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Cameroon's Tax on Mobile Money: Implications for Agents' Performance and Revenue Sustainability

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Summary of ICTD Working Paper 192

Introduction

Mobile money taxation gives African governments an opportunity to broaden their fiscal base and explore new revenue-generating possibilities. Cameroon introduced a 0.2 per cent tax on mobile money transfers and withdrawals from 1 January 2022.

Our research analyses the behaviour of agents, who act as intermediaries between mobile money account holders and mobile money service providers, before and after the tax on mobile money (MM tax). Agents play a key role in the distribution of mobile money services. Their presence is vital for achieving financial inclusion, especially in areas less served by banks and other traditional financial service providers. An agent's revenue is mainly derived from commission earned on each transaction – they receive an average of 40–45 per cent of the commission, and the remaining 55–60 per cent is shared between the mobile network operator, partner banks, and agent's manager (superagent). Given their importance in the mobile money ecosystem, factors that negatively affect the attractiveness of the business for agents could have policy implications on financial inclusion.

How do taxes on mobile money services affect agents?

Most studies tackling the consequences of MM tax focus on the demand side; few examine its implications for agents. Taxes may adversely impact agents through less demand for mobile money services. Agents rely on commission from mobile money transactions, and introducing a tax may make their mobile money business less profitable. This could discourage agents, especially those who are barely breaking even. Lower revenue could also affect agents' capacity to manage their liquidity, and reduce the appeal of a mobile money business as a sustainable source of their income. The tax is an additional transaction cost for all clients, especially poorer households and those with higher tax sensitivity. Recent studies show that being near agents and transaction fees are key drivers for adopting mobile money. In addition, the effect of the tax on agents' commission could be higher in areas where there is more competition between agents.

Information on agents' commission, transactions, and exposure to MM tax

We collected information from superagents' databases on the commission and transactions of 9,815 agents located in Cameroon's Centre Region, before and after MM tax. These agents provide MTN Mobile Money and Orange Mobile Money services, and operate in Yaoundé, the capital, and in peripheral communities, including rural areas.

To complement our analysis, we carried out a survey with active agents in the Centre Region in February 2023. These are located in five administrative units (departments) that include 80 per cent of the region's population. We collected information on their socio-demographic characteristics, mobile money business operations, business strategies, competitors and market structure.

Findings

- Agents' commission declined after introducing the MM tax.
- Although Cameroon imposes a uniform tax rate of 0.2 per cent on mobile money transactions, the regressive nature of the service providers' fee structure implies that the additional financial burden faced by clients depends on the value of the mobile money transaction.
- Agents potentially more exposed to MM tax are those with a higher amount and number of transactions before the tax, those who conduct business in local commercial areas rather than road stands, and who were in the business for more than three years before the tax was introduced.
- Agents whose activities are potentially more exposed to the tax face a larger decline in their commission than those whose activities are less exposed. Since 2022, around 23 per cent of active agents in the survey said they expanded their business mainly by increasing capital, 17 per cent imposed additional fees on their customers, and 12 per cent implemented a customer loyalty policy.

Analysis of former agents

We also carried out a survey of 150 former mobile money agents in the Centre region in February 2023 to understand why they left the mobile money business. Our results show that they mainly joined the MM business to make additional income, and left because they were not getting enough commission – especially those who ceased operations after the MM tax.

Policy implications

The results of our study have important practical policy implications.

First, taxes on mobile money transactions can have an adverse effect on agents' performance and revenue sustainability. Policymakers need to evaluate the effect of introducing taxes on digital financial services on all key actors in the mobile money ecosystem, and be aware of how this may impact efforts to achieve financial inclusion.

Second, African countries have different types of taxation on mobile money. Policymakers need to consider how a tax design interacts with the pricing structure of mobile money services, and comprehensively assess the demand- and supply-side effects of these taxes.

Third, network outages, fraud and scams, security concerns, and liquidity management issues affect agents' operations, reducing the attractiveness of mobile money activities. Revenue from mobile money tax could be used to strengthen mechanisms to counteract fraud and scams.

Fourth, it is important to improve agents' financial literacy by providing them with tools to manage their liquidity effectively and prevent mishandling of cash.

This paper provides the first empirical evidence of the short-term effects of mobile money taxes focusing on agents. Future research could usefully assess the associated long-term implications.

"Cameroon's 0.2 per cent tax on mobile money transfers and withdrawals adversely affected agents' commission, especially those located in the capital, Yaoundé. After introducing the MM tax in 2022, agents have employed various business strategies, such as raising capital to expand the mobile money business, charging additional fees, and implementing loyalty programmes."

Further reading

Noah, A. and Tacneng, R. (2024), *Cameroon's Tax on Mobile Money: Implications for Agents' Performance and Revenue Sustainability*, ICTD Working Paper 192, Brighton: Institute of Development Studies, DOI: **10.19088/ICTD.2024.034**

Credits

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