

## **The dynamics of taxation, reciprocity and service delivery in a peasant economy:**

*Illustrations from the Ugandan districts Iganga and Mbarara*

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Draft: comments are welcome.

Revenue is a central feature of state building (Levi, 1981, Brautigam, 2002). Without revenue, the state cannot carry out core functions such as maintaining peace and security, upholding law and order, providing key services such as roads, water, primary education, and health care. In Europe, states often needed revenue to wage war and therefore gradually built administrative apparatuses capable of collecting revenue from an increasing number of citizens. At the same time, the state negotiated with the citizens who demanded representation if they were to be taxed. Thus, democracy developed along with taxation (Tilly, 1990, Giddens, 1985). Citizens may not have been happy to pay, but there was a certain quid-pro-quo logic: Because the state bargained with tax payers, quasi-voluntary compliance was obtained, i.e. the phenomenon of paying because everybody else does, but with the threat of the use of force if payments are not made (Levi, 1981).

These dynamics of strengthened state capacity and democratization can not be identified in Africa. War has not been a driving force in African state-building, because when the colonies were granted independence in the years following the Second World War, their sovereignty was guaranteed by the international community. Thus, there was not an urgent incentive to increase taxation, or to “broadcast power” over the entire territory, to use the terms of Jeffrey Herbst (2000). In stead, whoever gained power at independence also gained the right to demand development aid from Western donors (Jackson, 1990); aid that may provide a disincentive to expand domestic revenue collection, although the evidence is far from certain (Moore, 1997, Therkildsen, 2002).

Thus, in Africa, international relations do not constitute an incentive system that encourages tax collection, as they did in Europe. In addition, African economies are peasant economies that are difficult to tax due to widespread subsistence production and hence a large informal sector (Davey, 1974, Hyden, 1983, Bates, 1999). Trade, export and import have been the main sources of tax

revenue, whereas personal income tax has contributed little to government coffers (Rakner and Moore, 2002). For example, income tax's average share of government revenue in the 1990s was only 13.6 percent in Uganda, and for all of Sub-Saharan Africa, the share was 20.3 percent (World Bank, 2000). In general, the revenue collection of African governments has been low, averaging 23 percent of GDP during the 1990s (World Bank, 2000).

In addition to the adverse economic and international factors, political institutions in Africa have often been of a neo-patrimonial character; power has been concentrated in the hands of the president, patrons have favoured clients for political support, and public resources have been spent to buy political legitimacy (Bratton and van de Walle, 1997, Van de Walle, 2001). In such a system, citizens may often, and rightly, feel that the tax money is spent for other purposes than the provision of services. In other words, the quid-pro-quo logic is lacking. When democratization is introduced to such a system, the result may not always be more "quid-pro-quo". Vote-buying rather than improved services may sometimes result. Finally, when the quid-pro-quo logic is not there, force may be the only way to increase tax collection. The use of coercion and imprisonment has thus been identified as a central characteristic of tax instruments in Africa (Fjeldstad, 2002).

In sum, the interplay of international factors and domestic economic and political institutions imply that the dynamics of taxation, services and reciprocity which characterized European state-building can not be observed in Africa. Due to an adverse incentive structure and a lack of administrative competence, functioning tax systems are not in place. Introducing representation *before* functioning tax systems are in place may not generate more compliance or increase tax takes, as is the assumption in the quid-pro-quo argument. There is a need to know more about how taxation, reciprocity, and democratization are related (Rakner and Moore, 2002).

Local government in Uganda is a suitable arena for studying these relations. Local government taxation provides the arena where tax collectors face citizens directly. Central government taxation does not affect as many citizens since it is concentrated on trade and indirect taxes. In addition, service provision takes place at the local level. A comprehensive process of decentralization has been under way in Uganda since the beginning of the 1990s, and the local governments are now in charge of a large portion of development projects, as well as the provision of primary health and education. The local councils at the lowest level (village level) are now expected to receive 25

percent of the locally collected tax that remains at sub-county level. Hence, it is at the local level that people ideally should have a say in decisions regarding the allocation of revenue collected in their own community. It is at the local level people ideally should have an opportunity to feel whether the taxes they pay are spent on services to improve life conditions in their area.

This paper examines patterns of taxation, reciprocity, and compliance in two Ugandan districts, Iganga and Mbarara. The purpose is to come closer to answering such questions as “what are the relations between tax technology and compliance”?; “what are the relations between reciprocity and compliance”?; “What are the effects of democratization upon local revenue collection”? These questions are discussed by drawing upon data from an ongoing research project on taxation and services in Uganda. The data consists mainly of interviews with local government officials, politicians, and tax-payers in Iganga and Mbarara districts, as well as of data on local public finance and legal statutes. The paper sets out by briefly introducing Uganda and its history of local taxation, mainly graduated personal tax, and decentralization. It then briefly introduces the two districts, Iganga and Mbarara, and explores similarities and difference in revenue collection in the two districts with particular attention given to differences in tax instruments, i.e. assessments and enforcement, as well as differences with regard to local democratization and revenue collection. Finally, some tentative conclusions are drawn.

### **Uganda, local government taxation, and decentralization**

Uganda is a landlocked country in Eastern equatorial Africa. It has a fertile soil and regular rainfall, and its main export crops are coffee and cotton. Banana, maize, millet, and groundnuts are among the most important food crops. In 1990, 90percent of the Ugandan labour force worked in agriculture. This share had dropped to 85percent in 1990, but still by far the majority of the population is employed in agriculture. There is a slow process of urbanization, but in 1997, only 13.2 percent of the population lived in cities (as opposed to 8.8percent in 1980) placing Uganda among the least urbanized countries in Sub-Saharan Africa (World Bank, 2000).

A large part of economic activity thus takes place informally outside the wage sector, and there is a lot of subsistence production which is difficult to tax. It is not easy for a tax enumerator to establish exactly how much of a particular household’s produce is consumed by its members and how much has been sold for cash. The costs of collecting personal taxes are high relative to the amount of

revenue raised, and the administrative competence of local governments is not high. Transport and other allowances for collectors and enforcers may in some cases eat up almost all of the collected revenue.

### *Graduated tax*

Nonetheless, graduated personal tax is the most important, and in some sub-counties the only, source of locally generated revenues. It is also the only tax levied upon the large majority of Ugandans. Typically, graduated tax comprises around 70 percent of the revenue collected in district councils and about a third of revenue collected in town councils (Livingstone and Charlton, 1998; Republic of Uganda, November, 2002). Other local revenue sources are market fees and dues, licenses and permits (for example bicycle and motorcycle licenses), and property taxes.

Graduated tax has a long history in Uganda and is a successor of the hut tax introduced during colonial times (Davey, 1974). The hut tax was a flat rate tax, but during the late 1950s, it was decided to graduate it. Yet, it has never effectively become a progressive tax. The income bands are narrow, and a large part of the population falls within the same income brackets so that the effective graduation is relatively small. In addition, the tax ceiling has always been low so that people above a certain income all pay the same. For example, a teacher earning 100,000 shs a month will pay the maximum rate of graduated tax, which is 100,000 shs annually, and so will a top ministerial official earning over 2 million shillings a month. As of July, 2001, the maximum ceiling was raised from 80,000 shs to 100,000 shs, but this only has a marginal effect on the progressiveness of the tax. Since there is no lower limit, very poor people are taxed relatively hard. People earning from 60,000 shs a year or below should all pay the minimum rate which has been lowered from 10,000 to 3,000 shs (Republic of Uganda, February, 2003). People exempted from paying graduated tax are women with no income and the very old or very sick (Livingston and Charlton, 1998). In all, graduated tax is, therefore, in effect a regressive tax.

### *Local government vis-à-vis local politicians*

Graduated tax has been collected throughout the post-independence period. During that period, the local councils have experienced varying degrees of autonomy from the central level. At independence, local councils were elected and they were allegedly quite autonomous from the central level. It was reported that elected local councillors tended to put pressure on local authorities

to reduce tax rates, particularly in times up to an election (Davey, 1974). However, after 1967, where Milton Obote and his United Peoples' Congress introduced a one-party authoritarian system, the autonomy of local governments was reduced and a more centralized system put in place. Elections for local councils were abolished and tax rates set centrally. Since 1986, local elections have been reintroduced by President Museveni's National Resistance Movement government. The Movement system is based on two pillars. The first is the no-party system: Old parties are allowed to exist but not to hold public meeting or issue membership cards. All Ugandans are automatically members of the National Resistance Movement, and everybody can, as an individual, run for elections or be a candidate for a local council. The other pillar is the local council system: the village constitutes the lowest level (LC1), and all villagers are in principle members of the LC1. LC2 (parish) consists of members of LC1s, LC2 members are not elected directly. However, there are regular elections for sub-county (LC3) councils. LC 4 (county) is less significant but at LC5 level (the districts), elections are also important.

It is not clear how the re-introduction of local government elections has affected tax collections, but, as we shall see below, the political pressure on tax administration seems to have re-appeared. Most politicians seem to put pressure on tax administrators to be more lenient, for example to not put tax defaulters in jail. In addition, presidential elections also seemed to have had an effect. In 2001, the opposition candidate, Kizza Besigye, campaigned for the abolition of Graduated Tax, while President Museveni argued that that the minimum rate should be only 3,000 shs as opposed to 10,000 shs a year. It is thus possible to identify a certain political influence on tax administration in the context of central and local elections.

#### *The local governments' financial dependence upon central government*

During the 1960s, the tasks to be carried out by district authorities expanded along with expenditures on wages, education, and health. Although central government grants to districts were increased, their rate of increase was deliberately kept at a lower level than the rate of expansion of responsibilities. This was to introduce an incentive to expand locally collected revenue. However, although some districts did increase collections, many failed to keep up with the rapidly rising expenditures, refused to raise rates, and accepted the parallel deterioration of services (Davey 1974: 107-111).

Overall, districts were much less dependent upon central government grants in the 1960s than is the case now. In 1971, for example, although there was considerable variation among districts, some districts financed almost all of the expenditure on their own while others received about a third of total revenue from the central government. An extreme case was Karamoja which received 69 per cent of its total revenue from the central government (Davey, 1974: 27).

In the early 1990s when the decentralization programme was introduced by the government, the responsibilities of the local governments were expanded just as they were upon independence. With the 1993 decentralization statute and the 1997 local government act, local governments became responsible for primary, technical and secondary education, as well as hospital provision, field services and agricultural extension (Livingstone and Charlton, 2001, Republic of Uganda, 1997 – local Government Act). During the mid 1990s, central government transfers expanded in line with the increase in responsibilities, and they more than doubled in the four years prior to 1996/97 (Livingstone and Charlton, 2001: 83).

In the early 1990s, dependence upon central government funds was apparently extremely high and since then, local government revenue should have allegedly recovered somewhat in the mid-1990s (Livingston and Charlton, 2001: 84). However, since the late 1990s, there seems to have been a decline in local revenue collection. From 1997/98 to 2000/01 local revenues collected declined somewhat from 45.3 billion shs to 43.8, but then there was a sharp decline in 2001/02 to 18.3 billion shs (Republic of Uganda, February, 2003). This sharp decline could perhaps be explained by the fact that the minimum GPT rate was reduced to 3,000 shs annually with effect from July 2001. Although this could ideally mean that more people would pay, it seems the new minimum rate has in some districts been misinterpreted as a flat rate: in some districts, everybody, also people with incomes above 60,000 shs, now pay only the minimum rate (own interviews but see also Republic of Uganda, February, 2003). Local governments rely upon central government for over two thirds of their total expenditure on average, but this reliance varies among districts. For example, Iganga in the early 2000s depends almost entirely upon central government transfers while Mbarara district raises about 30 percent of its total revenue locally.

The general picture is that the Ugandan districts generate less revenue locally than in the 1960s. With decentralization, they receive more central government funding but not enough to cover the

expenses to the many new responsibilities. The general feeling among district staff is that the districts are entrusted with new responsibilities but not with sufficient additional funds. This means that local salaries are sometimes paid out of the locally generated funds although they were intended to be paid out of unconditional grants (own interviews, but see also Republic of Uganda, November, 2002). This again seems to create the feeling among citizens that the tax money they pay is spent entirely on salaries for local government staff (or corruption) which again creates an unwillingness to pay tax and sets a vicious circle in motion in which unwillingness to pay leads to tax evasion which again leads to less revenue collected and a further deterioration of local service delivery. This is the common description of the dynamics of taxation, but we will now turn to Iganga and Mbarara to see whether these dynamics can be identified here.

### **Iganga and Mbarara**

The two districts have been chosen for further examination primarily because Mbarara has allegedly experienced a period of significant socio-economic development during the 1990s, while Iganga's economy has stagnated, although it is by no means the poorest district in Uganda. Yet, because of Mbarara's growth and improvements of service delivery (primary education, and roads, but also, to some extent, health), it is a good case for examining the quid-pro-quo argument: has willingness to pay tax increased as a consequence of improved service, i.e. because citizens can now see a tangible return for their money? Or has the reciprocity factor not a lot to do with taxation at all? If the quid-pro-quo argument holds, we would expect to see increased tax compliance in Mbarara and even increased tax takes. We examine, then, first potential differences with regard to levels of service delivery and taxation. Then, we examine the opinions of officials: what do they perceive as the biggest problem with regard to taxation and do they see a relation between the level of services and tax compliance? Finally, we address the views of the tax payers themselves. How do they experience tax collection methods? Do they experience an improvement in services and if yes, how does that affect their ability, or their willingness to pay tax? What is their opinion about how local authorities manage finances and do they trust the local politicians? Are there other factors affecting tax compliance, for example, the financial obligations to informal arrangements such as burial societies or credit associations?

Neither Mbarara nor Iganga are among the poorest districts in Uganda. Iganga lies on the main road from Kampala to Kenya in Eastern Uganda, about three hours drive from Kampala, while Mbarara

is situated in the Western area five hours on the main road from Kampala towards Rwanda and Congo. Both Iganga town and Mbarara town have grown during the last fifteen years; however, while poverty in both districts has been reduced, in the Eastern area of Uganda poverty has only declined with 8 percent while it has declined much more rapidly in the Western region (Republic of Uganda, November, 2000). Thus, in the East 37 percent of the population live below the absolute poverty line, while the parallel figure in the West is 28. The average gain in household consumption between 1985 and 1997 was 18.6 percent in the western region and 12 percent in the eastern region.

### **Mbarara and Iganga districts, Comparing economic indicators**

	Mbarara	Iganga
Proportion of population dependent upon agriculture	90%	95% 74% depends on subsistence farming
Main crops	Banana (app. 220,000 HA) Coffee (app. 11,000 HA) Maize (app. 20,000 HA) Beans (app. 32,000 HA)	Maize (app. 40,000 HA) Cassava (app, 31,000 HA) Millet (app. 30,000 HA) Soya Beans (app. 31,000 HA) Coffee (app. 12,000 HA)
Number of cattle	889,500 (1997)	136,400 (1996)
Water supply	1000 springs 595 boreholes 119 Gf's 4 dams 32.4% access to safe water (1998)	1441 springs 225 hand pumps 200 bore holes Proportion with access to safe water: declining (1997)

Source: Iganga and Mbarara District Environment Reports. National Environment Management Authority (NEMA), Uganda.

Mbarara does not have food shortages. On the contrary, due to large amount of cattle, the district has sometimes been referred to as “the land where milk and honey flow on the paths”. One interviewee explained that with so much “matoke” (banana) people would not starve, they could just go out and pick a banana if they were hungry. On the contrary, there are areas in Iganga that regularly experience shortages of food.

Main economic activities in Mbarara are the cultivation of bananas, beans, maize, groundnuts, and field peas. There is also ranching and dairy farming with long horned cattle. In Iganga, there is finger millet, maize, sorghum, cassava, and rice. Both districts also produce some coffee; yet, in

Iganga, there is more subsistence production and less production of cash crops. In all, Mbarara seems to be a wealthier district than Iganga, but in relation to tax compliance, it is relevant to address the question of services and perceived changes in levels of service delivery.

### *Services*

Both districts have had a population of a bit more than one million people until Iganga was reduced to around 700,000, because part of it was made into a new district, Mayuge, with effect from June, 2001.<sup>1</sup> Mbarara has more primary schools than Iganga.<sup>2</sup> It also has a university and more hospitals than Iganga (three as opposed to one). Thus, on the face of it, the supply of services seems to be somewhat better in Mbarara than in Iganga. Although data listing expenditure for social services over a number of years are incomplete, figures of education levels indicate there has been an improvement in both districts since the early 1990s where decentralization got on its way, but education does seem to have improved most in Mbarara.

### **Comparing education services in Mbarara and Iganga**

	<b>Mbarara</b>	<b>Iganga</b>
<b>Population (estimate for the year 2000 based on 1991 census)*</b>	1,037,500	1,197,500
<b>Primary schools, government (2002)**</b>	587	314
<b>Primary schools, community and private (2002)</b>	210	45
<b>Total enrolment (2002), primary schools***</b>	336,145	257,234
<b>Primary Enrolment as percentage of total district population (2002)</b>	32.4	21.4
<b>Primary school total enrolment (1993)</b>	104,450	110,859
<b>Primary enrolment as percentage of district population (1991 census)</b>	13	11.7
<b>Total number of teachers in secondary schools, 1994</b>	293	376

<sup>1</sup> The comparisons of the two districts are based on figures referring to old Iganga.

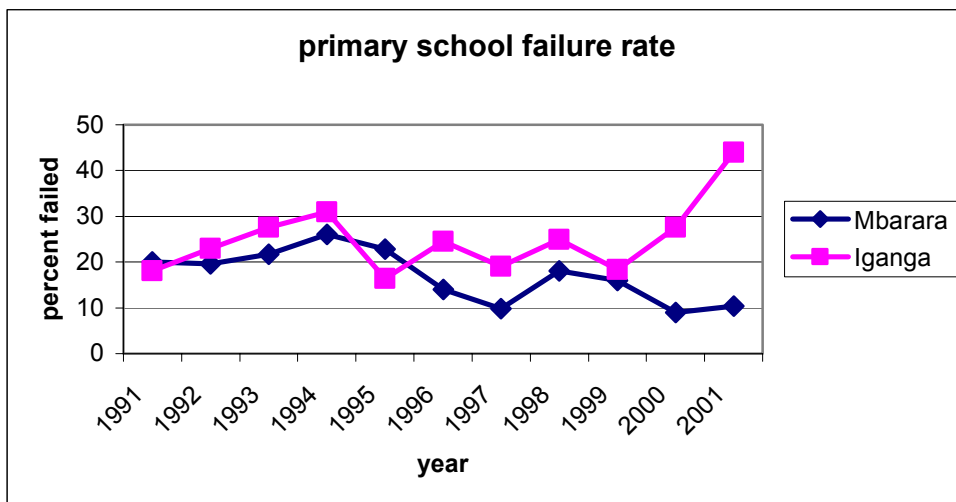
<sup>2</sup> District data on the Ugandan Government's web-site: <http://www.government.go.ug/districts/index.php>

<b>Total number of teachers in secondary schools, 2002</b>	1640 (increase of more than 5.5)	949 (increase of 2.5)
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\*Source: Background to the Budget, 2001.

\*\*Education figures are from Ministry of Education, District Profiles.

\*\*\*Numbers based on the premise that the 2002 figures are from “old” Iganga district (before the district of Mayuge was set up June 2001).



Source: Ministry of Education, district profiles

Although the evidence is not clear and probably not entirely reliable, there are sufficient indicators to show that although the level of education services has probably risen due to the Universal Primary Education programme in both districts, the improvement has been largest in Mbarara. Enrolment in primary schools is highest in Mbarara and has increased more than in Iganga. The number of secondary school teachers has risen more in Mbarara than in Iganga. The failure rate in primary schools shows that pupils do worse in Iganga overall, but the difference has grown. The average failure rates for the years 1991-1995 were 22 in Mbarara and 23.2 in Iganga, whereas the average failure rates for the years 1996 to 2001 were 12.9 in Mbarara and 26 in Iganga. Although passing exams may have a lot to do with the general level of wealth in the district and thus may be beyond the influence of public authorities, some of the advantage of Mbarara on the education side

can probably be explained by differences in the quality of public service delivery. In any case, the annual public expenditure per student in 2000 was higher in Mbarara (25,000 shs) than in Iganga (18,000 shs). Finally, total primary school income grew more in Mbarara than in Iganga between 1995 and 2000, as can be seen in the table below.

**Total primary school income (millions of Ugandan shillings)**

<b>Year</b>	<b>Mbarara</b>	<b>Iganga</b>
<b>1995</b>	2,787	2,475
<b>2000</b>	9,567	7,603

Source: Ministry of Education, District Profiles

In the health area, it seems Mbarara is better equipped with regard to hospitals and bed capacity; however Iganga has more health centres than Mbarara (Ministry of Health data).<sup>3</sup> Although the absolute number of health centres is highest in Iganga, the quality of health services is not necessarily better here. The average per capita expenditure on health care in 1996 was 6.4 US \$ per year in the western region and 4 US \$ in the eastern region (NEMA, 2000) indicating better quality health care in Mbarara. So far, figures showing changes in service levels in health have been unavailable. In all, it can be concluded that during the 1990s service levels in both districts improved with regard to education and health but more so in Mbarara than Iganga.

*District revenues*

Both Iganga and Mbarara depend much upon the central government for funding. The tables below for the financial year 1999/2000 show that there is no big difference in central government funding between the two districts. They receive approximately the same amount in central transfers, an amount that is calculated on the basis mainly of population. However, Mbarara collects much more revenue locally than Iganga. So, although the two districts received a roughly similar amount from central government (the block grants are based on a formula considering population size), Iganga collected much less than Mbarara in 1999.

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<sup>3</sup> The data from Ministry of Health and the district profiles are not identical. The ministry says 76 health centres in Mbarara, while Mbarara District says 110 ([www.mbarara.go.ug](http://www.mbarara.go.ug)). In Iganga there are 102 plus 27 for Mayuge which makes 129 for old Iganga district with a population similar to Mbarara's.

**Mbarara, FY 1999/2000 (shillings)**

<b>Funds released from central government</b>	
Teachers and delegated staff salaries	3,469,548,000
Conditional grants (water and agricultural extension)	124,311,000
Conditional grants (UPE)	764,714,400
Conditional grants (feeder roads and primary health)	270,673,000
Medical services	187,396,000
Medical workers lunch allowance	115,874,000
Secondary education	132,987,000
Urban authorities	82,254,000
Unconditional grants	1,349,351,000
<b>Sum</b>	<b>6,497,108,000</b>
<b>Locally collected revenue</b>	
Graduated tax	1,566,543,000
Other local revenue	524,090,000
<b>Total locally collected revenue</b>	<b>2,090,633,000</b>

Source: Ministry of Local Government, Decentralization Secretariat, January, 2000 and data from the Local Government Finance Commission (figures are approximated to the nearest 1,000 shs)

**Iganga, FY 1999/2000 (shillings)**

<b>Funds released from central government</b>	
Teachers and delegated staff salaries	3,094, 346, 219
Conditional grants (water and agricultural extension)	69,960,000
Conditional grants (UPE)	833,790,666
Conditional grants (feeder roads and primary health)	239,719,000
Medical services	116,858,000
Medical workers lunch allowance	120,296,000
Secondary education	76,476,334
Urban authorities	35,321,502
Unconditional grants	1,202,520,498
<b>Sum</b>	<b>5,789,287,000</b>
<b>Locally collected revenue</b>	
Graduated tax	323,054,757
Other local revenue	205,311,000
<b>Total locally collected revenue</b>	<b>528,365,849</b>

Source: Ministry of Local Government, Decentralization Secretariat, January, 2000 and data from the Local Government Finance Commission (figures are approximated to the nearest 1,000 shs)

This may have to do with different traditions for collecting tax in the two districts and with varying susceptibility to political influence. Due to tax riots in Iganga there have been no assessments since

the early 1990s which means that tax payers have simply paid the graduated tax they paid the previous year. The different practices regarding assessment of G-tax may explain why only 61 percent of the total local revenue take derives from graduated tax while in Mbarara 75 percent of total local revenue collected was graduated tax money in 2000.

Both Iganga and Mbarara have had significant declines in revenue collection, but Iganga's decline has been much steeper than Mbarara's. In 2001/02, Iganga district collected only 16 percent of what it collected in 1997/98, while Mbarara collected 38 percent of its 1997/98 collections.<sup>4</sup>

So, the differences between Mbarara and Iganga with regard to tax collection are not static, i.e. with Mbarara having permanently high levels of local revenue collection and Iganga low levels. On the contrary, there seems to be a general declining trend in the revenue collection of local governments, but the declines are more drastic in some districts than in others. Iganga has apparently responded more to the downward pressure than has Mbarara, an issue we will turn to now. The first question to address is how the two districts have responded to political pressure on tax collection. Then, we will look at tax payers views regarding tax administration, their perception of the use of tax revenue, and their views on politicians.

### **Political pressure on tax collection and administration**

In 2001, the presidential election campaigns were, as described above, characterized by arguments of lowering the personal graduated tax rates or abolishing the G tax altogether resulting in a lowering of the minimum rate to 3,000 shillings per person annually. Additionally, local politicians often campaign for lowering the Graduated Tax and they regularly get personally involved in cases of tax enforcement. The political pressure seemed in both districts to have had an effect but a much more significant one in Iganga where tax rates as well as enforcement practices had been affected, while in Mbarara, only the latter had changed.

**The tax rate:** In *Iganga*, the presidential campaign pledge had been taken quite literally, which means that tax payers in Iganga are now required to pay a G tax of 3,000 shs annually regardless of income. Graduated Tax has in effect become a flat rate poll tax. Seven out of seven tax officials interviewed in Iganga agreed that with the exception of civil servants (who were automatically

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<sup>4</sup> Calculations based on data from the Local Government Finance Commission

deducted from their salary) everybody now paid the same.<sup>5</sup> Attempts at estimating peoples' income and graduate their personal tax accordingly had long been abandoned in Iganga. The Iganga district administration had apparently stopped assessing incomes after some local tax riots in 1993/94 allegedly induced by local politicians. Between 1993/94 to 2001 people had been required to pay the same amount as they had paid the previous year. However, after 2001, that amount had been reduced to 3,000 shillings for everyone. The administrative staff interviewed agreed that the cause of the reduction to a flat low rate was political pressure.

*After political interference we had to reduce the G-tax to 3,000.*<sup>6</sup>

*The politicians tell people "no –don't pay", the LC3s have also campaigned and said 3,000.*<sup>7</sup>

The quotes are typical for the officials interviewed. The officials generally complain that the lowering of tax is due to local as well as central government politicians in search of "cheap popularity" as it is often termed. Even some politicians agree that political pressure has lowered tax rates although they tend to blame politicians at higher administrative levels. For example, on the question of whether he felt politicians intervened excessively in matters of taxation, one LC1 Chairman answers *Yes by lowering. They are sympathizing with their voters.*<sup>8</sup> When asked whether there is a difference between local government and central government politicians in this regard, he says *yes, there is that difference because local politicians don't have access to intervene. It is now decided at national level how we are paying. When it is passed at the district level there is no way you can intervene.* In this view, it is the presidential campaign above all which caused the implementation of the universal 3,000 rate.

An LC3 chairman blames the LC5 chairman who "ruined everything because he told people not to pay"<sup>9</sup>, while the LC5 himself says politicians never intervene.<sup>10</sup> However, that that particular LC5 did campaign for a lowering of the tax rate to a universal 3,000 is confirmed by other interviewees.

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<sup>5</sup> Also politicians and tax payers concurred with his view. Villagers in focus group discussions agreed that they were only paying 3,000 although they did not agree as to whether this was a proper amount. Politicians (four out of four) were also unanimous, however, one LC 3 chairman felt the reduction to a flat rate was the reason they were now unable to take development initiatives on the ground.

<sup>6</sup> M. Tantala, Assistant Finance Officer, Iganga District.

<sup>7</sup> Alex Nkulega, Sub-county Chief, Nakigo Sub-County.

<sup>8</sup> Waiswa Jackson, LC1 Chairman, Nasuuti North, Nambale Sub-County, Iganga District.

<sup>9</sup> Katuntu, LC3 Chairman, Nakigo.

<sup>10</sup> Kyafu, LC5 Chairman, Iganga District.

Iganga politicians thus do seem to acknowledge that political pressure has an important influence on the tax rate, although they are not willing to personally take the responsibility.

In Iganga, five out of seven officials mentioned “political interference” as the most important cause of inadequate local revenue collection while none of the Mbarara officials mentioned this problem.

In *Mbarara* the question of lowering the rate to 3,000 was not really an issue. Poverty and the agricultural economy were mentioned as the most important cause of low revenue takes rather than political interference. The campaign pledge had not, as in Iganga, resulted in a universal application of a 3,000 rate. Although the influence of politicians certainly had an impact, the administrative staff interviewed did not complain as much about tax rates that were politically set.

*The minimum we pay in G tax is 10,000 and the maximum is 100,000. The presidential campaign said 3,000 shs but it was a campaign. Even when you talk to the poor, they would say 3,000 is very little –you can do nothing with it.<sup>11</sup>*

The presidential campaign may have put a downward pressure on minimum rates in Mbarara, but the presidential pledge was clearly not taken as literally here where the 3,000 shillings were never applied as a universal rate.

In Mbarara, however, **assessments** of people’s property remained a problem. Six out of seven officials interviewed felt the assessment system was unfair, that some were overtaxed while others were under-taxed. Political influence on the assessment and enumeration process had previously been considered a problem. Local council chairmen used to participate in assessment teams which generally had resulted in assessments that were too low, because the local councillors knew his villagers and tended to want to protect them from high tax rates. Additionally, local councillors had a reputation of warning the villagers when the tax collectors arrived. Therefore, the Mbarara District administration had removed the local politicians from the assessment and enumeration process:

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<sup>11</sup> Interview with LC1 Chairman and LC1 Secretary, Mbarara District, Kakigani Parish, Nyayojo Subcounty. Sunday January 12 2003.

*In the past the LC1s were involved but found that they were trying to protect their political position and interfered with the assessment. Now the parish chiefs go with two individuals from the village who are not part of the executive committee. The LC officials tend to follow their own interests.<sup>12</sup>*

*The problem with the LC1s is that they have to go with us when collecting tax in order to identify tax payers. But they also want to be popular so they warn people when we are coming, or they do not take us to the right people. So now, we no longer tell the LC1 that we are coming.<sup>13</sup>*

Even some politicians agreed that it was in order for the LC1s to stay out of the assessment, and enumeration process because of their basic interest in support from people. An LC3 chairman who was about to hand over his office to someone else because he failed to get re-elected had this to say:

*The LC1s are afraid of loosing votes so if you ask them to assess peoples property, those who have will become have-nots!. We should be encouraging people to pay but in fact it is the opposite in some places. To have cheap popularity. I once rounded up 60 people in a parish so now they don't vote for me! I think that's why I did not get re-elected this time.<sup>14</sup>*

In all, in Mbarara political pressure on the assessment process had been but was no longer considered a problem (which does not alter the fact that assessment is still widely perceived as problematic). As noted, in Iganga, assessments were no longer carried out exactly because of political pressure, but in Iganga town, several officials complained about political influence on the **collection of market dues**. In Uganda, most collection of market dues is now privatized. The ones who can make the best offer (who can collect an agreed amount most cheaply) win the right to collect market fees in a particular area. These collectors deliver the agreed amount to the town's finance offices, and what they collect on top of the agreed amount, they can keep. However, since it is up to the town council to decide who is to win the tender, the Iganga town councillors allegedly receive part of the surplus market fees from the private collectors.

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<sup>12</sup> Henry George Bindeeba, Sub-county chief, Kikyenkye Sub-county.

<sup>13</sup> Parish Chief, Nyakayojo Subcounty, Kichwambe parish, Mbarara district,

<sup>14</sup> Silas Edward Kamanyiro, Local Council 3 Chairman, Nyakayojo Subcounty, Rwampare County, Mbarara District,

*The tendering system of collecting market fees has worked to give the tendering rights to the ones who campaigned for the local councillors. Therefore, the councillors control the tenders.<sup>15</sup>*

*The politicians have influence over the collectors, so we can do nothing –the ones who win the tendering are the ones who campaigned for the politicians.<sup>16</sup>*

So, in Iganga, political influence not only consists in the pressure to lower the minimum rate. It is also about corruption in administering the collection of market fees. Tax payers in both districts complained about having to pay very high market dues. Although tendering of the collection of market fees had driven up collections in both Mbarara and Iganga, it appeared that only in Iganga did this money directly favour politicians.

A final way in which politicians influenced tax collection was through influencing **tax enforcement**. In this regard, there seemed to be little difference between the two districts. Officials generally complained that they could no longer sanction tax evasion to the extent they could before the 2001 elections. Attempts to enforce collections appear to be rather sporadic and certainly not institutionalized. This is due to the general low capacity of the administration, but there is also political pressure to not be too harsh with people. However, because of the low degree of institutionalization, instances of extremely harsh behaviour do occur. In Iganga, the general tax effort is low, but enforcement is arbitrary and therefore cases of violence are often reported. The general way to collect tax that is not paid voluntarily is through road blocks or by finding people in the villages.

*Out of 3,000 tax payers in this sub-county, maybe 1,000 pay voluntary. Eventually, we may collect money from 1500 to 1800 taxpayers, the rest by the use of force. We put up road blocks, we use the local administration police with a staff of 6. If that fails, they go out –they move. They will ask people for their tickets. “At night?” No, not at night, during the day-time, because it gets dangerous –people come out with bangas (harvest instruments), and once a police officer felt so threatened he shot and nearly killed someone. So now the campaigners told people that they should not be harassed at night. If we harass them, then the people run to the LC5 chairman if there is a problem*

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<sup>15</sup> Assistant Finance Officer, Mr. Tantala, Iganga District, 16/01/03

<sup>16</sup> Luwano Ausi, Town Treasurer, Iganga Town Friday 17 Jan 2003.

*and then the chairman comes to us and asks us what that is all about. Fx, the man abandons his bicycle and runs to the LC5 chairman to say we have taken his bicycle and beaten him, and then we have to explain to the chairman that he abandoned his bicycle freely and we did not beat him. So, I tell the police to use minimal force.<sup>17</sup>*

This statement from a sub-county chief again emphasizes the role of politicians: locally elected leaders are apparently relied upon by villagers when they feel harassed by tax collectors. The statement indicates that people even claim to have been treated unfairly even if this is not the case. The chief clearly tells a story about how enforcement is becoming difficult because of politicians. A local councillor agrees with the chief and seems to regret the lack of use of force:

*We were told not to use much force, with that little force, no one pays.<sup>18</sup>*

The same appears to be the case in Mbarara. Officials stress that they first encourage people to pay voluntarily but if they don't, it is difficult to arrest them because of political pressure. In Mbarara, a few officials interviewed did not believe political factors affected enforcement but most reinforced the description below by the district planner:

*LCs have a constituency. They have to be sympathetic and lenient with this constituency. They therefore try to interfere with the civilservants work. If we have arrested someone, they say, take them out of jail, he will pay later. They tell us not to harass defaulters. This has played a big role in recent years.<sup>19</sup>*

A politician complains that even though he tries to convince tax collectors to be lenient with tax evaders, they sometimes do not listen:

*The LCs said the surcharge (a fine) should not be implemented (legislation was passed in the LC 5), but the civil servants referred to the law and therefore overruled it. They sometimes ignore us....*

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<sup>17</sup> Alex Nkulega, Subcounty chief, Nakigo Subcounty, Iganga District, Saturday, Jan. 18, 2003.

<sup>18</sup> LC3 Chairman, mr. Katuntu, Nakigo Sub-county, Iganga district, Friday 17/01/03

<sup>19</sup> Chris Boonah, District Planner, Mbarara District, January 17, 2002 (and again January 2003).

*The tax collectors are bad. They round up people at night and harass people. This year the president stopped it. When people are harassed I go to the sub-county chief and ask him to stop. But he may not listen, since I can only advise.*<sup>20</sup>

Another politician has the opinion that politicians often get their way in enforcement matters:

*As a politician you cannot campaign for more taxes. No politician can say he wants defaulters punished. Politicians have to say: don't punish them. The politician and the officials often diverge in opinion on this matter and the politician is often the strongest.*<sup>21</sup>

No one in Mbarara said enforcement was easy, but in general, an umbrella of problems such as the cost of enforcement, the difficulty of using road blocks, or the lack of clear legislation with regard to imprisonment, was mentioned in addition to political interference.

To sum up, in general there were many statements indicating that the politicians had more influence on tax administration in Iganga than in Mbarara. One LC5 councillor complained about politicians' lack of influence upon civil servants:

*There is also a bad relationship between civil servants and politicians. The sub-county chiefs ignore what we say. When a politician wants to please constituents, the civil servant wants to implement the programme. Sometimes we tell the civil servants to do something –like not to enforce the G tax. They do not listen. So, sub-county chiefs want to carry out the law (enforce taxation), and the politicians loose out.*<sup>22</sup>

Mbarara politicians complain they cannot affect the system of tax collection, and Mbarara tax officials unanimously say that politicians cannot influence the rate and the assessment and enumeration methods. However, with regard to enforcement, about half of the tax officials interviewed agreed that political pressure had resulted in less enforcement regarding tax defaulters. Iganga tax officials all agreed that political influence was a serious problem with regard to the tax

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<sup>20</sup> Mutabaszuri Eisa, Local Councilor (LC 5), Kicuzi subcounty, Mbarara District, January 18, 2002.

<sup>21</sup> LC5 Councillor, Mbarara District Council, January 18, 2002.

<sup>22</sup> Interview with Mutabaszuri Eisa, Local Councilor (LC 5), Kicuzi subcounty, Mbarara District, January 18, 12 o'clock.

rate, to market tendering, and to enforcement. Even some Iganga politicians were of the same view. In all then, the administration seemed to be strongest in Mbarara and has been able to resist political pressure to a larger extent than in Iganga. This difference may be due to a long history of tax collection here, in comparison with Iganga, where tax collection has traditionally been opposed. Political influence has been stronger here for years and the tax riots taking place in 1993/94 were allegedly politically induced.

The stronger tax administration in Mbarara seems thus to go back to colonial times. The two districts have had different experiences under colonial rule which may have affected tax practices. Kenneth Davey (1974: 141) notes that the Eastern region was very closely administered under British rule prior to independence: "Government supervised chiefs and councils rigorously and was most ambitious for their development". During the 1960s, the Eastern districts experienced the largest drop in tax coverage, and Davey finds it "tempting to suggest that the loss of efficiency has been greatest in the areas where it had been most dependent upon colonial leadership and impetus". On the contrary, British rule was not as direct and obtrusive in the western kingdoms which were less affected by colonial withdrawal. Moreover, the kingdoms had had a long tradition for organized tax collection, because the Omukama (the king in Ankole) had a chief tax collector who with regular intervals was sent to collect the Omukama's tax. Davey (1974: 67) took notice of the fact that in the 1960s, Ankole's assessment rules were more comprehensive and their enforcement stricter than other areas. Davey (1974: 141) argues that it is "likely that the traditional deference to chiefly authority of the interlacustrine Bantu has sustained tax administration in a time of political change".

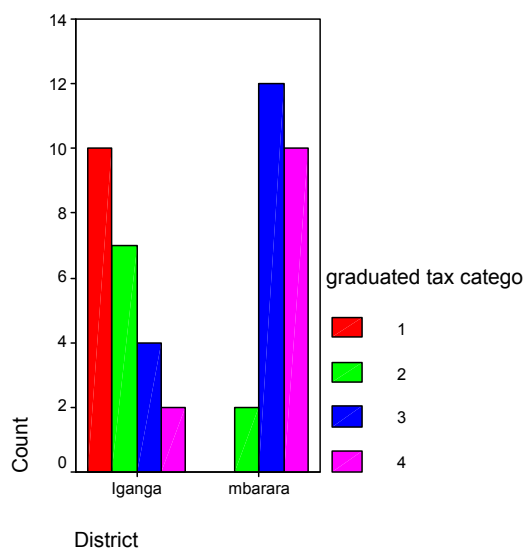
The finding that tax collection had been affected most by political pressure in Iganga may thus be a consequence of a lack of a tradition for strong tax administration. The administration is not as capable of withstanding political pressure as seems to be the case in Mbarara. This is probably a major explanation of why total local revenue collection has declined more in Iganga than in Mbarara.

In order to examine further the causes of decline, we will now turn to the views of the tax payers. Do their attitudes and perceptions of tax collection concur with the differences found when

interviewing officials and politicians? Are Igangans more sceptical towards tax collection and the use of tax revenues than Mbararans?

### Tax payers' views regarding tax administration and politicians

Responses among 100 tax payers in Iganga and Mbarara are complex but seem to support the observed differences between the districts. First, it seems Igangan respondents do pay less than the Mbararan respondents. Those who have informed us about the amount they paid in graduated tax last year, Igangans seemed to have paid far less than Mbararan tax payers.<sup>23</sup> Thus, nearly half of the Igangans who told us how much they had paid had only paid between 3 and 5 thousand shillings. However, in Mbarara, none had paid such a small amount while nearly all had paid above 11,000 shs.



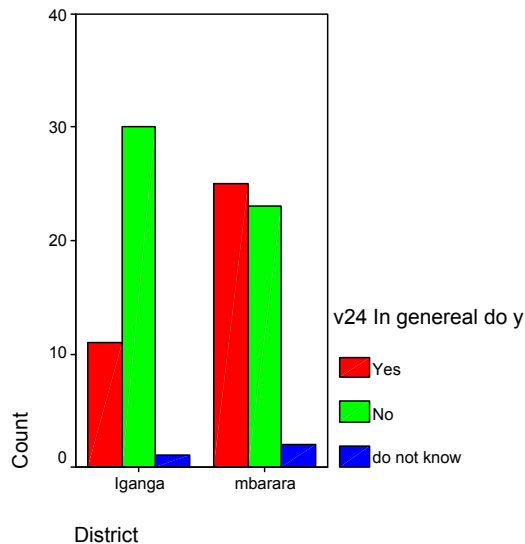
Category 1= 3 000 to 5 000 shillings  
 Category 2= 6 000 to 10 000 shillings  
 Category 3= 11 000 to 20 000 shillings  
 Category 4= 21 000 to 100 000 shillings

So there is evidence to support the claims made by interview respondents that many Igangans only pay a flat rate of 3,000. However, although Igangans actually pay less, they nonetheless do not seem

<sup>23</sup> 3 000 to 5 000 shillings is category 1, 6 000 to 10 000 is category 2, 11 000 to 20 000 is category 3 and 21 000 to 100 000 is category 4.

to believe tax collection has become fairer. When asked whether tax collectors treat citizens fairly, most respondents answer in the negative.

“In general, do you believe tax collectors treat citizens fairly?”



As can be seen from the bar chart, half of the Mbararan respondents believe tax collectors treat citizens fairly while in Iganga, only 26.2 percent of the respondents seem to believe so. Even though in all, most respondents do not think they are fairly treated, the proportion is much higher in Iganga (71.4 percent) than in Mbarara (46 percent). When studying the comments attached to the answer, most Igangans seem to think the rate is fair (many of them say “this is a fair amount” or “everyone can afford 3 000”), but what they do not seem to condone is the harsh treatment of defaulters. If people have not paid voluntarily, they are often chased, beaten, tied with ropes or thrown on trucks. Such remarks about harsh treatment also came from Mbararan “no”-respondents, but they were much fewer than in Iganga. But in Mbarara more respondents expressed concern that the minimum rate was too high for the poor to manage, many suggested to lower it to 3 000 shillings. So, most Igangans complained about unfair treatment but thought the rate was fair, while most Mbararans thought treatment was fair, while the rate for the poor was too high. Some of the Mbararan respondents commented that tax payers are generally treated fairly unless “people get stubborn and refuse to pay voluntarily”.

This could indicate that tax compliance is highest in Mbarara and that collectors do a better job at persuading people to pay voluntarily in Mbarara than in Iganga. Many Mbararan respondents comment on the question about being treated fairly that say “only the stubborn who do not want to pay, are treated harshly” or “only when they have not paid voluntarily, the tax collectors go for them”. There were no such comments in Iganga. Statements from officials interviewed in the two districts indicated that around one third of tax payers paid voluntarily in Iganga while around 80 percent did so in Mbarara. Focus group discussions seemed to confirm this. The views expressed generally in Iganga were that it was quite easy to avoid paying tax but that when tax collection was enforced it was enforced too harshly. What they meant by “unfair treatment” was the harsh methods used toward people who had not paid voluntarily.

Statements indicating that tax payers generally found it easy to evade were much like the two below:

*Yes, it is easy to avoid tax. Some even evade for five years. Q: Why do they dodge for that long? The parish chiefs do not even know the parish and the people in it. (a parish may have six villages). The parish chief just comes with a list and does not know who stays where so people can just run away if he comes. ....Those who run away are hunted for, but some disappear for good and they will never get them.<sup>24</sup>*

Question: Is it easy to avoid paying?

*M: It is easy to dodge tax especially if you do not go to other places and always confined at home....*

Question: What happens if you do not pay?

*M: Right now nothing happens to evaders because the evaders dodge in case of a road block.*

*M: Our tickets do not have photographs and if a person has not paid he borrows it from a friend and gives it back when he comes back.*

*M: One ticket can serve ten people.*

*M: If you do not pay tax you are arrested but the LCs are just lenient these days otherwise the law is in place.*

Question: What happens if you run - do they chase you?

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<sup>24</sup> Focus group discussion, Saturday, 18/01/03, Iganga District, Busoli Village, Nakigo Subcounty.

*W: They no longer chase people. Once in a while they chase the youth who always run faster than the tax collectors - tax collectors give up.*

*On the one hand*, then, people in Iganga found that they could get away with not paying. This is supported by responses to the question “Why do you think some people pay graduated personal taxes?”. Respondents were asked to tick the two most important reasons among five: They have no opportunity to evade, they fear punishment, they expect better services in return and, they feel obligations towards the government, or “other reasons”. Among Igangan respondents, only one person ticked “they have no opportunity to evade” while in Mbarara, fifteen respondents (one third) did so.

*On the other hand*, however, Igangan people told us about very rough experiences they had had with tax collectors. One woman had even been sexually abused by a tax collector and spoke as if several women had had the same experience. The women may be at the mercy of tax collectors when the husbands (who are not exempted as the women) run:

*They arrest people at night and if they can't find your husband they can ask you for sex, and if you refuse, they force you* <sup>25</sup>

*When you're arrested they treat you like a thief. They tie you with ropes and throw you on a rubbish vehicle (that are very dirty).* <sup>26</sup>

These latter statements come from a focus group discussion carried out close to Iganga town which may be why people in this particular focus group as an exception felt it was not so easy to avoid paying graduated tax. So, it seems while people perceive tax collection to be unfair, most of them feel it is easy to evade. This concurs with the observation that in both districts over ninety percent of respondents believe that some or all tax payers try to avoid paying.

In Mbarara, however, the focus group discussions indicated that tax evasion was not easy.

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<sup>25</sup> Focus Group Discussion, Friday, 17/01/03, Iganga District, Kasokoso South.

<sup>26</sup> Same focus group

*At the time of collection, if we have not paid voluntarily, the chief will come back with the LDUs. We do not give the money to the parish chief because he will give us no receipt (tax ticket), which means the parish chief eats the money. Therefore, we would rather take the money voluntarily to the sub-county chief rather than being round up by the parish chief and the LDUs. If someone does not pay, he is taken to sub-county headquarters, and their relatives have to come up with the money, else they will go to prison. After two weeks they will be released and go and look for the money to pay it. But sometimes you can bribe the parish chief or the LDU, before you are taken to the sub-county level.<sup>27</sup>*

In all, the system is perceived as more unfair in Iganga, probably because of harsher and more arbitrary treatment here. Evasion is, on the other hand, apparently easier in Iganga than in Mbarara where more people seem to be willing to pay voluntarily in order to avoid punishment but maybe also because there is a tradition for paying tax which is not found in Iganga.

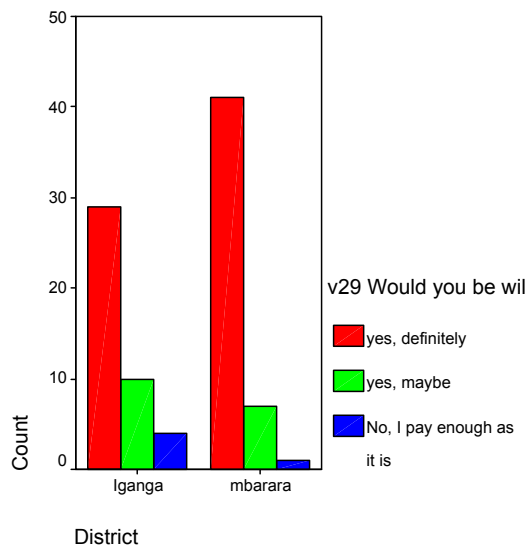
When asked what they would suggest in order to improve the methods of graduated tax collection, many Igangans suggested that people should be sensitized about the need of paying tax and that they should be treated less harshly. In other words, they wanted to change a tax culture characterized by unwillingness to pay and cynicism by tax collectors. On the other hand, most Mbararans had suggestions aiming at bringing the Local Council 1 chairman back into the enforcement and enumeration process.

One final indicator that compliance may be highest in Mbarara is that when asked if they were willing to pay more if they felt the government did more for them, most people answered yes. This was expected since it is to be assumed, according to a quid-pro-quo logic that people would pay more if they received more services in return. Yet, more Igangans than Mbararans replied that even if the government did more for them, they pay enough and would not be willing to pay more:

The question was: “Would you be willing to pay more taxes if you felt the government did more for your community?”

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<sup>27</sup> Focus Group Discussion, Mbarara District, Nyakayojo sub-county. January 11<sup>th</sup>, 2003.



In sum, with regard to tax payers’ views about tax collection methods, it seems lowering the rate and letting people evade, as happened in Iganga, does not give people the perception that they are treated fairly. As long as individuals regularly witness harsh treatment of tax evaders, and when they at the same time have grown up believing tax payment to be unfair, reducing rates is not sufficient to increase compliance.

### **The use of tax revenue**

In Mbarara 66 percent of the respondents felt their tax money was spent to improve services in the community while in Iganga this proportion was 37 percent. This indicates that more Mbararans in general feel the locally collected revenues are put to good use than their Igangan counterparts. Responses to other questions also point in this direction. For example, when asked who they believe play a large role in the supply of services to the community, 26 percent of Igangan respondents and 46 percent of Mbararan respondents point at the local government. Additionally, 55 percent of Igangans point to the central government while only 26 percent of Mbararans do so. In other words, more Mbararans attribute service delivery to the local government –a perception that is in accordance with reality, since Iganga depends more heavily on central government funding than Mbarara.

Finally, respondents were asked where they thought their tax money was least likely to be misused, and the responses indicate a greater suspicion towards the local authorities in Iganga:

<b>Where do you think the money you pay in taxes is least likely to be misused? (percent within district)</b>	<b>Mbarara</b>	<b>Iganga</b>
If paid to local authorities (LC1-LC2)?	26	21
If paid to local authorities (LC3-LC5)?	45	10
If paid directly to service facility?	24	8
If paid to URA?	3	0
Does not matter, tax money is misused in any case	45	64

Note: the percentages do not add up to a sum of one hundred as respondents were asked to tick maximum two.

As can be seen from the table, Mbararan respondents appear less suspicious toward the local authorities than Igangan respondents. In particular, a larger proportion of the former (45 percent) while only one tenth of the latter thought their tax money was least likely to be misused when paid to LC3-LC5 level which indicates they believe that the authorities who are currently managing the money. In general, more Igangans (64 percent) than Mbararans (45 percent) thought their tax money would be misused no matter by whom they were managed.

In all, both with regard to tax collection, and with regard to the use of tax revenue, respondents in Iganga district have more negative attitudes toward the bureaucratic staff, they believe tax collectors treat citizens poorly and that local authorities misuse tax money. In fact, they tend to attribute service delivery to central rather than to local government. In Mbarara, there are many negative attitudes too but the broad picture is more mixed than in Iganga and a larger proportion expresses positive views.

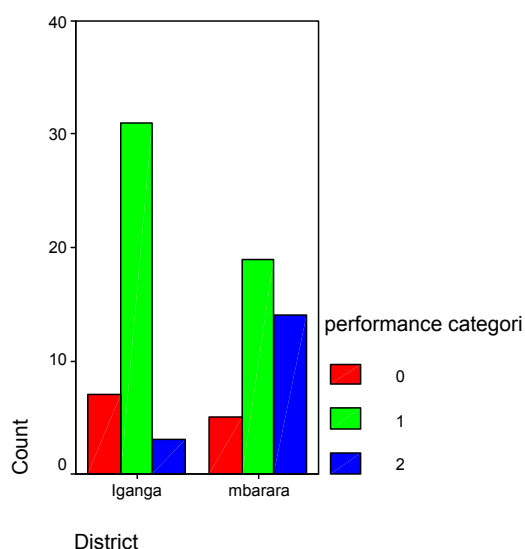
### **Attitudes toward service delivery**

The more positive attitudes in Mabarara may have to do with the fact that services have improved to a larger extent than in Iganga. There seems to be more satisfaction with services in Mbarara which may explain why more Mbararans seem to trust local authorities to spend their tax money.

**District \* performance categories Crosstabulation**

			performance categories			Total
			0	1	2	
District	Iganga	Count	7	31	3	41
		% within District	17,1%	75,6%	7,3%	100,0%
	mbarara	Count	5	19	14	38
		% within District	13,2%	50,0%	36,8%	100,0%
Total		Count	12	50	17	79
		% within District	15,2%	63,3%	21,5%	100,0%

Note: 0-3 points = category 0  
 4-7 points = category 1  
 8-12 points = category 2



Respondents were asked how they found the local government’s performance in the region with regard to tarmac roads, feeder roads, water, education, health, and security. They could rate performance as good, medium, or bad. A simple additive index was constructed where “good” would equal two points, medium one, and bad zero. In all, the index ranges from zero to twelve, where twelve is possible if the respondent has answered “good” to all of the six possibilities, while zero is consistently “bad”. In the table above, the respondents are categorized into three, as can be seen, where 0 indicates dissatisfaction with government performance, 1 is fair and 2 indicates a positive evaluation of local government performance. The table shows that more than a third of the Mbararan respondents rated local government service delivery highly while only 7 percent of the Igangan respondents did so.

Perceptions of performance in service delivery should arguably affect perceptions of how tax money is spent, which indeed seems to be the case. When the difference found in attitudes toward the use of tax money is controlled for attitudes toward local government performance, it becomes much less significant.<sup>28</sup> Hence, it seems that a large part of the explanation for negative attitudes toward local government is the perception of services. Improved services would arguably help nurture tax compliance, but this is of course the classic “catch 22” that improving services can hardly be done without improving local revenue, which again requires improved services. In addition, improving services may not be the whole solution, since it appears, as was discussed above, that tax culture also plays a large role. Some Igangans would not be willing to pay more, even if the government did more for their community.

Finally, we also asked Ugandans in focus groups as well as politicians and officials about their views on service delivery and tax compliance. The picture that emerges is more nuanced than the results from the questionnaires but it does not contradict the results. In general, we did find Mbararans to be more optimistic and although most did not believe improved services had led to improved tax compliance, many saw moves in that direction:

### ***Mbarara***

As has been illustrated, people do not complain against paying tax as such but rather they complain about the system, corruption, or a lack of service delivery. In general compliance is low, and collectors find it extremely difficult to collect the tax. One parish chief expressed it this way:

*People feel that what they pay will not do anything for the community. People are not well informed about the 25 percent that stays at the LC1 level. People hate us. All year I am a normal part of the community, but when it comes to tax time, people avoid me. They avoid you even if your business is something other than to collect tax.*<sup>29</sup>

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<sup>28</sup> The difference with regard to question number 27: “Do you think your tax-contributions to the local government are spent to improve services in the community” was significant with a significance level of 0.002, while when controlled for performance, the significance level rises to 0.531 for performance category 0.

<sup>29</sup> Interview with Parish Chief (LC2), Nyakayojo Subcounty, Kichwambe parish, Mbarara district, January 17, 2002, 1-2 o'clock.

The 25 percent of revenue referred to by the parish chief is the amount which is supposed to be transferred from the sub-county back to LC1 level. There were varying reports with regard to whether the 25 percent was useful, whether it benefited the people or whether the local chiefs used it for transport allowances or other expenses. In Mbarara, more respondents expressed satisfaction with the administration of the 25percent than in Iganga.

*People think the government takes money without giving anything back, but now with the 25percent to LC1 people gradually see the importance. The money that stays at the LC1 is actually a lot. We have given 25 million shs to the cells. They can do something with that money. This is money they never had.<sup>30</sup>*

The district planner in Mbarara was also optimistic about establishing the link between services and compliance. Although he did not feel the link was there he felt more information would help.

*We have provided more services since 1997. People don't look at things objectively but most of them know that the better quality in services is a cause of local government efforts. So people do see the services. They don't want to pay anyway. They emphasize if something has been done for them individually. Like if a politicians have given them a bag of salt or some beer. Yet I do think that over time people will realize that paying is to their own benefit. Especially if they are sensitised more. For instance, I see now that there is competition between subcounties. The subcounties that collect more get more from the districts and they improve at a higher rate. In the long run, this will help.<sup>31</sup>*

Many felt the 25percent amounts to very little and that the money is therefore of no use. This, however, clearly varies depending on the area. If there is a market in the area, the 25percent is enough to buy benches for the local school or to dig a bore hole. If there is no market, the 25percent may amount to only a few thousand shillings. This is one of the reasons why the use of the locally generated revenue varies. An LC5 councillor expresses it this way:

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<sup>30</sup> Interview with Silas Edward Kamanyiro, Local Council 3 chairman, Nyakayojo Subcounty, Rwampare County, Mbarara District, January 17, 2002. Interviewed again in 2003.

<sup>31</sup> Interview with Chris Boonah, District Planner, Mbarara District, January 17, 2002 and again in 2003.

*Tax monies are sometimes embezzled by the politicians, but what happens with that 25percent that stays at LC1 depends entirely on the leaders. In some villages the money has been spent on services, in others it is used as allowances. But if these people were trained and given skills they could use it for better purposes.*<sup>32</sup>

Some sub-counties apparently keep the 25 percent at their administrative level because they think if it is handed to the villages it will be of no use. If it stays at the sub-county level, it may be used to build a school, but at the village level, it may only be enough to pay transport allowances:

*The 25percent that goes to LC1 has done something. In my subcounty they don't allow the LC1 to get the money for themselves, so we have used it to repair roads and build schools. If given to the LC1s they would not utilize it in a good way.*<sup>33</sup>

In another sub-county, two village councillors were interviewed who agreed that the link between services and compliance was not there, but they argued that if people were better informed, the link could be established:

*Services are better these days because of UPE, but also pit latrines, bore holes. Within the last decade, services have improved. But some people expect services to come without paying. It is ignorance: People do not know that the money is used for schools etc. 25 percent gets back to LC1 level. It is about 68,000 shs in our parish. It is used for a school in the community. About 60 percent of the money we have spent for buying iron sheets for the schools. We work together with the other parishes around here. We also mend roads or improve water.*<sup>34</sup>

*People who say the tax money is embezzled are not saying the truth, because we do give 25 percent to the villages. I have a cell that received 3.5 million shs because there is a market. Others may get*

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<sup>32</sup> Interview with Mary Kabateraine, Local Councilor (LC5), Former secretary of social services, campaign manager for Besigye, Mbarara District, January 18, 10 o'clock am.

<sup>33</sup> Interview with Mutabasuri Eisa, Local Councilor (LC 5), Kicuzi subcounty, Mbarara District, January 18, 12 o'clock.

<sup>34</sup> Interview with LC1 Chairman and LC1 Secretary, Mbarara District, Kakigani Parish, Nyayojo Subcounty. Sunday January 12 2003.

*very little. But all get the 25. They define the problems in the community, they get the money and they decide what to do with it.*<sup>35</sup>

However, villagers interviewed in focus groups were of a different opinion, expressing the view that:

*This money is eaten by officials. The 25 percent does not come down from the subcounty level –it stays there. They ask us about our preferences, as to how the money should be spent, but we never see the money.*<sup>36</sup>

*The officials eat the money, it goes to their stomachs. For many years we did not know about the 25 percent but we found out three or four years ago. For all these years we did not see any money which means that the sub-county chief must have kept it. Even when the 25 percent comes it is too little to do something properly. Question: Have services in general improved? No, we only have peace and security, with regard to everything else, we are worse off.*<sup>37</sup>

So, although people in the two focus groups recognize that peace is nice, they argue that “you cannot eat peace”, and there is clearly a perception that tax money is spent by officials rather than on improving services. One Local Councillor told us that she had gone through sub-county budgets and found that by far the largest proportion of expenditure went to staff allowances rather than on improving services.

### ***Iganga***

In Iganga, many LC1s reportedly did not receive the 25 percent because it was argued that it would amount to very little. Instead, the LC1s were invited to participate in the planning at LC3 level.<sup>38</sup>

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<sup>35</sup> Mbarara, Nyakajojo sub-county, sub-county chief, Josam Kaberegye, mobile 077-383445 –interview carried out at subcounty headquarters, January 13, 11 am.

<sup>36</sup> Focus group discussion, Rugando subcounty, Nyambombo parish, Rubari LC1. Carried out January 12, 2003, in front of shop at local trading centre.

<sup>37</sup> Focus Group Discussion, Mbarara District, Nyakajojo sub-county. January 11<sup>th</sup>, 2003.

<sup>38</sup> Alex Nkulega, Subcounty chief, Nakigo Subcounty, Saturday, Jan. 18, 2003, Asuman Kyafu, Lc5 Chairman, Iganga District, 16/01/03

In one focus group in which the LC3 chairman participated, there was an understanding that the officials had to get their allowances:

*The 65 percent at the subcounty is too little to help us finish up with projects. The 25percent left at the village is just too little to do anything. What the government does is to supplement this and then we do some work, fx digging wells, or repairing roads. That breakdown (the distribution), all those deductions leave you with only 35percent for recurrent and capital expenditure but the recurrent expenditure might consume this money ( allowances) because the chairman has to get something.<sup>39</sup>*

People in a focus group near Iganga town told us that the 25 percent stays with the town council:

*We are told our tax money is used to buy drugs in hospitals but there are no drugs. This money is just eaten by the town clerk.<sup>40</sup>*

One LC3 chairman sums up the problem: since local collections have declined, the dependence upon central government funding has grown and people rightly feel that their money is spent on allowances for staff rather than services:

*We are not achieving any services from our local income. We are waiting for the government grants to come through, but of course they are conditioned. My sub-county has an income of six million shs., 35percent of which we give to the district. Of the remaining 65, one quarter goes to LC1. Of what remains, we have to pay allowances to tax collectors, to the councillors, to the chairman, and also transport expenditures. The chairman's allowance should not be below 70,000, but I have not been getting any at all. There is no money. Services around are improving, but this is from central government grants. With co-funding, we cannot even afford that. Fx a borehole of 320,000, and we are supposed to put in maybe 180,000 shs while the rest comes from central government, but we cannot meet our counter part funding.<sup>41</sup>*

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<sup>39</sup> Focus group discussion, Saturday, 18/01/03, Iganga District, Busoli village, Nakigo Subcounty.

<sup>40</sup> Focus Group Discussion, Friday, 17/01/03, Iganga District, Kasokoso South, venue: backyard of village household.

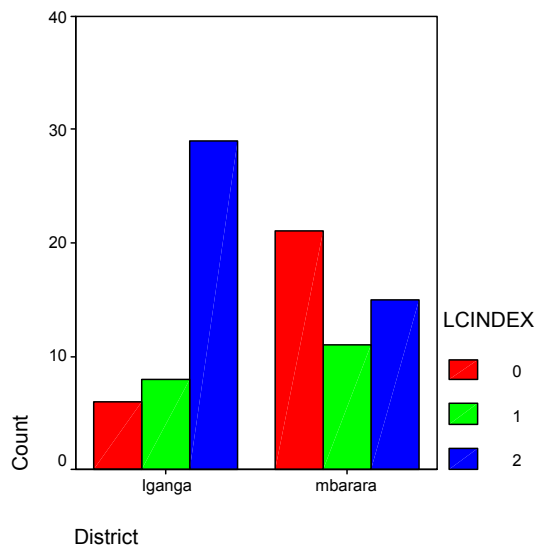
<sup>41</sup> LC3 Chairman, mr. Katuntu, Nakigo Sub-county, Iganga district, Friday 17/01/03

The story in Iganga thus was that in general, the money available at LC1 level was not enough to achieve improved services. There was also a general recognition that services may have improved somewhat but this was not from increased local revenue.

In sum, the accounts about services and taxes in Mbarara and Iganga are mixed and in general quite negative. There is widespread perception that local government revenue is not spent on services. However, the picture is clearer in Iganga where there is an almost unanimous opinion that local revenue does nothing while the message in Mbarara is not as clear.

### **Tax payers and politicians**

Finally, we will examine respondents' attitudes toward local councillors. As was discussed above, it seems local politicians have had much more of an impact on tax administration in Iganga than in Mbarara. They have succeeded in pressuring tax collectors to apply a universal flat GPT rate of 3,000 shillings. They control market tendering, and they actively prevent defaulters from being jailed. In Mbarara, the political pressure was limited to the enforcement part, where it was felt that enforcers had to be more lenient with defaulters than they used to be. This difference seems indeed to be reflected in the respondents' perceptions of the local politicians. It seems in Iganga the local councillors have become allies in order to combat tax collection while they are less so in Mbarara. In any case, when asked if you can get help from local councillors, more Igangans than Mbararans think they can. 67,4percent of Igangans feel local council members serve the community rather than their own interests, and 86 percent of them find they can ask the local council for help if there is a problem in the community, while the equivalent figures are much lower in Mbarara (36, 2 and 52 percent). The two questions (whether local councillors can be asked for help, and whether LC's serve the community, themselves or the central government) were made into a simple index where the answer "they serve the community" and "they can be asked for help" score one and other answers score zero. In all, zero means low trust in local politicians while 2 means high trust.



As can be seen from the bar chart, Igangans feel more positively toward local councillors than their Mbararan counterparts.<sup>42</sup> More than two thirds of Igangan respondents –and less than one third of Mbararan respondents- simultaneously feel they can ask councillors for help and that councillors serve the community rather than their own interests or the central government. This picture fits with the accounts of Igangan tax officials many of whom complain that the local councillors protect citizens from collectors rather than help mobilize graduated tax payers.

### Summing up

When summing up, it can be concluded that the dynamics of reciprocity, taxation and service delivery differ in the two Ugandan districts: Mbarara in Western Uganda and Iganga in Eastern Uganda. Mbarara is less dependent upon central government funding (70 percent of total local revenue is central government grants) than Iganga (90 percent). Mbarara may be a somewhat richer district but not to the extent that economic growth alone can explain the difference in dependence upon central government funding. Services have improved in both districts since the 1990s. In none of the districts have improved services led to higher tax compliance and increased graduated tax takes. On the contrary, locally generated revenue has declined in both districts in 2000/2001. However, the decline has been much steeper in Iganga than in Mbarara. This may be due to political pressure on revenue collection.

<sup>42</sup> ChiSquare is 13,11 and the significance level 0,001.

In both districts there has been political pressure to not use force and to lower the minimum rate. Both districts seem to use less force, but in Mbarara the administration has been able to resist political pressure to lower the general minimum rate and still attempts to graduate the tax through enumeration procedures. These procedures are, however, a cause of much resentment as people feel they are carried out in unjust ways. In spite of the unjust assessment procedures, a majority of Mbararans feel tax collectors treat citizens fairly while a majority of Igangans feel this is not the case.

The quid-pro-quo logic seems to be largely absent. In Mbarara a few respondents did refer to an emerging link between improved services and more compliance. More Mbararan respondents were positive about tax collection (fair methods), about performance (better services) and about tax money to be managed by LC3-LC5 levels. More Igangans are negative toward tax collection methods, about performance and sceptical that the tax money should be managed by the LC3 to LC5 administrative levels. Indeed they were more sceptical about authorities in general and many of them thought their money would be misused anyway no matter to whom they were paid.

So, although respondents in both districts complained about corruption and the money being eaten by officials or spent only for allowances, there were also significant differences between the two districts. Differences that may be traced to two factors: a higher service level in Mbarara and a different tradition of tax collection dating as far back as colonial times where Western Uganda had more autonomy and practiced its own tax collection and Eastern Uganda was more closely administered by the colonial authorities. Iganga had been experiencing tax riots in the early 1990s and had already given up assessing tax payers incomes by the time politicians started campaigning for a reduction of the minimum rate in the early 2000s.

Generating more local revenue would thus be easier if services were improved but since the strength of the district administration and the districts' tradition of tax collection play a role too, improving services will arguably not be sufficient.

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