

**Supporting Livelihoods, Evolving Institutions
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Enabling vs Disabling Institutional Contexts: Rural Livelihoods and District Council
Revenue Generation in Uganda and Tanzania

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1. The origin of the ideas to be discussed here is an ongoing research programme called LADDER **[PP1]** which is a livelihoods research project being conducted in Uganda, Tanzania, Malawi and Kenya **[PP2]**; serious concerns about rural revenue generation are a finding of the project that was not envisaged in its design, but was picked up by an explicit bias towards the institutional context of livelihoods and identifying the blockages people confront when trying to construct paths out of poverty.
2. The starting point is government decentralisation, and the benefits that this is supposed to bring to local level governance, the delivery of services in rural areas, and improvements in local level democracy and participation. Decentralisation has been pushed heavily by donors in our case-study countries. This has fitted in with the strategic thinking of some governments, for example, Uganda; however, others have signed up reluctantly, with backsliding and delays in implementation.
3. For our purposes, we would point to two different faces of decentralisation, which might be characterised as the “visible” versus the “veiled” **[PP3]**. There is no shortage of documents that extol the political, social and economic gains to be derived from decentralisation (the “visible”; also stated here as the “manifest”). On the other hand, there is a lack of systematic investigation into how it all works out in practice, and we would propose the existence of a different set of interests and pressures at work behind the scenes (stated here as the “veiled” or the “latent”). The visible face of decentralisation contains all those desirable attributes that donors and optimists would like to see: participation & empowerment leading to identification of needs and wants; democracy, efficient delivery of services; good governance and so on. The veiled face of decentralisation has attributes that might be considered less desirable: patronage, loyalty, control, revenue extraction.
4. Where actual decentralisation processes emerge between these two positions matter a lot to rural livelihoods and rural poverty reduction. Local government and politics and how they work do after all constitute the predominant part of what may be thought of as the “institutional context” of livelihoods: village level authorities are typically linked to decentralised representation in some way; district councils pass bye-laws and regulations in district centres and these are typically implemented by sub-district or village authorities, who may also collect tax revenues on behalf of the district.
5. Local taxation is potentially an unexciting topic; indeed you can see most people’s eyes glaze over when it is mentioned. Yet the destructive effects that local revenue generation can have on local initiative and on the ability of the poor to construct pathways out of poverty are serious and alarming. In our own history we have numerous folk legend examples of the rural poor groaning under the weight of tax burdens imposed by greedy local power brokers; Robin Hood was, after all, the archetypal tax dodger and resistor.

6. In what follows I would like to emphasise something fairly obvious that nevertheless needs to be said: taxation is not just a matter of some neutral bureaucratic process called revenue collection – the scope and scale of rural taxation, and the way its' collection is conducted, in large part determines the relationship between government and governed in rural areas. A rapacious tax collection system, involving multiple tax extraction from unwilling taxpayers virtually ensures an overall sense of subordination and mistrust, and reinforces the status of the rural populace as subjects rather than citizens. More than this, the tax regime may distort relative prices, shrink participation in markets, discourage investment, and in all these ways seriously retard poverty reduction, and counteract other efforts to reduce rural poverty.
7. In different ways, yet with rather similar outcomes, Uganda and Tanzania illustrate these points rather well. Rural Ugandans face an immense array of taxes [PP4]. There are: graduated taxes (poll taxes), business licenses, sales taxes, market taxes, transit taxes, taxes particular to livestock movement, and taxes particular to fishing as an occupation. All monetised activity in rural Uganda is taxed – as soon as something is traded in the monetary economy it becomes liable to tax. The guiding principle can be summed up as “if it moves, tax it”. Examples of business taxes [PP5], crop & livestock taxes [PP6], and fish taxes are shown [PP7].
8. How severe is the incidence of these taxes? Well, systematic work remains to be done, but an example involving banana traders in Mbale District in the east of the country is illustrative. Bananas are purchased on the slopes of Mt Elgon to take for sale in the town of Tororo on the Uganda-Kenya border [PP8]. An initial purchase tax is paid at the market of 200/-. Then a transit tax is paid when the bananas cross a district boundary (further 200/-) on the way to the destination market where another 200/- must be paid. The ratio of taxation on the purchase price is 30%, and on the sales price is 17% [PP9].
9. Tax collection in Uganda is done by private revenue collectors. This is a very advanced idea to implement in a poorly developed market economy where trust in market transactions is anyway very weak and needs nurturing rather than discouraging. Private revenue collectors tender to the district council for the right to collect taxes in a specified sub-county for a specified time period; the basis of the tender is the sum of tax that will be passed to the district revenue office. There is much potential for malfeasance in this system – collusion between members of the tender board and tax collectors, collection of unreceipted taxes, or differences between coupon vs actual taxes paid. Estimates in one community suggested that the revenue collector had collected around US\$ 300,000 per month while passing on just US\$ 30,000 of this to the district revenue office.
10. Like their Ugandan counterparts, rural Tanzanians are subject to an immense array of taxes some of which have been in place for a long time e.g. the bicycle tax [PP10]. One official report states that there are no less than 129 different types of rural tax in place in Tanzania. Since these taxes are similar in their array to those for Uganda, further examples of them are not given here. For many of the smaller activities carried out in villages such as petty trading or small eateries a daily charge is levied which is between 200/- and 400/-. When calculated on an annual this can amount to more than an annual license for a larger shop. These daily taxes constitute a significant share of daily takings.

11. While multiple taxation involves a vast number of small-scale extractive transactions, and may be punitive in its incidence in each small case, in aggregate the quantity of revenue that it generates for local authority finances is quite small. In Uganda, the contribution of locally raised revenue to total budgets in three districts was between 4 and 10 per cent [PP11]. Similarly, in Tanzania it was found that local revenues corresponded to 10-11 per cent of district total revenues. The rest comes from outside in the form of conditional grants, block grants (unconditional) and direct donor funding in those districts lucky enough to be espoused by a donor.
12. Then there is what is achievable with this local revenue generation, over which the district council has complete control. The answer is not very much. In Uganda it was found that 90-95 per cent of locally generated revenue was spent on sitting allowances of councillors. In Tanzania, in Morogoro Rural District, nearly 90 per cent was spent on administration and allowances [PP12]. The remaining 10 or 11 per cent was shared across community development, agriculture, buildings, forestry & bee keeping, trading and cooperatives.
13. Some points arising (for both cases) [PP13]:
 - (a) most economists would concur that bad taxes are ones that distort relative prices, discourage market development, scare away traders, and add unreasonable costs to productive enterprises.
 - (b) two of the favourite categories of taxes of district councils in both countries - trading levies (e.g. crop taxes) and business licenses - fall into this category
 - (c) while the tax burden on the poor rural individual of these multiple taxes is likely to be substantial, in Uganda the total amount collected relative to local authority budgets is derisory (less than 10 per cent); so all that pain is being caused for very little gain
 - (d) the amount collected is insufficient to do anything with this revenue in terms of improved services to the rural population; data seems to indicate that almost all of it is swallowed up in the sitting allowances of local councillors
14. The underlying premises are understood (a) that district councils need budgets to deliver local services, and (b) that a proportion of these budgets should be locally raised so that a connection is made in the minds of taxpayers between council performance in the delivery of services and taxes paid. Nevertheless, some alternative ways of achieving these goals need to be considered [PP14]:
 - o tax systems need simplifying; an immense array of taxes is costly to collect and impossible to monitor in its effects
 - o design needs to incorporate the idea of a threshold below which poor people are excluded from the tax net
 - o for small enterprise, taxes need to be low and predictable: a flat rate business license for all businesses that fall below some critical level of employees is preferred.
 - o possible alternative taxes to consider are shares of VAT already collected by govt, and property taxes (on houses and land)
 - o need to build in incentives for tax to be spent on service delivery e.g. matching funds from central government.