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PROJECT BRIEF
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Mobilizing Domestic Revenues in Aid-Dependent Uganda

In aid-dependent Uganda, tapping into newly discovered oil reserves has the potential to transform the composition of public revenues and enhance fiscal space for social development. In a context of increasing electoral competition, the Ugandan government has recently legislated social policies aimed at reducing poverty. However, patronage and political pressures on the public budget mean that these policies are not receiving sufficient funding to adequately address poverty and social exclusion. Changing socioeconomic and political processes will also have consequences for Uganda's relations with the donor community, and the country's current dependence on aid is likely to decline.

Setting the Scene

After the overthrow of the authoritarian regime of President Idi Amin in 1979, Uganda experienced a devastating war and a period of violent power struggles among the various military factions that had fought his rule. The conflict had severe effects for the Ugandan society and economy, and led to a period of economic stagnation. In 1986 the increasingly popular rebel leader Yoweri Museveni and his National Resistance Movement (NRM) came to power, establishing a broad-based coalition representing various political and ethnic interests. Having brought about relative stability, the political leadership of Museveni is becoming increasingly dependent on patronage to keep the coalition together. Although Museveni has won all elections since 1996, the introduction of multiparty competition in 2005 led to growing oppositional pressure, while the institutionalization of political and civil liberties has allowed for more organized political citizen engagement.

Since the NRM came to power, GDP has grown steadily and sectors such as education and health have shown some improvements, as the government tried to safeguard pro-poor expenditure in a context of market-oriented reforms. Although the proportion of the population living below the national poverty line has been halved since the early 1990s, poverty still remains a significant challenge with 64.7% of the population living on less than $2 (PPP) per day in 2009. Likewise, human development remains one of the lowest in the world (see table).

Foreign aid has been a principal source of public revenue, accounting for almost half of government expenditure in 2011. Recent oil discoveries could potentially increase public revenue significantly, but there are concerns about the sustainability of revenue flows in the longer term. This is of considerable importance as tax collection as percentage of GDP has remained modest, with a small rise from 11% in 2006 to 12.6% in 2012.

Research Themes and Questions

(I) Who pays: Contestation, bargaining and outcomes

Patronage spending and costly presidential election campaigns are depleting the public budget and posing serious fiscal challenges to the Ugandan state. At the same time, elections have become an important channel for social contestation, which can influence public spending on social programmes. This was demonstrated by the implementation of the Universal Primary Education and Universal Secondary Education programmes, which were launched during the elections in 1996 and 2001, respectively.

In the context of mobilizing state revenues to respond to multiple demands, tax is an arena of social contestation. This became evident during the protests against the Graduated Tax (a direct tax which mostly affected poor and vulnerable households) in 2005. The tax was abolished prior to the 2006 elections, arguably as an attempt to satisfy Museveni's rural support base. A key challenge the government faces is broadening the tax base beyond foreign companies, to date among the largest taxpayers in the country, given the high proportion of workers in the informal sector.

Examining the role of actors such as members of parliament, civil society organizations, voters and

Politics of Domestic Resource Mobilization

The project seeks to inform global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For details and updates, see Project Brief 01/July 2012 on "The Politics of Domestic Resource Mobilization" and www.unrisd.org/pdrm.

Elections have become an important channel for social contestation, which can influence public spending on social programmes. Will the government deliver to the citizens?

UNRISD 1963-2013 50 YEARS Research for Social Change powerful individuals in bargaining processes, the country case analyses different forms of social contestation with regard to indirect, direct and local taxes. It maps the interests and strategies of actors involved in tax reform debates, and explores how social mobilization around tax issues is linked with demands for social provision or other claims on the government.

Indicator	Uganda
GDP per capita (current USD, 2012)*	547
Life expectancy (2012)**	54.5 years
HDI score 2012 (ranking)**	0.456 (161)
Inequality adjusted HDI (ranking)**	0.303 (161)
Gini Index**	44.3 (2009)
Mineral Dependence	
Total mineral rents (as % of GDP)*	0.00013% (2011)
Mineral revenue (as % of budgets)*	5.04% (2012)
Tax Performance	
Revenue as % of GDP***	12.6% (2012)
Net ODA received (as % of Central Government expense)*	49.5 % (2011)

Sources:
* World Development Indicators (WDI)
** UNDP Human Development Report Statistics
*** Index of Economic Freedom, Heritage Foundation, 2012

(II) Changes in key relationships: State–citizen and state–donor

There are signs that relationships are changing between the Ugandan state and its citizens, and between the state and international donors, with effects on public spending priorities. Despite recent attempts by the NRM to respond to popular demands by investing in infrastructure and structural transformation of the economy, the deficient provision of social services by the state is spurring public discontent.

The already low share of public expenditure allocated to health and education has shown a slight decrease in recent years, and inadequate funds and low staffing levels weaken the access to and quality of public social services in these sectors. The civil society environment is also becoming increasingly restricted and state controlled, as recently exemplified by the passing of the widely criticized Public Order Management Bill, which requires all public meetings to be registered with the police in advance.

As for donor-recipient relations, direct budget support—which had been stable over the past 20 years—has recently been cut as donors show their concern about patronage politics (seen in off-budget financing mechanisms). Against this backdrop, the country study explores how changing state-citizen and state-donor relations influence the prioritization of social programmes. It examines how relationships between key actors, interests and modes of financing have changed, and the impacts for social development outcomes.

(III) Upgrading institutional capacities for revenue mobilization and service delivery

During the structural adjustment phase, emphasis was placed on upgrading macroeconomic institutions and the banking system, which now enjoy high levels of confidence both domestically and internationally. Social and welfare institutions, however, have not followed suit. Constraints on the Ugandan state budget in combination with governance and administrative problems contribute to inefficient social service delivery on the ground, with basic health, education and sanitation services reaching only a small share of the population. Administrative decentralization has created more districts, with the intention to improve service delivery at a local level. Instead, however, this has further exacerbated existing weaknesses in administrative capacity and fragmented the financial resources allocated to local institutions. Additionally, the low tax take suggests that there is potential for improving the institutional capacity of the tax administration.

The country study looks at the trends and prioritization in budget allocation to social and fiscal institutions, and considers how differences in institutional capacity influence the ability to promote social development, either through revenue creation or specific spending on social policies.

Project Information

Funding

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Research Team

The country research is conducted by Anne- Mette Kjaer, Marianne Ulriksen, Jalia Kangave and Mesharch Katusiimeh. Katja Hujo and Harald Braumann are coordinating the research at UNRISD.

Outputs

Four Research Reports, a Synthesis Report and a Policy Brief.

Updates

www.unrisd.org/pdrm

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Through our work, we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

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About Project Briefs

UNRISD Project Briefs pose questions, flag ideas and contribute knowledge that can improve the quality of development debates, policy and practice. They provide a concise summary of an UNRISD research project, situating it within wider social development debates; outlining its focus, objectives and methodology; and highlighting interim findings.

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