Deepening Financial Inclusion in Uganda: Is the Fiscal Policy Regime Fit for Purpose?

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According to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

Financial inclusion influences economic growth, effective resource distribution, enhanced entrepreneurial activities, improved intermediation, and increased savings. For instance, mobile money lowers the cost of banking as well as the expense of visiting banks. The quantity and size of mobile money transactions in Africa indicate significant advancements in financial inclusion. According to GSMA,[1] the progress achieved in expanding mobile money uptake, access helps bridge the financial inclusion gap around the world. The 2022 GSMA report[2] indicates that there are 1.35 billion registered mobile money accounts processing $1 trillion in transactions annually. That is almost $2 million per minute of transactions, 24 hours a day, 7 days a week, 365 days a year. The number of mobile money accounts increased by 17% to 605 million in 2021, while the number of monthly operational accounts increased by 12% to 183 million. Total transaction volume jumped by 23% to 36.6billion, while mobile money transaction value rose by 40% to USD 697.7 billion across the region owing to COVID19 pandemic.

"Over the last decade, we have seen the transformative power of mobile money in providing a pathway to financial inclusion. Yet, our work is far from over. As economies build back from the COVID-19 pandemic, we must ensure that mobile money helps everyone have access to the tools they need to weather economic storms, build financial health and participate in an inclusive recovery". Her Majesty Queen Maxima of the Netherlands-United Nations' Secretary General's Special Advocate for Inclusive Financing for Development.

In view of the growing significance of the mobile money and other tools as an enabler of financial inclusion, it is paramount to map such trends with the existing legal and policy framework in a particular country. This article therefore seeks to assess the compatibility of Uganda's Fiscal Regime as enabler of financial inclusion. The article assesses the tax regime against the Bank of Uganda (B.O.U) financial inclusion strategy (2017-2022). A comprehensive assessment of the progress of implementation of the financial inclusion strategy is beyond the scope of this article. However, to achieve the pillars against which the strategy is anchored, other complimentary factors must be in place including but not limited to the

1 The GSMA is a global organisation unifying the mobile ecosystem to discover, develop and deliver innovation foundational to positive business environments and societal change.

2 See the GSMA State of the Industry Report on Mobile Money available at https://www.gsma.com/sotir/wp-content/uploads/2022/03/GSMA_State_of_the_Industry_2022_English.pdf accessed on 10th October 2022

fiscal (tax) regime.

Digital Connectivity as an Enabler of Financial Inclusion

The goal of the 2017-2022 Bank of Uganda (BOU) financial inclusion strategy is to ensure that all Ugandans have access to and use a broad range of quality and affordable financial services which helps ensure their financial security. By 2018, the Finscope survey estimated that 22% of Ugandan adults were financially excluded. It follows that the goal totally eliminate financial exclusion is a very ambitious one like any other that a progressive economy can make. The strategy is anchored on five pillars namely: -

i) To reduce exclusion and barriers to access financial services;

ii) Develop the credit infrastructure and build the digital infrastructure;

iii) Deepen and broaden formal savings, investment and insurance usage; and

iv) To protect and empower individuals with enhanced financial capabilities.

To-date substantial progress has been made in this regard, specifically through digitalisation, mobile money and agency banking which have provided platforms for reduction in financial exclusion especially for the rural poor. It is also important to note that since a transaction account enables people to keep money and send and receive payments, having access to one is a first step toward greater financial inclusion. An account for transactions acts as a doorway to additional financial services.

The 2021 Global Findex by the world bank indicates that globally, account ownership increased from 51% in 2011 to 76% in 2021. For Uganda in particular this metric stood at 66%, implying that close to seven in every 10 Ugandans surveyed own an account. Other relevant comparative metrics for this assessment are summarized in the tables 1a and 1b.

Table1 a: Digital connectivity performance in selected East African Community countries

Country	Mobile Penetration (Number of Active lines per 100)	Internet Penetration (% of the population with access to internet)
Kenya	133	122
Rwanda	84.2	64.4
Tanzania	91	50
Uganda	69	53

Source: Market Performance Reports by Telecom Regulators in selected Countries

From the table above, Uganda has the least mobile penetration rate with close to seven active lines in every ten citizens. In terms of internet penetration, slightly above five in every ten Ugandans have access to internet, this is the second lowest penetration in the region only slightly above Tanzania.

The highest penetration for both metrics is recorded in Kenya at 133% and 122% respectively. Lower penetration rates are associated with low digital connectivity and consequently low financial inclusion levels. Uganda's performance therefore signals a red-flag for increased attention in these two areas if the overarching goal of the financial inclusion strategy is to be achieved.

Table 1b. Other indicators specific to Uganda

Indicator	Progress as at March 2022
Total number of active Telephone connections as at March 2022 (millions)	30.6
Registered Mobile money accounts (Millions)	33.3
Active number of Broadband connections (million)	23.5
Non MNO based digital wallets[3] (millions)	3.5

Source: Uganda Communications Commission Market Performance Report Quarter 1, 2022

Registered mobile money accounts grew by more than 500,000 in the first three months of 2022 standing at 33.36million, and active telecom lines stood at 30.6 million. These coupled with increase in broadband connections at 23.5million is a step in the right direction towards increased digital connectivity which is an enabler of financial inclusion.

Fiscal Policy and Implications for Financial Inclusion

The definition of access to financial services and consequently reduction in financial inclusion goes beyond physical requirements to include affordability. It is therefore clear that any impediments to affordability among which lies tax on financial transactions limits inclusion.

As mobile money becomes more popular and mobile money providers become more profitable, tax authorities are introducing new tax laws. In the East African Community (EAC) for example, Kenya, Tanzania and Uganda each have introduced taxes on certain transactions and do not offer affordable mobile money services. Countries considering similar taxes in Africa include Ghana and Cameroon. Misapplied sectoral taxes increase transaction costs and encourage an informal (cash-based) economy as consumers avoid using mobile money services. Conventionally, these disproportionately affect the poor, increase the tax burden on providers and discourage investment in the mobile money sector consequently limiting the levels of financial inclusion. Table 2 below shows taxes applicable to various digital products and services across selected EAC partner states.

3 These include deposit receiving, value holding and payments digital wallets like Chipper Cash, Ever-send, Safeboda and Wave Uganda Limited

Table2: Tax rates on digital products and services across selected EAC countries

Country	Corporate Tax Rate	VAT	Tax/Charge on Cell Phone Airtime	Tax on Mobile Money Operator's Revenue	Tax on Mobile Money Transactions	Tax on Internet Service Data	Tax on Imported Cellular Phones	Digital Services Tax	Total burden On the digital sector
Kenya	30%	16%	10%	-	12%	15%	10%	1.50%	95%
Rwanda	30%	18%	10%	10%	-	-	-	-	68%
Tanzania	30%	18%	17%	-	10%	17%	-	2%	94%
Uganda	30%	18%	12%	10%	15.5%[4]	12%	10%		108%

Source: Tax laws of selected countries from the EAC

The table above indicates that there is a multiplicity of taxes in the entire digital eco-system within the East African Community (EAC). The highest tax burden is Uganda at 108%, while the lowest tax burden on digital services and products in the EAC is in Rwanda at 68%. In addition, the International Telecommunications Union (ITU) 2020 report, Uganda was ranked highest in the EAC in terms of internet cost, averaging at $2.67 compared to Kenya ($2.41), Tanzania ($2.18) and Rwanda ($2.18). It is therefore clear that on top of other factors, the high cost is largely driven by the higher tax rates. However, it remains conventionally deducible that the multiple taxes on digital services translate into high cost of services, devices, hardware and software, with suppliers and service providers passing on the financial burden onto consumers, thereby aggravating the affordability challenge.

The mixed results point to policy incoherence caused by the Government's competing priorities. On one hand Government needs revenue to finance its development agenda, on the other it needs to achieve financial inclusion, the question remains what's the most placing priority? For instance, developing the necessary digital infrastructure for financial access requires heavy investment, where is the money? Can we leave this entirely to the private sector which is profit driven? Aside the policy contradictions, comes administrative ease of revenue collections. Like Jean Baptiste (French prime minister once said) " the art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing". Tax administrators always prefer to look for low lying fruits, with the cheapest and easiest impact on cost of collection. The collector will preferably look out for the fastest growing yet not complicated economic activity in the attempt to broaden the tax base. That is how growth in mobile money transactions and increased utilization of data services over time has attracted the collector's eye.

According to the Uganda Communications Commission (UCC) Quality of Services Findings for Mobile voice telephony and data services report 2020, telecoms attributed the high cost of internet to fewer users. However, more questions need to be answered to validate this assertion. First, internet data service is the biggest revenue stream for telecoms. Secondly, telecoms in Uganda operate a cartel or oligopolistic market structure. In the absence of a robust Government telecom entity offering similar services, consumers are left at the mercy of profit driven multinational companies. These engage in various forms of non-price competition which are expensed when paying certain taxes such as income taxes. Evidence has also shown that these multinationals engage in aggressive tax planning dodging tax payments. These operational nuances not only drive the internet costs higher, but also complicate tax administration for the sector. This provides more evidence on how, fiscal policy and, its administration has a direct bearing on digital connectivity and consequently on financial inclusion.

Conclusions

Uganda's fiscal regime for the digital services and products is substantially unfavourable and conventionally has a bearing on financial inclusion. However, digital connectivity is impacted upon by an avalanche of other factors which if not addressed have the potential to drive the costs higher than they currently are and hence affect access to quality.

A favourable fiscal regime would be on that balances revenue generation without out affecting access to digital services however competing government priorities have a direct bearing on policy decisions hence the incoherence between the fiscal policy and the financial inclusion strategy.

Despite the improved regulation in Uganda's telecommunication sector, the oligopolistic market structure provides actors with options for price abuses to the detriment of consumers and negatively impacts financial inclusion.

Fiscal policy, its administration and financial inclusion have a complementary and circular relationship. While, a favourable fiscal regime is capable of facilitating, access to quality and efficient financial services on one hand, eliminating financial exclusion increases economic activity, and raises the number of citizens in the monetary economy providing opportunity of tax base expansion.

4 This consists of 15% excise duty on Sending and 0.5% on withdraws

Recommendations

a) Government

- There is need for increased collaboration between policy makers to harmonise policy formulation and implementation. For instance, the URA Medium Term Revenue Strategy (MTRS) should be linked to BOU financial inclusion strategy.
- Capacity Building for URA staff especially in the area of audit to ensure that the telecoms pay their fair share of a tax as opposed to imposing the burden on consumers and consequently limiting achievement of the aspirations of the financial inclusion strategy.
- The UCC and partners should step up enforcement of regulations governing the sector to control for price abuses and related vices by actors. In the same vein, Government should expedite enactment of the consumer protection and competition laws to accompany existing legal frameworks by the UCC.
- Government should expedite the implementation of the National Backbone Infrastructure project to increase digital connectivity, ease of data sharing amongst Ministries Departments and Agencies (MDAs) and access to information for citizens. This will go a long away in addressing information asymmetries which are a hindrance to financial inclusion.
- From an inclusion perspective, Government should deliberately devise mechanisms to increase disadvantaged groups' access to and use of ICT, for instance through utilization of the universal service fund or the Rural Communications Development Fund (RCDF) to pay for connection and services as well as digital literacy programs for rural residents, underprivileged women, and people with disabilities. In addition, Government can utilize the fiscal regime to pursue objectives aimed lowering the cost of assistive technologies like screen readers, text to speech software, hand held magnifiers, hand frames, communication boards for People with Disabilities (PWDs).
- Finally, the financial inclusion strategy expires in 2022, the MTRS equally expires in financial year 2023/24. Both policies expire just in time for the medium term evaluation of the National Development Plan (NDPIII). This provides a good opportunity for review of the two policies and making them more aligned to the aspirations under the NDPIII.

b) Civil Society

- Civil Society Organisations (CSOs) should research and document barriers to digital inclusion as a basis for their advocacy and engagement with policy makers.
- CSOs should intensify their advocacy strategies and movement building through launching awareness campaigns to empower local communities to fight back against digital exclusion, which is an impediment to financial inclusion.
- CSOs should pursue strategic collaborative engagement with Government and actors in the telecommunication sector in the efforts to promote digital literacy and infrastructure sharing.

c) Sector Actors

- Actors in the telecommunications sector should comply with obligations governing universal services through infrastructure sharing and provision of accessible services/subsidies for the vulnerable groups such as women, youth and PWDs. In the same vein, they should collaborate with civil society in efforts to promote digital literacy and innovation.

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