



Improving Revenue Generation, Allocation and Utilization for Quality Service Delivery

NATIONAL TAX POWER CAMPAIGN STRATEGY (2013 – 2017)

Abridged Version

August 2013



Give us a break.
Stop begging for
tax holidays **Now!**

Foreword

Tax and taxation are vital tools for development and governance of any country. On the one hand, by paying taxes, citizens contribute to building sovereign states and on the other, good governments use this revenue responsibly to meet their obligations to provide essential public services to all citizens. Paying tax is a patriotic duty and as Ugandans we should be proud tax payers. We should celebrate when we see greater dependence on domestic taxes as opposed to foreign aid. This strengthens our sovereignty as a nation and prosperity as a people.

However, many Ugandans feel there is a tax overload and would rather do without more taxes. This feeling is understandable, for when we pay tax, direct and indirect, we expect quality services and a caring government. While Ugandans pay more taxes today than three decades ago, our tax to GDP ratio is still a paltry 13%, one of the lowest in Sub Saharan Africa. Meanwhile, highly-profitable companies, especially multi-national corporations who benefit from operating within Uganda's natural wealth and infrastructure, are finding ways to significantly and unfairly reduce their tax bill.

There are several challenges that bedevil Uganda's tax and revenue generation efforts, and one such is a tax incentives regime that studies by international financial institutions and local researchers have proven are not really useful in terms of determining investment decisions. So while it is easy to make the argument that providing tax incentives, including tax holidays, would attract foreign investments, the reality is that there are many other factors that are far more important for investors. These include security, political stability, availability of skilled labour, power and other infrastructure that would make the country economically competitive. According to the 2011 East African study on tax competition by Tax Justice Network and ActionAid, our country lost up to twice the country's entire health budget of 2008/2009 due to tax giveaways by government.

Another connected challenge is the abuse of tax incentives by recipients who are accused of 'closing shop' after the expiry of a tax holiday. Without a strong policy regime, revenue that would have been generated is foregone. A fair tax incentives regime that is enforced efficiently, effectively and justly is therefore urgent.

Finally, there are grave concerns related to accountability and corruption whenever the subject of tax comes up for discussion. Will any additional revenue to government, whether through foreign aid or domestic taxes really improve the quality of services? Many a Ugandan will be forgiven for having a 'no' to this important question, for there is evidence in some sectors that a tripling of their budgets since the 1990's did not necessarily translate into improved outcomes. In fact, in a number of cases the quality of public services has declined! Money meant for service delivery is often misappropriated by public officials, and the cost of quality services is then passed on to citizens in what appears like a second round of tax. Corruption negatively impacts the entire taxation chain from revenue generation, allocation to utilization, and with no value for money.

ActionAid has conceived a Tax Power Campaign whose aim is to 'contribute to increased revenue generation, improved resource allocation and effective utilization for quality public services, especially in education, health and agriculture'. The aforementioned sectors we believe are very critical for the dignity of all Ugandans.

In the next pages, we present key issues we shall address through this campaign, its focus and expected results. We call upon every citizen and friend of Uganda to join and support this noble undertaking.



Arthur LAROK
COUNTRY DIRECTOR, ACTIONAID UGANDA

1. Introduction

This document is an abridged version of a Tax Power Campaign Strategy for ActionAid Uganda. It is intended for people we would like to build our campaign with, such as politicians, civil society groups, policy makers and tax authorities with whom we aim to lay out our campaign vision and building understanding for joint efforts. ActionAid's Tax Power Campaign's long-term goal is to "contribute to equitable growth and development through increased tax revenues directed to deliver quality public services to critical human development sectors in education, health and agriculture."

Anchored around a revenue triangle of generation, allocation and utilization, ActionAid Uganda's Tax

Power Campaign is part of a global commitment the organisation has made to support governments to improve their revenue bases and development prospects through, among others, transparent and fair taxation, better regulation of tax incentives and stopping revenue leakages from tax treaties and aggressive tax avoidance by both domestic and multinational corporations.

In the subsequent sections, we summarize the Ugandan taxation context, highlight the key issues to be addressed through the campaign, the scope and thus focus of the campaign and finally what we expect as outcomes from the campaign.

2. The Ugandan Context

The government of Uganda depends on taxes, loans (foreign and domestic) and donor aid to finance its annual budget and development agenda. Over time, there has been an increase in the share of the national budget funded with locally generated resources from 51 percent in 2004 to 69 percent in the 2012/2013 financial year. This further increased in the 2013/14 financial year as donors reduced their budget support by about 90 percent due to corruption. This means that Uganda must depend more on locally generated resources to finance its development aspirations.

The Uganda tax revenue to GDP is one of the lowest in Sub-Saharan Africa, standing at 13 percent compared to 20 percent for Sub-Saharan Africa. This is also way below the 30 percent average for

advanced industrial economies. The low tax to GDP ratio in Uganda is partly due to the numerous tax exemptions, harmful tax treaties, and to aggressive tax avoidance by multi-national companies.

For Uganda to be able to provide adequate and quality public services to its citizens without being overly dependent on aid, fair policy decisions as regards to revenue generation from taxation have to be made. In addition, government needs to prioritise allocation of tax revenue to sectors that will directly improve the well-being of its citizens. It is equally important that tax money is well spent. This calls for strong citizen participation in demanding for transparency, accountability and fairness in revenue generation, allocation and utilisation.

3. The Focus of ActionAid Uganda Tax Power Campaign



The overall goal of ActionAid Uganda's Tax Power Campaign is to contribute to equitable growth and development through increased tax revenues for the provision of public services in education, health and agriculture.

This will result from increased amount of resources available for provision of public services, which will in turn require transparent and fair taxation, proper resource allocation and utilisation. Increased tax revenue will be realised through transparent and fair taxation, better regulation of tax incentives and stopping revenue leakages from tax treaties and aggressive tax avoidance by both domestic and multinational corporations.

Specific Objectives of our Tax Power Campaign

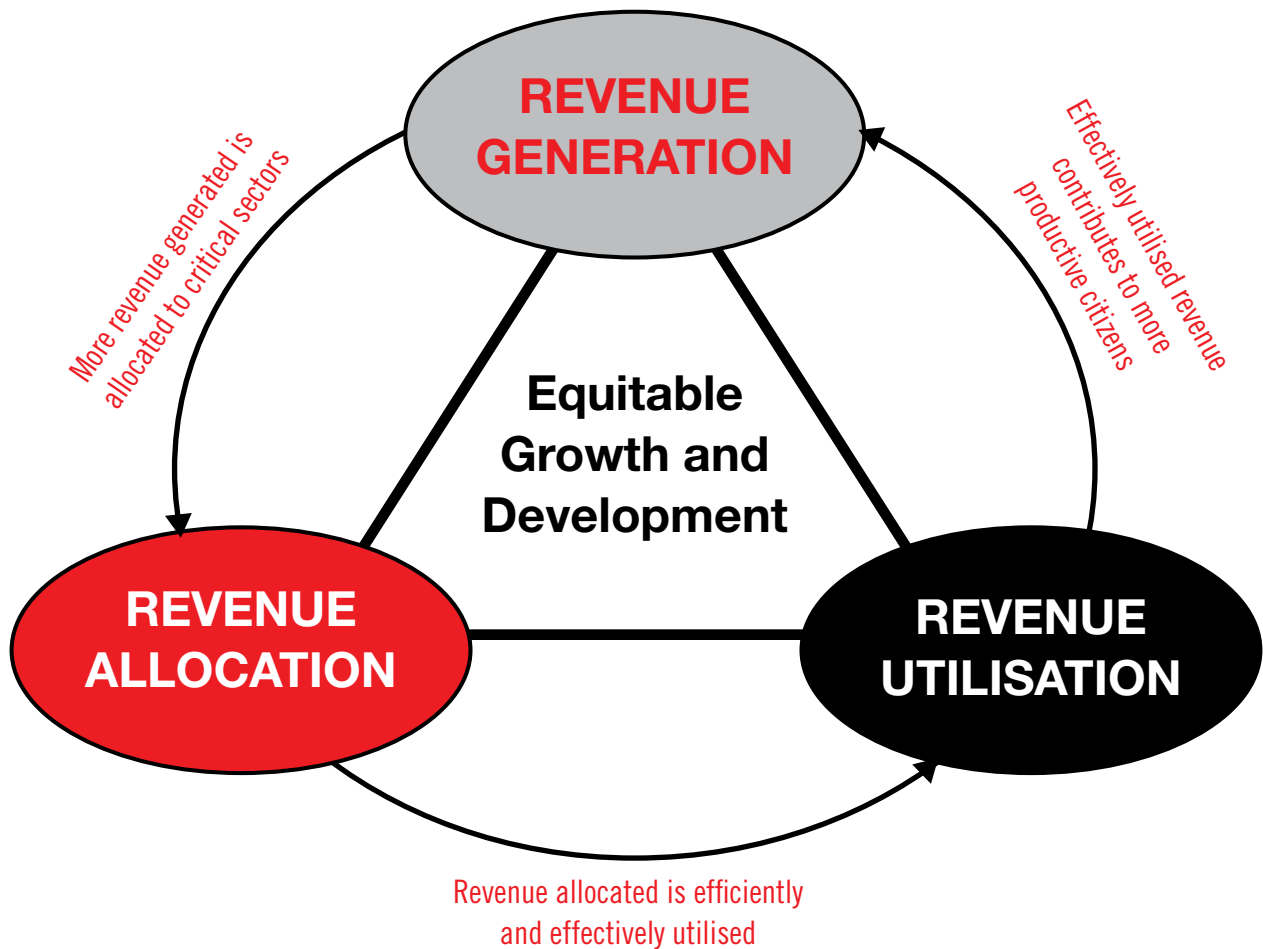
- Increased transparency, fairness and regulation of tax incentives and exemptions, as well as bilateral tax treaties;
- Reduced tax avoidance and dodging by both domestic and multinational corporations operating in Uganda
- Increased budget allocation in Agriculture, Health and Education sectors at national and local government level;
- Strengthened citizen agency to monitor and hold government accountable for effective utilisation of tax revenue in the provision of quality public services.

4. Framing ActionAid Uganda's Tax Power Campaign

Uganda is losing significant amounts of tax revenue right from generation, allocation and utilization, which would otherwise be used to expand and improve the quality of public services countrywide.

The framing of ActionAid Uganda's Tax Power Campaign is therefore anchored around three important interconnected pillars: Revenue Generation; Revenue Allocation; and Revenue Utilisation, with the ultimate aim of improved public service delivery and quality of life.

This important revenue triangle is illustrated in the figure below and explained in the sections that follow:



**Uganda is losing
over 690 billion
in Tax holidays
annually. Save this
money and improve
public services**



4.1 The Thrust of the Revenue Generation Pillar:

Our pillar on revenue generation is anchored on the analysis that reveals that Uganda's tax to GDP ratio is still one of the lowest in the region. Further, the country loses substantial amount of revenue through unregulated and non-transparent processes of granting tax incentives and exemptions to both domestic business entities and multinational corporations; tax evasion and dodging by both domestic and multinational companies; and absence of mechanisms for monitoring, evaluating and reviewing the value and the extent to which tax incentives are working, and finally through actions that have constrained the capacity of local authorities to raise local revenue.

While it is difficult to specify how much revenue Uganda loses due to tax incentives, The African Development Bank, 2009/10 made an estimate of 2 percent of GDP¹. This amounted to approximately 690 billion shillings (US\$272 million) in the 2009/10 fiscal year, more than the 437.17 billion shillings that the government contributed to the health sector that year.

Furthermore, the absence of a transparent and regulatory mechanism has narrowed the Uganda tax base and limited public and parliament scrutiny of the processes and decisions to grant tax incentives which often large multinational companies, domestic

companies, and individuals able to easily access and influence decisions in their favour. This is compounded by the harmful tax treaties that Uganda is a party to internationally.

We will therefore work towards the achievement of the following campaign outcomes:

- a. Increased amount of resources available to finance the country's development plans and thereby decrease Uganda's dependence on aid;
- b. Parliament participates in scrutinizing contracts made with domestic and multinational companies. This will ensure transparency in negotiation and implementation of contracts and compliance with set minimum standards and taxation commitments;
- c. Government puts in place a harmonised policy on tax exemptions and incentives and legislation to close revenue losing loop holes in the investment code and bilateral tax treaties;
- d. An active national citizen agency linked to and campaigning with other regional and international movements to lobby for development of fair and transparent rules by Global and East African Governments on corporate taxation leading to the reduction of revenue leakages through tax incentives, holidays and transfer pricing or capital flight.

¹ African Development Bank, Domestic Resource Mobilisation for Poverty Reduction in East Africa: Uganda Case Study, November 2010



Tax power - More tax revenue to agriculture can make Uganda a continental food basket

4.2 The thrust of the Revenue Allocation Pillar

The campaign focus on revenue allocation is founded on the belief that increased revenue generation coupled with prioritisation in revenue allocation to sectors (agriculture, education, and health) that directly improve the welfare of the poor will improve the well-being and livelihoods of the poor people trapped in poverty.

With regards to revenue allocation, the share of the national budgets received by key sectors of agriculture, health and education that directly improve the well-being of the poor still remains low and below the international commitments made by the government of Uganda. For instance Uganda pledged to allocate at least 10 percent of the national budget to agriculture, 20 percent to education and 15 percent to health in the Maputo, Dakar and Abuja declarations respectively. Ten years later, the budget allocation to agriculture has only risen by 0.2 percent to 3.4² percent in 2013/14. As a result the growth in the agriculture sector has been dismal, reducing from 7.9³ percent in 2001 to 1.4⁴ percent in 2012/13. This is much lower than the population growth rate of 3.2 percent and yet 66 percent of the Ugandan population depends on agriculture for a livelihood.

Similarly, the health sector accounted for 8 percent of the national budget allocation in 2013/14, less than the 15% commitment in the Abuja Declaration. This partly explains the low per capita health budget

allocation that has remained at USD 10 for the last five years far below USD 48 required for Uganda's National Minimum Health Care Package⁵.

Inadequate funding to the sector has resulted largely in poor education outcomes; insufficient infrastructure like classrooms and teachers' houses, sanitary facilities, girl child specific needs, teacher houses; and low motivation of teachers due to poor pay. In 2009/2010 the per capita expenditure on education was less than USD 2 per year⁶! But in addition to not meeting the agreed 20% commitment, the intra-sectoral allocation remains a problem. So despite receiving 17 percent of the 2013/14 budget, education outcomes are not likely to improve because the biggest proportion is consumed by salaries, leaving a small amount for capitation and school facilities grants. Our Tax Power campaign is therefore expected to lead to the following outcomes:

- a) 300 citizen groups actively demanding for increased budget allocation to agriculture, education and health due to increased understanding of the various taxation policies, and the linkage between taxation and public service delivery;
- b) Increased responsiveness of local government plans and budgets to locally determined priorities
- c) Increased access to quality and gender responsive public services in the sectors of education, health and agriculture.

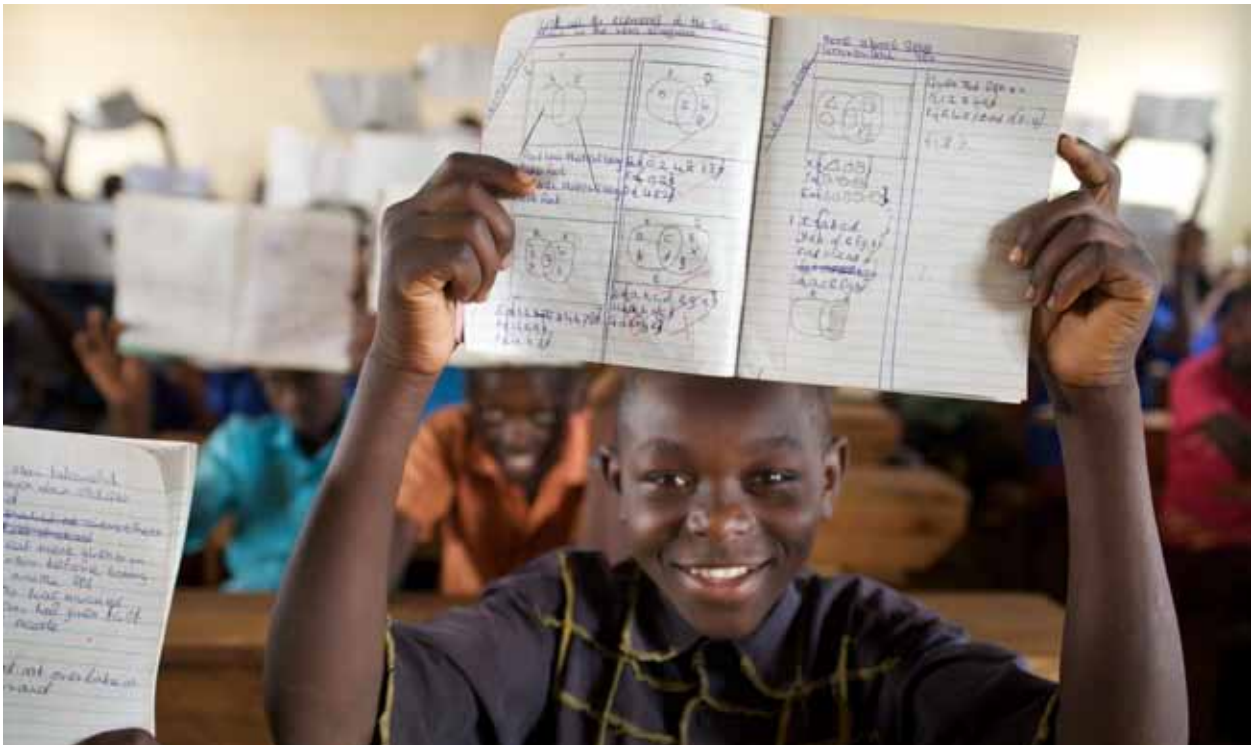
2 Ministry of Finance, Planning and Economic Development: The Background to the Budget 2013/2014

3 Ministry of Agriculture, Animal Industry and Fisheries: Agriculture Sector Development Strategy and Investment Plan: 2010/11- 2014/15

4 Ministry of Finance, Planning and Economic Development: The Background to The Budget 2013/2014

5 Parliament of Uganda: Report on Parliamentary Committee on Health on the Ministerial Policy Statement for The Health Sector 2012/2013

6 ActionAid Uganda: Public Financing for Quality Primary Education in Uganda: Allocation, Management and Utilisation



4.3 The thrust of the Revenue Utilisation Pillar

Our focus on revenue utilisation is informed by the high levels of corruption in Uganda. The consequences of corruption and lack of transparency around collection and spending of tax in Uganda are enormous, leading to loss of tax revenue that leads to poor quality of public services in most sectors. But despite this, there is limited citizen action to demand for transparency and accountability in fair tax collection and spending. This is partly due to limited knowledge on the indirect taxation system, and limited appreciation of taxation as a social and fiscal contract between citizens and the state.

And finally from the revenue utilization point of view, high levels of corruption and lack of transparency both at the central and local government levels undermine effective and efficient revenue collection and utilisation. Estimates by the World Bank indicate that Uganda loses close to 500 billion shillings a year due to procurement related corruption alone. The 2012 Transparency International report on corruption ranks Uganda among the most corrupt countries

in the world, coming 130 out of the 182 countries surveyed. The consequences of corruption and lack of transparency around collection and spending of tax in Uganda are enormous, leading to loss of tax revenue which partly contributes to the poor quality of social services in most sectors.

All this is further compounded by a relatively disengaged citizenry and thus limited citizen action to demand for transparency and accountability in fair tax collection and spending. This is partly due to limited knowledge on the indirect taxation system, and limited appreciation of taxation as a social and fiscal contract between citizens and the state. Under this pillar, we shall contribute to the following outcomes:

- a) Strong national and district Tax Power Coalitions of CSOs, Trade unions and Private sector organisations engaged in monitoring provision of public service and government programmes, and are holding their leaders accountable.

- b) Greater accountability and transparency of national and district local governments in delivery of public services as a result of monitoring, collective advocacy and campaigning by local communities.
- c) Increased exposure and reporting of cases of corruption in both revenue collection and utilisation and decisive action taken by authorities on the same.
- d) Greater public awareness and positive perception by citizens about the importance of tax, their obligations to pay tax and demand accountability.

5. Campaign Approach

A. Raising numbers and critical consciousness: This campaign will focus on building and empowering a critical mass of citizens who are able to link various forms of tax losses and the consequences for public service provision. It is this mass of citizens who will generate and exert pressure for the regulation of tax incentives, demand for increased transparency, fairness and accountability in the tax system, call for increased budget allocation to public services and hold government accountable in the provision of public services.

B. Working with the media: This is important to amplify the campaign and issues therein to a wider audience so as to foment public debate and solutions provision.

C. Evidence Building: Through research and case studies, we will build evidence to strengthen our advocacy work. Some of the areas we will undertake researches include: Research on the amounts of resources mobilized by local governments, where it is allocated to, and on the Cost Benefit analysis of tax incentives, administration and use of tax revenue in financing public services, etc. In addition we will conduct case studies on specific tax incentives and exemptions; and tax avoidance, etc.

D. Building Partnerships and Solidarity Networks:

We shall strengthen linkages between the local, national and international linkages to ensure that evidence built from the local level is used to influence and support the national and international level processes. This will also involve building allies, networks and coalitions with tax regulatory institutions and critical stakeholder such as UIA, URA, to access vital information on tax revenue.



**Taxes to
the health
sector will
save 20
mothers
dying daily**

If Tax money was **not stolen**, we would have **better** **public services**



ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities.

ActionAid is a catalyst for that change

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