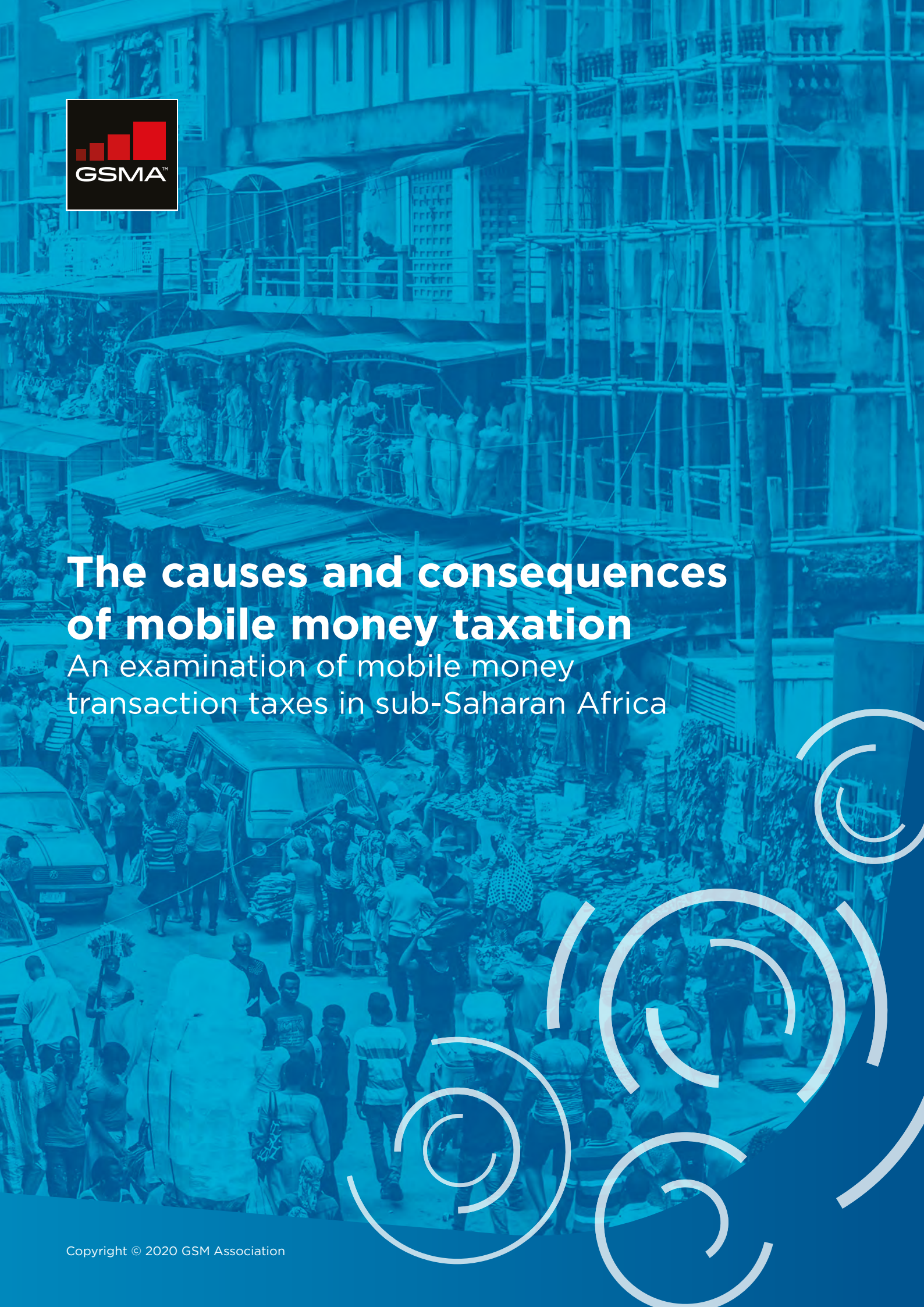

The causes and consequences of mobile money taxation

An examination of mobile money transaction taxes in sub-Saharan Africa

GSMA Mobile Money

The GSMA represents the interests of mobile operators worldwide, uniting more than 750 operators with over 350 companies in the broader mobile ecosystem, including handset and device makers, software companies, equipment providers and internet companies, as well as organisations in adjacent industry sectors. The GSMA also produces the industry-leading MWC events held annually in Barcelona, Los Angeles and Shanghai, as well as the Mobile 360 Series of regional conferences.

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Contents

Acronyms

ARPCE	Agence de Régulation des Postes et des Communications Electroniques
ARTCI	Autorité de Régulation des Télécommunications de Côte d'Ivoire
ARTF	Agence de Régulation de Transfert des Fonds
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BEAC	Banque des Etats de l'Afrique Centrale
BoU	Bank of Uganda
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
CGAP	Consultative Group to Assist the Poor
CIT	Corporate Income Tax
CSBAG	Civil Society Budget Advocacy Group
CSO	Civil Society Organisation
DFS	Digital Financial Services
DGI	Direction Générale des Impôts
DRM	Domestic revenue mobilisation
GDP	Gross Domestic Product
KYC	Know Your Customer
MFS	Mobile financial services
MMP	Mobile money provider
MNO	Mobile network operator
MOF	Ministry of Finance
MRA	Malawi Revenue Authority
MSMEs	Micro, small and medium enterprises
OCDC	Observatoire Congolais des Droits des Consommateurs
OTT	Over The Top
P2G	Person to Government
PIT	Personal Income Tax
RBM	Reserve Bank of Malawi
SDG	Sustainable Development Goal
SSA	sub-Saharan Africa
UNETEL	Union Nationale des Entreprises de Télécommunications
URA	Uganda Revenue Authority
UCC	Uganda Communications Commission

Figures

Abstract

Mobile money has seen fast adoption in the decade since its emergence, becoming the formal financial service of choice for many underserved groups in developing countries. Its success has attracted the attention of tax authorities seeking to broaden their revenue base. The resulting taxes, especially mobile money transaction taxes, are controversial and incidents of it are increasing. As with any new industry, it isn't clear that the nuances of how mobile money is situated within the wider economy are fully understood at a policy level. Despite the diverse methods proposed to tax mobile money, there have been accusations of policy mimicry as countries appear to replicate the policies of others without necessarily following their own established policy processes.

The result is often poorly designed taxes whose consequences, both industry and development practitioners fear, have not been fully considered. On the other side, governments and revenue authorities feel that their motives are misunderstood. With falling commodity prices, burgeoning debt levels and the emergence of an international digital economy, developing countries face increasing internal and external pressures to mobilise domestic revenues to fund public services. This can result in misunderstandings and tensions between both groups with the two often appearing to talk at cross-purposes.

This paper looks to examine the topic of mobile money taxation through the lens of these different viewpoints such that the reader might gain an insight into their perspectives. Firstly, it looks at the motivating forces behind the proposal of mobile money transaction taxes. It then seeks to uncover the unintended consequences of these taxes.

The paper also serves as an introduction to the subject of digital financial services and taxation such that it might be more clearly understood by industry, policy makers and development practitioners alike. It should be regarded as to be a starting point in this field of study rather than the destination. To facilitate that journey, a list of follow-on research areas is suggested at the conclusion of the paper.

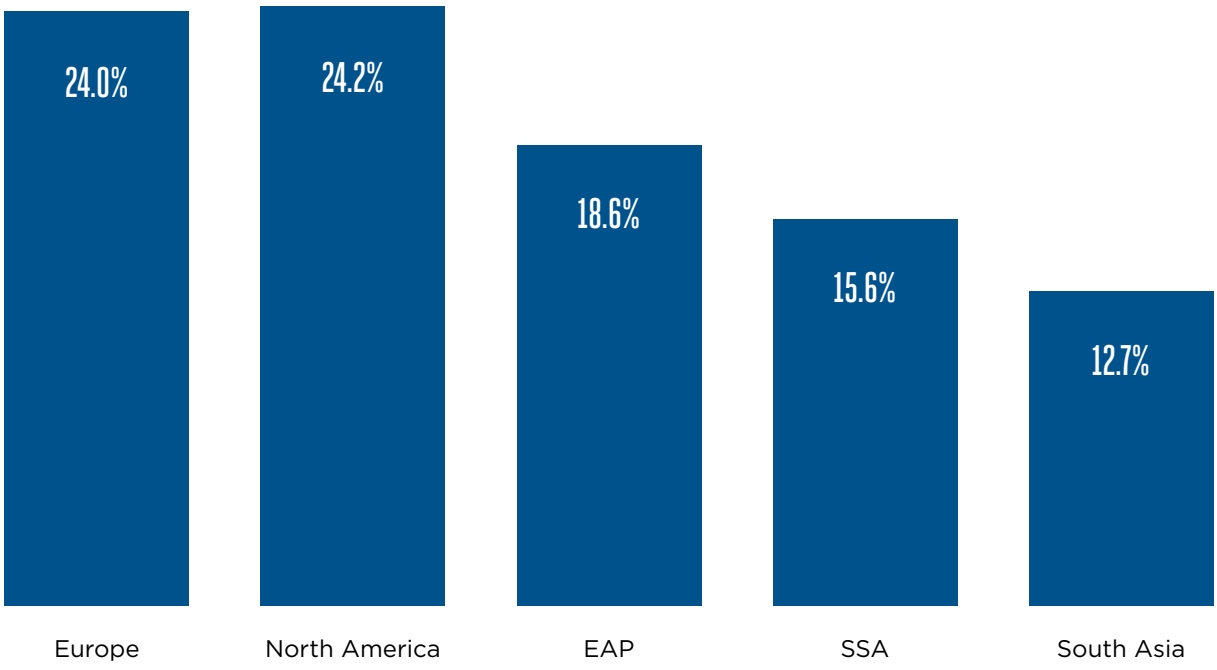
1 Introduction

In order to meet public spending commitments and to finance broader development goals, developing countries are facing both external and internal pressures to broaden their tax base.

This increased focus on domestic revenue mobilisation (DRM) comes at a time when the tax-to-GDP ratios of developing countries significantly trail those of the developed world. Falling commodity prices, increasing debt and the current COVID-19 pandemic are putting further pressure on government revenues. However, in trying to close the gap, developing countries face substantial challenges when raising domestic revenues including the dominance of informality, the rise of the digital economy, and low capacity within their tax policy and administration functions.

Figure 1

Regional tax-to-GDP ratios (2017)



Source: ICTD/UNUWIDER GRD, 2019

One development success story for many developing countries over the past decade has been that of mobile money. Having amassed more than a billion registered accounts,[1] mobile money has financially included underserved groups who previously had neither the required identity documents nor the sufficient minimum funds to hold a formal bank account. However, this success has seen mobile money attract the attention tax administration authorities looking to plug budget spending deficits.

The resultant sector-specific taxation has taken several forms, from excise duties on service fees to sector taxes on total revenues or transaction taxes on the underlying amount. It is this latter transaction tax that is gaining favour among some sub-Saharan countries,

1 GSMA(2020). State of the Industry Report on Mobile Money 2019.

yet little is known about the impact of these taxes, particularly on mobile money users. Although they offer additional revenue for governments, there is a risk they may negatively impact the underserved groups who typically use the service, potentially reversing the gains achieved in financial inclusion to date, increasing inequality, and undermining the attainment of development goals.

It is within this context that this paper seeks to analyse the factors motivating the emergence of these taxes and to uncover some of the unintended consequences for mobile money users. To this end, the paper examines the background and impact of mobile money taxation across four sub-Saharan countries where transaction taxes have been recently proposed: Uganda, Côte d'Ivoire, Republic of Congo, and Malawi. It finds that while informality and political economy factors are ever present in their formulation, the taxes typically don't extend to equivalent banking services and, furthermore, the impact on mobile money users is rarely considered.

Over the following sections, we examine mobile money's growth, assess its contribution to development and set its taxation within the context of DRM pressures facing developing countries. We will then introduce four country case studies, discuss the findings, assess high-level policy implications and suggest areas of further research.

2 Mobile money taxation An overview

2.1 Mobile money's contribution to development

Over the past decade, mobile money has disrupted traditional financial services and corrected market failures in the formal provision of financial services.[2]

Today, it plays an important financial intermediation role by permitting savings to be invested into the local economy, increasing business productivity, stimulating job creation and boosting economic growth.[3] With over one billion registered accounts, mobile money assists in the attainment of global development goals, contributing to the economic empowerment of individuals and communities, including marginalised groups and businesses.[4]

As developing economies embark on their own digital transformation agendas, mobile money is set to provide the payments backbone to a broad range of public services, including healthcare, education, and social protection. This in turn helps those countries deliver upon the 2030 Agenda for Sustainable Development by:

- **Reducing the cost of international remittances:** With formal remittance flows exceeding foreign direct investment (FDI) into developing countries for the first time in 2019, the low cost of mobile money remittances allows developing country households to save over $20 billion per annum.[5,6] Providing a means of digital remittance becomes especially important during national emergencies,

2 For example, one in 10 adults in sub-Saharan Africa are reliant solely on mobile money for their access to financial services. Kipkemboi, K. and Bahia, K. (2019). The impact of mobile money on monetary and financial stability in Sub-Saharan Africa. GSMA.
3 Lopez, M. (2019). Harnessing the Power of Mobile Money to Achieve the Sustainable Development Goals. GSMA.
4 In 2019, 35.8 per cent of all registered mobile money accounts (372 million accounts) were active on a 90 day basis. GSMA. (2020). State of the Industry Report on Mobile Money 2019.
5 A 2018 study found that the average cost of sending a $200 remittance by mobile money was 1.7 per cent, below the SDG 10.c target of three per cent. See Naghavi, N. and Scharwatt, C. (2018). Mobile money Competing with informal channels to accelerate the digitisation of remittances. GSMA.
6 De, S. (2015). Reducing remittance costs and the financing for development strategy. World Bank.

including the current global pandemic, when cash liquidity points can dry up;

- **Improving resilience in the face of poverty:** Mobile money acts as both a savings vehicle and a means of transferring funds during times of economic or environmental shock;[7,8]
- **Strengthening the formal economy:** For many micro, small and medium enterprises (MSMEs), opening a mobile money account can facilitate access to formal financial services. Mobile money is well placed to address the issue of informality that blights many developing economies and hampers domestic resource mobilisation efforts;[9]
- **Facilitating economic growth:** Mobile money has been shown to contribute to economic growth by increasing both productivity and per capita incomes;[10] and
- **Improving DRM:** By digitising revenue collection and permitting revenue authorities to identify where economic activity occurs, mobile money can both widen the tax base and improve the efficiency of revenue collection.[11]

For many developing countries, mobile money has enabled a 'leap-frog' in financial infrastructure by bypassing antiquated payments systems and putting financial services into the hands of those previously excluded. It connects buyers and sellers and, together with mobile services more broadly, addresses information asymmetries that have traditionally undermined participation in the formal economy by marginalised groups. This in turn permits a deepening of revenue collection activities within developing countries which are often constrained and underdeveloped.

However, for this trajectory to continue an enabling policy and business environment is required. The success of digital financial services (DFS), and mobile money especially, has caught the attention of governments and revenue authorities, not necessarily to improve the depth and efficiency of collection, but as a direct source of taxation revenue, which potentially risks undermining the development gains seen to date.

7 Ky, S., Rugemintwari, C. and Sauviat, A. (2018). Does Mobile Money Affect Saving Behaviour? Evidence from a Developing Economy. Journal of African Economies; Riley, E. (2018). Mobile money and risk sharing against village shocks. Journal of Development Economics.

8 Aron, J. and Muellbauer, J. (2019). The Economics of Mobile Money: harnessing the transformative power of technology to benefit the global poor. Oxford Martin School; Munyegera, G. and Matsumoto, T. (2016). Mobile Money, Remittances and Rural Household Welfare: Panel Evidence from Uganda. World Development.

9 Gosavi, A. (2018). Can Mobile Money Help Firms Mitigate the Problem of Access to Finance in Eastern sub-Saharan Africa?. Journal of African Business; Simiyu, C.N. and Oloko, M. (2015). Mobile money transfer and the growth of small and medium sized enterprises in Kenya: A case of Kisumu city, Kenya. International Journal of Economics, Commerce and Management. OECD (2018). G20 Policy Guide: Digitisation and informality: Harnessing digital financial inclusion for individuals and MSMEs in the informal economy.

10 WEF (2015). How mobile money is driving economic growth.

11 Aker, J.C., Boumnijel, R., McClelland, A. and Tierney, N. (2012). Zap it to Me: The Impacts of a Mobile Cash Transfer Program. Tufts University; Wasunna, N., Mburu, S., Hassan, M. and Plaitakis, A. (2019). Championing a unified Person-to-Government (P2G) payments strategy: Lessons from Orange P2G payments in Africa. GSMA.

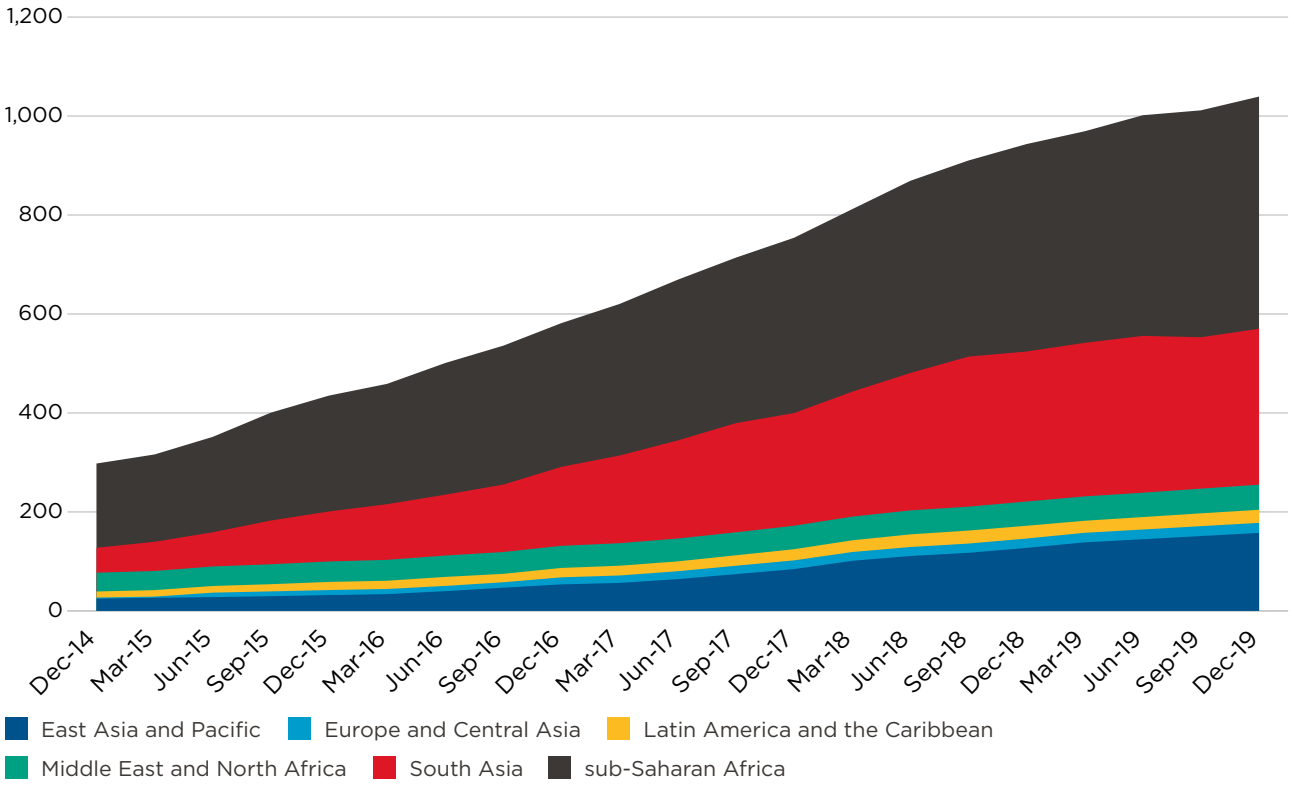
2.2 Mobile money and its users

Mobile money has been a primary tool for reaching financially underserved and underrepresented groups. Within developing countries, traditional banks have tended to exclude those segments of society that can neither provide the elevated proof of identity required to open an account nor afford to hold the minimum account balances necessary to keep those accounts open. Meanwhile, low bank branch requires travelling long distances in order to transact, particularly in rural areas. While the emergence of the microfinance sector initially attempted to address some of these shortcomings, operating models were rarely cost effective nor sufficiently scalable to maintain long-term sustainability.[12] Mobile money redefined the economics of financial service provision within developing countries by leveraging wide-reaching and low-cost agent networks, affordable feature phones, and mobile network connectivity to overcome problems of costly banking infrastructure. This in turn allowed the mobile money industry to serve the mass market in a commercially sustainable way.[13,14] The mobile money business model differs from traditional banking in that deposits cannot be monetised through on-lending, for instance. As such, transaction fees are the main driver of revenues.

Mobile money first emerged in the Philippines in 2001, although its most successful and well known instance, M-Pesa in Kenya, did not launch commercially until 2007.[15] In many sub-Saharan countries, much of the progress made in financial inclusion has been attributed to the growth of mobile money.[16] In 2019, the number of registered mobile money accounts reached 1.04 billion, an almost 30-fold increase in 10 years (Figure 2). In sub-Saharan Africa (SSA), mobile money's traditional stronghold, registered mobile money accounts are expected to reach half a billion by the end of 2020.[17]

Figure 2

Growth of registered accounts in the different regions (million)



Source: GSMA, 2020

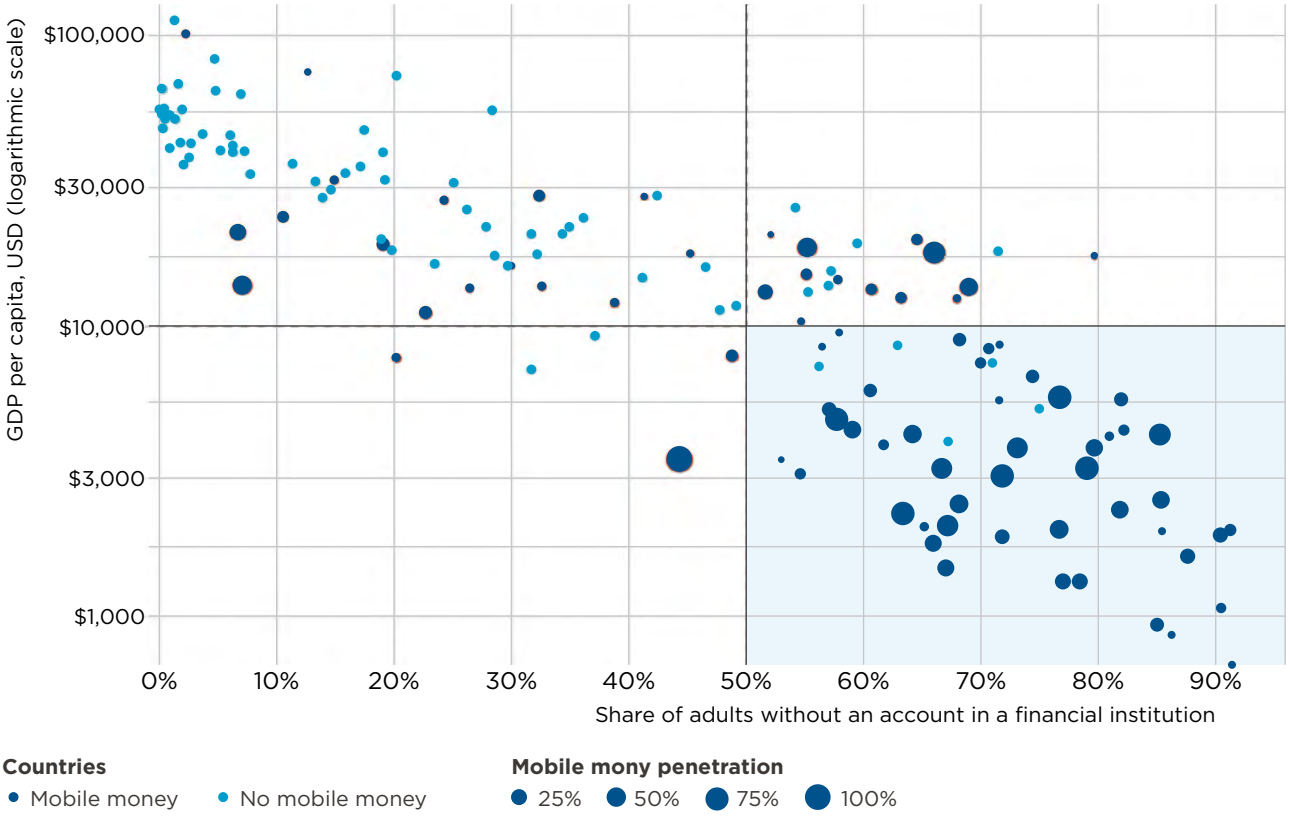
12 Hardie, S. (2019). Unravelling the web of inclusion. Mastercard; Chowdry, A. (2009). Microfinance as a Poverty Reduction Tool—A Critical Assessment. UN-DESA.
13 Aron, J. (2018). Mobile Money and the Economy: A Review of the Evidence. The World Bank Research Observer.
14 In 2019, the density of the agent network had seven times the reach of ATMs and 20 times the reach of bank branches. See: GSMA (2020). State of the Industry Report on Mobile Money 2019.
15 GSMA (2017). State of the Industry Report on Mobile Money Decade Edition: 2006–2016.
16 Klapper, L., Ansar, S., Hess, J., and Singer, D. (2019). Sub-Saharan Africa series: Mobile money and digital financial inclusion. World Bank.
17 For a more detailed regional breakdown see: GSMA (2020). State of the Industry Report on Mobile Money 2019.

Comparing the use of mobile money versus economic and financial inclusion data shows the service is predominantly successful in low-income countries with low levels of financial inclusion, suggesting that it reduces inequality in access to financial services (Figure 3). These themes are supported with other data; for instance, mobile money is available in 96 per cent of countries where less than a third of the population have an account at a formal financial institution.[18] In a World Bank study of eight leading mobile money economies, all were found to have an income gap in formal account ownership (when considering both bank and mobile money), but that gap disappeared when only mobile money accounts were considered.[19]

Figure 3

Reaching the poorest countries with mobile money

GDP per capita and sahre of population without an account in a financial institution in 151 countries in relation with mobile money penetration:



Source: GSMA, 2020

For marginalised groups traditionally excluded from the formal financial system, such as women, young people, rural poor and displaced persons, mobile money offers safety and privacy improvements over cash.[20] Evidence shows that mobile money services help these vulnerable groups access basic public services, including healthcare, education, utilities, and social welfare, that might otherwise be out of reach.[21]

In those countries where services are available, the gender gap for mobile money account ownership tends to be lower than for traditional financial account ownership. In the same World Bank study, all eight countries had a gender gap for general financial account ownership but in only two of those countries did a gender gap persist for mobile money.[22] In economies where services are more mature, such

18 For a more detailed regional breakdown see: GSMA (2020). State of the Industry Report on Mobile Money 2019.
19 Only Burkina Faso, Côte d'Ivoire, Senegal, and Uganda have an income gap in the share of adults who have a mobile money account only. See Klapper, L., Ansar, S., Hess, J., and Singer, D. (2019). Sub-Saharan Africa series: Mobile money and digital financial inclusion. World Bank.
20 Tavneet, S. (2017). Mobile Money. Annual Review of Economics.
21 e.g., Aron, J. and Muellbauer J. (2019). The Economics of Mobile Money: harnessing the transformative power of technology to benefit the global poor. The Oxford Martin School; GSMA. (2019). Mobile for Development Utilities Perspective: Our quarterly insights – Issue 1; Sekabira, H. and Qaim, M. (2017). Mobile money, agricultural marketing, and off-farm income in Uganda. Agricultural Economics; UNCDF (2018). Igniting SDG Progress Through Digital Financial Inclusion; USAID (2015). Mobile money for health case study compendium.
22 Of eight countries examined with a mobile money penetration of 20 per cent or more, Burkina Faso, Côte d'Ivoire, Gabon, Kenya, Senegal, Tanzania, Uganda, and Zimbabwe, only Burkina Faso and Tanzania were found to have a gender gap for mobile money account ownership. See: Klapper, L., Ansar, S., Hess, J., and Singer, D. (2019). Sub-Saharan Africa series: Mobile money and digital financial inclusion. World Bank.

as Senegal, Uganda and Zimbabwe, women are either as likely or more likely to own only a mobile money account than men. In Senegal, 59 per cent of women who are financially included only own a mobile money account.[23] Mobile money is more likely to be used by young people in developing countries. They are the most likely age group to adopt mobile money in regions where it is available, with the highest rates among those in their twenties.[24] Mobile money adoption is also higher in areas with poor infrastructure, making it more accessible to the rural poor.[25] In East Africa, 45 per cent of all 'key users' in Uganda, Tanzania, and Kenya live in rural areas, with 40 per cent, 72 per cent, and 32 per cent of key users respectively falling below the $2.50/day, 2005 purchasing power parity (PPP) income poverty line.[26]

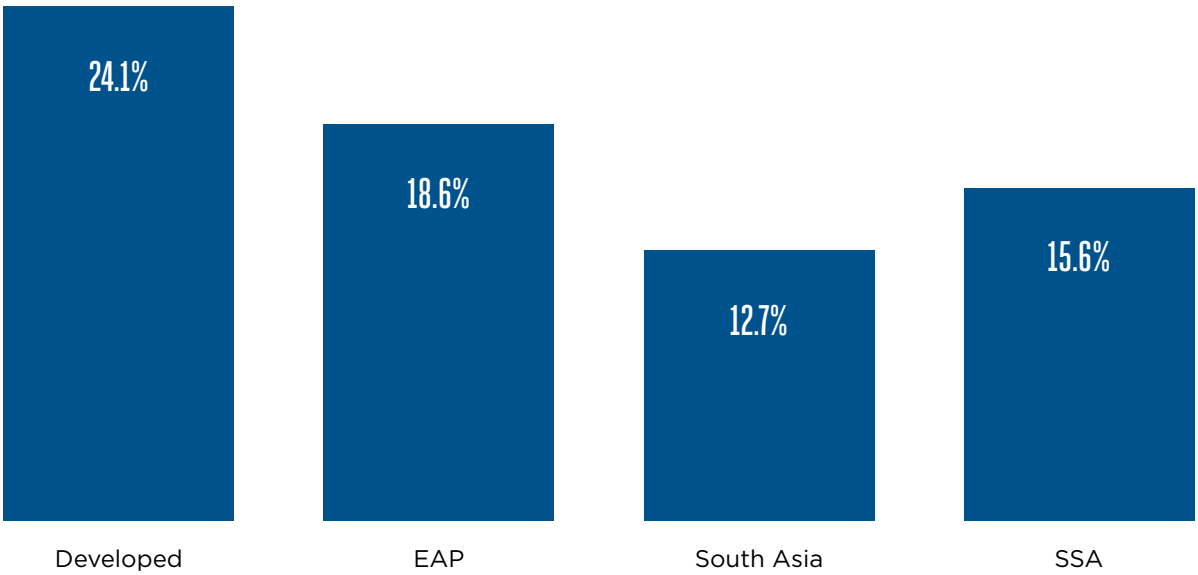
The rapid global growth of payments, transfers, and international remittances via mobile money shows that a latent demand for financial services had not previously been adequately met.[27] The channels through which the positive externalities of mobile money can spill over and benefit the economy are many and complex, and some may not yet be fully understood. Nonetheless, existing evidence demonstrates the evolution of mobile money has been central to widening financial inclusion for the unbanked urban and rural poor and in helping ameliorate several areas of market failure on the provision of financial services in developing economies.

2.3 DRM in developing countries

Raising sufficient fiscal revenues to fund budgetary expenditure remains a significant challenge for most developing countries. Data from the Government Revenue Database[28] shows that tax-to-GDP ratios of developing countries significantly trail that of the developed world (Figure 4). Given the size of their economies, these fiscal pressures are amplified by the fact that these countries are taking a smaller percentage from a smaller pot.

Figure 4

Regional tax-to-GDP ratios (2017)



Source: GSMA, 2020

23 Delaporte, A. and Naghavi, N. (2019). The promise of mobile money for further advancing women's financial inclusion. *Connected Women Mobile Money*. GSMA.
24 Young people are defined as those between the ages of 15 and 24. See: Navis, K. (2019). Where Is Mobile Money Making the Biggest Difference for Financial Inclusion for Young People? Center for Global Development.
25 Hamdan, J. (2019). The Impact of Mobile Money in Developing Countries. Department of International Economics at DIW Berlin; Mothobi, O. and Grzybowski, L. (2017). Infrastructure deficiencies and adoption of mobile money in Sub-Saharan Africa. Information Economics and Policy.
26 Key users are defined as those who use the service more often, conduct more transactions of every kind, and maintain larger balances. Mattsson, C. and Stuart, G. (2018). Understanding Key Mobile Money Users. IFC.
27 Aron, J. (2018). Mobile Money and the Economy: A Review of the Evidence. The World Bank Research Observer.
28 See: ICTD/UNU-WIDER (2019). Government Revenue Dataset.

Developing countries face an array of compounding challenges in their efforts to raise revenue and strengthen the resources available for improving governance and service delivery. Increasingly, both internally driven reforms and development assistance have targeted DRM. Increasing DRM is a core Sustainable Development Goal (SDG) target[29] and is a recognised factor in enabling developing countries to 'exit from aid'.[30] International fora such as the Addis Tax Initiative[31] and the Platform for Collaboration on Tax[32] are examples of the growing importance of domestic taxation to support the achievement of global development goals.

However, despite the emphasis placed on DRM at an international level, executing this domestically—particularly within the developing economies of SSA— is challenging. In particular, the fall in global commodity prices since 2014 has had a substantial revenue impact on even the most resource rich countries on the continent. The current COVID-19 crisis is exacerbating that effect. The shift of focus to raising domestic revenue and the ability of a country to achieve its own fiscal goals is now determined by the strength of their tax system, including both policy and administration. For several reasons, this is a difficult task.

Four principles of a well-functioning tax system[33]

Equity: A tax system which stresses ***equity*** is one where taxpayers that are similarly situated are also similarly taxed. Two taxpayers with equal ability to pay should be taxed equally and any differential in this ability should be accounted for. This is described as 'horizontal equity'. The other element of this axis, 'vertical equity', says that the taxpayer who can shoulder a greater burden of taxation should accordingly pay more tax.

Certainty: A taxpayer must have ***certainty*** as to their liability and respective tax burden as well as when and how tax payments should be made. This improves taxpayer compliance and voluntary participation, and increases taxpayer trust in the system. The certainty principle can also include the concept of tax simplicity, which recognises that more complex tax rules can erode and compromise tax certainty.

Convenience within a tax system reflects the ease with which taxpayers can comply with the rules and mechanisms of the system. Tax assessment and payment should present the smallest burden possible on a taxpayer. Strengthening convenience has the added benefit of reducing the cost of tax administration, as well as compliance. For instance, mobile money transactions have the potential to make significant contributions to this principle through Person-to-Government (P2G) transactions.

Efficiency: The principle of tax ***efficiency*** looks at both economic and administrative factors. *Economic efficiency* within a tax system reflects the need to balance revenue mobilisation with economic development and functionality. A lack of consideration for the negative impacts of tax can lead to disproportionate negative impacts such as capital flight, labour market shifts, and weakened export markets, and can negatively impact upon national development plans. *Administrative efficiency* reflects the need for the execution of a tax system to be inexpensive and easy to administer. The cost of tax administration to government should be limited, recognising the impact that finite resources place on the operational capacity of developing countries.

29 SDG 17.1 target is to 'Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection'. See: UN Sustainable Development Goals. Goal 17: Revitalize the global partnership for sustainable development.
30 De Paepe, G., Hart, T. and Long, C. (2017). Domestic resource mobilisation and the transition towards sustainable development. ODI.
31 The Addis Tax Initiative (ATI) is a multi-stakeholder partnership that aims to enhance DRM in partner countries. Committing to the Addis Tax Initiative fosters partner countries efforts to increase reliance on domestic revenue to fund their development agenda and meet the Sustainable Development Goals (SDGs) by 2030.
32 The Platform for Collaboration on Tax is a joint effort launched in April 2016 by the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank Group (WBG). This effort came at a time of great momentum around international tax issues – a key theme of the 2016 G20 meeting.
33 OECD (2014). Addressing the Tax Challenges in the Digital Economy. OECD/G20 Base Erosion and Profit Shifting Project.

2.3.1 Challenges posed by the informal sector

The disproportional size of the informal economy compared to the formal economy in most developing countries is striking. Informality represents over 60 per cent of the world's employed population, rising to over 85 per cent in Africa.[34] The dominance of informality in developing countries has resulted in a narrow tax base and a perception of over-taxation of more visible and formal individuals and businesses.[35] In this context, improving government revenues through the taxation of the informal sector is considered not only a means to widen the tax base, but also to address concerns of tax equity. It is often perceived to be more politically expedient to tackle informality than change existing tax codes that might target higher net worth individuals who may be avoiding tax.[36]

Taxing the informal sector is usually undertaken via two routes: either through registration of informal businesses and moving them into the tax net (formalisation) or through indirect taxation, such as withholding or excise taxes. Formalisation can encourage growth and a stronger business environment, as well as help to build a culture of tax compliance.[37] However, with already modest resources and a heavily bureaucratic structure, tax authorities have limited means of formalising these sectors. As such, indirect taxes are often the preferred method to widen the tax net.[38]

2.3.2 Taxing the digital economy

How to effectively tax the digital economy is something of a global preoccupation. With difficulties in determining the physical location where digital sales take place and an ability to shift profits and revenues to low tax jurisdictions, large digital-only multinationals[39] often pay little tax in the countries where consumers use their services.[40] These problems are amplified for developing countries with limited tax administration capacity and who lack a strong voice at the multilateral organisations looking to harmonise international taxation policy.[41,42]

Furthermore, the growth of these over-the-top (OTT) digital players appears to have a direct negative impact on domestic tax revenue collection. As an example, the migration of mobile communication in the form of SMS and voice calls to digital-only channels such as WhatsApp or WeChat has been highlighted as a cause of reduction in tax revenues in some countries, with the former channel once being a significant source of tax locally and the latter often paying nothing at all.[43] The falloff in taxation receipts for both corporate and sales tax represents something of a double blow for developing countries as these taxes form a far greater proportion of the overall tax take than in developed countries.[44] The reduction in the tax take from traditional communication channels is sometimes used as justification to introduce alternative means of taxing the digital economy, such as social media taxes[45] or, by extension, mobile money taxes. It is an illustration of the dilemmas facing developing countries as they look to balance protecting their revenue base without hindering the development of the digital economy.

2.3.3 Tax policy weakness in developing countries

Assessing the potential impact of a proposed tax is an essential component of tax policy formulation. Estimating what a tax policy might directly raise in revenue needs to be understood in the context of any offsetting impact that same policy might have in the wider economy. This 'tax incidence' analysis is often weak or absent in many developing countries and can undermine the policy formulation process.[46] Modelling the impact of tax changes can be a complex endeavour and capturing economic behaviours such as price elasticity and substitutability can prove difficult. As a result, marginal changes are often favoured over structural changes even when the latter are clearly preferable, perpetuating systemic inefficiencies.[47]

34 ILO (2018). Women and men in the informal economy: A statistical picture. Third Edition.
35 Informal is not to be taken for granted as illicit, as it might be in a developed country, but rather represents economic activity which takes place outside of government oversight – and thus outside of the tax system.
36 Besley, T. and Persson, T. (2014). Why Do Developing Countries Tax So Little? Journal of Economic Perspectives 28(4): 99–120. Also see: Moore, M. (in press). Metrics, Mysteries and Digital Technologies: What Do We Know About the Performance of African Tax Administrations?
37 Joshi, A., Prichard, W., and Heady, C. (2014). Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research. The Journal of Development Studies.
38 Joshi, A. and Ayee, J. (2008). Associational taxation: a pathway into the informal sector? In Brautigam, D., Fjeldstad, O.-H. and Moore, M. (Eds). Taxation and State-Building in Developing Countries: Capacity and Consent. Cambridge University Press.
39 Examples include Google and Facebook from the US or Tencent and Alipay from China.
40 In 2013, the OECD launched the Base Erosion and Profit Shifting (BEPS) initiative specifically to look at this issue.
41 ATAF (2019). The tax challenges arising in Africa from the digitalisation of the economy.
42 CIAT (2018). Lisbon Tax Summit Tax administrations and the challenges of the digital world Summary report.
43 World Bank (2018). Uganda Economic Update 11th Edition, Financing Growth And Development: Options for Raising More Domestic Revenues.
44 Rukundo, S. (2020). Addressing the Challenges of Taxation of the Digital Economy: Lessons for African Countries. ICTD.
45 Stork, C. and Esselaar, S. (2018). OTT and Other ICT Sector Taxes. Research ICT Solutions.
46 Weyl, E.G., and Fabinger, M. (2013). Pass-Through as an Economic Tool: Principles of Incidence under Imperfect Competition. Journal of Political Economy, Vol. 121, No. 3.
47 Tanzi, V. and Zee, H. (2001) Tax Policy for Developing Countries. IMF.

In addition to assessing the wider economic impact, effective tax policy analysis should also examine the impact of tax changes on certain groups in society. If carried out successfully, it can influence desired changes in behaviour at an individual or even firm level that are desired from a social perspective, such as excise duty on tobacco or alcohol.[48] However, if that capacity is lacking, potential negative impacts are unlikely to be captured. Without sound tax policy analysis, carried out *ex ante*, as well as *ex post*, short-term revenue gains can lead to undesired outcomes for wider economic and social policies.

2.3.4 Tax administration weakness in developing countries

Coupled with tax policy weakness in developing countries, lower capacity in tax administration can further undermine efforts to mobilise domestic revenues.[49] In developing countries, this weakness can be driven by a lack of resources, both financial and human, as well as low capacity and outdated practices. These can include:

- Lack of knowledge and capacity to deal with the complexities of international taxation;
- Lack of organisational capacity to deal with the changing structure of domestic economy;
- Inadequate or inefficient IT systems;
- Lack of risk-based approaches to administration, resulting in non-compliance and weak enforcement;
- Attrition of competent staff to better paid jobs in the private sector;
- Limited ability of taxpayers to keep financial accounts which reduces auditing effectiveness; and
- Internal corruption.

As a result, governments often take the path of least resistance, developing tax systems that allow them to maximise whatever limited options are available rather than establishing rational, modern, and efficient tax systems.[50] This means focusing on revenue sources that are relatively easy to tax, easy to measure, and easy to collect. A weak tax administration undermines the whole tax system; perceptions of inefficiency or inequity through the 'over-taxation' of the formal sector in lieu of credible attempts to broaden the tax base can affect tax morale and voluntary compliance.[51] It can also undermine the principles of certainty and convenience within the tax system as taxpayers will have more difficulty both assessing their tax responsibilities and paying these taxes.

Tax system types

Tax systems fall into three main categories: regressive, proportional, and progressive.

Regressive: A regressive tax has a greater impact on low-income individuals than on high-income earners.

Proportional: A proportional tax, also referred to as a flat tax, impacts low-, middle-, and high-income earners relatively equally. They all pay the same tax rate, regardless of income.

Progressive: A progressive tax has more financial impact on higher-income individuals and businesses than on low-income earners.

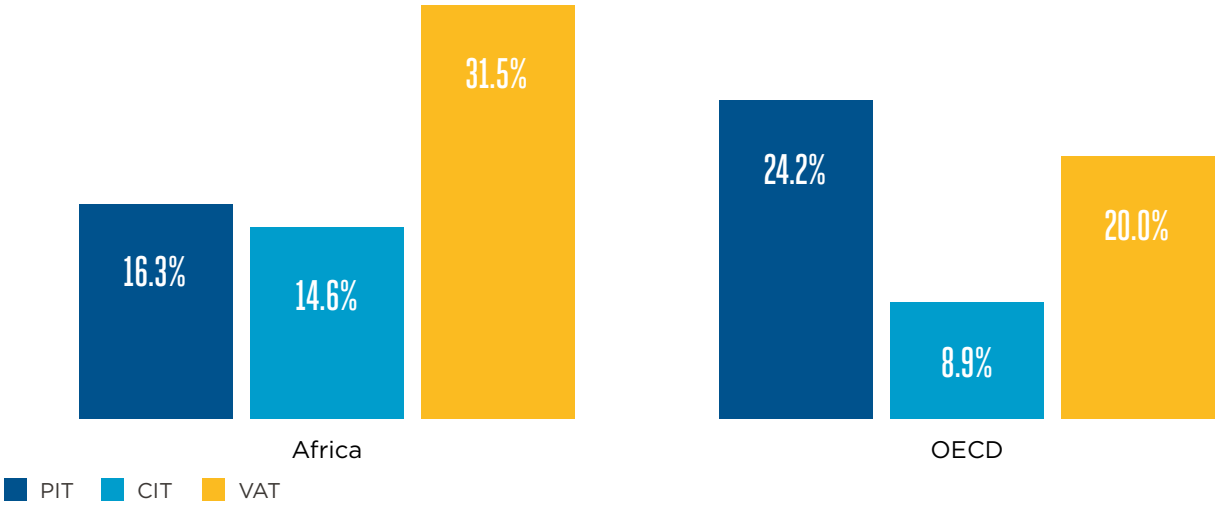
48 For example, early relaxation of VAT on mobile phones in Kenya encouraged their widespread adoption. See: Ndung'u N. (2019). Taxing mobile phone transactions in Africa; Lessons from Kenya. Brookings Africa Growth Initiative.
49 Weaknesses in tax administrations can be difficult to quantify, but it is telling that the Tax Administration Diagnostic Assessment Tool (TADAT), designed to provide an objective health assessment of a tax administration, has been carried out in over 79 countries to date. See: TADAT (2020).TADAT: Tax Administration Diagnostic Tool.
50 Tanzi, V. and Zee, H. (2001) Tax Policy for Developing Countries. IMF.
51 OECD (2019). What is Driving Tax Morale?

2.3.5 Tax structure of developing economies

While there are major differences in the scale of taxation between most developing and developed economies, there are also significant contrasts in the structure of the tax system. One of the most visible is the inverted importance of Corporate Income Tax (CIT) versus Personal Income Tax (PIT), as illustrated by the data for Africa and OECD. In OECD countries, PIT accounts for a far greater percentage of the overall tax take relative to CIT. The ratio of PIT to CIT stands at 2.7 for developed countries compared to just 1.1 for Africa.[52]

Figure 5

Tax structure of developed and developing countries



Source: : OECD 2018

The challenges of imposing an effective PIT regime are among the main barriers to growth of the tax base in developing countries. In line with the aforementioned problems of informality within developing economies, the vast majority of PIT comes from very specific sectors, namely public sector workers and employees of large, formal corporations.[53] This limits coverage of PIT to a very small percentage of the population,[54] dampening its effectiveness and impact on wider DRM efforts. In turn, this weakens the fiscal arsenal of tax authorities when responding to national emergencies, such as the current COVID-19 crisis.[55]

Faced with 'not knowing their taxpayers' and limited avenues to address this challenge, revenue administrations focus their attention on taxes that are typically more easily pursued, namely CIT and consumption-based taxes.[56] Large firms operating within the formal sector often complain that they are over-taxed. This dependency on a few corporate taxpayers is acerbated when their role as a conduit for other tax payments such as VAT or PAYE is considered. Across SSA, just 6.3 per cent of large taxpayers (i.e. corporates) account for 78 per cent of total tax collections.[57] At the individual level, taxes paid are typically transactional or consumption (excise or value-added) taxes. Here, it is the economic activity that is taxed rather than individual income that derives from it, which risks damaging the efficiency and growth of the economy.

2.3.6 Political economy of tax reform

Political economy factors substantially affect the development of better tax policy, administration, and execution in developing countries. Political economy is defined as that which concerns itself with the distribution of power and wealth between interest groups, and the relationships and processes that

52 Carnahan, M. (2015) Taxation Challenges in Developing Countries Asia & the Pacific Policy Studies.
53 Ibid.
54 For instance, in Kenya, only 12 per cent of the labour force pay PIT. In Rwanda, the figure is just three per cent. See: Moore, M. (2020) How can African tax collectors help cope with the economic impacts of Covid-19?. ICTD.
55 Ibid.
56 Tanzi, V. and Zee, H. (2001) Tax Policy for Developing Countries. IMF.
57 ATAF (2019). African Tax Outlook 2019.

sustain it.[58] This can include bargaining between these interest groups for competing claims to resources (e.g. taxes), which influences how political decisions are made and in turn allows for the identification of the winners and losers from policy reforms.[59]

For tax policy, these interest groups can be manifold with varying degrees of power and influence. Many African countries remain dependent on the support of multilateral financial institutions to maintain stable macro-fiscal balances, which often entails conditionality related to the improvement of domestic revenues. The macro-level imperative to increase domestic revenue supersedes more nuanced analysis of appropriate tax policy measures. The centralisation of power in the executive often allows the office of the President to have an overreaching influence in domestic policy. Powerful lobbies and groups of elites—and the political settlement among them—can obstruct fiscal reforms that would otherwise increase their tax burdens.[60]

On the other side of the income distribution curve, civil society and the electorate may at times find their interests in conflict with these groups. The degree to which their voices are heard can be dependent on cyclical factors such as the electoral or budgetary cycle, with evidence showing that tax collection in developing countries declines in the year preceding a national election. This implies that governments are unlikely to schedule controversial policies during that period.[61] These groups may contain other sub-groups that also represent a broader political economy landscape and alliances may be formed to allow those with seemingly little influence or power to join forces with other groups to successfully change policy in their favour.[62] These dynamics have been witnessed in the formulation of mobile money taxation policies.

2.4 The nature of mobile money taxation

Sector-specific taxation has long been present in the mobile sector. The majority of countries in SSA have some form of sector-specific taxation for telecoms which accounts for a sizeable proportion of its total tax contribution.[63] When considering mobile money taxation, it is helpful to view it through the lens of the weaknesses that accompany DRM in developing countries as set out in the previous section. When mobile money was an emerging sector, taxation was initially in the form of excise duties on mobile money transaction fees.[64] However, as voice and data communication traffic began migrating to digital channels, tax authorities were compelled to find replacements for the lost taxation.[65] This, combined with a desire to better tax the informal sector, put mobile money directly in the crosshairs of finance ministries and revenue authorities. Subsequently, sector-specific taxation has emerged and taken multiple forms, including expansion of existing excise duty regimes on transaction fees, specific taxes on total mobile money revenue, and direct taxes on the transaction amount.[66] It is this latter tax that this paper will primarily focus on.

Yet it is not clear how well designed these tax policies have been. Poorly designed taxes can have a negative impact on total tax revenues and can distort consumption behaviour. Have finance ministries and revenue authorities had the necessary internal capacity to thoroughly research their implications, identify potential negative externalities, and consider some of the unintended consequences of these taxations? How might these taxes impact on the gains seen in financial inclusion, the attainment of global development goals, and national economic development agendas - particularly during this time of global pandemic?[67] It is these implications that the paper will consider next.

58 OECD-DAC (2008). Survey of Donor Approaches to Governance Assessment.
59 DFID (2009). Political Economy Analysis How To Note.
60 Tanzi, V. and Zee, H. (2001) Tax Policy for Developing Countries. IMF.
61 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa: The Dynamics of Tax Bargaining. Cambridge University Press.
62 Nash, R., Hudson, A. and Luttrell, C. (2006). Mapping Political Context: A Toolkit for Civil Society. ODI.
63 On average, the telecoms sector pays 10 per cent of its total revenue in sector-specific taxes, versus 15 per cent in general taxes (CIT, VAT). See: Pedros, X. and Sivakumaran, M. (2019). Rethinking mobile taxation to improve connectivity. GSMA.
64 Muthiora, B. and Raithatha, R. (2017). Rethinking Mobile Money Taxation. GSMA.
65 For example, see: World Bank (2018). Uganda Economic Update 11th Edition, Financing Growth And Development: Options for Raising More Domestic Revenues.
66 UNCDF (2018). Understanding the Consequences of Mobile Money Taxation in Uganda.
67 Lopez, M. (2019). Harnessing the Power of Mobile Money to Achieve the Sustainable Development Goals. GSMA.

3 Research approach

This research conducts a comparative study across four sub-Saharan African countries that have recently proposed a mobile money transaction tax: Uganda, Côte d'Ivoire, Republic of Congo, and Malawi, and attempts to answer two principle questions:

- What is the motivation behind the proposal of these taxes?
- What might some of the unintended consequences of these taxes be?

The analysis is based on both primary and secondary data using a largely qualitative approach. Primary data was collected between February and March 2020 using semi-structured interviews across the four countries both in-country and remotely. Interviewees included stakeholders from the public sector (ministries of finance, revenue authorities and regulators), industry including mobile network operators (MNOs) and mobile money providers (MMPs), civil society organisations (CSOs), multilateral organisations and development think tanks.[68] Secondary data was obtained from regulators using publicly available data and reports shared by revenue authorities and ministries of finance. As well as addressing the research questions, the analysis also provides for high-level policy recommendations and identifying areas for further research.

68 For a list of stakeholder organisations, please see Appendix 1.

4 Country analyses

Uganda

4.1 Uganda mobile money at a glance*

Population (total)	43m
Working age population (15–64)	22m
Registered mobile money accounts (Dec 2019)	27m
90-day active (Dec 2019)	17m
Transaction values (2019)	$20 billion
Registered agents (Dec 2019)	212,500

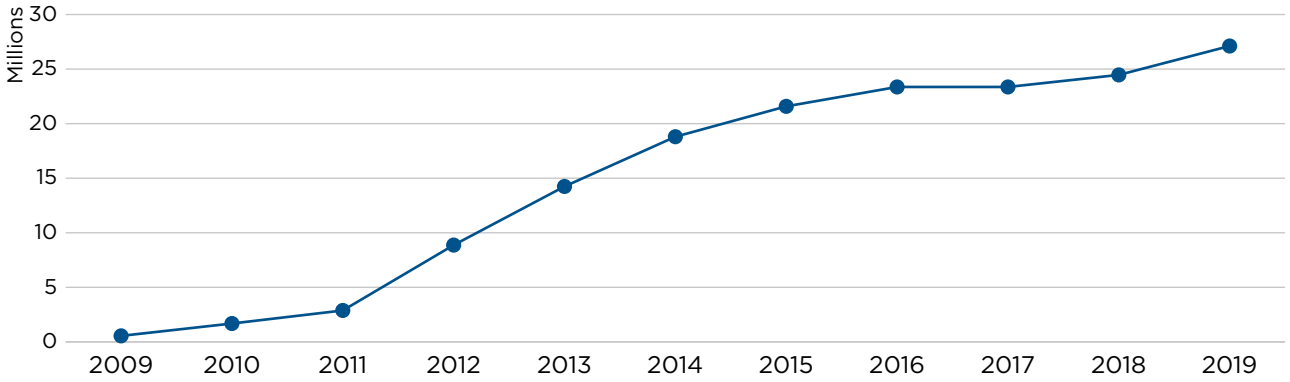
*Source: World Bank, Bank of Uganda

4.1.1 Overview of mobile money in Uganda

Mobile money has seen significant growth in Uganda. Over the 10 year period ending December 2019, the industry registered 27 million accounts, processing around $20 billion per annum.

Figure 6

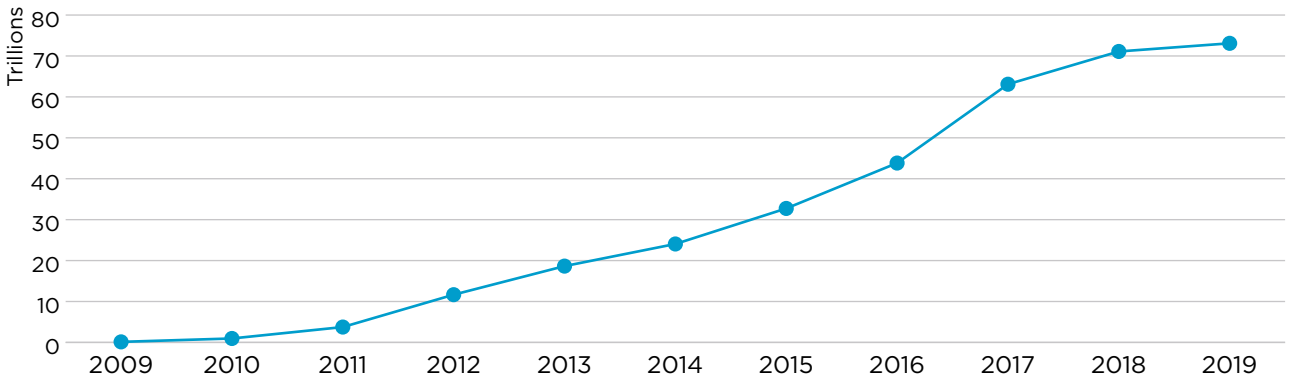
Registered mobile money accounts in Uganda



Source: BOU

Figure 7

Ugandan mobile money values (UGX)



Source: BOU

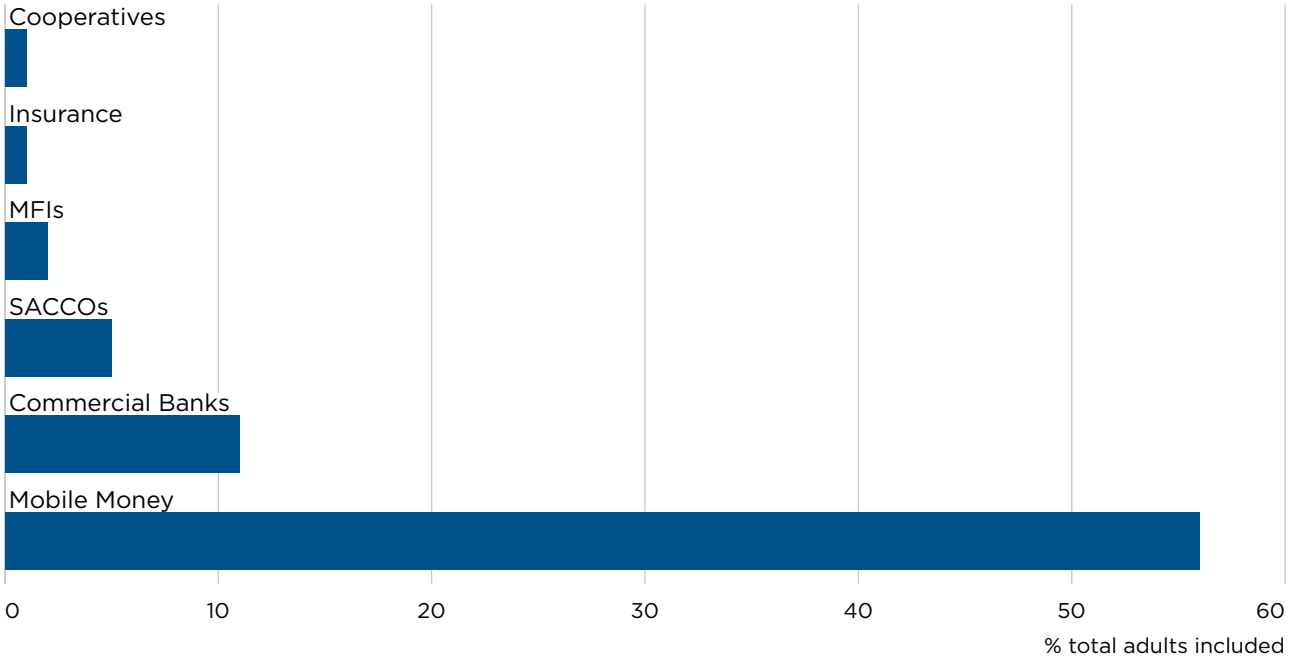
There have been seven e-money licences issued in Uganda. However, the sector is dominated by the two big MNOs—MTN and Airtel—who have the pre-existing distribution infrastructure necessary to scale their operations. Although the Ugandan Communications Commission (UCC) regulates the activities of MNOs in the country, mobile money services are separately regulated by the central bank, the Bank of Uganda (BoU), with an MOU in place between the two regulators. However, proposals contained within the forthcoming National Payments Systems Act will see the mobile money activities of MNOs separated from their parent company and incorporated into a new payments company which in turn will be solely regulated by the BoU.[69]

4.1.2 Mobile money usage and impact

Mobile money has been central to the financial inclusion gains witnessed in Uganda over the past decade. The increased penetration of mobile money over that time has correlated with an increase in access to financial services. In the 12 years to 2018, formal financial inclusion as measured by FinScope Uganda increased from 28 per cent to 58 per cent, largely driven by mobile money.[70] The role that mobile money has played in advancing financial inclusion is also recognised by the government and is a core pillar of its latest national financial inclusion strategy.[71] Interviewees highlighted that the accessibility of mobile money, particularly in rural areas, helped drive this uptake.[72]

Figure 8

Uptake of formal financial services in Uganda



Source: FinScope Uganda 2018

Many Ugandan-based interviewees spoken to as part of this research emphasised how mobile money is used by marginalised groups who struggle to access a payment account at other financial institutions. When mobilising against the mobile money transaction tax, civil society in particular highlighted the role mobile money played in financially including the poor. They spoke of how mobile money acted as a form of social safety net when money was remitted from workers in urban areas to more vulnerable family members, especially in rural areas.[73] The banking sector, it was felt, either ignored these groups or was financially unable to serve them, given their high cost base for distribution. The high minimum balances and strict identification requirements discouraged many from opening accounts at these institutions.

69 Parliament of Uganda (2019). National Payment Systems Bill 2019.
70 FSD Uganda (2018). FinScope Uganda Topline Findings Report.
71 BOU (2017). National Financial Inclusion Strategy 2017–2022.
72 Correspondence from CSBAG, May 2020.
73 Interview with the Civil Society Budget Advocacy Group (CSBAG) on 4 February 2020.

Humanitarian groups highlighted mobile money's increasing role in enabling cash transfers into refugee camps, providing convenience to both distributor and recipient alike, particularly where money can be onward-spent digitally.[74,75] Interviewees also highlighted mobile money's role as the payment system of choice for informal businesses. Informality accounts for over half of Uganda's economic output and over 85 per cent of employment and is a sector which the revenue authorities have traditionally struggled to tax.[76,77]

4.1.3 Mobile money taxation in Uganda

In May 2018, the government of Uganda proposed legislation that placed a one per cent tax levy on the value of all mobile money transactions, including cash-in, transfer and cash-out. Introduced in July, the tax was unique as there was no existing precedent for a transaction tax on the transfer or payment of money between people.[78] It was controversial and public outcry saw the tax law amended in November 2018 to apply a 0.5 per cent tax on the value of withdrawals only.

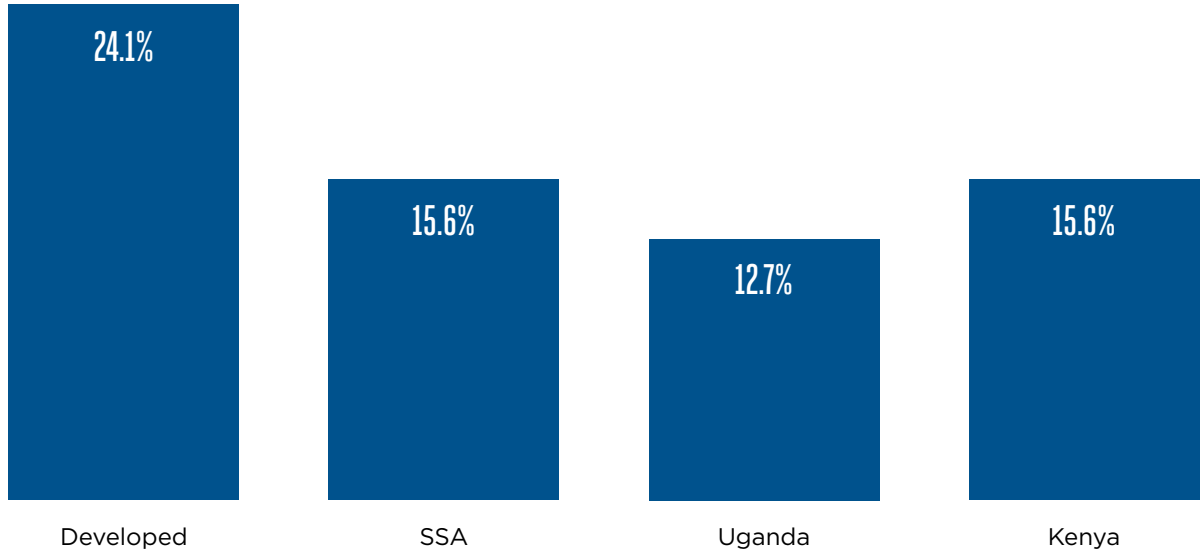
There are other pre-existing mobile money taxes payable by consumers in Uganda. In 2014, an excise duty of 10 per cent had been placed on the fees of mobile money. This was subsequently increased to 15 per cent in 2018. Unlike the mobile money transaction taxes, the amended excise duties also apply to agency banking service fees.

4.1.3.1 Background

There are many external and internal pressures for Uganda to widen its tax base. Uganda has one of the lowest tax-to-GDP ratios in the region at just 12.7 per cent. As an oil producer, recent lower prices have hurt government revenues; a situation that is likely to be exacerbated during the current pandemic. Uganda is also in a structural support programme with the IMF and subject to yearly missions. DRM is a top priority for the IMF's intervention.[79] In addition, other multilateral organisations such as the World Bank have highlighted the shortfall in Ugandan taxation revenues resulting from growing informality, increased use of OTT digital-only communication channels, and low capacity in tax administration.[80] Such external pressure may have had an influence on the proposal for both the country's mobile money and the controversial social media taxes introduced as part of the same bill.

Figure 9

Ugandan tax-to-GDP ratio (2017)



Source: ICTD/UNUWIDER GRD 2019

74 Baah, B. (2020). Connecting the Frontier: Last-Mile Distribution in Bidi Bidi Settlement, Uganda. GSMA.
75 Bordering both DRC and South Sudan, Uganda hosts 1.4 million refugees, the third largest refugee population in the word. See: UNHCR (2018). Global Trends Forced Displacement in 2018.
76 Interviews with ODI, DFID's DRUM project and the URA, 4-6 February 2020.
77 UBOS (2015). Urban Labour Force Survey 2015.
78 There had been attempts at banking transaction taxes in the past, particularly in Latin America and Australia, but these were subsequently abandoned. See: Wikipedia (2019). Bank transaction tax.
79 IMF (2019). Uganda: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Uganda.
80 World Bank (2018). Uganda Economic Update 11th Edition, Financing Growth And Development: Options for Raising More Domestic Revenues.

4.1.3.2 Tax policy process

The process for proposing new tax laws in Uganda usually involves research and incident analysis undertaken in conjunction with the Ministry of Finance (MoF) and the Ugandan Revenue Authority (URA). Such analysis is generally aligned to the budget calendar, and a range of stakeholder views—both public and private sector—are considered. This incident analysis estimates the tax take versus potential trade-offs such as ease of administration.[81,82] The MoF then typically formulates a legal bill which is presented to parliament.

However, this process was not followed when the mobile money transaction tax was formulated. The proposal itself came directly from the Office of the President, rather than the MoF as is normally the case. The incident analysis undertaken appears to have been limited to examining the potential tax take, which assumed no consumer behaviour change, and there was little consultation between the MoF and URA. The MoF identified that a sizeable number of mobile money transactions were in higher tiers, ranging between UGX 4–7 million ($1,000–2,000). With only 1.2 million registered taxpayers in Uganda and 27 million registered mobile money accounts, an assumption was made that many of these higher value transactions were taking place in the informal sector, such as salary payments of undocumented workers, and that these transactions were not tax compliant. There was also the belief that tapping into these high value transactions would ensure that the tax would have a veneer of equity.[83]

Some interviewees felt that there was a misunderstanding at the heart of government of how the mobile money sector works and that it saw the total mobile money sector transaction value ($20 billion in 2019) as the source of tax, rather than the fees that derive from it. Further, this assumption also ignored that a portion of the balance within the mobile money system had already been taxed (e.g. salary payments), meaning that the policy amounted to extra taxation for some. Also, it was suggested that there was a political expediency to introducing a flat transaction tax which would be more easily understood and administered, particularly in the informal sector, than adding complexity to the existing tax code in the form of additional income or consumption taxes.[84]

Stakeholder consultation was rushed and many parties including internal technocrats, opposition MPs, mobile operators, civil society and international organisations felt their views were not considered. There was concern about the potential negative impact that the taxation might have on financial inclusion and on the poor. Nevertheless, the tax was proposed in May 2018 as a one per cent tax on all transactions. The tax was implemented in July 2018 and did not apply to the banking sector nor its associated agency banking service. Privately, many interviewees felt that the well-connected banking lobby may have had an indirect influence on the tax, unlike the informal sector who yield little political power.

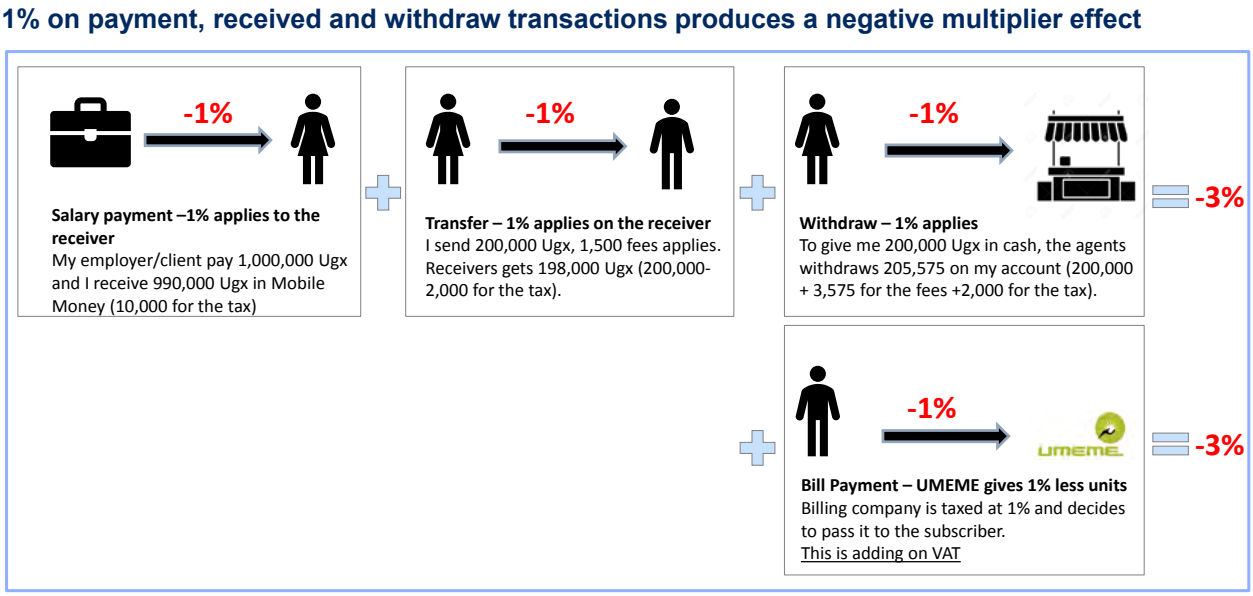
4.1.3.3 Performance and reaction

The imposition of the one per cent mobile money transaction tax had both an immediate impact and reaction. By August 2018, overall industry transaction values[85] had dropped 24 per cent (Figure 12). P2P values fell by more than 50 per cent as users chose to exit the mobile money system, with lower value transactions migrating to cash and higher values to banking.[86] The imposition of a social media tax at the same time, payable via mobile money, meant that transaction volumes actually increased.

81 Interviews with MoF, URA, ODI and DRUM, 4–6 February 2020.
82 Despite the competency of the individuals involved, often there isn't the capacity for a thorough incident analysis which might include price elasticity or substitutability of the product or service.
83 Interview with Ministry of Finance, 5 February 2020.
84 Interview with URA, 6 February 2020.
85 Volume refers to the number of transactions, whereas value refers to what those transactions were worth.
86 From MNO presentations to Ugandan cabinet office, August 2018.

Figure 10

Extract from Ugandan MNOs presentation to Ministry of Finance



Source: Ugandan GSMA members

For the consumer, the new tax meant an effective three per cent charge on any P2P or bill pay transaction. The impact on mobile money users saw civil society begin to mobilise against the tax. There was a perception that policy makers did not understand how these taxes affected the general public. Research produced by the Civil Society Budget Advocacy Group (CSBAG) showed that the majority of mobile money transactions (61 per cent) were in fact in the lower tiers of UGX 35,000 ($10) or less, the tiers predominantly used by the poorer in society.[87] Street protests ensued in Kampala. Parliament and government MPs were petitioned and, together with lobbying from the industry, the decision was eventually taken in November 2018 to reduce the taxation to 0.5 per cent on the value of withdrawals only.

Usually within Uganda, the intersection of taxpayers and voters is small and the opportunity for tax bargaining is limited. However, in the case of mobile money taxation, that intersection widened significantly and mobilisation of the public against the tax bill was met with some success. With a presidential election due in February 2021, there is not expected to be any controversial changes to mobile money taxation in the interim.

Figure 11

Ugandan mobile money values

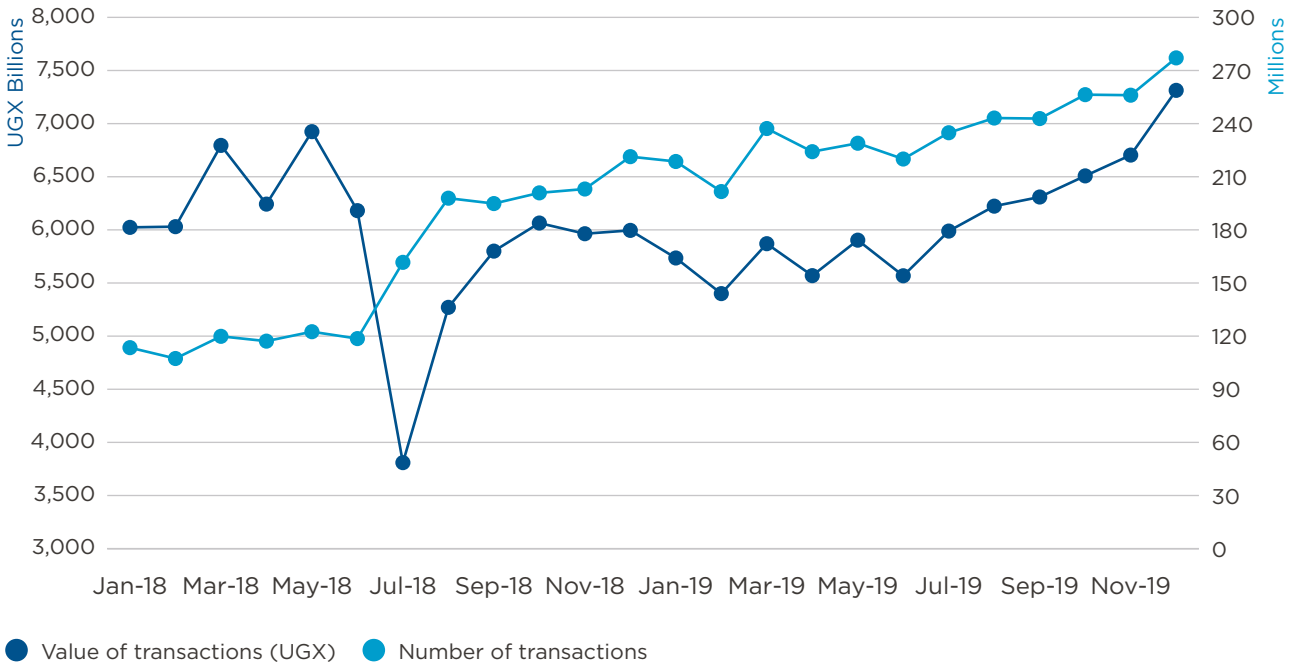
Source: CSBAG

87 CSBAG (2018). 8 Reasons Why Taxing Transaction Value on Mobile Money is a Bad Idea.

Today, while mobile money volumes haven't fallen, values have taken 18 months to recover (Figure 12) and average transaction value per user has decreased.[88] This reflects the fact that larger value tiers have not returned to mobile money, remaining instead in the banking system where they do not attract transaction taxes.[89] This appears to confirm civil society's assertion that it is those conducting in smaller transactions sizes, predominantly the poor, that bear the brunt of the tax.

Figure 12

Uganda mobile money transactions 2018–19



Source: BOU

Most interviewees felt the duty of burden for the taxation fell disproportionately on the poor, challenging the principal of tax equity, both vertically and horizontally, that the authorities hoped to address. The IMF also highlighted that it was the rural poor who were likely to be hit disproportionally hard by the transaction taxes.[90] This forced a change in behaviour from those users in a number of ways. Those conducting proximate transactions had the choice of moving back to cash while those receiving remote payments requested that the sender top up the amount of the tax onto the transfer amount. Refugees receiving humanitarian cash transfers by mobile money made similar requests for top up, forcing many agencies to rethink their strategies for digitising cash transfers in Uganda.[91] Agents for whom mobile money represented a livelihood were also affected, with both the number of active agents and revenue-per-agent dropping in the aftermath of the taxation.[92]

In terms of the taxation's performance at a revenue collection level, the Uganda Revenue Authority (URA) initially exceeded their direct target for the tax by 37 per cent.[93] However, this was offset by an overall fall in tax receipts from the telecoms sector, caused in large part by the decreased activity in mobile money, with high value tiers migrating to agency banking.[94,95] This reinforces the perception of a lack of capacity at a policy research level to adequately analyse the impact of the tax policy and to consider the impact of issues such as price elasticity and product substitutability on the wider tax base. An ex post analysis remains to be performed.

88 Interviews with MMPs, 4–7 February 2020
89 URA highlighted that MTN mobile money values had dropped 36 per cent compared to a year earlier. See: Independent (2020). Rich people prefer agency banking to mobile money – URA.
90 IMF (2019). Uganda: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Uganda.
91 Paying local taxes is an anathema for many humanitarian organisations. Interview with UNHCR, 5 February 2020.
92 Interviews with MMPs, 4–7 February 2020
93 URA (2019). Revenue Performance Report FY 2018/19.
94 Interviews with URA, 5 February 2020.
95 Independent (2020). Rich people prefer agency banking to mobile money – URA.

Republic of Congo

4.2 Republic of Congo mobile money at a glance*

Population (total)	5.2m
Working age population (15–64)	2.86m
Registered mobile money accounts	6.1m
Active Mobile Money accounts (Mar 2021)	1.9m
Mobile money volumes (2019)	348m
Mobile money value USD (2019)	1.9 billion
Registered agents	20,000

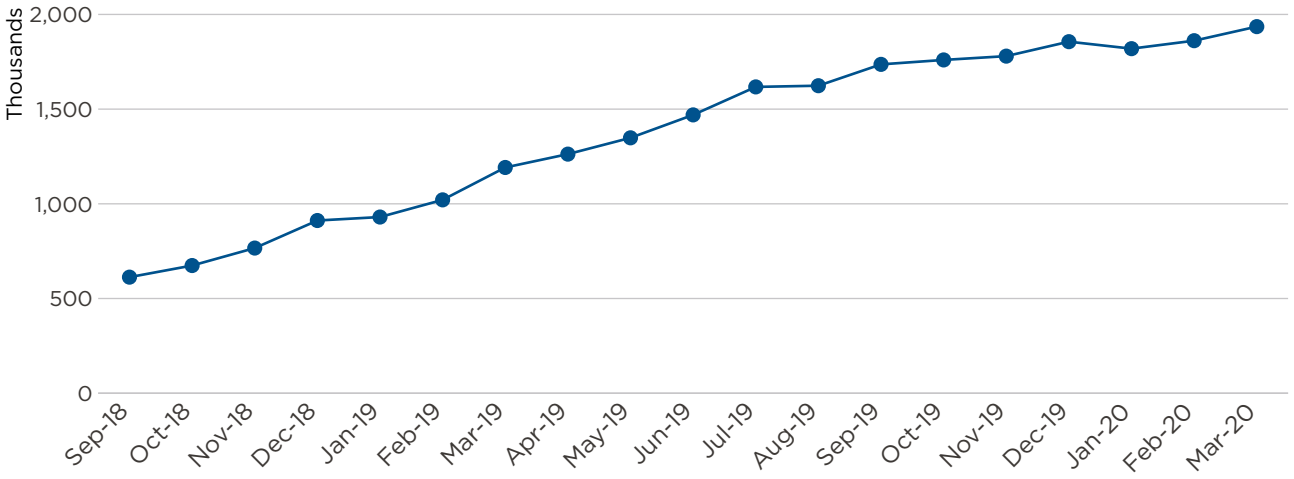
*Source: World Bank, ARPCE

4.2.1 Overview of mobile money in the Republic of Congo

Despite launching relatively recently, mobile money has seen an impressive penetration in the Republic of Congo. Out of a working age population of 2.86 million, today there are 1.9 million active accounts, a number that has almost quadrupled in just 18 months (Figure 13). These are split across the two mobile operators who provide mobile money services in the country: MTN and Airtel. Over the course of 2019, 348 million transactions were processed to the value of $1.88 billion. Congo is part of the central Africa economic union CEMAC.[96] As with all mobile money in the region, it is regulated by the central bank Banque des Etats de l'Afrique Centrale (BEAC), located in Cameroon[97] and is backed up by two local agencies. The first is the Fund Transfer Regulatory Agency (ARTF), which regulates electronic money transfer in the Republic of Congo and has just installed a transaction monitoring system to aid with this. The second is the telecoms regulator ARPCE who, among other roles, manages the Know Your Customer (KYC) aspect of mobile money.

Figure 13

Active mobile money accounts in Republic of Congo



Source: ARPCE

96 CEMAC (Communaute Economoique et Monetaire de l'Afrique Centrale) comprises six countries: Cameroon, Central African Republic, Republic of Congo, Gabon, Equatorial Guinea, and Chad.
97 BEAC (2020). Homepage. See: https://www.beac.int.

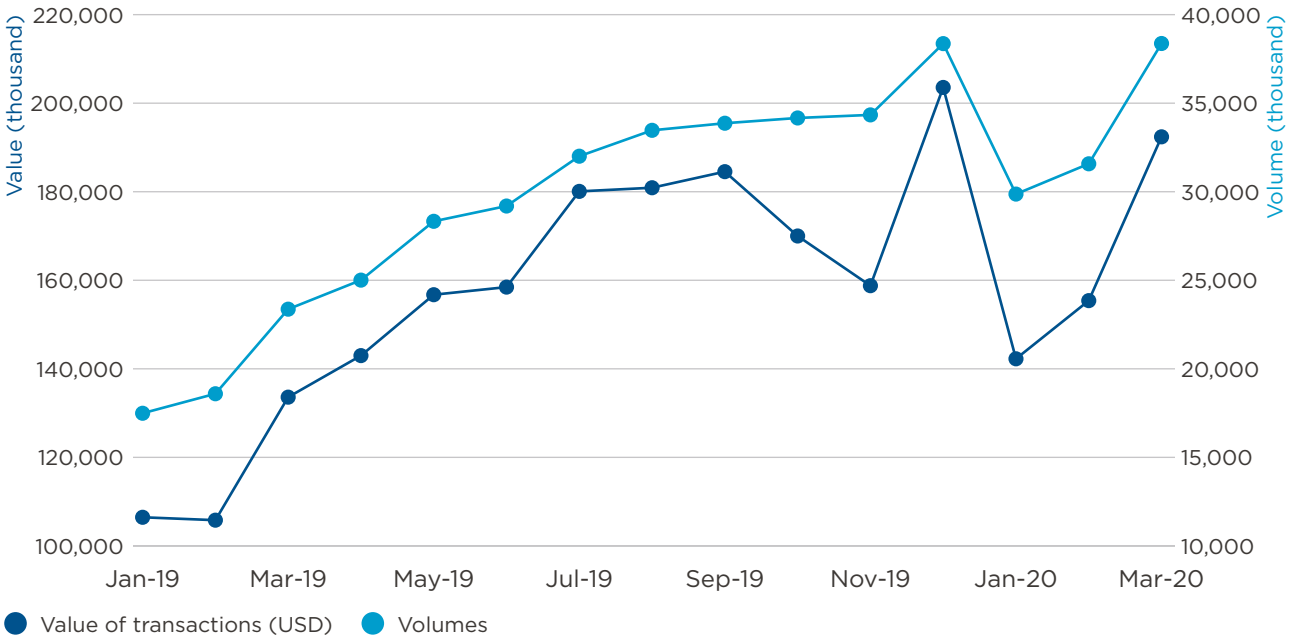
4.2.2 Mobile money usage and impact

According to the most recent financial inclusion figures available (Findex 2017), just 26 per cent of adults hold a formal financial account in Congo. This marks an increase from 10 per cent in 2011, largely attributable to mobile money. Within these figures there is a clear gender gap, with only 21 per cent of women having a formal financial account compared with 31 per cent of men.[98] These financial inclusion numbers are among the lowest in the CEMAC region and well below the 2017 sub-Saharan average of 43 per cent, although recent increases in active mobile money active accounts (Figure 16) suggest this number is increasing.[99]

Mobile money usage is steadily increasing in the Congo. Over the course of 2019, average monthly values and volumes doubled. The majority of transfers by value are P2P, with remote transfers from urban to rural areas a popular use case. Today, mobile money supports a network of 20,000 agents.[100] The government has been pursuing a digitisation agenda within the country with a focus on payments, initiating a project to digitise the state's billing system to enable government agencies to accept and make digital payments, including mobile money.[101]

Figure 14

Congo monthly mobile money transactions 2019–2020



Source: ARPCE

98 World Bank (2017). The Global Findex Database 2017.
99 Findex 2020 data is due to be released in 2021.
100 Interview with Airtel Congo-Brazzaville, 18 February 2020.
101 Interview with local revenue authority DGI.

4.2.3 Mobile money taxation in Congo

The introduction of mobile money taxation in the Congo was a slightly confused affair. At the end of 2018, the government introduced a fee to fund a newly installed transaction monitoring system called the digital HUB, managed by ARPCE on behalf of the Congolese tax authority the Direction Générale des Impôts (DGI). The tax was to be a one per cent charge on all electronic transactions that flow through the HUB. The fee is remitted to the ARPCE by the operators and is shared between the government treasury, various regulatory bodies and the system operator (who receives 30 per cent). However, there was much confusion as to who the tax was payable by and whether it was a replacement of previous tax on fund transfers (TFF) payable by the banks on foreign currency transactions. For this reason, much of 2019 passed with little or nothing collected from the new tax. Eventually, the government issued a clarification in October 2019 that, as per Uganda, the one per cent tax applied to cash-out transactions for MMPs only. The law was amended on 30 December 2019 to explicitly reflect this. However, confusion about the modified law and how it applies to banks remains. As of May 2020, banks do not yet appear to be charging the tax to their customers on the electronic payment transactions that pass through the HUB.[102]

Additional existing consumer taxes on mobile money include two separate VAT charges on service fees, one administered centrally and one administered locally, that total 23 per cent. There are no similar VAT charges for banking services.

4.2.3.1 Background

The economy of Congo is highly dependent on oil-revenues. In the wake of a multi-year recession, the country reached out to the IMF in 2017 for a structural support programme. At the time, the IMF noted the country's continued dependence on oil, unsustainable debt, and significant governance weakness as impediments to the country's growth. As GDP-to-debt levels approached 120 per cent, the IMF insisted on the government getting its debt ratio to more sustainable levels. With oil production drying up and commodity prices falling due to the ongoing global pandemic, Congo is under pressure to increase its non-oil revenue mobilisation.[103] Attention is focusing on broadening the tax base and improving administrative efficiency. Mobile operators are among the biggest contributors to tax collected in the Congo through a combination of direct taxation and acting as collector for both the mobile money and agent withholding taxes. [104]

4.2.3.2 Tax policy process

The tax policy process in Congo is a sometimes chaotic affair beset by institutional weaknesses. As recently noted by the IMF, responsibility for setting tax policy is split between three different institutions.[105] The absence of an overarching national tax framework has hindered recent tax reform efforts which has been exacerbated by the absence (until recently) of a tax research unit and weak IT capacity. The creation of a tax policy unit housed at the MoF at the end of 2019 may go some way to alleviating this, dependent on its mandate and sectoral expertise. Administration is similarly fractured, with multiple agencies responsible for tax collection.

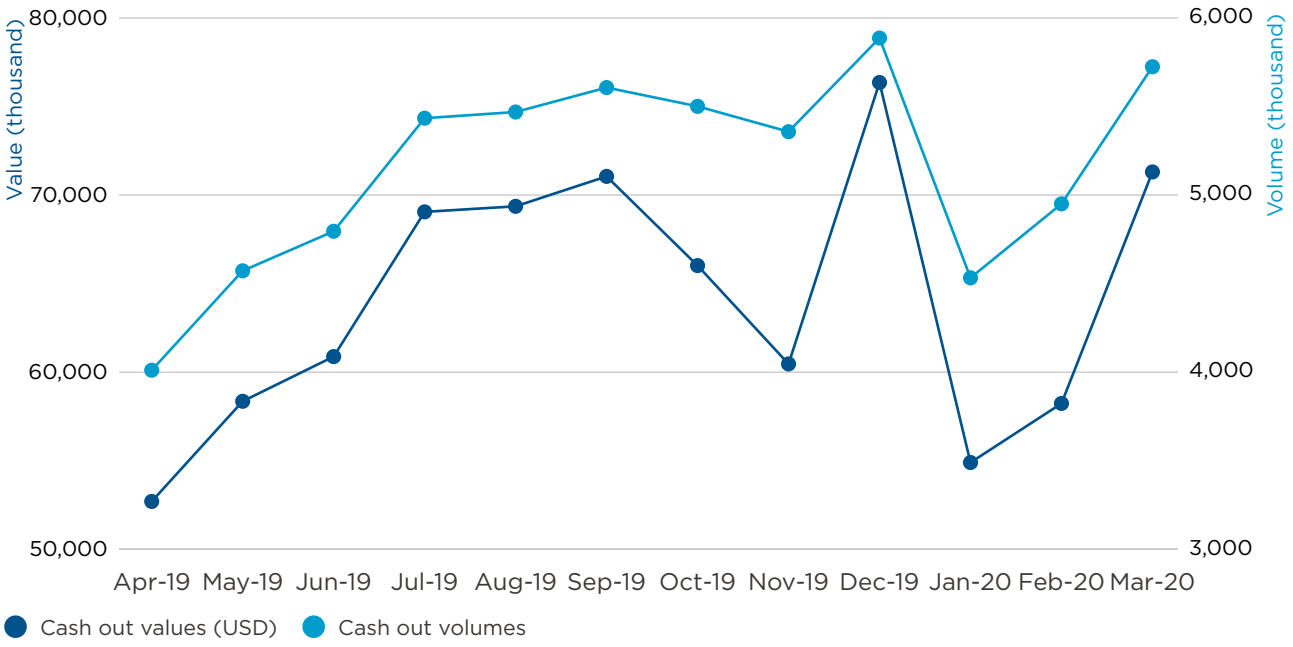
These weaknesses appear to have fed into the design of the electronic transaction tax. The introduction of the original policy in December 2018 was not accompanied by private sector consultations but was in fact seen as a 'fait accompli'.[106] A consultative process does not seem to be part of the policy process, with limited communication between sectors and the regulators. Local civil society feels that the government 'doesn't consult, they impose'. The same groups believe that those who designed the policy hadn't considered the impact on consumers nor on financial inclusion, although the government seems to have belatedly recognised this.[107] The point was also made that the success of mobile money had impacted bank deposits and that the banking industry stood to gain from the tax being implemented in its current format.

102 Interview with local mobile operators, May 2020
103 IMF (2020). Republic of Congo: 2019 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for the Republic of Congo.
104 Interview with DGI, February 2020.
105 The IMF noted that responsibilities for setting policy were split among (i) the tax departments of the Budget Ministry, (ii) the National Commission on Investments and (iii) a separate agency in charge of the administration of special economic zones.
106 Interviews in Brazzaville, 17–21 February 2020.
107 Interviews with l'Observatoire Congolais des Droits des Consommateurs (OCDC).

4.2.3.3 Performance and reaction

Figure 15

Congo monthly cash-out data



Source: ARPCE

There was a negative reaction both in the media and from users when the tax was proposed. Consumer associations representing the latter attempted to engage the government through letters and press conferences.[108] Industry did the same. However, their collective attempts to reverse the tax were unsuccessful. After the 2019 mobile money transaction tax was introduced, the government spent the entire year clarifying the definition of the law with several stakeholders. Clarification came in October 2019 that for MMPs, the tax applied to mobile money cash-outs only. The law was finally amended in December 2019.

The immediate impact on mobile money businesses was negative, with both values and volumes falling from October 2019 (Figure 14). This effect was amplified for cash-out transactions (Figure 15) subject to the tax. The erratic performance since, especially of transaction values, is a reflection of observed consumer behaviour change. Operators report higher transaction values migrating from the mobile money system, which can be seen in the steeper decline of transaction values *vis-à-vis* volumes. Operators have also observed a fall in the number of active agents, who rely in large part on the fees from cash-outs. With banks yet to apply the tax to their electronic transactions, the mobile money sector should be closely monitored in Congo to see if this erratic performance persists. The government has seemingly given assurances to the industry that it is willing to review that tax, pending such an analysis.[109]

108 Interview with OCDC.
109 Industry interviews Brazzaville, 17–21 February 2020.

Côte d'Ivoire

4.3 Côte d'Ivoire mobile money at a glance*

Population (total)	25m
Working age population (15–65)	13.75m
Registered mobile money accounts (Dec 2019)	17.5m
Mobile money penetration rate (Dec 2019)	67%
Registered agents per 1000 sq km (2018)	1620

*Source: World Bank, ARTCI

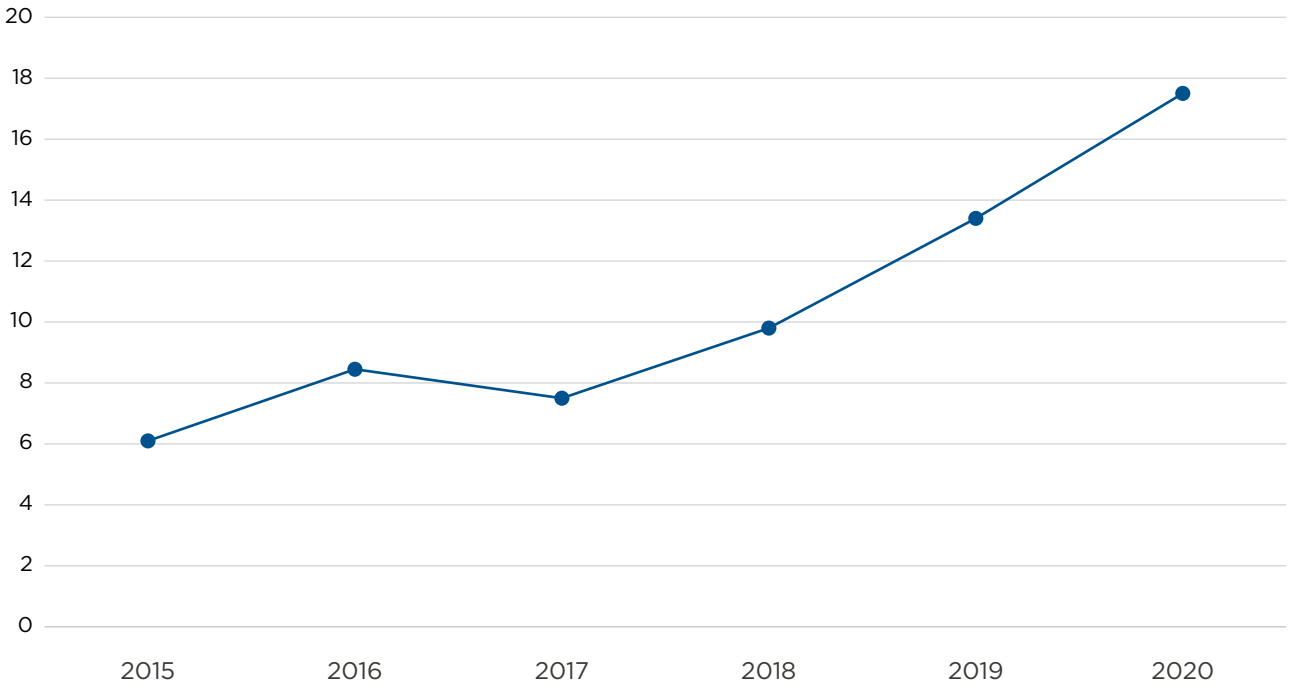
4.3.1 Overview of mobile money in Côte d'Ivoire

Côte d'Ivoire has the highest mobile money penetration rate in the West African Economic Union (UEMOA) region with 17.5 million registered accounts at the end of 2019.[110] The region's central bank, BCEAO, has licenced five operators in the country but only three—Orange, MTN and Moov—are operational today.

BCEAO released new e-money regulations in 2015 which were instrumental in driving mobile money adoption in the country. In 2018, they requested that mobile money be separated from the GSM businesses. The communications regulator ARTCI therefore has a diminished supervisory role in the country.

Figure 16

Registered mobile money accounts Côte d'Ivoire (million)



Source: ARTCI

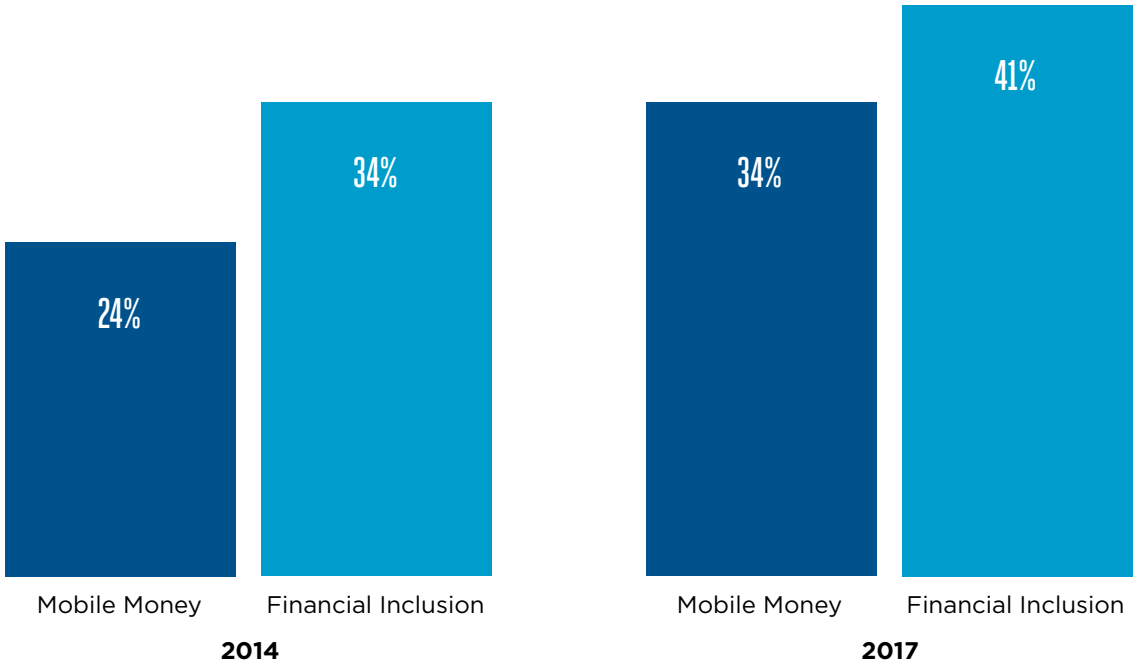
110 Union Economique et Monétaire Ouest Africaine (UEMOA) consists of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. Its central bank, BCEAO is situated in Dakar, Senegal.

4.3.2 Mobile money usage and impact

A history of banking failures in Côte d'Ivoire dating back to the civil war has left Ivorians with a loss of trust in the banking system.[111] In its place, financial inclusion has been largely driven by mobile money, with Findex reporting that it accounted for the entirety of the 20 per cent increase in financial account ownership between 2014 and 2017. They further state that majority of those who access formal financial services do so through mobile money.[112] Since the most recent Findex study in 2017, mobile money penetration has increased from 34 per cent to 67 per cent by the end of 2019, suggesting a similar increase in financial inclusion statistics may also be witnessed.[113]

Figure 17

Financial inclusion in Côte d'Ivoire



Source: Global Findex

Côte d'Ivoire is one of the fastest growing markets for mobile money and the most developed in the West African region, with an expanding list of use cases. The government was one the earliest adopters, with the Ministry of Education mandating the payment of school fees by mobile money back in 2014 when the service was in its infancy. More recently, the government has engaged mobile money for the payment of tax (P2G), which has further driven the volume and value of transactions[114] and is expected to make efficiency savings for the tax administration in the medium term.[115]

Cross-border mobile money transfers are also more prevalent in Côte d'Ivoire than in other parts of Africa. As the most advanced economy in the region, Côte d'Ivoire attracts migrants from neighbouring countries who send remittances home using mobile money. By value, cross-border transfers are almost equal to P2P transfers and exceed bill payments.[116] As a recipient country, mobile money-enabled international remittance flows have been shown to follow the growing cycle of the cocoa crop, suggesting migrants use mobile money from abroad to invest in the rural economy.[117] Cocoa farming, which is the

111 World Bank (2016). Financial Services in Côte d'Ivoire: Banks Set Aside in Favor of Mobile Money.
112 World Bank (2017). The Global Findex Database 2017.
113 ARTCI data available at https://www.artci.ci/index.php/marches-regules/observatoire-telecoms/statistiques-du-marche-telecoms.html
114 Interview with CGAP Côte d'Ivoire, 12 February 2020.
115 IMF (2019). Côte d'Ivoire: Fifth Reviews Under the Arrangement the Extended Credit Facility and Under the Extended Arrangement Under the Extended Fund Facility – Press Release; Staff Report; Supplementary Information and Statement by the Executive Director for Côte d'Ivoire.
116 Riquet, C. and Mattern, M. (2019). Regulations Drive Success of Digital Finance in Côte d'Ivoire. CGAP.
117 Naghavi, N. and Scharwatt, C. (2018). Mobile money Competing with informal channels to accelerate the digitisation of remittances. GSMA.

most important economic sector in Côte d'Ivoire, is dominated by informality. Although most farmers don't have access to formal bank accounts, over 50 per cent have a mobile money account.[118,119]

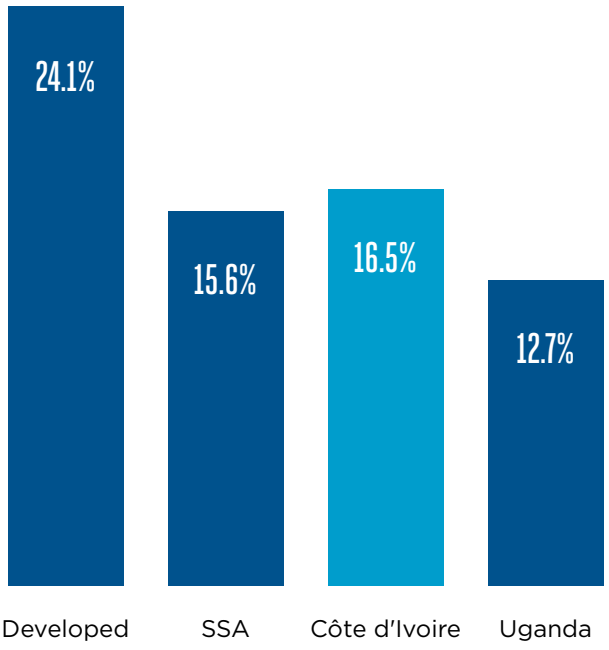
The Côte d'Ivoire financial inclusion strategy covering the period 2019–2024 lays emphasis on the government's commitment to promote access to formal financial services. The strategy is a response to inequality within financial inclusion on the basis of urban-rural representation, age, gender and social status.[120] According to the IMF, mobile technologies facilitated by mobile money are among the sectors expected to drive economic growth in the country over the course of the coming year.[121]

4.3.3 Mobile money taxation in Côte d'Ivoire

The government in Côte d'Ivoire attempted to introduce a 0.5 per cent mobile money transaction tax in 2018 that did not apply to banking and was quickly withdrawn following public outcry.[122] Subsequently in January 2019, the government introduced new mobile money sector-specific taxes that totalled up to 7.2 per cent. As opposed to the other mobile money taxes analysed in this study, they applied to MMPs total revenue rather than the underlying transaction amount. The tax in Côte d'Ivoire is unique in the study because it is earmarked for specific expenditure. Of the 7.2 per cent, two per cent is for rural digital development, 0.2 per cent for cultural expenditure and 0.25 per cent for combating fraud within the industry. The remaining 4.75 per cent is general taxation. As with other countries in the region, there is also a sales tax on mobile money fees (18 per cent).

Figure 18

Côte d'Ivoire tax-to-GDP ratio



Source: ICTD/UNUWIDER GRD 2019

4.3.3.1 Background

Côte d'Ivoire's tax-to-GDP ratio (16.5 per cent) is slightly higher than the regional average, although it remains low compared with the developed world. As with other countries in this study, Côte d'Ivoire is in a structural support programme with the IMF and committed to reducing its budget deficit.[123] Among the measures the IMF expects the government to achieve this are DRM, revenue administration reform, and public financial management reform.[124] The country also in receipt of World Bank loans with the expansion of the tax base being a condition for those.[125] However, recent falls in the price of world cocoa prices, exacerbated by the current pandemic, have put its fiscal ambitions at risk.

118 Desai, N. and Spencer, S. (2016) Future of Mobile Money for Cocoa Farmers in Côte d'Ivoire, Ghana. WCF.
119 Lonie, S., Martinez, M., Tullis, C.B. and Oulai, R. (2018). Opportunities for digital financial services in the cocoa value chain in Côte d'Ivoire : insights from new data.
120 Government of Côte d'Ivoire (2019). Access to Financial Services: Government Launches National Financial Inclusion Strategy to reach 60% Coverage Rate.
121 IMF (2018). Côte d'Ivoire Staff Report for the 2018 Article IV Consultation and Third Reviews Under the Arrangement Under the Extended Credit Facility and Extended Arrangement Under the Extended Fund Facility, And Request for Modification of a Performance Criterion.
122 Ayemoba, A. (2018). Côte d'Ivoire unveils mobile money tax. Africa Business Communities.
123 IMF (2019). IMF Executive Board Completes Fifth Reviews under Extended Credit Facility Agreement and Extended Arrangement under the Extended Fund Facility for Côte d'Ivoire and Approves US$133.9 Million Disbursement.
124 IMF (2019). Côte d'Ivoire: Fifth Reviews Under the Arrangement the Extended Credit Facility and Under the Extended Arrangement Under the Extended Fund Facility – Press Release; Staff Report; Supplementary Information and Statement by the Executive Director for Côte d'Ivoire.
125 World Bank (2018). Côte d'Ivoire Receives World Bank Support to Strengthen the Education, Energy and Cocoa Sectors.

In addition to external pressures for tax reforms, there appear to be internal pressures as well. Both the IMF and interviewees for this study highlighted the forthcoming presidential elections this year as a risk to wider mobilisation efforts and as a potential motivating factor for the sector-specific tax, with the government in need of revenue to fund its campaign. That the revised taxes applied to the MMPs only, rather than consumers (i.e. the electorate), might reinforce that suspicion, confirming that the view amongst some that the sector is considered something of a 'fiscal cash cow'.[126]

4.3.3.2 Tax policy process

The process for formulating policy does not appear to have been consultative. According to representatives of the Federation of Associations of Consumers, the government appears to operate reactively, waiting for consumers to complain or protest the decision. The local telecoms body UNETEL only became aware of the taxes after they were published by the government. Civil society groups were concerned that they were not consulted prior to the decision. With the next presidential election scheduled for October 2020, it is unlikely that there will be further review of mobile money taxes, given the potential impact on political support.[127]

4.3.3.3 Performance and reaction

The initial public outcry to the 0.5 per cent transaction tax in 2018 saw it quickly reversed and replaced in 2019 by the 7.2 per cent tax payable instead by MMPs. The new tax was accompanied by the electoral policy sweetener of being partly earmarked for specific public expenditure. As the taxes initially began to feed into increased consumer fees, there were concerns raised by consumer associations and the development community who called for a reversal of the tax, as did local operators. However, the government was caught between its commitment to raise tax revenues and an electoral policy promise to not raise the cost of living domestically. As a compromise, the government summoned the mobile money operators and insisted that the tax could not be passed onto consumers in the form of higher fees. The providers absorbed the tax and instead cut back on operational and infrastructural spending to maintain profitability,[128] potentially putting the future growth of the industry at risk. The impact on mobile money volumes and value were not available for this study.

126 Deveaux, J. (2019). Côte d'Ivoire: controversy over the rising cost of mobile transactions. Franceinfo.
127 Interviews with stakeholders in Côte d'Ivoire, 10-14 February 2020.
128 Interviews with MMPs, February 2020.

Malawi

4.4 Malawi mobile money at a glance*

Population (total)	**18.62m**
Working age population (15–65)	**10.05m**
Registered mobile mWoney accounts (Dec 2019)	**6.2m**
Transaction values (December 2019)	**$924 million**
Registered agents (December 2019)	**52,200**

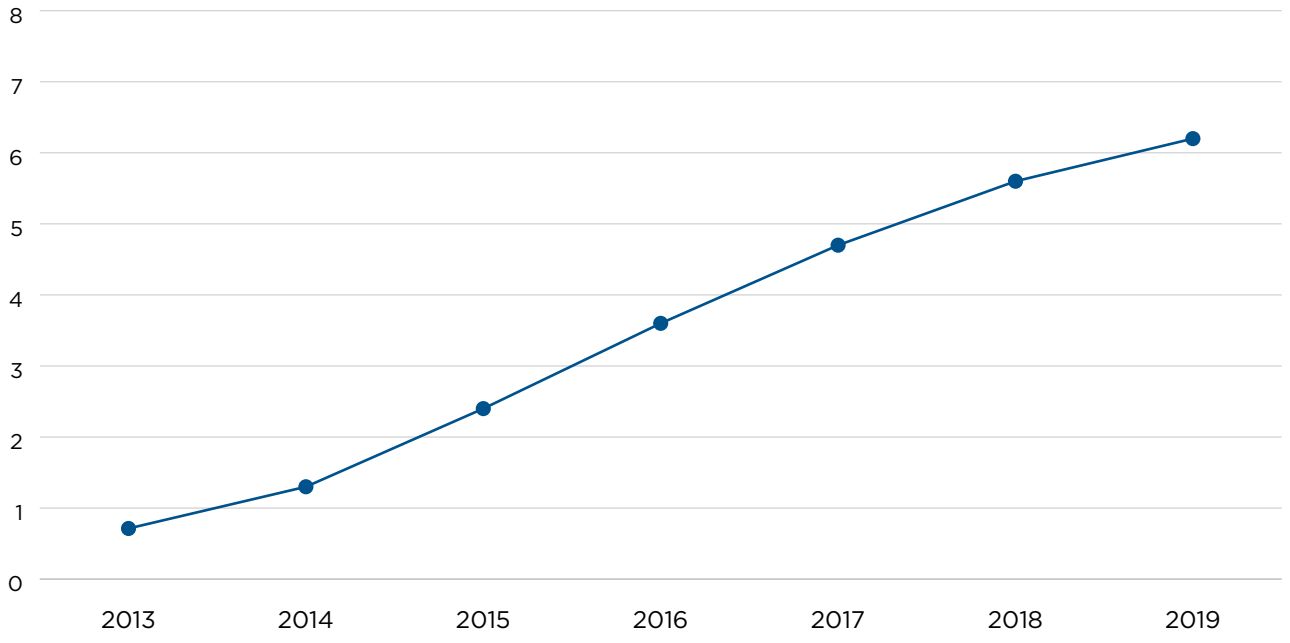
*Source: World Bank, RBM

4.4.1 Overview of mobile money in Malawi

In the seven years since its launch, mobile money has recorded steady growth in Malawi. By the end of 2019, the service had registered 6.2 million accounts from a working age population of just over 10 million. Mobile money is regulated by the Reserve Bank of Malawi (RBM) and has two mobile money service providers: Telekom Networks Malawi (TNM Mpamba) and Airtel Malawi (Airtel Money). The two service providers are interoperable through a national payments switch. New e-money regulations were released in July 2018 to improve the RBM's oversight role of the industry.

Figure 19

Mobile money accounts in Malawi (million)



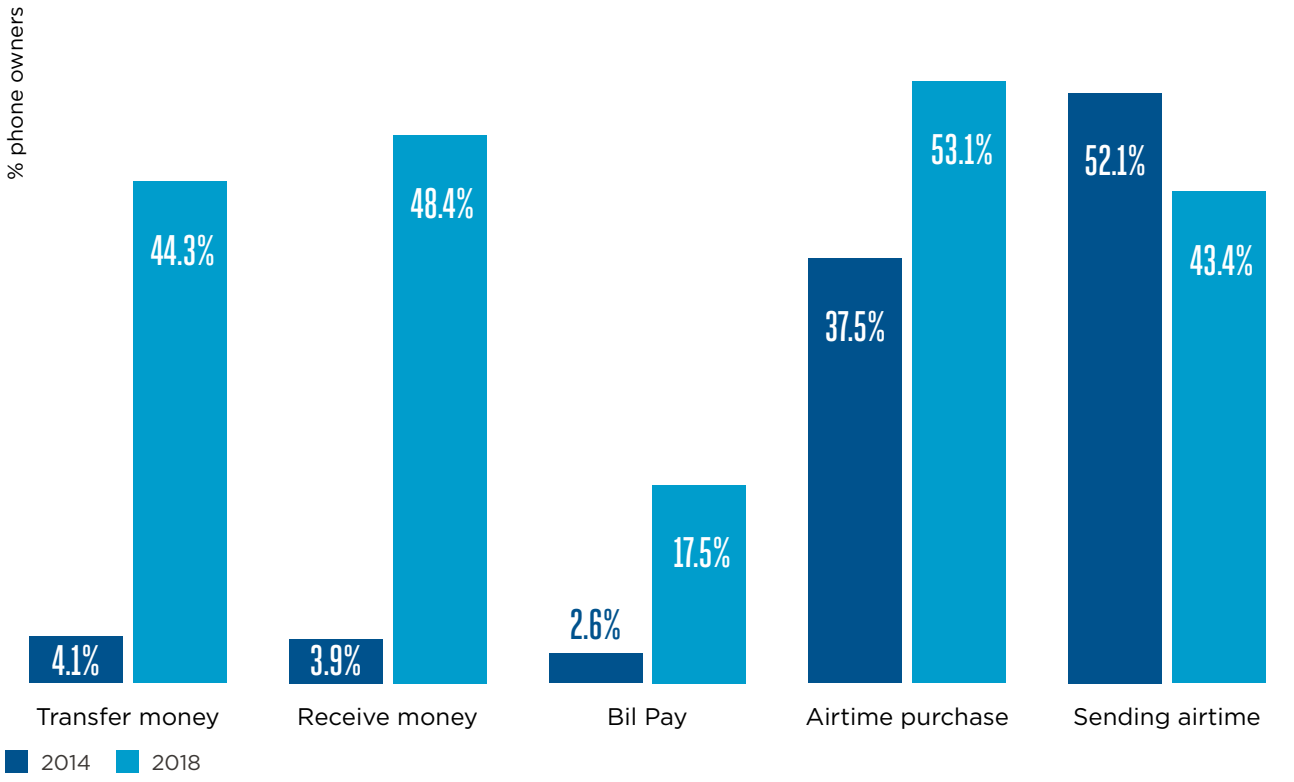
Source: RBM

4.4.2 Mobile money usage and impact

The most recent consumer household survey conducted for the RBM in 2018 shows that 29 per cent of the adult population had access to a formal financial account, up from 17 per cent four years prior, with the biggest growth in rural areas. Most of those with formal financial access were also users of mobile money (27.5 per cent).[129] The use of mobile money has grown significantly over this period (Figure 21). Despite this, its penetration still lags that of regional neighbours such as Kenya (73 per cent) and Uganda (51 per cent), suggesting there is further room for growth.[130] The banking sector in Malawi is characterised by a high degree of concentration. Out of nine banks operating domestically, just two account for half of total assets. The penetration of the formal banking system focuses on major urban areas, so formal banking services remain largely out of reach for the majority of Malawians.

Figure 20

Mobile phone usage in Malawi



Source: RBM

Research has found mobile money to be successful at financially including the unbanked in Malawi[131] and most mobile money users in the country are likely to have low education and financial literacy levels.[132] For these users, mobile money is preferred over formal banks because it entails fewer requirements to access and because local agents often provide assistance to customers in onboarding and using the service.[133] For smallholder farmers in Malawi who have higher cash turnover but lack access to bank accounts, mobile money is a preferred way to safely store money.[134] Mobile money has played a role in poverty alleviation programmes aimed at decreasing the vulnerability groups by digitising cash transfers.[135] Mobile money is also a rare source of employment within Malawi; central bank figures show 52,200 registered mobile money agents in the country, with roughly one fifth of those located in rural areas.[136]

129 RBM survey supplied privately. Headlines figures available, see: World Bank (2019). Implementation Completion and Results Report on a Credit in the Amount of SDR 18.1 Million to the Republic of Malawi.
130 World Bank (2017). The Global Findex Database 2017.
131 Madise, S. (2019). Comparative Study of Mobile Money in Kenya and Malawi in The Regulation of Mobile Money. Palgrave Macmillan Studies in Banking and Financial Institutions.
132 Buckley, R., Malady, L., and Greenacre, J. (2015). The Regulation of Mobile Money: A Case Study for Malawi. Global Studies Law Review.
133 Cofie, E. (2017). The Growth of Mobile Money in Malawi. Women in Tech Africa.
134 Aggarwal, S., Brailovskaya, V. and Robinson, J. W. (2019). Cashing In (and Out): Experimental Evidence on the Effects of Mobile Money in Malawi.
135 Buckley, R., Malady, L., and Greenacre, J. (2015). The regulation of mobile money: A case study for Malawi. Global Studies Law Review.
136 RBM (2020). National Payment Systems (NPS) Report- Fourth Quarter 2019.

At the policy level, mobile money plays an important role in Malawi's Financial Inclusion Roadmap 2015 – 2020.[137] As part of this, the RBM is promoting the uptake of electronic payments solutions, and the Central Bank and the Ministry of Trade and Industry are working towards the operationalisation of the 'Deployment and Usage of Electronic Payment Channels Regulation' to encourage businesses to accept digital payments.[138]

4.4.3 Mobile money taxation in Malawi

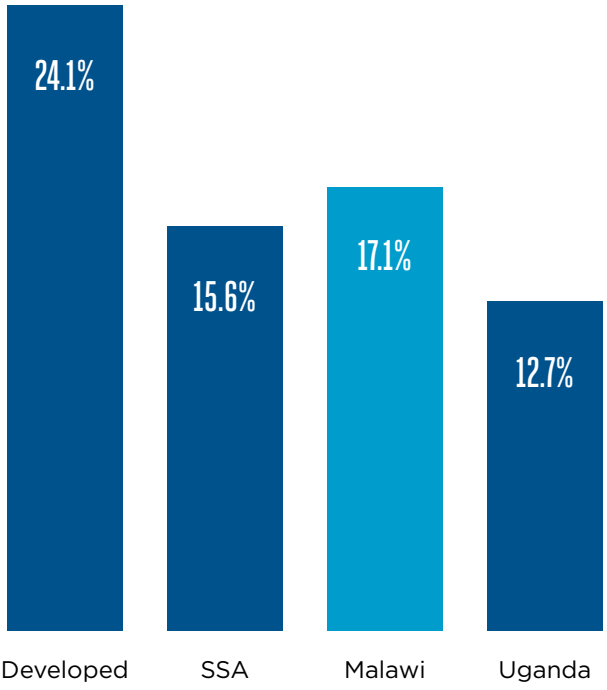
In July 2019, as part of the budget statement for the following fiscal year, the Government of Malawi proposed introducing a one per cent withholding tax on all mobile money transactions, citing similar policies in other countries as inspiration. As with other countries included in this study, the proposal did not extend to banking transactions. Ultimately, the tax was not included in the final version of the finance bill. Existing consumer taxes on mobile money services include VAT (16.5 per cent) payable on transaction fees and a withholding tax charged on the interest paid from the trust account (the interest is paid to users of the service). Agent commissions are also subject to a 20 per cent withholding tax.

4.4.3.1 Background

Malawi's tax-to-GDP ratio of 17.1 per cent (2017), although low by international standards, is slightly higher than the regional average (Figure 20). However, this needs to be offset against the fact that Malawi has one of the lowest GDPs-per-capita in Africa, meaning its nominal contribution to the budget is low.[139] As per other countries in this study, Malawi is in a structural support programme with the IMF. DRM is a priority of the IMF's interventions there, which includes a focus on improving capacity within tax administration. Among recent measures recommended by the IMF and adopted by the Malawian government was the introduction of withholding tax on commissions earned by mobile money agents.[140] The World Bank extended Malawi a $142 million grant at the end of 2019 and have also highlighted the importance of DRM in the country.[141]

Figure 21

Malawi tax-to-GDP ratio



Source: ICTD/UNUWIDER GRD 2019

In addition to these external influences, Malawi has created its own domestic pressures to increase its tax base. Malawi traditionally had high levels of direct budgetary support from donors, amounting to approximately 40 per cent of its total spend. However, in the wake of the 2014 'cashgate' scandal that encompassed much of the civil service, donors withheld budgetary support and today it is 80–90 per cent funded by domestic taxes.[142] Within the economy, informality is also pervasive with an estimated 91 per cent of businesses accounting for 89 per cent of employees operating without formal registration and outside of the tax net.[143]

4.4.3.2 Tax policy process

The tax policy process in Malawi is similar to that of other countries in the region. Tax policy changes are generally proposed as part of the budget process. Proposals may come from a number of different sources within government, including the Malawi Revenue Authority (MRA), who may make

137 Measuring Progress: Financial inclusion in SADC – 2018
138 RBM (2019). National Payment Systems (NPS) Report-Second Quarter 2019.
139 Malawi's GDP-per-capita of $1,310 is roughly a third of the sub-Saharan Africa average of $3,985 (2018 figures). Source: World Bank data.
140 IMF (2019). Malawi: Second and Third Reviews Under the Three-Year Extended Credit Facility Arrangement and Requests for Waivers of Nonobservance of Performance Criteria and Augmentation of Access-Press Release; Staff Report; and Statement by the Executive Director for Malawi.
141 World Bank (2019). Malawi Economic Monitor, December 2019: Strengthening Human Capital Through Nutrition.
142 Donors are only beginning to reengage with Malawi following the 'cashgate' scandal, when $356 million of the government budget was unaccounted for and allegations were made that the government was trying to raise funds for forthcoming elections. At the time, Malawi depended on donor funding for 40 per cent of its budget and the decision by donors to withdraw direct budgetary support hit the country hard and resulted in a substantial currency devaluation. See: BBC (2014). 'Cashgate' – Malawi's murky tale of shooting and corruption.
143 Gondwe, S.R. and Budlender, D. (2019). Informal Economy Budget Analysis for Lilongwe City in Malawi. WIEGO.

administrative proposals for consideration within tax policy, including the closing of loopholes that may exist.[144] Once presented in the budget statement, the MoF may consult with key stakeholders such as the MRA, parliamentary select committees, the public, civil society groups, academia, private sector organisations and professional bodies.[145] These views are then consolidated, reviewed, and a rudimentary incident analysis performed before the bill is returned to parliament. However, as per other countries in the region, a lack of capacity often impedes the efficiency and effectiveness of these processes.[146]

In the case of the mobile money tax, the proposal came directly from the MoF who took inspiration from similar policies in other countries. They also investigated whether the tax could be a proxy way of taxing informality in the country.[147] However, in this instance, stakeholders including mobile operators and civil society groups appear not to have been consulted.[148] The MoF conducted its own benchmarking analysis (comparing against other countries). This resultant bill was then formulated.

4.4.3.3 Reaction

Once it was announced in the budget, there was push back against the proposed policy from a number of sources. The mobile operators wrote to the MoF detailing their concerns and lobbied parliament on how the tax would increase mobile money prices by 25 per cent.[149] Privately, they felt that the government had a confused understanding of the principles of mobile money, conflating transaction values with commission revenues. There was significant reaction too from civil society. The Consumers Association of Malawi (CAMA) labelled the tax inequitable as it would not apply to banking transactions. CAMA argued that the tax would undo financial inclusion gains seen in the country and discriminate against the poor.[150] The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) raised concerns regarding the negative impact the proposal would have on RBM's cashless agenda. Local academics pointed to the likely adverse effect on the rural poor.[151] The World Bank pointed out how the policy could hit the country's financial inclusion and digitisation agendas.[152]

Unlike other countries in this study, these concerns appear to have been taken on board. In October 2019, the MoF removed the mobile money taxation proposal from the bill that was put before parliament reflecting concerns that the tax would impede the development of mobile money in the country and negatively impact both financial inclusion and the poor.[153] With a rerun of the presidential election scheduled for later in 2020, interviewees did not expect the government to revisit this controversial tax.

144 Interview with MRA, 9 March 2020.
145 Interview with MoF, May 2020.
146 Ligomeka, W. (2019). Assessing the Performance of African Tax Administrations: A Malawian Puzzle, IDS.
147 Interviews with MRA and MoF officials, March 2020.
148 Based on interviews in Malawi, March 2020.
149 Phiri, G. (2019). TNM protests 1% mobile money tax. The Nation.
150 Nyasa Times (2019). Cama challenges 1% mobile money tax: 'Insult in Malawi budget!'
151 Mzale, D. (2019). When govt salivates on mobile money. The Nation.
152 World Bank (2019). Malawi Economic Monitor, December 2019: Strengthening Human Capital Through Nutrition.
153 Jomo, F. (2019). Malawi Scraps 1% Withholding Tax on Mobile-Money Transactions. Bloomberg.

5 Discussion

So far, the increasing tendency for mobile money transaction taxes within developing countries has been highlighted. This section seeks to understand what the motivating factors are as well as identifying some of the unintended consequences of the taxation.

5.1 Motivating factors

At a fiscal level, the driving force has been , most obviously, to increase tax revenue collection. However, this alone doesn't entirely explain the focus on mobile money. While there are some differences in how the mobile money tax has been ultimately structured and administered, there is substantial commonality in what has been driving the imposition of these taxes.

5.1.1 Challenges posed by the informal sector

As our case studies have shown, the prominence of the informal sector has been a target of revenue authorities' attempts to widen the tax base. In the four countries studied, informality accounts for more than half of their economic activity and the vast majority of employment. Mobile money is also a favoured method of payment within the informal economy of these countries. Therefore, taxing mobile money appears at first glance to offer the opportunity to expand the tax base to these new taxpayers and thus appear attractive to tax authorities, a point emphasised repeatedly during our interviews.

However, it is not clear how successful these attempts have been or will be. While taxing mobile money transactions is seemingly viewed as a proxy to the taxation of the incomes of individuals in the informal

sector, this ignores the fact that mobile money is a method of payment and not an income for this sector. For countries where mobile money transaction taxes have been implemented, the attempt to formalise users and 'force' them into the tax net has been frustrating, given the consequent reduction in mobile money activity. In addition, mobile money agents who generate an income from mobile money transactions have been directly impacted to the extent that in Uganda and Congo, some have left the market.[154] Mobile money agents exemplify those informal workers that have formalised and discouraging them from operating hinders the objectives of greater formalisation in the economy. Furthermore, users have been encouraged to return to traditional cash transactions, pushing them further into the shadow economy.

5.1.2 Tax policy weakness

Despite some recent improvements, 10 year average historical tax revenues collected as a percentage of GDP for three of our case study countries—Malawi, Uganda and Congo—has been below the SSA regional average with only Côte d'Ivoire, a middle-income country, marginally above.[155] All were far below developed country averages.

This under-performance is attributed to both a policy gap and administration gap. These countries have mature tax systems with a mix of direct, indirect and trade taxes. However, what has been clear from our analysis is evidence of failings on three main aspects of tax policy:

- Lack of an over-arching national tax policy framework;
- Lack of appropriate tax policy incident analysis to accurately model the impact of mobile money taxes; and
- An opaque and at times disorganised policy-making process.

Without a holistic tax policy framework to guide government in how it sets taxes, it is not possible to appreciate the full impact of the tax system on taxpayers. This also plays out when multiple arms of government are free to levy fees, charges, and taxes on their own volition, as witnessed in Congo where different bodies administered different taxes.

The lack of an appropriate research capability within tax policy units results in poorly designed taxes, illustrated by a fall in the value of mobile money transactions in countries that implemented transaction taxes. This points to factors that impact mobile money users, such as price elasticity and product substitutability, not being considered in incident analysis. An analysis of excise duty taxation of mobile money fees in Kenya concluded that although demand elasticity may not change immediately in the short term, tax increases ultimately force taxpayers to look for alternatives to avoid the tax.[156] These nuances were not captured during the policy design phase in the four countries of this study.

The formulation of mobile money taxes in all four countries do not appear to have followed their usual tax policy-making process.[157] Not only have arms of government outside of the established process been involved in the process, in some instances they have driven it. There have been limited consultations among government players and broader stakeholders, including parliament, mobile operators, and civil society. In all four countries, the taxes were introduced in parliament without any forewarning, which would normally have occurred through a thorough consultation. In addition, the apparent lack of understanding of the mobile money sector and how it operates is likely to have contributed to the poor design of the tax.

It is worth noting that given somewhat limited tax policy analysis capabilities, there is a degree of policy mimicry driving mobile money taxation, as confirmed during our stakeholder interviews. As the fiscal challenges facing SSA are similar, so it is reasonable to assume that policymakers look to their peers to determine their own policies, without perhaps the necessary contextualisation and analysis.

Consequently, given the badly designed tax policy, two outcomes have resulted: policy reversal and unintended negative consequences of the tax. Policy reversal not only has an impact on tax certainty and confidence for the whole tax system, it can also highlight weakness in government decision making. In

154 Interviews with MMPs in both Malawi and Congo, February 2020.
155 For the 10 year period 2007-2017, Malawi, Uganda and Congo's average tax revenue collected as a percentage of GDP was 14.5 per cent, 10.50 per cent and 10.6 per cent respectively; below the SSA average (15.6 per cent). Côte d'Ivoire was only marginally above at 15.8 per cent. Developed countries averaged 23.3 per cent during the same period. See: UNU-WIDER (2019). GRD – Government Revenue Dataset.
156 Ndung'u, N. (2019). Taxing mobile phone transactions in Africa; Lessons from Kenya. Brookings Africa Growth Initiative.
157 For instance, Uganda is considered to have good tax policy research capacity. However, this capacity was bypassed in the formulation of mobile money transaction taxes in the country.

Malawi, the tax was withdrawn after announcement but before implementation; in Côte d'Ivoire, the tax was changed so that it was absorbed by the MMPs and not passed onto users; in Uganda, the tax rate was reduced and the transactions it applied to narrowed. In Congo, there was much confusion about who the tax applied to.

A stronger tax policy process with improved research capacity and a thorough consultation process could have resulted in a better tax policy process that minimised the negative impact on both users and industry. Instead, a measure that was meant to increase tax revenue has instead put the tax base at risk, as evidenced in Uganda.[158]

Earmarking mobile money taxes

Earmarking, or hypothecation, is a feature of mobile money taxes that was witnessed in Côte d'Ivoire. Earmarking ties revenue earned from a particular tax to a specific expenditure. The merits, or otherwise, of mobile money taxes notwithstanding, the effectiveness of earmarking is a debatable topic and worthy of further research. In terms of benefits, there is greater transparency in the link between revenues and government spending, which may be used by tax authorities to engage popular support for a policy and to encourage compliance.[159] It is also a useful tool in holding a government to account when spending commitments are made, strengthening the fiscal contract with taxpayers. In this way, it helps to ensure that the revenue is used for its intended purpose and not used elsewhere. Ensuring this would require auditing of the government's accounts by the Auditor General and also ideally by an independent body that sits outside of government. However, earmarking limits the ability of the government to allocate resources efficiently, particularly in light of internal or external shocks to the economy such as the current COVID-19 crisis. Also, revenues collected in excess of those forecast cannot be reallocated.

158 Edge (2020). URA posts Shs30bn loss over mobile money tax.
159 Prichard, W. (2019). Tax, Politics, and the Social Contract in Africa. Oxford University Press.

5.1.3 Administration weakness

The under-performance in tax collection in our four case study countries is driven partly by tax administration weakness. This relates to the administration of the existing tax system and its tax mix, but also its inability to adjust to changing global business dynamics and in particular the rise of the digital economy.

Interviews carried out with revenue administrations in Uganda, Malawi and Congo identified capacity, institutional and IT infrastructure weaknesses as core concerns impacting efficiency and effectiveness. This manifests itself in the way in which mobile money taxes are implemented, with the burden of collection not falling on the tax authority but on the MMP, placing ever greater concentration risk on the small number of large companies (mobile operators in this case) contributing to the country's total tax take.[160] For instance, ATAF estimate that in Côte d'Ivoire, just 3.8 per cent of taxpayers collect 76 per cent of the country's tax revenue. The concentration risk is even greater in Uganda with just 0.1 per cent responsible for 62 per cent of collections.

The weakness in tax administration extends to a lack of understanding or expertise in emerging sectors such as mobile money and digital economy, with administrations sometimes conflating the two. Even for well-established industries such as telecoms, tax authorities in all four countries lack sector-specialist teams. If the nuances of the telecommunications sector are not well-understood, it is natural that the same lack of understanding extends to both mobile money and the emerging digital economy (in particular large digital global OTTs). The imposition of ill-considered mobile money transaction taxes is not a sufficiently robust response to these challenges.

Ultimately, this means the tax authority is unable to administer the existing tax system effectively and efficiently, essentially requiring voluntary compliance of the whole of its tax base. As such, if it is not able to collect its targeted tax revenue, then the government is more likely to introduce 'new' taxes that may bring in revenue in the short term, but could have longer term negative externalities.

Tax administration weakness amid the COVID-19 crisis

The COVID-19 pandemic is primarily a public health crisis, but also represents perhaps the greatest risk to the global economy seen in recent history. Economic activity is stalling, commodity prices are falling, and unemployment is growing.[161] This will exacerbate fiscal constraints and amplify tax administration weaknesses that are present across the developing world. In light of this, a range of tax initiatives are being proposed to support businesses and individuals through this time.

Yet for reasons just discussed, tax authorities' fiscal firepower remains limited. Low tax-to-GDP ratios, large informal sectors, and concentration on a small number of CIT and PIT taxpayers mean broad based stimuli are unlikely to be effective.[162] Focus instead is turning to specific measures that might target those outside of the tax net. However, given existing weaknesses, targeted measures will be difficult to administer.

One of the key recommendations being made by think tanks and multilateral finance institutions is the removal of mobile money, voice, and data taxes.[163,164] The ability to continue to transact despite social distancing and lockdown measures where face-to-face interactions are limited or even banned is a crucial lifeline for the most vulnerable in society and allows important social transfers to be made during this time. In addition, where businesses are working remotely, continuing to trade and receive payment is critical for many MSMEs. The removal of these taxes, even on a temporary basis, has the additional benefit of being relatively simple to administer and will have a much wider impact than other fiscal measures.

160 ATAF (2020). Global economic havoc underlines urgency of broadening the tax base in African countries.
161 Steel, I. and Philips, D. (2020). How tax officials in lower-income countries can respond to the coronavirus pandemic. ODI
162 Moore, M. (2020). How can African tax collectors help cope with the economic impacts of Covid-19? ICTD.
163 Phillips, D. and Steel, I. (2020). The tax policy response to coronavirus should aim at providing targeted support not broad-based stimulus, at least for now – and especially in low- and middle-income countries. IFS.
164 World Bank (2020). Africa's Pulse: Assessing the economic impact of COVID-19 and policy responses in Sub-Saharan Africa.

5.1.4 Political economy factors

Political economy factors were pervasive in the formulation and imposition of mobile money taxes in our case study countries. Taxation is inherently political and mobile money taxation is no exception. The presence of external actors, the political settlement of and within government, and the influence of both private sector groups and civil society all had an impact. These stakeholders were aligned along those who were largely in favour of the policy change (push factors) and those who were against (pull factors).

When considering those external actors who support or encourage revenue generating measures, the role of multilateral finance institutions cannot be ignored. All countries in the study were in a structural support programme with the IMF and all had either borrowed or received grants from the World Bank. Both institutions emphasise the importance of DRM initiatives. With that comes pressure to widen the tax base, something while not an explicit conditionality appears to be treated as one.

While the intention may be holistic advice and requirement to raise domestic revenue in light of apparent macro-fiscal constraints, the operationalisation of this advice has led to the imposition of 'new' taxes. As an illustration, in the month preceding the mobile money tax policy proposal in Uganda, the World Bank highlighted both the fall in tax revenues from traditional telecom voice and data services to OTT digital services, the pervasiveness of informality in the economy, and the growth of mobile money in the same report.[165] A month later, a taxation on the latter was seen by the government as the solution to the first two.

The political settlement within government is relevant too, with policies being rushed through on orders from the President or high-level government officials (e.g. ministers of finance) without established processes being followed, and bypassing consultations and incident research. While explicit lobbying for the taxes by another push-side stakeholder—the banking sector—was not uncovered, interviewees said they had a strong political influence, and felt they were likely to be in favour of the sector-specific taxes.

On the pull-side, those against the policy had mixed success across the different countries. Alliances and coalitions were formed in some countries that were successful in reversing the policy either partially or wholly, something not often seen with tax policy. Institutions such as presidential elections also play a role.[166] In Malawi, mobile operators joined forces with civil society groups and business associations to highlight to MPs the impact of the proposed tax on financial inclusion and the rural poor. The tax didn't pass. In Uganda, the mobile money transaction levy introduced was immediately and deeply unpopular. Large street protests ensued, which police finally permitted once it was shown how the tax would also affect them directly.[167] Both opposition and, crucially, rural government MPs were lobbied and eventually the policy was partially reversed. In Côte d'Ivoire, with pushback from consumer and development organisations and with the presidential elections looming, the policy was changed so the taxes could not be passed onto consumers in the form of higher prices. With upcoming presidential elections also taking place in Malawi and Uganda, interviewees believed the controversial taxes wouldn't be revisited.

The role of civil society and consumer groups in successfully changing mobile money tax policy suggests that their bargaining power was somewhat underestimated by policy makers. Perhaps this is not a surprise given that the intersection of taxpayers and the electorate is often very small in these countries. However, with mobile money, this intersection was significantly larger than normal, given that income-based exemptions typically in place for VAT and CIT were not present for mobile money taxes. Also, the proximity of elections seems to have amplified this 'tax-bargaining' power, confirming findings that tax collection in Africa declines in the year prior to elections.[168] The role of coalitions and tax bargaining in reversing these policies remains relatively unexplored and is a subject worthy of further research.

165 Specifically, the report highlighted that for the preceding year (2017), the value of mobile money volumes were worth over 65 per cent of the country's GDP, a meaningless statistic without context (proportion of total electronic payments is more relevant). Such portrayal is likely to cause confusion within governments and tax administrations where a more nuanced understanding of mobile money operating models were lacking. See: World Bank (2018). Uganda Economic Update 11th Edition, Financing Growth And Development: Options for Raising More Domestic Revenues.
166 Within social science 'institutions' are those rules or structures that connect individuals and organisations to the wider social environment, national elections being one such example.
167 Interview with CSBAG, Kampala, February 2020.
168 Prichard, W. (2015). Taxation, Responsiveness and Accountability in Sub-Saharan Africa: The Dynamics of Tax Bargaining. Cambridge University Press.

5.2 Unintended consequences

The imposition of mobile money taxes was largely driven by the need to widen the tax base and raise revenue. However, because of weaknesses in policy formulation and administration, the desired revenue effect across the tax system has not necessarily been witnessed. Instead, it appears to have had a negative impact on the users of the service, its agents, national development objectives, and the business models of its providers.

5.2.1 Impact on mobile money users

As has been seen elsewhere in this report, mobile money is disproportionately used by marginalised groups in society: informal businesses, women, small-holder farmers, refugees, and young people. Evidence from our case studies suggest that while those with higher incomes use the service too, they also have access to the banking system and can avoid paying a mobile money transaction tax if necessary. People on lower incomes have no such luxury; the only alternative means open to them is to revert to cash.

However, cash still lacks the convenience of transferring remotely by digital means, implying that those on lower incomes have no other choice but to use mobile money if they want to conduct these types of transactions. This has been borne out by evidence in Uganda where mobile money transaction taxes have been implemented longest. Here, it took a full year for mobile money values to return to where they were before the imposition of the tax, yet larger tier volumes have never recovered. The implication is that those on lower incomes disproportionately pay these taxes and the burden for paying them falls largely on the poor, not on the rich.

This is further emphasised by the structure of the tax. Income taxes and even consumption taxes generally have a threshold under which tax is exempt. Above this threshold, tax is payable either on a graduated basis (e.g. income tax), or as a flat tax (e.g. VAT). The presence of that tax-free threshold ensures that the poorest are protected and may not pay any tax at all, while those on low incomes will pay a much lower average tax rate.[169] Each country in this study has such a structure. Mobile money taxations, based on its design, makes for no such allowance, and is indirectly taxing income already considered low by national tax legislation. While an assessment of the regressive nature of tax is normally made by studying income and tax data, the nature of the administration of mobile money taxation means that data isn't available. Although the data points are too few to draw firm empirical conclusions, the nature of the mobile money business model, its users, and the taxes' design strongly suggest regressivity.

In addition to mobile money transaction taxes being regressive, they can, depending on how they are implemented, result in multiple taxation of the principle as a transaction flows through the system. A worker who receives their after-tax salary payment in mobile money may transfer some of that amount to a relative, make a bill payment or cash-out, and see their original sum taxed multiple times. This would not be the case for the same worker being paid either in cash or into a bank account, adding to the horizontal inequity of mobile money taxes. The application of a transaction tax in this way is significantly different to how income or consumption taxes are applied, which are not subject to multiple taxations.

5.2.2 Impact on development

5.2.2.1 Financial Inclusion

Mobile money transaction taxes appear to conflict with the goals of development agendas in a number of ways. In the four countries analysed, financial inclusion is a stated development objective of each respective government with mobile money as a key enabler. However, the imposition of mobile money taxes has a clear impact on financial inclusion objectives, both directly by reducing demand for these services and pushing poorer people back to cash, and indirectly by removing active agents from the system, as witnessed in both Uganda and Congo. This reduces liquidity in the system and means potential users have fewer access points to the service. This is particularly detrimental to those in rural areas who are not served by more traditional banking services. These rural inhabitants tend to be subsistence farmers characterised by substantially lower incomes than their urban neighbours.[170] Consequently, some mobile money users are being pushed back to using cash, a less secure means of payment with limited traceability, serving to undermine central bank cashless agendas in these countries.

169 The average tax rate is the total amount of tax paid divided by income.
170 All countries in this study have high rural populations. Malawi has one of the highest rates in the world at 80 per cent of total population. See: IMF (2017). Malawi Economic Development Document.

5.2.2.2 Social inclusion

In the countries of this study, mobile money supports inclusion in many sectors of the economy, including agriculture, energy, health and education.[171] The imposition of a mobile money transaction tax will likely negatively affect activities in these areas. For example, data from UNCDF in Uganda shows that an increasing number of smallholder farmers (in coffee, seed oil, and dairy) are paid using mobile money, which was their first introduction to the service.[172] Immediate reductions in the use of this service were experienced following the implementation of the mobile money tax. Similar effects were also observed in other social programmes such as the pay-as-you-go financing of solar home systems, which addresses energy poverty. With mobile money becoming more expensive to use and no facility to pay by cash, it was reported that beneficiaries of the programme requested the solar home system be removed.

Mobile money is also used as a tool in operationalising social safety nets through cash transfer payments. This is getting increased attention as both governments and humanitarian organisations look to digitise cash transfers in the wake of the COVID-19 crisis to both build resilience during emergencies and limit the spread of the virus. However, international humanitarian organisations have expressed a reluctance to use mobile money in those countries where the transaction is taxed. For smaller humanitarian organisations, refugees have requested a reversion to cash or for the digitised disbursement to be topped up by the amount of the tax.[173] Equally, mobile money is used to digitise international remittances which have multiple development benefits.[174] It is unclear whether any of these factors were considered during the design of the respective mobile money taxes.

5.2.2.3 National development plans

The countries in this study, as with most developing countries, have their own forward-looking national development plans. These plans identify the country's key economic and social goals and set out the means and policies by which they will meet these goals. Often, these plans place ICT and the digital economy at the heart of this vision.[175] As these countries look to tackle issues such as financial inclusion, informality, digitisation, the future of work, and service delivery, mobile money presents a real opportunity to address issues and goals. The availability of affordable digital services improves productivity, promotes trade, creates jobs, generates wealth, and improves social protection.[176]

Mobile money has already shown that it has an important role to play in advancing national development goals. Beyond payments, mobile money has the potential to improve economic efficiencies and linkages through strengthened digitisation, which in turn can have positive effects on national productivity. The linkages between mobile money taxation and reductions in consumption of mobile money services, as well as potential declines in future investment, bring into question the economic efficiency rationale for taxes of this nature. Specifically, it can be questioned whether the tax will inhibit the development of the digital economy and attainment of national development goals as set out in these plans.

5.2.3 Impact on mobile money businesses

Mobile money taxes appear to have a detrimental impact on the business models, profitability, and future investment plans of those who offer the service. In Uganda, P2P values initially dropped by a half before the tax was partially reversed. It took another year for values to recover but as higher-tiered transaction values never migrated back to mobile money, value per user remains depressed, costing the country net taxation revenue.[177] In Côte d'Ivoire, the operators' initial intention to pass on the cost of the tax to users was thwarted by the government. The subsequent hit to profitability has seen them reduce operating expenses and future investment plans.[178] In Congo, an erratic performance has been witnessed in the months following the introduction of the tax. Declining cash flows mean that providers have to turn to more expensive financial markets if they need to raise

171 Lopez, M. (2019). Harnessing the Power of Mobile Money to Achieve the Sustainable Development Goals. GSMA.
172 UNCDF (2018). Understanding the Consequences of Mobile Money Taxes in Uganda.
173 Interviews conducted with humanitarian organisations for this study, February-March 2020.
174 IFAD (2019). Remittances, investments and the Sustainable Development Goals.
175 Malawi's Growth and Development Strategy identified access to Financial Services as a development goal and increasing mobile money penetration and utilisation as a strategy for attaining this. In Uganda, their upcoming National Development Plan places the importance of ICT and digital economy as a key element of their development strategy. Côte d'Ivoire's National Development Plan specifically mentions accelerating the deployment of mobile money as a means of formalising the informal economic sector. Congo-Brazzaville, meanwhile, is developing a specific Digital Strategy called Vision Congo Digital 2025.
176 Lopez, M. (2019). Harnessing the Power of Mobile Money to Achieve the Sustainable Development Goals. GSMA.
177 Independent (2020). Rich people prefer agency banking to mobile money – URA.
178 MMP interviews Abidjan, 10–14 February 2020.

capital.[179] One impact of this declining profitability is the reduction of both the incentive for investment and the expansion plans of the MMPs. As mobile money has been instrumental in driving financial inclusion in all four countries, this suggests that national financial inclusion targets will be hit by a double blow of reduced demand for mobile money services and decreased availability of DFS infrastructure.

Mobile money transaction taxes – part of a well-designed tax system?

The design of mobile money taxation policy appears to be the antithesis of a well-designed tax system.

Inequity: Mobile money taxes as currently structured create inequity in the tax system. As the tax is mostly borne by the poor and users of the services are subject to additional taxation (unlike bank or cash transactions), the principles of both horizontal and vertical equity in the tax system are contravened.

Uncertainty: As we have seen in all four case study countries, taxes proposed on mobile money transactions have been marked by frequent and unpredictable changes to the tax regime: mobile money transaction taxes have been imposed, amended, or withdrawn. Uncertainty and lack of transparency over taxation systems can have a direct impact on the operations of the tax authority, increasing enforcement costs, as well as discouraging investment.

Inconvenience: The administration of mobile money transaction taxes creates an inconvenience for MMPs who must calculate and collect the tax on the revenue authority's behalf. There is an additional inconvenience for users of the service for whom remote digital transactions become more expensive or out of reach if they revert back to cash.

Inefficiency: Badly designed mobile money taxes have been shown to have a distortionary impact on demand for mobile money services. This in turn has had negative impacts on overall tax takes, as well as impacting the attainment of national economic and development goals.

179 Pedros, X. and Sivakumaran, M. (2019). Rethinking mobile taxation to improve connectivity. GSMA.

6 Conclusion

The last few years has seen the emergence of mobile money sector-specific taxation across SSA. By conducting research in four countries where mobile money transaction taxes have been proposed, this paper has sought to understand the motivating reasons for the taxation and also to identify some of the unintended consequences.

Many of the motivating reasons are common across developing countries, not just those covered by this study. The pervasiveness of informality across the region and resultant low tax-to-GDP ratios mean that governments need to find innovative means to widen the tax base and plug budget spending deficits. Mobile money offers a convenient tax window into the informal sector which has placed it within the crosshairs of tax authorities.

Yet there are structural weaknesses within these environments that lead to badly designed taxes. At the policy level, a lack of capacity within research units and also the lack of national policy frameworks to guide them means that the full impact of mobile money taxes across the whole of the tax system is not properly assessed. Administrative weakness is exacerbated by the lack of specialist units who understand the nuances of emerging sectors such as mobile money or even the broader digital economy. Political economy factors are ever present too, which leads to these taxes being implemented without established processes being followed.

The result is badly designed taxes which, although they may seem attractive at first sight, fail to consider the impact on the broader economy and society. Where we have seen these taxes implemented, mobile money transaction values have contracted and their growth trajectory reduced with negative implications for wider CIT and VAT tax takes. Many mobile money users belong to marginalised societal groups and the negative impact on financial inclusion and broader development goals is significant. This user profile, and

the fact that these taxes don't extend to the banking sector, strongly suggests that they are regressive in nature, undermining the fundamental concept of tax equity. At a national level, development plans that envisage an economy with ICT and digital at its centre risk being undermined if the payment system that enables that vision is depleted.

There are measures that can be taken to address these shortcomings. African tax policy units, which tend to be under-resourced relative to tax administrations,[180] could be staffed with specialists who understand the nuances and complexities of emerging mobile money and digital economy sectors. At the same time, developing countries need to have a louder voice at international fora, such as the OECD, that look to reform global taxation policy for the digital economy to ensure that their needs are met.[181] At an administrative level, priority can be given to targeting taxable income within both the formal and informal sectors rather than a blanket targeting of informality. Mobile money can play a role here as it gives tax authorities the means to enable P2G payments once these activities are identified, and alleviate inefficiencies and opportunities for corruption in tax collection.

At a policy level, there are lessons to learn regarding appropriate approaches to taxation of the sector. If badly designed taxes have a negative impact on the overall tax take, conversely removing them could have a broader positive economic impact as well as assist with the attainment of wider development goals. During the current COVID-19 pandemic, removing these taxes, even in the short to medium term, is one of the few measures tax authorities have in their fiscal arsenal to help alleviate some of the hardship that will result from economic shutdown. In the longer term, if these transaction taxes are to remain, extending them to equivalent banking transactions would at least rebalance perceptions of unfairness and inequity. More equitable still would be to consider measures that would enable authorities to participate in the growth of the sector and improve revenues, both their own and those of the sector, without negatively impacting the users of the service. In Malawi, that approach has been to tax interest on the mobile money trust account before distributing to users.

Finally, as much as anything this paper set out to give an introduction of the intersection of DFS, taxation and development, given the recent emergence of the subject and the relative dearth of literature on it. However, it is by no means conclusive. The broader DFS, taxation and development communities could benefit from building upon this to advance research to help developing counties effectively tax emerging sectors such as mobile money without unnecessarily hindering the sector's growth and negatively impacting the marginalised groups that use it. This will include undertaking more research from a quantitative perspective, which will require availability of both tax and mobile money user data, as well as more in-depth field surveying for primary-data collection in order to capture the true impact on marginalised groups. A suggested list of future research areas is included in the box overleaf.

180 Moore, M (in press). Metrics, Mysteries and Digital Technologies: What Do We Know About the Performance of African Tax Administrations?
181 Rukundo, S. (2020). Addressing the Challenges of Taxation of the Digital Economy: Lessons for African Countries. ICTD.

Suggested future research topics:

- Quantitative assessment of the regressive nature of mobile money taxation
- Econometric assessment of the broader economic impact of mobile money taxation
- What is the demand elasticity for mobile money by income?
- What is the demand elasticity for mobile money by user type?
- What is the consumer substitution behaviour for mobile money? How might this impact development goals?
- What is the supply elasticity of mobile money taxation with respect to prices?
- What is the impact of mobile money taxation on the short- and medium-term demand for mobile money services?
- What is the impact of mobile money taxes on overall tax collections?
- How much has mobile money cut transaction costs for the poor?
- What has been the effect of mobile money taxes on central bank measurements of money supply?
- Use of mobile money in the informal sector
- Income profile of users of mobile money
- Role of mobile money in formalising the informal economy
- Role of mobile money in DRM
- Role of digital identity in enabling tax collection in developing countries
- Role of digital identity in mobile money-enabled cash disbursements
- Role of earmarking in engaging popular support for DFS taxation
- Role of tax bargaining in mobile money taxation reform
- Political economy of mobile money taxation
- What are the fiscal measures enabled by mobile money that can be taken to alleviate the impact of national emergencies such as the current COVID-19 pandemic?
- Understanding the full taxation burden for mobile money agents
- How can developing countries effectively tax the digital economy in the absence of permanent establishment?
- Can tax policy be effective in incentivising the building of cash-in, cash-out agent infrastructure in rural areas in sub-Saharan Africa?
- Can tax policy be effective in incentivising the adoption of merchant payments in sub-Saharan Africa?
- Does badly designed mobile money taxes lead to ineffective policy communication?

Appendix 1
Key stakeholders interviewed

Country	Stakeholder	Meeting Date
Uganda	Uganda Revenue Authority Commissioner Domestic Tax Deputy Commissioner for Large Taxpayers Office Tax Policy Department of Ministry of Finance	6/02/2020 6/02/2020 5/02/2020
	MTN Uganda.	4/02/2020 & 7/02/2020
	Airtel Uganda	6/02/2020
	DFID DRUM Project	6/02/2020
	ODI TaxDev programme	6/02/2020
	World Bank	7/04/2020
	FSD Uganda	4/02/2020
	CSBAG	4/02/2020
	UNCDF	4/02/2020
	UNHCR	5/02/2020
Côte d'Ivoire	Ministry of Finance	11/02/2020
	Direction Générale des Impôts	14/02/2020
	Orange	24/02/2020
	MTN	10/02/2020
	Consultative Group to Assist the Poor (CGAP)	13/02/2020
	Consumers association/ civil society org	13/02/2020
	World Bank	13/02/2020
	Financial inclusion org/expert	12/02/2020
	Banking industry representative	12/02/2020
Congo Brazzaville	Ministere des Finances	19/02/2020
	Ministry of Telecommunication	20/02/2020
	Post and Electronic Communication Regulatory Authority – ARPCE	20/02/2020
	Airtel	18/02/2020
	MTN	17/02/2020
	Consumers association/ civil society organisation	17/02/2020
Malawi	Malawi Revenue Authority	09/03/2020
	Ministry of Finance and Economic Planning and Development	06/03/2020
	Airtel	25/02/2020
	TMN	26/02/2020

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