



**MEMORANDUM BY M-KOPA KENYA LIMITED TO THE
NATIONAL ASSEMBLY DEPARTMENTAL COMMITTEE ON
FINANCE AND NATIONAL PLANNING, IN RELATION TO
THE FINANCE BILL, 2025.**



Executive Summary

M-KOPA Kenya Limited submits this Memorandum in response to the *“Invitation to Submit Memoranda on the Finance Bill, 2025 (National Assembly Bills No. 19 of 2025)”* by the Clerk of the National Assembly, dated 13th May, 2025, and pursuant to Article 118 (1)(b) of the Constitution of Kenya 2010, and Standing Order 127(3) of the National Assembly Standing Orders.

This Memorandum, which is addressed to the National Assembly Departmental Committee on Finance and National Planning (the “Committee”), contains M-KOPA’s proposals in relation to certain revenue-raising measures proposed in the Finance Bill, 2025. In specific, we wish to address the provisions to amend the Value Added Tax Act making the supply of locally assembled and manufactured mobile phones exempt from VAT zero-rated.

It is M-KOPA’s considered position that exempting the supply of locally assembled mobile phones from VAT, *without* exempting inputs or raw materials, will increase the cost of local assembly, thus undermining the purpose of assembling the phones locally, namely, to make mobile phones more affordable for most Kenyans. If not addressed, this will exclude millions of our citizens, especially young people, from the digital economy. It is therefore our position that exempting only finished goods, while taxing inputs, effectively becomes a hidden tax on production. It will raise prices and undermine the very goal of affordability. To this end, this memorandum cites examples of countries that have deployed favourable fiscal policies to promote uptake of digital services that include smartphones, as well as highlighting those that have leveraged tax measures to promote their manufacturing sectors through different approaches.

In making our proposals, we do so mindful of the Government’s fiscal goals under the National Tax Policy including rationalising tax expenditure. We, however, urge the Committee to weigh these goals against the need to safeguard gains already achieved in promoting investment in local assembly of mobile phones by ensuring a predictable tax regime that does not burden businesses and the consumer with additional costs. Ensuring a predictable and enabling tax regime is critical to sustaining this momentum and avoiding unintended economic setbacks. If the proposed VAT reforms are not adopted, we anticipate a significant reversal in these gains, with immediate effects in a reduction of the factory workforce from 450 to 300 people and a decline in the sales force from 14,500 to close to 10,000 sales agents and a reductions over the next two years in tax remittances by approximately 30% Such outcomes would not only burden both business and consumer with additional costs, but also risk undermining broader national priorities around industrialisation, job creation and digital inclusion.

We believe that the foregoing proposals, if adopted by the National Assembly when considering the Finance Bill 2025, will have significant positive benefits for Kenya’s economy and its citizens, and contribute to the realization of the Government of Kenya’s (GoK) development agenda through digital inclusion and growth of the local manufacturing sector.

M-KOPA remains committed to supporting Kenya’s economic and social development. We have been and continue to create livelihood and job opportunities, especially for the unbanked and vulnerable population, by providing access to affordable and quality smartphones for the digital economy, electric mobility and solar energy solutions, as well as enabling financial inclusion through digital lending.





Positive Impact of M-KOPA

Essential products:

- Affordable smartphones & electric motorbikes
- Health insurance & cash loans

Reach & impact:

- Insurance & cash loans
- **6+ million** customers
- **4.5 million** customers in Kenya
- **16 million** lives impacted
- **\$1 billion+** in credit issued

Jobs & youth:

- **2,000** full-time staff (Kenya)
- **14,500+** active sales agents majority under age 35

Major investors:

BII, Sumitomo, Lightrock

Lenders:

US DFC, IFC, Standard Bank Group

Customer satisfaction:

80%+ say M-KOPA improved their lives (2024 independent survey)

1.0 Overview of the M-KOPA business



1.1 M-KOPA background

Founded in 2011, M-KOPA operates in Kenya, Uganda, Ghana, Nigeria and South Africa enhancing the lives of millions of underbanked customers by providing fair and flexible financial services that enable them to access life-enhancing assets, including smartphones, digital financial services, electric motorbikes, and more. We initially launched in Kenya providing off-grid households with access to solar home systems and have since connected millions of households in Sub-Saharan Africa to solar energy.

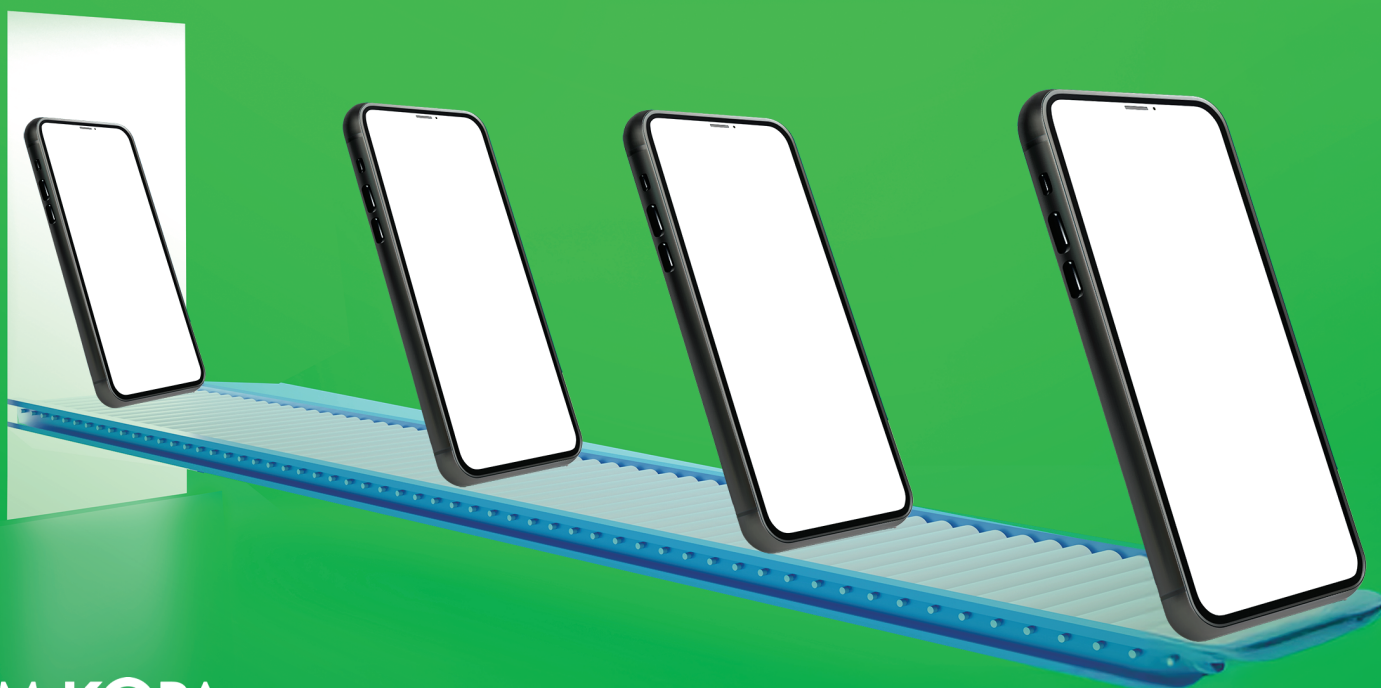
As M-KOPA has grown, so too has our impact – across products, markets, and lives touched. The snapshot below illustrates the scale of M-KOPA's contribution to economic empowerment, youth employment, financial inclusion, and customer wellbeing across the region.

M-KOPA continues to represent the excellence of local fintech companies, sending a positive signal regarding the growth potential of Kenya's economy. The company has been recognised in the Financial Times' Fastest Growing Companies (2022, 2023, 2024) and one of the Time 100 Most Influential Companies (2023 and 2024).



1.2 Positive impact of M-KOPA on Kenya's economy

- Produced over 2.5 million affordable smartphones at its local assembly plant since January 2023 with a target of 10 million by 2027.
- Financed over 4,000 e-motorbikes on Kenya's roads, increasing income for drivers and positively contributing to reducing carbon emissions.
- Disbursed over 1.5 million digital financial services products to existing customers.
- Has enabled more than 4.5 million Kenyans to own a smartphone, 40% of them women.
- Over 1 million households connected to renewable (solar) energy.
- Created 450 direct jobs at the local assembly plant in Nairobi.
- Employed over 14,500 sales agents.
- Contributed KES 15.8 billion in taxes.



1.3 Inclusive financial model to accelerate Kenya's socio-economic transformation

Aligning with the GoK's Bottom-Up Economic Transformation Agenda (BETA), M-KOPA is advancing tangible impact in key national priorities, particularly in the development of Micro, Small and Medium Enterprises (MSMEs), growth of the digital economy and access to healthcare. M-KOPA leverages its inclusive financial model to empower MSMEs by providing access to smartphones, tailored digital loans, and other customised financial services designed to fuel business growth. The company's nationwide footprint is reinforced by a network of over 14,500 active sales agents whose livelihoods have been built through the distribution of M-KOPA's products across the country.

By enabling access to affordable and quality smartphones, M-KOPA has empowered millions of Kenyans to participate in the digital economy thus expanding economic and livelihood opportunities through Internet-enabled phones. Through its "More than a Phone" initiative, M-KOPA is transforming smartphones into tools for financial inclusion by bundling them with loans, data bundles, and insurance, further enhancing connectivity and economic participation.

In healthcare sector, M-KOPA addresses the critical need for accessible medical cover by integrating health insurance into our financial product offerings. In doing so, we ensure that the underserved populations of Kenya can access and afford essential healthcare services thereby improving their health and wellbeing.

These efforts underline our commitment to Kenya's socio-economic transformation and tie in with the GoK's BETA programme.



M-KOPA

M-KOPA
2ND LIFE PHONE
Grade A

2.0 Local Smartphone Assembly In Kenya



2.1 Rising demand for smartphones

The demand for smartphones and other connected devices in Kenya has grown over the past few years. A recent report by the Communications Authority of Kenya reveals that as of September 2024, there were 68.1 million mobile phone devices connected to mobile networks representing a penetration rate of 131.5 per cent. Smartphones take the lead at 72.6 per cent or 37.4 million devices. (See report: <https://www.ca.go.ke/sites/default/files/2025-01/Sector%20Statistics%20Report%20Q1%202024-2025.pdf>)

In response to the rising demand and the need to empower more Kenyans to own a smartphone, the GoK in 2022 set in motion deliberate measures, starting with duty remissions followed by VAT Zero Rating for locally assembled devices. These measures were aimed at encouraging investors to set up local smartphone assembly plants, with a goal of enabling Kenyans to access at least 10 million quality, affordable smartphones by 2027. This was also in line with the GoK vision to digitally connect more Kenyans to public services through its E-Citizen platform.

2.2 Emergence of local mobile phone assembly

The local assembly of smartphones was therefore in response to the growing demand and was spurred by favourable government tax policies to encourage investments into the sector.

Consequently, in January 2023, M-KOPA Kenya Limited opened the first mobile assembly line in Kenya. Initially assembling Nokia phones through a strategic partnership with HMD Global, the official licensee of the Nokia brand.



This was followed by a second plant opened in October 2023 by East Africa Device Assembly Kenya Limited (EADAK) a joint venture of Jamii Telecommunications Limited and Safaricom. Since the launch of these two plants, the locally assembled smartphone market has grown significantly. Additionally, these investments in local manufacturing capacity have attracted investors to Kenya, supported the creation of high-skilled jobs and, most importantly, put affordable smartphones in the hands of Kenyans.

2.3 Impact of M-KOPA on local assembly

Having pioneered local smartphone assembly, we have seen significant growth in productivity. As at March 2025, M-KOPA had assembled over 2.5 million devices. We are currently producing over 100,000 units a month. The assembly plant employs over 450 people with 70% of them in their first job supported by a dedicated sales force of 14,500 sales agents, most of whom are youth under the age of 35.

Over the last one year (July 2024-May 2025) with the retention of the Zero-Rated VAT, M-KOPA expanded production at its plant, hiring 125 additional employees, 20% new agents, assembled over 1.2 million phones and generated Ksh. 5.9 billion as revenue to the government.

Still under the Zero-rated VAT regime, M-KOPA had projected to increase full-time employment for the phone assembly plant to over 600 full time workers from 450 and increase the dedicated sales force to over 20,000 in the next 12 months from 14,500 by the addition of a manufacturing assembly line (construction of which has already begun) if running at full capacity.

If the status quo is not maintained, the new assembly line will not be able to operate at full capacity, as such our projections will not be achievable. On the contrary, we anticipate a corresponding decline in key economic contributions including an estimated reduction in tax remittances and a decrease in overall sales by 30%, and a contraction in employment capacity, with the number of full-time positions expected to reduce from 450 to 300 full time employees and a decline in the sales force from 14,500 to close to 10,000 sales agents.

2.4 Promoting circular economy by refurbishing phones

In addition to assembling new smartphones, M-KOPA is also committed to contributing to the circular green economy and minimizing e-waste. The company has established a used device refurbishment capability and has successfully refurbished and resold over 100,000 second life devices with ambitions for millions more. M-KOPA is a member of Kenya Extended Producer Responsibility Organization (KEPRO) and the Electronic Waste Producer Responsibility Organization of Kenya (EPROK) which are industry led extended producer responsibility organizations set up in compliance with the Sustainable Waste Management Act 2022, to manage hazardous and non-hazardous waste.



3.0 Impact of tax on local assembly

3.1 Factors determining the price of a low-cost smartphone in Kenya

Key supply side components determining the price of a new smartphone device include:

- Cost of materials and manufacturing/assembly margin
- Taxes and import duties
- Operational costs
- Distribution and sales expenses

Various studies have shown that the cost remains a major barrier in access to affordable, quality mobile phones. Achieving affordability includes addressing supply-side factors such as cost of materials and manufacturing, as well as taxes and import duties, which contribute a significant part of the cost. Research by the Alliance for Affordable Internet shows that an effective way of reducing the cost of smartphones is by reducing the impact of taxes and import duties, which in many countries account for between 30-40% of the device cost.

3.2 Enhancing affordability and local assembly using tax as a tool

Countries like Pakistan and Indonesia offer valuable lessons for Kenya in using tax policy and technology to promote affordability, local assembly and digital inclusion. In Pakistan, the government implemented a Device Identification Registration and Blocking System (DIRBS), which, alongside favourable tax incentives for locally assembled smartphones, encourage investment in local assembly plants by making them more competitive. Similarly, Indonesia introduced tax exemptions on components used in local smartphone assembly and mandated IMEI registration, creating a formal and predictable ecosystem that attracted major manufacturers. These approaches not only made smartphones more affordable by reducing the cost of locally assembled devices, but also stimulated job creation and increased digital access. Kenya can adopt a similar model by combining tax incentives with a robust device management system to support its local manufacturing goals and expand access to affordable mobile phones and smart devices.





4.0 Our response to Finance Bill 2025 proposal on VAT exemption on supply of locally assembled mobile phones

4.1 Appraisal of the existing tax framework

The proposal to reclassify locally assembled smartphones from VAT zero-rated to VAT exempt, whilst appearing as a minor administrative change, may have significant financial implications on the yet infant ICT and digital device assembly sectors.

Zero-rated VAT, as provided for in the Finance Act of 2023, was envisaged as an incentive for investors to set up smartphone assembly plants in Kenya, thus enabling more Kenyans to access affordable and quality smartphones. There's ample empirical data showing that the zero-rated VAT incentive has yielded positive benefits for the industry and the economy.

At M-KOPA, this incentive has created hundreds of jobs, mostly amongst the youth, as well as supported an expansive ecosystem of sales agents (over 14,000) to date. The ordinary Kenyan, who depends on daily earnings, is now able to afford a decent smartphone previously not possible. This progress has elevated millions of ordinary Kenyans out of digital exclusion.

4.2 Overall impact of proposed shift from zero-rated to VAT exempt

As highlighted above, the zero-rated status has allowed manufacturers, like M-KOPA, to reclaim input VAT. However, the new proposal introduces an imbalanced VAT exemption, where finished locally assembled ICT products such as (mobile phones and electric bikes) are VAT exempt, but input components used in their assembly or refurbishment remain subject to standard-rated VAT of 16%. This undermines affordability, disrupts local manufacturing and weakens Kenya's ambitions for digital inclusion and industrial growth. We urge the GoK to adopt a balanced approach that either retains zero-rating or provides exemption across the full value chain.

4.3 Negative effects of an imbalanced VAT exemption

A VAT exemption that excludes inputs while applying only to finished goods introduces a hidden production tax on local manufacturers. This results in input VAT becoming a non-recoverable cost and risks it being embedded into production. Subsequently the price of locally assembled devices increases, wiping out any intended consumer benefit from exempting the final product. This reduces price competitiveness, compared to imported fully assembled devices that may be under-declared at customs and generally distorts a market where local industry is penalised despite aligning with national goals.

A VAT structure that penalises local assembly, while favouring low-declared finished imports contradicts the very purpose of the VAT relief, i.e. to improve affordability and stimulate the economy. This is especially harmful for our customers, the everyday earner, who rely on affordable smartphones to access government services, mobile money and education. It also erodes working capital and limits opportunities for businesses, like M-KOPA, to scale up, as well as to seek further investment. Investors who committed to local assembly in good faith face uncertainty. This weakens confidence in Kenya as a stable manufacturing and digital hub.





	Components vatable, phones zero rated	Components vatable, phones exempt	Components & phones exempt	Components & Phones standard rated
Product cost ex VAT (M-KOPA M10)	9,632	9,632	9,632	9,632
Input VAT on components	1,541	1,541	-	1,541
Total product cost	9,632	11,173	9,632	9,632
Output VAT	-	-	-	2,157
Input VAT claimable	(1,541)	-	-	(1,541)
Selling price (ex financing income)	13,484	15,642	13,484	14,101

4.4 Why zero-rating remains the best position

To preserve the goals of the local smart phone assembly industry, affordability and digital access, we recommend that the GoK maintain the zero-rated VAT status for the entire value chain, to allow input VAT to be reclaimed and maintain affordability for end users. This ensures local manufacturers are not disadvantaged compared to importers and that M-KOPA, together with other industry players can continue to contribute to the overall growth of the manufacturing sector, and providing revenue opportunities for the GoK, in the form of corporate tax, VAT, Pay-as-You-Earn, import duties and other.

4.5 A balanced VAT exemption is the best alternative

In the alternative, should VAT reform be considered, it should be applied uniformly across the entire phone assembly value chain – from importation of components to final product distribution. A consistent VAT framework would eliminate structural imbalances that currently place local assemblers and manufacturers at a competitive disadvantage. Uniformity in tax the VAT status of both inputs used in assembly and the final locally manufactured phone, whether zero rate, exempt or standard rated, would not only enhance fairness, but also reinforce the government's commitment to industrialisation, job creation, and value addition under the BETA initiative. By levelling the playing field, this approach would attract investment, strengthen local manufacturing ecosystems and ensure that the benefits of VAT policy are equitably distributed across the sector. We finally also urge the GoK to provide manufacturers with existing stock or contracts based on the prior regime transitional relief or refund mechanisms to adjust without financial distress.

4.6 Proposed amendments and rationale

In furtherance of the above, we propose the following amendments to current tax laws:

Issue	Value Added Tax (VAT)
Section number	Section No. 36 (p) of the Finance Bill 2025 proposing to add the following new paragraph 158 to Section A Part I of the First Schedule to the VAT Act
Content	"The supply of locally assembled and manufactured mobile phones"
<p>Concern/ Impact</p> <p>The amendment introduced by the Finance Bill 2025 proposes to make the supply of locally assembled and manufactured mobile phones exempt from VAT. Meanwhile, the components imported for their assembly remain standard rated.</p> <p>Manufacturers, like M-KOPA, will no longer be able to claim VAT credits on imported components effectively raising production costs by 16%. Non-recoverable VAT burdens cash flow and reduces liquidity, especially for manufacturers like M-KOPA that work on tight margins with clear social impact models. Since the VAT cannot be reclaimed, there is a risk of the irrecoverable cost being embedded in the final product price, reversing affordability gains and making locally assembled phones less competitive. M-KOPA responded in good faith to the GoK's prior incentives. However, the new proposed amendments will force M-KOPA to reassess or absorb unanticipated losses. This will jeopardise the sustainability of our operations. The higher operational costs may slow down hiring or force M-KOPA to reduce workforce size to stay afloat. This will in-turn undermine our job creation efforts.</p> <p>The proposed amendment may also result in finished imported mobile phones becoming cheaper than locally assembled ones, defeating the GoK's purpose of supporting local industry. Simultaneously, as the cost for local assembly rises, mobile phones will become less accessible to the masses. This will threaten efforts to bridge the digital divide and will roll back gains made under the BETA agenda.</p> <p>The ICT and digital device assembly sectors are still in their infancy. Frequent policy shifts discourage both domestic and foreign investors from making long-term capital commitments. Policy inconsistency also weakens the foundation of trust necessary for stronger public-private partnerships and discourages future cooperation. Instability will halt the sector's growth, delaying diversification of the economy.</p> <p>Though short-term VAT revenue from denied input credits may rise, stalling local manufacturing growth will reduce overall tax contributions (corporate tax, PAYE, excise etc) from manufacturers, telecoms and digital services. Digital devices are essential enablers of economic participation and access to government services. We propose that the GoK retain the zero-rated VAT status for locally assembled mobile phones to maintain affordability, business confidence and investment momentum and instead commit to a minimum 5 -year policy stability period to enable manufacturers to plan and expand operations. Alternatively, if VAT reform is necessary, we appeal to the government to consider offsetting the impact by exempting input components used in the manufacture and/or assembly of mobile phones, so as to protect local manufacturers and consumers.</p>	
<p>Recommendation</p> <p>Amend the new proposed paragraph 158 of the VAT Act under Section A Part I of the First Schedule, entitled Exempt Supplies as follows:</p> <p>"the supply of locally assembled and manufactured mobile phones and inputs or raw materials locally purchased or imported and used for the local assembly and manufacture of mobile phones"</p> <p>Or if the aforementioned amendment is not acceptable, delete the new proposed paragraph 158 of the VAT Act under Section A Part I of the First Schedule, entitled Exempt Supplies.</p>	



5.0 Conclusion

It is our sincere hope that the above submissions will assist the National Assembly Departmental Committee On Finance And National Planning to arrive at decisions that balance the need to enable the Government to meet its fiscal goals with the desire to promote the growth of the local manufacturing industry, drive job creation and foster digital inclusivity.

Apart from the “Invitation to Submit Memoranda on the Finance Bill, 2025 (National Assembly Bills No. 19 of 2025)” by the Clerk of the National Assembly, dated 13th May, 2025, and pursuant to Article 118 (1)(b) of the Constitution of Kenya 2010, and Standing Order 127(3) of the National Assembly Standing Orders, the M-KOPA leadership remains available to provide any additional information that may be needed by the National Assembly Departmental Committee on Finance and National Planning.

Dated this 27th Day of May, 2025.



Martin King'ori

General Manager



A close-up photograph of a person's hand holding a smartphone. The phone's screen is a solid green color, and the M-KOPA logo is centered on it. The hand is positioned at the bottom of the frame, with the thumb and index finger visible, gripping the phone. The background is a plain, light color.

M-KOPA
POWER TO OWN