Internet ‘cloud’ creates range of security issues

Electronic payments to reduce transaction costs

While the use of cash and paper based payment instruments, such as checks, is still dominant in Tanzania, transitioning to electronic payment entails numerous benefits for the nation.

The electronification of payment instruments would not only mean more accountability and a more transparent environment for investors, but more substantively, it would translate into major cost savings for the various segments of the Tanzanian society.

For instance, the total annual cost of distributing, processing and recycling cash annually is estimated at approximately Sh11 trillion (or $70 billion) in the EU, which is equivalent to Sh96,000 (or $61) for each taxpayer, according to the European Council of Payments. This should not come as a surprise given the unique costs to the nature of paper currency such as storage, transportation and security, and which would be reduced significantly in the presence of electronic payments.

While a similar study has not been performed for Tanzania, the equivalent costs would be significant, and this should serve as a red flag for the country, given that cash is the predominant mean of transactions in the Tanzanian market.

According to data from the Bank of Tanzania, only 1.5 million transactions were performed using electronic cards at a point of sale in 2011, while there were 69.5 million ATM cash withdrawals observed during the same year.

What is it, though, that has delayed a more rapid adoption of electronic payments in Tanzania and what policies should be put in place for a fast and smooth transition to electronic payments? This first reason is the lack of advanced technology and widespread affordable internet which has certainly contributed to the delay in the adoption of electronic payments. Yet, experts indicate that the gap of the poor electronic infrastructure in the short term can be bridged by the use of semi-electronic payment means, such as mobile phones, which not only offer an economical solution but also guarantee financial inclusion, given the ease of penetration and use.

The second reason is related to habits and historic traditions which have conditioned societies for generations to use currency in the form we know it. It takes time to change patterns and habits for consumers, especially in countries where there are limited informational campaigns such as Tanzania. This should not be of concern, though. Even in countries such as the US, it has been only in the past 15 years that electronic payments have taken off.

Given that, more informational campaigns need to be undertaken from civil society organisations in order to emphasize the savings that can be achieved from electronic payments among consumers in Tanzania.

A third reason has to do with the hesitance of merchants and retailers to accept electronic payments given that they bear large costs in the process. Specifically, merchants have to pay fees that reach up to 3 per cent or more of the value of each payment accepted through electronic cards.

Banks and card companies need to reduce interchange fees or impose a cap.

The government could also assist in the process by offering a tax rebate to merchants if, for example, at least 50 per cent of the payments are made through electronic means in their stores.

Finally, the government will have a protagonist role in Tanzania during the transition to electronic payments because it can affect the behavior of the other actors.

As a first step, the government needs to mandate electronic payments among its agencies. This step should also be accompanied by an effort to have all government employees accept salaries through direct deposit to their bank accounts, rather than through checks or currency.

As a second step, the government should work more closely with safety net beneficiaries so that they open bank accounts or use mobile banking in order for the government to avoid cash disbursements.

Furthermore, the transition to electronic payments could also reduce significantly leakages, corruption costs, tax evasion and other illegal activity costs associated with cash at the government level.

All in all, the simultaneous action and coordination of the different actors such as government, retailers and banks/card companies is required for a rapid and smooth transition process to electronic payments which will ultimately benefit the entire Tanzanian society.

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