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DOMESTIC REVENUE MOBILIZATION FOR DEVELOPMENT ACTIVITY ANNUAL REPORT

Fiscal Year 2021: October 1, 2020 to September 30, 2021

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ACRONYMS AND ABBREVIATIONS

AAU	Action Aid Uganda
ACODE	Advocates Coalition for Development and Environment
AMELP	Activity Monitoring, Evaluation and Learning Plan
ATAF	African Tax Administration Forum
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
MLHUD	Ministry of Lands, Housing and Urban Development
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

NIRA	National Identification and Registration Authority
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

ACTIVITY OVERVIEW

Activity Name:	Domestic Revenue Mobilization for Development
Technical Office:	United States Agency for International Development
Activity Start Date and End Date:	January 21, 2020, to January 20, 2025
Name of Prime Implementing Partner:	Nathan Associates, Inc.
Contract Number:	Contract No. 720OAA18d00014 Task Order No. 72061720f00002
Name of Sub-Awardees	Cardno Emerging Markets USA, Ltd International Bureau for Fiscal Documentation
Key Counterpart Organizations:	Uganda Revenue Authority Ministry of Finance, Planning, And Economic Development Ministry of Local Government
Geographic Coverage (Districts):	Uganda
Change in Districts	None
Reporting Period:	October 1, 2020, To September 30, 2021
Chief of Party	Kieran Holmes

INTRODUCTION

Every country needs sufficient resources to run its economy and to finance public expenditure. Despite continuous efforts over the years, Uganda's revenue performance has not been sufficient to meet budget requirements. Uganda's tax to GDP ratio¹ has stagnated at less than 13% for several years, well below the Sub-Saharan average of 16%.

In recognition of the need for more revenue generation, the Government of Uganda (GoU) prepared a Domestic Revenue Mobilization Strategy (DRMS) intended to strengthen Uganda's capacity to generate sufficient revenues to finance its budget. Several development partners are providing support in various ways within the Domestic Revenue Mobilization (DRM) space. USAID is playing an active role in this space through the USAID DRM4D Activity ("the Activity").

The USAID DRM4D Activity

USAID initiated the Uganda Domestic Resource Mobilization for Development (DRM4D) Activity to support the Government of Uganda (GoU) to raise sufficient revenue to fund its development priorities and to increase domestic spending on health, education, agriculture, and other public services. The Activity commenced in January 2020 and will run until January 2025. It is being implemented by Nathan Associates Inc. in partnership with its subcontractor Cardno Emerging Markets. It builds on gains achieved during the 18-month pilot that ended in 2018 which was highly

¹ URA annual revenue report 2019/2020, National Budget Framework Paper 2020/21, National Development plan 2020/21 – 2024/25 (NDPIII).

appreciated by counterparts in the Uganda Revenue Authority (URA) and the Ministry of Finance, Planning and Economic Development (MoFPED).

USAID DRM4D is premised on the notion that increasing tax and non-tax revenue contributes positively to the funds available and enables the government to increase its annual expenditure on fundamental priority sectors such as health, education, and agriculture. It is based on the following theory of change:

If Uganda can achieve greater efficiency and effectiveness in the collection of tax and non-tax revenues, including through more stable and equitable revenue policies, then tax compliance will improve, the tax base will expand, and revenues will grow over time and create the fiscal space to address persistent gaps in infrastructure and social services. A longer term “governance dividend” can also be expected from this activity, insofar as the transformation of revenues into quality spending and services particularly in health, education, and agriculture, promotes government accountability and strengthens the social contract between citizens and the state.

USAID DRM4D’s vision is to address key aspects of sound tax administration and tax policy and its policy interventions are anchored in MoFPED’s Domestic Revenue Mobilization Strategy (DRMS) 2019/20 – 2023/24. In particular, the DRMS establishes a medium-term approach to tax system reform, rather than short-term budget measures, and guides external support to where it is most needed.

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 GoU through technical assistance, capacity building, and, as USAID deems appropriate, commodity support:

(i) 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.

(ii) 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.

(iii) 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. USAID DRM4D aims to 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

The Activity has been operational for just over 18 months, with start-up and technical activities commencing in Uganda in late February 2020. The first work plan year was less than 8 months due to the requirement to align the annual work plans with the US fiscal year beginning on 1 October. Although Year 1 was truncated, there was sufficient time to build trust with counterparts and to debate and agree on some highly strategic and important interventions to advance tax reform and administration in Uganda. Several DRM4D personnel and advisers are embedded in URA, which has greatly contributed to the creation of the strong trustful relationships that exist with counterparts.

Key activities commenced during Year 1 include a diagnostic review and rewrite of the primary tax laws, a comprehensive review of the URA structure and its human resource systems and procedures, a baseline revenue performance study, a Gender, Youth and Social Inclusion (GYSI) study, a Political Economy Analysis (PEA) study and several preliminary engagements with non-state actors to scope areas for Public-Private dialogue.

The Year 2 Work Plan ran from 1 October 2020 to 30 September 2021, and during this period the activity considerably advanced several priorities, as detailed under each Intermediate result area (IRA) below:

Intermediate Result 1: Tax Policy Strengthened

Sub IRI.1: Capacity of MoFPED to formulate and implement tax policy improved.

The DRMS identified several challenges surrounding the tax policy environment, including among others, an unstable policy framework characterized by ad hoc, incremental tax policy changes year after year, insufficient tax policy research and analysis leading to controversial and sometimes unimplementable tax policy changes like the 2018 social media tax and the mobile money transfer tax which prompted protests from businesses, civil society, and concerned citizens. That aside, the tax legislation has over the years undergone numerous amendments, and in the process, statutory exemptions and other reliefs—ostensibly designed to attract foreign direct investment, boost domestic industries or alleviate hardship—have gradually eroded the tax base. In an effort to address these challenges and implement the recommendations of the DRMS, the Activity undertook to do a comprehensive diagnostic review and rewrite of the current primary tax laws in accordance with international best practices. During FY 2021, the Activity completed and submitted a final draft of the revised VAT law and the accompanying Explanatory Notes to MoFPED. The submission of this draft followed detailed discussions between the Activity's Legal Drafting Consultant and a joint team of MOFPED and URA technical officers and includes all inputs and comments received through these discussions. The discussion not only helped in refining the focus of the law, but also helped to deliver valuable capacity building to the joint team as it enabled them to achieve greater understanding of the basic foundations upon which VAT policy is built. This on-the-job learning by doing dovetails and augments the more formal capacity building provided to MoFPED staff by the Activity.

After submission of the draft VAT law, the Legal Drafter embarked on the diagnostic and rewrite of the Income Tax Act. This piece of work is ongoing, and a first draft will be ready early in Y3, with the intention that both laws will be ready for enactment before 1 July 2022.

Concurrent with the redraft of the primary tax laws, the Activity supported MoFPED to enhance Uganda's double taxation treaty framework. The double taxation agreements (DTA) advisor

reviewed the Government of Uganda's Double Taxation Treaty Policy and prepared an updated model treaty that can be used by Government to guide future negotiations. The model treaty incorporates current developments in international taxation and the OECD's BEPS guidelines and is based on the African Tax Administration Forum (ATAF) model treaty. The DTA advisor also carried out a detailed review of each of Uganda's 10 functional double taxation agreements and provided a paper on each, setting out areas of concern and advice on potential improvement. The Government of Uganda had already authorized certain treaties to be re-negotiated, and the advisor provided the Uganda negotiating teams with valuable insights into the negotiating strategy. The advisor then conducted detailed training for MoFPED officials on DTAs. The training was attended by 16 officials from MoFPED and URA.

The early exit of the previous Excise and Environmental Tax Advisor caused some delay in progressing the excise and environmental tax policy reform work during FY 2021. The Activity addressed this challenge by quickly identifying and agreeing a suitable replacement with MoFPED. The replacement advisor commenced work in Q4 and started with a detailed review of all available documentation on excise duty and progressed with analysis and preparation of a report of findings and advice on the current tax regime. The advisor is currently working on health taxes (tobacco, alcohol, sugar and gaming). His detailed report will be ready in the first quarter of Y3.

Sub IRI.2: Capacity of MoFPED to consult the public on tax policy reforms enhanced

Wide consultation in the development of tax policy is highly desirable as it informs the public of planned changes in the law and creates a stronger sense of ownership and buy-in among citizens. The tax policy-making process in Uganda follows a relatively traditional model, closely tied to the budget cycle in which the public and other stakeholders are invited to respond to MoFPED policy proposals. The consultation framework needs to be better organized and institutionalized. The Activity engaged with the Assistant Commissioner of Tax Policy and with the Director of Economic Affairs to secure their agreement for a public consultations exercise at which MoFPED and other MDAs would participate. The Activity set about planning the public engagement workshops that are scheduled to commence in Q1 of FY 2022.

In the meantime, the Activity is supporting MoFPED with stakeholder consultations in relation to the new VAT law, that is due to be introduced. The Activity is working with MoFPED, preparing for the public consultative meeting due to take place early in Q1 of FY 2022. It will attract participants from civil society, business associations, the public accountants' body, the Uganda Law Society, tax agents and practitioners, the Uganda Manufacturers Association (UMA), the Private Sector Foundation and other such bodies. MoFPED plans to submit the new law for Cabinet approval in November 2021 once the consultation exercise has been successfully held.

Sub IRI.3: Capacity of MoFPED to Monitor, Assess, and Revise Tax Policy Enhanced

Tax policy training for Government officials commenced in Q2 of FY 2021 and is ongoing through October 2022. The course, conducted by IBFD, has three modules, namely the Foundation Module, the Specialized Module, and the Applied Module. The Foundation Module provides the tax policy context by highlighting basic principles in tax policy formulation, the economics of taxation and the basic tenets of a good tax system and its interactions with society. It also covers Fundamentals of Business Taxation, VAT, and Digital Services. The Specialized Module builds on these foundation topics and delves into advanced areas such as Natural Resources Taxation, International Taxation, Transfer Pricing, and Tax Incentives Analysis. The Applied Module is more practical and provides context and hands-on experience through real life cases, and includes Advanced Revenue

Forecasting and Modeling, Legal Writing and Drafting, and other practical aspects necessary to empower and equip tax policy officials.

The program is being attended by participants from MoFPED (25), URA (10), the Parliament of Uganda (1), the Tax Appeals Tribunal (1) and two representatives from the private sector. The mode of delivery of the training is mainly online, but with physical attendance in an organized classroom setting and supervised by USAID DRM4D. It is being run intermittently (three days each month) until October 2022. In running this program, the Activity leveraged its relationship with the Resource Enhancement & Accountability Program (REAP), who provided valuable logistical support with meeting the cost of the venue and meals.

The foundation model course was completed by 39 participants who graduated to the Specialized Module, which is ongoing through Y3.

Intermediate Result 2: Tax and Non-Tax Revenue Administration and Compliance Improved

Sub IR2.1: Tax compliance, service delivery, and enforcement improved

DRM4D recognizes that growth in tax revenue happens as an outcome of a wide set of coordinated activities and initiatives that must be strategically implemented to boost tax compliance and to strengthen the tax administration's capacity to provide efficient revenue services. Right from the start, the Activity identified key areas in the administration that are critical to achieving better tax compliance and service delivery. These include enhancing human resources systems, structures, and staff integrity, strengthening IT systems, strengthening communications and taxpayer education, strengthening taxpayer services, effective debt management, and strengthening capacity of staff to do professional tax audits. The progress on these interventions is summarized below:

The Human Resources Development and Integrity Enhancement Intervention

This intervention began with a comprehensive review of the URA structure to understand whether it supports delivering optimal revenue results. This review was completed in Q2 with a structural review report that made extensive recommendations. During Q3, the URA board approved most of these recommendations, which the URA is actively proceeding to implement, including, among others, creating fully-fledged departments for IT and for Human Resources. Most revenue authorities around the world with an organizational structure similar to that of URA have elevated the HR function to a department as they have come to realize the strategic importance of this function, especially as personnel is the biggest single cost element. Elevation of the IT function to a department is demanded as a result of the increasing use of information technology in all aspects of tax administration and in view of the need for integration with banks and other agencies particularly with regard to information sharing.

The other part of the intervention involves a detailed review of the URA's human resources policies and procedures, its corporate culture profile, its rewards structures, and other related HR issues. The Activity engaged the Human Resources Advisory Team (HRMAT) to advise the URA in this area. During Q3, the HRMAT team prepared and submitted their Phase I Assessment Report, which was reviewed by DRM4D, USAID and URA. The HRMAT team drafted a Phase II work plan which focuses on "Implementing a Culture of Integrity and Accountability." This drive for cultural change, integrity, and accountability aims to support URA to modernize its HR processes and procedures and its rewards structures to help the organization become a modern revenue administration

offering excellent career structures to its staff. The Activity plans to roll out implementation of this workplan early in FY 2022.

The HR Learning and Development Intervention

DMR4D worked with the URA's Learning and Development Division to source support for bolstering the URA's tax curriculum, the review of training materials, and the eventual provision of training for URA staff. The Activity engaged the International Bureau for Fiscal Documentation (IBFD) to deliver specialized training on selected topics as requested by the URA Administration. This training began in August 2021 and is being delivered intermittently (four days each month) through April 2022. Topics so far delivered include the Auditing High-Net-Worth Individuals, Money Laundering and Tax Evasion, Principles of Transfer Pricing, and Enhancing Tax Compliance

The Activity leveraged other development partner support with the Dutch Revenue and the Irish Revenue Commissioners, which helped secure good linkages between them and the URA. Additional tax administration training from the Dutch Revenue is scheduled to commence later in Q1 of FY 2022. The Irish Revenue provided a comprehensive batch of audit manuals and related audit documents to the URA and are in the process of agreeing a Memorandum of Understanding with URA.

Support for URA's E-tax Replacement

In Q1, DRM4D provided an IT expert to conduct an audit of the URA's IT systems. A key observation in the report was that the current revenue administration system, eTax, is at the end of its useful working life and the URA is struggling to keep it operational whilst attempting to acquire an effective replacement system. The existing system has significant challenges and is currently being maintained at a very high cost. URA did not acquire the source code when the system was purchased, and this has proven problematic and costly. Following the IT Audit Report, the CG requested additional support from the advisor in Q2 regarding the replacement of URA's E-tax system. The CG particularly requested that the advisor provide support in quality assurance of the Expressions of Interest (Eols) for a replacement eTax system. The advisor undertook this review of the Eols and extracted the best ideas from the submissions. He then carried out a detailed review of the draft Request for Proposals (RFP) document and suggested edits.

The World Bank is supporting URA to do a Business Process Reengineering (BPR) exercise in preparation for the new eTax system. The BPR process is ongoing and covers the operational departments (Domestic Tax and Customs Departments). There is a need to ensure that this process also looks at the back-office support functions like HR, Finance and Procurement, that have a direct linkage with operational functions. DRM4D plans to provide additional technical assistance to support the back office BPR. The Activity also proposed to the CG the need for external Subject Matter Experts to provide additional input to the BPR process with a view of quality assuring the BPR and ensuring that SOPs are of the best international standard.

The Communications Intervention

The Public and Corporate affairs (PCA) Division of URA made commendable efforts at improving the overall level of communications during FY 2021. However, PCA still requires support to ensure a more robust communications function that will be able to reach broader audiences and with more effective messages.

This intervention focuses on supporting URA to strengthen communications both within and outside the organization. During the second year, DRM4D guided and supported activities for the CG's anniversary, utilizing it as a milestone to promote the URA's corporate communications agenda and reputation management, deliver key messages to rally the organization towards a common cause, and alert stakeholders of the positive changes in the organization.

DRM4D supported the URA in designing key activities and messages for the URA management strategy retreat, which was held during the second quarter. DRM4D provided input for the CG's Integrity Pledge, which was later signed by senior management staff at the retreat and was eventually signed by all URA personnel. The same pledge was recited by the senior management team on URA's 30th anniversary in front of His Excellency, the President of Uganda, and was aired live on all TV stations.

The Communications Advisor worked with the PCA to develop the Forward Planning Grid as a tool that supports communications planning. It plots on a weekly basis what is being done within URA that has a communications component and which section within PCA is responsible for supporting its delivery. The Assistant Commissioner of PCA embraced the Forward Planning Grid as a means of promoting collaboration and, at the Advisor's suggestion, hosted a meeting bringing together non-PCA staff who work in communications elsewhere in URA, with a view to harmonizing and coordinating all URA communications-related work. The meeting discussed streamlining communications, sharing the URA studio, and the use of the Forward Planning Grid.

In addition, the Communications Advisor guided and supported activities for the launch of the Kakasa Campaign. He advised the head of PCA and the Kakasa team on the resourcing of the campaign, how it could be managed internally, and on measures that could be adopted to evaluate progress and impact. The Kakasa campaign was a six-month campaign that ran from January 2021 to June 2021. It was intended to generate awareness and buy-in for URA's newly introduced products, namely digitalized tracking solutions (DTS), electronic fiscal invoicing system (EFRIS) and the Voluntary Disclosure scheme. "Kakasa" simply means "Confirm", "Be sure, or "Be in charge," and the logic of the campaign was to rally businessmen and women across Uganda to take full charge of their business destiny by taking good tax compliance decisions. In his end of year press briefing, the CG highlighted the Kakasa campaign as one of the reasons behind the good taxpayer response to these products and hence the growth in collections.

Finally, the Communications Advisor further supported URA in reviewing the existing Stakeholder Engagement Strategy and the Taxpayer Education Strategy. This support will be continued into FY 2022, and more focus will be made in strengthening taxpayer education and the URA's social media outreach, as well as supporting MoFPED and the cities to engage better with taxpayers.

The Debt Management, Taxpayer registration, and Rental Tax Intervention

The Debt Management Advisor (DMA) continued to support URA in implementing the Debt Management manual which he had developed under the DRM4D pilot. He worked with the Commissioner of Domestic Taxes to support the department in enhancing debt recovery activities. He provided guidance on debt profiling, case prioritization and actioning, resource allocation and general case management and monitoring. The DMA gave particular attention to the Large Taxpayers Office (LTO), the Public Sector Office (PSO), and the Medium Taxpayers Office (MTO), as these three offices account for the largest volume of debt in the department. He guided them on faster approaches in handling debt reconciliations and securing taxpayer commitment to agreed liabilities. The department was able to collect arrears amounting to UGX 971.91 billion (approximately \$274 million) during the Uganda fiscal year ended on June 30, 2021. This represents a

44% growth in arrears collection performance compared to the previous year's arrears performance of UGX 674.55 billion (USD 191.63 million).

The DMA continued to support the registration unit in ensuring they collect the right amount of information on new taxpayers, as this information is later used to follow up and track the taxpayers for compliance purposes and debt recovery.

The DMA worked with the Rental Tax Division to demonstrate the importance of obtaining information returns. These permit URA to assess real estate agents or managers in lieu of the landlord in cases where the landlord's details are not divulged unto URA. The approach taken is to consider the agent as the de facto landlord since all activity and income is managed by the agent. Once the Legal Department has agreed to this proposal, the URA will ask for a ruling from the Appeals Unit and use the ruling when assessing agents. This will result in more assessments for rental tax, and it should convince the agents to identify the links or contracts between the landlords and agents, thus enabling the URA to assess the true owners. The Advisor is working with the Rental Tax Unit to begin issuing requirements for information to be served on some agents to obligate them to give up the owner names. This process will ultimately take longer but should be the substantive remedy used for these issues.

The DMA continued to work with the Assistant Manager of Kampala East Office to deliver compliance and collections training for 18 staff involved in front line collections. The Advisor has presented 4 training sessions on topics that relate to making better use of communications with taxpayers in order to collect more revenue.

On the soft skills side, the Advisor introduced a "3 Minute Manager" podcast, where managers can receive ongoing support through downloaded audio files that are sequenced to give brief learning episodes on soft skills like telephone interviewing techniques, assessing ability to pay in debt collection, dealing with difficult clients, organizing your time and many others. This was brought about by the demand for less time in classroom settings and more of a "just-in-time" process whereby managers can stop and start the sessions at will.

Enhancing Excise Duty Management and Administration

Excise duty revenue currently contributes an average of 13% of URA's total revenues. It is widely accepted that this tax has the potential to perform a great deal higher than it currently does if the existing gaps in its administration are addressed. The gaps include general lack of good excise duty knowledge within the domestic tax department, as no excise duty training has been done for almost two decades now, lack of sufficient attention to excise duty monitoring and controls, lack of excise duty guidelines to instruct staff on what to do and gaps within the excise duty law itself. Previously Excise duty was being administered under the East African Excise Duty Management Act of 1970, but this was repealed in 2014 and replaced by the Excise Duty Act of 2014. The new Act essentially deleted some of the clauses that were relevant for excise duty administration in Uganda; for example, it deleted the requirement for an excise license for producers and importers of excisable goods, and yet the excise license was a tool for the Administration to ensure tax compliance requirements are met in respect to management of the raw materials, the movement of raw materials to the production room, the input-output coefficients for the production process, the controls on the finished products and eventual movement of the goods to the market. The lack of the excise license requirements also increased the opportunity for significant un-monitored production of illicit goods that competed with legitimate goods. The other challenge with the new excise law is that it was also enacted without supporting regulations, which resulted in many grey areas in the law.

During FY 2021, DRM4D engaged an Excise Administration to review the entire administration system for excise duty in Uganda and recommend necessary improvements, including advice on the most suitable administrative structure for managing excise duty. The Advisor completed this review and produced a report with many useful recommendations on how best to improve excise duty administration in Uganda. She also developed an excise duty manual, which at the end of the reporting year was under review by the DRM4D team. The Excise Administration Advisor conducted a two-week online excise training course to selected URA staff and will conduct a more detailed/advanced training program in Year 3. For sustainability, she will also train trainers for excise duty, as well as support URA to create centers of excellence for excise duty.

Sub IR2.2: Tax and Non-tax Revenue Base Widened at National and Sub National Level

The Activity provided support and guidance to the registration unit at the URA in planning and implementing registration programs. It also discussed and guided the development of an approach for the unit to collect adequate information on new taxpayers, as this information must be used later in following up and tracking the taxpayers for compliance purposes and debt recovery. The Taxpayer Registration Division launched a campaign to increase the number of registrants. They have also begun to use technology developed recently to record and submit suspected non-complying businesses to the URA database for further action. In the same spirit, the Debt Management Advisor (DMA) started to support the Assistant Commissioner - Service Management, on the drive to capture the “bigger fish” in the current registration push. This effort involves data analysis and focused efforts on identifying and registering larger, better value, taxpayers.

In the Rental Tax Unit, significant headway is being made in registering non-compliant landlords and the Debt Management Advisor continued to deliver training for officers in the unit especially in the area of investigation and enforcement of non-compliance.

On DRM4D advice, URA counts “Value Taxpayers” as taxpayers who are required to file a tax return and pay tax. This is an important distinction as many registrations are made for non-tax purposes such as importing personal effects, making a purchase online or purchasing a motor vehicle. The URA Value Taxpayers Register grew by close to 100,000 new value taxpayers during the Uganda fiscal year 2020/21. This is an improvement from last year's growth of 76,000 new taxpayers. In the first quarter of the current Government fiscal year (July 21 to September 21) the register grew by 32,749 Value Taxpayers. This improvement in register growth is partly because of the above interventions that were specifically tailored to support the URA in increasing the taxpayer register.

Table 1: Growth Trends in the Value Taxpayers Register

TAX-HEAD	30th June 2019	30th June 2020	30th June 2021	30th September 2021
WHT	6,016	6,216	6,526	7,411
GPBT	77	83	86	85
LED	384	435	520	635
PAYE	28,244	30,739	33,750	35,082
VAT	17,172	18,599	20,635	7,411
IT (Rental)	48,403	50,429	52,503	56,233
IT (Business)	493,244	563,291	653,099	678,814
Total	593,540	669,792	767,119	799,868

Source: URA Registration Unit

DRM4D continued to collaborate with RippleNami (RN), a US company working under contract with GoU in developing a comprehensive taxpayer database in the rental income sector using blockchain technology. During FY 2021, RN completed its data prototype tool, and DRM4D provided a detailed critique of its functionality. RippleNami started with the exercise of collating data from multiple sources and processing it to make it readily usable by URA in generating assessments. RippleNami has so far provided rental data to URA for 86 of the largest rental taxpayers. DRM4D continues to provide support to URA's rental tax unit to ensure that the data provided by RippleNami is effectively captured and translated into assessable income.

At the subnational level, DRM4D successfully organized a National Conference on Local Government (LG) revenue mobilization. The theme of the conference was "Achieving sustainable revenue growth for cities in Uganda." Discussants included senior level leaders from the Ministries of Local Government (MoLG), Lands and Urban Development, the Local Government Finance Commission (LGFC), the Ministry of Trade and Industry, Kampala Capital City Authority (KCCA), and USAID. Participants mainly included Town Clerks, City Planners, Business Development Officers, and Heads of Revenue and Finance from the respective cities. Nine out of the ten new cities were represented, and 38 persons out of the 45 invited attended the conference.

The emerging issues from the national conference included the need for increased support for:

1. Capacity building for LGs in preparation of Domestic Revenue Improvement Plans (DRIPS).
2. Provision of computers to each of 10 cities to support digitization of taxpayer registers and migration of property roll to IRAS.
3. Reviewing the legal framework for the priority LG revenue streams (property tax, business license fees and markets fees and the focus on revenues currently collected without a specific enabling legal framework)
4. Commencement of the Mass Property Valuation for 10 cities
5. Review of the IRAS rollout and identification of potential impediments or roadblocks; and
6. Provision of training to city administrations and key stakeholders on the local social compact on improvement on revenue mobilization activities.

In the period after the National Conference, equipment comprised of desktop computers, printers and data collection handsets were supplied and installed in all 10 cities. Each city received two computers, one printer and 2 handheld data collection tablets. These devices will support deepening of the use of Integrated Revenue Administration System (IRAS) which is being rolled out by GoU for use by LGs. DRM4D supported 4 out of 10 cities in developing Domestic Revenue Improvement Plans (DRIPS) to be approved for implementation by the respective city councils.

Sub IR2.3: Increased revenue due to improved compliance

VAT Field Audit Intervention

The VAT Field Audit Intervention aims to bolster the URA field-audit function for VAT, which had lapsed in recent years due to URA's decision to do desk audits and minimize field audits. Supporting VAT field audits is intended to support the reinstatement by the URA of routine field checks on taxpayer declarations as an important compliance intervention tool and thereby improve revenue compliance. Research has illustrated that a credible field audit function improves compliance in as many as ten other taxpayers, as they become more aware of the checks that may be made on their declarations.

The main thrust of the intervention is to capacitate URA officials to consider the overall credibility of taxpayers as part of their profiling. This is to ensure that officials do not miss a larger, more

important risk by concentrating on a narrower smaller one. URA has increasingly relied on desk-audits looking at narrow issue specific risks areas that can lead to officials failing to observe and action obvious wider revenue risks. During the year, DRM4D provided hands-on support to different teams in the Refunds Unit (40 staff in total). A total of twelve cases were worked on with DRM4D support, leading to total tax assessments of UGX 2.5 bn (USD 700,000), and revenue loss savings of UGX 300 million (USD 85,000).

The revenue loss savings arise out of 3 cases where the taxpayers had made cash refund claims on which URA would have paid out. However, upon audit, the claims were found to be illegitimate and hence reversed accordingly. It is also important to note that the real revenue benefit (whether through tax assessments or tax savings) is in capacitating officials in the techniques, that can be applied over the medium- to long-term over and above the immediate net assessment or tax savings value of any live "case studies" used for embedding the concept. The VAT Advisor utilized live cases for additional hands-on case study exercises. He conducted two core training events for the Refunds Team in the form of "On the Job" training (OTJ). These covered:

- i. the principles of taxpayer credibility;
- ii. officers' legal powers;
- iii. audit preparation and observations of production process for manufactures/service providers; and
- iv. techniques for establishing credible and defensible tax assessments for a manufacturer/service provider.

Training also covered:

- i. a refresher on credibility and powers;
- ii. audit preparation and observations for retailers/wholesaler; and
- iii. weighted markup techniques for establishing a credible and defensible assessment for a retailer/wholesaler.

The events were attended by 33 staff with a gender mix of 19 female to 14 male participants.

The VAT Field Audit Advisor reviewed the available risk checks in the E-Hub and recommended refinements to the E-Hub "Compliance Toolkit Central Operations Office, (COO) Report". He designed a specification for a VAT credibility "snapshot" template, to the E-Hub Unit for inclusion in the Compliance Toolkit. The template will flag potentially high value audit cases to users across all URA compliance interventions.

The Advisor further commenced work on developing a field audit manual, which when finished will form part of the URA Compliance Handbook. The manual will cover the VAT audit value chain and will also specifically address gaps identified, for example issues of return amendments by taxpayers as an alternative to issuing tax assessments, which carries a high risk of revenue and integrity abuse, as well as procedures for case referral to tax investigations, register expansion, and others that are currently impracticable manual memo processes.

The Complex Audit Intervention

Another challenge that URA faces is the lack of confidence and technical abilities to audit complex sectors like telecommunications, the construction sector, the financial sector, and the energy sector. The pilot activity provided some support to URA in transfer pricing and indeed the support was well appreciated as it helped URA to conclude a long outstanding audit case. Since then, other development partners like IMF and ATAF have supported transfer pricing in the Large Taxpayers' Office. The transfer pricing unit at URA has therefore received substantial support and has gained

confidence enough to initiate and progress transfer pricing cases. This is indeed a step in the right direction. It was observed, however, that the support being provided benefits only a team of 8 persons that constitute the transfer pricing team at URA. This does not meet the larger transfer pricing needs of the organization. Transfer pricing is only one of the complex audit issues that URA is grappling with.

It was necessary, therefore, to take a broader approach that covers all the complex audit issues, such as an appreciation of the emerging complex products or lines of business that are being developed in these sectors, a full understanding of the current standards for financial reporting requirements (IFRS) and how they apply to these new complex products, appreciation of the conflict areas between the requirements of the tax laws and the internationally agreed financial reporting standards, and other complexities. The complex audit intervention was designed to address these issues and to empower the wider team at LTO to confidently undertake complex audits. The first effort was to design an intervention that could cover the largest and most tax risky sectors and these include the Telecoms, Banking and Insurance, and Construction sectors. The Activity engaged a highly experienced advisor to deliver capacity building in these sectors. The initial plan was for the consultant to travel to Uganda and deliver hands-on training while working on live cases, but this was not possible as he is based in Australia, which had stringent restrictions on international travel. The advisor, working remotely, was able to deliver online training to 29 participants. The training included:

1. Industry profiling: This encompassed a detailed analysis of each respective industry, the legal and regulatory framework, the products they produce, how they generate revenue, how they report transactions, the taxation points under each and the tax risks to be considered. The advisor developed industry profiles for each sector, and these were availed for use by URA.
2. Banking and financial derivatives, including the reporting standards, interpretation of banking accounts, tax risks, treatment of reserves and provisions.
3. Taxation of the insurance sector, including reporting requirements, interpretation of insurance accounts and returns, tax treatment of premiums, underwriting and investing, claims, reserves and provisions, analysis of tax risks and others.
4. Taxation of the telecommunications sector, including many diverse issues like the new licensing regime of the UCC and the tax consequences, the reporting requirements, tax risks, tower sharing and amortisation of licences.
5. Taxation of the construction sector, covering issues such as the difference in treatment of long-term contracts between the tax laws and the accounting standards, and the rules for accounting for Build Operate and Transfer (BOT) contracts with practical examples. Also covered were Long Term Construction and Property Developments.

The course content included live case examples and analysis from the respective published accounts of these taxpayers and was well referenced to the Ugandan tax laws and local industry sector laws and policies. The advisor provided detailed materials for the above trainings. The course is being continued into Q1 of FY 2021, and at the end of it, URA will conduct a post-training assessment of the participants and match it with the pre-training assessment to gain insights into the immediate benefits of the training. The next stage will be for the Activity to support URA to initiate at least three audits and continue them with back-end support from the Advisor.

Intermediate Result 3: Public-Private Dialogue Enhanced

Sub IR3.1: Non-state actors' capacity to engage in tax policy improved

DRM4D supported the training of members of the Tax Justice Alliance of Uganda (TJAU) on tax law analysis. The training, which took place from the 16th to 18th of June 2021, was attended by 48

participants representing different civil society organizations. Due to Covid-19 restrictions, 17 of the total participants attended face-to-face sessions, while the rest participated virtually. The main focus of the training was building capacity for the participants to increase their knowledge of the tax framework and policy rationale for VAT and income tax in Uganda. The training was conducted keeping in mind the role that civil society plays in providing inputs into the legal review of primary tax laws that DRM4D is supporting. As an output derived from the training, the CSOs under the TJAU crafted and submitted to MoFPED their proposals for consideration into the ongoing review of the VAT and income tax laws being supported by DRM4D.

Sub IR3.2: Opportunities for public-private dialogue and citizens' engagement on tax and non-tax revenue expanded

DRM4D continued to support the URA to finalize and operationalize its Stakeholders' Engagement Strategy. The strategy creates opportunities for non-state stakeholders as well as other state agencies to regularly engage with URA. The non-state stakeholders that this newly approved strategy explicitly targets for engagement includes CSOs, private sector associations, professional bodies, media, academia, and development partners.

DRM4D provided grants to five organizations (CSBAG, UMA, SEATINI, EPSEDEC, and ACODE/CSCO) that will be supported to facilitate public private engagements at both national and subnational levels on DRM-related issues (i.e., tax policy, administration). The Activity is also reviewing two other applications, one from RippleNami and the other from Uganda Small Scale Industries (USSIA), which are also likely to be given grants in Q1 of FY 2022. The five organizations started implementation their respective projects in public-private dialogue to promote and mainstream DRM in all the interventions being supported. Details are provided in table 2.

Sub IR3.3: Budget allocations to selected poverty-reducing sectors (health, education, agriculture) increased

The interventions being undertaken by three of the grantees (CSBAG, SEATINI and EPSEDEC) include advocacy for increased budget allocations towards Health, Education and Agriculture. These grantees embarked on advocacy related activities as follows:

CSBAG conducted a training for CSOs on program-based budgeting and public investment management. It was attended by 26 participants from CSOs involved in budget advocacy within the CSBAG coalition. CSBAG is also developing a budget guide aimed at guiding MPs and other stakeholders on budget analysis discussing increasing budget allocation towards the three selected sectors.

EPSEDEC carried out situational analyses in three cities (Mbale, Soroti, and Lira) and captured the current budget allocations for each of the three sectors to act as their baseline upon which they measure progress or lack of it. They also used the exercise to discuss with stakeholders, especially government officials, to gather their views on the opportunities and challenges encountered regarding increasing budget allocation for the three sectors. EPSEDEC used the information gathered to update their advocacy strategy and approaches.

Crosscutting Activities

Political Economy Analysis (PEA)

Following submission of the PEA report early in the year, the Activity worked on a "slimmed down" version of the report that is now available for sharing with counterparts, diplomatic

missions, partner CSOs and others. As part of the next steps, the Activity identified key elements of the next phase of political economy analysis support, which will provide a political strategy to guide DRM4D’s influence and advocacy approach.

The PEA influence strategy has three broad elements:

- a. Provide support to the URA donor group as DRM advocates.
- b. Propose targeted student research initiatives and work with journalism and multi-media students to introduce DRM into the broader narrative on service delivery and governance; and
- c. Support key parliamentary committees to raise the DRM policy agenda.

The goal of the influence strategy is to build momentum and consensus for DRM by fostering both popular and elite support for improved tax collection. This will be achieved through a strategy that builds popular demand for improved government services through enhanced tax collection and a fairer tax collection system. During the next year, the PEA team will commence implementation of activities under the three elements listed above beginning with the student research initiatives.

The Activity also plans to share and discuss the “slimmed down” version of the PEA report with partner CSOs and private sector organizations like CSBAG, SEATINI, ACODE, UMA, EPSEDEC and the two others who are in the process of being awarded grants. This is intended to inform the formulation and implementation of their advocacy agenda.

Grants under Contract (GUC)

As stated above, during the reporting period the Activity completed the selection process for non-state organisations that applied to be awarded grants to implement DRM initiatives and advocacy for increased spending towards education, health and agriculture. Seven applicants were selected to participate in the last phase of writing and submission of proposals for review and approval. By the end of the reporting period five out of the seven applicants had signed up grantee contracts and started implementing their respective projects. These started implementation in the fourth quarter.

Table 2: Grants under Contract List of Awardees

No.	ORGANIZATION	CORE AREAS OF FOCUS	SCOPE/COVERAGE	STATUS
1	Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI)	Capacity building of CSOs on DRM related aspects Advocacy for fair taxation and addressing tax leakages. Tax Policy reviews and engagements	At National Level (MoFPED and Parliament)	Started Implementation. (Held inception meetings to secure buy in, drafted TOR for various writing policy briefs, and other activities)

No.	ORGANIZATION	CORE AREAS OF FOCUS	SCOPE/COVERAGE	STATUS
2	Uganda Manufacturers Association (UMA)	<p>Tax Education to improve tax compliance of their membership</p> <p>Tax Policy advocacy and engagements between UMA membership and key public institutions i.e., URA and MOFPED</p>	<p>At National level (URA, MoFPED, Min of Trade, UIA)</p> <p>At subnational level (The cities of (Kampala, Jinja and Fort portal)</p>	Started implementation
3	Civil Society Budget Advocacy (CSBAG)	Advocacy for increased budget allocation towards Education, Health and Agriculture	At National level (MOFPED, Parliament MoLG)	Started implementation (held inception meetings, updated and filed the revised work-plan. Etc.)
4	Advocates Coalition for Development and Environment (ACODE) on behalf of Civil Society Coalition on Oil and Gas (CSCO)	<p>Support State and Non-State engagements on extractive industry sector contribution towards DRM</p> <p>Advocacy and Analysis regarding transparency and accountability in the utilization of the revenues generated from the mining/extractive sector.</p> <p>Advocacy on issues around improving revenue sharing</p>	<p>At National level (URA, MOFPED, Parliament Min of Energy, MOLG)</p> <p>At subnational level (Bunyoro sub-region, Hoima, Bulisa and Kikuube District local governments and Mubende District)</p>	Started implementation (inception meetings)

No.	ORGANIZATION	CORE AREAS OF FOCUS	SCOPE/COVERAGE	STATUS
		mechanisms at sub-national level		
5	Eastern Private Sector Development Centre (EPSEDEC)	<p>Advocacy for increased budget allocation, of locally generated revenues, towards Health, Education and Agriculture</p> <p>Support the revenue generation effort in these cities through citizen engagement initiatives like tax forums, radio talk shows and general tax literacy campaigns.</p> <p>Capacity building of local government officials</p>	At Subnational level (Mbale, Soroti and Lira Cities)	The grantee updated revised workplan and the implementation of the project commenced with inception and stakeholders' meetings

OVERALL COMMENTS ON INDICATORS

The Activity is making good progress as shown in the indicator performance. In indicators DRM 1.3-1, EG 1.1-1, DRM 2.2-1, DRM 3.1-1, and EG 2.3-3, target performance was achieved for both Q4 and for the year. The Activity will work to maintain this level of performance going into Y3. Some of the indicators that reflect as performing below target (DRM 3.3-1, DR 2.2-2, DRM 3.2-2) mainly relate to advocacy work for increased spending to priority sectors. This work is just commencing following the awarding of grants to CSOs, who will be undertaking the advocacy. The results will be reported throughout FY 2022 and in the next Annual Report.

PERFORMANCE INDICATOR DATA TABLES

Refer to Annex B for indicator table.

DATA VISUALIZATIONS

The table below, which assumes continuation of the current trusted working partnership between DRM4D and its counterparts, particularly MoFPED and URA, shows a scenario for additional revenue collection through the implementation period of DRM4D. On the basis that this trusted partnership continues for the remainder of the DRM4D project Activity, and that the Activity recommendations are implemented, the following results are possible.

Period	Projected Revenue Growth per Year (bns)					Total
	2020/21	2021/22	2022/23	2023/24	2024/25	
Projected Revenue Collections	19,600	22,400	26,000	30,000	35,000	133,000
Projected Revenue Growth (UGX billions)	2,511	2,744	2,905	3,282	3,709	15,151
Projected Revenue Growth (USD millions)	709	773	818	924	1,044	4,268

Table 4 below shows the share of additional revenue that could be spent in the areas of health, education and agriculture on the assumption that the additional revenue is allocated in the same ratio as projected in the MTEF.

Period	Projected additional revenues (UGX bn)	Allocations (UGX bn)			Projected total allocation to social sectors (UGX bn)	Projected total allocation to social sectors (USD mn)
		Health 6.2%	Education 9.9 %	Agriculture 3.5%		
2020/21	2,511	155.7	248.6	87.9	492.2	13.9

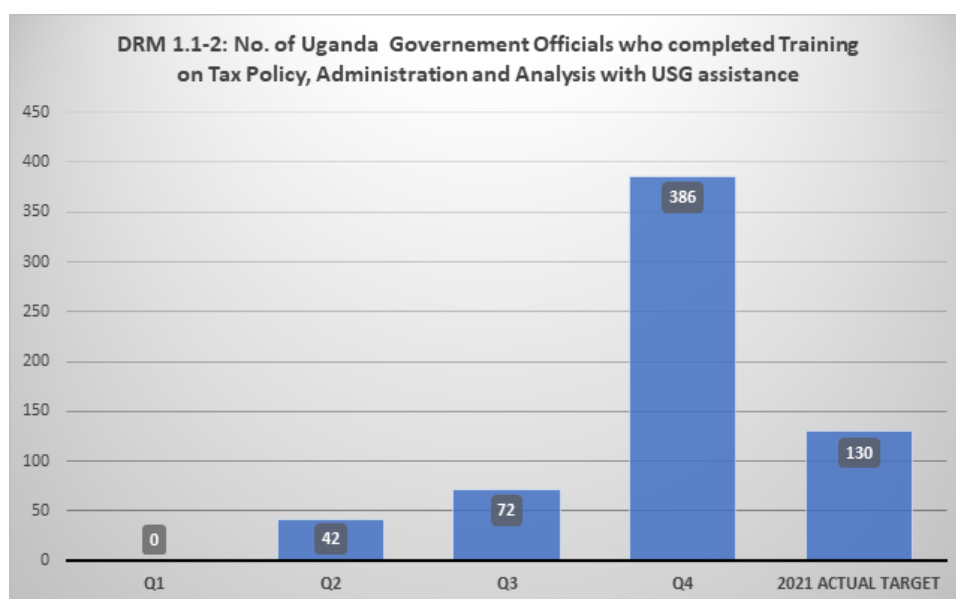
2021/22	2,744	170.1	271.7	96.0	537.8	15.1
2022/23	2,905	180.1	287.6	101.7	569.4	16.0
2023/24	3,282	203.5	324.9	114.9	643.3	18.1
2024/25	3,709	230.0	367.2	129.8	727.0	20.5
Total (UGX bns)	15,151	939.4	1,500	530.3	2,970	83.7
USD equivalent (mn)	426.8	26.5	42.3	14.9	83.7	83.7

As shown in the graph below, DRM4D targeted to train 130 government of Uganda officials on tax policy, tax administration and analysis by end of Q4 2021. During Q3 and Q4 2021, a total of 458 government of Uganda Officials were trained (72 in Q3 and 386 in Q4). The training programs and attendance was as follows:

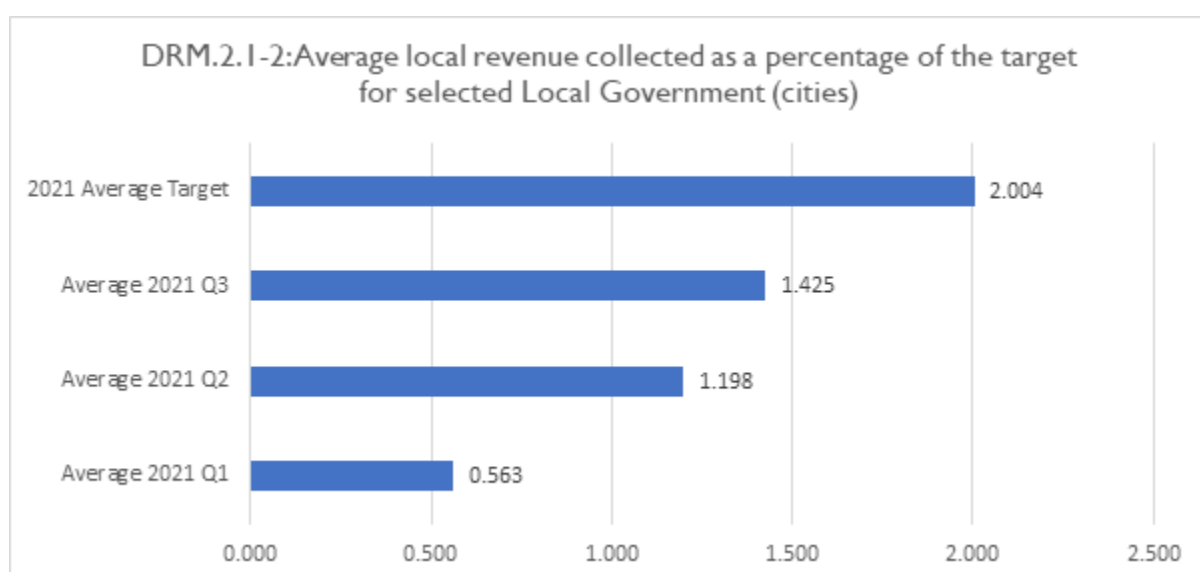
No.	Program	Counterpart Organization	Total Attendance	Disaggregation by gender	
				Male	Female
1	Domestic Revenue Improvement Plans (DRIPS)	MoLG	66	46	20
2	Tax policy training	MoFPED	37	15	22
3	Double Taxation Agreement (DTA) training	MoFPED	18	8	10
4	Excise Duty Admin training	URA	28	19	9
5	Complex Audit training	URA	29	17	12
6	Anti-Money Laundering and tax evasion	URA	58	34	28
7	Auditing High net worth Individuals	URA	44	22	22

8	Enhancing compliance	URA	57	32	25
9	Principles of Transfer Pricing	URA	49	26	23
TOTAL			386	219	171

This represents 297% achievement against the annual target of 130 government officials. The deviation is mainly due to the earlier unanticipated training gap at the URA which became apparent during the course of the year and hence the immediate action to deliver urgent training in key areas as identified and requested by the URA Learning and Development Division.



For Year 2, the Activity targeted to work with local governments to generate average revenue of UGX 2.004 billion from local source revenue. By the end of June 2021, a total of UGX 14.252 billion (USD 4.01 million) had been raised by the 10 cities (On average, 1.425 billion (USD 400,000) was collected by each of the 10 cities).



Total net revenue collection for Uganda FY 2020/2021 at the national level was UGX 19,262.99² billion (USD 5.43 billion), reflecting a year-on-year growth of 14.99% from FY 2019/2020 and adding a full percentage point increase to the year-on-year Tax/GDP ratio by comparison with FY2019/2020. URA's target for FY 2020/21 was UGX 21,639 billion (USD 6.09 billion) and the collection achievement was 89.02% of the set target for FY 2020/2021.

STRATEGIC AND THEMATIC LEARNING

In its first two years, the Activity established good working relationships and ongoing collaboration with key players and influencers in Uganda's DRM space. This includes early engagements with the now closed DFID DRUM project which enabled the Activity to take on and move forward key interventions DRUM had started, or were considering, such as the excise policy work, the Double Taxation Agreements work, and the review of the Tax Procedures Code law. The Activity also established a good relationship with Her Majesty's Revenue & Customs (HMRC) on the human resources enhancement framework at URA. It has worked closely with the World Bank and the IMF in furthering implementation key interventions like the tax law legal reviews and rewrite. For example, the World Bank produced a tax laws compendium that the Legal Drafter used to good effect whilst working on the new laws redraft. The Bank also produced a Tax Expenditures Report, which informed much of the work in the analysis and development of DRM4D's tax reform program. The IMF provided very good technical observations to the new draft VAT law, which our legal drafter has taken into consideration.

The Activity formed a trustful and collaborative working 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 continue the close working relationship with them in Year 3.

The Activity has worked closely with the Resource Enhancement and Accountability Program (REAP) in running the Tax Policy training provided through the IBFD and REAP financed all the required logistics for the program. DRM4D continues to play an active role in the Development Partner forums arranged by REAP. The Activity's PEA study has recommended a "Friends of URA" support forum that will enable improved coordination of Development Partner support to URA and the wider DRMS.

The Activity has a learning framework that largely involves the use and application of feedback received to inform and advance objectives. It is making use of several feedback channels which include:

- Regular scheduled meetings with counterparts: The COP frequently meets the Commissioner General and senior personnel, and DRM4D staff and advisors have regular meetings with heads of departments in URA, MoFPED and MoLG).
- Regular internal meetings: cognizant of the need to institutionalize the learning, the Activity conducts regular internal meetings led by the MEL Specialist, where the team reviews current interventions, and any feedback being received from the meetings with counterparts. Regular forums with other development partners working with the URA (these are mainly organized through REAP).
- Meetings and workshops; For example, the Local Government National conference that was convened in year two and attended by participants from the new 10 cities

The Activity continues to use these channels to advance its learning agenda. Some of the lessons learned that have informed DRM4D's approaches during year two include:

- The need for more proactivity in coordination and synergizing of effort. This was necessary given that there were many players in the DRM space and hence the need to proactively engage to avoid duplication of effort, but also to harness donor goodwill and input into strategic areas.
- The need to develop greater linkages between URA and local governments. This would enable learning as well as leveraging the overall DRM agenda at URA and at the sub-national level.
- USAID/DRM4D's interactions with MoFPED and URA demonstrated the need to ensure that investments in training are preserved for future training interventions and thus the need to create e-learning platforms whereby training programs may be preserved and repeated ideally through interactive means.
- The need to apply a combination of top-bottom and bottom-top approaches in all interactions, with the COP engaging at the strategic level while the rest of the team and consultants engage the lower levels with regular updates to the top managers.

INCLUSIVE DEVELOPMENT

The Activity continues to be cognizant of inclusive development and has ensured that the new primary tax laws are drafted on a gender-sensitive basis and with GYSI principles in mind. Existing exemptions on sanitary towels are carried over to the new laws. VAT exemptions on basic life necessities like unprocessed foodstuffs, residential accommodation, medical and veterinary services are also carried over to the new laws to ensure that the poor, particularly poor women, are protected from hidden tax included in the price of these products. The new laws will include specific incentives for the employment of persons with disabilities. They will also contain proposals for the widening of tax bands and increases in tax-free allowances designed to remove large numbers of low-paid workers, both male and female, from taxation.

The Activity made GYSI a key area that successful bidders for grants under contract have to address and indeed the five applicants who have so far been given grants have embedded GYSI in the planned implementation activities. For example, the Civil Society Budget Advocacy Group (CSBAG) committed in their grant application proposal to ensure that at least 40% of the people they employ on the project will be women, youth and PWDs. In addition, they committed to ensuring focus on gender and equity while carrying budget advocacy for increased allocation to the three selected poverty reducing sectors of agriculture, education, and health. For example, increased budget allocation to maternal health and education of the girl child.

KEY PRIORITIES FOR NEXT YEAR, INCLUDING UPCOMING EVENTS

- a. Progress the rewrite of the primary tax laws (VAT, Income Tax and the Tax procedures Code laws) to full enactment, which will address the taxation of the digital economy, a review of the taxation of the extractives sector and implementation of the recommendations from the OECD's Base Erosion and Profit Shifting agenda.
- b. Complete the tax policy training program for tax policy officials, the DTA training for both MoFPED and URA and the review of the excise, environmental and gaming tax regimes at MoFPED.
- c. Continue support towards full implementation of the revised URA structure, review and enhancement of URA's human resource processes, procedures and rewards systems, support for the URA Integrity Drive, support for URA's IT systems procurement and development of the integration strategy, continuation of support to complex audits, VAT field audits, debt management, communications enhancement and taxpayer education,

taxpayer register enhancement, rental tax improvement, and the more effective taxation of excisable products.

- d. Develop a mechanism for estimating the annual national compliance tax gap for excise taxes on tobacco products and alcoholic beverages with scope to extend the methodology to other taxes.
- e. Continue support for digitization of local government tax registers, support on property valuation for the ten new cities, local government legal framework review, and fiscal social compact training.
- f. Continue to provide assistance and training to non-state actors in tax analysis and advocacy, and support development of forums and platforms for public-private dialogue.
- g. Advocate for increased spending in the health, education and agriculture sectors.

KEY PRIORITIES FOR NEXT QUARTER

Immediate priorities for the next quarter shall be as follows:

TAX POLICY

Activity 1.1 Diagnostic Review and rewrite of Primary Tax laws and Activity 1.2 Support MoFPED to undertake public consultations on Tax policy reforms: Continue work on advancing the primary tax laws, Support MoFPED to conduct public consultations on the new draft VAT law and support all processes leading to its full enactment including assisting with drafting of the cabinet paper, discussions with civil society, discussions with parliament and other such activities

Finalize the draft Income Tax law and Explanatory Memorandum, have it fully discussed within Government and facilitate public consultations on the law.

Assist MoFPED to develop an effective strategy for engagement with civil society stakeholders.

Work with MoFPED and the Legal Drafter to agree the consequential changes that are required for preparing the revised Tax Procedures Code Law.

Develop Pilot phase for PEA study and engage with Development Partners, Parliamentarians and Students.

Activity 1.3 Provide Tax policy analysis training: Continue with IBFD tax policy training both at MoFPED and at URA.

Activity 1.4 Provide support in enhancing the double taxation agreements (DTAs) framework: Discuss with MoFPED the notes and inputs made into the 10 DTAs Discuss with MoFPED the importance of the DRM4D Advisor assisting with key DTA re-negotiations and provide support as required.

Activity 1.5 Provide support in reforming the Excise, Gaming and environmental tax regimes: Engage STTA advisor on excise policy and plan excise tax policy work to coordinate with the MOFPED budgetary strategy. Link Excise Tax Policy Adviser with the Excise Tax Administration adviser support in URA to ensure administrative support is in line with new excise tax policy initiatives. Plan the cross-GoU support against the illicit excise products trade under the leadership of URA.

TAX AND NON-TAX REVENUE ADMINISTRATION

Activity 2.1.1 Support URA to review its organizational structure and modernize its HR policies: Continue work with HRMAT to commence next phase of activities to review and revise all HR policies and procedures, advance the HR reform agenda, revise and strengthen the Code of Conduct, and commence a review of the URA's rewards structure.

Continue to support URA's review of the Organizational Development Advisor's report and assist URA's MEC to implement the remaining proposed changes. Work with the CG to prepare any required legislative amendments to the URA law.

Activity 2.1.2: Support URA to strengthen rental tax compliance monitoring and Activity 2.1.7 Enhance URA's debt management and tax enforcement systems: Continue support for improved debt management, taxpayer registration, and compliance techniques.

Activity 2.1.3 Support URA to prepare for its new e-tax system: Continue work with URA's IT Department to support the quality assurance of the expressions of interest for a replacement e-Tax system, review the business process re-engineering exercise and assist the URA with its high-level integration plan.

Activity 2.1.4 Support URA to implement the Tax-Curriculum in schools and Activity 2.1.5 Support URA to strengthen communications both within and outside the organization: Continue with improvement of URA communications and taxpayer education strategies, especially in support of the CG's integrity promotion strategies.

Activity 2.1.6 Support URA to strengthen Tax audits: Continue support for VAT Field Audit capacity building, support for Complex Audit and for provision of industry experts to train URA auditors in understanding key sectors.

Activity 2.1.11 Support URA to train its staff: Continue with IBFD training at URA.

Activity 2.1.12 Strengthening Excise Duty Administration at URA: Work with URA to create a dedicated unit for Excise Tax Administration and provide STTA to support the improved management of excise taxes. Coordinate with Excise Tax Policy Advisor at MoFPED.

Activity 2.2.1: Consult key stakeholders: Conduct induction and capacity building awareness training for new political leaders in revenue mobilization and resource allocation responsibilities.

Organize a Learning and Reflection event that will bring together government officials to share DRM experiences and learn from each other. Participants are planned to be from the ten new cities (Masaka, Arua, Jinja, Mbale, Soroti, Hoima, Mbarara, Gulu, Lira, and Fort Portal) LGFC, MOFPED, REAP, URA, MLHUD, and selected CSOs.

Recruit STTA for training to support induction of political leaders and development of domestic revenue improvement plans.

Develop 6-month LG support plan to promote valuation work, review of LG laws, digitization and update of revenue registers, training of users on use of data collection equipment, and provision of ICT equipment to sustain data integrity and accountability reporting. Implement LG support plan.

Recruit STTA for a review of a legal framework for setting fees and charges for non-tax revenue to promote equity in assessment and collection.

Activity 2.2.2 Increase property tax coverage and collection:

Recruitment of STTA for property valuation to enhance timely update of valuations rolls in a cost-effective manner to increase sustainable revenue collection.

Develop, design, print, and distribute 50,000 property tax education booklets to 10 cities to support tax compliance.

PUBLIC PRIVATE DIALOGUE

Activity 3.1.1 Support capacity building initiatives for non-state actors: Support finalizing selection and enrollment of grantees.

Activity 3.1.2 Support sub-grantees to implement initiatives that advance advocacy for increased spending towards Health, Education and Agriculture: Support grantees to execute their proposed activities reflected in the project documents

Activity 3.1.3 Support select sub grantees in carrying out analysis and studies and Activity 3.1.7 Support non-state stakeholders to reform tax laws and policies.: Support capacity building initiatives for non-state actors in tax law review and reform process engagement.

Activity 3.1.4 Support strengthening of engagements between state and non-state actors aimed at improving DRM: Support non-state stakeholders' engagement with state actors.

Support URA in rolling out the Taxpayer Education Strategy and Stakeholders Engagement Strategy.

Activity 3.1.8 Operationalize the DRM Civil Society Advocates Network as a Means for Strategic Communication and Advocacy: Support DRM4D collaborations and synergizing efforts with other USAID funded initiatives/Activities

Support organizing meetings/workshops scheduled to take place in Q4

ANNEXES

ANNEX A: SUCCESS STORY

URA Revenue Collection Under Covid

Despite the havoc wreaked by COVID-19 in 2020 and 2021, and the disruptions of businesses due to the lockdown and limitations on movement, Uganda Revenue Authority (URA) returned remarkable results in domestic revenue performance. During the Government of Uganda fiscal year 2020/21, URA collected net revenue of UGX 19,263.00 billion (US\$5.41 billion) and posted a growth in revenue of 14.99% in comparison to the financial year 2019/20. This amounted to an estimated Tax to GDP ratio of 12.99% and a growth in the Tax/GDP ratio of 1%. The revenue growth was UGX 2,511.36 billion (US\$709 million). This was the highest growth registered in the last four years and was also the highest growth in the East Africa region.

A key part of the improvement in collections over the past year was URA's renewed emphasis on organizational integrity. DRM4D provided support for the new Commissioner General's integrity drive aiming at closing revenue leakages. The DRM4D team formed close and trustful working relationships with counterparts in URA management and with the tax policy personnel at the Ministry of Finance, Planning and Economic Development (MoFPED). The result of the collaboration was pivotal recommendations on the reforms needed to URA's organizational structure and Human Resources that were adopted by URA leadership. In addition to these longer-term strategic interventions, DRM4D initiated shorter-term interventions designed to stimulate quick revenue wins. These were support for Value Added Tax (VAT) field audit, complex audit, debt management, excise tax administration, and communications.

Not surprisingly, tax revenue from accommodation and food service, education, entertainment, and recreation fell significantly because of the impact of the COVID-19 pandemic. Nevertheless, administrative measures such as debt recovery of UGX 1,024.38, URA's voluntary disclosure initiative, close monitoring of Memoranda of Understanding (MOUs) for instalment payments, and overall better enforcement compensated for this fall and contributed to the good collection results. Additionally, URA registered an extra 189,377 taxpayers in 2020/21. And, in the first three months of the Government of Uganda fiscal year 2021/22 which started on July 1, 2021, URA has brought in an additional US\$110 million over the same quarter in the previous year.

"We are uniquely positioned and blessed to be pivotal in contributing to national development and therefore as each of us works in our different capacities we should do this with the understanding that we are not just contributing to URA but impacting our Nation", said John Musinguzi Rujoki, the Commissioner General of URA.

Background Information:

The Covid crisis has negatively impacted tax collection in countries around the world, and Uganda is no exception. However, Uganda has so far been able to bounce back from the effects of lockdowns and curfews. The Commissioner General of URA is leading an important Integrity Drive aimed at transforming URA into a modern revenue collection agency and the DRM4D project Activity is working closely with counterparts to achieve that aim. As a result, revenues are on the rise.

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Debt Collection Management

The onset of Covid and the resultant lockdown had a serious negative impact on tax collections during the final quarter of the 2019/20 Uganda fiscal year. Covid also affected the ability of taxpayers to settle tax debts as businesses struggled with the economic impact of the pandemic and lockdown.

The USAID Uganda DRM4D Activity that commenced just before the 2020 lockdown provided support to the debt collection unit in URA's Legal Services and Board Affairs to implement the provisions of the Policy and Procedures Manual that was developed during the DRM4D pilot activity. DRM4D also supported the URA's Domestic Tax Department, where debts originate, to clean the debt portfolio and to ensure monitoring guidelines are implemented in a timely manner. Challenges in having proper monitoring arrangements caused by dysfunctionality of the eTax system were encountered. DRM4D assisted URA to develop a strategy for replacement of the eTax system and for conducting the required business process reengineering study as a prerequisite for acquiring a new IT system.

During the Uganda fiscal year 2020/21, the better organized debt collection procedures, coupled with initiatives like the close monitoring of Memoranda of Understanding (MoUs) for instalment payments and improved enforcement actions, realized collections of UGX1,025.47 billion (USD 289 million) compared to the previous year's figure of UGX 726.26 billion (USD 204.5 million).

DRM4D continues to work with URA to improve debt prioritization and monitoring to ensure collection enforcement actions are implemented as soon as non-payment is detected when the probability of debt recovery is much higher than at later stages of the collection process. As URA prioritizes its debt enforcement procedures and moves to improve its Information Technology system, the organization will be able to reduce its debt portfolio in each of the remaining years of the Activity up to 2025.