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Most Tanzanian Merchants Believe That Digital Retail Payments Will Benefit Their Business. Why Are They Still Using Cash?

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In 2021, the [World Bank Findex survey](#) found a large gap between the use of digital retail payments in high-income countries and low- and middle-income countries (LMICs). This gap cannot be completely explained by differences in access to digital financial tools across countries. For example, [Tanzania \(like other East African economies\)](#) outpaces many high-income countries in terms of its citizens' use of mobile money to send and receive domestic remittances. But when it comes to retail payments, most Tanzanians keep their phones in their pockets and pull-out cash instead—only 5% of Tanzanians have ever used digital retail payments compared to 72% for the average high-income country in the World Bank's Global Findex Survey.

What accounts for the ubiquity of mobile money in Tanzania, yet the adherence to cash for retail? What may drive the broader uptake of digital retail payments? As part of our pilot work to inform a large-scale study planned for 2023, we worked with the IPA Tanzania country office to hear from merchants in Dar es Salaam and gain their perspectives.



A photo of a mobile money agent in Mwanza, Tanzania (IPA Tanzania/Kyu Khin Gar)

Merchants are open to using digital payments and see significant potential benefits

Most merchants we engaged with during the pilot study are open to trying digital retail

payments,¹ and over 60% believe that the technology could bring “significant value to their business.”² Merchants see safety as the most important aspect of a payment system and believe digital payments are a secure alternative to cash.³ A substantial portion (23%) had been robbed in the past year and most (77%) reported that using digital retail payments would have prevented this theft.

As e-commerce becomes more prominent, merchants also value digital tools for enabling remote collection of payments. Already, over a third of merchants we talked to are selling through an online medium, with these sales making up about 30% of revenue. Even merchants not selling online see revenue opportunities in remote collection via digital payments. Other potential benefits of digital payments cited by merchants include increased privacy and improved record-keeping.

Yet these merchants mostly make transactions in cash because that is what their customers and suppliers use

Among those we surveyed, over 85% of their customer-to-merchant transactions are conducted via cash. According to many merchants, one of the main reasons for the dominance of cash is their customers’ continued preference for using cash. Even if merchants were able to convince customers to shed their cash dependence, some merchants feel they would need to persuade their suppliers as well to adopt digital payments.⁴ Cash is even more dominant in merchant-supplier transactions (95% of transactions are conducted via cash).

Harnessing externalities to promote digital payments

These learnings highlight the importance of cross-side externalities. Cross-side externalities arise because consumers/suppliers value digital payment methods only to the extent that merchants accept them, and merchants adopt these methods only when enough consumers/suppliers want to use them. This coordination problem creates a low-adoption trap where market participants continue to use cash even if many would prefer to transition to digital payments.

In this context, the most effective interventions will facilitate information-sharing and coordination among merchants, consumers, and suppliers—rather than treating each in isolation. A useful analog is [the success of the technology-based dating app Tinder](#) which jointly marketed its app to physically-proximate women and men to leverage the potency of local network effects, increase the value of their product to both sides and facilitate matchmaking. Similarly, policymakers can facilitate matchmaking among merchants, consumers, and suppliers through interventions that coordinate the adoption of digital retail payments by market participants.

Interoperability’s role in reducing coordination costs and leveling the

playing field

Even if a merchant and consumer are both inclined to transact digitally, they may still be thwarted if they use different financial service providers (FSPs). They may need to pay additional fees to transact across FSPs and thus could end up defaulting to cash. This is an especially critical problem in Tanzania because of the competitive mobile money marketplace. Frequently, adjacent regions will favor different mobile money platforms. Without interoperability, transactions between these regions face an implicit tax, diluting the benefits of cross-regional trade.

Even in large markets where one platform is dominant (such as Dar es Salaam), lack of interoperability may still be indirectly harming users by forestalling the entry of better-quality products. A significant number of merchants report choosing their FSP because “most customers use them,” implying that large established firms have an inherent advantage over small upstarts. By enabling small firms to compete on equal footing with corporate behemoths, interoperability would encourage firms to improve their product to win market share rather than focusing on locking-in users. Within the next year, the government will launch an interoperable payment platform called [Tanzania Instant Payment System \(TIPS\)](#) that will facilitate open, instant, and low-cost digital merchant payments, allowing our research team to measure the system-level effects of interoperability.

The transition from cash-based to digital economies is not inexorable but a dynamic process that depends on policy design and the strategic interactions of merchants, consumers, and suppliers

Overall, learnings from our initial pilot work suggest that Tanzania and other LMICs could benefit significantly from implementing digital merchant payments. However, we should not expect LMICs to transition to digital merchant payments automatically. Even if individuals see the potential benefits of digitization, whether or not they seize these opportunities depends not just on each consumer or merchant’s payment preferences but on the decisions of their peers as well.

To this end, our research team will be rolling out a full study in 2023 in which we will work with key stakeholders in Tanzania to identify effective strategies to coordinate the adoption of digital payments among merchants, consumers, and suppliers in local markets, and measure the amplifying effects of interoperable instant payment systems.

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1. 90% of respondents agree with the statement “I will be open to trying digital payment solution if there is no upfront installation/set up cost.”
 2. Merchants were asked to answer to what extent they agree/disagree with the following statement “I think that using electronic payment methods brings

significant value to my business (assuming customers are willing to pay using digital).”

3. Over three-quarters of our respondents rated mobile money as superior to cash in terms of security. Over three-quarters of our respondents rated mobile money as superior to cash in terms of security.

4. 68% agree with the statement “I need my suppliers to accept my payments digitally to be able to accept digital payments from my customers.”
