

FISCAL ACCOUNTABILITY FOR INEQUALITY REDUCTION (FAIR)

EVEN IT UP

TRACK RECORD CASE STUDY OXFAM IN UGANDA

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People are marching in the streets of Soroti town during the Davos campaign's week of citizens actions against inequality on 21st January 2019. Photo credit: Emmanuel Muaseruka.

INTRODUCTION

Oxfam in Uganda is working with civil society organizations to amplify the voices and needs of Ugandan citizens in the country's fiscal system (taxation and public spending). In their Finance for Development programme, Oxfam is promoting fiscal justice to tackle inequality in the country by empowering citizens to advance their rights by actively engaging with power holders. They do this on issues of public revenue collection (taxation) and public spending on healthcare, education, social development and agriculture sectors, thereby seeking greater accountability in public finance management. 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 public finance management at both local and national levels.

CONTEXT

Uganda's population is growing fast, with an average of 6 children per family. Almost 70% of the population is younger than 25.¹ Young people have a hard time accessing education, many won't even finish primary school, and face even greater difficulty finding a job. The majority of people live in rural areas. 85% of Ugandans are dependent on (subsistence) agriculture. Against this backdrop, inequality in the country is rising, with the top 10% of the population owning 35% of the national income, while the poorest 10% claim a meagre 2.5% of the national income², and a regressive fiscal system that is worsening the situation. The burden of taxation is carried by low income earners, and the average Ugandan faces increasing difficulty in accessing education & health care, or even to be able to make a living.



Typical street in Kampala, with local economic activity. Photo credit: Emmanuel Museruka

CIVIC SPACE

Within this stark reality, people are yearning for better and accessible public services. Ugandans are increasingly avid to exercise their right to be part political processes that influence their lives, such as taxation and public spending, and of their rights in, demanding more transparency and accountability in public service provision. Citizens and civil society actors that are critical on issues of governance, the constitution, election reforms and are monitoring the curtailment of space to raise their concerns. Journalists and CSOs have been affected by such restrictions. A restrictive legislative framework, with confining rules on basic freedoms such as the freedom of association and assembly underscores this. The space to

¹ <http://worldpopulationreview.com/countries/uganda-population/>

² Oxfam, 'Who is Growing? Ending Inequality in Uganda', 2016. Accessed online: https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file_attachments/oxfam_in_uganda_inequality_report_compressed.pdf

be critical is gradually narrowing on many fronts, although there is some more openness to discussing the national budget process.

THE ECONOMIC SITUATION OF THE COUNTRY

To understand and effectively influence the Uganda's public finance management system, you need to understand the country's current economic situation. Despite Uganda's government efforts since the 1990's 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 GDP, up from 5.8% which it is currently³. The country's total spending increased from 5.3billion USD (2014/2015) to 6.9billion USD (2018/2019).

However, fiscal space for investing in key social sectors is reducing; because of several factors such as; prioritizing sectors like works and transport, security and increased cost of debt servicing (by 25.1% in FY 2019/2020) as the interest has to be paid over Uganda's outstanding stock of government securities and loans that the country has taken from International Financial Institutions such as the World Bank and others from China etc., to deal with its ever growing budget deficit. Currently Uganda's Public debt as a share of its GDP stands at 41.5% and is expected to increase to a peak of about 49.5% in 2021⁴. As such, it is a perpetual cycle of an ever increasing deficit with more and more loans to make up for it.

WHAT IS PUBLIC FINANCE 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 audit. The essence is to manage public resources in an efficient, transparent and effective manner while remaining accountable to citizens.

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

- **Strategic allocation of resources:** allocating resources to planned priorities based on the National Development Plan II.
- **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 partners are working to increase transparency and accountability on both sides of the fiscal system, taxation and public spending. This case study is focusing on the tax and public spending sides, showing the power of swift and coordinated action, backed by a wide constituency of citizens to change regressive tax policies, and to demand for more public spending on key social sectors in an accountable manner. It also illustrates how citizens can improve public finance management at both local or subnational and national levels.

³ National Budget Speech-FY 2019/2020

⁴ IMF-Article IV report on Uganda-2019

REDUCING INEQUALITY THROUGH FAIR TAXATION

Oxfam in Uganda has been working with partner organization [SEATINI](#)⁵ on the [Fair Tax Monitor](#) since 2014. The Fair Tax Monitor (FTM) is a research tool, with which civil society can make visible the main bottlenecks in a country's tax system, assessing the system on its' redistributive qualities⁶, and make recommendations for change. A fair taxation system is one of the most effective ways to reduce inequality in a country.

The results of the latest FTM study⁷ show that Uganda's government is putting more emphasis on efficiency of tax collection than on principles of fairness and progressiveness. Despite this focus on tax collection, the country is losing revenue through tax incentives and exemptions adding up to 16% of total tax revenues (which is nearly equal to the country's agricultural budget).

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

The Fair Tax Monitor provides SEATINI and Oxfam in Uganda with a lot of credibility in the national debate about taxation. The data provided by the Monitor is the essential evidence needed to advocate for fairer taxation. It is used to engage policy makers and Members of Parliament on the issue. Not only Oxfam and SEATINI but other members of the Tax Justice Alliance Uganda⁸ use the evidence provided in the FTM report to create their own position on the annual tax bills to the national budget.

Besides engaging the parliament, civil society has also worked to put the issue of fair taxation on the agenda of citizens. Oxfam in Uganda and its partners have been working to raise awareness of citizens through public campaigning since 2016. They began with a campaign to show the unfairness of legislation allowing Members of Parliament (MPs) not pay tax on a portion of their income. It is crucial for citizens to become aware of the fact that they pay both direct and indirect tax, which binds them in a social contract with the state. This provides

⁵ Southern and East Africa Trade and Negotiations Institute

⁶ The FTM also assesses the tax system on revenue sufficiency, tax exemptions, effectiveness of the tax administration, government's spending priorities and transparency & accountability in the system.

⁷ Fair Tax Monitor Study Uganda October 2018. Accessed online: https://cng-cdn.oxfam.org/uganda.oxfam.org/s3fpublic/file_attachments/Fair%20Tax%20Monitor%20Uganda%20Report.pdf

⁸ Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI Uganda) | Oxfam in Uganda | Civil Society Budget Advocacy Group (CSBAG) | Uganda Debt Network (UDN) | Water Governance Institute (WGI) | ActionAid International Uganda (AAIU) | Youth For Tax Justice Network (YTJN) | Citizens Watch Uganda (CEW-IT) | Eastern African Sub-regional Support Initiative for the Advancement of Women (EASSI) | Uganda Youth Network (UYONET) | Africa Freedom for Information Center (AFIC) | The Open Forum Initiative (TOFI) | Cyber Law Initiative (Cyber-Line) | Food Rights Alliance (FRA) | Uganda National Health Consumers Organization (UNHCO) | Rwenzori Anti-Corruption Coalition (RAC) | Transparency International Uganda (TIU) | Twaweza Uganda | Equality Now Uganda | Initiative for Social and Economic Rights (ISER) | Kick Corruption Out of Uganda (KICK) | Kanungu Community Efforts for Rural Transformation (KACOERT) | Gulu NGO Forum | Kalangala NGO Forum (KADINGO) | CEED | Forum For Rights Awareness and Monitoring Uganda (FORAMO) | Mukono NGO Forum, Kitgum Women Peace Initiative (KIWEPI) | Yumbe NGO Forum | Nebbi NGO Forum | Arua NGO Forum | Mukono NGO Forum | Public Affairs Center of Uganda (PAC-Uganda) | South Buganda Anti-corruption Organization | Community Empowerment for Rural Development (CEFORD) | West Nile Youth Empowerment Center | Koboko Civil Society Network (KOSCINET) Advocates in Research and Development (ARID) | Forum for Women in Democracy (FOWODE) | Women & Girl Child Development Association (WEGCDA) | Agri Point | Resource Rights Africa (RRA) | African Center for Trade and Development (ACTADE)

citizens with the right to demand public services in return and to hold the government to account for fair taxation and a reduction of 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 designed by the government of Uganda, installing a Mobile Money tax.

Mobile phone coverage is high in Uganda, with over 50% of Ugandans owning a mobile phone. This number is only growing, even more rapidly in rural than in urban areas. Since 2009

Ugandans have been able to transfer money with their mobile phones, making it easier to send money across the country, to pay bills, and for small businesses to organize their payments. This generated a lot of economic activity, since previously there were few banks or other financial service providers with coverage across the country. Soon, mobile money transfers were part of the everyday lives of Ugandans.



Mobile Money agent Clare Atukunda providing credit in Kamwokya. Photo credit: Emmanuel Museruka

Within the context of their precarious financial situation, the government of Uganda is seeking to increase its' 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 installed, collecting 1% taxation on the amount of money deposited on the phone account, 1% tax on the money transferred to another account, and 1% tax on the money collected or withdrawn from the phone account.

Atim Grace Okor, a small scale female farmer whose monthly income savings average about 45,000 Uganda Shillings (about 12.1 USD) had saved up just enough money; which she used to pay for her son's medical bills; Her son had been admitted and treated for Malaria in a private health centre in Serere district (malaria treatment costs for artemisinin combinations costs averagely 5.4 - 12 USD in Uganda yet about 40% of Ugandans live on less than a dollar a day. Also private health centres are a major options for many citizens as most government health centers lack drugs). She had earlier deposited the money on her phone through mobile money platform; the money received a 1% tax deduction of 450 UGX (and she remained with 44,550 UGX). She then transferred the money to the health centre's mobile money account, the money received another 1% tax deduction and a transfer charge of 1000 UGX (remaining with 43,550 UGX). Then, the health center initiated a payment process of the medical bill through a mobile money withdraw process, the money received another 1% tax deduction and a withdraw charge of 8,00 UGX from the amount. She remained with amount (42314.5 UGX, about 11.4 USD) which is insufficient to fully pay the bill of 44,000 (12 USD). *This is a clear example of how a regressive tax hits low income earners the hardest, and also lowers their disposable income and increases their out of pocket pay for health and other public services.*

When civil society organizations in Uganda found out that this law was being drafted, they immediately realized the immense impact this tax would have on the lives of Ugandans and their economic activity across the country. Civil society coordinated its response to this law in April 2018, and drafted a common policy position. It highlighted the likely negative impact of the tax, and suggested other avenues of revenue mobilization (such as looking at tax evasion and loss through tax exemptions) which would project more revenue than the mobile money tax. Civil Society Budget Advocacy Group (CSBAG)⁹, SEATINI and other civil society organizations under the Tax Justice Alliance Uganda (TJAU) Umbrella started talking to Members of Parliament about the law, and engaged with media. They expressed their concerns about the negative effects of the mobile money tax particularly for low income earners and those who transfer small amounts of money, and strongly recommended Members Parliament to vote against it. However, the majority of MPs voted in favor of the law, installing the Mobile Money Tax in Uganda on the first of July 2018.

⁹ **Civil Society Budget Advocacy Group.** CSBAG members include: African Women's Economic Policy-AWEPON, African youth Development Link- AYDL, Agago NGO Forum, AWOTID-UGANDA, Caritas- Kampala, Center for Governance, Peace and Security- GAPS, Center for Policy Research and Development Initiatives-CEPORDI, Centre for African Policy-CAP, Centre for Domestic Violence Prevention-CEDOVIP, Centre for Women in Governance -CEWIGO, Community Restoration Initiative Project, Forum For Women in Democracy, Uganda Debt Network, ABICWA-Abim District, Action Aid International Uganda -AAI-U, African Center for Trade and Development (ACTADE), African Centre for Treatment and Rehabilitation of Torture Victims (ACTV), Advance Afrika, Advocates Coalition for Development and Environment (ACODE), Anti-Corruption Coalition Uganda (ACCU), Action Group for Health Human Rights and HIV/AIDS (AGHA), Ashay Razyn foundation limited, Development Network of Indigenous Voluntary Associations (DENIVA), Development Research and Training (DRT), DSW (Deutsche Stiftung Weltbevoelkerung), Environmental Alert (EA), The Eastern and Southern Africa Small Scale Farmers Forum (ESAFF- Uganda), Food Rights Alliance (FRA), Forum for Kalongo Parish Women Associations, Fowode Young Leaders Alumni Association (FYLAA), Hope After Rape, Hunger Fighters Uganda, Human Rights Network-Uganda, Integrated Disabled Women Activities (IDIWA), Initiative for Social and Economic Rights (ISER), Innovations for Poverty Action (IPA), Isis-Women's International Cross-Cultural Exchange (Isis-WICCE), The Institute for Social Transformation (IST), Jenga Afrika, Kiyita Family Alliance for Development – KIFAD, Multi Community Based Development Initiative (MUCOBADI), National Forum Of People Living with HIV/AIDS Networks in Uganda (NAFOPHANU), National Association of Women Organisations in Uganda (NAWOU), Nen Anyin Community Based Group, Uganda National NGO Forum (UNNGOF), National Union of Disabled Persons of Uganda (NUDIPU), Palisa Civil Society Organization Network, National Union of Women with Disabilities of Uganda (NUWODU) etc.



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

There was an immediate public outcry on how the mobile money tax was disproportionately affecting people's income. A range of civil society organizations, investigative journalists, students, and different groups of citizens including the Mobile Money Dealers Association, decided to take the issue to the streets. Across the country there were many protests, in both urban and rural areas, where people came together to rally against the Mobile Money Tax. This did not go unnoticed by the government and many people were arrested, or beaten up by the police. Some protests were shut down with state violence. On 19th July 2018, after a second wave of citizens actions and campaigns, the Government of Uganda returned the tax law to Parliament to amend the law, changing the tax from 1% to 0.5% for withdrawing money from a mobile money account and also scraped the tax for depositing money on an account as well as the tax on transferring money to another account.

WHAT WAS THE STRENGTH OF THIS FIGHT FOR FAIR TAXATION?

The fact that the mobile money tax was amended, shows that exerting pressure on the government behind the scenes as well as publicly has been effective. The coalition of actors fighting against the unfair tax was representing a broad constituency of Ugandans, and was able to voice their concerns and needs to the government in a successful manner.



People marching in the streets of Soroti town during the Davos campaign's week of citizens actions against inequality on 21st January 2019. Photo credit: Emmanuel Muaseruka

Working together and sharing information between civil society helped to strengthen their position. In combining forces, the organizations managed to get similar messages across using a range of different strategies such as a technical reviews, position papers, lobby meetings with MPs, sharing information on alternative sources of funding, engaging the media and organizing press conferences.

With a longer track record on fair taxation, civil society had increased its' legitimacy by engaging Members of Parliament on the issue before the initial 1% Mobile Money Tax became official. Through continuous awareness raising, a growing number of people realized the negative effects of the Mobile Money Tax on their daily lives. Being on top of the issue from day one strengthened the civil society organizations message and credibility to continue to speak about the issue after the bill was passed.

INTERNATIONAL INFLUENCING TO REDUCE NATIONAL INEQUALITY

Besides the efforts to fight for a fair taxation system in Uganda, Oxfam and partners also aim to reduce inequality through supporting progressive public spending. This means strengthening the connection between the citizen 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 public finance management reforms.

A big deterrent for the fiscal space and social sector expenditure is the country's growing budget deficit (the dire situation of Uganda's deficit is already highlighted in the beginning of this case study). Oxfam continues to advocate for sustainable external and domestic borrowing, as the size of Uganda's current debt is reducing fiscal space for investment in social sectors. Debt is a big challenge that needs to be addressed if the country wants to reduce poverty and inequality.

Because of the growing budget deficit, the government of Uganda is taking on loans from international financial institutions (IFIs) such as the World Bank, Africa Development Bank and

other financial institutions from Asia. These IFIs lend money to Uganda under certain conditions, which in turn have implications on developmental outcomes of priority social sectors such as health, education and agriculture in Uganda.



Ms. Jane Nalunga of SEATINI Uganda (3rd right) addressing participants at a high level tax policy session during the IMF and World Bank Spring meetings in Washington DC, USA in April 2019.

With the influence of IFIs on the public sector in Uganda in mind, Oxfam and partners are not only trying to influencing the national government only, but also taking their message to Washington D.C., where you find the headquarters of the World Bank and the IMF. Their first under the Strategic Partnership-Finance for Development Project visit was in 2017, when Oxfam and CSBAG applied for a policy session on “public financial management reforms that work-a citizen’s perspective”, particularly sharing experiences on how citizens and civil society should be engaged in the development and implementation of PFM reform process. One of their asks 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 partners have visited the IMF headquarters on a yearly basis, and engage on key fiscal policy issues in a structured manner. They now have a foot in the door at the local IMF offices in Uganda, and have consistently pushed for a more inclusive approach to public finance management. They also urged the IMF to not only run their economic outlook analysis on macro-economic technicalities, but also to look at inequality and implications on developmental outcomes. CSBAG has shared successful experiences of PFM reforms that work for citizens, and SEATINI-Uganda has shared experiences on citizen roles in fostering domestic revenue mobilization (DRM) and accountable tax policies; The biggest achievements of these engagements through IFIs such as IMF is the establishment of a structured engagement involving civil society organizations and citizens with IFIs and the government on the development and implementation of public finance management reforms.

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

Because of the large scale protest, continuous engagement from CSOs, and critical media coverage, the Mobile Money tax law (Excise duty) was amended and adopted changes which included, scrapping off tax on mobile money deposits and tax on mobile money transfers. Also the mobile money tax rate on withdrawals was reduced from 1% to 0.5%. The original plan was to have 1% excise duty on all transactions (depositing, withdrawing and receiving). Even though this means the situation has improved, the Mobile Money tax remains a regressive tax putting a large burden on small economic activities across the country. Civil society in Uganda continues to advocate for the removal of the Mobile Money tax, even though, this was rejected for the new finance bill FY 2019/2020.

After visiting the IMF and World Bank headquarters, civil society actors managed to get a renewed commitment from the two to work with civil society in Uganda to promote fair tax systems and to support civil society and citizens engagement in budget and fiscal transparency and accountability processes. This commitment was also confirmed on by the Head of the Tax Policy Department at the Ministry of Finance in Uganda (Moses Kaggwa), sharing that the government will work with civil society to promote fair taxation and be included in implementation of public finance management reforms in Uganda.

WHAT DID WE LEARN FROM THIS WORK?

- **Building a strong evidence base is essential.** Oxfam and partners have been working on the Fair Tax Monitor and other related fiscal studies for several years, generating rigorous data and timely evidence that has been used by civil society actors more widely, as well as the government itself. This has given civil society credibility and a seat at the table when it comes to tax and accountable public spending policy development and implementation in Uganda.
- **Working in coalitions and 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 partners not only connected and mobilized other civil society actors on the issue, but connect with student groups, investigative journalists, and Mobile Money Dealer Associations to stand strong together against this regressive taxation.
- **Influence not only your government's policies, but also those international financial institutions that have an influence on your government's policies.** For Oxfam this meant taking national CSO and citizens agenda to the headquarters of the International Monetary Fund (IMF) in Washington D.C., and push for structured engagements of civil society with the IMF in Uganda. This means Oxfam and other civil society organizations in Uganda now have regular opportunities to share their social perspective and inequality lens on the technical economic analysis of the IMF in Uganda.
- **Citizen led campaigns do open up and widen spaces for debate on fiscal policy.** Citizen led campaigns amplify the power of the people in pursuit of fair fiscal policy reform. It is more impactful if supplemented by timely research evidences and awareness creation. Making sure citizens are aware of their rights is crucial for them to uphold their rights and to hold government accountable.
- **Linking local to regional and global.** National partners have leveraged on Oxfam's networks, relationships and technical guidance to engage better with international financial institutions.