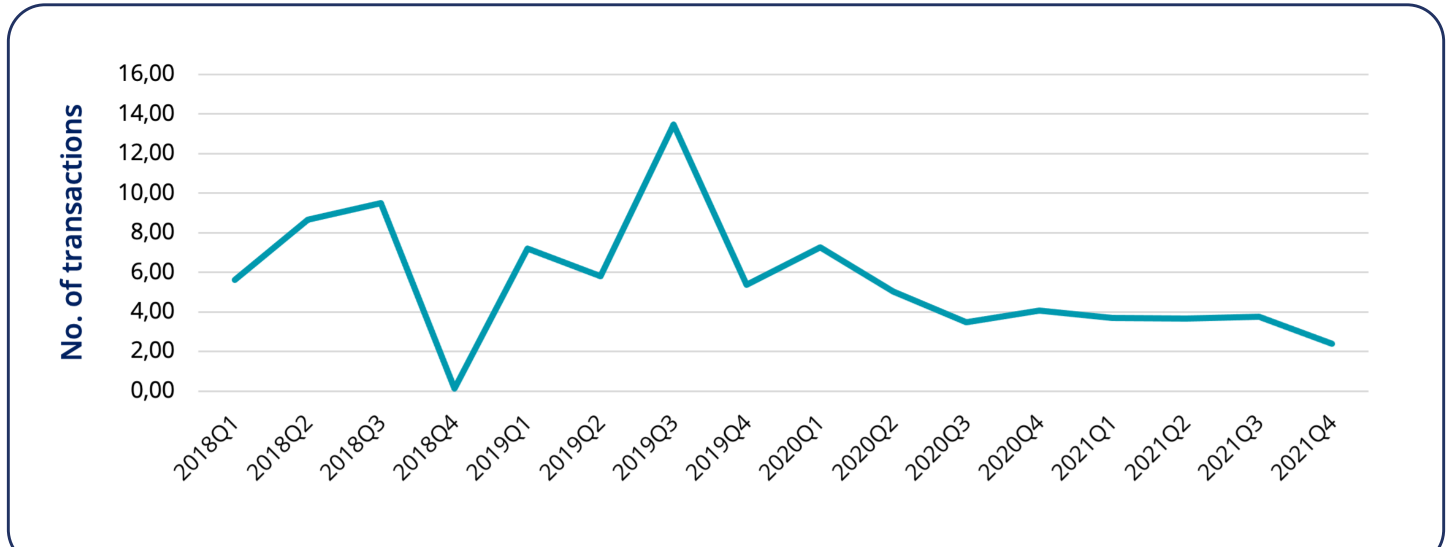
The highest market average transaction value of USD 33.91 was recorded in January 2019, while the lowest was USD 0.33 in November and December 2021. The highest transaction per user was USD 250.00, which occurred in December 2018 when the exchange rate was still 1:1 with the ZWL.

Figure 9: Quarterly mobile money average transaction value



Source: Reserve Bank of Zimbabwe (RBZ)

Figure 10: Quarterly mobile money transaction volume per user



Source: Reserve Bank of Zimbabwe (RBZ)

Figure 10 indicates a significant decline in transactions per user from September 2019 to October 2021. Covid-19 caused customers to prioritise essential transactions, reducing the monthly number of transactions per user. The ban on mobile money agents in July 2020 also impacted transactions. Interoperability between banks and mobile money platforms played a vital role in maintaining transaction volumes during the pandemic. Moreover, the number of transactions per customer averaged at around six transactions per quarter. As previously discussed, these transactions are mostly remittances (sending money).

Future prospects

The preceding sections argue that mobile money is driving financial inclusion in Zimbabwe. Mobile money is also the key driver of digital payments in the country. However, there is a reduction in digital liquidity on mobile money platforms over time due to a preference for USD cash. The ZWL is subject to immense inflationary pressures and cash holdings in USD are a more valuable form of storing value in Zimbabwe. This shows a link between the purchasing power of currencies and the use of digital financial services, which requires additional research.

The National Financial Inclusion Strategy II (2022-2026) seeks to promote the development, access and usage of suitable products and services, including mobile money that will be affordable, convenient and aligned to customers' needs. Financial products that are customer-centric are used more frequently, which in turn empowers consumers to participate in economic activities. Facilitating access to financial services through mobile money could play a crucial role in Zimbabwe's efforts to gather capital for the investment needed to drive economic recovery over both the medium and long term.

To achieve this, it becomes essential to closely monitor the evolution of financial services, with a particular focus on mobile money. Strategies should be identified to further enhance the usage of mobile money while concurrently supporting livelihoods and fostering inclusive growth.

The data showed that mobile money is being used more as a payment system than a store of value. Strategies to promote savings through mobile money may include developing policies that instil confidence or trust in the use of formal financial systems and enable them to save using their wallets.

Anticipated outcomes include altering the preference for mobile money over physical cash, particularly among the unbanked population, who rely on banked counterparts for transfers into their mobile money wallets.

Intermediated Money Transfer Tax (IMTT) on mobile money disproportionately affect the poor or lower-income groups who have limited payment options and often depend on remittances. **Authorities should consider a downward review or, at best, an elimination of IMTT on digital transactions as the country moves towards the adoption of digital currency.**

As reported in the 2022 FinScope Surveys, mobile money has played a significant role in enhancing formal financial inclusion in the country. Mobile money will facilitate further achievement of some of the NFIS II targets, especially improving the percentage of the rural population formerly served and or accessing other formal non-bank financial services.

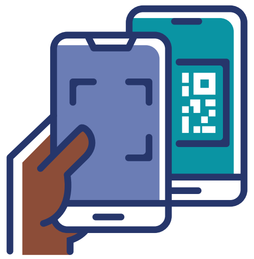
Mobile money operators can also receive training on a Risk-Based Approach which will enhance their AML/CFT compliance while improving customer experience and safety.

Interoperability between banks and mobile operators had a significant role especially in facilitating cash-in transactions as well as facilitating payments through mobile money. The Central Bank should however continue to maintain and enhance the interoperability arrangements across all payment systems.

The outlook for mobile money in Zimbabwe holds promise. As technology continues to advance and infrastructure strengthens, mobile money services are likely to become increasingly sophisticated and seamlessly integrated into various sectors of the economy. Collaborative efforts among mobile money providers, financial institutions, and other stakeholders may lead to innovative solutions for further expansion of financial services especially in accessing basic products and services related to the SDG goals.

Conclusion

Mobile money services have undergone a remarkable evolution in Zimbabwe, transforming the way financial transactions are conducted and promoting financial inclusion. Despite challenges, the resilience and adaptability of mobile money platforms have contributed to their continued growth and importance in the country's financial landscape.



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