Eight years after OTT: A failed experiment that stifled Uganda's digital economy

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In July 2018, the government of Uganda introduced a novel tax: Shs 200 per day to access social media platforms like WhatsApp, Facebook, and Twitter. Dubbed the "Over-The-Top" (OTT) or "social media" tax, it was promoted as a necessary revenue measure and a tool to curb "online gossip." eight years later, the policy has been formally abandoned, but its legacy is a stark lesson in economic self-sabotage.

A review of its journey reveals a trail of missed targets, suppressed digital growth, and an enduring chilling effect on free expression and a mistake the nation must not repeat.

GRAND PROMISE VS GRIM REALITY

The government's initial revenue projection was ambitious. The Ministry of Finance estimated the tax could generate up to Shs 486 billion (approximately USD 131 million) annually by 2022. This promise of easy money from the flourishing digital sector proved too enticing to pass.

However, the reality was a spectacular shortfall. By 2020, the Uganda Revenue Authority (URA) reported a staggering deficit of Shs 234.48 billion from its OTT revenue target, blaming widespread "evasion and non-compliance."

The tax was not just unpopular; it was economically unworkable. Users simply stopped paying, turned to Virtual Private Networks (VPNs) to bypass the block, or, most damagingly, disconnected from the internet entirely. This forced a policy U-turn in July 2021 when the OTT tax was replaced with a 12 percent excise duty on internet data bundles. In essence, the government swapped one access-choking levy for another, admitting the original model had failed.

COMMUNICATION SILENCED, INFORMATION BLOCKED

The tax's impact on digital communication and access to information was immediate and severe. Research indicated that in the first three months, internet penetration in Uganda sunk to 35 percent from 47 percent. Another study warned the tax could cut the number of internet users by five million.

For millions of Ugandans, the cost was prohibitive. The Shs 200 daily fee, plus a 1 per cent charge on the mobile money transaction used to pay it, represented a significant portion of income in a country where about 25 percent of the population lives in poverty.

The result was a two-tier digital society: those who could afford to stay connected and a much larger group forced offline. This violated the fundamental right to access information. Furthermore, by making casual online conversation expensive, the tax served as a potent tool to stifle free expression and public discourse.

Perhaps the most profound and long-lasting damage has been to Uganda's digital economy. The policy directly contradicted the global consensus that affordable internet access is a catalyst for economic growth. By making connectivity more expensive, it erected a barrier to entry for e-commerce, digital finance, online education, and tech innovation.

The Alliance for Affordable Internet reported that following the tax's introduction, Uganda moved down four positions in its affordability rankings.

This is not just a statistic; it translates to lost opportunities for entrepreneurs, fewer customers for online businesses, and a weakened talent pool for the digital sector. The tax effectively sacrificed long-term, sustainable digital economic growth for a short-term revenue grab that never materialised.

Uganda's experience is not unique in the region, but it serves as a cautionary tale. Other African nations have experimented with similar taxes with equally troubling outcomes.

Tanzania introduced hefty annual licensing fees for bloggers and online platforms, a move widely criticized for stifling independent media and citizen journalism.

Conversely, the case for Kenya is instructive. Facing public pressure, it rejected a proposed social media tax, opting instead to focus on broader digital service taxes that target the revenue of multinational tech companies rather than penalizing individual users for basic access.

Uganda should abolish, revise and prioritize growth. The evidence is overwhelming that taxing basic internet access is a regressive policy that harms the poor, limits freedom and hinders national economic prospects. The OTT tax was a failure, and its replacement with a 12 per cent data levy continues to burden the very sector Uganda needs to thrive.

It is time for a complete revision. The government should considerably reduce or abolish the 12 per cent excise duty on internet data to make connectivity truly affordable.

Also, government can shift its focus to equitable digital service taxes (DST) by targeting the revenues of global tech giants operating in Uganda, as seen in Kenya and several European nations.

And lastly, they can invest digital tax revenue transparently into expanding national broadband infrastructure and digital literacy programs, creating a virtuous cycle of growth.

Eight years on, the OTT tax experiment stands as a clear example of how not to harness the digital revolution. For Uganda to compete in the 21st century, it must foster - not tax - the connections that drive modern economies. The path to a prosperous digital future lies in enabling access, not erecting barriers.

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Deadline Extension for Licensing of Large Registered Societies or Savings and Credit Cooperative Societies under the Microfinance Deposit-Taking Institutions Act Cap.58 and Micro Finance Deposit-Taking Institutions (Registered Societies) Regulations 2023

The Bank of Uganda informs the public that the deadline previously issued to Regulated Financial Service Providers (RFSPs) to update their Know Your Customer (KYC) practices and transact only with licensed Registered Societies/Savings and Credit Cooperative Societies (SACCOs) has been extended from 31 March 2026 to **30 September 2026.**

This extension is intended to:

1. Enable the Bank of Uganda to undertake a stakeholder engagement including further sensitization and public awareness on its role in licensing and regulatory oversight of eligible SACCOs. These engagements will inform changes to existing regulatory oversight, if necessary.
2. Provide eligible SACCOs—those with voluntary savings exceeding **UGX 1,500,000,000** and institutional capital exceeding **UGX 500,000,000**—with additional time to prepare and submit the required licensing documentation.

During this period of extension, all RFSPs are encouraged to continue with the support being offered to registered societies or SACCOs in the process of obtaining requisite licenses. The Bank of Uganda does not expect any RFSP to deny financial services to the eligible SACCOs until the expiry of this period.

For further information regarding the licensing and regulation of large SACCOs, please contact the **Director, Non-Bank Financial Institutions Department, Bank of Uganda**, on **+256 414 234652.**

MANAGEMENT
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