



USAID
FROM THE AMERICAN PEOPLE

Domestic Revenue Mobilization for Development Activity QUARTERLY REPORT

Ist Quarter – October 1, 2020 to December 31, 2020

Submission Date: January 30, 2021

Contract Number: 720OAA18D00014

Task Order Number: 72061720F00002

Activity Start Date and End Date: January 21, 2020 to January 20, 2025

COR Name: Felix Kazahura

Submitted by: Kieran Holmes, Chief of Party

Nathan Associates Inc.

Plot 22, Nyonyi Gardens Road, Kololo, Kampala Uganda

Tel: +256770380869

Email: kholmes@nathaninc.com

This document was produced for review by the United States Agency for International Development Uganda Mission (USAID/Uganda).

ACTIVITY OVERVIEW/SUMMARY

Activity Name:	Domestic Revenue Mobilization for Development
Activity Start Date and End Date:	January 21, 2020 – January 20, 2025
Name of Prime Implementing Partner:	Nathan Associates Inc.
Contract Number:	Contract No. 720OAA18D00014 Task Order No. 72061720F00002
Name of Sub-awardees and Dollar Amounts:	Cardno Emerging Markets USA, Ltd.
Major Counterpart Organizations:	Uganda Revenue Authority Ministry of Finance, Planning, and Economic Development Ministry of Local Government
Geographic Coverage Changes (districts):	Uganda
Reporting Period:	October 1, 2020 to December 31, 2020

ACRONYMS AND ABBREVIATIONS

AAU	Action Aid Uganda
ACODE	Advocates Coalition for Development and Environment
AMELP	Activity Monitoring, Evaluation and Learning Plan
BEPS	Base Erosion and Profit Shifting
CG	Commissioner General
CSBAG	Civil Society Budget Advocacy Group
CSCO	Civil Society Coalition on Oil and Gas
DFID	U.K. Department for International Development
DRM	Domestic Revenue Mobilization
DRM4D	Domestic Revenue Mobilization for Development
DRMS	Domestic Resource Mobilization Strategy
DRUM	Domestic Revenue Mobilization, Public Investment Management and Transparency
DTAs	Double Taxation Agreements
EITI	Extractive Industries Transparency Initiative
GoU	Government of Uganda
IMF	International Monetary Fund
KCCA	Kampala Capital City Authority
LGFC	Local Government Finance Commission
LGRA	Local Government Rating Act
LOE	Level of effort
MEL	Monitoring, Evaluation, and learning
MoFPED	Ministry of Finance, Planning, and Economic Development
MoLG	Ministry of Local Government
NCCI	National Chamber of Commerce and Industries
PFM	Public Finance Management
PFM	Public Financial Management
PIRS	Performance Indicator Reference Sheet
PSFU	Private Sector Foundation Uganda
QASP	Quality Assurance Surveillance Plan
SEATINI	Southern and Eastern Africa Trade, Information and Negotiations Institute
STTA	Short Term Technical Assistance
TIN	Taxpayer Identification Number
UAAU	Urban Authorities Association of Uganda
UMA	Uganda Manufacturers Association
URA	Uganda Revenue Authority
USSIA	Uganda Small Scale Industries Association

INTRODUCTION

The Uganda Domestic Revenue Mobilization for Development (DRM4D) Activity is a 5-year contract with the goal of supporting Uganda strengthen the tax culture, increasing voluntary compliance, and sustainably increasing domestic revenue mobilization (DRM), thereby creating the fiscal space for public spending and investments in service delivery in priority sectors such as health, education, and agriculture.

The project commenced on January 21, 2020 and runs through January 20, 2025. It is being implemented by Nathan Associates Inc. in partnership with its subcontractor, Cardno Emerging Markets.

The activity is comprised of three components, namely, Strengthening Tax Policy, Improving National and Sub-national Revenue Administration and Enhancing Public-Private Dialogue. The support is being delivered to the Government of Uganda (GoU) through technical assistance, capacity building, and, as USAID deems appropriate, commodity support:

COMPONENT 1: TAX POLICY STRENGTHENED:

This component is designed to equip the Ministry of Finance, Planning, and Economic Development (MoFPED), the Uganda Revenue Authority (URA), and other policymakers with the tools and skills to conduct policy analysis, evaluate, and communicate the impact of tax and non-tax revenue reforms, and take steps to operationalize the key policy tenets of the DRMS.

COMPONENT 2: TAX AND NON-TAX REVENUE ADMINISTRATION AND COMPLIANCE IMPROVED:

The component is focused on enhancing voluntary taxpayer compliance by strengthening taxpayer education, registration, data analysis and arrears management. The other areas of focus include expanding support to new areas to address emerging compliance risks and operationalize the key administrative tenets of the DRMS. At the sub-national level, the focus is on identification of options for tax and nontax revenue mobilization for a selected number of local governments.

COMPONENT 3: PUBLIC-PRIVATE DIALOGUE ENHANCED:

The component is designed to build capacity within the private sector and civil society to participate in and influence tax policy reforms and contribute to an informed dialogue on taxation. DRM4D will ensure that public input informs decision making on DRM-related reforms, in particular advocacy for increased investment in service delivery and, of course, for increased utilization of government revenues in social expenditure.

The activity strategically combines grants and technical assistance to achieve activity objectives.

ACTIVITY IMPLEMENTATION PROGRESS

During the reporting period, DRM4D remained focused on the two-pronged approach of engaging with URA and MoFPED to strengthen and boost short-term revenue collections as a matter of urgency whilst striving to advance the longer-term tax policy and revenue administration objectives that are prerequisites for increasing the tax to GDP ratio within the period of performance of the DRM4D Activity.

Quarter I of Work Plan year two presented an opportunity for a take-off of key project activities that had been slow in starting due primarily to the COVID-19 lockdown that had affected the pace at which the Activity could engage with counterparts during the first year.

During this quarter, several activities were started, and others were significantly progressed. Activities started during the quarter include a comprehensive review of the URA HR structure, the URA human resource development and integrity reform, an audit of the URA IT systems, the baseline study for the key indicators, a review of the excise duty and environmental tax laws at MoFPED, and the URA communications enhancement intervention. A diagnostic assessment of local government revenues and capacity building support to selected civil society organizations was also conducted.

Other activities started earlier and progressed during this quarter include the diagnostic review of the primary tax laws, the GYSI analysis, and the program for capacity building for tax policy officials. Whereas many activities are still ongoing, some activities were completed, and draft reports brought to finalization. The reports include a first draft of the URA structure review, a report on the URA IT systems audit (shared with USAID before submission to URA), early drafts of the DRM4D baseline study report and the GYSI analysis report.

Going forward, the Activity will support counterparts to appreciate and implement recommendations from these reports. A summary of implementation progress with next steps and intermediate result (IR) references is included in Table 1 at the end of this report. Table 2 provides a summary of the overall implementation status to date.

COMPONENT I – TAX POLICY STRENGTHENED

DRM4D continued to work with counterparts in MoFPED on the reform of primary tax laws and the excise, environmental and gaming tax regime, as well as the tax policy training program.

Support GOU to draft legislation

Following the hiring of a Legal Drafter to do the diagnostic review of the tax laws during Year I, meetings were held to appraise MoFPED about progress of the exercise and to get their inputs and guidance. The meetings were held online with the Legal Drafter and attended by the Director of Economic Affairs in person together with his core tax team.

By close of the quarter, the Legal Drafter was working on the final aspects of the diagnostic reviews of the primary tax laws and final draft reports will be prepared in early 2021. It is intended that key messages from the diagnostic reviews will be shared and subjected to wide consultations and discussions at public forums. The outcome of these discussions will inform the preparation of the draft laws that will be submitted to Cabinet in time for enactment for the beginning of the 2021/2022 tax year.

During the period, DRM4D prepared a Scope of Work (SoW) for a consultant to support MoFPED in reviewing and enhancing the excise duty, environmental tax and gaming regime in Uganda for FY 2021/2022. MoFPED approved the SoW and the consultant was engaged. The consultant is particularly focused on alcohol and tobacco excise taxes. MoFPED also indicated the need to look at the excise regime for sweetened beverages and telecommunication taxes. The Activity will consider how these can be incorporated as well.

The next steps are for the consultant to conduct simulations in order to recommend optimal excise rates for tobacco and cigarettes that will be incorporated in the Excise law as part of the budget recommendations for 2021/2022.

Provide tax policy analysis training

DRM4D worked closely with MoFPED in refining the tax policy training program for MoFPED, URA and other officials and agreeing the training content. During the quarter, meetings were held between MoFPED and the two potential training providers, University of New South Wales and the International Bureau for Fiscal Documentation (IBFD). MoFPED preferred the IBFD proposal and DRM4D engaged IBFD to conduct the training, which is scheduled to start on 8th February 2021. The Activity could not start earlier because of the Christmas break and the planned elections in mid-January 2021. The mode of delivery of the training will be online but delivered in an organized classroom setting that will be supervised by DRM4D. The training is planned for 46 officials, of whom 23 are from MoFPED, 10 from URA and remainder from Parliament, Makerere University and civil society. DRM4D engaged with the MoFPED Resource Enhancement & Accountability Program (REAP), who agreed to provide support with meeting the cost of the venue and meals.

COMPONENT 2 – TAX AND NON-TAX REVENUE ADMINISTRATION AND COMPLIANCE IMPROVED

National revenue administration

Several significant interventions were begun during the quarter. The Human Resources Development and Integrity Enhancement intervention that was designed in Year 1 and agreed with the URA was commenced. DRM4D also commenced interventions to conduct the URA IT systems audit and support to improve URA's communications capacity. In addition, scopes of work for supporting complex audits, VAT audits, and debt management were designed by DRM4D and approved by USAID. Consultants were engaged to commence the work on VAT audits and debt management and recovery, and these interventions are scheduled to start in early February 2021.

Support URA to review its organizational structure and modernize its HR policies

The URA Human Resources Development and Integrity Enhancement intervention was birthed at the start of quarter 1, following discussions with the Commissioner General (CG). These discussions centred around the need to revamp URA's image and increase its integrity and service delivery profiles in a bid to strengthen revenue performance. The CG had identified integrity enhancement as his top priority and, to address this need, the Activity had designed a detailed program of support.

The program design included two components: the first component was to examine URA's current organizational structure in terms of how well it is fit for purpose as a 21st century revenue administration that will ensure efficiency in delivering optimal revenue results. The second part of the work focuses on human resources systems and development and of prioritizing the HR function. It will

review the entirety of URA's human resources policies and procedures, its corporate culture profile, its use of information technology in its human resources function, and its rewards structure as a prerequisite for ensuring the URA is a service-delivery body.

The first component was immediately started and has been successfully completed to the point where a draft report has been prepared and initial thoughts and observations discussed with the CG. The report recommends important changes that will help strengthen the way the work is organized and contains recommendations for upgrading the profile and role of key departments, such as the HR and IT departments. It also recommends a separate unit to handle staff compliance and enforce integrity.

The second part of the work program is on-going and will continue in Q2. Discussions that the HR management and advisory team (HRMAT) held with the CG and other senior staff were quite enlightening and have helped URA management in concretizing their thinking around driving corporate change for the organization. For example, in line with discussions held, the CG immediately set up a high-level Corporate Culture Change Team in URA that was charged with driving a cultural change that will emphasize professionalism, integrity and patriotism. DRM4D consultants are guiding and mentoring this core team. The fact that the integrity message is already being emphasized from top management downwards is indeed a positive step.

There is a review of high-level appointments, with some senior management contracts being terminated and others not being renewed. Lifestyle audits of suspected staff are being introduced. This process is ongoing as the CG continues to shape and mold his senior management team towards his ideal of integrity and service delivery. A senior management team that is fully on board with the CG's integrity message and is actively combatting corruption is a prerequisite for sustained revenue expansion. DRM4D has already reported on the excellent revenue results that were achieved in the first two quarters of the Uganda 2020/2021 fiscal year. Despite the decline in the economy as a result of the pandemic and subsequent lockdown, there was an increase in revenue over the same period in the previous year and this was achieved in part due to senior personnel changes. DRM4D is aware of a substantial number of senior personnel changes that are due to take place in Q2 and this will further reinforce the CG's integrity drive.

A key feature of the ongoing HR work program is the fact that all consultations are done on-line. The Organization Development consultant is based in Canada, the HRMAT is based in different locations across the United States, and there is also a HR team based at the UK's HMRC that is working on a competency framework. All the teams interact with each other over various electronic platforms and e-mail. Despite the lack of direct face-to-face interaction, this has worked very successfully, and high degrees of trust have already been created.

Conduct an audit of the current URA IT systems

The Commissioner General of the URA requested assistance from the Activity in reviewing the IT systems in use at URA as well as the URA's disaster recovery plan. Specifically, he asked the Activity to review the IT systems in terms of duplication and whether the existing systems are providing value for the money spent.

DRM4D deployed an IT consultant, Mr. Emmanuel Sigler, to Kampala from November 7-29, 2020. The consultant interviewed stakeholders of the major IT systems, reviewed documentation, and visited the primary data center and disaster recovery site. The consultant's report was provided to the Commissioner General shortly after the conclusion of his assignment, having first been shared with USAID. The consultant's primary observations are set out below:

- Not surprisingly, the report found that the eTax system has reached the end of its useful life and should be replaced. A replacement system will take 3-5 years to complete with an approximate cost of USD 15-20M and therefore the eTax system must be maintained in the medium term. Security vulnerabilities of eTax need to be plugged and eTax issues affecting the taxpayer account should be prioritized for fixing.
- The URA's eHub is an excellent tool that should be used more widely, and it is currently underutilized by the management. The risk analysis dashboard of eHub is a very good tool in determining the probability that a taxpayer is evading taxes. Once this tool is effectively in use by URA management, tax compliance will increase, leading to revenue gains.
- Overall, ASYCUDA meets the needs of the Customs Department. ASYCUDA is a customs system implemented worldwide and has very good core functions. With URA having the source code and trained IT staff, it is able to make the necessary modifications and enhancements for functions that are not initially supported.
- Different modules within the Enterprise Resource Planning (ERP) system needs to be fully integrated. In order to further improve the efficiency of the URA staff and reduce errors, all the ERP modules should automatically pass data to each other and act on those data.
- The ERP needs to be fully documented and capacity built within the technical team. The implementing company should complete a detailed documentation regarding the configurations that were done on the base ERP system. Using this documentation, the technical team should be fully trained on reconfiguring the system if the need arises.
- URA should move the disaster recovery site further away from the primary data center. The disaster recovery site is currently located in Central Kampala, which is less than 5 km away from the primary data center. If a major disaster happens in Kampala, the possibility that both sites will be damaged is very high. The disaster recovery site should be moved farther away. Possible locations are either the cloud or the Jinja location of NITA.
- A full IT security review should be conducted. A review of the current server operating systems showed that there are still some that are no longer supported by the vendor. This poses a security risk to URA's systems and data. While upgrade of the eTax system is being considered to plug a security vulnerability, there are other security vulnerabilities that exist.
- IT staff should be provided with regular technical training to keep their skills current. Currently, IT staff only get training when an IT system is introduced, and the training is part of the contract. This has an impact on the ability of the IT team to improve older systems. It also impacts on URA's ability to retain talented individuals who wants to keep current with rapidly evolving technology.

The report set out strategies for dealing with the above findings, including a discussion on the preparatory work that must be done before seeking a replacement system, the need for a comprehensive business process reengineering exercise and an estimate of the funding required for a replacement system. The report made recommendations for the better integration of the ERP modules and for greater integration between the ERP system and eTax. Finally, the report also made recommendations regarding URA's Disaster Recovery Plan and for capacity building within the IT department.

These strategies are currently being discussed with URA senior personnel and will also form part of URA's discussions with the wider donor community.

Support URA to strengthen communications both within and outside the organization

Towards the end of the quarter, DRM4D commenced its communications support to URA. It is widely anticipated that improved taxpayer communications produce a better understanding of the need to pay tax and thus improved taxpayer compliance results. The communications support was kicked off with a three-week visit by the Communications Adviser in early December. The adviser met with the URA's Public and Corporate Affairs (PCA) team and agreed on priority areas of work. These were captured in an initial report that will be refined further on the adviser's return trip in Q2.

This report captures initial observations about the work of the PCA and offers insights into ways in which it could be improved and made more effective—the development of new products and procedures, for example. The report provides a status update on initiatives already being undertaken around items featured in the adviser's Scope of Work and sets out recommendations on how the URA could conduct its public affairs differently.

Key observations made during the initial visit were:

- The team is well motivated and led, utilizing communications in many different forms and on many different fronts to support the delivery of URA's mandate.
- Systems, practices and procedures are in place to aid the staff in their work. These include regular team meetings, work planning, and execution and review of projects and initiatives.
- At a time when COVID-19 restrictions curtailed the use of some 'traditional' communications activities, the team has been instrumental in imaginatively utilizing electronic media to disseminate information to target audiences, notably via DRIFT studio programming, initiatives that the team has the potential to build on in the future.
- Team members have observed they sometimes lack a sense of strategic direction, that communication is not always understood or appreciated by senior management.
- There is a constant danger of 'silo-ism' between different sections of the PCA team, thus rendering communications less effective than it could be if a more collective and focused approach was embraced considering the communications 'needs' of target audiences and the range of means by which they might be addressed.

The primary areas of focus during Q2 will be:

- PCA's approval of the Inception Report
- Prioritizing and timetabling the implementation of items featured in the report. In the first instance this is likely to be:
 - a. Supporting the team's completion of the Communications Strategy
 - b. Helping establish systems and procedures to ensure all communications work is more dynamic and in tune with the delivery of strategic and operational imperatives
 - c. Further exploring means by which Internal Communications can be streamlined and made more effective
 - d. Further working with PCA management on improving reporting procedures, including the presence of a PCA representative on the Management Executive Committee
- Supporting HRMAT colleagues in the use of communications to support the delivery of their work.
- Further exploring means by which Internal Communications can be streamlined and made more effective

- Further working with PCA management on improving reporting procedures, including the presence of a PCA representative on the Management Executive Committee.

Subnational Revenue Administration

During the quarter, DRM4D worked with other development partners active in the local government arena and developed harmonious working relationships with them. The team reviewed the Local Government Rating Act (LGRA) and identified other implementation bottlenecks and constraints requirement to use professional valuers, which is costly and time consuming, and the exemptions on residential property. DRM4D continues to engage with the Ministry of Local Government (MoLG) with a view to encouraging changes in the legal framework to facilitate faster and more cost-effective property valuation for sustainable revenue growth.

DRM4D made proposals to the Town Clerks and the Permanent Secretary, Local Government, for quick wins to mitigate the impact of COVID-19 on revenue streams which were then approved by the PS MoLG and circularized for action by city management. This amounted to advice on enforcement and strategies to make it easier for taxpayers to comply, as well as advice on how to set targets for each collector and each period, segmentation of taxpayers and scheduling of tax arrears. DRM4D followed up the PS's circular with each Town Clerk by phone and email and we will continue to monitor adherence to the circular during Q2. Better target setting and improved enforcement resulting in an increase in revenue from property tax, business license fees and market fees are expected during the Y2 workplan. DRM4D will engage with local governments to ensure that sanitation and other requirements are seen as an essential part of the fiscal social compact and that there is agreement on all sides that market fees will be used to support such services.

DRM4D completed its diagnostic analysis of LG revenue mobilization performance. Key findings include:

- All property valuation rolls are outdated and require action. Cities have the capacity to generate approx. USD 7 million by FY 2024/25 up from the current USD 1.7 million at an estimated cost of USD 400,000 for the ten cities.
- Low revenue collection effectiveness - an average of 63% of targeted revenue which results in an average revenue per capita at less than USD 3 per annum.
- Absence of updated revenue registers and predominant use of manual registers, effectively 'pen and paper'.
- Digital revenue systems have been piloted in only four cities. Comprehensive digitization will require an estimated USD 300,000 for computers, printers, data collection gadgets, database upload and training of users.
- Low collection effectiveness and revenue coverage is attributable to weak systems to support stakeholder engagement and developing sustainable taxpayer relationships.
- DRM4D identified critical success factors as; supporting sustained taxpayer engagement and development of a fiscal-social service compact so as to improve accountability and fair taxation, update of property valuation rolls, comprehensive digitization of revenue administration processes.

DRM4D participated in the LG PFM Working Group and convened a meeting with the World Bank, the EU and the UN Capital Development Fund. Through these meetings DRM4D initiated and encouraged the other development partners to collaborate on, the quick update of revenue registers, fast tracking the update of property valuation rolls and implementation of comprehensive digitization. DRM4D proposed to provide equipment, support some capacity building training and IT systems audit to augment efforts of the Local Government Finance Commission (LGFC) in fast-tracking activities of roll

out of the Integrated Revenue Administration System (IRAS) in selected cities. The MoLG and LGFC accepted to work with DRM4D to enhance deepening of digitization and in other related revenue improvement activities. The detailed activity and support interventions will be agreed within the next quarter and this will include engaging STTA to update registers and provide training with DRM4D supervision and assistance.

COMPONENT 3 – PUBLIC-PRIVATE DIALOGUE ENHANCED

During this period, the Activity mobilized stakeholders to engage in the ongoing reviewing of VAT and Income Tax. The Uganda Manufacturers' Association (UMA), the Institute for Certified Public Accountants of Uganda (ICPAU), and the Uganda Law Society (ULS) submitted proposals for consideration into the revised laws that were forwarded to the consultant and MoFPED. Two other stakeholders, the Private Sector Foundation Uganda (PSFU) and the Southern and Eastern African Trade Information and Negotiations Institute (SEATINI) sought support to convene membership workshops and online consultations to discuss and subsequently prepare their proposals to be forwarded for consideration into the ongoing tax law review process.

DRM4D continued to meet with stakeholders to get updated on progress made on improving domestic revenue mobilization in various areas of mutual interest. A full list of the issues raised by stakeholders and how they are being addressed by DRM4D is set out in Table 3 at the end of this report. Stakeholders continue to highlight to the DRM4D team major capacity gaps that need to be addressed to improve their engagement in promotion of DRM. These include deepening their understanding of tax related concepts and practices, improving tax research and analysis, advocacy, revenue tracking, and engagement with public agencies.

Following the appointment of the Grants Manager, DRM4D embarked on the process of providing grants to address a number of the needs and challenges highlighted by stakeholders. A Request for Expressions of Interest was issued on 17th December 2020 with a deadline for receiving applications on 15th January 2021. For reference, a list of the dialogue issues raised by stakeholders during DRM4D's consultations is included as Table 2 at the end of this report.

DRM4D continued building rapport and relationships with both state and non-state actors, holding meetings and attending DRM related events organized by stakeholders to get updated on their current efforts to promote DRM as well as the challenges they face to inform possible areas of collaboration and partnership with DRM4D. Such engagements have informed and influenced the DRM4D Year 2 Annual Workplan as well as the Grants' strategy being pursued.

The team also sought out collaboration with likeminded organizations funded by USAID such as the Civil Society Strengthening Activity (CSSA) so as to collaborate on strengthening capacity of non-state actors to effectively advocate for increased spending towards poverty reducing sectors.

CURRENT URA REVENUE ENVIRONMENT AND 5-YEAR PROJECTIONS

All three pillars of the DRM4D Activity will have a positive and sustained impact on revenue collection. This impact will be both direct and indirect and short-and long-term. An example of the direct effect would be, say, additional revenue arising from taxpayer audits. But there also will be a substantial indirect effect on taxpayers who are not audited but who realize there is now a greater likelihood of

them receiving an audit as a result of URA's improved audit capacity, and who therefore improve their tax compliance profile as a result of seeing others being audited.

This is sometimes known as the "demonstration effect" and it can often be much greater than the impact from audits or other direct activities. Whilst direct impacts lend themselves to relatively easy measurement, indirect effects do not, and will only show up in overall revenue collections. Similarly, longer term interventions such as improving the integrity profile of the URA, human resources improvements, capacity building, and so on will only show up in overall revenue improvements over time.

The current URA revenue projections are set out in the table below that is taken from the URA's Corporate Plan for the years 2020/2021 to 2024/2025, but recently updated by URA to show actuals for 2019/2020. URA failed to achieve the 2019/2020 target by a significant amount (UGX 16 trillion compared to UGX 18 trillion).

The COVID 19 pandemic and the subsequent lockdown adversely affected the 2019/2020 collection figures. There was something of a recovery in the first half of 2020/2021 with revenues for the 6 months performing at about 1% above the same period in the previous year. However, those figures must be viewed in the context of the aftermath of the lockdown, during which the government wrote off significant amounts of arrears and penalties in a bid to support struggling businesses.

URA is not on track to achieve the 2020/2021 target, which has now been increased by MoFPED to UGX 21.6 trillion. URA estimates that the target of UGX 19.6 trillion is more realistic and achievable, and this is not far below the original target of UGX 19.9 trillion shown in the URA Corporate Plan. Collections for the first half of 2020/2021 were UGX 9.5 trillion but the second half of the tax year always produces a better revenue result than the first half.

DRM4D will work to assist URA meet its 2020/2021 target as much as possible in the remaining months of this year and for all years up to and including the 2024/2025 Ugandan fiscal year.

DRM4D plans to produce "quick win" revenue gains in the areas of audit, debt recovery, rental income and improved taxpayer communications, all of which will produce a positive revenue effect in the second half of 2020/2021. The new VAT law will produce an additional positive revenue effect from 2021/2022 onwards as will increases in excise taxes on alcohol and tobacco. Changes to the Income Tax Act and the Tax Procedures Code Act will not show up in revenue until the 2022/2023 year.

The CG's integrity drive, changes to the URA's organization structure and the human resources reforms will produce a 'slow-burning' effect on revenue that will begin in the last quarter of the 2020/2021 year as the influence of corrupt networks is reduced. The revenue impact of these reforms is likely to be more substantial from the years, 2021/2022 onwards. Further positive revenue impacts will be seen as the URA improves its information technology systems and advances its capacity building capabilities.

Table 9: Tax-head Distribution of Revenue Forecasts (UGX Billion)

Tax head	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Outturn	Projected Outturn	Forecast			
Net overall Revenue	16,751.64	19,692.55	21,756.1	23,755.5	25,916.4	28,251.2
Domestic Taxes	10,679.82	11,951.77	12,658.2	13,821.5	15,078.8	16,437.2
Taxes on Intern. Trade	6,446.60	7,471.01	9,097.9	9,934.0	10,837.7	11,814.0
Direct Domestic Taxes	5,878.63	6,616.08	7,027.2	7,673.0	8,371.0	9,125.1
-PAYE	3,039.83	2,977.85	3,540.7	3,866.1	4,217.8	4,597.8
-Corporate Tax	1,302.30	1,791.34	1,373.5	1,499.7	1,636.1	1,783.5
-Presumptive Tax	5.22	6.95	6.8	7.5	8.1	8.9
-Withholding Tax	872.99	1,132.80	1,170.0	1,277.6	1,393.8	1,519.3
-Rental Income Tax	103.69	122.29	126.3	137.9	150.5	164.0
-Tax on Bank Interest	484.39	514.47	691.1	754.6	823.3	897.4
-Casino Tax	19.04	9.96	39.3	42.9	46.8	51.0
-Other	51.18	60.41	137.9	150.5	164.2	179.0
Indirect Domestic Taxes	3,874.67	4,319.96	4,785.9	5,225.7	5,701.1	6,214.7
-Excise duty:	1,266.08	1,476.82	1,441.4	1,573.8	1,717.0	1,871.7
-Value Added Tax:	2,608.58	2,843.13	3,344.5	3,651.9	3,984.1	4,343.0
Non-Tax Revenues	407.47	484.54	606.4	662.2	722.4	787.5

Source: URA RPD Revenue Modelling Section

CROSS-CUTTING ACTIVITIES

Gender, Youth and Social Inclusion (GYSI) Analysis

The Gender, Youth and Social Inclusion (GYSI) Analysis was completed during Q1. The analysis sought to understand how the tax system impacted on women, youth, persons with disabilities, and other marginalized groups and what could be done to improve equity in the tax treatment of such groups. The analysis is in good time to inform the diagnostic reviews of the primary tax laws. Following the recommendations of the GYSI, the new draft primary tax laws will:

- be written in gender-neutral language,
- ensure that existing tax exemptions for sanitary products or for equipment needed for use by persons with disabilities are maintained,
- propose significant real increases in tax-free allowances and a real widening of tax bands in order to benefit the low-income,
- treat all taxpayers equally regardless of gender; and
- ensure that realistic and workable tax deductions to encourage the employment of persons with disabilities are developed.

As noted above in the Subnational Revenue Administration section, the review of business license fees and market fees and the better understanding of the social compact at local government level is expected to provide sufficient revenues for the improvement of water and sanitation at marketplaces. DRM4D would expect to see a 15% increase in these revenues each year as a result of this exercise.

DRM4D will be guided by the GYSI Analysis in ensuring women, youth and marginalized groups have their interests taken into account as tax policy is enhanced. This will include making proposals for eliminating all barriers to internet use and encouraging the development of entrepreneurship and the formalization of businesses to promote economic growth and enhance opportunity for all.

DRM4D is already working closely with URA on improving its human resources management, and many of the GYSI analysis recommendations will be incorporated into this work. This includes support for training of trainers and materials on GYSI, taking cognizance of GYSI issues in all newly written HR policies and procedures, and ensuring that GYSI issues are effectively monitored within URA, particularly with regard to all new staff motivation and staff retention proposals that are produced by our human resources experts.

Baseline Report

During the reporting quarter, a senior Ugandan economist was commissioned to prepare a baseline report under the DRM4D Activity. The purpose of the baseline report is to assess the status of key DRM4D indicators prior to program implementation to provide benchmark data and information under the three components.

Predominantly, the measurements will be used to gauge the impact of the Activity during the five-year DRM4D Activity implementation cycle. A similar summative survey/evaluation will be conducted at the end of the Activity and the statistical test and inference will be drawn for the different indicators in context to give conclusion for attribution and or causal deductions.

Furthermore, the baseline report is meant to guide the activity in setting targets for the indicators used for monitoring and evaluation (M&E) of activity implementation within the life of the Activity. These targets will be used as a yardstick to compare results against set targets.

Political Economy Analysis (PEA)

During the quarter, DRM4D commenced an Applied Political Economy Analysis (PEA) study that seeks to identify the influential constituencies whose support and buy-in can improve the likelihood of enhancing the Activity's impact. Contrasted with many political economy reports, an *applied* PEA study provides actionable recommendations for project implementation. To achieve this purpose, the research team seeks to explain the political and economic incentives and disincentives necessary to reduce the number of tax exemptions granted and increase revenues for the state. The PEA will help to uncover where there is likely to be opposition to reform and where opportunities lie to build alliances with potential supporters or champions of reform inside and outside of government.

The research team consists of a senior Ugandan Economist with an in-depth understanding of Uganda's macroeconomic landscape and its key stakeholders in government and civil society, and two senior international political economists with extensive experience in Uganda and in designing and conducting USAID political economy studies.

The team is using USAID's Thinking and Working Politically Through Applied Political Economy guidance to conduct this study. The team conducted a desk study to identify existing reports and literature on past and present studies about DRM in Uganda and the East Africa region. Together with the Chief of Party, the team held numerous discussions to agree on the specific purpose of this study and brainstormed a set of core and supporting questions that would focus the research process.

The team began to test the interview questions in November 2020 and then began its primary data collection through a combination of in-person interviews and on-line interviews. Due to the extremely politically sensitive environment in the run up to the January 2021 elections, the team used its personal connections to hold discreet interviews with key informants.

By the end of the quarter, the team had made substantial progress on an interim report that was planned to be shared with the Chief of Party early in Q2. A final report will be readied early in Q2.

IMPLEMENTING GUIDING PRINCIPLES

INCLUSIVE DEVELOPMENT AND YOUTH ENGAGEMENT

The activity successfully carried out a Gender, Youth and Social Inclusion (GYSI) study and submitted a report that made important recommendations towards fair taxation and strengthening equity in taxation especially for the youth, women, and socially disadvantaged groups.

The purpose of conducting this analysis was to highlight how aspects of gender, youth, and marginalized groups could get considered in the formulation of tax policy reform efforts, explore ways to promote revenue compliance amongst women, youth, and marginalized groups, and to ensure women, youth, and marginalized groups are meaningfully engaged in public private dialogue on domestic revenue mobilization.

Completion of the GYSI analysis is important because DRM4D is acutely conscious of the need to be gender neutral in both the drafting and impact of legislation. The findings and recommendations shall inform the diagnostic reviews of the primary laws, the reviews of HR policies and manuals and indeed all the other interventions that the project is going to undertake over the next four years.

DRM4D will take great care to ensure that new draft laws continue to be written in gender-neutral language, that all taxpayers are treated equally regardless of gender, that existing tax exemptions for sanitary products or for equipment needed for use by persons with disabilities are maintained and that realistic and workable tax deductions to encourage the employment of persons with disabilities are developed.

DRM4D is very mindful of the position of low-paid persons, the majority of whom are women, and the Activity will propose significant real increases in tax-free allowances and a real widening of tax bands in order to keep low-income individuals either outside the tax system or, at most, in the lowest tax bands. The Activity will propose the financing of such tax costs by the introduction of base-broadening initiatives such as the elimination or substantial reduction in tax exemptions, improved business registration procedures leading to a reduction in the size of the informal sector, and the adoption of the OECD's BEPS proposals, including the taxation of the digital economy.

DRM4D is already working closely with URA on improving its human resources management and many of the GYSI analysis recommendations will be incorporated into this work. This includes support for training of trainers and materials on GYSI, taking cognizance of GYSI issues in all newly written HR policies and procedures, and ensuring that GYSI issues are effectively monitored within URA, particularly with regard to all new staff motivation and staff retention proposals that are produced by the Activity's human resources experts.

DRM4D will be guided by the GYSI analysis in ensuring women and marginalized groups have their interests taken into account as tax policy is developed and improved. This will include making proposals for eliminating all barriers to internet use and encouraging the development of entrepreneurship and the formalization of businesses to enhance economic opportunity for all.

PARTNERSHIPS

Throughout this quarter, the Activity continued to interact with counterparts at MoFPED, URA and MOLG to advance the DRMS implementation and to agree on workable solutions to URA's and Local Governments' primary revenue administration constraints.

DRM4D supported URA in its engagement with the donor community through the preparation of a first draft of an update on the various reforms that are ongoing at URA and with the support of several donors, including USAID. DRM4D continues to work with URA in this important area, particularly in the preparations for the next donor conference.

The Activity collaborated with Her Majesty's Revenue & Customs (HMRC) and involved them in the program's strategies to improve the entire human resources environment within URA. The HRMAT had several interactions with HMRC during Q4 to discuss how the HMRC program would fit within the overall HR intervention and to be sure there were no overlaps or duplication of effort. HMRC were very pleased with the meetings that were held.

DRM4D continues to actively participate in development partner forums including the PFM accountability cluster meetings, and LG PFM meetings.

DRM4D formed an effective working and trustful relationship with RippleNami, the US company engaged to assist URA to track, register, and assess landlords with real let property. This is an ongoing relationship and DRM4D expects to work closely with them over the life of the Activity.

During the quarter, RippleNami established its presence in Uganda, and DRM4D held several meetings with them to discuss their work approach and supporting their initial engagements with URA. Arising out of these engagements, both URA and RippleNami identified the need for additional computers, and DRM4D is working on securing at least 6 computers for the rental tax team. These are needed for processing data that will be generated through RippleNami's support. This purchase is planned for Q2.

In the coming quarter, DRM4D will provide support to review the rental tax policies and procedures, including an improved rental tax manual in order to ensure that data received is translated into viable tax assessments. DRM4D engaged with the Resource Enhancement and Accountability Program (REAP), which is GoU's mechanism for implementing and coordinating public financial management reforms. This engagement was primarily to seek REAP's assistance in providing supplementary logistical support to DRM4D's long-term training plans and support to URA's E-tax system. The Activity also discussed long-term interventions in areas of common interest in PFM reforms.

DRM4D continues to engage with the Civil Society Strengthening Activity, a USAID funded initiative engaged in strengthening Non-State Actors to be able to effectively engage in advocacy especially in the areas of education, health and governance. DRM4D and CSSA have highlighted potential areas of collaboration and building synergies to leverage and pursue common interests. There are also initiatives to approach and engage other USAID funded Activity initiatives for similar purposes.

CHALLENGES

DRM4D continues to face contextual, strategic and operational challenges and these are set out below in the various categories.

Contextual

1. Engagements were affected as MoFPED closed temporarily as some of their staff tested positive for COVID-19. For a period of about a month after resumption, they did not allow physical visits to the MOFPED offices.
2. The COVID-19 effect is still significant. To align with COVID SOPs, travel upcountry is minimized and this is affecting the Activity's interactions, especially at subnational level. Elections. The political season meant that some stakeholders could not effectively engage as they were engaged in or impacted by political activities around them.
3. The Activity postponed the MoFPED Training that was earlier scheduled for December as some staff had to be away for the festive season.

Strategic/Programmatic

There were no strategic or programmatic challenges this year to report beyond those mentioned above.

Operational

1. As a result of some staff testing positive for COVID-19, the DRM4D office was closed and staff worked remotely for a period of one week. All staff members as well as the security guards were tested for COVID-19.
2. Standard Bank online banking onboarding delays have resulted in physical bank visits with the long queues and possible exposures to COVID-19 infections. This process is still incomplete.

LESSONS

In the spirit of continuous learning, we continue to embrace new lessons and to incorporate the new knowledge into our approach. some of the key lessons learnt during the quarter include the following:

1. Over the implementation period, especially in close collaboration with government counterparts, the Activity has learnt that it is important for it to align its workplan to the National Development Plan (NDP III) and government priority areas for the period.
2. More flexibility is required with current world health challenges. Adhering to SOPs is required despite the inconveniences this may cause.
3. It is possible to work remotely and still achieve results despite the challenging environment and disruptions we face.
4. Resilience is important in a fast changing and challenging environment.

A lesson learned as the Activity expands is the importance of cross-cutting implications in our work. Not only did the GYSI report have implications for the diagnostic reviews of the primary tax laws but similar outcomes are seen elsewhere. The IT audit report has implications for the human resources intervention and for the planned audit and debt recovery interventions. The organizational development report has implications across several aspects of our work including the primary tax laws rewrite and the human resources intervention.

DRM4D is mindful of all the connections and potential interactions and takes care to ensure that each intervention understands the entire program of work. Reports and contacts are fully shared within the Activity to ensure maximum melding of information for improved outcomes.

MANAGEMENT AND ADMINISTRATIVE ISSUES

During the quarter, the recruitment of the Grants Manger was completed by appointing Janet Akot. As a result, the granting process began. By the end of the quarter, the Activity had advertised for prospective grantees to submit Expression of Interest (Eol) documents.

The Activity installed directional signposts at the office after receiving the required USAID approval. The Activity bought and installed a 50-seater tent in the office garden to permit open air meetings with counterparts and other visitors in a safer environment. Other major management and administrative activities that were conducted during the quarter included engraving assets and submitting the Q4 VAT report and FY20 Annual VAT report to USAID.

PLANNED ACTIVITIES FOR NEXT QUARTER, INCLUDING UPCOMING EVENTS

See note under “Summary of Implementation Status” regarding indicators.

<p>Component 1</p>	<p>Complete the diagnostic review for VAT, including the first draft of the new law by end January 2021. Complete the diagnostic review for Income Tax, including the first draft of the new law by end February 2021 Assist MoFPED with the evaluation of both laws and the completion of final agreed drafts that are ready for review by Cabinet.</p> <p>Implement the Excise, Environmental and Gaming tax intervention so that rates can be set for inclusion in the budget, during February 2021.</p> <p>Finalize contract with vendor and commence extensive tax policy training by early February 2021.</p> <p>Finalize applied PEA study in February 2021. Discuss lessons arising with USAID and key interlocutors. Agree relevant strategies for progressing DRM reform.</p>
<p>Component 2</p>	<p>Complete three-way discussions with URA, CG, and the Organizational Development Consultant to assist with finalization of the Organizational Development report. Review final report with CG and decide on next steps such as a Board paper and a potential review of the URA law.</p> <p>Finalize discussions with URA and training provider for proposed tax administration training program. Prepare Approval Request for submission to USAID. Once approval received finalize contract and commence preparations for URA training program.</p> <p>Discuss IT Audit Report with CG URA and agree next strategies, including discussing such strategies with URA’s MEC. Engage in three-way discussions with URA and other donors on next steps.</p> <p>Work with URA and HRMAT to finalize the first phase of the HR reforms by end March 2021. This will see the finalization of the URA Corporate Culture and Integrity Change strategy and its effective communication to all URA personnel, complete the HR functional assessment and review with URA, review the HR IT status, decide on next steps, and finalize Phase I report. Work with URA, HRMAT and HMRC to review draft Competency Framework.</p> <p>Submit URA Communications Adviser Inception Report to USAID in February 2021 for discussion on next steps. Work with Communications Adviser and URA to further enhance the URA’s Communications footprint.</p> <p>Embed the proposed VAT Field Audit Adviser and the Debt Recovery Adviser by the end of February 2021 and ensure both advisers are working satisfactorily with counterparts. Monitor the work of both advisers to ensure “quick win” revenue gains are realized. Finalize Scope of Work and TA recommendation for Complex Audit Adviser and submit Approval Request to USAID.</p>

	Finalize proposed quick wins at the local government level in the areas of IT, Business License Fees and Market Fees during Q2. Discuss strategies with LGFC and donors working in the LG area.
Component 3	<p>Host planned workshops with SEATINI and PSFU to engage on input for new tax laws. Continue to facilitate input from CSOs and the private sector on the revised primary tax laws.</p> <p>Review grants applications in collaboration with USAID, develop advocacy priorities and begin to award grants.</p> <p>Continue engaging stakeholders to participate in the on-going review of the tax laws.</p> <p>Continue exploring opportunities for collaboration with like-minded initiatives to leverage on synergies and opportunities for collaboration to pursue initiatives of mutual interests</p>

TABLE I: PROGRESS SUMMARY

Ref	Intervention	Status to end of Quarter I	Next steps	Sub IRs
1.0	Tax Policy enhanced			
1.1	Consult stakeholders involved in tax policy development	Several engagements were held with MoFPED and URA, private sector organizations (ULS, UMA, ICPAU and PSFU); and Civil Society Organizations (CSOs) (SEATINI, CSBAG, and others). During the quarter, two civil society organizations and three private sector organizations made submissions for inclusion in the revised tax laws, which were passed on to MoFPED and the legal drafter.	These recommendations will be considered in the first draft of the primary tax laws due in Quarter 2.	Sub IR.1.2
1.2	Prepare a tax policy reform strategy and a diagnostic review of the main tax laws	Consultant is in final stages of completing the diagnostic review of the tax laws. The reports should have come by end of December but are now expected in January 2021.	Consultative meetings will be held involving both Govt and Civil society/ private sector organizations to discuss findings of the diagnostic reviews and to receive further inputs into the new laws. These will be incorporated and then the new laws will be finalized.	Sub IR.1.1, Sub IR.1.3
1.3	Support GoU to draft legislation	Same consultant handling the diagnostic review will also handle the draft rewrite of the laws.	Planned to be started in Q2, after the diagnostic review report is studied by counterparts, and contributions received from stakeholders	Sub IR.1.1, Sub IR.1.3
1.4	Provide tax policy analysis training	Training program designed, training provider identified and contracted. Training venue agreed and arrangements made for venue to be contracted with REAP support.	Liaise with REAP and MoFPED to complete the final stages of the contract for venue, conduct a “dry run” to ensure facilities are appropriate and commence training.	Sub IR.1.1
2.0	Tax and Non-tax revenue administration strengthened			
2.1	National Revenue Administration			
2.1.1	Support URA to review its organizational structure and modernize its HR policies	Review of the URA structure was completed. Draft report was submitted and is under review with CG, URA. The second part of the work, which involves supporting URA to strengthen its organizational culture and integrity was started. URA put in place a cultural change team that is working under the guidance of the DRM4D consultants.	Discussions on the structure report are ongoing. Thereafter implementation of recommendations will be done including consideration of amendments to the URA law. Organizational Culture report and recommendations will be ready in Q2.	Impact Level Outcomes
2.1.2	Support URA to strengthen rental tax compliance monitoring	Meetings with URA highlighted the need for highspeed computers to help with data crunching. DRM4D held meetings with RippleNami to coordinate our efforts.	Provide commodity support to the rental unit (6 highspeed computers) during Q2, liaise with RippleNami to strengthen data sharing and to review URA rental income tax procedures and manual.	Sub IR2.3, Sub IR2.1

Ref	Intervention	Status to end of Quarter I	Next steps	Sub IRs
2.1.3	Support URA to prepare for its new e-tax system	Consultant hired to do a full audit of the current URA IT systems and make recommendations. The IT audit report was done and presented to CG, URA.	Evaluate the results of the IT systems audit and then work on next steps, setting the groundwork for a replacement e-tax system such as preparing for a proper business process reengineering strategy and production of standard operating procedures to support the revised technical specifications.	Sub IR2.1, Sub IR2.3
2.1.4	Support URA to design and implement the second program of Financial literacy training (FINLIT 2)	URA would rather first work on improving its communications. A communications consultant was hired in Q1. He is supporting URA both in communications and in preparing tax education messages.	Finalize the inception report. Produce an enhanced communication strategy. Work with managers of the Domestic Revenue Initiative for Transformation (DRIFT) studio program with a view to maximize its contribution to taxpayer education (in light of limitations imposed by COVID SOWS to physical location tax seminars)	Sub IR2.1, Sub IR2.3
2.1.5	Improve the effectiveness of tax audits	DRM4D prepared a Scope of Work and discussed these with the CG and other senior personnel to ensure agreement. The VAT audit consultant was approved by USAID and contracted.	Hands-on support to be given to URA in VAT audits, starting in Q2.	Sub IR2.1, Sub IR2.2, Sub IR2.3
2.1.6	Strengthen debt management	DRM4D prepared a Scope of Work and discussed these with the CG and other senior personnel to ensure agreement. The Debt management consultant was approved by USAID and contracted.	Hands on support to be given to URA in debt management is planned to start in Q2.	Sub IR2.2, Sub IR2.3
2.1.7	Improve information sharing between URA and third parties	Rental Unit has already leveraged the use of data from KCCA, NWSC, and the energy companies in its efforts to identify new landlords.	More engagements to utilize these channels will be continued in Q2.	Sub IR2.1, Sub IR2.3
2.1.8	Strengthen URA's service delivery	Engagements held with URA Contact Center to discuss how DRM4D can support the dissemination of information and responses to issues raised by the general public through call in centers. This support is being provided to URA by the EU.	DRM4D will review URA's plans for the Contact Center from a communications perspective. DRM4D will visit the compliance/service centers started at pilot phase to assess progress and determine ways to enhance them. DRM4D will also prepare a proposal for facilitating mobile tax offices.	Sub IR2.1, Sub IR2.3

Ref	Intervention	Status to end of Quarter I	Next steps	Sub IRs
2.1.9	Support URA to train its staff	Engagements were held with the URA HR development team during which the required interventions were scoped, thereafter the potential training institutions were identified. The URA zeroed on IBFD and a training program to support training of trainers is planned for March 2021.	Training of trainers' program is planned for Q2.	Sub IR1.1
2.2	Sub National Revenue Administration Strengthened			
2.2.1	Consult key stakeholders	DRM4D engaged with MoLG, LGFC, Chief Government Valuer (CGV) and USMID to identify funds and other support for the update of property valuation rolls and other administration processes. DRM4D received buy-in for proposed interventions in improving revenue from property tax. MoLG will support proposals for the review of the LGRA while the CGV pledged to support training LG staff when called upon. The Permanent Secretary of the MoLG and LGFC guided DRM4D on policy direction and strategy and GoU expectations in terms of fair taxation within the new cities. The MoLG requested that all cities be considered for harmonized development.	<p>Support development of LG fiscal social compact through workshops and townhall meetings.</p> <p>Participate in efforts by the MoLG to develop an overall LG Revenue Mobilization Strategy.</p> <p>Conduct a national conference on strategies to improve revenues.</p> <p>Continue to engage with development partners to identify areas of cooperation and harmonization of activities.</p> <p>Finalize development and circularization of brochures on FAQs on property tax</p>	Sub IR2.2, Sub IR2.3
2.2.2	Increase property tax coverage and collection of other non-tax revenues	<p>DRM4D carried out an LG Revenue diagnostic assessment within the DRM4D partnering cities to establish baseline indicators and to identify the category of support needed by the cities.</p> <p>Out of the 10 new cities, 7 were physically visited and consulted on a wide range of issues relating to LG revenue enhancement. Key findings of the assessment were presented to the USAID and other stakeholders.</p> <p>The assessment enabled development of quick win strategies which were discussed and approved by the MoLG and circularized to cities for compliance. The LG Rating Act review identified bottlenecks to be addressed during future diagnostic assessment on LG revenue legal framework.</p> <p>The draft findings have been shared with the LGFC and Commissioner Urban Administration at the MoLG to inform future review of the relevant Acts.</p>	<p>Participate in review of the LGRA, Business licensing Act and Markets Act.</p> <p>Engage with other development partners to leverage resources and initiatives for faster update of property valuation rolls.</p> <p>Organize workshops for Development of Domestic Revenue Improvement Plans (DRIPS) at City level.</p> <p>Monitor implementation and impact of “quick win” proposals and support the setting of revenue collection targets.</p> <p>Continue to engage with the CGV to identify methods for faster and more cost- effective provisional property valuation.</p>	Sub IR2.2, Sub IR2.3

Ref	Intervention	Status to end of Quarter I	Next steps	Sub IRs
2.2.3	Support municipalities to create digital records of the local taxpayer base	<p>DRM4D held discussions with the LGFC and MoLG on status and harmonization of digitization of revenue management processes. We proposed an outline strategy for implementation of comprehensive digitization. The proposal was to support data collection, input in computers, provision of computers and other gadgets in readiness for migration to Integrated Revenue Administration System (IRAS).</p> <p>USMID and LGFC have expressed readiness to work with DRM4D in supporting of comprehensive digitization of LG revenue processes and databases.</p>	<p>Develop SoW for STTA for data collection, and data base management, sensitization and awareness creation within users, political leaders, and taxpayers.</p> <p>DRM4D will liaise with LGFC and MoLG to assess some provision of computers and other equipment to support data collection and inputs into digital registers.</p> <p>DRM4D will evaluate other previously done IT migration readiness assessments to validate needs gaps and costs for effective migration to IRAS.</p>	Sub IR2.1, Sub IR2.2 and Sub IR2.3
3.0	Public-Private Dialogue Enhanced			
3.1	Support capacity building of NSAs on policy, budget analysis and engagement	DRM4D called for expressions of interest in the New Vision and Monitor Newspapers for interested organizations to apply for grants to support them execute a number of activities in areas of mutual interest including capacity building, budget analysis and engagements.	The deadline for the Eol is 26 th January 2021, thereafter there will be assessment, selection and shortlisting of the most suitable applicants to receive grants for capacity building. Continue engagement with NSAs as well as other sister initiatives like CSSA, REAP to explore ways and means of building and boosting capacity of stakeholders to effectively engage on tax policy and administration	Sub IR 3.1
3.2	Support NSAs to participate in reviewing VAT and Income Tax ACTs.	Three NSAs; Uganda Manufacturers Association, Uganda Law Society and the Institute for Certified Public Accountants of Uganda submitted their proposals for consideration into the revised laws.	<p>The process is ongoing and NSAs will have the opportunity to review and make input into the draft revised laws when published by MoFPED. Two more NSAs, SEATINI and the Private Sector Foundation, also intend to file their submissions after holding workshops.</p> <p>DRM4D will mobilize stakeholders to engage in the various stages of the primary tax laws review process.</p>	Sub IR3.2
3.3	Support revenue mobilization forums and engagements at Sub-national levels	A costed workplan was submitted to USAID for approval and Eols issued for interested stakeholders to apply for grants for supporting such initiatives. DRM4D continued engaging with the NSAs working at subnational level and development forums to map out areas where they would need capacity building.	Workshops are ready to be held as soon as approval is received.	Sub IR3.3, Sub IR3.2

Ref	Intervention	Status to end of Quarter I	Next steps	Sub IRs
3.4	Facilitate stakeholder sector meetings with URA to discuss issues of mutual interest, sharing information to improve relationships between parties	DRM4D continued mapping out issues which stakeholders would wish to engage about with public agencies such as URA and MoFPED so as to inform the content of the Eol that were issued.	To continue organizing meetings with URA and various stakeholders to map out issues on which they need to engage.	Sub IR2.1
3.5	Support NSAs to participate in tax education	Due to restrictions on face-to-face meetings based on COVID-19 Pandemic, URA has initiated virtual ways of carrying out tax education through virtual platforms under their program called Domestic Revenue Initiatives for Transformation and reinforced their contact centres where they respond to clients who raise questions and seeking for clarity. All these initiatives are aimed at simplifying tax education. DRM4D included Tax Education was included among areas of priority in the Eols issued out.	DRM4D to popularize URA virtual platforms among stakeholders in anticipation that they too cascade information about the platforms for the benefit of wider audiences.	Sub IR3.2, Sub IR 1.3
3.6	Support Advocacy initiatives towards areas of mutual interest especially around increasing public spending in selected poverty reducing sectors	DRM4D continued engaging stakeholders to capture emerging areas of advocacy on tax policy, administration and progressive spending in the selected poverty reduction sectors. DRM4D initiated engagement with CSSA to explore opportunities and synergies in supporting NSAs improve their capacity to carry out effective advocacy in areas of mutual interest. Eols issued included aspects of advocacy.	Awaiting finalization of the grant making process and awarding of grants to organizations to carry out advocacy in the selected areas as expressed in the annual workplan and captured in Eols. DRM4D to continue engaging with CSSA, REAP and other stakeholders to coordinate support towards improving NSAs' advocacy capacity.	Sub IR2.1, Sub IR2.2, Sub IR3.3
3.7	Support CSOs to carry out budget tracking	This need was well captured in the Eol issued out and we are anticipating applicants to express an interest working in this area. DRM4D continued engaging with various stakeholders, especially CSOs, involved in budget tracking and oil and gas to highlight areas being proposed where budget tracking may be needed.	Continue following NSA activities and discussions around the subject matter. DRM4D anticipates receiving qualified Eol applicants interested in working on these aspects.	Sub IR1.2, Sub IR 3.2
4.0	Cross-Cutting Activities			
4.1	Political economy analysis	The Political analysis consultants were engaged and started executing the assignment in December 2020. A large number of interviews were conducted, and more are arranged for Q2.	Consultants are expected to complete and submit the political economy analysis report by the end of January 2021	IR1, IR2, IR3
4.2	Gender and Social Inclusion Analysis	The GYSI analysis report was submitted to USAID for approval.	GYSI report recommendations will be incorporated in the implementation of planned activities after its final approval when USAID comments are considered in Q2.	IR1, IR2, IR3

TABLE 3: LIST OF DIALOGUE ISSUES RAISED DURING PUBLIC-PRIVATE PARTNERSHIP ENGAGEMENTS

Advocacy Issues Raised by Non-State Stakeholders	How they are currently being addressed by Civil Society and the private sector	How they are being addressed in the DRM4D Year 2 Work Plan
<p>Unfair Double Taxation Agreements (DTAs) with a number of countries have disadvantaged Uganda. Many foreign companies abuse DTAs to reduce their tax bills (known as Treaty Shopping).</p>	<p>Some CSOs are campaigning around the issues of advocating for a re-negotiation or even a unilateral cancellation of certain DTAs.</p>	<p>DRM4D to support MoFPED to develop a Double Taxation Agreement negotiation policy as part of the Diagnostic Reviews of the Primary Tax Laws during Q2. Providing advice on treaty re-negotiations.</p>
<p>Harmful Tax Incentives: How they are given, based on discretion and without clear guidelines or an approval process. Weak monitoring system to record benefits and tax losses over time.</p>	<p>CSOs have been running a campaign around the issue. Findings from the World Bank’s recent study on tax expenditures to be discussed with MoFPED when made public.</p>	<p>Recommendations to be made to MoFPED as part of the re-drafting of the new primary tax laws.</p> <p>Support NSAs to raise this issue with MoFPED in Q1 and Q2 of 2020/21.</p>
<p>The need for widening the tax base to include the informal sector which is currently not well captured into the tax net.</p>	<p>Stakeholders continue engaging MoFPED with proposals to widen the tax base</p>	<p>Incentives to encourage formalization of business transactions currently not well captured into the tax net being discussed with the Tax Legal Drafter and MoFPED in Q1.</p> <p>DRM4D supporting selected Urban Authorities to register at least 5000 new taxpayers within their jurisdictions</p>

Advocacy Issues Raised by Non-State Stakeholders	How they are currently being addressed by Civil Society and the private sector	How they are being addressed in the DRM4D Year 2 Work Plan
<p>Improving the contribution from the mining sector to the tax revenue. Despite generating substantial revenues, the sector is minimally contributing towards national revenue due to being poorly regulated and its informality.</p> <p>The Oil and Gas sector has a very high potential to contribute more to tax revenue, but that potential may not be realized due to leakages, weak oversight and detection capacity of the responsible public agencies.</p>	<p>CSOs have worked with MoFPED to update the Mining Act.</p> <p>CSCO has done work on tracking and building capacity for its membership at national and subnational levels and advocated for EITI membership for Uganda, which Uganda now has.</p>	<p>Mining and Oil and Gas provisions to be extensively reviewed as part of the tax Primary tax laws rewrite program for Q2 of 2020/21.</p> <p>Uganda is now a member of EITI. DRM4D will support activities around implementation of the initiative. DRM4D plans to work closely with CSCO to publicize the transparency aspects of EITI.</p>
<p>Poor service delivery and communications at URA. The communications and public relations between URA and its clients were not seen as conducive for meaningful engagement.</p>	<p>CSOs and the private sector continue to advocate for better communications and clarity in taxpayer obligations.</p>	<p>DRM4D has engaged technical support to URA to improve its communications and taxpayer education functions. This work began at the end of Q1 and will continue through Q2 and beyond.</p>
<p>Poor implementation of the Tax Procedures Code and disputes resolution, in particular the requirement for tax appellants to first deposit 30% of the assessed tax for appeals to be heard.</p>	<p>Continuous complaints to URA and MoFPED.</p>	<p>This matter is being addressed as part of the tax laws rewrite planned for Q2 in 2020/21, including consequential amendments to the Tax Procedures Code.</p>
<p>Revenue collected from local government gets remitted to central government but the process of getting it back to the local government is cumbersome. That cripples the operations of the local governments.</p>	<p>CSOs have highlighted this among issues they need to engage with the responsible public agencies, especially MOFPED.</p>	<p>Discussions to be held with MoFPED and URA regarding possibility of collections by URA at local level to be done on an agency basis for local authorities. These discussions will take place during Q2.</p>

Advocacy Issues Raised by Non-State Stakeholders	How they are currently being addressed by Civil Society and the private sector	How they are being addressed in the DRM4D Year 2 Work Plan
Quite substantive revenues get lost at national and subnational levels through leakages due to corruption within the public agencies charged with revenue collection	This a matter that has been regularly mentioned to the responsible public agencies such as URA, MoFPED and MoLG	DRM4D to support URA improve integrity among its staff to curb revenue leakages as well as initiatives aimed at curbing revenue leakages. This work will stimulate revenue as integrity improves and tax leakages curbed.
Substantial amounts of funds allocated to LGs from the national budget don't get remitted to LGs through the budget process subsequently get retained by ministries and other Government agencies. The funds get managed at the Centre instead of LGs in line with the LG Act	ACODE funded by USAID carried out a study that revealed colossal sums of funds being retained at the Centre instead being remitted to LGs. There are already some ongoing engagements between ACODE, MoLG and MoFPED to have this matter addressed. However, ACODE led initiative needed more support to have the matter effectively resolved	DRM4D to provide support towards advocacy to have this issue addressed and completely resolved . Advocacy support will begin in Q2
Revenue (royalties) sharing protocols between the center and oil producing districts though provided for under Section 75 of the Public Finance Management Act (2015) many intended recipients don't know how the sharing provisions work and are often not prepared to prudently use the revenue when it does finally start flowing.	CSOs under CSCO have on a small scale sensitized local governments in the oil and gas hosting/affected district but expressed interest in scaling up the sensitization and awareness campaign about the revenue sharing frameworks as provided by the Act. They also suggested to get involved building capacity of local governments in the Albertine region to be able to prudently manage extra resources they will be getting from oil and gas.	DRM4D to support advocacy aimed at promoting, revenue tracking, transparency and accountability in oil and gas sector. Advocacy work begins in Q2.

ANNEX I: GEOGRAPHIC INFORMATION SYSTEMS (GIS) AND ACTIVITY LOCATION DATA

Activities in QI took place only in Kampala.

