



# FISCAL ACCOUNTABILITY FOR INEQUALITY REDUCTION: EVEN IT UP!

Oxfam in Uganda: Fair taxation through  
evidence-based advocacy and active citizenship

Knowledge Hub on  
Governance and Citizenship



**OXFAM**

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## OXFAM IN UGANDA: FAIR TAXATION THROUGH EVIDENCE-BASED ADVOCACY AND ACTIVE CITIZENSHIP

### INTRODUCTION

Oxfam in Uganda is working with civil society organizations (CSOs) to amplify the voices and needs of Ugandan citizens in terms of the country's fiscal system, which determines taxation and public spending. In its **Finance for Development programme**, Oxfam is promoting fiscal justice to tackle inequality in the country by empowering citizens to exercise their rights by actively engaging with power holders. Citizens engage on issues of public revenue collection (taxation) and public spending in the healthcare, education, social development and agriculture sectors, thereby seeking greater accountability in public financial management (PFM). This case study shows the power of swift and coordinated action, backed by a wide constituency of citizens, to change regressive tax policies, and illustrates how citizens can improve PFM at both local and national levels.

### CONTEXT

Uganda's population is growing rapidly, with an average of six children per family. Almost 70% of the population are younger than 25.<sup>1</sup> Young people have a hard time accessing education: many will not even finish primary school, and face even greater difficulty in finding a job. The majority of people live in rural areas, and 85% of Ugandans are dependent on (subsistence) agriculture. Against this backdrop, inequality in the country is rising, with the top 10% of the population earning 35% of national income while the poorest 10% claim a meagre 2.5%,<sup>2</sup> and a regressive fiscal system is worsening the situation. The burden of taxation is being carried by low-income earners, and the average Ugandan faces increasing difficulty in making a living and accessing education and healthcare services.



Faced with this stark reality, people are yearning for better and more accessible public services. Ugandans are increasingly keen to exercise their right to take part in the political processes that influence their lives, such as those that determine taxation and public spending, and are demanding more transparency and accountability in the provision of public services. Citizens and civil society actors who are concerned about governance, the constitution and electoral reform are monitoring restrictions on the space available to them to raise these issues. Journalists and CSOs are among those affected by these restrictions, which include a legislative framework with confining rules on basic freedoms such as those of association and assembly. The space in which citizens are able to be critical is gradually narrowing on many fronts, although there is **a little more space** to discuss the national budget process.

### THE ECONOMIC SITUATION IN UGANDA

To understand and to effectively influence Uganda's **public financial management system**, it is necessary to understand the country's current economic situation. Despite efforts since the 1990s by the Ugandan government to grow its income (revenue) base through taxation, government spending still outstrips revenues. Uganda's fiscal deficit is projected to rise to 8.7% of gross domestic product (GDP) in 2020, up from its current level of 5.8%.<sup>3</sup> The country's total spending increased from \$5.3bn in FY 2014/15 to \$6.9bn in 2018/19.

However, the government's fiscal space to invest in key social sectors is diminishing, due to a number of factors, such as its prioritizing of sectors such as infrastructure and security and the increased cost of debt servicing (up by 25.1% in 2019/20).<sup>4</sup> The increased debt burden is due to the interest that has to be paid on Uganda's outstanding stock of government securities and loans that the country has taken from international financial institutions (IFIs) such as the World Bank and African Development Bank to deal with its ever growing **budget deficit**. Currently Uganda's public debt as a share of its GDP stands at 41.5%, and this is expected to increase to a peak of about 49% in 2021.<sup>5</sup> This is creating a perpetual cycle of an ever increasing deficit, with more and more loans taken out to make up for it.

The Government of Uganda has a specific strategy for managing public funds (money in and money out, taxation and spending), which includes the following objectives:



### BOX 1: WHAT IS PUBLIC FINANCIAL MANAGEMENT?

Public financial management (PFM) is a set of laws, rules, systems and processes used by governments (both national and sub-national) to mobilize revenues, allocate public funds, undertake public spending, account for funds and perform audits. The essence is to manage public resources in an efficient, transparent and effective manner while remaining accountable to citizens.

- **Strategic allocation of resources:** allocating resources to planned priorities based on the Second National Development Plan (NDPII).<sup>6</sup>
- **Control** over revenues, expenditure and public debt.
- **Operational efficiency:** maximizing cost-efficiency as well as value for money.
- **Transparency:** implementing all activities with the utmost clarity.
- **Accountability:** making all stakeholders responsible for their actions while managing public resources.

Oxfam in Uganda and its partners are working to increase transparency and accountability on both sides of the fiscal system, taxation and public spending. This case study focuses on the tax and public spending sides, demonstrating the power of swift and coordinated action, backed by a wide constituency of citizens, to change regressive tax policies and to demand more public spending in key social sectors in an accountable manner. It also illustrates how citizens can improve PFM at both local or subnational and national levels.

### REDUCING INEQUALITY THROUGH FAIR TAXATION

Oxfam in Uganda has been working with partner organization the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI) on the Fair Tax Monitor (FTM) since 2014.<sup>7</sup> The FTM is a research tool that civil society can use to reveal the main bottlenecks in a country's tax system, assessing the system on its redistributive qualities and making recommendations for change.<sup>8</sup> A fair taxation system is one of the most effective ways to reduce inequality in a country.

The results of the latest FTM study (2018) show that Uganda's government is putting more emphasis on the efficiency of tax collection than on principles of fairness

and progressiveness.<sup>9</sup> Despite this focus on efficient tax collection, however, the country is losing revenue through tax incentives and exemptions, to the tune of 16% of total tax revenues (nearly equivalent to the country's agricultural budget).

The 2018 FTM report also shows a tax system that is mostly regressive (hitting poor people relatively harder) and dependent on indirect taxation for 68% of overall tax revenues. Ugandans living in poverty spend more of their income on consumption by necessity than wealthier groups, and so indirect taxes represent a larger proportion of their income. For women, value-added tax (VAT) is regressive due to their gendered roles as primary caregivers with responsibility for purchasing food, medicines and household goods and services. For example, VAT increases the cost of water and electricity, and this shifts the tax burden towards women. In this way, such taxes are increasing gender and economic inequality in Uganda.

The FTM provides SEATINI and Oxfam in Uganda with a great deal of credibility in the national debate about taxation. The data provided by the FTM is essential evidence needed to advocate for fairer taxation, and is used to engage policy makers and Members of Parliament (MPs) on the issue. As well as Oxfam and SEATINI, other members of the Tax Justice Alliance Uganda (TJAU) network<sup>10</sup> use the evidence provided by the FTM report to create their own positions on annual tax revenues and the national budget.

Besides engaging with Parliament, civil society has worked to put the issue of fair taxation on the agenda of citizens. Oxfam in Uganda and its partners have been working to raise citizens' awareness through public campaigning since 2016. They began with a campaign to show the unfairness of legislation allowing MPs not to pay tax on a portion of their income. It is crucial for citizens to be aware that they are paying both direct and indirect taxes, which binds them in a social contract with the state. This contract gives citizens the right to demand public services in return and to hold the government to account for fair taxation and for reducing inequality.

### HOW THE MOBILE MONEY TAX WAS A CATALYST FOR CITIZEN ENGAGEMENT

Public actions have increased citizen awareness over time, which became very evident in July 2018 when citizens took to the streets demanding fair taxation. This was in direct response to a new tax law that the government had introduced – a tax on mobile money.

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### BOX 2: HOW THE MOBILE MONEY TAX PICKED THE POCKETS OF POOR UGANDANS

Atim Grace Okor, a small-scale farmer in Eastern Uganda, had saved up just enough money – about USh45,000 (\$12.10) – to pay for her son’s medical bills, after he had been admitted and treated for malaria by a private health centre in Serere district. Malaria treatment using artemisinin combinations costs between \$5.40 and \$12.00 on average in Uganda, yet about 40% of Ugandans live on less than \$1 a day. Many citizens also have to turn to private health centres, as most government health centres lack drugs.

Atim had earlier deposited the money on her phone via a mobile money platform, but the transfer was subject to a 1% tax deduction of USh450, which left her with USh44,550. She then transferred the money to the health centre’s mobile money account; in the process another 1% in tax was deducted, plus a transfer charge of USh1,000 imposed by the mobile company, leaving USh43,104.50. The health centre then initiated the payment process for the medical bill, which meant withdrawing money from the mobile account, which attracted yet another 1% tax deduction and a withdrawal charge of USh8.00. Because of these deductions, Atim’s USh45,000 had been reduced to USh42,665.50 (about \$11.40), which was not enough to pay the bill of USh44,000 in full.

This is a clear example of how a regressive tax hits low-income earners the hardest, and also how it reduces their disposable income and increases their out-of-pocket payments for health and other public services.

Mobile phone coverage is high in Uganda, with over 50% of citizens owning a mobile phone. These numbers continue to grow, even more rapidly in rural areas than in urban ones. Since 2009 Ugandans have been able to transfer money using their mobile phones, which has made it easier to send money across the country and to pay bills, and for small businesses to organize their payments. This has generated a lot of economic activity, since previously there were few banks or other financial service providers with national coverage. Mobile money transfers have quickly become a part of the everyday lives of Ugandans.

Faced with its precarious financial situation, the national government has sought to increase the mobilization of domestic revenues. With mobile money transfers being such a widely used service, the Ministry of Finance, Planning and Economic Development (MFPED) saw this as an excellent vehicle to increase tax revenues. In July 2018 a mobile money tax was introduced, levying 1% taxation on any amount of money deposited on a phone account, a further 1% on money transferred to another account and yet another 1% on money collected or withdrawn from a phone account.

When CSOs in Uganda found out that this law was being drafted, they immediately realized the immense impact it would have on people’s lives and on their economic activity across the country. They coordinated a civil society response to the law in April 2018 and drafted a common policy position. This highlighted its likely negative impacts

and suggested other avenues for revenue mobilization (such as looking at tax evasion and loss through tax exemptions) that would raise more revenue than the mobile money tax. The Civil Society Budget Advocacy Group (CSBAG),<sup>11</sup> SEATINI and other CSOs under the TJAU umbrella started talking to





MPs about the law, and engaged with media outlets. They expressed their concerns about the negative effects of the tax, particularly on low-income earners and those transferring small amounts of money, and strongly recommended that MPs vote against it. However, the majority of MPs voted in favour of the law, and the mobile money tax came into force on 1 July 2018.

There was an immediate public outcry about how the new tax disproportionately affected the incomes of poor people. A range of CSOs, along with investigative journalists, students and various citizens' groups, including mobile money dealers' associations, decided to take the issue to the streets. They organised many protests across the country, in both urban and rural areas, with people coming together to rally against the tax. This provoked retaliation from the government and many people were arrested or beaten up by police, and some protests were shut down with state violence. However, on 19 July, after a second wave of citizen action and campaigning, the government returned the tax law to Parliament to amend it, reducing the levy from 1% to 0.5% for withdrawing money from a mobile account, and scrapping the tax charges for depositing money and transferring money to another account.

### **WHAT WAS THE STRENGTH OF THIS FIGHT FOR FAIR TAXATION?**

The fact that the mobile money tax was amended demonstrates that exerting pressure on government behind the scenes as well as in public can be effective. The coalition of actors fighting against the unfair tax represented a broad constituency of Ugandans. This coalition was able to voice people's concerns and needs to the government in a successful manner.

Working together and sharing information helped CSOs to strengthen their position. By combining forces, they managed to get similar messages across using a range of different strategies, including technical reviews, position papers, lobby meetings with MPs, sharing information on alternative sources of funding, engaging with the media and organizing press conferences and campaigns.

Civil society built upon its long track record on fighting for fair taxation by engaging MPs on the issue before the initial 1% mobile money tax was officially introduced. Through a sustained awareness-raising campaign, a growing number of people came to realize the negative effects the tax would have on their daily lives. Being on top of the issue

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from day one strengthened the CSOs' message and their credibility to continue speaking out on the issue after the bill was passed by Parliament.

## **INTERNATIONAL INFLUENCING TO REDUCE NATIONAL INEQUALITY**

As well as their efforts in fighting for a fair taxation system in Uganda, Oxfam and its partners aim to reduce inequality by supporting progressive public spending. This means strengthening the connection between citizens and the state, and ensuring that citizens' needs and interests are taken into account in national budget planning and execution processes and in the implementation of other PFM reforms.

A big limitation on fiscal space and social sector expenditure is the country's growing budget deficit, as outlined above. Oxfam continues to advocate for sustainable external and domestic borrowing, as the size of Uganda's current debt is reducing the fiscal space for investment in social sectors. Debt is a big challenge that needs to be addressed if the country is to reduce poverty and inequality.

Because of the growing budget deficit, the Government of Uganda is taking on loans from IFIs such as the World Bank,

the African Development Bank and other financial institutions from Asia. These IFIs lend money under certain conditions, and these conditions have implications for the developmental outcomes of priority social sectors in Uganda such as health, education and agriculture.

With the influence of IFIs on the public sector in Uganda in mind, Oxfam and its partners are not only trying to influence the national government but also to take their message to Washington DC, where the World Bank and the International Monetary Fund (IMF) have their headquarters. Their first visit under the Strategic Partnership Finance for Development project was in 2017, when Oxfam and CSBAG applied for a policy session on 'public financial management reforms that work – a citizen's perspective', in particular sharing experiences on how citizens and civil society should be engaged in the development and implementation of PFM reform processes. One of their goals was to meaningfully influence the IMF office in Uganda, which until then had never engaged with civil society in a structured manner.

Since then, Oxfam in Uganda and its partners have visited the IMF headquarters in Washington on a yearly basis, and have engaged on key fiscal policy issues in a structured



way. They now also have a foot in the door with the local IMF office in Uganda, and have consistently pushed for a more inclusive approach to PFM. They have urged the IMF to base its economic outlook analyses not only on macro-economic technicalities but also to look at inequality and its implications for developmental outcomes. CSBAG has shared successful experiences of PFM reforms that work for citizens, and SEATINI-Uganda has shared experiences of citizen roles in fostering domestic revenue mobilization (DRM) and accountable tax policies. The biggest achievement of these engagements with IFIs such as the IMF has been the establishment of a structured engagement between CSOs and citizens on the one hand and IFIs and the government on the other on the development and implementation of PFM reforms.

### WHAT HAS BEEN THE IMPACT OF THESE EFFORTS BY CITIZENS, CIVIL SOCIETY AND OXFAM IN UGANDA?

Because of the large-scale protests, continuous engagement by CSOs and critical media coverage, the

mobile money tax law was amended and changes were adopted which included eliminating the 1% tax on deposits and transfers and reducing the tax rate on withdrawals from 1% to 0.5%. However, although the situation has improved, the mobile money levy remains a regressive tax, imposing a large burden on small-scale economic activities across the country. Civil society in Uganda continues to advocate for the complete abolition of the tax, even though this was rejected in the latest finance bill for 2019/20.

After visiting the IMF and World Bank headquarters, civil society actors managed to obtain a renewed commitment from the two institutions to work with civil society in Uganda to promote fair tax systems and to support civil society and citizen engagement in budget and fiscal transparency and accountability processes. This commitment was confirmed by the head of the Tax Policy Department in Uganda's Ministry of Finance, Moses Kaggwa, who promised that the government would work with civil society to promote fair taxation and to include civil society in the implementation of PFM reforms in Uganda.

### WHAT DID WE LEARN FROM THIS WORK?

- **Building a strong evidence base is essential:** Oxfam and its partners have been working on the Fair Tax Monitor and related fiscal studies for a number of years, generating rigorous data and timely evidence that have been used by civil society actors more widely, as well as by the government itself. This has given civil society credibility and a seat at the table when it comes to the development and implementation of accountable tax and public spending policy in Uganda.
- **Working in coalitions and in solidarity is key:** The public campaign on the mobile money tax was able to reach many people because it was shared with a range of actors across different sectors and areas of work. Oxfam and its partners not only connected with and mobilized other civil society actors on the issue but also connected with student groups, investigative journalists and mobile money dealer associations to stand strong together against this regressive new tax.
- **It is important to influence not only government policies, but also IFIs that have an influence on these policies:** For Oxfam, this meant taking the national CSO

and citizen agenda to the headquarters of the IMF in Washington, and pushing for structured engagement between civil society and the IMF in Uganda. This has meant that Oxfam and other CSOs in the country now have regular opportunities to share their social perspectives and to bring an inequality lens to bear on the technical economic analyses carried out by the IMF in Uganda.

- **Citizen-led campaigns can open up and expand the space for debate on fiscal policy:** Citizen-led campaigns amplify the power of people in pursuit of fair fiscal policy reform. Campaigns have a greater impact if they are supplemented by timely research, evidence and awareness raising. Ensuring that citizens are aware of their rights is crucial for them to uphold their rights and to hold government accountable.
- **Linking the local to regional and global levels pays dividends:** Oxfam and its partners in Uganda have combined forces to better engage with IFIs, and in this work partners have been able to make use of Oxfam's networks, relationships and technical guidance from other contexts.

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For more information please contact the authors:

**ROSELIE SCHONEWILLE**

Roselie.Schonewille@oxfamnovib.nl

**JOSEPH OLWENYI**

Joseph.olwenyi@oxfam.org

#### ABOUT THIS CASE STUDY

This case study is part of Oxfam's Fiscal Justice Track Record. This series is a continuation of Oxfam's **Global Track Record on Fiscal Justice** (2016) and provides an in-depth update on Oxfam and partners' fiscal justice and inequality work in selected countries. Oxfam's F.A.I.R.-EiU program aims to ensure that citizens are empowered to redress inequality of power and influence, so fiscal systems are more progressive, and governments implement tax and spending policies that benefit the many not the few. The F.A.I.R.-EiU program unites the work of Oxfam and partners in over 40 countries.

In Uganda this work is supported by the Ministry of Foreign Affairs of the Netherlands and Sida.

#### NOTES

- <sup>1</sup> World Population Review. (2020). *Uganda Population 2020*. <http://worldpopulationreview.com/countries/uganda-population>
- <sup>2</sup> Oxfam. (2016). *Who is Growing? Ending Inequality in Uganda*. [https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file\\_attachments/oxfam\\_in\\_uganda\\_inequality\\_report\\_compressed.pdf](https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file_attachments/oxfam_in_uganda_inequality_report_compressed.pdf)
- <sup>3</sup> National Budget Speech, FY 2019/20 by the Minister of Finance, Planning and Economic Development.
- <sup>4</sup> <https://www.pwc.com/ug/en/assets/pdf/budget-bulletin-19-2020-ug.pdf>
- <sup>5</sup> International Monetary Fund (IMF). (2019). Article IV report on Uganda.
- <sup>6</sup> Second National Development Plan: <http://npa.go.ug/wp-content/uploads/NDPII-Final.pdf>
- <sup>7</sup> <https://maketaxfair.net/ftm/>
- <sup>8</sup> The FTM also assesses the tax system on revenue sufficiency, tax exemptions, effectiveness of the tax administration, the government's spending priorities and transparency and accountability in the system.
- <sup>9</sup> Fair Tax Monitor Study, Uganda, October 2018. <https://maketaxfair.net/assets/Fair-Tax-Monitor-Uganda-Report-2.pdf>
- <sup>10</sup> TJAU. <https://www.tjau.or.ug/index.php/about-us/who-we-are#>
- <sup>11</sup> CSBAG. <https://csbag.org/>

#### PHOTOS

Page 1: People marched in the streets of Soroti town, in the Eastern Region of Uganda, on 21 January 2019, during a week of citizens' action against inequality as part of Oxfam's Davos campaign. Photo: Emmanuel Muaseruka

Page 2: A typical street in Kampala, showing local economic activity. Photo: Emmanuel Museruka

Page 4: Mobile money agent Clare Atukunda provides credit in Kamwokya, a district of Kampala. Photo: Emmanuel Museruka

Page 5: Sarah Tebesigwa, a small business owner, who was hit hard by the mobile money tax. Photo: Emmanuel Museruka

Page 6: Ms. Jane Nalunga of SEATINI Uganda (seated, third right) addressed participants at a high-level tax policy session during the IMF and World Bank Spring Meetings in Washington DC in April 2019. Photo: Joseph Olwenyi.



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