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There and Back Again: The Making of Uganda's Mobile Money Tax

Summary of ICTD Working Paper 123 by Adrienne Lees and Doris Akol

Mobile money is widely seen as a powerful tool for enhancing financial inclusion and, potentially, improving the economic well-being of the poor. As the mobile money sector, and its turnover, have grown, certain governments have increasingly viewed mobile money transactions as a potentially convenient tax handle. The resulting tax measures are often controversial and draw sharp criticism from those who fear that they will undermine the growth of digital financial services.

The case study of Uganda highlights an interesting example of this trend and demonstrates the importance of careful tax policy design. In early 2018, there was a consensus that Uganda's tax effort remained some way below its revenue potential, and there was pressure to find new revenue sources. In July 2018, the government introduced an especially contentious new tax of 1 per cent on the value of all mobile money transactions, one of several excise duty amendments designed to increase revenue from the telecommunications and financial sectors. After widespread public outcry and significant implementation challenges, the tax was amended in November 2018 to apply only to mobile money withdrawals at a rate of 0.5 per cent.

In our paper, we argue that the tax policymaking process in relation to this tax failed at several stages, leading to the implementation of an ultimately flawed and unpopular measure. This is, to our knowledge, one of the only papers to take the approach of examining a specific example of the tax policymaking process in a low-income country.

The Ugandan tax policymaking process

Tax policy development in Uganda follows a series of distinct phases closely linked to the annual budget cycle, and is tightly controlled by the Ministry of Finance, Planning and Economic Development (MFPED). Unusually, this measure emerged on the initiative of the President's Office, in March 2018, towards the end of the normal budget cycle. As the policy direction had been decided at the highest political level, policymakers were obliged to follow rather than to

lead. The final budget must be approved before 31 May, and so a new direction emerging in March leaves scant time for rigorous analysis. Nevertheless, officials from the MFPED did attempt to produce objective, technical analysis to show that the measure, as originally conceived, was unsuitable and to offer alternatives. Various consultations were held with key stakeholders to gather their views, although the scope of these consultations was possibly too narrow. The

evidence produced did not significantly influence the policy direction, and despite concerns, the measure was approved by the Cabinet and passed to Parliament.

The resulting Excise Duty Amendment Bill was first read in Parliament on 3 April and passed at its second reading. The normal tax policymaking process did not seem robust enough to withstand the political and revenue pressures of the moment.

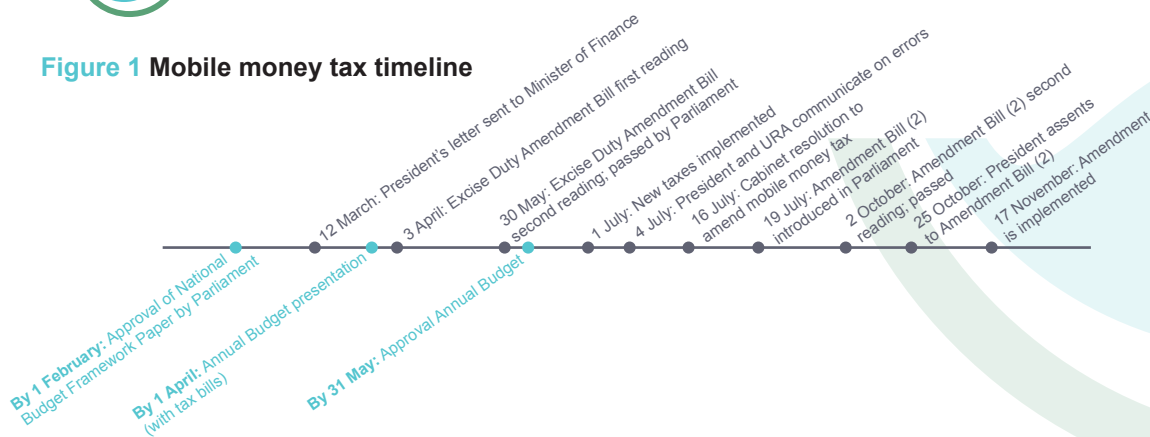
There was immediate public outcry following the introduction of the tax on 1 July. Civil society organisations, journalists, students, and activists mobilised protests

and demonstrations. Implementation was difficult and erratic. As per the legislation, the tax was initially imposed up to four times on one mobile money transfer (depositing, sending, receiving, and withdrawing mobile money were all treated as separate transactions). Such a misapplication should have been ironed out in the drafting process. The President issued a statement that the 1 per cent rate was an error, and that the tax should only apply to withdrawals, contributing to further confusion. An amendment was introduced in Parliament to halve the rate and limit the tax to withdrawals, with these changes implemented in November. The implementation issues demonstrate the value that consultation, industry knowledge, and the practical experience of tax administrators, can bring to policy development.

The tax was ultimately successful in raising revenue, with total revenue collections in FY 2018/19 137 per cent of the original target (Uganda Revenue Authority 2019). However, in FY 2019/20 the tax under-performed relative to forecasts, collecting 36 per cent less than in the previous financial year (Uganda Revenue Authority 2020).

“A well-engineered process does not guarantee good outcomes, but by establishing key fundamentals, governments can make better policy outcomes more likely, and significantly decrease the risk of avoidable, costly, errors in policy design.”

Figure 1 Mobile money tax timeline



Where did the process fail?

Several critical steps in the tax policymaking process were truncated or missed completely, undermining the process.

Firstly, the policy process was not robust enough to withstand political pressures. The technical sphere of government succumbed to these pressures, rushing through an inappropriate measure without proper examination. Policy development, which usually takes several months, was compressed into about two weeks, undermining the ability of officials to gather evidence, analyse the proposal, and develop viable alternatives.

Secondly, tax policymakers failed to give politicians confidence that their concerns were being addressed. The lack of a clear medium-term vision for tax policy had fostered a policymaking environment that is accepting of short-term measures to plug budgetary gaps. This can leave tax policy feeling merely reactive without defined objectives of its own.

Thirdly, opportunities to properly incorporate stakeholder views and concerns were missed or wasted. Time pressure meant that stakeholder consultation was particularly lacking, with civil society and the private sector almost entirely excluded. Stronger consultations may have enabled better understanding of the likely impact of the tax, avoiding costly adjustment. However, this tax does present an unusually successful example of tax bargaining, the process of negotiation between taxpayers and government, and of public actors influencing tax policy. In response to widespread protest, the government reduced the tax rate and restricted the base.

What does good tax policymaking look like?

This case study offers valuable lessons in effective tax policymaking. We highlight four areas which, when functioning well, can lead to stronger proposals and better outcomes.

→ **Use a medium-term agenda for tax policy:** this serves to align the political and technical spheres of government and, by establishing a vision, improves predictability. In this case, the emphasis on plugging an immediate budget gap contributed to weaknesses in policy development.

→ **Establish and publicise a robust tax policy process:** a well-documented process, with a clear timetable, commits tax policymakers to a standard and systematic approach to all significant policy issues and reduces the scope for bypassing due process.

→ **Adopt rigorous policy appraisal standards:** policy appraisal should be prioritised early on, to understand the full likely impact of proposals. Strong tax policy design needs to consider not only the likely revenue impact, but also equity, efficiency, and administrability.

→ **Create a two-way bridge between the political and technical spheres of government:** formalising links through the establishment of an advisor can be instrumental in creating broad-based agreement and understanding.

This paper highlights the risks posed by shortcomings in Uganda's current approach to tax policymaking. A well-engineered process does not guarantee good outcomes, but by establishing a few key fundamentals, governments can make better policy outcomes more likely, and significantly decrease the risk of avoidable, often costly, errors in policy design.

Further reading

Uganda Revenue Authority (2020) *Revenue Performance Report FY 2019/20*, www.ura.go.ug/openFile.do?path=/webupload/upload/download/staticContent/TOPMENU/9907/10192_RPR.pdf

(2019) *Revenue Performance Report FY 2018/19*, www.ura.go.ug/Resources/webuploads/GNRART/Annual%20Revenue%20Report%20FY%202018-19.pdf

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Credits

Adrienne Lees is a Research Officer at the International Centre for Tax and Development, at the Institute of Development Studies. From 2017 to 2019, she was an ODI Fellow in the Tax Policy Department of the Ministry of Finance, Planning and Economic Development in Uganda. During her Fellowship, Adrienne was closely involved in researching, developing, and drafting Uganda's first Domestic Revenue Mobilisation Strategy.

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