Unpacking the implications of mobile money taxation in Africa

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Executive summary

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Mobile money has been central to Africa's major financial inclusion gains since its inception in the early 2000s, tackling poverty, accelerating economic growth, and improving overall health and wellbeing.

The 2021 Findex report noted that mobile money accounts contributed to an 8% increase in account ownership in developing economies from 2014 to 2021 and that the top barriers to financial inclusion are also the top barriers to possessing a mobile money account. This demonstrates the importance of mobile money in increasing financial access and improving users' lives, hence boosting the digital economy. In addition, during the Covid-19 pandemic, mobile money and other digital financial services were particularly successful in building resilience and supporting safe and efficient payments. This recent success and widespread impact have re-ignited the trend of taxes on mobile money transactions in various countries across the continent. As governments attempt to meet their revenue targets and repair their balance sheets from the economic losses due to the impact of Covid-19, one approach has been to increase mobile money taxes/levies to recover these losses and to improve future government cash flow. Notwithstanding that taxation increases may be inevitable, our paper finds that taxation that is misaligned with best practice, for example, micro-taxation on specific services like mobile money levies, would do more harm than good and should be avoided.

In this paper, we note that mobile money taxation, through the imposition of levies, although well-intended, may have dire consequences on those it stands to benefit the most; the low-income earners who are most sensitive to transaction costs. This paper, therefore, delves into the motivations for these tax provisions, explores and highlights the undesired and unintended consequences of imposing taxation on mobile money transactions, and proposes alternatives that government authorities can explore, as well as broader policy recommendations. We present country-specific impact analyses of these tax provisions on mobile money services, users and transactions, and submit that the adverse impact on the financial inclusion objectives across the continent will be difficult if not impossible to recover.

This paper also presents fundamental taxation best-practice principles to guide the pursuit of alternative tax sources as a substitute for the tax on mobile money that will have the most benign impact on investment, consumers, and the economy at large. Broadening the tax base to capture economically active individuals and entities that are not registered taxpayers and improving collection competence are ways of increasing collections instead of introducing new taxes that increase the burden on those who already pay their fair share and are disproportionately impacted by these taxes. We ultimately find that the detrimental impact of mobile money taxation presents a sound policy ground for the abolition and/or stark reduction of mobile money levies in all applicable markets.

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well-intended consequences

Mobile money accounts contributed to an **8% increase in account ownership** in developing economies from 2014 to 2021

Introduction

Since its inception in the early 2000s and exponential growth over the years, mobile money has been central to the major financial inclusion gains witnessed in multiple African countries and has served as an economic driver.

Before mobile money, most economies relied on cash with limited access to formal financial accounts. From 2017 to 2021, the average rate of account ownership in developing economies increased from 63% to 71% of adults. In sub-Saharan Africa, this expansion largely stems from the adoption of mobile money.[1] Today, mobile money, fuelled by the entry of mobile phones into the African ecosystem, acts as an entry point for the unbanked and has expanded to become the most prominent financial transactions platform for mobile phones and e-money. Mobile money is now prominent in adjacent markets to provide mobile insurance, savings, and credit services, thus improving consumers' wellbeing and living conditions. According to the 2021 GSMA State of the industry report[2], mobile money accounts in 2021 grew to 1.35 billion worldwide, a tenfold increase from 134 million in 2012. Today, the mobile money industry has over 518 million active 90-day accounts, which is a testament to the relevance of mobile money in addressing financial inclusion gaps.

Additionally, with Covid-19, mobile money has proven to be fundamental to crisis response. It has played a key role in keeping people connected, providing safe, no-contact ways to pay for utilities, and delivering financial support. The prevalence and success of mobile money have also created positive externalities for other industries through transacting for water and sanitation products, energy, agriculture and paying for education and school fees. The resilience and disruption brought about by mobile money is unparalleled and is transforming access to financial services worldwide, particularly in sub-Saharan Africa.

The success of mobile money has plausibly attracted the attention of governments and tax authorities who seek to raise taxes and broaden their tax base. This has led to increased taxation on mobile money transactions, indiscriminately applied to low-level retail electronic transactions, directly impacting low-income earners who are sensitive to transaction costs.[3] This disproportionate effect on cost raises concern about possible negative effects, including a reversal of gains made in financial inclusion in developing countries and a quick return to cash transactions as users react to avoid these additional taxes. With 1.4 billion[4] still unbanked and without access to basic financial services, we need to advocate for tax policies and regimes that enable the reach of a broader group of unbanked individuals, including women and persons with disabilities (PWD). It is also important to note that the mobile industry is already one of the highest taxed in sub-Saharan Africa. Thus, those that offer mobile money face three layers of taxation: general taxation such as value added tax, and mobile sector-specific taxation such as excise duties of 17% on airtime usage and mobile money taxation. While this has a material impact on the investment incentives of the provider, it also does little to support the fiscal objectives of governments.[5]

In this paper, we explore the mobile money taxation trend that is spreading across African countries, the rationale behind this, the adverse impact on financial inclusion objectives and consider other, more appropriate alternative policy considerations when developing these mechanisms. The paper delves into the Vodacom market scenarios and assesses how mobile money taxation/levies impact the uptake of services.

The **resilience and disruption** brought about by **mobile money is unparalleled and is transforming** access to financial services worldwide, particularly in sub-Saharan Africa.

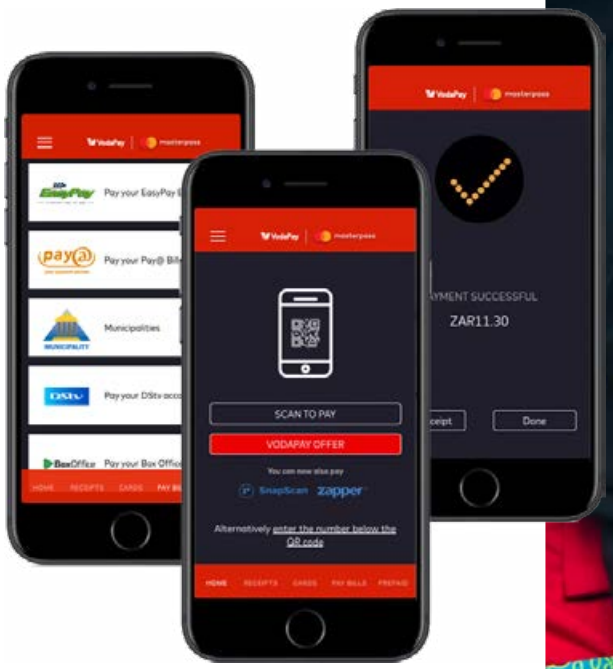
Footnotes

1. World Bank (2021) The Global Findex Database
2. GSMA (2021) State of the Industry Report
3. Africa Growth Initiative Policy Brief at Brookings: Taxing Mobile Phone Transactions in Africa; Lessons from Kenya, Njuguna Ndung'u, August 2019 Available here
4. World Bank (2021) The Global Findex Database
5. GSMA (2017) Rethinking mobile money taxation

The benefits of mobile money

As highlighted above, the introduction of mobile money services has led to an exponential rise in access to financial services among the unbanked across Africa.

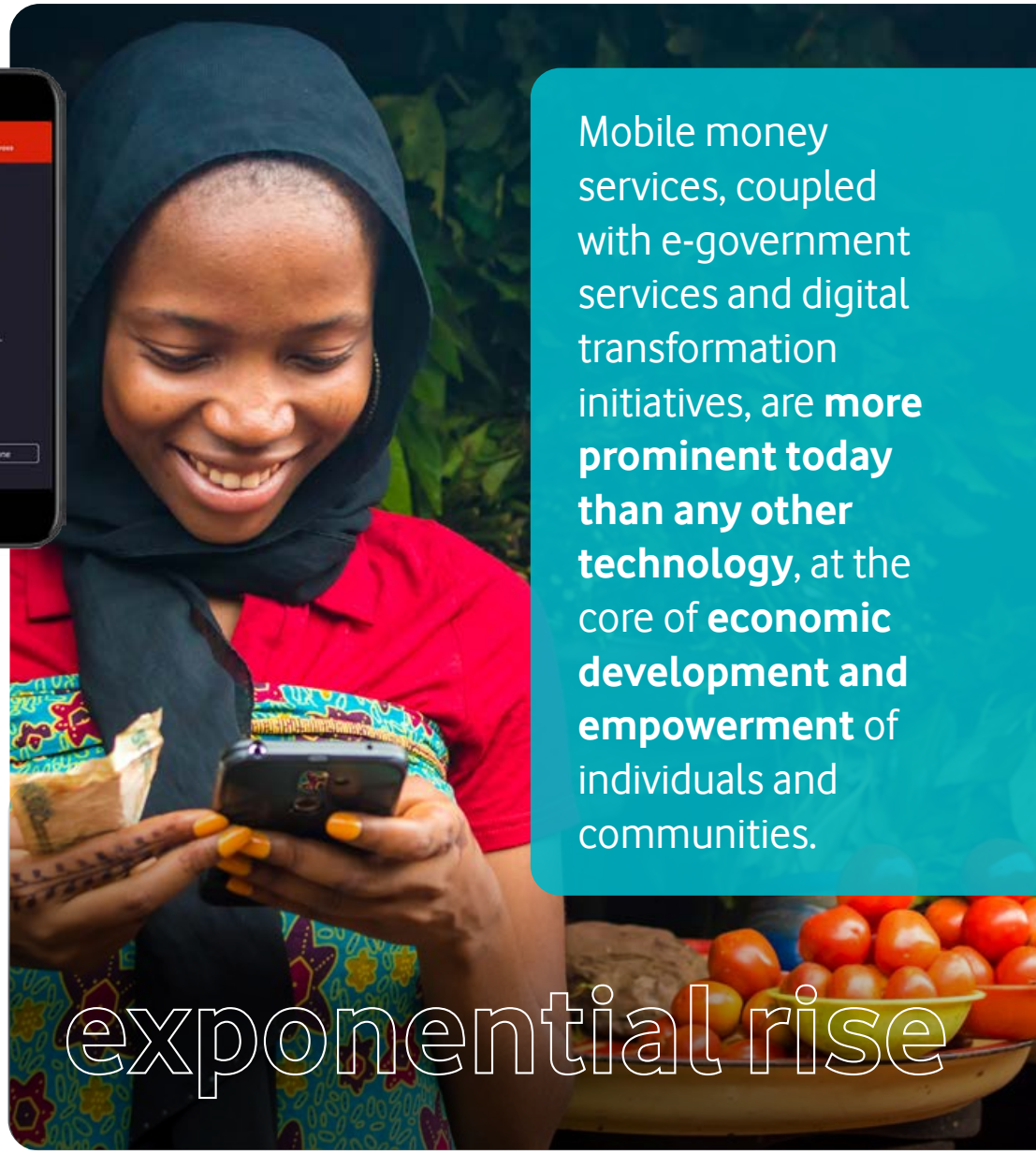
Some of the positive impacts of mobile money services can be found in Figure 1 below[6]. These, in turn, contribute to growth in several other economic sectors including agriculture, healthcare and education which boost development and raise the quality of life for users. Arguably, mobile money services, coupled with e-government services and digital transformation initiatives, are more prominent today than any other technology, at the core of economic development and empowerment of individuals and communities. The low barriers to access enabled through mobile money services means that the marginalised groups and businesses are also reached, thus changing lives collectively. Below, we highlight some of the benefits of mobile money as we set the basis for why narrowly targeted and specific mobile money taxation practices could, in the long term, be detrimental to the economy.



Positive effects of mobile money services:

- Expanding financial inclusion and access to services
- Driving economic growth, contributing to economic development, and boosting productivity
- Promoting transfers, savings, withdrawals, and access to credit
- Enhancing tax collection, thus improving domestic revenue mobilisation by improving tax administration efficiency, reduction in corruption, improved compliance, and thus broadening the tax base
- Promoting formalisation by allowing access to formal financing and services for the informal economy
- Improving the effectiveness of public service delivery
- Poverty reduction
- Reducing the cost of international remittances, and solidifying monetary policy

Source - Industry 4.0 in Financial Services: Mobile Money Taxes, Revenue Mobilisation, Financial Inclusion, and the Realisation of Sustainable Development Goals (SDGs) in Africa



Mobile money services, coupled with e-government services and digital transformation initiatives, are **more prominent today than any other technology**, at the core of **economic development and empowerment** of individuals and communities.

The benefits of mobile money (Continued)

Economic growth and poverty reduction

Mobile money has contributed to economic growth by providing an effective, transparent, and safe alternative to cash during crises while bridging the financial inclusion gap. In many countries, mobile money has been the key driving force behind the financial technology (fintech) revolution, which has increased access to various financial services for several members of society. The overall impact of mobile money has increased productivity and GDP per capita.[7]

Access to financial services for the previously unbanked has also led to several benefits for individuals, households, and communities across Africa. According to Suri and Jack (2016), access to M-Pesa in Kenya increased per capita consumption levels. It lifted 194 000 households, or 2% of Kenyan households, out of poverty.[8] It has allowed users to save, access credit, and empower themselves toward a higher standard of living. Additionally, during Covid-19, mobile money proved to be an essential service as societies increasingly employed a no-touch approach to payments. Recognising this, regulators and mobile money providers supported this by eliminating transaction costs at the pandemic's peak. Regulators also played a key role in promoting the use of digital financial services by introducing a range of regulatory interventions to mitigate the impacts of Covid-19[9]. In several markets, this led to a rise in mobile money usage and is an accurate indicator of the potential and significance of mobile money today.

Mobile money has contributed to **economic growth** by providing an **effective, transparent, and safe** alternative to cash during crises while bridging the financial inclusion gap.

Strengthening the formal economy

A report by the IMF on macro-financial issues in Tanzania found that mobile money had contributed to fostering economic growth by increasing economic activity previously limited by a lack of funding.[10] Countries with a large informal sector are typically characterised by high levels of cash transactions and improper record-keeping, which leads to a higher tax burden on the few within the formal sector. Strengthening the formal economy through mobile money leads to increased job security for those typically paid in cash and improves overall security by reducing the chances of robbery or loss. Additionally, mobile money provides a platform for users to track expenses and budget their earnings, thus alleviating poverty, increasing their financial health and boosting their capabilities as effective contributors to the economy.

Mobile money has also helped increase access to government support in other areas through e-government platforms and optimises tax collection within the sector by including more players from the informal economy. However, beyond taxation, there is a need to encourage mobile money services to improve users' financial capabilities and give them access to a broader range of financial services. We believe that increasing the taxation on mobile money services will limit this ability and perpetuate the increasing problem of visibility and traceability of undisclosed transactions. By promoting and encouraging mobile money services, government authorities are also more likely to see a bolstering of anti-money laundering and countering financing of terrorism (AML/CFT) regimes by policymakers and mobile money providers.

The benefits of mobile money (Continued)

Increasing access to essential utility services

Mobile money has increased efficiency in government payments and improved access to essential utility services while generating more revenue and reducing costs. The abundance of mobile phone users across many developing countries, as well as the prevalence of mobile money agents means that mobile money can consequently help rural and remote populations gain access to government transfer programmes without travelling long distances, waiting in lines or even having a bank account — a critical advantage in a world where 1.4 billion people still don't have access to formal financial institutions. This is attributable to reduced administrative costs and reduced government revenue leakage. Mobile money payments also reduce fraud instances and increase the overall efficiency of payments. Better financial position visibility can also improve citizens' services, allowing them to make quick payments to suppliers and service providers. Overall, these improvements have led to an expanded revenue collection base linked to wider accessibility for the unbanked.[11]

In Kenya, the government made compliance savings of approximately US$290 million through the digitisation of services over four years.[12] In Cambodia, the introduction of mobile money as a mode of payment by the Ministry of Public Works and Transport (MPWT) led to a growth in revenue from 60 billion riel (US$14.8 million) in 2017 to 150 billion riel (US$37 million) in 2019. Other benefits include improved government financial planning as well as increased transparency, accountability and traceability of funds collected.[13] According to a 2020 GSMA report, mobile money payments to government (P2G) are an untapped, global opportunity. They can be applied to a wide range of government services, covering payments such as monthly utility bills, annual education fees or one-off payments for a business registration tax. An array of public entities could benefit from digitalising P2G payments – from local schools and municipalities to regional utility companies and national ministries. The introduction of mobile money taxation and the looming threat of a cash return will curb the ability to actualise this opportunity and take government payments and access to essential services several years back.

Enhancing women's access to financial services

Increasingly, governments and regulatory authorities are recognising that enhancing women's financial inclusion and economic empowerment through encouraging their active participation in entrepreneurial activities drives an increase in the size of the active formal economy. To help achieve this, we are seeing an increase in gender-focused policies and frameworks that help address gender-specific challenges and increase women's access to formal finance.[14]

The rapid growth of mobile money has played an important role in strengthening women's financial inclusion by enabling them to access financial services independently. Recently, the Findex 2021 report found that the gender gap in account ownership across developing economies has fallen to 6% from 9%, where it hovered for many years.[15] This is mainly attributable to mobile money as an essential enabler in driving account ownership usage through mobile payments, savings and borrowing. In certain countries, cultural and societal norms would ordinarily not permit women to have access to financial services without the approval of a male family member's permission. However, mobile money allows women to conduct financial transactions with greater autonomy.

Additionally, since Covid-19, mobile money has provided women with the necessary support to send funds to needy families and pay for essential bills and services. Mobile money has therefore been critical in helping to bridge the gender gap in the lack of financial inclusion. It addresses several barriers that tend to be felt more strongly by women in specific contexts such as access, affordability, education and security.[16]

The rapid growth of mobile money has played an important role in **strengthening women's financial inclusion** by enabling them to access financial services independently.

Footnotes

6 Mpofu, Favourate Y. 2022. "Industry 4.0 in Financial Services: Mobile Money Taxes, Revenue Mobilisation, Financial Inclusion, and the Realisation of Sustainable Development Goals (SDGs) in Africa" Sustainability 14, no. 14: 8667. https://doi.org/10.3390/su14148667
7 World Economic Forum (2015) How mobile money is driving economic growth
8 Suri, T., & Jack, W. (2016). The long-run poverty and gender impacts of mobile money. Science, 354(6317), 1288–1292. [Crossref], [PubMed], [Web of Science ®]
9 GSMA (2021) The Impact of Covid-19 Regulatory Measures on Mobile Money Services
10 IMF (2016) United Republic o Tanzania, Selected Issues – Macro-Financial Issues
11 GSMA (2018) P2G payments via mobile money: unlocking opportunity for consumers, governments and providers
12 GSMA (2017) Person-to-government (P2G) payment digitisation: Lessons from Kenya
13 GSMA (2020) Digitalising person-to government payments Leveraging mobile to improve government revenue and access to public services
14 AFI (2019) Integrating gender and women's Financial Inclusion into the Central Bank of Egypt's (CBE) Framework
15 World Bank (2021) The Global Findex Database
16 GSMA (2019) The promise of mobile money for further advancing women's financial inclusion

Rationale for mobile money taxation

Undoubtedly, mobile money services provide a range of benefits for individuals, household, communities, and entire industries as it addresses several developmental challenges.

As the economy grows and the mobile money industry continues to thrive, governments and tax authorities are looking to increase their tax revenue collection from what appears to be a relatively convenient and rich source. In a policy brief for the Brookings Institute, Kenya's former Central Bank governor, Professor Njuguna Ndung'u noted the disproportionate nature of mobile money taxes, highlighting that "these taxes are targeting mobile transactions because of their high volume, but in reality, the value per transaction is so low that even low tax has a disproportionate effect on the costs". In his analysis, he states that increased taxation on mobile money transactions may not expand the tax base, but rather result in diminishing tax revenue in the future. Below are some motivations for the increased mobile money taxation initiatives by policymakers:

- **Formalising the informal economy.** As highlighted earlier, mobile money is used mainly by the previously unbanked, who primarily comprised the marginalised members of society, as well as informal businesses, refugees, and young people . Government authorities have historically capitalised on the mobile sector and would potentially view it as a missed opportunity to not tax mobile money services as it brings in new taxpayers. However, introducing new levies at this point would be counterproductive and our strong submission is that this would result in losses for the economy as a whole.
- **Perceived success in the mobile money industry.** While we understand that the government seeks to raise revenue, we find that this is based on a misconception about the value of payments circulating within the mobile money ecosystem and the value of the mobile money industry. Several reports will highlight the large volumes of money circulating within the mobile money ecosystem. With such numbers and related projections, governments and tax authorities can undoubtedly start to view the mobile money industry as highly profitable. However, mobile money operates on a high-volume, low-value basis, which means that the transactions, although high in volume, are practically too low in singular value to tax productively and, therefore not a feasible approach to increasing tax revenues.
- **Insufficient analysis of the potential impact of mobile money taxation.** Without a sound understanding of the nature of the mobile money ecosystem, it can be challenging to predict the effect of these taxes on the consumer, business and economy. There is a need for a holistic approach to research before any tax requirements are imposed. This will ensure that it does not result in unintended consequences and continues contributing toward national financial inclusion goals.

Increased taxation on mobile money transactions may not expand the tax base, but rather result in **diminishing tax revenue** in the future.

"The expansion of financial inclusion through mobile banking is under threat from the levying of taxes on mobile phone transactions. These taxes are targeting mobile transactions because of their high volume, but in reality, the value per transaction is so low that even low tax has a disproportionate effect on the costs."

"Increased taxation on mobile money transactions may not expand the tax base, but rather result in less and less tax revenue in the future."

Professor Njuguna Ndung'u. **Taxing Mobile Phone Transactions in Africa; Lessons from Kenya, Njuguna Ndung'u**, August 2019.

Footnotes

[17] Brookings (2019) Africa Growth Initiative Policy Brief at Brookings: Taxing Mobile Phone Transactions in Africa; Lessons from Kenya, Njuguna Ndung'u, August 20
C., Doering, L., & Aceves, P. (2015). The financialization of everyday life: Mobile money and (in) formal activity in a developing context. Rotman School of Management Working Paper, (2562518).

Trends in mobile money taxation: country examples

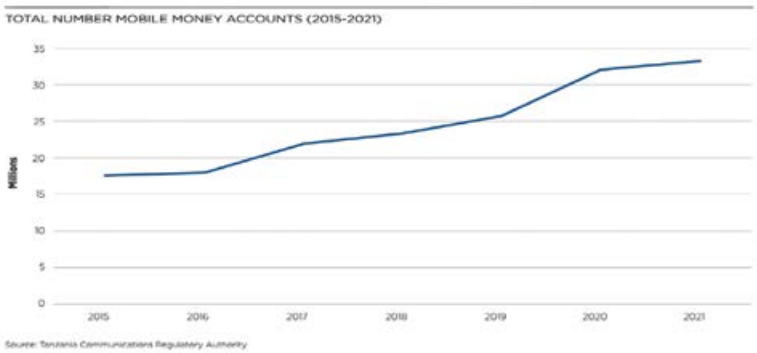
Today, the trend of mobile money taxation/levies is spreading across Africa. Currently, two out of seven Vodacom/Vodafone markets in sub-Saharan Africa (Kenya and Tanzania) impose excise taxes and/or levies on mobile money transactions.

Most recently, Ghana[19] has imposed an electronic transactions levy (e-levy) which directly impacts mobile money transactions. As noted above, this trend is not limited to Vodacom markets, as there are countries outside Vodacom markets that apply similar taxes on mobile money transactions. This clearly indicates that mobile money taxation is likely to spread to other sub-Saharan African countries and have a detrimental effect on financial inclusion gains. It is important to note that on top of these excise taxes and other levies on mobile money, the same users may also apply to other mobile-related taxes such as the Over the Top (social media) tax in Uganda[20]. This creates a disproportionate burden on users who are subject to multiple tax obligations for using mobile devices. Governments also collect corporate taxes on the net profits of mobile money companies. In the following section, we highlight some countries where mobile money taxation has been implemented or is being considered.

Tanzania

The growth of mobile money services in Tanzania is a remarkable success story that facilitated the financial inclusion of mostly previously unbanked to approximately 16 million citizens between 2015 and 2021 (See Figure 1 on the right). [21]

6 years mobile money growth pattern in Tanzania.



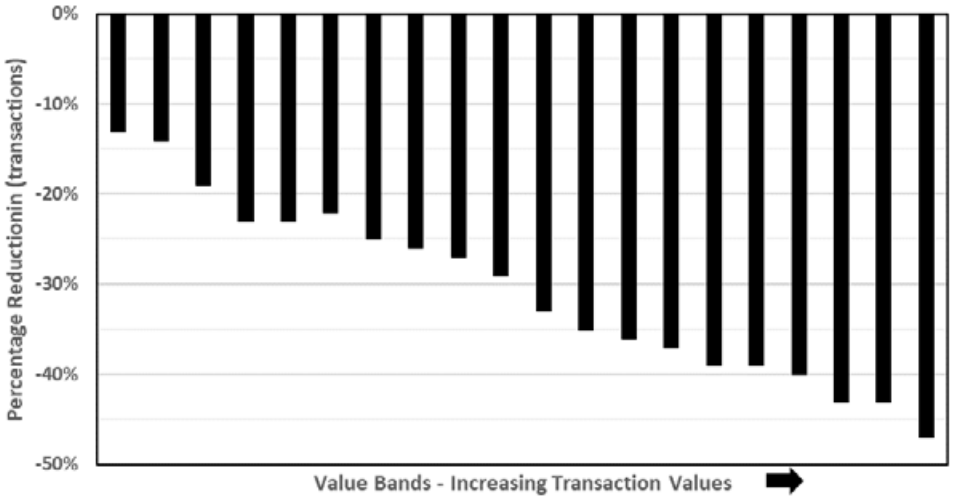
Mobile money taxation is likely to spread to other sub-Saharan African countries and have a **detrimental effect on financial inclusion gains**

Trends in mobile money taxation: country examples (Continued)

In July 2021, Tanzania introduced a new levy on mobile money transfer and withdrawal transactions, excluding merchant, business and government payment transactions effective 15 July 2021. This levy, additionally, applies to existing VAT (18%) and excise duty on mobile money transfer and withdrawal fees (10%).[22] Implementing these levies had a severe and immediate impact on mobile money transaction volumes and the growth of mobile money subscribers before and after the introduction of the fees.

From March to September, a 21% reduction was observed in total volumes and 29% in the total value of transactions. When the tax came into force in July 2021, transaction volumes and values decreased by 8 and 12%, respectively. In August, the reduction in transaction volumes and values was more significant. From July to August, transaction volumes and values decreased by 17 and 28% respectively, while these percentages are estimated at 23 and 37% from June (when the tax announcement was first made) to August 2021.

The reduction in transaction values and volumes becomes progressively acute as the value of transactions increases. The decrease in volume was more significant for high-value transactions, which decreased by an average of 42% in September compared to June. Medium-value transactions declined by an average of 30%, whereas lower-value transactions decreased by an average of 21%. Figure 2 below illustrates reductions per value band.



Compared to the growth of the industry before the introduction of the levies, it is clear that usage of transaction **volume and value are declining**

Compared to the growth of the industry before the introduction of the levies, it is clear that usage of transaction volume and value are declining, and if the trend continues unabated, it is not implausible to conclude that the continued viability of mobile money services is under threat. Additionally, it was noted that merchant payment volumes were not affected by the introduction of the tax, as these transactions are not subject to it. This leads to a disproportionate application of tax and a need to level the playing field to promote competition and growth in the market and encourage the use of mobile money services by individual users.

On 19 July 2021, the President of Tanzania tasked the Minister of Finance and Planning with reviewing the mobile money levy following the public outcry regarding the cost of mobile money transactions.

In August 2021, the government announced the reduction of the new mobile money transfer and withdrawal transaction levy by 30%, effective from 1 September 2021.[23] Simultaneously, the application base was extended to include bank and financial institution transactions performed via mobile phone. Other types of bank and financial institution transactions, such as over the counter, ATM transactions and transactions conducted through devices other than mobile phones (e.g. personal computers), however, remain excluded from the levy which further penalises poorer users who only have access to mobile money services and are unable to afford devices such as personal computers.

After the reduction of 30% in the levies and the other measures introduced, a slight improvement in customer activity was noted, but the industry as a whole has not recovered to its previous levels of performance. While the authorities insist that these losses will eventually stabilise, this has not been the case as the number of mobile money transactions and users continues to decline. Vodacom considers that further fee reductions are required to restore the industry to its previous performance levels.

In July 2022, the government of Tanzania, through the Finance Act 2022, introduced a further 43% reduction to the mobile money levy in Tanzania, which represents a combined reduction of 40% since the introduction of the levies.[24]

The regulation also expanded the scope of the levy to apply to bank transfers. This was contested on the basis of double taxation for users sending money to their own accounts, and in September 2022, a new regulation was issued which eliminates levy charges on transfers from users bank account to same user bank account, as well as transfers from a user's bank account to the same user's mobile money account, and vice versa. This regulation came into force on 1st October 2022[25].

Trends in mobile money taxation: country examples (Continued)

Ghana

The Minister of Finance in Ghana noted that the total value of transactions for 2020 was estimated to be over GHS500 billion compared to GHS78 billion in 2016, while total mobile money subscribers and active mobile money users have grown by an average rate of 18% and 16% respectively between 2016 and 2019.[26] This was primarily attributed to Covid-19, where the reliance on mobile money services increased enormously.

As a result of the perceived simple source of additional revenue, the government proposed the introduction of the electronic transaction levy (e-levy) on all electronic transactions to widen the tax net and rope in the informal sector. The government projected tax revenue of about GHS6.96 billion.

(US$1.1 billion) in 2022 and about GHS26.90 billion (US$4.5 billion) from 2023 to 2025 after implementing the electronic transaction levy to help widen the tax net and rope in the informal sector.[27] In May 2022, the electronic transactions levy came into force, covering mobile money payments, bank transfers, merchant payments and inward remittances to be charged at an applicable rate of 1.5%, which the sender shall bear except for inward remittances, which the recipient will bear.

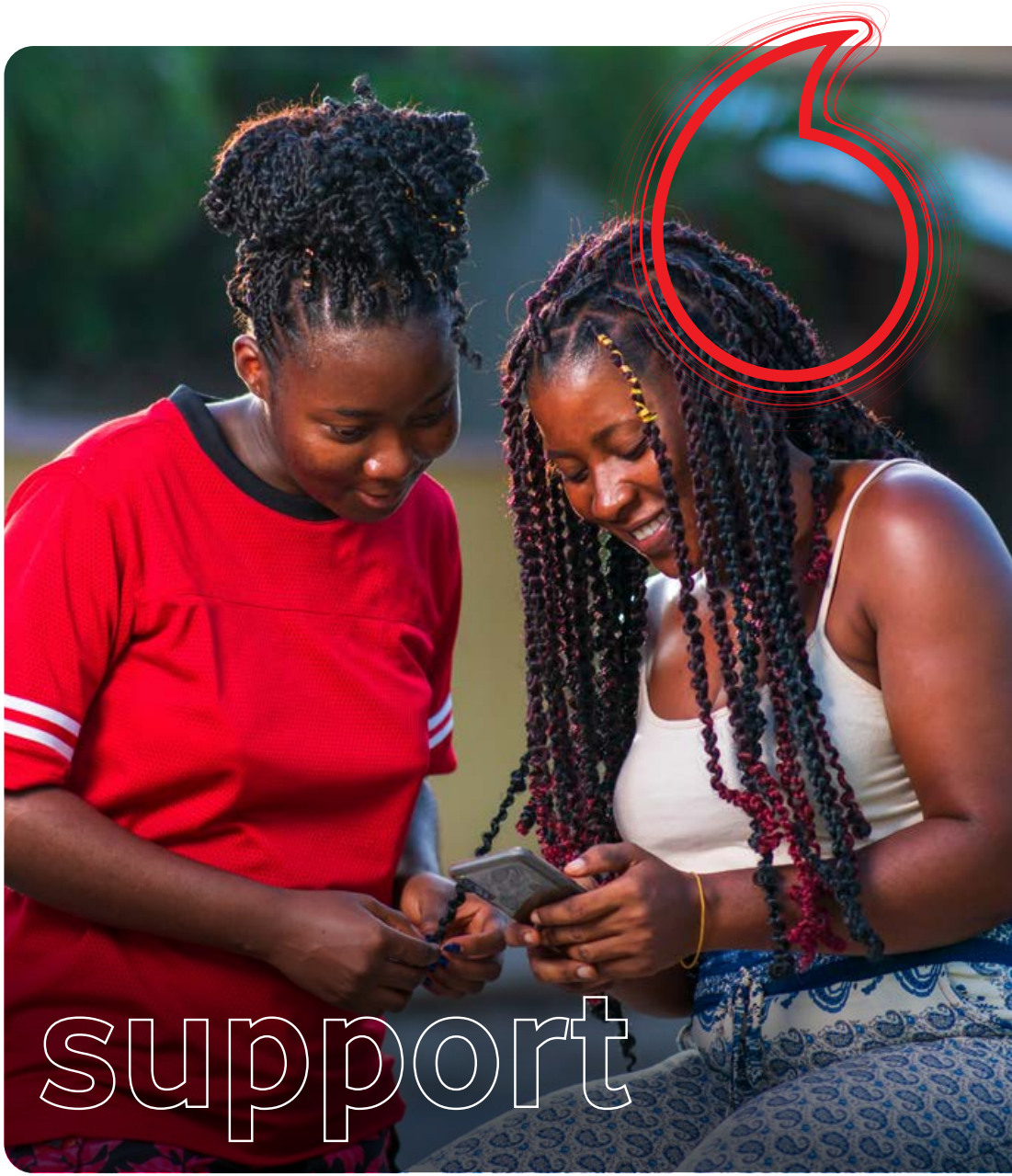
The Minister of Finance had previously indicated that the levy would be used to support entrepreneurship, youth employment, cybersecurity, and digital and road infrastructure, among others. As expected, there was heavy public outcry regarding these taxes due to their disproportionate impact on the poor members of society. The Electronics Transactions Levy Act is taking a phased approach to implementation and commenced phase two in July 2022.[28]

Stakeholders believe the e-levy will reverse the gains made with digital financial services, leading customers to revert to cash. The government in its analysis of the impact of the e-levy predicts that 24% of users will drop off within the first couple of months but will eventually go back to using digital services because the benefits outweigh the negatives.[29] This is, however, difficult to prove, largely speculative and therefore does not form an adequate basis for determining tax policies. Leading up to the implementation date of the e-levy, massive cash withdrawals were noted, leading to a marked decrease in cash availability through these channels. This demonstrates that mobile money taxation will cause the recently banked to revert to cash, and it is unclear if this will stabilise sustainably.

The e-commerce association of Ghana has identified additional potential negative impacts of the e-levy which include:

- Reversal of gains made by the government digitalisation agenda and a major backpedal of the government's vision of a cash-lite economy
- Loss of financial inclusion gains for the unbanked
- Reduction in online sales, resulting in further tax reduction in the government
- Return to cash transactions, and a loss of benefits associated with digital payments – safety, efficiency, etc.
- Loss of jobs in the e-commerce and fintech industries

Source: Ghana web (2022) Introduction of e-levy will negatively impact us – eCommerce Association of Ghana



Trends in mobile money taxation: country examples (Continued)

Uganda

In May 2018, the government of Uganda proposed legislation that placed a 1% tax levy on the value of all mobile money transactions, including cash-in, transfer and cash-out. Introduced in July 2018, the tax was controversial as it did not apply to the banking sector nor its associated agency banking service. Subsequent public outcry saw the tax law adjusted to 0.5% and restricted to withdrawals in November 2018.

The 1% mobile money transaction tax imposition immediately impacted and reacted. According to a study by the UNCDF, the lowest income groups in Uganda were disproportionately affected by the withdrawal tax compared to higher income groups who could access alternative means of payments where a similar tax was not applied.[30] The results in this analysis report reflect a drastic decrease in average transaction value after the tax was introduced. Additionally, high-income users, who were more likely to engage in higher-value transactions and have other options for transacting, seem to have migrated away from mobile money. The report further argued that the tax harmed the formalisation of the economy as the increased tax burden led to a discontinuation of specific payment digitisation initiatives.

"The introduction of the tax seemed to have led to many users migrating to agent banking, where no comparable taxes are applied to withdrawals. At the same time, people with lower incomes tend to have less access to agent banking, indicating that the burden of this tax does fall disproportionately on the poor."

UNCDF (2021) The impact of mobile money taxation in Uganda

Footnotes

[19] UNCDF (2022) Ghana Announces Electronic Levy: Possible Scenarios on the Progress of Digital Financial Inclusion
[20] This has recently been adapted to tax internet date usage by 12%, effective July 2021. CIPESA (2021) Uganda Abandons Social Media Tax But Slaps New Levy on Internet Data
[21] Tanzania Communications Regulatory Authority (TCRA)
[22] The United Republic of Tanzania (2021). Special Supplement. The National Payment Systems (Electronic mobile money transfer and withdrawal transactions levy) (Amendment) regulations, 2021. Available here
[23] GN No 642A, the National Payment Systems (Electronic Mobile Money Transfer and Withdrawal Transactions Levy) (Amendment) Regulations, published on 31 August 2021 and effective from 1 September 2021, amends the National Payment Systems (Electronic Mobile Money Transfer and Withdrawal Transactions Levy) Regulations, 20212 "the principal Regulations".
[24] GSMA (2022) The Reduction of Mobile Money Levy in Tanzania
[25] GN NO 596A The National Payment Systems (Electronic Money Transaction Levy) Amendment 2022
[26] UNCDF (2022) Ghana Announces Electronic Levy: Possible Scenarios on the Progress of Digital Financial Inclusion
[27] PwC 2022 Budget Digest (find link)
[28] All Africa (2022) Ghana: Parliament Approves E-Levy Bill
[29] UNCDF (2022) Ghana Announces Electronic Levy: Possible Scenarios on the Progress of Digital Financial Inclusion
[30] UNCDF ((2021) The impact of mobile money taxation in Uganda

Unintended consequence of mobile money taxes/levies

As a major stakeholder in the economy, Vodacom is cognisant of the importance of taxation and the need for government to adequately widen its tax revenue basis to benefit all its citizens.

However, since the benefits are grossly outweighed by the disproportionally negative effects of the tax policies on vulnerable members of society, there is a clear and pressing need to review the policies and adapt accordingly. Below we highlight some of the unintended consequences of mobile money taxation.

Impact on consumers

Mobile money taxes have been found to harm the economy as they directly impact the poorer members of society with a higher sensitivity to transaction costs. This does not apply to higher income groups who could have access to alternative means of payments where a similar tax is not applied.[31] The disproportionate nature of these taxes can lead to a change in behaviour and use of financial services and a return to cash transactions by those who stand to benefit the most from mobile money services. This behavioural change was demonstrated in Tanzania's impact report prepared by the GSMA which analysed the impact of the new levy on mobile money transactions in the first three months after the levy's introduction.[32] Following the introduction of the mobile money levy, mobile money revenue reduced sharply by 28% per month between June and August (also demonstrated above). An impact study of mobile money taxation in Uganda also found that the tax burden of 0.5% on mobile money withdrawals had been disproportionately felt by the poorest people, with a noteworthy increase in agency banking for higher-value transactions.[33]

Scenario to consider:

If users in rural areas are subject to higher mobile money transaction levies compared to bank customers residing in the city with broader access to financial services, what does this say about the mobile money taxes and how these would affect national financial inclusion strategies?

How can governments think more innovatively about developing alternatives to tax collection that do not adversely impact the society?

Impact on economy

Mobile money has demonstrated the critical role it plays in driving financial inclusion, supporting emergency response initiatives and reducing poverty among the unbanked who now have access to loans, savings and other essential financial services. This has increased financial awareness as users develop their financial literacy to improve their own lives. However, and as emphasised throughout this report, poorly implemented policies around mobile money taxation risk reversing these gains and curtailing economic growth. Mobile money taxation is a careful balancing act and essentially a trade-off between the key government agenda of short-term domestic revenue mobilisation (which can be achieved more efficiently and equitably using tools other than telecoms-specific taxation) and longer-term tax-base growth and financial inclusion.[34] The reduction of mobile money usage would lead to lower financial inclusion, lower employment opportunities and lower growth. The spillover effects of this would likely be increased fraud and higher levels of insecurity. Additionally, future investments could be delayed if the tax administration landscape remains uncertain or inequitable. This will inhibit the development of the digital economy, which has a detrimental domino effect on other critical national goals, such as the economic and social development aims noted in this report.

Impact on businesses and investments

Beyond impacting the users, increased taxes affect mobile money providers' business models and efficiency in providing services to the unserved and underserved. Suppose indeed there is a reversal to cash transactions by majority of individuals and small to medium enterprises, businesses stand to lose out on heavy investments already made in the sector toward boosting financial inclusion. Additionally, where the tax burden is too high, there is a risk that providers will restrict their investment, which then reduces mobile money penetration and, thus the socio-economic benefits derived from mobile money. For countries with national financial inclusion targets, the impact will be felt by reduced demand for mobile money services, ultimately leading to the loss of the previously sought-after informal market and hampering their financial inclusion goals and objectives.

Since the benefits are grossly **outweighed by the disproportionally negative effects of the tax policies** on vulnerable members of society, there is a clear and pressing need to **review** the policies and **adapt** accordingly

Footnotes

[31] GSMA (2021) The Impact of Covid-19 Regulatory Measures on Mobile Money Services
[32] GSMA (2021) Tanzania Mobile Money Levy Impact Analysis
[33] UNCDF (2021) The impact of mobile money taxation in Uganda
[34] UNCDF (2021) The impact of mobile money taxation in Uganda

Proposals for a better approach

Based on the above examples and the highlighted unintended, yet adverse consequences of mobile money taxation, it is clear that targeted mobile money taxes and levies are ineffective at creating a sustainable source of tax revenue and detrimental to the economy.

Disproportionate taxation measures, in the long term, cannot be a solution for poorly formulated and administered tax policies. It can be argued that this approach reflects a misunderstanding of the mobile money industry and consequently an inaccurate assessment of the full impact of mobile money taxes. It fails to highlight the significant negative impact on mobile money users, and agents and the consequent adverse implications for the financial services sector and financial inclusion overall. Future review of taxes imposed on mobile money transactions should be preceded by a thorough analysis of optimal taxation practices, the likely change in behaviour around financial services, and, above all, the marginal contribution to the tax effort that policy aims to raise.[35] There is therefore a call for governments to explore tax policy alternatives that will strike a better balance toward achieving these goals and enforcing fundamental taxation best-practice principles. One such option is for governments to explore how best to broaden their tax bases in ways that promote positive social outcomes and a balance of taxation that incentivises sustainable investment while focusing on developing much sounder relationships between tax authorities and businesses.

Fundamental taxation principles

According to the International Monetary Fund (the IMF) and the Organisation for Economic Co-operation and Development (OECD), **2019 Progress Report on Tax Certainty**,[36] tax certainty is an essential component of investment decisions for taxpayers and can have significant impacts on economic growth. Taxes should be as broad-based as possible and should apply equally across business sectors. Sector-specific taxation should only be used in exceptional circumstances where there is a clear and justifiable necessity to do so. For example, to curtail a particular behaviour that produces negative externalities detrimental to society (drinking, smoking, etc.). A tax or levy imposed on businesses because they have cash is short-sighted, creates arbitrary distortions and serves as a deterrent to investment in infrastructure. Our assertion here is that digitisation has led to several benefits across multiple economic sectors. It should be incentivised to continue playing its vital part in that development, not taxed out of existence, specifically in the mobile money industry.

Given the many benefits of mobile financial services, it stands to reason that mobile money tax should be based on fundamental tax principles and should be proportionate and broad-based rather than sector-specific. The proposed taxes should avoid any regressive impact on users and should be simple, understandable and easily enforceable. Additionally, and given the context, tax policies must consider the compounding effect of multiple taxes already borne by the mobile sector as recommended by the mobile industry association body, GSMA.[37]

It is clear that targeted mobile money taxes and levies are **ineffective at creating a sustainable source of tax revenue** and detrimental to the economy.

Proposals for a better approach (Continued)

Widening the tax base

As highlighted earlier, increasing taxes on mobile money transactions may cause more harm than good. However, where the appropriate enabling environment supports the economy's growth, industries can thrive, thus creating a more extensive tax base for the authorities. The part of a country's output that the government collects through taxes, the tax-to-GDP ratio, is an important indicator to measure the government's tax effort. It is used internationally by, among others, the IMF, the World Bank, the OECD and the African Tax Administration Forum (ATAF) in the comparative analysis of tax systems and economic performance. The 15% tax-to-GDP ratio often quoted by the IMF as ideal for emerging economies should not be considered in isolation. Given the need for supportive policy intervention toward economic recovery, fiscal interventions should consider positive externalities and digital/financial inclusion objectives.[38]

South Africa is one good example, where it has consistently improved its tax-to-GDP ratio (See Figure 3 below) from 1995 to 2022 (disregarding the detrimental effect of Covid-19 in 2021/22), achieved through nine strategic objectives.

Increasing taxes on mobile money transactions **may cause more harm than good.**

South African Revenue Services (SARS) continues to broaden the tax base and expand the register through the nine Strategic Objectives of the Voluntary Compliance model: [39]

1. Provide clarity and certainty of tax obligations.
2. Make it easy for taxpayers and traders to comply and fulfil their obligations.
3. Detect taxpayers and traders who do not comply and make non-compliance hard and costly.
4. Develop a high-performing, diverse, agile and engaged workforce acting toward high-value knowledge and service work.
5. Expand and increase the use of data to improve integrity, derive insight and improve outcomes.
6. Modernise our systems to provide digital and streamlined services.
7. Drive greater resource stewardship to ensure the efficient use of resources and deliver quality outcomes and performance excellence.
8. Work with and through stakeholders to improve the tax system; and
9. Build public trust and confidence in the tax administration system.

Although GDP is the primary driver of total tax collections, improvements in the tax-to-GDP ratio can significantly improve total tax collection. This is achieved by broadening the tax base without increasing taxes on existing entities. By drawing more users into the formal economy, mobile money services provide a wide range of socio-economic benefits to users and businesses and further allow authorities to identify and tax previously anonymous economically active participants who are not being taxed fairly. Additionally, mobile money can facilitate government payments and improve tax collection processes. Taxing MFS services to the extent that users abandon the service and revert to a cash-based economy is ultimately counterproductive for economic development, broadening the tax base and governments' tax revenue collection objectives.

Footnotes

[35] Africa Growth Initiative Policy Brief at Brookings: Taxing Mobile Phone Transactions in Africa; Lessons from Kenya, Njuguna Ndung'u, August 2019. Available here

[36] OECD (2019) International Monetary Fund (the IMF) and the Organisation for Economic Co-operation and Development (OECD) 2019 Progress report on Tax certainty

[37] GSMA (2021) 'Exploring the GSMA's position on mobile money taxation'

[38] According to the OECD Report on African tax statistics, only eight African countries have a tax-to-GDP ratio that is above 20%. Part of the reason for this could be attributed to the narrow tax base as well as low tax productivity. https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf

[39] https://www.sars.gov.za/wp-content/uploads/Docs/TaxStats/2021/Tax-Statistics-2021-Main-document.pdf

Conclusion and recommendations

The importance of adequate and well-structured tax policies cannot be overstated. Without a sound and well-researched approach to tax policy, a short-term revenue approach can lead to adverse and undesired outcomes on several fronts.

As highlighted above, mobile money taxation can harm financial inclusion objectives as it further exacerbates the affordability barrier for the poor by disproportionately affecting low-income households and the financially excluded. Due to the ubiquitous nature of mobile money, it is anticipated that this impact will be felt in multiple other sectors and ultimately impact a country's economy. We believe that the detrimental effect of mobile money taxes grossly outweighs the tax gains that the government is looking to collect. This therefore presents a sound policy ground for the abolition and/or stark reduction of mobile money levies in all applicable markets.

Furthermore, this piece should discourage governments from considering imposition of such levies and enable the relevant authorities to improve their respective market operating landscapes for the mobile money industry. This will allow the industry to become more profitable and thus increase the standard general taxes paid without needing to implement specific mobile money taxes. This means generating increased revenue without impacting the financial and economic inclusivity of the most vulnerable members of society.

Vodacom recognises the motivation of government authorities and wishes to reiterate that broad-based corporate taxes levied at internationally benchmarked rates are not viewed as a barrier to investment or innovation. However, it is key to note that raising or introducing sector-specific taxes harms the economy in general and serves as a barrier to the investment needed to deliver a digital society and financial inclusion, as highlighted in this paper.

Below we highlight some key recommendations that could contribute to the effective development of mobile money tax policies and continue to bolster economic development.

1. Widen the tax base by creating an enabling legal and regulatory environment that will allow businesses to thrive and be more profitable.
2. Ensure mobile money taxes are aligned to long-standing tax principles based on equity and do not exacerbate social divides.
3. Engage with mobile money operators and telecommunication businesses to understand the business and the impact of mobile money taxation
4. Create tax policies that are proportionate and broad-based rather than sector-specific while avoiding any regressive impact on users.
5. Improve tax collection processes through extensive research and public-private collaboration.

Further together