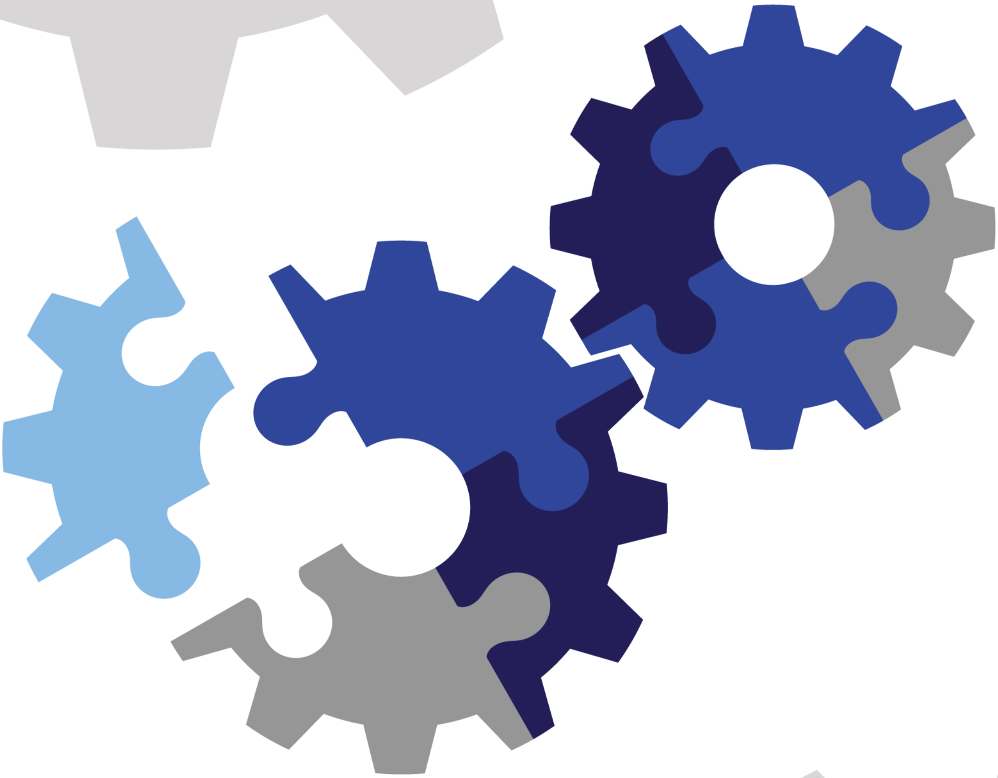
MINDSET SHIFTS FOR OWNERSHIP OF OUR NATIONAL DEVELOPMENT: THE CASE OF DOMESTIC FINANCING IN UGANDA



A Uganda National Academy of Sciences Consensus Study Report

UNAS

Sciences for Prosperity

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Mindset Shifts for Ownership of Our National Development: The Case of Domestic Financing in Uganda

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ACRONYMS

ACODE	Advocates Coalition for Development and Environment
BOU	Bank of Uganda
DRC	Directorate of Revenue Collection
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GT	Graduated Tax
IFI	International Financial Institution
KCCA	Kampala Capital City Authority
LCP	Local Content Policy
LTO	Large Taxpayers Office
MDA	Ministries, Departments, and Agencies
NDP	National Development Plan
NIN	National Identification Number
NOC	National Oil Company
O&G	Oil and Gas
PSFU	Private Sector Foundation Uganda
PSO	Public Sector Office
SAP	Structural Adjustment Program
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
UCB	Uganda Commercial Bank
URA	Uganda Revenue Authority

Executive Summary

Uganda is currently in a unique position. As a number of different national, continental, and global agendas and plans are both beginning and ending, an opportunity exists to re-examine its systems and processes of development. Uganda has recently started its third National Development Plan in 2020 as the continental African Union Agenda 2063 continues and the end of the Sustainable Development Goals in Agenda 2030 are fast approaching. Historically, most discussions regarding sustainable development in Uganda have tended to focus on technical solutions to its various challenges, whether they are economic, political, or social. However, the effectiveness of these solutions has consistently been impeded by their implementation. One of the more underappreciated aspects of implementation has been the fact that at the core of any sustainable development agenda is a collective mindset that owns and actively participates in the process of development. The active participation and leadership in the process of development by Ugandans creates the foundation for sustainable development because individuals, communities, and institutions build the necessary confidence to pursue increasingly complex and challenging solutions to their problems.

One of the most pressing concerns underpinning the challenge of implementation is the approach to financing sustainable development. Currently, public and private resources are being leveraged towards improving development indicators, with little focus given to how those resources can stimulate mindset shifts towards greater ownership of the development process. In part, the focus on development indicators has been due to the substantial influence of conventional methods of analysis to assess Uganda's economic trajectory. While those methods have been instrumental in creating Uganda's current economic success, a holistic approach to achieving sustainable national development remains widely debated.

This study aims to expand the scope of analysis to consider how ownership of the development process can also strengthen the impact of domestic investments. To consider the challenge of how to invest domestic resources in a way that supports ownership of the development process by Ugandans, the Uganda National Academy of Sciences (UNAS) convened a committee of experts to review scientific evidence and come to consensus on recommendations for action. The Committee responded to a series of questions from stakeholders and distilled these questions into four distinct challenges in the current financing approach to building ownership of the development process. These challenges are: a focus on improving development indicators to the exclusion of mindset shifts; a lack of clarity on which stakeholders should be involved financial decision-making; stricter oversight of public institutions as a means of building trust not having the desired effect; financial innovation being stifled due to the current socio-economic-political conditions.

One strategy to address these challenges is to focus on competitive advantages that create programmatic success. By capitalizing on competitive advantages, leaders and participants in the development process can build the confidence necessary to pursue increasingly complex and innovative solutions to their development challenges. Competitive advantages are opportunities that capitalize on timing, scale, and responsiveness to change. This study identifies four angles from which to approach competitive advantages: finding and using existing competitive advantages; creating competitive advantages; using benefits of indirect contributors to competitive advantage; and using the successes of those advantages to create an ongoing cycle of new advantages.

The Committee focused on three areas of inquiry: institutions, taxation, domestic and external financing, and their relationships with ownership of the development process.

Institutions as Facilitators and Builders of Trust

Institutions, broadly understood, are key pieces in building a process of development that is owned by stakeholders because they represent incremental and accumulated consensus on how decision-making processes should function. In examining the deficit of trust in government organizations, the Committee considered the ways in which public institutions lack the perception of legitimacy necessary to effectively establish tax compliance. Taxpayers are more likely to comply with tax demands if they experience tangible benefits from public spending, and an absence of these benefits has meant poor perceptions of government legitimacy and low tax morale. Aggressive decentralization efforts that occurred without commensurate financial and human resources have resulted in a proliferation of districts, smaller shares of available funding, frustrating service delivery, and strict accountability measures. Other blocks to tax participation come from a lack of clarity on tax obligations and skepticism around the benefits of tax compliance by Uganda's large informal economy.

Based on the evidence presented in this study, the Committee recommends:

1. The Government of Uganda should strengthen existing mechanisms that communicate government performance and provide opportunities to citizens to actively provide feedback on service delivery. This approach would provide the government a platform to win public confidence while simultaneously being responsive to citizen demands outside of elections. The Office of the Prime Minister's Baraza program is an example of such a mechanism.
2. The Government of Uganda should halt the creation of new administrative districts unless there is requisite financial and personnel resources to deliver on service obligations. If districts have sufficient resources in line with their obligations, failures in service delivery can more meaningfully be held to account, thereby strengthening trust in public institutions.

3. The Government of Uganda should consider centralizing political and administrative oversight to regional hub districts, if resources are available to promote ownership of the development process in local communities. Centralization in this way may reduce administrative costs while still providing local communities with forums to work with technical leadership and service delivery personnel to improve their local circumstances.
4. The Ministry of Local Government should undertake a review to examine the potential efficacy of a results-based financing policy on chief administrative officers. This review can help determine how to keep chief administrative officers accountable while understanding the flexibility necessary for chief administrative officers to execute on their responsibilities.

Taxation as a Stake in National Development

Taxation is one of the most fundamental ways in which governments build ownership of the national development process because it is an explicit financial stake that is intended to provide a theoretical degree of control over certain decisions. The Committee conducted a review of the history of taxation in Uganda, identifying current issues with tax collection such as low tax morale and duplication and inaccuracy in the taxpayer registry. Due to the abolition of the graduated tax in 2005, local governments lost a substantial portion of their own-source revenue. One technical solution that has gained substantial traction in recent years has been the introduction of a tax on unimproved land value that could provide a vital influx of funds to local governments. Owners would benefit directly from the provision of public services through increases to their property value, raising tax morale, and raising revenues for local governments. While there are several challenges facing the possibility of expanding property taxation, including lack of mass appraisal techniques, exemptions for owner-occupiers, exemptions for vacant lands, and legal disputes over land ownership and titleship, the direct connection between property tax and a community's development interests could strengthen ownership of such a tax's implementation.

Based on the evidence presented in this study, the Committee recommends:

5. Municipal governments should stimulate behaviors on vacant land in terms of disincentivizing and incentivizing action through taxation. This policy approach will increase tax compliance on vacant lands but also provoke economic activity in line with local priorities.
6. The Uganda Revenue Authority and Local Authorities should continue to strengthen taxpayer associations in order to make the connection between payment of tax and service delivery clearer. Strengthened associations could encourage compliance, understanding, and appreciation for tax and its role in community development.
7. Legal disputes over land ownership and titleship should be more fully and efficiently addressed. This will expedite tax compliance on disputed lands.
8. The Parliament of Uganda should consider ways to provide sufficient flexibility for local governments, through amendment of the Local Government (Rating) Act, to collect property rates on vacant lands that are contextually informed. This approach could avoid stringent one-size-fits-all policies and promote tax compliance.

Leveraging Domestic Resources for Mindset Shifts towards Country Ownership

While financial inclusion is recognised as a core driver of economic growth and country ownership, estimates suggest 45% of Ugandans still do not access financial services. Despite progress made in outreach and access to microfinance, further gains have stalled or been reversed through unregulated expansion and commercialisation of financial services resulting in cases of exploitation and fraud. Current development planning has focused on urban areas without comparable attention to rural areas. This approach has left rural areas underserved in terms of financial services. With limited financial services available, there is little incentive for individuals to engage in new or more productive forms of economic activity outside subsistence farming. Domestic financial markets remain constrained also by high interest rates and the resulting high costs of borrowing. With uneven access to formal, semi-formal, and informal financial institutions, trust in financial institutions is easily compromised and may cause Ugandans to avoid engagement with financial systems as a result.

Based on the evidence presented in this study, the Committee recommends:

9. The Bank of Uganda should consider the creation of an independent platform with private sector actors such as the Uganda Bankers Association (UBA), the Uganda Cooperative Savings and Credit Union (UCSCU), microfinance institutions, and mobile money providers to build consensus on how best to provide widespread access to finance, increase financial literacy, and provide sufficient protections to creditors. A platform of this nature could build broader trust and participation in the financial system particularly in rural areas.

Leveraging External Resources for Mindset Shifts in Country Ownership

Recent discovery of substantial oil and gas reserves in Uganda presents an opportunity to bolster economic growth. However, effective exploitation of these resources will depend on foreign direct investment. By leveraging external resources in combination with focused local content policies, it will be possible to maximize Ugandan participation in oil and gas development through employment opportunities and economic linkages. Capital flight, the extraction of profits from domestic ventures to foreign investors, is a pitfall of foreign investment that has been given little attention at a policy level. Unfortunately, there is limited literature on current foreign investment, its impact on domestic growth, in Uganda, and how participation of domestic actors could be strengthened in the development process.

Based on the evidence presented in this study, the Committee recommends:

10. The Government of Uganda should take a synergistic approach to oil and gas development considering the ways in which districts can benefit one another. For example, oil and gas development in one district may be supported by ensuring that other necessary resources are catered for by nearby or surrounding districts such as agricultural produce and light-manufacturing goods such as textiles.
11. The Office of the President should establish an independent commission to review and make recommendations on policy with regard to corporate transparency and capital flight.
12. The Ministry of Finance, Planning, and Economic Development (MoFPED) and other interested stakeholders should support further research on capital flight in order to collect domestic data on the movement of profits.

The challenges facing Uganda are significant and an approach to domestic financing that focuses on how Ugandan leaders and citizens alike can collectively own the development process can potentially change the future of Uganda's development for the better. While conventional approaches to domestic financing have been useful in improving economic indicators, combining those methods with approaches that provide opportunities for Ugandans to participate in the process of development can unlock new possibilities for growth. Those new possibilities will rely on institutions and their leaders playing an active role in creating those opportunities for participation and building a history of success. In doing so, Ugandans can collectively address issues of limited trust in government institutions, poor tax compliance, and investment of domestic and external resources that inclusively promotes ownership of the development process.

1

Introduction: Country Ownership of a National Development Agenda

For a national development agenda to be realized, the people of the country in question must own the process of development both practically and mentally. Country ownership, defined as *leadership and participation, at all levels and in every sector of society, toward achieving a unified goal, where individuals have a stake in and a shared responsibility for delivering the common development agenda* (UNAS 2014), is fundamental to both the sustainability and implementation of any development agenda. Whereas the success of development interventions is typically measured in discrete terms of tangible impact—jobs created, dollars accrued, facilities built, committees established—country ownership is a much less measurable, though no less important, objective. Focusing on impact to the exclusion of country ownership creates a vicious cycle in which programs underperform because efforts to build a collective sense of responsibility, patriotism, and personal purpose towards achieving a common vision for national development have been ignored.

At the core of country ownership are four components: leadership and participation of the population, a sense of common purpose amongst leaders and participants, stakes in the development process which the population can use to hold others accountable, and opportunities to apply individual initiative and capacity towards the achievement of a development agenda. Country ownership is valuable because it provides the framework in which a broader range of citizen actions can be organized, directed, and used towards national development.

However, no matter how supportive or enabling a framework is for citizen action, citizens must be in a mindset to capitalize on the opportunities presented to them. A mindset that is prepared to meet those opportunities is motivated by three concepts: trust, control, and growth. These concepts exist at three levels of society: the individual, the community, and the institution. What makes this framework complex is that interfacing between this mindset at these levels of society cannot realistically be constrained: what trust, control, and growth mean depends on the contexts in which they are examined. While that insight means that there is no consistent way to stimulate mindset shifts, patterns in the process of creating those mindset shifts can be discovered and studied.

This study argues that an investment approach that attempts to build and stimulate ownership of the development process by the Ugandan population can better achieve sustainable development. A mindset shift in the thinking of leaders at all levels of society towards country ownership can deepen the conversation on how to finance development and what is financed in development programs. With an ownership mentality, new solutions for implementing and executing on government strategies like the Domestic Revenue Mobilization Strategy (DRMS) can emerge.

This study has been structured as follows: a brief review of conventional issues in Uganda's development. Those issues inform the Problem Statement, an interpretation of the Uganda's development challenges from the perspective of how to finance ownership of the development process. Then, the study provides a general strategy for implementation and problem-solving of these challenges through its Theory of Change. The sections that follow the Theory of Change are three areas of inquiry that informed the study's examination of an approach to financing ownership of the development process. First, the study focuses on institutions and their role in building trust and consensus. Second, the study focuses on taxation and property taxes in particular as an example of how taxation should be interpreted both as a monetary instrument and as a social instrument in providing a stake in the development process. Lastly, the study focuses on the usage of financial resources (both domestic and external) to balance the development priorities of different stakeholders while maximizing the benefit to domestic actors.

2

A Selection of Current Concerns in Uganda

2.1 The Economic Situation: Slowing Growth and Persistent Inequality

The Ugandan economy's compound annual growth rate over the past three decades was 7.43%, considerably higher than the sub-Saharan average (World Bank, 2020; Gill & Karakulah, 2019). While this growth endeared the country to the international financial institutions (IFIs), which praised its economic transformation and dubbed it the "Ugandan Success Story (Kwagala-Igaga, 2016)", its success was underpinned by a plethora of structural adjustment programs (SAP) implemented by the government with support from the World Bank. Recent years are showing that the lasting benefits of those programs are beginning to slow.

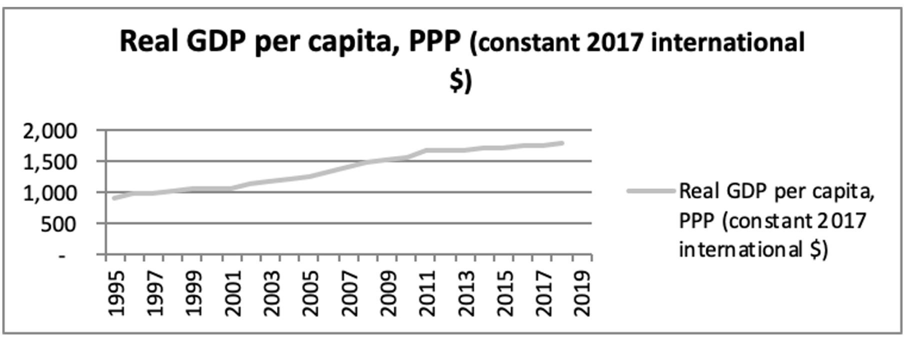

FIGURE 1 Trend in Uganda GDP Per Capita (1995–2018)
SOURCE: data.worldbank.org

From 2008 to the present day the annual GDP growth rate has fallen by a third (Annex 2), mirroring the decline in real GDP between 1970 and 1980. Deceleration in GDP growth was particularly observed between 2011 and 2016, when Uganda experienced external shocks including climate change related weather deviations, civil unrest in key trade neighbor countries like South Sudan, private sector credit constraints, poor execution of public sector projects, and macroeconomic volatility in private sector activity (Ministry of Finance, Planning, and Economic Development, 2019). Statistics from the Uganda Ministry of Finance, Planning, and Economic Development (MoFPED) indicate that government expenditures have exceeded domestic revenue since 2010, with the average balance representing approximately 5% of the National GDP (Ministry of Finance, Planning, and Economic Development, 2019). At the same time, external debt has quintupled from 758.3 bn UGX in 2010/2011 to 3,496.2 bn UGX in 2017/2018 and domestic debt has doubled from 701.5 bn UGX in 2010/2011 to 1,359.6 bn UGX in 2017/2018 (Ministry of Finance, Planning, and Economic Development, 2019). In effect, Uganda's debts are fast increasing and the ability of growth to keep pace is of concern.

At the same time, the rate of change in reducing inequality has also slowed. GINI index statistics from the World Bank and the Uganda Bureau of Statistics indicate that inequality has stagnated at approximately 0.42, indicating upwards movement in the overall economic well-being of Ugandans (UBOS 2019). The persistence of this inequality indicates that while there may be transitions of a large portion of the population into higher income brackets, the majority of the population is finding few opportunities to engage in more lucrative work.

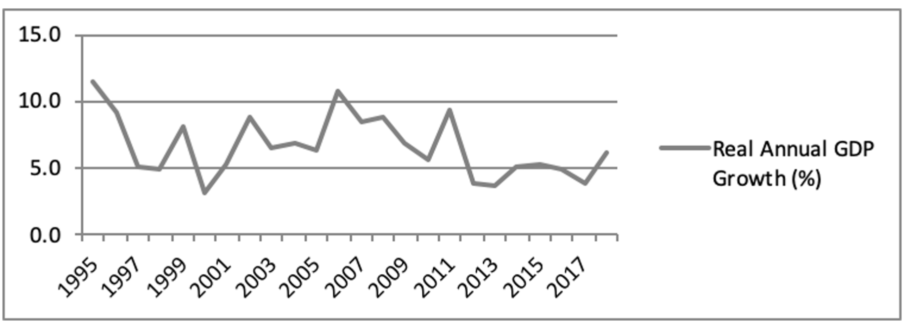

FIGURE 2 Uganda Annual % GDP Growth Rate (1995–2017)
SOURCE: data.worldbank.org

2.2 The Economic Situation: An Unconventional Structural Transformation

At a broad level, Uganda's growth in the past three decades has reflected the recovery from the rapid economic deterioration of the 1970s and 1980s caused by gross economic mismanagement, the oil crisis of the 1970s, and the general failure of policies that sought government control over productive economic activities (Kwagala-Igaga, 2016). Growth in GDP has primarily been within the service sector while the contributions of agriculture have reduced. While the broad adoption of free market-based approaches to stimulate growth appeared to work in the 1990s and 2000s, it has contributed to an unconventional structural transformation.

Structural transformation is conventionally understood as change to the distribution of economic activity from primary sector activities (agriculture, mining, resource extraction) to greater value-added activities (manufacturing, industrial activities) with expansion of the service sector occurring last. Uganda, like many other African countries, has seen marginal expansions in its manufacturing and industrial activities with large increases in its service sector. This type of transformation is unconventional as it neither follows the linear process that many other countries underwent, nor does it adhere to an agriculture-based structural transformation advocated for by the African Union (Page, 2018; Sy, 2015).

The trends in GDP composition by sector seen in Figure 3 do not reflect the heavy agricultural sector investments made in Uganda over the past two decades. The trends indicate the opposite: the GDP contribution of agriculture has declined from 33.7% to 21.9% over the past 10 years, which raises concern around the extent to which Uganda has maximized the comparative advantage that agriculture holds to drive development plans of the country. To some extent, this change in GDP contribution is expected due to the relatively lower expected returns on agricultural investment. But unlike other countries that have transitioned into service driven economies, manufacturing and other sectors with high-value addition remain comparatively small.

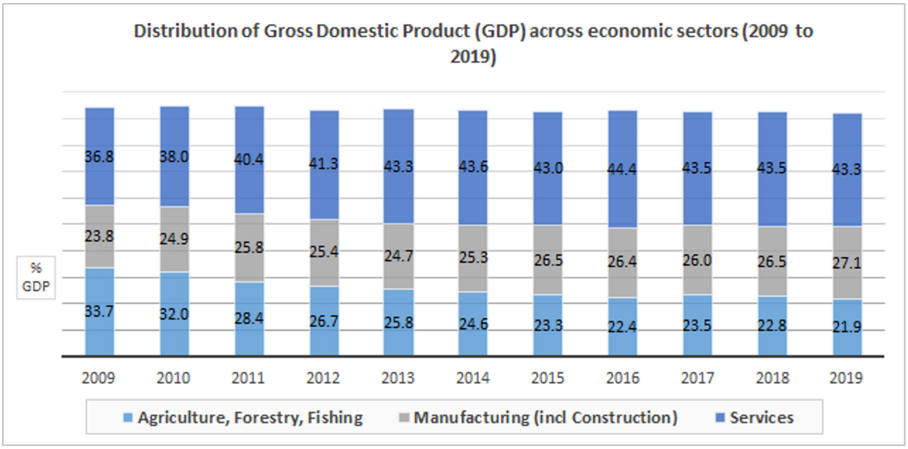

FIGURE 3 Economic Sector Contribution to GDP (2009–2019)
SOURCE: World Bank at Statistica 2020

Concurrently, the working population appears to be underperforming in terms of its potential ability to contribute to national development. According to the 2019 UBOS Statistical Abstract, Uganda's working age population was estimated to be 19,104,000 of which 78.8% were working with 43.2% (approximately 6,500,000 Ugandans) of the working population engaged in subsistence agriculture (UBOS, 2019). This enormous population reflects both an opportunity and structural constraint: a large portion of the population has not demonstrated either the ability or been given the appropriate incentives to transition out of subsistence agriculture. That population's consumption preferences and commercial opportunities will have a disproportionate impact on the ability of the country to make large-scale transitions into more productive and diverse enterprises. These high levels of subsistence agriculture exist despite incentives for larger scale agriculture initiatives including the Agricultural Credit Facility and other government initiatives intended to incentivize new economic activity (World Bank, 2019). The incentives that are intended to stimulate changes in productive behavior amongst this key population are seeing less than expected returns.

2.3 The Economic Situation: A Shifting Financial Resource Envelope

Domestic revenue mobilization has performed significantly below its potential in recent years. A recent study by the EPRC has shown that tax collection efficiency—the extent to which actual revenue figures deviate from maximum possible collections in a perfectly-enforced system—is below its potential in all tax categories (Lwanga et al., 2018). At the same time, despite the tax revenue-to-GDP ratio increasing from 10.7% in 2000 to approximately 13.5% in 2017, it is still below the current sub-Saharan average of 18.9% (OECD/ATAF/AUC, 2019; World Bank 2020). Tax "handles" remain limited in Uganda with high-value commodities and formal sector employees of large corporations and public entities arguably already being overtaxed, presenting limited opportunities for quick-win reforms to increase revenue (Matovu, 2018). The large informal sector, comprised of small unregistered businesses and agricultural operations, also remains largely untaxed, and Uganda's tax net remains too narrow to mobilize necessary revenue to fulfill the government budget (Lwanga et al., 2018).

Save for the election years, government spending has been declining since 2002 when it stood at 16.8% of nominal GDP, reaching its lowest point of 8% in 2013 and rising again to 12.1% in 2018 (International Monetary Fund, 2017). The Public Financial Management Reform Strategy (2018 – 2023) recognizes the challenges of low returns of public investments, under-execution of large projects, and an excessive number of projects implemented with few to no constraints on selection. The report also suggests possible improvements through better asset management and reducing fiscal risks through public-private partnerships which could enable better returns on public spending. Despite these reforms being captured in the recent National Development Plan III, implementation of these reforms remains an area of concern.

Private savings, in contrast, are beginning to increase. These results have been in part due to a package of fiscal and regulatory reforms, including the creation of the Uganda Investment Authority in 1991 (Kwagala-Igaga, 2016). The business registry was restructured and procedures were improved to reduce the cost of registering businesses

(Kwagala-Igaga, 2016). To widen the tax base, the government focused primarily on lowering tax rates and on strengthening administration (Kwagala-Igaga, 2012). A uniform 30% corporate income tax rate was introduced in 1993 (lowered from the previous 60% rate) (Abed et al., 1998). A separate presumptive tax regime for small businesses in the informal sector was also introduced to widen the tax net (van der Heeden et al., 1997).

The ability of Uganda to use external resources is facing a similarly rapid change. Grants to Uganda have fallen to historic lows (Figure 5) as demand for public services increases. Public expenditure today is growing rapidly due to the need to finance the National Development Plan (NDP) with the goal of attaining middle-income status. This rising public expenditure coupled with relatively modest domestic revenue mobilization and falling grants has seen Uganda's stock of public debt increase rapidly. Uganda's external debt stocks have increased from US$ 2.98 billion in 2010 to US$ 12.33 billion in 2018 (Figure 4) (World Bank, 2020). As a percentage of gross national income, external debt stocks also increased from 15% in 2010 to 46.3% in 2018 (World Bank, 2020). As government borrowing has increased, budgetary flexibility is increasingly concerning as investments in large scale infrastructure are not yielding anticipated returns.

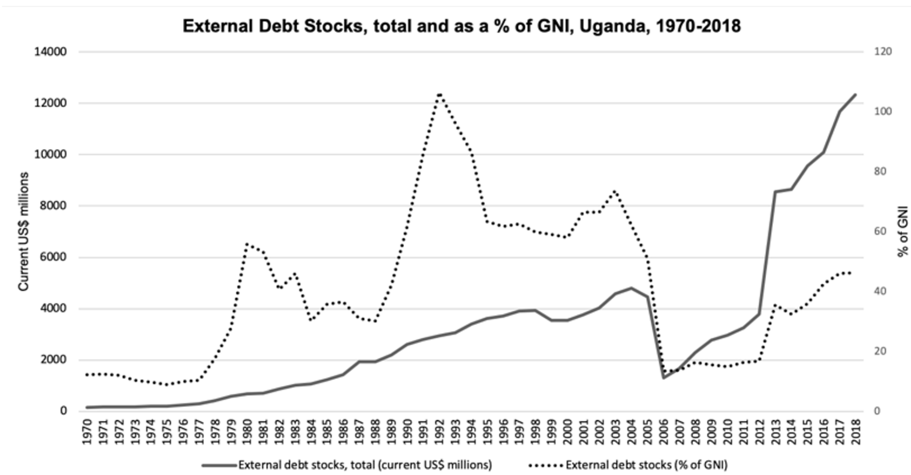

FIGURE 4 Uganda's External Debt Stocks (1970–2018)
SOURCE: data.worldbank.org

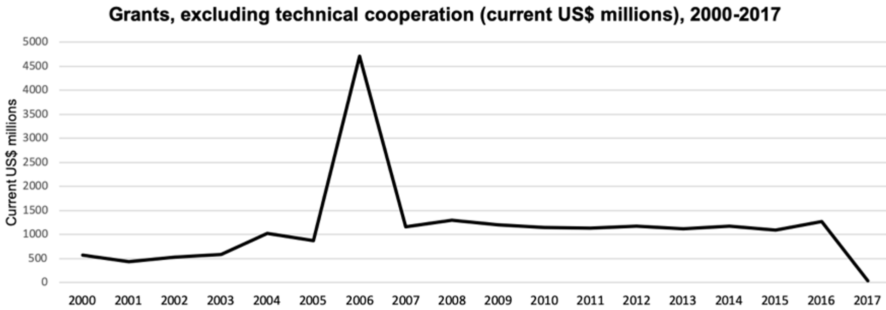

FIGURE 5 Grants to Uganda (Excluding Technical Cooperation), 2000–2017
SOURCE: data.worldbank.org

2.4 The Health and Education Situation: Living Longer with Bigger Families

As a greater number of Ugandans live longer and survive early childhood, the challenge of creating the conditions for them to actively participate in the economy is pressing. Life expectancy from birth has increased by approximately 20 years in the span of two decades through improvements in maternal, neonatal, and general mortality (UBOS, 2019). These gains, which have occurred despite decreasing per capita contributions to government health care, are increasingly precarious as the population of Uganda continues to grow. The opportunity that improved health is providing is also a threat to long-term sustainable development.

The high fertility rate and longer age expectancy creates a large pool of individuals with the potential to have long careers, while increasing the number of individuals who demand services and resources to capitalize on opportunities. The Ugandan population is currently estimated to be in the range of 40.3-45.7 million with approximately 50% of the population below the age of 17 indicating that the majority of Ugandans are beginning the prime years of their productivity (UBOS 2019). Uganda will only see the dividends of its investment in this sizable population if it is able to mobilize this population to engage in country ownership.

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This large population of children and young adults, while having more educational opportunities, is not necessarily being prepared for the workforce beyond schooling. Reports consistently note issues in educational quality, job-skills mismatching, and persistently high drop-out rates that disproportionately affect young girls (UNAS, 2019). These issues are reflected in an increasing youth unemployment rate and underemployment, wherein the job environment they enter into as adults is not prepared to absorb their productive capacity.

2.5 The Natural Resource Situation: Agriculture, Climate Change, Oil and Gas, and Increasing Risk

Uganda is frequently cited as part of the region of Africa that has the potential to be the "breadbasket of the world". Various parts of the country's geography permit the growth of cash crops such as cotton, coffee, and other high value agricultural products. However, both the optimal location of agricultural activity and the overall productivity of agricultural activity is fast changing due to climate change.

Coffee is one major cash crop that is susceptible to the effects of climate change. As one of Uganda's major agricultural exports, changes in production combined with price volatility may affect the fiscal flexibility of Uganda's budget and limit the opportunities that the industry provides. Coffee in particular requires a wide array of service inputs: hand picking, management of the fragile coffee plants, and local roasting which are all built around the industry. At the same time, optimal conditions for coffee growth are very specific: rainy and dry seasons must be well defined, and temperatures must consistently be between 25.6ºC and 28.5ºC. Uganda's rainfall has been seen to be increasingly inconsistent and seasonal stability is quickly affecting the consistency of agricultural outputs.

At the same time, some of the major contributors to climate change, oil and natural gas, have been discovered in Western Uganda. Oil and gas provide a potential avenue through which to generate revenue for government expenditures and to offset potential downturns in agricultural productivity. However, this industry faces similar concerns about volatility and a potential resource curse. Oil prices in

Uganda have been affected by the COVID-19 pandemic, with the global price of oil plummeting in June 2020, such that in some countries the cost of storing oil was greater than the income made from selling it. Given that the oil reserves and plans for extraction have been based on speculation, there is uncertainty as to the potential for return on investment. Other African countries have also had a historically poor and in some ways detrimental experience upon the discovery of oil reserves, particularly in terms of corruption and extraction of resources without commensurate local benefit.

In both cases, risks to the benefits of agriculture and oil & gas are increasing unless proactive action either in policy or practice occurs. For agriculture, it is generally accepted that the pace of climate change is accelerating, and tropical countries will experience some of climate change's more detrimental effects including rapid shifts in arable land, more destructive and extreme variations in weather, and volatility in harvests. For oil & gas, effective policy and trade negotiations will have to avoid the pitfalls of other African countries who discovered natural resources. In particular, setting productive norms and expectations early on can help to avoid patterns of grand corruption and lack of transparency. While efforts are ongoing to address these issues, sustained focus on maintaining effective leadership and proactive risk mitigation will be critical to long-term success.

2.6 The Governance Situation: Poor Implementation of Projects and Lack of Trust

Despite political stability since 1986, government implementation of projects remains inconsistent. Government reports from the Auditor General frequently highlight poor absorption of funds, lack of adherence to project timelines, and exposure of the government to legal challenges and fiscal insolvency (OAG, 2019). Concurrently, social surveys frequently indicate low overall trust of leaders by citizens.

The poor implementation of government projects is in part hampered by a number of concurrent issues. For example, the Auditor General's report in 2019 noted that local governments continue to experience understaffing, with the cause attributed to an ongoing hiring freeze (OAG, 2019). Despite efforts to decentralize governmental service delivery, government officials have been tentative about distributing funds to districts with poor service delivery track records. With limited trust and confidence, local governments are subject to increasingly stringent conditions for financial expenditure, which has been used as an attempt ensure accountability and enforce delivery. These conditions are then cited by local officials as limiting their ability to enact contextually sensitive and meaningful local action. The reality is that despite higher quality government employees, wider monitoring and evaluation, and greater awareness of challenges, the policy and informal decisions being made often make it increasingly challenging for implementers to truly achieve a project's desired outcomes.

With poor delivery of government services, it is little wonder that most indicators suggest little trust in government from communities. While most literature agrees that social capital drives and supports economic enterprise, most initiatives have not been able to capitalize on existing social structures. The population's high perceptions of corruption in Uganda's government contributes to a lack of buy-in and ownership in projects intended to support local growth (Transparency International, 2015). Research and media reports have captured several cases of widespread corruption and graft in government, creating a vicious cycle in which democracy is valued and sought after, but leaders persistently underdeliver, operate in an environment that supports or reinforces indifference, and subsequently do not enjoy the power, mandate, or legitimacy necessary to effectively govern.

3

Problem Statement

To promote the uptake and relevance of Academy reports, UNAS has taken the approach of engaging stakeholders in the early stages of projects to shape the research priorities or issues to be tackled in reports. The Academy takes this approach because consensus building incorporates the best aspects of Ugandan and African community traditions for decision-making, while preserving the independence and freedom of experts to follow evidence towards robust conclusions.

In September 2019, a group of stakeholders from various backgrounds in government, the private sector, and civil society tasked UNAS with putting together an expert panel that would address three key areas:

1. Uganda's historical and socio-cultural background and its impact on domestic financing
2. Governance of revenue mobilization and social-fiscal contracts
3. Appropriateness of data, tools, and processes used in Uganda's financial decision-making

There was an overwhelming number of complex and important questions posed to the Committee, which could not all collectively be addressed by the report (see Annex 1). The Committee decided to respond to these questions by focusing on the processes and principles that could create solutions to the questions, rather than exhaustive review of technical solutions because articulating how to think, rather than what to think, could assist in the process of creating and adapting solutions to each reader's context. As a result, the Committee reinterpreted the questions as four interrelated challenges to the current approach to investment in sustainable national development, focusing on its connection to building ownership of the development process.

Challenge 1: Existing resources are leveraged towards improving development indicators, while missing out on stimulating mindset shifts for country ownership. While the pool of tangible resources has arguably increased (indicated by GDP growth, increasing foreign direct investment), those resources have had limited impact on country ownership by Ugandans. With a limited pool of resources to begin with, leveraging each and every resource beyond the tangible to include culture, social capital, and ethics amongst others, becomes essential to not only economic prosperity, but social well-being and environmental sustainability.

Challenge 2: Whose consensus or consent is needed to make financial decisions and set priorities at varying levels of society is not well-articulated or agreed upon outside of the law. The cultivation of a sense of common purpose and alignment towards common development goals can be a costly and resource-intensive affair, especially when there is a large number of stakeholders. As the complexity of development problems increases, Uganda's ability to cultivate broad consensus beyond disciplines and sectors is critical to overcoming implementation and capacity limitations. Country ownership depends on the ability of individuals, communities, and institutions to be able to build coalitions that permit new and more complex opportunities to emerge and for common development goals to be achieved.

Challenge 3: Attempts at reforming service delivery implementation have focused on enforcing accountability, while missing vital opportunities to build trust. Consensus building is even more difficult when there is little individual, communal, or institution trust. Given the lack of trust, a vicious cycle occurs where poor leadership and mistrust contributes to poor project delivery and accountability measures are increased in an effort to change the incentives for leadership. However, these accountability measures increase the costs of administration, limit flexibility in delivering on project goals, and contribute to an environment where trust is further eroded, and project delivery deteriorates or stagnates. From the outside, employees and citizens perceive that they have little control over development decisions and have little reason to participate in the country's development agenda. As a result, successes become anomalies, rather than opportunities for sustained and repeated growth.

Challenge 4: There are fewer opportunities to make innovative financial decisions due to decreasing fiscal, social, and political flexibility. A bevy of practical challenges facing Uganda including fallout from COVID-19, a limited domestic resource envelope, shrinking official development assistance, and an inequitably distributed GDP has narrowed opportunities for innovative financial solutions for engaging country ownership. It is fast becoming inevitable that difficult decisions in policy and legislation will be necessary to reverse these persistent challenges.

4

Theory of Change: The Flywheel of Development

In traditional Egyptian pottery, a heavy stone wheel is rotated with the left hand, while the right is used to shape the clay at the center of the wheel in a process known as "throwing." The heavy stone wheel, storing energy in its rotating mass, continues to turn for much longer than what one might expect—a phenomenon known as the *flywheel principle* (Hamer & Hamer, 2004). Setting the flywheel in motion converts a finite boost of energy into sustained momentum. It takes a lot of effort to get it started, but once it starts to turn there are counterweights around the outside of the wheel that take effect and it starts to build momentum almost by itself. From that point, the same effort can be placed on the flywheel and it will start to turn faster and faster.

A flywheel of national development can be described as the impetus of exerting additional effort to create self-sustaining momentum that propels communities toward broader prosperity, environmental health, and social well-being. To have maximum impact the additional exerted effort needs to be targeted in purpose and geography, to areas that have the largest impact, thereby maximizing competitive advantage (Liu, 2017). In many respects, the flywheel provides a useful metaphor to think about the challenges of development in Uganda today.

Advantage can be understood in three different dimensions: timing, responsiveness to change, and scale. Advantages in timing refers to how different actions that take place at the same time may produce different results than if they take place at separate times. For example, if there is a sudden increase in employment opportunities at the same time that a large population of job seekers are available with the appropriate skills, the advantage is stronger than if they occurred independently.

Advantages through responsiveness to change is perhaps best exemplified in terms of business size. For example, smaller businesses may be more well-positioned to adapt to changes in their markets, technologies, or processes than larger businesses that have more complex layers of decision-making due to the impacts of a change on the business. Similarly, depending on the context, mindset shifts may be easier or harder to stimulate towards country ownership depending on the social, cultural, political, and economic conditions in which individuals, communities, or institutions are operating in.

Lastly, advantages of scale refer to comparative amounts of a particular trait or thing. For example, large numbers of people with similar traits or behaviors that are larger in comparison to other groups are an advantage. Advantages of scale can fundamentally influence what can or cannot be an advantage even if there are numerous timing advantages or advantages in terms of responsiveness to change.

4.1 Finding and Using Existing Competitive Advantages

Uganda's advantages are founded upon a feature common to most developing nations: large populations with high potential for change. In Uganda's case, approximately 50% of its population is below the age of 17, with 6.5 million Ugandans engaged in subsistence agriculture (UBOS, 2019). Statistics indicate that there remains high youth unemployment (estimates vary with highs of 20%) and underemployment (recent estimates put this number at 8% of the working population) (UBOS, 2019). The flexibility and potential of these populations is and can be the core of changes in consumption, productivity, and social change.

Subsistence agriculture and the transition away from subsistence agriculture has been common to all countries that have undergone structural transformation. This transition is necessary for economies of scale because it is inherently inefficient: the benefits of subsistence agriculture are effectively limited to that particular family or household practicing it. Any surpluses that are made are limited and can easily be wiped out by a poor harvest. In effect, the potential for growth in agricultural productivity or diversification of enterprise is enormous but at the same time, highly risky for subsistence farmers. In the right conditions, they are an enormous population with the potential for economic, technological, and productive transformation.

Changes in the behaviors of that population inevitably will spur on new changes in consumption. Urbanization in Africa has historically failed to capitalize on the advantages of concentrated services, people, and money (UNAS, 2019). Literature has noted that in almost all cases of structural transformation, rural producers were able to make transitions towards cottage industries or infant industries with more value added to various good and services, which spurred a positive cycle in which urban centers produced manufactured goods for rural consumption and vice versa. For Uganda, as transitions from subsistence agriculture facilitate greater desire for manufactured products, urban centers will inevitably be able to absorb greater amounts of labor and channel economic surpluses towards new products. Economies of scale would begin to take place facilitated by a focus on the advantages presented by a large untapped domestic market and its high potential for consumption and change.

At the same time, the benefits of Uganda's geography are an existing advantage. Unlike other areas of the world whose agricultural lands have been heavily exploited, there are many areas of Uganda that remain pristine and continue to have high potential for agricultural outputs. In addition, it can produce a unique set of agricultural goods such as avocados, passion fruits, and other tropical fruits, vegetables, and edible goods that are effectively impossible to cultivate in temperate regions of the world and are therefore may be more desirable in those markets.

4.2 Creating Competitive Advantages

The creation of economies of scale cannot take place without active facilitation. While a large numerical advantage is inherently useful, its benefits to country ownership in effect rely upon what is consumed, what is produced, and for whom. Uganda's industrial capacities, like many other developing countries, are not necessarily competitive against manufacturing giants like China which may stifle the ability of cottage or infant industries to emerge. For that reason, a coherent and consistent structure in which advantages can be created for domestic enterprise is necessary.

There are three main means by which competitive advantages can be created: policies affecting industry, trade, and technology. Historically, most countries used a mixture of protectionist interventions that guarded their targeted industries from global competition and at the same time capitalized on existing resources that their countries either already had or had effective supply routes for (Chang & Golden, 2007). In cases where countries did not necessarily have existing capacity, immigration and the importation of technologies was heavily incentivized and supported. A domestic market then supplements and supports the growth of domestic industry rather than being completely displaced or destroyed by global competitive forces.

While Uganda faces a different context than its historical predecessors, the flexibility and generally untapped nature of its domestic market means that the departure point for consumption preferences may be different. Unlike other manufacturing giants, it may have more opportunities to build environmentally friendly products and avoid the major dangers of industrialization at the expense of environmental health. The creation of advantages need not mimic early industrialization sectors but instead could focus on creating new advantages that are only just now being capitalized on by developed economies.

4.3 Using the Benefits of Indirect Contributors to Competitive Advantage

Too narrow a focus on economic development often clouds the value of indirect contributors to holistic and sustainable national development. To be able to catalyze growth and maintain substantial momentum in development also relies upon social services and the extent to which individuals can avoid or be prevented from experiencing conditions that limit their ability to contribute. In particular, health, social well-being, and the environment are major contributors to the long-term sustainability of any development efforts. For example, infant industries may not be able to grow and become competitive if there are no individuals with the appropriate expertise to produce the goods in question. Similarly, if individuals are not healthy, they may produce at suboptimal levels and in cases of infectious diseases, disrupt entire chains of production.

One major example of indirect contributors to competitive advantage is food security as the movement of and changes in populations, goods, and services occurs. The Chinese example provides a cautionary tale towards the rapid transition of labor into industrial efforts, which culminated in a massive famine that lasted several years and cost hundreds of thousands of lives in the early 1960s under the Chinese “Great Leap Forward”. As climate change becomes ever more pressing, increasing the risks of catastrophic losses in food security across the nation, food security and productivity must be enhanced to permit a greater transition of individuals away from subsistence agriculture into areas ripe for competitive advantage. Combined with efforts to create advantage and maximize existing advantages, indirect contributors to competitive advantage that have social benefits can support sustained structural transformation and minimize potential negative externalities from that transformation.

4.4 Repeating and Sustaining Successes for New Competitive Advantages

Recent theoretical advances have shown that so-called “big pushes” are insufficient for sustainable development (Wen 2015). Capitalizing on the opportunities presented through initial advantage, created and supported advantages, and maximization of indirect contributors to the advantage sought after, creates the conditions in which savings can be accumulated and thus re-invested to repeat this “Flywheel of Development”.

As has been noted earlier, Uganda has little fiscal flexibility in which to invest heavily into new or infant industries despite the fact that new innovative or infant industries have historically been well-known to be necessary to structural transformation. There have been no known efforts that have been able to bypass or leapfrog this transformation from cottage industries into service industries (Chang & Golden, 2007). To be able to accumulate the savings necessary to make such massive investments in service industries that are productive beyond national borders relies upon incremental changes to the structure of an economy and to understandings of what resources can be applied towards structural transformation. By expanding the range of opportunities that are available and that can contribute to national development, Uganda can build a massive base of contributors in spite of the so-called limitations of a largely untrained, under-educated, or under-capitalized population, so long as advantages are maximized to support their chances of success.

5

Institutions as Facilitators and Builders of Trust

5.1 Cohesiveness of Political and Economic Policies and Implementation

Public institutions face two main groups of stakeholders: powerful individuals/communities and the so-called "masses" whose power is comparably less. Public institutions mandated to provide services must generate the funds necessary to deliver those services through taxation, and tax compliance from the masses is largely dependent on perceived legitimacy of public institutions. This perceived legitimacy is earned through the repeated, successful provision of services. But service provision is costly and organizationally demanding to implement. In contrast, the provision of high-level positions and privileges to influential individuals, is an arguably cheaper act that can win public institutions legitimacy (Tangri & Mwenda, 2013d). Based on this assessment, organizations such as the World Bank have argued that countries with "big governments" tend to be more corrupt, as they provide more opportunities for state officials to extract rents from private individuals and firms, than focusing on earning trust and strengthening tax compliance from the general public (Tangri & Mwenda, 2013a).

This high perception of corruption by the broader Ugandan public is not unfounded. Uganda's corruption perception index (a quantitative measure of national perceptions of corruption) remains poor, ranking 153rd of 181 countries (Transparency International, 2015). Companies and individuals alike refer to the necessity of bribes in order to receive supposedly free services, and episodes of grand corruption are well-publicized but poorly prosecuted in courts of law (Transparency International, 2015). Petty corruption in Uganda's public services sector is a largely normalized method for meeting one's ends. According to a 2013 World Bank Enterprise Survey, roughly a quarter of businesses reported expecting to provide gifts to public officials in exchange for their services (World Bank, 2013). Another study from 2015 found that roughly two of every five Ugandans reported paying a bribe to officials in the previous year (Transparency International, 2015). Reporting has found that this type of corruption is so standard that bribes are requested and paid out in full view without any resistance, as if part of standard procedure (Inspectorate of Government, 2008).

These issues are compounded by a lack of capacity or interest in the institutions that are mandated to correct the action: an Auditor General's report in 2016 noted that approximately 40% of local governments are fully staffed, whereas approximately 40% are severely understaffed, creating conditions in which successful service delivery was never fully possible or expected (OAG, 2016). In effect, a cycle of persistent mistrust by seekers of services and government is facilitated by the inefficient and ineffective application of resources. A 2012 audit found that public funds were being funneled into the government salaries of more than 5,000 ghost workers across the public administration (Gaffey, 2016). The scheme, which required cooperation between the Ministry of Public Service and the Ministry of Finance, cost billions of shillings in taxpayer money (allAfrica, 2012), but saw little punitive action take place.

While the persistence of misdirected state funds in many African countries facilitates support for political regimes, it has failed to build a functional consensus that could promote national development. By allowing individual state power-holders—cabinet ministers, high-level civil servants, and senior military officials—to appropriate public resources for private benefit, trust is fragile and fleeting and is contingent on the continued extraction of benefits (Tangri & Mwenda, 2013d). The fragility of political power has been argued to make political self-preservation intimately intertwined with questions of belonging, ethnicity, and religion (Chabal, 2008; Acemoglu and Robinson, 2010). In the case of Uganda, extensive case studies have documented these neo-patrimonial relationships in action first in the privatization of state resources that occurred in the 1990s, and later in the relationship between government and foreign businesses (Tangri & Mwenda, 2013b, 2013c). These neo-patrimonial relationships and the imperative of maintaining state power thus undermine the ability of the government to choose good projects.

The selection of good projects however, is not always necessarily contingent on high-level political consensus. On the contrary, the Asian tigers—the rapidly industrialized economies of Taiwan, Singapore, South Korea, and Hong Kong—succeeded despite widespread corruption in part because institutions and their individual representatives were able to provide desired outcomes both to the "masses" and to political leadership. The presence of those enabling features allowed governments and individuals to deliver on national economic goals despite short-term individual economic exploitation. One of the most intriguing arguments regarding China's rapid economic transformation is that there was an expectation that government bureaucrats would be corrupt so long as they continued to provide the necessary outcomes; results, if poor, would result in swift removal based on both community consensus and political considerations (Wen 2015, Chang & Golden, 2007). Chinese bureaucrats operated with a great deal of autonomy and did not provide services in the conventional sense: public institutions and their representatives acted as facilitators for foreign direct investment in village companies, smoothed out distortions in supply and demand using government resources, and stimulated broad-based economic growth and industrialization (Wen, 2015). A similar example is seen in Korea where preferred industries that were beneficiaries of extensive subsidies and government attention quickly lost their support if they failed to deliver desired results (Chang & Golden, 2007). The rapid growth in these economies was built on a pragmatic combination of market and state driven principles.

Speaking at the Achebe Colloquium in 2009, the former U.S. Ambassador to Nigeria, Princeton Lyman, recounted his experience serving in South Korea in the mid-1960s:

> I remember the economist in our mission saying… it didn't bother him that the leading elites and the government of South Korea were taking 10, 15, 20 per cent off the top of every project—as long as every project was a good one. And that was the difference. Leadership at that time was determined to solve the fundamental

economic issues of South Korea and turn its economy around (Achebe Colloquium, 2009).

The ability of Asian tigers to balance market and state principles is similar to actions that have been taken on the African continent. Botswana has one of the largest governments on the continent and an ample amount of natural resources, aspects which are regularly considered major risks for poor governance and corruption. Yet, Botswana's approach to governance has been to act as a broker and facilitator of private sector enterprise, while avoiding direct participation. Transnational corporations have acted in partnership with Botswanan government through ownership stakes that allowed for private corporations to continue to derive profits while contributing to national development (Jefferis, 2009). The ability of the Botswanan government to leverage private sector expertise without direct control is an example of how private sector enterprise and foreign direct investment (FDI) can be facilitated by government policy and action.

BOX 1

The Baraza Program as an Example of Building Trust Between Government of Uganda Implementers and Citizens (2009)

In 2009, the Prime Minister's Office initiated the "Baraza Program", an effort by the Government of Uganda to facilitate citizen-government interaction and promote more effective monitoring and evaluation of projects. Since an initial pilot in 4 districts in 2011, the program has been expanded to 112 districts as of 2018 (ISER, 2018). In practice, the Baraza Program is headed by a district RDC, local government officials, and technical leadership from the Prime Minister's Office going over initiatives taking place in the district and getting feedback from citizens. The frequency of these meetings is currently 2 per year, but in practice, there is a great deal of variation across the country in terms of frequency and depth of application (ISER, 2018).

An external evaluation from the International Food Policy Research Institute (IFPRI) in 2017 focusing on Bagezza Sub-County in Mubende District suggested that the program was an overwhelming success (Van Campenhout et al., 2017). On several occasions, citizens perceived increased responsiveness to citizen concerns by government officials, increased enforcement of accountability for community projects, and greater compliance to professional standards by service providers (Van Campenhout et al., 2017). At the same time, the evaluation found that some government leaders wanted citizens to take a more active and self-driven role in both preventing and responding to issues in the community instead of waiting for government action (Van Campenhout et al., 2017). While the implementation was an initial success, it was clear that trust between citizens and government officials was fragile, and the report emphasized the necessity of continuity and sustainability of the program in order to build on the gains of the program. Currently, an impact evaluation is forthcoming from the International Initiative for Impact Evaluation and is anticipated to be released in 2020/2021(ISER, 2018).

It is initiatives like the Baraza Program which both indicate that the possibilities for trust building and a sense of control on the part of citizens in creating change are both financially prudent and practically useful. While it remains to be seen whether the conditions in Mubende District are replicable elsewhere in the country, the principles of engagement and stakeholder management have been clearly demonstrated as being valuable.

The cohesiveness of incentives at all levels from the individual, to the community, and the institution are all exemplified in states that were able to overcome challenges in political consensus. These groups were given appropriate powers in relation to their context that drove a results-oriented mentality despite opportunities for rent-seeking and corruption. National development successes were created and, despite imperfections, could catalyze public trust in both private and public institutions towards long-term national development which were necessary for further transitions towards greater social cohesiveness and political capital.

5.2 The Fiscal-Social Contract: A Constructed Relationship

In a country ownership framework, taxation becomes a stake by which accountability can be enforced, referred to in academic literature as the "fiscal-social contract". This form of accountability is bi-directional: both the taxpayer and the service provider each have obligations to one another in various forms. However, the drivers by which an individual is prepared to engage in such obligations relies on the enabling aspect of trust. Stimulating mindset shifts in terms of how both taxpayers and service providers interpret and engage with one another is fundamental to the more technical aspects of tax collection.

Discussions of domestic revenue mobilization and development financing have tended to focus overwhelmingly on the technical and administrative challenges to more effective tax collection. Equally important in many respects, however, is the public spending side of the equation. A growing body of literature examines the link between positive perceptions of public spending and increased tax morale (defined as citizens' motivation to pay their taxes), leading to improved voluntary compliance (OECD, 2013). The argument is rather intuitive: taxpayers are more likely to comply with tax demands from the state if they experience tangible benefits to their life from public spending. Current research therefore increasingly emphasizes the need to move away from mechanistic recommendations to improve tax administration, towards a deeper analysis of tax morale in the country, as well as the indicators of general satisfaction and trust in government (Fjeldstad & Therkildsen, 2008).

Increasingly, research has focused on the concept of a "fiscal-social contract" to explain this dynamic. In essence, the fiscal-social contract states that citizens should pay taxes to governments, which is then utilized by elected representatives to execute programs for the collective good (Umar et al., 2017). Anecdotal evidence has pointed to a culture of non-compliance among high-value taxpayers in some countries, including Uganda. Studies of taxpayer attitudes have revealed frustrations with opaque tax systems, poor socio-economic conditions, and non-functioning tax audit systems (Umar et al., 2017). In some cases, researchers have argued that non-compliance with existing tax rules may be better understood as a persistent "tax boycott," as those with the ability to do so avoid paying taxes out of frustration with poorly functioning fiscal-social contracts (Umar et al., 2017).

Using data from the cross-country Afrobarometer survey, researchers found that tax compliant behavior is positively correlated with the provision of public services in Kenya, Tanzania, Uganda, and South Africa (M. Ali et al., 2014). The strength of the correlation, however, differed between countries based on the type of public services provided. For instance, while access to infrastructure such as roads and electricity encouraged tax compliant attitudes in Kenya, respondents in Uganda indicated that education and health services were key to their tax compliance (M. Ali et al., 2014).

Afrobarometer data is not able to explain these differences, but several hypotheses present themselves for future testing. The first proposition is that taxpayers may respond most favorably to their most pressing need—in the case of Uganda, this would imply that taxpayers see the poor quality of public education and healthcare as major obstacles to national development (M. Ali et al., 2014). The second proposition is that taxpayers respond most favorably to those public services that they have been encouraged to place a high value on through public education campaigns and sensitization (M. Ali et al., 2014). Uganda, for example, has seen considerable success in improving the population's general health in recent years, including improvements in nutrition for children under five, and a sharp decrease in infant mortality (AEO, 2014). These recent increases suggest that healthcare has received the support of substantial government messaging in recent years, which may weight health services more heavily in taxpayer perceptions of public service effectiveness (D. A. Ali et al., 2014). These two propositions are not mutually exclusive, although further research will be required to untangle the reasons why some types of public service correlate more closely with the fiscal-social contract hypothesis than others.

Beyond the provision of public services—in whatever form they take—some evidence suggests that tax morale and voluntary compliance may be primarily influenced by broader perceptions of government legitimacy and accountability. A recent large cross-country survey, that included Uganda, conducted by the World Bank tested the effect of two interventions on tax morale: a "bottom-up participation" intervention that asked respondents to state their public budget expenditure preferences, and "top-down accountability" intervention that provided participants with information on anti-corruption efforts and the penalties they impose on corrupt officials (Sjoberg et al., 2019). Overall, the study found large and statistically significant effects of both interventions on tax morale. These findings suggest that (1) participation-based interventions are likely to broadly improve tax morale, even if they are "shallow" in the sense that they are short-lived and relatively cheap to implement, and that (2) "retributive justice," in the sense that taxpayers perceive governments to be systematically punishing the abuse of public money by corrupt officials, is an important driver of tax morale (Sjoberg et al., 2019).

Aside from frustrations with the fiscal-social contract, some evidence suggests that taxpayers do not comply with their tax obligations primarily because they do not understand their obligations. This lack of understanding may be due to overly complex tax processes and regulations, insufficient public outreach, or simply opaque and partially implemented systems. One key example of this lack of understanding comes from the recent creation of the URA's Public Sector Office (PSO) as a separate office to manage the tax affairs of government ministries, departments, and agencies (MDAs) (Saka et al., 2018). Even though in practice government MDAs are—or should be—large taxpayers, very few revenue authorities treat these organizations as a separate segment of taxpayer. The PSO was formed as a unique and innovative solution to a persistent problem observed in Uganda: persistent tax defaulting and late payments to the URA from MDAs (Saka et al., 2018). Within its first year of operation, the PSO had increased revenue collection from MDAs by 194% compared to the previous year. The PSO is now the second largest contributor to government revenue in Uganda, after the Large Taxpayers Office (LTO) (Saka et al., 2018).

A study examining the creation of the PSO found that a major contributor to its success was the implementation of "soft" compliance strategies, such as organizing taxpayer workshops, making phone calls to relevant contact persons to remind them of filing deadlines, and working one-on-one with relevant officials to ensure a complete understanding of their tax obligations and the procedures and processes for filing (Saka et al., 2018). These findings suggest that in some cases—perhaps especially for large organizations—poor compliance rates may in fact be due to a poor understanding of tax responsibilities and processes, rather than intentional non-compliance.

The "shadow" or informal economy is also tightly connected with the concept of tax morale. Cross-country quantitative evidence suggests that higher tax morale and higher institutional quality lead to a smaller shadow economy (Torgler & Schneider, 2007). However, this relationship likely moves in both directions. The existence of a large shadow economy, for instance, has been shown to negatively impact tax morale among formal sector taxpayers.

This negative impact is likely due to perceptions of inequity, as formal sector taxpayers become frustrated when they observe businesses of similar size operating in the informal sector and not paying taxes (Joshi et al., 2014). Thus, while increased tax morale can likely shrink the informal economy by facilitating higher levels of business formalization, the existence of a large informal economy can also sap tax morale, leading to a vicious cycle of decreasing voluntary tax compliance.

5.3 Decentralization: Social Trust Through Physical Proximity

Uganda has been lauded as one of the most progressive countries in its implementation of decentralization. The belief behind decentralization was that by having accountable individuals for service delivery across district, rather than centralized in one place, positive cycles of engagement could be stimulated. However, the heavy implementation of that strategy over the past two decades has yielded mixed results.

Uganda's decentralization strategy was formalized from the success of so-called Resistance councils, a structure that was primarily used as a mechanism for civilian organization during the tumultuous years of the 1980s. After the realization that a system similar to the resistance councils could reduce public sector spending by putting greater responsibility and accountability of resources at administrative levels closer to the intended use and beneficiaries, decentralization was implemented as Local Councils within districts. Decentralization in Uganda was implemented in three stages; elaborating the legal framework (1992-1998); creating institutions and systems (1999 -2003); operationalizing decentralization and creating capacities (2005- 2018) versus expansion of local governments (Mushemeza, 2019). In addition to shifting administrative responsibility, Local Councils were awarded fiscal autonomy. Fiscal decentralization enabled the District Council to allocate the funds according to district priorities, particularly given the change from government allocating funds under the vote system earmarked for specific activities, aggregated and sent to the district as a block to the current system where districts are entitled to Unconditional (block) Grants, conditional grants and equalization grants (Martinez-Vazquez & Boex, 2006).

Despite the intended use and potential of the approach, confidence in the system has waned due to poor results. The poor results have occurred for a variety of separate but interrelated reasons. Over the past decade, the number of administrative and political districts have increased, with 135 administrative districts, 238 constituencies, and 426 elective seats in 2019 and a further proposed expansion in 2020 of 46 new counties (Elections Commission, 2016). The theory is that the expansion of representation increases political engagement and service delivery, though the realities have been much the opposite. Most literature has noted that this expansion of districts and constituencies does not fundamentally affect the ability of these districts to provide services because the financials have not changed, and in most cases have worsened (Bakibinga & Ngabirano, 2019). The NDP III notes that local governments continue to be heavily reliant on conditional block grants from central government budgets, most of which is allocated towards recurring budgetary expenditure such as salaries with little opportunity for expanding or providing the desired and required services of those local governments (National Planning Authority, 2020). In effect, meagre resources are being further sub-divided despite the fact that current fiscal resources for service delivery were not sufficient in the first place.

To support Local Councils in carrying out their mandated roles, constitutional provisions were made to supply local government with two main sources of revenue: transfer grants from central government, and own-source revenue. Own-source revenues included, among others, the graduated tax (a form of poll tax, i.e. a fixed-sum tax levied on every eligible individual), property rates, fees from markets and permits, and parking and trade licenses (Bakibinga & Ngabirano, 2019). The poll tax—which was ultimately suspended in 2005—was by far the largest contributor to local revenue, averaging about 70% at its peak (Bakibinga et al., 2018). The abolition of the graduated tax was initially prompted by a 2001 election promise made by a presidential candidate; the graduated tax was subsequently suspended in 2005 and later completely abolished in 2008. The graduated tax was replaced by the local service tax and the local hotel tax, which by all accounts have not measured up to the previous yields of the graduated tax (Franzsen, 2017). The abolition of the graduated tax thus left a substantial gap in local government revenue. Today, central government transfers account for 95% of the annual budget of local governments in Uganda (Bakibinga & Ngabirano, 2019). 85% of all local government financing is composed of conditional grants, leaving few opportunities for local governments to exercise fiscal autonomy (LGFC, 2012).

While the lack of sufficient resources at the local level is a persistent barrier to service delivery, there are examples of local governments which have succeeded despite various challenges. A study of the Bushenyi District Local Government in 2015 noted that despite fiscal shortfalls, it was able to earn the trust of its constituents through internal "challenge the process" opportunities that allowed staff to creatively and independently pursue solutions to their problems (Manasseh 2015). Other studies have noted how political power plays between national and local leaders have either supported or hampered the delivery of services and disbursements (Wunsch 2013). These successes demonstrated consensus building with varying degrees of success but premised upon the developmental goal in play: for Bushenyi, it was a question of providing local staff with a means to take risks in providing better service delivery without being demoralized or punished for failure; in other cases, it was a question of mobilizing financial and political resources both at a local and national level towards mutual development interests. Effective leadership that saw opportunities and was able to build appropriate coalitions unlocked value and built the conditions for longer-term trust between their communities and local government institutions.

Despite the diversity of staffing, financing, and leadership amongst local governments, studies and surveys appear to suggest that local governments are on-par with cultural leaders in terms of legitimacy and authority. One study noted that local governments were almost on par in terms of consultation by locals in terms of personal and social issues

(Rao et al., 2015). What this study suggested was that local proximity and experience of local issues lent local administrators and politicians a degree of credibility that could be used towards development priorities (Rao et al., 2015). However, the same study noted that such credibility was diffuse and fragile: if certain decisions were made that contradicted or clashed with local perceptions, the very same leaders could easily lose consensus and support for initiatives (Rao et al., 2015).

The experience of decentralization in Uganda yields a recognition that theoretical predictions were tempered by fundamental constraints in fiscal flexibility and capacity. Nonetheless, the ingenuity of certain municipalities could overcome these structural constraints if there were individuals both within and outside of government who could effectively leverage consensus towards overcoming these constraints. In most cases, there was a mindset in these institutions that focused on problem solving and giving meaningful decision-making to individuals as a way of incentivizing and stimulating growth. With broader application of similar pragmatic efforts, these institutions could catalyze a transformation in mindsets towards development and results.

CONCLUSIONS

Based on the above evidence, the Committee concludes:

1. Despite some advancements in key sectors, the Government of Uganda would benefit from greater internal and external confidence, perceived legitimacy, and authority in the execution of its service delivery. These issues arise for a variety of reasons including corruption, implementation failures, and barriers to consensus building and long-term institutional learning.
2. While decentralization remains a favored approach of the Ugandan government, the structures for enforcing authority and accountability (especially fiscally) have been unable to ensure reliable service delivery. Without successful service delivery, local governments continue to lose the confidence of citizens resulting in a lack of overall trust in government.

3. The Ugandan fiscal-social contract remains weak due limited public understanding of allocation and redistribution of taxed moneys. The impression that services rendered do not justify moneys taxed is amplified by perceived and real inequities in tax contributions across sectors.

RECOMMENDATIONS

Based on these conclusions, the committee recommends that:

1. The Government of Uganda should strengthen existing mechanisms that communicate government performance and provide opportunities to citizens to actively provide feedback into service delivery. This would provide the government a platform to win confidence while simultaneously being responsive to citizen demands outside of elections. The Office of the Prime Minister's Baraza program is an example of such a mechanism.
2. The Government of Uganda should halt the creation of new administrative districts without requisite financial and personnel resources to deliver on service obligations. If districts have sufficient resources in line with their obligations, failures in service delivery can be more meaningfully be held to account while strengthening trust in public institutions.
3. 3) The Government of Uganda should consider centralizing political and administrative oversight to regional hub districts, if resources are available to promote ownership of the development process in local communities. Centralization in this way may reduce administrative costs while still providing local communities with forums to work with technical leadership and service delivery personnel to improve their local circumstances.
4. The Ministry of Local Government should undertake a review to examine the potential efficacy of a results-based financing policy on chief administrative officers. This review

can help determine how to keep chief administrative officers accountable while understanding the flexibility necessary for them to execute on their responsibilities.

6

Taxation as a Stake in National Development

6.1 A History of Taxation in Uganda

In April 2018, a confrontation between citizens and UPDF soldiers attached to the URA led to an outbreak of violence in Yumbe district. The incident started after a boda boda driver was hit by a car door and killed in the process of URA officials impounding his motorcycle. URA later issued a statement blaming local political leaders for the incident (Lubega, 2018). The roots of this conflict between citizens and the state over tax collection, however, extend much further back to the early colonial period in Uganda.

Uganda's experience with modern systems of taxation began in the colonial period. Colonial administrators were obsessed with the issue of taxation, whether for ideological reasons or for more mundane reasons (LSE, 2012). Moreover, taxation structured the relationship between central administration and more local forms of governance (because of the colonial insistence on self-sufficiency), and the relationship between administrators and their subjects (Gardner, 2012). Colonial budgets for example, represented for the most part two overriding priorities: maintaining order, and increasing export production (Gardner, 2012). Budgets were thus directed primarily towards (1) strengthening general administration in the military and police forces, and (2) investment in infrastructure—including colonial railways, roads, and ports to reduce transaction costs and facilitate rapid growth in export production (Gardner, 2012).

Colonialism, contrary to some popular conceptions, was not universally popular in Europe. Even proponents of British imperialism in Africa were anxious about the prospect of the territories becoming financial burdens. As Roberts puts it, "Imperialism was not so popular in Europe that taxpayers, who were also voters, were ready to pay its bills"

(Gardner, 2012). Colonial administrators thus had a difficult balance to strike so that they could invest enough to make their colonies self-sufficient without spending so much as to strip their colonial enterprises of political support. Raising revenue domestically thus gradually became of increasing importance to colonial administrators, while spending was focused on one-off projects thought to bring relatively fast returns in terms of revenue (LSE, 2012).

The types of revenue mobilization strategies that could be imposed depended, to a large extent, on existing economic and political institutions. In the case of Uganda, revenue mobilization was operationalized through two primary revenue streams: trade taxes and direct taxes. Trade taxes were composed mainly of customs duties imposed on imports, which made up approximately 20% of total revenue in Uganda in the early 1900s (Gardner, 2012). Direct taxes were implemented first as "hut taxes," which eventually evolved into poll taxes that were collected from every adult male regardless of hut ownership. In Uganda, the poll tax was imposed in 1910 (Gardner, 2012). Due to relatively limited levels of trade to and from Uganda, the poll tax became a crucial future of colonial budgets. In contexts where existing political institutions were highly centralized, such as Buganda Kingdom, poll tax collection was outsourced to African rulers in exchange for a percentage of the revenue (Gardner, 2012).

Direct taxation differs significantly from trade taxes in the administrative burden they impose. Tariffs on imports and exports can be collected from the relatively few centralized trading and export centers (LSE, 2012). They involve very little confrontation with local populations and can be collected only from those directly participating in overseas trade. Direct taxation, however, requires collection agents to be distributed amongst the population. Setting the appropriate rate of direct taxation also requires information on what taxpayers can afford and are roughly willing to pay for the services rendered by the state (Gardner, 2012).

One of the primary challenges of direct taxation is measuring who and what can be taxed. Few colonial administrations in Africa, however, had accurate demographic and income data for their colonies. The income of Africans at the time was based largely on some combination of subsistence agriculture, proceeds from selling agricultural products, and urban- or plantation-based wage labor (Gardner, 2012). Calculating average income rates from these diverse sources presented major administrative hurdles. To overcome the challenges of direct taxation, colonial administration relied primarily on two strategies: a flat tax, and a system of exceptions. Colonial administrators were well aware that the imposition of a flat poll tax was regressive, and thus proceeded with exceptional caution to avoid the potential of "trouble" related to tax collection—meaning rebellion from taxpayers (Gardner, 2012).

The fear that direct taxation could easily lead to rebellion was one reason for the continuation of the exemptions system. Officials were especially anxious of taxes causing undue hardship, which would lead taxpayers to resort to violence or revolt that would upset the delicate colonial order. Local-level colonial agents were thus explicitly authorized to exempt part of all of a tax that they believed a taxpayer could not afford (Gardner, 2012). In part due to these exemptions and administrative challenges, the burden of poll taxes collected from Africans was distributed unevenly, and collection tended to be centralized in more populous commercial centers.

In the lead-up to independence, the income tax (which was previously payable only by Whites and Asians) was expanded to cover all citizens (Lubega, 2018). Its implementation in 1962, however, faced many of the same implementation and administrative challenges as the already-existing poll tax. Evasion rates were very high, and colonial governments had extremely limited information that they could use to set tax rates and target taxpayers (LSE, 2012). As the regional commissioner R. G. Garner remarked at the time, "I have been trying to work this out, but it's very difficult. There are no figures for us to work on. We can get hold of government servants and other employees and probably most African companies but after that it is different (Lubega, 2018)." Due to a lack of reliable information, the government thus faced significant problems in determining who should pay the tax and how much they should pay.

As a result of these challenges, implementation of the income tax tended to focus primarily on civil servants and employees of large companies who could be easily identified, and whose employers could be asked to withhold the tax on their behalf (LSE, 2012). In the immediate post-independence period, implementation of the income tax also encountered an ethnic dimension, as it was the Baganda who held the great majority of government civil service positions at the time. They were thus implicitly expected to pay far more income tax than other ethnic groups (Lubega, 2018). In the transition to self-governance, implementation of the income tax became an intensely divisive election issue and planted the seeds for many of the political conflicts that would follow.

Such challenges, which grew in intensity from the 1930s onwards, led colonial administrations to make more concerted efforts to strengthen local government institutions. These decentralization efforts gave local governments both the responsibility to raise revenue and to provide services to their populations. The purpose of these efforts was to increase both the amount of revenue collected, and accountability for service provision (LSE, 2012). While these efforts were successful at improving revenue collection from relatively affluent areas, they also created significant opportunities for rent-seeking, which limited their effectiveness (Gardner, 2012). The same challenges are true for many of the efforts to devolve responsibility and accountability to the local level in the post-independence period.

One common argument for why decentralization of revenue collection is likely to be more effective in the post-independence period is that colonial states lacked legitimacy. The greater accountability of post-independence regimes, through electoral pressure, should encourage more voluntary tax compliance and greater acceptance of the tax system (LSE, 2012). However, the evidence on whether legitimacy creates greater compliance in practice remains mixed. In the context of post-independence politics, government budgets were often used to reward supporters or attempt to win them over, which damaged the broader legitimacy of these regimes (LSE, 2012).

In fact, more recent models imply that a transition to democracy may actually result in decreased levels of taxation, especially when citizens demand higher public goods provision and when voluntary tax collection is ineffective (Martin, 2016). The history of Uganda seems to support this model, as the transition to multiparty democracy saw the elimination of several forms of mass taxation, including the graduated tax (GT), school fees, health center fees, and any property taxes (Bakibinga et al., 2018). These direct taxes were eliminated although they provided the bulk of revenue for local levels of government. The GT, in particular, accounted for between 57.6% and 88.9% of own-source revenues for each district at the time of abolition (Martin, 2016). This model suggests that these taxes may have been abolished because government was unable to credibly promise public service expansion to taxpayers and was thus unable to arrive at a functioning "tax bargain" with the population (Martin, 2016).

Today, it is the continued impact of administrative limitations on tax collection that is more visible than any changes to political legitimacy. Although the URA has made substantial improvements to tax collection in recent years, Uganda still encounters major challenges in identifying taxpayers and determining how much they owe. One recent study conducted by URA found that while the number of registered taxpayers increased 70-fold between 2010 and 2018, from less than 20,000 to 1.3 million, that expansion has been accompanied by a great deal of inaccuracy (Mayega et al., 2019). For example, a total of 581,571—44% of all registered taxpayers—have contact details, especially email addresses and phone numbers, that are identical to at least one other taxpayer. The study also found that 16,017 individual taxpayers had recorded the same national identification number (NIN); 6,173 had the same passport number; 3,360 shared the same email address; and 1,742 had given the same email address (Mayega et al., 2019). This high level of duplication and inaccuracy in the taxpayer registry presents a significant administrative barrier to reliably and equitably identifying individual taxpayers and ensuring that they have paid their full tax bill.

6.2 Property Taxation as a Stake in the Community Development Process

Internationally, property taxation is now undergoing something of a resurgence. Across sub-Saharan Africa, property taxes are increasingly being recognized as a largely untapped source of potential revenue for local governments (Fjeldstad et al., 2017). Given the high reliance of

Local Councils on central transfers, this issue is particularly salient in Uganda. Recent urban population growth and the accompanying investment in built improvements has rapidly pushed up property value in urban centers, presenting an attractive tax base for local governments (Haas & Kopanyi, 2018). Despite this potential, property rates in Uganda are for the most part poorly enforced, with the possible exception of Kampala, where administration has been gradually improving in recent years (Bakibinga & Ngabirano, 2019). Across the country, however, property rates now present what is likely the most viable source of funding to close persistent gaps in local government budgets.

Typically, property rates are levied as a flat rate on an estimate of the value of a property. The logic of this arrangement is relatively straight-forward. Owners, so the theory goes, benefit directly from the provision of public services through increases to their property value (Slack, 2011). Increases to property value are captured by owners either through higher rents, or when property ownership is transferred. Since owners benefit directly from public services through higher values, it stands to reason that those owners should contribute to public service investment through taxes, and—in the spirit of equity—tax contributions should be distributed roughly according to property value (Haas & Kopanyi, 2018).

There are also economic reasons to pursue expanded property rates taxation. Economists have long advocated for the direct taxation of (the unimproved value of) land, as it is more likely to be a non-distortionary and therefore a more efficient form of taxation (George, 1879). Additionally, since property is essentially immovable—it cannot shift location in response to a tax—and cannot be hidden, it is therefore difficult to evade a tax on property (Slack, 2011). The distortions created by a property tax are therefore likely to be lower than those created by an income or sales tax at the local level (Slack, 2011). In theory at least, property rates should therefore be somewhat easier to levy and collect and should thus offer local governments the significant potential to raise revenue. Finally, as a de facto tax on wealth, property rates are likely to be for the most part progressive (in that wealthier individuals contribute more than poorer individuals), and thus conform to the normative principle of "equity" that is commonly invoked in the design of tax systems (OECD, 2014).

Property rates in Uganda are levied under the authority of the Local Government (Ratings) Act 2005 (as amended). The law provides for, among other things, the power of local governments to levy rates within their jurisdictions, to assess the value of properties for the purpose of levying property rates, and to collect property rates (Bakibinga & Ngabirano, 2019). Property rates are payable by owners in urban areas, as well as the owners of properties classified as “commercial” or “industrial” in rural settings (Franzsen, 2017). Although the Act empowers district councils to levy a property rates on commercial and industrial properties in rural areas, no district has thus far introduced such a rate in rural areas (Franzsen, 2017). Property rates are levied at a flat rate on the “annual rental value” off a property, and local governments then have the discretion to set tax rates from a minimum of UGX 2,000 up to a maximum of 12% of the annual rental value (Bakibinga & Ngabirano, 2019). The Local Government (Ratings) Act 2005 also exempts certain properties—most notably owner-occupied residential properties in urban areas—as well as vacant land, from the tax net (Haas & Kopanyi, 2018).

The use of “annual rental value” as the base tax rate is somewhat unique to Uganda. A review by Private Sector Foundation Uganda found that out of 10 African countries analyzed, Uganda was the only one to use this indicator as the base tax rate (PSFU, 2010). All of the other countries analyzed relied on an assessment of “capital value” or “sale value” as the base tax rate. Table 1 shows the base tax rate for properties used in the 10 countries analyzed. The choice of the basis for assessment largely reflects historical factors. The United Kingdom and France have traditionally valued property on the basis of rental value; as a result, their former colonies in Africa tend to do so as well. Countries influenced more strongly by the United States or northern Europe (e.g. Germany, the Netherlands) tend to set property tax rates on the basis of capital value (PSFU, 2010).

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TABLE 1 The Basis for Property Tax in a Selection of 10 African Countries

Country	Basis of Assessment
Kenya	Unimproved site value
Ghana[1]	Depreciated replacement cost
Uganda	Annual rental value
Tanzania[2]	Market value or replacement cost
Malawi	Open market value (capital value)
Zambia	Open market value
Zimbabwe	Open market value non-residential; unit basis for residential
Namibia[3]	Open market value for land; depreciated replacement cost for improvements
South Africa[4]	Unimproved site value; improved value of land (flat rating); unimproved value of land + value of any improvements (composite rating)
Rwanda	Area rate (not based on value)

Of course, no individual system is perfect, and all have their trade-offs. For instance, while a capital value approach generally reflects the value of the "highest" and "best" use of property (and thus tends to tax gains that an owner has not yet realized), the annual rental value approach does not (Franzsen & McCluskey, 2017). In general, the usefulness of any one system relies on the availability of information. For instance, a tax based on the open market value (sale value) of a property requires an active and transparent property market. If it is not

[1] The basis was changed from "annual rental value" to "replacement cost"

[2] Replacement cost is used where market value cannot be ascertained. The maximum depreciation allowable is 25%.

[3] Municipalities can generally decide on any of four bases: general rate (on the value of the whole of such rateable property); site value rate (on the value of the land only); improvement rate (on the value of the land and the value of improvements, but separately)

[4] Three options are generally available; reform on tax bases started in 1997 and is continuing.

possible to compare a property to a substantially similar property that has recently been sold on the open market, then it is not possible to arrive at an accurate estimate of "sale value" (Slack, 2013). Similarly, relying on annual rental value as the base tax rate requires an active and transparent rental market. In the case of Uganda, it is not always possible for local government valuation departments to accurately determine the annual rental value of a property (Franzsen, 2017). As will be discussed in more detail below, determining the notional annual rental value for owner-occupied properties, which by definition are not rented out, can also prove quite challenging (Bahl & Wallace, 2010).

According to the most recent available estimates in the literature, property rates in Uganda generated about 2% of total tax revenue, but less than 0.5% of GDP, in 2008/2009 (Franzsen, 2017). This contribution from property rates is roughly similar to other African countries that report local government revenue, as they average about 0.4% of GDP from property rates but is well below the yield captured by high-income countries, which average 1% and above of their GDP (Franzsen & McCluskey, 2017). Nevertheless, as shown in Figures 6 and 7 below, it is clear that as a local tax and as a percentage of own-source revenue property rates are significant. Figures 6 and 7 also show that since the enactment of the Local Government (Ratings) Act 2005, there have been significant—if somewhat erratic—increases in property rate collection. Part of this increase is likely due to the fact that the abolition of the graduated tax stimulated a renewed focus on property rates as the only viable source of significant local government funding (Franzsen, 2017).

Somewhat unsurprisingly, existing studies on property taxation in Uganda tend to focus on Kampala. Kampala Capital City Authority (KCCA) has jurisdiction over the most valuable land in the country and collects the most in property rates (both absolutely and as a % of total own-source revenue) of any local jurisdiction in Uganda. During fiscal year 2016/17, for instance, property taxes contributed a total of UGX 30,416 billion to Kampala's budget, which is equivalent to 58% of all property taxes collected in the country the prior year (as per Figure 6) (Bakibinga & Ngabirano, 2019).

KCCA has also demonstrated relatively impressive improvements in its system of property rates administration over the past decade.

According to available studies, the bulk of this improvement is credited to the establishment of the dedicated Directorate of Revenue Collection (DRC). The DRC has selectively and gradually invested in upgrading revenue databases and improving procedures, as well as overall administration (Kopanyi, 2015). These improvements were supported by the recruitment of well-experienced staff, most of them previously from the URA (Bakibinga & Ngabirano, 2019). The success of the DRC is visible in the numbers: over the three-year period between 2011/12 and 2014/15 own-source revenue in Kampala increased more than 100%, from UGX 41 billion to UGX 85 billion (Kopanyi, 2015).

What is most remarkable about this increase is that it occurred in the absence of a general property revaluation process in Kampala. Kampala has not undertaken a comprehensive property revaluation since 2005 (Bakibinga & Ngabirano, 2019). The revenue improvements driven by the DRC were thus almost entirely collection-led, meaning they resulted from a group of skilled and motivated staff focused primarily on improving administrative processes and validating existing property databases (Franzsen & McCluskey, 2017). The success of the KCCA DRC unit in boosting revenue demonstrates that local governments can do a lot to achieve revenue improvements within the existing confines of national legislation (Kopanyi & Franzsen, 2018). Even without the resources for a general property revaluation, a dedicated team of skilled and well-compensated revenue staff can drive significant improvements in administrative processes, and ultimately revenue collection.

An exploratory study on property rate systems beyond Kampala by Bakibinga and Ngabirano (2019) found that, although a number of municipalities have undergone relatively recent property valuations, there is significant scope for improved enforcement. While the exact details behind the selection of property rates differ between municipalities, perhaps the most glaring commonality is the lack of a clear linkage in the minds of taxpayers between property rates and the provision of local services (Bakibinga & Ngabirano, 2019). Property owners outside of Kampala (and even some in Kampala) do not generally understand the distinction between property rates and the other annual fees and taxes paid to various authorities for licenses, or with income tax paid to the URA (Bakibinga & Ngabirano, 2019). Although taxpayers in some jurisdictions have a general sense about the purpose of property

TABLE 2 Own-Source Revenue Performance, 2003/04 – 2015/16 (UGX Millions)

Source	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Local services tax	-	-	-	-	-	3,838	9,195	6,542	7,115	10,786	10,114	11,670	11,719
Hotel tax	-	-	-	-	-	985	1,496	928	11,634	1,065	1,279	2,855	989
Graduated tax	36,526	60,389	10,866	4,430	-	-	-	-	-	-	-	-	-
Property tax (PT)	6,788	3,526	26,716	37,817	28,487	24,936	45,598	31,557	29,290	33,049	38,679	45,109	52,483
User fees	13,100	10,504	23,096	20,946	64,854	33,153	39,924	21,975	20,931	29,004	34,058	36,390	37,506
Licenses	5,805	4,091	12,206	11,779	13,479	9,171	13,369	6,564	15,560	8,807	11,037	12,339	14,578
Others	17,888	12,201	27,781	23,684	9,065	46,627	33,222	43,478	43,482	56,042	57,837	68,879	76,929
Total	80,107	90,711	100,665	98,656	115,885	118,710	142,804	111,044	128,012	138,753	153,004	140,852	194,204
PT as percentage of total	**8.47%**	**3.89%**	**26.54%**	**38.33%**	**24.58%**	**21.01%**	**31.93%**	**28.42%**	**22.88%**	**23.82%**	**25.28%**	**25.45%**	**27.02%**

SOURCE: Data compiled from (Franzsen, 2017) and (LGFC, 2016)

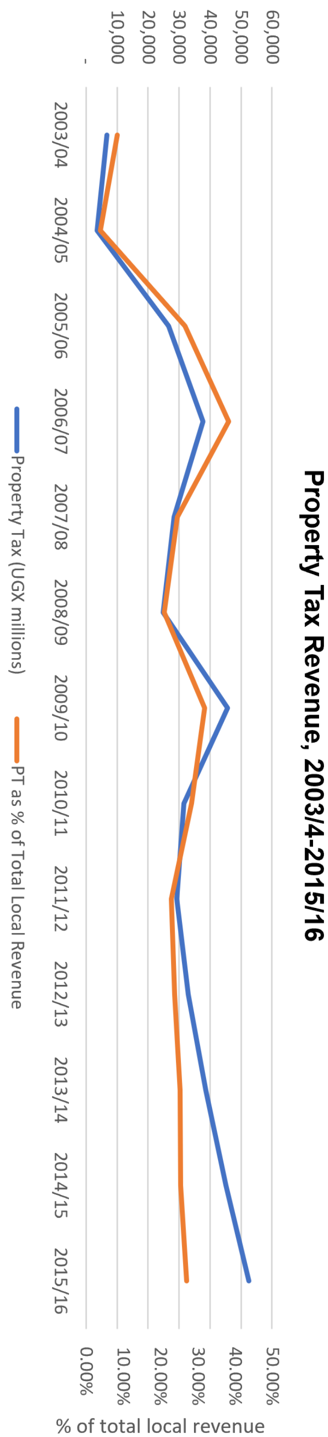

FIGURE 6 Property Tax Revenue, Total in UGX Millions, and as a % of Total Own-Source Revenue, 2003/04 – 2015/16

rates, few knew for what precisely they were used. In all four of the municipalities studied—Arua, Gulu, Kabale, and Tororo—there were no dedicated taxpayers' associations to bridge the gap between taxpayers and local government, and taxpayer education to link property rates with municipal services are mostly absent or ad hoc. This generalized lack of connection between local service delivery and property rates is likely a major driver of the enforcement difficulties experienced across the country.

The following sections focus on three technical challenges in the implementation of property rates. They were selected for their impact, uniqueness, and innovation. In the case of mass appraisal techniques, given the limited capacity available and the high costs associated with appraisal currently, it warranted further examination. In the case of owner-occupier exemptions, Uganda is one of the only countries in Africa that has such a provision. Lastly, the potential policy change regarding vacant land is an example of theoretical proposals that could stimulate mindset shifts in terms of how land is both perceived and used.

6.3 Challenges to Expanded Property Rates Taxation: Lack of Mass Appraisal Techniques

The basis of any system of property rates taxation is property valuation; the value of a property must first be established before a tax rate can be set against that value (Zebong et al., 2017). Uganda currently operates a system of individual appraisal, in which expert valuers are responsible for visiting properties and establishing the "rateable value," in the form of annual rental value, that is to be taxed (Franzsen, 2017). This system is highly inefficient—especially given the fact that there are so few professional valuation surveyors in Uganda, and those who do exist are engaged primarily in more lucrative private practice (Bakibinga & Ngabirano, 2019). According to a study conducted in 2010, Uganda had just 32 registered surveyors in the whole country. Three were found to be employed by the Kampala City Council, and four by the Ministry of Lands, Housing, and Urban Development (MLHUD); the rest (25) were engaged in private practice (Olima, 2010; SEATINI, 2013). The situation may have improved somewhat since that study, as the KCCA now has a Chief Valuer that is assisted by 36 other qualified valuers. However, in 2019 the municipal councils of Arua, Gulu, Kabale, and Tororo were found to not have professional valuers, and instead relied on private valuation firms procured on the open market (Bakibinga & Ngabirano, 2019). As a result of this lack of qualified personnel, municipalities in Uganda generally rely on outsourcing the valuation process, which implies significant costs and limits the revenue potential of property rates taxation (Bakibinga & Ngabirano, 2019).

An alternative to individual appraisal, which has been widely discussed for a number of years (notably in the PSFU's "Review of the Legal Framework for Land Administration" as part of the Second Private Sector Competitiveness Project), is a "mass valuation methodology." Mass valuation relies not on direct market information about any single property, but rather on extrapolation from a representative sample of properties. Mass appraisals are commonly associated with computer-aided multiple regression analyses that help to establish the relative importance of value-significant characteristics. For example, to what extent does property location, property size, or building type contribute to value? Mass appraisal techniques answer these questions and extrapolate those answers to estimate the value of all properties in the register in an automated fashion. Mass appraisal techniques thus have significant potential to drastically decrease the long-term costs (in terms of both human capacity and finances) of property valuation in Uganda, although they likely do imply relatively high up-front costs to establish.

Section 12(1) of the LGR 2005 makes explicit provision for the use of mass appraisal techniques as an alternative to individual appraisal, although no municipalities to date have pursued this option.

6.4 Challenges to Expanded Property Rates Taxation: Exemptions for Owner-Occupiers

One of the primary challenges to expanding the contribution of property rates to local government revenue is the exemption—enshrined in a 2006 amendment to the LGR 2005—of owner-occupiers. With this single amendment, the central government significantly narrowed the tax base for Local Councils. A report by the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI) and OXFAM (2013) found that the exemption of owner-occupiers alone resulted in a loss of more than 45% of own-source revenue (SEATINI, 2013). Similarly, Goodfellow (2012) found that Kawempe Division in Kampala was particularly hard-hit by the exemption. Kawempe—which was already the worst property tax performer out of all Kampala's divisions, as infrastructure and services were so poor that people had long resisted paying because they received so little in return—would have raised an estimated UGX 20 billion annually without the owner-occupier exemption, rather than the UGX 5-10 billion actually collected (Goodfellow, 2012).

From an economic perspective, the universal owner-occupier exemption also violates principles of neutrality and efficiency. For instance, it is the owners of residential property that receive the greatest benefit from public services funded by property rates, as commercial property owners frequently make their own arrangements for services such as security and garbage collection (Bakibinga & Ngabirano, 2019). With a universal owner-occupier exemption, business owners are arguably subsidizing the benefits received by residential property owners. Additionally, Slack (2011) makes the argument that non-residential properties (such as businesses) tend to be more responsive to taxes and are thus more likely to relocate if they feel they are being over-taxed. A property rate that focuses disproportionately on commercial properties is therefore likely to have distortionary effects in terms of economic efficiency (Slack, 2011). Finally, the universal owner-occupier exemption arguably made the property tax system more regressive. As one official interviewed by Goodfellow (2012) pointed out, poorer people renting out relatively low-value properties as a commercial venture were effectively paying to maintain the well-developed infrastructure of the rich sitting in huge homes in Kololo (Goodfellow, 2012).

The available evidence suggests that exemptions for owner-occupiers was almost certainly a decision based on political calculus, with very little consultation of the evidence as to how it would impact local government revenues or service provision. The exemption of certain clearly-defined categories of owner-occupiers for clearly-defined policy reasons is not in-and-of-itself unusual. The problem in Uganda was the universal exemption of all owner-occupiers, and the sudden nature of the decision, with almost no research or preparation (Goodfellow, 2012). Additionally, the exemption has introduced serious problems for local governments in actually identifying owner-occupiers. For instance, wealthy owners with multiple properties simply claimed to be "occupying" all of their homes, even if they were in fact being rented out, and were exempted from paying property rates (Goodfellow, 2012). Municipal administrations also have significant challenges monitoring changes in property use—for example, from owner-occupied to rented out—and thus many properties that have changed use remain outside of the property tax registry (Olima, 2010).

6.5 Challenges to Expanded Property Rates Taxation: Exemptions for Vacant Land

The current Local Government (Ratings) Act 2005 defines only buildings and structures as taxable properties, and thus by default exempts vacant land from paying property rates. By some estimates, vacant land constitutes an estimated 8-10% of land in urban Kampala, and thus likely presents a significant untapped source of revenue for the city (Haas & Kopanyi, 2018). Estimates of vacant land in other Ugandan municipalities are not available in the literature.

Land is in fixed supply, and its value is derived primarily from its location, economic and population growth, and public investments. As a city develops, its land appreciates commensurately. In the context of a rapidly developing city, it thus highly beneficial for owners to hold onto vacant land for speculative gains. In the absence of a tax on vacant land, these owners then realize the full value-gain on sale of the property, although they have contributed nothing towards that increase in value (Haas & Kopanyi, 2018). A fairer system would ensure that landowners contribute at least marginally to the expansion of public services and city development that increases the value of their land. This kind of speculative land banking is particularly problematic in Kampala but is likely to also become endemic to other secondary cities as they continue to grow, and as land values continue to increase.

The tax potential of vacant land depends on a number of crucial policy decisions, such as the definition that is selected for "vacant land," and the method ultimately used to assess the value of that land. An initial estimation conducted by Haas and Kopanyi (2018) in Kampala, however, suggests a potential of between UGX 0.3 and 1.8 billion additional property tax revenue from just the Kololo and Civic Centre parishes. While these are likely the two highest-value parishes in Kampala, they are not the parishes with the largest amount of vacant land. Based on these initial figures, an expansion of the LGR 2005 to allow the taxation of vacant land has significant potential to expand local government own-source revenue.

CONCLUSIONS

Based on the above evidence, the Committee concludes:

4. The introduction of property rates on unimproved properties could provide a vital influx of funds to local governments to make up for the rapid changes in incomes resulting from the abolishment of the graduated tax.
5. The history of taxation in Uganda has created the conditions in which there is little perceived legitimacy or value to tax compliance.
6. Property taxes may promote more efficient land usage while encouraging broader development of the real estate market.
7. While there are high upfront costs to mass appraisal techniques of property value, mass appraisal techniques are substantially cheaper in the long run to implement and maintain.

RECOMMENDATIONS

Based on these conclusions, the Committee recommends that:

5. Municipal governments should stimulate behaviors on vacant land in terms of disincentivizing and incentivizing action through taxation. This will increase tax compliance on vacant lands but also provoke economic activity in line with local priorities.
6. 6) The Uganda Revenue Authority and Local Authorities should continue to strengthen taxpayer associations in order to make the connection between payment of tax and outcome of taxes clearer. Strengthened associations could therefore encourage compliance, understanding, and appreciation for tax and its role in community development.

7) Legal disputes over land ownership and titleship should be more fully and efficiently addressed. This will expedite tax compliance on disputed lands.
8) The Parliament of Uganda should consider ways to provide sufficient flexibility for local governments, through amendment of the Local Government (Rating) Act, to collect property rates on vacant lands that are contextually informed. This approach could avoid stringent one-size-fits-all policies and promote tax compliance.

7

Leveraging Domestic Resources for Mindset Shifts towards Country Ownership

7.1 The Pursuit of Structural Transformation and a History of Incoherence

While it is generally accepted that industrialization is critical to structural transformation, it remains widely debated as to how industrialization should be pursued on the African continent. Failed historical efforts and new concerns regarding industrial development, such as environmental degradation, have made discussions on industrialization increasingly contentious. With little consensus, the results of various plans to stimulate manufacturing have largely failed.

Much of the hesitancy around industrialization can be traced to the failed attempts of many African nations in the early years following independence to pursue import substitution industrialization policies or ISIs. Uganda in this regard was no different than many other nations: it was disproportionately agrarian and the government of the 1960s aggressively pursued protection of manufacturing and industrialization of textiles and processed goods such as steel. While the early years of these policies appeared to be positive, the violent political transition of the 1970s coincided with a market crash in oil and largely unviable economic nationalism (UNAS, 2014; Chang & Golden, 2007). The pursuit of industrialization became unfeasible in an atmosphere of widespread political, economic, and social unrest.

The economic mismanagement of the 1970s and 1980s contributed to the rise of structural adjustment policies pursued in the 1990s. The so-called "Washington Consensus" and associated recommendations prompted wide-scale reductions in government size public sector retrenchments and severe cuts in government expenditure (Carlton et al., 2001). This massive transition in the structure of Uganda's economy contributed to some of the current trends in firms. In Uganda, about 80% of all firms fall under the MSE category and are estimated to provide 90% of the total non-farm employment. Yet, the transition to larger sizes of firms has been meagre and growth largely remains stagnant in the Ugandan economy.

It is under this historical context that access to finance has been forwarded as a means to support the growth of local enterprise. As stated by the Former United Nations Secretary-General Kofi Annan, "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge is to address the constraints that exclude people from full participation in the financial sector" (United Nations & Krassnor, 2003). In effect, the pursuit of greater industrialization depends on how transitions in economic activity are financed.

For that reason, financial inclusion has been recognized as a core driver of growth and country ownership. Financial inclusion efforts target the unbanked and underbanked, by extending sustainable financial services to them. These have historically included nationalization of commercial banks to reach the underserved geographies such as the Uganda Commercial Bank (UCB), the expansion of banks to rural areas to support agricultural development (Centenary Bank), micro credit lending for people without collateral required for borrowing, and more recently through fintech facilities (MTN mobile money).

Microfinance is considered across Africa as having been greatly successful in terms of outreach, financial sustainability and achieving socio-economic impact (Carlton et al., 2001). The Uganda Micro Finance Institutions (MFI) blossomed in the early 2000s and laid the foundation for the Bank of Uganda's regulatory framework on new finance mechanisms such as mobile money and Fintech remittances in use today. Well-developed and diversified, MFIs offer credit services and to some extent savings facilities to micro and small-scale entrepreneurs and poor households who cannot obtain these services from the formal financial sector. MFIs serve private enterprises which account for more than 50% of GDP.

However, the early success and rapid unregulated expansion of MFI's coincided with an increase in exploitation of creditors through fraud and mismanagement of funds. The Bank of Uganda had to apply legal restrictions to curb the fraud that had become associated with the MFIs. An incident involving the non-profit Care for Orphans and Widows and the Elderly (COWE), for instance, resulted in USD 350,000 being stolen from 10,000 indigent borrowers (Duggans, 2011). The regulations and restrictions implemented limited the level of capitalization particularly for SMEs. MFIs now face chronic shortages of larger and longer-term loans to adequately finance small scale enterprises, especially in the commercial farming sector. These handicaps limit the industry's ability to meet the development finance needs of the rural and micro enterprise sector that made up the bulk of private enterprises.

Most criticisms of microfinancing argue that microfinance does not provide the catalytic conditions for growth but rather stabilizes the financial situations of the poorest. In Uganda's case, these criticisms may be accurate because of issues of scale and desire: over 50% of the population continues to not have access to financial services and given the limited assets and resources of large segments of the population, it is undesirable to incur costs that could compromise the ability of subsistence farmers to survive. In some cases, it is a matter of financial literacy and awareness that could allay fears regarding the risks of borrowing. Nonetheless, there remains a large population whose needs and aspirations are not being met or facilitated by microfinancing institutions.

These issues are compounded in part by what was termed by Michael Lipton as "urban bias". He developed a theory to account for disproportional development trends where development planning is biased against rural populations, hampered by influential and well-connected groups in urban areas who are able to pressure governments to protect their interests. Groups found to have an 'urban bias' include manufacturers, governments, political parties, students, civil servants and manufacturers, because their interests often don't reflect the comparative economic advantage of the entire country (Lipton 1977). Usually a less-industrialized country like Uganda, whose comparative advantage is considered to be export agriculture, is distracted by urban-bias which shifts focus away from this comparative advantage that benefits the wider population. This partially explains the declining trends in the contribution of agriculture to the economy and raises a potential need to review the approach to agricultural expansion and automation to increase national output. Without transitions in the economic activity in rural populations away from subsistence agriculture, large rural populations will continue to have marginal political and economic means of owning their development.

7.2 The Challenges of Fiscal Policy and Broadening and Deepening Access to Finance

The efforts to promote structural transformation have also had to deal with other complexities and realities in terms of fiscal policy. In the 1970s and 1980s, monetary policy was conducted in an environment of substantial fiscal dominance. The result was a weak currency, substantial loan repayments and inflation peaking at around 250% in 1986/87. The efforts to repair the damage and instability of the 1980s resulted in the large pivot towards structural adjustment policies (Mugume, 2018). The Bank of Uganda's efforts to provide a stable fiscal framework became paramount to the package of changes that structural adjustment policies recommended.

All of the government's efforts to bring the economy under control succeeded in reducing inflation from over 300% in 1986 to about 72% 1988 (Byrnes, 1990). Unfortunately, the government proceeded to increase money supply to purchase coffee, farm produce and to cover increased security costs in early 1989—interventions which contributed to another rise in inflation. This coincided with low rainfall levels in Southern Uganda which contributed to higher prices for food. Shortages of consumer goods and bottlenecks in transportation, distribution, marketing, and production also contributed to rising prices. Simultaneously, the depreciation of the United States dollar increased the cost of Uganda's imports from Japan and Europe. The government tried to curb inflation by increasing disbursements of import-support funds and tightening controls on credit. These measures helped lower the rate of inflation to 30% by mid-1990, but by late 1990, inflation was increasing once again (Byrnes, 1990).

Prior to the 1990s, interest rates were largely administratively controlled and BoU was required to abide by the fiscal authority of the Ministry of Finance, which largely directed monetary policy to fill government financing gaps. Furthermore, black market foreign exchange market was ubiquitous during this period reflecting exchange rate controls in a context of monetary financing of large fiscal deficits. In effect, the 1980s and 1990s saw an incredibly challenging environment in terms of managing monetary policy and using it to promote economic development, rather than avoiding catastrophe.

More recently, the Bank of Uganda (BoU) has used monetary policy to achieve low and stable inflation with a medium-term target of 5.0% of core inflation as a means of supporting growth. BoU reports having achieved adequate capital with commercial banks meeting the minimum regulatory capital adequacy (notwithstanding Crane Bank), with an aggregate industry-wide tier 1 capital adequacy ratio of 20.9% in 2017, an increase from a 10-year average of 18.7% between 2006-2016 (Bank of Uganda, 2018). Liquid assets to total deposits ratio have increased to 54.6% in 2017, from a 10-year average of 45.3% (Mugume, 2018). Similarly, commercial banks are increasingly converting private sector deposits into loans. Private sector deposits as a ratio of GDP increased from 5.3% in 1992 to 17.0% in 2016 (Mugume, 2018). Over the same period, private sector credit as a share of GDP has risen three-fold from 5.0% to 15.0% (Mugume, 2018). BoU has measured increases in access to financial services using the observable expansion of outreach which has increased to 528 regulated financial institutions in 2017, from 129 in 2000, and a doubling of Automatic Teller machines to 854 in 2017 (Bank of Uganda, 2018). Overall access to financial services has risen to 55% in 2016, from 30% in 2006 (Mugume, 2018, Finclusion 2016). BoU also has recently engaged in regulating credit through mobile money services, which has increased access to basic payment services across the country (Bank of Uganda, 2018). All of these statistics effectively suggest an increasingly stable and manageable macroeconomic framework for development.

Despite these positive outcomes, lending rates have chronically remained high within an average of 22.2% over the past 10-years. Unfortunately, this average is largely unsustainable over the long term because most private sector firms do not generate sufficient returns to enable them to service their loan obligations (Mugume, 2018). Reducing lending rates in an environment of sustained monetary policy easing would require addressing the supply-side constraints that accommodative monetary policy alone cannot guarantee.

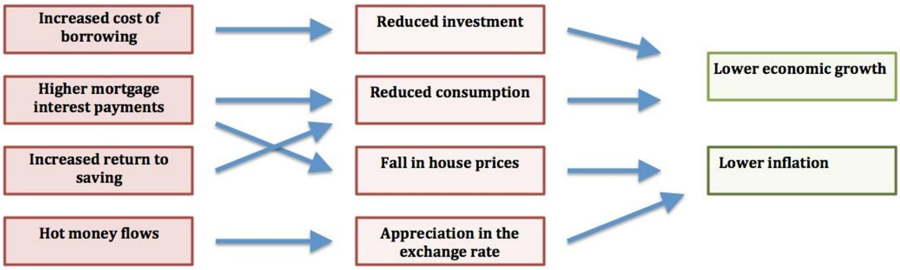

FIGURE 7 The Theoretical Effects of Higher Interest Rates on National Development
SOURCE: www.economichelp.org

As expected, high inflation forces tighter monetary policies, which are reflected in high interest rates and decreased cost of borrowing. This in turn has the unfortunate impact of slowing down private sector investment and growth. In the long term this leads to underdeveloped domestic financial markets. The banking sector has expanded significantly over the past decade, but domestic financial markets remain shallow and constrained by structural impediments. Measured by the ratio of broad money to GDP, for example, the domestic money market is illiquid and, on average, compares unfavourably with those of other developing countries (Mugume, 2018). As a result, the underdeveloped state of the domestic financial market has a bearing on not only interest rate and credit pass-through.

Diversification of the financial system in Uganda is limited, with commercial banks holding about 80% of the total assets of the financial system (Mugume, 2018). Equity markets are poorly developed, and only large and well-established firms can realistically raise finance on equity markets. As a result, most firms seeking finance for investment on the domestic market have to rely on loan finance, of which the most important source is the banking system.

One of the more pressing concerns on the supply side has been the lack of diversity in the financial system, with commercial banks holding about 80% of the total assets of the financial system (Mugume, 2018). Equity markets are poorly developed, and only large and well-established firms can realistically raise finance on equity markets. As a result, most firms seeking finance for investment on the domestic market have to rely on loan finance, of which the most important source is the banking system.

At the same time, banks serve as a strong financial intermediary source of investment capital through accumulated private savings. Successful emerging countries that have achieved rapid equitable economic growth have used deep financial systems to effectively mobilize savings and financial resources to catalyze productive activities. Access to financial services enables individuals, households, and businesses to efficiently balance income and expenses over time, manage shocks, and invest in the development of their human and physical capital (Sebudde et al., 2017). However, the proportion of the working population that participates in local banking to increase liquidity is small. Only 28% of the adult population keep their savings at formal deposit-taking institutions, including banks, microfinance institutions and savings and credit institutions with access to credit (Sebudde et al., 2017).

With such a limited level of participation in the financial system, it is no wonder that Uganda ranks 120 out of 138 countries in affordability of financial services. Almost 60% of adult Ugandans still keep their savings at home and in the form of assets and more than 65% are unable to access formal financial institutions for credit (Sebudde et al., 2017) despite widespread efforts to change these conditions. For example, access to finance has always been a core strategy in Poverty Eradication Reforms initiated by the Government of Uganda which sought to reduce poverty and develop local enterprise to make the private sector the engine of growth (Sebudde et al., 2017). At the time, the formal financial system was fragile, and between 1997 and 1999 five banks were closed due to internal financial management troubles (Sebudde et al., 2017). In addition, the partial privatization of Uganda Commercial Bank (UCB) led to closure of many rural branches leaving hard to reach populations without financial services (Sebudde et al., 2017). In effect, the financial system's ability to serve rural populations was unable to effectively survive without explicit efforts to support their growth and maturation.

While these efforts were laudable in theory and achieved some successes, the current realities in terms of what institutions have emerged to fill financial access gaps has demonstrated what an enormous market was left untapped. Currently, the Uganda financial system is comprised of a range of formal, semi-formal and informal institutions. Formal institutions include banks, microfinance deposit-taking institutions, credit institutions, insurance companies, development banks, pension funds and capital markets. The semi informal institutions include Savings and Credit Cooperative Associations (SACCO) and other microfinance institutions, whereas the informal ones are mostly village savings and unincorporated loan associations. Formal institutions are less prominent in rural areas than urban areas, serving just 14% of the rural population. It is these semi-formal and informal institutions that are now playing an important role in rural financial service provision and serve approximately 12% of the rural population (Sebudde et al., 2017).

Even with greater access to finance, there remains a fundamental gap in terms of basic financial and practical literacy that makes engagement in the financial system fraught with difficulty. Approximately 45% of Uganda's population has no access to financial services (Finclusion 2016) and recent UBOS estimates suggest that national literacy continues to hover between 75-82% of the national population (UBOS 2019). That literacy estimate disproportionately is represented in urban areas and rural areas remain substantially behind (UBOS 2019). Other estimates suggest that the number of Ugandans with access to bank accounts is decreasing, with only 7% of the population as active bank account users (Finclusion 2016, Sebudde et al., 2017). While bank accounts may not be a preferred financial tool, mobile money continues to play an outsized role particularly in rural communities for remittances, access and transferring of funds, with registered transaction values growing from UGX 490 million in 2009, to UGX 4,969.2 billion in 2017 represented by 7 mobile money providers (Sebudde et al., 2017). What these statistics suggest is that the financial sector has an enormous opportunity to potentially unleash the productive capabilities of the rural populations if it can find effective ways to balance the ease of access that mobile money provides with the securities that larger banks and credit facilities have. In doing so, a fundamental change in the process of development in rural communities to greater ownership and participation in national development could occur.

CONCLUSIONS

Based on the above evidence, the Committee concludes:

8. The Bank of Uganda's application of international best practice and tight monetary policies has been effective in controlling inflation (maintaining monetary stability), but there remain challenges to the ability of the Bank of Uganda to build widespread access and trust in financial systems beyond urban centers.
9. The relatively slow pace of Uganda's industrialization efforts and inability to create structural transformation can be attributed in part to policies across all sectors that did not take into full consideration aspects of Uganda's financial, business, and cultural context.
10. The limitations to using overtly extended financial services through inclusion, indicates a gap in financial literacy and the ability to add value by a significant proportion of the population, limiting the broad impact that financial policies can have in propelling national development.

RECOMMENDATIONS

Based on these conclusions, the Committee recommends that:

1. The Bank of Uganda should consider the creation of an independent platform with private sector actors such as the Uganda Bankers and Association (UBA), the Uganda Cooperative Savings and Credit Union (UCSCU), microfinance institutions, and mobile money providers to build consensus on how best to improve access to finance while providing sufficient protections to creditors. A platform of this nature

could build broader trust and participation in the financial system particularly in rural areas.

8

Leveraging External Resources for Mindset Shifts towards Country Ownership

8.1 Building Local Capacity and Expanding the Benefits of FDI

Foreign direct investment in developing economies has acquired a bad reputation and in some circles is presented as tantamount to neo-colonial exploitation of raw materials and cheap labor (Moran et al., 2017). Recent data, however, shows that FDI in developing countries increasingly flows to medium- and high-skilled manufacturing sectors which are often capital-intensive areas and are frequently under supported domestically in African countries (Moran et al., 2017). This evidence suggests that, properly channeled, FDI can in fact contribute to the process of structural transformation. The key, however, is encouraging "quality FDI."

Quality FDI is that which incorporates foreign investors into the local host economy by providing a number of spill-over benefits (Moran et al., 2017). These potential spill-over benefits include, for instance, the transfer of knowledge or learning from foreign to local firms, contributing to the number of decent or well-paying jobs, and boosting the competitiveness of local firms (Moran et al., 2017). To achieve these benefits of quality FDI, however, governments can't simply wait and see what investment global market forces will bring them—they need tailored policies to overcome domestic imperfections that hinder the smooth integration of foreign assets and technologies with local labor, expertise, and firms.

The recent discovery of substantial oil and gas (O&G) reserves in Uganda has made the discussion around FDI-local linkages more pointed and urgent. In preparation for commercial exploitation of these resources, the Ugandan government has developed an expansive policy and regulatory framework with the aim of expanding the developmental benefits of the O&G sector beyond its direct contribution to economic growth and tax revenues (Sen, 2018). A major component of this framework is "local content policies" (LCPs) specifically designed to enhance the participation of Ugandans in the sector through opportunities for employment and productive economic linkages (Sen, 2018). LCPs include a broad range of varied measures designed to mandate, negotiate, or incentivize the use of national labor and industry in the sector.

The good news from the available literature on LCPs in the O&G sector is that specific features of the industry favor the implementation of LCPs, such as the greater bargaining power of host governments relative to multinational companies; a clear sequencing of work plans and engagement opportunities; and largely formal set of operations that require the upkeep of clear tax records and procurement documentation (Steenbergen & Sutton, 2017). However, international experience also presents important risks, including inflated government expectations of domestic workforce participation and industrial capabilities; over-reliance on universal regulations for local content use (e.g., "x per cent" local content requirements); delays in the timing of policy implementation relative to extraction activities; and efforts to "do everything at once" (Steenbergen & Sutton, 2017).

As a new entrant to the global O&G industry, Uganda has a number of opportunities to leverage this resource for broad-based national development and structural transformation. But it is also likely to face many of the challenges acknowledged from international experience. Prospective domestic suppliers, for instance, are unlikely to have much (if any) capabilities to provide exploration or production services related to "core" industry operations in the short-term (Sen, 2018). However, they do have the opportunity to deploy and upgrade existing capabilities to competitively supply "non-core" ancillary services to the O&G industry, such as construction, food and beverages, and accounting and legal services, among others (Sen, 2018).

At a general level, the existing international evidence provides some useful conceptual guidelines to support the design of successful LCPs. First is that the deployment of LCPs should be seen primarily as an issue of public expenditure (Kolstad & Kinyondo, 2017). As LCPs are likely to limit the profits of multinationals operating in the country, they also imply a corresponding decrease in tax revenue. If that tax revenue could be more effectively targeted than universal LCP regulations, then considering this option may be beneficial (Kolstad & Kinyondo, 2017). Second, the "local" component in LCPs can sometimes prove problematic for implementing governments. As LCPs are generally implemented at the national level, the concept of "local" is usually taken as shorthand for the nationality of employees or firms. However, the people living in proximity to resource extraction projects may not view all Ugandans as "locals." Community frustrations with lucrative contract or employment opportunities being given to those they do not consider "local" can entrench resource conflicts and present significant challenges (Nwapi, 2015, 2016). Third, evidence suggests that first-time foreign investors should be encouraged to participate in the core industry operations of the O&G industry. Foreign firms that are not already part of extensive subsidiary networks already invested in the country are more likely to be amenable to creating linkages with domestic firms (Amendolagine et al., 2013). Similarly, evidence has shown that diaspora-owned firms are also more likely to form linkages with domestic firms (Boly et al., 2014).

Looking specifically at successful international examples can also assist with deploying effective LCPs. A comprehensive review undertaken by Advocates Coalition for Development and Environment (ACODE) found that Angola and Nigeria have both implemented relatively successful LCPs, unlike many other oil and gas producing countries in Africa. These countries have structured their frameworks with broad provisions, and also with specific technology, procurement, employment, and training requirements (Mushemeza et al., 2017). These frameworks have been complemented by the establishment of monitoring and enforcement mechanisms, and the active participation of national oil companies (NOCs) during implementation. While the presence of a NOC can foster technology and skills transfer and employment, its mere existence is not enough. It is valuable, for example, for a NOC to collaborate closely with the private sector and international partners. The case studies also show that NOCs should play a prominent role when planning and implementing LCPs (Mushemeza et al., 2017). However, while strong NOCs are desirable, they should not be able to overrule the government, as this imbalance can lead to corruption and a lack of transparency—a persistent problem in both Angola and Nigeria (Mushemeza et al., 2017).

Policymakers should also take heed of the tensions between the short- and long-term objectives of LPCs. The achievement of short-term objectives may be easier, but it is the establishment of more long-term linkages that contribute to diversification and the wider benefits of structural transformation in the country. Both Angola and Nigeria, for example, prioritized their LCPs on the quick-win objective of generating jobs, and this focus failed to anticipate and address the harmful over-dependence on oil revenues in both countries that followed (Mushemeza et al., 2017). On the other hand, examples from Latin America such as Mexico and Brazil established LCPs that were focused more on the procurement of national goods and services and managed to develop their manufacturing sectors and rely less on oil revenue (Mushemeza et al., 2017).

The primary challenge often raised to focusing LCPs on the procurement of national goods and services is the lack of capacity among domestic firms. Many O&G companies have used this as an excuse for not meeting local content directives (Nwapi, 2016). While it may often be used as an excuse to some degree, studies have demonstrated that it can be a real and persistent problem. In Nigeria, for example, industry stakeholders have argued that about 70% of the contracts awarded to "Nigerian" companies are actually executed overseas, thereby defeating the goal of developing in-country capacity (Nwapi, 2016). A somewhat alternative approach is to focus instead on skills development programs, and to possibly require foreign firms to invest in skills development programs to complement the efforts of the government.

Finally, a further solution to addressing the capacity gap is to take a regional rather than local approach to LCPs. Scholars have argued, for instance, that more liberal regional labor regulations could help to address acute skills shortages and to encourage the formation of linkages with regional firms (Lalbahadur, 2013). For instance, oil reserves have also been uncovered in Kenya and Tanzania, two countries that face similar challenges to maximizing the returns from this resource. Regional LCPs, however, are a very recent idea, and it remains unclear exactly what form they could take. Depending on the political context, regional LCPs could meet stiff local opposition if they are seen to take opportunities away from nationals and give them to countries in the region with a higher volume of skilled labor and competitive firms (Nwapi, 2016). Importantly, a regional approach does not necessarily mean abandoning all considerations for national or even community content. Countries could still give priority to their nationals, but then have the capacity to draw from broader regional networks to fill any gaps (Nwapi, 2016). Such a strategy could potentially help avoid the problem of local "front" firms observed in Nigeria.

8.2 Capital Flight and a Cycle of Domestic Investment

Literature has highlighted the continued exodus of large amounts of capital from Africa has outstripped the amount sent through ODA. The impacts of that continued exodus have contributed to the lack of capital, high interest rates, and continued inability of most Ugandans to access finance that could catalyze industrialization efforts. This challenge is no different for Uganda: due to the emphasis on courting FDI, it is frequently the case that investment has limited duplicative impacts on domestic growth when most literature has noted that some forms of protection are fundamental for transitions to more sophisticated and high value-addition economies.

It is no secret that accelerating the flywheel of development requires resource investments. In the early 1980s, there was a growing "neoclassical consensus" that the best way to secure these resources was through reductions in government spending, widespread privatization, and trade liberalization accompanied by incentives for foreign direct investment (Kayizzi-Mugerwa & Bigsten, 1992). Somewhat in parallel, international aid at that time became more conditional on trade openness, and more focused on a "basic needs" approach to poverty alleviation (Edwards, 2014). With a clear focus on encouraging exports, many countries also came to rely extensively on the international sale of unrefined resources to support public budgets.

At a broad level, it could be said that all of these various shifting development agendas focused on harnessing external resources—

whether aid or FDI for resource projects—to stimulate the process of development and structural transformation. After three decades, however, it remains unclear how much these policies have actually kick-started momentum towards structural transformation in comparison to the transformation in Asia. There is a raging academic debate, which has continued on and off for many decades, regarding the specific economic effects of foreign aid (Dreher et al., 2015). Scholars, in general, seem divided into roughly ideological camps, with some arguing for the long-term benefits of aid on economic growth, and others emphasizing the weakness of the causal evidence linking the two (Edwards, 2014). In general, the evidence compiled by various scholars indicates that while aid may have some clear positive benefits, those results are generally fragile and largely inconclusive (Edwards, 2014).

Going beyond economic growth, however, micro-level evidence specifically from Uganda is quite conclusive that while aid might stimulate long-term economic growth, it actually reverses the process of structural transformation (Ahlerup, 2019). As McMillan et al (2017) have argued, economic growth and structural transformation are related concepts but should not be confused with each other. Both improvements in the fundamentals, such as infrastructure and human capital (which result from economic growth), and structural transformation, are needed (McMillan et al., 2017). As Ahlerup (2019) finds, however, the local effect of foreign aid is that people in areas with ongoing aid projects work more in agriculture and less in non-agriculture sectors (Ahlerup, 2019). This specific study found no significant impact on wages or household expenditure for people in the agriculture sector, but negative impacts on both for people in the non-agriculture sector (Ahlerup, 2019).

Relatedly, recent evidence has emerged that reliance on natural resource exports for economic growth may also disrupt the process of structural transformation. Using a cross-country dataset of 116 developing countries over 1960-2010, Gollin et al (2016) show that in countries heavily reliant on resource exports, urbanization tends to be concentrated in what they term "consumption cities," where economies consist primarily of non-tradable services (Gollin et al., 2016). In countries that have urbanized without the same reliance on resource exports, economies are based more on manufacturing (and are thus termed "production cities"). Importantly, consumption cities in resource-exporting countries tend to perform worse along several measures of welfare, as they have tended to experience economic growth without accompanying structural transformation (Gollin et al., 2016). Thus, somewhat similar to a reliance on foreign aid, a reliance on natural resource revenue seems to contribute to economic growth without accompanying structural transformation.

For Uganda, the inability of overseas development assistance (ODA) to contribute to structural transformation has been compounded by the lack of effective usage of FDI. Capital flight estimates from Boyce and Ndikumana (2012) suggest that Uganda loses approximately 8.4 billion USD per year, or 49.0% of its GDP (estimates were in 2010 USD values). While Uganda compares to other sub-Saharan African countries favorably, it is evident that such massive losses indicate an inability for domestic entities to invest domestically and cheaply. These issues compound the negative impacts of rising costs of borrowing in Uganda which further retards the speed of structural transformation in the country.

While it is recognized that this issue is both pressing and dangerous, there appears to be a lack awareness, political will and internal commitment of the government towards reproaching this stark loss. For example, public statements from the Minister of Finance, Planning, and Economic Development (MoFPED) in 2018 cryptically suggested that highly influential persons were hampering government efforts to stem capital flight (URN, 2018). Studies indicate that capital flight negatively impacts industrialization while good governance initiatives do little to modulate its impact, suggesting that the overall impact of capital flight is more detrimental than investments to curb its impact (Asongu and Odhiambo, 2019). What their study suggests is that political stability is not as important to investment decisions and capital flight as much as the opportunities for extractive benefit. Given their findings, negative incentives that reduce capital flight rather than governance structures built to punish and catch offenders may be more prudent at a policy level.

There is a stark degree of incoherence on how investment and capital flight are interpreted and addressed at a policy level for Uganda. Given the negative impacts of capital flight and the negative balance between ODA, FDI, and capital flight, the lack of action at a political or policy level will inevitably contribute to the further deterioration of the public budget. Concurrently, with less flexibility in fiscal decision-making, Uganda may be at risk of being unduly influenced by external prescriptions in order to access further funding, similar to the actions of the 1990s with SAPs. For these reasons, an explicit effort on the part of domestic actors will be necessary to find ways in which to more actively incorporate foreign direct investment into local development processes and create more positive cycles of reinvesting profits back into the Ugandan economy.

CONCLUSIONS

Based on the above evidence, the Committee concludes:

11. While Uganda does not have the domestic capacity to develop its oil and gas reserves, any local content policies will depend on the ability of stakeholders to build an independent consensus that is evidence-driven in order to avoid political and extractive considerations unduly influencing the ability of local communities to benefit from the natural resources in question.
12. Foreign direct investment can be a net positive contributor to domestic development if the exchange of industrial-, trade-, and technology-related practices is promoted and retained within the host nation.
13. Uganda is a net exporter of capital and most evidence suggests that FDI is primarily impacted by the potential and realized profits of business ventures within a country, rather than capital flight policies.

RECOMMENDATIONS

Based on these conclusions, the Committee recommends that:

10. The Government of Uganda should take a synergistic approach to oil and gas development considering the ways in which districts can benefit one another, rather than taking a siloed approach, diverting funds from less immediately relevant districts without regard for detrimental outcomes.
11. The Office of the President should establish an independent commission to review and make recommendations on policy with regard to corporate transparency and capital flight.
12. The Ministry of Finance, Planning, and Economic Development (MoFPED) and other interested stakeholders should support further research on capital flight in order to collect domestic data on the movement of funds.

Concluding Remarks

Conventional development thinking has predominantly focused on the usage of financial resources towards improving indicators of economic development such as jobs, changes in GDP sector composition, and income inequality. These ways of thinking have been highly instrumental in creating Uganda's current economic development and should be rightfully lauded for their importance. However, this study argues that systems and processes of development in Uganda must reconsider how financial resources can be used to incentivize individuals, communities, and institutions to own the process of development. The investment of resources, both domestic and international, should be conceptualized in terms of how to set intellectual foundations for development, rather than only as discrete indicators for development. An investment approach that focuses on how systems and processes of development can provide the intellectual foundations for sustainable development has the potential to unlock an infinite number of new and creative solutions to development challenges, restricted only by the mindsets and outlook of Uganda's people.

Institutions are some of the most crucial elements in cultivating ownership of the development process because they are examples of successful and accumulated consensus on development. In institutions both private and public, decision-making processes are interrogated, debated, and agreed upon, leading to consensus on how their systems of development should operate if governance systems are effective. One of the most challenging examples of institutional trust has been the Government of Uganda's efforts to build legitimacy in order to effectively establish tax compliance. Evidence is clear that taxpayers are more likely to comply with tax demands from the state if they experience or perceive tangible benefits from public spending and have opportunities to meaningfully influence corrective action outside of elections. Unfortunately, aggressive decentralization efforts, which were intended to build a closer relationship between service users and service providers, has instead reduced overall funds available for project implementation, increased administrative costs, and limited the opportunities for citizens to actively participate and own the process of development. Despite some potentially fruitful interventions, conventional efforts to strengthen capacity of local governments miss an opportunity to mobilize and energize citizens to actively participate and contribute to the development process. A change in approach to provide effective mechanisms for communication, participation, and work to fix institutions instead of replacing them could provide the foundations for greater institutional trust of government institutions and oversight of private sector service providers.

Taxation has always been a fundamental component of the development process even in pre-colonial times. While its practical form has changed over the centuries from goods or services to monetary currency, it has often been a tool of leaders to create a sense of common purpose because its benefits would be used to support a leader's constituents in varying situations. However, this principle was distorted during the colonial era and further complicated in the post-colonial era as inequality exploded and the linkages between leaders who taxed, and their constituents became more distant. To overcome these historical legacies, the Committee examined property taxes on unimproved properties as a potential avenue to providing a vital influx of funds to local governments to make up for the rapid changes in incomes that the abolishment of the graduated tax created. Owners would benefit directly from the provision of public services through increases to their property value, raising tax morale, and raising revenues for local government. While there are a number of technical challenges to expanding property taxation, it presents an opportunity to invite a wider number of stakeholders to engage in the development process that is directly relevant to their livelihoods.

One of the major benefits of financial inclusion is the ability to open up new opportunities for individuals to pursue their own development priorities. Unfortunately, despite its potential value to development, approximately 45% of Ugandans still do not have access to financial services. Despite mixed evidence on the impact of microfinance on poverty eradication, it has provided ample opportunities to underserved populations in rural areas to learn from and participate in the financial system. At a larger scale, domestic financial markets remain constrained by high interest rates and the resulting high costs of borrowing. Unconventional financial institutions like Savings and Credit Cooperative Societies (SACCOs) have emerged to fill these gaps, but governance challenges have exposed their creditors to fraud and exploitation. The formal financial system has an opportunity to use these institutions as a means of building trust and expanding the potential availability and access to finance that could give individuals practical means of participating in their own development.

While the usage of external financing in recent decades has come under criticism, there is evidence that in the right circumstances it can accelerate the process of development without unduly disrupting the autonomy of local stakeholders to influence its continued growth. The development of oil and gas reserves in Uganda will depend on foreign direct investment to a large extent and therefore presents a critical opportunity to ensure that local communities have the means to take ownership of the process of development. One mechanism to promote ownership of the process of development will be local content policies which balance the long-term skills development of local players while ensuring the short-term profitability of the investments. At the same time, incentives that reduce capital flight and promote reinvestment of profits into local economies will play a substantial role in sustaining the process of development beyond the lifespan of the oil and gas. By constructing prudent policies that balance corporate interests while retaining meaningful domestic control of the development process, external resources can accelerate the ability of Ugandans to adapt to and participate in development processes.

There is no doubt that the COVID-19 pandemic has disrupted systems of development and forced a re-examination of how those systems actually support ownership of the development process. Yet, this disruption may be one of the most important opportunities to reshape how the domestic investment can mobilize the entirety of the Ugandan population, whether rich or poor, to actively participate and lead in the process of this country's development. As the systems of Ugandan development adapt and successfully change to respond to the needs and desires of the population, it may become readily apparent that the technical solutions that once were seen as sacrosanct, may also require re-examination. This is as it should be, for when that day arrives, it will indicate that the Ugandan population has begun to truly own its development.

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ANNEX

Annex 1. Technical Questions Posed to Committee

Uganda's historical and socio-cultural background and its impact on domestic financing:

- How should the government, private sector, and civil society be organized in order to maximize collective and aligned implementation of domestic financing priorities?
- How do we maximize the positive cyclical impacts of domestic investments on national development?
- What should the role of capital markets be in the private sector development of Uganda?
- How should the government maximize the effectiveness of various financing modalities towards achieving national development priorities?
- What alternative sources of domestic financing should be explored to support national development?
- What actions should be taken to better facilitate collaboration between the government and the private sector?

Governance of revenue mobilization and social-fiscal contracts:

- How do we improve the participation of citizens in taxation? How do we improve the tax morale in the country to better facilitate tax collection and compliance?
- What is and should be the role of politics in decisions of a financial nature? How should politics be structured to input into financial decision making?

- Does policy shift behavior in financial decision making, and if so, how can it be better utilized to shift behaviors in favor of national development priorities?
- What are current mindsets in the Ugandan financial system and how can they be better aligned to serve national development priorities? What levers can best be used to facilitate those mindset shifts?

Appropriateness of data, tools, and processes used in Uganda's financial decision making:

- How can the financial decision-making process at a technical level be improved to further incorporate innovative and social sciences perspectives on financial decision making?
- What improvements could be made to government project appraisal systems to ensure that they better serve national development priorities?
- How could the financial system be designed to learn and evolve in response to increasingly rapid changes in global and national financial circumstances?

Annex 2. Domestic Finance Analysis of National Income Accounts (1995 – 2019)

Uganda Domestic Finance Analysis																					
Annex 1: National Income Accounts																					
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP (Billions, Constant LCU)	19,492	20,104	21,146	22,993	24,481	26,148	27,803	30,802	33,393	36,301	38,770	40,956	44,802	46,522	48,190	50,651	53,279	55,826	57,983	61,550	
Real GDP (Billions, Constant 2010 US$)	9.61	9.91	10.42	11.33	12.07	12.89	13.70	15.18	16.46	17.89	19.11	20.19	22.08	22.93	23.75	24.97	26.26	27.52	28.58	30.34	
Real Annual GDP Growth (%)	8.1	3.1	5.2	8.7	6.5	6.8	6.3	10.8	8.4	8.7	6.8	5.6	9.4	3.8	3.6	5.1	5.2	4.8	3.9	6.2	
Population (millions)		24					28					32.4					35.5	36.7	37.8	39.1	40.3
Real GDP per Capita (constant, 2010US$)	419	419	427	450	464	481	495	531	558	588	608	622	660	663	665	676	687	694	694	710	
Real GDP per capita, PPP (constant 2017 inte	1,057	1,058	1,079	1,137	1,173	1,214	1,250	1,342	1,410	1,485	1,537	1,572	1,666	1,676	1,681	1,708	1,735	1,753	1,754	1,794	
Consumer Price Inflation (Annual, %)	5.8	3.4	1.9	-0.3	8.7	3.7	8.4	7.3	6.1	12.1	13.0	4.0	15.1	12.7	4.9	3.1	5.4	5.4	5.6	2.6	2.9
Productivity Growth																					
Structure of Nominal GDP (%)																					
Private Consumption	78.7	77.5	77.4	77.5	77.0	75.9	73.6	77.6	78.3	73.5	77.8	76.3	74.6	77.4	73.9	74.2	76.9	77.1	74.5	72.2	
Government Consumption	12.9	14.5	15.6	16.8	15.7	13.9	14.5	14.1	12.9	11.2	9.2	9.6	12.8	8.2	8.0	8.5	9.3	7.5	9.0	12.1	
Gross Fixed Investment	19.3	19.2	19.0	20.0	20.7	19.9	22.2	20.9	21.9	22.7	24.6	25.2	27.1	26.9	27.9	26.8	24.2	24.9	23.1	24.5	
Exports	12.3	10.7	11.5	11.2	11.4	12.7	14.2	15.3	16.7	24.3	17.3	17.1	19.0	20.2	20.3	18.2	18.4	18.5	18.2	19.5	
Imports	23.8	22.1	23.8	25.1	25.2	22.8	24.8	28.4	30.1	32.0	29.5	28.6	33.9	33.1	30.6	28.1	29.2	28.6	25.3	28.7	
Net Trade	-11.5	-11.4	-12.3	-13.9	-13.8	-10.1	-10.6	-13.1	-13.3	-7.7	-12.2	-11.5	-14.9	-12.9	-10.3	-10.0	-10.8	-10.0	-7.1	-9.2	
GDP Composition by Industy																					
Manufacturing, value added (% of GDP)	8.9	7.1	7.1	7.4	7.1	6.4	7.0	7.1	7.1	7.3	8.4	8.5	9.8	10.5	9.5	8.5	8.7	8.7	8.6	8.3	
Agriculture, forestry, and fishing, value adde	34.8	27.5	27.9	23.4	24.5	21.7	25.1	24.0	22.3	21.4	26.1	26.2	25.1	26.1	25.5	25.1	24.0	23.7	24.6	24.2	
Services, value added (% of GDP)	37.8	44.7	44.8	47.7	46.5	52.0	45.3	47.1	46.9	46.9	46.2	48.5	47.6	45.8	46.7	47.1	47.9	47.5	47.1	47.6	
Tax revenue (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	12.9	13.5	13.7	14.0	
Trade (% of GDP)	36.0	32.7	35.3	36.3	36.6	35.5	39.0	43.6	46.8	56.3	46.7	45.7	52.9	53.3	50.9	46.3	47.7	47.1	43.5	48.2	
Election Years																					

This annex provides a breakdown of key GDP figures, including per-capita growth, inflation, gross GDP. It also provides a breakdown of GDP as percentages of spending and trade. Lastly, it provides a breakdown of conventional sector composition by industry, namely manufacturing, agriculture, and services.

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