



USAID
FROM THE AMERICAN PEOPLE

DOMESTIC REVENUE MOBILIZATION FOR DEVELOPMENT (DRM4D)

MID-TERM REVIEW

Final Draft Report

November 2022

(THIS PAGE WAS INTENTIONALLY LEFT BLANK)

ABSTRACT

The goal of the Domestic Revenue Mobilization for Development (DRM4D) activity is to strengthen the tax culture, increase voluntary compliance, and sustainably increase domestic revenue mobilization, thereby creating the fiscal space for public spending and investments in service delivery. DRM4D aims to accomplish three major outcomes: (i) tax policy strengthened, (ii) national and sub-national revenue administration and compliance improved, and (iii) public-private dialogue enhanced.

The mid-term review was an internal learning exercise and not an evaluation of DRM4D's performance. Therefore, its purpose was to analyze and appreciate DRM4D's contributions to domestic revenue mobilization. The specific mid-term review objectives were to learn about which interventions have or have not meaningfully contributed to key outcomes and to provide insights into hindering and enabling factors and unintended consequences of interventions in order to inform adaptive management of the activity.

The mid-term review found strong evidence that DRM4D interventions increased domestic revenue collections at the national and sub-national levels. The increase in revenue was driven by the collection of Value Added Tax and Excise duties, as well as improved debt management. Progress was registered on tax policy reforms with the rewriting of the Value Added Tax law; the diagnostic review of Excise Duty and Income Tax laws, the Tax Procedures Code, and the Environmental Tax regime; and the review and reformulation of Uganda's model Double Taxation Agreement (DTA). The model DTA has been used as a guide by the Government of Uganda to renegotiate existing DTAs.

The mid-term review also revealed that DRM4D's technical assistance and capacity-building interventions helped to accelerate tax policy reforms and that engagements with civil society and the private sector helped to enrich the public-private dialogue on taxation. For instance, DRM4D-supported civil society organizations submitted draft policy briefs to the Ministry of Finance, Planning and Economic Development on necessary reforms regarding the primary tax laws, DTAs, and tax expenditure. They also submitted a position paper on the National Budget Framework Paper in response to the Ministerial Policy Statement FY 2022/23 to help ensure that the needs and aspirations of marginalized and poor Ugandans are reflected in the annual budget. Additionally, the civil society organizations submitted policy memoranda to the Parliamentary Committee on Finance, Planning and Economic Development on fair taxation.

DOMESTIC REVENUE MOBILIZATION FOR DEVELOPMENT (DRM4D)

MID-TERM REVIEW

Initial Submission Date: August 29, 2022

Final Submission Date: October 11, 2022

Agreement Number: AID – 72061719C00003

Submitted by:

Francis Ogojo Okello, PhD, Chief of Party
QED Group, LLC
2461 Eisenhower Ave, Suite 200, Alexandria, VA 22314
Tel: +1-703-678-4700
Email: Fokello@qedgroupllc.com

Submitted to:

Martin Muwaga, Contracting Officer's Representative (COR)
Plot 2577 Ggaba Road, Nsambya
Kampala, Uganda
Tel: +256-414-306001
Email: mmuwaga@usaid.gov

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

ACKNOWLEDGEMENTS

The Mid-term Review (MTR) Team would like to thank everyone—the officials at the Ministry of Finance, Planning, and Economic Development; the Ministry of Local Government; the Local Government Finance Commission; the Uganda Revenue Authority; the technical officers and mayors in Fort Portal, Hoima, Mbarara, and Masaka cities; the staff of the Uganda Manufacturers Association; the Uganda Small Scale Industries Association; the Southern and Eastern Africa Trade Information and Negotiations Institute; the Civil Society Budget Advocacy Group; and the Advocates Coalition for Development and Environment—who took time out of their busy schedules to provide valuable information for our review. The MTR Team also appreciates the input and cooperation of the management and staff of the Domestic Revenue Mobilization for Development (DRM4D) implementing partner (Nathan Associates Inc.) and their data collection support.

We would also like to thank the USAID/Uganda staff—Felix Kazahura (the Contracting Officer’s Representative [COR]), Harriet Busingye Muwanga (the Alternate COR), and Morris Nsamba, (Democracy & Governance M&E Specialist)—who provided valuable insights into the DRM4D activity, and the goal and objectives of this MTR. Special thanks are extended to Martin Muwaga (Senior M&E Advisor) and Fiona Waata (M&E Specialist). We benefited greatly from your guidance regarding the MTR design and execution.

A special thank you is reserved for the international temporary duty (TDY) staff, Samantha Schasberger and Steven Rozner from the Democracy, Human Rights and Governance Center, USAID/Washington DC, who joined the MTR Team to share their knowledge and experience in the assessment of this kind of revenue mobilization project. The MTR Team greatly appreciates their technical guidance and support in reviewing the study design and the approach to data collection, and their input into report preparation. However, we bear full responsibility for any shortcomings in the report.

The MTR Team

Gilbert Matabi
Genevieve Onyango
Samuel Kagaba
Wolfgang Stuppert

TDYers

Samantha Schasberger
Steven Rozner

CONTENTS

EXECUTIVE SUMMARY	v
1. REVIEW PURPOSE AND REVIEW QUESTIONS	1
PURPOSE	1
REVIEW QUESTIONS	1
REVIEW UTILIZATION	1
ACTIVITY BACKGROUND	1
2. REVIEW METHOD	3
SAMPLE SELECTION	3
DATA COLLECTION	4
DATA ANALYSIS	4
LIMITATIONS	4
3. MTR FINDINGS	5
3.1 INTRODUCTION	5
3.2 QUESTION 1: WHAT ASPECTS OF DRM4D’S SUPPORT TOWARD ENHANCING NATIONAL AND SUB-NATIONAL REVENUE STREAMS HAVE BEEN MOST IMPACTFUL, AND WHY?	5
3.3 QUESTION 2: WHAT FACTORS HAVE ENABLED OR CONSTRAINED PROGRESS TOWARD TAX POLICY REFORMS AND WHY?	9
3.4 QUESTION 3: WERE THERE ANY UNINTENDED OUTCOMES OF DRM4D INTERVENTIONS, WHETHER POSITIVE OR NEGATIVE? HOW DID THESE EMERGE? WHAT SHOULD DRM4D DO TO ADDRESS THE NEGATIVE OUTCOMES?	12
3.5 QUESTION 4: WHAT ARE THE CURRENT KEY DRIVERS OF ACTUAL GOVERNMENT ALLOCATION OF RESOURCES AND WHY? WHICH OF THESE DRIVERS IS DRM4D ABLE TO INFLUENCE AND HOW?	13
3.6 QUESTION 5: WHAT AREAS (IF ANY) HAS THE GOU IDENTIFIED AS PRIORITY AREAS FOR FURTHER WIDENING OF THE TAX BASE? WHAT OPPORTUNITIES DO THESE CREATE FOR DRM4D’S WORK?	15
3.7 OPPORTUNITIES FOR FURTHER ENGAGEMENT	15
3.8 EMERGING THEMES	16
4. CONCLUSIONS	17
5. RECOMMENDATIONS	18
ANNEXES	19
ANNEX I: SCOPE OF WORK	19
ANNEX II: PROPERTY VALUATION STATUS BY CITY (JUNE 30, 2022)	2
ANNEX III: PEOPLE INTERVIEWED	3
ANNEX IV: THEORY OF CHANGE MAP	5
ANNEX V: KEY POINTS FROM DRM4D’S REGIONAL WORKSHOPS IN EASTERN AND NORTHERN UGANDA	6

FIGURES

Figure 1 Primary Sources of National Revenue (percentage of GDP) 6

TABLES

Table 1 Cities Revenue Performance for Financial Years 2020/21 and 2021/22 8

Table 2 How DRM4D May Influence Revenue Allocation 15

ACRONYMS

ACODE	Advocates Coalition for Development and Environment
COR	Contracting Officer's Representative
CSBAG	Civil Society Budget Advocacy Group
CSO	Civil Society Organization
DRM	Domestic Revenue Mobilization
DRMS	Domestic Revenue Mobilization Strategy
DRM4D	Domestic Revenue Mobilization for Development Activity
DTA	Double Taxation Agreement
GOU	Government of Uganda
IDA	International Development Association
IRAS	Integrated Revenue Administration System
IT	Information Technology
KII	Key Informant Interview
LGFC	Local Government Finance Commission
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MTR	Mid-Term Review
NDP	National Development Plan
SEATINI	Southern and Eastern Africa Trade Information and Negotiations Institute
TDY	Temporary Duty
TOC	Theory of Change
TPD	Tax Policy Department
ULA	USAID/Uganda Learning Activity
UMA	Uganda Manufacturers Association
URA	Uganda Revenue Authority
USSIA	Uganda Small Scale Industries Association
VAT	Value Added Tax

EXECUTIVE SUMMARY

The USAID/Uganda Domestic Revenue Mobilization for Development (DRM4D) is a five-year activity implemented by Nathan Associates Inc. in partnership with its subcontractor Cardno Emerging Markets. Its goal is to help the Government of Uganda strengthen the tax culture, increase voluntary compliance, and sustainably increase domestic revenue mobilization, thereby creating the fiscal space for public spending and investments in service delivery. The activity consists of three components that seek to strengthen tax policy, improve national and sub-national revenue administration, and enhance public-private dialogue.

DRM4D was due for a mid-term review (MTR) in July 2022. The main purpose of this MTR was to analyze DRM4D's contributions to domestic revenue mobilization, specifically, i) to learn about which interventions have or have not meaningfully contributed to key outcomes, and ii) to provide insights into hindering and enabling factors and unintended consequences of interventions in order to inform adaptive management of the activity. The MTR focused on the following five questions:

1. What aspects of DRM4D's support toward enhancing national and sub-national revenue streams have been most impactful and why?
2. What factors have enabled or constrained progress toward tax policy reforms and why?
3. Were there any unintended outcomes of DRM4D interventions, whether positive or negative? How did these emerge? What should DRM4D do to address the negative outcomes?
4. What are the current key drivers of actual government allocation of resources and why? Which of these drivers is DRM4D able to influence and how?
5. What areas (if any) has the Government of Uganda identified as priority areas for further widening of the tax base? What opportunities do these create for DRM4D's work?

REVIEW APPROACH AND METHODS

The MTR applied a mixed-methods approach that combined a desk research, key informant interviews, and group interviews. Data collection involved interviews with officials at the Ministry of Finance, Planning and Economic Development (MoFPED); Ministry of Local Government; the Local Government Finance Commission; the Uganda Revenue Authority (URA); the officials of Fort Portal, Hoima, Masaka, and Mbarara; staff of sub-awardee civil society organizations; the implementing partner; and the private sector. A regional workshop involving representatives from the cities of Masaka, Mbarara, Hoima, and Fort Portal was conducted as part of data collection.

FINDINGS

Most Impactful Interventions Toward Enhancing Revenue Streams: The most impactful interventions at the national level were the development of a systematic approach to debt collection, the review of the Excise Duty administration system, the capacity enhancement for Value Added Tax (VAT) field audits, and the expansion of the rental tax register. At the sub-national level, the most impactful interventions were the automation of revenue collection systems and the establishment of digitized local taxpayers' registers and property valuation roll.

Factors Enabling or Constraining Progress Toward Tax Policy Reforms: The MTR revealed that the provision of technical assistance in the form of consultants and advisors to MoFPED's Tax Policy Department and URA's Business Policy Department, was an enabling factor and augmented the capacity of government officials. The specialized knowledge and international experience of the consultants and advisors helped with the review of old tax laws and the formulation of Uganda's model double taxation agreement. Collaboration among key stakeholders and pressure from donors also supported an environment more conducive toward tax policy reforms. During the review of the Income Tax law and drafting of the VAT (Amendment) Bill 2022 the inter-institutional collaboration helped to build bridges among staff. This collaboration also increased the utilization of existing technical expertise within the MoFPED, the Ministry of Justice and Constitutional Affairs, and Uganda Revenue Authority (URA) to analyze tax policy, weigh merits of competing policy proposals, and to assess the economic impact of proposed tax reforms. The World Bank has conditioned a sizable

portion of Uganda's next International Development Association allocation on the government moving the VAT (Amendment) Bill 2022 up to Parliament by May 2023. Staffing and capacity deficits, and politics continue to constrain tax policy reforms.

Unintended Outcomes of DRM4D Interventions: The inclusion of two of the seven amendment proposals in the new VAT law in the national FY 2022/23 budget was one of the positive unintended outcomes of the DRM4D activity. Others include the elimination of middlemen from the revenue collection chains in the ten cities thus reducing leakages and prospects of corrupt practices, the elevation of Information Technology and Human Resources into fully-fledged departments at URA, and the creation of a department for Revenue Collection independent of the Finance Department at the city level. The only identified negative outcome was the declining trust in Uganda Small Scale Industries Association (USSIA) by its members because of its close association with URA.

Key Drivers of Actual Government Allocation of Resources: According to officials interviewed, the most important considerations for budget allocation at the national level are the availability of funds, the national priorities as stipulated in the National Development Plan, and political pressures to deliver on the manifesto of the ruling political party. At the sub-national level, officials stated that available funds from local revenue collection are allocated to areas least funded by conditional grants from the central government and donors. These local priorities tend to be services such as garbage collection, sanitation, and street lighting.

Government Priority Areas for Further Widening of the Tax Base. These include a review of the tax expenditures framework and the implementation of tax reforms in VAT, excise, and income taxes. Other areas for consideration include enhanced Excise Duty collection, rental tax expansion, taxing of the informal sector and the digital economy, and curbing losses from illicit financial flows.

Opportunities for Further Engagement: These include modeling and analytics for extractives, capacity-building for tax planning and transfer pricing, leveraging third-party databases to enhance compliance management at URA, and increasing participation of civil society and the private sector at the sub-national level.

Emerging Themes: Media engagement in tax education and tax reform advocacy, deepening data analytics, and leveraging opportunities to improve transparency and accountability of the extractive industries emerged as themes for consideration in subsequent years of implementing the DRM4D activity.

KEY RECOMMENDATIONS

To the DRM4D Team:

- i. Work with MoFPED to speed up the presentation of the VAT (Amendment) Bill 2022 to Cabinet and Parliament.
- ii. Enhance the capacity of the Tax Policy Department at MoFPED for tax policy modeling.
- iii. Work with key MoFPED, URA, and Ministry of Trade, Industries and Cooperatives to draft regulations for checking illicit trade in excisable products and transfer of some of the informal sector into a formal excise tax regime.
- iv. Expand support to property valuation in the ten cities, with a special focus on taxpayer education, response to concerns of property owners, adjudication of disputes, and providing resources for tax collection.
- v. Support URA's rental tax unit in the analysis and modeling of data on taxpayers in the rental income sector.
- vi. Convene meetings and conferences for the civil society and private sector stakeholders to build consensus on the agenda and priority areas for tax policy and tax administration reforms.

To USAID/Uganda:

- i. Adopt an integrated, cross-sectoral approach to budget advocacy that harnesses the influence and access of the USAID Health, Education, and Economic Growth teams.
- ii. Engage politicians and policymakers to lobby for larger shares of the growing resource envelope for the health, education, and agriculture sectors. This type of policy dialogue is critical to converting the additional revenue raised with DRM4D's support into increased expenditure on priority sectors.

I. REVIEW PURPOSE AND REVIEW QUESTIONS

PURPOSE

The mid-term review (MTR) was an internal learning exercise and not an evaluation of the USAID/Uganda Domestic Revenue Mobilization for Development activity's (DRM4D's) performance. The MTR's main purpose, as described in the scope of work (annex I), was to analyze and learn from observed DRM4D contributions to several key program outcomes. The first objective was to learn which DRM4D interventions meaningfully contributed to key outcomes, and which did not, and why. The second objective was to support the adaptive management of the activity by providing insights into enabling and hindering factors as well as any unintended outcomes of the activity's interventions.

REVIEW QUESTIONS

The mid-term review questions were:

1. What aspects of DRM4D's support toward enhancing national and sub-national level revenue streams have been most impactful and why?
2. What factors have enabled or constrained progress toward tax policy reforms and why?
3. Were there any unintended outcomes of DRM4D interventions, whether positive or negative? How did these emerge? What should DRM4D do to address the negative outcomes?
4. What are the current key drivers of actual government allocation of resources and why? Which of these drivers is DRM4D able to influence and how?
5. What areas (if any) has the Government of Uganda (GOU) identified as priority areas for further widening of the tax base? What opportunities do these create for DRM4D's work?

REVIEW UTILIZATION

The MTR aimed to provide an understanding of the interventions implemented since DRM4D's inception and determine their contribution to key program outcomes. The MTR findings and recommendations in this report highlight opportunities and what may need to be adjusted, maintained, improved, or expanded to achieve the desired results in the activity's remaining period of performance.

ACTIVITY BACKGROUND

DRM4D is a five-year activity implemented by Nathan Associates Inc. in partnership with subcontractor Cardno Emerging Markets USA Ltd. It builds on a successful 18-month pilot¹ that ended in October 2018. The pilot activity was highly appreciated by the Uganda Revenue Authority (URA) and the Ministry of Finance, Planning and Economic Development (MoFPED). DRM4D is implemented under USAID/Uganda's 2016-2021 Country Development Cooperation Strategy whose goal was "Uganda's systems are accelerating inclusive education, health and economic outcomes." DRM4D has resilience, demographics, and systems strengthening as its major themes and strategically combines technical assistance, capacity-building, grants, and commodity support to achieve its objectives. DRM4D implementation started on January 21, 2020, and will run until January 20, 2025. The activity had reached the mid-point of its period of performance when this mid-term review was conducted.

Activity Rationale and Components

The goal of DRM4D is to strengthen the tax culture in Uganda, increase voluntary compliance, and sustainably increase domestic revenue mobilization (DRM), thereby creating the fiscal space (flexibility in the government's budget) for public spending and investments in service delivery. The activity is premised on the notion that increasing tax and non-tax revenue will increase the funds available to the GOU to spend on priority sectors, such as health, education, and agriculture. The activity consists of three components: Strengthening Tax Policy, Improving National and Sub-National Revenue Administration, and Enhancing Public-Private Dialogue. The activity supports the

¹ USAID's Domestic Resource Mobilization Pilot activity, May 2017 to October 2018.

GOU and private and civil society partners in Uganda, through technical assistance, capacity-building, grants under contract and, as USAID deems appropriate, commodity support.

Component 1: Strengthening Tax Policy

This component was designed to equip MoFPED, 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 GOU's Domestic Revenue Mobilization Strategy (DRMS).

Component 2: Improving National and Sub-National Revenue Administration

This component was designed to focus on enhancing voluntary taxpayer compliance by strengthening taxpayer education and registration, data analysis, and arrears management. The component's other areas of work include expanding support to address emerging compliance risks and operationalizing the key administrative tenets of the DRMS. At the sub-national level, the focus is on identifying tax and non-tax revenue mobilization options for the ten cities of Arua, Fort Portal, Gulu, Hoima, Jinja, Lira, Masaka, Mbale, Mbarara, and Soroti.

Component 3: Enhancing Public-Private Dialogue

This component was 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. The component aims to help ensure that public input informs decision-making on the utilization of DRM. In particular, it supports advocacy for increased investment in service delivery and increased utilization of government revenues on social expenditure.

2. REVIEW METHOD

The MTR used a mixed-methods approach that blended desk research, key informant interviews (KIIs), and group interviews. This approach was designed to provide context-sensitive and systematically triangulated findings on DRM4D’s contributions to key outcomes. The methodology was applied through the following steps:

- *Step 1:* Mapping DRM4D’s theory of change (TOC) through review of program documents².
- *Step 2:* Gathering existing evidence on the TOC through KIIs and group interviews with the implementing partner and USAID staff.
- *Step 3:* Assembly and assessment of the “contribution story”³ and the constraints toward tax reforms, through interviews with activity stakeholders (such as URA and MoFPED staff), and review of relevant documents (such as activity progress reports, external studies, and URA and MoFPED reports).
- *Step 4:* Gathering additional evidence to assess the contribution story through a regional workshop with stakeholders from four cities.
- *Step 5:* Revising and strengthening the contribution story based on the triangulation of evidence using multiple sources.
- *Step 6:* Sharing and validating evidence at a national-level workshop⁴ with stakeholders from URA, MoFPED, the ten focus cities, civil society, and the private sector.

SAMPLE SELECTION

a) Selection of Interview Respondents at the National Level

The respondents at the national level (see Annex II) were purposively selected from MoFPED, Ministry of Local Government (MoLG), Local Government Finance Commission (LGFC), Uganda Revenue Authority (URA), sub-grantees (Advocates Coalition for Development and Environment [ACODE], Civil Society Budget Advocacy Group [CSBAG], Uganda Small Scale Industries Association [USSIA], Uganda Manufacturers Association [UMA], and Southern and Eastern Africa Trade Information and Negotiations Institute [SEATINI]), and DRM4D staff, and also included the USAID stakeholders. The respondents were selected for either their role in the DRM4D implementation or their knowledge of tax policy reform and/or domestic revenue mobilization.

b) Selection of Cities for Field Data Collection

In addition to the capital Kampala, Uganda has ten cities: Arua, Fort Portal, Gulu, Hoima, Jinja, Lira, Masaka, Mbale, Mbarara, and Soroti. DRM4D supports the ten cities to improve their local revenue mobilization. Time and budget constraints in the MTR limited site visits and only Fort Portal and Hoima were visited. Data on Masaka and Mbarara were collected at a regional workshop in Fort Portal.

The selection of Fort Portal and Hoima for data collection was purposively done by the contracting officer representative (COR) and DRM4D based on selecting a suitable location for a regional workshop and the interest to capture the impact of the natural resources, including oil and gas, found in the Albertine region. Masaka and Mbarara cities were selected to participate in the regional workshop because of their proximity to Fort Portal city without undue constraints on travel time and costs.

A major intervention by DRM4D was supporting property valuation in each of the ten cities. At the time of conducting field data collection, Hoima had reached its property valuation target while Fort Portal was at 80 percent. Therefore, the choice of cities also provided an opportunity to compare a high and a low property valuation performer.

² Request for Task Order Proposal, Activity Monitoring, Evaluation and Learning Plan, Annual Work Plans, Baseline Report, Quarterly Reports, Annual Reports, and Political Economy Analysis study report.

³ A contribution story articulates why the actions of the program contributed (inferring causality) to the observed results.

⁴ The national workshop will take place after finalization of the draft report.

DATA COLLECTION

Desk Research. The MTR Team thoroughly reviewed DRM4D documentation and monitoring data. Based on this information, the Team drafted a detailed flow chart (map) that visualized key causal chains in DRM4D's intervention logic, linking interventions with outputs, outcomes, and impacts. This TOC map was compiled in Kumu, an online mapping platform. A link to the TOC map is provided in Annex III.

Theory of Change Map Review. The MTR Team held a workshop with DRM4D staff to jointly review the TOC map. The TOC map was then edited to reflect the suggested changes.

Key Informant and Group Interviews. Qualitative data were collected from respondents selected by DRM4D in consultation with USAID. See the section *Sample Selection* above for details of the selected respondents.

At the request of the senior advisors from USAID/Washington DC (international temporary duty [TDY] staff) and with agreement from USAID/Uganda, after Day One with MoFPED, the data collection interviews had a flexible and exploratory style. The interviews often started with questions on DRM4D's contributions to the stakeholder's work and explored emergent topics, such as local government financing mechanisms, trends in fiscal decentralization, citizen engagement and participation in tax policy reforms, and the role of civil society organizations (CSOs) in public policy. These explorations often led to discussions of opportunities for DRM4D's engagement with stakeholders and the identification of new themes.

Regional Workshop. Data collection came from group discussions and plenary deliberations with representatives from four DRM4D-supported cities—Fort Portal, Hoima, Masaka, and Mbarara.

Validation. Draft conclusions and recommendations will be shared and discussed with DRM4D stakeholders at a national-level workshop.

DATA ANALYSIS

The data analyzed were the detailed notes taken during the regional workshop, interviews and documentary reviews. This data was grouped by relevancy to specific review questions and then analyzed to drawing inferences and find specific themes and sub-themes. The MTR Team also assessed the relative importance of different data in answering the review questions. During the analysis of the data, two themes beyond those of the review questions emerged: opportunities for further engagement with stakeholders and emerging themes.

LIMITATIONS

Social desirability has likely biased data collection. Most interviews were conducted in a group setting. Data gathered in a group setting is influenced by formal hierarchies and informal group dynamics. While this situation can, in principle, lead to biases in both directions, in the context of a donor visiting institutions that receive technical or financial support, this has likely led to the suppression of negative feedback on DRM4D and its interventions.

Subjectivity. The qualitative methodology used in the MTR means that the findings are based on subjective perceptions of key informants and participants of group interviews. However, whenever possible, the MTR Team was able to verify anecdotes on successful or unsuccessful DRM4D interventions through triangulation of evidence using multiple sources.

Lack of comparable data across stakeholders. The flexible and exploratory interview style limited the gathering of comprehensive and comparable information on individual causal chains in the intervention logic.

3. MTR FINDINGS

3.1 INTRODUCTION

Over the past two and a half years, DRM4D has worked with MoFPED, MoLG, LGFC, URA, and CSO partners to provide them with the tools and skills to conduct policy analysis, initiate and carry out tax policy reforms, conduct taxpayer education and registration, and to conduct public-private dialogue on tax administration and tax policy reforms. At the sub-national level, working in ten cities, DRM4D focused on local revenue mobilization.

The MTR aimed to learn which DRM4D interventions meaningfully contributed to key outcomes and which did not, and why. The second objective was to support the adaptive management of the activity by providing insights into enabling and hindering factors as well as any unintended outcomes of the activity's interventions. This chapter presents the findings of the MTR based on evidence gathered from a desk review of key documents and interviews that sought answers to the five review questions. (See the section Review Purpose and Review Questions above.)

3.2 QUESTION 1: WHAT ASPECTS OF DRM4D'S SUPPORT TOWARD ENHANCING NATIONAL AND SUB-NATIONAL REVENUE STREAMS HAVE BEEN MOST IMPACTFUL, AND WHY?

Under Component 2: Tax and Non-Tax Revenue Administration and Compliance Improved, DRM4D undertook, at the national level, activities in the following areas known to stimulate and strengthen revenue collection: capacity enhancements, tax collection infrastructure improvements (with a focus on information technology [IT]), tax education, Excise Duty administration, information sharing, tax audits, debt management and enforcement system development, rental tax compliance monitoring, and expansion of taxpayer register.

At the sub-national level, DRM4D interventions supported efforts to increase revenue from property tax, market levies, and business license fees—the main revenue streams of local governments. Of these three streams, property tax represents the greatest revenue potential in urban areas. Therefore, DRM4D focused its support on property tax valuation by building the capacities of cities to register and assess all eligible properties, as well as by providing support to create digital records of the local taxpayer base. DRM4D supported the digitization of valuation rolls and their migration to the Integrated Revenue Administration System (IRAS) by providing computers to city authorities. These interventions at the city level have led to an increase in the valuation rolls, market dues, and street parking fees.

DRM4D also worked with local CSOs at the sub-national level. For example, the DRM4D supported CSOs located in Hoima City to provide the Extractive Industries Transparency Initiative (EITI) Secretariat key information to produce the first report for the EITI. This engagement empowered the CSOs, deepened their relationships with the Hoima district local government, Hoima City and EITI Secretariat, and going forward, should result in greater transparency and information from companies in the extractive industry. Company information is an important resource for local governments when they advocate, to the central government, for royalties related to extractive industries to be remitted to the local governments, as established by law. DRM4D also supported Hoima city to establish a revenue tracking and management system. This system was intended to improve transparency and accountability of revenue from the oil and gas sector. The CSO staff the MTR Team met reported conducting education sessions at the community level on land acquisition and compensation processes.

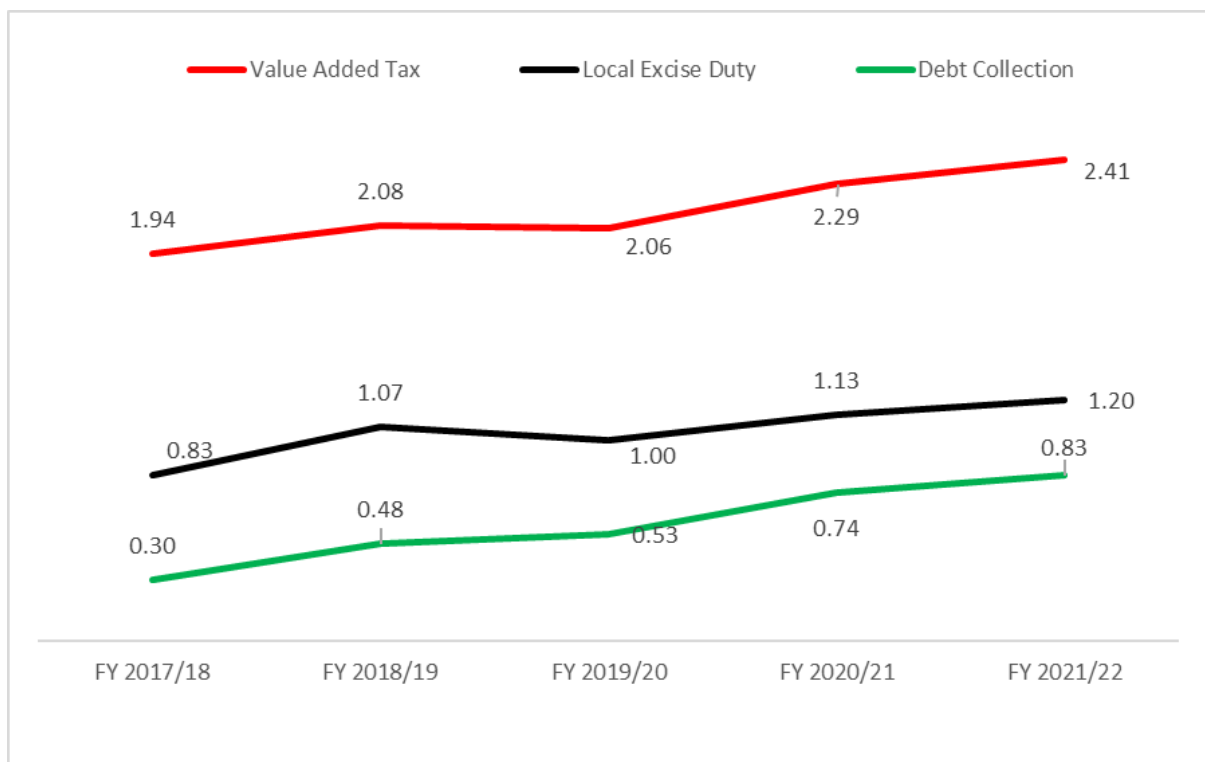
3.2.1 Most Impactful National Level Support Toward Enhancing Revenue Streams

Of all the DRM4D intervention areas listed above, the MTR revealed that the most impactful aspects toward enhancing revenue streams at the national level were:

- a) Implementation of new debt collection procedures
- b) Review of the Excise Duty administration system and the development of an Excise Duty manual
- c) Capacity enhancement of URA staff in VAT field audits
- d) Development of a property owner’s database and rental tax register.
- e) Digitization of taxpayer register.

Since DRM4D’s inception, annual domestic revenue collections have grown from UGX 19,263 billion (USD 4.996 billion) in FY 2020/21 to UGX 21,658 billion (USD 5.617 billion) in FY 2021/22. The contribution of the four above-mentioned interventions has manifested in the increased revenue from debt collection (through arrears management), Excise Duty, and VAT. Although there is an increase in the year-by-year collections for each of these tax heads, the highest growth rate⁵ is from debt collection, followed by VAT, and then Excise Duty. (See Figure I below).

Figure I Primary Sources of National Revenue (percentage of GDP)



Data Sources: URA Annual Data Book FY 2020/21 and DRM4D Q3 report,

Data gathered during this MTR suggests the following administrative improvements supported by DRM4D likely contributed to this revenue growth:

- a) Improved case management for debt profiling and improved case prioritization and actioning by the three offices that handle the largest volume of debt (the Large Taxpayers Office, the Public Sector Office, and the Medium Taxpayers Office).
- b) Consistent application of updated instructions for assessing Excise Duty.
- c) Reinstatement of routine field checks on taxpayer declarations.
- d) More accurate rental tax assessments.

⁵ The growth rate from FY 2017/18 to FY 2021/22 for debt collection is 0.53 percent, VAT is 0.47 percent) and Excise Duty is 0.37 percent.

The capacity development interventions, such as training, also contributed to efficiencies in the revenue collection. Because of capacity improvements, complex audits in sectors like banking, telecoms, and construction, could now be carried out routinely. URA staff the MTR Team spoke to said the voluntary compliance encouraged by routine audits and the successful KAKASA⁶ taxpayer campaign by URA’s Communications Department were contributing factors to the GOU’s overall revenue growth of 12.4 percent⁷ for FY 2021/22.

“The consultants understood the context of how URA works and therefore had the capability to effectively train staff”.

URA Audit and Excise Duty HR staff member

Another aspect that contributed to the increase in revenue is the onset of taxation of the digital economy. Although the administrative procedures for the taxation of the digital economy are not yet in place, from January 2022, URA has required providers of online digital products to consumers in Uganda to pay VAT in Uganda. This requirement was proposed in the VAT (Amendment) Bill 2022. Two foreign providers⁸ of online digital products filed returns and paid about UGX 600m (USD 170,000).

The DRM4D furthered voluntary tax compliance by providing advice and information for strategic integration of information technology (IT) in tax administration across the board.

3.2.2 Most Impactful Sub-national Level Support Toward Enhancing Revenue Streams

The MTR revealed that the most impactful aspects of DRM4D interventions at the sub-national level were:

- a) the automation of revenue collection systems
- b) the establishment of digitized local taxpayers’ registers, and
- c) the expansion of the property valuation roll.

Since the start of DRM4D’s support to the ten cities, revenue collection has been improving. Analysis of FY 2020/21 and FY 2021/22 data indicates a 43 percent average revenue growth⁹ for all ten cities combined (see Table 2 below). During an interview, a technical official from Fort Portal city said this about the automation of revenue collection, *“Taxes increased from 1.2 billion [UGX] in FY 2020/21 to 2.13 billion in FY 2021/22 because of DRM4D’s support and the digitization of revenue collection system.”* This increase marks a 77.5 percent growth in revenue for Fort Portal city. This statement was corroborated by the political leadership of Fort Portal city who stated that *“We have registered an increase in revenue due to automation.”*

Available local governments’ revenue performance statistics¹⁰ indicate that this year-on-year revenue growth was a common trend across all DRM4D-supported cities except for Mbale. DRM4D staff attribute Mbale’s poor performance in revenue collection in FY 2021/22 to changes in key personnel shortly after the COVID-19 lockdown.

⁶ KAKASA means ‘Confirm’ or ‘Be sure’ or ‘Be in charge’. The campaign aimed to increase awareness and promote buy-in of the digital tracking solutions and the voluntary disclosure scheme.

⁷ Cumulative revenue collection for the 2021/22 year amounted to UGX 21,658 billion [...]revenue growth amounted to a respectable 12.4 percent. Source: DRM4D Weekly Report 121.

⁸ Source: DRM4D January – March 2022 Quarterly Report.

⁹ Source: DRM4D, April – June 2022, Quarterly report

¹⁰ Ibid

Table 1 Cities Revenue Performance for Financial Years 2020/21 and 2021/22

City	FY 2020/21 (UGX billion)	FY 2021/22 (UGX billion)	Additional Revenues (UGX billion)	Additional revenues (USD)	Percentage Growth
Arua	1.31	2.79	1.47	397,678	112%
Gulu	1.10	3.32	2.23	602,280	203%
Lira	1.84	1.99	0.15	40,237	8%
Soroti	1.64	1.92	0.28	75,132	17%
Mbale	2.93	1.63	(1.30)	(350,911)	-44%
Jinja	4.13	6.65	2.51	679,343	61%
Masaka	1.46	2.14	0.69	185,919	47%
Mbarara	3.31	4.86	1.55	418,234	47%
Fort Portal	1.25	2.13	0.88	238,004	70%
Hoima	1.13	1.36	0.23	62,915	21%
Average	2.01	2.88	0.87	234,883	43%
Total	20.10	28.80	8.69	2,348,831	

Adapted from Q3 FY 2022, DRM4D Quarterly Report

During the MTR regional workshop in Fort Portal city on July 12, 2022, an official from Masaka city reported that “between January and June 2022, Masaka City collected much more revenue than was gathered in the whole of FY 2021. With the implementation of IRAS, mayors and other city leaders are now able to obtain updates on daily tax collection in real-time”. An official of Fort Portal affirmed, “We can monitor what is being collected through a WhatsApp forum,” and showed the forum on his phone. The consensus at the regional workshop was that automation of revenue collection has increased transparency, shortened revenue collection processes, helped combat corruption and revenue leakages, and reduced conflicts among key actors in revenue administration. As a result, politicians are proactively supporting local revenue mobilization using digital tools.

DRM4D set out to address challenges of local revenue mobilization by supporting taxpayer registration and providing solutions to inaccurate property assessments and gaps in tax billing. Cities were provided with equipment, including tablets, computers, and uninterrupted power supply units, to help facilitate the creation of digital registers for properties and local businesses, and to monitor tax payments. As mentioned above, the MTR found that property valuation was among the most impactful interventions at the city level. By the end of June 2022, over 152,000 properties were assessed across the ten cities out of the targeted 155,000, representing a 98 percent achievement. These valuations have greatly increased the coverage ratio of assessed properties and therefore increased the number of properties from which cities will collect revenue in the future. The work of technology company RippleNami Uganda in Kampala city, coupled with the rollout of property valuation in the ten cities, has also expanded the list of rental property taxpayers.

In addition to increasing the collection of service user fees, such as parking fees and market dues, DRM4D also supported other interventions at the sub-national level that contributed to improved revenue collection. For instance, it worked with cities to develop strategies to increase taxpayers’ understanding of the taxation system and to increase motivation for voluntary tax payments. It also worked with cities to recruit additional tax collection personnel, create a Revenue Mobilization Department independent of the Finance Department, and develop Domestic Revenue Improvement Plans. These revenue improvement plans provided cities with the framework within which to conduct taxpayer sensitization campaigns and property valuation.

Active participation in tax education campaigns rolled out in FY 2021/22 provided city leaders with revenue mobilization skills essential for engaging taxpayers. Additionally, there was also work to improve city leaders’ understanding of extractives royalties particularly in Hoima City. This improved

understanding may assist cities in advocating and lobbying the central government for their appropriate share. DRM4D assisted in the setting up of one-stop information centers where URA collaborated with local city governments and Uganda Registration Services Bureau to increase the information available to taxpayers and improve their ability to comply with their tax obligations.

3.3 QUESTION 2: WHAT FACTORS HAVE ENABLED OR CONSTRAINED PROGRESS TOWARD TAX POLICY REFORMS AND WHY?

The tax policy environment in Uganda is characterized by piecemeal and ad hoc amendments and incremental tax policy changes that are often not backed by sound research and analysis, such as the tax on the use of social media services introduced in 2018.¹¹ Some of Uganda’s primary tax laws, like the Income Tax Act and the VAT Act, have not been updated for over twenty years.

Selected DRM4D tax policy reform achievements

In consideration of the policy environment, DRM4D set out to support the GOU’s tax policy reform agenda by “equipping tax 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” (this is Component I of the activity). It was envisioned this operationalization would be achieved through the review and updating of tax laws. It was understood by DRM4D and its stakeholders that a comprehensive review and update of existing primary tax laws would help address the tax policy issues arising from the growth and evolution of the Ugandan economy. Therefore, with DRM4D support, GOU counterparts rewrote the VAT law, formulated a model Double Taxation Agreement (DTA), and updated all the ten existing bilateral DTAs. In addition, DRM4D supported, through technical assistance and capacity-building interventions, a comprehensive review of the Tax Procedures Code, the environmental tax regime, and several tax laws, including Excise Duty and Income Tax laws.

DRM4D interventions under Component 3 (Enhance Public-Private Dialogue) helped to strengthen the capacity of the private sector and civil society to participate in and influence tax policy reforms. Notably, DRM4D-supported CSOs, together with UMA and USSIA submitted draft policy briefs¹² to MoFPED on necessary reforms regarding the primary tax laws, DTAs, and tax expenditures. The CSOs and private sector organizations also prepared a position paper on the National Budget Framework Paper in response to the Ministerial Policy Statement FY 2022/23 to help ensure that the needs and aspirations of marginalized and poor Ugandans are reflected in the annual budget.

SEATINI prepared policy briefs on the VAT law reforms and tax expenditure and mobilized Tax Justice Alliance Uganda to review eight tax bills before they were tabled before Parliament by MoFPED. SEATINI subsequently submitted a policy memorandum to the Parliamentary Committee on Finance, Planning and Economic Development on fair taxation. In addition, CSBAG’s analysis of the FY 2020/21 Auditor General’s report with a focus on the health, education, and agriculture sectors served as a key reference document for Members of Parliament to hold ministries, departments, and agencies accountable on budgeting and public finance management.

At the sub-national level, findings of ACODE’s study on revenue sharing mechanisms informed an advocacy campaign on transparency around oil revenues and compensation of the communities where oil is drilled.

3.3.1 Enabling Factors for Progress Toward Tax Policy Reforms

Analysis of the data gathered during the MTR showed several enabling factors that created a conducive environment for tax policy reforms.

¹¹ In 2018, the Government of Uganda introduced excise duty on over-the-top (OTT) services, charged at a rate of UGX 200 per user per day.

¹² Source: DRM4D Q1 FY 2021 report.

Technical assistance: The leading factor was the provision of technical assistance in form of consultants and advisors, especially to the Tax Policy Department (TPD) of MoFPED but also to the Business Policy Department of URA. The consultants and advisors attached to the TPD brought in the specialized knowledge needed to review and update existing tax laws and equip TPD staff with the skills to draft new ones. With DRM4D support, TPD staff were able to undertake a diagnostic review of existing domestic tax laws (the VAT Bill, and excise duty and income tax laws), the Tax Procedures Code, and the environmental tax regime, and to revise Uganda’s DTAs based on a new model DTA.

MoFPED also developed a standard procedure for identifying, developing, and analyzing tax policy proposals. In this regard, the consultants enhanced the capacity of the TPD to identify gaps in current tax laws and to expedite the revision and drafting processes. A TPD official noted *“We have gained knowledge in interpreting the tax laws. I can say that we are going to be masters at interpreting the tax laws. We had the opportunity to also understand the old laws, [especially] some components that we didn’t understand.”* Staff at TPD benefited from exposure to tax laws from other jurisdictions, learned about global taxation trends and progressive tax collection regimes, and gained insights into overlooked or untapped taxable areas.

Technical assistance was coupled with the delivery of training modules, which helped improve the knowledge base of TPD and URA staff. Consequently, international taxation knowledge and practices informed the review and revision of Uganda’s domestic tax laws. *“We got experiences from the European systems to help fill our gaps here in Uganda”* stated another TPD official.

Collaboration: The tax policy reform processes directly supported by DRM4D interventions, such as the review of the VAT and income tax laws, were characterized by collaboration and wide stakeholder consultations. It emerged from interviews at MoFPED, LGFC, and URA that this collaboration was highly beneficial. Joint training sessions were viewed as opportunities to build bridges between the institutions.

“During the drafting of the new VAT Bill, we worked with URA and the Ministry of Justice and Constitutional Affairs, and the Ministry of Trade, Industry, and Cooperatives”.
TPD staff member, MoFPED

Interviewees at TPD disclosed that the drafting of the new VAT bill was characterized by close collaboration between MoFPED; the Ministry of Justice and Constitutional Affairs (MoJCA); the Ministry of Trade, Industry, and Cooperatives (MoTIC); and URA. Additionally, several DRM4D quarterly reports highlight collaborative events held with CSOs, trade associations, tax experts, tax and legal firms, tax advisers, the private sector, and academia. For instance, it is reported in the DRM4D Q1 Report FY 2021/22 that MoFPED held a public consultation on the new VAT bill that attracted participants from the “Association of Certified Public Accountants of Uganda, the Uganda Law Society, tax law firms, the Uganda Manufacturers Association, the Private Sector Foundation, leading public accounting firms and tax practitioners, research and academic institutions, civil society organizations, and others.” This collaboration also increased the utilization of existing technical expertise within the MoFPED, the Ministry of Justice and Constitutional Affairs, and URA to analyze tax policy, weigh merits of competing policy proposals, and to assess the economic impact of proposed tax reforms.

DRM4D procured for TPD capacity building expertise from international tax training institutions, e.g., the International Bureau of Fiscal Documentation (IBFD) and the African Tax Administrators’ Forum. The IBFD was contracted to conduct specialized tax policy analysis training to MoFPED and URA. The partnership with these international capacity enhancement institutions enabled TPD to a) access technical support for tax policy analysis, b) analyze the merits of competing policy proposals, and c) assess the economic impact of proposed tax reforms. Enhanced capacity also enabled TPD to conduct external consultations on tax policy reforms.

Conditionality: In particular, the World Bank has conditioned a sizable proportion of its next International Development Association (IDA) allocation on the GOU moving the VAT (Amendment) Bill 2022 up to Parliament for approval by May 2023. This conditionality has created a sense of urgency around accelerating progress toward passage of the new VAT legislation.

3.1.2.2 Factors That Constrained Progress Toward Tax Policy Reforms

Despite the progress toward tax policy reforms noted above, respondents the MTR team met with disclosed that the tax policy reform agenda at the national level continues to be constrained by technical capacity limitations and politics. Similarly, at the sub-national level, tax policy reforms are also constrained by politics. One district official stated that, “*Most of these issues are affected by politics [...] politicians say they will lose votes when such [presumptive] tax laws are implemented.*”

Staffing and capacity gaps: TPD only has a few senior personnel who possess the requisite experience and analytical abilities to coordinate tax policy reform. Many TPD staff are new or at an intermediate level. Staffing is also affected by frequent interdepartmental transfers and departures. A senior official at MoFPED stated that “*we have very few people in the department who understand tax policy. [...] Most officers here are at junior level and even new senior officers being transferred from other departments also have limited knowledge of tax policy.*”

Several interviews at URA revealed that interdepartmental transfers and deployments contribute to persistent capacity gaps in some departments. Relatedly, at the sub-national level, the transfer of town clerks every two years negatively impacts cities’ ability to advance reforms and improve performance, as observed by one mayor. An MoLG official also complained about the challenges of keeping track of the progress made when town clerks rotate too frequently.

DRM4D progress reports highlight the limited GOU capacity for tax policy analysis, and the limited ability to do analytics and modeling, especially for new tax areas like oil and gas extraction. Therefore, it is no surprise that an official at MoFPED appealed for DRM4D’s intervention to increase in-house expertise.

“We need to have experts in the department to mentor junior staff, we need like two experts to provide those hands-on training. We have very few people in the department who understand tax policy. We need experts in domestic tax.” TPD official, MoFPED

Politics: During interviews with TPD staff, inconsistent political commitment was raised as another hindrance to successful tax policy reform. Successful tax policy reforms depend on political commitment at the highest political level. However, when the political leadership concludes that a particular tax policy reform will be resisted by the electorate, the reform never gets implemented. An example is the daily fee on commuter minibuses (known locally as taxis) that was reversed by President Museveni in 2017.

Uganda is no stranger to tax reforms encountering strong resistance from businesses and elites, especially those with considerable political influence. Currently, GOU’s measured approach regarding the introduction of the new VAT law reflects anticipated pushback from the business community. It is reported that the GOU decision to not increase any tax rates nor introduce¹³ any new taxes in FY 2022/23 has contributed to the delayed uptake of MoFPED’s proposals for amending the excise and environment tax regimes.

Other constraints: While capacity gaps and politics emerged as the leading constraints to the progress of tax policy reforms, two other hindrances were noted in the MTR: organizational structure limitations and poor communication of tax reforms.

Respondents hinted that tax reforms are not frequently getting into strategic conversations and consequently not featuring in key decisions at the MoFPED because the TPD is not a directorate but

¹³ DRM4D January – March 2022 Quarterly Report

rather has remained as a department. The MoFPED organizational arrangement does not help promote tax policy in the greater scheme of national revenue mobilization.

Poor communication of proposed tax policy reforms risks undermining stakeholders' buy-in, resulting in beneficial tax reforms meeting with resistance or skepticism. For instance, while there is an appreciation that the VAT (Amendment) Bill 2022 consolidated provisions scattered across several regulations and improved the flow and clarity of the language, some interviewed URA officers expressed the opinion that a wholesale rewrite of the VAT law was unnecessary. During MTR interviews remarks like “the VAT Bill was introduced out of the blue,” “the way the bill was introduced was sudden,” and “people think that a rewrite was unnecessary” were made.

3.4 QUESTION 3: WERE THERE ANY UNINTENDED OUTCOMES OF DRM4D INTERVENTIONS, WHETHER POSITIVE OR NEGATIVE? HOW DID THESE EMERGE? WHAT SHOULD DRM4D DO TO ADDRESS THE NEGATIVE OUTCOMES?

3.4.1 Unintended Positive Outcomes of DRM4D Interventions

Inclusion of elements of the VAT (Amendment) Bill 2022 in the national FY 2022/23 budget: Two¹⁴ of the seven amendment proposals in the new VAT law, which DRM4D supported, were included in the national budget for FY 2022/3.

Tax Proposal Amendments Adopted in the National Budget FY 2022/23

- General enhancement in the civil penalty regime (all civil penalties were increased)
- Penalties for Electronic Fiscal Receipting and Invoicing System (EFRIS) manipulation.

Adapted from: Q3 DRM4D report, FY 2022

Reduction of leakages and corrupt practices in the revenue collection chain: The automation of revenue collection in some cities has eliminated the necessity of engaging tenderers in the revenue collection chain. For example, the Fort Portal City authority took over the management

“We have removed people who used to work in the name of the [city] council in tax collection. We have removed tenders in street parking fees, and we have removed the issue of middlemen pocketing part of the money collected in taxes”.

“They [taxpayers] just go banking agents and pay taxes and we give them tags to show that they have paid taxes”

“The revenue leakages have reduced since fees are paid at point-of-sale machines rather than payment of cash to tax collectors”.

Fort Portal officials

of street parking and introduced point-of-sale machines. With digitized tax registers, tax assessments have been standardized and billing automated. These changes have reduced the number of people involved in the entire revenue collection process, thus reducing leakages and corrupt practices.

Elevation of IT and Human Resources into fully-fledged departments at URA: Inspired by the comprehensive review of URA's organizational structure and driven by the desire to deliver optimal revenue collection results, fully-fledged departments for IT and Human Resources were created, recognizing the strategic importance of these functions. Personnel is URA's biggest single cost element, and IT supports all aspects of tax administration operations, including the URA's ability to harness and use data from taxpayers and third-party institutions to enhance tax compliance.

Creation of a department for revenue collection in cities: Some of the cities, e.g., Fort Portal, created a Revenue Department independent of the Finance Department because of the recognition of the importance of revenue collection to city operations.

¹⁴ DRM4D April – June 2022 Quarterly Report

3.4.2 Unintended Negative Outcomes of DRM4D Interventions

The desk review of program documents and the analysis of collected primary data revealed that largely DRM4D interventions have yielded positive impacts. Only one case of unintended negative consequences emerged that calls for further investigation and mitigation.

Belief that USSIA reports to URA: USSIA is one of the seven sub-grantees supported by DRM4D to enhance public-private dialogue on tax policy and tax administration reforms. During MTR interviews, USSIA staff reported that with funding from DRM4D, the organization carried out tax education events for members at its ten education centers across the country. At these capacity enhancement sessions, USSIA members were sensitized on how to “*comply with tax registration requirements and file returns to URA,*” and URA personnel participated in the training. At URA, the Communications Department team praised this collaborative relationship and added that some URA information, education, and communication materials were passed on to USSIA to help educate and assist in the tax registration of its members.

Unfortunately, this close collaborative relationship between URA and the USSIA Secretariat was reportedly misunderstood by some USSIA members as meaning USSIA reports to URA in some way. As a result, some of the association members have begun shunning USSIA activities. According to a USSIA staff member, “*Members have a phobia. While conducting a recent survey, they thought that we were agents of URA and ran away from us whenever we talked about URA. This has affected the participation of our membership in events we organize.*”

What should DRM4D do to mitigate the impact of this misunderstanding?

- Support USSIA and other trader associations to broaden their education content beyond taxation.
- Bring this matter to the attention of the URA Communication Department.

3.5 QUESTION 4: WHAT ARE THE CURRENT KEY DRIVERS OF ACTUAL GOVERNMENT ALLOCATION OF RESOURCES AND WHY? WHICH OF THESE DRIVERS IS DRM4D ABLE TO INFLUENCE AND HOW?

One of the objectives of DRM4D was to improve CSOs’ engagement in advocacy for increased government budget spending in key social sectors. The budget allocations to the health, education, and agriculture sectors in the national budget for FY 2022/23¹⁵ grew by 10.5 percent, 42.8 percent, and 24.9 percent respectively compared to FY 2021/22.

With DRM4D grants, CSO interventions in public expenditure reviews, analysis of tax administration changes, advocacy for fair taxation, and better transparency in the extractives industry sector, have led to coordinated efforts to educate the public on the need for changes in financing public expenditure.

3.5.1 Key Drivers of Actual Government Allocation of Resources

National level: The need to service¹⁶ public debt (UGX 73,496 billion, equivalent to USD 20.74 billion at the end of December 2021)¹⁷ and finance priority programs in infrastructure development and service delivery dominate budget allocations at the national level.

¹⁵ DRM4D April – June 2022 Quarterly Report

¹⁶ According to the Budget Speech 2022/23 and 2022/23 ministerial policy statements, 31.1 percent of the FY 2022/23 budget will go into debt servicing.

¹⁷ Report on Public Debt, Grants, Guarantees and Other Financial Liabilities for Financial Year 2021/2022. MoFPED, March 2022

Availability of funds: An interviewed MoFPED official stated that ultimate decisions about allocations and their levels are constrained by the availability of funds. “We look at available funds and we allocate them to national priorities,” the official emphasized.

National Development Plan and national budget strategy: The national priorities are stipulated in the National Development Plan (NDP) III and operationalized through national annual budgeting cycles. On further probing during the MTR interviews on how the actual budget allocation is determined, MoFPED officials explained that allotment to the social sectors must remain consistent with the provisions of the national budget strategy. Examination of the strategic budget priorities for FY 2022/23, for instance, revealed that the sectors of health, education, and agriculture, with a special focus on agro-processing, remain among the seven top priorities. Officials from MoFPED explained that for the social sectors, the types of strategic investment choices made by the government vary and determine budget allocation. “In the education sector, the strategic priorities that attract funding are school infrastructure, which must be expanded to match the increase in population, and of course the recurrent costs like the teachers’ wage bill. For health, it’s the construction of health centers, then equipment, medicines and sundries. You are aware that each sub-county must have a Health Centre III. For agriculture it’s vaccines and research,” he explained. There was acknowledgment among respondents that development priorities, budget strategy priorities, and political interests influence allocations.

Fiscal deficit: MoFPED officials explained that underlying the final budget allocation is the desire to keep the fiscal deficit in check while remaining within the provisions of the annual financing mechanisms and national development strategy.

Political interests: Political interests persist and the government in power pushes for the implementation of both the party’s and the president’s manifestos. The discussion on this topic pointed to the reality that election promises must be fulfilled, voting outcomes influenced, and voters rewarded.

Sub-national level: The major determinants of resource allocation are national and local priorities, political interests, and conditional grants from the central government and donors.

Conditional grants mostly target education and health. Therefore, cities tend to use conditional grants for street lighting, drainage, and road infrastructure. The interplay of political and economic dynamics and social pressures interfere with budgeting and resource allocation decisions because of vested interests. During interviews in Fort Portal and Hoima, city leadership disclosed that budget allocation is driven by local priorities for services such as garbage collection, sanitation, and street lighting. The quote below describes the mindset that can inform budget allocation at the sub-national level.

“You invest where you will get political leverage. In this case, the choice is the area that will attract the attention of voters. e.g., roads, markets, garbage collection, beautification of the city.”

Official at the Regional Workshop

3.5.2 How DRM4D May Influence Resource Allocation

Many of the key drivers of government allocation of resources fall outside the direct control of the DRM4D activity. However, it may be able to influence some of the drivers by responding in a facilitative manner to processes that expand and deepen revenue collection. Table 3 below suggests some ways DRM4D may engage with mandated institutions and facilitate processes of resource prioritization.

There are also opportunities to amplify DRM4D’s impact through the coordination and harmonization of DRM priorities with other development partners. Among others, the World Bank has conditioned a sizable proportion of its next IDA allocation to the GOU on moving the VAT (Amendment) Bill 2022 up to Parliament for approval by May 2023. The World Bank may be

receptive to linking GOU allocations and other support to additional policy actions, such as meeting targets for budget allocations to priority social sectors. USAID/Uganda’s advocacy for greater public spending on health, education, and agriculture could be more effective if it enlisted the support of the World Bank and perhaps other development partners.

Table 2 How DRM4D May Influence Revenue Allocation

Drivers of budget allocation	Possible influencing method
National level	
Availability of funds	<ul style="list-style-type: none"> • Continue working with URA to increase domestic revenue collection. • Work with MoFPED and URA to broaden the tax base and create new revenue streams.
Development priorities in the NDP III	<ul style="list-style-type: none"> • Work with CSOs that are likely to participate in the preparation of the next NDP on their strategy and agenda to influence the prioritization of health, education, and agriculture interventions.
Budget strategy priorities	<ul style="list-style-type: none"> • Work through CSOs to influence budget decisions.
Sub-national level	
Local priorities	<ul style="list-style-type: none"> • Work directly with cities to influence budget allocation for local priorities. • Work through CSOs to influence budget decisions.

3.6 QUESTION 5: WHAT AREAS (IF ANY) HAS THE GOU IDENTIFIED AS PRIORITY AREAS FOR FURTHER WIDENING OF THE TAX BASE? WHAT OPPORTUNITIES DO THESE CREATE FOR DRM4D’S WORK?

One official from MoFPED stated that “Areas being prioritized for tax expansion include addressing tax expenditures.” Among the actions being considered for tax expansion is the review of the tax expenditure framework and the implementation of base-broadening tax reforms in VAT, Excise Duty, and income taxes.

Within URA and MoFPED, Excise Duty is considered an untapped area of taxation that could bring in substantial revenue from all potential excisable commodities. Similarly, the analysis of rental tax data and property owners’ tax returns may expose hidden businesses that have evaded taxation up to this point.

The government is also determined to intensify efforts on the taxation of the informal sector and digital economy, and to curbing illicit financial activity.

3.7 OPPORTUNITIES FOR FURTHER ENGAGEMENT

DRM4D has made impressive strides on its three program objectives (1: Tax policy strengthened, 2: Revenue administration and compliance improved, and 3: Public-private dialogue enhanced). For Year 3, at MoFPED, the activity is set to focus on supporting the rewriting of the excise duty law, reviewing the gaming tax regime and enhancing the capacity of tax policy officials on DTAs. With URA, DRM4D is set to work on the integrated IT systems, complex audits, expansion of excisable items, expanded tax registers, tax education, arrears management, an integrity drive, and an upgrade of human resource systems (including the processes, procedures, and rewards).

In the ten cities, DRM4D will continue to work on the digitization of tax registers, property valuation, and the review of the local government legal framework that guides local revenue

collection. With its CSO partners, DRM4D is set to continue to work on tax policy analysis and advocacy for fair taxation and increased public spending on health, education, and agriculture.

The MTR interviewees proposed the following additional areas that present opportunities for further engagement:

- a) Modeling and analytics, especially for oil and gas and the mining sector (from MoFPED).
- b) Capacity-building on tax planning and transfer pricing (MoFPED and URA).
- c) Leveraging third-party databases (e.g., those from the National Information Technology Authority-Uganda, National Identification and Registration Authority, Uganda Registration Services Bureau , Kampala Capital City Authority, Ripple Nami, and telecoms and utility companies) to enhance tax compliance management. (URA).
- d) Enhanced collection of property tax, based on the DRM4D-supported mass valuation efforts (Cities).
- e) Increasing participation of DRM4D civil society partners and the private sector at the sub-national level in budget conferences so as to contribute to resource allocation conversations.
- f) Tax education that is linked to the rollout of new property taxes and the implementation of digital tax solutions (Cities).
- g) Linking the Commissioner General's integrity drive at URA with broader national anti-corruption efforts (URA).
- h) Linking up with the World Bank on the conditionality clauses regarding tax reforms (USAID).

3.8 EMERGING THEMES

The MTR revealed three emerging themes that require consideration in subsequent years of DRM4D implementation:

- i) Media engagement in tax education and tax reform advocacy.
- ii) Deepening data analytics.
- iii) Leveraging opportunities, such as the Extractive Industries Transparency Initiative, to improve resource governance and accountability.

4. CONCLUSIONS

DRM4D has contributed to improvements in tax policy and administration as well as growth in public revenue. The MTR revealed that components 1 and 2 have yielded strong results and some specific activities of component 3 have had a positive impact as well.

Technical assistance in the form of consultants and advisors was instrumental in enhancing the capacities of personnel at TPD to advance the tax policy reform agenda. Top-notch consultants and advisors with extensive experience were contracted to provide high-level expertise to TPD and URA. Similarly, the trainings (capacity building) were key in equipping TPD knowledge and skills to review old tax laws and in the re-writing on the new VAT law. At URA, the trainings were vital in equipping staff with the know-how to carry out complex audits. As a result, systems for tax administration improved in general terms. Progress was also registered in tax policy reforms, with the rewriting of the VAT law and formulation of Uganda's model DTA, and the review of primary tax laws, including the Excise Duty and Income Tax laws. It is worth noting that at national level, the most impactful interventions toward enhancing revenue streams were the implementation of new debt collection procedures, the review of the excise duty administration system, the capacity enhancement of URA staff in VAT field audits, and the development of a property owner's database and the rental tax register. At the sub-national level, automation of revenue collection systems, the digitization of local taxpayers' registers, and the property valuation roll were critical for improved tax administration.

Regarding the enhancement of the public-private dialogue, the stakeholders' consultations conducted by DRM4D-supported CSOs led to the submission of policy briefs, position papers, and memoranda to MoFPED and Parliament on necessary reforms in the primary tax laws, DTAs, tax expenditures, and allocation of budgets to the health, education, and agriculture sectors.

5. RECOMMENDATIONS

The following actions are recommended for consideration in the ongoing DRM4D implementation.

RECOMMENDATIONS TO THE DRM4D TEAM

- 1) Work with MoFPED to speed up the presentation of the VAT (Amendment) Bill 2022 to Cabinet and Parliament. The preparations may include preparing the documentation required to obtain a non-objection from the MoJCA, the development of a paper setting out the principles for the new VAT law, preparation or review of the Cabinet Paper, and a PowerPoint presentation to Cabinet.
- 2) Enhance TPD's capacity for tax policy modeling. This may include developing simulations that produce (a) year-by-year revenue and distributional estimates, (b) estimates of how current and proposed tax policies will affect revenues, (c) distribution of tax burden, and (d) tax liability under current law and under alternative policy proposals.
- 3) Work with key MoFPED, MoTI, and URA to draft regulations for checking illicit trade in excisable products and transfer of some of the informal sector into a formal excise tax regime.
- 4) Expand support to property valuation in the ten cities, with a special focus on taxpayer education, response to concerns of property owners, adjudication of disputes arising assessments, and application of digital tools in the collection of property tax.
- 5) Support URA's rental tax unit in the analysis and modeling of data on taxpayers in the rental income sector.
- 6) Convene meetings and conferences for the civil society and private sector stakeholders to build consensus on the agenda and priority areas for tax policy and tax administration.

RECOMMENDATIONS TO USAID

- 1) To influence FY 2023/24 national budget, adopt an integrated, cross-sectoral approach to budget advocacy that harnesses the influence and access of the USAID' Health, Education, and Economic Growth teams.
- 2) Initiate diplomatic engagements to lobby for larger shares of the growing resource envelope for the health, education, and agriculture sectors.

ANNEXES

ANNEX I: SCOPE OF WORK

Activity Background

USAID/Uganda Domestic Revenue Mobilization for Development (DRM4D) is a 5-year activity implemented by Nathan Associates Inc. in partnership with subcontractor Cardno Emerging Markets. It builds on a successful 18-month pilot that ended in 2018 which was highly appreciated by the Uganda Revenue Authority (URA) and the Ministry of Finance, Planning and Economic Development (MoFPED). The DRM4D activity has been implemented under USAID/Uganda's 2016-2021 Country Development Cooperation Strategy (CDCS). Its major goal is "Uganda's Systems Are Accelerating Inclusive Education, Health and Economic Outcomes" and it has resilience, demographics, and systems strengthening as its major themes.

The activity strategically combines grants and technical assistance to achieve activity objectives. The implementation commenced on January 21, 2020, and will run until January 20, 2025. As of May 20, 2022, the activity has completed two years and four months of implementation which is almost the mid-point of its period of performance.

Activity Rationale

The goal of DRM4D is to strengthen the tax culture, increase voluntary compliance, and sustainably increase domestic revenue mobilization (DRM), thereby creating the fiscal space for public spending and investments in service delivery. The activity 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. The activity comprises 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 was designed to equip MoFPED, 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:

This component was designed to focus 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 operationalising the key administrative tenets of the DRMS. At the sub-national level, the focus has been on the identification of options for tax and non-tax revenue mobilization for a selected number of local governments.

Component 3: Public-Private Dialogue Enhanced:

The component was 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. It aimed at ensuring that the 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 on social expenditure.

Intervention Logic

The development hypothesis underlying DRM4D's execution 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 expenditure on fundamental priority sectors such as health, education, and agriculture. However, the intervention logic relies heavily on causal linkages within and between

the three program components. Together, outputs and outcomes are achieved that contribute to the achievement of the objectives of the activity. Below the component, specific TOCs are summarized.

- i) If DRM4D equips the MoFPED, 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, then tax policy will have been strengthened and this will lead to increased tax and non-tax revenue which will create the fiscal space for increased public spending and investment in services delivery across the health, education, and agriculture sectors.
- ii) If DRM4D provides technical support to URA and the districts (ten cities) with interventions that include the development of effective debt management policies, enhancing human resources systems, structures, and staff integrity, strengthening information and technology (IT) systems, strengthening communications and taxpayer education, strengthening taxpayer services, work with the Ministry of Local Government (MoLG) to support property valuation in the cities and strengthening the capacity of staff to do professional tax audits, this will widen the tax and non-tax revenue base at both national and sub-national level, and if DRM4D engages with URA in desk audits and external audit, in the rental income sector, in the VAT Field Audit, and the Complex Audit Intervention, this will lead to increased revenue and reduced losses due to non-compliance.
- iii) If DRM4D engages with CSOs and non-state actors in the identification of the issues for advocacy as well as prioritizing formal advocacy engagements with government, then this will ensure that DRM becomes part of CSO demands and this leads to an improvement in the allocation of resources to the poverty-reducing sectors of health, education, and agriculture.

STUDY DESIGN

Purpose

The implementation of DRM4D activity is nearing the mid-point, thus necessitating a review of what was planned and what has been achieved. The main purpose of the review is to analyze and learn from observed DRM4D contributions to several key outcomes. The specific objectives include:

- a) to learn which DRM4D interventions have meaningfully contributed to key outcomes, which interventions have not been successful and why.
- b) to support the adaptive management of the activity by providing insights into hindering and enabling factors as well as unintended consequences of interventions.

The review will provide recommendations on key areas of focus for the remaining performance period.

RESEARCH QUESTIONS

The key mid-term review (MTR) questions are:

- 1) What aspects of DRM4D's support towards enhancing national and sub-national revenue streams have been most impactful, and why?
- 2) What factors have enabled or constrained progress towards tax policy reforms and why?
- 3) Were there any unintended outcomes of DRM4D interventions, whether positive or negative? How did these emerge? What should DRM4D do to address the negative outcomes?

- 4) What are the current key drivers of actual government allocation of resources and why? Which of these drivers is DRM4D able to influence and how?
- 5) What areas (if any) has the Government of Uganda identified as priority areas for further widening of the tax base? What opportunities do these create for DRM4D's work?

APPROACH

The study design will adopt a mixed-methods approach blending the realist evaluation method¹⁸ and key informant interviews. Using the mixed-methods approach, the MTR Team will hypothesize how the causal processes and mechanisms are likely to operate, the contexts in which they might operate, and the outcomes that will be observed if they operate as expected. This is a participatory approach, stakeholders are involved in identifying, defining, validating, analysing and interpreting outcomes, in complex and dynamic environments, where the pathways to change may largely not be clear or undetermined. Additionally, the methodology will allow the identification of both intended and unintended outcomes, while describing and comparing the processes that lead to them. Thus, the MTR Team will be able to ascertain critical factors affecting the achievement of desired changes in a series of logical steps as proposed below.

ULA proposes applying the mixed-methods approach through the following steps:

Step 1: Map the theory of change and the risks to it based on the program documentation reviews/desk research.

Step 2: Gather existing evidence on the theory of change through key informant interviews (KIs), i.e., implementing partner (IP) staff and USAID staff (redacted).

Step 3: Assemble and assess the contribution story, and constraints to tax policy reforms, through interviews with activity stakeholders (e.g., URA and MoFPED staff etc.), and by reviewing activity reports, studies, URA reports/documents, MoFPED reports/documents etc. ULA, with the support of two TDYs, conducts KIs with potential validators

Step 4: Seek out additional evidence through national (URA, MoFPED and CSOs/Private sector) and sub-national workshops with stakeholders (Local Governments /cities levels). ULA, with the support of two TDYs, will facilitate a sub-national workshop to assess the contribution story.

Step 5: Revise and strengthen the contribution story based on the triangulation of evidence from multiple sources.

Step 6: Evidence sharing and or validation with stakeholders at the national level workshop. A national level workshop including URA, MoFPED, officials from the ten cities and CSOs/Private Sector entities will be organized to enrich the findings and corroborate some of the data emerging from the desk research and KIs. The national workshop will also be used to jointly draft recommendations.

This step-by-step process tracing will help to (a) understand how DRM4D interventions have contributed to suggested outcomes, (b) discuss enabling and hindering factors, (c) identify unintended consequences of DRM4D's interventions, and (d) identify factors underlying the government resource allocation, (e) explore opportunities for DRM4D to influence resource allocation to poverty-reducing sectors of health, education, and agriculture, and f) identify priority areas for widening the tax base.

ULA believes that with the proposed six steps above we will ably generate answers to study questions 1-3. To address questions 4 and 5, ULA proposes conducting KIs with URA staff, officials from regional cities, and MoFPED. Specifically, KIs with MoFPED officials will explore (a) factors and justification underlying the government resource allocation, (b) budget allocation determinants open to programmatic intervention or influence, (c) the government's ambition of widening the tax base,

¹⁸ The realist evaluation method draws from Pawson and Tilley's seminal work, *Realistic Evaluation* (1997). The realistic evaluation method is a member of the family of theory-based evaluation approaches. This approach starts by tracing the intervention logic and then clarifying how program activities are understood to cause (or contribute to) outcomes. The advantage of using a realist evaluation approach is as much to test and refine the program theory of change as it is to determine the observable program outcomes. Pawson, R. and Tilley, N. (1997) *Realistic Evaluation*, Sage.

and (d) opportunities for DRM4D to play a positive role in growing the national and sub-national tax base.

LIMITATIONS

- Like most theory-based approaches, the realist evaluation method suffers from time proximity bias. More recent changes are easier to describe in more detail than those emerging earlier. This type of bias specifically involves a respondent's inability to recall details and/or the fact that earlier staff have left/activities are no longer active. The MTR Team will mitigate this bias by conducting a thorough analysis of the activity documentation.
- Due to the qualitative nature of the adopted method, the collection of contribution stories may be strongly influenced by differences in perceptions and opinions. Personal biases may distort how causal processes present themselves to individual interviewers. Such threats to the internal validity of contribution stories will be mitigated through a standardized validation process that involves the joint review of contribution stories and, wherever possible, the triangulation of stakeholder perspectives.

ETHICAL CONSIDERATIONS

This MTR is an internal performance review exercise that seeks to analyze the implementation of DRM4D interventions to date and learn from observed results. For this MTR, humans aren't the subject of the study because the DRM4D activity focuses on institutional strengthening (in tax policy and tax administration) as the primary pathway toward revenue enhancement. The review constitutes a low risk to the participants because it does not fall in the following categorizations: a) clinical investigations, b) social-behavioural studies, c) study of the biology of persons or organs and specimens, and d) systematic collection, storage, and analysis of data on humans. This, therefore, means that it's exempt from approval by the institutional review board (IRB). However, we will comply with ethical considerations in the conduct of this review, such as ensuring voluntary participation, the anonymity of identity of participants, prevention of access to transcripts and data by non-study team members, etc.

WORK PLAN

This work plan assumes that the extended concept note is approved by June 10 and TDYs will be available to support data collection between July 4 and 15.

Phase	June					July					August					Sept
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Inception																
Desk research and Klls		X	X	X												
Concept note		10														
Data collection/analysis																
Fieldwork preparation (scheduling etc.)						X										
Data collection (national & regional)							X	X	X							
Regional workshop									28							
Data analysis								X	X	X						
Reporting																
Preliminary findings presentation												16				
Writing											X	X	X			
Study report (draft/final)														29	7	
Dissemination																
National workshop														31		

*Numbers in the cells refer to the days of the respective month.

ROLES AND RESPONSIBILITIES

The MTR Team will largely consist of ULA and USAID staff with experience in MTR and evaluation design. The workload will be shared across the team, with each member taking lead roles for individual tasks. The team members and their areas of focus are outlined below.

Gilbert Matabi (Task Lead): Gilbert will coordinate the entire process, contribute to the preparation of the concept note, lead the review of DRM4D documentation, contribute to the design of data collection tools, co-facilitate the workshops, lead data collection, and provide additional analyses in the reporting phase. Additionally, he will lead the writing of the MTR report.

Wolf Stuppert: Wolf will support the writing of the concept note and the design of data collection tools, co-facilitate the workshops, support data collection, and contribute to the analysis of the qualitative data.

Augustine Wandera: Augustine will provide quality assurance by reviewing all outputs and deliverables to ensure they correspond to the SOW and extended concept note and meet USAID quality standards. In this role, he will set up and facilitate coordination or feedback meetings with the Mission.

Francis O. Okello (COP): Francis will provide overall quality assurance by reviewing all outputs and deliverables to ensure they meet ULA/QED and USAID quality standards. In this role, he will be responsible for submitting all deliverables to the Mission.

USAID TDYers: The USAID TDYers will participate in most aspects of the MTR as subject matter experts in DRM and FSR. They will participate in data collection by conducting some of the KIIs.

USAID/Uganda DRG: Mission staff will review and approve the extended concept note and all deliverables of the MTR. The DRG staff will participate as respondents and observers in the review process.

DRM4D Implementing Partner: The implementing partner will provide program documentation, participate in the workshops, provide contacts to and mobilize stakeholders, provide feedback on preliminary findings, and lead the organization of the regional and national level workshops

ANNEX II: PROPERTY VALUATION STATUS BY CITY (JUNE 30, 2022)

Region	City	Properties valued	Target	Performance (% of target)
Western	Hoima	12,019	12,000	100%
	Masaka	17,568	18,000	98%
	Mbarara	28,249	30,000	94%
	Fort Portal	5,590	7,000	80%
Eastern	Mbale	24,568	25,000	98%
	Soroti	9,100	9,800	93%
	Jinja	10,637	14,000	76%
Northern	Arua	11,192	11,500	97%
	Gulu	7,811	9,000	87%
	Lira	11,292	13,000	87%

ANNEX III: PEOPLE INTERVIEWED

No.	Title	Business area	Institution
1	Redacted	All	MoFPED
2	Redacted	Excise Duty/Tax Policy	MoFPED
3	Redacted	VAT	MoFPED
4	Redacted	Excise Duty	MoFPED
5	Redacted	Income tax – DTAs	MoFPED
6	Redacted	VAT	MoFPED
7	Commissioner, Redacted	URA	URA
8	Commissioner, Redacted		URA
9	Redacted	Human Resources	URA
10	Redacted	Learning and Development	URA
11	Redacted	Redacted	URA
12	Manager, Redacted	Redacted	URA
13	Officer, Redacted	Redacted	URA
14	Manager, Redacted	Redacted	URA
15	Redacted	LTO Audits/excise Duty	URA
16	Redacted	Excise Digital tracking	URA
17	Redacted, Medium Tax Office	MTO Audits/Excise	URA
18	Redacted, Large Taxpayers office	LTO Audits/excise Duty	URA
19	Manager, Redacted	Communications	URA
20	Manager, Redacted	Tax Education	URA
21	Supervisor, Redacted	Communications	URA
22	Redacted	Communications	URA
23	Redacted	Business Policy	URA
24	Redacted	Business Policy	URA
25	Redacted, Central Audit Centre	Risk management	URA
26	Redacted, Central Audit Centre	Compliance audits	URA
27	Redacted, Central Audit Centre	Compliance audits	URA
28	Redacted, Central Audit Centre	Compliance audits	URA
29	Redacted, Central Audit Centre	Compliance audits	URA
30	Redacted, Central Audit Centre	Compliance audits	URA
31	Manager, Redacted	Business transformation	URA
32	Manager, Redacted	Project management office	URA
33	Supervisor, Redacted	Strategy office	URA
34	Manager, Redacted	Ag. Exec. Assistant, CG	URA
35	Officer, Redacted	Head of Protocol	URA
36	Redacted	Overall political Head	Hoima
37	Redacted	Council member	Hoima
38	Redacted	Overall technical Head	Hoima
39	Redacted		Hoima
40	Redacted	Revenue Department	Hoima
41	Redacted	Finance	Hoima
42	Redacted		Hoima
43	Redacted	Council member	Hoima
44	Redacted		Fort Portal
45	Redacted		Fort Portal
46	Redacted		Fort Portal
47	Redacted, Central Division		Fort Portal
48	Redacted		Fort Portal

49	Redacted, Northern Division		Fort Portal
50	Redacted, Central division		Fort Portal
51	Redacted		Fort Portal
52	Redacted		Fort Portal
53	Redacted, North Division		Fort Portal
54	Redacted, Central Division		Fort Portal
55	Redacted		Fort Portal
56	Redacted		Fort Portal
57	Redacted		Fort Portal
58	Redacted	Kabundire Market	Fort Portal
59	Redacted	Kabundire market	Fort Portal
60	Redacted Vendor	Kabundire Market	Fort Portal
61	Vendor	Kabundire Market	Fort Portal
62	Redacted		Mbarara
63	Redacted		Mbarara
64	Redacted		Mbarara
65	Redacted		Masaka
66	Redacted		Masaka
67	Redacted		Masaka
68	Redacted		Masaka
69	Secretary. Redacted		Masaka
70	Personal Assistant to Redacted		Fort Portal
71	Redacted, Local Government Revenues and Research	Local Government Finance Commission	LGFC
72	Redacted Urban Administrator		MoLG
73	Redacted Urban Inspector		MoLG
74	Redacted Manager	Training & Projects	UMA
75	Project Officer	Projects	UMA
76	Project Officer	Projects	UMA
77	Program Manager		SEATINI
78	Program Officer		SEATINI
79	Program Officer		SEATINI
80	Program Officer		ACODE
81	Redacted Expert		ACODE
82	Redacted		ACODE
83	Research Officer		ACODE
84	Redacted		CSBAG
85	Redacted		CSBAG
86	Program Coordinator		CSBAG
87	Project Officer		USSIA
88	Redacted		USSIA
89	Redacted		DRM4D
90	Redacted		DRM4D
91	Redacted		DRM4D
92	Redacted		DRM4D
93	Redacted		DRM4D
94	Redacted		DRM4D
95	Director, Redacted		DRM4D
96	Redacted DRM4D		USAID
97	Redacted		USAID

ANNEX IV: THEORY OF CHANGE MAP

(Redacted)

ANNEX V: KEY POINTS FROM DRM4D'S REGIONAL WORKSHOPS IN EASTERN AND NORTHERN UGANDA

Introduction

Since February 2020, the DRM4D activity has implemented the following interventions in the ten cities of Arua, Fort Portal, Gulu, Hoima, Lira, Masaka, Mbale, Mbarara, Jinja, and Soroti. The goal of the interventions was to develop sustainable revenue administration strategies and to introduce reforms that would lead to improvements in own source revenues (OSRs):

- i) Mass property valuation,
- ii) Digitization of valuation rolls,
- iii) Revenue administration infrastructure development (taxpayers' database management),
- iv) Digitization /automation of revenue administration (digitized assessments, electronic billing and revenue collection, payments receipts and reminders, and accountability),
- v) Capacity building (training) of city key staff in revenue administration.

The DRM4D activity reached the mid-point of its period of performance in June 2022 and in July 2022, USAID /Uganda commissioned a mid-term review (MTR) that was conducted by the Uganda Learning Activity (ULA) and supported by the DRG office at USAID/Uganda. The purpose of the MTR was to analyze and appreciate DRM4D's contributions to domestic revenue mobilization efforts. More specifically, to learn about interventions that have or have not meaningfully contributed to outcomes, and to provide

insights into hindering and enabling factors, and unintended consequences of the interventions to inform adaptive management. The methodology for the MTR included conducting one Regional Workshop whose agenda included group discussions and plenary deliberations with

representatives from four (4) DRM4D-supported cities of Western Uganda (Fort Portal, Hoima and Mbarara), and Masaka City in Central Uganda. Inspired by the outcomes of the Regional Workshop conducted in Fort Portal City on July 12, 2022, the DRM4D Activity organized two similar workshops, one in Eastern Uganda on October 18, 2022, for Soroti, Mbale and Jinja cities, and one in Northern Uganda on November 08, 2022, for Arua, Lira, and Gulu cities. The purpose of the Regional Workshops conducted by the DRM4D activity was to create an opportunity for cities to share experiences and best practices in local revenue mobilization, and to draw lessons to inform revenue mobilization interventions. The two workshops in Mbale and Gulu cities mirrored the approach taken in the MTR: the agenda was the same, similar categories of participants attended, and most importantly, the reflection questions were identical. Participants at the regional workshops included City Mayors, Town Clerks, district Heads of the Finance department, district Heads of the Revenue department, Commissioners from the ministries of trade and Local Government, regional managers of Uganda Revenue Authority, representatives of civil society the staff of DRM4D and ULA. The agenda for the regional workshops included, among other things:

- i) A presentation/overview of DRM4D's work within the cities
- ii) Group discussions and experience sharing
- iii) A plenary Session/report back from each group
- iv) A presentation by the Ministry of Local Government policy direction on domestic revenue mobilization

Groupwork Questions

1. What major changes in tax administration and local resource mobilization have you experienced in your city since February 2020?
2. How did this change come about?
 - How did the DRM4D activity contribute to the change?
3. What aspects of DRM4D support are positively contributing to local revenue collection?
4. What have you observed as the key drivers of resource allocation?
 - Which of these drivers/factors can DRM4D influence? How?

- v) A presentation by the Ministry of Trade, Industry and Cooperatives (Grading of Business Areas guide)
- vi) A presentation on perspectives and lessons from URA
- vii) Key takeaways for each of the cities /next steps

Outcomes from the Northern and Eastern Regional Workshops.

The two regional workshops provided an opportunity to collect additional data for the DRM4D's MTR. ULA supported the workshops by facilitating group discussions at the workshops, documenting the deliberations during the report-out/plenary sessions, and analyzing the notes to extract key highlights. Based on the data gathered, it was clear that DRM4D's interventions resulted in increased revenue collection in all cities except Mbale. The interventions supported the collection of market dues and street parking fees, property tax valuation and business licenses. In addition, participants generally acknowledged that the provision of highly demanded public services and the improved transparency in the accountability of collected revenue enhanced voluntary compliance. Additionally, DRM4D-supported activities created opportunities for further collaboration amongst cities, especially with Kampala City Council Authority to draft a law to govern outdoor advertising and street parking fees. Finally, the Northern Uganda (Gulu) and Eastern Uganda (Mbale) regional workshops validated the findings outlined below, related to structures, systems and outcomes of domestic revenue mobilization.

a) Areas of overlap across the ten¹⁹ cities

- i) *Digitization of Revenue Administration Systems:* As was the case in Central and Western Uganda, digitization or automation of revenue administration systems and processes took place in all cities. In all three Eastern Uganda cities (Jinja, Mbale and Soroti), and all three Northern Uganda cities, (Arua, Lira and Gulu), digitization of revenue administration was impactful. All groups agreed that digitization of revenue collection, especially of taxpayers' registers, increased transparency, reduced revenue leakages and standardized tax assessments, improved access to revenue collection information and consequently encouraged voluntary compliance among taxpayers.
- ii) *Migration of Revenue Administration to E-platforms:* All cities except Jinja²⁰ have migrated valuation rolls, street parking fees and market dues collection to the Integrated Revenue Administration System (IRAS). The adoption of E-platforms for revenue collection enabled the cities' leadership, both political and technical, to monitor revenue performances (obtain daily tax collection updates in real-time). E-platforms increased access to revenue performance data and effective monitoring of contributions of all probable revenue sources.
- iii) *Property Valuation Roll:* Similar to Central and Western Uganda, the property valuation exercise took place in all cities in Eastern and Northern Uganda. However, cities were at different stages of completion, with some having posted initial property assessment results for public viewing, set up evaluation courts and /or uploaded property rates into the IRAS. The mass property valuation exercise was regarded as a big step toward local revenue mobilization.
- iv) *Increase in the Main Revenue Streams for Cities:* Except for Mbale all cities in Eastern and Northern Uganda experienced an increase in revenue collection, largely from property tax, market levies, and business license fees. The increase was attributed to the digitization of the revenue collection systems. For instance, the cities of Soroti and Jinja

¹⁹ Arua, Fort Portal, Gulu, Hoima, Jinja, Lira, Masaka, Mbale, Mbarara, and Soroti

²⁰ Jinja City uses E-LogRev

attribute the increase in revenue to full digitization using (IRAS) and E-LogRev²¹ respectively. Due to digitization, Soroti collected UGX 280 million within two months, while previously, they were only collecting UGX 8 million per month using manual revenue collection practices. The poor performance of Mbale City (collection of UGX 2.93 bns for FY 2020/21 in comparison with UGX 1.63 bns for FY 2021/22 equivalent to UGX 1.3 bns shortfall) was partly attributed to a lack of full digitization of its revenue administration systems and processes.

- v) *Allocation of locally Mobilized Revenue to Local Service Delivery Needs:* In most cities in Eastern and Northern Uganda, locally raised revenue was allocated to local priorities such as garbage collection, sanitation, and street lighting, which are the least funded from conditional grants. In all cases, the allocation of locally raised revenue was influenced by political pressure and taxpayers' demands i.e., market vendors' demand for garbage collection.
- vi) *Enhanced Tax Education:* The DRM4D activities worked with cities to develop strategies to increase taxpayers' understanding of the taxation system and to increase motivation for voluntary compliance. Technical staff across all cities unanimously reported that continuous tax education has resulted in improved taxpayer compliance. In Soroti, Mbale and Jinja cities, tax education involved civil society organizations (CSOs) and increased interactions between taxpayers and the cities' technical teams.
- vii) *Development of Domestic Revenue Improvement Plans (DRIPs):* Cities in Eastern and Northern Uganda reported that revenue collection improvement plans provided a framework to conduct taxpayer education campaigns and property valuation. The DRIPs helped to guide local revenue mobilization efforts.
- viii) *Creation of Independent Revenue Mobilization Departments:* Motivated by the need to enhance revenue collection, and similar to Western Uganda, Lira, Mbale, Jinja and Soroti established revenue mobilization departments headed by Chief Revenue Officers. This strategy required recruiting additional personnel to manage the local revenue collection.
- ix) *Enhanced Capacity building:* Capacity building training sessions conducted by DRM4D enhanced planning and efficiencies in revenue administration in all cities. The training sessions focused on the digitization of taxpayers' registers and property valuation.
- x) *Improved Working Relationship Between Political Leaders and Technical Staff:* Good working relationships exist between the technical teams and the politicians in all the cities, resulting in improved revenue collection teamwork. The top layers of the political leadership within the ten cities participated in tax education, budgeting processes and the development of the DRIPs.

b) Variations Across Regions

The following differences arose between the Fort Portal Regional Workshop and the Eastern (Mbale) and Northern (Gulu) Regional workshops:

²¹ E-LogRev is the automated Revenue Management System launched by the Ministry of Local Government in 2017 for use by urban authorities for local taxpayers' registration, payment assessments, e-payment, reconciliation, enforcement, reporting and integration with other government agencies.

- i) *Fall in Revenue Collection:* In FY 2021/22 revenue collection in Mbale City declined. Mbale city's poor performance was (details provided above), on one hand, attributed to changes in (transfers of) key personnel shortly after the COVID-19 lockdown, but also accredited to low digitization of revenue administration systems. The incumbent official lamented that Mbale was the only city still conducting manual tax assessments – leaving the revenue collection processes open to corrupt practices and revenue leakages.
- ii) *Manipulation of the E-platforms for Revenue Administration:* Soroti, Lira and Arua cities revealed that revenue collection agents and some taxpayers manipulated the IRAS to fake invoices and payment receipts. Although the magnitude of this practice is still unknown (yet to be investigated) it warrants acknowledgment.
- iii) *Political Interference Undermined Mass Property Valuation:* Jinja City decried political actors within the city that mobilized property owners to resist the property valuation exercise.
- iv) *Additional Revenue Sources:* Participants from Arua and Gulu cities reported that physical planning (building plan approval/permits), land, and hotel fees were included by cities' administration as additional revenue resources, and consequently added into the IRAS. However, collecting hotel fees and market dues from vendors was contracted out to increase the efficiency of collections. To motivate collection efficiency, the contracted revenue collectors (enforcement squad) are either paid *Safari Day Allowance* or ten percent of the collected amount upon completion of Bank reconciliations. In some cases, cities have found ways to collect additional revenues by circumventing existing policies. For instance, Lira City exploited a grey area within the public transport policy to collect Bus Park fees under the guise of the *Bus Park Development Fee*.
- v) *Increased Transparency and Public Accountability:* It was reported that Arua city conducts monthly public revenue collection meetings. At these public accountability and dialogue meetings, tax collection limits were displayed, and revenue collection performance was assessed by all stakeholders. These interactions between city authorities and the business community helped to build trust between the taxpayers and the city councils. Specifically, Lira and Gulu cities conducted quarterly revenue mobilization meetings to discuss city development plans, revenue mobilization strategies and remittances to Local Councils one (LC I) and two (LC II).

c) Proposed Mitigation Measures/Recommendations

Considering the existing revenue mobilization challenges, the Mbale and Gulu Regional Workshops proposed the following actions and or mitigation measures that were different or did not come up in the Fort Portal workshop

Challenge /Shortcoming	Recommended action
<p>1) Shortcomings of Revenue Administration E-Platforms Manipulation of IRAS to fraudulently generate receipts/invoices. Some revenue collection agents and taxpayers forge IRAS receipts /invoices.</p> <p>In Jinja, the Electronic Fiscal Receipt Invoicing solution (EFRIS) does not provide real-time reconciliation with URA data.</p>	<ul style="list-style-type: none"> • The Ministry of Local Government (MoLG) could upgrade the IRAS in all cities with a version containing enhanced security features and anti-fraud checks. • All cities could adopt E-LogRev which is not easy to manipulate compared to IRAS. • The MoLG could upgrade the EFRIS to connect to social media platforms for effective monitoring by city authorities.
<p>2) Politician-led Resistance Regarding the Payment of Taxes and Non-Tax Dues</p>	<ul style="list-style-type: none"> • City authorities could launch campaigns that link revenue collection /taxes payment to service delivery.

<p>Local politicians incite and mobilize city residents and traders to not pay taxes or non-tax dues.</p>	<ul style="list-style-type: none"> • Cities could promote the formation of property owners' associations as a vehicle for resource mobilization. • De-personalize the tax education messages i.e. 'the city has decided' so that political actors are bound by collective responsibility.
<p>3) Narrow Revenue Base</p> <p>The cities are challenged with limited sources of revenue.</p>	<ul style="list-style-type: none"> • Cities could add non-traditional revenue sources to the IRAS that were previously not collected e.g. outdoor advertising, textiles, penalties, physical development permits fees, hotel fees, etc. • The MoLG working with the Local Government Finance Commission (LGFC) should draft a law to address the collection of dues from taxi and bus parks.
<p>4) Time-Barred Tax Assessments</p> <p>Tax assessments expire after 28 days as stipulated by the current statutory guidelines.</p>	<ul style="list-style-type: none"> • The MoLG could revise the guidelines and grant the cities the liberty a) to extend the payments throughout the financial year and b) re-configure the IRAS to have an inbuilt penalty for late payment.
<p>5) Limited Funds to Invest in Revenue Collection</p> <p>Cities lack funds to finance the enforcement of revenue collection.</p>	<ul style="list-style-type: none"> • The cities should use the proportion of the collected revenue to pay allowances of the enforcement teams or alternatively payout a percentage of the amount collected.

d) Conclusion

All cities, except Mbale, have increased revenue collection, especially collections from property tax, market levies, business licenses and street parking fees. Overall, the DRM4D-supported interventions have opened opportunities for collaboration between cities and with Kampala City Council Authority on drafting the law to govern outdoor advertising and street parking fees. However, in the future, there is a need to increase investment in revenue collection infrastructures such as computers, i-Pads and point-of-sale machines; digitization was acknowledged as a key factor significantly improving local revenue collection. Lastly, initiatives that improve public accountability and transparency in managing collected revenue, and the provision of demanded public good /services have enhanced voluntary compliance.