

Reducing Tax Costs on Connectivity

"Today, Kenya is known for being one of the most forward-thinking countries in Sub-Saharan Africa from a digital standpoint. This reputation was made possible by several government measures that enhanced access and affordability to telecommunications services." However, prior to these measures, Kenyans were paying high taxes for mobile services. For example, "in 2009 Kenyans were paying 16% VAT for mobile devices and a staggering total of 26% in VAT and airtime taxes for mobile services. This rendered mobile a luxury for most and low mobile teledensity masked the great demand for mobile services that was present by this time." (A4AI, 2022).

Quick facts

Barriers addressed



Prerequisites

[Phone/SIM Ownership >](#)

[Internet/Mobile connectivity >](#)



Cost

[Cost of using DFS \(incl. transaction cost\) >](#)

[Cost of mobile/internet >](#)

Segment focus

1 2 3 4

Geography

[Kenya >](#)

Sources

[GSMA, 2011](#); [A4AI, 2022](#).

Customer Journey Relevance



Key stakeholders involved

Government of Kenya
Kenyan MNOs

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Key activities

Recognizing that 1) handset prices were harming the MNO sector, and 2) "on its own, competition was no longer sufficient to expand internet access, the Kenyan government exempted mobile handsets from VAT in June 2009 just as the internet superhighway arrived." (A4AI, 2022).

Outcomes/results

"Mobile teledensity grew to reach 70% of the population while the number of mobile devices purchased increased by over 200%. As the customer base for mobile services grew, a price war saw that the three Kenyan MNOs lower their prices substantially to attract and maintain customers, that citizens enjoyed more affordable services, and that government revenues from the sector even grew." (A4AI, 2022).

From 2006 to 2011, "the contribution of mobile telephony to the Kenyan economy has grown by almost 250%, while mobile-related employment has increased by 67%. As a result of improved coverage, quality of service, and affordability, the productivity impact of mobile telephony on the Kenyan economy is estimated to have increased by a similar scale." (GSMA, 2011).

Key enabling environment factors for the intervention

"Early work by the Government of Kenya involved the development of its ICT policy in 2006, which was quickly followed by the launch of the Vision 2030 plan in 2008. Each of these documents place science, technology, and innovation at the forefront of efforts to promote socio-economic development in the country." (A4AI, 2022).

Potential for scale/replicability

Removing the tax on handsets was implemented on a national scale. Other countries can adopt a similar regulation if they have similar market conditions to Kenya and seek to boost mobile phone ownership and the internet penetration rate.

Challenges encountered during the program

"Mobile consumers in Kenya are still impacted by a specific tax on airtime. This tax is levied at 10% and is additional to VAT. This is amongst the highest in Africa, and contributes to raise consumer tax as a proportion of the total cost of mobile ownership in Kenya to 21%, well over both the African and the global average." GSMA, 2011).

Exemplars

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Recommendations from the research

Researchers recommend to reduce the tax on airtime to reduce the total cost that Kenyans spend on their mobile devices each year and to make mobile phones / mobile use more affordable.