Milking a cow you don’t feed: Is Uganda starving telecoms growth through high taxes?

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call box and prices

Uganda was one of the first countries in Africa to develop a policy on universal access to telecommunications. Despite several blunders relating to the liberalisation of its telecoms sector, the country is held in high esteem by many for what is seen to be a far-reaching and proactive approach to providing access to information and communications technology (ICT) for the poor.

The Rural Communications Development Fund (RCDF), which was set up in 2001, is one of the tools that has enabled the government to motivate and mobilise private sector investment in rural areas. It offers subsidies and grants that act as investment incentives. The fund is similar to those found in many developing countries across the world and is primarily the result of a 1% levy on telecommunication’s operators’ revenues.

Through the provision of subsidies, the RCDF’s impact is impressive. It has helped set up internet points of presence in 20 districts in Uganda, websites in 54 districts, internet cafés in 55, and ICT training centres in 30. It has also helped roll out 316 public pay phones – pushing pay phone penetration past the one pay phone per 1,000 people mark, and close to the country’s target of 1,200. Besides this, the fund has supported five telecentres and helped set up two internet connectivity institutions.

Teledensity figures have leaped from 12% in 2006 to 22% in July 2008 – half way to the universal service goal of 40% by 2012.

Rural access undermined

Yet this good work has a shadow – one that comes in the form of high taxes on some telecommunications services. Uganda has a 12% excise duty on mobile phone services, in addition to the standard 18% VAT. In June 2006, it introduced a 5% duty on land-line phone services. Currently, fixed-line services attract a 23% usage tax (18% VAT and 5% excise duty).

In a country with zero taxation on personal computer imports, this is something of an anomaly. Many argue that the high taxes are undermining the purpose of the RCDF, and clotting the growth of a healthy telecommunications market in the country. And while the taxes are causing an uproar amongst operators, analysts argue that it is the consumer who is being put out of pocket.

The GSM Association, a global association of mobile operators, says African countries such as Uganda will have to lower taxes on cellular operators if they want to spur rapid penetration and help their economies expand faster. According to the study, the 10 markets with the highest taxes on mobile telephony worldwide are Uganda, Zambia, Tanzania, Kenya, Brazil, Argentina, Ecuador, Turkey, Syria and Ukraine.

Fixed taxes paid at the time of subscription and tax charges paid after subscription by mobile users, in addition to traditional sales tax, variable taxes like VAT levied on mobile use, and taxes due on the importation and sale of mobile handsets were found to be high in many African markets. In countries with high taxes – amounting to 25% to 30% of costs in Kenya, Uganda, Tanzania and Zambia – expansion of mobile services had been slower than those with lower tariffs, such as Nigeria, Sudan, Egypt and South Africa.

Bungled intentions have consequences for the poor

But it is not only in the case of taxes where Uganda has stumbled in its efforts to live up to its policy obligations. Some argue that the country's slow liberalisation process, as well as the clumsy privatisation of the incumbent Uganda Posts and Telecommunications Corporation (now Uganda Telecom Limited, UTL), has had an equally severe impact on universal access. In the case of the former, it is argued that the stop-start liberalisation process was evidence of a government desperately in need of money, and wanting to milk the highest cash value for the incumbent – ready to put access targets on the backburner to do this. The reluctance until late 2006 to fully open up the sector to bring in more market players could also be seen in this light.

UTL's privatisation process was anything but smooth, particularly at first, hobbled by a number of political and policy blunders. This undermined its profitability for years and contributed to keeping telecoms services out of reach of the majority of Ugandans. These blunders related to how the privatisation of the operator was conducted, its management after privatisation, and the frequent changes in its shareholding, all of which often fed into a drain on UTL's profitability.

There were also widespread accusations of corruption in Uganda's privatisation programme, with critics charging that enterprises were undervalued, sold to cronies of government officials, or companies that they fronted. This forced two halts to the privatisation programme in the late nineties.

Some argue it was a case of saying one thing and doing another. Initially the law required UTL to be privatised before the second national operator (SNO) MTN Uganda was licensed. But the law was controversially changed at the last minute to license the SNO before privatising, seemingly because the government needed the quick cash injection that would come from the licence.

The government's justification that competition would force UTL to become more competitive, and, as a result, more profitable and attractive to suitors, did not work out. The competition proved too hot, with few companies interested when it was finally placed on the market.

Profiting from telecoms needs clear-minded policy

The balance of imperatives in Uganda feels uneven – and, when it comes to taxes at least, its policies are contradicted by regulation. State assets should be used to maximise profits for the government so that it can afford to fund numerous important initiatives. This benefits the poor. A percentage of the high profits made by telecommunications operators also needs to be ploughed back into development, as is the case with the RCDF. Taxes are not bad things.

But Uganda shows that, when it comes to telecommunications, the balance is easily tilted in the favour of funding starved coffers at the expense of laudable policy aims such as universal access. That telecommunications offer lucrative rewards to those involved only heightens the need for clear-minded and incorruptible policy decision-making.

This article was written as a part of APC's Communication for influence in Central, East and West Africa (CICEWA) project, which is meant to promote advocacy for the affordable access to ICTs for all. CICEWA seeks to identify the political obstacles to extending affordable access to ICT infrastructure in Africa and to advocate for their removal in order to create a sound platform for sub-regional connectivity in East, West and Central Africa.

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