

**2024 -
June**

UGANDA

Component: Revenue

Module: RM I – Tax Policy

RM II – Revenue Administration

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PROJECT SUMMARY	
COUNTRY:	Uganda
LEAD DEPARTMENT:	FAD
REGION:	AFR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 - FY26
FUNDING PROGRAM TITLE:	GPFP Uganda
PROJECT MANAGERS:	
RM I – TAX POLICY:	Thornton Matheson (Lead)
RM II - REVENUE ADMINISTRATION:	Dumisani Masilela
ESTIMATED BUDGET	\$462,466
BUDGET FOR ENDORSEMENT:	\$297,931

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ACRONYMS

CD	Capacity development
DRMS	Domestic revenue mobilization strategy
FADR2	Fiscal Affairs Department's Revenue Administration 2 Division
FADT2	Fiscal Affairs Department's Tax Policy 2 Division
LTX	Long-term expert
MoFPED	Ministry of Finance, Planning and Economic Development
MTRS	Medium-term revenue strategy
STX	Short-term expert
URA	Uganda Revenue Authority

I. PROJECT PURPOSE

Uganda's third National Development Plan, adopted in 2020 and supported by the IMF's current extended credit facility (ECF) arrangement, is a multi-year fiscal consolidation to create space for priority social and infrastructure spending. The main element of the fiscal strategy agreed under these rubrics is the medium-term revenue strategy (MTRS), as expressed in the domestic revenue mobilization strategy (DRMS). The DRMS envisages increasing domestic revenue to 16-18 percent of GDP from the current level of around 14 percent, which is below the average for regional peers. A key pillar of this is raising revenues through successful rationalization of tax expenditures and improvements in the revenue administration, where estimates suggest large potential gains.

The proposed Global Public Finance Partnership (GFPF) would support Uganda's fiscal consolidation with capacity development (CD) on both tax policy and revenue administration. The Ministry of Finance, Planning and Economic Development (MoFPED) and the Uganda Revenue Authority (URA) are in the process of extending and reforming their DRMS and will require sustained assistance with this effort over the medium term. The current DRMS expires in 2023/24 and needs to be extended. Rationalization of excise tax expenditures could help reduce carbon emissions.

The MoFPED has requested tax policy CD to inform DRMS reform and continue past support on tax expenditure costing, evaluation, and reform. In FY26, the coverage could be broadened to include local government taxation and/or ongoing tax policy CD on extractive industries to advance revenue-raising goals.

The revenue administration CD will support this endeavor in several capacities: Increasing the technical capacity of the URA and its officials in the areas of Compliance Risk Management; IT project management and procurement; audit and investigation of digital services; and strategies to mobilize revenue from the informal sector.

The estimated budget for this two-year project is \$464,466, and endorsement is requested for \$297,931 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

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II. BACKGROUND

Macro-fiscal situation

Uganda's current economic outlook is positive but subject to downside risks including lower external financing and tourism revenues and climate shocks to agriculture. Public debt currently stands at just under 50 percent of GDP. Uganda's Vision 2040 is implemented through Medium-term National Development Plans, the third of which was adopted in 2020. To reduce fiscal risk and raise revenue to finance sustainable development goals, the government envisages increasing domestic revenue to 16-18 percent of GDP from the current level of around 14 percent. To that end, the authorities are implementing a strong public finance management reform strategy, which aims to deliver their development objectives while ensuring fiscal sustainability. The IMF's extended credit facility continues to support fiscal consolidation, which includes reforms to improve governance and facilitate private sector-led growth. The authorities' commitment to fiscal reforms, including tax system strengthening, will help secure consolidation gains and lower reliance on costly domestic and external financing.

Country engagement and alignment to reform priorities

The main element of Uganda's fiscal strategy is the medium-term revenue strategy (MTRS) as expressed in the DRMS. (The original DRMS covered the period 2019/20 to 2023/24 but was derailed by COVID-19.) A key pillar of the DRMS is raising revenues through successful rationalization of tax expenditures and improvements in revenue administration, where estimates suggest large potential gains. Despite relatively high statutory tax rates, untargeted exemptions and collection inefficiency result in a low tax-to-GDP ratio compared to peers. As many tax expenditures are offered outside the purview of the revenue authorities, the reforms need broad ministerial support as well as appropriate resources and proper cost-benefit analysis, which the DRMS seeks to achieve. The DRMS should be supported by robust policy measures and anchored on rationalization of tax expenditures and the implementation of a whole of URA Compliance Risk Management Framework, coupled with implementation of a revamped Integrated Tax Administration system (ITAS).

IMF priority areas / cross-cutting themes

Reform of indirect energy subsidies and vehicle taxation, as recommended in the Fiscal Affairs Department's Tax Policy 2 Division (FADT2) 2023 CD report, "Uganda: Tax Expenditure Evaluation and Reform," could help reduce carbon emissions, local air pollution, and other externalities. Follow-up tax expenditure training will include use of the IMF energy subsidies template and IMF/World Bank Climate Policy Assessment (CPAT) Tool.

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III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Uganda in the areas of tax policy and revenue administration. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve Tax Policy Design – TPD • Strengthen Policy Monitoring, Evaluation, and Institutions – TPM
Revenue	RM II / Revenue Administration	• Strengthened revenue administration management and governance arrangements

A. RM I – Tax Policy

Scope

FADT2 will conduct two HQ missions in FY2025-26 focusing on DRMS renovation and tax expenditure reporting and reform. Beginning in FY26, ongoing natural resource revenue work currently funded by the MNRW could be added to this project, as well as reform of local government taxation. The program could also be supported by up to three additional visits by a regional long-term expert (LTX).

Program Objectives

FADT2 support should help identify priority measures for DRMS renovation; improve tax expenditure costing, evaluation, and reform; and help the MoFPED develop a revenue-raising strategy. This could incorporate ongoing reform of natural resource and/or local government revenues.

Expected Results (outcomes)

Expected outcomes of FADT2 CD are: (1) a new DRMS comprising effective and attainable tax reforms to meet revenue goals, including tax expenditure reductions; and (2) enhanced MoFPED/URA staff capacity to evaluate tax expenditures and other tax policy reforms.

B. RM II - Revenue Administration

Scope

The Fiscal Affairs Department's Revenue Administration 2 Division (FADR2) will conduct two missions in FY25-26 on DRMS extension and recalibration of the revenue administration measures. There will be two STX missions each year to support URA with specific interventions in Compliance Improvement Planning and in the strengthening of core tax administration.

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Program Objectives

Emphasis will be placed on supporting URA identify and implement good practice in improving compliance with tax obligations. Focus will be placed on developing capacity to manage the complex sectors of the economy.

Expected Results (outcomes)

(1) A refreshed DRMS comprising updated measures to improve revenue administration and improve collection; and (2) enhanced URA staff capacity to manage compliance of the complicated sectors of the economy.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

FADT2's CD on tax expenditures continues engagement that began with a general diagnostic mission in 2022 and continued with a training and reform strategy mission in 2023. FADT2 also has a long history of advising Uganda on extractive industry revenues. Advising on local government taxation would be a new area of CD.

FADR2 CD will continue work under various other funding arrangements, culminating into the DRMS, scheduled to end in 2023/24. There are new areas that have emerged, which will need to be considered going forward.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings.

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure STX work is aligned to plans, coordinate with other CD providers, and adjust the reform implementation plan.
- **Short-term expert (STX)** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management.
- **Long-term expert (LTX) support.** A regional LTX (**tax policy**) will visit Kampala once in FY2025 and twice in FY2026 to ensure follow-through on tax policy reforms and technical assistance provided in HQ missions. The LTX may also participate in HQ missions. For revenue administration, a long-term advisor based in AFE will guide reform implementation, coordinate technical assistance support, and respond to the authorities' needs in real time. (While the two LTX will provide support toward the objectives of this project, a separate project is endorsed to fund the LTX contract)
- **Workshops.** During the tax policy HQ missions, will provide training on tax expenditure costing and evaluation, and possibly other tax policy unit functions.

C. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
IMF area department country team, IMF Resident Representative, AFRITAC East, FADT2, FADR2	Supporting program benchmarks, joint CD support	Revenue: Domestic Revenue Mobilization Strategy (DRMS), tax expenditure reform	Quarterly or as needed
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
World Bank; TAXDEV (Institute for Fiscal Studies funded by the United Kingdom Foreign, Commonwealth & Development Office); United States Agency for International Development; European Union.	Membership of the Development Partner group under Uganda's Public Finance Management Reform governance forum.	Tax policy and tax expenditure reform and evaluation Tax administration reform (Support to URA)	Quarterly

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
RMI	Failure to better coordinate East African Community trade rules undermines effective excise and tariff reform.	Low	Align excise rates with externalities from harmful goods consumption for both imports and domestic products.
Political Support			
RM I	Parliament opposes reduction of business tax expenditures as anti-growth. Rationalization of consumption taxes resisted to avoid raising living costs of the poor.	Medium	Develop analytical tools to quantify costs of generous tax incentives and public information campaign to publicize their revenue impact. Coordinate with social insurance agencies to compensate poor households for higher consumption taxes.
Management and Technical Staff Support and Commitment			
RM I	MoFPED and URA commitment to tax expenditure reduction and other revenue-raising measures appear substantial. Reform threats appear more likely from political influences.	Low	Support MoFPED and URA management with strategic advice on presentation and phasing of tax reforms; support technical staff with tools to help evaluate current tax policies and design effective reforms.
RM II	Poor engagement and support by Management.	High	Constant follow-up with Management to ensure support.

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General or Module	Description	Risk Assessment	Mitigation Measures
Resource Adequacy			
RM I	MoFPED and URA lack sufficient resources to evaluate, formulate and promote effective tax policy reforms.	Low	Provide CD to develop staff technical skills and set tax reform priorities.
RM II	Human and financial resources, and infrastructure are not available to support reform plans.	High	Assist authorities with prioritization of reform budget.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM I – Tax Policy						
HQ led CD mission	1	1	-	-	-	2
LTX visits	1	2	-	-	-	3
Total	2	3	-	-	-	5
RM II – Revenue Administration						
HQ led CD mission	1	1	-	-	-	2
STX visits	2	2	-	-	-	4
Total	3	3	-	-	-	6

*Resident advisor not added tallied in total activities for RA

Note: In-person delivery was chosen in all instances because of the sensitivity of the CD messages being conveyed.

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Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM I – Tax Policy		
Q2/FY25	Field-Based work	DRM and Tax Expenditure Follow Up – Mission would advise MoFPED on DRMS renovation and tax expenditure reform, provide technical staff with follow-up training on tax expenditure evaluation, and scope needs for local government tax reform.
Q4/FY25	Field-Based work	Regional LTX would follow-up on HQ mission to ensure reforms were progressing on schedule.
RM II - Revenue Administration		
Q1/FY25	Field-Based work	MTRS Development Advisory – The Mission will assist URA review their revenue administration measures in DRMS and recalibrate them.
Q2/FY25	Field-Based work	Special Tagging will assist URA with finalization of Compliance Improvement Plans.
Q3/FY25	Field-Based work	Special Tagging will assist URA with finalization of Compliance Improvement Plans.

VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
RM – I Tax Policy	\$145,061	\$153,771	-	-	-	\$298,832
RM – II Revenue Administration	\$133,379	-	-	-	-	\$133,379
Subtotal	\$278,440	\$153,771	-	-	-	\$432,211
Trust fund management fee (7%)	\$19,491	\$10,764	-	-	-	\$30,255
Total	\$297,931	\$164,535	-	-	-	\$ 462,466

The estimated budget for this four-year project is \$462,466, and endorsement is requested for \$297,931 for FY25.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM I – Tax Policy

Objective	
Improve Tax Policy Design – TPD	
Outcome(s)	Indicator(s)
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures.	Adopt legislation that reduces economic distortions.
Increased/decreased revenue quantity.	Laws implementing amendments to raise revenues are passed.
Objective	
Strengthen Policy Monitoring, Evaluation, and Institutions - TPM	
Outcome(s)	Indicator(s)
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	Improved models to evaluate tax policy adopted.

B. RM II – Revenue Administration

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM	
Outcome(s)	Indicator(s)
Corporate priorities are better managed through effective risk management.	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3).
Support functions enable more effective delivery of strategy and reforms.	Support functions and policies strengthened or in place, including infrastructure, finance, legal, research, and communications.
Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations.	Procedures for internal and/or external review of revenue administration management, governance, and operations are established to produce baselines and identify opportunities for improvement.