Africa's mobile-money taxes risk driving poor out of digital economy

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Ghanaian grocery store owner Comfort Ankrah has had to rethink how she does business since the government put a tax on mobile money transactions earlier this month.

Source: REUTERS.

For eight years, the 45-year-old single mother relied on mobile transfers to run her shop in Accra's Darkuman suburb - from taking customer payments to paying the farmers who supply her with plantain, cassava and other everyday staples.

Beside the convenience, she and other local businesswomen also feel safer using digital money instead of having to carry cash around, Ankrah said. But the new 1.5% tax on mobile money, also known as the e-levy, is now forcing Ankrah - who earns about 400 Ghanaian cedi ($53) weekly - to switch back to coins and banknotes.

"I can't afford to pay my farmers with mobile money now because the e-levy will reduce my profit. I now resort to giving money to drivers or relatives going to the village so they can pay the farmers. It's a risky, long process," said Ankrah.

Ghana is the latest in a growing number of African nations to impose a tax on mobile phone-based transactions, but critics say the levies are hurting millions of small-business owners and other low-income groups, just as the cost of living rises.

The charges threaten to reverse the impressive gains made by mobile money in boosting economic inclusion, they warn. "Mobile money has been a great enabler, especially for the marginalised. It's a main driver of financial inclusion for the poor, women and rural communities across Africa," said Angela Wamola, head of sub-Saharan Africa at telecoms industry body GSMA. "Any discouragement such as extra fees or taxes on mobile-money services will take Africans backwards simply because there are no other alternatives for most people."

Many countries already have fees such as VAT and excise duty on mobile services, she said, adding that the extra tax - at a time of high inflation - would mean the poor would be the first to be pushed out of the digital economy. In Tanzania, which imposed a mobile-money tax last July, peer-to-peer transactions dropped by 38% from 30 million to 18 million per month, a GSMA study found.

John Kumah, one of Ghana's deputy finance ministers, rejected criticism that the tax was regressive. "The e-levy is not going to be a burden on the poor," Kumah said. "It's a game-changer that will rather bring about development. We're going to use the taxes to build more schools, hospitals and roads. It will be used for job creation. Ghanaians will see and enjoy the benefits in the coming years."

The rise of mobile money

Africa dominates the global mobile-money market, driven by the success of Kenyan telecoms operator Safaricom, which pioneered its M-Pesa platform in 2007 to cater for people without access to the formal banking network. Sub-Saharan Africa is home to more than half of the world's nearly 350 million active mobile-money accounts - with countries such as Kenya, Uganda, Ghana, Senegal, Ivory Coast and Cameroon showing the highest prevalence rates, GSMA data shows.

Last year, $1tn was transacted globally thorough mobile-money platforms, with nearly 70% coming from sub-Saharan Africa, the data revealed.

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Andy Jury 1 Apr 2022

The SIM card-based technology - which can be used on basic phones without internet - has unlocked access to financial services to often neglected populations such as informal workers, smallholder farmers, women, and rural communities. Users can securely receive, withdraw and send money, pay for bills and get remittances from family abroad - all without being connected to the formal banking system. Some operators also offer loans, savings and insurance products.

Waiting to withdraw cash at an M-Pesa booth in Nairobi's upmarket Lavington suburb, Kenyan housekeeper Brenda Vitute said she uses mobile money to shop, pay bills and send money to her mother and children. "It would be very difficult without M-Pesa as many people in the rural areas don't have a bank account or the bank is too far. With M-Pesa, they don't have to travel long distances to get the money," Vitute, 41, said.

A study published in *Science* journal found access to mobile money in Kenya has increased per capita consumption and lifted 194,000 households - 2% of the total - out of poverty since 2008. Consumption in female-headed households increased twice as much as others, the study said, suggesting mobile money particularly benefits women.

The Covid-19 pandemic has further accelerated the sector's growth in Africa. Restrictions on movement and wariness of handling cash, as well as central banks easing regulations and operators waiving fees, saw transaction values surge. Sub-Saharan Africa's mobile money transactions rose by 40% in terms of value in 2021 from the previous year, against the global average of 31%, GSMA data shows.

Controversial tax

But the global health crisis has also left African economies reeling. Sub-Saharan Africa's public-debt ratios are their highest in more than two decades, and many low-income countries are facing debt distress, the International Monetary Fund (IMF) said last month.

The shock to global commodity markets caused by the Ukraine war will exacerbate food insecurity and stoke inflation and poverty rates across the continent, it warned.

Desperate to boost tax revenue and reduce their heavy debt burdens, several African governments have turned their focus to the mobile-money sector. Introduced on May 1, Ghana's 1.5% e-levy for transactions above 100 Ghanaian cedi mimics policies elsewhere in the region. Cameroon, Uganda, Tanzania, Congo Republic, Zimbabwe, Ivory Coast and Kenya have all imposed mobile-money taxes varying from 0.2% to up to 12% in the last four years, despite strong opposition from diverse sectors.

In Ghana, law-makers came to blows during a parliamentary debate over the e-levy in November. While in Cameroon, the policy prompted the hashtag #EndMobileMoneyTax on social media. In Uganda, Tanzania and Ghana, authorities were forced to lower their tax rates. Malawi also announced a 1% levy in September 2019, but weeks later backtracked due to opposition.

Kinyanjui Mungai, senior research analyst at the Centre for Financial Regulation and Inclusion, said the policies were poorly planned and did not consider the views of stakeholders such as consumer groups. "We are still in quite a nascent stage in terms of financial inclusion in most African countries," said Mungai. "You have to get more people out of the 'cash boat' and into the 'digital boat' before you impose these taxes."

International organisations such as the IMF, World Bank and the United Nations have also raised concerns over the taxes. In its March report on Cameroon, the IMF warned that taxing mobile money could be "fiscally inequitable" and hinder the current low level of financial inclusion.

"The poor and unbanked segments of the population, who often live in rural areas and face high transaction costs from the formal banking, have been found to be negatively affected by the measure," it warned.

Kumah said the Ghanaian government would take steps such as public sensitisation campaigns to ensure people continued to use mobile money, despite the e-levy.

"All over the world, people don't like paying taxes - but with time they begin to see the importance," he said.