

# COVID-19 exposes the contradictions of social media taxes in Africa

- ❖ **The effectiveness of social media to reach a wide audience has made it a critical medium for many governments across Africa and beyond to provide reliable COVID-19 pandemic mitigation information to millions of people.**
- ❖ **In some African countries, there are regulations that impose taxes on over-the-top (OTT) services, mobile devices, and mobile money— dampening their uptake and use and undermining the use of these mediums by states to fight the ongoing Pandemic and broader national digital transformation policies.**
- ❖ **These regressive taxes add to already high data costs, making the Internet less affordable for households and individuals with lower incomes— excluding large segments of the population, deterring new users, and ultimately widening the digital divide.**
- ❖ **As the continent battles the COVID-19 pandemic, these taxes need to be removed to provide relief to the marginalised, drive digital inclusion, and build future resilience.**

## Introduction

Internet, smart phones and social media are synonymous in Africa. In RIAs 2018 After Access survey of 10 African countries, figures for Internet access, smart phone ownership and social media were within a percentage of each other, indicating their correlation. For example, the Surveys reveal that people often indicated that they did not have access to the Internet although they confirmed Facebook or WhatsApp use. People also indicated that although the cost of data was high, they preferred social media to make calls or text as it is far more cheaper than with regular voice or SMS (Gillwald & Mothobi, 2019).

In many countries, imposing mobile taxes on over-the-top (OTT) services are justified by a misconceived understanding of the Internet value chain

During the ongoing COVID-19 pandemic, people need to have access to credible, real-time information provided by Internet enabled services to prevent the spread of the Virus and also to digitally substitute for banking, retail and access government services. However, despite many people under lockdown being highly dependent on online services and many governments relying on online social networking platforms to communicate COVID-19 health and safety messages, prevent misinformation, and share state lead pandemic mitigation efforts—many African governments also have measures in place that undermine citizen's access to these digital communications. One of these measures is the various end-user taxes that make the cost to communicate prohibitive for a significant part of the population in many African countries, particularly under lockdown where the lack of digital substitutes had implications for life opportunities, if not survival. The significant barrier to mobile Internet adoption and use is the cost of smart mobile devices, as they are often

classified as a luxury. Once people are online it is cost of data that limits their use of the Internet (Gillwald & Mothobi 2019).

In almost all African countries, even entry level mobile devices (lowest price with basic Internet access) are often out of the reach of those in poverty, partially due to the smart mobile device supply chain and high customs & excise tax duties of importing these goods. For example in South Africa, the total payable for importing ad valorem (luxury) products such as a smart phone amounts to approximately 34% of the good's value<sup>1</sup>. Having overcome device cost barriers, in several of the least developed countries (LDCs) on the continent (with amongst the poorest populations in the world), revenue constrained governments further impose end-user consumption taxes on over-the-top (OTT) services and mobile money.

There is already considerable evidence that these taxes exacerbate the digital divide and undermine national digital strategies that can support inclusive socio-economic development efforts, which will be needed more than ever for post-COVID-19 economic reconstruction (Stork and Esselaar 2018). Many of these taxes appear irrational and counterproductive in that they operate as excise or 'sin' taxes and limit the use of the digital services that these governments seek to expand in their digital policies. In some countries these taxes are also a tactic for repressive governments to control freedom of speech where dissent coincides with the largest band of Internet users, who are often between 18 to 35 years of age (Gillwald et al., 2019). Another related concern is that while continuing to impose mobile money taxes, which constrain mobile money use (GSMA, 2020), many governments have publicly endorsed digital payment mechanisms such as contactless payments, e-wallets, and mobile money as an alternative to cash.

The advent of the COVID-19 pandemic induced lockdowns has led to a sudden increase in demand for data as key aspects of our lives are transitioning online, but the above-mentioned taxes increase data costs for consumers, particularly for the marginalised who already experienced pre-COVID-19 cost related barriers to Internet access (Gillwald et al., 2018). This poses the question on the economic rationale of such excise taxes as a form of domestic resource mobilisation (DMR), particularly while governments use existing and new social media applications as public goods to disseminate health information related to COVID-19 and in contact-tracing efforts.

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<sup>1</sup> Current ad valorem rate on mobile devices is 9%; (value added tax) VAT is 15%; 10% mark up for non-SACU goods, thus total VAT payable for importers generally amounts to about 34%.

## The state of OTT and mobile money taxes in Africa

The proliferation of excise taxes in the form of social media and mobile app taxes on the continent highlight poor tax administrative capability (Matheson and Petit 2017). Other examples of OTT tax related regulation in Africa is the Tanzanian bloggers and podcasters licensing fee of two million Tanzanian Shillings (USD930) a year, which the government claims to be a measure to reduce hate speech and fake news (Egbunike & Baerendtsen, 2018). Mozambique also took a similar approach as Tanzania and placed an accreditation licence valid for five years which required individual journalists and media outlets to pay between USD500 and USD 3,300. In 2018, the Benin government proposed a similar tax. The proposed tax was two-fold: a 5% tax on the pre-tax price for voice, SMS and internet services and a 5 CFA fee per MB for data used to access social media and OTTs, but as a result of massive protests the government put the tax plan to rest. Table 1 shows that some African countries have laws in place that impose regressive daily use taxes on OTT services such as Facebook, Twitter, Instagram, LinkedIn, as well as on instant messaging apps like WhatsApp, Snapchat and Skype. In addition, many of the countries listed below also impose mobile money taxes. Simply put, in the countries listed in Table 1, all digital transactions made by consumers (paying utility bills, school fees and e-wallet) are taxable.

**Table 1- Selected Mobile and Internet related regulations in sub-Saharan Africa**

| Country  | Year | Regulation name   | Detail   |
|----------|------|---|--|
| Cameroon | 2019 | 2019 Finance Act  | Telecommunication Operators to pay FCFA 200 on every external application download made on their network. Customers should pay an import duty of 33% on mobile devices |
| Tanzania | 2018 | Electronic and Postal Communications (Online Content) Regulations | Tanzanians operating online radio stations and video (TV) websites, including bloggers have to pay up to USD 900 to operate a personal blog or website in the country. |
| Uganda   | 2018 | Social Media and Mobile Money Amendment Bill                      | Daily levy of 200 shillings (0.054 USD) for over-the-top (OTT) services.<br>A 1% excise duty was introduced for all mobile money transactions.                         |
| Zambia   | 2018 | Electronic Communications and Transactions Act No. 21 of 2009.    | In August 2018, the government proposed a 30 ngwee (USD0.03) daily tariff on internet phone calls (VOIP). This tax is yet to be implemented.                           |

## How do these taxes impact Internet access?

In a number of African mobile telecommunications markets, OTTs are currently complements and not substitutes for voice and SMSs due to market inefficiencies such as high data costs, higher basic mobile phone users, and weak competition in a country's mobile telecommunication industry (Stork and Esselaar, 2019). Taxes on OTT services are excise taxes that are used to ensure a significant, up-front revenue yield from the telecommunications sector. However, excise taxes (sin taxes) are usually confined to goods and services that are both price-inelastic and have negative externalities, such as alcohol, tobacco, and petroleum products.— social media and mobile applications services are therefore ill-suited for excise duties (Rukundo, 2020; IMF 2015).

Despite a number of countries imposing these social media taxes, they are often implemented to meet short term objectives, such as national debt repayments, without rigorous assessment of the long-term economic impact or empirical evidence base. Furthermore, once introduced, they are seldom repealed. The processes for arriving at these taxes is usually opaque, does not involve a public consultation process, and is justified by a misguided understanding of the role of OTTs in the Internet value chain (Stork et al., 2020). This not only impacts connectivity and affordability of mobile services, especially for those who already face connectivity barriers, but it also has negative impact on all segments of the Internet value chain, which hinder broader economic advantages and digital development opportunities associated with ICTs (GSMA, 2017; Stork et al., 2020).

Camouflaged by "economic arguments" of increasing government revenue, these sin taxes also have implications on the right to freedom of expression and access to information, which are increasingly best exercised online. These taxes, which are mostly enforced by repressive African governments, are also arguably a form of censorship along various other methods such as internet shutdowns, extensive surveillance of digital communications, online propaganda, and the detention of online critics (Kakungulu-Mayambala and Rukundo 2018). This was demonstrated in the recent 2021 Uganda elections, where the Uganda Communications Commission (UCC) ordered all mobile network operators (MNOs) to block social media (Facebook, Twitter, WhatsApp, Signal, Telegram, Skype, Zoom, Microsoft Teams), VPN, App Stores and YouTube (TechJaja, 2021). Furthermore, on the 14<sup>th</sup> of January, the elections were marred with a complete internet blackout which was restored after four days.

Ultimately, due to pre-existing inequalities these taxes impact affordable and meaningful access to the internet, especially for the marginalised and poor. As evidenced in Uganda, poorly designed digital taxes actually lowered domestic tax revenue and reduced Internet use (UCC, 2018). In addition, since mobile money is disproportionately used by lower income households and individuals (informal sector, women, youth, etc), mobile money taxes have implications on the attainment of financial inclusion and wider socio-economic development goals (GSMA, 2020; Demirgüç Kunt et al., 2018).

## Recommendations

As Africa continues to combat the pandemic, there is little doubt that a post-COVID-19 world will have to be more digital than the pre-COVID-19 world. Social media has been instrumental in facilitating effective COVID-19 pandemic public health and safety communications strategies by the same governments that impose regressive OTT taxes, despite evidence of their inefficiencies. Governments of these countries should:

**Reconsider the long-term socio-economic consequences of these taxes** : As opposed to imposing short-sighted tax revenue mobilisation strategies, governments should have the foresight to develop policies and regulation that enable ICTs to be leveraged for sustainable economic growth and social inclusion. Taxes should be transparent, broad-based, and subject to a rigorous economic impact assessment. When imposing taxes, there should be consideration on whether they may result in unintended consequences to the Internet architecture and the Internet value chain, ultimately impacting broader digital economy imperatives.

**Understand the evolving nature of ICT landscape**: A number of traditional business and network models, regulatory frameworks and infrastructure investments in the African ICT landscape are critically out of sync with the fast pace of new ICT developments. Already the success of OTT players in providing services, the explosion of big data, and mobile phones have all radically altered the dynamics of the ICT landscape in many African countries. Policymakers should stay up to date with these dynamics and simultaneously ensure local solutions to drive digital inclusion are then adopted to suit the local ICT context in the country. OTTs are an example of disruptive business models, industry transformations, and digital innovations still to come, regulation needs to reflect this and encourage rather than stifle ICT sector innovation and growth.

**Improve efforts to reduce the digital divide** : Access to high-speed broadband service has the potential to create opportunities that enhance socio-economic development and cultivate innovative, thriving economies. Mobile device and Internet affordability are key limitations to online access in Africa. Efforts must be made to enhance device ownership and quality mobile-broadband access. In order to reap the benefits of the so called 4IR, Africa will need to overcome structural and systematic challenges to enable mass digitization and the narrowing of the digital divide, there can be no mass digitization without universal and affordable access to the Internet. *One immediate step would be to reduce customs and excise duties on entry level smart devices, this can be done by adopting a progressive rate structure based on the value of the phone as opposed to a flat rate which is commonly used for importing mobile devices.*

**Improve the convergence of ICT development with regulatory and policy coherence of other key economic sectors:** One major developmental challenge in many African countries is that there are already “siloes” legal frameworks and policy implementation processes to achieve various social and economic challenges that have overlapping priorities. Uganda, Cameroon, Tanzania and Zambia all have published national ICT policy and strategic frameworks to guide their digital transformation and provide a unified direction for inclusive ICT development. Efforts to leverage ICTs for economy-wide development should be well-integrated or comprehensive in nature, with multiple state departments collectively working together for optimal outcomes, holistic interventions, and an interoperable system—Digitalisation of key sectors such as financial services, health, and education will drive broadband demand, thus there needs to be a transversal approach.

**Leveraging private resources for public goods:** The pandemic has exposed the poor ability of key government departments to leverage digital technologies in providing critical public services. In many African countries financial services providers (FSP’s) and mobile network operators (MNO’s) have “filled the breach” and innovatively (and profitably) reduced digital transition hurdles and mitigated the negative effects of the extended COVID-19 Lockdowns in many countries. Going forward African governments need to foster enabling relationship with the private sector not only during the pandemic, but also to facilitate post-COVID-19 resilience.

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