

## Policy Brief

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# A Tax Strategy for a Digital Uganda

by Christopher Wales

### Introduction

The Government of Uganda has a vision for a digitally empowered society, which is set out in a wide range of government documents. Ministries, Departments and Agencies (MDAs) have their own digital strategies cascading down the central vision, but the government's tax strategy seems disconnected from it.

Tax policy has focused less on the societal and economic benefits of digitalisation, and more on the attractiveness of digital services and their providers as a potential source of tax revenue.

Tax policymakers have a responsibility to ensure that the design of the tax system is properly aligned with broader government policies and priorities. In many cases tax policy has come to be seen as a barrier rather than an enabler of progress on other policy issues. This is not always the fault of the Tax Policy Department. Being properly joined up is a shared responsibility, and MDAs have to reach out and connect with tax policymakers to strengthen their own strategies.

This short Policy Brief explores the need for a *Tax Strategy for a Digital Uganda*. It asks what more tax policy in Uganda can do to tackle market failure, and support the roll-out of the government's ambitions for use of digital services.

### The government's digital strategy

The Government of Uganda set out its vision for a 'digitally empowered society' in its *Digital Government Strategy* (DGS) in 2022,<sup>1</sup> imagining the outcomes as:

- 'easy life
- secure life
- the digital and data-driven economy'<sup>2</sup>

<sup>1</sup> The Republic of Uganda (2022) [Digital Government Strategy](#), (DGS) p. 7.

<sup>2</sup> DGS, p. 17.

It builds on previous government plans and programmes, including the *Digital Uganda Vision*,<sup>3</sup> the *NITA-U Strategic Plan 2018/19 – 2022/23*,<sup>4</sup> and the *Third National Development Plan 2020/21-2024/25*.<sup>5</sup>

There are recurring themes of market failure across the visions, plans and strategies that need to be addressed. One concern is infrastructure and connectivity. Another is the cost of digital services, especially for the poor. Without intervention, these are likely to hold back the achievement of critical objectives for financial and medical inclusion, as well as access to other important services.

The need for the effective build-up of Uganda's digital infrastructure was highlighted in the government's *National Broadband Policy*.<sup>6</sup> It identifies a number of problems with infrastructure – duplication, sub-optimal and inefficient usage, and a persistent lack of country-wide connectivity that particularly affects rural areas.

Envisaging a Uganda in which there is broadband access for all, the DGS identifies connectivity as a key issue, while noting that 'the use of smartphones in Uganda remains quite low, mainly due to the high cost'.<sup>7</sup> But the DGS does not envisage a tax policy contribution to support the achievement of its objectives for digital accessibility.

The Ministry of Finance, Planning and Economic Development's *Financial Sector Development Strategy* (FSDS) echoes these concerns, citing the critical need for better digital infrastructure. It identifies market failures that result from poorly managed infrastructure development:

Uganda's financial services are characterized by the lack of competition, especially induced by duplicative and costly digital infrastructure. One key impediment to the development of competitive financial services that has been raised across the industry is the lack of reliable and affordable broad internet access. Network operators compete in setting up individual infrastructure, while banks created multiple banking switches, oftentimes compromising cost-efficiency and quality.<sup>8</sup>

Other government ministries have developed their own digital strategies. In May 2023, the Ministry of Health launched its *Health Information and Digital Strategic Plan (HIDSP) 2020/2021 – 2024/2025*. Through its Strategic Objective 3, HIDSP seeks to institutionalise 'the use of patient-level digital systems at the **point of care**',<sup>9</sup> and provides a blueprint for digital health implementation – setting a target date of December 2025 for its achievement. Strategy 3.1 is an ambitious plan to improve radically access to diagnosis and treatment in remote areas of Uganda. Through this it aims to: 'Establish a mechanism for the Provision of Remote services including remote patient care'.<sup>10</sup> It is a strategy that depends on patients having access to smartphones and networks.

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<sup>3</sup> Ministry of ICT & National Guidance (2020) [Digital Uganda Vision](#).

<sup>4</sup> National Information Technology Authority (2018) [NITA-U Strategic Plan 2018/19 - 2022/23](#).

<sup>5</sup> National Planning Authority (2020) [Third National Development Plan \(NDP III\) 2020/21-2024/25](#).

<sup>6</sup> Ministry of Information, Communications Technology & National Guidance (2018) [The National Broadband Policy](#).

<sup>7</sup> DGS, p. 25.

<sup>8</sup> Ministry of Finance, Planning and Economic Development, [Financial Sector Development Strategy 2020/21-2024/25](#) (FSDS), p. 87.

<sup>9</sup> Ministry of Health (2021) [The Uganda Health Information and Digital Health Strategic Plan 2020/2021 - 2024/2025](#) (HIDSP), p. 36.

<sup>10</sup> HIDSP, p. 36.

Like the FSDS, the HIDSP identifies some infrastructure challenges to its ambition, noting the need for much more investment to secure digital access across the whole country: ‘There are 3,517 mobile towers in the country, thereby leaving a gap of at least 3,500 additional towers required to cater for full connectivity,’<sup>11</sup> (quoting *The National Broadband Policy*).

HIDSP highlights the risk that cost, combined with infrastructure failings, will slow the achievement of medical inclusion: ‘Internet connectivity and running costs remain high for the populace, compounded by suboptimal electric power infrastructure, and unreliable or unavailable power supply, especially in lower health units and rural communities.’<sup>12</sup>

Across the Government of Uganda, private sector businesses and among citizens, the importance of digital access, as an enabler of service delivery, is widely recognised. It influences the growth and development of an increasingly wide range of services, including financial and medical services, facilitating access and delivery, and enabling a level of inclusion for people in remote areas that is not currently achievable through other means.

Could tax policy be re-imagined to provide an environment that is more conducive to the expansion and availability of digital services?

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## A tax strategy for a digital Uganda

Tax policymakers have focused less on the societal benefits of digitalisation, and more on digital services and their providers as a potentially attractive source of tax revenue. These services are often difficult to tax through established mechanisms. The discussion has been about how best to design, enforce and collect taxes from these providers and their customers. But is there also a case to be made for the tax system to do more to encourage the growth of digitally enabled services, and stimulate their uptake? If so, what form should an intervention take, and where should it be focused to achieve the optimal effect?

The case for developing a *Tax Strategy for a Digital Uganda*, which will answer these questions, looks strong. The development process for the strategy should allow all MDAs and the private sector to contribute. It would provide a mechanism through which priorities and parameters, including financial parameters, could be agreed across the whole of government. It would provide a budgetary framework within which the digital strategy could be operationalised.

The development process would also provide some impetus for new consumer survey evidence to be taken. This would underpin work on tailoring the tax system to strengthen the contribution of existing digital services, and support their extension into new areas.

Ideally, the Tax Strategy for a Digital Uganda should become a cornerstone of the second Domestic Resource Mobilisation Strategy (DRMS), providing direction for policymakers over the medium term. It should balance proposals for more effective taxation of economic rents with well-targeted measures to address market failure, and improve social and economic outcomes. It should embody sector strategies, mapped to existing government priorities.

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<sup>11</sup> HIDSP, p. 26.

<sup>12</sup> HIDSP, p. 27

## Tackling market failure in the roll-out of Digital Uganda

The sections that follow look at areas where there is currently market failure in relation to digital financial services and other digital services, and what role there might be for tax policy in addressing these problems. Targeted tax measures are more likely to be affordable than broad relief and exemptions.

### 1. Merchant payments

Many governments have adopted policies intended to support financial inclusion, including the Government of Uganda, but tax policy has often been seen as a barrier to achieving these objectives. It has seemed relentlessly focused on taxing mobile money services. Mobile money is the gateway to all digital financial services. The government's approach to taxing it will, therefore, inevitably influence both the speed and intensity of roll-out of a broader range of financial services. We ask whether there are tax measures that could be introduced to support the wider use of digital financial services in areas where it is little used today.

A critical area for the growth of mobile money is merchant payments. In most countries, including Uganda, there is little use of mobile money for payments to traders for goods and services, contrasting with the growth of other mobile money services. Cash still accounts for almost 80 per cent of merchant payments in Uganda. The government is supportive of a much higher uptake, but the market has been stubbornly unresponsive.

- For service providers, growth of this service is of strategic importance, with multiple commercial opportunities potentially opening up from wider adoption.
- For the government, there are many benefits from the growth of mobile digital payment systems, both for its own needs and to support the formalisation of the economy and better tracking of high-volume financial flows.
- For the consumer, there are potential benefits from less handling of cash, including reducing transmission of disease and ease of doing business. But not everybody is convinced, including those traders who fear being drawn into the tax net if they start to accept digital payments.

What encouragement can the government offer to those who can help achieve these objectives more quickly? Can the tax system help the Central Bank to reduce the current reliance on cash?

## Strategy for intervention: merchant payments

Weak take-up of digital payment services for goods and services reflects some or all of the following:

Merchants have:

- Concern about service provider costs.
- Concern that accepting digital payments will adversely affect their tax situation by allowing tax authorities to understand and monitor the scale of their business.

Customers have:

- Long-established familiarity with cash as a means of payment.
- Concern about their own service provider costs.
- Concern that the merchant will try to pass their service provider costs on to their account.
- Some anxiety about visibility of their expenditure patterns and taxation.
- A tax initiative might weaken merchant and consumer resistance to accepting such payments, by enhancing returns to traders and opening up the possibility of shared benefits.

Options include:

1. VAT: allowing a trader to retain part of the VAT collected in the product price, where the payment is made by digital means.
  - Most easily achieved when a trader uses an electronic billing machine, where an audit trail is readily visible.
  - It could be at the traders' discretion whether to pass the whole or part of this saving on to the customer, or to retain some or all of it.
  - Resonates primarily with the minority of traders who are broadly tax-compliant, VAT-registered and substantial in scale.
  - Puts pressure on other traders who might be at a tipping point in terms of their scale, business development and level of formality, to offer similar facilities.
2. The presumptive tax system, a simplified form of taxing income of smaller enterprises, could be adapted to encourage the use of digital payments. This could be achieved, for example, by reducing the traders' tax rate on sales made digitally. This could potentially benefit consumers by encouraging traders to offer lower prices without reducing their margins.

From a government perspective, there would be a risk that they would carry some deadweight cost. This would need to be quantified.

Using tax policy levers to support the wider adoption of mobile money as a payment mechanism for goods and services is one way in which tax policy can help accelerate the roll-out of the government's digital strategy.

## 2. Infrastructure

The case for encouraging additional investment in mobile infrastructure is well-documented. The government's concern that the roll-out of investment in towers is too slow is clearly evidenced in *The National Broadband Policy* and the FSDS. The HIDSP reflects the fear that it is holding back the development of digital medical services.

For the vulnerable, the poor and those in the most remote locations, can the tax system be a facilitator for access to money and much more? How would that work? What tax instruments might be relevant?

### Strategy for intervention: Infrastructure

- In Uganda, countrywide access to digital services requires the build-out of infrastructure – for example, towers that deliver local coverage.
- Improved local coverage provides benefits to users of a range of services, of which digital financial services are only one.
- The provision of additional towers and related infrastructure in rural areas could make an important local difference, but commercial returns are likely to be low, making investment a social priority rather than a rational commercial choice.
- This implies a case for looking to the tax system, among other levers, to influence returns, strengthening the commercial impetus to invest.
- There are different ways of providing tax support to this type of infrastructure investment, such as accelerated tax depreciation, an investment tax credit, relief from specific local taxes and import duties.
- Policymakers need full information to ensure effective decision-making and use of tax levers. Towers tend not to be owned by the mobile money service providers or telecom companies, but by other investors, with long-term arrangements with the providers. This makes identifying the potential tax influencers more difficult. The American Tower Corporation is one such investor. What would influence the roll-out of their investment programme? One of their main customers, Airtel, is already required, under the terms of its licence from the Government of Uganda, to serve 90 per cent of the country by December 2025. According to the latest statistics from the Uganda Communications Commission, approximately 69 per cent of the population has access to mobile services.<sup>13</sup> Would tax incentives have any influence on the speed of investment – or is there already a strong legal imperative?
- The best way for policymakers to unpack a problem like this is through open and transparent engagement directly with tower owners and users.

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<sup>13</sup> ['Airtel: Installment of Various 4G Telecommunications Towers Begins in Uganda'](#), *Africa Telecom Review*, 25 January 2023

### 3. Handsets

The cost of handsets is another barrier to access to digital services. Handsets are typically subject to import duty and VAT. Smartphones, which provide crucial access to specific types of service, are sometimes taxed more heavily than basic devices. In Uganda, the gradual migration of handset ownership and usage, illustrated in Table 1, is likely to be capable of acceleration, if the right tax signals are provided. Other taxes that affect ownership and usage of a handset can also be reviewed.

**Table 1. Change in mobile phone usage by type of phone 2020–2022**  
(monthly users, million)

	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
<b>Basic mobile phone</b>	5.01	5.19	3.95	3.55	3.53	3.63
<b>Feature phones</b>	17.94	17.92	18.52	19.85	20.52	20.92
<b>Smartphones</b>	7.91	8.17	9.73	9.39	10.10	10.48
<b>Total</b>	30.86	31.29	32.20	32.79	34.15	35.03

Source: Author's summary of Uganda Communications Commission Quarterly Market Performance Reports 2021 and 2022

#### Strategy for intervention: mobile devices

- Basic handsets have become more affordable in Uganda, but their popularity has reduced because of their limited functionality. They do not provide adequate access to some much-needed services, including remote medical diagnosis. Smartphone technology is required, but smartphones are more expensive.
- A reduction in the tax burden on smartphones would probably help increase ownership. This could be structured to encourage a shift towards faster adoption of more sophisticated handsets, with greater functionality for digital financial services and other digital services as technology advances are made.
- The government has levers to influence handset pricing, such as targeted import duty changes and/or value added tax relief for handsets. There are precedents in the East African Community.
- Similar measures could encourage the take-up of portable solar charging devices for mobile phones. This could reduce users' dependence on the local electricity supply, which is often unreliable.
- The cost of a device is not limited to the cost of a handset. The SIM card, fixed access costs and cost of usage are additional burdens. The government can potentially address these issues, including any tax aspects.



## Next steps

Tax policy initiatives should be developed to support the realisation of a digitally empowered society in Uganda. These should be evaluated against criteria of need, efficiency and affordability.

The tax system cannot take full responsibility for ensuring faster and fuller roll-out of digital technology, or its adoption by citizens and businesses. But it can play a part in achieving that objective through a structured plan and carefully designed measures, tailored to address market failure.

## Recommendations

1. The government should develop a *Tax strategy for a digital Uganda* to complement and support the nation's digital vision, reconciling the need for domestic resource mobilisation with the aspiration for the digital empowerment of citizens and businesses. It should be a cornerstone of Uganda's second DRMS. The Tax Policy Department (TPD) should initiate the process.
2. Tax support for digital roll-out should be carefully targeted, for maximum efficiency. The development of the *Tax strategy for a digital Uganda* will help with the identification of the main areas of market failure where intervention can be valuable. This should be a whole-of-government enterprise, carried out with the involvement of the private sector and civil society.
3. Policymakers in TPD should evaluate the three potential opportunities for intervention identified in this Policy Brief, as part of their work on the DRMS:
  - Use of mobile money for merchant payments, to improve the functioning, monitoring and management of Uganda's economy.
  - Infrastructure provision, to enhance connectivity.
  - Migration to smartphone technology, to improve access.

## Further reading

Wales, C. (2024) *Re-evaluating Uganda's Mobile Money Tax*, ICTD Policy Brief No. 3, Brighton: Institute of Development Studies, DOI: [10.19088/ICTD.2024.004](https://doi.org/10.19088/ICTD.2024.004)

Lees, A. and Akol, D. (2021) *There and Back Again: The Making of Uganda's Mobile Money Tax*, ICTD Working Paper 123, Brighton: Institute of Development Studies, DOI: [10.19088/ICTD.2021.012](https://doi.org/10.19088/ICTD.2021.012)

## Credits

**Christopher Wales** is a consultant working with the DIGITAX team.

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