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Paper Title

Keeping People Poor: Rural Poverty Reduction and Fiscal Decentralisation in Uganda and Tanzania

Date of Submission

20 February 2002

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Abstract

This paper arises from a rural livelihoods research project carried out in Uganda, Tanzania, Malawi and Kenya between 2000 and 2003. One of the critical findings of this project was the adverse impact that the new tax raising powers of district councils are having on the livelihoods of the rural poor. This is a side-effect of decentralisation that was not predicted by its enthusiasts, and is not given any consideration in Poverty Reduction Strategy Papers. Project findings demonstrate very clearly that to climb out of rural poverty, cash generation is indispensable, because this permits the construction of a virtuous cycle of accumulation in farm and non-farm activities. Yet district council taxes distort relative prices, shrink participation in markets, discourage investment, result in close-down of start-up enterprises, and increase the risks associated with engaging in monetary transactions of all kinds. Taxes create a disabling rather than enabling environment for rural enterprise, and they threaten to make decentralised local councils part of the problem of persistent rural poverty rather than part of its solution.

Key Words: poverty reduction, chronic poverty, rural livelihoods, decentralisation, rural taxation

Word Count: 8500 words incl. tables, footnotes and references

This paper is to be presented at the conference *Staying Poor: Chronic Poverty and Development Policy* to be held at the University of Manchester, 7 to 9 April 2003 (www.chronicpoverty.org)

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Frank Ellis and Robert James

Introduction

The following story can be found at a BBC news service web address[1], and was originally related by the Ugandan project coordinator of the second round of the Uganda Participatory Poverty Assessment Project known as UPPAP II, conducted in 2002:

"A Ugandan villager goes to market to sell a pig. First he has to pay for a movement permit from the local council, then a permit from a vet. When he gets to market, he has to pay market entry, and finally – if he actually sells the pig – a tax on its sale. Then the cycle starts again. The person who bought the pig pays a purchase tax, as well as the movement permit to take the pig from the market to his or her own village."

Anecdotes like this do not, of course, make for good social science, although they do possess one undeniably useful feature which is to focus on something that really matters to the prospects of persistently poor people rather than on vague matters of theoretical principle that may or may not bear any resemblance to things that happen on the ground. This paper is about the truly ludicrous disjuncture in an era of HIPC debt relief and Poverty Reduction Strategy Papers (PRSPs) between the resources and efforts poured by the international community and national governments into poverty reduction, on the one hand, and the encouragement by those same motivating agencies of the taxation of the poor by newly created district councils, on the other hand.

That these two processes are occurring simultaneously, and that they are found in practice to operate in contradiction to each other, is a notion that requires quite a lot of unpacking. First, the successful navigation of PRSP and HIPC hurdles results in substantial real increases in the external aid resources made available for poverty reduction purposes, as the experiences of both Uganda and Tanzania demonstrate.[2] Second, however, other strands of current donor thinking are not necessarily "joined up" to PRSPs in any considered way; and the two main such strands that are of interest here are decentralisation, often occurring under the rubric of "local government reform", and tax reform aimed to increase the overall share of government expenditure generated from internal sources. Third, meanwhile, decentralisation and tax reform come together under the promotion by donors of "fiscal decentralisation" whereby newly-created district governments should be bestowed tax raising powers so that they are able to reduce their dependence on central government funding and generate resources that they can use responsively to address local expenditure priorities. Fourth, if these different change processes are working at odds with each other rather than moving in the same direction, then they may tend to cancel each other out, resulting in disappointingly little progress in reducing the numbers and proportions of people experiencing persistent poverty.

There exist, of course, large literatures in each of the areas touched upon in the preceding paragraph, however space precludes the detailed pursuit of any one of them here. An insightful treatment of ambiguous facets and interpretations of PRSPs is provided by Craig & Porter (2003). The intellectual underpinning for tax reform and fiscal decentralisation lies in a literature that sees "raising revenue [as] the most basic task of the state, underpinning capacity, representation, and accountability through its role as the tie that binds the ruler and

the ruled" (Brautigam, 2002).[3] See also in this connection, the arguments proposed in papers by Moore (1998) and Moore & Rakner (2002a). An alternative view, closer to the arguments developed in this paper, is provided by Fjeldstad and Semboja (2000) and Fjeldstad (2001a, 2001b). According to this taxation in low income sub-Saharan African countries, and especially local council taxation, is the fundamental factor contributing to an overall disabling institutional environment that keeps poor people poor. Here, taxation can certainly be characterised as a 'tie that binds the ruler and the ruled', but it does so in a way that paralyses the ruled as subjects rather than citizens (Mamdani, 1996) whose every potential pathway out of poverty is blocked by the rent-seeking predations of those that possess varying types of authority over them.

The findings reported in this paper draw upon a rural livelihoods research project undertaken in Uganda, Tanzania, Kenya and Malawi in 2000 to 2003.[4] In that project, the issue of rural taxation and its detrimental effects on the prospects of people being able to construct their own routes out of poverty arose as a by-product of investigating other things, and was not a topic built into the original research design. However, the project did from the outset set out to obtain a practical understanding of that elusive notion that tends to pepper poverty reduction discourses, including PRSPs, known as the "enabling institutional environment", and it was in the course of investigating this in villages that taxation came to the fore as a substantively disabling institutional factor in people's lives. This paper restricts its scope to what was found out about local council taxation in selected rural areas of two of the case-study countries, Uganda and Tanzania

The paper proceeds as follows. First, it summarises briefly some key patterns associated with persistent rural poverty as discovered in the livelihoods research conducted in Uganda and Tanzania. Second, it examines rural taxation in Uganda within the context of the poverty reduction framework and decentralised local government in that country. Third, it covers the same ground for Tanzania. Fourth, it seeks to draw these various findings together in order to derive conclusions about the role of rural taxation in "keeping people poor", not just in the case-study countries but more widely in Sub-Saharan Africa, and possibly in other places, too.

Livelihoods and rural poverty in Uganda and Tanzania

The research underlying this paper was conducted in 9 villages in Uganda and 10 sub-villages in Tanzania in 2001. A combination of qualitative (village level) and quantitative (household level) research methods were deployed, guided by the organising principles of the sustainable livelihoods framework (Scoones, 1998; Ellis, 2000). Districts and villages within which to conduct research were selected according to criteria that included poverty incidence and agro-ecological variation in order to capture broad experiences of gaining a rural living in those countries. Details of the research methods and main findings for the two countries can be found for Uganda in Ellis & Bahiigwa (2003) and for Tanzania in Ellis & Mdoe (2002).[5]

Current understandings of poverty place considerable emphasis on ownership or access to assets that can be put to productive use as the building blocks by which the poor can construct their own routes out of poverty (World Bank, 2000). In this respect, successful asset accumulation is often observed to involve trading-up assets in sequence, for example, chickens to goats to cattle to land; or, cash from non-farm income to farm inputs to higher farm income to land or to livestock.[6] It is the breadth of opportunity to construct such asset accumulation pathways that is critical for the achievement of rising living standards and

broadening capabilities over time. When this scope is cramped by a fundamentally disabling public sector institutional environment, then the ability of people to climb out of poverty on their own initiative is severely constrained.

Wealth ranking exercises conducted in research villages in Uganda and Tanzania revealed many patterns in common across countries in the attributes that are considered by villagers themselves to define relative poverty and wealth. Households that are considered "well-off" are typically defined by owning more than 2-3 ha land, more than 5 goats, more than 2 cattle (for pastoralist peoples, a lot more), and a house with brick walls and a corrugated iron roof. Further, they are food secure all year round, hire labour seasonally, are educated up to primary level or higher, and engage in diverse non-farm activities (trading, milling, shop keeping, brick making, lodgings, bars) in addition to farming.

A middle category of households are defined by owning less of most or all these assets. Towards the lower wealth end of this category, households tend to be net sellers rather than buyers of labour, they are seasonally food insecure in most years, and they engage in few or no non-farm activities. Households regarded as poor tend to have less than 0.5 ha land or do not own land at all, do not own cattle or goats, have houses in poor repair constructed of mud and thatch, are food insecure for much of the year, and depend on selling labour or on safety net supports for survival. Social groups that are typically assigned to the poor category in wealth ranking exercises are the elderly whose families live away from the village, divorced or widowed women, those with chronic health problems, the disabled, and those not possessing land (a category that disproportionately comprises young men or young couples).

The poor as thus defined by qualitative methods seem to be a sub-set of the poor as would be defined by the consumption criterion used by economists to measure poverty. For villagers, poverty is defined mainly by reference to attributes of social exclusion (hence, elderly, divorced, widowed, disabled, landless), while for the economist it is defined by failure to reach a minimum acceptable consumption level of food and basic needs.[7] Levels of some asset types were found to be better predictors of consumption poverty than others. In both Uganda and Tanzania, land and livestock ownership (or lack of it) were more closely associated with income differences than levels of education, available household labour, or agricultural implements.

The multiple roles of livestock in contributing to successful livelihood strategies emerges clearly from the research in Uganda and Tanzania. High livestock ownership not only denotes high wealth associated with livestock as a store of value, but also implies high income, always placing livestock owners in the upper per capita income ranges. Notably, however, it is not livestock itself that is the major contributor to these higher incomes. The income composition of the top income quartile is dominated by non-farm self-employment activities. This illustrates the interlocking nature of relative livelihood success. Livestock is a substitutable asset that can be sold in order to invest in land or small businesses, and *vice versa*, non-farm income can be used to build up herds; the ordering of these sequences depends on the personal and market opportunities that prevail in different time periods.

A striking finding of the research was the degree to which households rely on own production for food security in case-study villages. In Uganda, where cooking bananas (*matooke*) is the staple diet of the rural population, 73 per cent of bananas produced across 315 rural households were retained for home consumption rather than sold in the market.[8] For subsidiary foods like sweet potatoes (96 per cent), cassava (87 per cent) and millet (82 per

cent) this proportion was even higher. Similarly in Tanzania, 78 per cent of the staple maize produced across 350 households was consumed by the household, and for other food crops like rice, sorghum, beans and cassava about 60 per cent of production was self-consumed, while 40 per cent was sold. Overall reliance on subsistence was substantially higher for poor households than better off households in both countries; thus for the poorest income quartile subsistence consumption comprised 33 per cent and 39 per cent of total household income for the Uganda and Tanzania sample respectively, while for the top income quartile the corresponding proportions were 23 per cent and 14 per cent respectively.

High levels of subsistence in a rural economy have various causes and broader implications. The causes are primarily to do with the risk of food security failure, which means either insufficient cash generation to be able to purchase food later in the season, or a failure of markets to supply food at affordable prices when household stocks run out. However, subsistence behaviour itself feeds into these failures, since markets are unable to thrive where there is little cash in circulation, and quantities of produce for sale are too small relative to collection costs to attract traders into such locations. It follows that commodity and trade taxes that increase the transaction costs of exchange would tend to reinforce the retreat into subsistence, and even more so if levied in a haphazard and coercive way. More broadly, the failure of monetisation of the rural economy that accompanies pervasive subsistence behaviour results in limited options for generating income above minimum survival requirements, and thus little scope for savings, accumulation or growth.

The better off in the villages studied in Uganda and Tanzania escape the constraints imposed by low local monetisation primarily by diversifying their livelihoods into non-farm activities. This enables them to "mop up", as it were, any cash that is left in circulation after unofficial and official levies and taxes by various officials and authorities have taken their bite out of the cash cake. In Mbale district in Uganda, for example, the top income quartile derived on average 47 per cent of their income from non-farm self employment activities, while for the bottom quartile this accounted for just 5 per cent. In Tanzania, across all study villages, these proportions were 44 per cent for the top quartile and 11 per cent for the bottom quartile.

Becoming less reliant on agriculture is part of the process of climbing out of poverty, but this is not the end of the story. A further notable feature is that land productivity also increases steeply with rising income. In Uganda, net farm output per hectare[9] was four times higher for the richest quarter of households than for the poorest quarter. For Tanzania, this ratio was five times. These findings reinforce the cumulative nature of becoming better off in rural areas of the case-study countries, a process that has been identified by other researchers.[10] Non-farm income enables the household to hire labour to undertake timely cultivation practices, and helps to fund the purchase of farm cash inputs; conversely, hiring out labour by poor households causes their own farm productivity to stagnate or fall. Livestock ownership plays a reinforcing role in virtuous spirals of accumulation, just as its absence contributes to the inability of poorer households to climb onto the first rung of the 'ladder' leading out of poverty.

The livelihood patterns of those individuals and households that are fortunate enough to stay out of poverty most of the time provide pertinent insights into the principle factors that can contribute to constructing pathways out of poverty. Rising cash in circulation in the rural economy is fundamental, as well as having spaces within which diverse types of farm and non-farm enterprise can be created, thus creating more options and opportunities, and permitting virtuous spirals of accumulation at individual or family level to occur. Factors that

shrink, block and debilitate cash and activity spaces ultimately consign rural economies to the replication over time of semi-subsistence chronic poverty, which is not far off the mark as a description of sub-Saharan rural economies over the past twenty or thirty years. This provides an appropriate departure point to consider taxation as an institutional blockage in Uganda and Tanzania.

Uganda

Uganda is widely regarded as a success story of donors and the government working together to provide a macro environment conducive to economic growth and poverty reduction (Reinikka & Collier, 2001; Ellis & Bahiigwa, 2003). Real per capita GDP rose at a rate of nearly 4 per cent per year during the 1990s, and the estimated proportion of the population living below the poverty line fell from 56 per cent in 1992 to 35 per cent in 1999 (Appleton, 1999; 2001). Uganda produced a draft Poverty Eradication Action Plan (PEAP) in 1997 and by 1999 this was effectively being treated by donors as the country's PRSP, enabling Uganda to be the first Sub-Saharan African country to reach the "completion point" for enhanced HIPC debt relief in May 2000.

The Uganda PEAP sets out four main goals, namely, fast and sustainable economic growth and structural transformation; good governance and security; increasing the ability of the poor to raise their incomes; and increasing the quality of life of the poor (Uganda, 2001: p.4). The concerns of this paper with enabling institutional contexts for poverty reduction and rural taxation are especially pertinent to the third of those objectives. Local government reform in Uganda is seen by donors as complementary to, and supportive of, the goals of the PEAP (World Bank, 2001a; 2001b).

Uganda's contemporary policy of decentralisation dates from the gaining of power by the National Resistance Movement (NRM) government led by Yoweri Museveni in 1986. Its historical origins and organisational features are described in a number of sources (Mamdani, 1996; Nsibambi, 1998; Francis & James, 2003). Initially under legislation passed in 1987, a pyramid structure of resistance councils (RCs) was created. The smallest unit of this structure was the population of a village, denominated as RC1 (resistance council level 1), then ascending in geographical size to the parish (RC2), sub-county (RC3), county (RC4) and district (RC5). Later legislation passed in 1993 and 1997 converted the term resistance council to 'local council', thus levels LC1 (the village) to LC5 (the district) replaced the previous RC levels. Uganda's decentralisation encompasses most of the "types" that are discussed in the wider literature (Manor, 1998) i.e. democratic, administrative, and fiscal decentralisation. Table 1 below summarises key aspects of decentralised local government in Uganda.

The 1997 Local Government Act established the sub-county level (LC3) as the basic unit of local government, both political and administrative. Technical and administrative personnel are posted to this level, reporting to the senior civil servant, the sub-county Chief (acronym SCC). The county level (LC4) is a legacy of the older RC system and nowadays has few operational functions, although counties do happen to coincide with parliamentary constituencies. The district (LC5) is the upper operational level of local government, responsible for all funds allocated by central government, and granted powers to raise taxes and pass by-laws.

Table 1: Attributes of Decentralised Local Government in Uganda

Local Council Level	Area	Political Head	Procedure for Selection of Representatives	Status of LC Level and Administrative Head	Technical staff
LC5	District	District Council Chairman	(a) Chairman elected by universal adult suffrage. (b) One councillor from each sub-county elected by universal adult suffrage. (c) Special councillors representing youth and disabled selected through electoral colleges. (d) Women make up 1/3 of council	Local Government Chief Administrative Officer (CAO)	Full complement
LC4	County	LC4 Chairman	(a) Council made up of all LC3 executives. (b) LC4 executive elected among councillors (c) Chairman and vice-chairman must give up their posts on the LC3	Administrative Unit Assistant CAO	- -
LC3	Sub-County	Sub-County Council Chairman	(a) Chairman elected by universal adult suffrage in the Sub-County. (b) One councillor elected by adult suffrage in the parish. (c) Women make up 1/3 of council (d) Chairman appoints executive and seeks approval from council	Local Government Sub-County Chief	Sub-accountant, extension and other technical staff
LC2	Parish	Parish Council Chairman	Selected by LC1 Executive members	Administrative Unit Parish Chief	- -
LC1	Village	LC1 Chairman	Direct election by universal suffrage in village	Administrative Unit	- -

Source: James, Francis and Pereza (2001)

Livelihoods research in Uganda was conducted in nine villages in three districts, Mbale, Kamuli and Mubende, and it is by reference to these districts that fiscal decentralisation and its implications are further examined.

Rural Ugandans face an immense array of taxes. There is a graduated personal tax (GPT) payable annually by all adult males which, since 2001, has been pegged at a flat rate of UShs 3,000 per person.[11] In addition there are business license fees, sales taxes, markets taxes, transit taxes, taxes particular to livestock movement, and taxes particular to fishing as an occupation. In effect, all monetised activity in rural Uganda is taxed, obeying the implicit rule "if it moves, tax it". A sense of this fiscal regime is provided in Table 2, which summarises data gleaned from focus group discussions and key informants during fieldwork conducted in the nine villages in Jan-April 2001. This list is not comprehensive of taxes mentioned by villagers; nor does it capture the full variation in tax rates that may occur, nor the confusion experienced by rural citizens over the arbitrary and capricious working of the tax system in practice.[12]

Table 2: Business, Trade and Commodity Taxes in Rural Uganda

Category of Tax	Amount to Pay UShs	Comment or Description
Business Licenses		○ annual license fees paid to the sub-county chief or the parish tenderer
• shop	10,000-15,000	
• restaurant	8,000-13,000	- annual license fees are often supplemented by varying charges on throughput e.g. 200/- per customer, per guest, per day etc.
• bar	5,000-11,000	
• butchery	11,000-21,000	
• lodging	20,000	
• fishing boat	10,000	
▪ fisheries dept levy	4,500	- for application and painting license no. on boats (to fisheries dept)
• fish smoking unit	5,000-20,000	- varies according to size of unit
• fish mongering	12,000	
• brewing Waragi	6,000-15,000	- plus 200/- per jerrican
Crop Taxes		○ collected by tenderer
• maize per 100 kg bag	500-1,000	- varying rules on sales, purchase & market place taxes
• millet per 100 kg bag	1,500-2,000	
• tomatoes per box	500	
• trading in markets	200-500	- market fees per day (small amounts)
• trading not in markets	100-200	- roadside petty trading per day
Livestock Taxes		○ collected by tenderer unless otherwise specified
• market taxes per cow	2,000-3,000	- varying split, seller and buyer
• slaughter tax per cow	1,000-2,000	- levied on person slaughtering
• movement letter	1,000-2,000	- levied by LC1 chair
• movement permit	3,000	- levied by the veterinary officer
• market taxes per goat	200-500	- varying split, seller and buyer
• slaughter tax per goat	500	- levied on person slaughtering
• movement letter	200-500	- levied by LC1 chair
• movement permit	1,000	- levied by the veterinary officer
Fish Taxes		○ collected by tenderer unless otherwise specified
Formal		
• fishermen per day	100-500	- daily fishing tax, unrelated to catch
• sales tax per bag	500-2,000	- tax on dried *mukene*
• market tax per bag	500-1,000	- tax on dried *mukene*
• fish guard monthly	4,000	- paid by fish traders to fish guard for quality inspection
Informal		
• *gabunga* levy per day	200-500	- traditional payment to *gabunga*
• fish guard daily	500	- unofficial payment to fish guard

Source: Focus groups and key informants in 9 Uganda villages, Jan-April 2001

Systematic work remains to be done on the incidence of these taxes, nevertheless some pointers are provided by examples that arose from the livelihoods fieldwork. The anecdote about pigs with which this paper opened is replicated across all livestock. In Kabbo village in Mubende district, for example, sale of a head of cattle required a permit from the LC1 chairman (informal fee of UShs 1000), a movement permit from the sub-county Veterinary Officer (formal fee of UShs 2000, although unreceipted payments may be required in addition), market fee on entry to the market (UShs 1500), and market dues on sale of the animal (about UShs 5,000 depending on sale grade at market). Thus total taxes and levies of UShs 9,500 up to first point of sale were incurred, irrespective of the value of the animal, generally around UShs 50,000 or higher at that time. An example of multiple crop taxation is provided by cooking bananas produced in Mbale district and sold in the town of Tororo on the Uganda-Kenya border. Each bunch of bananas sold at an average farmgate price of UShs 2000 attracts a UShs 200 tax at point of sale, a transit tax of UShs 200 when the bananas cross the boundary from Mbale to Tororo districts, and a sales tax of UShs 200 when the bananas are sold in Tororo town; thus total tax of UShs 600 or 30 per cent of the farmgate price.

With the exception of graduated personal tax and annual licenses, the collection of many local government taxes and levies has been privatised since decentralisation. Private revenue collectors bid to the district tender board for the right to collect taxes in a specified parish or marketplace for a specified time period. Once the tender has been awarded the individual is issued a receipt book and a list of permissible tax rates, and is free to collect as much tax revenue as possible within the zone designated by the tender board, with the sole obligation of paying the agreed tender to the district revenue office at the end of the period.

There is much potential for malfeasance in this system: collusion between members of the district tender board and tax collectors, collection of unreceipted taxes by collectors, or differences between coupon rates of tax and actual taxes paid by individuals. The sheer range and complexity of tax rates, as indicated in Table 2, makes it exceedingly difficult for ordinary citizens to gauge the legitimacy or proper rates of the taxes that are requested from them.[13] A back-of-the-envelope calculation in a case-study village called Kinamwanga in Kamuli district yielded an estimate that the private revenue collector had collected at minimum UShs 300,000 in the previous month while passing on just UShs 30,000 of this to the district revenue office under the terms of his tender (James, Francis & Pereza, 2001: p.12).

The figures cited in Table 2 illustrate the complexity of the taxation regime that ordinary rural citizens confront. The ranges given for many of the individual taxes represent differences in official tax rates within and between districts, as well as confusion on the part of tax payers due to differences between coupon rates of tax and actual taxes paid. Many activities and transactions are subject to multiple tax payments; for example, businesses must often comply with daily fees as well as annual licenses; sellers and traders may pay multiple instances of the same sales tax if they move commodities across the domains of several different parish or market tenderers.

While multiple taxation involves a vast number of small-scale extractive transactions, and may be punitive in its incidence in each small case, in aggregate the quantity of revenue that it generates for local authority finances is quite small. Table 3 shows the main sources of funds for the three case-study districts in the fiscal year 1999/2000, revealing that the proportion of district budgets accounted for by locally raised revenue was 5 per cent in

Mbale, 4 per cent in Kamuli and 10 per cent in Mubende. By far the largest proportion of district budgets in Uganda is provided by conditional grants from central government, accounting for 60-80 per cent of revenues in the case-study districts. Conditional grants are earmarked to support national sectoral expenditures (for example, in education or health) at the district level. Unconditional grants (sometimes referred to as 'block' grants) are designated to fund the cost of running decentralised services and paying the salaries of core district administrative staff. All three case-study districts also received some level of support directly from donors or NGOs.

Table 3: Sources of Finance of the Sample Districts 1999/2000

District	**Mbale**		**Kamuli**		**Mubende**	
Source	UShs m	*%*	UShs m	*%*	UShs m	*%*
Unconditional Grants	2,191	*11.3*	1,536	*17.8*	2,003	*21.2*
Conditional Grants	15,160	*78.3*	6,348	*73.8*	5,695	*60.1*
Donor and NGO funds	988	*5.1*	386	*4.5*	810	*8.6*
Locally raised revenue	1,036	*5.3*	337	*3.9*	961	*10.1*
Total	19,374	*100.0*	8,607	*100.0*	9,469	*100.0*

Source: James, Francis & Pereza (2002)

Local revenue generation represents funds over which local authorities have control, and therefore ostensibly should be the category of resources most responsive to local level priority setting through the democratic channels represented by the different local government levels. There are two further aspects of this that are worth pursuing. The first is the extent to which lower LC levels receive their due share of tax revenues collected, as established in legislation, and set out in Table 1 above. The second is the uses to which local tax revenue is put and whether this seems to support the notion of responsive local level service delivery. Unfortunately, local revenue generation was found wanting on both these counts in the case-study districts.

The sub-county office is central to the collection and distribution of local revenue, collecting graduated tax itself, and receiving market, parish or sub-county fees from the person awarded the tender. Thirty-five per cent of this sub-county revenue passes upwards to the district level (LC5). Out of the remaining 65 per cent, 3.25 per cent is meant to pass to the county (LC4), 3.25 per cent to the parish (LC2) and 16.25 per cent to the village (LC1), leaving 42.25 per cent at the sub-county level (LC3). In most of the villages surveyed in 2001, LC1 chairpersons or committee members stated that they received little or no share of locally collected taxes. In some cases, the due share of graduated personal tax contributions, or part of it, had been remitted to villages, but shares of other taxes were generally not forthcoming. In some instances, village officers had a fairly good idea of the payments due since they

could calculate the tax collected in particular activities, for example boat licensing fees at fishing villages. In others, the private tenderer system meant that local office holders had no information on which they could press claims for their due shares of market and commodity taxes.

Much of the locally generated revenue coming to the sub-county (LC3) office is spent on the salaries and allowances of the council itself. According to the Local Government Act, these are legitimate charges on locally generated revenue, but are not to consume more than 15 per cent of revenue.[14] This figure is almost always exceeded, meaning that little tax revenue is spent on local development priorities, most going on administrative overheads and political emoluments. For example, in 1999/2000 Butiru Sub-County, Mbale District, spent Sh. 13.6 million, raised through local fees and taxes. Almost Sh. 5 million (36 percent) was spent on sitting fees and allowances for councils, committees and boards and the LC3 chairman's salary, with a further Sh. 4 million (28 percent) being spent on administrative support (a large element in which is the costs and incentive payments for graduated personal tax collection).

At district (LC5) level these biases of locally generated expenditure are even more marked. In fact politicians' allowances frequently consumed most or all of locally generated revenue, and even this was insufficient to meet the salaries and allowances that the councillors had awarded themselves. Councillors' salaries, allowances and emoluments account for much or all of the district's share of locally generated revenue. In Mbale, in 1999/2000, some 362 million shillings of locally generated revenue was available to the district level, and 371 million was spent on 'Commissions, Committees and Boards' in the same year. In Kamuli, political emoluments encroached even more seriously beyond their statutory level. Sh. 112 million of local revenue was apparently available to the district while the rubric Councils Commissions and Boards consumed Sh. 369 million (i.e. more than three times local revenue while the statutory maximum is supposed to be 15 percent). These shortfalls can only be met by plundering the unconditional grant.

In summary, then, for Uganda, fiscal decentralisation has meant the imposition on local rural populations of a dense thicket of commodity, market, sales and transit taxes. These taxes are impenetrable to comprehend by the ordinary citizen; they are collected by private tenderers often in a climate of intimidation and coercion; they are only partly passed onto revenue offices; the proportion that is sent in is spent largely on elected councillors' emoluments; and they fail to achieve any proper connection in the minds of citizens between taxes levied and services delivered.

Tanzania

Forty years after attaining independence in 1961, Tanzania remains one of the poorest countries in the world. Estimated GNP per capita was US$280 in 2000, and its growth rate was around 0.5 per cent per year on average over the preceding decade. A recent poverty study puts 36 per cent of the total Tanzania population below the poverty line, with a 39 per cent poverty rate in rural areas (Tanzania, 2002). These figures are surprisingly close to equivalent data for Uganda.

The government of Tanzania began to move in the direction of a comprehensive poverty reduction strategy in the mid-1990s, adopting a plan entitled the National Poverty Eradication Strategy (NPES) in 1997. This was soon overtaken by broader events whereby preparation of a PRSP became a precondition for debt relief under the HIPC initiative. An Interim Poverty Reduction Strategy Paper (IPRSP) was prepared in consultation with the donors in early 2000

(Tanzania, 2000a), and this was followed by publication of the full PRSP in October 2000 (Tanzania, 2000b). The country duly went on to fulfil the conditions for enhanced HPIC debt relief in November 2001.

Table 4: Attributes of Current Local Government in Tanzania

Local Council Level	**Political Head**	**Procedure for Selection of Representatives**	**Status of Local Council Level and Administrative Head**	**Technical staff**
District (District Council)	District Council Chairman	(a) Made up of councillors representing each ward (b) Chairman elected by fellow councillors (c) Special councillors representing women	Local Government District Executive Officer (DED)	Full complement
Division	- -	- -	Administrative Unit Divisional Secretary	- -
Ward (Ward Development Committee)*	District Councillor	(a) Chairman is the district councillor (b) b) Village chairman	Administrative Unit [#] Ward Executive Officer	Technical Extension staff and Clerk (optional)
Village (Council made up of 15-25 members)	Village Chairman	(a) Chairman and other councillors elected by all adult villagers (b) Sub-village Chairman	Local Government Village Executive Officer	Some technical staff depending on resources
Sub-village	Local Council Chairman	Direct election by universal suffrage	Administrative Unit	-

* As set out in the 1999 Local Government Act (see endnote 12)

[#] The 1977 Constitution provides for local government authority at regional, district, town and village levels but not at ward level.

Source: James, Mdoe & Mishili (2002)

The Tanzania PRSP sets out a three-pronged poverty reduction strategy for addressing a range of problems identified in consultations with stakeholders. This comprises (a) sector strategies and decentralisation; (b) macroeconomic stability and reforms; and (c) poverty reduction itself, broken down into the three subsidiary goals of reducing income poverty, improving human capabilities and containing vulnerability. As in other PRSPs, connections between goals and the instruments, or contexts, for achieving them are thinly developed. However, the Tanzania PRSP does recognise that multiple taxes pose a difficulty for poverty reduction in rural areas, since this was an issue widely raised in consultation exercises. (Tanzania, 2000). Nevertheless, no proposals are advanced to deal with this issue, nor is any

connection made in the PRSP between that recognition and the new powers for tax generation in process of being granted to district councils under decentralisation legislation.

Tanzania is considerably behind Uganda in the implementation of decentralisation, the Local Government Reform Program being published in 1998 (Tanzania, 1998) and made law in 1999 (Tanzania, 1999). The stated national goal for the reform is centred on improving service delivery to the public through increased participation reflecting local needs and priorities. The original roll-out programme for political and administrative decentralisation is behind schedule, and doubts have been expressed about governance weaknesses at village and sub-village levels that do not appear to have been addressed in the LGRP (Shivji & Peter, 2000; James *et al*., 2002). Meanwhile, features of the current structure of local government are summarised in Table 4 above.

Livelihoods research in Tanzania was conducted in 10 sub-villages in two districts of Morogoro Region, Morogoro Rural District and Kilosa District. Local taxation issues at district level are discussed with reference to the findings of research in those districts. As a preface to that discussion, it is worth noting that concerns about the impoverishing effects of rural taxation are not new in Tanzania. In earlier times, the main channels through which revenues were syphoned out of the rural economy was via parastatal crop authorities (Ellis, 1982; 1983). During the 1970s, farmers lost an estimated 27 per cent of crop sales value that should have accrued to them at farmgate level in cesses, levies, taxes and spurious marketing costs (Ellis, 1983: p.228). The disappearance or downgrading of crop parastatals seems to have shifted this impetus to tax poor rural producers from the marketing system to local governments. A recent Central Bank document refers to the existence of 55 different types of tax prevalent in rural areas (Tanzania, 2001a). Research undertaken in 1999 (Fjeldstad & Semboja, 2000; Fjeldstad, 2001b) in two districts in Tanzania generated findings that are in close agreement to those reported here.

Rural Tanzanians pay an array of taxes and levies, both legal ones, and those that are levied *ad hoc* at road blocks, or by the police as an income supplementation exercise. A preliminary sense of the formal fiscal regime villagers confront is provided in Table 5, which lists taxes cited in group discussions or by key informants during fieldwork conducted in the ten sub-villages in May-August 2001. This list barely scratches the surface of what goes on in practice. Fjeldstad & Semboja (2000) note that in Kilosa district there are over 60 variations of taxes that are levied.

Tax revenues collected by village executive officers are forwarded to district revenue departments, and the village is later supposed to receive a share of this revenue back for the village development fund. At the time of conducting field research, this share was stated as 10 per cent for villages in Morogoro Rural district, and 3 per cent for villages in Kilosa district. However, not a single one of the ten study villages had ever received back a proportion of revenue delivered according to these shares, and this was a widely talked about grievance about local government articulated in all villages.

As in Uganda, the share of locally generated revenue in district budgets is relatively low in the two case-study districts in Tanzania, being 10 per cent in Morogoro Rural and 11 per cent in Kilosa. However, the national average appears to be higher than this, as shown in the last column of Table 6, being stated as 25 per cent across all districts. Centrally allocated resources correspond to the rest of district budgets, and are distinguished between 'personal emoluments' i.e. the wage and salary bill of districts, and 'other charges'. These correspond,

nationally, to 65 per cent and 10 per cent of district budgets respectively. Neither of the two councils considered here had been fully decentralised at the time the research was conducted, and it is probable that some proportion of central funding will in the future become unconditional, through access to a 'block grant'.

Table 5: Selected Taxes Levied by District Councils in Villages

Category of Tax	Amount to Pay	Comment or Description
General Taxes		
• development levy	3,000	- annual poll tax levied on economically active adults; supposed to reflect ability to pay
• bicycle tax	1,000	- annual bicycle license fees.
• fishing license	3,000	- annual fee for permit to fish
Trading and Business Taxes		
• petty crop trading	200	- daily tax on petty crop trading
• general petty trading	200-400	- daily taxes applied to small-scale trading activities
• crop produce tax	600	- per bag carried out of the village
• crop cess	1,000	- levy per ton on crops carried out of village
• local brew club	60,000	- annual brewing licence fee
	5,000	- monthly tax on brew clubs
Livestock Taxes		
• ownership tax per head of cattle	500	- annual tax levied on all cattle
• ownership tax per goat	200-500	- annual tax levied per goat
• ownership tax per pig	300-500	- annual tax levied per pig
Health Fees		
• health fee	5,000	- annual fee permitting access to dispensary or clinic
health visit charge	1,000	- single visit payment required if annual fee not paid

Source: Focus groups and key informants in 10 Tanzania villages, May-August 2001

Turning to the expenditure of locally raised revenue, a similar picture emerges here as in Uganda. Table 7 provides data for 1999/2000 regarding the use made of local revenue by Morogoro Rural district council. Over 88 per cent of local revenue was spent on administration and allowances;[15] leaving 12 per cent to be used on social services or support to productive sectors. As in Uganda, it is hardly possible for Tanzanian rural taxpayers to make a connection between the taxes they pay and services delivered to them by local authorities. Not a single one of the 10 sub-villages researched had seen an agricultural extension officer in the preceding ten years, and the quality of health services was widely criticised especially for seldom having any drugs to dispense.

Table 6: Sources of Finance for Sample Districts and the National Average 1999/2000

Source	Morogoro Rural		Kilosa		National*	
	TSh. m	%	TSh m	%	TSh m	%
Locally Raised Revenue [#]	292	10	214	11	39,100	25
Wages & Salaries	2,195	78	1,456	77	102,900	65
Other Charges	342	12	229	12	15,400	10
Total [a]	2,829	100	1,899	100	157,400	100

[#] Different financial years between local and central government mean 1999 figures were used
* Includes Urban and Rural Councils
[a] Not including monies given directly by NGOs or Donors to district councils.

Source: District Treasuries and Tanzania (2001b)

Table 7: Uses of Local Revenues, Morogoro Rural, Tanzania 1999/2000

Department	Amounts Tshs m	% Share
Administration and allowances	304, 062	88.6
Community Development	10,875	3.2
Agriculture	9,665	2.8
Buildings	7,227	2.1
Forestry + bee keeping	6,313	1.8
Trading	3,696	1.1
Co-operatives	150	0.0
Other	1,096	0.3
Total	**343,083**	**100.0**

Source: Morogoro Rural District Treasurer

As of the position in 2002, rural taxation in Tanzania has been less to do with new local government legislation, and more with historical precedence whereby regional and district level authorities have carried out a wide variety of tax raising activities, some on behalf of their own budgets, some for crop parastatals, and some for government. Another difference from Uganda is that a considerable proportion of taxes seem to be directed at squeezing private traders rather than primary producers. Nevertheless, the outcome for rural producers is broadly similar since traders are typically subject to multiple and cumulative taxes as

commodities move through the marketing chain, and this inevitably adversely affects the prices that are received by producers. The advent of full decentralisation is likely to place further tax pressure on rural populations. Districts will seek to implement new tax raising powers and to take advantage of new capabilities to pass by-laws. There is nothing in the past history of such capabilities in rural Tanzania to suggest that districts will act with restraint, or will build ability to pay into taxes that are devised, or will take a longer view of the relationship between growth and future potential tax revenues.

Keeping people poor

Most economists would concur that bad taxes are ones that distort relative prices, discourage market development, scare away traders, and add unreasonable costs to productive enterprises. Two of the favourite categories of taxes of district councils in both Uganda and Tanzania – trading levies (crop and market taxes) and business licenses – tend in practice, if not also in principle, to fall into this bad tax category. At the same time poll and head taxes, exemplified by the graduated personal tax in Uganda (which is not graduated in practice) and the flat rate development levy in Tanzania are regressive in effect, contravening another canon of good tax practice which is that taxes should be seen as fair by the citizens paying them. Other desirable features of workable tax systems include understandability on the part of tax payers, low collection costs, and visible evidence of services delivered in return for tax paid. It is doubtful that any of these attributes apply to local council tax regimes in Uganda and Tanzania.

It is, of course, possible to devise technical alternatives to inefficient, ineffective and inequitable taxation regimes. Some alternatives worth considering are property (land and building) taxes rather than poll and commodity taxes; simplication, so that a multiplicity of poorly designed taxes are replaced by a few, transparent, ones; more use of the concept of tax thresholds so that poor individuals and small or start-up businesses are excluded from the tax net altogether; and built in incentives for tax to be spent on service delivery e.g. matching funds from central government. However, as emphasised by Fjeldstad (2001b), resistance to reform creates barriers to change, and arises from those individuals and groups who benefit from current regimes and who would be disadvantaged by the alternatives. Technical solutions are not enough. Reform requires building coalitions for change, starting at central government level, since the parameters of legitimate types and scales of local taxation are usually determined in central legislation (local government reform acts) before being interpreted within those parameters by local councils. It might be more appropriate for donors to help build the political momentum for change than to continue naively, as currently, to "capacity build" local councils to extract more tax.

The earlier discussion of routes out of poverty, taken in conjunction with the description of the working of local taxation in Uganda and Tanzania, provides some insights into the cumulative harmful effects not just of taxation itself, but of the predatory behaviour of officialdom (including the police) towards ordinary people that tax regimes seem to help legitimise as norms of public service. The ubiquitous taxation of commodities and markets discourages participation in exchange and the money economy, and reinforces attachment to subsistence consumption and barter relations. This squeezes the cash economy, and reduces still further the options for cash generation. The imposition of business licensing requirements, irrespective of the scale of the business, or its relative start-up position, discourages start-up enterprises and drives others out of business. This restricts the options

for non-farm activity that, as we have seen, offers one of the means for constructing pathways out of poverty.

In the end, however, debate around these factors must go beyond tax. What the micro level research reveals is that individuals and households in rural areas of Sub-Saharan Africa confront numerous institutional gatekeepers and blockages that paralyse all but the most energetic (or better connected) of them from taking additional risks or exploring new avenues for gaining a viable livelihood. Some of these blockages reside in traditional authority systems, some in district level licensing and taxation systems, some in "invisible" levies and tithes and permissions that are haphazard in their incidence and variable in the discouragement they represent. In other words, rural citizens confront a persistently disabling and debilitating institutional environment, rather than the enabling and facilitating one that is so often invoked in the phoney catch phrases of PRSPs. These adverse institutional contexts keep people poor, and they make decentralised government part of the problem of chronic rural poverty not part of its solution.

Notes

[1] See the items on Uganda at http://news.bbc.co.uk/2/hi/business/2636437.stm

[2] Net official aid flows to Uganda were US$0.81 billion in 2000 and 2001 (in 2000 real prices), and in 2001 represented US$36.9 per person and 13.3 per cent of GNI. For Tanzania, aid flows increased in real terms from US$1.0 billion to US$1.3 billion from 2000 to 2001 (in 2000 prices), and in 2001 stood at US$31.0 person and 11.4 per cent of GNI (www.oecd.org/dac/). The net present value of debt relieved in each country under HIPC in the period 1999 to 2002 was US$1.3 billion for Uganda and US$2.0 billion for Tanzania (www.worldbank.org/hipc/)

[3] The quotation is taken from the summary of Brautigam's paper found in Moore & Rakner (2002b: p.iii)

[4] The project is called LADDER, and was funded by the Policy Research Programme of the UK Department for International Development (DFID). The findings and views expressed here are solely the responsibility of the authors and are not attributable to DFID.

[5] A total of 32 working papers were available at the time of writing (February 2003) arising from the LADDER research project, and these are available to download from the project website (www.odg.uea.ac.uk/ladder)

[6] This sequencing of asset accumulation mirrors the sequencing of asset disposal that occurs in crises such as famines, and can result in the deterioration of the asset position of families to the point that they are no longer able to construct a viable livelihood (Corbett, 1988; Devereux, 1993).

[7] The economic definition of the poverty line is the level of per capita consumption that just permits the individual to satisfy basic nutritional requirements expressed in calories, given the measured share of food in the per capita expenditure of the poor (see, for example, Lipton & Ravallion, 1995)

[8] This and other subsistence figures cited refer to aggregate proportions summed across all households, not to the mean proportion of the sample.

[9] Net farm output per hectare refers to the farmgate value of all agricultural output including livestock and subsistence, less any cash costs of production, divided by the land owned by the household. It provides a convenient summary measure of agricultural productivity per unit of land.

[10] For example, IFAD (2001) and World Bank (2000), publications that themselves draw on considerable bodies of poverty research. For similar findings on rising farm productivity across income levels see Evans & Ngau (1991).

[11] The graduated personal tax was previously applied at a minimum rate of UShs 15,000 (the gradations above this that legislation makes provision for are seldom, if ever, applied); however, at the time of national elections in 2001, the tax was rebated by presidential decree to the flat rate UShs 3,000 level.

[12] Complaints about the capricious and unfair working of the tax system were widely recorded in the first round Uganda Participatory Poverty Assessment Project (UPPAP) exercise (Muhumuza & Ehrhart, 2000).

[13] Stella (1993) notes that private revenue collection is prone to overzealous collection, and he provides numerous historical examples of “tax farming” resulting in taxpayer abuse, tax riots, and civil strife.

[14] Increased to 20 percent since 2001 (Local Government Revenue Amendment Regulation).

[15] According to the Kilosa District Treasurer it is specified that not more than 15 percent of locally raised revenue should be spent on council allowances though accounting technique make this problematic to verify as the figure is frequently included in general ‘administration’.

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