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A Political Economy Analysis of Domestic Resource Mobilization in Uganda

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prepared for the UNRISD project on
Politics of Domestic Resource Mobilization for Social Development

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This paper is part of a series of outputs from the research project on The Politics of Domestic Resource Mobilization for Social Development.

The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For further information on the project visit www.unrisd.org/pdrm.

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Acronyms

CSO	Civil Society Organization
GDP	Gross Domestic Product
CNOOC	China National Offshore Oil Company
DI	Development Initiatives
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICTD	International Centre for Tax and Development
IFI	International Financial Institutions
IMF	International Monetary Fund
MOFPED	Ministry of Finance Planning and Economic Development
MP	Members of Parliament
NDP	National Development Plan
NCC	National Chamber of Commerce
NORAD	Norwegian Agency for Development Cooperation
NRM	National Resistance Movement
PAF	Poverty Action Fund
PEPD	Petroleum Exploration and Production Department
PEAP	Poverty Eradication Action Plan
PSA	Production Sharing Agreement
PSF	The Private Sector Foundation
RoU	Republic of Uganda
UGIETA	Uganda Import and Export and Traders Association
UGX	Ugandan Shilling
UMA	Uganda Manufacturers Association
UPE	Universal Primary Education
URA	Uganda Revenue Authority
VAT	Value Added Tax

Summary

This synthesis paper brings together the research findings from four papers prepared by the Uganda team as a part of the UNRISD Politics of Domestic Resource Mobilization for Social Development project, which addresses three broad themes: bargaining and contestation, key relations, and institution building with regard to mobilizing resources for social development. In the paper we analyse how political economy factors affect revenue raising and social spending priorities in Uganda. We establish a theoretical framework based on the political settlement theory, within which we explore instances of revenue bargain, which we understand as political negotiations that shape revenue mobilization, the actual revenue composition and policy priorities guiding revenue allocation. We focus on three instances of revenue bargains: legislative tax reform, institutional performance of the revenue agencies, and policy making. The first two instances relate to the actual mobilization of resources, whereas the third example focuses on bargains over spending priorities within a given revenue base. We find that in Uganda, a low-income country with competing political factions, there are specific challenges to mobilizing resources for social development. The need to maintain political power has led to reduced tax intakes, as a result of abolishing taxes levied on rural voters and introducing tax exemptions for powerful supporters. On the spending side, social development concerns compete with other public policy areas as well as the pressure to allocate resources for political purposes.

Introduction

There is good news in the agenda for the Third International Financing for Development Conference... . For the first time, domestic resource mobilization is more prominent than international aid. The emphasis is on the ways in which the governments of developing countries can raise and leverage more financial resources for development.¹

Domestic resource mobilization is increasingly regarded as a central element in financing social development as well as broader development goals in the Global South, and for good reasons. As an alternative and complement to aid, the mobilization of domestic resources can bridge critical funding gaps, enhance national ownership, and strengthen citizen influence on the spending priorities of governments, all factors that have the potential to improve social development. However, low-income countries face particular challenges in broadening their tax base and improving tax compliance, as is the case in Uganda. Some of these challenges are economic and technical in nature (such as, how to tax the large informal sector), while others relate to issues of institution building and governance. Although such challenges are not easily resolved, they have

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