

A large, stylized graphic on the left side of the cover, consisting of several overlapping, semi-transparent shapes in shades of yellow, orange, and teal, resembling a stylized 'A' or a series of overlapping triangles.

Working Paper 162

**Are Digital and Traditional
Financial Services Taxed
the Same? A Comprehensive
Assessment of Tax Policies
in Nine African Countries**

Hannelore Niesten

April 2023

ICTD Working Paper 162

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Are Digital and Traditional Financial Services Taxed the Same? A Comprehensive Assessment of Tax Policies in Nine African Countries

Hannelore Niesten

Summary

This background report looks at tax implications for those providing and using digital financial services (DFS), and gives general observations as to whether DFS in Africa are taxed the same as traditional financial services (TFS). There is no categorical answer to this question. It varies country by country, depending on the specific arrangements in their legal and tax framework. Therefore, a country-specific approach is necessary.

This report analyses key legislative, tax and regulatory policy instruments to compare the tax framework in nine African countries – Burundi, Côte d'Ivoire, Ghana, Kenya, Rwanda, South Sudan, Tanzania, Uganda and Zimbabwe. The country studies illustrate the diverse experience across the nine African economies, and the tension between the need for greater mobilisation of domestic resources and the desire to see rapid roll-out of digital infrastructure and services.

The cross-country assessment highlights areas where the tax situation is different for DFS providers and users, compared to traditional financial institutions and actors. We present a number of preliminary considerations and lessons learned. These can help to shape an optimal tax environment, reduce friction, enhance beneficial competition in the financial services market, and minimise any negative consequences for DFS providers and users that arise within the taxation framework in all countries studied.

The report contributes to the literature by mapping comparable information on the current state of play for taxes across the countries as of 30 November 2022. The report goes beyond the traditional research and analysis of the taxation of the telecom sector, which tends to be primarily industry-funded.

Keywords: digital financial services; mobile money; taxation; banking services; fintechs; cross-country analysis.

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Acronyms

ATM	Automated teller machine
Art.	Article (legal provision)
ARTCI	Telecommunications/ICT Regulatory Authority of Côte d'Ivoire
AU	African Union
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Bank of West African States)
BNR	National Bank of Rwanda
BOT	Bank of Tanzania
BOU	Bank of Uganda
BTCA	Better Than Cash Alliance
CA	Communications Authority of Kenya
CBK	Commercial Bank of Kenya
CGAP	Consultative Group to Assist the Poor
CIT	Corporate income tax
CSBAG	Civil Society Budget Advocacy Group
CST	Communication Service Tax, Ghana
DFS	Digital financial services
DRC	Democratic Republic of Congo
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
ECOWAS	Economic Community of West African States
F.CFA	Franc de la Communauté Financière Africaine (UEMOA)
GDP	Gross domestic product
GETFL	Ghana Education Trust Fund levy
GH¢	Ghanaian Cedi
GRA	Ghana Revenue Authority
GSMA	Global System for Mobile Communications Association
HS	Harmonized Commodity Description and Coding System
ICT	Information and communication technology
IMF	International Monetary Fund
IMTT	Intermediated money transfer tax

IPA	Innovations for Poverty Action
IT	Information technology
ITA	Income Tax Act
ITU	International Telecommunication Union
KRA	Kenya Revenue Authority
KSh	Kenyan Shilling
MB	Megabite
MFS	Mobile financial services
MM	Mobile money
MNE	Multinational enterprises
MNO	Mobile network operator
MoF	Ministry of Finance
NFIS	National Financial Inclusion Strategy
NHIL	National Health Insurance levy
OECD	Organisation for Economic Co-operation and Development
OTT	Over-the-top services
POS	Point-of-sale
P2P	Peer-to-peer
SDG	Sustainable Development Goal
SIL	Special Import Levy
TCRA	Tanzania Communications Regulatory Authority
TFS	Traditional financial services
TOB	Tax on banking
TSh	Tanzanian Shilling
RDB	Rwanda Development Bank
UCC	Uganda Communications Commission
USh	Ugandan Shilling
UNETEL	Côte d'Ivoire National Union of Telecommunications Companies
US\$	United States Dollar
USF	Universal Service Fund
VAT	Value added tax
WAEMU	West African Economic and Monetary Union
WHT	Withholding tax
WTO	World Trade Organization
ZIMRA	Zimbabwe Revenue Authority
Z\$	Zimbabwe Dollar local currency

Exchange rates

Approximate exchange rates to US\$1 as of 3 January 2023 (data from the National Bank of each country):

Côte d'Ivoire:	615 Francs de la Communauté Financière Africaine (F.CFA)
Ghana:	10 Ghanaian Cedi (GH¢)
Kenya:	123 Kenyan Shillings (KSh)
Tanzania:	2,340 Tanzanian Shillings (TSh)
Uganda:	3,700 Ugandan Shillings (USh)
Zimbabwe	320 Zimbabwe Dollars (Z\$)

No local currency is used in this report for Burundi, Rwanda and South Sudan.

Main findings

This background report compares the taxation of providers and users of telecom/digital financial services (DFS) and traditional finance services (TFS), delivered by banks and other formal financial institutions. This analysis helps us understand the relative tax burden resulting from sector-specific taxes and other general taxes, including corporate income tax (CIT) and value added tax (VAT), and how to balance taxes across sectors. The answer to the question of whether DFS in Africa are differently taxed compared to TFS varies from country to country. The analysis focuses on tax laws in nine countries across Africa – Burundi, Côte d'Ivoire, Ghana, Kenya, Rwanda, South Sudan, Tanzania, Uganda and Zimbabwe. After comparative analysis, the research presents preliminary lessons learned for shaping a neutral tax environment, reducing friction, enhancing beneficial competition in the financial services market, and minimising any negative consequences for service providers and users.

The changing landscape of complex DFS taxation versus TFS taxation

Compared to traditional finance, the framework for taxing DFS is highly complex. The research shows that governments and policymakers in several countries across Africa have started taxing DFS during the past decade. DFS taxation is considered an opportunity to broaden the government's revenue base, given the size and rapid growth of the telecom and DFS sector in African countries. Some governments have used DFS taxes to raise revenue from informal sector activity. The range of tax instruments and varied approaches to taxing the telecom/DFS sector may cause complexity and unpredictability in the tax system. This has significant consequences for both providers and users of DFS. The design and structure of telecom/DFS taxes, combined with the complexity of the tax system and uncertainty about future taxation, may raise compliance costs and deter investment. They may make pricing decisions more difficult for DFS than TFS delivered by banks and other formal financial institutions, such as credit unions, insurance companies and microfinance institutions. Users may be affected by a proliferation of telecom/DFS taxes. There is often no incidence tax policy analysis, estimating the overall fiscal burden on telecom/DFS providers and users. This makes it difficult to predict and measure the tax system's potential impact.

Taxation of the DFS sector in Africa has changed significantly in recent years

There are both considerable variations and commonalities in DFS taxation in the country studies. Varied approaches to taxing the DFS sector result in a different tax burden to that observed for traditional finance and in other regions. The country studies show increased DFS taxation of mobile money (MM) for telecom providers and their users. Digital innovations, such as MM, enable the provision of a wide range of financial services (e.g. transferring and receiving money, making payments and saving) in areas with inadequate or no infrastructure. The tax system does not fully recognise the broader network of technology providers, such as entrepreneurial and start-up financial technology firms (fintech firms) offering DFS. These are often left outside the scope of sector-specific taxes, although they do usually come within the scheme of mainstream taxation.

Are customers of telecom/DFS and TFS taxed differently?

East African country studies show that specific taxes on transaction fees and amounts for DFS customers often do not apply to banks and other providers of TFS. Governments generally impose specific taxes on using rather than providing DFS. Of the nine countries in the study, three countries levy sector-specific taxes on customers for DFS transaction fees

(Kenya, Uganda and Tanzania), and four countries on DFS transaction amounts (Tanzania, Uganda, Zimbabwe and Ghana). Several countries also levy general VAT on transaction fees (Rwanda, Tanzania, Côte d'Ivoire and Zimbabwe). Rwanda and Zimbabwe only impose VAT on transaction fees delivered by telecom providers; traditional financial providers (banks) are exempt. South Sudan and Burundi have so far taken the opposite approach, by not explicitly focusing on DFS taxation. Taxing customers of DFS in all countries studied is motivated by an increase in the volume of financial transactions conducted via digital platforms, particularly MM services – this has boosted the drive for financial inclusion.

The variety of comparable general (VAT) and specific taxes (excise duty) on DFS transaction fees do not always result in heavier taxation of DFS than TFS (Section 3.2). The taxes on transaction fees function as a top-up on the price per transaction to the consumer.

- **VAT.** While most countries generally exempt financial services from VAT, the research shows that Rwanda, Tanzania, Côte d'Ivoire and Zimbabwe apply VAT on transaction fees for DFS delivered by telecom providers. In Rwanda and Zimbabwe, VAT applies to telecom providers, but not banks and other providers of TFS. Côte d'Ivoire imposes VAT at 18 per cent on fees for money transfer operations paid to banking and non-banking institutions; other banking operations are subject to a lower VAT rate (10 per cent). The tax situation is sometimes the same for telecom/DFS providers and banks/other TFS providers – Tanzania applies VAT on charges and fees payable to banks, non-bank financial institutions, and telecom service providers.
- **Excise duty.** Kenya, Tanzania and Uganda levy excise duties on the telecom/DFS provider, which are likely to be passed on to DFS users through higher prices. The excise duties apply to fees – earned income from telecom/DFS providers, not merely the movement of assets. The absolute net effect may be smaller when competition successfully lowers fees, and the tax effects will automatically decrease. Transaction fee taxes may encourage DFS when taxation is more favourable to DFS (Kenya and Tanzania). Uganda applies an excise duty to transfer and withdrawal fees from telecom companies. In contrast, financial institutions (banks) are subject to excise duty on a broader range of automated teller machine (ATM) fees, withdrawal fees, periodic charges, and other transaction and non-transaction charges.

In taxing underlying transaction amounts, the country studies show great diversity in tax design, reflecting missed opportunities for peer-to-peer learning and improvement. There are some issues around double taxation that countries do not seem to sort out when designing the taxes. Various countries have imposed taxes on digital transaction values with lower yields than forecast, including Tanzania, Uganda, Zimbabwe and Ghana (Section 3.3). The taxes on transaction amounts take different approaches, including taxing deposits, transfers and withdrawals. Ghana applies the e-levy on transfers rather than cash-outs, which could encourage withdrawals by MM users. Tanzania imposes a flat tax on electronic money transfers and withdrawals based on transaction value bands. While Uganda only imposes a tax on cash withdrawals through MM, Zimbabwe taxes all non-cheque transactions (transfer and payment). East African tax systems also impose different tax rates on users. While Uganda and Zimbabwe impose a percentage on the transaction amount (0.5 per cent and 2 per cent), Tanzania employs a fixed-rate tax scheme defined by transaction value. Ghana reduced the 1.5 per cent e-levy to 1 per cent effective January 2023. In Zimbabwe, the 2 per cent tax on electronic money transfers is doubled to 4 per cent on foreign currency transfers, to encourage the use of local rather than foreign currency.

- Different countries apply tax to different types of transfers (mobile-to-mobile, bank-to-mobile, mobile-to-bank, bank-to-bank). There is limited experience in sharing and exchanging perspectives on how to tax DFS across the African region. While specific

taxes usually apply to electronic transactions, transfers between bank accounts are not always covered. In Ghana, the only transfers from bank accounts to which the e-levy seems to apply are payments from a bank account to a MM account owned by someone other than the sender, and payments by an individual on an instant pay digital platform or application (although the terms are not defined in the Act nor in Guidelines. In Tanzania, the levy seems to apply to transactions within MM networks since 1 October 2022. The tax in Zimbabwe applies to all money transfers other than by cheque, and includes transfers of banks and MM operators.

- Different countries also have different approaches to taxing withdrawals. Uganda only taxes MM withdrawals. Since 1 October 2022, Tanzania has waived the transaction levy on cash withdrawals through bank agents and ATMs for transactions falling below TSh30,000. The levy remains in place for cash withdrawals via MM agents.
- Countries have different thresholds and ceilings. The e-levy in Ghana does not apply to a cumulative daily transfer of GH¢100 for MM transactions, compared to bank transfers below GH¢20,000. Tanzania applied a threshold of TSh100 until 30 June 2022, and TSh10 as of 1 July 2022. Zimbabwe has a local currency tax-free threshold of Z\$2,500 or foreign currency US\$5. Transactions of amounts exceeding the local currency Z\$165,000,000 attract a flat tax of Z\$3,300,000; transactions exceeding foreign currency US\$500,000 attract a flat tax of US\$20,000.
- DFS transaction taxation may cause a cascading system of multiple taxes as transactions pass through the system (e.g. deposits, transfers and withdrawals), depending on how it is handled. For instance, a double taxation issue may arise with specific taxes on transfers and withdrawals. Due to successful revenue-raising from DFS taxation in East Africa, other African countries are considering levying taxes on DFS transactions – suggesting peer-to-peer learning on at least one level.

Differences in the tax framework for transaction values may unintentionally create an uneven playing field for the DFS sector vs. banks and other TFS providers. Although a good source of public revenue for national development, policymakers need a deeper understanding of the market to determine whether DFS transactions are taxed reasonably. A well-designed tax is essential. To transform the African digital economy, it is necessary to address fiscal system flaws and unlock key enablers of digital economy connectivity. As the digital economy grows, it is necessary to balance increased short term revenue mobilisation and long-term tax collection. This can be achieved by implementing better monitoring and reporting systems that allow tax authorities to accurately track digital transactions and collect taxes in a fair and efficient manner.

Governments and tax authorities frequently see telecom goods and services – necessary for gaining access to DFS – as attractive and easy to tax. Taxing the telecom/digital sector more heavily than other sectors may stifle the use of digital technologies for accessing financial services, and hence DFS market growth (Section 3.4). Some governments apply a cascade system of multiple taxes, such as VAT and excise duties on telecom goods (e.g. mobile devices) and services (e.g. internet). Telecom sector taxation may create an additional burden on DFS consumer costs, and could potentially present barriers to increasing penetration and usage of DFS, particularly for those with lower incomes.

Are telecom/DFS and TFS providers taxed differently at an institutional level?

Only three of the countries researched focus on sector-specific taxation of telecom/DFS providers. The countries studied in West Africa (Côte d'Ivoire and Ghana) and Rwanda levy specific taxes on revenue or turnover of telecom/DFS providers, in addition to other taxes that affect the wider economy (Section 4.2). However, all providers are subject to general CIT. Côte d'Ivoire levies specific turnover taxes at 7.2 per cent on telecom companies and

companies performing mobile phone money transfer operations. Regulatory frameworks restrict telecom/DFS providers from increasing consumer prices in response to their additional tax costs. Ghana levies a national fiscal stabilisation levy of 5 per cent on banks and telecom companies. Rwanda levies national health insurance levies of 2.5 per cent/3 per cent on telecom companies to provide for a community-based health insurance scheme.

The way forward: towards a level playing field between DFS and TFS

Tax neutrality is key. Treating telecom/DFS providers and banks/other TFS providers differently, mainly with sector-specific taxes on telecom/DFS providers and transaction amount taxes, can affect the level playing field and market dynamics (Section 5.1). Taxing DFS transactions more than banking services, and vice versa, undercuts the basic principle of tax neutrality. The only way to level the playing field is to implement common tax norms uniformly (Section 5.2). Inconsistencies in the tax framework may hinder the development of the DFS sector compared to other sectors of the economy. Countries across Africa can improve their tax environment by looking at good practice in tax systems elsewhere.

Partner states could work towards a coordinated and consistent approach to taxing DFS and MM through regulatory collaboration, underpinned by a deeper impact analysis of taxes on DFS and consultation with providers and users. The individual approaches to DFS taxation show the limited extent of fiscal coordination. A transaction may be taxed in one country and not the other, creating potential barriers or mismatches (e.g. differentiation in the tax base, or a waiver in one country but not in the other). To address the different approaches identified (Section 6), it could be attractive to coordinate the taxation of telecom/DFS providers and users within – and ultimately across – regions, as well as with the traditional financial sector. A common approach for DFS taxation through regional tax coordination could be explored at the level of the East African Community (EAC) and the Economic Community of West African States (ECOWAS). Convergence of DFS taxation might also offer a practical framework for addressing more general problems, such as inefficient and detrimental tax competitiveness for foreign direct investment and trade barriers. National policymakers and officials could concentrate on aligning tax bases, rather than tax rates. Targeted evidence-based research is needed to secure government revenue and other economic-growth considerations, to define the optimal regional approach that is politically feasible, and create new measures or incentives. A logical starting point would be to conduct a joint study of intra-regional coordination of applicable DFS taxes. Alternatively, a model framework for DFS taxation with institutional support could be developed. This should ideally be a bottom-up strategy, guided by those most affected by the difficulties and challenges.

It is important to assess complementary reforms to foster competition and ensure customers benefit from lower taxation. The government could raise revenue from CIT on telecom/DFS providers, instead of flat-rate taxes like consumption taxes. Measures to address potential tax base erosion and profit shifting in the telecom/DFS sector (e.g. roaming arrangements, brand payments and transfer pricing) could help raise necessary revenue. Further analysis in more countries on DFS consumption taxation could identify progressive DFS tax models. One could consider higher tax rates on higher transaction values, rather than lower ones, combined with a tax-free bracket for common transaction amounts. Although phasing out consumption taxes on DFS transactions to ensure digital financial inclusion seems attractive, it will only be beneficial if competition or regulation prevents telecom/DFS providers from raising fees/charges to an equivalent level. From a regulatory perspective, countries in Africa can explore options to neutralise the cost for customers choosing to transact traditionally or digitally, while guaranteeing the tax base from a thriving difficult-to-tax industry. This requires a tax framework that is not discriminatory between the telecom and financial industries. In Côte d'Ivoire, the telecom/DFS providers cannot pass the tax burden on to the final

consumer. However, many markets are not fully competitive, and regulatory regimes often recognise tax as an admissible cost for calculating an otherwise-capped price.

1 Why is a comparative study on taxation of digital financial services compared to traditional financial services relevant?

1.1 Study context

Many people in Africa are not able to access traditional financial services (TFS) such as credit cards, and savings and current accounts. High construction and operational expenses of physical brick-and-mortar establishments (banks, post offices and ATMs), especially in remote locations, hinder the extension of TFS to the poor and vulnerable. People remain financially excluded when there is no cash-in/cash-out infrastructure.

The digital delivery of financial services could fill this vacuum. It can help those who lack the physical access, ID credentials and funds to have a formal bank account, to have access to important financial services – such as transfers, payment, savings, credit and insurance (World Bank 2022a; Pazarbasioglu et al. 2020; World Bank 2018). DFS can either work completely digitally, or interoperate with bank services (e.g. mobile or digital banking).¹ There are clear benefits of digital finance in the financial ecosystem – reduced costs for providers, increased speed for users, better transparency on money circulation for tax authorities, and monitoring against money laundering and terrorist financing for policy and security services (Better Than Cash Alliance 2015). Digital finance also opens up new economic opportunities, such as the ability for businesses to participate in the formal economy and enter new markets. This, in turn, promotes financial inclusion, empowers women, and contributes to inclusive economic growth (Mpofu and Mhlanga 2022: 184; Clifford 2020).²

Despite the benefits of DFS for financial inclusion and economic growth in Africa, the design of DFS tax systems, and their implication for DFS providers and users, appear to be moving in the opposite direction.³ Government and tax authorities in many countries across Africa impose a variety of taxes and fees on providers and users of DFS, particularly on transfers and withdrawals by mobile money (through telecom companies) and/or mobile banking (through financial institutions) – that are not imposed on TFS (Santoro et al. 2022: 16). The taxation frameworks of DFS are not always designed against well-known principles of good tax policymaking (equity, neutrality and simplicity), but mostly to close budget deficits. Access to DFS is governed not only by the general tax system, but also by specific taxes applicable to digital products and services,⁴ as well as the tariff schedules of the telecom/DFS provider. Tax differences between traditional and digital delivery of equivalent financial products and services increase the cost of digital delivery, potentially slowing digital

¹ Consumers can attach their mobile phone to their bank account to gain access to transactions (digital credit, insurance, savings, remittances and bulk payments) that were previously only available at a bank branch (i.e. mobile banking). Consumers can initiate digital payments on existing bank accounts from the apps of third parties.

² See also Aron and Muellbauer (2019).

³ Besides the tax framework, other legal and regulatory conditions (collection, monitoring, reporting, identification, etc.) of DFS compared to traditional finance appear to be fragmented in Africa.

⁴ Specific taxes in this report encompass: (i) on telecom/DFS providers: taxes that deviate from the broad-based standard tax schemes for other sectors; (ii) on DFS consumers: specific (nominal amount based on activity measures such as minutes, data and SMS) excise taxes or a differentiated VAT or sales tax on handsets and other devices, activations and connections, mobile usage and financial services.

roll-out and causing tax discrepancies. Unfavourable tax policy and regulatory conditions, partly because of lack of capacity, may hamper the digital delivery of financial services, especially when imposed regressively. Given the low use of traditional finance, this could disproportionately affect the poorest and most vulnerable people, potentially reversing Africa's digital and financial gains. Against this background, taxation frameworks are needed that stimulate the potential of DFS and meet the continent's sustainable development goals (SDGs) for financial inclusion (Mpofu 2022) and sustainable growth. These frameworks are especially crucial in the wait for a global agreement on an effective minimum CIT to add revenue to the budgets of governments.⁵

1.2 Research questions, motivation and objectives

The project addresses two basic research questions:

1. Are telecom/DFS users taxed differently from TFS users (consumer transaction/services taxation)?
2. Are telecom/DFS providers taxed differently from TFS providers at an institutional level (organisational costs/institutional level taxation)?

The project maps and analyses applicable DFS taxes and other charges across nine countries in Africa to identify the implications of taxation on DFS providers and users, and mismatches between the different taxes, levies and other charges collected. The assessment focuses on whether DFS in African countries are taxed differently to traditional finance at two levels (users and providers) in the current tax framework. This helps to determine whether this could: (a) result in DFS costing more to users, and (b) lead to higher costs for telecom/DFS providers, that may be passed on to users.

The study is conducted in some low-income (Burundi, Rwanda, South Sudan and Uganda) and lower-middle-income (Côte d'Ivoire, Ghana, Kenya, Tanzania and Zimbabwe) countries in Africa (World Bank 2022b). While only nine countries are covered in this study, the diversity in DFS taxation is broad enough to identify common themes and issues, and draw tentative conclusions that go beyond individual country's borders.

The study is motivated by the lack of comprehensive and up-to-date information on taxes and fees paid by DFS users and telecom/DFS providers across Africa. While many studies in recent years have explored taxation of the telecom sector and the benefits of digital finance (ITU 2016; World Bank 2014; Scott et al. 2017),⁶ few studies focus on taxation of DFS.⁷ These studies are primarily industry-funded and frequently delivered by stakeholders – mainly representing the interests of telecom operators. The result is a largely one-dimensional discussion on taxation of the telecom sector. Given the frequent changes and limited information publicly available, little is known about how taxes affect DFS providers and users, especially in terms of the total costs of DFS. To the best of our knowledge, no previous cross-country comparison of DFS taxation in relation to TFS has been conducted.

The comparative analysis aims to understand better how DFS are currently taxed by identifying the common threads and inconsistencies that may affect their development. We

⁵ Major reform of the international tax system achieved on 8 October 2021 aims to subject multinational enterprises (MNEs) to a minimum 15% tax rate from 2023 (OECD 2021, 2020).

⁶ See the many reports from the Global System for Mobile Communications Association (GSMA) (industry organisation representing the interests of mobile network operators worldwide) – e.g. GSMA (2021a, 2021b: 8-9, 2020b); Rogers and Pedros (2017).

⁷ In 2020 the GSMA looked into the causes and effects of taxes on MM in sub-Saharan Africa (Côte d'Ivoire, Malawi, and the Republic of the Congo and Uganda). The research tried to figure out why these taxes were proposed and to see whether there were any unforeseen implications - see Clifford (2020). Lees and Akol (2021) evaluates if the tax policymaking process that resulted in adopting a tax on MM transactions was appropriate. See also Pushkareva (2021).

consider market growth for all forms of financial services and achievement of financial inclusion objectives, as well as opportunities for improving the design of this part of the tax system. The report aims to help the industry, policymakers, regulators, tax authorities and development partners in developing countries to better understand DFS taxation better, while contributing to the design of long-term fiscal policies targeting DFS services. A deeper understanding of the trade-offs involved may allow better decisions in designing these policies, and minimise the potential negative effects of taxation on financial inclusion. The study should help government officials and researchers to identify features in their own systems, or systems they are researching, that may distort the local market, add costs or hamper progress towards digital delivery and financial inclusion. The report can assist the development of a more rational policy that is better aligned with broader government economic and social policy objectives.

1.3 Methodology

The research identifies relevant legislation in the nine countries that form part of the study. The comparative study shows how policymakers have addressed the challenges of designing taxation of (digital) financial services that contribute to an appropriate level of revenue to fund government spending, while ensuring that the benefits of digital (financial) inclusion continue to flow to citizens, businesses and the government itself. The study highlights successes and shortfalls in achieving the right balance between generating revenue and strengthening financial inclusion. It sheds light on how policy processes and policy designs can influence this. Country studies of tax and contribution schemes illustrate the diverse experiences, challenges and gaps in digital development across African economies.

The report relies on comparable data across the selected African countries to effectively assess and benchmark the DFS tax landscape – this was collected from legal desk-based research. Complementary sources include, but are not limited to, the Groupe Speciale Mobile Association (GSMA) intelligence and country reports, the International Telecommunication Union (ITU), Deloitte and PwC Tax Summaries and reports, OECD's and IBFD's tax databases, and countries' tax legislation and regulations. Information on customs duties about DFS equipment and infrastructure, devices and SIM cards was collected from the World Trade Organization (WTO).

1.4 Categorisation and limitations

This report concentrates on the current situation regarding DFS taxation in the nine countries. The categorisation and analysis of DFS taxation in the selected African countries comes with four limitations that provide potential areas for further research.

First, the research recognises, but does not examine, the repercussions of DFS taxes, particularly whether DFS taxation results in financial services becoming less affordable for users, negatively affecting the region's development and people's daily well-being. The study's objectives do not include a detailed assessment of how DFS taxes have a broader social and economic impact. Quantifying the impact on the development of the financial market, as a result of implementing and amending taxes, is outside its scope. It would be useful to investigate the overall impact on DFS uptake. Further research could assess how uncertainty and lack of predictability in the tax regime affect service providers' business and investment decisions or perceptions of business and investment opportunities in the financial services market.

Second, categorising and benchmarking individual policy actions for the DFS sector in African countries requires some judgement and assumptions. Hence, the actual cost before tax of telecom channels (phone, airtime, etc.) and the broader question of the overall taxation of banks and telecom/DFS providers at the firm or sector levels, such as tax planning and compliance initiatives, lie beyond the study. Information and legislation publicly available on telecom/DFS taxes and fees differ widely across African countries in terms of detail and specifics.

Third, the study makes an effort to depict the most relevant taxes on providers and users. An exhaustive list of the different fees applied to the African telecom/DFS sector is beyond the scope of this report, given their large number. The breadth and depth of data required to assess state-of-the-art taxing DFS in Africa is considerable, as it spans multiple telecom/DFS providers. Gaps in existing data must be filled to provide a comprehensive picture of the DFS landscape.

Fourth, the comparative analysis allows us to standardise and compare DFS policies across African countries from well-recognised principles of good tax policy (efficiency, simplicity, equity, etc.). The findings do not give conclusive evidence on the quality of a country's DFS tax framework, nor consider other fiscal policy variables within the specific country context – such as fiscal space, implementation capacity, pre-existing spending and coverage gaps, and the policy's cost. The findings present governments and policymakers with a benchmark against which to make their assessment.

1.5 Rationale for country selection

The selection of countries for this comparative research was driven by a number of factors.⁸ Each country has recently considered, proposed, or already imposed taxes on DFS (e.g. specific taxes on turnover or revenue of telecom/DFS providers, telecom goods and services and transaction taxes).

West Africa is an important market for the DFS sector, and has a history of measures for taxing DFS. Ghana and Côte d'Ivoire have introduced a variety of specific taxes and levies that have led to different responses from citizens. Both countries have arguably significant weaknesses in the fiscal-social contract of governance that makes these taxes difficult at one level, but important at another.⁹ The quality of tax legislation, and the way in which tax policy is developed, provide points of contrast and similarities to the EAC partner states.

Several EAC partner states are natural choices for the study given their pioneering regulatory environment in taxing DFS, and key features of how they have addressed taxation challenges. These include Uganda, Tanzania, Kenya and Rwanda. Collectively, the EAC partner states have entered into a broad commitment to harmonise tax policies to the extent that it is necessary to remove tax distortions.¹⁰ The continued individualised nature of their approach to the taxation of DFS is of particular interest, supporting the inclusion of Burundi and South Sudan – hence the six EAC partner states in the study.¹¹ The disparity in measures they have introduced appears to highlight the difficulty of achieving a common approach in a complex area of taxation with national as well as EAC-wide interests to

⁸ The countries selected are Côte d'Ivoire, Ghana, Kenya, Rwanda, Tanzania, Uganda, Burundi, South Sudan and Zimbabwe.

⁹ Referring to the ability of the state to collect taxes in the belief that the benefits of this would be returned to them and their well-being, e.g. through public goods.

¹⁰ Partner states commit themselves to 'harmonize their tax policies with a view to removing tax distortions in order to bring about a more efficient allocation of resources within the Community' (Article 83 (2)(e) of the East African Community Treaty 1999).

¹¹ At the time of data collection for this report, the Democratic Republic of Congo (DRC) was not part of the EAC. The DRC was admitted as a member of the EAC on 29 March 2022, and formally joined on 11 July 2022.

consider. The trend towards more interconnected taxation of DFS in East Africa may provide an opportunity for deeper integration.

Zimbabwe, in south-east Africa, is an interesting case study as it has applied an *ad valorem* tax on the value of the transaction for a long time. This appears to increase the cost of digital payments compared to traditional cash payments. The system has been adjusted over time, and its current structure and incidence merit closer examination.

1.6 Structure of the report

The report assesses the taxation of DFS in nine selected countries from a comparative viewpoint. Section 1 introduces why a comparative study on taxation of DFS and TFS in selected African countries is useful. By way of a theoretical outlook, Section 2 defines the scope of DFS, the focus on MM, followed by a discussion of the market, tax and pricing landscape in the nine selected countries. Section 3 assesses the transaction costs for users transacting digitally compared to traditional transactions and briefly outlines the telecom taxes (on handsets and other equipment, activation and connection charges, and taxes on usage) – an additional burden to adopting DFS. Section 4 identifies the various taxes and fees for telecom/DFS providers compared to banks and other providers of TFS, using regional comparators for benchmarking. The study discusses the taxes telecom/DFS providers must pay to operate, including CIT, sector-specific taxes, and other relevant taxes such as VAT, customs duties, regulatory fees, and withholding taxes (WHTs) on agent commissions. Section 5 presents general observations from the assessment highlighting the (un)even playing field for telecom/DFS providers and users compared to traditional finance institutions and actors, with substantive observations in Section 6.

This research contributes to the research agenda of ICTD's DIGITAX programme, where we suggest ways to achieve a neutral tax environment, reduce friction, enhance beneficial competition in the TFS/DFS market and minimise any negative consequences for telecom/DFS providers and users as a result of the taxation framework.

2 The DFS and TFS landscape: scope, market, pricing and taxation

To capture as comprehensive as possible a picture of taxation of DFS in the country studied, Section 2.1 described financial services delivered via traditional and digital means, disaggregated by medium, transactions, and providers. Section 2.2 outlines the market landscape in the nine countries, followed by a discussion of the pricing landscape in Section 2.3. By way of an introduction to the comparative analysis of the tax framework at the consumer and the financial service provider levels, Section 2.4 gives descriptive insights into many layers of the relevant tax framework, discussed more in-depth in the following sections.

2.1 Financial services delivered digitally and traditionally

Traditional financial services (TFS) differ from digital financial services (DFS) in several ways, with major tax implications. The term 'traditional financial services' typically refers to financial services offered by regulated financial institutions and accessed through physical means, such as visiting a bank branch or an ATM (Malady and Buckley 2015: 33).

This report uses commonalities in existing definitions by international organisations and policy networks for digital financial services (Annex 1). Digital financial services refer to financial services accessed and delivered through digital channels, particularly MM, which are available to those unable to use TFS. The service must offer an interface for initiating transactions for agents and users that is available on digital devices.

While this report mainly distinguishes between branch-based (i.e. TFS) and branchless (i.e. DFS) financial services, it is important to clarify the reality is less binary, as banks and other financial institutions typically play a role in any DFS provision. For instance, with mobile banking and other payment services (such as Apple Pay and Google Pay) a mobile phone can be used to access traditional banking products.¹²

Table 1 identifies three main elements distinguishing DFS from TFS, discussed more extensively in the following sections. The channels enable several financial services and transactions, such as deposits, transfers/payments and withdrawals.

Table 1 Traditional financial services vs. digital financial services

	Traditional financial services	Digital financial services
Medium/ infrastructure	Traditional/physical infrastructure: traditional channels of branches and ATM networks, particularly brick-and-mortar	Digital infrastructure: digital (electronic) channels, particularly mobile phone, computers, tablets Physical transactional points can include agents (outside bank branches and ATMs) that make the service widely accessible to everyone.
Financial services	Physically deposit money Money transfers Money payments Money withdrawal	Converting cash to electronic funds through physical deposit of money (i.e. through an agent) Peer-to-peer (P2P) electronic/mobile money transfers Digital payments (including bill payment, bulk disbursement and merchant payments) Withdrawing cash from electronic/mobile money account
Type of financial service providers	Traditional financial institutions, mainly banks, credit union, or another financial institution (e.g. cooperative, microfinance institution) or the post office	Primarily by telecom operators; also in partnership with financial institutions (banks, leasing companies and microfinance institutions) and fintech Agency networks allow to reach the unbanked

Source: Author’s categorisation of DFS and TFS for the purposes of this report.

2.1.1 Type of medium/infrastructure

The traditional channel for TFS refers to brick-and-mortar branches (banks, other financial institutions and post offices), or ATM networks. In many developing countries, there has been relatively little access to and use of financial services, because of the low density of physical bank branches in remote and difficult-to-reach places.

For DFS, the digital (electronic) channel includes mobile phones (including smartphones), computers, the internet, electronically enabled cards, tablets, and any other digital or electronic system to access and deliver DFS. Electronic money refers to the use of an electronic device (mobile phones, but also SIMs, chips, pre-paid cards, tablets or any other computer system) to access and execute financial transactions. Mobile money refers to the use of a mobile phone to access financial services and execute financial transactions.

The focus of the report on MM as a form of electronic money is threefold:

- DFS taxation is directed towards electronic money, particularly MM, at the level of telecom companies and their users. Taxation plays a significant role in the costs that may be incurred when using MM, notably in sub-Saharan Africa.

¹² A bank account holder can complete transactions via commands from a mobile platform. MM account holders do not require a bank account.

- MM is the most widely used electronic payment instrument driving financial inclusion in the selected countries,¹³ as well as the African continent more generally, allowing for appropriate comparisons (AFI 2021: 5).
- MM is commonly used as the rails for the development of additional fintech products and applications.¹⁴ While MM began with basic P2P transfers, it has now expanded to other sophisticated consumer services, including digital savings, lending, insurance, and investment, as well as pensions, credit, remittances and innovative financial services (microfinance, QR code payment, etc.). Other DFS than MM are still in their infancy, and relatively small compared to MM. These developments have the potential to make markets more diverse, competitive, efficient and inclusive. These digital innovations are often outside the scope of the existing tax framework.

The DFS ecosystem often engages with a network of third-party intermediaries, agents and others to boost accessibility and reduce delivery costs (IFC 2019: 1). By default, agents are local retail stores that act as the face of the telecom/DFS providers (Kerse et al. 2020). Agents usually enable users to convert cash into electronically stored value (cash-in), and to transform stored value back into cash (cash-out). MM agents in remote and difficult-to-reach places have significantly increased access to financial services in several markets. Country-specific data shows an (increasing) presence of MM agents (nearly 2,000 per 1,000 km²) compared to the stable presence of commercial banks (on average 4 per 1,000 km²).¹⁵ The expansion of agency banking also needs to be considered – for instance, the number of access points for banking services has significantly increased in Uganda.¹⁶

2.1.2 Type of financial services

Although it is important to understand and evaluate the current tax system in light of the emerging financial services landscape, the comparative analysis in this report focuses on the tax framework of the following common financial products and services (transactions) as the most important uses in the countries studied (Figure 1):

- Deposits: cash to account, where value is stored electronically with a bank or non-bank (i.e. cash-in).
- Transfers/payments: P2P transactions making transfers, eventually with an accompanying exchange of goods or services (payments) (i.e. account-to-account).
- Withdrawals: account to cash, where money is collected from the account (i.e. cash-out).

The entry of mobile phones into the financial services scene has been a major factor in financial inclusion, when there are few bank branches and little ATM infrastructure. DFS are substitutes for TFS, tailored to those unable to access TFS. Depositing money is replaced by converting cash to electronic funds stored in an electronic/mobile money account. Financial services, such as transferring money, are replaced by P2P electronic/mobile money transfers. Agents allow for cash withdrawals from the electronic/mobile money account.

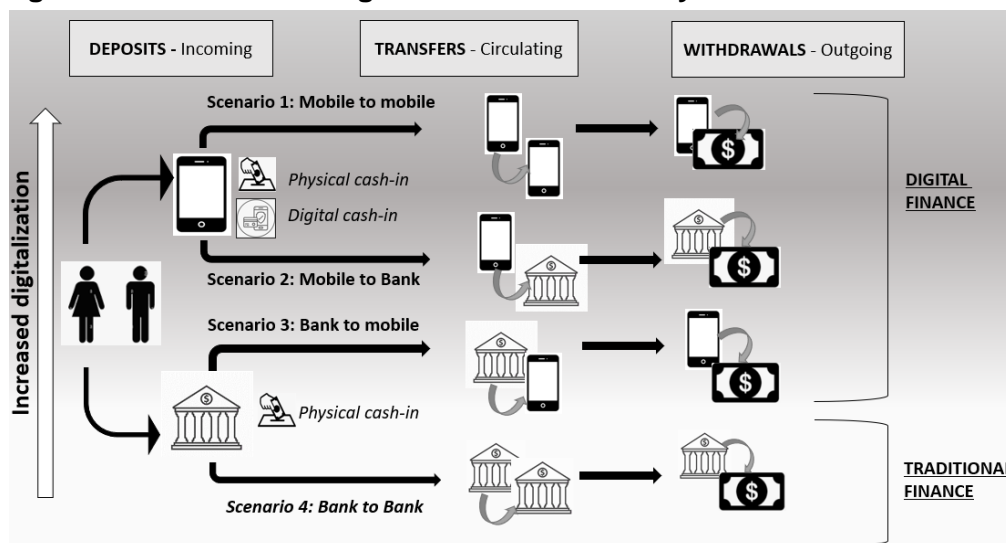
¹³ Electronic payment is defined as any payment made via an electronic funds transfer (AFI 2016: 9).

¹⁴ Digital innovation is transforming financial services with implications for the industrial structure of finance. P2P or marketplace lending, insurance technology and crypto-assets are examples of financial technology innovations. Although fintechs are still small players, the DFS ecosystem is increasingly characterised by new players and business models that introduce technological interventions into personal and commercial finance (Feyen et al. 2021; Frost et al. 2021).

¹⁵ IMF FAS data between 2014-2021, based on the average number for the nine countries (IMF 2021b).

¹⁶ IMF FAS data show an increase of 5,393 in 2018 to 22,305 in 2021 in the number of non-branch retail agent outlets of commercial banks (IMF 2021b).

Figure 1 Traditional vs. digitalised financial ecosystem in Africa



Note: Traditional financial services (scenario 4) are in italics.

Over the past ten years, the DFS development has welcomed a wide range of financial services delivered through digital channels, including savings, remittances, credit and insurance, which are becoming more important as the market develops. The digital supply of financial services is especially relevant in the aftermath of Covid-19, where contactless transactions were promoted. Individuals, households, businesses and governments can use DFS to access financial services without having to go to a bank branch or deal face-to-face with the financial service provider (GSMA 2019a; Aron 2018; World Bank 2018).

2.1.3 Type of financial service providers

The market of providers of DFS in Africa has expanded, diversified and matured during the last decade. Depending on the local regulatory framework and market dynamics,¹⁷ DFS are provided by:

- mobile network operators (MNOs, also known as telecoms),
- financial institutions (banks, leasing companies and microfinance institutions), and
- increasingly new entrants in the financial sector (fintech solutions).

Table 2 lists the key players of MM providers in the countries studied. While many market participants are operating in Ghana, Kenya and Côte d'Ivoire, only fintech firms offer MM in South Sudan. Market share is not included because there is no standard definition, and several countries lack statistics. Annex 2 provides more details on technology, banking and other partners.

Many key players (46) delivered MM in the countries studied at the time of writing this report. MNOs have typically dominated the DFS market, particularly for MM services, due to their experience with high-volume, low-value transactions and large networks of airtime distributors (non-bank-based) (McKinsey & Co. 2017).¹⁸ MNOs often get support from a banking partner to supply other products in addition to payments, such as deposits and consumer loans. Banks are increasingly forming partnerships with MNOs to offer accessible

¹⁷ In a bank-based model, consumers have a contractual relationship with a licensed financial institution (even though consumers may deal exclusively with non-bank agents who carry out transactions on the bank's behalf). In a non-bank-based model, consumers have a contractual relationship with a non-bank financial service provider, such as an MNO or an issuer of stored-value cards, which is licensed or permitted by the regulator to provide DFS (Nuryakin et al. 2017).

¹⁸ See also Shirono et al. (2021).

and affordable services beyond the historical target market, and are investing in their digital operations to build new ways of banking.¹⁹

Table 2 Key players of providers of MM services in the countries studied

	Mobile network operator	Financial institutions	Fintech companies
Burundi (4)	Econet Leo, Lumitel, Smart		MobiCash
Côte d'Ivoire (8)	Orange, MTN, Moov,	Celpaid (microfinance)	Qash Services, Wizall, Wave, Kash Kash
Ghana (6)	AirtelTigo, MTN, Vodafone	Ghana Commercial Bank	Zeepay Ghana Limited, Palmpay Limited
Kenya (5)	Airtel, Safaricom, Telkom	Equity Bank	Mobile Pay Ltd
Rwanda (3)	MTN, Airtel		MobiCash
South Sudan (2)			Trinity Technologies, Nilepay PLC
Tanzania (7)	Zantel, Airtel, Tigo, Vodacom, Viettel eCommerce, TTCL		Azampay
Uganda (8)	UT Mobile, Airtel, MTN, Africell, Lyca Mobile		EzeeMoney, Mobicash, Micropay
Zimbabwe (3)	Econet Wireless, NetOne, Telecel		

Source: GSMA (2022b); Website of the MM providers; Reports from the regulatory agencies for telecommunications and news articles.

Banks and other (fintech) companies – not directly associated with an MNO – have increasingly introduced digital channels. By doing this, traditional African banks are looking to penetrate the established telecom market.

Lastly, new entrants in the financial sector, such as neobanks, P2P lending platforms and big tech firms, have recently acquired a strong foothold in the market (Sahay et al. 2020; IFC 2019: 1; Claessens and Rojas-Suarez 2020: ii).

Effective competition in DFS provision depends on the number of providers and their relative market power. Economic theory predicts that the amount of price-based competition in the market will significantly impact how the tax burden is distributed. With more price-based competition, or viable substitutes, providers are more likely to absorb part of the tax burden (resulting in reduced profits and potentially investment). With less competition, providers will be able to pass tax increases on to users through price increases (Munoz et al. 2022: 14). If the tax burden is passed on to users there could be an effect on welfare – vulnerable groups like low-income individuals, those working in the informal sector, and women are likely to be most affected.

2.2 Market landscape

2.2.1 Comparative access and usage data

Table 3 shows comparative DFS data on access to and usage of TFS and DFS for the selected countries from various sources. When looking at the data, noticeable differences in terms of access²⁰ and usage²¹ exist between TFS and DFS in the nine countries studied:

¹⁹ An example is M-Shwari in Kenya, a partnership between the Commercial Bank of Kenya (mid-sized Kenyan bank) and Safaricom (leading Kenyan telecom company) (Pazarbasioğlu et al. 2020: 2; Denyes 2019).

²⁰ Traditional financial services, represented by the number of ATMs (per km² and 100,000 adults) and commercial bank branches (per km² and 100,000 adults). Digital financial services, represented by: i) access to digital infrastructure measured by the number of mobile subscriptions per 100 people, and fixed broadband subscriptions (per 100 people) to function as the digital channel to access financial services, and ii) access to digital financial infrastructure represented by access to mobile money agents (per km² and 1,000 adults) and MM accounts of which are essential for mobile money.

²¹ Traditional financial services, represented by the ownership of financial institution account, as well the savings, debit cards and receiving and making utility payments via a financial institution account (all measured for adults + 15 years). Financial institution account refers to an account at a bank, credit union or another financial institution (e.g. cooperative,

- Access to TFS is relatively high in Ghana and Rwanda, and low in South Sudan and Burundi. Usage of TFS is relatively high in Kenya and Ghana, and low in South Sudan and Burundi.
- Access to DFS is relatively high in Ghana and Côte d'Ivoire and low in Zimbabwe. Usage of DFS is relatively high in Kenya and Uganda, and low in Burundi and South Sudan. Digital inclusion improves significantly for countries with low traditional financial inclusion. For instance, Côte d'Ivoire and Uganda have relatively low levels of traditional financial inclusion, but relatively high digital (financial) inclusion.

Table 3 Comparative overview of 'access to' and 'usage of' TFS and DFS using existing databases

	Côte d'Ivoire	Ghana	Kenya	Rwanda	Tanzania	Uganda	Burundi	South Sudan	Zimbabwe
Population (UN population division), 2021, in million	27.1	31.7	55	13.3	61.5	47.1	12.3	11.4	15.1
TRADITIONAL FINANCIAL SERVICES									
Access to traditional financial infrastructure (IMF, FAS)	[2021]	[2021]	[2021]	[2021]	[2014]	[2021]	[2016]	[2021]	[2021]
ATMs per 1,000 km ²	4	10	4	14	2	5	3	0	1
ATMs per 100,000 population	7	11	7	4	6	4	1	1	6
Commercial bank branches per 1,000 km ²	2	10	3	11	1	3	7	0	1
Commercial bank branches per 100,000 population	5	12	4	3	2	2	3	1	6
Number of depositors with commercial banks per 1,000 adults	346	718	/	288	0 (2015)	542	33 (2015)	87	511
Usage of traditional financial infrastructure (WB Global Findex 2021)	[2021]	[2021]	[2021]	2017	[2021]	[2021]	[2014]	[2021]	[2021]
Financial institution (FI) account (%)	21%	39%	51%	37%	23%	37%	7%	5%	29%
Savings at financial institution (%)	6%	21%	21%	19%	6%	16%	4%	1%	4%
Debit card (%)	8%	17%	22%	5%	13%	18%	1%	1%	18%
Received wages in FI account (%)	3%	9%	13%	7%	4%	7%	/	/	9%
Made utility payment via FI account (% in labour force)	3%	1%	14%	2%	7%	7%	/	/	7%
DIGITAL FINANCIAL SERVICES									
Access to digital infrastructure (ITU)	[2020]	[2020]	[2020]	[2020]	[2020]	[2020]	[2020]	[2020]	[2020]
Mobile subscription per 100 people	152	130	114	82	86	61	56	12	89
Fixed broadband subscriptions per 100 people	1	0	1	0	2	0	0	0	1
Access to digital financial infrastructure (IMF FAS)	[2021]	[2021]	[2021]	[2021]	[2014]	[2021]	[2016]	[2021]	[2021]
MM agents per 100,000 population (active)	1623	2207	/	1445	0	1169	NA	/	0

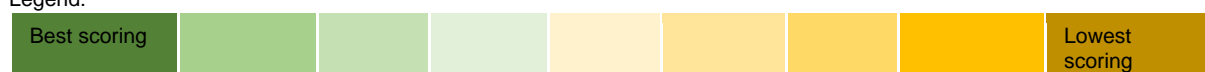
microfinance institution) or the post office. Digital financial services, represented by the ownership of a mobile money account, as well as the use of mobile phone or internet to pay bills, as well as to make digital and utility payments and receive wage payments (% of 15+).

MM agents per 100,000 population (registered)	2139	2896	875	1542	0	1854	NA	/	0
Registered MM agents per 1,000 km ²	810	2549	524	5042	269	2373	NA	/	0
Number of registered MM accounts per 1,000 adults	2877	2412	1995	1904	1500	1277	NA	/	1461
Number of active MM accounts per 1,000 adults	1312	894	/	635	502	884	NA	/	466
Usage of digital financial infrastructure (WB Global Findex 2021)	[2021]	[2021]	[2021]	[2017]	[2021]	[2021]	[2014]	[2021]	[2021]
Mobile account (% age 15+, in labour force)	44%	64%	75%	32%	50%	58%	1%	2%	56%
Use of mobile phone or internet to pay bill (% in labour force)	22%	12%	50%	5%	21%	28%	/	2%	26%
Made utility payment via mobile phone (%)	13%	8%	30%	8%	20%	21%	/	/	14%
Made a digital payment (% age +15)	46%	64%	76%	32%	48%	61%	2%	4%	56%
Received wages through mobile phone (% age +15)	5%	6%	18%	6%	4%	11%	/	/	7%

Note: The highest scoring economy on the indicators is in green; the lowest scoring economy in dark yellow. For IMF data, NA indicates that there are no MM services in the country. For other series it indicates a lack of statistical data, either because the financial institution does not exist in the country, or because it falls outside the reporting authorities' coverage.

Sources: Population as per World Bank (2021d). Access to traditional and digital financial infrastructure as per IMF (2021b). Access to digital infrastructure data as per ITU, retrieved from the World Bank, *World Development indicators*. The usage data is World Bank's Global Findex data 2021 (World Bank 2022a).

Legend:



DFS/MM is more popular than banks in the countries studied, apart from Burundi and South Sudan. Telecom/DFS providers have amassed more account holders than Africa's major banks by utilising extensive mobile phone networks.

An interesting example is Côte d'Ivoire, where adults usually have multiple MM accounts (IFC 2015), whereas only about one in four people have deposits in a bank account. This could reflect high cross-network charges. People have multiple accounts to avoid paying those charges. This also allows MM providers to overstate penetration levels. MM services run by MNOs have leveraged widespread mobile phone networks to amass more account holders than Africa's major banks. Also, agents of payment service providers could facilitate access to DFS and narrow the gap (Unnikrishnan et al. 2019).

2.2.2 Country profiles

Africa leads in DFS uptake, yet there is still unrealised potential. While East Africa has long been the star performer in the development of DFS, particularly MM, West Africa's share is growing (GSMA 2022a: 18; GSMA 2019b: 28). An enabling legal and regulatory framework is crucial for DFS development.

Burundi had one of the lowest levels of financial inclusion in Africa a decade ago. Recent MM advances and in-country studies suggest that the use of DFS has dramatically altered

the financial ecosystem (Ntahomvukiye et al. 2021: 60). Global Findex data reports that, in 2014, only 7 per cent of adults had access to a bank account (data for 2017 and 2021 is absent). The World Bank reported an increase in MM and digital payments based on a survey in 2018 (World Bank 2020c). This increase could be attributed to the expansion of MM services enabling regulatory reforms, as well as relaxation of MM service provisions.²² Increased use of MM has yet to translate into greater financial inclusion. Mainly telecom providers, and one fintech company, offer MM services. Significant obstacles remain, including a lack of access to mobile devices, weak digital literacy, and difficulty in providing universal access (World Bank 2020c: 18).

Côte d'Ivoire has one of the most developed West African DFS markets and was ahead of its peers in setting the stage for DFS. In 2021, only 21 per cent of adults had a financial account with a licensed financial institution.²³ MM emerged as the most important contributor to financial inclusion, accounting for an increase in MM account ownership between 2014 (24 per cent) and 2021 (44 per cent) (World Bank 2022a).²⁴ This increase is due to new-found stability after the political crisis, and new and effective tactics by MM providers (World Bank 2016; Morisset 2016; IFC 2018: 81). The importance of DFS can be seen in cocoa farming, which is dominated by informality. Although most farmers do not have access to formal bank accounts, more than half of them have an MM account (Desai and Spencer 2016; Lonie et al. 2018). DFS provision is more competitive than other markets, thanks to multiple providers (8) and the mature market.²⁵ The increased penetration rate is driven, in part, by people having more than one SIM card. Price-conscious users take advantage of offers from various mobile network providers. Both leading telecom providers and microfinance institutions and fintech companies offer DFS.

Ghana's progress in terms of financial inclusion has accelerated thanks to rapid growth of DFS. In addition to traditional bank channels, telecom providers were able to offer MM accounts when agency banking in 2008²⁶ and e-money regulations in 2015²⁷ were revised. Ghana has the second-highest MM account ownership in the countries in this study in 2021 (Pazarbasioglu et al. 2020: 18). Despite its robust digital payment infrastructure Ghana remains a cash-based economy due to the high cost of digital payments, which is regularly passed on to users (World Bank 2019a: 19). Telecom/DFS providers (Airtel-Tigo, MTN and Vodafone), as well as banking and fintech institutions, offer MM. Bank account ownership, with over 39 per cent of adults, is higher than in peer countries (World Bank 2022a; Dokua Sasu 2022).²⁸

Kenya has been East Africa's digital leader in scale and innovation since the launch of M-Pesa in 2007. Kenya's mobile penetration rates are one of the highest globally (along with Côte d'Ivoire and Ghana).²⁹ The high number of active (as opposed to registered) mobile subscribers can be attributed to more individuals adopting technology and using mobile

²² The government released two National Financial Inclusion Strategies (NFIS) in 2015 and 2018 to increase financial services in rural areas, NFIS 2015-2020 and NFIS 2018-2027. Due to a lack of resources, the first NFIS was never implemented. The second NFIS did not materialise many of the strategic commitments (World Bank 2020c: 19, 79).

²³ Earlier research shows that few Ivorians choose to save in a bank because of the cost and travelling distance, as well as the transaction cost (IFC 2018: 81).

²⁴ See also Riquet and Mattern (2019); ARTCI (2021: 17), and ARTCI data on internet and téléphonie mobile; Oxford Business Group, *Mobile banking in Côte d'Ivoire*.

²⁵ In 2006, the Central Bank of West African States (BCEAO) released its Guidelines for Electronic Money Issuers, which allowed banks and non-banks to issue e-money and establish agent networks. In 2008, Orange launched its first DFS, followed by MTN two months later and Moov in 2013.

²⁶ The Bank of Ghana issued the 2008 branchless banking regulations, aiming to bring more Ghanaians into the banking system and promote the accessibility of services by enabling the use of agents and requiring systems to be interoperable, making it simpler to transfer money across networks.

²⁷ The Bank of Ghana issued the 2015 Guidelines for E-Money Issuers in Ghana to allow non-banks to establish, own and manage an electronic money business in the form of a separate entity to be supervised by the Bank of Ghana.

²⁸ See Larquemin (2020).

²⁹ i.e. the number of unique individuals who have regular access to a mobile phone, mobile account, etc.

phones for daily activities, as well as a growing need for convenient financial services, fueled by the Covid-19 pandemic (Communications Authority of Kenya 2022; CBK 2022). DFS is offered by banks, MNOs and an increasing number of fintechs (World Bank 2019c: 38). Kenya's rise as a fintech hotspot was spurred by favourable regulation. Inefficiency in traditional financial institutions, caused by political crisis, left Kenyans with little alternative to using MM. MM account rates (75 per cent) surpassed financial institution account rates (51 per cent) in 2021. Safaricom's M-Pesa dominates the MM market (O'Dea 2021). M-Pesa and other digital platforms contributed to financial inclusion, as well as associated innovation (e.g. e-commerce, agri-insurance) (World Bank 2019c: 10).

Rwanda is committed to advancing financial inclusion and promoting DFS. The latest Global Findex data for Rwanda (from 2017) reports that 37 per cent have an account with a financial institution, while only 31 per cent of adults had an MM account. Several challenges were reported to hinder the development of the DFS market, including limited interoperability between providers, a cash-dominated economy, gaps in network infrastructure, and low levels of financial literacy and product knowledge (BNR 2017: 27-29; Finscope Rwanda 2020: 4). The National Bank of Rwanda describes a rapid expansion of DFS, primarily due to mobile payments and internet banking (BNR 2021a: 8-9). Two telecom operators and one fintech company offer DFS.

In **Tanzania**, the MM channel is relatively important for providing access to financial services, given the adult population's low use of bank products (IFC 2018: 174; TCRA 2021: 10). Since telecom operators were allowed to offer financial services in 2006 and MM services were launched in 2008, use of MM has grown rapidly. Global Findex notes that nearly 50 per cent of adults made digital payments in 2021, although the Bank of Tanzania reports that 78.4 per cent of adults accessed DFS through mobile phones in 2020/2021 (Bank of Tanzania 2021: 55). Unlike the Kenyan market, the Tanzanian DFS market is characterised by competition between MM providers (but Tanzania still has by far the highest provider charges in the region) (IFC 2018: 174). Active competitors are Vodacom M-Pesa (39 per cent) followed by Tigo Pesa (26 per cent), Airtel Money (22 per cent), and a handful of small providers (10 per cent Halopesa, 4 per cent TTCL).³⁰ The increase in financial inclusion is largely due to high growth in using formal financial products from institutions other than banks, which predominantly reflects the uptake in use of MM services.

Uganda has experienced a similar significant growth in the number of registered MM customers, MM transactions and the value of MM transactions in recent years (Mawejje and Lakuma 2019; FSD Uganda 2018: 10; BOU 2021). The government understands the importance of MM adoption and evolution for expanding financial inclusion; this is a key pillar of its national financial inclusion strategy (BOU 2017).³¹ A series of reforms in Uganda's telecom sector since 2009 have resulted in the country having one of the region's most competitive markets. Uganda requires MM operations to be separate from traditional telecom providers, and they are regulated by the Bank of Uganda. The Bank of Uganda has licensed payment system operators, payment service providers, and issuers of payment instruments following the National Payment Systems (NPS) Act in September 2020, and gazetting of the NPS Implementing Regulations on 5 March 2021. Several telecom operators (MTN Uganda, Airtel Uganda, Uganda Telecom (UTL)) and fintech institutions (M-Cash and EzeeMoney) deliver various DFS on their platforms.

South Sudan still has difficulty in creating an enabling environment. This has led to low adoption of DFS, despite the recent expansion in DFS business, and progress on regulatory

³⁰ Measured in terms of all active SIM cards with MM service accounts which have registered an activity/have been used at least once in the past three months (TCRA 2022: 10).

³¹ See also Ebong and George (2021: 393); UCC (2021: 20).

elements. In 2021 only 5 per cent of the population had an account with a financial institution. Distance and affordability (lack of financial resources to use financial institutions) are barriers to accessing bank services (World Bank 2019b: 9-10). South Sudan's telecom sector is among the least developed in the world, making it difficult for MM services to gain traction. This has resulted in one of Africa's lowest rates of mobile phone penetration. South Sudan has one of the lowest percentages (4 per cent) of people who made digital payments in 2021 in the countries studied (World Bank 2022a). Increased liberalisation and competition following the country's independence in 2011, notably in the telecom sector, showed the potential for rapid growth and service expansion. After the outbreak of civil war in 2013 growth fell dramatically, wiping out many of the prior gains. Network coverage decreased as towers were destroyed or damaged. Investors were discouraged by growing input costs, which resulted in volatility and market uncertainty (World Bank 2019b: 4-5). M-Gurush and Digital are South Sudan's pioneers in offering DFS.

Zimbabwe has made significant digital progress, including a MM revolution, with DFS becoming popular because of ongoing cash shortages. DFS have contributed to increased financial inclusion (Mago and Chitokwindo 2012: 221; Hawthorne et al. 2020: 60, 66). The significant growth in usage for airtime, bill and merchant payments in Zimbabwe, compared to cash-in and cash-out, is a critical feature of MM usage (Hawthorne et al. (2020: 64).³² The digital payment system is well-developed, and digital payments for goods and services have increased.³³ Nearly all transactions (96 per cent) in the formal sector in 2021 would have been conducted digitally, with only 4 per cent relying on cash. In the informal sector, the opposite is most likely true. Around 7.1 million Zimbabweans use mobile wallets (World Bank 2021a and 2021b). Internet connectivity is limited (World Bank 2021c: 23). Digital financial transactions have a high cost. Ecocash is Zimbabwe's main telecom/DFS provider, with NetOne and Telecel holding minor market shares.

Despite positive developments across the selected countries, there is still a long way to go in terms of access to affordable financial services. DFS may offer convenient and affordable financial services that can increase financial inclusion and economic opportunities for the poorest, provided that the tax burden and provider charges are effective and pro-poor.

2.3 Pricing landscape

2.3.1 Pricing strategy of financial service providers

The dynamic and multi-faceted DFS pricing landscape makes it difficult to interpret actual provider pricing structures difficult. Transparency in DFS pricing is essential for placing telecom/DFS providers and banks on the same footing (Pazarbasioglu et al. 2020: 25). The literature suggests that telecom/DFS providers and traditional financial institutions set their pricing based on several factors, including profit margin and transaction costs, competition pricing/pressure, and third-party costs to recover investments made in setting up the systems. Others will factor in convenience fees, agent commission arrangements and strategic partner dynamics (AFI 2021: 7; Cook 2017; Wallsten 2001; Holloway et al. 2017; Robb and Vilakazi 2016). Policy and regulatory frameworks, such as taxation or pricing limits, may influence pricing (AFI 2021: 7). Monopolies and weak regulatory frameworks tend to drive up prices (World Bank 2007: 7).

For a better understanding of the relevant tax framework, particularly on transaction fees, it is important to first understand the diverse MM pricing schemes. Pricing details of transaction fees from leading telecom/DFS products could be extracted from the website in most

³² See also Potraz (2021).

³³ i.e. from 23% in 2016 to 63% in 2020. See Hawthorne et al. (2020: 64).

countries studied for key types of financial transactions (deposit, transfer of money to same provider (registered customers) or to others (unregistered customers), and cash-out (withdrawals)). Annex 3 shows the approach to pricing methodology of fees charged by telecom/DFS products for key types of transactions, looking at deposits, transfers, payments and withdrawals.

The DFS pricing models can be classified as:

- flat-fee pricing, defined by bands of transaction value, where transactions within a pre-defined range are charged a flat rate;
- fixed-fee pricing, where the consumer pays a flat fee regardless of the transacted amount;
- percentage-based pricing, where the consumer pays a flat percentage of the amount transacted;
- free pricing, where the consumer incurs no transaction costs.

Providers' pricing schemes do not always reflect what users really pay. In Uganda, for instance, evidence shows that agents often charge more than provider fees (IPA 2021). Improvements in pricing transparency, and greater consumer awareness of official fees, could help address additional or hidden fees.

Based on the pricing schemes, the deposit is usually free of charge. This allows the subsequent volume of MM circulating through transfers and payments (usually subject to a fee) to be increased more quickly, which results in growing economies of scale and increased competition. This is consistent with tariff settings where telecom/DFS providers typically charge 'value-creating' transactions, such as P2P transfers and cash-outs (to encourage users to put and keep money into the system), or charge higher fees to non-registered users (to encourage them to become users). Transfers, payments and withdrawals are generally subject to a flat fee defined by transaction and withdrawal value bands. Withdrawal fees are based on a percentage in Côte d'Ivoire and Ghana. In some African countries, DFS payment fees for clients and merchants were temporarily reduced or cancelled during the Covid-19 crisis.³⁴ Other telecom/DFS providers do not clearly disclose the amount of the DFS fee.³⁵ The comparative findings reveal that the larger a customer's transaction, the lower the percentage fee, which indicates that pricing is regressive.³⁶ Users are still willing to pay when there are no cheaper and reliable alternatives that enable users to send small amounts of money. The relatively higher price of DFS for transacting small amounts may gradually slow down advances in financial inclusion. To promote the usage of MM, it may be desirable to charge a fixed fee on the withdrawal rather than on the transfer. People could then spend their money without worrying about extra charges once they had loaded it into their mobile wallet.

Effective targeting and reasonable pricing are essential for developing sustainable business models for DFS provision. High, ambiguous or misleading pricing information may discourage usage (Prina 2013; Schaner 2016). This underscores the trade-offs in pricing

³⁴ i.e. from central banks abolishing transaction taxes for P2P mobile transfers or merchant taxes on MM transactions to telecom/DFS providers agreeing to temporarily lower their fees. For instance, Ghana's mobile sector collaborated with the central bank to develop free mobile service transactions and encourage the use of mobile payments. Similar agreements between the private sector and central banks have eased the usage of MM during the pandemic Uganda (Airtel and MTN), and Rwanda (banks and MNOs) (IMF 2021a: 295). In Kenya, the Central Bank announced emergency measures to facilitate increased use of mobile money transactions instead of cash, in the context of the Covid-19 pandemic (CBK 2020).

³⁵ At the time of writing this report, pricing information could not be located for the telecom/DFS providers in South Sudan.

³⁶ For example, consider the lowest threshold on MTN Mobile Money of same provider transfers in Uganda. To transfer US\$4,000,001, the total fee is US\$1,250 (or 0.03%). To transfer US\$500, the total fee is US\$30 (or 6%).

decisions – for a provider the economics of rolling out DFS, especially in rural areas, the strategic goals of digital innovation, and the well-being of a service’s most vulnerable users.

Several case studies illustrate this dynamic between pricing and market development. According to a transaction-level analysis of MM data in Rwanda, low-income users are price sensitive to changes in fees (2020) (Carboni and Bester 2020). Similarly, a study on MM in Tanzania found that users who make large transactions are less sensitive to cost than users who make smaller transactions (Economides and Przemyslaw 2016: 2). The more-than-100 per cent rate of MM accounts (e.g. Côte d’Ivoire, Ghana and Kenya) may also reflect the price sensitivity. MM platforms usually offer different (higher) service rates for non-registered users to attract and retain users. Users may prefer to have multiple accounts to use intra-provider services, rather than cross-network services.

Further research would be helpful on how DFS pricing fees compete with TFS pricing fees. For instance, in Uganda telecom operators have priced digital payments to compete with banks that normally charge a flat fee to collect payments like school fees. Commercial banks charge fixed fees for salary and school fees per payment transaction, irrespective of the amount.³⁷ MTN Mobile Money applies a variable cost structure that is slightly cheaper than banks for lower transaction amounts, but more expensive for higher value transactions. Competition has helped drive down MNO fees. In response banks have provided free payments for some bills that are paid by many people (such as utility payments), as they acquire revenue through other channels – such as managing accounts for providers of utility services (UNCTAD 2012: 10).

2.3.2 Pricing and taxation

As shown, financial service providers usually charge a fee for transactions. Transaction fees may be subject to various taxes, the most frequent being VAT and excise duty (Section 3.2). These increase the overall price paid by the consumer for services delivered by the provider.³⁸ The price per transaction is the sum of the transaction fee received by the provider, and the taxes imposed.

Taxation based on transaction fees can be regressive due to pricing structures. If fees are higher for low-value transactions, than a tax based on a percentage of the fee will disproportionately affect those transactions. However, competition can lead to lower fees, reducing the overall tax impact. Transaction fees are typically a small proportion of the transaction value. Taxes on transaction fees are common in countries where DFS are widely used (Tanzania, Uganda, Côte d’Ivoire and Zimbabwe). None of the countries studied tax deposits – this would be a significant barrier to the development of DFS.

Taxes on transaction fees are a way of raising revenue that is easy to administer. Large, formal-sector businesses, such as telecom/DFS providers and financial institutions, collect the money and remit this directly to the Treasury. Providers typically pass the increasing tax costs along to users. In Kenya, for instance, telecom providers increased tariffs in 2018 as a response to an increased excise tax on money transfer services, passing the new levy to DFS users. MM transactions decreased because of the increased levy. Excise duties could affect end-consumer pricing when the cost of offering DFS services to users is driven up. When taxes on fees are likely to raise prices, the cost of accessing digital transactions may

³⁷ Between US\$2,000 and US\$4,000, based on tariff schedule of the Bank of Uganda, interest rates and bank charges for personal accounts as of 1 April 2022.

³⁸ To be distinguished from general taxes on the telecom/DFS sector, which may affect the provision and use of DFS. They can be made up of a standard VAT and/or an excise duty. Financial transaction taxes are direct taxes on the transaction amount/value itself, thus significantly larger and more distorting than transaction fee taxes. Examples of these taxes exist in Tanzania, Uganda, Ghana and Zimbabwe.

also increase. This type of tax can be a barrier for new entrants, impeding opportunities for additional transactions, and, thus, compromise economic efficiency. Expected profits may be reduced when users react to the tax (Claessens and Rojas-Suarez 2020: 33-34).

2.4 Tax landscape

Taxation of the DFS sector in African countries has significantly changed over the last years. Governments increasingly impose compulsory financial charges or some other types of levy on legal entities providing (digital) financial services and their users. This introduction to the plethora of taxes provides background to the consumer costs in terms of taxation of transactions and telecom services and goods (Section 3), and the organisation costs of telecom/DFS providers (Section 4), in countries studied.

2.4.1 Financial service provider taxation

Telecom/DFS providers face sector-specific taxes, that do not always apply to banks and other providers of TFS.

- Common taxes include key general taxes such as corporate taxes on business profits (usually on worldwide income) and VAT. Although VAT is for final consumers, the study of VAT at the telecom/provider level is relevant for credit purposes. VAT-registered providers of financial services are usually entitled to claim a credit for VAT paid on their business expenses.³⁹ In most countries pure telecom services (not MM) are subject to VAT, and the cost is directly borne by the consumer. However, in many countries financial services are exempt from VAT. With some exceptions, telecom/DFS providers within the central bank regulations have to adopt the same VAT treatment for financial services as traditional banks offering such services. Therefore, any VAT incurred by the provider in offering these services (e.g. fintech services) are borne by the provider. They can only be passed on indirectly, through the price, to a consumer, and not as a tax. Sector-specific taxes may apply on gross transaction values – for example, turnover taxes.
- Sector-specific telecom taxes, such as CIT or VAT surcharges, service and handset excises, and higher customs duties on telecom equipment, may represent a high cost for telecom/DFS providers, discouraging investment and innovation in the mobile sector (e.g. networks). Sector-specific taxes could be justified to tax excess profits or rents, due to high market concentration and market power (Munoz et al. 2022: 9).
- A variety of licence fees and spectrum fees specific to the sector, which may be one-off or annual, must be paid to provide telecom services, as well as universal service fund (USF) contributions. Regulatory fees are often set as a percentage of revenue, not proportional to the costs required to perform regulatory functions.

Banks and other providers of traditional financial services typically bear similar taxes to telecom/DFS providers, with a few notable exceptions.

- Banks and other providers of TFS sometimes face sector-specific taxes on financial transactions and income, such as banking and insurance transaction taxes.
- Surcharges or rebates on the rate of CIT may apply to financial institutions.

³⁹ The provider may take the input credit against output tax for VAT paid (or deemed to have been paid) on the purchases. This means that any VAT registered providers pay their suppliers is fully recovered from VAT collected from their consumers. They usually charge the same VAT percentage to their consumers that they paid.

Taxation of telecom/DFS providers, banks and other providers of TFS may drive up the provider's cost of offering DFS. These costs can potentially be passed on to consumers, depending on competition, pricing, elasticities, substitutes, and so on (Section 2.3.1).

2.4.2 Consumer taxation

Consumers pay numerous taxes on financial services (delivered digitally and traditionally), most notably VAT, excise duties, and specific taxes on transactions.

- VAT is a broad-based tax on the consumption of goods and services (as opposed to excise duties that cover specific products and services).⁴⁰ As no credits are provided to final consumers of goods and services, VAT is effectively levied only on final consumption, paid ultimately by private individuals and households (Ebrill et al. 2001). Financial services are often exempt from VAT, pushing the VAT costs from intermediate suppliers onto the providers.⁴¹ This report assesses whether the VAT treatment of DFS is similar to that of financial services provided by banks (Section 3.2.1).
- Many African countries impose excise duties on telecom services and goods and DFS transactions to raise revenue.⁴² Excise duties on telecom goods and services, as well as transactions, are simple to administer. This makes them a practical easy way of obtaining revenue from users of services provided by highly profitable businesses, which is otherwise difficult to tax (e.g. due to profit shifting) (Matheson and Petit 2021: 265). Telecom/DFS providers act as tax collectors on behalf of the government – they charge their customers excises for services, and are in charge of remittances to the Treasury. The motivation for levying excise duties in the telecom/DFS sector seems to be driven by the convenience of collection. It is difficult to argue that internet and telecom services generate negative externalities, or are considered luxury goods.⁴³ Lastly, excise duties on services are not refundable. It is an additional cost to the consumer (including businesses who are the end consumer of the services), unlike VAT – which can be mitigated against taxes levied elsewhere in the supply chain.
- A number of governments have enacted DFS-specific taxes, such as taxes on transaction fees and transaction values – mainly because of rapid DFS growth. These taxes have sparked heated debate. Both taxes are levied on transaction services – transaction value taxes are based on the transaction's underlying amount, and transaction fee taxes are based on charges that the service provider requires the user to pay to obtain the service. The DFS industry complains about inequitable treatment compared to TFS providers – namely banks. New taxes on DFS could jeopardise the decade-long progress made on financial inclusion. Proponents of these taxes justify them as an administratively simple way to raise additional revenue, and a route to taxing the informal economy (Anyidoho et al. 2022). This debate has primarily focused on sector-specific taxes imposed on MM services provided primarily by multinational telecom operators (Munoz et al. 2022: 6). However, this discussion must be contextualised within a broader range of DFS and financial service providers to understand the effects of these taxes on revenue, equity and financial inclusion (Ndung'u 2019).

⁴⁰ When businesses use purchased goods or services as intermediate inputs into production, the tax paid on these inputs is credited. Only the value added during each stage of production is ultimately taxed. This prevents cascading - the imposition of a tax on a tax - an effect associated with other indirect taxes such as turnover taxes, which can cause significant economic distortions.

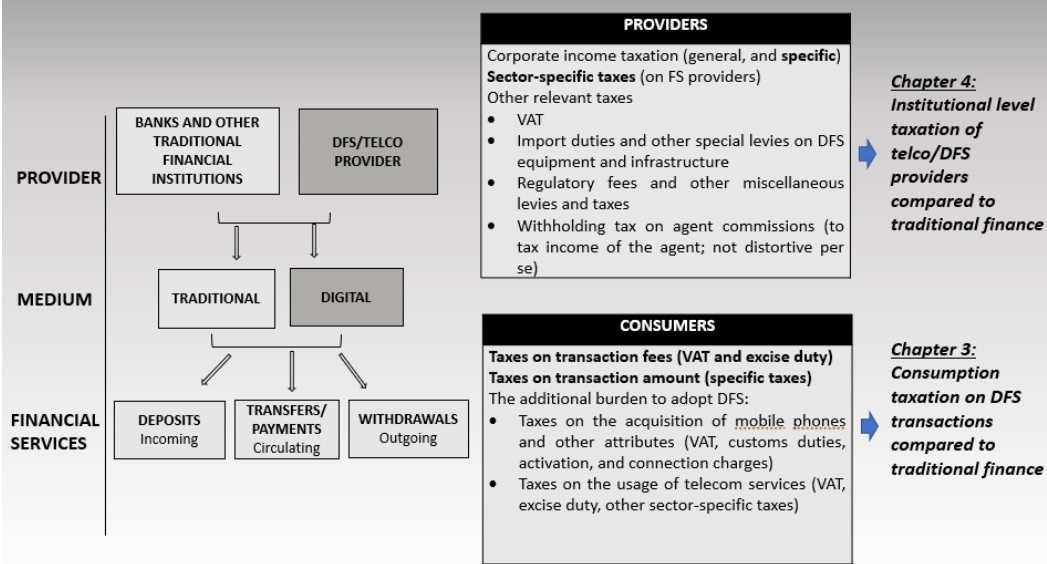
⁴¹ One effect of a plethora of exemptions is that VAT is frequently borne by intermediate suppliers whose goods/services are exempt, rather than just individuals/households. Individuals/households are typically charged for the costs as a higher price of goods/services, rather than as VAT.

⁴² Excise duty on telecom and DFS is different from most other excise duties to reduce negative externalities by changing consumer behaviour, such as is the case for beer, wines, spirits and cigarettes.

⁴³ The demographics of MM and telecoms use suggest that there is more usage at higher income levels.

Table 4 illustrates the relevant (sector-specific) taxes, levies and other charges on financial services, delivered digitally and via traditional means on providers and users. In the following sections we look at the tax frameworks of the nine selected African countries, particularly taxes applied to telecom/DFS providers and their users, compared with those on banks and other providers of TFS and their users.

Table 4 Overview of the applicable tax framework



Note: The prominent sector-specific taxes on DFS providers and consumers are in bold.

3 Consumption taxation of DFS compared to TFS

This section assesses the consumption taxes on DFS compared to TFS by focusing on:

- Taxes applicable to transaction fees/charges (Section 3.2);
- Taxes applicable to transaction values/amount (Section 3.3); and
- Taxes applicable to telecom services and goods as an additional burden for the uptake of DFS (Section 3.4).

Before 2017, users transacting digitally were particularly liable to specific taxes on telecom services and goods. Transaction fees were only subject to VAT and/or excise duty in a few countries. Over the past five years governments have increasingly focused on taxing DFS transaction services – not only the fees, but also the underlying amount (value), due to their significant adoption and potential revenue.

3.1 Comparative overview and conceptual framework

Table 5 shows the applicable taxes on transaction fees and amounts in the countries studied.

Table 5 Comparative overview of consumer taxation of transaction fees and transaction values

	Transaction fees				Transaction amount	
	VAT [Section 3.2.1]		Excise duty [Section 3.2.2]		Specific taxes [Section 3.3]	
	TFS	DFS	TFS	DFS	TFS	DFS
Burundi	No		No	No	No	No
Côte d'Ivoire	18% VAT on money transfers: (i) all providers, (ii) not restricted to electronic medium, (iii) money transfers		No	No	No	No
Ghana	No		No	No	No	1% on electronic transactions: (i) all providers; (ii) electronic medium; money transfers (1.5% before 31 December 2022)
Kenya	No		20% excise duty: (i) fees for money transfer services (transfer and withdrawal) by banks, money transfer agencies and other financial service providers, (ii) other fees charged by financial institutions	12% excise duty: fees for money transfer services (transfer and withdrawal) by cellular phone service providers	No	No
Rwanda	No	18% VAT on financial services: (i) telecom providers, (ii) not restricted to electronic medium	No	No	No	No
South Sudan	No		No	No	No	No
Tanzania	18% VAT on financial services: (i) all providers, (ii) not restricted to electronic medium, (iii) all financial services		10% excise duty: (i) fees or charges payable to financial institutions for (ii) services provided by such institution (introduced in 2014)	10% excise duty: (i) fees or charges payable to a telecom service provider for (ii) money transfer and payment services	No	Electronic money transfer and withdrawal levy (value bands): (i) TFS and DFS providers, (ii) electronic medium (iii) money transfers and withdrawals
Uganda	No		15% excise duty: (i) to ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges (ii) charged by financial institutions	15% excise duty: (i) fees charged for money transfer or withdrawal services (ii) charged by operators licensed or permitted to provide communications or money transfers or withdrawals	No	0.5% on MM withdrawals
Zimbabwe	No	15% with effect from 1 January 2023 (14.5% VAT until 31 December 2022): (i) telecom providers, (ii) not restricted to electronic medium, (iii) all financial services	No	No	No	2% on non-cheque transfers: (i) all providers, (ii) electronic medium (non-cheque), (iii) money transfers

Source: Author's desk research of national legislation.

Note: Orange represents a level playing field; yellow represents a different playing field or public policy that advantages TFS at the expense of DFS.

First, East-African countries, in particular, impose transactions taxes on fees, of which VAT and excise duty are the most common. The country studies show that general taxes such as VAT sometimes apply to (traditional and/or digital) transaction fees across Africa. Excise duties on digital and traditional transaction fees apply in Kenya, Tanzania and Uganda. Section 3.2 assesses general taxes on transaction fees.

Second, specific taxes on transaction amounts of only DFS – mobile money – apply in Uganda and Tanzania. Uganda applies a tax on MM withdrawals. On 20 September 2022, Tanzania announced that it would restrict the electronic money transaction and withdrawal levy to MM transfers. The government also announced that it would waive the levy on cash withdrawals through bank agents and ATMs below a certain amount. Ghana applies the e-levy to a much broader range of MM transfers than bank transfers, because a very different scope of application applies. In Zimbabwe the tax is imposed on the transaction value of non-cheque money transfers (i.e. electronic transaction). Section 3.3 assesses specific taxes on transaction amounts.

There are no taxes on transaction fees and transaction amounts in Burundi and South Sudan. In contrast to other African countries, Burundi and South Sudan have not experienced rapid growth in mobile phone and internet usage. The low adoption of telecom goods and services may help explain the low access to financial services through mobile phones, which makes this service less attractive for policymakers to tax.

Third, taxes on telecom goods and services raise the cost of accessing mobile phones, making the adoption of DFS, such as mobile transfers, more expensive. The consumer may face extra taxes and levies on the telecom goods and services necessary to access DFS. Section 3.4 outlines the various taxes on access and usage of telecom goods and services.

This table requires a more in-depth analysis of taxes on transaction fees and transaction amounts, categorised by the provider, medium and services. Financial services delivered by telecom/DFS providers are sometimes taxed differently and more heavily than those delivered by traditional providers, and sometimes it is the other way round. Several questions have to be answered to determine this:

- Is the tax applied only to services delivered by particular DFS providers, particularly telecommunication companies, or to services delivered by all companies providing DFS?
- Is the tax restricted to financial services offered via a technical solution (electronically/mobile)?
- What aspects of DFS transactions are targeted? Does it cover deposits, transfers, payments, withdrawals, and so on?

The comparative analyses of the taxation of transaction fees (Section 3.2) and transaction amounts (Section 3.3) focus on differences in tax treatment of DFS and TFS, with specific attention to these three questions.

3.2 General indirect taxes on transaction fees

3.2.1 VAT on transaction fees

Comparative overview

Transaction fees are frequently free of VAT as part of the general VAT exemption of financial services. The VAT exemption applies because of conceptual and administrative difficulties in applying VAT to the financial sector, particularly on intermediaries and implicit fees – where

it's difficult to know the specific taxable services and their values (Zee 2004). End-consumers of financial services do not pay VAT due to this exemption. Taxes paid on related inputs are not reimbursed. The difficulty of applying the current VAT rules leads to increased costs for service providers, which might be passed on to consumers (while taxing the service would impose costs directly on to consumers). Most countries studied (Kenya, Uganda, Burundi, Ghana and South Sudan) do not differentiate between TFS and DFS in the VAT exemption of financial services. However, the specific definition of financial services (if any) differs considerably in scope and application between the country studied, as depicted in Annex 4. While the legal definition matters for determining which precise categories are exempt, most countries exempt core financial services relating to deposits, transfers, payments, and others dealing with money.

A few countries in the sample apply VAT on transaction fees, but the scope appears to differ. If VAT applies, the financial service provider can claim input credits for VAT paid on purchases of services used in making taxable sales. For example, if a provider charges fees on MM transfers, these fees can be subject to VAT. Since the financial service provider is rendering a taxable service, it can claim input credit for the VAT paid on purchases used in providing the service. We have identified two main differences in the scope of VAT on the transaction fees in the countries studied: i) VAT on transaction fees delivered digitally and traditionally (Tanzania and Côte d'Ivoire), and ii) VAT on transaction fees delivered only digitally (Rwanda and Zimbabwe). Table 6 shows the key differences between countries studied with VAT on transaction fees for TFS and DFS, or only on the latter.

Table 6 Comparative overview of VAT on transaction fees

	VAT on transaction fees	
	TFS	DFS
Burundi	No – VAT exemption for specific types of banking and financial operations, incl. intermediation in financial operations.	No
Côte d'Ivoire	18% VAT on money transfer operations fees payable to banking and non-banking institutions	
Ghana	No	No
Kenya	No	No
Rwanda	No. No VAT on mobile banking in the context of financial institutions	18% VAT on mobile banking in the context of telecom providers
South Sudan	No	No
Tanzania	18% VAT on charges or fees payable to banks, non-bank financial institutions or telecom service providers.	
Uganda	No	No
Zimbabwe	No	15% (since 1/01/2023) – DFS seem not to be included in the VAT exemption

Source: Author's desk research of national legislation.

Note: Orange represents a level playing field; yellow represents an uneven playing field or public policy that advantage TFS at the expense of DFS.

VAT application on transaction fees for DFS only

Two countries in our sample (Rwanda and Zimbabwe) only levy VAT on DFS for telecom companies, and not traditional providers (financial institutions). In Rwanda, the VAT exemption includes mobile banking fees, but only fees on mobile banking from financial institutions, and not telecom/DFS providers. Zimbabwe applies VAT on financial services from non-banking institutions. Hence, Rwanda levies 18 per cent VAT on fees for money transfers by telecom operators, and Zimbabwe levies 15 per cent VAT on services by non-bank institutions.

Box 1 Country examples of VAT on transaction fees for DFS only

Rwanda VAT exemption on bank charges on current account operations

In Rwanda, 'financial and insurance services' (including bank charges on current account operations) are exempt from VAT.⁴⁴ The exemption applies to financial institutions – banks or insurance companies. Telecom companies are not financial institutions, although they hold MM licences issued by the National Bank of Rwanda (the regulator of banks and insurance companies). Consequently, telecom companies' fees for money transfers are not exempt, and are subject to 18 per cent VAT.

The Rwanda Revenue Authority published a letter with an exemption list in October 2016, with incentives for financial inclusion (Annex 5).⁴⁵ The exemption of 'financial and insurance services' is limited to this list. The list includes exemptions for 'commissions on mobile banking'.⁴⁶ The exemptions apply to financial institutions (banks and insurance companies). Telecom companies are not financial institutions, as such, even though they hold MM licences issued by the National Bank of Rwanda. As a result, the fees listed in the letter relate to fees charged by banks (and not telecom operators to their clients and agents).⁴⁷ Banks negotiated the list, through the Rwanda Banks Association, with the Rwanda Revenue Authority. To successfully argue that MNOs are financial institutions because they hold a BNR licence and provide services that fall under the definition of financial services as outlined in the VAT Act, it is first necessary to successfully argue that the transfer fees charged by MNOs – for transferring MM – are exempt from VAT. This argument has yet to be made successfully.

Zimbabwe VAT on services by non-bank institutions

In Zimbabwe, the VAT exemption appears to only apply to financial services provided by banking institutions, as defined.⁴⁸ The supply of financial services is exempt from VAT, for which financial services are defined in the VAT Act (Ch. 23:12) as 'a) any service provided by a banking institution registered or required to be registered in terms of the Banking Act; ... c) or the exchange of banknotes or other currency of any country, except where they are to be used as collectors' items, the provision of any deposit, loan or credit, including the provision of any guarantee, indemnity, security or bond in respect of the performance of obligations related to a deposit, loan or credit'. Consequently, services provided by telecom/DFS providers are subject to 15 per cent VAT.⁴⁹ In addition, the website of Telecel mentions that the tariffs stated on the website are exclusive of VAT, which suggests that VAT applies. Financial services from banking institutions are exempt from VAT.

⁴⁴ Rwanda: Art. 6, 7^o Law No. 37/2012 and amended by Art. 2, 7^o Law No. 02/2015. The term 'financial and insurance services' includes '[...] b) bank charges on current account operations'.

⁴⁵ Rwanda: Rwanda Revenue Authority (RRA), 'Updated schedule of VAT exempt banking products and services', CG letter of October 2016.

⁴⁶ Clarified as 'mobile banking/commissions, sms banking commissions, commissions on sms banking/fees on sms banking, commissions on MTN Mobile Money/TIGO E-money and Airtel E-money'. RRA, CG letter of October 2016, 'Updated schedule of VAT exempt banking products and services', Sec. II (Incentives for Financial Inclusion), no. 6 (Commissions on mobile banking).

⁴⁷ This understanding was confirmed by tax experts, who had discussions earlier with the Rwanda Revenue Authority and the Ministry of Finance and Economic Planning about the interpretation of this provision. Upon careful reading of the list, the exemption of mobile banking commissions refers to fees that banks used to earn/charge on MNO e-wallets, such as push-and-pull charges to their clients (and as such, not financial services by telecom providers). However, these pull-and-push charges have been phased out following the central bank directive in August 2021. Hence, transferring money from a bank account to a mobile wallet, or vice versa, is no longer subject to charges and fees. As a result, the exemption does not relate to commissions earned by MNOs for their MM transfer services, but instead to commissions earned by banks. See BNR (2021b).

⁴⁸ In Zimbabwe, financial services as defined are exempt from VAT. Value Added Tax Act [Chapter 23:12] (VAT Act), Art. 11.

⁴⁹ Zimbabwe: Financial Act, Sec. 29. VAT rate was adjusted from 14.5% to 15% with effect from 1 January 2023. Public Notice 2 of 2023 issued on 8 January 2023.

Application of VAT on transaction fees for DFS and TFS

Tanzania and Côte d'Ivoire are two of the few countries where fees or charges for financial transactions are subject to VAT (Box 2). Tanzania applies VAT at 18 per cent to all financial services not supplied free of charge, and thus on transaction fees payable to banks, non-bank financial institutions, and telecom service providers. Côte d'Ivoire applies 18 per cent VAT to money transfer operations (payable to banking and non-banking institutions). A 10 per cent tax on banking operations applies to banking and financial activities (but money transfers are excluded).

Box 2 Country examples of VAT on transaction fees for DFS and traditional finance

Tanzania VAT on financial transactions

With effect from 1 July 2016, Tanzania's Finance Act 2016 introduced VAT on the supply of financial services that are not supplied free of charge.⁵⁰ VAT at a standard rate of 18 per cent (in addition to 10 per cent excise duties) applies to fees charged for the supply of financial services as most of those services (e.g. transfer and cash-out fees) are not provided free of charge. The VAT fraction is used to compute VAT on financial services.⁵¹ The VAT payable is generally deducted from the transaction amount.⁵² Similar to other countries, an exemption applies to the free supply of financial services (e.g. for money deposits, current accounts, traditional payments for credit transfers (over the counter), debts, cheques or negotiable instruments).⁵³ Note that most charges by financial institutions, such as bank charges and commission, seemingly are not supported by tax invoices, which are used by customers to claim input VAT (if registered for VAT). No input VAT can be claimed without these (TanzaniaInvest 2021).

Côte d'Ivoire VAT on money transfers

Côte d'Ivoire applies VAT to fees charged for money transfers [*opérations de transfert d'argent*] by telecom/DFS providers as well as providers of TFS.⁵⁴ The standard rate is 18 per cent.⁵⁵ In December 2015 the law clarified that VAT (and not the tax on banking operations) applies to money transfers in all forms. Previously, money transfer transactions exclusively related to banking activities (bank payments and electronic funds transfers by bank cards) were subject to the tax on banking operations (*taxe sur les opérations bancaires*; TOB) of 10 per cent.⁵⁶

⁵⁰ Tanzania: VAT Act, Cap. 148 (Government Notice No. 607 published on 19 October 2018). Based on the amendments by the Finance Act 2016, the VAT exempt schedule of the VAT Act 2014 (par. 13 of Part I) was deleted and substituted with the 'supply of financial services supplied free of charge, insurance premiums for aircraft, life insurance or health insurance, insurance for workers compensation'.

⁵¹ VAT fraction means the amount out of tax calculated under the following formula: $R: (100 + R)$. 'R' is the rate of VAT specified under Section 5 of the VAT Act. Financial service) have a value equal to the consideration for supply reduced by an amount equal to the tax fraction of that consideration, and the price advertised or quoted by registered person in respect of taxable supply should be VAT included. VAT Fraction on the service payable = $(18 / (100 + 18)) \times \text{service fees}$ (TRA 2016).

⁵² Some banks list the fees on a VAT-exclusive basis. See, for instance, CRDB Bank Tariff Guide (2020).

⁵³ The term 'financial services' includes services of (a) granting, negotiating, and dealing with loans, credit, credit guarantees, and security for money, including management of loans, credit, or credit guarantees by the grantor; (b) transactions concerning money deposit, current accounts, payments, transfers, debts, cheque or negotiable instruments, other than debt collection or debt factoring; (c) [...]. Art. 2 of the VAT Act, Ch. 148, and Part I, No. 13.

⁵⁴ Côte d'Ivoire: General Tax Code, Art. 344.

⁵⁵ Côte d'Ivoire: General Tax Code, Art. 359.

⁵⁶ Côte d'Ivoire: Loi No. 2015-840 du 18 décembre 2015, annex fiscal, Art. 5-2. See also: No 1265/MPMB/DGI/DLCD-SDPD/ASO/ of 11 May 2015 relating to the tax regime applicable to money transfer operations regarding VAT and BOT.

3.2.2 Excise duties on transaction fees

Comparative overview

In recent years, consumers in East African countries have experienced new taxes on transaction fees. Policymakers have noticed the growing number of MM transactions, and have seen them as a chance to boost revenue by imposing excise duties. Excise duty on transaction fees is only present in our sample in Kenya, Uganda and Tanzania. The tax base for levying excise duty in these countries is determined based on the price paid or payable by the consumer, excluding VAT.⁵⁷ Except for Kenya, there are no substantial differences between DFS taxation and TFS taxation. Table 7 provides a comparative overview of excise duty on transaction fees in the countries studied. The scope of the excise duty in the legislative framework differs considerably, as shown in Annex 6.

Table 7 Comparative overview of excise duty on transaction fees

	Excise duty on transaction fees	
	TFS	DFS
Burundi	No	No
Côte d'Ivoire	No	No
Ghana	No	No
Kenya	Yes: 20% excise duty on money transfer services and other fees by traditional providers including banks, money transfer agencies and other financial service providers	Yes: 12% excise duty on fees charged for money transfer services (transfer and withdrawal) by cellular phone service providers
Rwanda	No	No
South Sudan	No	No
Tanzania	Yes: 10% excise duty on fees or charges payable to financial institutions for services provided by such institution (introduced in 2014) 10% excise duty on other fees	Yes: 10% excise duty on fees or charges payable to a telecom service provider for money transfer and payment services (introduced in 2014)
Uganda	Yes: 15% excise duty to ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges, excluding loan-related charges periodically charged by financial institutions (increased from 10% in 2018)	Yes: 15% excise duty to fees charged for money transfer or withdrawal services, including transfers and withdrawal services by operators licensed or permitted to provide communications or money transfers or withdrawals but not including transfers and withdrawal services provided by banks (increased from 10% in 2018)
Zimbabwe	No	No

Source: Author's desk research of national legislations.

Note: Orange represents a level playing field; yellow represents an uneven playing field.

Differences in excise duty rate between DFS and TFS

In contrast to TFS, the excise duty on transaction fees charged for DFS in Africa is imposed at a lower rate in Kenya. However, the scope of transactions delivered by telecom/DFS providers appears to be narrower compared to TFS providers, as it includes only specific services such as transfers, withdrawals and payments.

In the countries studied (except in Kenya), DFS attract specific but equal excise duty rates on service transaction fees compared to TFS. The scope can differ, as shown in Tanzania and Kenya. The excise duty rate on money transfer fees in Uganda (15 per cent) and Tanzania (10 per cent) is the same for services performed digitally or traditionally. In terms of excise duty rates on transaction fees, at least, the governments of Tanzania and Uganda aim to level the playing field between TFS providers and telecom/DFS providers.

Kenya has a tax policy that favours fees charged for money transfer services by cellular phone service providers (12 per cent excise duty), compared to fees charged for money

⁵⁷ Kenya: Excise Duty Act, No. 23 of 2015, Part II, Sec. 9(5); Uganda: Excise Duty Act 2014, Schedule 2, Part II, Sec. 2(3); Tanzania: Excise (Management and Tariff) Act, Sec. 141.

transfer services and other fees by traditional providers (20 per cent excise duty). In Kenya, the term money transfer services is interpreted as services of sending and withdrawal of money.⁵⁸ The excise duty applies to money transfer fees charged by telecom/DFS providers and banks, but not to fintechs. This is because the excise duty on financial institutions is only imposed on regulated licensed persons.⁵⁹ Most fintechs are not licensed under any of the listed licensed financial institutions.⁶⁰ Excise duty is not imposed on unregulated financial services, resulting in an uneven playing field. The number of fintechs with novel ways of providing financial services has increased dramatically in Kenya. While some fintechs provide services identical to those offered by their traditional regulated competitors, they are not subject to excise duty (PWC 2020). It's worth noting that sixteen per cent of the excise duty paid in respect of money transfers by telecom/DFS providers is paid to support social development including universal health care.⁶¹ Another interesting point is that, following the increase of excise duty on money transfer services via mobile phones from 10 per cent to 12 per cent in 2018, several mobile service providers (e.g. Safaricom, Telkom Kenya and Airtel Kenya) increased their prices (Ndung'u 2019). Safaricom increased transaction fees (tax exclusive); other providers that did not impose transaction fees, like Airtel and YuCash, increased withdrawal fees (The East African 2012). The increased tariffs did not seem to harm the MM industry's long-term development, despite the revised tariffs sparking public outrage.

Differences in scope of excise duty between DFS and TFS

The scope of excise duty differs for telecom/DFS providers compared to banks and other traditional finance providers. The excise duty applies only to specific services delivered by telecom service providers in Kenya (transfer and withdrawal), Tanzania (transfer and payment) and Uganda (money transfer and withdrawal services). The scope is broader with financial institutions in Kenya (money transfer fees and other fees), Tanzania (for [all] services provided by such institution), and Uganda (ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges). This suggests that withdrawals at ATMs are subject to excise duty in Tanzania and Kenya. Withdrawals of DFS are only subject to excise duty in Kenya, and not in Tanzania. Uganda applies excise duty to broader non-transaction fees in the context of financial institutions.

Excise duties are typically limited to goods and services with negative externalities (rarer for services). Excise duties and their close proxies are occasionally levied on goods perceived to have a luxury component. However, DFS are thought to have positive externalities, so imposing excise duties is unusual. In some countries with no VAT on financial services (e.g. Kenya and Uganda), excise duties are likely to be used effectively as a substitute for VAT.

3.3 Specific taxes on transaction amounts

3.3.1 Tax design and history

In addition to consumer taxes on transaction fees charged by providers, taxation can take the form of taxes on transaction values (generally borne by the end consumer). To better understand the scope and application of these taxes and to evaluate the various ways in

⁵⁸ Kenya: Excise Duty Act, No. 23 of 2015, First Schedule, Part III.

⁵⁹ Financial institution means: (a) a person licensed under the Banking Act, the Insurance Act, the Central Bank of Kenya Act, the Micro Finance Act, (b) registered Sacco societies, and (c) the Kenya Post Office Savings Bank. Kenya: Excise Duty Act 2015, No. 23, First Schedule, Part III.

⁶⁰ Note that, increasingly, there have been attempts to regulate some of the players, e.g. the Central Bank looking to regulate digital lenders.

⁶¹ Kenya: Excise Duty Act, No. 23 of 2015, Sec. 36(5).

which DFS is treated compared to TFS, it is necessary to explore tax design and history separately first, due to the complexity and diversity of taxes on transaction amounts.

Governments are increasingly targeting significant revenue sources by taxing the underlying values of actual DFS transfers or withdrawals. These specific consumption tax regimes on transaction amounts have not been in place long. Taxing the transaction value is an important trend for taxing DFS in East Africa (Tanzania and Uganda) and Southern Africa (Zimbabwe). However, this rapidly spread to other African regions – as the Ghana electronic transaction levy, which went into effect on 1 May 2022, shows.

Table 8 shows the specific taxes on transaction values of financial services. As of October 2022, four countries in our sample (Tanzania, Uganda, Zimbabwe and Ghana) levy taxes on transaction values. Each country applies specific features in applying the tax.

Table 8 Comparative overview of main features of transaction amount taxes

	Ghana	Tanzania	Uganda	Zimbabwe
Name	E-levy	Until 30 June 2022: electronic MM transfer and withdrawal transactions levy Since 1 July 2022: Electronic mobile transaction levy	MM withdrawals levy	Intermediated money transfer levy
Date (implemented/proposed)	1 May 2022	1 July 2021: electronic MM transfer and withdrawal transactions levy (with amendments in scope and rate since 1 September 2022) 1 July 2022: Electronic money transaction levy	1 July 2018: 1% excise duty introduced on MM receiving, payments and withdrawals 1 November 2018: excise duty amended to 0.5% and limited to MM withdrawals	1 October 2018 on MM and electronic transactions (introduced in 2003)
Rate	1% since January 2023 (before 1.5%)	Until 30 June 2022: between TSh7 to TSh7,000 (US\$0.003 to US\$3.00) Since 1 July 2022: Between TSh10 to TSh4,000 (US\$0.0043- US\$1.72)	0.5%	2% (4% for foreign currency transfers)
Threshold/tax-free bracket	Yes – GH¢ 100 (US\$10) for MM money transfers and GH¢ 20,000 (US\$2,000) for separate bank accounts	Yes Until 30 June 2022: TSh100 (US\$0.043) Since 1 July 2022: TSh10 (US\$0.0043)	No	Threshold: Z\$2,500 (Ceiling: Z\$3,300,000 (US\$10,250) if local currency value exceeds Z\$165,000,000 (US\$512,490), or US\$20,000 if foreign currency value exceeds US\$500,000

Source: Author's desk research of national legislations.

- Previously limited to non-cheque bank transactions, Zimbabwe now applies the intermediated money transfer tax on MM and electronic transactions. Several governments followed the trend.
- Tax rates vary between 0.2 per cent to 2 per cent, while Tanzania applies a flat amount tax based on transaction values.
- Tax designs in Tanzania, Zimbabwe, and Ghana seek to create progressivity through thresholds below which transactions are not taxed.

Historically other countries in the sample tried to find innovative ways to plug budget spending deficits by taxing MM, but challenges by the opposition and the public led to their repeal.⁶²

⁶² e.g. Côte d'Ivoire sought to impose a 0.5% MM transaction tax in 2018 that did not apply to banks, but it was swiftly abandoned due to widespread opposition (Ayemoba 2018). Following that, the government introduced new MM specific

A separate analysis of each tax is justified, given the complexity and differences in the tax design. Annex 7 presents more detailed information on the diverse country practices.

- **Ghana electronic transaction levy.** The electronic transaction levy (e-levy) came into effect on 1 May 2022.⁶³ The legislation specifies that the e-levy at 1.5 per cent on electronic transfers above a certain amount aims to increase revenue mobilisation by broadening the tax base. The e-levy does not apply to ‘a cumulative transfer of GH¢100 a day by the same person’. The levy applies when an individual sends money exceeding the GH¢100 daily threshold. Exclusions apply for transfers between accounts owned by the same person, transfers to pay taxes, fees and charges on Ghana.Gov system or any other Government of Ghana designated payment system, specified merchant payments, transfers between principal, agent and master-agent accounts, and electronic clearing of cheques.⁶⁴ Ghana reduced the rate of the e-levy from 1.5 per cent to 1 per cent effective January 2023.⁶⁵ The decreasing tax rate on electronic transactions is not expected to be sufficient in meeting the expectations of Ghanaians, particularly given the current situation of increasing inflation in the country.
- **Tanzania MM/electronic transfer and withdrawal transactions levy.** Tanzania introduced an electronic mobile money transfer and withdrawal transactions levy (MM transfer tax) in July 2021.⁶⁶ Since its introduction, Tanzania has made significant changes to the levy.
 - In July 2021 the electronic MM transfer and withdrawal levy was introduced at a variable rate between TSh10 and TSh10,000.⁶⁷ The user was defined as a person ‘who transfers or withdraws money electronically through an MM payment system licensed under the Act’.⁶⁸ The scope was not further defined.
 - With effect from 1 September 2021, the electronic MM transfer and withdrawal levy was amended. The new rate is lower at 30 per cent and applies to transaction value bands between TSh7 to TSh7,000. Additionally, the changes specifically include transfers from MM to-MM, MM-to-bank, and bank-to-bank after public outrage.⁶⁹ The extension to mobile banking or other financial institution payments, regardless of the digital medium or traditional banking channel, established some small steps to level the playing field between banks and mobile phone companies. However, the definition of electronic MM excluded transfers from a bank account to MM account, which may encourage users to switch from traditional to mobile financial services.
 - With effect from 1 July 2022, the Electronic Money Transaction Levy was amended to apply to electronic transfers (MM-to-MM, MM-to-bank, bank-to-bank,

taxes earmarked for specific public expenditure. Côte d’Ivoire: Loi No. 2018-984 du 28 décembre 2018, Art. IV-3. In Kenya, the government tried to levy a 0.05% ‘Robin Hood’ tax on money transfer transactions above KSh500,000 (US\$4,065), during the 2018/2019 National Budget cycle. Finance Bill 2018, paragraph 6, Part II of the First Schedule of the Excise Duty Act 2015. Taxpayers were outraged by this move, citing ambiguity in the ‘money transfer services’ definition as well as practical difficulties. There was concern that payments to the revenue authority such as tax remittance would be included in the scope of such tax, resulting in taxes on taxes, which would be contrary to internationally accepted taxation canons.

⁶³ Although not clearly stated in the Electronic Transfer Levy Act 2022, that was published by the Ghana Revenue Authority on 31 March 2022. Electronic Transfer Levy Act 2022, Act. 1075.

⁶⁴ Electronic Transfer Levy Act 2022, Act. 1075, Sec. 2.

⁶⁵ Electronic Transfer Levy (Amendment) Act 2022, Act 1089.

⁶⁶ Tanzania: The National Payment Systems (Electronic Mobile Money Transfer and Withdrawal Transactions Levy) Regulations, 2021: Government Notice No 496A of 2021, published on 30 June 2021; the Electronic and Postal Communications (Airtime Levy) Regulations 2021: Government Notice No 496M of 2021, published on 30 June 2021.

⁶⁷ Tanzania: National Payment Systems (Electronic Mobile Money Transfer and Withdrawal Transactions Levy) Regulations 2021, 30 June 2021.

⁶⁸ Tanzania: National Payment Systems (Electronic Mobile Money Transfer and Withdrawal Transactions Levy) Regulations 2021, 30 June 2021.

⁶⁹ The MM transfer transaction levy was initially charged at rates between US\$0.0043 (TSh10) and US\$4.27 (TSh10,000), depending on the transaction amount sent and withdrawn. The charge as well as the amount sparked outrage from citizens over the rising costs of financial transactions. Government Notice No 642A of 2021, published on 31 August 2021.

and bank-to-MM) and cash withdrawals (from MM account or bank account at a collector, collector's agent or ATM). The rate was reduced to between TSh10 and TSh4,000.⁷⁰ The 'collector' was defined as bank, financial institution or electronic money issuer.

- At the time of writing this report, the latest changes came into force on 1 October 2022. On 20 September 2022, Tanzania announced the elimination of levies on certain electronic money transfers as of 1 October 2022.⁷¹ Levies will still apply to MM transfers (Niesten 2022a). The government has reduced MM transaction levies by 10 per cent to 50 per cent. This resulted in a decrease of the maximum levy to TSh2,000 as of 1 October 2022.⁷² The amendment also includes an exemption for bank agent and ATM cash withdrawals of values less than TSh30,000.
- In 2013 Tanzania had introduced an excise duty on money transfers through banks, financial institutions or telecom companies at a rate of 0.15 per cent of the amount transferred for an amount exceeding TSh30,000 (revoked by the Finance Act 2014).⁷³
- **Uganda tax on MM withdrawals.** Uganda reduced the 1 per cent tax on digital transactions in November 2018 to 0.5 per cent, applicable only to MM transactions of cash withdrawals.⁷⁴
- **Zimbabwe tax on non-cheque transactions.** The intermediated money transfer tax (IMTT), in place since 2003 and amended in October 2018, applies at 2 per cent on transaction values when financial institutions mediate money transfers between two or more persons for non-cheque transactions.⁷⁵ With effect from 1 August 2022, the IMTT's general tax-free threshold has been raised to Z\$2,500 or US\$5.⁷⁶ A maximum IMMT per transaction has been revised to Z\$3,300,000 for local currency values exceeding Z\$165,000,000. For foreign currency transactions, a transaction value over US\$500,000 attracts a flat rate IMMT of US\$20,000.

3.3.2 Differences between DFS and TFS

Comparative overview

Table 9 compares transaction value taxes in these four countries.

The main question is whether taxes on transaction amounts treat DFS and TFS equally. To determine whether DFS transaction amounts are taxed differently, and eventually more heavily taxed, than TFS, several questions have to be answered:

- Is the tax applied only to DFS providers, particularly telecommunication companies, or to all companies providing DFS?
- Is the tax restricted to financial services offered via technical solutions (electronically)?
- What aspects of DFS transactions are targeted? Does it cover deposits, transfers, payments and withdrawals?

⁷⁰ Tanzania: National Payment Systems (*Electronic Money Transactions Levy*) Regulations 2022, Government Notice No. 478V, published on 1 July 2022, Sec. 13.

⁷¹ Tanzania: Announcement Tanzania government, 20 September 2022 (published in Kiswahili).

⁷² Tanzania: Amendment (*Electronic Money Transactions Levy*) Regulations 2022, Special Supplement No. 39, 30 September 2022.

⁷³ Tanzania: Excise (Management and Tariff) Act (Cap. 147), Sec. 124(6b), amended by the Finance Act 2013, Sec. 11.

⁷⁴ Uganda: Excise Duty (Amendment) No. 2 Act, 25 October 2018.

⁷⁵ Zimbabwe: Income Tax Act, Sec. 36G. See, also: Finance Act [Chapter 23:04], Sec. 22 G. The IMTT was introduced in January 2003 (Finance Act No. 15 of 2002).

⁷⁶ Income Tax Act [Chapter 23:04], Sec. 1 (1) (t), amended by the Finance Bill (No. 9), Sec. 6 (substitution of Section 22 G of Cap. 23:04).

Table 9 Comparative overview of differences in transaction amount taxes, focusing on DFS and TFS

		Specific taxes on transaction values			
		Ghana: e-levy	Tanzania: electronic money transaction levy	Uganda: MM withdrawals levy	Zimbabwe: IMTT
Provider		Electronic money issuers, payment service providers, banks, specialised deposit-taking institutions; other specified financial institutions	Until 30 June 2022: bank or financial institution Since 1 July 2022: bank, financial institution or electronic money issuer Since 1 October 2022 (announced): for transfers providers not specified as such, but seemingly transfers within MM network, and cash withdrawals at MM agent, bank agent and ATM	Provider of MM (not specified)	Financial institution, including operator of a MM transfer platform
Medium		Electronic transactions	Until 30 June 2022: MM: mobile phone or other means with mobile application (not on the counter, ATM transactions and transactions performed by devices other than with a mobile application) Since 1 July 2022: electronic money transactions through a payment system licensed under the National Payment Systems Act Since 1 October 2022 (announced): MM	MM (not on the counter, agency banking and ATM withdrawals)	Non-cheque transfer: physical, electronic or by any other means
Type of service	Deposit	No	No	No	No
	Transfer/ payments	Yes	Yes • MM	No	Yes
	Withdrawal	No	Yes • Exemption for bank agent and ATM cash withdrawals of a value less than TSh30,000	Yes	No

Source: Author based on legal desk-research.

Note: Orange represents a level playing field between DFS and TFS; yellow represents an uneven playing field between DFS and TFS.

Type of providers

Ghana and Zimbabwe apply special taxes on transaction amounts, regardless of whether telecom providers or other financial service providers (banks) provide the transaction. These taxes appear to apply to all DFS providers equally.

- Ghana's e-levy applies at the time of transfers by entities listed in the First Schedule to the Act, which includes electronic money issuers, payment service providers, banks, specialised deposit-taking institutions, and other financial institutions as prescribed by regulations.
- Zimbabwe applies the IMTT to financial institutions, including banking institutions registered under the Banking Act, the Reserve Bank of Zimbabwe, the Zimbabwe Development Bank, the successor company to the Agricultural Finance Corporation formed under the Agricultural Finance Act, or the postal company or any person licensed

under the Postal and Telecommunications Act. MM transfer platform operators⁷⁷ who facilitate the receipt of cash by any person (the customer) and financial institution or telecom service operator or any combination of them pays the tax on transactions.⁷⁸

Uganda and Tanzania do not apply the same taxation on transaction amounts to DFS and TFS providers.

- In Uganda, MM withdrawals are subject to 0.5 per cent excise duty. In contrast, agency banking and ATM withdrawals in commercial banks are not subject to this tax (Monitor Reporter 2021).
- In Tanzania, the electronic money transfer levy only applies to MM-to-MM transfers with effect from 1 October 2022. An exemption also applies for bank agent and ATM cash withdrawals of less than TSh30,000.⁷⁹

Instead of prioritising the development of the banking sector over mobile money (MM) platforms, improving the policy and regulatory framework for the entire financial sector can increase competition and innovation, attract investment, and enable telecom providers and banks to concentrate on improving their operations and promoting customer adoption.

Type of medium

Special taxes may apply depending on the technology employed. Transactions by traditional non-digital products/services are often tax-free.

The specific transaction taxes primarily target MM in Tanzania (until 30 June 2022, and again since 1 October 2022) and Uganda.

- With the announcement of 20 September 2022, Tanzania's specific levy primarily targets MM since 1 October 2022. Previously, until 30 June 2022, Tanzania had a specific levy on electronic MM transfers and withdrawals. Starting on 1 July 2022 the levy's scope was broadened to electronic transactions (transfers and withdrawals), not just MM. It appeared from the definition of 'electronic mobile money'⁸⁰ that the charge applied regardless of whether the transfer was initiated by mobile phone or using other means with a mobile application (e.g. using a PC or tablet), so long as the approved payment system had mobile functionality. Other types of bank and financial institution transactions, such as over-the-counter, ATM transactions, and transactions performed by devices other than with a mobile application, were not subject to the levy.
- Uganda imposes a specific tax on MM withdrawals. Bank products/services (agent withdrawals) are tax-free; other product services delivered via a technical solution (mobile phone) are subject to the 0.5 per cent MM tax on withdrawals. Hence, Uganda's excise duty on every withdrawal from an MM account appears to be discriminatory. The 0.5 per cent tax on the value of MM withdrawal transactions likely penalises Ugandans who prefer to use MM services for withdrawals rather than traditional commercial banking

⁷⁷ Whether permitted or licensed to operate such a platform by a financial institution or cellular telecommunication of telecommunication service operator licensed or required to be licensed under the Postal and Telecommunication Act (Chapter 21:05).

⁷⁸ Zimbabwe: Income Tax Act (Chapter 23:06), Thirteenth Schedule, par. 1.

⁷⁹ Tanzania: Amendment (*Electronic Money Transactions Levy*) Regulations 2022, Special Supplement No. 39, 30 September 2022. Announcement Tanzania government, 20 September 2022 (published in Kiswahili) (Niesten 2022a).

⁸⁰ Government Notice No 642A of 2021, published on 31 August 2021: electronic mobile money is defined as 'electronic money whose access is through a mobile money menu or mobile application of the electronic money issuer on a user's mobile phone and through which the user may effect payment, transfer or withdrawal and shall also include money transferred or withdrawn through an approved payment system administered by a bank or financial institution which allows a bank customer to transfer or withdraw money through a mobile phone' (Sec. 2(a)).

services. This anomalous situation could jeopardise financial inclusion, as well as the promotion and adoption of digital payments and reduction in use of cash.

Ghana and Zimbabwe apply the tax to a broader technical solution (electronic delivery), although the definition of the term may differ.

- Ghana imposes a levy on all electronic transfers other than those excluded. The term electronic transfers is defined as ‘a transaction carried out electronically on the initiative of the originator through an institution or a platform to make available an amount of money to a beneficiary’.⁸¹ The levy solely applies to transfers. Bank deposits and withdrawals, as well as MM cash-in and cash-outs, are excluded from the levy.⁸² In contrast, the only transfers from bank accounts to which the e-levy seems to apply are: i) payments from a bank account to a MM account owned by someone other than the sender; and ii) payments by an individual ‘on an instant pay digital platform or application’ – terms which are not defined in the Act (or the Guidelines), and which will leave many people confused (Wales and Niesten 2022). Payments by companies from their bank accounts are not covered, regardless of who the recipient is. For instance, corporate payrolls processed through banks are exempt from the e-levy. The same payments made via MM are subject to the e-levy. The Ghana Revenue Authority (GRA) has confirmed that the e-levy does not catch SWIFT payments. Investment accounts are also outside the scope. When writing this report, the entire treatment of bank account payments requires urgent clarification.
- In contrast, Zimbabwe applies the IMTT on each non-cheque money transfer, namely transfers conducted physically (cash), electronically, or by any other means. When a customer of a financial institution makes a money transfer to another person via an ATM owned, leased or controlled by the financial institution, the financial institution is considered to have mediated the money transfer.

Type of transaction

Specific taxes on the transaction amount are usually closely connected with the nature of the underlying transaction, as Table 10 shows.

Table 10 Comparative overview of transaction amount taxes, disaggregated by type of service

		Ghana: e-levy	Tanzania: electronic money transaction levy	Uganda: MM withdrawals levy	Zimbabwe: intermediated money transfer levy
	Deposit	No	No	No	No
Transfer	Mobile-to-mobile	Yes	Yes	NA	Yes
	Mobile-to-bank	Yes	Since 1 October 2022: No Until 30 September 2022: Yes	NA	Yes
	Bank-to-mobile	Yes	Until 30 June 2022: No Since 1 July 2022: Yes	NA	Yes
	Bank-to-bank	Only if using instant pay digital platform or application which originates from a bank account belonging to an individual	Since 1 October 2022: No Until 30 September 2022: Yes	NA	Yes (if non-cheque)
Withdraw	Bank agent / ATM	No	Yes, but exemption applies for bank agent and ATM cash withdrawals of	No	No

⁸¹ Electronic Transfer Levy Act, 2022 (Act 1075).

⁸² Administrative Guidelines on electronic transfer levy of 27 April 2022, AG/2022/002.

			a value less than TSh30,000		
	MM agent	No	Yes	Yes	No
Exemptions	Electronic transfers: Daily cumulative transfer of GH¢100, and other exemptions Bank transfers: Daily cumulative transfer of GH¢20,000		Transfers or withdrawals in the context of Government, merchant, or businesses	NA	List of exemptions apply

Source: Author's desk research of national legislations.

Note: Orange represents a level playing field (not present); yellow represents an uneven playing field.

The taxes on transaction amounts mainly target DFS transfers and payments (Ghana, Tanzania and Zimbabwe) and withdrawals (Tanzania and Uganda).

- Tanzania announced on 20 September 2022 that it would eliminate the electronic money transfer levy on certain transfers as of 1 October 2022. The proposed amendment is that the levy applies to MM only, and an exemption applies for bank agent and ATM cash withdrawals less than TSh30,000.
- Uganda's applies 0.5 per cent on MM withdrawals, and not on receiving and making payments. Before November 2018, the government taxed 1 per cent of any money received, deposited, sent, and when an individual withdrew money from a MM account. In November 2018, the tax law was revised in response to public outcry and the drop in usage of MM services, and readjusted to a 0.5 per cent tax on MM transactions withdrawing cash, levied on the transaction value.⁸³
- Zimbabwe applies IMTT every time a financial institution mediates non-cheque money transfers. Consequently, withdrawals are not taxed. The levy is not payable on money transfers below Z\$2,500. Other exemptions apply, such as transfers of foreign currency by traders to the Reserve Bank of Zimbabwe.
- Ghana applies the e-levy to electronic transactions, namely MM transfers between accounts on the same electronic money issuer, MM transfers from an account on one electronic money issuer to a recipient on another electronic money issuer, transfers from bank accounts to MM accounts and vice versa, and bank transfers on an instant pay digital platform or application originating from a bank account belonging to an individual subject to a threshold to be determined by the Minister.⁸⁴ Transfers that do not fall under the e-levy include cumulative transfers of GH¢100 per day made by the same person using MM, transfers between accounts owned by the same person, transfers for the payment of taxes, fees and charges, electronic clearing of cheques, specified merchant payments and transfers between principal, agent, and master-agent accounts.⁸⁵ In contrast, the e-levy applies to bank transfers on an instant pay digital platform or application originating from a bank account belonging to an individual above a daily threshold of GH¢20,000.⁸⁶

3.3.3 Policy discussion

The comparative analysis in the previous sections makes it possible to provide a few observations on the taxes on transaction amounts.

⁸³ Uganda: Excise Duty (Amendment) (No. 2) Bill, 2018.

⁸⁴ Ghana: Electronic Transfer Levy Act 2022, Act. 1075, Schedule 2.

⁸⁵ Ghana: Electronic Transfer Levy Act 2022, Act. 1075, Sec. 2(2).

⁸⁶ Ghana: Administrative Guidelines AG/2022/002 of 27 April 2022. See also: Diouf et al. (2022).

From an economic perspective, taxes on DFS transaction amounts can be avoided. Tax avoidance may reduce tax collection, increase informality and undermine future tax compliance. This effect is likely to be important considering the relatively high tax rates. Users could be incentivised to revert back to cash (although this would be particularly difficult in Zimbabwe). Higher tax rates on low-level transactions might discourage the use of digital transactions by low-income earners sensitive to transaction costs, incentivising them to revert to informal ways of money transmission in response to growing transaction costs. MM users could also alter their transaction behaviour or avoid the tax levied on MM withdrawals. Users may, for instance, avoid withdrawals, by using MM to pay for goods and services. In Ghana the e-transaction levy does not apply when issuing a cheque to a person, when depositing cash into the person's bank account, and when transferring the money from a bank account to the person's bank account via internet banking.

Taxes are relatively easy to collect for the well-established electronic modes of transfer. Financial institutions or telecom/DFS providers charge and collect taxes from their users, and remit them to the revenue authorities. However, users could move to new forms of DFS, such as cryptocurrency. This may be more difficult for the tax administration to track, and there is the concern that cryptocurrencies are being used to conceal illegal transactions.

More research is needed to establish whether the taxation on transaction amounts primarily affects the poor, as the wealthy quickly find alternatives to mobile money. Only a few countries studied considered an exemption of low-value transactions to ensure that vulnerable populations can continue to use digital transactions without incurring additional costs. For example, the Ghanaian government implemented a tax exemption for transactions under GH¢100 per day. Tanzania and Zimbabwe also have a threshold, but at a much lower level.

It is clear that consumer-disaggregated data is required to determine whether the tax architecture indicates regressivity, progressivity or proportionality. Regressive and proportional taxation of the DFS sector, particularly regarding specific financial transactions, could stifle activity and undo the gains made so far, particularly in terms of financial inclusion. For instance, in Tanzania DFS users transacting lower amounts are likely to bear a heavy burden, as the percentage of tax is lower for higher amounts.

Proportional taxes at percentage rates on transaction amounts, as in Uganda, Zimbabwe and Ghana, probably result in higher-income and lower-income DFS users paying the same tax rate. Specific research could be undertaken to analyse whether the impact on the poorest people is more than on the better-off, and whether their ability to finance their basic needs is affected.

3.4 Additional burden to adopting DFS by consumer taxation on telecom services and goods

This section examines the taxation of telecom services and goods on users:

- Taxes when buying a digital device such as a mobile phone (e.g. subject to VAT and customs duties, and sometimes fees to activate and connect the digital device/mobile phone) (Section 3.4.2); and
- Taxes when using a digital device/mobile phone (e.g. e-services or mobile data usage) (Section 3.4.3).

Section 3.4.1 provides a brief comparative overview of the current taxes on telecom goods and services in the countries studied.

3.4.1 Comparative overview

Table 11 summarises consumer taxes on telecom goods and services in the studied countries. In addition to general VAT or sales tax and customs duties, the acquisition of telecom goods such as mobile phones, computers and internet services is subject to specific taxes. These taxes are also levied on the utilisation of telecom services, alongside VAT.

Table 11 Comparative overview of consumer taxation of telecom goods and services

	Consumer taxes and fees on telecom goods and services						Digital and non-digital goods and services
	Acquiring phone			Airtime/ electronic communication		Others levies on telecom goods and services	
	VAT	Customs duties		Excise duty	VAT		
	Mobile phones	SIM cards					
Burundi	18%	0%	10%	Telephone consumption: 12% Internet: 18%	18%	Telecommunications tax on mobile phone internet data (18% on MB price) Excise stamp duty on mobile phones: US\$0.25	n/a
Côte d'Ivoire	18%	10%	20%	3% on telephone communication	18%	n/a	1% statistical fee on imports Goods outside WAEMU and ECOWAS: 0.8% community solidary levy, and 0.5% community compensatory levy
Ghana	12.5%	10%	20%	5% electronic communication service	12.5%	GH¢5 on SIM card registration	2% Special Import Levy 1% COVID-19 health recovery levy 2.5% NHIL 2.5% GETFL
Kenya	16%	0%	10%	20% telephone services (increase from 15% with Finance Act 2021)	16%	n/a	Railway development levy (2%) Import declaration fee (3.5%) Standard levy on all manufacturers (0.2%)
Rwanda	0%	0%	10%	10%	18%	n/a	n/a
South Sudan	18%	10%	25%	15%	18%	n/a	n/a
Tanzania	0%	0%	10%	17%	18%	TSh5 (US\$0.002) and TSh222.7 (US\$0.096) development airtime levy	n/a
Uganda	18%	10%	10%	12% Value-added services: 12%	18%	1.5% infrastructure levy	n/a
Zimbabwe	14.5%	25%	20%	10%	20%	Security charge on imported cellphones (US\$50)	n/a

Source: Author's desk research of national legislations. Customs duties on mobile phones and SIM cards were collected from the World Trade Organisation (WTO) website.

Note: The customs duties refer to HS Code 851712 ('Telephones for cellular networks', i.e. mobile phones); and HS Code 852321 ('Cards incorporating a magnetic stripe', i.e. SIM cards).

3.4.2 Acquisition of mobile phone

The acquisition of a mobile phone and SIM cards is typically subject to VAT, customs duties, and specific taxes and fees (see Annex 8 for a detailed overview).

- VAT at standard tax rates on mobile phones is common across countries, with only differential tax rates. None of the African countries studied apply a higher VAT rate to telecom company sales or goods compared to non-telecom goods or services.⁸⁷ Surcharges to general VAT may increase the costs of device acquisition and accessing mobile services. Some African countries (e.g. Rwanda and Tanzania; Kenya temporarily) have tax exemptions for mobile handsets to promote the telecom sector. This is a generous incentive/exemption, but it might be questioned whether it effectively lowers consumer prices. In Burundi, Budget Law 2014/2015 introduced a stamp tax (*vignettes fiscales*) on mobile phones.⁸⁸
- Custom duties typically apply, making mobile services more expensive. The selling operator initially pays customs duties, but these are usually factored into the end price the consumer pays for the mobile handset. The countries studied generally impose customs duties on handsets and SIM cards, with some exceptions.⁸⁹ Non-telecom goods or services are often subject to similar custom duties. Côte d'Ivoire subjects imported goods to the statistical duty (1 per cent), community solidarity levy (0.8 per cent), to African Union import tax and community levy (0.5 per cent). Ghana applies a National Health Insurance Levy (NHIL) on importation of goods and supply of imported goods. Kenya applies the standards levy on all manufacturers at 0.2 per cent of the value of goods manufactured per month. The railway development levy and import declaration fee are charged on all imports for use in Kenya.
- Some countries apply specific fees on activation and connection (e.g. activation fees for SIM-cards and numbering fees imposed on allocating a number to an operator licensee). These charges are less common in other parts of the world. Ghana applies a GH¢5 charge on SIM card registration (Sehloho 2022). While activation fees are becoming less prevalent these days, they increase the cost of DFS usage. Less affordable mobile services could result in a loss of revenue from taxes on mobile usage and operator revenue. Removing these activation and connection fees could help lower affordability barriers, enabling more individuals to enter the mobile market, and, as a result, increasing the government's tax base.

3.4.3 Usage of telecom services

After purchasing a handset and paying activation and connection fees to access digital networks, the DFS consumer is subject to VAT and specific taxes (excise duties and other levies) for using fixed and electronic communication services. Here we contribute to existing literature identifying tax policies that play an important role in supporting digitalisation of the economy – digital transformation (Ndulu et al. 2021). The telecom taxes are similar across the country studies, with the tax rate being the main difference (see Annex 9 for a detailed overview).

- General VAT applies to telecom services, such as data provision, which ranges from 12.5 per cent in Ghana to 20 per cent in Zimbabwe.
- Specific taxes on telecom goods and services – such as excise duties – increase the cost and, in extension, the price of DFS. Excise duties are typically used to discourage individuals from consuming goods with negative externalities (e.g. alcohol, tobacco, sugar-sweetened beverages), by raising the price of consumption goods. The same logic cannot and should not apply in the telecom sector. The telecom sector is associated with overwhelmingly positive externalities. Excise duties on telecom services (data, internet

⁸⁷ cf. Sudan applies 30% VAT rate (as opposed to the regular 17%). Section 14(1) of the VAT Act (from 1 Jan. 2012).

⁸⁸ Burundi: Budget Law 2014/2015, Art. 37.

⁸⁹ Customs duties on mobile phones and SIM cards were collected from the World Trade Organization (WTO) website for the latest data available in May 2022. These refer to HS Code 851712 (telephones for cellular networks or for other wireless networks); and HS Code 852321 (cards incorporating a magnetic stripe).

and mobile communication) are levied between 10 per cent (Rwanda) and 20 per cent (Kenya).⁹⁰ Several other countries do not charge any standard excise tax on telecom data services, including Côte d'Ivoire and Ghana – they levy other specific taxes (see Section 3.4.2).

- Other specific taxes on the use of mobile services might apply, which are collected by the telecom provider from users and remitted to the tax authority. These taxes are similar to excise duty paid by telecom users, but have lower rates. Côte d'Ivoire and Ghana, for example, impose a percentage-based fee on telecom services, in which the consumer pays a flat percentage on charges. Tanzania charges a rate defined by bands of airtime amount charged. Like the specific taxes in Côte d'Ivoire and Ghana, this specific levy is not included in the transaction's consideration. Consequently, there will be no excise duty or VAT on these additional charges. Accordingly, a payment made at the higher end of an interval will have a smaller effective percentage charge than a payment made at the lower end of the interval (PWC 2021).

The usage of non-digital services (e.g. banking services) is typically subject to general tax regimes. Financial services are usually exempt from VAT. Some countries apply miscellaneous taxes on non-digital goods, similar to digital goods – for instance, Ghana applies a National Health Insurance Levy (NHIL) on supplies of goods and services made or provided in Ghana.

4 Institutional taxation of telecom/DFS providers compared to TFS providers

Countries also apply taxes on revenue and/or turnover of providers. Providers can either absorb the tax and reduce operations and infrastructure spending to maintain profitability, or pass the tax on to customers through higher prices.

This section assesses the taxation of telecom/DFS providers by looking at corporate income taxation (CIT) in Section 4.2, specific taxation through country studies in Section 4.3, and other taxes in Section 4.4 (import duties, regulatory fees, and withholding taxes on agent commissions). We give a short comparative overview of current taxes on telecom/DFS providers and on banks and other providers of TFS in Section 4.1.

4.1 Comparative overview

Table 12 summarises the basic elements of institutional-level taxation in the countries studied. This table does not capture all taxes in the DFS/telecom sector because of the complexity and differences between countries studied.⁹¹ The main aim is to highlight key differences between telecom/DFS providers, and banks and other providers of TFS.

⁹⁰ Based on Tarifica data collected in June-October 2020 for 37 African countries, average consumer tax rate on mobile internet services is 11.08% and the average rate for fixed internet services for a plan catered at SMEs is 15.10% - higher than the average for low-income countries and middle-income countries (excluding African countries). See Niesten and Begazo (forthcoming).

⁹¹ See Niesten and Begazo (forthcoming); Rota-Graziosi and Sawadogo (2020); Rogers and Pedros (2017); Matheson and Petit (2021).

Table 12 Comparative overview of institutional level taxation of telecom/DFS providers

	Telecom/DFS providers		Banks and other providers of TFS	
	Corporate taxation	Specific taxes	Corporate taxation	Specific taxes
Burundi	30%	1% USF contribution	30%	5% special contribution on income of financial institutions
Côte d'Ivoire	30% CIT rate for telecom companies and companies carrying money transfers by mobile phone (standard rate is 25%)	Specific taxes (7.2%) apply to turnover of telecom companies, and include MM transfer companies: 5% tax on telecommunications 2% technology tax 0.2% culture contribution 2% USF contributions	25% Deductibility of provision for financial institution	10% tax on banking operations (but money transfers excluded)
Ghana	25%	5% national fiscal stabilisation levy 1% USF contributions	25% Income derived by rural banks is subject to a reduced CIT rate of 1% for the first 10 years	5% national fiscal stabilisation levy on banks (other than community and rural banks), and 5% financial sector clean-up
Kenya	30% Minimum tax of 1% on turnover (suspended)	1% USF contributions 15% telecom tax on hirer, licensee or user of telecom apparatus 3.5% import declaration fee 0.2% standards levy on manufacturers Investment allowance for telecom equipment for telecom operators at 10%	30% Minimum tax of 1% on turnover (suspended)	No (15% telecom tax does not apply to banking businesses) 3.5% import declaration fee 0.2% standards levy on manufacturers Investment allowance for machinery at 10%
Rwanda	30%	2% USF contributions 2.5%/3% health insurance contribution (on turnover of telecom companies)	30% Reduced CIT rate 15% for registered investors in financial services (e.g. private banks)	No
South Sudan	20%	No	20%	No
Tanzania	30% 0.3% turnover tax under the local government finance act 1982	1.5% USF contributions	30% 0.3% turnover tax under the local government finance act 1982	No
Uganda	30%	2% USF contributions Annual allowance for computers and data handling equipment with depreciation rate of 40% as well as reduced import duty rates (0%) for telecom equipment	30%	Annual allowance for depreciable assets (20%)
Zimbabwe	24.72% (24% + Aids levy of 3%)	1.5% USF contributions	24.72% (24% + Aids levy of 3%)	Automated financial transactions tax for cash withdrawals made through ATMs (Z\$0.05 for local currency withdrawals over Z\$1,000, or US\$0.05 for foreign currency withdrawals below US\$1,000 and 2% for withdrawals over US\$1,000)

Source: Author's desk research of national legislations.

Note: Yellow represents a different playing field or public policy that advantages TFS providers at the expense of DFS providers, or vice versa.

Differences between DFS providers and TFS providers are exogenous and inevitable, given the different nature of providers.⁹² The focus in this section on sector-specific taxes at the

⁹² Section 3.3.2.4 assesses how consumer taxes affect the financial services provided by telecom/DFS providers differently to those offered by banks and other TFS providers. From this comparison, distortions in the treatment of services that perform the same function for the consumer were noticed.

provider level is relevant because any applicable taxes might be passed straight on to users. As a result, prices would rise, and transaction volumes would drop.

4.2 Corporate income taxation

4.2.1 Telecom/DFS providers

Telecom/DFS providers contribute to general collection of corporation taxation. In the sample of selected countries, general CIT rates between 20 per cent and 30 per cent across sectors apply to telecom/DFS providers.

Telecom/DFS providers sometimes face sector-specific taxes that do not apply to banks and other TFS providers. For instance, in Côte d'Ivoire a higher CIT rate applies to telecom companies, including companies performing mobile phone money transfers. Companies in the telecom, information technology (IT) and communication technology sector are taxed at 30 per cent CIT, which is higher than the standard 25 per cent CIT rate applied to other sectors.⁹³ The wording of the legal provision seems to indicate that companies that only perform mobile phone money transfers, for which specific taxes apply, are not subject to this increased CIT. The tax administration clarified that the higher CIT applies to revenue of the telecom, IT, and communication technology companies, including revenue from money transactions made from a mobile phone and debited to an electronic purse, which is generally fed by a cash deposit with an agent or merchant.⁹⁴ In addition to the higher CIT, the following specific taxes apply on their turnover – a tax for development of new technologies, a levy for promotion of culture, and a tax on telecommunications.⁹⁵

Uniform CIT rates across telecom/DFS sectors apply (except Côte d'Ivoire), but distinctive elements determine the taxable base, particularly exempt income and allowable deductions. The definition of net income for tax and public accounting requirements may also differ. Incentives can potentially promote network growth and interconnection among actors (Rivadeneira et al. 2022).

- While some African countries provide tax incentives and exemptions to companies operating in the telecom/DFS sector, Tanzania and Côte d'Ivoire do not, except for reduced customs duties on telecom equipment.
- Kenya allows telecom operators to deduct 10 per cent of their annual investment allowance for telecom equipment and the purchase or acquisition of an irrevocable right to use fibre-optic cables.⁹⁶
- In Rwanda, a registered investor is entitled to a flat rate for the accelerated depreciation allowance of 50 per cent for the first year for new or used assets, if it operates in telecoms.⁹⁷
- Uganda extends tax incentives to promote the telecom sector, including accelerated capital allowance deductions on computers and data-handling equipment.
- Mobile operators can also deduct the cost of telecom and spectrum licence fees (e.g. in Burundi, Ghana, Rwanda, Tanzania and Uganda). Kenyan operators do not have this tax deduction (GSMA 2020a: 5).

⁹³ Côte d'Ivoire: General Tax Code, Art. 64 (standard 25%).

⁹⁴ Côte d'Ivoire: Annexe fiscale (p. 8) à la Loi No. 2018-984 du 28 décembre 2018, Art. 14.

⁹⁵ 5% tax on turnover of telecom, IT, communication companies, as well as companies performing mobile phone money transfer operations.

⁹⁶ Kenya: Income Tax Act, Chapter 470, Sec. 15(2)(y).

⁹⁷ Rwanda: Part XX of the Annex to Investment Law 2021.

4.2.2 Banks and other TFS providers

CIT applies to every incorporated or registered company, including traditional finance providers (banks/financial institutions), unless the entity is tax-exempt – as is frequently the case with national banks. Thus, banks and other TFS providers typically have similar general CIT rates. For instance, in South Sudan financial institutions and banks are similar to telecom/DFS providers, and subject to 20 per cent business profit tax.⁹⁸ Countries exempt specific types of banks from CIT.⁹⁹ However, these are standard institutional exemptions that typically apply globally to the central bank and development banks. Given their mandate, central and development banks are supposed to operate on a non-commercial basis. They are not competitors to MM.

Financial institutions are taxed at a lower rate in some countries, sometimes only temporarily:

- In Ghana, the income of rural banks is subject to a reduced CIT rate of 1 per cent for the first 10 years.¹⁰⁰
- In Rwanda, a reduced CIT rate of 15 per cent (instead of 30 per cent) applies to investments in financial services, which is considered a priority sector to registered investors. Qualifying financial services include private banks and private equity funds, fund management, wealth management, family office services, reinsurance, trust and corporate service providers.¹⁰¹ DFS provided by telecom companies do not appear to enjoy preferential CIT rate treatment. The reduced rate applies to the information and communication technology (ICT) sector (knowledge-based services, manufacturing or assembly). ICT retail, wholesale trade and IT repair industries, and telecoms are excluded.

Banks and credit establishments in Côte d'Ivoire may deduct provisions for doubtful debts and commitments as long as the total amount does not exceed 5 per cent of their year-end profits before taxes, and does not exceed 5 per cent of their total medium-term and long-term loans.¹⁰² Banks and credit establishments may also deduct provisions of up to 10 per cent of the rediscount amount, up to F.CFA 250 million (US\$406,504), to cover the risk of rediscount operations with agricultural credit establishments.

⁹⁸ South Sudan: Financial Act 2019/2020, Schedule 1.

⁹⁹ e.g. Rwanda exempts the National Bank of Rwanda (BNR), qualifying pension funds, collective investment schemes and employee share schemes, the National Trust Fund and the Business Development Fund Limited from CIT (Direct Tax Law, No 16.2018 of 13 April 2018, Art. 46). Tanzania exempts the Bank of Tanzania from CIT (ITA, Second Schedule to the ITA, paragraph f). Effective 1 July 2021, exemptions from income tax also include interest derived by a person from government bonds issued and listed on the Dar es Salaam Stock Exchange (ITA, Second Schedule, Sec. 10). Burundi exempts the Central Bank of Burundi from CIT (Loi No. 1/02 du 24 Janvier 2013 relative aux impôts sur les revenus, Arts. 87 and 88). In Côte d'Ivoire, pension funds are exempt from tax (General Tax Code, Article 4). There are no specific provisions for trusts. Investment funds and other collective vehicles, unless specially exempt, are taxable. In Ghana, while the standard CIT of 25% applies to telecom/DFS providers, a standard and concessionary tax rate of 1% applies for the first 10 years for rural banks and the standard CIT rate applies thereafter (ITA, First and Sixth Schedules). Similar exemptions apply in other countries.

¹⁰⁰ Ghana: Income Tax Act 2015 (Act 896), First and Sixth Schedules. A reduced CIT rate also applies to the income derived by banks from loans granted to special sectors including farming enterprises (20%) and leasing companies (20%).

¹⁰¹ Rwanda: Part IV, 7° of the Annex to the Investment Law 2021.

¹⁰² Côte d'Ivoire: General Tax Code, Art. 18-E.

Box 3 Tax on banking operations (but not money transfers) in Côte d'Ivoire

Since 2015, the legal provision of the tax on banking operations (TOB) determines that, except for leasing and money transfer operations, TOB applies to transactions connected to banking and financial operations, as well as trade in securities and money in general.¹⁰³ TOB does not apply to money transfers. The tax at 10 per cent is levied on (tax-free) taxable turnover, which comprises fees, commission, brokerage fees and rent. Small and medium-sized companies pay a reduced rate of 5 per cent on bank charges related to acquisition of certain types of equipment.¹⁰⁴

The tax on banking operations is classified as an indirect and similar tax on turnover. Persons liable to VAT can deduct TOB (e.g. in relation to bank charges and fees, and services incurred by companies for the needs of their operation) from the VAT they have collected.¹⁰⁵ The OECD noted that the combination of the tax on banking operations and VAT could result in undesirable double taxation (OECD 2016). The banking and financial sector is not considered a VAT subject, and thus suffers a non-deductible VAT cost on its inputs. It is required to collect TOB on services given, but cannot deduct TOB that has been invoiced to them (e.g. for intra-bank transactions). In other countries, banking and financial transactions are often exempt from VAT, and there is no entitlement for deduction (OECD 2016). Because the banking and financial sector cannot get a refund for VAT incurred, it appears that the banking and financial sector is de facto subject to VAT on its inputs. Banking and financial transactions cause distortions and open up opportunities for maximising efficiency (OECD 2016). An impact study on the revenue effects of eliminating TOB and replacing it with imposing VAT on transactions subject to TOB would be beneficial. As seen above, Tanzania has already imposed VAT on banking and financial transactions.

4.2.3 All providers of financial services

The countries studied impose additional taxes on top of corporate taxes on income already due, which are usually not restricted to the telecom/DFS sector:

- One additional tax is a turnover tax.
 - In Kenya, a final turnover tax of 1 per cent is payable on gross turnover from business.¹⁰⁶ The tax is payable by any resident person with a limited annual turnover, which seems to exclude most telecom/DFS providers.
 - Rwanda levies a tiered trading licence tax on previous year's turnover payable by any person who begins a profit-orientated activity in Rwanda.¹⁰⁷ The trading licence tax is deductible for income tax purposes.
 - Tanzania imposes a turnover tax (as a city service levy or local council levy).¹⁰⁸ The levy is charged on local businesses at a rate not exceeding 0.3 per cent of gross revenue.
 - In Côte d'Ivoire, any company, whether domestic or foreign, which carries on a trade, business or profession is liable to the business licence duty (*contribution des patentes*) unless specifically exempt under the General Tax Code.¹⁰⁹ The taxable base is determined according to the classification of the business, its location and number of employees. The duty comprises a fixed duty (according to

¹⁰³ Côte d'Ivoire: General Tax Code, Arts. 395-398.

¹⁰⁴ Côte d'Ivoire: General Tax Code, Art. 401.

¹⁰⁵ Côte d'Ivoire: General Tax Code, Art. 402.

¹⁰⁶ Kenya: ITA, Third Schedule, Para. 9, as amended by the Tax Laws (Amendment) Act 2020.

¹⁰⁷ Rwanda: Law on Decentralised Taxes.

¹⁰⁸ Tanzania: Administered under the Local Government Finance Act 1882, as amended.

¹⁰⁹ Côte d'Ivoire: General Tax Code, Art. 264, and Art. 278.

a schedule) and an *ad valorem* duty (on value of office buildings, premises, etc.). A reduced 16 per cent rate applies to buildings, premises, etc. situated outside the local authority perimeter.¹¹⁰ The *ad valorem* duty may not be less than one-third of the fixed duty.

- Country studies also show an alternative CIT mechanism applicable to companies subject to CIT and similarly not limited to the telecom/DFS sector. This so-called 'minimum lump-sum tax' (*impôt minimum forfaitaire*) mechanism applies to companies with negative financial results, or whose effective corporate tax charge is less than the above-mentioned CIT amounts.
 - In Burundi, since 2 August 2014, companies carrying out business activities in the country, regardless of whether they are resident or non-resident, are subject to a minimum lump-sum tax of 1 per cent of annual turnover.¹¹¹
 - Kenya introduced a similar minimum tax of 1 per cent of turnover.¹¹² The tax is currently suspended following a High Court ruling in September 2021 declaring the tax unlawful. The Kenya Revenue Authority (KRA) has announced its intention to appeal the decision. The tax is not payable where the company is subject to turnover tax.
 - Côte d'Ivoire imposes a minimum lump-sum tax and synthetic tax regime on companies subject to CIT. Telecom/DFS providers with annual turnover exceeding F.CFA 200 million¹¹³ must pay the minimum lump-sum of 0.5 per cent of the total turnover (inclusive of VAT).¹¹⁴ Banks, credit institutions, and insurance companies are, however, subject to 0.15 per cent.

4.3 Sector-specific taxation

This section assesses sector-specific taxes on telecom/DFS providers and determines whether banks and other TFS providers are typically subject to similar costs or sector-specific taxes.

4.3.1 Telecom/DFS providers

SSA tax authorities increasingly subject telecom/DFS providers to sectorial taxes and fees on revenue and turnover (see Box 4). Rwanda applies a 2.5 per cent/3 per cent health insurance scheme for telecom companies. The specific taxes in Côte d'Ivoire paid by telecom/DFS companies extend to all structures carrying out money transfer operations by mobile phone.

¹¹⁰ Côte d'Ivoire: General Tax Code, Art. 278.

¹¹¹ Burundi: Budget Law 2021/2022, Art. 102.

¹¹² Kenya: Finance Act 2020.

¹¹³ Above F.CFA 500 million (all taxes included) and between F.CFA 200 million and F.CFA 500 million (all taxes included).

¹¹⁴ Côte d'Ivoire: General Tax Code, Art. 39 and Art. 70 bis. The synthetic tax regime applies to telecom/DFS companies with annual turnover, including all taxes, ranging between F.CFA 5 million and F.CFA 200 million. Taxpayers who derive an annual turnover, including all taxes, ranging between F.CFA 50 million and F.CFA 200 million are taxed under the microbusiness tax regime (*régime des microentreprises*) at a tax rate of 7%. A reduced rate of 5% applies to companies that are members of Approved Management Centres (*Centres de Gestion Agrégés, AMC*). Taxpayers deriving an annual turnover, including all taxes, ranging between F.CFA 5 million and F.CFA 50 million are taxed under the state synthetic tax regime at 5% (*taxe d'État de l'entrepreneur*).

Box 4 Country examples of specific taxes on telecom/DFS providers

Rwanda Health Insurance scheme

Rwanda imposes a 2.5 per cent levy on annual turnovers of telecom companies for the first two years. This is to increase to 3 per cent in the third year, and after that to finance universal health coverage.¹¹⁵ The Rwandan Utilities Regulatory Authority receives paid subsidies for telecom companies. The Authority transmits the subsidies granted to the community-based health insurance scheme. The contribution's goal is to raise more funds for universal health insurance coverage, which covers the healthcare needs of 88 per cent of Rwanda's population.

Côte d'Ivoire specific taxes on money transfer companies by mobile phone

The Fiscal Budget Laws for 2007 and 2008 introduced specific taxes at 7.2 per cent payable by telecommunications, telephone and information technology companies.¹¹⁶ Côte d'Ivoire took advantage of the economic boom by broadening the scope to companies performing money transfer operations by mobile phone since 1 February 2019 (in addition to 30 per cent CIT).¹¹⁷ The 7.2 per cent is composed of a 5 per cent tax on telecommunications (*taxe sur les télécommunications*),¹¹⁸ a 2 per cent technology tax,¹¹⁹ and a 0.2 per cent culture contribution.¹²⁰ These taxes are calculated on monthly turnover, excluding VAT, which includes revenue from the telecom business itself, and revenue from transactions made from a mobile phone and debited to an electronic purse, which is fed by a cash deposit with an agent or merchant.¹²¹ The proceeds of the tax on telecommunications are partially allocated to the financing of traffic control actions and the fight against telecom fraud.¹²² Services connected to telecom supplied by businesses other than telecom services, such as rental of pylons and transmission capacities, are not subject to this tax. The 2 per cent technology tax revenue is for promoting new technologies in rural zones. The 0.2 per cent culture contribution revenue is transferred to the Culture Fund. The final consumer is not required to pay the tax. The specific taxes that the provider must pay are deductible for CIT.

The specific taxes in Côte d'Ivoire offer an excellent opportunity to illustrate the complex tax framework of telecom/DFS providers, and the implications of specific taxes on price-setting by telecom/DFS providers.

The scope of these specific taxes, initially limited to telecom companies, has been expanded by the Finance Act 2019 to all companies transferring money via mobile networks.¹²³ The Finance Act 2020 extended the specific taxes payable by telecom companies to all structures

¹¹⁵ Rwanda: Article 4 on Subsidies to the community-based health insurance scheme from telecommunication or fuel trade companies of the 2020 Prime Minister's Order related to the community-based health insurance scheme subsidies.

¹¹⁶ Côte d'Ivoire: Ordonnance No. 2007-488 du 31 mai 2007 portant Budget de l'Etat pour la gestion 2007, annex fiscal, art. 36, 37. Ordonnance No. 2008-381 du 18 décembre 2008, annex fiscal, art. 54.

¹¹⁷ Côte d'Ivoire: Loi No. 2018-984 du 28 décembre 2018.

¹¹⁸ Côte d'Ivoire: General Tax Code, Art. 1130.

¹¹⁹ Côte d'Ivoire: General Tax Code, Art. 1127.

¹²⁰ Côte d'Ivoire: General Tax Code, Art. 1129.

¹²¹ Côte d'Ivoire: Loi No. 2018-984 du 28 décembre 2018, Art. 14, p. 19.

¹²² According to the Côte d'Ivoire: General Tax Code (Art. 1131), 5% of the proceeds of the tax are allocated to the financing of traffic control actions and the fight against fraud in telecommunications and 95% to the state budget. The part destined to the fight against fraud is paid into a special account opened in the books of the national investment bank and managed by an administrator.

¹²³ The expansion aimed to end tax optimisation by telephone companies, who were establishing separate entities for the sole purpose of carrying out these transactions. Previously, telephone companies paid these specific taxes excluding revenue related to the mobile phone money transfer activity. With the expansion, mobile money transfer companies are required to pay, in the same way as telephone companies, the specific taxes currently applicable to the latter. Côte d'Ivoire: Loi No. 2018-984 du 28 décembre 2018, Art. 14; Loi No. 2019-1080 du 18 décembre 2019, Art. 28-5.

carrying out money transfer operations by mobile phone.¹²⁴ Previously, the specific taxes only applied to telecom companies in the strict sense (telecom, information technology and communication companies)¹²⁵ providing DFS in terms of money transfer by mobile phone.¹²⁶

Telecom/DFS providers temporarily increased the tariffs paid by users on MM transfers when the Finance Act 2019 expanded the scope of specific taxes to include companies performing money transfers via mobile phone.¹²⁷

- On 26 February 2019, the Telecommunications/ICT Regulatory Authority of Côte d'Ivoire (ARTCI) reported that the tax burden on revenue of telecom/DFS providers was transferred to users via tariff increases, and warned telecom operators to stop passing on the extra cost of MM transactions to the end consumer (AllAfrica 2019; African Wireless Communications 2019). The regulator accused operators of violating the telecommunications and telecommunications technology law, which requires them to notify the tariffs and terms and conditions of the service offered one month before making them public.¹²⁸
- On 7 March 2019, UNETEL announced the suspension of the tariff increase of 7.2 per cent on MM transfers (UNETEL 2019). This communication came one week after the injunction of the Telecommunications/ICT Regulatory Authority requiring all mobile telephone operators to immediately halt their decision to apply revised tariff schedules to the increase correlatively to the new cumulative taxes of 7.2 per cent. Consequently, money transfer companies cannot pass the cost increase to users as higher fees (Gbodje 2021: 209).

Despite its implications on the DFS sector in Côte d'Ivoire, the taxes have become a specific portion of government income mobilisation.¹²⁹ Financial operations of banks and other providers of TFS are not subject to these specific taxes. They are subject to another tax regime – the tax on banking operations (*taxe sur les opérations bancaires, TOB*) at 10 per cent (see Section 4.3.2). The latter tax applies on taxable turnover from all transactions relating to banking and financial activities (fees, commissions, etc.). Money transfer activities are, however, excluded from its material scope. Consequently, in the case of banks and other TFS providers, money transfers are more heavily taxed with VAT (18 per cent) than similar transactions with the tax on banking operations (10 per cent).

4.3.2 Banks and other TFS providers

The research, evaluation and comparison of tax treatment suggests that traditional finance institutions (banks and other formal financial institutions) also face specific taxes in some of the countries researched (Box 5).

The following analysis identifies several taxes that specifically apply to TFS providers. For instance, Côte d'Ivoire and Ghana have specific taxes on traditional finance institutions (in

¹²⁴ Annexe Fiscale à la Loi No. 2019-1080 du 18 décembre 2019 portant budget de l'état pour l'année 2020, Art. 28.

¹²⁵ i.e. *taxe sur les entreprises de télécommunication et des technologies de l'information et de la communication et les entreprises effectuant les opérations de transfert d'argent par téléphone mobile*.

¹²⁶ Côte d'Ivoire: Loi No. 2018-984 du 28 décembre 2018, Art. 14. GSMA argued that the taxes on the mobile sector carrying out money transfers were discriminatory as 'other e-money issuers and mobile money providers that are not promoted by a mobile operator are not subject to the tax. This renders mobile money transactions disproportionately higher in cost than similar transactions processed by banks and other financial institutions' (GSMA 2019a: 29).

¹²⁷ As of 1 January 2019, the National Union of Telecommunications Companies (UNETEL) announced a rate increase for transactions following the new taxes on companies transferring money by mobile phone. On 25 February 2019, telecom/DFS providers (Orange, MTN and Moov) increased the price of MM transfers. See UNETEL (2019).

¹²⁸ Côte d'Ivoire: Ordinance No. 2012-293 du 21 March 2012 relative aux Télécommunications et aux Technologies de l'Information et de la Communication.

¹²⁹ OECD Global Revenue Statistics database of Côte d'Ivoire's Tax Revenue. US\$800 million converted to F.CFA and calculated as a % of total tax revenue from 2016 to 2019, which is about 10 to 12%.

addition to the taxes on telecom/DFS providers as seen above). Burundi and Zimbabwe only impose specific taxes on traditional financial institutions, while not on telecom/DFS providers.

Box 5 Country examples of specific taxes on banks and other providers of traditional finance

Côte d'Ivoire tax on banking operations

The tax on banking operations (*taxe sur les opérations bancaires*) applies to banking and financial transactions, and, in general, to trade in securities and money, except for leasing and money transfer operations.¹³⁰ The following activities are exempt:¹³¹ a) bank charges paid on loans made by foreign or domestic banks to other domestic banks (subject to certain conditions); b) interest and bank charges on loans made by authorised financial institutions of a mutual character to their members; and c) interest and bank charges on certain loans, such as loans made to individuals to acquire low-cost or social housing units and loans made to small-scale farmers. The tax is levied based on taxable turnover, including fees, commission, brokerage fees and rent. The tax is levied at 10 per cent.¹³² Small and medium-sized businesses pay a reduced rate of 5 per cent on bank charges related to acquiring certain types of equipment.

Ghana financial sector clean-up

Effective 1 April 2021, the government introduced a financial sector clean-up levy of 5 per cent on profit before tax applicable to banks only (excluding rural and community banks) in addition to the national fiscal stabilisation levy applicable to banks (other than community and rural banks). The law defines a bank as a bank regulated under the Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930).¹³³ The non-deductible levy is a temporary measure that seeks to mobilise revenue to help settle outstanding commitments related to cleaning up the financial sector in 2017.¹³⁴

Burundi tax on financial institutions

Burundi imposes a special tax on financial institutions (*contribution spéciale à charge des institutions financières*) equivalent to 5 per cent of income before tax with effect from 1 January 2021.¹³⁵ The tax aims to finance development projects.¹³⁶ This tax is a deductible expense for income tax purposes.¹³⁷ The term financial institutions does not appear to be defined in the law introducing this tax.¹³⁸ This brings many activities carried out by banks

¹³⁰ Côte d'Ivoire: General Tax Code, Arts. 395-402.

¹³¹ Côte d'Ivoire: General Tax Code, Art. 398.

¹³² Côte d'Ivoire: General Tax Code, Art. 401.

¹³³ Ghana: Section 12 of the Financial Sector Recovery Levy Act 2021, Act 1067.

¹³⁴ The Bank of Ghana embarked on a process to clean up and recapitalise the financial sector in 2017. The goal was to improve the safety, soundness and stability of the financial system. According to the 2021 budget statement, the exercise cost the government some GH¢ 21 billion. See Institute for Fiscal Studies and Ministry of Finance (2021), footnote 5. According to the 2021 Budget statement, the financial sector clean-up exercise and the refund of money to depositors had restored investor confidence and protected the savings of millions of Ghanaians. Budget Statement 2021, No. 263.

¹³⁵ Burundi: Budget Law 2019/2020, Art. 29, implementing Law No. 1/13 of 15 May 2020 establishing the General Budget of the Republic of Burundi for the Fiscal Year, Art. 32. See also, article 41 of the Budget Law 2021/2022.

¹³⁶ Burundi: Ministerial Ordinance No. 540/1809 of 31 December 2020 on the Implementation of the Provisions of the Budgetary Law on the Special Contribution of Financial Institutions, Art. 1.

¹³⁷ Burundi: Budget Law 2021/22, Art. 41.

¹³⁸ The preamble of the implementation law refers to the Law No. 1/2017 of 22 August 2017 regulating banking activities. This Law No. 1/2017 defines a financial institution as 'a legal person, whether or not part of a group of related persons, which carries out a regular occupation and mainly one or more operations among those provided for in Article 4'. According to Article 4, 'operations authorized to banks' are considered as 'the receipt of funds from the public, the

within the special tax framework. Where similar financial services are provided by a telecom/DFS provider, they are not subject to this special tax.

Zimbabwe automated financial transactions tax on banks

In Zimbabwe, an automated financial transactions tax (not to be confused with the IMTT) has been imposed since 1 September 1996. Financial institutions¹³⁹ have to pay to the Commissioner an automated financial transactions tax on each transaction whenever a customer of a financial institution: (a) withdraws cash from their account with the institution, and (b) makes any debit on their account with the institution using an automated teller machine.^{140 141} The legislation stipulates that a financial institution may recover this so-called withdrawal levy from the customer.¹⁴² In August 2022, the automated financial transactions tax rate increased to Z\$0.05 per local currency withdrawal over Z\$1,000, US\$0.05 for foreign currency withdrawals below US\$1,000, or 2 per cent of a withdrawal over US\$1,000.¹⁴³ The intention is to discourage withdrawals of foreign currency.

4.3.3 All providers of financial services

Ghana introduced a national fiscal stabilisation levy (NFSL) in July 2013 to raise funds to stabilise the economy, which was suffering from external shocks.¹⁴⁴ The levy applies on profit (accounting profit) before tax at a rate of 5 per cent for banks (other than community and rural banks), non-bank financial institutions, insurance companies, telecommunication companies liable to pay communication service tax under Act 754. The non-deductible levy is assessed through provisional assessments issued by the Commissioner-General, and is payable quarterly. Although the levy was to last for 18 months (ending January 2015), the levy has continuously been extended to 31 December 2024.¹⁴⁵ Several reports, notably from stakeholder groups, emphasise high taxes in Ghana's telecom industry. According to the Mobile Industry Transparency Initiative study conducted by the Ghana Chamber of Telecommunications,¹⁴⁶ almost half (48 per cent) of revenue generated by telecom companies (mobile network and infrastructure companies) in Ghana went to government taxes in 2019 (The B&FT online 2020).

4.4 Other relevant taxes

4.4.1 VAT

Telecom companies are generally VAT-taxable persons and are thus required to be registered under VAT legislation. In contrast, providers of DFS – similar to banks and other

distribution of credit, the provision of means of payment to customers and their management, carried out mainly as a regular profession by credit institutions.' [own translation]

¹³⁹ Financial institution means '(a) a bank, discount house, or finance house registered or required to be registered under the Banking Act, or (b) a building society [...]'. A bank is defined as a commercial bank or an accepting house. Zimbabwe: Banking Act, Ch. 24:20, Sec. 2.

¹⁴⁰ Automated teller machine refers to an electronic device that allows a customer of a financial institution to perform transactions, such as cash withdrawal, without the intervention of a teller or other officer of the financial institution concerned.

¹⁴¹ Zimbabwe: Section 36B, and Twenty-Fifth Schedule of the Income Tax Act. See Article 22B of the Finance Act, Ch. 23:04.

¹⁴² Zimbabwe: Income Tax Act 23:06, Twenty-Fifth Schedule, no. 5.

¹⁴³ Zimbabwe: Income Tax Act, Ch. 23:06, Sec. 36B, and Twenty-Fifth Schedule. Statutory Instrument 96 of 2022, Sec. 2, which amends Sec. 22B of the Finance Act [Chapter 23:04].

¹⁴⁴ Ghana: National Fiscal Stabilization Levy Act, 2013 (Act 862).

¹⁴⁵ Ghana: National Fiscal Stabilization Levy (Amendment) Act, 2019 (Act 1011). See also, the report of the Finance Committee on the National Fiscal Stabilisation (Amendment) Bill, 2019.

¹⁴⁶ Focusing on members of the chamber AirtelTigo, ATC Corp, MTN Ghana, Vodafone, Huawei, CSquared, Helios Towers and Comsys.

providers of traditional financial services – seem unlikely to be taxed in most countries because an exemption applies to financial services, including payment services. For further details on VAT application on financial services, see Section 3.2.1.

(Digital) financial activities are generally not subject to VAT in Kenya, Uganda, Burundi, Ghana and South Sudan. For other countries in the sample (Rwanda, Tanzania, Côte d'Ivoire and Zimbabwe), VAT liability for telecom/DFS providers is usually triggered by the provision of professional services. Typically, the VAT definition of financial services does not specify an exemption for specific financial services, such as DFS. Each transaction in the production and distribution chain is normally subject to VAT. The relevance of being VAT-registered is that if the telecom/DFS provider charges VAT on fees, telecom/DFS providers can claim input credits for VAT paid on purchases of services used in making taxable sales.¹⁴⁷ As a result, most telecom/DFS providers in the chain can deduct VAT paid as input tax. Thus, the DFS consumer who acquires goods or services for private use, who is not allowed a deduction for VAT paid, actually bears the cost of the tax.

4.4.2 Import duties and other levies on DFS equipment and infrastructure

African countries levy customs duties from 0 per cent to 10 per cent on imports of mobile equipment goods, such as antennas, base stations and communication apparatus. This appears to be lower than other selected goods and services (e.g. coin-operated machine and bank cards). Annex 10 provides details of customs duties on selected digital and non-digital equipment. Ghana and Côte d'Ivoire subject imported telecom network equipment to customs duties (e.g. 10 per cent on base stations¹⁴⁸ and communication apparatus¹⁴⁹). Customs exemptions apply to machinery and apparatus used in other industries (e.g. agriculture, mining and transportation).

Exemptions may apply to the import of telecom goods and services. Customs unions such as the African Union (AU), ECOWAS, or the West African Economic and Monetary Union (WAEMU) raise fees or duties for the budget of communities.¹⁵⁰ Telecom/DFS providers in the EAC enjoy a Common External Tariff rate within the Community (0 per cent for telecom equipment). Part of the EAC Customs Union regime of common external tariffs is that Burundi, Kenya, Rwanda, Tanzania, Uganda and South Sudan (and the DRC since 11 July 2022) exempt base stations and communications apparatus from customs duties. Imports of telecom equipment in the EAC Customs Union from countries outside it are subject to customs duty between 0 per cent, 10 per cent and 25 per cent.¹⁵¹

Other levies on imported goods with specific purposes may also apply to selected imports of telecom/DFS and traditional banking equipment. For instance, in Rwanda, imported goods from outside the EAC are generally subject to a 1.5 per cent infrastructure levy on customs value to finance railway infrastructure development.¹⁵² A levy of 0.2 per cent is levied on

¹⁴⁷ Financial services with VAT fees can be taxed just like any other taxable goods and service. For example, if a telecom/DFS provider charges fees on cash withdrawals from agents/ATMs, and VAT is applied to the fees (and thus paid by the customer), the telecom/DFS provider can claim input credit for the VAT paid on purchases used to provide the service because it is delivering a taxable service. If the withdrawal service is bought by the consumer, the consumer bears the VAT on this service. If it is purchased by a business for use in making taxable sales, the business can recover the tax paid on the service as an input credit on its VAT return.

¹⁴⁸ HS Code 851761: base stations.

¹⁴⁹ HS Code 851762: machines for the reception, conversion and transmission or regeneration of voice, images or other data, including communication apparatus.

¹⁵⁰ e.g. a 0.2% African Union levy on all imported goods used to finance the African Union (its operations, programmes and peace and security operations), the ECOWAS Community levy of 0.5% tax imposed on goods from non-ECOWAS Member States used to finance the activities of the ECOWAS Commission and Community institutions, and the WAEMU community levy at 0.8%. The community levy does not apply to goods imported from WAEMU member countries (Côte d'Ivoire, Senegal, Burkina Faso, Mali, Benin, Togo, Niger, and Bissau Guinea).

¹⁵¹ East Africa Community External Tariff (CET).

¹⁵² Rwanda: Law No. 34/2015 of 30 June 2015 establishing the infrastructure development levy on imported goods, Art. 4.

customs values of imported goods.¹⁵³ A WHT of 5 per cent of the value of goods imported for commercial use must also be paid at customs on cost insurance and freight (CIF) value before the goods are released by customs.¹⁵⁴ In Kenya, the Miscellaneous Fees and Levies Act was amended through the Finance Act 2019 to increase the railway development rate from 1.5 per cent to 2 per cent.¹⁵⁵

Customs duties and other levies on telecom/DFS infrastructure may hinder mobile investment in digital network rollout. Import tariffs seem to be applicable to both the digital sector and TFS providers. If that was not the case, import tariffs only applicable to the digital sector risk could slow down investment in innovation by DFS providers (Rogers and Pedros 2017: 30).

4.4.3 Regulatory fees and other miscellaneous levies and taxes

Telecom/DFS providers pay regulatory fees to cover the cost of regulatory activities, such as licensing and authorisation fees, spectrum fees, fees for numbering and homologation of equipment, and USF contributions. The amount and complexity of these fees can raise operational and investment costs, limiting infrastructure development. General regulatory fees aim to guarantee the financial independence of the regulator, and compensate the regulator for the cost of regulation (Blackman and Srivastava 2011).

Banks and other providers of TFS are typically subject to similar costs. Governments that have changed their regulatory framework to separate MM provision from other telecom services will generally have equalised the regulatory costs for all providers. However, given that TFS providers typically have a physical presence of their own (often secure and substantial) in many places, it would be interesting to investigate if they suffer higher local taxes as a consequence.

The amount and types of regulatory fees and other miscellaneous fees are beyond the scope of the research, which primarily relates to taxes at the telecom/DFS provider in relation to financial services (Niesten and Begazo forthcoming). This report limits its focus to some general observations concerning the regulatory fees on telecom/DFS providers – licensing fees, spectrum licence fees,¹⁵⁶ as well as contributions to the USF.

First, regulators may subject telecom/DFS providers to initial licensing fees for obtaining licences and annual licence fees to recover the cost of providing operators with a certain service. African countries, including Tanzania and Kenya charge annual licensing fees as a percentage of the annual gross turnover or revenue of the telecom operator.¹⁵⁷ A few countries (e.g. Rwanda) levy a lump sum for annual licensing fees. In Côte d'Ivoire, licensing fees depend on the specific network characteristics.

Second, telecom/DFS providers usually pay spectrum fees for scarce and valuable resources, and other economic characteristics of the telecom market, such as natural monopolies and network externalities. Governments and regulatory authorities generally determine spectrum fees and operating licences. Spectrum allocation via competitive

¹⁵³ Rwanda: Law No. 19/2017 of 28 April 2017 establishing the levy on imported goods for financing African Union activities, Art. 2.

¹⁵⁴ Rwanda: Law No. 016/2018 of 13 April 2018 establishing taxes on income, Art. 61.

¹⁵⁵ Kenya: Miscellaneous Fees and Levies No. 29 of 2016, Sec. 8(2).

¹⁵⁶ Spectrum fees are charges that telecom operators pay, usually to the local telecom regulatory authority, to rent segments of the electromagnetic spectrum over which to transmit signals.

¹⁵⁷ In Tanzania, annual licensing fees of 1% of the gross annual turnover apply. Kenya adopts a unified licensing framework. The Communications Authority (CA) issues technology-neutral licences to telecom operators and service providers, who are categorised in broad market segments.

processes can ensure that licences are provided to the most efficient providers.¹⁵⁸ Maximising public revenue by raising spectrum fees above the value of scarce resources, as well as the cost of spectrum management, may limit investment and participation in future spectrum awards (Rogers and Pedros 2017: 17; Bauer 2003).

Third, telecom/DFS providers in African countries usually contribute to a USF or equivalent to finance the development of mobile networks in rural areas. The USF levied in the selected African countries varies between 1 per cent (Kenya,¹⁵⁹ Burundi¹⁶⁰ and Ghana¹⁶¹), 1.5 per cent (Tanzania¹⁶² and Zimbabwe¹⁶³), to 2 per cent (Rwanda,¹⁶⁴ Uganda¹⁶⁵ and Côte d'Ivoire¹⁶⁶) of operators' revenue. No information on the USF rate could be found for South Sudan. The funds transferred to the USF are typically used for infrastructure projects for universal service and spectrum reallocation. There is often no financial reporting of existing funds.¹⁶⁷

Special taxes may also apply to businesses operating in the telecom sector for the government to facilitate development. For example, Kenya applies a telecommunications tax on hirer, licensee or user of telecommunications apparatus or services at 15 per cent of the consideration paid. Other taxes apply on services and goods not restricted to the telecom sector, for instance the standards levy, charged on all manufacturers at 0.2 per cent of the value of goods manufactured per month; the railway development levy, charged on all imports, at 2 per cent on customs value; the import declaration fee to all imports for use, at 3.5 per cent of customs value.¹⁶⁸

4.4.4 Withholding tax on agent commissions

Withholding taxes (WHTs) on telecom/DFS and bank agent commissions are to be viewed as part of individual taxation. In theory, it may not cost the telecom/DFS provider or bank anything – although it is, of course, part of the tax wedge that affects the entire supply chain (and ultimately, users). Understanding the broader framework is important – therefore WHTs on agent commissions are discussed under providers' organisational costs.

¹⁵⁸ In Kenya, the CA subjects each frequency band for purchase to a formal bidding process. The Uganda Communications Commission (UCC) is mandated to manage and administer the frequency spectrum case-by-case through administrative processes and market-oriented mechanisms. In Côte d'Ivoire, the Ivorian Radio Frequency Management Agency (AIGF) is in charge of spectrum management and collecting payments from users. Because the licence is awarded via invitation to tender or auction, the upfront fees vary per bid and are detailed in the licence agreement with the successful bidder.

¹⁵⁹ Kenya Information and Communications (Universal Access and Service) Regulations, 2010.

¹⁶⁰ Burundi: Décret N°100/0186 du 16 octobre 2017 portant Création et Modalités de Gestion du Fonds de Service Universel des TIC au Burundi, Art. 6, Sec. 2.

¹⁶¹ Ghana operates the Ghana Investment Fund for Electronic Communications (GIFEC) which provides financial resources for the establishment of universal service and access for all communities, and facilitation of the provision of basic telephony, internet service, multimedia service, broadband and broadcasting services to these communities. All operators and service providers licensed or authorised by the NCA must contribute 1% of their annual net revenue to GIFEC. See, Electronic Communications Act 2008, No. 775.

¹⁶² Universal Communications Service Access Act No. 11, 2006 (the UCSAA); The Universal Communications Service Access Fund Amendment - Regulations 2017.

¹⁶³ Post and Telecommunications Act of 2000. All operators are required to contribute to USF. At the beginning of 2016, the Government increased the necessary level of payments from 0.5% to 1.5% of a telecom operator's gross yearly turnover.

¹⁶⁴ Rwanda: Article 30 on Contribution Level of the 2004 Presidential Order determining the functioning of the USF & Public Operator's Contribution.

¹⁶⁵ Uganda: Communications Act 2013, Sec. 68.

¹⁶⁶ Côte d'Ivoire: Decree No. 2012-949 of September 26, 2012, in the organisation and operation of the National Agency of the Universal Service of Telecommunications/ ICT.

¹⁶⁷ For instance, UCC-licensed telecom operators in Uganda must contribute 2% of their annual gross revenue to the USF to develop rural communications, information and communication technology. No information about how the Uganda Communications Commission (UCC) uses the funds or how much it has collected in the last three years is publicly available (Niesten and Begazo forthcoming).

¹⁶⁸ Kenya: Miscellaneous Fees and Levies Act 2016.

Many countries studied (e.g. Kenya, Tanzania, Rwanda, Uganda, Zimbabwe and Ghana) have withholding requirements for agents (Box 6). There are no large differences between the treatment of telecom agents and bank agents. Telecom/DFS providers and banks usually collect payments from commissions to telecom and bank agents. The WHTs of the agents are usually not final, and may be credited against the agent’s final tax liability. The agent is thus expected to file tax returns at the end of the year, for which WHTs can be released if the cost of business exceeds profits. Countries tax the distribution costs, such as commissions paid to agents on cash-in and cash-out.

Box 6 Country examples of withholding tax on agent commissions

In Kenya, management and professional fees – defined as a payment made to a person as consideration for managerial, technical, agency, contractual, professional or consultancy services, paid to a resident company on the aggregate value of which is at least KSh24,000 (US\$195) in a month – are subject to WHT at 5 per cent.¹⁶⁹ The tax is not a final tax and may be credited against the company’s final tax liability. Tanzania levies a 10 per cent non-final WHT to commissions paid to money transfer agents and fees, or commissions paid to commercial banks and to digital payments agents for facilitating cash-in to MM wallets and cash-out from MM wallets.¹⁷⁰ While the incidence of this tax is likely to fall on the agents, it is a tax applied to the MM P2P value chain (Funchs et al. 2017: 45). In Rwanda, the service fees including management and technical service fees are subject to a 15 per cent non-final withholding tax.¹⁷¹ In Uganda, a 10 per cent WHT applies to all commissions paid by telecom service providers on MM services and is levied as a final tax on resident individuals. A 10 per cent WHT also applies to commissions paid to insurance and advertising agents.¹⁷² In Zimbabwe, registered businesses are required to withholding and remit to the tax authority 30 per cent of the payment to an agent not in possession of a tax clearance certificate at the time of receiving the commission.¹⁷³ In Côte d’Ivoire, other income, which is not taxed under a specific schedule, is subject to the tax on non-commercial profits at 25 per cent.¹⁷⁴ Ghana levies a 10 per cent WHT on domestic payments as ‘commissions to a sales agent’ for services delivered.¹⁷⁵ The GRA explained mid-2021 that a 10 per cent WHT applies to any service for which a commission is paid (including the cash-out commission). Hence, banks and MM agents pay 10 per cent as WHT on cash-in and cash-out commissions.¹⁷⁶

5 Levelling the playing field between DFS and TFS

The comparative tax analysis in sections 3 and 4 shows that DFS and TFS are not on a level playing field. Some countries have taxes on DFS and not TFS providers, and vice versa. Others have taxes that only apply to DFS and not TFS users, while the reverse is also true.

¹⁶⁹ Kenya: Income Tax Act, Sec. 2.
¹⁷⁰ Tanzania: Income Tax Act 2004, as amended, First Schedule, Par. 4, Sec. 86.
¹⁷¹ Rwanda: Law No. 016/2018 of 13 April 2018 establishing taxes on income, Art. 60.
¹⁷² Uganda: Income Tax Act, Cap. 340, Section 118F (inserted by IT (Am) Act 2018), Section 118G and 118H. Third Schedule of the ITA, Part XIII.
¹⁷³ Zimbabwe: Income Tax Act, Sec. 80 and Financial Act 2021, No. 7, Sec. 12(2). The Financial Act 2021, No. 7 replaced 10% by a 30% withholding tax.
¹⁷⁴ Côte d’Ivoire: General Tax Code, Arts. 85 and 92-2-a.
¹⁷⁵ Ghana: ITA, Art 116(1)(a)(v) juncto paragraph 8 of the First Schedule to the ITA.
¹⁷⁶ The Mobile Money Agents Association of Ghana (MMAG) clarified that MM agents will begin to pay 10% as withholding tax on both cash-in and cash-out commission as of September 2021. Mobile Money Agents Association of Ghana, Statement after GRA engagement, 30 June 2021. See also Nyabor (2021).

5.1 Driving forces behind the uneven playing field

Digital financial services are increasingly taxed differently to traditional finance in Africa. DFS taxation has been justified using various theories, including broadening the revenue base, addressing tax administrative weaknesses, improving revenue collection efficiency, and addressing informality. African countries seem to mimic the policies of others, without necessarily adhering to their established policy processes. It is relevant to examine the historical evolution of DFS taxation, and critically review how governments and revenue authorities have justified it.

The uneven taxation appears to have several components. It involves normative, economic and political issues, as well as legislative ones. Historically, tax systems focus on traditional financial services. A significant concern is that the emergence of new services (and some new goods) results in ad hoc partial solutions based on an already existing arsenal of tax measures, rather than a comprehensive and principles-based rethinking of yet-to-be-beaten challenges. The tax system has not always understood the nuances of DFS in the broader economy, and how new business models, technology, applications, processes and products in the financial market are changing the landscape. This shows the need for a comprehensive approach to ensure that the tax system considers digital transactions and activities, in addition to traditional forms of finance.

The relative lobbying power of telecom companies compared to banks and traditional providers varies by country, usually due to political economy issues,¹⁷⁷ and may complicate the development of a level playing field. The well-connected lobbying power of business actors (e.g. banking sector), and the well-understood, consumer-focused lobbying capability of telecom companies, influences taxation. New players (e.g. fintechs), who are even newer than telecom providers, seem universally ignored by the tax system because they do not fit under a label of bank or telecom provider. Tax systems that only target DFS may have potentially negative effects. It is necessary to have a targeted and consultative approach in which all market participants are involved at all stages of policymaking. Increasing understanding and appreciation of financial services in many African countries can help the region get closer to achieving the desired level playing field.

Further action is needed to allow the financial services market to develop appropriately, in response to consumer preferences and demand. The tax policy framework must create a level playing field that encourages access to high-quality financial services, regardless of service provider or technology. Comparable financial services should, in principle, enjoy the same treatment – taxation of all financial services should be addressed holistically, rather than piecemeal. Those African countries and regions with more experience with taxation can share their experience, enabling peer-to-peer learning. The government's and society's objectives need to be properly reflected and balanced. The following subsections illustrate policy initiatives that could be part of the proposed holistic approach.

A good tax system should account for the broader economic implications of telecom/DFS taxation in terms of production and consumption outcomes, as well as tax administration costs. It should avoid economic distortions, ensuring taxpayer certainty, and, in some cases, correcting market failures (**efficiency**). The tax system should be neutral, in that it imposes a proportionate burden on all taxpayers' activities (**neutrality**), and not have a regressive effect (**equity**). It should be simple and transparent (**simplicity**).¹⁷⁸ Well-recognised tax principles,

¹⁷⁷ The role of the political economy and the perceived need for differential treatment of certain sectors or businesses for shaping DFS tax policies is unexplored and deserves further research (Prichard 2015).

¹⁷⁸ See also Niesten and Begazo (forthcoming). The principles are inspired by IMF, OECD, UN and WBG (2016); ITU (2013); Bird and Zolt (2003).

adapted to the telecom/DFS sector, can help policymakers understand the current tax challenges in the DFS sector, and to formulate tax policy recommendations to minimise tax discrepancies between DFS and TFS.

5.2 Levelling the playing field at provider and consumer levels

As new business models and non-bank actors enter the financial services market, tax policymakers need to create a tax framework that, as far as possible, treats financial service providers the same, regardless of legal form and their users. Neutralising taxation for financial services delivered through digital and traditional means could enable coordination between telecom/DFS consumer taxation with and traditional financial sector, level the playing field between DFS and TFS providers, and capture activities presently uncaptured by the tax framework, such as fintech. This needs uniform implementation of common norms.

At the provider level, this research identifies several sector-specific taxes that may create horizontal inequities, by taxing telecom/DFS providers differently to other companies – particularly banks and other providers of TFS (Section 4.3). Different treatment of digital and traditional financial providers in either direction negatively affects competition. Only taxing money transfers by mobile phone at the level of telecom providers, and not other financial and microfinance institutions that gain from growth in the MM industry, affects tax efficiency and neutrality. Unfair competition from TFS could reduce the profitability of DFS providers, compromising digital development. Similar activities should be taxed similarly. The scope of sector-specific taxes payable in the telecom/DFS sector could be broadened to other companies carrying out similar money transfer operations. In Côte d'Ivoire, all businesses carrying out money transfer operations by mobile phone ultimately have to pay the specific taxes applicable to mobile phone companies. Additionally, tax policies should be designed to take into account how the market structure is changing, particularly network interoperability.

A related consideration is that increased competition between telecom/DFS providers and banks and other providers of TFS is important, especially considering the net effects of consumer taxes on transaction fees. When competition lowers fees, the tax effects of transaction taxes on fees will automatically decrease. The decrease will, of course, be proportionately smaller than the reduction in fees. Rather than phasing out consumption taxes, competition or regulation may encourage telecom companies to set comparable fees/charges.

At the consumer level, we show the importance of aligning taxation of digital finance models with the financial services offered by banks and other providers of TFS. Taxing DFS transactions more than banking services, or vice versa, may undercut the basic principle of tax neutrality. When taxes apply on some financial services but not others, economic distortions occur when users opt for cheaper, even untaxed, alternatives. Digital models that are similar should be taxed in the same way.

In terms of taxes on transaction fees, the analysis shows that VAT particularly is applied differently. Effort should be made to build a system where VAT applies to DFS and TFS in the same manner.

- For VAT on transaction fees, more work could be done to align VAT in Rwanda, Zimbabwe and Côte d'Ivoire (Section 3.2.1). In Rwanda and Zimbabwe, digital financial services provided by banks and other providers of traditional financial services should, arguably, be subject to similar VAT as telecom providers, and vice versa. Côte d'Ivoire already levies VAT at 18 per cent on money transfer operations payable to banking and non-banking institutions. Equity would suggest that there should be a level playing field

with other banking operations that are subject to a lower VAT rate (10 per cent). Inspiration can be drawn from Tanzania, where VAT applies to charges or fees payable to banks, non-bank financial institutions and telecom service providers.

- Some progress has been made to level the playing field for excise duties on transaction fees between cellular phone service providers and traditional providers (Section 3.2.2). Kenya's tax policy favours fees charged for money transfer services by cellular phone service providers (12 per cent excise duty), compared to fees charged for money transfer services by traditional providers (20 per cent excise duty). Tanzania applies 10 per cent excise duty on fees or charges. However, this only applies to money transfer and payment services for telecom service providers, while the scope is broader with financial institutions (for all services provided by such institutions). Uganda applies excise duty at 15 per cent to transfer and withdrawal fees from telecom companies; financial institutions (banks) are subject to 15 per cent excise duty on a broader scope of ATM fees, withdrawal fees, periodic charges, and other transaction and non-transaction charges.

The biggest challenge is found in taxes on transaction values (Section 3.3). Given the new players across the DFS landscape, tax policymakers have to deal with how to level the playing field for: (i) different kinds of entities offering similar DFS services, and (ii) different kinds of mediums. Some argue that the higher tax level of digital infrastructure is justified, since telecom/DFS providers may be well-placed to dramatically expand the reach and range of financial services, and thus bring the informal economy into the tax net.

Different kinds of entities increasingly offer similar DFS services, as new business models emerge and bank and non-bank actors enter the DFS market. Regulators should work to create a tax landscape that levels the playing field for service providers, regardless of legal form – and work towards promoting, rather than constraining, digitalisation, innovation and competition.

- Telecom/DFS and TFS providers are not similarly liable in some countries, such as Tanzania and Uganda. Tanzania applied a levy to be collected by banks, financial institutions or electronic money issuers. However, the announcement of 20 September 2022 seems to imply that the levy only applies to transactions within MM networks. Henceforth, bank agent and ATM cash withdrawals of a value less than TSh30,000 will also be exempt. Uganda targets MM withdrawals, seemingly in the context of telecom/DFS providers. Hence, the 0.5 per cent MM withdrawal levy does not apply to bank agent and ATM cash withdrawals.
- Countries such as Ghana and Zimbabwe attempt to tax electronic transactions offered by different providers equally (as opposed to taxing the different service providers differently based on legal form). Ghana charges the levy on electronic transfers by electronic money issuers, payment service providers, banks, specialised deposit-taking institutions and other financial institutions, but with vastly different thresholds. Zimbabwe extends the tax to include transfers of banks and MM operators.

Financial services through different kinds of mediums (digital vs non-digital) should be similarly taxed. The discrepancy relates to separate provisions in countries' tax legislation that distinguish between the service types.

- Ghana, Tanzania, Uganda and Zimbabwe impose specific taxes on electronic or mobile money. In Ghana, the only transfers from bank accounts to which the e-levy seems to apply are payments from bank accounts to MM accounts owned by someone other than the sender, and payments by individuals on an instant pay digital platform or application. In Tanzania, the announcement of 20 September 2022 implies that the levy will apply to

transactions within MM networks. Uganda applies the tax only to MM. Zimbabwe applies the IMTT to all money transfers otherwise than by cheque.

- Consistently applying specific taxes on financial services would help level the playing field between DFS and TFS. Other financial services, mainly TFS, should also come into play – transfers between bank accounts, but also MM-to-bank and bank-to-MM, should be equally covered. Withdrawals of cash should also be equally covered, regardless of whether the withdrawal is made from a user's MM account or bank account at a collector, collector's agent or ATM.

Further research is needed on the effects of tax policies and regulations that seem to have an adverse impact on the development of DFS. Section 6 offers suggestions for addressing some issues identified in the study.

6 Concluding remarks

This section provides high-level preliminary observations to foster and encourage progress towards more neutral treatment of digital and traditional financial services for telecom/DFS providers and users. Together with stronger evidence, the preliminary observations must be balanced with knowledge about the country's context, interaction with other taxes, and laws and regulations, to determine the most appropriate tax policies. Other factors include administrative capacity, the effectiveness of sectoral and cross-cutting policies to foster competition in the DFS sector, and incentives for infrastructure expansion and innovation.

6.1 Improving taxation of providers

6.1.1 Assess the incidence and direct effects of taxation

The research illustrates that the complexity of DFS makes it challenging to determine who bears the actual economic burden of a tax on telecom/DFS providers. Telecom/DFS providers are not reluctant to pass the additional burden on to DFS users. From a regulatory perspective, African countries could explore options for lowering the cost to DFS users. In Côte d'Ivoire telecom/DFS providers cannot pass the tax burden of specific taxes on to final consumers. Even if barred from passing on cost increases to customers, there is no guarantee that telecom/DFS providers will not find other, less visible, ways to do this.

Many regulatory regimes consider tax an allowable cost when calculating an otherwise capped price. Unless the price-capping mechanism is extremely tight and fully enforced, it is difficult to prevent a provider from raising prices by a broadly equivalent amount over time, even if the actual cost is not specifically passed on to consumers. If higher taxes cannot be passed on to consumers through higher prices, telecom/DFS providers may choose to limit their services, and reduce operational and infrastructure investment. When introducing a tax on telecom/DFS providers, it is important to monitor who bears the economic burden of the tax.

To help understand the tax incidence, there need to be public participation to foster a sense of fairness and social acceptance. Multi-stakeholder involvement – government institutions, civil society, international partners, the private sector and research community – is important for building trust, coordinated action and international engagement. The lack of public input undermines a sense of fairness and social acceptance, and does not encourage compliance. Consultations and public-private communication can help guide the action. African countries could learn from each other and ensure that new international standards are tailored to their

specific needs. The research community could assist policymakers and tax authorities to analyse the development impact of DFS taxation and key dependencies. Before imposing new taxes or setting new rates, decision-making would benefit from authorities consulting the difficult-to-reach telecom/DFS sector to gain a clear picture of the impact of new taxes (rates) on the market, including consumer prices. So far, telecom/DFS providers have proved unwilling to make data available that would make the policy process more effective, and allow measures to be better targeted.

6.1.2 Explore rent taxes

This research shows several countries (e.g. Ghana, and Côte d'Ivoire) where various taxes apply on revenue and profits earned by telecom/DFS providers. More detailed research is needed to study other ways for governments to raise revenue from the telecom/DFS sector, instead of through sector-specific consumption and transaction taxes. CIT is very difficult for many revenue administrations in Africa for structural and resource reasons. To the extent CIT falls on rents (earnings above the minimum return required by the investor), the incidence will be on the firm's owners, and CIT can help achieve redistribution. Taxing rents (e.g. the fees paid for the use of the spectrum) appears to be non-distortive, and unlikely to cause them to adjust their input/output behaviour and influence market prices (de Mooij et al. 2020: 6). CIT could be more growth-friendly if it were designed as a rent tax (e.g. by excluding the minimum required return from the base, or as a cash-flow tax where investment can be immediately expensed). The telecom industry is perceived to be more profitable than many other sectors. It would be interesting to further explore rent taxes in the context of the telecom/DFS sector.

6.1.3 Consider tax incentives in rural areas

Facing heavier taxation than other sectors may deter telecom/DFS providers from expanding networks and enhancing service quality, resulting in reduced competition within the sector. It may be worth considering whether and where targeted and temporary tax incentives for setting up DFS systems in rural areas would be effective. If it is difficult to access physical branches, users are negatively impacted. Where investment is still lagging, specific performance commitments to improve the universal access framework and implementation could be considered, supplemented with robust monitoring and enforcement. Providing immediate cost relief and facilitation of network investment, by eliminating import duties for capital inputs (equipment) or other local taxes levied directly on infrastructure deployment, could be explored, given their relatively low importance as a tax collection source. Tax incentives should be evaluated, regularly monitored and publicly reported.

6.2 Improving taxation of users

6.2.1 Explore opportunities for regional coordination

A common approach to DFS taxation could be explored, with regional tax coordination and alignment (Niesten 2022b). The individual approaches to DFS taxation show the limited extent of fiscal coordination – a transaction may be taxed in one country, and not in the other, creating potential barriers or mismatches. National policymakers and officials could concentrate on aligning tax bases, rather than tax rates. The EAC is striving towards greater monetary, fiscal and tax integration among its partner states.¹⁷⁹ During the 48th general

¹⁷⁹ The partner states commit themselves to 'harmonize their tax policies with a view to removing tax distortions in order to bring about a more efficient allocation of resources within the Community' (Article 83 (2)(e) of the East African Community Treaty 1999). Similarly, 'the Partner States undertake to progressively harmonize their tax policies and laws

meeting of the Commissioners of the East African tax authorities on 11 November 2020, the tax authorities agreed to develop a joint strategy for taxation of the digital economy.¹⁸⁰ Similarly, ECOWAS could agree a common approach to defining a uniform and transparent tax basis for greater fiscal and tax integration among its 15 partner states.^{181 182} The EAC and ECOWAS could agree on a common approach to defining uniform and transparent tax bases (whatever the rate). This could involve a regional holistic approach for taxing DFS through a joint EAC- or ECOWAS-led review of applicable taxes, rather than individual positions, to determine an optimal approach to institutional and consumer taxation, reduce tax exemptions, and strengthen competition policy. Guidelines for single national laws and more harmonised legal structures could specify a particular convergence in greater detail.

6.2.2 Reassess taxing telecom goods and services to improve access to DFS

The research acknowledges the importance of affordable telecom goods and services for access to digital connection and DFS adoption. Taxing telecom goods and services may create a direct barrier for users to connect and adopt digital technologies to access financial services, especially for the poorest segment. Governments could reconsider their tax strategies for improving DFS adoption, and think twice before imposing new telecom (or other) taxes on the consumer. Sector-specific taxes on telecom goods and services are at odds with fundamental tax principles that tell us that consumption taxes should be broad-based and neutral. It would be helpful to examine how the tax design of digital (electronic) channels could enhance and strengthen DFS adoption, and whether there are options to address market distortions and negative effects on economic growth. Better consumer affordability could incentivise widespread coverage and adoption of DFS. African leaders are committed to halving internet costs and providing universal and affordable access to the internet as part of SDG 9. Internet taxes, like excise duties and other special levies (e.g. Tanzania's Airtime levy), are likely to counter these critical aspirations.

6.2.3 Search for options to lower the cost for DFS users

The research found that the tax implications for DFS depend on the base (taking fee or value as a starting point).

Tax design and pricing structures are crucial for determining whether any tax on transaction fees charged by telecom/DFS providers to users that is a percentage of the fee will be regressive. Although beyond the scope of this report, it would be interesting to assess whether taxation is likely to have a greater impact on poorer customers, because, proportionately, the fees for DFS are higher when the amount of the transaction is lower. In addition to examining the regressive impact of transaction fees charged by telecom/DFS providers on users based on the size of their transactions, it is also important to consider the potential gendered impact of taxation, as women are more likely to engage in lower-value transactions, making them more vulnerable to the regressive effects of taxes on transaction

on domestic taxes with a view to removing tax distortions in order to facilitate the free movement of goods, services, and capital, and the promotion of investments within the Community' (Article 32 on the Harmonization of Tax Policies and Laws of the Common Market Protocol). The Protocol on the Establishment of the East African Customs Union clearly defines excise duty as 'a non-discriminative duty imposed by Partner State on locally produced or similar imported goods' (Article 1).

¹⁸⁰ According to the Communiqué issued by the Kenya Revenue Authority following the meeting, East African tax authorities agreed 'to develop a joint strategy for the East African Revenue Authorities to address taxation of the digital economy by addressing issues to do with the legal framework in terms of definitions, identification of players and the legal mechanisms'.

¹⁸¹ i.e. Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

¹⁸² The ECOWAS Treaty explicitly prescribes that the 'Community shall, by stages, ensure the harmonization and co-ordination of national policies and the promotion of integration programmes, projects and activities, particularly in ... taxation' (ECOWAS Treaty, Art. 3).

fees. Some countries impose VAT on transaction fees in addition to excise duties, resulting in potential double taxation on the same base. If the purpose is to lower the cost of financial services, and hence improve accessibility, the tax framework could be reconsidered to determine whether none, one, or both of the taxes should be applied. One tax may already be too much. Two taxes may be acceptable if they fit with the rest of the tax structure, provided the rates of both taxes are low enough. Given the common practice of exempting financial products and services from VAT (as evident in many country studies), it would be interesting to conduct further research on whether VAT would be the more rational tax to repeal. To the extent that intermediate suppliers bear the excise duties they cascade through the system, whereas VAT would be recoverable for registered businesses.

Further analysis of transaction amount taxes in more countries could identify progressive DFS tax models with higher tax rates on higher transaction values, with a tax-free bracket for common transaction amounts. Progressive tax systems could pay a double dividend in the fight against inequality – reducing the wealth gap by collecting more money from those who can afford to pay. The revenue generated could potentially be used for social spending. But policymakers need a better understanding of the market to set the tax target properly. Another path could be implementation of tax-free brackets. Small-value taxes may increase the burden on poorer individuals transacting at that level (usually below US\$10).¹⁸³

6.2.4 Consider targeted measures above tax exemptions or reductions

A related observation is that the analysis of consumption taxes suggests that reductions and exemptions are inferior to more targeted measures. An increase in tax administration and enforcement costs is one of the arguments against too much rate differentiation or too many exemptions.¹⁸⁴ Rate differentiation is also unlikely to be the most effective tool for combatting inequality (Ebrill et al. 2001). Even if poor people spend a larger proportion of their income on goods, the absolute amount spent, and thus the absolute tax benefit, is frequently greater for better-off users. When having limited access to a good, a tax cut of a few percentage points may not particularly benefit lower-income people. They would benefit more from a subsidy or free provision of the good. The revenue saved from not providing preferential treatment can be converted into a targeted measure, such as a subsidy paid to the poor (e.g. to buy a mobile phone or internet connection). Although there are questions of practicality, the redistributive power of cash transfers can theoretically achieve poverty reduction at lower cost, or provide more support to the poor at the same cost to access DFS. Ultimately, it could encourage the adoption of financial services through a digital medium by residents who do not have access to traditional financial services.

¹⁸³ Lower value amounts are regarded as around \$10 - see CSBAG (2020a).

¹⁸⁴ e.g. in January 2020, Chad announced exempting imports of telecoms-related equipment and accessories – such as handsets, modems, routers and tablets – from import tariffs and taxes. The administration hopes that the ruling will lessen the barrier to entry into the digital economy for the general population (Comms Update 2022).

Appendix

Annex 1 Definitions of digital financial services and electronic money used by international organisations and policy networks

	World Bank	Alliance for Financial Inclusion (AFI)	International Telecommunication Union (ITU)
Digital financial services	'financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning and account statements that are delivered via digital/electronic technology such as e-money (initiated either online or on a mobile phone), payment cards and a regular bank account' (Pazarbasioglu et al. 2020: 34)	'the broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance' (AFI 2016: 3).	'include methods to electronically store and transfer funds; to make and receive payments; to borrow, save, insure and invest; and to manage a person's or enterprise's finances' (ITU 2018: 4)
Electronic money	'record of funds or value available to a consumer stored on a payment device such as chip, prepaid cards, mobile phones or on computer systems as a non-traditional account with a banking or non-banking entity.'	A type of monetary value electronically stored and generally understood to have the following attributes: (i) issued upon receipt of funds in an amount no lesser in value than the value of the E-Money issued and in the same currency, (ii) stored on an electronic device, whether or not it is SIM enabled (e.g. a chip, pre-paid card, mobile phone, tablet, phablet or any other computer system), (iii) accepted as a means of payment by parties other than the issuer and (iv) convertible into cash (AFI 2016: 6).	'a record of funds or value available to a consumer stored on a payment device such as chip, prepaid cards, mobile phones, or on computer systems as a non-traditional account with a banking or non-banking entity' (ITU 2018: 6)
Mobile money	'services that can be used without a financial institution account. People using a MM account linked to their financial institution have an account at a financial institution, hence resorting to mobile banking' (World Bank 2018)	'a type of electronic money that is transferred electronically using mobile networks and SIM-enabled devices, primarily mobile phones' (AFI 2016: 4)	No definition of mobile money as such, but used as related term of electronic money (ITU 2018: 6)

Annex 2 Mobile money providers and banking partners

	Name MM provider and launch year	Partner		
		Technology	Bank	Other
Burundi (4)	EcoCash by Econet Leo (2010); MobiCash by MobiCash (2012), LumiCash by Lumitel (2016) and Smart PESA by Smart (2016)	EcoCash	MobiCash (Burundi Commercial Bank), LumiCash (Finbank; Intebank)	EcoCash (Burundi Postal service)
Côte d'Ivoire (8)	Orange Money by Orange (2008); MTN Mobile Money by MTN (2009); Celpaid Cote d'Ivoire (2011); Moov Money by Moov Africa Côte d'Ivoire (2012); Qash Mobile Banking by Qash Services (2013); Kash Kash (2018); Wizall Money by Wizall (2019); Wave Mobile Money by Wave (2019)	Orange Money (Mahindra Comviva); MTN Mobile Money (Ericsson); Celpaid Cote d'Ivoire (Tagettitude); Moov Money (Telecom Live Content); Qash Mobile Banking (in-house)	Orange Money (BNP Paribas Subsidiary; Edobank); MTN Mobile Money (Ecobank; Societe General); Celpaid Cote d'Ivoire (Banque Atlantique)	Orange Money; MTN Mobile Money; Education fee payment; Ministère de l'Education Nationale et de l'Education Technique (MENET)
Ghana (6)	MTN Mobile Money by MTN (2009); AirtelTigo Money by AirtelTigo (2011); Vodafone Cash by Vodafone (2015); Zeepay by Zeepay Ghana Limited (2016); Palm Pay by PalmPay Limited (2019); G-Money by Ghana Commercial Bank (2020)	MTN Mobile Money (Ericsson); AirtelTigo Money (Mahindra Comviva); Vodafone Cash (Huawei); Zeepay (InstantMoney, Beyond Payments, Core Nett)	MTN Mobile Money; AirtelTigo Money (Standard Chartered; Ecobank; UBA); Zeepay (First Capital Plus Bank)	MTN Mobile Money (e-gov portal; Ministry of Communications; 'My Own Pension'); AirtelTigo Money (e-gov portal); Vodafone Cash (e-gov portal); Zeepay (Clarmondial, Moove)
Kenya (5)	M-PESA by Safaricom (2007); Airtel Money by Airtel (2009); Tangaza Pesa	M-PESA (Huawei, Visa); Airtel Money (Obopay); Tangaza	M-PESA (Bank of Africa; Equity Bank);	M-PESA (Tax collection: KRA; e-gov portal and health payment); Airtel

	Mobile Money by Mobile Pay Ltd (2011); Equitel by Equity Bank (2014); T-Kash by Telkom (2018)	Pesa Mobile Money (Mobile Pay Limited); T-Kash (Interswitch East Africa)	Airtel Money (Citigroup; Standard Chartered)	Money (Tax Collection: KRA); Equitel (KPLC, DSTV, HELB, Nairobi Water); T-Kash (KPLC, Star Times, NHIF, DSTV and more)
Rwanda (3)	MTN Mobile Money by MTN (2009); Airtel by Airtel (2013); MCash by Mobicash (2015)	MTN Mobile Money (Ericsson); Airtel (Mahindra Comviva); MCash (Mobicash LTD)	MTN Mobile Money (Commercial Bank of Rwanda)	MTN Mobile Money (Tax collection: RRA)
Tanzania (7)	Vodacom M-PESA by Vodacom (2008); ezyPESA by Zantel (2009); Tigo Pesa (2010); Airtel Money by Airtel (2012); HaloPesa by Viettel eCommerce (2016); T Pesa by TTCL (2017); AzamPesa by AzamPay (2022)	Vodacom M-PESA (Huawei); ezyPESA (E-Fulusi); Tigo Pesa (Telepin, Mastercard for QR codes); Airtel Money (Mahindra Comviva); HaloPesa (Our Platform: Viettel Ecommerce)	Vodacom M-PESA (National Bank of Commerce); ezyPESA (TPB); Tigo Pesa (National Bank of Commerce); Airtel Money (ZAP Trust Limited, PBZ Bank)	Vodacom M-PESA (e.g. tax collection and licence fee payments; social security); Tigo Pesa (tax collection and licensee fee payments); Airtel Money (Coca Cola; tax collection and licensee fee payments; Social Security Revenue Authority; Electricity Payment; Student Loan Repayment)
Uganda (8)	Airtel Money by Airtel (2009); MTN Mobile Money by MTN (2009); M-Sente by UT Mobile (2010); MCash (2012); EzeeMoney by EzeeMoney (2013); AfriMoney by Africell (2014); Micropay Mobile Money by Micropay (2014); Lyca Money by Lyca Mobile (2020)	Airtel Money (Mahindra Camviva); MTN Mobile Money (Ericsson); M-Sente (Equity Bank Uganda Limited); MCash (Tagattitude); EzeeMoney (Mobile money International)	Airtel Money (Citibank; Standard Chartered); MTN Mobile Money (Stanbic; Standard chartered bank for B2W payments); M-Sente (Equity Bank Uganda Limited); EzeeMoney (Centenary Bank); AfriMoney (Standard Chartered Bank Uganda Limited); Micropay Mobile Money (Centenary Bank)	MTN Mobile Money (Tax Collection: Uganda Revenue Authority, Kampala Capital City Authority; Social Security and Pension Payments: NSSF; Kwese TV)
South Sudan (2)	m-GURUSH by Trinity Technologies (2019); NilePay by NilePay PLC (2019)	NilePay (Zain)		
Zimbabwe (3)	Ecocash by EconetWireless (2011); TeleCash by Telecel (2014); OneMoney by NetOne (2017)	Ecocash (Mahindra Comviva); TeleCash (Obopay); OneMoney (Huawei)	TeleCash (CBZ Bank); OneMoney (RBZ)	Ecocash (Local Council Bills)

Source: GSMA (2022b); Communications Statistics and Market Performance Reports from the Telecom Regulators in countries studied.

Annex 3 Examples of comparative DFS pricing methods by key DFS providers

	Service and Telecom/DFS provider	Deposit	Transfer		Payments		Cash-out/ Withdrawal
			To same provider	To other providers	Bill payment	Merchant payment	
Burundi	Ecocash by Econet Leo ¹⁸⁵	Free	Flat	Flat	Flat	% + Flat	Flat
Kenya	Airtel Money by Airtel ¹⁸⁶	Free	Free	Flat	/	/	Flat
	M-PESA by Safaricom ¹⁸⁷	Free	Flat	Flat	Free (airtime, balance inquiry)	/	Flat
Rwanda	MTN Mobile Money by MTN ¹⁸⁸	Free	Flat	Flat	Flat	%	Flat
Tanzania	Airtel Money by Airtel ¹⁸⁹	Flat	Flat	Flat	/	/	Flat
Uganda	MTN Mobile Money by MTN ¹⁹⁰	Free	Flat	Flat	Flat	/	Flat
South Sudan	m-GURUSH by Trinity Technologies; NilePay by NilePay PLC	Tariffs could not be retrieved from the website					
Zimbabwe	Ecocash by Econet Wireless ¹⁹¹	Free	Flat	Flat	Flat	/	Free for unregistered users
Côte d'Ivoire	Orange Money by Orange ¹⁹²	Free	Free	/	Flat	/	Fixed % (1%)
	MTN Mobile Money by MTN ¹⁹³	Free and fixed	Flat	Flat	/	/	Fixed % (1% under threshold)
	Moov Money by Moov Africa Côte d'Ivoire ¹⁹⁴	Free	Flat	Flat	Fixed	/	Flat
Ghana	MTN Mobile Money by MTN ¹⁹⁵	Free	Flat + %	/	Flat	/	Flat + %
	Vodafone Cash by Vodafone ¹⁹⁶	Free	Free	Flat	Free	Free	Flat + %

Note: the percentages are calculated based on the lowest thresholds for the lowest and highest value bands (except for the free amounts). (/) refers to non-specified in the tariff schedule. Tariffs extracted on 30 November 2022.

¹⁸⁵ <https://www.econet.bi/index.php/econet-leo-shop/key-features/nos-tarifs> (accessed 8 January 2023).

¹⁸⁶ https://www.airtelkenya.com/tariffs_charges (accessed 8 January 2023).

¹⁸⁷ <https://www.safaricom.co.ke/personal/m-pesa/mpesa-charges> (accessed 8 January 2023).

¹⁸⁸ <https://www.mtn.co.rw/momo-tariff/> (accessed 8 January 2023).

¹⁸⁹ https://www.airtel.co.tz/tariffs_tz (accessed 8 January 2023).

¹⁹⁰ <https://www.mtn.co.ug/insight/mobile-money-tariffs/> (accessed 8 January 2023).

¹⁹¹ <https://www.telecel.co.zw/tariffs> (accessed 8 January 2023).

¹⁹² <https://www.orange.ci/fr/tarifs-orange-money.html> (accessed 8 January 2023).

¹⁹³ <https://www.mtn.ci/momo-portefeuille-mobile/momo-assistance/conditions-tarifaires/> (accessed 8 January 2023).

¹⁹⁴ <https://www.moov-africa.ci/wp-content/uploads/2020/12/frais-de-services.pdf> (accessed 8 January 2023).

¹⁹⁵ <https://mtn.com.gh/momo/personal/> (accessed 8 January 2023).

¹⁹⁶ <https://vodafone.com.gh/personal/vodafone-cash/tariffs/> (accessed 8 January 2023).

Annex 4 Transaction fee taxes: VAT exemption on financial services

Country	Exemption	Subject definition (exempt)
Kenya	Supply of financial services	'(a) the operation of current, deposit or savings accounts, including the provision of account statements; (b) <u>the issue, transfer, receipt or any other dealing with money, including money transfer services, and accepting over the counter payments of household bills, but excluding the services of carriage of cash, restocking of cash machines, sorting or counting of money;</u> (c) issuing of credit and debit cards; (d) automated teller machine transactions, excluding the supply of automated teller machines and the software to run it; (e) telegraphic money transfer services; ... (m) The provision of the above financial services on behalf of another on a commission basis.' ¹⁹⁷
Uganda	Supply of financial services	'(i) granting, negotiating and dealing with loans, credit, credit guarantees and any security for money, including management of loans, credit or credit guarantees by the grantor;(ii) <u>transactions concerning deposit and current accounts, payments, transfers, debts, cheques and negotiable instruments, other than debt collection and factoring;</u> (iii) transactions relating to shares, stocks, bonds and other securities, other than custody services;(iv) management of investment funds, but does not include provision of credit facilities under a hire-purchase or finance lease agreement.' ¹⁹⁸
Burundi	Banking and financial operations	'i) granting of credits and fees related to the establishment of the guarantee of a credit, with the exception of the realization of the guarantee established; ii) foreign exchange operations; iii) transfer of securities; iv) proceeds from bank investments; v) <u>intermediation in financial operations</u> ' ¹⁹⁹
Ghana	Supply of financial services	'provision of insurance; issue, <u>transfer, receipt of, or dealing with money</u> whether in domestic or foreign currency or any note or order of payment of money; provision of credit; or operation of a bank account or an account with a similar institution'. ²⁰⁰ Note: Since 2017, the supply of financial services is VAT-free, while they were formerly subject to VAT. The VAT (Amendment) Act 2017 (Act 948) exempts the 'supply of financial services'. ²⁰¹ Banks are no longer required to impose VAT (as well as the national health insurance levy) on their service fees. ²⁰² In 2015, the VAT landscape was – temporarily – changed by imposing 17.5% VAT on fee-based financial services. Except for life insurance and reinsurance, VAT exemption did not apply to financial services rendered for a fee, commission or similar charge. ²⁰³ After the VAT application on some financial services in 2015, financial institutions providing fee-based financial services, including banks, were required to apply, register and charge VAT on 'qualifying services' (ATM transactions, advisory services, etc.) until the VAT exemption for the supply of financial services was implemented in 2017. Financial services are excluded from the National Health Insurance Levy (2.5%) and the Ghana Education Trust Fund levy (2.5%). ²⁰⁴
South Sudan	In South Sudan, sales tax does not apply to the provision of financial services. In principle, sales tax only applies to the production of goods in South Sudan, the importation of goods into South Sudan and on specified services such as telecommunications, hotel, restaurant and bar services. ²⁰⁵	

¹⁹⁷ Kenya: VAT Act, No. 35, First Schedule, Part II, Sec. 1.

¹⁹⁸ Uganda: VAT Act, Second Schedule (Section 19), Art. 1(c). VAT Act, Second Schedule (Section 19), Art. 1(c).

¹⁹⁹ Burundi: Article 10 of Law 1/12 of 29 July 2013

²⁰⁰ Ghana: First Schedule, VAT Act.

²⁰¹ Ghana: VAT (Amendment) Act 2017 (Act 948).

²⁰² Deloitte (2017), 'Highlights of Value Added Tax (Amendment) Act 2017 (Act 948)'.

²⁰³ VAT Act, No. 870, First Schedule (exempt supplies), Item 19.

²⁰⁴ Section 47 of the National Health Insurance Act, 2012 (Act 852); Section 2 of the Ghana Education Trust Fund (Amendment) (GETFund) (Act 972), 2018.

²⁰⁵ South Sudan: Taxation act 2009, Section 106.

Annex 5 Transaction fee taxes: exemption list on banking products and services in Rwanda

Incentives for financial inclusion
1. Fees income on current account operations a. account maintenance fees b. withdrawal and transfer fees c. account information disclosure fees
1. Income from sale of cheque books and other bank instruments a. Cheque book issued commission/payment orders and receipts issued commission b. Withdrawal clip fees/Bank statement services/duplicate statement charges c. Banker's cheque issued commission/commission on banker's cheque
2. Commissions on ATM purchase and transactions a. Commissions on ATM acquiring/ATM acquiring income/commissions on withdrawal b. ATM card application fees/sale of ATM cards/ ATM card issuance commission c. ATM transactions commission/ATM commission
3. Commissions on VISA card acquisition and transactions a. VISA withdrawal commission fees/M-VISA commissions/withdrawal fees b. VISA debit subscription fees/Commissions on VISA international cards
4. Agency Banking commissions a. Agent commission income
5. Commissions on mobile banking a. Mobile banking fees/commissions; sms banking commissions b. Commissions on sms banking/fees on sms banking c. Commissions on MTN mobile money/TIGO E-Money/Airtel E-Money
6. Salary remittance commissions a. Salary remittance commission
Others: <ul style="list-style-type: none"> • Return on financial and equity investment • Foreign exchange operations • Foreign country originated fees and commissions • Grants and donations • Internally generated income • Miscellaneous

Source:

https://www.rra.gov.rw/fileadmin/user_upload/list_of_updated_schedule_of_vat_exempted_banking_products_and_services.pdf
(accessed 8 January 2023)

Annex 6 Transaction fee taxes: excise duty on financial transaction fees in the countries studied

Kenya, Uganda and Tanzania impose excise duties on financial transaction fees with differential scope.

Kenya excise duty on financial transaction fees. When introducing an excise duty on retail financial transactions in 2012 (to have effect in 2013), the Kenyan government was one of the first countries in Africa to do so. The Finance Act of 2018 increased the excise duty on 'fees charged for money transfer services by cellular phone service providers' to 12 per cent and the excise duty on 'fees charged for money transfer services by banks, money transfer agencies and other financial service providers' to 20 per cent.²⁰⁶ The excise duty on transaction fees for money transfer services by cellular phone service providers (12 per cent) is lower than the 20 per cent excise duty on fees charged for money transfer services by traditional providers (including banks, money transfer agencies and other financial service

²⁰⁶ Kenya: Excise Duty Act 2015, No. 23, First Schedule, Part II, secs. 2 and 3 (which was amended by the Act No. 10 of 2018, Sec. 32(b)(ii) and (iii)).

providers). 'Other fees'²⁰⁷ charged by financial institutions'²⁰⁸ are subject to an excise duty of 20 per cent of their excisable value.²⁰⁹

Uganda excise duty on financial transaction fees. Uganda followed Kenya's footsteps and introduced a 10 per cent excise duty on the transaction fees on cash transfers by mobile phones and other money transfer operators in 2013 (amended in 2014).²¹⁰ The excise duty on the fees charged for 'money transfers and withdrawal services, including transfers and withdrawal services by operators licensed or permitted to provide communications or money transfers or withdrawals but not including transfers and withdrawal services provided by banks' raised in 2018 from 10 per cent to 15 per cent.²¹¹ Additionally, excise duty at 15 per cent (up from 10 per cent in 2018 per cent)²¹² applies to 'ledger fees, ATM fees, withdrawal fees and periodic charges and other transaction and non-transaction charges, excluding loan-related charges periodically charged by financial institutions'. Consequently, fees for banking and digital transactions fees, including fees for transfers and withdrawals, are equally subject to 15 per cent excise duty. But as the tax burden is largely transferred to the clients, transacting is costly for the consumer.

Tanzania excise duty on financial transaction fees. Tanzania introduced a money transfer excise duty in May 2013. The excise duty in Tanzania applies at 10 per cent on 'charges or fees payable by a person to (a) a financial institution for services provided by such institution, or (b) a telecom service provider for money transfer and payment service'.²¹³ Consequently, any bank or financial institution charge 10 per cent on charges or fees from customers or clients, including money transfer service fees (Funchs et al. 2017: 46-48). The Finance Act 2021 also introduced a 10 per cent excise duty on charges or fees payable by a person to a payment system provider licensed under the National Payment Systems Act for money transfer and payment service.²¹⁴ Hence, excise duty appears to apply to all fees or charges paid to banks and financial institutions (including withdrawals), but for telecom service providers only on money transfers and payments.²¹⁵ Impact studies record that those taxes on MM transfer taxes in Tanzania are threatening uptake and usage (Di Castri and Gidvani 2014), although there are no statistics to back up this claim.

²⁰⁷ Other fees include 'any fees, charges or commissions charged by financial institutions relating to their licensed activities but does not include interest on loan or return on loan or any share of profit or an insurance premium or premium based or related commissions specified in the Insurance Act or regulations made thereunder'. Kenya: Excise Duty Act 2015, No. 23, First Schedule, Part III. Finance Act 2019 expanded the scope of exempt financial services to include fees in respect of a loan or any share of profit. The Finance Act clarified that the excise duty applies to other loan costs, such as arrangement fees. Kenya: Finance Act 2021.

²⁰⁸ The term financial service provider has been replaced with 'financial institutions' which includes banks, insurance companies, persons licensed under the Central Bank of Kenya Act, micro finance organisations, Savings and Credit Cooperative (SACCO) societies and the Kenya Post Office Savings Bank.

²⁰⁹ Kenya: Excise Duty Act 2015, No. 23, First Schedule, Part II, sec. 4 (which was amended by the Act No. 10 of 2018, Sec. 32(b)(iv)).

²¹⁰ Uganda: Excise Duty Act 2014, Schedule 2, Part I, 13(c).

²¹¹ Uganda: Excise Duty Act (amended), Schedule 2 (Amended by the Excise Duty (Amendment) Act 2018, Sec. 6 (g)).

²¹² Uganda: Excise Duty Act 2014, Part I.

²¹³ Excise (Management and Tariff) Act, Sec. 124(6A).

²¹⁴ Finance Act 2021 introducing the excise duty under section 124(6A) of the Excise (Management and Tariff) Act.

²¹⁵ Website Tanzania Revenue Authority, <https://www.tra.go.tz/index.php/excise-duty/229-introduction-of-the-excise-duty-on-money-transfer> (accessed 8 January 2023).

Annex 7 Transaction amount taxes: specific taxes on transaction values in the countries studied

Tanzania, Uganda, Zimbabwe and Ghana impose specific taxes on the amount of digital financial services with differential scope.

Tanzania levy on MM/electronic transfers and withdrawals

While the specific levy on transaction values came into force on 1 July 2021, the rate and range of transactions subject to the levy have changed along the way. At the time of writing this report, the latest addition of the changes came into force on 1 October 2022. While legislation is still pending, it was proposed that the Electronic Money Transfer Levy only applies to MM-to-MM transfers. An exemption applies for bank agent and ATM cash withdrawals of a value less than TSh30,000.

It would be interesting to research whether the MM/electronic transaction levy affects vulnerable and poor Tanzanians, potentially leading to the reversal of Tanzania's digital and financial inclusion gains over time. This analysis would necessitate a more detailed understanding of the finance ecosystem by population segment, such as urban/rural, income level, gender, or age, as some groups may rely more heavily on specific services (Munoz et al. 2022: 12; GSMA 2021c). Finscope noted in 2017 that financial exclusion is greater in rural Tanzania than in urban areas; many people use MM, but very few use banks (Finscope Tanzania 2021: 58). This suggests that only a small proportion of the rural population has access to banks, with any decrease in DFS usage likely to imply a return to reliance on informal services and cash.

Uganda tax on MM withdrawals

The tax on MM withdrawals, initially imposed at 1 per cent tax on MM transactions, including cash-in, transfer and cash-out,²¹⁶ has generated a lot of discussions in literature, because of its unique nature. It was the first time a transaction tax on MM deposits, withdrawals, transfers and payments between people was implemented (Clifford 2020: 21).²¹⁷ The tax went into force in July 2018. In November 2018, the tax law was revised in response to public outcry and a drop in usage of MM services, readjusted to a 0.5 per cent tax on MM transaction of withdrawal of cash, levied on the transaction value.²¹⁸ The excise duty was also not applicable anymore to 'sending, receiving and depositing' money, bank account transactions (such as receiving and making payments), or other money transfer services like Western Union or MoneyGram.

DFS taxation can erode users' trust if not clearly stated and understood. Misconceptions about industry, weaknesses in the tax policymaking process, and limited stakeholders' consultations, have contributed to undermining trust in government, and, in some instances, deterred customers from using digital payments.²¹⁹ Poorly designed tax policies may negate the economic benefits from DFS without necessarily raising government tax revenue. Inconsistencies in the tax framework may unintentionally build an uneven playing field for the development of the telecom/DFS sector versus other sectors of the economy. A good tax policymaking process is crucial to adopt appropriate tax measures. Lees and Akol identified four areas for good tax policymaking – to use a medium-term agenda for tax policy, to

²¹⁶ Excise Duty (Amendment) Act of 2018: 'a tax of 1 percent of the value of the transaction will apply on mobile money transactions on receiving money, making payments and withdrawals of money.'

²¹⁷ See also Rukundo and Magumba (2018); UNCDF (2021: 7).

²¹⁸ Excise Duty (Amendment) (No. 2) Bill, 2018.

²¹⁹ For a detailed assessment of the tax policymaking process of the MM transfer tax, see Lees and Akol (2021). See also Wales and Lees (2020).

establish and publicise a robust tax policy process, the adoption of rigorous policy appraisal standards, and to create a two-way bridge between the political and technical spheres of government.

There needs to be more understanding of whether users are likely to restrict their use of financial services, which has an impact on households' overall integration into the financial system.²²⁰ This percentage reflected the majority of low-income people. It illustrates that MM serves as a platform for Ugandans who cannot afford to be part of the banking system (World Bank 2020b: 17). Despite MM volumes not declining, the value of transactions has taken 18 months to recover, and the average transaction value per user has decreased (Clifford 2020: 24; United Nations Capital Development Fund 2021).

Zimbabwe intermediated money transfer tax

Changes to the intermediated money transfer tax rate (2 per cent at the time of writing the report) and the transactions on which it is payable went into effect on 13 October 2018. The tax, originally set at US\$0.05 per transaction, was increased to 2 per cent on all transactions in October 2018.²²¹ ²²² When adopted in 2018 the tax was met with widespread opposition, owing to the lack of discussions that resulted in a negative impact on pricing. In 2022, the government put in place a differential taxation for domestic foreign currency transfers at 4 per cent. A number of transactions are exempt from the IMTT's 2 per cent tax – money transfers for the purchase or sale of marketable securities, as well as the purchase or redemption of money market instruments. Money transfers on remuneration payments, tax payments, duty and other changes to or from ZIMRA; intra-corporate transfers; and certain transfers involving trust accounts, pension funds and licensed petroleum companies, are also exempt.

The IMTT tax policy appears to have been introduced to promote resource mobilisation in response to macro-economic challenges, and to capture the informal sector that ordinarily did not pay any tax.²²³ The need for revenue suggests that repealing the tax without any additional revenue sources would be difficult. This, as well as the option of extending the exemption of low-value transactions from the tax, could be explored. A way was also needed to convert the highly informal sector into taxpayers (Minister of Finance and Economic Development of Zimbabwe 2018; Medina and Schneider 2018). In theory, people may conduct cash transactions to avoid the IMTT. But given the shortage of cash in the country,²²⁴ most transactions in Zimbabwe are done electronically through bank and MM transactions, and the government has thus looked to tap into this as a revenue measure. As

²²⁰ According to a market survey conducted by the Civil Society Budget Advocacy Group (CSBAG), over 61% of MM clients transact less than US\$45,000 each transaction (CSBAG 2020b: 6).

²²¹ Transactions include real time gross settlement payments, telegraphic payments, MM transfers and payments through Ecocash, Telecash, One Wallet, mobile banking payments and transfers, POS transactions, etc. Finance (Rate and Incidence of Intermediated Money Transfer Tax) Regulation 2018, SI 205 of 2018.

²²² Finance (Rate and Incidence of Intermediated Money Transfer Tax) Regulation 2018, Statutory Instrument 205 of 2018; Finance Act, Ch. 23:04. On 1 October 2018, the Ministry of Finance and Economic Development announced an increase from Z\$0.05 per transaction in intermediated money transfer tax (IMTT, i.e. the tax on electronic mobile transfers) to Z\$0.02 per Z\$1 (0.02%) transferred for each transaction. The SI 2008-205 No. Bill 2018 amended the Finance Act [Chapter 23:04] and the Income Tax Act [Chapter 23:06].

²²³ Revenue from the IMTT exceeded expectations in the first quarter of 2021. Most payments were made through electronic platforms during the Covid-19 lockdown. Zimbabwe Revenue Authority (ZRA), Revenue Performance Report for the first Quarter ended 31 March 2021. Electronic payment systems have proven to be convenient, and they have reduced people's physical interaction throughout the pandemic. IMTT collection for the first six months of 2021 was Z\$16.5 billion, against a target of Z\$13.4 billion, resulting in a positive variance of Z\$3.1 billion or 23.2%. The extension of IMTT to include foreign currency transactions aided revenue growth (Ministry of Finance and Economic Development 2021). The 2021 mid-term budget and economic review, http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=53:mid-term-reviews&Itemid=790 (accessed 8 January 2023).

²²⁴ Public-private collaboration is key for minimising cash usage. The Zimbabwean central bank, the country's largest mobile operator, Econet Wireless, and Mastercard, partnered in 2018 to allow merchants to accept Ecocash mobile money in locations that already had card readers. As a result, more than 3,800 merchants were able to accept MM payments (IMF 2021a: 295).

a result, the tax raises the cost of financial transactions. The government has simply created a 'payments tollgate' with no alternative (World Bank 2021c: 84). Given the different history of tax developments in Zimbabwe, the IMTT appears to have a more significant impact on larger transfers than the tax systems on transaction amounts in some other countries (e.g. Tanzania).

Ghana electronic transaction levy

The prior budget statement stipulated that the e-levy, which was initially proposed to be 1.75 per cent, aims to broaden the tax net and bring in the informal sector, after months of controversy.²²⁵ The e-levy does not apply to transactions totalling less than GH¢100 each day, to ensure that vulnerable groups can still access digital transactions without any cost increase. A poll inspired the decision to exclude MM transfers up to GH¢100 from the fee. The threshold increased to GH¢20,000 for separate bank accounts. Although not stated in the Act, previous government communication specified a portion of the e-levy proceeds to be used to support road infrastructure development and public transportation improvements.²²⁶

The e-levy raises some important concerns. More clarity is required on the scope of application and implementation of the e-levy to limit the additional burden on citizens in the formal sector who are already tax compliant.²²⁷ More clarity is also needed on, amongst others, the introduction of the e-levy while the communications service tax (CST) rate went down from 9 per cent to 5 per cent, which is a percentage point lower than the original rate of 6 per cent. The motivation for eliminating VAT on financial services is also called into question. Finally, concerns about multiple instances of taxation will need to be addressed, as individual taxpayers engage in electronic transactions between different platforms. To avoid a stumbling block, the country's digitalisation and financial inclusion efforts should be carefully considered.

Annex 8 Country examples of taxes on acquisition of mobile phones

VAT for mobile phones and other attributes

Some African countries (e.g. Rwanda, Tanzania, and Kenya but only temporarily) have tax exemptions for mobile handsets to promote the telecom sector. This is a generous incentive/exemption, but it might be questioned whether it effectively lowers consumer prices.

Rwanda exempts handsets (and SIM cards) from all taxes (including VAT, the infrastructure development levy and the African Union Levy) to promote ICT adoption.²²⁸

In Tanzania, the supply (and importation) of smartphones, tablets and modems is exempt from VAT (before 18 per cent) since 1 July 2021.²²⁹ This exemption aims to encourage internet and data service usage to reach a target of 80 per cent of users by 2025 (vs. the current level of 46 per cent).

In Kenya, mobile phone taxation has shifted from a VAT exemption to increased taxation. In June 2009, Kenya decided to exempt mobile handsets from VAT (16 per cent), thereby

²²⁵ 2022 Budget Statement and Economic Policy, p. 82, No. 314.

²²⁶ The Budget Statement and Economic Policy of the Government of Ghana for the 2022 financial year, https://www.mofep.gov.gh/sites/default/files/news/2022_Budget_Statement_v3.pdf (accessed 8 January 2023).

²²⁷ See also PwC (2022: 26); Karombo 2022.

²²⁸ Rwanda: VAT Act, Art. 6, and Annex. Law No. 37/2012 establishing the Value Added Tax, amended by Law No. 02/2015 and Law No. 40/2016.

²²⁹ Tanzania: Value Added Tax Act (Cap. 148), Schedule (a) in Part I, new provision after 26 (amendment by the Finance Act 2021).

encouraging their widespread adoption (Ndung'u 2019: 2-3). This shift made handsets more affordable, resulting in a more than 200 per cent increase in handset purchases and a 50 per cent-70 per cent increase in penetration rates (Strusani and Solomon 2011). The VAT Act 2013 reintroduced VAT on previously exempt products, such as mobile phones, computer hardware and software. Currently, VAT on purchase of a mobile telephone is 16 per cent (in addition to 16 per cent on electronic services and 20 per cent excise duty on airtime).

Customs duties and other levies on imports of DFS consumer equipment

Import duties on handsets²³⁰ are relatively steady, ranging between 0 per cent (Kenya, Rwanda, Tanzania and Burundi) and 10 per cent (Uganda, South Sudan, Côte d'Ivoire and Ghana). Notably, South Sudan, where data services are limited and expensive because the country has one of the lowest mobile phone penetrations in Africa, decreased the import tax rate on mobile phones from 25 per cent to 10 per cent, in line with the required harmonisation of rates at EAC levels.²³¹ Importing handsets in Zimbabwe is subject to higher customs duties at 25 per cent, one of the highest in Africa. Other levies may apply to the import of mobile phones. For instance, Côte d'Ivoire levies a 1 per cent statistical fee on mobile phones, and for mobile phones coming from outside the WAEMU and ECOWAS, a 0.8 per cent community solidary levy and 0.5 per cent community compensatory levy. Other charges on the imports of devices and SIM cards may also apply. Import duties on SIM cards range from 0 per cent to 25 per cent. Import duties on SIM cards are the highest in South Sudan (25 per cent).²³² All other countries apply 10 per cent (Kenya, Rwanda, Tanzania, Uganda and Burundi) or 20 per cent (Côte d'Ivoire, Ghana and Zimbabwe).²³³

Other levies with specific purposes may also apply to selected imports of DFS consumer equipment. These levies, which the consumer ultimately bears, raise the cost of ownership. Kenya levies an Import Declaration fee of 3.5 per cent on the customs value of SIM cards and a Railway Development Levy on all imports at 2 per cent of the customs value.²³⁴ Uganda imposes an infrastructure levy of 1.5 per cent on selected imports, including mobile phones and SIM cards, to finance railway construction. Rwanda applies the infrastructure development levy on imported goods (from outside the EAC), introduced in 2015, at 1.5 per cent on customs value.²³⁵ Zimbabwe has introduced a security charge of \$50 on imported cellphone devices with the Budget Law 2021/2022.²³⁶ Ghana applies several levies on imports of mobile goods such as the National Health Insurance levy (NHIL at 2.5 per cent),²³⁷ the Ghana Education Trust Fund (GETFL at 2.5 per cent),²³⁸ and a COVID-19 health recovery levy (1 per cent)²³⁹ on import of mobile phones and SIM cards. Effective 1 August 2018, NHIL and GETFL were separated from VAT and charged as a direct levy. In calculating VAT payable on supplies, the NHIL and GETFL are included in the taxable

²³⁰ HS Code 851712 (telephones for cellular network or for other wireless networks). <http://tao.wto.org/report/TariffLines.aspx> Note that Uganda and Zimbabwe levy 0% for line telephone sets with cordless handsets (HS 851711).

²³¹ Decreased from 25% (FY 2018) to 10% (FY 2019/2020).

²³² South Sudan: Financial Act 2019/2020, p. 39. The WTO database does not contain data for South Sudan.

²³³ HS Code 852321 (cards incorporating a magnetic stripe).

²³⁴ Kenya: Miscellaneous Fees and Levies No. 29 of 2016, Sec. 7(2) and Sec. 8(2).

²³⁵ Rwanda: Law No. 34/2015 of 30 June 2015.

²³⁶ Zimbabwe: Art. 100 of the Budget Law 2021/2022.

²³⁷ Ghana: National Health Insurance Act 2012 (Act 852). 2.5% on each supply of goods and services made or provided in Ghana, the importation of goods and the supply of an imported service. Financial services (issue, transfer, dealing with money) are exempt, cf. Second Schedule, Part One, exempt supplies.

²³⁸ Ghana: Education Trust Fund Act (Act 581). 2.5% on similar telecom goods and services, subject to the NHIL.

²³⁹ Ghana: COVID-19 Health Recovery Levy Act 2021 (Act 1068). 1% on the supply of goods and services and imports to raise revenue to support COVID-19 expenditures (effective 1 April 2021). A person who charges the VAT flat rate must also charge the levy on the supply of goods or services.

base.²⁴⁰ The Special Import levy (2 per cent) on imported goods does not apply to telephone handsets and other telecom products.²⁴¹

Annex 9 Country examples of taxes on the usage of telecom services

VAT on telecom services

The VAT rate for electronic communication is 18 per cent in all EAC countries (Uganda,²⁴² Tanzania,²⁴³ Rwanda, Burundi, South Sudan – except for 16 per cent in Kenya²⁴⁴) and Côte d'Ivoire,²⁴⁵ but the scope across the countries may differ. Notably, in Kenya the provision of electronic services on or through a telecom network is subject to a general 16 per cent VAT. Any person other than a provider of cellular mobile telephone services (e.g. fixed network services) or wireless telephone services who supplies airtime (used for calls, internet/data, and SMS/text messages) is exempt from VAT.²⁴⁶ Telecom services in Ghana, such as data transmission, are subject to general VAT (12.5 per cent).²⁴⁷ VAT is charged at 14.5 per cent on the value of electronic communications by registered operators in Zimbabwe.²⁴⁸ Rwanda applies 18 per cent VAT on data and airtime (and 10 per cent excise duty on telephone communication).²⁴⁹

Excise duties on telecom services

In Burundi, the subscription and purchase of audiovisual recharge cards are subject to a 12 per cent excise duty on the invoicing value.²⁵⁰ The Budget Bill 2021/22 also introduced a 18 per cent mobile telephone tax via megabits for internet packages greater than or equal to one gigabit.²⁵¹ Kenya has one of the highest airtime taxes, with 20 per cent excise duty on telephone services (in addition to 16 per cent VAT on mobile services).²⁵² Rwanda has an excise duty of 10 per cent on telephone communications.²⁵³ In South Sudan, the provision of telecom services and airtime is subject to a 15 per cent excise duty.²⁵⁴ In accordance with other East African countries, the Finance Act 2019/2020 imposed 18 per cent sales tax on telecom services or call tax.²⁵⁵ In Tanzania, electronic communication services such as data are subject to 17 per cent excise tax of the dutiable value (in addition to 18 per cent VAT).²⁵⁶ In Uganda, excise duty on telecom goods and services is levied at 12 per cent on airtime, and 12 per cent on value added services,²⁵⁷ being non-core services in telecom beyond standard voice calls and messaging services. A 12 per cent excise duty on mobile data, except for data used to provide medical and education services, replaced the sin tax on social media services on 1 July 2021.²⁵⁸ In Zimbabwe, airtime (internet, or other telecom services) is subject to 10 per cent excise duty.²⁵⁹

²⁴⁰ Even though the levy was charged on all supplies that were subject to VAT, the amendment effectively removed the input claim feature associated with the levies, giving them a feature similar to sales tax.

²⁴¹ Ghana: Special Import Levy Act 2013 (Act 861).

²⁴² Uganda: VAT Act, Ch. 349, Sec. 2, 5(1) and 24.

²⁴³ Tanzania: VAT Act, Ch. 148, Art. 2 and Art. 5(1).

²⁴⁴ Kenya: VAT Act, Part IV, Sec. 8(3).

²⁴⁵ Côte d'Ivoire: General Tax Code, Art. 340-341.

²⁴⁶ Kenya: VAT Act, No. 35, First Schedule, Part II, Sec. 16.

²⁴⁷ Ghana: VAT Act, Sec. 3.

²⁴⁸ Zimbabwe: VAT Act, Art. 6(1)(a). For the rate, see Section 29 of the Financial Act.

²⁴⁹ Rwanda: Law No. 25/2019 of 13 September 2019, Art. 4 and VAT Law, Art. 8.

²⁵⁰ Burundi: Law No. 1/20 establishing the Budget Law 2021/2022, Art. 62.

²⁵¹ Burundi: Law No. 1/20 establishing the Budget Law 2021/2022, Art. 114.

²⁵² Increased from 15% to 20%, effective 1 July 2021 (Finance Act 2021). Kenya: Finance Act 2018, Sec. 32(b). See also Ndung'u (2019: 1).

²⁵³ Rwanda: Law No. 25/2019 of 13 September 2019, Art. 4.

²⁵⁴ South Sudan: Taxation Act 2009, as amended, Sec. 99. The excise duty for telecom services increased from 10% to 15%, with the 2017/2018 Finance Act. See also: Financial Act, 2019/2020, Schedule 1.

²⁵⁵ South Sudan: Tax Act [FY 2019/2020], Sec. 44.

²⁵⁶ Tanzania: Sec. 2(1) and 124(4) of the Excise (Management and Tariff) Act.

²⁵⁷ Uganda: Section 2 of the Excise Tariff Act, amended by the Excise Duty (Amendment) Bill 2021.

²⁵⁸ On 1 July 2018, Uganda introduced a social media tax of USh200 (\$0.055) per day or USh1,400 (\$0.38), accessing digital platforms including WhatsApp, Facebook and Twitter. See World Bank (2020a: 7); Whitehead (2019).

²⁵⁹ Zimbabwe: Customs and Excise Act [Chapter 23:02], Sec. 172B.

Specific taxes or levies on telecom services

Côte d'Ivoire imposes a 3 per cent specific tax on telecommunication, information technology and communication services. The taxable amount is the VAT-exclusive invoice amount for communication services provided by mobile companies and internet service providers, and the sender or customer of the internet access provider bears it.²⁶⁰ Telephone companies and internet access providers collect the levy.

Ghana imposes a 5 per cent communications service tax (CST) on charges paid by users of electronic services, such as SMS/text messages and internet/data services.²⁶¹ As part of the measures to decrease the economic burden of the Covid-19 pandemic on users, the rate was reduced from 9 per cent to 5 per cent on 15 September 2020.

Tanzania charges a development levy on airtime (i.e. airtime levy) since July 2021. The rates for this levy vary between TSh5 (\$0.002) and TSh222.7 (\$0.096), calculated in fixed amounts based on the monetary transaction value.²⁶² Effective percentages for airtime recharges up to TSh25,000 range between 0.40 per cent and 1.13 per cent, and between 0.19 per cent and 0.61 per cent for recharges between TSh25,001 and TSh100,000. The airtime levy adds to the tax burden on electronic communication (which includes 17 per cent excise duty and 18 per cent VAT). Telecom service providers, licensed by the Authority as a Network Service Licensee, are responsible for collecting the airtime levy from subscribers and remitting it to the Tanzania Communication Regulatory Authority (TCRA).

Annex 10 Customs duties on digital and non-digital equipment

	HS Code 851761: base stations	HS Code 851762: machines for the reception, conversion and transmission or regeneration of voice, images or other data, including communication apparatus	HS 851920: Apparatus operated by coins, banknotes, bank cards, tokens or by other means of payment
Burundi	0%	0%	25%
Côte d'Ivoire	10%	10%	20%
Ghana	10%	10%	20%
Kenya	0%	0%	25%
Rwanda	0%	0%	25%
South Sudan	-	-	-
Tanzania	0%	0%	25%
Uganda	0%	0%	25%
Zimbabwe	0%	0%	40%

Source: Tariff Line Duties from the World Trade Organization, 2021.

Note: No data for South Sudan.

²⁶⁰ Côte d'Ivoire: General Tax Code, Art. 1141 (i.e. *taxe sur les communication téléphoniques et technologies de l'information et de la communication*).

²⁶¹ Introduced by the communications Service Tax (Amendment) Act 2019. Communications Service Tax Act 2008 (Act 754), Section 7. The CST Act, 2008 Act 754 imposed the tax on charges payable by a user of an electronic communication service other than private electronic communication.

²⁶² Tanzania: Electronic and Postal Communication Act (Cap. 306), 164A, amended by the Finance Act 2021. See: Special Bill Supplement, June 12, 2021, Sec. 164A.

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