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Research Report

Report on the tax policy-making process in Uganda

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Advisory Report

Report on the tax policy-making process in Uganda

Christopher J. Wales and Adrienne Lees

December 2020



Acknowledgements

This report is the result of sustained cooperation among several organisations. The authors are grateful to the UK Foreign Commonwealth and Development Office (FCDO) for its financial support for the review through the TAXDEV and DRUM programmes. Our Review represents the first formal collaboration between those two teams and demonstrates the value that can be added by joined-up thinking and joined-up action.

We are also grateful to MFPED and, particularly, to the former Commissioner, Tax Policy Department, Mr Moses Ogwapus, for seeing the need for the work, commissioning it and supporting and assisting us at every stage.

We have relied on the help and wholehearted cooperation of many individuals within and outside the framework of the Government of Uganda. The authors would like to express our thanks to all those who agreed to being interviewed and gave generously of their time. We are very grateful for their help, their insights and their frankness in discussing the issues that we raised with them. We are also grateful to Dr Nicholas O'Donovan of Manchester Metropolitan University for his contribution to some of the thinking behind the Report and to Dr Trevor Evans for his valuable comments.

No review like this can take place without commitment to transparency and openness on the part of Uganda's political leadership. We would like to acknowledge our special thanks to His Excellency, the President and to the Minister of Finance, Planning and Economic Development, for facilitating the Review and for creating a political environment in which the recommendations presented can be considered objectively and implemented appropriately.

We will inevitably have misunderstood some of the many comments made to us. The errors are ours alone and we apologise for them and for any confusion they may create. We tried to double-check and cross-reference information but it is not practical to revalidate every point.

This review is the first of this type to have been carried out in a low-income country. It has been a valuable learning experience for all of us, and the authors hope that it will provide a model for more work of this type in the future.

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Acronyms

BFP	Budget Framework Paper
CFPED	Committee on Finance, Planning and Economic Development
C/TPD	Commissioner, Tax Policy Department
CSBAG	Civil Society Budget Advocacy Group
CSO	civil society organisation
DEA	Directorate of Economic Affairs
EAC	East African Community
FCDO	Department for International Development (UK)
DP	development partner
DRM	domestic resource mobilisation
DRMS	Domestic Revenue Mobilisation Strategy
DRUM	Domestic Revenue Mobilisation Public Investment Management and Transparency Programme
EPRC	Economic Policy Research Centre
FCDO	Foreign Commonwealth and Development Office
FPC	First Parliamentary Counsel, Ministry of Justice and Constitutional Affairs
GDP	gross domestic product
GoU	Government of Uganda
GTPP	generic tax policy process
HIC	high income country
IMF	International Monetary Fund
KPI	key performance indicator
LIC	low-income country
LMICs	low- and middle-income countries
LSD	Legal Services Department
MEPD	Macroeconomic Policy Department
MFPED	Ministry of Finance, Planning and Economic Development
MNC	multinational corporation
MoU	memorandum of understanding
MP	member of parliament

NPA	National Planning Authority
NDP	National Development Plan
NTR	Non-Tax Revenue
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
PBO	Parliamentary Budget Office
PFM	public financial management
PFMA	Public Financial Management Act 2015
PSA	public service agreement
PS/ST	Permanent Secretary/Secretary to the Treasury
TAT	Tax Appeals Tribunal
TAXDEV	FCDO-funded Centre for Tax Analysis in Developing Countries
TER	tax expenditure report
TJNA	Tax Justice Network Africa
ToRs	terms of reference
TPD	Tax Policy Department
UMIC	upper-middle income country
URA	Uganda Revenue Authority
VAT	value added tax

Executive summary

Conclusions and action points

The successful development of the Ugandan economy requires the Government of Uganda (GoU) to go beyond the maintenance of the existing tax system and pursue an interventionist approach to tax policy that encompasses:

- identifying and taking opportunities to raise additional revenues from activities that are currently undertaxed
- providing more sharply focused incentives to attract new investment in priority areas and nudge taxpayers into behavioural change.

Interventionist tax policies are most likely to be successful where they are the product of:

- a highly skilled tax policy department that is open to innovation
- effective cooperation with citizens and businesses in policy design
- close collaboration between different ministries and government agencies and
- an organisational framework that recognises the importance of revenue policy.

This report finds that those preconditions are not currently met. The process through which tax policy is made in Uganda has several weaknesses and requires significant change in order to:

- Improve the quality of tax policy design and related revenue outcomes, which will require more effective collaboration between Ministry of Finance, Planning and Economic Development (MFPED) and the Uganda Revenue Authority (URA), leveraging and upgrading the capabilities of both organisations; and creating a framework to ensure that the agreed Domestic Revenue Mobilisation Strategy (DRMS) is implemented as intended.
- Draw the understanding and knowledge of Ugandan citizens, businesses and academics more effectively into the tax policy-making process. This will require new policy partnerships and a more structured approach to consultation.
- Empower MFPED to work with other ministries and government agencies to devise tax policy that can spearhead the development of solutions to some of GoU's most pressing economic and social policy challenges: promoting sustainable investment, tackling youth unemployment, providing a pathway out of poverty, accelerating agricultural development and upskilling the Ugandan workforce to drive modernisation. This will require a fresh mindset, supported by organisational change.
- Recognise and signal within and outside GoU the importance of well-designed revenue policy to the achievement of its strategic objectives to achieve middle-income status and greater financial independence. This will require organisational and procedural changes supplemented by an effective media strategy.

The report recommends a substantial strengthening of the tax policy-making process, designed to make the Tax Policy Department (TPD) more effective in meeting its current responsibilities and to transform its capability to act as a proactive contributor to cross-government policy initiatives.

The recommendations include:

- making significant organisational changes in order to:

-
- recognise the importance to Uganda of effective revenue policy
 - ensure that MFPED can provide effective political leadership on tax issues
 - release the potential of TPD to re-imagine its role by
 - drawing external inputs into tax policy-making in a more structured manner and encouraging engagement by citizens and businesses
 - reinvigorating the partnership between MFPED and the URA in the policy sphere
 - raising the quality of the data, analysis and modelling capability on which the development of policy options depends
 - enhancing the training of staff involved in tax policy work
 - improving connectivity between TPD and other parts of GoU on key economic and social policy issues
 - re-examining timelines on the revenue side of the budget process to frontload the work and ensure a smoother path to the finalisation of annual budget plans
 - strengthening the participation of local academic researchers
 - using better, smarter communication techniques at every level to support GoU's tax agenda.

Framework for the review

This report was commissioned by Mr Moses Ogwapus, the (now former) Commissioner, Tax Policy Department (C/TPD) in response to issues identified in the DRMS document regarding the tax policy-making process. The objective of the work is summarised in the terms of reference (ToRs) to 'identify the changes to the policy-making process that could add value, not only in terms of the quality of the technical analysis that supports policy decisions, but also in terms of the inclusiveness of the process itself, transparency, gender impact awareness and integration with government economic policy'.

The work was funded by FCDO¹ through the Centre for Tax Analysis in Developing Countries (TAXDEV) and FCDO's Domestic Revenue Mobilisation Public Investment Management and Transparency Programme (DRUM) programmes and carried out with the full and wholehearted cooperation of many internal GoU institutions and several external organisations. It is the first review of its type to be carried out on behalf of a low-income country (LIC). The report includes a review of the relevant literature.

Methodology

The report documents the current tax policy-making process from an original idea for reform, through the analytical and developmental processes that turn it into a proposal to its implementation as a legislative measure and the subsequent review of its impact.

The review employed an approach the team had used successfully in several countries, adapted for the Ugandan environment. The principal sources of evidence were 36 interviews with government officials and representatives of external organisations, supplemented by documentary reviews. It draws on the interviewees' comments and on international experience of good practice in making recommendations regarding the reshaping of the process.

The interviews sought to capture both the formal and informal aspects of the current policy-making process. The latter, in particular, are usually better understood through interviews than documentary sources alone. Interviews were conducted with representatives of ten government institutions, seven external organisations and five international institutions. Almost all the interviewees were at a senior level in their respective organisations and have an interface with tax policy-making in their role.

¹ Formerly under the Department for International Development, at the time the research was undertaken

Several interviews were undertaken with C/TPD at the start of the review in order to establish a baseline understanding of the current process. Subsequent interviews were designed to provide alternative perspectives and to challenge the team's emerging perceptions. Most interviewees have a less complete view of the process than C/TPD but were able to provide valuable information based on their personal or organisational involvement.

Background

The structure of the tax system, the country's level of economic development and the state of the public finances have an impact on the tax policy-making environment. Uganda's tax system is broadly conventional from a structural perspective, with revenues balanced across direct and indirect tax heads. There are significant taxes on goods sourced through international trade. Revenues have shown considerable growth in nominal terms over recent years but, following the rebasing of gross domestic product (GDP) in 2019, it is clear that they remain well below expectations at around 12.4% of rebased GDP, leaving a considerable annual deficit (4.75% in 2017/18) to be financed by other means.

Uganda is currently a low-income country, faced with the familiar dilemma of needing to raise the level of tax as a share of GDP (the Tax-to-GDP ratio) significantly in order to fund government projects and programmes, while simultaneously wanting to provide an economic environment that encourages both domestic and inward investment. It also faces significant economic and social challenges such as the acute shortage of formal employment opportunities for young people, the need for higher levels of skills in the country's workforce, and the pressure to modernise and commercialise the agricultural sector. Tax has a bearing on issues like these. In this environment, tax policy needs to do more than provide a neutral framework for the collection of tax revenues. By definition, it needs to be creative and interventionist. The knowledge and understanding necessary to design the most effective interventions cannot be found in TPD alone, so the process through which tax policy is made has to encourage and accept inputs from a wide range of well-informed sources.

The current policy-making process in Uganda

The review finds that, despite Uganda's particular needs, the policy-making process follows a relatively traditional model, closely tied to the budget cycle. There are several phases to the work, which are illustrated in Figure 1.

The **Strategic Phase** is given relatively little attention in the current model. Policy-making appears to be only loosely attached to the issues prioritised in Vision 2040 and NDP II.

The **Planning Phase** should, and is beginning to, draw more heavily on the DRMS to guide the direction of work and the priorities distilled into the TPD annual workplan.

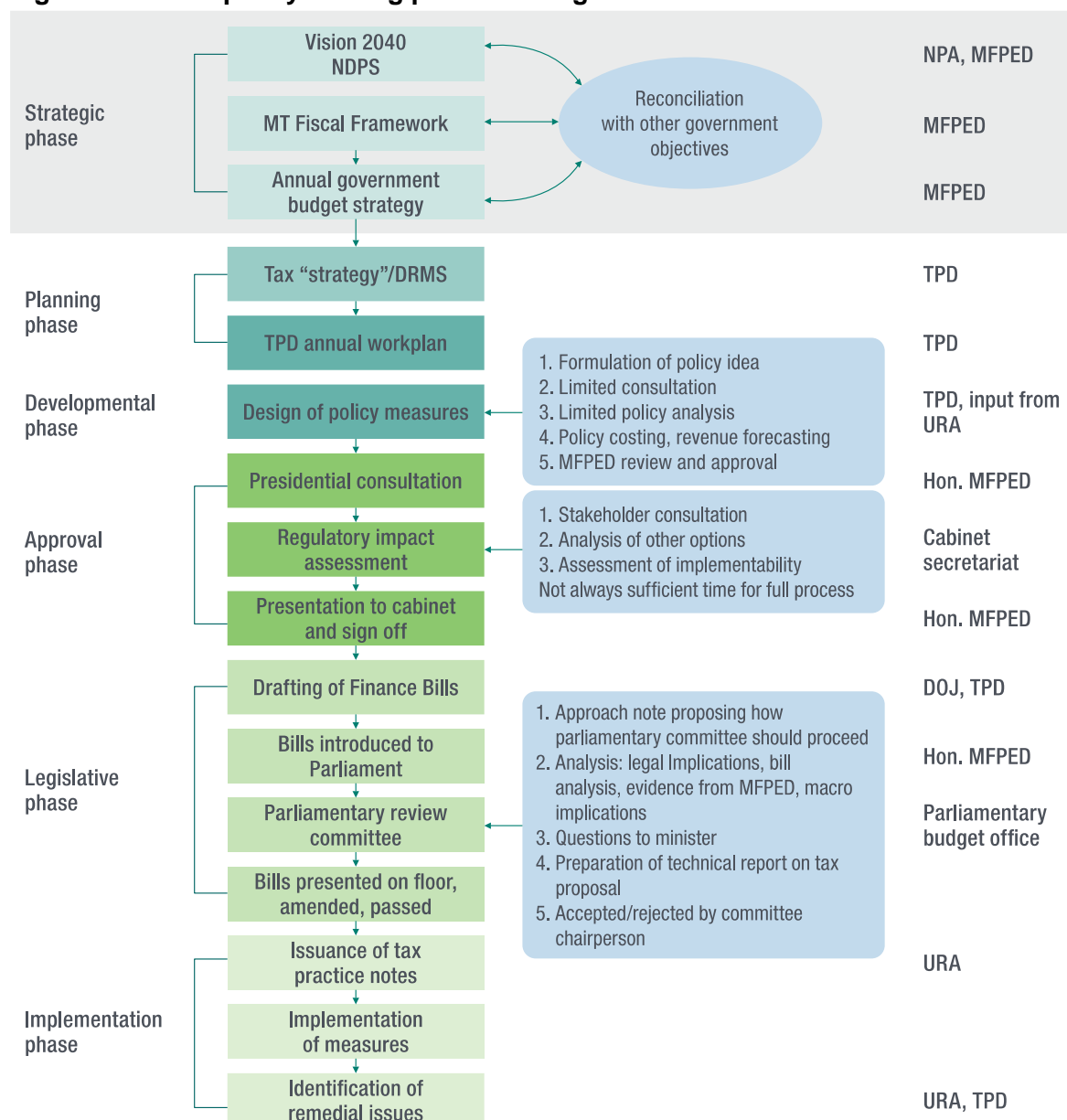
The **Development Phase** is brief and currently lacks some of the more sophisticated tools and related skills that are necessary in order to improve policy design.

The **Approval Phase** is also relatively short, with timelines tightly compressed around cabinet discussion.

The **Legislative Phase** has time limits but provides scope for debate and an open process that often presents challenge to MFPED's proposals.

The **Implementation Phase** is typically rushed, especially where measures have been brought forward late in the day or amended in parliament. There is little attention to post-implementation review beyond basic revenue monitoring.

Figure 1 The tax policy-making process in Uganda – 2019



TPD and the URA

In the Economic Affairs Directorate, TPD has formal responsibility for making tax policy. The Department is relatively large by regional standards, but much of its staff growth has been recent and has mainly been at the most junior level, through a standard government-wide recruitment process. A number of key Principal Economist positions remain unfilled. The review finds a strong case for current staffing to be brought up to the level of the theoretical model and for training to be revamped as a means to achieve considerable upskilling and improvements in productivity. There is a need for TPD to have, and to make use of, a higher level of modelling capability. The review also finds persuasive arguments for the Department to be reconstituted as a Directorate.

The URA is, and should be, the principal collaborator with TPD on tax policy-making. It should be the main source of data and of practical experience to support TPD’s work. However, the review finds that the URA’s overall contribution to policy-making is less than would usually be expected.

Changes could improve working practices between the URA and TPD and encourage more timely and effective input from URA officials to the policy process. Similarly, the report finds a need to enhance the working arrangements between TPD and other parts of GoU.

Findings and recommendations

The review examined the effectiveness of current practices and working arrangements, taking into account the best of international practice in tax policy-making as well as the culture and traditions of Uganda. The work identified several strengths that contribute to the quality of the current process and a number of key areas for improvement.

The authors argue that, in order to produce a tax system that is appropriate for today's environment, Uganda needs a highly skilled, well-informed and motivated TPD that recognises the scale of the challenges, and a policy-making process that allows light to be shone on the problems from many different angles.

This report makes a number of recommendations, presented in an institution-by-institution framework. The recommendations are intended to:

- recognise and signal, within and outside GoU, the importance to GoU of well-designed revenue policy, through organisational changes at MFPED and procedural reforms in relation to the annual Budget (MFPED/GoU)
- achieve a more structured relationship between GoU and external stakeholders on the development and prioritisation of tax reforms, involving the development and publication of a new approach to consultation and a guide to the budget process, in order to facilitate the contributions of interested parties (MFPED/GoU)
- create a positive engagement with, and use of, all forms of media to deliver appropriate political messages regarding tax policy (GoU/TPD)
- encourage longer-term thinking on revenue generation, drawing on the DRMS (MFPED/GoU)
- ensure that tax policy is used effectively as an instrument for achieving economic and social policy objectives by encouraging a proactive attitude in TPD towards identifying areas of economic and social policy where targeted tax policy interventions could help achieve positive outcomes; and the establishment of working groups across MFPED and across GoU to achieve this (MFPED/TPD/GoU)
- encourage the much wider use of a bottom-up approach to the development of tax policy, taking a taxpayer's perspective on the impact of the tax system on economic activity, across different sectors and types of businesses (TPD)
- reform the organisational structure of TPD to encourage broader thinking while retaining a sharp focus on the technical skills of the staff (MFPED/TPD)
- refresh the approach to recruitment, training, personal development and remuneration within TPD to motivate and inspire staff and ensure that available skills are better matched to departmental needs (MFPED/TPD/GoU)
- improve the quality of data and analysis available to policy-makers and their ability to model the likely impact of policy options at firm and household level as well as in macro-economic and revenue terms (TPD/URA)
- strengthen the consideration that can be given to issues of fairness, inequality and gender in tax policy-making by accelerating the more extensive use of micro-simulation models, so that the potential impacts of policy choices can be better understood (TPD/URA)
- limit the impact of distracting and time-consuming lobbying by special-interest groups within and outside government through a number of monitoring, record-keeping and procedural changes (MFPED/TPD)
- improve productivity in TPD through specific measures (TPD)

- strengthen the monitoring capacity of TPD in relation to tax revenues, principally through training, improving standards for regular reporting between URA and TPD and allowing TPD access to more timely revenue receipts information (TPD/URA)
- establish a new framework of collaborative working between MFPED/TPD and the URA, using formal and informal approaches, on tax policy and related matters (MFPED/TPD/URA)
- improve the flow of policy-relevant information from audit and investigation work by the URA and from TAT proceedings to TPD (URA/TPD)
- use more effectively URA’s research capability, through better coordination with MFPED (TPD/URA)
- encourage a better-informed debate in Cabinet on tax policy by deepening engagement with the DRMS agenda (MFPED/cabinet)
- strengthen the arrangements for co-working between TPD and FPC and re-examine the effectiveness of the current approach to legislative drafting (TPD/FPC)
- improve the quality of debate in the Parliament through a more proactive approach by TPD to its engagement with the members and the parliamentary institutions, and through the strengthening of the capability of the Parliamentary Budget Office (PBO) (TPD/parliament)
- achieve a better balance between international and local academic inputs to the policy-making process, thereby ensuring that local university research is not crowded out by high-profile international collaborations (DPs/GoU/URA/TPD).

The recommendations involve some changes in organisational structures and changes to working practices across GoU. They require little additional financial investment, although the training and upskilling of tax policy staff, the improvement of information flows and the development of new and better micro-economic models will involve some outlay, as will the enhancement of media-related activity. There will also be some recurrent costs associated with the use of a better-structured approach to consultation on major tax policy proposals.

Expected benefits from implementation

Change is disruptive and can be destabilising, even in well-organised and positively motivated government departments. Some aspects of the changes that are recommended will require a high level of sustained political and institutional support.

The authors believe that there will be significant benefits to GoU, to public finances and to Uganda’s economy and society from implementing the recommendations set out in this report. These will crystallise as higher sustainable revenues, resulting from:

- more effective policy design, better suited to Ugandan society and economy
- an increased sense of legitimacy and shared ownership of the tax system, strengthening the fiscal–social contract and leading to enhanced voluntary compliance
- the elimination of many of the causes of disputes
- reduced enforcement costs
- an improved understanding of the tax system among Ugandan citizens.

Implementation of recommendations

It will be a TPD/MFPED responsibility to consider and adopt the recommendations, as appropriate, and set priorities for implementation. It is envisaged that MFPED will prepare and publish a number of documents following on from this review. These include:

- Intra-governmental responsibilities for tax policy-making: a new manual, specifying responsibilities across GoU for the development of tax policy and the areas where tax policy staff are expected to engage with the work of other ministries and government agencies.

-
- Budget cycle and timetable for the tax policy-making process: a published document setting out the budget timetable, intended to facilitate external inputs to the process.
 - Framework for consultation on revenue issues: a published document, setting out how GoU intends to consult on tax policy issues in the future.
 - TPD Tax policy-making procedures manual: an internal document, setting out detailed procedures and responsibilities within TPD.

1 Introduction

Uganda's DRMS, finalised in 2019, recognises the value of establishing a transparent, medium-term vision for the development of a tax system which embodies the principles of simplicity, fairness, predictability, and sustainability. By setting out a clear direction, MFPED has taken an important step in enhancing investor confidence and the stability of Uganda's public finances.

The tax policy-making process features prominently as an area for reform in the DRMS. MFPED has an established process for making tax policy, which delivers the revenue side of the budget. The diagnostic work undertaken as part of the DRMS process identified several areas where the process could be enhanced and strengthened. This review was commissioned by Mr Moses Ogwapus, C/TPD, to investigate what changes could be made to achieve this and to consider how best international practice could be integrated into the process in Uganda. The principal objective of the review was to make Recommendations that will support the necessary transformation of the process in Uganda.

The review also represents an important step in providing the international development community with a proper understanding, in a sub-Saharan, LIC context, of how a well-engineered process can contribute to the development of better policy and a stronger sense of inclusion within and beyond government, which is critically important for tax morale. Good structures, processes, and governance do not automatically lead to good policy. Getting these elements right, however, makes the achievement of better policy outcomes more likely and significantly reduces the risk of avoidable, and potentially costly, errors in policy design.

1.1 Scope and methodology

The scope of work and the methodology were set out in the ToRs for the project, which were established by MFPED:

This project will map the tax policy-making process in Uganda from the birth of an idea for reform through the development of the proposal and related analysis to the implementation of a legislative measure and the subsequent review of its impact. The project will identify the changes to the policy-making process that could add value, not only in terms of the quality of the technical analysis that supports policy decisions, but also in terms of the inclusiveness of the process itself, transparency, gender impact awareness and integration with government economic policy.

It will address issues about the skills, training, experience and diversity of those involved in the tax policy-making process and highlight issues about the use of media, including social media in tax policy-making. It will look at how TPD prepares tax policy proposals, the contribution that the URA makes to them, how co-operation on tax policy development between government departments is structured and how, if at all, the issue of post-implementation review is handled. This type of post-implementation evaluation has a natural link to the review of tax expenditures so this project may strengthen the demand for a fuller and more transparent evaluation of how decisions are made about reliefs and exemptions and what is required for them to continue.

The work will be carried out through a combination of desk-based research using documentary sources and face-to-face interviews with key figures in tax policy-making: ministers and former ministers, parliamentarians, high-level officials and policy experts, other commentators, business groups, academics, financial journalists and Uganda's well-informed development partners. The aim will be to capture both the formal and informal aspects of the policy-making process. The latter, in particular, are usually better understood through interview techniques than documentary sources alone.

Those selected for interview will have their own perceptions and experience of the tax policy-making process. Some, including especially those in TPD and the URA, will have quite a complete view of the process, from policy inception to how parliament's decisions are implemented and the outcomes of interventions measured. Others will see only a limited part of the process but may have a different and valuable perspective on it. For example, decision-makers may have expectations of the process that are currently unsatisfied. Collaborators and potential collaborators inside and outside the framework of government may feel that the process does not give sufficient space for them to contribute or value their input sufficiently. The review will seek to capture the views of each of the groups of people who are involved or interested in some way with the development of tax policy.

The review will look in detail at the type of qualitative and quantitative analysis that is undertaken to support the development of policy options. It will consider the quality of modelling undertaken and the impact assessments that are made. It will examine how the information resulting from these analyses is synthesised, captured and used in the decision-making process. This will include a documentary examination of the economic analysis and modelling undertaken by both TPD and the URA and review of submissions to ministers for decision-making in respect of selected examples of policy measures.

The work will also include a brief review of the relevant literature. An initial assessment of the academic and governmental literature in this area confirms that policy-making processes in taxation are under-researched and poorly documented. The specifics of policy-making processes and institutions receive relatively limited attention in the literature on the political economy of taxation. Scholars approaching the issue from a more historical perspective tend to emphasise secular trends in society, government and the economy, including the impact of globalisation rather than the actions, interactions and information of individuals and institutions charged with tax policy-making. These gaps are particularly obvious in the context of developing countries. While there has been valuable work on the historical evolution of individual tax systems in sub-Saharan Africa, this literature has tended to focus on how tax policy can facilitate democratic governance, rather than exploring how the structure and governance of the policy-making process can affect tax policy outcomes.

The key elements in this approach have been used in a number of previous reviews of tax policy-making processes the authors have undertaken. The approach was adapted for the Ugandan policy environment from the methodology pioneered in 'structures, processes and governance in tax policy-making', a study of tax policy-making processes in ten countries. The adaptations included an explicit acknowledgement that the challenges facing tax policy-makers in LICs can be quite different from those facing their peers in a high-income country (HIC). This has implications for staffing and organisational issues in the tax policy-making team, as well as for attainable resources.

The work proceeded primarily through a series of 36 interviews with representatives from 22 institutions and organisations (see Table 1), supplemented by a review of available internal documentation and published material.

Table 1 Number of interviews by institution or organisation

Institution	Number of interviews
Ministry of Finance, Planning and Economic Development (MFPED)	
Top Management	3
Tax Policy Department (TPD)	6
Economic Policy Research & Development	2
Former Top Management	1
Uganda Revenue Authority (URA)	
Commissioner General's Office	1
Tax Investigations	1
Legal Services and Board Affairs	4
National Planning Authority of Uganda (NPA)	1
Ministry of Justice and Constitutional Affairs	
First Parliamentary Counsel (FPC)	1
Ministry of East African Community Affairs (MEACA)	1
Ministry of Trade, Industry and Cooperatives (MTIC)	1
Cabinet Secretariat	1
Parliament of Uganda	
Department of Research Services (DRS)	1
Parliamentary Budget Office (PBO)	1
Tax Appeals Tribunal (TAT)	1
Uganda Investment Authority (UIA)	1
Enterprise Uganda	1
Southern and East Africa Trade Information and Negotiations Institute (SEATINI)	1
Civil Society Budget Advocacy Group (CSBAG)	1
Uganda Manufacturers' Association (UMA)	1
PwC	1
Grant Thornton (GT)	1
Economic Policy Research Centre, Makerere University (EPRC)	1
International Monetary Fund (IMF)	1
World Bank (WB)	1
European Union (EU)	1
Resource Enhancement and Accountability Programme (REAP)	1

A number of additional interviews were requested but key individuals were not available when the work on this project was carried out. Most of the interviews were conducted with either one or two representatives of the institution concerned, but there were as many as six to eight participants for some interviews.

All interviews except for TPD were with senior staff. TPD interviewees were selected to provide balanced input from both experienced and relatively new staff. In addition, a number of issues were discussed at a workshop for all TPD staff, arranged as part of the TAXDEV initiative, funded

by FCDO. This provided an opportunity to engage the group in a broader-based discussion with a multi-directional challenge provided by staff.

A list of questions was prepared before each interview to focus thinking on the required information and desired outcomes, using a baseline set of questions (see Annex 1). The interviews themselves were ‘free form’, with questions developed in response to the direction of the discussion. During the later interviews, the authors tested ideas emerging from the work in order to validate possible recommendations.

The interviewees had all received or seen a copy of the letter sent out by the Permanent Secretary/Secretary to the Treasury (PS/ST), describing the project and its purpose, and requesting cooperation with it. Everyone interviewed was told at the start of the interview that their comments would not be attributed so they could express their views freely. The authors observed no reluctance on the part of the interviewees to take advantage of this opportunity.

The authors are aware that it might have been ideal to include some additional interviewees. In particular, the work would have benefited from interviews with His Excellency, the President or his advisers and the Minister of Finance. One of the significant challenges facing Uganda is the creation of an effective, two-way, bridge between the technical and analytical work that underpins good tax policy-making and the political decision-making process of determining tax policy. The authors used several techniques to address these weaknesses, although these do not adequately make up for the absence of direct contact and dialogue. Nonetheless, the review benefited enormously from the quality of access to officials that GoU provided and from the willingness of organisations outside the government to participate fully in the interviews. Interviewees were exceptionally generous with their time and their contributions were well considered and expressed effectively.

The interview process began with the C/TPD. In principle, Moses Ogwapus, C/TPD has the clearest view of the overall tax policy-making process. In total, there were approximately ten interviews with C/TPD (listed in Table 1 as one interview). These were designed to provide a detailed baseline for the remaining interviews. The other interviews sought to obtain alternative perspectives on specific parts of the process, more particular information regarding processes outside TPD, and to offer a challenge to the views and narrative of other interviewees.

The interviews with C/TPD took place primarily during July and August 2019. The remaining interviews were conducted in October, November and December 2019, when the review of documentary evidence was also conducted. The literature review was carried out mainly in October and November 2019.

The findings from the review and the recommendations are presented separately, as are the expected benefits from implementing them.

1.2 The literature review

Studies of tax policy in low- and middle-income countries (LMICs) are typically concerned with the design of the tax system, in the sense of how to raise enough revenue to finance public spending in the most efficient and equitable way possible, without deviating too far from international norms (Tanzi & Zee, 2000). In the substantial challenges facing LMICs in creating such a system, a few themes recur: (i) the structure of the economy with, typically, a large share of agriculture and informal-sector activity, makes it difficult to collect certain types of taxes; (ii) tax administrations have limited capacities, both human and financial; (iii) reliable data are hard to obtain, making potential impacts difficult to assess; and (iv) political environments are less amenable to ‘optimal’ tax policies than in wealthy nations. For these reasons, Tanzi and Zee (2000) conclude that ‘in developing countries, tax policy is often the art of the possible rather than the pursuit of the optimal’. While much attention has been paid to the structure of tax policy, in the academic literature and in technical assistance programmes there is far less focus on the process of formulating tax policy and tax legislation (Gordon & Thuronyi, 2012). The process (Figure 2

illustrates a generic process) through which possible tax policies are designed, developed, scrutinised, legislated, and reviewed is a relatively under-examined, and under-appreciated constraint to improving revenue performance. While the appropriateness and impact of the tax measures enacted as a product of the policy-making process tend to be debated widely, the legitimacy of the inputs to this process has remained largely unexplored, particularly in LICs and MICs.

Figure 2 Illustrative tax policy process



1.2.1 Studying the tax policy-making process

The literature on this topic generally considers two closely connected elements of the tax policy-making process: tax policy development and the tax legislative and implementation process. The first encompasses the generation of ideas, research and benchmarking, quantitative analysis of reform options, the design of measures, and consultation with business and the general public. The second involves the process of designing and drafting tax bills and the consideration and scrutiny of parliamentary bills. The drafting often involves fewer people and the legislative procedure overall is generally more transparently laid out in legal provisions.

Studies of tax policy-making structures, processes and governance arrangements are mostly limited to HICs. Analysis by Wales and Wales (2012) represents the most comprehensive and systematic comparison of the processes, covering ten countries: Australia, Finland, France, Germany, Ireland, Jersey, New Zealand, Sweden, the United Kingdom (UK), and the United States (US). For each country, the authors examined the functioning of the executive with respect to the development of tax policy, the influence and role of external institutions, the ability of the legislature to scrutinise and make changes to tax proposals, and the involvement of the taxpayers. In all the countries studied, the significance of tax policy-making was under-appreciated, and under-resourced, with too much power concentrated in the hands of too few individuals and institutions (Wales & Wales, 2012). Governments were found to shy away from engaging their citizens on critical issues concerning tax policy, weakening the link between taxation and representation. Finally, in most countries, there was significant room for more scrutiny and challenge of proposals by external institutions, parliament, and the private sector.

Other than the Wales and Wales (2012) study, very little literature has rigorously examined the entire lifecycle of tax policy development. However, there is a growing body of work which tackles at least one of the following components, which will be discussed in turn:

- The need for a longer-term, more forward-thinking tax research agenda
- The capacity of those responsible for policy development
- The relationship between the tax administration and the tax policy-makers
- The scope of external consultation and engagement
- The scale and quality of public debate and understanding
- The role of the legislature and parliamentary scrutiny
- The contribution made by donors and foreign advisers

The need for a longer-term tax research agenda

Many countries appear to suffer from a degree of short-termism in developing their tax policy. Gordon and Thuronyi (2012) noted that bureaucrats in LMICs appear to approach tax policy as a ‘series of fires’ that need to be extinguished, rather than concentrating on a long-term, on-going plan. In a review of tax policy processes in Australia, Canada, New Zealand, the UK and the US, Arnold (2013) noted that this is partly attributable to tax policy departments being over-stretched, so long-term work is afforded a lower priority. Without a vision or sense of direction for the tax system, tax reform can become too rapid, incremental, and crisis-driven, which increases the risk of avoidable policy error and costs, including budgetary compensation for overly generous and hastily introduced provisions.

A more deliberative, considered approach to tax policy-making which tries to situate changes within the framework of a comprehensive strategy would allow for greater consensus-building, and ultimately more successful reform (Bird, 2004). Examples of such long-range work are, however, unusual, and often a ‘one-off’ event rather than a continuous government programme. Several countries have undertaken tax policy reviews, either commissioned by governments or conducted independently of government control. The Mirrlees Review, undertaken by the Institute for Fiscal Studies in the UK, the Henry Review in Australia, and the Tax Working Group in New Zealand are examples of ‘independent’ reviews that served as catalysts for debate and aimed to influence policy. In 2013, the South African Minister of Finance appointed the Davis Tax Committee, tasked with inquiring into the ‘role of the tax system in the promotion of inclusive economic growth, employment creation, development and fiscal sustainability’. The Committee was advisory, providing recommendations through 25 reports to the Minister of Finance over a period of five years. Although such reviews can complement the work of government, they are not a substitute for a multi-year, government-led tax policy process which is properly connected to other facets of economic and social policy.

The capacity of those responsible for policy development

Designing a strong revenue system that responds adequately to a country’s social and economic needs requires that proposals for tax reform be carefully assessed, quantitatively analysed, and thoroughly debated. This, in turn, depends on a tax policy unit capable of guiding and informing the debate, with access to the best available data and evidence. Many LMICs, however, lack a dedicated and well-functioning tax policy unit, are severely constrained by a paucity of reliable data, and have staff with a low capacity for high-quality data analysis and with little training on specialised tax issues (Grote, 2017). These factors hamper decision-making and can lead to ill-designed policies and a system which is not widely accepted among the electorate, who have not been sufficiently included in the process.

To mitigate these risks, Grote (2017) argues that governments should concentrate on developing capacity along four critical functions: (1) performing revenue and economic impact analysis; (2) guiding the general tax design and clarifying the trade-offs between policy and administration; (3) initiating and participating in drafting legislation; and (4) overseeing international tax matters, such as the negotiation of treaties. In addition, Gordon and Thuronyi (2012) argue that a tax policy unit should be equipped to gather information about experiences in applying the tax laws, whether through interviews, written questionnaires, sampling tax returns, or discussions with local or regional tax offices. Policy-makers need to be aware of the problems and issues that they are likely to confront, without relying too much on the testimonies of individual taxpayers with privileged access to government.

Revenue estimates and forecasts for existing or proposed measures are possibly policy-makers’ most important weapon against interference by special interests (Gordon & Thuronyi, 2012). To allow replication and encourage scrutiny by external stakeholders, these should be based on transparent methodologies and well-argued assumptions. While LMICs might struggle with issues of data quality, estimating the likely revenue impact of tax adjustments is critical for budget credibility. Tax expenditure analysis is another tool used to inform stakeholders about the total

costs and benefits of preferential tax allowances. This is less commonly done in LMICs and sometimes outsourced to external academics or consultants (Grote, 2017). With increasing capacity for data analysis, policy-makers can expand their set of tools to include distributional analysis, assessing the implications of changes on the income distribution of households or firms, and broader economic impact analysis capable of determining likely responses to tax changes. Thirsk (1997) argued that reform efforts benefit greatly from detailed planning and preparation before introduction, and from thorough monitoring of the impact after implementation.

Undertaking such varied and expansive analysis requires a strong technical team. The size of tax policy units varies considerably, depending on the stage of economic development and available resources (Grote, 2017), but the most successful units have a few similarities. First, to avoid a narrow policy orientation, staff should reflect the interdisciplinary nature of taxation, with economists to analyse the economic impacts, tax lawyers to design and draft legislation, accountants to advise on the compatibility of proposals with business practices, and tax administrators to provide guidance on any potential administrative challenges (Gordon & Thuronyi, 2012). Second, the nature of the work entails considerable investment in training and human capital development, which is best done when staff are committed to long-term employment and are encouraged to stay through adequate compensation. This has been difficult to achieve even in HICs, as private-sector compensation is often more attractive (Arnold, 2013). Staff continuity is also important for undertaking a comprehensive reform plan – without this, it is difficult to consolidate one reform before pursuing the next (Bird, 2004). Third, staff need clear workplans and performance agreements that are consistent with the overall strategic plan and direction of the unit. Finally, strong leadership is critical – managers should be well-versed in tax policy theory and contemporary tax debates, as well as an appreciation of tax administration (Grote, 2017).

The relationship between the tax administration and the tax policy-makers

Strong tax systems depend on a high degree of cooperation and collaboration between the executive branch of government, responsible for policy development and planning, and the revenue agency (Moore, 2013). Tax policy development is typically located in a ministry of finance, which has some advantages over the revenue authority. Bird (2004) suggests that combining tax policy with tax administration results in top management de-prioritising effective administration, while Grote (2017) argues that this arrangement gives the administration too much power to avoid reforms that would require difficult administrative adjustments. Locating policy development within a ministry of finance helps to align tax policy with wider fiscal and expenditure policy and guards against designing tax policies which are efficient but give too little consideration to social, economic, or distributional impacts. The risk is, however, that tax policy may be developed beyond the existing administrative capacity (Bird, 2004).

Minimising institutional rivalry is thus critical, as revenue authorities hold practical knowledge and data, without which policy choices may be biased and ill-informed. Constant feedback loops should be actively cultivated, with the revenue administration advising on the administrative feasibility of, and likely taxpayer compliance with, proposed tax measures (Arnold, 2013). Grote (2017) advises formalising the relationship between the tax administration and tax policy-makers. A protocol, or similar instrument, governing cooperation and data access is preferred over informal understandings and practices based on personal relationships, which are more subject to change. A binding protocol, setting out reporting expectations and the coordination of inputs, serves to clarify roles and responsibilities, avoiding conflict and duplication.

The scope of external consultation and engagement

Wide consultation in the development of tax policy is highly desirable as it helps avoid unintended consequences and unwarranted compliance burdens, as well as creating a stronger sense of ownership and buy-in among citizens. As noted by Arnold (2013), ‘if the art of taxation consists of plucking the goose with the least amount of hissing, then probably the goose deserves a say’. Gordon and Thuronyi (2012) suggest that, in OECD countries such as the US, a major piece of tax

legislation would involve the input of hundreds (if not thousands) of policy analysts, professional lobbyists, academics, lawyers, accountants, economists, and citizens. While this may exaggerate the true extent to which consultation takes place, countries such as Australia, New Zealand and the UK have institutionalised consultation as part of the process. By contrast, policy changes in LMICs usually involve just a small group of well-informed and qualified experts. While this does simplify the process, and can result in relatively coherent legislation, it misses the real opportunity to draw on expertise in the public and private sectors. Adequate consultations would typically involve communicating with accounting and law firms with a prominent tax practice, and number of key business associations, often arranged by sector (Gordon & Thuronyi, 2012). Without consulting business interests, policy-makers are less likely to be aware of particularly burdensome or unfair provisions or design adequate remedies.

Consultation involves certain costs, however, both in terms of time and expense. It should thus be done in a way that maximises benefits and ensures that the legislative outcome is improved as a result. Officials from Australia, Canada, New Zealand, the UK, and the US acknowledged that consultations asking tax professionals (and the general public) what they think policy-makers should examine is generally a poor use of resources (Arnold, 2013). Better inputs are received when consultation is on specific proposals for change, once the problem and potential solution have been broadly identified, to focus the discussion. Critically, consultation is valuable only on issues where there is a real opportunity for influence and the government is prepared to listen to and act on suggestions. Finally, Arnold (2013) notes that government should avoid just going through the motions of consultation because this breaks down public trust in the process. Providing feedback following consultation, including reasons for adopting certain options and rejecting others, is a recognised way to mitigate this.

Extensive consultation can also bring certain risks. The interests of a particular lobby group will often be in conflict with those of the general public. Depending on lobbyists' political influence, advance knowledge of proposals that run counter to their interests could lead to well-considered measures being quashed in parliament (Gordon & Thuronyi, 2012). Even in the absence of outright corruption, Moore (2013) argues that tax regimes tend to be biased in favour of groups with the most bargaining power, particularly when informal bargaining is highly prevalent. Consequently, governments in LMICs tend to 'under-tax' land and property, as well as the incomes and wealth of very rich individuals, not least because their cooperation is most valuable in the long term. While the private sector should be consulted, it should not be able to dictate the policy-makers' agenda or determine the contents of tax legislation. Tax bargaining should be done in a way that protects against dispensing narrow, corporatist privileges (Prichard, 2010). This requires strong leadership and coordination by the tax policy unit, inviting a wide range of interested parties to participate, rather than selected 'favourites', which can lead to accusations of state capture. Prichard (2010) argues that developing country governments can do more to support the formation of business and taxpayers' associations to encourage organised tax bargaining and improve tax awareness. For instance, as part of a recent tax reform effort, the Rwandan government included strengthening social groups and supporting tax professionals who can work with private firms for filing purposes (Prichard, 2010).

The quality of public debate and understanding

There is compelling evidence that measures to increase dialogue, transparency, and bargaining on tax matters contribute to creating a culture of trust and compliance, enhancing revenue, and minimising political conflict arising from extraction without compensation (Prichard, 2010; Moore et al., 2018). When tax reform is undertaken in a way that promotes transparency and accountability, this can contribute to stronger state–society relationships. Moore, Prichard and Fjeldstad (2018) argue, however, that the empowerment of a wider range of voices in public tax debates, motivating political leaders to drive change, is rare in the African context. While business activism has gained strength, popular mobilisation regarding tax matters is infrequent, and the absence of major reforms in favour of the poor is indicative of the power of vested interests.

Civil society organisations (CSOs) generally engage with tax issues on three levels: analysis of policies; advocacy for or against proposals; and raising awareness about tax rights and obligations. The first has historically been reactive and in response to annual tax bills, although CSOs increasingly develop their own proposals. The second involves stimulating public opposition to unpopular measures, often on contentious issues such as tax incentives and excise duties. Finally, to a lesser degree, CSOs have been involved in taxpayer education. This work tends to be concentrated at the subnational level where the connection (or lack thereof) between taxes paid and services received is more tangible (Sharp et al., 2019).

A noticeable development is the increasingly strong civil society criticism and engagement on issues of tax evasion and avoidance by large multinational corporations (MNCs) (Moore et al., 2018). The advocacy has largely been driven by groups of local activists and journalists, such as the Tax Justice Network Africa (TJNA). Their effect has been important and tangible, most notably winning a landmark case against the Kenyan government over a tax treaty with Mauritius, arguing that it undermines national interests (TJNA, 2019). With CSOs' greater capacity to engage on tax issues, Moore et al. (2018) argue that it may be prudent for the tax administration to form a strong alliance with activists, who may help to spread the 'positive' case for more effective taxation and build tax morale.

The influence of CSOs typically depends on their capacity and degree of alignment with the concerns of other, powerful, political interests. While technical skills are perhaps not strictly necessary for tax advocacy, they help CSOs to come across as more credible and to gain the respect of government (Sharp et al., 2019). Non-technical capacities are certainly important. CSOs need to be able to build coalitions around concerns, overcome vested interests, and make politically strategic communications. A recent example of effective CSO action concerns the 1% mobile money tax in Uganda. The tax was met with widespread public protests, much of this organised under the Civil Society Budget Advocacy Group (CSBAG) umbrella, which also lobbied MFPED and the parliament (Sharp et al., 2019). The government subsequently reduced the tax to 0.5%, 'supposedly' in response to the public outcry about unfairness. Researchers have noted a clear demand among CSOs for more tax-related capacity-building support, both technical and organisational (Sharp et al., 2019).

Beyond the activities of CSOs, Arnold (2013) identifies a need for more responsible journalistic reporting on tax issues. In the absence of informed journalism, a 'media void' is created that lobbyists can exploit to twist the narrative in their favour. When good policy ideas are expressed clearly in popular media, and openly discussed, this can reduce politicians' ability to introduce unreasonable and irrational ideas later on. Promoting objective, logical reporting is best done through a clear media and communications strategy (Arnold, 2013). This can be supported by publishing government research papers on tax policy matters, as well as tax statistics, online, serving an educational purpose for the general public and providing journalists with a credible source of information. In relation to this, researchers have noted that few academics appear to be working on tax issues in LICs, possibly due to low pay compared to positions in government or the private sector where a technical understanding of tax is more valuable (Sharp et al., 2019).

The role of the legislature and parliamentary scrutiny

Parliamentary scrutiny is critical for developing strong policy, as this can offset the occasionally narrow perspective of the officials in the ministry of finance or revenue authority and help to bring measures more in line with the sentiments of ordinary citizens, at least in theory (Besley & Persson, 2014). The legislative part of the tax policy-making process is generally better understood, more transparent, and follows a predictable sequence: tax reforms are announced, bills are drafted, considered by parliament, and subsequently enacted.

A key challenge in all countries is that while politicians have the ultimate say over policy matters, few are well-versed in tax policy, or the tax system in general, and it is often difficult to engage them on tax issues (Arnold, 2013). Bird (2004) argues that, in some countries, this results in

discussion ‘behind closed doors’ to agree on the necessary political compromises before proposals appear before parliament. In this case, the legislature is limited in its ability to scrutinise and improve policies. In other countries, particularly those with a clear separation of the executive and legislative branches of government, the legislature can be a critical arena for scrutinising and negotiating tax reform issues. While this can add value to tax measures, it also makes it easier for lobbyists to block reforms at the legislative stage. A further challenge noted by Bird and Bahl (2008) is that members of parliament (MPs) generally have short political lives, leading to a reluctance to adopt reforms that are painful in the short term or more painful for certain groups. Politicians are thus too ready to rely on measures such as raising excises on tobacco, alcohol, or fuel, where revenue increases are more guaranteed. Adopting such short-term fixes is often more politically expedient than eliminating protectionist or preferential measures and ensuring the proper enforcement of tax laws.

As regards the process of legislative drafting, Gordon and Thuronyi (2012) noted that drafting bills in close collaboration with policy-makers helps to keep to the true intention. Ideally, drafters should be specialists in tax law, familiar with the wider legal environment. Bills will typically be prepared by a finance ministry in the first instance, and then reviewed by the justice ministry to ensure consistency with other laws and conformity of drafting style. Involving the justice ministry early on in the drafting process tends to produce the best results, allowing time for the finance ministry to consider whether the draft legislation is at odds with the original aim. Gordon and Thuronyi (2012) also noted that tax policy-makers and administrators often fail to coordinate effectively with the legislative branch of government. Parliamentarians are unlikely to appreciate ‘surprise’ bills that have not been prepared with due consideration of their views. These authors highlight that, where institutionally possible, the finance ministry should consult ‘appropriate’ MPs when developing proposals. This can also serve an educational purpose, ensuring that key MPs appreciate the issue and can persuade their colleagues. Issues relating the style of parliamentary drafting are not widely explored in the literature although these can have significant effects on certainty for taxpayers and the number of disputes.

The contribution from donors and foreign researchers

The centrality of the tax system for development, and the potential for donor assistance in building this system, has seen renewed interest in recent years. For instance, at the Addis Tax Initiative, launched in 2015, major donors (the UN, the International Monetary Fund (IMF), the OECD, and the World Bank) pledged to double their support for improving tax systems and tax administrations by 2020. While this sounds impressive, the base was low – available data suggest that just 0.15% of all official development assistance (ODA) in 2015 was aimed at tax projects, approximately 20% of that provided to public financial management programmes more generally (IMF/OECD/WB/UN, 2016). Improving domestic resource mobilisation (DRM) has been promoted as a way to reduce reliance on aid, finance economic development, and promote better governance by creating a more responsive and accountable state. Although stronger revenue performance is championed as the ultimate objective, there has been some recognition that how revenue is raised is what matters for growth outcomes (Long & Miller, 2017). Unless international donors channel support for better tax systems, a push for more tax collection is likely to have adverse consequences. A predatory tax system focused on extraction is unlikely to create a ‘governance dividend’ that promotes the fiscal contract with citizens (Fjeldstad et al., 2018).

Bird and Bahl (2008) observed that tax policy in developing countries in the 1980s and 1990s was significantly influenced by foreign advisers. The intention was not to substitute for local decision-makers, but rather to bring the best in policy thinking. For instance, the wide and fast adoption of value added tax (VAT) and Large Taxpayer Units developing countries has been attributed to strong IMF influence (Bird & Bahl, 2008). In some cases, advisers helped to ‘sell’ the reform either by developing the details necessary to make a strong case, or by insisting on the adoption of an unpopular measure that local government officials did not want to embrace in public but were willing to have ‘forced’ upon them, such as removing exemptions. Perhaps hypocritically, ‘aid donors have been successful to date at keeping off the policy agenda the fact that aid inflows to

developing countries enjoy exactly the tax exemptions that are decried by the IMF and tax specialists' Moore (2007). Moore (2007) further argues that it is contradictory to give governments budget support and simultaneously insist that aid programmes are exempt from taxation. The practice is primarily justified as a way to maximise the amount of aid given and ensure that it reaches the purpose intended, although there is little empirical evidence supporting these assertions (Steel et al., 2018).

Generally, proposals for tax reform that have advocated comprehensive, 'all or nothing' packages are seldom wholly implemented. Neglecting administrative capacities, a lack of local ownership in the development of the reform agenda, and low political will or leadership for reform have been cited as fairly common weaknesses in donors' reform packages (Bird, 2004). Further, encouraging the importation of standard 'one-size-fits-all' solutions to predetermined problems is unlikely to yield real improvements. Too often, donors do not fully understand or explore the feasibility of the technical solutions they are designing in the local, political environment. Fjeldstad et al. (2018) argue that donors should move beyond a theoretical, technocratic approach and integrate more political manoeuvring into their recommendations. Finally, Pritchett et al. (2010) contend that donors are guilty of 'premature load-bearing' – setting over-ambitious targets that encourage the symbolic imitation of systems in their home countries, rather than true functional change. Public financial management (PFM) reforms that aim for a level of sophistication that did not exist in European nations at a comparable stage of development risk doing more harm than good (Miller et al., 2017). Fjeldstad et al. (2018) argue that tax-related technical assistance programmes should come with an obligation to ensure that ideas are reasonable, and donors should be wary of advocating for interventions that do not have a strong track-record in practice.

Where countries have become less reliant on foreign advisers, Bird and Bahl (2008) note that reform proposals are often more sensitive to political dynamics, and piecemeal adjustments are favoured over large-scale, perhaps risky, reforms. This has been driven in part by improvements in the capacity and experience of local staff, as well as more limited dependence on the IMF and other traditional creditors, reducing the need to take their advice or adopt their loan conditions. Moore, Prichard and Fjeldstad (2018) note a growing appreciation for the fact that reform agendas 'designed in Africa, for Africans, in line with African conditions' are more likely to succeed, but research projects funded by development partners, rarely involve local counterparts beyond the provision of necessary data. This relatively underexamined issue has a negative impact on the capacity of local staff to mould and shape the reform agenda. The wider development literature has increasingly acknowledged that small-scale solutions to immediate problems, while not necessarily best practice, may be 'good enough' (Miller et al., 2018).

While the increased support for building tax capacity is welcomed, it also creates dangers. The number of donors operating in LICs, all with their own interests and aid modalities, risks overburdening already weak administrative capacities (Fjeldstad et al., 2018). Without strong coordination by the recipient government, donor support may be fragmented, duplicative, and competitive. This is unproductive and drains the capacity of the countries that should be benefiting (Moore et al., 2015).

Dependence on external advice has often led revenue administrations in African countries to modernise and gain competency faster than the tax policy divisions of finance ministries, which have an equally important mandate but largely remain under-staffed and under-skilled (Moore et al., 2018). Supporting officials to pursue courses, programmes, and workshops abroad is a common capacity-building practice. However, training programmes provided in HICs tend to emphasise methods, thinking, and principles that reflect their own values and priorities, but may not be appropriate in poorer countries (Moore et al., 2015). Finally, donors routinely neglect the judiciary and parliament in their capacity-building efforts. Moore et al. (2015) urge donors to design interventions that aim to inform and empower MPs, parliamentary committees, and citizens to promote better legislation, and enhance the capacity of the judiciary to handle tax disputes, which are often fairly sophisticated and lodged by specialised litigants.

Designing a tax policy-making process

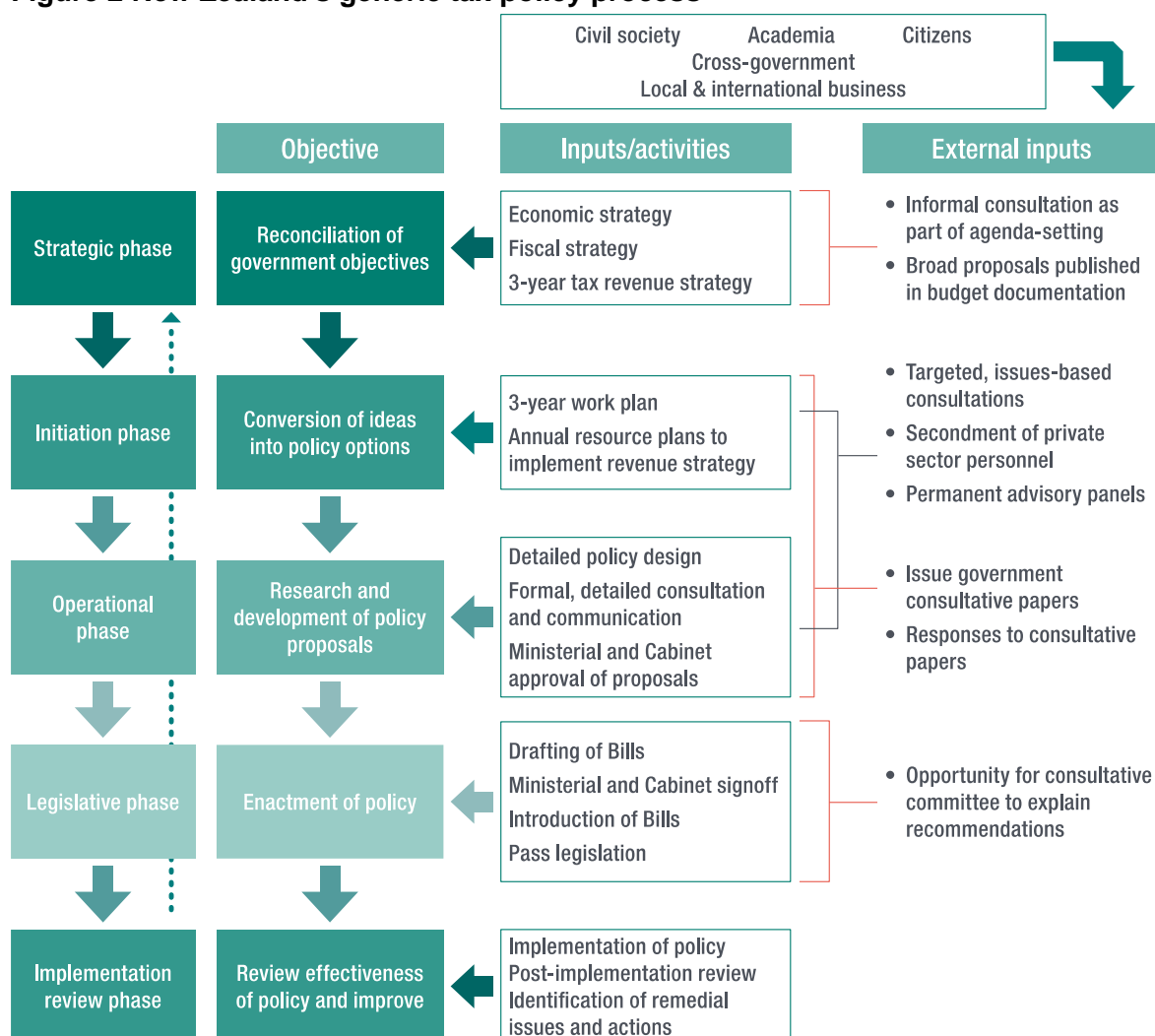
The literature clearly supports careful analysis and open debate with a wide range of stakeholders when designing a tax system so that it will be accepted, supported, and successful in promoting inclusive economic growth and social development. Studies have also shown the advantages of a formalised and precisely delineated protocol for the development of tax policy. Adapted to the local environment, this helps to support local good practice and guards against avoidable, and potentially costly, policy errors. The New Zealand model (see Figure 3) has long been singled out as a benchmark for policy-making processes (Wales & Wales, 2012), although it appears to have been largely unappreciated by other governments, or at least rarely imitated. The process involves a number of distinct phases and allows for early consideration of key policy elements and trade-offs, giving medium- and long-term strategic plans a critical role in guiding the development of the revenue strategy (TWG, 2018). Policy development occurs predominantly in the operational and legislative phases of the generic tax policy process (GTPP) and comprises the following stages (TWG, 2018):

- **Concept:** identifying the issue and scope of the problem, obtaining approval to undertake project planning
- **Plan:** identifying and predicting the time and resources required for the project
- **Research:** identifying options, researching and analysing the issue, undertaking cost and impact analysis, obtaining approval to consult externally
- **Develop:** consulting, finalising policy proposal options, costs and impacts, obtaining ministerial and cabinet approval for the proposed policy change, developing draft legislation
- **Legislate:** parliamentary process and external communication about ensuing legislation
- **Completion**

Through consultations and the publication of broad proposals, the model creates space for substantial external input into policy formulation from the earliest stage until enactment. Stakeholders are given advance warning of regulatory changes, and the process acknowledges that consultation can enhance voluntary compliance by giving taxpayers time to understand the need for change and adjust their behaviour accordingly. Consultation also allows policy-makers to draw on expertise in the public and private sectors, ultimately improving the quality of proposals. In addition, the process allows for a policy to come ‘full circle’, incorporating a stage for post-implementation review to encourage learning and improvement, which then feeds back into future strategic thinking. By formalising the policy process, including tax consultation, the Government of New Zealand also seeks to enhance accountability and to give participants certainty about their roles and responsibilities (TWG, 2018).

The current Ugandan tax policy-making process, set out more fully in the Findings section below, contains several of the elements found in the New Zealand model. However, the practical application of the underlying principles is underdeveloped in a number of key areas. In strengthening the Ugandan model, it will be important to ensure that change is compatible with the cultural and political preferences of citizens and the political leadership.

Figure 2 New Zealand's generic tax policy process



Source: MFPED (2019), modified from TWG (2018)

1.3 The Ugandan context

In most countries, the process through which tax policy is made reflects a rich mixture of historical traditions, cultural preferences and political requirements. Uganda is no exception. This review acknowledges that Uganda's cultural and political context is unique in many ways and that what works elsewhere may not work equally well in Uganda. In carrying out the review, the authors have sought to let Ugandan voices speak for themselves through the interviewees, rather than impose international norms that would be inappropriate or sub-optimal. Although discussions may have been led in terms of direction and content, the emphasis was on listening and observing and allowing interviewees to challenge or embrace new thinking, ideas and suggestions, based on their own experience.

The scope of this review does not include a historical appreciation of the policy-making context in Uganda, but it is important to a proper understanding of the issues covered in this report, to give some additional background to the economic situation in Uganda and the broad state of the public finances. These factors influence both the direction and detail of policy and, therefore, have an impact on how the policy-making process should be shaped to address them most effectively.

1.3.1 Financing growth and development

Uganda is a low-income country with aspirations to achieve economic growth that have been articulated primarily through the Uganda Vision 2040 and the Second National Development Plan (NDP II). Vision 2040 sets out Uganda’s ambitions to attain upper-middle income country (UMIC) status, and recognises the fundamental improvements needed to achieve this, including upgrading key infrastructure, creating a better-educated workforce, achieving controlled urbanisation, building a more competitive business environment to strengthen the path to industrialisation, and enhancing agricultural productivity. The current plan has little in the way of detailed tax or revenue content but does commit GoU to a sector-based approach to stimulating economic growth and to the development of social programmes to support the creation of a strong, modern Uganda. These two facts provide clear indications of the likely needs from the tax policy-making process.

The DRMS highlights a concern that, on the current trajectory, Uganda’s tax effort will not be sufficient to support the development agenda. The rebasing of GDP, a process completed in the second half of 2019, has shown that the tax-to-GDP ratio for Uganda is well below the level previously estimated. While this does not negate the nominal increases in revenues that have been achieved by the URA and TPD in recent years, it does suggest that there is considerable scope to improve DRM through administration and policy measures. The DRMS has been designed to tackle those issues. Despite the annual revenue growth, the consensus is that Uganda has not yet achieved its revenue potential, and that the gap is likely to remain significant without a renewed push for change.

The rethinking of the tax policy-making process is intended to support and empower MFPED and GoU to achieve revenue-generation levels that are more appropriate in the context of Uganda’s economic performance and spending needs. As Figure 3 shows, there is a substantial gap between revenues and expenditure that needs to be addressed through economic growth and better tax policy and administration. The fiscal deficit has put pressure on GoU to borrow funds both domestically and externally, exacerbated by actual spending and fiscal outcomes routinely deviating from the approved budget. The 2019 IMF Article IV Country Report indicates that fiscal risks are tilted to the downside, as further delays to oil production are likely to increase the budget deficit, public debt, and current account deficit. The IMF also notes that the current debt ceiling in the Charter of Fiscal Responsibility has not been an effective anchor for fiscal policy. Debt projections have been systematically revised upwards (Figure 4).

Figure 3 Revenue versus expenditure trends

■ Total revenue and grants ■ Expenditure and lending ■ Overall balance (excl. grants)



Source: MFPED (2019)

While Uganda's risk of debt distress remains low, significant vulnerabilities loom. Over the past five years, the debt-to-GDP ratio has risen by over 10 percentage points. Most of this debt stock is denominated in US dollars or Euros, exposing debt stability to the risk of adverse currency shocks. Interest payments and domestic debt refinancing tie up a large portion of the total annual budget – approximately 20% in financial year 2018/19, a level which the IMF argue is typically only associated with countries close to, or in, debt distress. These factors further highlight the importance of avoiding the re-accumulation of debt, for which continued progress on DRM is not only desirable, but necessary.

Table 1 Trends in government financing (UGX billions)

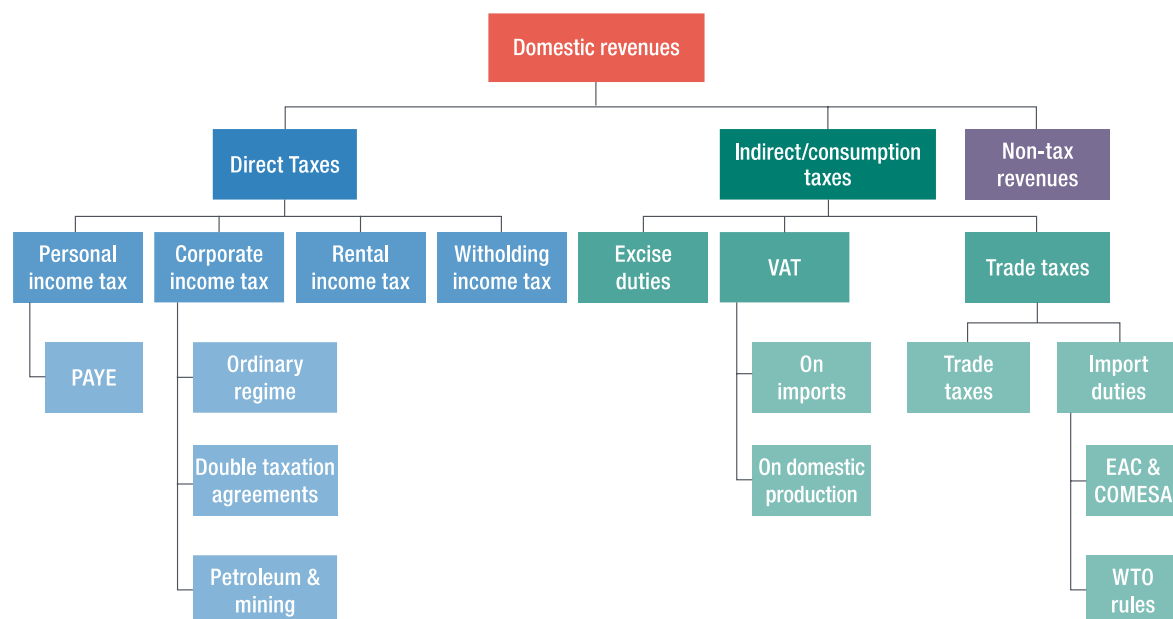
	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18
Total revenue and grants	5,183.1	7,292.5	7,763.4	8,276.5	8,870.4	11,044.8	12,647.2	13,896.5	15,281.1
Revenues	4,319.5	6,402.0	6,634.1	7,340.3	8,167.9	10,114.0	11,500.0	12,946.8	14,506.9
Tax revenue	4,205.7	5,114.2	6,135.9	7,149.5	8,031.0	9,772.9	11,059.1	12,463.4	14,076.1
Non-tax revenue	113.9	95.1	105.9	190.9	136.9	221.5	319.4	353.6	430.9
Oil Revenues	–	1,192.7	392.3	–	–	119.6	121.4	129.8	–
Grants	863.6	890.5	1,129.3	936.2	702.5	930.8	1,147.2	949.7	774.2
Budget support	467.3	515.5	576.0	198.7	191.4	258.2	339.7	259.3	154.5
Project support	396.3	375.0	553.3	737.5	511.0	672.7	807.5	690.5	619.7
Expenditure and lending	6,831.1	8,972.5	9,273.4	10,521.5	11,682.3	14,378.7	16,726.9	17,437.5	20,201.6
Current expenditures	4,307.1	5,958.0	5,420.9	5,812.3	6,706.3	7,689.3	9,168.6	9,994.3	10,934.2
Wages and salaries	1,308.4	1,659.5	1,831.8	2,160.5	2,385.3	2,759.5	2,966.4	3,382.0	3,481.4
Interest payments	385.1	423.5	603.3	889.7	970.1	1,213.0	1,681.8	2,360.2	2,260.5
Other recurrent spending	2,613.6	3,875.0	2,985.9	2,762.1	3,350.9	3,716.8	4,520.5	4,252.1	5,192.3
Development expenditure	2,478.4	2,850.9	3,602.9	4,236.9	4,936.5	5,229.5	5,906.8	6,718.1	7,566.1
Net lending & repayments	(36.7)	(30.2)	(39.4)	409.4	19.4	1,235.2	1,532.5	541.0	1,396.5

Domestic arrears repayments	82.3	193.8	289.0	62.9	20.0	224.7	118.9	184.0	304.9
Overall balance (excl. grants)	-2,511.6	-2,570.5	-2,639.2	-3,181.2	-3,514.3	-4,264.7	-5,226.9	-4,490.7	-5,694.7
Balance as % of GDP	-4.68%	-4.00%	-3.81%	-4.28%	-4.28%	-4.69%	-5.24%	-4.14%	-4.75%
Net external financing	758.3	724.1	1,153.9	1,417.9	886.9	919.0	2,494.0	2,608.6	3,496.2
Net domestic financing	701.5	1,104.3	24.6	717.3	1,650.0	2,483.4	1,898.8	603.1	1,359.6

Source: MFPED (2019)

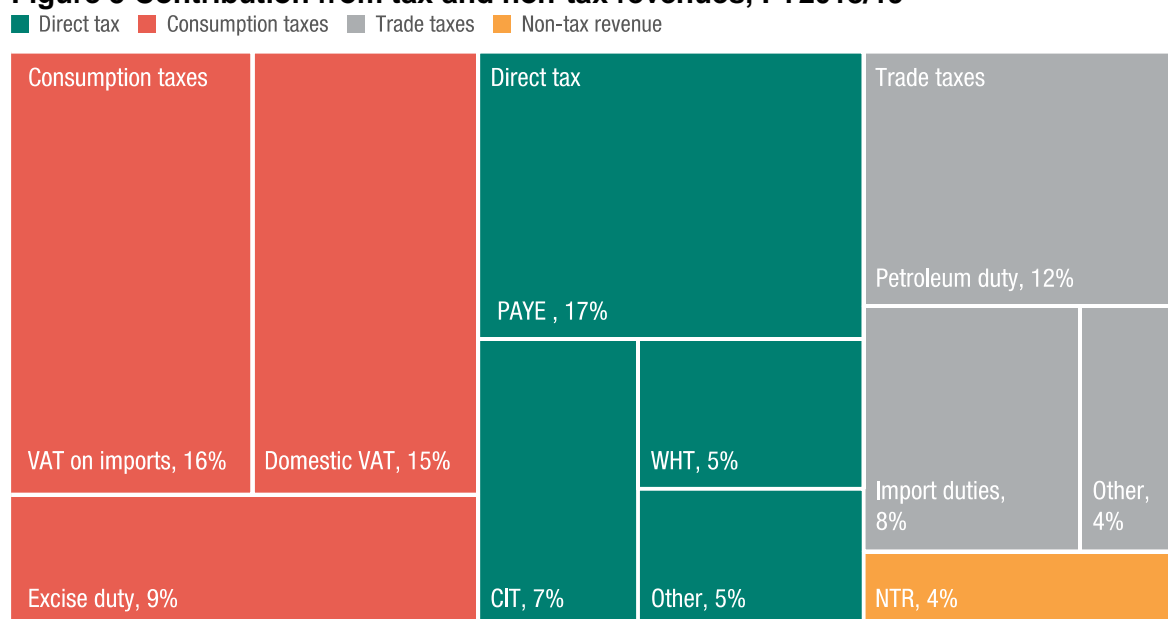
The weakness in revenue generation is not a reflection of the absence of normal tax instruments. The Ugandan tax system broadly conventional by international standards. It includes most of the tax instruments used in countries with much higher tax-to-GDP ratios, including direct personal and corporate taxes, and indirect taxes such as excise duties and VAT. The tax rates are set at a level that is either similar to or above typical OECD norms. The revenues the system generates reflect a broad balance between taxes on consumption, income, and international trade that appears, at first sight, to be quite appropriate. However, as noted above, the overall yield from this mix of tax and non-tax revenues is below the level required to finance necessary government investment and expenditure (see Figures 5 and 6).

Figure 4 Uganda's tax structure



Source: MFPED (2019)

Figure 5 Contribution from tax and non-tax revenues, FY2018/19



Source: MFPED (2019)

This poses a familiar challenge to tax policy-makers: the need for a system that produces a much higher yield, while simultaneously encouraging domestic and foreign investment. Against that background, the ideal mix of personnel for the TPD is probably a balance between conjurers and magicians but, in the real world, finance ministries often have to rely on more conventional skills. There are some tricks, though, in how to organise these for best effect and, as this report will suggest some organisational changes may empower Uganda's TPD officials to get closer to meeting the challenges they face.

The situation demands changes in a number of areas. The DRMS provides a framework to which specific policy initiatives can be attached but there will have to be strong political leadership to make them stick; and the initiatives will have to be underpinned by deeper and more detailed research and analysis from TPD and the URA, working together, than is currently available. Organisational change in TPD could also support this.

1.3.2 Institutional responsibilities for tax policy-making

The current institutional responsibilities for tax policy are set out on the website of the MFPED and in the URA Act. They are reproduced in full in Annex 2.

The Directorate of Economic Affairs (DEA) at MFPED, which is mandated to 'formulate and make recommendations to the PS/ST on implementing economic and financial policies for sustainable growth and development', has, as one of its main functions, to 'mobilise domestic revenue by designing appropriate tax and non-tax revenue policies'.

TPD 'is mandated to formulate tax and non-tax revenue policies that maximise domestic revenue generation, stimulate investment, promote growth and export competitiveness'.

Section 3 of the URA Act specifies that the functions of the URA include:

'(a)...

(b) to advise the Minister on revenue implications, tax administration and aspects of policy changes...;

(c) to perform such other functions in relation to revenue as the Minister may direct'.

This creates a formal policy-making framework that lacks some precision but has developed into an operating model that is quite well understood by most of those directly involved in the process. The following sections document and examine the way in which the model works currently.

2 Findings

2.1 The tax policy-making process in Uganda 2019

The process through which tax policy is made in Uganda today is shown in Figure 1.

The process shown in Figure 1 reflects many historical influences on the development of government in Uganda, including that of British institutional architecture. However, it is far from being simply a copy of Westminster practices. It embodies several features that do not draw on UK tradition and some of the more recent changes in the UK approach have not been introduced in Uganda. The tax policy-making process in Uganda has not been mapped or documented in this way before. This section will first describe, then analyse the different elements of the process in order to establish a ‘*baseline*’ understanding from which recommendations for strengthening it can be developed.

2.1.1 Strategic Phase: the initiation of policy reform

From a TPD perspective, tax policy proposals can be grouped broadly into three categories:

- adjustments to thresholds and values in the legislation, often recognising the impact of inflation and often systemic in nature
- policy maintenance measures designed primarily to address loopholes and deal with administrative challenges as they arise
- policy reform representing a divergence from previous policy and practice.

The first type of change has rarely been undertaken in Uganda in recent years. There are no published principles or laws requiring the government to update or index thresholds or specific rates, although doing so would arguably be fairer and more consistent with the original intention, as the value of some taxes and some thresholds has been eroded significantly by inflation since their introduction.

The second type of change is made much more frequently and has tended to form the bulk of annual policy changes. In Uganda, such ‘maintenance’ changes have generally been introduced to remove inconsistencies, refine the law to ease implementation, ensure that the language used most accurately reflects the original intention, and address issues of interpretation that have given rise to misunderstandings between taxpayers and the URA and fuelled tax disputes.

The third type, sometimes involving major policy reforms, has usually been motivated by a strategic decision to change, perhaps to achieve certain domestic objectives or to align parts of the system with international standards or norms. The direct influence of other GoU strategies on the development of this type of change, particularly Vision 2040 and the associated NDPs, has been relatively slight. Detailed examination of the compatibility of the tax system with broader government objectives is undertaken only sporadically and the engagement between TPD and other parts of government is generally limited and unstructured. The current agenda for tax policy reform, encapsulated in the DRMS, has received some input from other ministries, and other parts of MFPED, but not as much as would be desirable. There appears, however, to be demand from other parts of GoU for a more regular working engagement with members of TPD, particularly on cross-cutting issues.

Periodically, changes originate from reviews undertaken and recommendations made by development partners, especially the IMF and the World Bank. In the past, the IMF has been felt to be more prescriptive, with the disbursement of budgetary or project support being contingent on certain reforms.

2.1.2 Planning Phase: developing a workplan

The annual workplan for TPD is largely dictated by the budget cycle. It draws on two key documents: the Ministerial Policy Statement, which is presented to parliament as an indication of activities to be undertaken over the course of the next financial year; and the national Budget Framework Paper (BFP), which is developed in accordance with the budget strategy and the Public Financial Management Act (PFMA) of 2015. The BFP is coordinated by the Director, Budget, and usually deals with the expenditure side in significantly more detail than the revenue side. The major contribution from TPD to the BFP and preparation of the annual budget is typically a projection of the tax revenues as an input to determining the total resource envelope.

TPD's workplan is closely tied to the budget cycle, in terms of timing and of content. The policy work tends to be heavily biased towards the development of short-term revenue-raising measures for inclusion in the budget. As stated earlier, the influence on the TPD workplan of high-level government strategies, most critically Vision 2040 and the NDPs, seems to be relatively slight. The combination of an under-resourced policy development process and the pressure for ever-greater revenue has resulted in frequent amendments to Uganda's tax laws. This has caused a high level of instability and unpredictability, which increases the compliance burden for taxpayers and creates undue complications in revenue administration. The DRMS now sets out the issues that GoU intends to address over the next five years to achieve the desired level of revenue collection. The policy elements of the strategy should, therefore, play an important role in the development of TPD's workplans in the future.

The planning phase of the policy-making process is largely driven by the current Budget Process Calendar, which sets a strict timetable that TPD is obliged to follow in developing tax policy measures. Key dates for the DEA, and TPD in particular, are illustrated in Table 3 for the FY2019/20 budget. The exact dates vary from year to year, but the timing is broadly the same.

Table 2 Selected dates from the Budget Process Calendar for the preparation of the FY2019/20 budget

Date	Activity	Responsibility Centre
Continuous	Online stakeholder engagement	MFPED
20 August 2018	Review and update of the macro framework	MEPD, UBOS, BOU & URA
22 August 2018	Top Management meeting on the performance of current revenue measures	DEA
24 August 2018	Provision of macro framework and resource envelope for FY2019/20	DEA
27 August 2018	Economic development strategy update	DEA, EDPR
27 August 2018	Draft budget strategy paper for FY2019/29	Budget Directorate
29 August 2018	Top management meeting on the Budget Strategy FY2019/20	Budget Directorate
15 September 2018	First Budget Call Circular issued	PS/ST, MFPED
16 September – 2 October 2018	Local Government consultation and regional workshops	MFPED (DB & DEA)
17 – 19 October 2018	Macro Working Group Consultations	MFPED, BOU, EPRC, UBOS, IMF, Civil Society

19 October 2018	Private Sector Development Strategy	MFPED, UFZA, UIA, MTIC, MTWA, MoFA, UTB, URA, EPRC
19 October 2018	Consultations with MDAs on Non-Tax Revenue	TPD
Early October – 23 October 2018	Consultation on macro assumptions and forecasts (GDP, inflation, exchange rate, BOP, tax and non-tax revenue, expenditure, external and domestic financing)	MFPED, BOU, EPRC, UBOS, URA
25 October 2018	Private sector working group consultations	TPD, PSF, EDPR, UMA, KACITA, UIA, UFZA etc
31 October 2018	Medium-term and FY2019/20 resource envelope reconciled with forecasts and development strategy	MEPD
By 23 November 2018	Update on the Charter for Fiscal Responsibility in the National Budget Framework Paper FY2019/20	MFPED
21 November 2018	Top Management meeting on the draft BFP	DB
28 November 2018	Meeting the President on the BFP	DB & DEA
29 November 2018	Submission of Cabinet Memo on BFP	DB
7 December 2018	Cabinet meeting on the National BFP	DB
By 31 December 2018	Submission of the National BFP to Parliament	MFPED
31 December 2018	Draft Background to the budget	DEA, EDPR
By 1 February 2019	Approval of National BFP by parliament	Parliament
28 February 2019	Top Management meeting on the resource envelope and detailed budget estimates	DB
By 1 March 2019	Medium-term budget framework and MTEF updated	DEA, DB
By 1 March 2019	Second Budget Call Circular issued	PS/ST, MFPED
15 March 2019	Revised tax revenue and other domestic revenue forecasts	TPD
17 March 2019	Revised macro forecasts, GDP, inflation, exchange rate, BOP, social plan, tax and non-tax revenue, expenditure, financing	MEPD, BOU
Before 1 April 2019	Presentation of annual budget with tax bills (inter alia)	MFPED
30 April 2019	EAC pre-budget consultations by Ministers of Finance on CET (tax proposals) and budget day/theme	EAC partner states
May 2019	Committee of Supply considers budget	Parliament
30 May 2019	Final Background to the Budget	DEA, EDPR
By 31 May 2019	Approval of Annual Budget	Parliament
4 – 18 June 2019	Budget Week	MFPED
13 June 2019	Budget speech in parliament	MFPED
1 July 2019	Budget comes into force	Parliament

Note: Dates are stipulated by the PFMA, 2015

2.1.3 Developmental Phase: working up the proposals

The development of policy ideas into fully-fledged tax proposals should normally form the bulk of the work done by TPD. In most countries, developing and refining proposals takes place throughout the budget cycle and is built around the government's own agenda for tax reform. In Uganda, the main policy development work tends to be concentrated in a shorter period and there has, historically, been less influence from a central, political vision for the development of the tax system.

Modelling capabilities

TPD does not currently have its own General Equilibrium model through which to examine the wider and longer-term fiscal and economic effects of major tax changes and makes little use of econometric models to consider micro-economic impacts. The Macroeconomic Policy Department (MEPD), which is also part of the Directorate of Economic Affairs, has a higher level of modelling capability but TPD makes limited use of it in developing policy choices. TPD's ability to forecast revenues, for budget purposes, is also limited by resource constraints. The macroeconomic assumptions required for revenue forecasts are provided by MEPD. These are used by the Tax Research Section of TPD, alongside TPD-generated assumptions about the buoyancy and elasticity of certain taxes, to develop a '*passive*' scenario, reflecting the expected revenue if no changes were made. An '*active*' scenario is subsequently developed, quantifying the revenue impact of likely policy adjustments and administrative efficiency gains.

Channels of influence on policy development work

The policy development workload of TPD has three main elements: (i) tax changes suggested by the URA; (ii) proposals made by other actors, e.g. political leaders, external organisations, including those from within GoU and from private-sector organisations; and (iii) tax reforms initiated within TPD or by Top Management in MFPED.

At the beginning of the annual cycle of policy development, PS/ST writes to a wide range of private-sector organisations – mostly umbrella bodies or associations representing particular interests – and government bodies, asking for policy ideas that they believe should be included among the options that MFPED is developing for the revenue side of the forthcoming budget. The PS/ST also writes formally to the URA to request input.

The main channel for URA policy input is a formal submission to MFPED. Around December each year, senior URA staff with departmental responsibilities must submit recommendations for legislative change for consideration in an internal URA process. These are initially discussed in the individual departments, with suggestions filtered before being shared with the Legal Services Department (LSD). The LSD produces a refined list for discussion at a February meeting of senior URA staff, after which a formal submission is made by the Commissioner General to the PS/ST. This includes proposals for policy maintenance and policy development, and possibly some draft legislation. The submission seldom includes a detailed analysis to support the proposals, but typically takes the form of a matrix, setting out each proposal in a few lines with a broad indication of the scope and rationale for each proposal and its likely revenue impact. The URA submission is sent to senior management at MFPED who pass it to TPD for review and comment. Meetings are then held between the URA and TPD to discuss and agree what action should be taken. There are normally informal contacts between C/TPD (and others from TPD) and relevant Commissioners and Assistant Commissioners at URA in advance of the formal meetings.

The external inputs are typically received through two channels:

- Spontaneous letters from the private sector, often addressing very narrow and specific issues. These are relatively frequent, and a significant number are from politically well-connected, economic elites.

-
- Invited submissions from stakeholders. These are either provided at formal consultations and workshops, held as part of the budget process, or received in response to the written request sent by the PS/ST.

Consultations are normally scheduled to take place in September and October to allow time for any suggestions marked for consideration to be incorporated into early budget thinking and worked up as measures by TPD. The consultations are often broad-ranging and, although valued by participants, make relatively little contribution to policy development. Letters and other written submissions tend to be either generic or self-interested.

As stakeholders tend to receive relatively little information about government priorities and no real indication of the direction that GoU is intending to take with the revenue side of the budget, there is a lack of context for those who want to make submissions. The subject matter is left up to the organisations and individuals themselves. Representative bodies usually try to consult within their membership as widely as the timeline allows. They are typically not given a long lead-time before the deadline for submissions, but most large organisations are aware of the broad timescale. There is rarely any feedback on why earlier submissions may not have been taken up by MFPED, which leads to some uncertainty among the stakeholder organisations about whether there is value in repeating a still-relevant submission from an earlier year. Like the URA proposals, the external proposals are normally compiled into a matrix by TPD and officers undertake a relatively simple analysis of whether they are feasible or appropriate for the forthcoming budget.

Several proposals for the annual budget will also emerge from the third main channel, the internal analysis and research carried out by TPD, sometimes driven by a review of international experience. In principle, each TPD Section is required to take responsibility for the analytical work on measures relating to its area of expertise. This applies in relation to both internally and externally generated proposals. In reality, this rigid division of responsibility is not always followed. Capacity constraints, particularly at managerial level, are an issue, with just a few highly experienced officials, and an uneven distribution of technical and analytical abilities.

The analysis of proposals undertaken in TPD should address not only the likely revenue implications, but also the wider economic, social, distributional, and welfare impacts, and involve a peer review or benchmarking of international experience. In practice, the level of analysis is usually limited to determining the likely revenue impact of a measure. This shortcoming is the result of both time and resource constraints.

TPD is frequently asked by senior officials at MFPED to produce an analysis of the impact of a new revenue proposal within just a few days. This typically results in responses for which the underlying analysis is not sufficiently robust. When time allows, TPD can produce good analysis and will call on partners to undertake more sophisticated research. EPRC, for example, is used in such a way. Policy development work undertaken in TPD typically involves some liaison with URA, particularly to access relevant data. However, the lack of a formal data-exchange protocol occasionally results in data not being shared in a timely manner or in the required format. TPD does not currently maintain its own centralised database, other than data for monitoring revenue performance. The Department's ability to access relevant data could be enhanced by a formal agreement or guidelines with URA, setting out the data that will be shared, the agreed format and schedule. It could also be improved by closer collaboration with the URA, involving joint teams and working groups.

Policy documentation in TPD

Currently, TPD does not use a standard template for policy appraisal to structure and properly document the empirical evidence and research on a particular proposal. When policy briefs are prepared for senior management, they are usually short summaries of the issue, background, the analysis undertaken, and the policy conclusion. While these should ideally be written in a way that non-technical, non-specialist officers and politicians can readily understand, the summaries should

properly be supported by a more thorough, technical analysis. The TAXDEV team is currently working with C/TPD to strengthen and standardise this type of core TPD work and its presentation.

Sign-off within MFPED

After the analytical phase of policy development, a matrix of measures that have been signed-off within TPD is compiled for consideration by Top Technical (a forum for Commissioners and Assistant Commissioners, chaired by PS/ST). Once measures have been approved at that level, they are passed to Top Management. The submission to Top Management includes a brief description of each proposal, its objective, and the revenue impact. The matrix is usually accompanied by explanatory notes, especially for more complex proposals, which provide a more substantial justification for the proposal as well as the estimated revenue gain or loss. If the measures are approved, they are worked up for ministerial approval and developed into a cabinet paper.

2.1.4 Approval Phase: submission to cabinet

The documentation for tax proposals is sent from MFPED to the cabinet. In principle, there is a standard requirement that any policy measure must be accompanied by a regulatory impact assessment if it is to be added to the cabinet agenda. However, tax policy proposals are rarely in full compliance with this requirement.

The Cabinet Secretariat reviews the tax proposals. This review should include an examination of whether there has been sufficient consultation, what other policy options have been considered in determining whether the best one has been put forward, and a final check as to whether the policy appears to be capable of being implemented and monitored. Some consideration is also given to the likely distributional impact, although this is necessarily at a very high level. This system is intended to sift out proposals that are not sufficiently robust and whose likely effect on citizens has not been properly analysed. In practice, this assessment is frequently bypassed in relation to tax measures, due to the urgency imposed by the budget timetable. Tax measures are often taken to Cabinet just in time for the 15 April cut-off date in the budget process.

At the Cabinet meeting, the minister is required to present the tax measures and explain why they are being proposed. The Cabinet's bias towards the expenditure side of the budget means that tax measures are often afforded very little discussion time. Cabinet ministers are rarely (and should not be) experts in the detail of the tax system. However, the level of awareness within the Cabinet about the taxation system was cited during interviews as a cause for concern. It potentially weakens the debate and can sometimes result in the rejection or amendment of proposals. Where amendments are made by the Cabinet at this point in the process, there is rarely enough time for the new proposals to be examined in detail by the technical officers.

Tax proposals usually become public knowledge after they have been presented to Cabinet, being reported on in the traditional press and often the subject of comment, frequently adverse, in both social and print media. MFPED seldom issues any formal media communiqué or engage with journalists to explain the intention behind tax measures. This can have a negative impact on the quality of public debate on these measures, as the media are somewhat susceptible to sensationalism in the absence of a reasoned argument from government to balance the debate.

2.1.5 Legislative Phase: parliamentary scrutiny

Once proposed tax measures have been approved by the Cabinet, they are passed to FPC, which is responsible for drafting all government legislation. FPC is not permitted to start drafting work until the proposals have Cabinet approval. In general, TPD starts preparing a preliminary draft or outline of the legislation before FPC begins the formal drafting process, with some informal contacts to facilitate the process. However, the drafting is usually done under significant time pressure, as the Cabinet decision is often made just a few days before the bills should be sent to parliament. As a result, there is often limited opportunity for FPC to meet URA and MFPED to examine the

proposals and their relation to existing legislation. The quality of the initial documentation sent from TPD to FPC is, therefore, critical to an orderly process and a good outcome. FPC tries to maintain consistency in terms of the officials who draft tax legislation, to minimise the impact of working under such short notice.

Once a tax bill has been drafted, it is presented to parliament and referred to the Committee on Finance, Planning and Economic Development (CFPED). At that point, a research officer prepares an Approach Note, detailing suggestions on how the issues should be handled, including how many times the committee should meet, what evidence should be gathered, how best to interact with MFPEP, and the number of public hearings to be held. Parliamentary committees often lack institutional memory, which affects the debate on tax proposals. Given the specialist nature of taxation, the committee will be given some background on how to handle certain issues, although this may not always be adequate.

The Approach Note is developed into a workplan for the CFPED, which comprises six technical officers from parliament (including lawyers, economists, policy analysts, and a representative from the opposition) and 15–30 MPs, is empowered to request its officers to examine the legal and economic implications of the bill. At this stage, MFPEP can also be required to present its background research work and analysis. If the evidence supporting a proposal is deemed inadequate, the technical officers might prepare a series of questions for the Minister of Finance and invite MFPEP to explain the proposals. When time allows, public hearings are held to enable the committee to be presented with more evidence. Academic experts are usually invited to these hearings. Interested parties may also be invited, giving rise to perceptions that lobbying may take place through this channel. Based on the evidence provided, the technical officers draft a report on the bill for the committee, which accepts or rejects the findings. At this stage, interviewees feel that the technical arguments in favour of a bill are often ‘lost’ in favour of its social and political aspects.

According to interviewees, the Committee’s decision-making process lacks the political discipline that often characterises decision-making in Westminster-style parliamentary democracies. It is not unusual for government proposals to be dropped from a bill. After the committee stage, the remaining provisions are taken to the main plenary session for debate, where tax issues are discussed in general terms of their effect on revenue generation and the likely impact on constituents, with less discussion on the technical elements.

It is rare for expenditure commitments to be adjusted to compensate for revenue-raising tax measures that are dropped. This creates pressure to develop urgent ‘stop-gap’ measures which may involve the use of relatively poorly analysed proposals, such as rate increases, or GoU may simply be obliged to increase borrowing. Where measures are amended in parliament, there is usually little or no scope for MFPEP or FPC to ensure that consequential amendments are made at the same time. As a result, there may be a lack of clarity in the law or the possibility of conflicting rules. By 31 May, as required in the PFMA, parliament must approve the budget and related bills, which are then passed to the President for his assent. This is, by tradition, a formality.

2.1.6 Implementation Phase: law into practice

Commencement

Measures usually come into force at the start of the new Financial Year on 1 July. Ideally, at this stage, URA will issue guidelines or explanatory notes explaining how taxpayers should interpret and comply with the law. However, the shortness of the interval between parliamentary approval and implementation can create administrative challenges, giving URA insufficient time to develop and introduce new systems, protocols and guidance for staff and taxpayers. Where implementation issues do arise, URA generally identifies possible remedial measures, which are passed on to TPD. Taxpayers who are finding changes particularly troublesome will usually write to PS/ST or TPD directly or through their representative bodies to express their concern.

Post-implementation review

There is typically no planned programme of post-implementation review agreed between any of the parties. TPD and URA will estimate the actual revenue impact of proposals enacted, as the data emerge, but this is often at a relatively unsophisticated level, and there is seldom a review of the behavioural consequences of reforms. This is not unique to Uganda. It is also true of many governments in HICs.

2.2 Key issues arising from the findings

Mapping the tax policy-making process is a first step towards identifying the areas where reform could be valuable. It allows the strengths and weaknesses of the current process to be identified from the perspective of all the main participants and stakeholders and highlights the areas where there are particular opportunities to draw on the experience of other governments and their citizens.

We find that the tax policy-making process in Uganda is by no means broken but that a significant and sustained effort is required by those responsible for, or directly involved in tax policy-making to facilitate changes to achieve more effective outcomes. This will necessarily involve new organisational frameworks, some fresh thinking and new working practices, to make the most of existing human and technological resources and facilitate the gradual improvement of analytical capacity. Some of the changes recommended will require a modest level of additional financial investment but most will not.

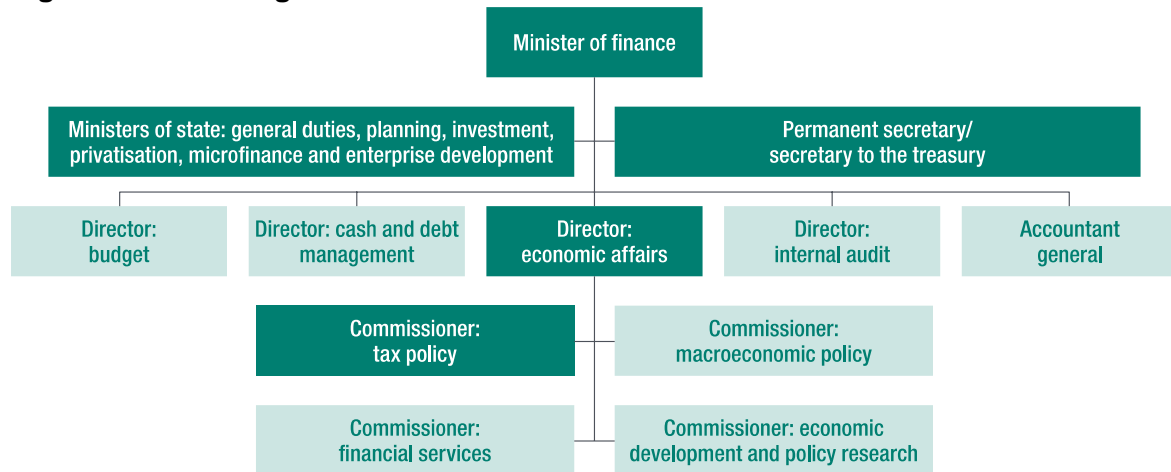
As our step-by-step analysis has demonstrated, the current tax policy-making process provides, in principle, for an orderly progression from the emergence of an idea for a change in the tax system to its final implementation as a legislative measure. Uganda has the foundations in place for a well-structured system of policy development. There are available data. There is research and analytical capacity in both TPD and the URA. There are operational arrangements that allow these two organisations to work together on policy matters. There are economic models available in GoU that can help with policy design and impact assessments. There is a willingness on the part of TPD and citizens to engage in an open discussion about tax issues and an expectation among businesses and citizens that their views will be sought. There is an appetite in parliament to discuss and consider tax proposals. There is recognition among the country's political leadership, from the President down, that Uganda needs a stronger revenue base in order to become financially independent from its development partners. This has been captured in the DRMS. However, our interviews and examination of the related documentation have shown that the potentially orderly progress from concept to implementation is currently more aspirational than real.

In this section, we highlight the key issues arising from the findings.

2.2.1 Recognising the importance of revenue policy

Our work has shown that the importance of the revenue side of the budget is not fully recognised in MFPED or GoU more widely. At the political level, the Minister of Finance shoulders the entire responsibility for taxation while other aspects of MFPED's responsibilities are handled, in the first instance, by Ministers of State. There is a strong case, and good international precedent, for treating taxation issues in the same way, in order to build a better bridge between the technical and political aspects of tax policy-making and achieve a more effective roll-out of all aspects of the DRMS.

Figure 7 MFPEd organisational structure: 2019 – extract

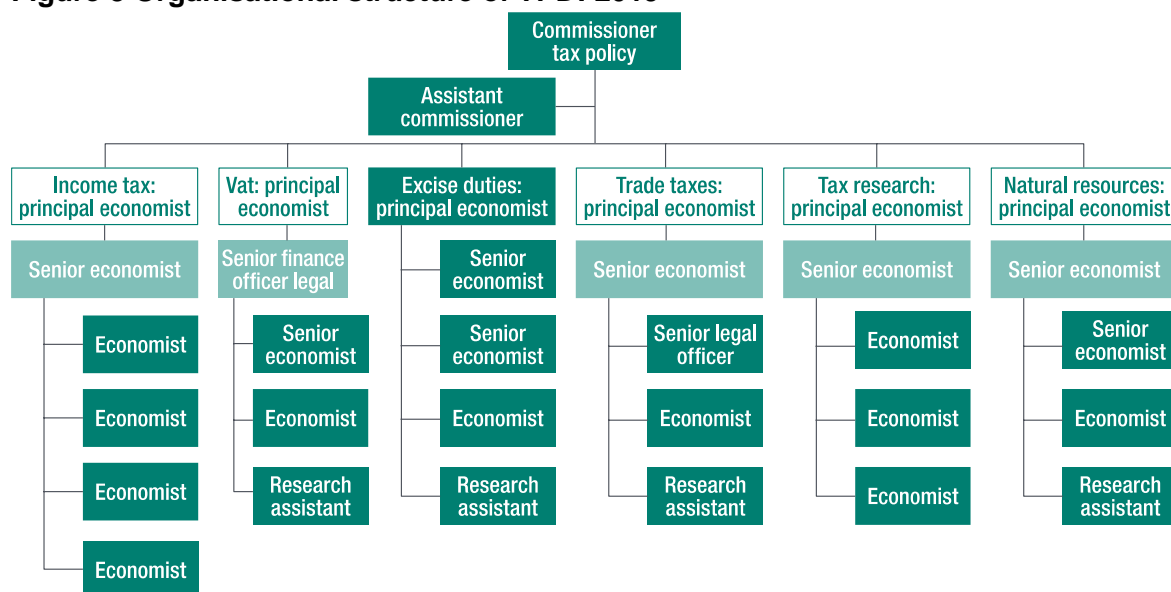


Similarly, the Director, Economic Affairs is required to answer for tax policy within Top Management, alongside a much wider set of other responsibilities that go with the Director’s role. Tax is a complex area and the process of policy design would benefit from TPD having its own voice in Top Management. Establishing TPD as a Directorate would better recognise the importance of revenue issues to GoU, send an important signal to domestic and international audiences, and make TPD more directly accountable within Top Management for its performance. It would also facilitate the changes necessary to ensure that the revenue side is given more attention in the budget process. The Minister and the PS/ST can lead that process of change.

2.2.2 Using organisational change in TPD to drive a stronger contribution

The review has also shown the need for changes in the organisational structure of TPD (see Figure 8) to make its contribution to the development of economic and social policy more effective, improve its own performance and productivity, and maximise the potential of its capable staff. Organisational change could help to promote co-working and challenge within TPD, enhancing the quality of the options that emerge from the policy-making process. A more structured and tailored approach to training and staff development would help to motivate and strengthen the capacity of TPD staff. Improvements to recruitment procedures and pay would also have a positive impact. The evidence from our work suggests that these are key areas to address in order to strengthen the policy-making process.

Figure 8 Organisational structure of TPD: 2019



Note: This diagram reflects the staffing of TPD in November 2019. Blank boxes indicate unfilled positions, with the role below (in green) acting as the effective head of section.

2.2.3 Improving the quality of policy analysis

Our review confirms existing assessments that there is considerable scope to improve the technical quality of the analysis that underpins the development and selection of policy options. The modelling experience of many TPD staff is relatively limited. TPD has no sophisticated economic models within its immediate control and limited use has been made to date of economic models created elsewhere in MFPED or in the URA. This hampers policy development and limits the effectiveness of any impact assessments the Department makes. The situation could be improved in the short term by achieving better connections between TPD and MEPD and by achieving a closer working relationship between TPD and the Research, Planning & Development team in the URA. For the medium term, the FCDO-funded TAXDEV team is working with TPD leadership to assess and enhance the modelling capability of staff and to help support the development and use of appropriately designed models within TPD's own control. The review has also confirmed the need for TPD to develop a more systematic, and systematically documented, approach to policy development to ensure that all the necessary issues have been addressed and the procedural steps properly taken.

2.2.4 Creating a policy-making process that is sufficiently robust

The review looked at the robustness of the current policy-making process in Uganda and, in particular, its ability to maintain its shape and normal rigour under pressure. Pressure can come from many sides. It can come from the need to 'fill a hole' created by unexpected government expenditure or from parliament's rejection of a revenue-raising measure. It can come from a high-level political intervention or a request from a senior ministerial official. It can come from media and citizen pressure. Whatever the source, if a process is not sufficiently robust and self-confident, pressure can lead to policy measures being rushed through without the proper level of examination of issues and impacts. The interviews have shown that TPD, and to some extent, URA, often feel that they are under this type of pressure. The mobile money tax serves as a good illustration of this. In July 2018, a tax of 1% on all mobile money transactions was introduced, justified as a way to raise much-needed revenue and ensure that the informal economy 'makes a modest contribution to the development of their country', as the President stated. Under pressure, the measure was introduced without allowing sufficient time either to understand its impact on economic and social welfare or its administrative challenges. As the legislation was initially drafted, a single mobile

money payment could be taxed four times – on depositing, sending, receiving, and withdrawing the money – all of which were identified as separate and taxable transactions. Parliament later revised the measure and reduced the rate to 0.5%. In this case, the source of the proposal gave it added weight. There was clear logic in the argument that between the informal economy and the provider of digital services, GoU was ‘losing’ tax. There was also a sense of urgency in dealing with the issues.

Despite the unease of a number of senior officers, the measure went ahead. The policy-making process was not sufficiently robust to withstand the pressure of the moment. The proposal was insufficiently scrutinised and changes had to be made swiftly in the face of public outcry. In relation to this proposal, the policy process failed on two levels. It failed to understand the political frustration about the apparent lack of tax revenues from both the informal economy and digital service providers. It did not offer alternative proposals early enough and it failed to provide strong enough analysis and reasoning to show that the measure itself was unsuitable in the form proposed. This report makes recommendations intended to address both of these failings.

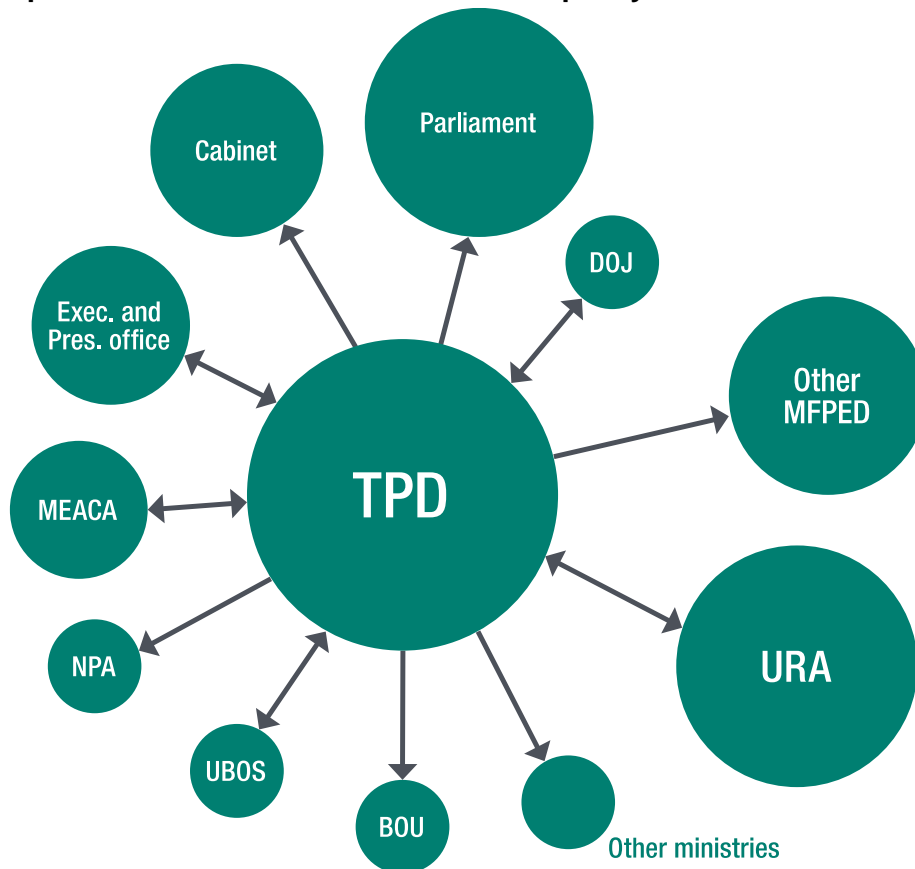
2.2.5 Enhancing the URA’s contribution to policy development

The interview process highlighted areas where the URA contribution to policy-making could be enhanced through a stronger partnership with TPD. Working practices between the two are too rigid and formulaic, and information flows are weaker than they should be. TPD is hampered in providing real leadership in policy development. The research capability of the URA is not harnessed effectively enough in the pursuit of the agreed revenue strategy that DRMS provides. Data-sharing is at an early stage of institutional development and needs a substantial push to improve policy-making and the monitoring of outcomes.

2.2.6 Creating more effective policy partnerships across GoU

There is a high level of pent-up demand across GoU for a more substantial engagement between MFPEd and other ministries and government agencies on issues where tax policy has an impact. Most of TPD’s relationships across GoU are narrowly focused, with the strongest relationships arising from a functional requirement to work together in preparing the annual budget and the tax bills. Figure 9 illustrates perceptions of those relationships arising from the interviews. Stronger policy-related relationships are shown by larger circles. The direction of influence is shown by the arrows.

Figure 9 Spheres of influence within GoU on tax policy

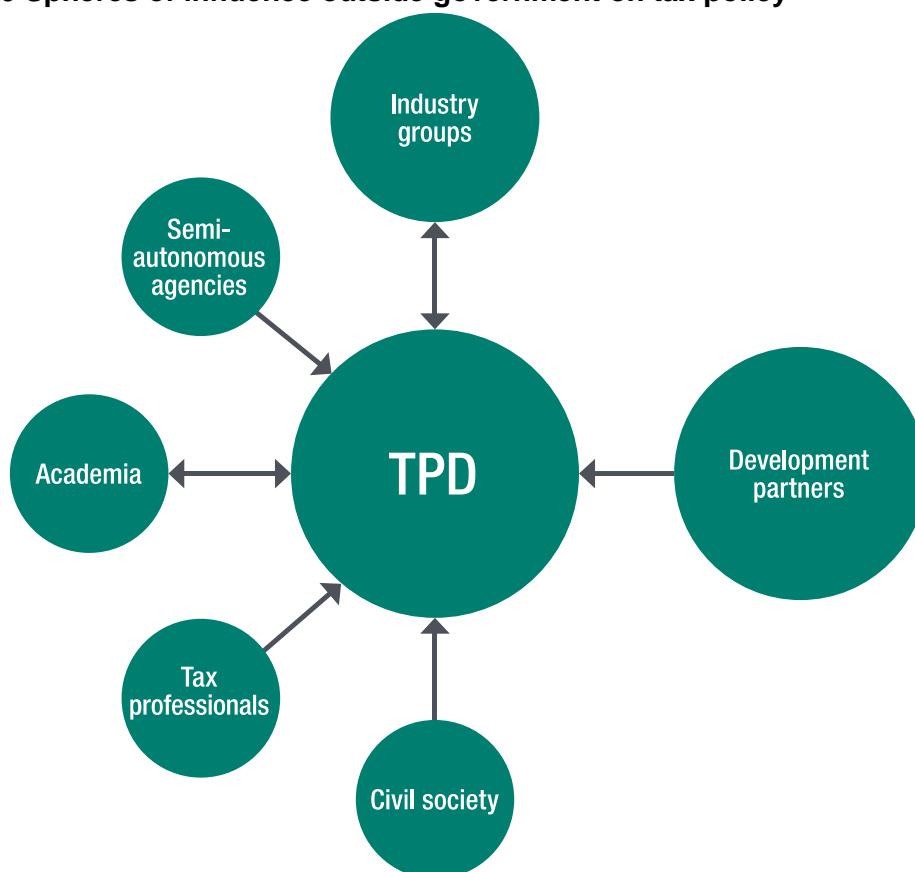


The narrowness of TPD’s engagement with other ministries and agencies on policy issues can be addressed in part by setting key performance indicators (KPIs) for staff performance monitoring. There is a need for a more fundamental shift in thinking within MFPEd and TPD, however, about the role of tax policy and the capability of the Department to be proactive as a convener of working groups and a leader in cross-government policy cooperation. Effective delivery often calls for action to be taken through collaboration with other parts of GoU. Greater exposure to theories of behavioural economics in staff training will help senior officers to see more clearly the opportunities for sharply focused interventions. This could be supported by providing staff with better access to a wide range of modelling tools that can be used to understand impacts at the firm and household levels as well as on the economy and tax yield. All of the key functions of TPD are weakened by the absence of experienced staff in the Principal Economist roles that remain unfilled. This particularly affects the development of relationships across GoU, TPD’s ability to innovate and its capacity to lead. It places a significant burden on current leadership, makes effective delegation more difficult and severely limits the time available for staff mentoring.

2.2.7 Meeting the demand for citizen participation

The review found significant dissatisfaction with the engagement between MFPEd and key external stakeholders – business, civil society, the professions – except on trade taxes. Figure 10 illustrates perceptions arising from the interviews about non-governmental influences on tax policy. Stronger policy-related relationships are shown by larger circles. The direction of influence is shown by the arrows.

Figure 10 Spheres of influence outside government on tax policy



While interviewees were generally very content with the transparency of tax policy and the personal engagement of the current leadership, there was a widespread feeling that consultation needs to be better structured. The timetable for the budget process needs to be published so that stakeholders can engage at the right time. There was a strong wish for consultation to be structured around specific issues and options for change, rather than limited to a general call for the submission of proposals. There is demand for better feedback to those raising issues and submitting ideas. TPD staff need to be trained to consult more effectively and, in particular, to listen carefully (but not uncritically) to points raised by citizens and businesses. Involving the URA in the consultation processes would be helpful and could begin to shift some negative perceptions about the organisation.

The interviews also highlighted concerns that well-funded or well-connected lobbying at strategic moments in the policy-making process seems able to subvert outcomes.

2.2.8 Empowering Uganda's academics to play a bigger role

Opportunities to interview local academics who are engaged on research on tax policy, fiscal policy and economic and public finance issues were limited but our broader review work found that they currently have too little involvement. In part, this is the result of local efforts being crowded out by international academics who are engaged and funded by development partners. This is a vicious circle that results in holding back the development of local capability. International research often lacks context and practical application and tends to focus too narrowly on producing work of publishable standard.

2.2.9 Making better use of media opportunities

The review revealed MFPED's limited proactive use of the media on taxation issues. Greater reliance is placed on political leadership from the Minister and the President but this is no substitute for a more routine engagement with the media. Political leadership is important in

disseminating the government's message and should be used more extensively, but there is also a need for MFPED and the URA to use all forms of media more systematically. This is challenging in an environment where internet penetration is limited and different media platforms need to be built to reflect the importance of different forms of messaging. MFPED should ideally allocate a media relations officer to TPD to develop and deliver a properly designed communications strategy, which would have significant potential to improve inclusiveness, tax morale and tax policy outcomes.

2.2.10 Changing the approach to timing

The interviews conducted with a number of institutional participants in the process demonstrated a degree of frustration with the timelines to which they are required to work. It is commonplace across all countries, whatever their income level and status, for the budget process to involve a degree of pressure and a last-minute rush to get things done. Uganda is, therefore, unexceptional in this respect. There do, however, appear to be unrecognised opportunities to make specific improvements in the situation, by changes either in the timing of specific processes or in working practices that circumvent the problems created by formal timelines. Examples include the following:

- The timing of policy input from the URA comes very late in the budget cycle, arguably too late to facilitate the proper consideration of proposals or the development of balanced packages of measures with an appropriate political narrative. Strategic-level input should be provided earlier.
- The submission of tax policy proposals to the cabinet also comes very late in the budget process. While it is inevitable that a final set of proposals will be brought to the cabinet immediately before the budget deadline, it would be possible to build consensus in the cabinet at an earlier point in the cycle by bringing forward key measures for discussion. This would help to prevent the need for major, last-minute changes to the structure of a particular budget because important revenue measures are not approved.
- The legislative drafting process cannot start by FPC until cabinet has given its approval. There is typically a very short interval between cabinet approval and the deadline for tax bills to be presented in parliament so this puts great pressure on the drafting team and potentially leads to omissions, errors and sub-optimal wording in the law. Earlier notice of intended measures could be provided informally to FPC, which would create more time to consider the legislative requirements.
- The timing of the introduction of bills to parliament often results in pressure on MPs to consider the impact of wide-ranging changes in a short period of time. This can lead to proposed measures being rejected or significantly amended. Again, TPD/MFPED could use informal mechanisms to prepare the way for such measures among MPs. Committee chairs could be briefed on significant up-coming proposals.

The weaknesses that this review has identified in the tax policy-making process in Uganda could all be addressed and remedied. However, as already noted, this will require a significant and sustained effort by those responsible for, or directly involved in, tax policy-making. Some of the recommended changes will require a modest level of additional financial investment, but most do not. They require new organisational frameworks, some fresh thinking and new working practices, to make the most of existing human and technological resources and facilitate the gradual improvement of analytical capacity.

The authors are aware that the implementation of change is disruptive and can be destabilising, even in well-organised and highly motivated government departments. We are also aware that some aspects of the recommended changes require a high level of political and institutional support.

Before moving to the recommendations, we reiterate that the motivation for this review and the rethinking of the tax policy-making process addressed here are intended to:

-
- Support and empower MFPED and GoU to raise revenue generation to a level more appropriate in the context of Uganda’s investment and spending needs, without damage to the economic, social and political infrastructure; and
 - To facilitate the achievement of the targets and aspirations set out in Vision 2040 and the National Development Plans, underlining the critical importance of their outcomes.

The expected benefits of implementing the recommendations are addressed in Section 4.

3 Recommendations

The recommendations set out below are informed by some broad principles for the tax policy-making process in Uganda. That is, that the process is:

- Inclusive;
- Clearly documented and easy to understand;
- Guided by informed leadership and effective organisation;
- Underpinned by a strong analytical base that is respected in the decision-making process;
- Encourages questioning and challenge from within and outside government;
- Welcomes the voice of all Ugandans who wish to participate constructively and be structured to facilitate that participation;
- Embraces collaborative working techniques among skilled and well-motivated people and encourages a willingness to learn from the experience of others; and
- Is informed by relevant international practices, but is, over time, led by local experts and inspired by local thinking based on local knowledge.

The authors believe that Uganda needs a highly skilled, well-informed and positively motivated TPD that recognises the scale of the challenges, perceives its role broadly, works effectively across government, especially with the URA, and is proactive in contributing to the development of the Ugandan economy. The recommendations are designed with those principles and needs in mind.

The recommendations are grouped by reference to the institutional framework for policy-making, with a short explanation. Where a recommendation relates to more than one actor in the policy-making process, it is not duplicated. The issues are addressed under the following headings:

- The Ministry of Finance, Planning and Economic Development (MFPED)
- The Tax Policy Department (TPD)
- The Uganda Revenue Authority (URA)
- The Cabinet
- First Parliamentary Counsel (FPC)
- The parliament
- External institutions, civil society, business and other non-governmental bodies
- Development Partners (DPs) and external researchers

3.1 The Ministry of Finance, Planning and Economic Development (MFPED)

3.1.1 Enhancing political leadership

From an institutional perspective, MFPED is the principal source of tax policy initiatives and its minister has leadership responsibility for tax policy advocacy both within and outside government. This requires well-informed, focused political leadership. In many countries, the breadth of the finance minister's remit means that it is essential to delegate direct responsibility for taxation to a more junior minister in the political team. The minister of finance retains ownership of the policy area but day-to-day responsibility falls to a minister of state who generally has full decision-making authority on issues where the revenue impact is estimated to be below an agreed level. This

process of delegation allows the Minister of State to participate more actively in revenue policy-making and to develop a higher level of knowledge and expertise. It enhances the political team's contribution to tax policy development and strengthens the interface between the technical and political spheres. MFPED has a number of Ministers of State but none with overall responsibility for taxation.

Issue: The development of tax policy would benefit from more direct and focused political leadership.

Recommendation: Consider appointing a Minister of State for Revenue, with direct oversight of all tax policy and administration issues within the purview of MFPED; or assigning these responsibilities to an existing Minister of State.

3.1.2 Strengthening the Ministerial Office and enhancing Top Management discussions

Even in countries that have a Minister of State for Taxation, it is common for the Ministerial Office to be strengthened by the inclusion of an expert adviser in fiscal policy. Advisers tend to be appointed directly by the minister of finance and work with the political team, acting as a bridge between the technical departments and ministers, providing guidance to technical officers on policy priorities for the political team and helping to interpret complex technical issues for the benefit of ministers. MFPED is aware of the concept of an adviser but does not currently have anyone in this specific role. Within the MFPED framework, it might also be effective to appoint such an adviser to the PS/ST.

Issue: The contribution of ministerial and Top Management leadership on revenue issues is currently weakened by the absence of a strong link between the technical sphere and the senior management/ political sphere on tax policy development.

Recommendation: Consider creating the role of Adviser on Taxation to provide technical support to the Ministerial and Top Management teams on all revenue-related issues. This position could be an adviser to the minister or to the PS/ST. It would be a permanent role and would encompass both administration and policy matters.

3.1.3 Using soft power

Ministers of finance and their ministers of state have significant and wide-ranging formal powers. Uganda is no exception. Ministers also have considerable '*soft power*' that allows them to exert influence in areas beyond the extent of their formal powers. Soft power is typically rooted in personal authority, trust, and sometimes in class and kinship. It can be used to promote outcomes that have benefits across society that would otherwise be difficult to achieve, or conversely lead to negative outcomes when it is directed towards benefiting particular interests and interest groups. The careful use of soft power could strengthen outcomes from tax policy in Uganda.

Issue: There are areas of the tax system in Uganda where change is needed but where the use of formal channels and processes alone does not provide an effective mechanism. In these areas, there is an opportunity for the minister to use '*soft power*' to enhance the likelihood of success. This can be important in relation to inter-institutional relationships as well as in relation to policy and administrative changes.

Recommendation: The use of soft power is as much a personal matter for the minister and the immediate team as an institutional issue. The ability to mobilise support for key tax reforms with wide-ranging benefits has to be factored into critical decisions made by Top Management at MFPED, especially where outcomes would otherwise be in doubt.

3.1.4 Rethinking the approach to the revenue side of the budget and improving coordination with expenditure planning

In Uganda, as in many countries, the budget process is dominated by discussions about expenditure plans, with relatively little consideration given to the revenue side. Although close attention may be given to revenue performance, the revenue potential is not examined in detail from a policy perspective. The participation of TPD in the budget process is felt to be called upon late in the process and often driven by a need to find new revenues urgently to meet expenditure commitments. This has a number of negative consequences. Tax policy becomes mainly reactive and very short term in outlook (although the publication of the DRMS may help to change that); and the potential for thinking on tax policy to contribute effectively to the development of the budget is largely lost. Tax policy-making becomes devalued as an institutional activity.

Issue: The attention given to the revenue aspects of the annual budget is out of balance with that given to the expenditure side. The linkage between the two appears to be underdeveloped. This weakens the overall quality of budget planning, contributes to last-minute decision-making and short-termism in the development of revenue policy, and distorts attitudes across the ministry.

Recommendation: Integrate revenue and expenditure planning more effectively throughout the budget process, harmonise procedures, use working groups and better information sharing to allow thinking on revenue policy to develop in parallel with emerging expenditure aspirations.

3.1.5 Recognising the importance of revenue issues through the organisational structure

The undervaluation of tax policy work is reinforced in Uganda by the relatively low status of the tax policy team in the ministry structure. Tax policy-making is a major function in all governments, not an incidental activity. However, the status of TPD in MFPED belies its importance to the functioning of GoU and the achievement of ministerial objectives. Tax policy-making is very closely related to the development of economic policy, although this should not be taken to justify including TPD within DEA rather than giving it the status of a Directorate in its own right. Reconfiguring TPD as a Directorate would make it more directly accountable to PS/ST within Top Management. It would put relationships between TPD and other parts of GoU on a more appropriate and balanced footing and it would reconfirm the priority accorded by the President and the cabinet to strengthening DRM as a key to greater financial independence for Uganda. Following the publication of the DRMS, that would be an important signal.

Issue: The importance of revenue policy work to GoU and the national economy is not fully recognised in the organisational structure of MFPED, which undervalues the contribution that the effective use of tax levers can make. In working across government, the status of TPD is potentially detrimental to outcomes. The natural counterpart for the Commissioner, Tax Policy Department (C/TPD) is typically at Director level.

Recommendation: Reconfigure TPD as a Directorate in its own right.

3.1.6 Addressing short-termism

Issue: Historically, tax policy work has been dominated by short-term pressures, especially late decisions on budget spending and unanticipated revenue shortfalls. This gives rise to significant concern, within and outside government, that tax policy is simply reactive and that there is no established direction or goal for the tax system. The development of tax policy to achieve medium-term objectives has, until the creation of the DRMS, been accorded a lower priority.

Recommendation: The completion and publication of the DRMS provides an opportunity to redress the balance. TPD should be encouraged to take full advantage of the shift in emphasis and begin to work systematically through the policy changes foreshadowed in the DRMS document, dovetailing them, in accordance with an agreed plan, with the implementation of URA's own DRMS commitments. Top Management should require TPD and URA to develop appropriate

workplans and provide regular reports on progress towards achieving the DRMS objectives. The reports should cover progress on both policy and administration issues.

3.1.7 Strengthening policy-focused cooperation within MFPED

Around the world, there is considerable variation in how the tax policy-making team interacts with other parts of the ministry of finance. In some governments, tax policy is treated as a semi-detached, specialist function, rather than a core activity. Although it may be given a relatively high status, it is not operationally integrated into the other policy-making parts of the ministry. In MFPED, there are good relationships between TPD and other departments, but it appears that they are rarely used to pursue broad policy outcomes or to ensure coherence in policy development across the ministry. Ideally, this should happen naturally at the working level, but it may need the catalyst of a more formal structure, at least initially.

Issue: There is currently not enough of a working engagement between TPD and other parts of MFPED to ensure policy coherence and the alignment of the tax system with wider government policy objectives.

Recommendation: Use the mechanism of senior-level joint working groups within MFPED to identify and address key economic policy issues that require cross-directorate collaboration. These working groups should generate reform proposals, including the development of relevant tax proposals. They would be structurally easier to convene if TPD were a Directorate.

3.1.8 Enhancing the relationship between government and citizens

As already noted, MFPED has the principal advocacy role on tax matters, with ownership ultimately residing with the Minister. The relationship between tax policy-making and citizens is about more than advocacy. Issues about inclusiveness and consultation on policy development are addressed elsewhere in this section, but the review identified a specific need for MFPED proactively to improve communication between GoU and citizens on tax matters and to establish a better two-way dialogue at a Top Management level. This should be done formally and deliberately, with appropriate media briefings. It will supplement other forms of interaction with citizens and businesses in the policy sphere.

Issue: The relationship between GoU and citizens on taxation policy issues is weak. Taxpayers see a lack of horizontal and vertical equity in the system and perceive a lack of effective channels through which to encourage government to address key concerns felt by citizens and businesses. They believe that MFPED has the ability to effect appropriate change.

Recommendation: Consideration should be given to strengthening the relationship through a range of mechanisms. These include:

- The development of an on-going programme of communication through all media channels, to reach out to citizens and businesses, in order to explain and demonstrate more effectively the relationship between tax and public spending, dispel myths and create a more widespread understanding of the objectives of the tax system. This could potentially generate a positive feedback loop into tax policy development.
- The establishment of a committee, led by MFPED, to act as a formal channel of communication between citizens and government on tax issues, and to play a positive role in the development of solutions. This would be constituted as a permanent, high-level committee chaired by the Minister or the PS/ST with the membership (ideally no more than 12) including senior officials from MFPED/URA (including the CG, the C/TPD and the Commissioner, Domestic Taxes), business leaders and civil society. Potentially, a Minister of State for Taxation could play an important role in the implementation of this Recommendation.

3.2 The Tax Policy Department (TPD)

TPD has the most direct role in relation to the development of the tax system. It currently directs most of its policy work towards specific tax-by-tax aspects of the system, strengthening perceived areas of weakness or vulnerability and aiming to keep the system in line with international norms, while protecting Uganda's specific interests.

3.2.1 Broadening the focus of TPD

The focus on issues arising under particular tax heads is a natural consequence of the organisational structure of TPD. It can, in principle, encourage a deep technical knowledge among members of staff. However, it also unintentionally narrows the scope of tax policy work and limits TPD's effectiveness in contributing to the development of solutions to broader economic and social problems. This is compounded by the fact that TPD does not, as a cultural norm, proactively establish contacts with other parts of GoU to pursue joint policy initiatives and interests. The review found little evidence of innovation in the approach to policy development.

Issue: TPD has a narrow focus on the component parts of the tax system and makes too small a contribution to the development of solutions to major economic and social policy problems that might require, or benefit from, the use of a variety of tax levers.

Recommendation: Shift the emphasis of policy development from the current, narrow, tax-head-based approach to address wider issues. This can be achieved without sacrificing technical depth, through organisational and methodological changes that are addressed in other recommendations (3.2.2, 3.2.3, 3.2.6).

3.2.2 Strengthening work on sectoral issues

Issue: Sectoral issues are currently addressed in a relatively unsophisticated manner, with limited dialogue, too little bottom-up analysis, insufficient recognition of the wide range of interfaces between formal businesses and the tax system, and little attention to consistency across the spectrum of taxes with which businesses have to cope.

Recommendation: Consider addressing sector issues holistically, as part of a reshaping of the approach to policy development. Sharpen the focus on engagement with businesses, listening more actively to concerns, filtering taxpayers' suggestions to identify real pressure points that hamper firm-level growth. Enhance the recognition that is given within TPD to the development by staff of significant sector and business knowledge.

3.2.3 Improving cooperation and problem-solving with other parts of government

Issue: The engagement between TPD and other parts of government on policy issues is relatively weak and there are missed opportunities and unsatisfied demand for support from other ministries and agencies.

Recommendation: Seek opportunities to strengthen policy-related ties with other ministries and parts of government. Allocate responsibility for key relationships across government to senior TPD staff in order to address, holistically, major economic and social policy issues (e.g. youth unemployment, private-sector development) where tax potentially has an enabling role and/or can provide an appropriate 'nudge' to achieve behavioural change. Link up with other ministries and establish cross-cutting, inter-departmental working groups to develop integrated proposals and solutions. Develop metrics for measuring TPD's contribution to broader policy issues and refine them into individual KPIs.

3.2.4 Controlling the scope of tax interventions

Tax instruments are used in many countries to address issues that might, on better reflection, have been addressed through other policy instruments. Sometimes tax policy interventions can be used as an enabler within a broader package of measures. However, the tax policy-making process needs

to incorporate, as an early step, a mechanism to prevent the overuse, or inappropriate use, of taxation where other approaches might have been preferable.

Issue: Without proper control, the taxation system can be identified inappropriately as the sole or main mechanism for delivering economic and social policy outcomes that would better be achieved through, or in conjunction with, other policy levers at GoU's disposal.

Recommendation: Establish a systematic approach to policy development that examines, at an early stage, whether tax is the best or only policy instrument that could or should be used to address a given issue, and whether targeted tax interventions could be combined with, or replaced by, other government actions. This should be factored into an initial policy appraisal template.

3.2.5 Ensuring that tax expenditures are properly controlled and routinely examined

The ability to use properly targeted tax measures to promote economic development and welfare objectives is one of the important tools at the disposal of tax policy-makers, particularly in LICs and LMICs. These tax expenditures should be clearly linked to specific, agreed national development goals.

Issue: Historically, it has proved difficult for TPD to investigate, control and manage the process through which tax expenditure has been incurred. Investors have used direct and indirect channels to 'improve' their tax position in Uganda through the granting of special reliefs, holidays or exemptions and through mechanisms that result in their tax liabilities being settled by government itself. There has been some lack of transparency concerning these arrangements. GoU has now established a formal set of arrangements for tax holidays that are set out in legislation and available to investors meeting certain criteria. A bar has been placed on discretionary interventions. Perceptions, however, lag behind the introduction of these forms of control.

Recommendation: GoU should address these widely felt concerns by better and more effective communication and by the annual publication of a tax expenditure report (TER). The TER should be prepared jointly by TPD and the URA, with initial expert help where necessary. The basis of the TER should be set out clearly and made available for public scrutiny. It should include all forms of tax expenditure, (including, for example, expenditures relating to import duties, excises and VAT etc, as well as direct taxes), where private-sector liabilities or potential liabilities have been affected by government intervention, whether by discretionary action or legislative rules. It should be presented in a way that allows a sectoral appreciation of the pattern of tax expenditure. It would enhance public and business confidence if the TER were independently audited and the audit report published alongside the TER itself. New proposals for tax expenditure should normally be broadly-based and targeted by sector in accordance with agreed national priorities, rather than applicable to a single company or business. They should be barred from taking effect until there has been a formal cost-benefit calculation, the calculation reviewed, and the measure authorised at the appropriate level as defined in the legislation, or by legislative amendment. Investors should be made aware of this procedure to avoid misunderstanding.

3.2.6 Reshaping the organisational structure

TPD follows an organisational model that is generally recommended by the IMF and has been used in many countries, with some adaptations. It is most appropriate for large, advanced economies, where the emphasis can be on technical issues and on training staff for long-term careers in specialist areas requiring a high level of detailed knowledge. It particularly suits an environment where the aspiration is for the tax system to be broadly neutral across all forms of activity and investment.

As noted above, a concern emerged in the interviews that this organisational model for TPD is less suitable for the interventionist aspects of its role and narrows the scope of its tax policy work, limiting its effectiveness in contributing to the development of solutions to broader economic and

social problems. Consideration has been given to the possibility of making changes in the organisational structure to encourage a different approach to tax policy-making within TPD, while preserving the focus for junior staff on the development of deep technical skills.

A revised organisational structure is presented in Figure 11. This would potentially be appropriate whether TPD is reconfigured as a Directorate or maintained as a Department of DEA. However, it would arguably be easier to make the full range of changes if TPD were a Directorate. Options are shown in full in Annex 3. The outline that follows assumes that TPD becomes a Directorate (Annex 3, Option 1).

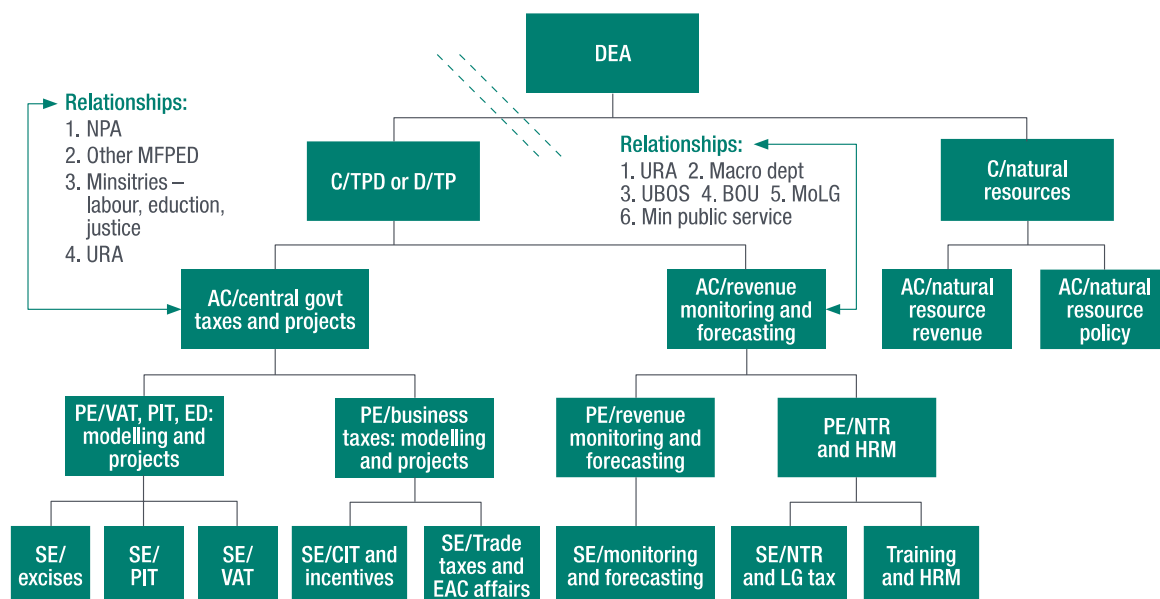
The key features and driving factors can be summarised as follows:

- The natural resources aspects of TPD's work have been moved in the suggested structure into a separate department within the DEA. This would allow this area of work to become more focused and to develop and expand as required by the growing importance of natural resource activities and related revenues to GoU. There is a risk that, without this change, natural resource taxation will become a distraction to the mainstream work of TPD, while being restricted in its own growth potential. This change would also allow the creation of new, senior roles within TPD, immediately below the current C/TPD, irrespective of whether the Department becomes a Directorate.
- The revised structure envisages that the remaining activities within TPD will be split between a 'Central Government Taxes and Projects Department' and an enhanced 'Revenue Monitoring, Forecasting and Other Revenues Department'.
- The Central Government Taxes and Projects Department would bring together, at Commissioner level, all of the main taxes levied by central government. At Assistant Commissioner level, the roles would be split between two officers. One would have responsibility for the range of taxes that mainly affect individuals and are the principal instruments that can be used to influence individual behaviour: Personal Income Tax, VAT and Excise Duties. The other would have responsibility for Business Taxes, Trade Taxes and East African Community (EAC) coordination. The push for EAC coordination is likely to be most important for business and trade taxes in the first instance. This team would logically deal with international taxes. At the more junior levels, staff would be organised into teams of subject specialists, to preserve the quality of their technical development. They would be rotated, perhaps every two years, to broaden their knowledge and technical expertise. They would work in cross-cutting project teams, as required.
- The Revenue Monitoring, Forecasting and Other Revenues Department would also be led at Commissioner level. It would benefit from enhanced modelling capability and closer working with established partners in other governments. There would also be a small team dedicated to Non-Tax Revenues. In the first instance, it is recommended that decentralisation issues should also be dealt with in this Department, although this might eventually need to change. This Department would provide a stronger focus on raising standards in training, mentoring, performance management and appraisal.

The proposed structure is intended to encourage senior staff to be more focused on developing solutions to broader policy problems rather than just on specific issues within particular tax heads. The structure envisages a much bigger component of project work than is currently undertaken in TPD, carried out in collaboration with others in MFPED, with the URA and other ministries and government agencies.

The structure is intended to highlight the responsibilities and accountability of the senior members of the team for building and maintaining effective relationships with those other Ministries and Agencies.

Figure 6 Recommended alternative TPD structure



Reshaping the organisational structure to broaden focus

Issue: The current tax-by-tax organisational structure of TPD provides a strong focus for the technical development of junior staff but narrows the thinking and approach of the Department as a whole. It artificially constrains the development of cross-cutting project teams and limits staff perceptions of their potential contribution.

Recommendation: Consider restructuring TPD to reflect the new emphasis in policy-making and encourage cross-tax thinking and wider engagement (see Figure 12).

Reshaping the organisational structure to deal effectively with natural resource taxes

Issue: Natural resource taxation and related areas of work need to be developed more fully. This cannot be achieved without creating new imbalances within TPD. The wide remit of the Assistant Commissioner is not properly aligned either with the developing needs of TPD or the natural resources responsibilities of MFPED.

Recommendation: Consider re-shaping the role of Assistant Commissioner. An alternative approach, outlined in relation to the recommendation above, could involve setting up a Natural Resources Department as a separate entity under the DEA.

Reshaping the organisational structure to reflect the importance of new taxes

Issue: Coverage of international tax issues, including treaty negotiations and the taxation of digital businesses, is currently thinly resourced. These are important areas that require specialist training and dedicated staff. The same is true of environmental taxes, where TPD will need to build its expertise for the future.

Recommendation: In conjunction with the review of the structure of TPD, consideration should be given to how to strengthen these aspects of the team's work.

Reshaping the organisational structure to support decentralisation objectives

Issue: In principle, GoU is committed to a decentralising agenda, but there has been limited progress towards designing and implementing a framework for appropriate decentralisation of revenue generation. The challenges and potential benefits need to be properly assessed in the current political and economic environment. Relatively little TPD resource is currently devoted to this issue and co-working with other relevant parts of GoU to take forward the necessary analysis and development of proposals has not been pursued as a priority.

Recommendation: The prioritisation of revenue/fiscal decentralisation proposals should be agreed between TPD leadership and MFPED Top Management, with input from other ministries and the Cabinet, if necessary. TPD resource constraints and organisational structures will need to be addressed if decentralisation is to be pushed forward in the near future.

Improving office accommodation to support new working arrangements

Issue: Regardless of whether changes to the structure of TPD are carried out, there is a chronic need to improve the department's office facilities, which discourage effective cross-team working and frustrate aspirations to develop modern working practices. TPD staff currently occupy a number of relatively small and cramped offices on Floor 5 at MFPED. Overcrowding has been affected by the recent expansion of the Department. Co-location is often a significant factor in the sharing of ideas and professional development. The existing arrangements discourage discussion between different teams, except those that are immediately co-located. There are no meeting/breakout rooms where cross-cutting teams could meet to discuss policy issues.

Recommendation: Review with MFPED leadership the scope for addressing these issues in the short term, either by changing the office design/plan of Floor 5 or possibly by moving staff to open-plan accommodation on a different floor. This could be considered in conjunction with other changes in TPD's organisational structure.

3.2.7 Changing the approach to timing within the annual budget cycle

Issue: As already noted, the interviews demonstrated a degree of frustration on the part of a number of institutional participants in the process with the timelines to which they are required to work. It has been a recurring issue that policy proposals are not finalised by TPD early enough in the budget cycle. This puts considerable pressure on others in the process who have significant responsibilities for achieving the intended outcomes. For example, FPC may not start drafting tax legislation before cabinet approval. The later that Cabinet approval is sought, the greater the pressure on those involved in drafting and the higher the risk of mistakes. Similarly, the Cabinet Secretariat may be under pressure to accept a lower standard of presentation from TPD than might be possible if the timing were brought forward. Within parliament, the later the tax bills are received, the greater the rush to prepare information for MPs and the shorter the period for the Parliamentary Budget Office (PBO) to deliver its own analysis and advice. There appears to be scope for some of the activities carried out by TPD to be front-loaded to reduce this problem and for other participants in the annual policy-making process to be encouraged to provide their inputs earlier. This should, in principle, be easier in the context of an agreed implementation plan for the DRMS. The system functions at present but there is consensus that it is significantly sub-optimal.

Recommendation: There are inevitably some last-minute elements in the package of proposals that constitute the revenue side of any budget. However, particularly in the context of an agreed DRMS, there is an opportunity to plan and carry out work earlier in the budget cycle so that proposals can also be brought forward for approval at an earlier stage. TPD leadership should review the timetable for developing policy proposals and aim to schedule work to prioritise early delivery of key proposals. This would enable the institutional processes to run more efficiently. Consideration should also be given, particularly in the context of an agreed DRMS, to using informal channels of communication to ensure that participants in the process, such as the FPC and

the PBO, are aware of the measures that are likely to be brought forward and have chance to do some initial preparatory thinking and planning before the formal process begins.

3.2.8 Matching TPD staffing arrangements with organisational needs

In addition to the issues about the organisational structure of TPD, there are a number of factors that weaken the capacity of the department to fulfil its potential. The recommendations to deal with these are summarised below.

Matching TPD staffing arrangements with organisational needs – vacant positions

Issue: TPD currently has a number of senior roles unfilled, resulting in weaker leadership, shortage of time for broader external responsibilities, mentoring and in-service training, and creating some staff frustration.

Recommendation: Ensure that TPD has all the key leadership roles filled by permanent staff with appropriate tax knowledge. TPD should be given more direct responsibility for recruitment.

Matching TPD staffing arrangements with organisational needs – over-dependence

Issue: TPD is currently over-reliant on a few key members of staff. There is a risk of over-burdening these individuals and a related organisational exposure for TPD if any of them leave or are transferred.

Recommendation: Ensure that all staff delegate and manage their workloads in an appropriate way to reduce pressure on the more senior staff and encourage the development of the more junior team members. TPD leadership should set the example. Recruitment needs to be designed to support the achievement of this objective.

Matching TPD staffing arrangements with organisational needs - selection

Issue: The allocation of new, junior staff to TPD does not respond to any preference expressed by candidates, resulting in some potentially unsuitable appointments and low staff motivation. This can be exacerbated if staff are rotated to new roles within TPD for which they are either unmotivated or unsuited.

Recommendation: Work with the Ministry of Public Service to improve the selection process for TPD staff. Improve internal TPD deployment through a more rigorous, transparent and aptitude-based system of rotations for junior staff.

Matching TPD staffing arrangements with organisational needs – redeployment

Issue: The wider civil service practice of redeploying people to a new department after only a few years in one post can be valuable for staff development but has resulted in a lack of continuity and reduced the depth of technical knowledge that is essential for TPD. It weakens the motivation of TPD leadership to organise specialist tax training for staff who may be redeployed relatively soon.

Recommendation: Work with the Ministry of Public Service to improve the system of deployment of civil servants as it relates to TPD, recognising its specific needs as well as the general needs of central government departments.

3.2.9 Reassessing salary levels and benefits

The issue of civil service pay is widely acknowledged to be problematic for the recruitment and retention of top-quality staff. Within TPD, staff are often distracted from their work by the need for supplementary income to support their family.

Issue: Public service remuneration, including for TPD, is not competitive with that available in the private sector or the URA for people with similar qualifications. The staff perception is that a full salary has to be ‘made up’ through travel, workshops and other allowances, incentivising officers

to spend time away from their usual work and introducing a lack of transparency regarding the true terms and conditions. It leads to undesirable competition for ‘extras’. Some staff have indicated that they have significant income-earning activities outside their employment at MFPED that they may prioritise, for financial reasons, over their formal employment. This results in productivity issues for TPD and potentially creates conflicts of interest.

Recommendation: Ideally, GoU should conduct a comprehensive review of the performance management system across the public service to streamline the salaries and allowances system. In the short term, reviewing those ministries and departments where there are significant issues of horizontal equity would be helpful, focusing on those where specialist skills are required for which there is intense and specific competition with the private sector. A register should be maintained of the external interests of TPD staff, with appropriate compliance requirements, and potential conflicts of interest monitored.

3.2.10 Encouraging greater emphasis on all forms of training and staff development

The review highlighted a significant number of issues relating to staff training and professional and personal development. The key areas for action are summarised below, which are mostly self-explanatory. Improving TPD’s performance and contribution is critically dependent on the quality of its people. Too little emphasis is currently given to developing appropriately tailored training.

Induction programme for TPD

Issue: The recruitment arrangements for new TPD staff mean that many arrive with limited awareness of the tax system and few of the modelling skills that are necessary for much of the tax policy work that TPD undertakes. This creates inefficiencies and reduces productivity.

Recommendation: All new TPD staff should take part in a TPD-specific induction programme, parts of which could be provided by internal staff or local experts and scheduled as soon as possible after their arrival. This programme should include:

- A brief course on the institutional framework for tax policy
- An introduction to the technical structure of the tax system and its objectives
- Intensive training in modelling techniques that are used by TPD
- Instruction in the TPD approach to the appraisal of tax policy proposals and the documentation of its work

Strengthening the role of mentoring

Issue: The current framework of responsibilities and schedule of duties appears not to recognise the importance of mentoring, in-service training and staff development.

Recommendation: Formalise mentoring as a KPI for staff performance and provide staff training to support the initiative. Ensure that upward evaluations are conducted to recognise the efforts of individual staff members and to help with monitoring.

Staff skills register to support effective deployment

Issue: There is no central record in TPD of staff experience and skills, resulting in potentially sub-optimal deployment.

Recommendation: Maintain a ‘staff skills’ register using self-reporting with senior review. Maintain a list of projects on which particular staff have worked.

Comprehensive training programme for all TPD staff

Issue: Staff training is scheduled based on recommendations from TPD, but there seems to have been insufficient attention to developing a tailored, comprehensive training programme for all TPD

staff, based on their individual developmental needs. This results in frustration for staff and weaker, inconsistent outcomes for TPD as a whole.

Recommendation: Develop structured, multi-component, training programmes for all TPD staff, reflecting their existing skills, aptitudes and experience and the requirements of their post. Formal responsibility for individual programmes and the achievement of an appropriate balance of skills across TPD should rest with a senior member of staff at or above Assistant Commissioner level.

Professional accreditation

Issue: Key staff have limited opportunity to develop technical and managerial skills in formally accredited schools that will enhance their CVs as well as their experience.

Recommendation: Consider using external academic courses, online and/or in person, to train and motivate staff. Identify potential future leaders in TPD and organise training to support their development, including management training. Consider creating a list of approved online courses, modules and a programme through which TPD staff should work continuously. Make the successful completion of modules a KPI and part of the annual performance review. Upskilling should be a constant feature of staff workplans, given the dynamic nature of taxation policy.

Awareness of accounting principles and practice

Issue: There is little opportunity for TPD staff to develop a deeper understanding and awareness of business organisation, operations and accounting. This is a particular issue for those involved in the taxation of business.

Recommendation: The enrolment of TPD staff for local accountancy/business training courses could help to ensure that tax policy-making is as effective as possible, and that staff are kept abreast of developments in the private sector.

Exposure to alternative ways of working through secondments

Issue: Staff development can be held back by a lack of exposure to alternative experience, knowledge and ways of working. TPD remains a relatively small team and is, therefore, especially at risk from the over-development of group norms and a tendency towards ‘group-think’ that can limit the development of effective solutions.

Recommendation: Secondments to and from TPD, involving other parts of GoU or the private sector, could help boost knowledge and fresh thinking and also assist with mentoring and in-service training. Suitable destinations/sources within GoU might include the Ministry of Trade, the Ministry of Gender, Labour and Social Development, the NPA, the Bank of Uganda, the Uganda Bureau of Statistics etc. In the private sector the most suitable destination/source for secondments would be the large accounting firms. Protocols would have to be developed with the private sector to ensure that the secondments did not give rise to abuse.

Use of behavioural economics

Issue: The importance of behavioural economics to policy design is given too little weight in TPD’s consideration of policy interventions. As a result, tax measures are often too blunt in their design.

Recommendation: Senior TPD staff should be trained in theories of behavioural economics and in their practical application to the development of policy ideas and the refinement of policy options.

Peer learning and review

Issue: There is little scope for learning from peers or structured opportunity to ensure that teams are performing at a high level of effectiveness.

Recommendation: Introduce regular peer review within TPD. This should include:

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- Periodic reviews of working papers by individuals not involved in the original work, looking at how evidence was built for a particular proposal, how the analysis was made and how conclusions were reached, documented and communicated
 - Regular presentations by teams to colleagues from TPD as a whole, regarding an aspect of their current work. This will educate others in TPD, allow for fresh input and stimulate debate about conclusions and actions

Strengthening quality through internal challenge

Issue: At every stage, tax policy development benefits from challenge at both the conceptual and the detailed level. It should be more welcome in TPD.

Recommendation: Within TPD, team leaders in particular should encourage and foster challenge by junior members and also provide informal opportunities for wider discussion.

3.2.11 Developing policy, analysing options and documenting recommendations

As noted earlier, this review has confirmed existing assessments that there is considerable scope to improve the technical quality of the analysis that underpins the development and selection of policy options. The review also confirmed the need for TPD to develop a more systematic, and systematically documented, approach to policy development to ensure that all the necessary issues have been addressed and the procedural steps properly taken. These issues are being pursued under TaxDev, but formal recommendations are included below.

Standardising the presentation of policy advice

Issue: The preparation of policy advice and recommendations for reform could be improved by the adoption of a more detailed and consistent methodology.

Recommendation: Standardise the approach to presenting policy analysis and recommendations to C/TPD by adopting a template for all submissions, with all key steps completed before sign-off.

Documenting early development of policy proposals

Issue: The quality of the documentation of initial work carried out on policy issues could be improved and the monitoring of staff effectiveness and productivity enhanced by a stronger requirement for record-keeping in the course of the development of policy.

Recommendation: Maintain ‘early work’ files to capture the development of thinking on policy issues and ensure stage-by-stage sign-off by junior TPD staff.

Strengthening modelling capability

Issue: The modelling capability of TPD is currently lower than desirable. This results from three factors: historical difficulty in accessing relevant, reliable data; sub-optimal collaboration regarding existing models that have been developed by or for MEFD and URA; and the limited development of suitable econometric and other models within TPD.

Recommendation: Leadership should push ahead with its current efforts to address these three capacity issues, with external support, where appropriate.

3.2.12 Building greater transparency into policy analysis and outcomes

Although there is wide acknowledgement that it is good to have greater transparency regarding tax policy, TPD nonetheless faces some challenges from external stakeholders about the data used as the basis for tax policy decisions and the transparency of interventions by interested parties. These challenges are unlikely to be easy to satisfy in full, but steps could be taken to pre-empt some of them and allow TPD to deal with others as they arise.

Issue: There is an external perception of secrecy regarding the research and analysis that TPD has carried out to examine policy options before making a legislative proposal, and a desire to have more tax-related information available online.

Recommendations: Following the advances made by the budget directorate, publish more information online for the general public. This should include impact assessments that demonstrate the range of options that have been considered in reaching specific policy decisions. Publicly available information should include tax ready-reckoners, tax expenditure analysis, key databases (such as the non-tax revenue (NTR) rates and charges) and an up-to-date edition of the tax laws. Ideally these should all be accessible through the MFPED website. Up-to-date tax guides for citizens and businesses should be published on the URA website. There should be online access for citizens to revenue performance information.

3.2.13 Evidencing influencer activity

One of the main areas of interviewees' concern regarding transparency is the perceived influence of individuals and other interested parties over policy initiatives and, in particular, the development and granting of exemptions. The two recommendations below are designed to help TPD to address those concerns.

Evidencing influencer activity – policy 'ideas'

Issue: TPD receives a large number of policy 'ideas' from a wide variety of sources, outside the regular budget cycle consultations, resulting in unscheduled work that detracts from mainstream work on policy development. There are related concerns about transparency.

Recommendation: Maintain a register of all policy 'ideas' proposed by non-TPD staff, including the name of the source and a record of the outcome. Consider publishing the register.

Evidencing influencer activity – reliefs and exemptions

Issue: There is a widely felt concern, especially among external stakeholders, that exemptions, reliefs and concessions are widespread, uncontrolled and under-reported.

Recommendation: Maintain a formal register of all non-statutory concessions, reliefs and exemptions granted (with a source where relevant) and all taxes paid. Maintain a register of requests and applications for such concessions that have been rejected, in order to improve transparency and satisfy internal and external concerns. Consider publication of appropriate information from the register.

3.2.14 Monitoring of tax performance

During the period of this review, TPD and the URA have occasionally been observed to be under significant pressure to explain revenue performance that has fallen below the expectations of Top Management at MFPED. Understanding emerging trends in revenues is critical in order for GoU to take effective action, whether in the form of direct action aimed at propping up yields, or compensatory planning for additional borrowing. The current system of revenue monitoring needs to be enhanced and modernised.

Issue: The performance of individual taxes can be erratic and out of line with expectations and budgets. There is scope to add value in the TPD/URA reports. URA has primary responsibility for explaining revenue performance but regular reports are largely descriptive and lack the depth of analysis necessary to sharpen performance monitoring in TPD and inform decisions regarding possible action.

Recommendation: Review procedures for monitoring performance of individual tax heads, the setting of trigger mechanisms for alerts, the process of onward reporting etc, with a view to establishing stronger swifter responses to unusual or unexpected patterns of revenue receipts and a deeper understanding of the trends. The Commissioner General, URA, is understood to have a

‘dashboard’ showing daily tax receipts. Access to this information would be very valuable for TPD. The team responsible for monitoring revenue performance should be strengthened and lessons drawn from experience in other countries. The reports on revenue performance provided by the URA to TPD should be analytical rather than simply descriptive, providing informed explanations for emerging trends under individual tax heads.

3.2.15 Improving productivity in TPD

Productivity in TPD, in terms of the number and quality of possible measures that are brought forward for decision, seems to be relatively low compared to international standards and insufficient to meet local needs. There are undoubtedly a number of reasons for this, including issues that have been dealt with elsewhere in this report: inadequate access to data and economic models, unfocused staff training, the distraction of low pay, the lack of mentoring arising from the unfilled senior-level vacancies in TPD etc. The following recommendation addresses one specific issue, namely the staff time spent on responding to routine taxpayer enquiries and letters. While it is important to answer such letters, it is unclear that this is the best use of TPD staff time, especially when only a standard response is required.

Issue: A substantial amount of TPD staff time appears to be spent on ‘low-value’ tasks, for example responding to routine letters from taxpayers, exemption requests, requests to have goods released at Customs, complaints about unfairness etc.

Recommendation: Alternative staffing arrangements should be considered in order to enhance TPD’s policy-making productivity. It would be helpful if periodic reviews could be undertaken to identify more accurately how TPD staff time is used. A formal time-reporting system could be considered but might create additional bureaucracy without necessarily adding significant value.

3.3 The Uganda Revenue Authority (URA)

The URA is, potentially, the most important collaborator for TPD in the policy development process. It is the most important source of information for policy analysis and the principal source of proposals for policy maintenance. However, the Review has highlighted weaknesses in the relationship between TPD and the URA at several levels and identified areas where the URA’s contribution to policy-making could be strengthened. Working practices between the URA and TPD are too rigid and formulaic. Information flows between the two organisations are weaker than they should be. The research capability of the URA is not harnessed effectively enough in the pursuit of an agreed revenue strategy. Data-sharing is at an early stage of institutional development and needs a substantial push in order to improve policy-making and the monitoring of outcomes.

The recommendations in this section are aimed at putting the policy-related aspects of the relationship between the URA and TPD onto a different footing – preserving the best of the current collaboration but setting out the responsibilities of the two institutions in a new and formal way, along with the responsibilities of other parts of GoU. The recommendations include changes in working practices that will draw URA more fully into policy development, allowing TPD to leverage more effectively the practical experience and taxpayer awareness that reside predominantly with URA staff. They also include proposals to improve and speed up the flow of policy-relevant information from the URA to TPD and to harness the two organisations more effectively, using a range of mechanisms to boost the implementation of the agreed DRM strategy. There is a recommendation to improve the quality of training given to URA staff as a means of strengthening TPD’s confidence in its people.

3.3.1 Clarifying and documenting responsibilities for tax policy development

Issue: The relationship between TPD and the URA is of fundamental importance to the tax policy-making process. The responsibilities of the two institutions are set out on the MFPED website and in the URA Act. With respect to tax policy-making, the formal framework lacks some precision, but has allowed working practices to develop into an operating model that is quite well understood

by most of those directly involved in the process. Changes in the allocation of responsibilities and working practices should, if adopted, be reflected in revised documentation.

Recommendation: Formalise the division of responsibilities between TPD and URA in relation to the development of tax policy in a memorandum of understanding (MoU), a public service agreement (PSA) or other mutually binding form. It should be based on a conventional split of ‘policy maintenance’ and ‘policy initiation’ roles. Ensure that these responsibilities are fully understood and appropriately operationalised. Prepare a working-level manual setting out the agreed roles, timelines and procedures, establishing responsibility for relationships across government and for external engagement, and setting out the expectations of other parts of GoU in relation to tax policy-making.

3.3.2 Optimising the contribution of the URA to the policy-making process

Issue: The main input from the URA to the policy development process is set in a framework that is too rigid and comes too late in the budget cycle. Its value is often diminished by a degree of institutional separation from current thinking in MFPED.

Recommendation: Bring forward the date for the initial, formal contribution from the URA to a minimum of eight months before the budget. As noted in Sections 3.3–3.5 below, strengthen the URA’s active participation in policy development through better formal and informal engagement, the informal real-time flow of policy-relevant information to TPD and enhanced formal flows of appropriate documentation.

3.3.3 Bringing URA’s technical expertise and practical experience of taxpayer behaviour more fully into policy development

Issue: The relationship between those responsible for making tax policy and those implementing the system on the ground, who have a more specific understanding of taxpayer organisation and behaviour, is not strong enough. This can result in policy proposals and tax legislation that are less effective than they should be. Relationships between senior TPD policy-makers and URA Commissioners and Assistant Commissioners responsible for key areas, such as Domestic Taxes, are particularly critical. While there is evidence of some strong relationships, interviews suggest there is considerable room for improvement.

Recommendation: New arrangements should be established to ensure a stronger relationship between TPD and URA officials, including the creative use of secondments. The quality of relationships between relevant URA staff and their counterparts in TPD should be a KPI for individual staff performance in both organisations, evidenced primarily by meetings, outputs and outcomes. All significant policy development work in TPD should be carried out with the benefit of the frequent formal and informal input of the URA on technical matters.

3.3.4 Strengthening co-working arrangements between the URA and TPD staff on administrative aspects of policy issues

Issue: As already noted, co-working between the URA and TPD is weaker and not as well structured as it could be. The absence of sharply focused joint working groups delays the take-up of practical administrative considerations into policy thinking. It potentially allows measures to be brought forward within TPD that are unnecessarily difficult and burdensome to administer. At best, it reduces the time available to the URA to react to new measures and delays the start of work on necessary system and documentation changes.

Recommendation: TPD should set up joint working groups to address administration aspects of all key policy proposals, involving appropriate senior operational staff at the URA and senior TPD policy-makers.

3.3.5 Using the findings of tax audits and investigations and tax tribunal/court cases more promptly and systematically to improve policy and legislation

Issue: The flow of policy-relevant information from audit and investigation work undertaken by the URA to the TPD teams is too slow and perhaps too weak, resulting in a lack of awareness of problems in existing policy and legislation. URA maintains a database of such issues but the information is not shared until relatively late in the budget cycle.

Recommendation: URA should produce a monthly summary of key points arising from audit and investigation work rather than simply maintaining its own database and share this with TPD in a timely fashion to facilitate planning and ‘packaging’ of measures in preparation for the budget.

Issue: The Tax Appeals Tribunal (TAT) hears a regular stream of cases arising from disputes between taxpayers and the URA. These are mainly brought by companies, many of which are foreign-owned. Transfer-pricing rules are a contested area and issues of interpretation are understood to be commonplace. TPD staff do not attend the hearings but their ability to address weaknesses in policy-framing and in legislation would benefit from better knowledge and understanding of the contested issues.

Recommendation: URA is the counterparty in all such appeal hearings. URA should share with TPD a regular summary of the cases to be heard at TAT and the outcomes of the hearings. Such a report is understood to be produced on a monthly basis for the URA Board and should be shared and discussed between relevant staff in the URA and TPD. Where appropriate TPD should liaise with relevant URA staff to ensure that there is appropriate follow-up regarding possible policy changes and amendments to legislation. These will normally be ‘policy maintenance’ issues for which the URA should hold main responsibility for making proposals but it is essential for TPD to be aware and have an opportunity to provide input.

3.3.6 Using URA research capability more effectively to support agreed policy priorities

Issue: The URA has a team of qualified researchers who work in the Research, Planning and Development section of the Commissioner General’s Office. The research team is a valuable resource of the URA and of GoU and has the capacity to produce research of publishable quality on Ugandan tax policy and administration issues. Work is often carried out by the research team in collaboration with external researchers, including international academics funded by development partners (DPs). The research agenda and the programme for the year is set within the URA. There appears to be relatively little communication or discussion with senior TPD staff regarding the choice of issues. As a result, emerging research papers can sometimes appear to be disconnected from MFPED’s policy development priorities. TPD and the URA have a joint responsibility for improving communication and for setting up appropriate channels through which the research programme can be agreed.

Recommendation: The DRMS sets out the agreed policy priorities for GoU and research undertaken by the URA research team should normally be focused in the first instance on those priorities. A formal procedure should be established requiring collaboration between TPD and URA to agree on the research issues during a given period.

3.3.7 Improving access to URA-held data for TPD staff

Issue: TPD staff often feel that they have difficulty in obtaining access to URA data for policy development purposes, and that they are unable to use the analytical tools to which the URA has access.

Recommendation: Formalise access arrangements for TPD staff through an MoU and ensure that TPD staff are properly trained to use the data and analytical tools used by the URA.

3.3.8 Strengthening mutual support and accountability between the URA and MFPEd in the context of DRMS implementation

Issue: GoU has invested substantial time and effort in the development of the agreed DRMS, with assistance provided by DPs. With the approval for publication of the strategy document, DRMS has now reached the implementation phase. It is essential that implementation benefits from full cooperation between the URA and MFPEd at management and working levels.

Recommendation: Both institutions should prepare and share step-by-step monthly progress reports on implementation of the DRMS. PS/ST should chair monthly working meetings to review progress. Attendance should be limited to PS/ST, CG, Senior Adviser (Moses Bekabye), DEA, C/TPD + 1 URA Commissioner. In addition, PS/ST should consider creating a new post of Director, DRMS Delivery. This should be a 2–3-year appointment, made at Top Management level, with full access to MFPEd Top Management and the URA Board as well as the DPs. The Director, DRMS Delivery should report jointly to PS/ST and CG to ensure effective management and monitoring of the process of its introduction. A Minister of State for Taxation, if appointed, could play an important role in pushing forward the DRMS and chair the monthly working meetings envisaged in this recommendation.

3.3.9 Improving inter-institutional confidence by addressing concerns about the quality of staff training

Issue: Interviewees expressed concern about changes in recent years in the training provided to new revenue officials. This has resulted in a lack of confidence that tax policy measures will be implemented effectively, with consequent risks to revenue yields and forecasts and to the achievement of broader policy objectives.

Recommendation: TPD and URA should work together to ensure mutual confidence in staff training procedures. These need to be properly designed, tailored to organisational requirements and appropriately funded.

3.4 The Cabinet

Cabinet's approval of specific tax proposals for submission to parliament is a necessary and desirable part of the democratic process of government in Uganda. However, it is questionable whether the current procedures make the most of the opportunity for informed debate about tax policy issues within the Cabinet.

As noted earlier, debate on tax issues in the cabinet is often rushed and tends to occur late in the budget cycle. While to some extent this is unavoidable, strategies could be adopted to allow wider and more effective debate in the cabinet on the GoU tax agenda at an earlier point in the annual cycle. This would be valuable later, when time is short in the final stages of the budget-preparation process.

At the time of writing, the DRMS has not yet been presented formally to the cabinet. This report recommends that, in order to inform ministers properly about the tax strategy and put them in a position to speak confidently and consistently about the issues, the DRMS should be presented as possible.

3.4.1 Encouraging better-informed debate on tax policy issues at cabinet meetings

Issue: Cabinet ministers already have heavy workloads, and few can spare the time to follow, in detail, emerging debates about revenue performance and possible tax reforms.

Recommendation: Cabinet members should occasionally be given the opportunity for a private presentation by the Minister of Finance, supported as necessary by CTPD/DEA, to provide a stronger framework of knowledge about the tax system and emerging issues in government revenue performance and related policy matters.

3.4.2 Engaging Cabinet on DRMS

Issue: Now that the DRMS document has been published, there is a need for cabinet ministers to be able to speak confidently about the government's revenue strategy, answer questions on it and provide a consistent message to a range of domestic and international audiences. There is also a need for cabinet ministers to consider how the concepts and ideas set out in the document might best be developed into a series of tax measures and the priority that should be accorded to each.

Recommendation: The DRMS should be presented at the cabinet by the Minister of Finance, supported as necessary by C/TPD/Director, Economic Affairs. This will ensure that cabinet ministers are properly briefed about the strategy. It will also facilitate the transition from the annual budget cycle of tax-policy interventions to a medium-term programme for tax reform that has pre-approval from the cabinet. It will reduce the risk that proposals for specific measures founder in cabinet at a later stage.

3.4.3 Ensuring that all tax proposals comply with the requirements for an impact assessment

Issue: Interviews suggest that tax measures presented by TPD to the cabinet do not always fulfil the requirements for an impact assessment.

Recommendation: TPD should ensure that all measures that are taken to the cabinet include an impact assessment. The training for TPD staff, the development of appropriate modelling techniques and the closer collaboration of TPD with the URA, should facilitate this process. TPD should ensure that the necessary time is taken for all significant tax measures to be prepared in accordance with this objective.

3.5 First Parliamentary Counsel (FPC)

FPC plays a critical role in giving statutory effect to the proposals developed by TPD. FPC has a small, but experienced, team that consistently works on the drafting of tax bills. Most of the work is carried out within a very short period of time, often under intense pressure to meet the budget deadlines.

The review identified two main areas where the process could be improved in order to ease the burden on the drafting team, reduce the risk of errors and omissions and help to strengthen the quality of the draft legislation. The first recommendation is for a workshop that would allow FPC to provide TPD staff with a better and more complete understanding of how preparatory work in TPD can speed and simplify the drafting process. The second is for broader, informal sharing by TPD of ideas for the upcoming budget, so that FPC staff have the opportunity to think through the likely drafting issues, including the consequential amendments, in advance of receiving formal notification to start the drafting process.

The review also noted that some of the tax legislation drafted by FPC is written in relatively brief terms. This is consistent with other Ugandan legislation, but this approach in relation to complex tax matters might require reconsideration in the light of the number of tax disputes that appear to revolve around interpretation issues and the risks to the system posed by foreign investors who are sophisticated in tax matters. This is the subject of a further recommendation.

3.5.1 Improving the interaction between TPD and the parliamentary drafting team

Issue: Instructions from TPD to the FPC often require considerable clarification before drafting work can commence.

Recommendation: Hold workshops for senior members of TPD to ensure that the needs of the drafting team are fully understood, in order to shorten timelines and minimise misunderstandings.

Issue: Procedural rules prevent the drafting team on tax legislation from starting work on new legislation before cabinet approval. This often leads to legislation being drafted very hastily, as cabinet approval is often sought close to the 15 April deadline.

Recommendation: Consideration should be given either to amending the rule in relation to budget timing or to establishing a stronger, informal procedure so that proposals are shared with the drafting team before their submission to cabinet. Proposals developed in advance of cabinet consideration could be shared in a way that would allow the drafting team more time to develop the best approach for legislating the proposals and identify the consequential amendments.

3.5.2 Ensuring that the drafting of Ugandan tax legislation reflects best practice

Issue: Ugandan tax legislation is drafted in the same style as other Ugandan legislation and in a similar style to much of the tax legislation in neighbouring countries. It is less tightly drafted than in many other countries, however, and might unnecessarily encourage sophisticated taxpayers to ‘get round’ the intent of the statute and/or create uncertainty that leads to appeals.

Recommendation: Consider having a formal external review to identify potential weaknesses in the approach to drafting tax legislation.

3.6 The Parliament

The review noted the quality of the procedures concerning the handling of tax bills in parliament, and the potential to support effective scrutiny and open debate. However, the interviews raised some concerns about how well the procedures work in practice about the quality of the information available to MPs when discussing tax matters.

The report recommends that, as with the cabinet, MFPED/TPD take steps to strengthen the familiarity of MPs and the PBO with the DRMS and with the issues related to the development of tax policy for GoU.

3.6.1 Strengthening capability to enhance debate

Issue: MPs’ level of knowledge about the tax system and the framework of legislation may limit the quality of debate and decision-making on issues of importance to government revenues.

Recommendation: Consider strengthening MPs’ capability on taxation policy issues, including the DRMS, by organising a wider range of seminars for MPs, with a particular emphasis on those who sit on the finance/budget committees. These seminars could be provided by TPD and URA staff working together with the PBO. Such seminars could also have relationship-building benefits that would be valuable for the scrutiny and legislative phase of the policy-making process.

3.6.2 Strengthening the process regarding amendments to tax bills

The handling of amendments to tax bills during parliamentary debates requires improvement in order to ensure that tax legislation is consistent and coherent and will offer certainty to taxpayers. The report recommends that the procedures are revisited to ensure that MFPED and FPC have time to achieve this, while respecting the will of parliament.

Issue: Amendments to tax bills that are tabled in parliament are not automatically referred to MFPED to allow a cost–benefit analysis of the amendment to be prepared and the possible disruption to budgetary balance addressed. Similarly, amendments do not return to FPC to ensure that, while the parliament’s intent is carried out, incompatibilities or inconsistencies with existing, related legislation are eliminated and any consequential amendments made.

Recommendation: Parliamentary procedures should be designed to ensure that MFPED/FPC have the opportunity to review and report on amendments from these perspectives before they are moved; or that all amendments to tax bills have to be ‘tidied up’ in financial and legislative terms and returned to parliament for confirmation before becoming law. This would help GoU to limit

last-minute disruption of the budget as well as giving greater certainty to taxpayers and reducing the likely workload of the mediation and appeals processes.

3.6.3 Empowering the Parliamentary Budget Office

Historically, DPs have tended to focus most of their support in relation to tax matters on capacity building and the improvement of processes within the URA. More recently, they have given some attention to supporting MFPED on tax policy development and on budgetary issues more generally. Relatively little attention has been paid to the development of parliamentary capacity, despite its key role in scrutinising tax proposals. The report recommends providing more assistance to MPs and to their supporting institutions, particularly the PBO.

Issue: The PBO appears to be relatively well-resourced and equipped to offer useful support MPs. However, its focus has historically been mainly on expenditure issues and the PBO has more limited expertise on the revenue side. It does not have its own models or access to other modelling capability that would empower it to offer its own perspective on revenue proposals from the government or on proposed parliamentary amendments. Staff have limited expertise in modelling.

Recommendation: Consider undertaking an external review of the PBO as it relates to revenue policy issues and the quality of support that it provides. Ensure that PBO staff are invited to the modelling workshops provided by the URA and DPs. Invite PBO staff to participate directly in training for TPD/URA staff. Look for external funding for the development of a PBO model that would allow staff to build their own capability.

3.6.4 Achieving balance in public hearings

In the interviews, concerns were raised about the possibility for parliamentary decisions to be influenced unduly by presentations made by well-funded, interested parties, in the course of proceedings. The authors did not observe this first-hand but are aware that hearings could potentially be manipulated in this way. We recommend that this issue be investigated more fully, with the help of parliamentary officers.

Issue: there is a concern that parliamentary procedures may allow undue weight to be given to opinions presented by well-funded or well-supported lobby groups, especially at the Committee stage, leading to potential for excessive influence on outcomes.

Recommendation: Review the role of public hearings on recent proposals for legislative change and consider any structural changes in the process that might appear to be necessary to preserve neutrality and fairness.

3.7 External institutions, civil society, business and other non-governmental bodies

The authors noted, during the course of the review, that there is relatively little involvement of local Ugandan academics in tax policy development and review. In part, this is the result of local efforts being crowded out by the engagement of foreign academics funded by DPs. International work often lacks context and practical application and tends to have a narrow focus on producing work of publishable standard. There would be benefits for DPs, the URA and TPD to pursue a more vigorous policy of drawing on local academic expertise.

3.7.1 Involving local academic experts

Issue: TPD engages with a relatively small number of Ugandan academics in relation to tax policy issues. (Engagement with donor-funded foreign academics is considered elsewhere in this report.) There would be mutual benefits from TPD engaging with local academics more often and more fully on tax policy issues, especially in relation to (i) early-stage thinking about the range of possible policy options that might be investigated to address a specific issue; and (ii) post-implementation review of outcomes. This would encourage the development of a deeper pool of

local expertise and ensure that a wider group within the academic community would have an incentive to work on issues that are directly policy-relevant.

Recommendation: Review arrangements for engaging local institutions (e.g. universities) in the development of policy options. Consider building a more stringent requirement for local academic participation in major research contracts and MoUs with TPD and the URA.

3.7.2 Involving stakeholders more effectively

The review found a strong desire on the part of businesses, CSOs and the professions to have a stronger voice, and more effective engagement with TPD, on the development of tax policy. Interviewees were largely satisfied with the level of transparency regarding tax policy and praised the personal commitment of the current leadership to citizens' engagement, but there was a widespread feeling that consultation needs to be better structured. Interviewees suggested that a timetable for the budget process should be published in order to enable them to engage at the right time. Most considered that the current procedure of calling for submissions by MFPED was not the most effective way for GoU to obtain valuable inputs. There was demand for consultation to be held on specific issues and on options for change. Interviewees also suggested that it would be helpful to have feedback on submissions.

Involving stakeholders more effectively – consultation process

Issue: There is a high level of transparency in much of the process of tax policy-making, but consultation with stakeholders is largely unstructured and results in sub-optimal outcomes. Stakeholders expressed a wish to be brought into the policy development process in a more structured way, with a clear timetable. There is a strong appetite for TPD to consult on the basis of specific proposals for major changes rather than simply request submissions about the tax system. There is a high level of unsatisfied demand for feedback on suggestions and proposals that are submitted. This undermines the credibility of consultation and sometimes results in the same proposals being submitted each year.

Recommendation: Several actions for TPD, including to:

- Review the processes and mechanisms for obtaining external inputs into the tax policy-making process to encourage fuller participation on current and DRMS priorities
- Develop a model for consultation that is appropriate for all parts of Uganda, recognising the value and limitations of traditional and new media
- Publish a formal document committing MFPED to a standard and systematic approach to consultation on all significant tax policy issues
- Publish online all submissions and responses to consultation, with a summary setting out the MFPED position
- Publish a timetable showing the annual budget cycle and the best time for stakeholder submissions
- Consider methods to leverage more effectively URA subject expertise in consultation discussions on key issues.

Involving stakeholders more effectively – early-stage consultation

Issue: Experience in other countries suggests that there is value in private, early-stage consultation on key issues and prioritisation of reforms through high-level meetings with trusted individuals deeply rooted in society or business. This can help to shape the agenda and determine priorities. In many countries this happens as a matter of course, but it needs to be handled carefully and with a degree of transparency about the existence of such meetings, to counter concerns about self-interest and corruption.

Recommendation: MFPED should consider whether there might be benefits in making this type of discussion more routine and more transparent. Models for early-stage consultation have been developed elsewhere and should be reviewed for their relevance in Uganda’s cultural context.

3.7.3 Strengthening the feedback loop on policy changes through post-implementation review

The review found that there is typically no planned programme of post-implementation review following changes to the tax system. TPD and URA normally make a *post facto* estimate of the actual revenue impact of proposals enacted, as the data emerge, but this is often at a relatively unsophisticated level. Post-implementation reviews are especially valuable in relation to reforms that are intended to generate behavioural change, where the revenue impact alone may not be a good enough indicator of success and take-up; but no evidence was found of reviews of the behavioural consequences of any tax reforms. Post-implementation reviews, funded by government but carried out independently, are a good way to involve local academics more extensively in issues related to the tax system and can be useful in building local expertise and confidence. So, there is an opportunity for a double benefit.

Issue: There is little or no post-implementation review of tax policy measures, other than a broad tracking of the revenue effect, nor any procedure to seek formal public comment on the impact of legislation or publish stakeholder comments systematically. Without such a review, the feedback loop into subsequent policy design is weakened.

Recommendation: Post-implementation review should become a standard procedure in relation to all major policy reforms, especially those aimed at bringing about behavioural change. Ideally, the requirement for the reviews should be included by TPD from the outset, but there is also an opportunity for parliament to take the initiative and introduce a ‘sunset clause’ into new legislation. Such a mechanism is not perfect, but it helps to make taxpayers aware that legislation is kept under review and that there is no guarantee that specific tax reliefs and exemptions will continue indefinitely.

3.7.4 Involving the media on tax policy issues

The media can have both a positive and a negative impact on tax policy-making. Government has the opportunity to use traditional and new media to disseminate its messages regarding the tax system and proposals for change. There are lessons to be learned from countries such as New Zealand, where the government recently carried out a major public consultation on tax reform using a wide range of media techniques. It is unlikely that all of those would work equally well in Uganda and there would be a need for some adaptation, especially in relation to communication with rural communities with limited access to the internet, but many of the underlying principles would be the same.

Historically, traditional media have not shown a strong interest in tax policy issues, but that has changed in recent years. Tax policy is a difficult and obscure subject for many journalists. Some have simply welcomed opportunities to publicise attention-grabbing ‘sound-bites’ from leading figures on tax issues but others have approached the issues in a more thoughtful and balanced way. Social media can be used to spread quickly both negative and positive views on policy proposals and can become a vehicle for more extreme forms of stakeholder comment.

As noted earlier, the review found little proactive use of the media by MFPED on taxation issues. There is a need for MFPED and the URA to use all forms of media more systematically and in accordance with protocols agreed between the two institutions. MFPED should ideally allocate a media relations officer to TPD, to develop and pursue a properly considered communications strategy, which has significant potential to improve inclusiveness, tax morale and tax policy outcomes.

Issue: Effective use of the media can have significant benefits for the development of consensus on tax policy issues. It is essential that messaging by MFPED and the URA is consistent and that policy-related media engagement is agreed in advance.

Recommendation: TPD and MFPED should develop a communications strategy for dealing proactively with the media. Ideally there should be a Communications Officer assigned to TPD who can be responsible for developing the media strategy, particularly over the DRMS period, and crafting the messaging. Periodic briefings on tax issues should be held for the traditional media both to improve understanding of the tax system and prepare for more detailed discussion of policy issues. Protocols should be developed to ensure the necessary alignment of URA and MFPED messaging and a coordination working group on media handling of taxation issues should be set up by TPD and the URA. All significant press releases and statements should be cleared through the Working Group.

3.7.5 Reaching communities outside the major urban centres

Uganda is a challenging environment in which to develop a comprehensive media strategy. Rural communities can feel remote from the centre of government but are important, not just as recipients of government information but also as potential contributors to the debate on the tax system. Internet penetration is limited and different media platforms need to be built, with different forms of messaging, to reflect the importance of communicating with and listening to these communities.

Issue: Reaching rural communities and even citizens living just outside Kampala, presents challenges. Valuable inputs to the policy-making process are potentially available to government but hard to obtain and difficult for citizens to provide. This can lead to frustration and loss of value.

Recommendation: TPD should review its communications and consultation strategy and consider what channels might be available to improve the current situation. Social media may be one route but is limited by the relatively modest internet penetration across Uganda. There are traditional channels involving local public meetings but these are costly in terms of time and resources for Kampala-based policy-makers. There are also political channels but complete coverage might be difficult to achieve. Assistance should be sought from official sources such as the Ministry of Local Government and local offices of the URA. Civil society is also, potentially, an important channel and TPD should work to strengthen its relationships with organisations such as SEATINI that could use their membership networks to reach groups that are otherwise inaccessible.

3.8 Development partners (DPs) and external researchers

DPs' funding often pays for advisers and technical experts with international experience but who are very unlikely to be otherwise involved in Uganda. The expertise they bring can be valuable and well-informed. It can be transformational, although in this area such support has often been less successful. There are many examples of DP activity leading to positive change, but fewer examples of it leading to transformation.

In recent years, there has been significant progress in DPs' approach to providing support on tax issues in Uganda. The new focus on supporting the development of tax policy has added vital balance and recognition of the need for improvements in policy design as well as in the administration and collection of taxes. The two should go hand in hand. The greater use of longer-term programmes is very valuable. On both policy and administration issues, short-term technical assistance can help to get things done and fill urgent gaps, but no-one who has worked on tax policy issues within government can be in any doubt that real improvements in the tax system and real increases in the tax yield require sustained long-term effort. They do not happen by accident or without commitment. The DPs have helped Uganda to make a significant start on this process, such as the example of the DRMS, but there is a long haul ahead and continued support will be needed across a broad set of issues.

DPs should not shy away from encouraging innovation in policy design and implementation. On the contrary, they should support it, provided such innovation is relevant to the context and that, ideally, is the product of local thinking, inspired by and blended with international experience rather than result of international design alone. There are dangers that DP activity and selection processes can inadvertently stifle the development of local expertise.

DP support will continue to be critical to the successful development of the Ugandan tax system. This report is intended to help empower Ugandans to take ownership of, and direct, that development.

3.8.1 Balancing the needs and aspirations of DPs and local communities

Issue: Uganda receives considerable support on a range of tax policy issues from DPs in the form of broad, medium-term programmes and specific, project-based, technical assistance. They have a strong influence on tax policy and administration, and also fund academic researchers, most of whom are affiliated with university or other research organisations based outside Uganda. There are significant benefits in tapping into this international expertise, but there are local concerns about the way in which programmes are set up and managed. Interventions are difficult to control and coordinate as DPs often appear to compete for local and international profile on key issues. Duplication and overlap are relatively common issues. There is some observed tension between donors' commitment to demand-led work and the implementation of that principle. Capacity-building has become a more formal requirement in donor-funded programmes but technical assistance (almost by definition) is typically weak in respect of this component. The longer-term benefits of building local academic capability have not yet been fully addressed. Foreign researchers often appear to be motivated more by the desire to generate publishable papers than to produce work that will lead directly to improvements in policy analysis and design.

Recommendation: Over time, the implementation of the recommendations (which will need donor support), should put GoU in a position to operate largely independently of DPs in the development of tax policy. It would be valuable, in that context, to review the support that TPD has received from DPs in recent years and consider how any such support might best be directed in the future. Policy statements, such as the DRMS, should be used to guide the planning for future programmes, which should be demand-led rather than donor-driven. Donor support should be fully compliant with established aid protocols and work on all tax policy matters that is donor-funded should be coordinated through MFPED/TPD. DPs should be encouraged to address the imbalance in their support for academic research in order to build local capability. Part of the allocated funding could be directed to greater support for Ugandans to take advantage of opportunities to acquire research skills at major universities.

4 Expected benefits

Change is disruptive and can be destabilising, even in well-organised and positively motivated government departments. Some aspects of the recommended changes will require a high level of sustained political and institutional support.

The authors believe that there will be significant benefits to GoU, to public finances and to the economy and society in Uganda from implementing the recommendations set out in the previous section. These will lead to improved policy, compliance and regulatory outcomes, crystallised as higher sustainable revenues resulting from:

- More effective policy design that is better suited to Ugandan society and economy. This will be achieved through:
 - improving access to data, and strengthening modelling capability, resulting in the possibility of high-quality analysis
 - achieving a better understanding of the policy challenges
 - bringing the Ugandan context more effectively into policy design
 - taking a wider range of perspectives and expertise into account in policy development
 - empowering enhanced scrutiny of proposals and empirical evidence, allowing for earlier resolution of potential problems
 - putting greater emphasis on policy proposals being administratively practical.
- An increased sense of legitimacy and shared ownership of the tax system, strengthening the fiscal social contract and leading to enhanced voluntary compliance. This will be achieved through:
 - creating a greater feeling of inclusion as a result of a fuller and more structured approach to consultation
 - improving feedback given to contributors to the consultation process
 - publishing the budget timetable, giving external stakeholders a better opportunity to contribute to policy development.
- The elimination of many of the causes of disputes. This will be achieved through:
 - putting in place better and more timely information flows from TAT and from URA audit/investigation work to TPD
 - giving URA a more defined role in relation to issues of policy maintenance
 - improving the legislative drafting process, giving FPC more time to refine the language of tax bills
 - reducing the frequency of unintended consequences due to policy ‘error’ and a narrow policy perspective.
- Reduced enforcement costs. This will be achieved through:
 - using detailed consultation with the URA and taxpayers to improve the compliance environment for new policy measures
 - enhancing voluntary compliance and buy-in through appropriate messaging
 - achieving a lower incidence of post-implementation adjustments and less frequent amendments, through better initial policy design.

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- An improved understanding of the tax system among Ugandan citizens. This will be achieved through:
 - developing a better and more proactive communication strategy for tax policy issues
 - embracing a wider range of media channels to explain the tax agenda
 - strengthening the inclusiveness of the policy-making process
 - creating clearer ministerial leadership on tax policy.

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Annex 1 Core issues to be explored during interviews

Interviews were designed to address a wide range of issues. The scope of individual interviews reflected the position and experience of the interviewee and the nature of their connection with the policy-making process. The core issues that the authors planned to explore during the interviews were as follows:

- How is responsibility for the making of tax policy shared within government? Who initiates, who leads, which ministries can be involved and how is coordination achieved between them and with the URA?
- How are the policy departments organised and staffed? What qualifications are required of policy-makers (economics, law, other)? Which universities provide most of the recruits? Does educational background tend to influence selection of policy options? Are staff rotated between different teams?
- What data resources are available to the URA and MFPED staff respectively? What models and other analytical tools are available to them? To what extent are they actually used in the development of policy and the decision-making process? What outputs are produced and with whom are they shared? What training is available to technical staff?
- How, and at what stage, are policy proposals taken to ministers for approval/consent to continue working up the idea? Do ministers have advisers with expert knowledge in taxation? What role do political advisers play in the process? How far do distributional analyses and outcomes from consultation influence ministerial decisions?
- At what stage are proposals taken formally or informally to cabinet, the Prime Minister or the President's office? And by whom?
- How are policy staff trained? Are there opportunities for them to have out-of-country experience, for participation in local/overseas Masters' programmes with a tax policy focus? Is there an opportunity for presenting/sharing ideas across the policy making team to encourage informal peer review and learning?
- What use is made of external expertise in the policy-making process? Academics, business experts, the professions, civil society, women's groups, and organised labour all have valuable perspectives and can help to shape and sharpen the focus of policy detail.
- To what extent are formal and informal methods of consultation employed in the course of making tax policy? What attempts are made to reach out to citizens to obtain inputs and encourage buy-in? How much influence do different businesses (domestic or multinational) exert over the tax reform agenda, and through what channels? How are social media and traditional media used in the policy making process?
- Who is responsible for the drafting of tax legislation? Is there a separate department or are the policy teams themselves responsible for drafting or reviewing drafts? How does that influence outcomes?
- What role does the Ugandan parliament play in the process? Does it have a source of analysis independent of the executive? Do opposition politicians have access to this expertise? If not, how do they provide challenge to government policies?

-
- How does government carry out post-implementation review of outcomes? How can such review be strengthened and the practice made sustainable?
 - What role(s) do donor bodies, IFIs and NGOs play in shaping the tax policy agenda? At what stage(s) in the process do their advice (and, where applicable, their requirements) enter into consideration? How influential are their contributions to the policy-making process?

Annex 2 Institutional responsibilities for tax policy-making

The institutional responsibilities for tax policy are set out on the website for the MFPED and in the URA Act. Some minor adjustments have been made to the published text.

Ministry of Finance, Planning and Economic Development

Directorate of Economic Affairs

Mandate

To formulate and make recommendations to the PS/ST on implementing economic and financial policies for sustainable growth and development.

Main functions

- i. Maintain economic stability through designing and implementing prudent macroeconomic policies.
- ii. Mobilise domestic revenue by designing appropriate tax and non-tax revenue policies.
- iii. Design and coordinate economic and financial policies for regional and international cooperation.
- iv. Generate evidence-based analysis to guide the formulation of economic development policy.
- v. Develop policies and strategies to promote private sector competitiveness and growth.
- vi. Design policies and strategies to ensure and promote financial sector development.
- vii. Design policies and strategies for natural resource revenue management.

Tax Policy Department

The Department is mandated to formulate tax and non-tax revenue policies that maximise domestic revenue generation, stimulate investment, promote growth and export competitiveness.

The Department is composed of four Sections namely:

Domestic taxes

The section includes direct taxes (income taxes) and indirect taxes (consumption taxes – VAT and Excise Duties).

Trade taxes

The section will carry out negotiations and make recommendations with the regional trading blocs, policy and revenue analysis of the international trade taxes. It will also handle petroleum duties, excise duty on imports, environmental levy on imported goods, import duty, VAT on imports, tax exemption on imported goods, temporary road license and levy on hides and skins. International

Trade Taxes also include regional integration initiatives like East African Community (EAC), Common Market for East and Central Africa (COMESA), Economic Partnership Agreements (EPAs), and others that have implications on trade taxes.

Tax analysis and forecasting

This section deals with data collection and analysis, building a database, research on topical tax issues, tax policy analysis, and revenue forecasting, building tax revenue forecasting models on all taxes, proposing tax policy changes and advising on the implications tax policy changes on revenue.

It will also be responsible for formulating, monitoring, analysing and advising on appropriate policies on Non-Tax Revenue (NTR, fees and licenses, fines, registration fees, user fees, permits, revenue from the sale of government assets among others). The Department is expected to consolidate and improve NTR collections to supplement tax revenue collections. This will improve on tax revenue effort and reduce the financing gap.

Natural resource taxation

It will be responsible for formulating petroleum and mining fiscal regime that maximise the value from the natural resources sector to ensure intergenerational equity.

In particular, the Division will be responsible for;

- i. Formulating a natural resource fiscal regime.
- ii. Participating in formulation of policy and legislation.
- iii. Formulating appropriate natural resource revenue management policies.
- iv. Participating in Advisory Committee meetings.
- v. Building models for forecasting natural resource revenues.
- vi. Monitoring natural resource revenue assessment and collection.
- vii. Providing principles, rules and regulations for taxation of the petroleum sector.
- viii. Reporting performance of the natural resource fiscal regime.

The Division is important for designing natural resource taxation and capacity building which is one of the long-term benefits of exhaustible natural resources.

Uganda Revenue Authority

The URA Act, Part II

Section 2. Establishment of the authority.

(1) There is established an authority to be known as the Uganda Revenue Authority.

(2) ...

(3) The authority shall be an agency of the Government and shall be under the general supervision of the Minister.

Section 3. Functions of the Uganda Revenue Authority.

(1) The functions of the authority are—

(a) to administer and give effect to the laws or the specified provisions of the laws set out in the First Schedule to this Act, and for this purpose to assess, collect and account for all revenue to which those laws apply;

(b) to advise the Minister on revenue implications, tax administration and aspects of policy changes relating to all taxes referred to in the First Schedule;

(c) to perform such other functions in relation to revenue as the Minister may direct.

The Minister may, by Statutory Instrument, amend the First Schedule to this Act.

First Schedule to the Act

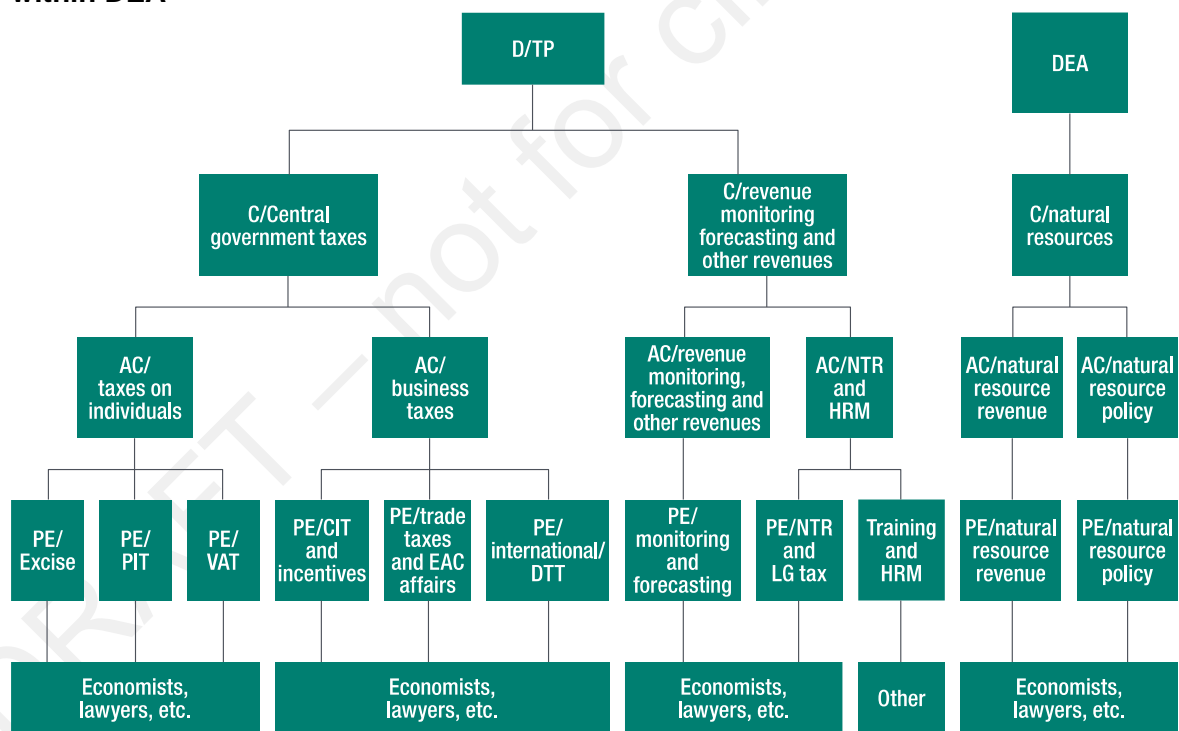
Laws to be administered by the authority

1. Customs Tariff Act
2. East African Customs and Transfer Tax Management Act
3. East African Excise Management Act
4. Excise Tariff Act
5. Finance Act, 1989, section 1
6. Income Tax Act
7. Stamps Act
8. Traffic and Road Safety Act (collection of fees, and fines except those imposed by courts)
9. Value Added Tax Act
10. All other taxes and nontax revenue as the Treasury may prescribe

Annex 3 Possible structures for Tax Policy Department outlined in Recommendation 3.2.6

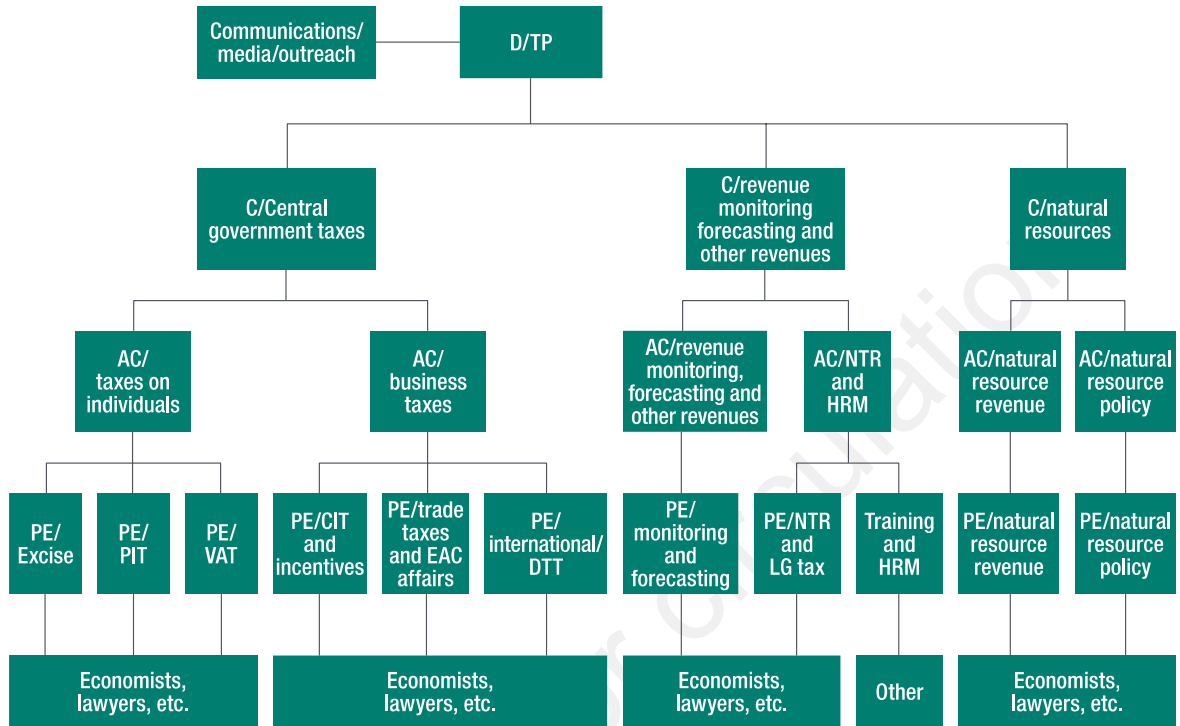
Option 1

Figure A1 TPD as a Directorate; Natural Resources as a Department within DEA



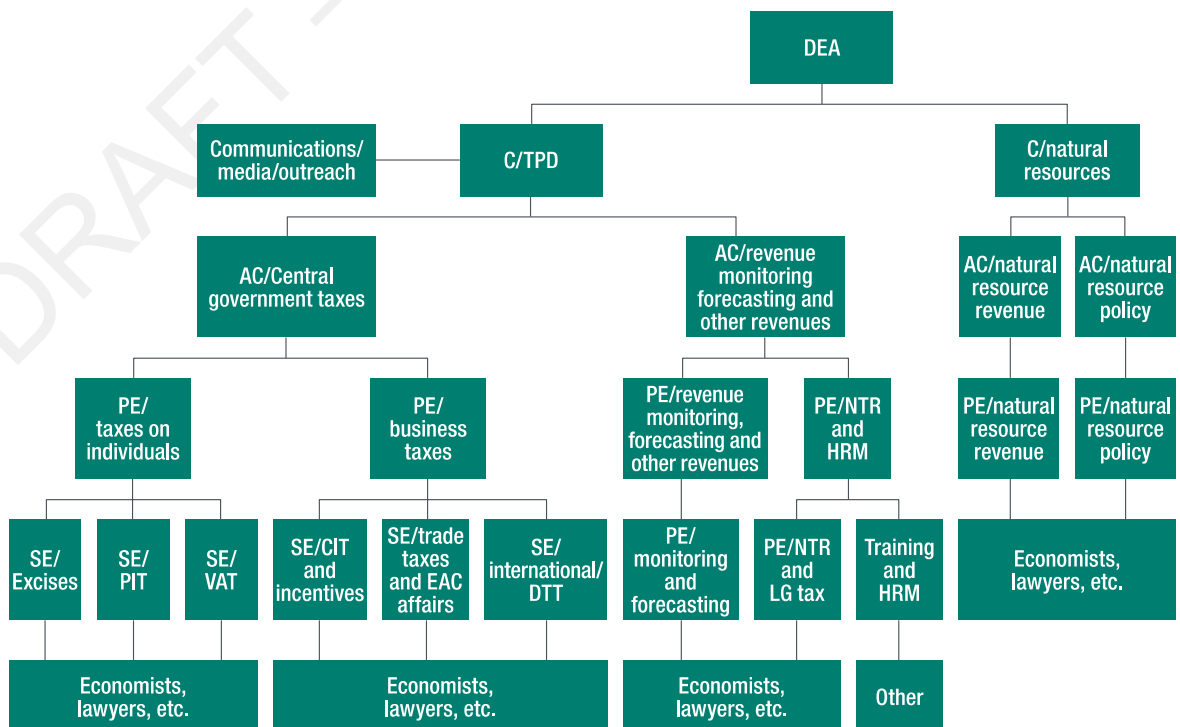
Option 2

Figure A2 TPD as a Directorate; Natural Resources as a Department within DTP



Option 3

Figure A3 TPD as a Department; Natural Resources as a Department within DEA





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