Cover story

ARE TAX INCENTIVES DELIVERING JOBS, ECONOMIC GROWTH?

Many foreign-owned companies in Uganda get tax incentives from the Government which do not seem to tally with the level of development

By Samuel Sanya

Palm trees dot the hills of Ssese Islands where thick natural forests once thrived. Oil Palm Uganda signed an agreement with the Government in 2002 to set up an oil palm project on the island, which pact gave the investor a 25-year tax holiday. The investor has given the employees a health facility, accommodation, food and a daycare centre for workers' children.

With the increased workers in the area, many coming from the mainland, local landlords, have doubled rent. Five feeder roads have also been constructed to ease transportation. However, despite these benefits of having the $150m (about sh540b) project in Ssese Islands, locals expressed misgivings during a focus group discussion by the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI).

A male worker said: "I earn sh2,500 per day. However, I at times get less. We were recruited from far off places with promises of a good pay. However, on reaching here, the story changed."

Another worker said the bosses were hard to reach.

"The supervisors cannot forward your complaints. In fact, they can easily sack you," the female worker said.

The oil palm plant received a $12m (about sh43.2b) contribution from the Government with the rest of the investment coming from the Wilmar Group of Malaysia, Josovina Commodities of Singapore and BIDCO Oil Refineries of Kenya.

When contacted, Gosh Suvrajit, the general manager of BIDCO Uganda, a sister company which produces soaps, detergents and cooking oil and owns 90% of the oil palm project, did not comment about their workers' grievances.

He, however, said about four years ago, BIDCO Uganda increased wages to its 750 workers to between sh8,500 and sh15,000 per day.

"We have a clock-in machine that reads fingerprints and automatically calculates the payment. BIDCO Uganda, pays all of its taxes and has never received any tax incentive," Suvrajit said.

Tax Incentives

Palm Oil Uganda Limited has the longest tax holiday in Uganda. It is one of many companies for which the Government has remitted a total sh140b in taxes to the Uganda Revenue Authority (URA) between the financial years 2006/7 and 2013/14, according to a 2015 report by SEATINI titled Foreign Direct Investments in Uganda on people's economic, social and cultural rights.

A tax incentive is a temporary reduction or elimination of taxes to stimulate investment.

SEATINI's report points out that in the absence of minimum wage legislation, inadequate investment monitoring and policy geared towards improving the quality of labour through education and human resource development, the costs of awarding tax holidays outweigh the benefits.

The report points out that whereas Uganda's economic growth hit 4.9% in 2013 up from 4.4% the year before due to Foreign Direct Investment (FDI), this growth did not translate into economic, social and cultural improvement of Ugandans and was invested in sectors with limited potential to create jobs.

Even where FDI is used to create employment, a closer analysis of the kind of jobs created reveals poor working conditions and meagre wages. "Many workers in foreign firms lack job security and have diminutive prospects of personal or career development," SEATINI's report says.

The report points out that as per the Uganda Investment Authority (UIA) quarterly investment abstract, the investment conversion rate for the third quarter of the 2013/14 financial year was only 5%, average actual investment per project was just $365,000 (about sh1.3b) compared to a planned $7.2m (about sh26b).

Speaking during a recent policy dialogue on rethinking tax incentives at Hotel Africana in Kampala, Dennis Tumusiime, a researcher, said between 8% and 10% of Uganda's total tax revenues are from companies that enjoy incentives. He added that these companies have created about 11,000 jobs.

He, however, noted that the Government on the other hand, loses up to sh1 trillion annually in tax holidays and double taxation treaties with other countries where investors are based.

An additional sh500b is lost due to customs incentives such as zero-rated and exempted products.

"If these taxes had not been foregone, the revenues could have been used to reduce the national debt stock," Tumusiime said. He added that investors desire efficient infrastructure, vibrant market; low business costs and access to cheap credit and not necessarily tax holidays.

This year, the Government will spend sh77b paying taxes for BIDCO Oil Refineries, Aya Investments, Steel and Tube, Cipla Quality Chemicals, Uganda Electricity Generation Company Limited and Uganda Electricity Transmission Company.

Palm oil is extracted from the oil palm fruits (in-set). Some locals cite unfavourable working conditions on the oil farms

$12M
The amount of money received by the Oil Palm plant as contribution from the Government.

Oil palm seedlings at BIDCO oil palm plantation where over 750 people are employed

Tax holidays driven by desperation

Dr Fred Muhumuza, an economist, said while some tax incentives are necessary, the Government is held to ransom by investors.

"Sometimes, a company receives incentives worth sh10b and it creates jobs that pay just sh400m a year. One of Uganda's top imports is still cooking oil despite giving BIDCO several tax incentives. Do tax incentives work? I think they are just a drag on the economy," he said, explaining that some tax incentives distort the business environment.

"The moment you show that you are desperate, companies take advantage of you. Tax incentives are a zero-sum game where you move business from one company to another," he added.

Muhumuza explained that taxes are just a small aspect of a business, adding that large markets with high purchasing power, stable exchange rates, and cheap bank credit are a greater incentive to attract investors.

Tax incentives make us more competitive

Francis Twinamasiko, the finance ministry commissioner for tax policy, pointed out that the Government is working on roads and electricity since it is aware that tax incentives are not the top reason why investors choose one country over another.

He explained that it is mandatory to provide incentives for certain sectors such as energy, which requires the Government's commitment.

"How sure are we that if we do not give incentives the investors will come? The invester will tell you that if you do not give the incentive they will go elsewhere, yet the Government does not have the money to do the projects," Twinamasiko argued.

Godfrey Ssali, a policy analyst at the Uganda Manufacturers Association (UMA), argued for tax incentives on raw materials, machinery and spare parts, saying they are necessary if Uganda is to become an industrial powerhouse.

"Globally, the wealthiest countries are the most industrialised and the poorest countries are the least industrialised. Therefore, incentives for manufacturing companies are a necessity to improve the competitiveness of Uganda's industry," Ssali said.

"There is need for transparency in the way tax incentives are granted. Tax incentives should be popularised and translated into local dialects so that Ugandan entrepreneurs can also understand them and apply." Jooga

"If Uganda decides not to give out tax incentives, investors will go to Kenya, which is giving out even more incentives. However, there is abuse of exemptions on some imports of rice and sugar, which enable importers to stock pile and re-export. Some people who receive tax incentives have direct access to the President and are not held accountable," he added.

Kawule Jooga of the Uganda Small Scale Industries Association (USSIA) said there is need for transparency in the way that tax incentives are granted. He added tax incentives should be popularised and translated into local dialects so that Ugandan entrepreneurs can also understand and apply.

Under the oil palm project, transport has eased through feeder road construction

Alternative means encouraged

Tumusiime advises that the Government should explore alternatives to tax holidays such as using free zones. According to the Free Zones Act, a free zone is a designated area where goods produced are generally regarded as being outside the customs territory for import duties.

Lydia Bwiite, a programme officer for the Legal Platform for Labour Action, pointed out that the Government should do a cost-benefit analysis of tax incentives, especially in relation to jobs, before awarding them.

"How many BIDCOs actually remit workers' Pay As You Earn (PAYE) and National Social Security Fund (NSSF) contributions? Most of the companies receiving tax incentives employ mostly low paid casual workers," she said.

Clara Mira, the International Monetary Fund resident representative for Uganda, noted that the Government should look for ways to improve its tax to GDP ratio which lags behind that of other countries in the region.

"Some incentives are necessary, but tax is not the main issue — there is need to improve the market that you offer. It would be good to eliminate some incentives and offer alternatives such as accelerated depreciation. Uganda needs to mobilise more tax resources to invest in health care, education and infrastructure," she said.

Uganda's tax to GDP figure recently improved to 14.2%. However, without the exemptions, the tax to GDP ratio would have reached a level of 16.15%, according to a finance ministry report of 2011.