The Financial Implications of the Imposition of E-Levy on Mobile Money in Ghana

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Abstract: The proliferation of mobile money services within the Sub-Saharan region has been of great benefit to most economies as it has helped in bringing financial inclusion, especially to the less privileged. However, most of these economies for instance Kenya, Tanzania, Uganda, etc. have implemented taxes on their mobile money services which have in some way affected the service. Just like these economies, the Ghanaian government decided to implement an electronic levy (E-Levy) on mobile money transactions as a way to increase revenue to aid in solving its pending financial issues. This created an uproar in the country as most people were against its implementation. The citizens were of the view that there were better alternatives than the imposition of a new tax.

This research was conducted to identify the financial implications that implementing this electronic levy would have on the economy of Ghana. In conducting the research, a questionnaire-based approach was used to find out from Ghanaians the kind of effects the implementation of the tax has had on their day-to-day activities. Most respondents confirmed that the implementation of the tax has been more of a bane than a benefit to them as individuals and the economy as a whole.

Even though the implementation of this tax is still in its early stages, this research concluded that even though the electronic levy can be a great avenue to increase revenue, its implementation was not properly planned and executed as it was implemented at the wrong time where the economy is already in shambles with inflation rates soaring over the roofs. The government should therefore revise their plan for implementation and re-strategize and inculcate the views of the citizens so that they can feel part of the process. This can bring harmony between the government and the citizens who are the taxpayers.

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JEL Classification: H23, G28, O33, E62, O55

1 Introduction

Mobile money, which is a mobile payment system, was first launched in 2001 in the Philippines and Kenya in 2007 by Safaricom which was called M-PESA (Porteous, D., 2006; Jack, W., & Suri, T., 2011; Donovan, K., 2012). Allen et al, (2014) explained that mobile money operates on accounts owned by mobile service providers and used by the subscribers of these mobile networks. It is a sort of financial banking system in which transactions are mainly made via mobile phones. Aker and Mbiti (2010) described that the mobile money service is a different concept compared to the regular mobile banking system implemented by banks where their clients can access and perform bank-related transactions on their mobile phones. This system permits subscribers or customers to perform financial transactions through their mobile service providers without necessarily having a bank account. The process of converting monies received electronically through the mobile money interphase into cash is usually done through retail agents who are widely spread across making it easily accessible. The transactions also take place in real time using SMS as a verification medium. This makes it so easy and convenient as compared to the banking system. Currently, approximately 40 African countries use the mobile money system as a medium of financial transactions.

Ghana is one of the consumer countries of the mobile money service and has seen a great improvement in the finances of its economy since the adoption of this service in the year 2009. Before the introduction of the E-levy, taxes were not imposed on mobile money transactions. Hence, making it the cheapest way for transferring money and conducting business (Mensah, K., & Tetteh, E., 2023; Osei-Assibey, E., 2022; Owusu, A., 2023). On 29th March 2022, Ghana's

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legislative arm of government (parliament) passed an Electronic Levy (E-Levy) bill to tax mobile money transactions aside from the service fees charged by the service providers.

Amankwah (2022) writes that the introduction of the E-Levy in 2022 imposes a 1.5% tax on all financial transactions and has raised concerns regarding the possible burden on low-income users and the overall impact on mobile money adoption and usage. The niched discussion of E-levy's intention and possible benefits lacks any critical analysis that will determine the pecuniary effects on mobile money users and, at large, Ghana's economy.

Indeed, most literature reviews focus on the place of mobile money in enhancing financial inclusion. However, few scholars have conducted studies on how E-levy has influenced the attitudes of mobile money users in terms of frequency and value of transactions and alternative means of making those payments. This paper looks at the implication of the application of this levy on mobile money transactions and general financial stability in Ghana.

2 Methods

This framework shows the structure in which scientific research is carried out. It aids in controlling factors that could interfere with the validity of the findings. Research Design helps the researcher plan and implement the study in a way that would help the researcher obtain the intended results. This increases the chance of obtaining information that could be associated with the real situation. The two major patterns that are followed when conducting research are positivism, where the research is conducted based on objectivity and deductive logic, and interpretivism, where the 'human factor' is the main focus of the research (Collis and Hussey, 2014; Jennings G. R., 2005). Positivism is free from social assumptions where bias and sentiments are set aside but rather focuses on obtaining information through empirical facts. For this research, the interpretivism paradigm is used as its focus is on social actors (humans) and how they react to and interpret various circumstances (Saunders, Lewis, & Thornhill, 2009; Creswell, J. W., & Poth, C. N., 2021).

As the interpretivism paradigm is opted for, the suitable research approach is the qualitative method which involves using for instance questionnaires or unstructured interviews to conduct the research. This method best helps in investigating Ghanaians' views on the implementation of the E-Levy and the effect it might have on mobile money transactions.

Determining the population is essential for the research as it provides the frame within which the sample is drawn. This study focused on mobile money subscribers and users in Ghana. According to Bank of Ghana reports on research conducted in 2021, there were over 40 mil documented mobile money accounts and 17.5 million active accounts, and this represents our population for this research. As this research is a short-life exercise and the time in which to probe details is however limited, only a fraction of the population was dealt with. This is termed sampling.

Sample size refers to a proportion of the population selected for the investigation instead of dealing with all units of the population. For this research, purposive sampling was adopted to obtain the necessary information needed to conduct a meaningful analysis. With purposive sampling, the researcher uses his or her discretion in the selection of a sample (Greener and Martelli, 2015; Mohajan, H.K., 2018). As the size of the population for this research is so great, purposive sampling is most suitable as it allows very small samples whilst conducting qualitative research.

Respondents were selected based on the following criteria: (1) active mobile money users, (2) individuals with a history of frequent transactions via mobile money platforms, and (3) representation across different socio-economic backgrounds. This method made it possible for a sample that is reasonably heterogeneous and representative of the population that is directly impacted by the E-Levy.

As a result, instructions were detailed and a notice was restated asking respondents to provide the forwarding questionnaire only to those within the selection criteria to avoid interference and distortion on the sampling methods due to the questionnaire format. Furthermore, the responses were controlled to ensure that there were no considerably significant changes of a certain demographic representation which would undermine the effectiveness of the purposive sampling approach.

For this research, a sample size of 500 people was considered for this evaluation. This sample size was a result of time and resource constraints but vividly outlines the objective that this paper seeks to achieve.

Concerning this research, data was gathered from primary and secondary sources. Under primary data sources, a questionnaire was the main tool used to acquire the majority of the information. Secondary data collections on the financial implications of the implementation of E-Levy on mobile money in Ghana were extracted from selected reports and journals on the internet of how E-Levy impositions on mobile money in some countries in the Sub-Sahara Region have impacted their economies. Further information was also sought from books to throw more light on the literature on the issue at hand.

The instrument used in acquiring data for the research was a questionnaire created on Google Form which was distributed via electronic means mainly through WhatsApp. This research instrument was the most suitable for data collection as a result of the number and varying location of the sample size. According to Saunders, Lewis, and Thornhill (2009), questionnaires are suitable instruments for qualitative research. The questionnaire comprised of closed-ended questions with a range of answers to select from and this was presented to mobile money users to obtain their sentiments and actions pre and post-E-Levy implementation. The components in the literature review served as a guideline in composing the questionnaire.

Recipients of the questionnaire were encouraged to share or forward it to other mobile money users. This was to ensure that the questionnaire reached different sects of people in different geographical areas in the country but the downside to it is that it doesn't guarantee an even distribution across the regions. It took twenty-one days to gather the responses to the questionnaire. In all, a total number of 576 responses were received on the twenty-first day of sending out the questionnaire which ended up exceeding the estimated sample size.

As stated above, the data was collected utilizing sending a ten close-ended question form via WhatsApp to participants and this was done with the aid of Google Forms. The responses derived from the Google Form were imported into an Excel sheet to vividly analyze the results. The data was arranged into categories and analyzed using mainly the narrative approach. Some quantitative tools such as percentages were however used in the analysis to provide clarity. Findings made were also illustrated by the use of tables and charts.

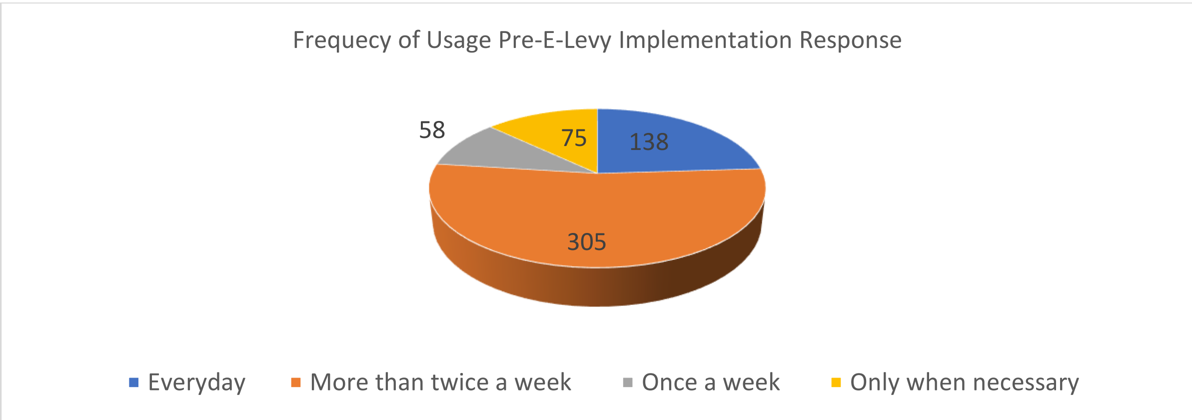
3 Research Results

This aspect of the research gives a rich explanation of the primary data collected. It examines the responses to the questionnaires submitted by mobile money users for their feedback or input and the results of the research. Thence, conclusions from the study have been well extrapolated.

3.1 Summary of Analysis

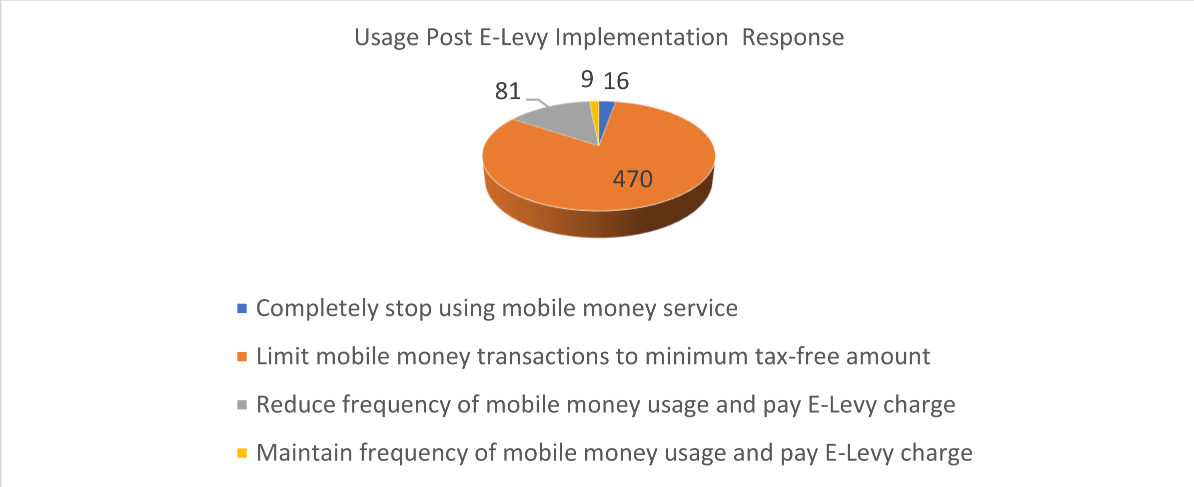
The chart below depicts the responses from the 576 respondents, thus Pre-E-levy implementation and Post-E-levy implementation responses.

Figure 1



Source: Own processing

Figure 2



Source: Own processing

3.1.1 Revenue Generation whilst Protecting the Vulnerable

This study has shed some light on how the imposition of this may help to get more revenue to alleviate certain burdens faced by the country today. As the 2022 budget presentation disclosed that the country is finding it difficult to access external funding due to its increasing debt, the objective of the government to increase revenue can in some way help project a reduction in deficit which can be a signal of lower fiscal risk (Klutse, 2022). Even though there are concerns about the levy hindering financial inclusion, the government has put in place measures to ensure that low-income earners are not highly affected by this levy. The government's method inculcated to protect the vulnerable was to place a waiver of tax on transactions below one hundred Ghana Cedis in a day. In so doing, the government seeks to kill two birds with one stone: broadening its tax base to mobilize more revenue without resorting especially hurting those least able to afford it.

3.1.2 Return to the cash mode

A key benefit of the mobile money service was in enabling financial inclusion through a mode that enabled even an illiterate poor and unbanked person to undertake basic transactions. The imposition of the E-Levy may in a way rob some of the citizens, especially the poor and those in rural areas the opportunity to enjoy this benefit. As the questionnaire was distributed through WhatsApp and therefore makes it difficult to trace the geographical jurisdiction of all the respondents, it is difficult to tell if some respondents may be living in rural areas. However, as some respondents stated they are unemployed, it can be assumed they receive remittances in other to survive. Those in rural areas and most unemployed who usually receive remittances through the mobile money service are mainly affected. They have to go back to receiving funds through other people or transport drivers which increases the risk of receiving their funds all in the name of trying to dodge paying the imposed levy. Some people have reverted to the cash system which has its downsides. This may increase the possibility of crimes as carrying cash around attracts thieves which puts people at risk. Reverting to the cash system leads the unbanked poor into financial exclusion which hinders savings and the ability to obtain credit. They will return to the system of saving their funds under their mattresses or investing them in jewelry, livestock, etc. which does not always appreciate in value. Also, reverting to the cash system leaves no trail or evidence of financial transactions which makes it nearly impossible to evaluate one's credit score or rating. In this sense, it is evident that the less privileged are one of those groups who are affected by this imposition which widens the gap between the rich and the poor in society.

3.1.3 Effect on Businesses and Cost of Living

All members contacted for the research confirmed that the implementation of the E-levy has had a negative effect on business transactions and this in the long run impedes the development of the financial system in Ghana. It was deduced from the research conducted that the majority of people performed financial transactions through the mobile money service regularly before the imposition of the tax. This drastically reduced after the imposition which implies that people who rely on the service for regular purchases, as well as payment for some services, have declined.

The implementation of the E-levy has also acted as a factor in the increasing cost of living that people are facing in the country. Although other factors such as COVID as well as the Ukraine-Russia war have spiked the cost of living to increase in most economies, the imposition of the E-levy is not making the situation any better for Ghanaians. This is because the wages of most Ghanaians remain the same while their expenses increase assignable to the price of goods and services.

3.1.4 Loss of Jobs for Mobile Money Agents

People who work as mobile money agents usually make their commissions through transactions made. Thus, the higher the value and volume of transactions that they carry out, the higher they earn. Per the evaluation of the research carried out, some people have reduced the frequency of transactions they carry out using the mobile money service to only when they feel there is no better alternative. The majority of people have also taken advantage of the tax-free window by reducing their transaction values to less than one hundred Ghana cedis to avoid payment of tax.

This reduction in transaction value and volumes has gravely affected the jobs of most of these agents. Research by the Bank of Ghana (May 2022) showed that about four thousand active mobile money agents were lost in April as well as a substantial drop in the value of transactions by 2.8 billion Ghana cedis when compared to the previous month. This was a result of lots of people emptying their mobile money accounts due to the panic and the uncertainties they had regarding the rollout of the electronic levy the month after. The loss of the source of livelihood for these over four thousand agents would have a rippling effect on their families in the short run and the economy as a whole in the long run.

3.1.5 Negative Effects on Fintech and E-commerce Industries

As stated earlier the imposition of the electronic levy negatively affects businesses, the most affected industries are FinTech and E-commerce industries. The Executive Director for the E-Commerce Association of Ghana, Paul Asinor explained that the tax has already negatively impacted these industries even though the implementation of the tax is still in its early stages. The E-levy has slowed down the output and continuous development of the E-Commerce sector as most payments are made through the mobile money service or the platforms provided by the FinTech companies. He stated that the major aim of the government to raise revenue would rather backfire as most people will revert to the cash system instead of using these online platforms which would easily enable the government to trace transactions to collect existing taxes.

Evidence on the Ghana Stock Exchange showed that the leading mobile money service provider in Ghana, MTN sustained a drop in its share price by 18.9 percent immediately after the implementation of the tax in May. This drop in share price began immediately after the announcement of the introduction of the electronic tax in November 2021. Following the trend from the announcement till May, they have lost a total of 29 percent in their stock value. The Ghana Stock Exchange Composite Index (GSE-CI) also showed that the entire industry's performance declined as of the third week of May by 8.16 percent.

4 Conclusion

To summarize all the conclusions deduced from conducting this research, it can be said that even though the E-Levy can in a way raise revenue for the government to finance its social spending, this tax was not implemented at the right time and in the right way. Considering the negative effect COVID-19 has had on the economy which many individuals and businesses are yet to recover from, the implementation of a new tax is going to be rebelled against. In May, Ghana recorded the highest level of inflation that the country has experienced in the last eighteen years.

Ghana Statistical Service stated that the 27.6 percent inflation rate has led to an approximate increase in food prices by 30 percent. As if this struggle to keep up their livelihoods is not enough, the government rolls out this tax in the same month when inflation is at its highest. This has caused most Ghanaians to be agitated and unwilling to accept this implementation.

Again, the mid-year budget review made by the government stated that they have reduced their target for the revenue intended to be generated from the E-levy for the year from 4.9 billion Ghana cedis to 611 million Ghana cedis. It has been just three months from the implementation of the tax from May 2022 and the government has already seen the evidence that it is performing woefully, hence the revision of their target. It can be deduced that most Ghanaians have found alternative methods of undertaking financial transactions which is evident in the volumes and values of transactions post the tax implementation.

Furthermore, the reactions of most Ghanaians after the announcement and the implementation of the levy show that, the government did a poor job concerning stakeholder engagement. The government did not make time to communicate properly to the relevant stakeholders in society such as heads of trade unions and other association heads to try and explain the myths and misunderstandings that have been conveyed to the public regarding the levy. It can be deduced that; the panic withdrawals were a result of individuals not being aware of the tax-free exemptions that they could enjoy if they transacted below one hundred Ghana cedis. Also, most Ghanaians feel the current government is inconsiderate of their plights and went ahead to implement the tax despite their pleas and demonstrations. Hence, they will do whatsoever to sabotage the plan to ensure it fails.

It can therefore be concluded that even though the sample is not big and widely spread enough to show a representation of the minds of all Ghanaians, based on the evidence from this research along with occurrences in the country, the tax has created and may further create more problems as juxtaposed to the benefits it turns to bring. Vulnerable groups and the minority in the society, whom the invention of mobile money was intended to help are those who are going to suffer most from the imposition of this tax. It is likely going to force them back into a period of financial exclusion, a situation which was fixed by the introduction of the mobile money service.

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