Taxes holding back Africa's mobile industry

If governments removed taxes that treat mobile phones and services as luxury goods, the mobile industry would generate even more than US$71 billion in tax revenues in sub-Saharan Africa between 2000 and 2012. This is according to research commissioned by the GSM Association (GSMA).

The research by Frontier Economics found that uptake of mobile services in the region is being held back by mobile-specific taxes on handsets, airtime and telecom equipment, which increase costs for consumers and deter investment by mobile operators.

If all mobile specific-taxes in sub-Saharan Africa had been removed in 2007, an additional 43 million people in the region would be connected by 2012, leading to an increase in overall tax receipts of US$930 million between 2007 and 2012, according to the research.

“Curbing economic growth”

"Mobile consumers in Africa face some of the highest tax rates in the world which hit poorer members of society hardest," says Gabriel Solomon, SVP at the GSMA, a global trade body for the mobile industry. "These taxes are holding back mobile adoption in Africa, curbing economic growth and, ironically, are actually lowering the total revenues collected by governments."

The research found that the mobile industry in sub-Saharan Africa employs more than 3.5 million people directly or indirectly and, in 2006, contributed an average of 4% to African countries' GDP. The GSMA announced in October 2007 that mobile operators plan to invest approximately US$50 billion in sub-Saharan Africa over the next five years. The report estimates that every dollar the mobile industry invests in Africa generates an average of US80 cents in taxes. Frontier Economics calculates that the mobile sector accounts for 7% of total government revenues in the region.

"We do not believe that taxation should be designed on the basis of short-term considerations - it should be designed on the basis of achieving the best long-term economic interests for the society and in a way that accelerates the extension of services to the poor," adds Mohsen A Khalil, global information and communication technologies director at the World Bank.

"The indirect benefits to the economy of having affordable access to telecommunications services far outweigh any short-term benefit to the budget."

Key findings

For the period 2000 - 2012, sub-Saharan governments will receive US$71 billion in tax revenues from the mobile industry.

This amount could be greater if mobile-ownership specific taxes, ie all non-VAT taxes relating to handsets, subscription and connections, were removed. For example, for the five year period 2007-2012 it is estimated that:

- Tax receipts would increase by US$930 million, rising from US$28.9 billion to US$29.9 billion, if the governments of Nigeria, Kenya, Tanzania, Cameroon, Ghana, Zambia, DRC, Republic of Congo, Gabon, Madagascar, Burkina Faso, Chad and Malawi removed all non-VAT mobile ownership taxes in 2007;

- By 2012, Chad's tax receipts would be approximately 30% higher, Ghana's 20%, Cameroon and Nigeria's 15%, Republic of Congo's 11%, Malawi's 8% and Zambia's 7%;

- The average cost of owning and using a mobile phone would fall substantially, in Republic of Congo by -25%, in Cameroon by -24%, in Chad by -22%, in Malawi by -18%, in DRC by -16% and in Nigeria by -14%; and

- This would result in an additional 43.4 million mobile subscribers in those countries, increasing the 2012 projected weighted average penetration rate from 33% to 41%

For the 10 year period 2007 - 2017 it is estimated that:

- In Ghana, if all non-VAT taxes were removed in 2007, by 2017 tax revenues would be 38% above the base case and penetration would be 28% higher; &
- In Cameroon, if non-VAT taxes were removed on handsets only in 2007, by 2017 tax revenues would be 24% above the base case and penetration would be 43% higher.

Luxury taxes

In sub-Saharan Africa, eight governments levy luxury taxes on air time, 24 governments levy luxury taxes on handsets and more than 25 governments levy luxury taxes on equipment.

In 2006, mobile tax contributions are broken down into the following categories:

- 35% net VAT on services and handsets;
- 34% corporate and employment taxes;
- 20% import duties on handsets and equipment; and
- 11% other mobile specific consumption taxes such as air time tax.

If non-VAT taxes removed, governments in the majority of countries would receive incrementally higher tax returns as industry growth boosts total VAT receipts along with corporate and employment tax receipts.

The average ratio of tax payments to mobile operator revenues is above 30%. The five countries with the highest ratios are Zambia 53%, Madagascar 45%, Tanzania 40%, Gabon 40% and Cameroon 39%.

The average mobile tax contribution to government total national tax revenue is 7%. The five countries with the highest contributions are Chad 11%, Republic of Congo 10%, Gabon 9%, Tanzania 8% and Cameroon 8%.

The mobile industry is a substantial generator of GDP, contributing around 4% on average in 2006. That year, the mobile industry contributed 5.3% GDP in Ghana, 4.3% GDP in South Africa, 4.1% GDP in Niger, 4% GDP in Nigeria, 4% GDP in Rwanda, 3.8% GDP in Uganda, 3.5% GDP in Tanzania and 3.4% GDP in Kenya.

For the period 2000 - 2012, GSMA estimate that between US$85 billion to US$98 billion will be invested by the mobile industry in sub-Saharan Africa. US$13 billion more would be invested between 2008 - 2012 if government in sub-Saharan

Africa lowered regulatory risk and removed mobile-specific taxes. (For example, in the report "Regulation and the Digital Divide", PwC estimated that best practice regulatory conditions in sub-Saharan Africa would increase investment by 25% www.gsmworld.com/regulation).

Employed

In 2007, the mobile industry employed more than 3.5 million people directly or indirectly in sub-Saharan Africa.

In 2007, mobile networks covered more than 60% of the population in sub-Saharan Africa, providing around 434 million people with access. Of those covered, 162 million were connected, implying a 37% penetration rate among those covered by mobile networks in sub-Saharan Africa.

More information on the research is available at www.gsmworld.com/africatax.

• The GSM Association (GSMA) is the global trade association representing more than 750 GSM mobile phone operators across 218 countries and territories of the world. The association's members represent more than three billion GSM and 3GSM connections - over 86% of the world's mobile phone connections. In addition, more than 200 manufacturers and suppliers support the Association's initiatives as key partners.