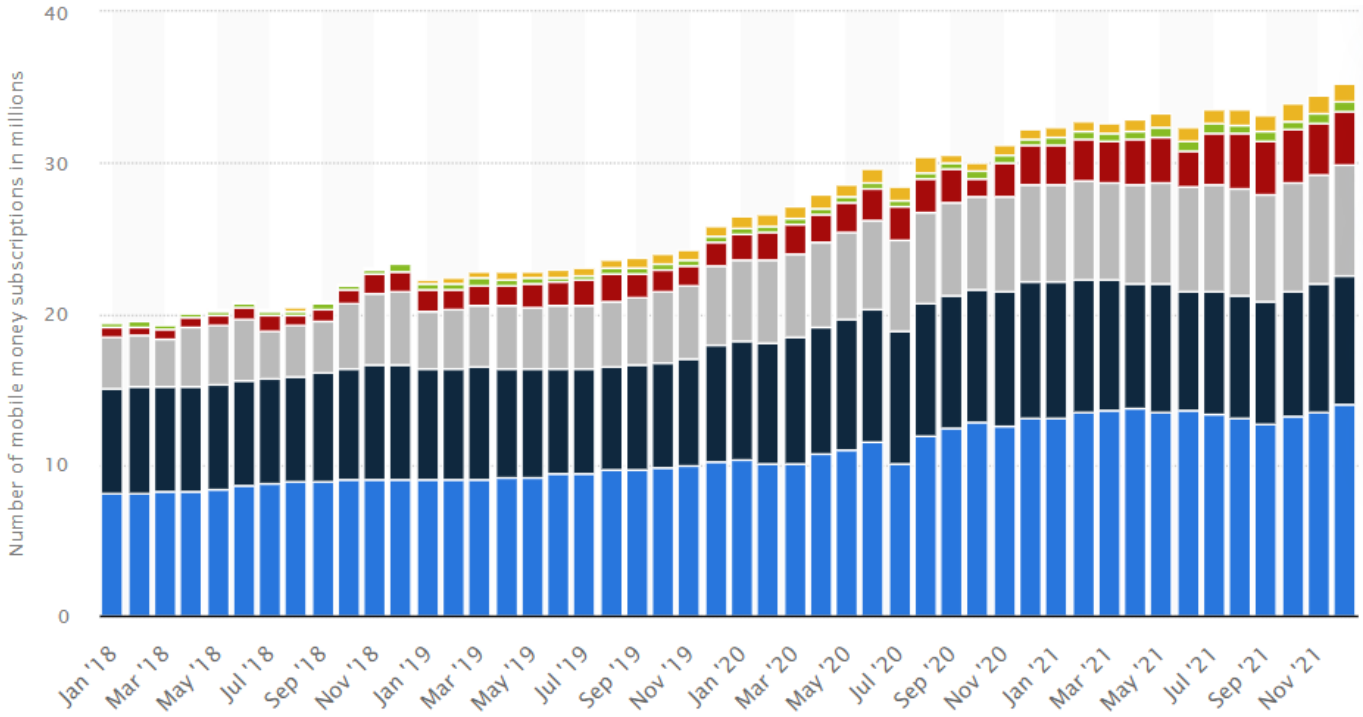
TECHNOLOGY AND FINANCIAL INCLUSION: ARE WE "WALKING THE TALK?"

Introduction

Financial inclusion is a necessity when it comes to a country's economic growth and improved social welfare. This is from the fact that it drives the economy, that is, until everybody –rich or poor, men or women and the all the other vulnerable groups can access these services, economic growth will not gain the expected pace. The financial inclusion definition by the World Bank is in such a way that all individuals and businesses have access to useful and affordable financial products and services that meet their needs in terms of transactions, payments, savings, credit and insurance and that are delivered in a responsible and sustainable way (WB, 2018).

In the today's world where digitalization is at the core of development, financial inclusion without a well-functioning telecommunication sector can be hard to achieve. Data and literature everywhere have shown how technology especially the telecom sector through mobile money services have immensely contributed to financial access to those that were previously excluded.

Number of mobile money subscriptions Jan 2018 – Dec 2021



Source: Statista

In Tanzania for instance, Current data indicates that mobile money accounts have reached 30.7 million in 2020, compared to 8.9 million in 2013, and 70.1% increase of person - to - person transactions from 7.7 million in 2013 to TZS 13.1 trillion in 2019 (BOT 2020). This development in the mobile phone sector has created inclusivity that tremendously reduces the financial access gap and take on board a broad spectrum of its users especially in rural areas where access was quite poor.

Government's ambition for Financial Inclusion

In understanding the importance of technology, the Third Five-Year Development Plan (**FYDP III 2021/22-2025/26**) puts technology at the fore front of its agenda[1]. The plan recognizes the importance of ICT applications for citizens in benefiting from digital revolution including digital based services in finance, education, public administration, and market information.

The Third FYDP is not the only Government plan that calls for financial inclusion. Other plans include the National Information and Communication Technology Policy (NICTP) of 2016 which among other things, it focuses on access and availability of affordable broadband services[2]; the National Microfinance Policy of 2017 which puts emphasis on distribution channels for digital microfinance services among others[3]; the National Financial Inclusion Framework, 2018-2022 which aims at increasing usage of financial services through application of technological solutions[4]; and also the Financial Sector Development Master Plan 2020/21-2029/30.

1 *https://mof.go.tz/docs/news/FYDP%20III%20English.pdf*
2 *https://www.ega.go.tz/uploads/publications/sw-1574848612-SERA%202016.pdf*
3 *https://mof.go.tz/docs/Policy%20-%20Fedha%20English%203%20(2).pdf*
4 *https://www.afi-global.org/wp-content/uploads/publications/2017-12/NFIF%202018-2022.pdf*

In its efforts to digitalise, the Government also established e-Government Authority (e-GA) under the e-Government Act, No. 10 of 2019.

The institution has been mandated to coordinate, oversee and promote e-Government initiatives including e - payments.

All these policies and plans manifest Government's commitment towards realisation of its agenda for inclusivity on finance. And as seen above, financial inclusion has proved to do well with the engagement of the telecom sector through digital technology and mobile money as compared to the conventional banking.

Bearing in mind that policies and plans alone cannot guarantee realisation of intended objectives, it is expected that the Government will provide conducive environment as well as required resources to enable effective implementation of the existing policies. In this case, financial inclusion can only be successful when there is conducive environment for the telecom sector and ICT to thrive.

Is the 2022 Finance Act in Favour of Financial Inclusion?

To understand the level of the commitment by the Government in ensuring financial inclusion, it is imperative that a brief assessment of the Finance Act 2022 is done. This brief assessment looks at the Finance Act to gauge whether its provisions work for or against progress of the efforts already registered in enhancing financial inclusion in the country.

The 2022 Finance Act and digital services

Looking at the 2022/23 budget a number of aspects that touch digital services are seen. These include the introduction of 2% Digital Services Tax, taxing of digital platforms and simplification of registration process to accommodate non-residents digital economy operators among others. In terms of digitals services for financial inclusion, this brief takes a special interest to two issues as follows:

i. Reduced Levy on mobile money transactions

On a positive move, there has been a reduction of the levy on mobile money transaction by 43%, from a maximum of 7,000 to 4,000.

This Levy was introduced a year ago in the 2021 Finance Act. After its introduction in 2021, this move paused a greater burden to the mobile money users and hence slowing down the country's efforts towards financial inclusion.

For example, a report by Vodacom Tanzania (One of the mobile money operators in the country) indicated a drop in income by 103.8 billion due to pressure from the service revenue on first quarter of year 2022. The telecom company saw a 1.3 million drop in the users of the M- Pesa services. Based on past experience, number of service users has gone down due to introduction of the levy and thus discouraging financial inclusion.

But again, this reduction in the levy might just end up being a zero-sum game to the end users of the financial services and hence improving nothing in terms of financial inclusion. This is due to the fact that, the reduction in the levy came at an expense of other digital financial services. As the levy on mobile money transaction is reduced, there has been an introduction of levy on the other digital transactions through banks. This is a good move in harmonising taxes and provision for equal competitions to all digital financial services, but it does very little for financial inclusion since it fails to rescue the final consumers of these services. Therefore, public outcry in reaction to these levies imposed on transactions cannot be ignored.

ii. Removal of VAT exemptions to Data devices

The 2021 Finance Act waived the Value Added Tax (VAT) on smartphones, tablets and modems as part of a plan to raise broadband penetration to 80 percent from 38 percent by 2025.

This move aimed at making lowering the prices for these devices so that they are affordable to the population. In his speech, the minister in charge emphasized how telecommunications sector has become an important link in expanding the scope of citizens in the digital world and in the financial sector.

In the 2022/23 budget, the exemption has been removed on the ground that it did not yield the intended results last year. That despite the exemption, prices on the devices were still high and thus benefiting only business owners and not the public. Regardless this claim, there is no evidence or data made public that support this claim. In addition, granting of exemptions alone is not enough. Proper monitoring of the same is equally important. Support from other stakeholders could as well be sought in monitoring granted exemptions.

Conclusion and Recommendations.

Mobile money heavy taxation not only reduces financial inclusion but also has negative effects on the socio-economic welfare as a whole. In another angle, it will affect the recently established government e - services. Furthermore, the government objective of collecting this tax to finance other public services is not sustainable since it tends to stagnate the growth of the telecom sector and in the long run the sector will not have enough revenue to meet the tax collection that the government aspires. Notwithstanding, the Government still needs to collect tax to finance its budget, with that in mind 3 recommendations are proposed here:

i. To keep collecting this levy from all digital transactions services, the Government needs to further reduce the maximum amount levied so that it doesn't discourage the usage of these services. That way, the telecom sector will keep growing along with the increased tax revenue. This will not only ensure financial inclusion but also provide a sustainable revenue for the government through its collection.

ii. The Government should ensure proper mechanisms of monitoring all the exemptions that are granted so that the intended objectives are realised. It should always be in the interest of the Government to ensure that end users of the policies benefit.