

The Chairman
Departmental Committee on Finance and National Planning
Main Parliament Buildings – 1st Floor.
Parliament Road
P.O. Box 41842-00100
Nairobi, Kenya

Attention: The Clerk of the National Assembly

23 May 2025

Sent via email to: cna@parliament.go.ke and financecommitteena@parliament.go.ke

Dear Sir,

Subject: In the matter under consideration by the National Assembly of the Finance Bill (National Assembly Bills No. 19 of 2025) - Submission of legislative proposals

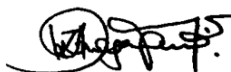
The Clerk of the National Assembly, through a public notice dated 13 May 2025, called for submission of memoranda on the Finance Bill, 2025 (National Assembly Bills No. 19 of 2025) ("the Finance Bill") as provided for by Article 118 (1) (b) of the Constitution of Kenya, 2010.

Pursuant to the said notice, East Africa Devices Assembly Kenya Limited ("EADAK", "the company") hereby submits one (1) tax proposal in relation to the Finance Bill which was published on 6 May 2025 and submitted to the Departmental Committee on Finance and National Planning ("the Committee") for consideration.

We have provided a brief background of the company and the industry, a detailed analysis of the issue, its impact, and our recommendations with justifications. We would be grateful to appear before the Committee to further deliberate with your members on the same. We are happy to provide any additional information on the above should you require it through johnstone.kamunde@eadak.co.ke or +254 722 616 666.

Yours faithfully

For: East Africa Devices Assembly Kenya Limited



Johnstone Kamunde
Chief Finance Officer

Cc. Maurice Mwaniki
Associate Director
PricewaterhouseCoopers Limited
P.O. Box 43963-00100
Waiyaki Way/Chiromo Road
Westlands, Nairobi
Maurice.mwaniki@pwc.com

1. Background

1.1. East Africa Devices Assembly Kenya Limited

EADAK is a local company set up by a consortium of partners in the telecommunication sector. The company was incorporated on 8 August 2023 to carry out local assembly of affordable smart phones at its assembly plant located in Athi River, Graylands Phase V. EADAK's operations were officially launched on 30 October 2023 by His Excellency Dr. William Samoei Ruto. This is following a capital investment of KES 5 billion to have the assembly line operational and acquire enough inputs to start production.

The company's devices are distributed in wholesale and have been supplied to both private companies and the Government of Kenya ("the Government"). EADAK has had significant achievements in its short period of operation. For instance, in the year 2023, it assembled smartphones supplied to the Ministry of Health ("MoH") for use by thousands of community health promoters ("CHP") who were deployed to communities across Kenya as part of the Bottom-Up approach to preventive healthcare. Each CHP would be responsible for a certain number of households and needed to be kitted with modern communication and medical equipment as they worked among Kenyan communities.

In the year 2024, EADAK was recognized by the Kenya Revenue Authority ("KRA") as the highest taxpayer in the non-fuel importers category for the fiscal year 2024, demonstrating that the partnership between the Government and private enterprises through targeted incentives brings tangible impact to the economy and results in mutual success for both.

EADAK has 3 assembly lines and 3 packaging lines, currently operated within an eight-hour shift and with the capacity to accommodate up to three 8-hour shifts within a 24-hour day cycle. During its peak production, EADAK has employed up to 750 employees. The number of employees in active employment is determined by the demand for EADAK products in the market.

The company has also produced approximately 1.4 million mobile devices as of April 2025.

1.2. Unlocking a digitally empowered economy

1.2.1. Global context

In the 21st century, the digital economy has become a cornerstone of global economic development. The integration of digital technologies into various sectors has revolutionized how businesses operate, how governments deliver services, and how individuals interact with the world. Digital technologies open up significant socio-economic opportunities for the benefit of governments, businesses, households and individuals. This transformation is driven by the increasing penetration of the internet, the proliferation of mobile devices, and the development of innovative digital solutions.

This rapid increase in internet penetration is largely driven by advancements in technology and the affordable cost of internet access. Countries around the world are investing heavily in digital infrastructure to support this growth. For instance, the European Union's Digital Europe Programme, with a budget of €7.5 billion for 2021-2027, aims to accelerate the digital transformation of Europe¹. Similarly, the United States has launched the American Jobs Plan, which includes a \$100 billion investment to ensure every American has access to high-speed internet². The global digital economy is therefore expanding at an unprecedented rate.

¹

https://www.swp-berlin.org/publications/products/fachpublikationen/Digital_Europe_Program_Salih_B.pdf

² <https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/#:~:text=Revitalize%20America%E2%80%99s%20digital,save%20taxpayer%20money.>

1.2.2.African context

Africa is experiencing a digital revolution, albeit at a slower pace compared to other regions. According to a World Bank report, Sub-Saharan Africa faces critical challenges for digital development including underdeveloped digital infrastructure, lack of accessible and affordable connectivity, a digital gender gap, limited skills for digitally enabled industries, and inadequate regulatory and policy environments. That notwithstanding, the region has made significant strides towards digital transformation through millions of people being able to access the internet and the use of a wide variety of digital services such as mobile payments and online learning platforms³.

Smartphone penetration in Sub-Saharan Africa has been steadily increasing, playing a pivotal role in the region's digital transformation. According to the GSMA Mobile Economy 2025 report, mobile internet subscriber penetration in the region reached 46% in 2024, with smartphone adoption reached 54% and continues to rise due to falling device costs and expanding 3G/4G coverage⁴.

However, a significant usage gap of 58% remains - the highest globally - indicating that while network coverage exists, many people are not yet using mobile internet services due to barriers such as affordability, digital literacy, and lack of relevant content. The Statista database also highlights that mobile telecoms are central to economic activity in Africa, compensating for limited fixed-line infrastructure and enabling access to financial, educational, and health services⁵. As smartphone adoption grows, it is expected to unlock further socioeconomic benefits, with the mobile industry projected to contribute \$170 billion to the region's GDP by 2030, up from \$140 billion in 2023⁴.

1.2.3.Kenyan context

1.2.3.1. Vision 2030, the digital superhighway and creative economy agenda

The Kenyan Vision 2030 economic blueprint is hinged on economic and macro, social, and political pillars and sets specific goals for making Kenya a middle-income country by the year 2030. The Kenyan Vision 2030 identified Information and Communications Technology ("ICT") as a key enabler for the country's growth and this sector continues to play a key role under the Government's Bottom-Up Economic Transformation Agenda ("BETA"). The ICT sector is expected to position Kenya to take advantage of the Fourth Industrial Revolution whose success will largely hinge on, among other things, the quality of ICT in national infrastructure, the tax, regulatory and business environment, human capacity, ICT usage and investments into the sector⁶.

By increasing and enhancing connectivity with telecommunication devices such as smart phones, the government will supersede its targeted goals in the implementation of Vision 2030 in relation to connectivity and technological infrastructure. This may be done through robust policies in the telecommunication sector coupled with stability in the tax policy environment, especially in relation to tax incentives provided to the

³

https://www.broadbandcommission.org/wp-content/uploads/dlm_uploads/2022/09/Strategies-Towards-Universal-Smartphone-Access-Report-.pdf

⁴ <https://www.gsma.com/solutions-and-impact/connectivity-for-good/mobile-economy/wp-content/uploads/2025/04/030325-The-Mobile-Economy-2025.pdf>

⁵ <https://www.statista.com/topics/6700/mobile-telecom-services-in-africa/>

⁶ https://vision2030.go.ke/wp-content/uploads/2024/03/VISION-2030-FLAGSHIP-PROGRAMMES-AND-PROJECTS-PROGRESS-REPORT-FOR-THE-FY-2020_2021-Final.pdf

sector. Kenya will then be able to bridge the digital and technology gap and accelerate access to the best internet and mobile networks in all the parts of the country especially the marginalized and remote areas⁷.

Phones and other electronic and communication devices play the crucial role of bridging the digital divide and technology gap, online education and learning gap, as well as financial inclusion through a broad dissemination of financial services⁸.

1.2.3.2. The Bottom-up Economic Transformation Agenda

The Fourth Medium Term Plan (“MTP IV”) 2023-2027 of Kenya emphasizes the critical role of mobile phone penetration in advancing the country’s digital transformation and inclusive economic growth. It highlights that increased access to smartphones and mobile broadband is essential for delivering digital government services, expanding e-commerce, and enhancing financial inclusion, especially in underserved rural areas. The plan aligns with the Bottom-Up Economic Transformation Agenda (“BETA”), aiming to leverage mobile technology to empower Micro, Small, and Medium Enterprises (“MSMEs”), youth, and marginalized communities. It also outlines strategies to reduce the digital divide by promoting affordable smartphones, expanding 4G/5G infrastructure, and supporting local assembly of devices.

According to the MTP IV, the infrastructure sector’s (ICT and Digital Economy is a sub-sector) programmes on people-centered or inclusive growth included:

“Manufacture of affordable smart devices: *This project seeks to make available smart devices that are affordable with a price range below US\$ 40 through the promotion of local manufacturing.”*

The BETA agenda stands on various key priorities that include:

- Growth and expansion of the digital economy through developing infrastructure;
- Skills enhancement;
- Entrepreneurship and creation of jobs; and
- Trade and markets for Micro, Small, and Medium Enterprises (“MSMEs”) and business development support.

The government has borrowed heavily, in relation to the issue of technological connectivity, from the Kenya Vision 2030 as set out in its agenda under the digital superhighway and creative economy pillar. Under this pillar, the government is aspiring to have mobile telephone penetration and innovation in all parts of the country with the view of making Kenya one of the world’s leading users of mobile payments. Whilst the ICT sector has shown remarkable progress, challenges still abound, among them, a huge digital divide between rural and urban areas, vandalism of ICT infrastructure; inadequate human capacity for research and development in ICT and e-waste disposal⁹.

Smartphones are a key enabler of internet access and digital financial services in Kenya due to their ability to support high-speed connectivity, mobile apps, and secure transactions. As of December 2024, over 41 million smartphones were in use, reflecting a penetration rate of 80.5%. This growth is fuelled by the expansion of mobile broadband networks which now cover 97% of the population. The increased availability and affordability of smartphones, alongside rising demand for digital services, have further accelerated adoption.¹⁰ Smartphones enable access to services like M-Pesa and online banking,

⁷ <https://vision2030.go.ke/about-vision-2030/>

⁸ https://www.researchgate.net/publication/245527926_Mobile_devices_and_services_Bridging_the_digital_divide_in_rural_areas

⁹ <https://repository.kippira.or.ke/bitstream/handle/123456789/3868/SP33.pdf?sequence=1&isAllowed=y>

¹⁰ <https://www.gsma.com/solutions-and-impact/connectivity-for-good/mobile-economy/wp-content/uploads/2025/04/030325-The-Mobile-Economy->

empowering users across urban and rural areas.

EADAK is actively supporting government policy on digital inclusion by making smart devices more accessible and affordable for all Kenyans. Currently, EADAK offers the most affordable smart device in the market at an ex-factory price of KES 6,750 (approximately \$51), directly contributing to the government's goal of increasing smartphone penetration. In addition, EADAK is investing in research and development to produce an ultra-low cost 4G cloud smartphone priced at below \$20. These efforts align with national priorities to bridge the digital divide, expand access to digital services, and promote socio-economic empowerment.

The Finance Bill, under paragraph 36 (o) read together with paragraph 37(c) (relevant extracts attached as **Appendix 1**), has proposed to take away the VAT zero rating currently applicable on the supply of locally assembled and manufactured mobile phones and instead introduce VAT exemption on these supplies.

It is against this backdrop that we wish to submit a proposal to also exempt from Value Added Tax ("VAT") imported inputs or raw materials supplied to approved mobile phone assemblers/manufacturers in Kenya for local assembly and manufacture of mobile phones.

2. The issue and proposed solution

The Government has, in the recent past, enacted a series of tax policies specifically designed to accelerate the transformation of the digital economy, and particularly the manufacture of affordable smart devices. For instance, 'the supply of locally assembled and manufactured mobile phones' was first introduced to the Second Schedule of the Value Added Tax Act, CAP. 476 ("VAT Act") with effect from 1 July 2023 through the Finance Act, 2023. This was in addition to a Customs duty remission (0%) provided for raw materials and inputs for the manufacture of smartphones. These provisions aimed to lower production costs and stimulate local manufacturing within the digital sector. EADAK is among two companies within the industry that have invested in local smartphone assembly plants as a result of the incentives provided by the Government.

As highlighted in the background section, EADAK was incorporated shortly after the introduction of the VAT zero rating, i.e., in August 2023, and has been involved in the local assembly of mobile phones in an industry that is still in its nascent stages. During the launch of the plant in October 2023, President William Ruto, in his speech, projected that the facility would create jobs for hundreds of Kenyan youths as well as make it cheaper for the public to buy smartphones, terming the venture a fulfilment of his promise to enhance digital access for Kenyans¹¹.

One of EADAK's aims is to make smartphone devices easily accessible and affordable to lower income Kenyans who need to be connected to the services available through a smart phone, as opposed to the more limited feature phones, especially in an era where most government services are being digitized. The low-income population is quite significant; for instance, in Nairobi, they form about 70.9% of the population¹². It is therefore evident that the low-income segment of the population, who have little capacity to spend, need access to low-cost smartphones.

Paragraphs 36 (o) read together with paragraph 37(c) of the Finance Bill proposes to exempt from VAT "the supply of locally assembled and manufactured mobile phones" by introducing it to the First Schedule

[2025.pdf](#)

¹¹ <https://www.president.go.ke/speeches/page/5/>

¹² <https://www.knbs.or.ke/wp-content/uploads/2025/05/2025-Economic-Survey.pdf>

to the VAT Act while deleting the VAT zero rating provision within the Second Schedule to the VAT Act. This change in the tax policy will have adverse effects on the industry as it will increase the costs of local assembly and therefore increase the prices of phones.

2.1. What VAT exemption versus VAT zero rating means

When a product is VAT exempt, the manufacturer does not charge VAT on its sale. However, the manufacturer still pays VAT on the goods and services (inputs) used in the production process—such as raw materials, components, and utilities. Under exemption, the manufacturer cannot reclaim or offset this input VAT against any output VAT, because no output VAT is being charged. As a result:

- The VAT paid on inputs becomes a non-recoverable expense, directly increasing the cost of production.
- There is a cascading effect as this embedded VAT is passed along the supply chain, compounding as each stage adds its own non-recoverable VAT.
- Manufacturers must either absorb these higher costs, where their profit margins allow, or pass them on to consumers in the form of higher prices.

With zero rating, manufacturers charge 0% VAT on their sales but can still claim input VAT on purchases, ensuring that VAT does not become a cost at any stage of production.

2.2. The challenge of VAT zero rating in Kenya

While the zero rating system is designed to prevent VAT from becoming a cost to exporters and certain sectors, we acknowledge that it has presented challenges to the Government. This is because zero rating increases the volume of VAT refunds that the Government must pay out. Because of the strain on revenue collection against government expenditure, this has created fiscal pressure for the Government¹³. On the flipside, delays in receiving VAT refunds have created cash flow problems for businesses, which often rely on timely refunds to maintain liquidity and guarantee business continuity. This typically discourages investment and hinders business growth. At the moment, **KES 15 billion** in VAT refunds remains due to taxpayers as the KRA struggles to pay out refund claims or otherwise offset them against other tax liabilities¹⁴. As an example, EADAK currently has **KES 1.8 billion** in approved VAT refunds claims that is yet to be paid to the company by the KRA.

Understandably, the general tax policy direction is to move away from zero rating which has probably informed the proposal to exempt locally assembled and manufactured mobile phones from VAT. However, there is a need to balance tax policy whilst pursuing the Government's development agenda towards being a digital economy through, among other things, enhancing inclusive access to smartphones and other smart digital devices.

2.3. Policy proposal as a solution for both the Government and the sector

In a bid to achieve this balance, we propose that the current proposals as contained in the Finance Bill paragraph 36 (o) read together with paragraph 37(c) be enacted in law with the effect being the exemption of locally assembled mobile phones from VAT.

However, we also propose that imported inputs and (or) raw materials supplied to approved mobile phone assemblers/manufacturers in Kenya for local assembly and manufacture of mobile phones, also be exempted from VAT. This will not entirely cure the cascading effect of the input VAT

¹³ <https://www.elibrary.imf.org/view/journals/061/2021/004/article-A001-en.xml>

¹⁴ <https://kam.co.ke/wp-content/uploads/2025/03/MANUFACTURING-PRIORITY-AGENDA-MPA-2025-Print-5.pdf>

cost along the supply chain but will have a less adverse impact on pricing to the consumer compared to exempting the final product while retaining standard rating (16%) on inputs, as is currently the case.

We provide in the table below an illustration of the impact of (1) the status quo (zero rated sale) on product pricing, (2) exempt sale, i.e., the locally assembled device and (3) fully exempt for both inputs and outputs.

Scenario	Input Cost (KES)	VAT on Inputs (KES) (16%)	Total Input Cost (KES) (A)	Margin Applied (KES) (5%) (B)	VAT on Sale (16%)	VAT Recovered by Manufacturer?	VAT Cost to Consumer (KES)	Final Price to Consumer (KES) (A+B)
(a) Zero rated sale	1,000	160	1,000	50 (5% of 1,000)	0	Yes (160)	0	1,050
(b) Exempt sale (VAT on input only)- cost passed to customer	1,000	160	1,160	58 (5% of 1,160)	0	No	160	1,218
(c) Exempt sale (VAT on input only)- cost absorbed by manufacturer	1,000	160	1,000	5% of 1,000 = KES 50 minus KES 160 VAT cost to consumer = KES (110) (loss)	0	Absorbed by manufacturer.	0	1,050
(d) Fully exempt (input & output exempt)	1,000	0	1,000	50 (5% of 1,000)	0	Not Applicable	0	1,050

Table 1: Illustrated impact of zero rating and exemption

- a) Zero Rated Sale: The manufacturer recovers the input VAT of 160, so the margin is applied to the net input cost of KES 1,000. The final price to the consumer KES 1,050, with no VAT cost embedded.
- b) Exempt Sale (VAT on Input Only), where the VAT cost is passed on to the customer: The manufacturer cannot recover the input VAT, so

the total input cost for margin calculation is 1,160. The margin is applied to this higher base, resulting in a higher final price of 1,218. The consumer bears the cost of the irrecoverable VAT, both directly (embedded in the price) and indirectly (margin applied to a higher base).

- c) Exempt Sale (VAT on Input Only), where the VAT cost is absorbed by the manufacturer: The manufacturer cannot recover the input VAT. He pursues the same margin as for a zero-rated sale i.e. 5% of the actual cost of the product. His KES 50 margin netted against the input VAT absorbed of KES 160 leads to a net loss of KES 110.
- d) Fully Exempt (Input & Output Exempt): Both the input and output are VAT exempt, so there is no VAT on the input and no VAT to recover. The margin is applied to the input cost of 1,000, resulting in a final price of 1,050. There is no VAT cost to the consumer.

Key takeaway: When both input and output are VAT exempt, or when the sale is zero rated, the consumer pays the same lower price (1,050). However, when only the output is exempt and the input is subject to VAT, the consumer pays a higher price (1,218) due to the embedded irrecoverable VAT. This highlights the importance of zero rating or full exemption throughout the supply chain to avoid VAT cascading and higher consumer prices.

3. Justification

3.1. Sustained input tax costs could make local factories unsustainable, risking potential closures as VAT refunds form a critical part of industry players' balance sheets.

Input VAT refunds are essential for maintaining liquidity in the manufacturing sectors, particularly those requiring significant capital and raw material inputs like electronics assembly. When refunds are delayed or denied, businesses face severe cash flow challenges, impairing operations and investment capacity. According to the International Monetary Fund ("IMF")¹⁵, these delays and denials are frequently cited as primary reasons for factory closures and under-utilization of manufacturing capacity in developing nations. A 2023 report by the Kenya Association of Manufacturers ("KAM")¹⁶ identified liquidity constraints from unrecovered input VAT as one of the top risks to the country's manufacturing enterprises.

Kenya's mobile phone assembly sector relies heavily on imported components, such as screens, chips, and batteries, which attract input VAT at entry points. Under a zero-rated VAT regime, manufacturers can reclaim these funds, reinvesting them into operational costs, wages, and industry growth. However, an exempt regime would turn the VAT into an unrecoverable expense, making the assembly of these devices locally uncompetitive as manufacturers load the VAT costs into the final ex-factory price in addition to eroding profit margins and disrupting financial stability.

At the moment, EADAK has **KES 1.8B** in outstanding VAT refunds which is already straining the company's working capital requirements. If the proposed VAT exemption of locally assembled mobile phones is not accompanied by a VAT exemption on the inputs, the increased cost of recoverable VAT will lead to higher prices to the consumer therefore lower sales volumes and could lead to closure of the assembly plant. This is because such a policy measure would diminish the appeal to assemble devices locally as the landed cost for imported complete built units and that of locally assembled units evens out hence giving no competitive advantage to local assembly companies. This will risk the livelihoods of 700 direct employees and thousands of others in the supply chains and curtail the contributions made by the company through other taxes paid to the KRA (totalling **KES 1,023,538,106**) in the period between November 2023 and April 2025 as laid out in the table below.

Description	Nov 2023-March 2024 (KES)	April 2024- April 2025 (KES)	Total Taxes paid (KES)
Import duty	20,749,148	111,338,686	132,087,834
Excise duty	13,971,688	39,226,891	53,198,579
Import Declaration Fee ("IDF")	50,057,200	236,677,480	286,734,680
Railway Development Levy ("RDL")	30,034,368	158,161,041	188,195,409
Merchant Shipping Levy ("MSSL")	73,253	181,310	254,563
Concession Fees	3,500	5,750	9,250
Warehouse Rent	269,268	-	269,268
Withholding Tax ("WHT")	-	6,884,632	6,884,632
Corporate Income Tax- Balance of Tax	-	278,893,891	278,893,891
Corporate Income Tax- Instalment tax	-	77,000,000	77,000,000
TOTAL	115,158,425	908,369,681	1,023,538,106

Table 2: Summary of taxes paid by EADAK, November 2023 – April 2025

¹⁵ <https://www.elibrary.imf.org/view/journals/061/2021/004/article-A001-en.xml>

¹⁶ <https://kam.co.ke/wp-content/uploads/2024/04/MANUFACTURING-PRIORITY-AGENDA-MPA-2024.pdf>

3.2. Non-recoverable input tax discourages investment, sending a negative signal to current and potential investors in local assembly.

Non-recoverable input tax increases the effective cost of production, directly impacting an investor's return on investment ("ROI"). In the case of local mobile phone assembly, where profit margins are already narrow due to global competition and pricing pressures, denying VAT recovery significantly alters the cost-benefit equation. Input VAT recovery is a core principle of a well-functioning VAT system, ensuring that VAT does not become a cost to businesses. When this principle is breached, it introduces tax cascading thereby distorting investment and production decisions.

Additionally, inconsistent tax policies create uncertainty, which is a known deterrent to both domestic and foreign investment. The World Bank's "Doing Business" report (2020)¹⁷ highlights tax complexity and unpredictability as key barriers to private sector growth in emerging economies. A sudden shift from zero-rating to VAT exemption without transitional measures may be interpreted as policy unpredictability, further eroding investor confidence in Kenya's manufacturing and innovation sectors.

From a regional competitiveness standpoint, countries such as Rwanda and Ethiopia have adopted strong incentive structures, including VAT zero-rating for local assemblers to attract investment in their nascent electronics manufacturing industries. Kenya's reversal of these incentives would place it at a disadvantage, potentially driving investors to relocate to more favorable jurisdictions.

Moreover, the Kenya Vision 2030 blueprint (and by extension the MTP IV) emphasizes the importance of promoting value addition and industrialization. Creating a tax regime that discourages investment in local manufacturing contradicts these national development goals. Local mobile phone assembly contributes not only to industrial growth but also to technology transfer, job creation, and skills development. Making input tax non-recoverable weakens these benefits and sends the wrong message to both current and prospective investors. Kenya should therefore have an alternative incentive like the exemption of inputs to local assembly so as to maintain tax incentives for investors.

3.3. Exempting outputs while inputs remain standard-rated will raise manufacturing costs, undermining the government's digital agenda by increasing prices for consumers.

In scenarios where manufacturers are unable to claim credits for the VAT paid on raw materials, components, and other inputs, the unrecoverable tax becomes an additional cost of production, which manufacturers must absorb or pass on to consumers through higher prices as illustrated in Table 1 above. Among the phones that EADAK assembles are Neon Smart and Neon Ultra, shown in **illustration 1** below.

Illustration 1: Images of EADAK assembled phones.



¹⁷ <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

The current retail prices for Neon Smarta and Neon Ultra illustrated above are **KES 7,499**, and **KES 8,999** respectively. These prices will inevitably go up if they are subjected to VAT exemption while VAT incurred on inputs remain unrecoverable.

Affordability is key to mobile phone access, especially for low-income users who rely on them for essential services like mobile banking and e-learning. Making input VAT non-recoverable would increase prices, reducing access to locally assembled devices and undermining Kenya's Digital Economy Blueprint and Vision 2030 goals. This shift risks regressive taxation, weakens local manufacturing competitiveness, and could stall progress toward a digitally inclusive economy.

3.4. Non-deductible input tax would have an adverse trickle-down effect on the downstream industry, as fewer phones in the market would reduce business for mobile network operators.

Higher retail prices for locally assembled mobile phones will result in a reduction of consumer demand and overall market penetration. This reduction in mobile phone uptake would have a direct negative impact on the downstream telecommunications industry, particularly mobile network operators such as Safaricom and Airtel whose revenues are closely tied to the number of active mobile devices in use.

Kenya's digital economy is heavily driven by mobile connectivity. By December 2024, mobile data subscriptions grew to 56.1 million.¹⁸ Mobile phones are not only a means of communication but are also the primary access point for digital services such as M-Pesa, Airtel Money, e-health, e-commerce, other digital financial services and e-government platforms such as e-Citizen, iTax and eTIMS. If fewer devices are sold due to increased prices from embedded VAT, the user base for these services would shrink, reducing transaction volumes and revenue streams for carriers and digital service providers.

Treating input VAT as non-deductible doesn't just burden manufacturers, it disrupts the broader digital economy. By reducing the availability and affordability of mobile phones, it indirectly harms mobile carriers, limits digital service uptake, and slows Kenya's momentum toward inclusive digital transformation.

3.5. Exempting inputs would level the playing field, ensuring locally assembled phones can compete with cheaper imports.

Locally assembled phones currently face a cost disadvantage compared to imported devices, many of which benefit from large-scale production economies and, in some cases, favourable tax treatment in their countries of origin. When inputs used in local assembly are standard-rated and non-recoverable, they add a layer of embedded tax cost to the final product, effectively making locally produced phones more expensive than imports. This undermines the competitiveness of domestic manufacturers in both pricing and market share.

By exempting inputs from VAT, the government would eliminate this artificial cost burden, aligning the tax treatment of local products with that of imported alternatives. This would restore fairness in the market, enabling local assemblers to price their devices more competitively and increase their presence in both

¹⁸ [https://www.capitalfm.co.ke/business/2025/03/kenyas-mobile-subscriptions-reach-71-4mn-amid-high-demand/#:~:text=NAIROBI%2C%20March%2018%20\(Xinhua\).Kenya's%2C%20mobile%2C%20reach%2C%20subscriptions](https://www.capitalfm.co.ke/business/2025/03/kenyas-mobile-subscriptions-reach-71-4mn-amid-high-demand/#:~:text=NAIROBI%2C%20March%2018%20(Xinhua).Kenya's%2C%20mobile%2C%20reach%2C%20subscriptions)

urban and rural markets.

This policy shift would also support Kenya's broader industrialization and import substitution goals that aims to grow a strong manufacturing sector in Kenya and an economy that will make Kenya Africa's next industrial power, as outlined in the Kenya Industrial Transformation Programme (KITP)¹⁹ and Vision 2030. If local products are taxed more heavily than imports, it not only discourages domestic production but also results in a net outflow of capital through increased reliance on foreign goods.

Moreover, promoting a level playing field is critical in sectors where product affordability is central to national development goals. Mobile phones are not luxury goods; they are essential infrastructure for digital participation, financial inclusion, education, and access to government services. Ensuring that locally assembled devices can compete fairly would enhance accessibility and encourage private sector participation in Kenya's manufacturing and digital ecosystems.

4. International and regional practices

Within the East Africa region, various incentives have been applied for assemblers of mobile phones, for instance:

- **Uganda**
In 2023 the country granted a duty remission to apply a duty rate of 0% on inputs for the assembly or manufacture of mobile phones.²⁰
- **Ethiopia**
Duty free importation of Completely Knocked Down ("CKD") imports for cellular phone assembly.²¹

Elsewhere in the world, various incentives have been applied for assemblers of mobile phones, for instance:

- **Pakistan**
The country applies a duty rate of 0% for cellular mobile phones in CKD ("Completely Knocked Down") or SKD ("Semi-Knocked Down") if they are brought in by local assemblers or manufacturers who are duly certified by the Pakistan Telecommunication Authority ("PTA"). These imports must fall within quotas determined by the Input Output Co-efficient Organization ("IOCO"). Additionally, each consignment must be accompanied by a type of approval certificate issued by the PTA, and the assembler or manufacturer is required to obtain and submit a no-objection certificate ("NOC") from the PTA for every shipment²².
- **India**
The Indian government has eliminated import duties on key mobile phone components to boost local manufacturing and attract foreign investment. This policy shift was announced in the Union Budget 2025.²³

¹⁹ <https://www.kenyaengineer.co.ke/a-blueprint-for-kenya-s-industrialisation/>

²⁰ <https://ura.go.ug/en/international-trade-taxes/>

²¹ https://www.gsma.com/about-us/regions/sub-saharan-africa/wp-content/uploads/2024/10/GSMA_Ethiopia-Report_Oct-2024_v2.pdf

²² <https://www.invest.gov.pk/node/1625>

²³ <https://www.analyticsinsight.net/news/india-axes-import-tax-on-smartphone-parts-to-boost-local-manufacturing>

5. Conclusion on tax policy proposal

We request that the current proposals as contained in the Finance Bill paragraph 36 (o) read together with paragraph 37(c) be enacted in law with the effect being the exemption of locally assembled mobile phones from VAT. We further propose that imported inputs or raw materials supplied to approved mobile phone assemblers/manufacturers in Kenya for local assembly and manufacture of mobile phones also be exempted from VAT.

This will enable the Government to achieve its development goals regarding mobile phone penetration and transitioning the country to a full digital economy while at the same time mitigating existing challenges of VAT refunds without affecting the prices to consumers too adversely

