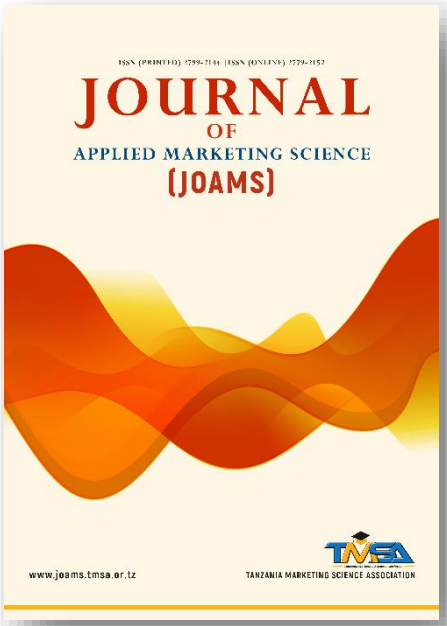


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ADDRESSING KYC CHALLENGES IN ADVANCING M-PESA: A VODACOM TANZANIA BUSINESS CASE

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ADDRESSING KYC CHALLENGES IN ADVANCING M-PESA: A VODACOM TANZANIA BUSINESS CASE

- **Magreth Allen Mushi**

ABSTRACT

This business case explores Vodacom Tanzania's struggle to expand its M-Pesa mobile money network due to stringent Know Your Customer (KYC) requirements. CEO Philip Besiimire identifies the main challenge as "on boarding friction," where bureaucratic and rigid KYC procedures hinder the registration of new agents and merchants, particularly in rural and informal sectors lacking National IDs, Tax Identification Numbers, and business licenses. These barriers result in high abandonment rates, slow network growth, and constrained revenue potential. The traditional paper-based KYC process is highlighted as costly and time-consuming, creating a significant entry hurdle for informal businesses. The study applies Transaction Cost Economics and Information Asymmetry Theory to explain the operational and regulatory impacts of KYC practices. Proposed solutions include a tiered, risk-based KYC system in collaboration with regulators, the adoption of a digital e-KYC platform for real-time verification, enhanced training for agents and merchants, and advocacy for more flexible regulatory approaches. The business case concludes that technology-driven and well-structured compliance can serve as both a growth enabler and a tool for financial inclusion. By implementing these measures, Vodacom can streamline on boarding, expand the M-Pesa network, and support the formalization of Tanzania's informal economy.

Key Words: KYC,M-Pesa, Vodacom Tanzania, Financial Inclusion, Mobile Money, Risk-Based Approach.

1. INTRODUCTION

Vodacom Tanzania, a leading telecommunications and financial technology company, has been at the forefront of the country's mobile money revolution through its flagship platform, M-Pesa. Since its launch in 2008, M-Pesa has expanded rapidly, transforming from a simple person-to-person money transfer service into a comprehensive financial ecosystem encompassing merchant payments, microloans, insurance, and digital savings accounts (Macha & Massawe, 2023; TICGL, 2024a). By 2024, M-Pesa had amassed over 12 million active accounts and contributed significantly to Vodacom's revenue, underlining its critical role in both the company's business model and Tanzania's financial inclusion agenda (IPP Media, 2025). Despite this impressive growth, Vodacom's ambitions to further scale M-Pesa, especially in rural and under banked regions, have been constrained by operational and regulatory challenges, highlighting a central strategic problem for the organization.

The Tanzanian mobile money industry has grown at a remarkable pace, becoming a cornerstone of the country's digital economy. Transactions surged from 3.02 billion in 2019 to 5.27 billion in 2023, reflecting a 19% annual growth rate, with total monthly transactions exceeding 310 million by September 2024 (TICGL, 2024a). This rapid adoption has been driven by the accessibility, speed, and convenience of mobile money, particularly in areas with limited banking infrastructure. Major players, including Vodacom's M-Pesa, Airtel Money, and Tigo Pesa, have captured significant market share, while lower-tier competitors continue to expand (TICGL, 2024b). Within this competitive landscape, Vodacom's growth is directly tied to the expansion of its merchant and agent network, which serves as the backbone of transaction liquidity and customer access. However, despite growing customer numbers, merchant on boarding lags behind, pointing to systemic inefficiencies that inhibit the company's ability to fully leverage market demand.

At the core of the problem, as highlighted by Vodacom CEO Philip Besiimire, are the stringent Know Your Customer (KYC) regulations imposed by regulatory authorities such as the Bank of Tanzania (BoT), the Tanzania

Communications Regulatory Authority (TCRA), and the National Identification Authority (NIDA). While these regulations aim to safeguard the financial system against fraud, money laundering, and illicit activities, they have inadvertently created "on boarding friction" for prospective merchants, particularly in rural or informal sectors (IPP Media, 2025; JUMO, 2025). The requirement for national IDs, tax identification numbers, formal business licenses, and physical documentation has led to delays, incomplete registrations, and outright withdrawal from the on boarding process. Consequently, Vodacom faces a critical operational and strategic dilemma: how to expand M-Pesa's merchant base and maintain transaction growth while complying with rigorous regulatory mandates.

This business case sets the stage to examine the operational and strategic implications of KYC challenges within Vodacom Tanzania's M-Pesa ecosystem. It focuses on the CEO's first-hand observations regarding merchant verification bottlenecks and links them with quantitative evidence such as agent registration drop-off rates and time-to-verify metrics. By combining organizational insights, industry trends, and regulatory context, the case highlights the need for innovative, technology-driven solutions including digital KYC, tiered verification models, and leveraging upcoming national digital IDs to reduce friction while maintaining compliance. Ultimately, this case frames the central decision challenge for Vodacom: achieving scalable, inclusive growth of M-Pesa in a regulated environment that simultaneously demands operational efficiency and financial integrity.

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Transaction Cost Economics (TCE) theory

The Transaction Cost Economics (TCE) theory, initially introduced by Coase (1937) and further advanced by Williamson (1985), offers a valuable lens for analysing how the expenses tied to economic exchanges shape both market conduct and organizational decision-making. The core idea of TCE is that transactions incur not only the direct cost of goods or services but also additional costs linked to negotiating, monitoring, and enforcing agreements

(Williamson, 1985). When applied to Vodacom Tanzania's M-Pesa operations, TCE provides insight into how strict KYC procedures heighten both operational and participant-related transaction costs. On one hand, Vodacom bears direct costs through administrative tasks such as document verification, tax registration validation, and compliance with Anti-Money Laundering (AML) regulations. On the other hand, indirect costs fall on potential agents and merchants — particularly those in rural areas — who must allocate time, travel expenses, and resources to acquire national identification, tax numbers, and business permits. Collectively, these costs generate friction that discourages participation, thus reducing the overall efficiency and scalability of M-Pesa's mobile money ecosystem (ITU, 2015).

From the TCE viewpoint, the on boarding challenges identified by Mr. Philip Besiimire represent a classic illustration of exchange-related cost inefficiencies. Excessive verification requirements diminish the perceived value of joining the M-Pesa network, particularly for informal traders and small-scale entrepreneurs who find the cost of compliance disproportionately high compared to the potential financial benefits. In effect, stringent KYC rules elevate the "cost of transacting" within the M-Pesa framework, thereby limiting network growth and transaction activity. According to TCE, firms facing such high transaction costs often adapt by redesigning their governance mechanisms — for example, introducing simplified on boarding procedures, adopting digital verification systems, or implementing tiered compliance models — to balance regulatory obligations with efficiency. Hence, applying TCE in this context helps Vodacom understand that the inefficiencies within its KYC process are not merely administrative hurdles but strategic barriers that influence both performance and sustainable expansion.

2.1.2 Information Asymmetry Theory

The Information Asymmetry Theory, first introduced by Akerlof (1970) in his classic study *"The Market for Lemons,"* explains situations in which one party in a transaction has superior or more accurate information than the other, leading to challenges such as adverse selection and moral hazard. Within financial services, this imbalance often occurs because providers — such as Vodacom — have limited knowledge

about the credibility, financial behavior, or legitimacy of potential merchants at the start of their engagement. To bridge this knowledge gap, KYC procedures are implemented as a regulatory safeguard that compels merchants and agents to present verifiable personal and business details, thereby minimizing risks and ensuring that only trustworthy and compliant participants are included in the system (Gelb, 2016; Lureman-Norton, 2025). In the absence of such procedures, Vodacom would face heightened exposure to operational and reputational risks such as fraud, money laundering, or regulatory breaches, all of which could damage both its brand and the overall trust in Tanzania's mobile money sector.

Nonetheless, Vodacom Tanzania's experience exposes a practical contradiction within the Information Asymmetry framework. Although KYC mechanisms are designed to enhance transparency and reduce uncertainty, their excessive rigidity often acts as a constraint for legitimate participants — particularly in informal or rural markets where access to official identification documents is limited. As a result, attempts to resolve information gaps unintentionally exclude many low-risk individuals from the financial system. According to Mr. Philip Besiimire, this regulatory rigidity has slowed merchant on boarding, weakened network expansion, and hindered M-Pesa's overall growth potential. From a theoretical perspective, this situation underscores the trade-off between reducing information asymmetry and promoting inclusivity and efficiency, highlighting the delicate balance that must be maintained when applying Information Asymmetry Theory to practical financial ecosystems such as mobile money operations in Tanzania.

2.2 Empirical review

Empirical evidence from global and regional studies reveals that stringent KYC procedures remain a major impediment to financial inclusion and digital finance expansion in developing economies. According to Lureman-Norton (2025) and Gelb (2016), traditional KYC frameworks, originally designed for mature banking systems, often fail to accommodate the realities of low-income and informally employed populations in sub-Saharan Africa. These frameworks demand formal identification, proof of residence, and business registration documents, which

many individuals and small traders in rural and peri-urban Tanzania do not possess. Consequently, such procedural rigidity systematically excludes marginalized groups from participating in formal financial systems. In East Africa, Mbiti and Weil (2011) and Morawczynski and Pickens (2009) empirically demonstrated that stringent KYC protocols "slow on boarding" and "hinder merchant adoption," reducing the rate of agent registration and limiting mobile money network coverage. Mambo (2019) further asserts that extensive paperwork and verification delays increase "on boarding friction," discouraging potential agents and merchants from completing registration. This exclusion not only constrains the operational reach of Mobile Network Operators (MNOs) like Vodacom but also restricts liquidity flows critical for maintaining efficient mobile money ecosystems (ITU, 2015).

Empirical research also highlights the correlation between KYC burdens and low agent network density, which directly affects transaction volume and service accessibility. Gelb (2016) emphasizes that the lack of flexible KYC mechanisms in developing nations results in a fragmented financial infrastructure that fails to meet inclusion targets. For instance, an agent-based study in Kenya and Tanzania found that over 30% of potential agents dropped out during registration due to documentation hurdles (Morawczynski & Pickens, 2009). These findings resonate with the challenges expressed by Vodacom Tanzania's CEO, Philip Besiimire, who identified KYC inefficiencies as a key barrier to M-Pesa's network expansion. The empirical consensus supports that while KYC procedures enhance financial integrity, their blanket application—without adaptation to risk levels or contextual realities—creates a structural bottleneck for financial innovation (World Bank, n.d.; Lureman-Norton, 2025). This is particularly evident in the mobile money sector, where service providers depend on rapid on boarding to sustain user growth and agent liquidity.

To mitigate these exclusionary effects, empirical studies advocate for risk-based and tiered KYC frameworks as effective alternatives to traditional, one-size-fits-all models. Gelb (2016) and the World Bank (n.d.) explain that a risk-based approach (RBA) allows financial institutions to apply varying levels of

due diligence based on the assessed risk of the customer or transaction type. Low-risk users—such as low-volume rural customers—may undergo simplified verification processes, while high-risk customers face enhanced scrutiny. Neotas (2025) underscores that this differential treatment optimizes compliance without compromising the integrity of the financial system. Similarly, the tiered KYC model enables the creation of account levels with corresponding limits on transaction value and balance, effectively promoting inclusion while managing exposure to illicit activities (World Bank, n.d.). Recent empirical studies also show that electronic KYC (e-KYC) systems, incorporating biometric verification and remote on boarding technologies, have dramatically reduced verification times and improved customer satisfaction (Lureman-Norton, 2025). For instance, Lureman-Norton (2025) reports that digital KYC reduced on boarding time "from days to minutes," leading to measurable increases in account openings and merchant activation rates in comparable markets.

In Tanzania, the regulatory landscape plays a pivotal role in shaping KYC implementation and its effects on financial inclusion. The Bank of Tanzania (BoT) and the Tanzania Communications Regulatory Authority (TCRA) enforce robust Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT) regulations that require agents and merchants to present formal documentation such as national identification (NIDA) cards, Tax Identification Numbers (TINs), and business registrations (Bank of Tanzania, 2025; TICGL, 2024a). Although these measures are vital for maintaining systemic integrity, empirical observations reveal that they also perpetuate exclusion. Exaud (n.d.) notes that approximately 45% of adults in rural Tanzania still lack NIDA cards, preventing them from accessing mobile financial services. This regulatory rigidity has led to a paradox where the very policies designed to secure financial systems have constrained their inclusivity. Nonetheless, regulatory institutions have acknowledged the trade-off: the Bank of Tanzania (2024, p. 48) explicitly states that "simplification of the minimum KYC for on boarding merchants is one of the drivers of high uptake of merchant payments," signaling a gradual shift toward balancing compliance and access.

Finally, emerging empirical evidence emphasizes the transformative potential of digital identity systems in resolving KYC-related barriers in Tanzania's mobile money ecosystem. The government's efforts to roll out a universal digital ID system are viewed as a long-term enabler of seamless financial on boarding (KPMG, 2024; GSMA Intelligence, 2025). Once fully implemented, this system is expected to integrate biometric data, national registries, and mobile platforms, thereby reducing manual verification and improving interoperability between institutions. However, scholars such as Gelb (2016) and Lureman-Norton (2025) caution that the benefits of digital KYC depend on inclusive design, data protection frameworks, and rural accessibility. Until full implementation, the current dependency on paper-based verification continues to slow M-Pesa's merchant registration process and limit Vodacom's capacity to reach under banked segments. The empirical literature, therefore, underscores that while Tanzania's regulatory framework prioritizes financial integrity, a calibrated approach embracing risk-based, digital, and inclusive verification systems is essential to achieving both financial security and sustainable inclusion in the evolving mobile money landscape.

3. METHODOLOGY

The business case methodology employed in this study was grounded in a mixed-methods and explanatory case study design, aimed at uncovering the root causes of the operational and regulatory challenges that hinder Vodacom Tanzania's M-Pesa expansion. The explanatory design was particularly appropriate for this case because it sought not only to describe the challenges but also to interpret the causal relationships between Know Your Customer (KYC) compliance requirements, on boarding inefficiencies, and the overall performance of the mobile money network. By integrating both qualitative and quantitative approaches, the study provided a balanced and evidence-driven perspective on the problem. The qualitative component was drawn from in-depth engagement with the key protagonist Vodacom Tanzania's CEO, Mr. Philip Besiimire whose first-hand experiences and reflections served as a primary source of insight into the operational pain points within the KYC

process. Meanwhile, the quantitative component relied on internal Vodacom data and regulatory documentation, which validated and supported the CEO's qualitative observations. This methodological combination allowed for a nuanced understanding of the friction points, offering both managerial and empirical depth to the analysis.

Data collection and analysis were executed systematically to ensure reliability and validity of findings. Primary data were gathered from interviews with Mr. Besiimire, whose testimony illuminated the practical difficulties faced by Vodacom in scaling its merchant and agent network, especially in rural and informal markets. His qualitative account provided the contextual basis for identifying operational inefficiencies and the strategic implications of regulatory rigidity. Secondary data were drawn from Vodacom's internal operational records (2010–2024) including merchant registration rates, time-to-verify metrics, and drop-off statistics as well as from regulatory frameworks issued by the Bank of Tanzania (BoT) and the Tanzania Communications Regulatory Authority (TCRA). The integration of these datasets enabled a dual-layered analysis, where themes identified from the CEO's narrative were directly mapped against quantitative performance indicators. This triangulation revealed a consistent causal link between complex KYC procedures and network stagnation. Ultimately, the methodology provided a comprehensive and evidence-based foundation for diagnosing Vodacom's KYC bottlenecks and framing strategic recommendations for improving efficiency, compliance, and sustainable growth of the M-Pesa ecosystem.

4. FINDINGS AND DISCUSSIONS

4.1 Stringent KYC Regulations as a Barrier to Merchant Onboarding

The business case revealed that stringent Know KYC requirements imposed by Tanzanian regulatory bodies, such as the BoT, the TCRA), and the NIDA, have become a central bottleneck to M-Pesa's merchant on boarding process. Vodacom's CEO, Philip Besiimire, noted that while the intent behind these regulations was to ensure financial integrity and compliance with Anti-Money Laundering (AML) frameworks, their rigid implementation has created

excessive "on boarding friction." Prospective merchants, especially those in rural and informal markets, face significant obstacles in meeting documentation and verification demands, including the need for national identification, tax registration, and business licenses. Many small-scale traders simply lack these documents or encounter bureaucratic delays in obtaining them, leading to incomplete registrations or withdrawal from the on boarding process. Consequently, this regulatory rigidity not only delays expansion but directly undermines Vodacom's goal of extending financial inclusion to underserved populations.

The implication of this finding is that Vodacom's strategic growth ambitions are constrained by a misalignment between regulatory design and ground realities. Overly strict KYC enforcement, while safeguarding against financial crime, inadvertently excludes a vast portion of the population that mobile money was originally meant to empower. The company's inability to on-board a large base of merchants and agents diminishes the depth and liquidity of its M-Pesa network, resulting in slower transaction growth and reduced competitiveness in the expanding fintech landscape. For policymakers, this finding underscores the need for more contextualized, risk-based KYC approaches that maintain compliance without deterring participation. For Vodacom, it suggests the necessity of developing adaptive KYC solutions—such as digital on boarding tools and tiered verification models—that can satisfy regulatory scrutiny while simplifying the user experience for low-literacy or informal-sector merchants.

4.2 Operational Bottlenecks and Paper-Based KYC Processes

The study also highlights that Vodacom's paper-based KYC system and manual verification procedures have significantly amplified the on boarding delays and merchant drop-off rates. According to Besiimire, the physical submission and processing of forms often take several days or weeks, and errors on these forms require resubmission, compounding the frustration of applicants. These cumbersome manual systems not only increase administrative costs for Vodacom but also erode trust among potential merchants who perceive the process as bureaucratic and inaccessible. Moreover, the absence of integrated

digital verification mechanisms—such as biometric capture or instant ID validation—has left Vodacom dependent on slow inter-agency coordination with government institutions like NIDA and the Tanzania Revenue Authority (TRA). As a result, the on boarding experience remains highly inefficient, particularly in rural regions where connectivity and infrastructure are limited.

The implication of this finding is that Vodacom's reliance on outdated, paper-based systems undermines its digital transformation agenda and weakens its operational efficiency. These inefficiencies not only slow down merchant acquisition but also inflate operational costs and reduce the scalability of M-Pesa's ecosystem. To mitigate these challenges, Vodacom must accelerate the digitization of its KYC operations by integrating automated data collection, mobile-based application systems, and real-time verification with national databases. In addition, embracing digital KYC (e-KYC) solutions, as permitted by international best practices, could drastically reduce on boarding times and enhance accuracy. The shift toward digital on boarding is not merely a technical upgrade but a strategic enabler for Vodacom's growth—allowing it to expand its merchant base more inclusively while maintaining robust compliance and minimizing administrative overhead.

4.3 Limited Formalization Among Rural and Informal Merchants

The study also underlines the low level of formalization among rural and small-scale merchants poses a structural challenge to M-Pesa's expansion. Many potential agents lack the foundational documents required for registration such as National IDs, Tax Identification Numbers (TINs), or business licenses due to socioeconomic constraints and limited institutional access. This finding aligns with Besiimire's observation that most unbanked and under banked populations operate in the informal economy, where administrative processes like business registration or licensing are often viewed as costly, unnecessary, or inaccessible. The result is that a large proportion of potential M-Pesa partners remain excluded from the network, even though they represent the very demographic that mobile money

seeks to empower. These systemic documentation barriers limit M-Pesa's reach in rural areas and restrict the inclusivity of Tanzania's broader digital finance ecosystem.

The implication of this finding is twofold. First, Vodacom must recognize the structural disconnect between regulatory formalization requirements and Tanzania's informal economy. Imposing formal business compliance conditions on merchants who lack the resources to fulfil them creates an exclusivity trap that undermines the financial inclusion mission. Second, this finding highlights the strategic importance of Vodacom collaborating with government institutions and development partners to simplify merchant on boarding for low-tier traders. This could include adopting graduated verification models—allowing small-scale merchants to operate under provisional or low-tier KYC until full compliance is achieved—as well as advocacy for simplified tax and registration processes. In the long term, such adaptive regulatory partnerships could reduce exclusion, stimulate rural entrepreneurship, and position Vodacom as a leading enabler of inclusive digital finance in Tanzania.

5. PROPOSED SOLUTIONS AND RECOMMENDATIONS

The proposed solutions for addressing Vodacom Tanzania's merchant and agent KYC challenges represent a comprehensive, technology-driven, and inclusive approach aimed at balancing compliance with growth. The first core solution is the implementation of a tiered, risk-based KYC framework, developed in collaboration with key regulatory bodies such as the Bank of Tanzania (BoT) and the Tanzania Communications Regulatory Authority (TCRA). This model recognizes that not all merchants or agents carry the same risk, and therefore, KYC requirements should be proportional to the level of risk involved. Under this approach, low-risk participants such as small-scale rural merchants would undergo simplified due diligence using only essential identification through the National Identification Authority (NIDA) database and limited biometric verification. As their transaction volumes or risk levels increase, additional documentation and verification layers would be automatically triggered through electronic means. High-volume merchants would undergo full, enhanced

due diligence using more advanced verification measures such as video-based identification. This dynamic, tiered approach would remove unnecessary on boarding barriers, speed up merchant registration, and significantly reduce costs, while ensuring that Vodacom remains aligned with anti-money laundering (AML) and counter-terrorism financing (CTF) standards. By doing so, Vodacom could expand its agent network more rapidly, reaching informal and rural economies that have historically been left out of the formal digital financial ecosystem.

Complementing the tiered KYC system, the introduction of digital KYC (e-KYC) on boarding and verification, along with enhanced training and regulatory collaboration, forms the technological and institutional backbone of the proposed reforms. Through the adoption of e-KYC, Vodacom would digitize the entire on boarding process—allowing agents and merchants to use a dedicated mobile application to capture ID details, biometric data, and facial recognition in real time, all verified instantly against NIDA's central database. This system would replace the traditional paper-based process, eliminate manual errors, and enable new agents to begin transacting within minutes, solving the persistent delays identified in the current on boarding model. To sustain this digital shift, Vodacom would deploy scalable training programs embedded within the agent application, offering interactive modules on KYC compliance, financial literacy, and anti-fraud practices, reinforced through incentive-based learning and real-time support. Finally, Vodacom's proactive engagement with regulators—demonstrating the success of similar frameworks in other countries—would ensure that the reforms are aligned with national compliance priorities and foster a collaborative environment conducive to innovation. Together, these solutions would not only modernize Vodacom's KYC infrastructure but also advance Tanzania's broader financial inclusion agenda by making digital finance accessible, secure, and sustainable for all segments of society.

6. CONCLUSION

In conclusion, the proposed solutions present a strategic, balanced, and forward-looking response to Vodacom Tanzania's KYC dilemma, addressing both operational inefficiencies and regulatory compliance pressures that

have constrained M-Pesa's growth. By adopting a tiered, risk-based KYC framework, Vodacom acknowledges the diversity of its merchant base and aligns verification requirements with actual risk exposure simplifying entry for low-risk, rural, and informal businesses while maintaining robust scrutiny for higher-risk segments. This approach not only minimizes on boarding friction but also reduces transaction costs and enhances scalability, ensuring that compliance no longer comes at the expense of inclusion. The integration of digital KYC (e-KYC) solutions further transforms the on boarding landscape, replacing time-consuming manual procedures with instant electronic verification, thereby improving accuracy, speed, and transparency. The addition of continuous training and regulatory engagement ensures that both agents and compliance officers possess the knowledge and capacity to sustain the reforms effectively, while maintaining trust with key authorities such as BoT and TCRA. Overall, these reforms would empower Vodacom to expand its merchant and agent network deeper into underserved markets, fostering inclusive financial growth and reinforcing M-Pesa's strategic role in Tanzania's digital financial ecosystem. In essence, the solutions bridge the gap between compliance and accessibility—transforming regulatory constraints into catalysts for innovation and national financial inclusion.

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