

I. COUNTRY REFORM PROGRESS

Uganda has navigated the post-pandemic recovery well due to sound macroeconomic policies. The economic recovery is strengthening with low inflation, favorable agricultural production, and strong industrial and services activity. Growth is estimated at 6 percent in FY23/24, up from 5.3 percent in FY22/23. Headline inflation has increased to 3.9 percent by June 2024, driven by rising energy prices and core inflation, though the latter remains below the Bank of Uganda's target of 5 percent.

Domestic resource mobilization strategy (DRMS) implementation, which was deferred in part due to COVID, has been further extended to 2026/27. The Uganda Revenue Authority (URA) reported some progress in development of the Compliance Improvement Plan (CIP) for Multinational Enterprises (MNE), following recommendations of a mission by the IMF's East Africa Regional Technical Assistance Center (AFE) mission. However, this was later than the date indicated in the agreed benchmarks under the IMF's Extended Credit Facility agreement. The lending program ended in June 2024 with an incomplete 6th review due in part to revenue inadequacy and slow implementation of some structural benchmarks. The authorities requested a new lending program at the 2024 Annual Meetings. The IMF's African Department (AFR) stipulated that additional fiscal space would be needed, so negotiations are ongoing.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY25: No capacity development (CD) activities were delivered during the first half of FY2025. A CD mission on DRMS and tax expenditure analysis requested during the 2024 Spring Meetings was offered for August 2024, but the authorities did not respond. A revised CD request for tax expenditure analysis, revenue forecasting, and local government revenues was placed at the 2024 Annual Meetings.

Next Steps: The FADT2 regional tax policy advisor visited Kampala in November to take stock of existing tax policy capacity, identify gaps and develop a work program. A tax policy mission on tax expenditure analysis, revenue forecasting, and local government revenues has been offered to the authorities for late FY2025. An MNRW-funded natural resource taxation CD mission (petroleum and mining) and workshop will take place in early 2025, and that work will likely be incorporated into the GPFP beginning in FY26.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY25: In collaboration with AFE, a draft CIP for MNEs has been produced. The authorities have indicated that they are undertaking an internal review of the DRMS and will revert with capacity building requirements. They confirmed extension of DRMS 1 implementation to 2026/27.

Next Steps: FADR2 will continue to engage with the URA based on the DRMS 1 measures. A mission is planned for early 2025 to review the output of their internal DRMS 1 review process to determine whether any change in CD prioritization is necessary.

III. LOGICAL FRAMEWORK

Country – Uganda		
RM I: Objective – Improve Tax Policy Design		Rating - 1
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures.	1 Not Achieved	No significant reduction of tax expenditures over the past fiscal year.
Increased/decreased revenue quantity.	2 Partially Achieved	AFR projects tax revenue to have increased by 0.4 percent of GDP between FY2023-24 and FY 2024-25.
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 0
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	1 Not Achieved	CD on tax expenditure evaluation and revenue forecasting has not yet been delivered under the GPFP.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Corporate priorities are better managed through effective risk management.	2 Partially Achieved	An action plan was developed with CD from the IMF. Some CIPs have been produced.
Support functions enable more effective delivery of strategy and reforms	1 Not Achieved	Slow implementation of digitalization strategy delaying progress.
Authorities have a baseline understanding of the current state of the government's revenue administration, management, and governance arrangements and core revenue administration operations	1 Not Achieved	Authorities still conducting internal reviews and yet to clearly define required interventions.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External conditions/climate		
RM I: 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.
Resource Adequacy		
RM I: Ministry of Finance (MoF) and URA lack sufficient resources to evaluate, formulate and promote effective tax policy reforms.	Medium	Provide CD to develop staff technical skills and set tax reform priorities.

Description	Rating	Mitigation Measures
RM II: Human and financial resources, and infrastructure are not available to support reform plans	High	Assist authorities with prioritization of reform budget.
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: MoF and URA commitment to tax expenditure reduction and other revenue-raising measures appear substantial. Reform threats appear more likely from political influences.	Low	Support MoF 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

V. PROJECT MANAGERS CONTACT INFORMATION

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