INNOVATIONS FOR SUCCESSFUL SOCIETIES

RIGHTING THE SHIP:
UGANDA OVERHAULS ITS TAX AGENCY, 2004 – 2014

SYNOPSIS

In the early 2000s, the Uganda Revenue Authority (URA) faced a crisis. Even after adopting a modernized legal framework that made the agency semiautonomous—able to operate much as a business would, though still accountable to a public board—the institution remained paralyzed by corruption, outdated technologies and procedures, and a toxic organizational culture. In 2004, to begin righting the ship, the URA's board appointed 43-year-old Allen Kagina, who had served the agency for more than a decade, as the new commissioner general. Kagina engineered a radical overhaul that required all 2,000 URA staff members to reapply for new positions under a revamped organizational structure. A new modernization office overhauled tax procedures, upgraded the URA's technology, improved anticorruption measures, strengthened the tax investigation and prosecution function, and enhanced staff capacity. At the same time, the URA was working to smooth its customs procedures and improve cooperation with partner countries in the East African Community.

INTRODUCTION

In 2003, citizens' confidence in the Uganda Revenue Authority (URA) hit rock bottom when Yoweri Museveni, who had been president since 1986, publicly declared the agency "a den of thieves." A year earlier, the president had appointed a three-person judicial commission to investigate the URA in order to respond to public claims about harassment by tax officials.[1] Chaired by High Court judge Julia Sebutinde, the commission conducted two years of highly publicized hearings in which witnesses described widespread corruption and dysfunction. Even though Sebutinde's final report became mired in controversy the following year,[2] the public testimony destroyed what little credibility the URA had left. Then-finance minister Gerald

Ssendaula subsequently announced that the government would use the public testimony as a starting point for "streamlining the URA."[3]

To kick-start the cleanup, in June 2004 Ssendaula appointed a new board of directors to oversee the institution, Africa's oldest semiautonomous revenue agency. Formed in 1991, the URA integrated the management of customs taxes and other types of taxes under one roof in a semiautonomous agency that became able to operate much as a business would, though it was still accountable to a public board. But the change in structure had failed to deliver on its promise, and Ssendaula began renewal at the top. In November 2004, the new board appointed Allen Kagina as the URA's commissioner general.

Early in her career, when she was with the president's office, Kagina had built a reputation as a strong manager. She had joined the URA in 1992 and risen through the ranks to become customs commissioner. Now, as new head of the URA, she faced the task of repairing the institution she had come to know well.

The performance problem was evident in the institution's own data. In the first decade after its founding in 1991, the URA had increased revenue collection to about 10% of GDP from 6.5%. But by the early 2000s, revenue collection had stalled. A 2004 International Monetary Fund (IMF) study described the organization as "highly fragmented, resulting in a duplication of functions and a lack of accountability."[4]

In a 2014 public address, Kagina said that at the time of her appointment, "corruption was part of the URA's identity" and, further, that "revenue collections were so low that government had to borrow internally and externally to provide services to the people."[5] Magoola Kalyebbi, whom Kagina appointed to head a newly established modernization office, agreed that the URA "had become totally dysfunctional."

Kalyebbi added that the URA had "too many departments competing for resources, and it was not meeting its revenue targets, but the worst indicator of the dysfunctionality was rising corruption." Previous efforts to address those problems had stalled because they were too limited in scope, uncoordinated, and lacked support from senior management and political leaders. "Things got so bad that somebody had to intervene to make the organization relevant again," Kalyebbi said. Working closely with other reform-minded officials like Kalyebbi, Kagina faced both a big challenge and a tremendous opportunity to repair the broken institution.

THE CHALLENGE

For Ugandans, the outward manifestation of the URA's poor performance came in the form of corruption, and any reform effort would have to deal with that issue fast. A 1998 household survey revealed that Ugandans perceived the URA as a "comparatively corrupt institution, worse than health services and local government."[6] In another survey conducted among 243 firms the same year, 43% of respondents said they occasionally or always paid bribes to tax officials.[7] And midway through Sebutinde's investigation in 2003, five senior URA officials were accused of defrauding the agency of hundreds of thousands of dollars. A report by Transparency International concluded that "corruption appears to be especially prevalent at the managerial level."[8]

The URA's poor reputation not only robbed the country of much-needed revenue for development but also threatened to undermine Uganda's entire social contract by turning taxpayers against the government. With the agency's image in tatters, leaders had to take high-profile steps to demonstrate to the public that corruption was a thing of the past. But some of the people and some of the organizations that had profited illicitly from the status quo stood to lose, and Kagina would have to find a way to prevent them from throwing up roadblocks.

Five other problems contributed to poor performance and required attention. First were the structural obstacles that had elicited concern in the IMF review and in internal evaluations. For example, the URA's departments were divided by both function and tax type, which made it difficult to share information and standardize procedures. Accentuating that problem was a highly fragmented and top-heavy organizational chart showing 18 different job classifications spread across 10 departments that competed for resources. The large number of job categories introduced multiple layers of management that made communication and decision making difficult.

Personnel practices and organizational culture constituted a second set of difficulties. When Kagina became commissioner general in 2004, promotions were determined based on seniority, not performance.[9] The URA's staff training and human resources policies often assigned employees to positions for which they

lacked the requisite skills. A 2005 paper by researchers at Uganda's Institute of Policy Research and Analysis noted the absence of a well-designed training program as well as any kind of system to reward exemplary staff and thus attract skilled and high-caliber employees. "Employees must feel that they actually represent the most valuable asset of the organization and that top management is prepared to invest in their future," the institute said. "So, the issue of retirement benefits (lack of which has been cited as one of the causes of [corruption]) and career development needs urgent attention."[10]

Further, a 2006 study by Mark Robinson, a researcher and political sociologist at the United Kingdom–based Institute of Development Studies, on the failure of the URA during the 1990s found "evidence of systematic political involvement in URA affairs, especially in the form of influence over the recruitment, promotion and transfer of staff. Ministers, family members with political connections, and political advisers in State House (Office of the President) have all sought to exert influence in this manner . . . Recruitment procedures such as formal applications and interviews were flouted and skill requirements waived for certain appointments."[11]

Kagina added that "There was a sense of permanency in employment, and all staff expected to work with URA until retirement irrespective of the quality and level of performance. The management style was highly authoritative and decision making was centralized."[12]

"It was necessary that URA undertake the restructuring exercise to kill the inept culture and cause a rebirth of a new culture with staff that had a new culture and orientation to business," Kagina outlined in her report.[13] The organizational culture was characterized by "power gaps between management and staff, suspicion within the staff fraternity, poor work ethics and lack of integrity," Kagina wrote.

The third constraint was a lack of modern technology, especially lack of a digital database. The URA's processes for both domestic taxes

and customs were all manual and paper based, with records stored in file cabinets throughout the country. Outdated technology, together with cumbersome procedures, was a serious impediment to conducting trade. The agency also lacked a basic communications infrastructure: only a few offices had internet service or access to an internal network. Kagina wrote that that made the URA's work "manual and cumbersome. [Paper-based business processes] were also non-value adding and not responsive to the dynamic business environment."[14]

James Kizza, a longtime URA information technology expert whom Kagina appointed to head the IT division in 2004, explained that an earlier plan for equipment modernization drawn up by reform-minded officials had failed because "it challenged the status quo . . . and the people in charge before would not allow it to flourish." With a new commissioner general in charge, the stage was set for the URA to finally reform its business processes so it could take advantage of digital technology.

The fourth and fifth problems were interlinked. The URA had to implement far-reaching reforms in a country that lacked a culture of tax compliance. In 2002, 65.1% of Ugandans earned less than $1.90 per day,[15] meaning that they earned so little as to yield almost no taxable income. A history of state violence, including a civil war that ended in 1986, had severely eroded the country's social contract—and many of those who could pay did not.

Uganda's large informal economy aggravated the difficulty of building a culture of tax compliance. In 2001, 36% of Uganda's GDP came from subsistence agriculture—compared with the 16% average for sub-Saharan Africa.[16] Because subsistence agriculture enterprises and many other small enterprises operated informally or with cash alone, identifying them was difficult. The URA faced a daunting task in its efforts to build a compliance culture in a distrustful and relatively impoverished society involved largely in the informal sector.

The reform effort had to win back political support from longtime President Museveni. In 2006, Robinson found that although the president had supported the creation of the URA and lent his support to counter resistance, the president had grown "increasingly hostile to the URA from the mid-1990s." Although the "exact reasons for the president's increasing antipathy to the URA were unclear, the agency's failure to sustain increased revenues and evidence of growing corruption were undoubtedly motivating factors." The study noted that "these developments served to undermine the URA's credibility and sap the motivation of senior staff" and "the erosion of high-level political support weakened its ability to withstand political interference from other quarters and undermined the momentum of reform."[17]

Kagina's existing relationship with the president put the URA on relatively firm political footing, but her team had to demonstrate serious resolve if it wanted to retain Museveni's support.

FRAMING A RESPONSE

To transform the URA into an honest and efficient organization that would do a far better job of managing Uganda's tax programs, that would bolster collections, and that would elevate the agency's credibility in the eyes of the public, Kagina decided to restructure the entire organization. Within the commissioner general's office she established a modernization team that would move on several fronts at once.

Headed by Kalyebbi, a trained accountant who joined the URA in 1992, the modernization team epitomized the new culture that Kagina sought to build: it enlisted even relatively junior staff who showed promise and a desire to drive reform efforts.

Based partly on recommendations contained in a 2004 IMF technical assistance report, the team designed a comprehensive modernization plan, which it published in 2006. After making further refinements based on advice from the IMF and the United Kingdom's Department for International Development, the team won

support from a group of donors that in 2007 committed US$12.35 million to a basket fund to help pay for the reforms. Even though the donors initially funded the bulk of the effort to adopt state-of-the-art systems, "as the government started seeing that we produced results, the Ugandan government eventually became the biggest funder," Kalyebbi said.

The plan was to improve service quality by modernizing processes and procedures for both domestic tax and customs, to enhance integrity and corporate services, to ramp up the use of information technology, and to modernize legal services and taxpayer education.

The modernization office also created a steering committee chaired by Kagina and designated a project owner for each of the eight key outputs—usually the commissioner of the relevant department. Each of the project owners then appointed a manager and a team to implement the reforms outlined in the modernization plan, and they routinely reported back to the steering committee, which monitored each project's progress.

GETTING DOWN TO WORK

Although it was Kalyebbi's office that designed the modernization plan, Kagina from 2004 to 2006 personally led the process of URA reconfiguration.

Reorganizing the URA

Taking advantage of the URA's semiautonomous status, which exempted it from stringent public service rules, Kagina made a first move to tackle the authority's disjointed organizational structure and its hierarchical culture, including by requiring all staff to reapply for jobs under the new structure. Under that system, all previous jobs would cease to exist.

Based partly on the IMF's 2004 recommendations, Kagina personally designed and the board approved a new structure that reduced the number of job classifications to 7 from 18, thereby flattening the organizational hierarchy. The move also eliminated offices

dedicated to specific tax types and made the organization entirely function based, which further reduced fragmentation. The new structure meant that the business processes—registration, filing, payment, and audit—for each tax type would be handled by the same department.

Next, the URA had to assign staff to new positions within the reorganized framework. The reassignment of staff opened a window of opportunity to rid the organization of workers suspected of corruption or those not fit for their jobs. Because their previous job positions had ceased to exist under the new structure, all 2,108 staff members had to reapply for their jobs. Kalyebbi pointed out that "all of the advertisements were made internally, which meant it didn't have to be a drawn-out application period. It was quite quick."

The governing board and Kagina together vetted, interviewed, and appointed applicants for six commissioner posts in charge of legal services and board affairs, customs, domestic taxes, corporate services, internal audit and compliance, and tax investigation. "Once the commissioners were recruited, they, together with the commissioner general, designed the new structure for the assistant commissioners below them," Kalyebbi said. "They designed it one level at a time. Together they also shortlisted further candidates, and then the board conducted the interviews."

Kalyebbi also noted that one of the most important aspects of the process went unsaid: "If there was even a speck against your name, that was the end and you wouldn't be rehired," although everyone had the right to appeal if not rehired. Ultimately, 1,974 URA employees reapplied under the new structure, and 1,580 were rehired. The 394 who were not rehired received severance packages.

The rehiring process however ignited a backlash. Some staff members lobbied their members of parliament for a motion to halt the process. But after fierce lobbying from the URA and with political backing from Museveni, the motion was defeated in parliament. "That is the closest the affected staff came to subverting the structural reforms," Kalyebbi said.

In addition to rooting out people who lacked integrity or competence, the rehiring process also enabled the URA's new leadership to better align skills with job tasks. "The processes involved both vertical and horizontal movements of staff at all levels. This gave an opportunity to each staff to apply for a job that they knew was in line with their skills, competencies and talents," Kagina wrote. The reorganization also "changed people's mindset on the employment criteria of URA," Kagina said. Instead of relying on nepotism, seniority or political connections, both staff members and the public could see that competence was now the main factor in hiring decisions. "Amongst the employees, this reinforced a learning culture and a sense of accountability rather than the previous tendency to feel entitled," Kagina added.[18]

With a leaner workforce in place, the URA significantly increased staff salaries and introduced retirement benefits; the latter had long been a source of unhappiness among employees. The management team hoped that the more-generous packages would help dampen corruption. For positions for which the URA could not find suitable candidates from among the former employees, the agency hired young university graduates.

Building capacity

Following the organizational restructuring, the URA from 2006 took major steps toward enhancing staff capacity and building a stronger, more motivated workforce. In doing so, the human resources division, led since 2004 by Vincent Seruma, focused on two key aspects: making the URA a more attractive employer and enabling staff to deliver better services in the context of the digital transformation.

Seruma acknowledged that "there previously was not enough value placed on this organization's people. There was no structure to develop people, improve the welfare of staff, and help with capacity development . . . But from

2006 onwards [following the restructuring and adoption of the modernization plan], there was a heightened focus on changing the reputation of this organization from an employee point of view."

Seruma said his first focus was on "how to leverage internal talent. We realized we'd get more from people if we changed how we managed them." In addition to enhancing staff salaries following the restructuring, the URA also introduced a retirement pension that had previously not existed, and it substantially increased its long-service award. Next, Seruma's division developed a "mission-critical scheme" that profiled each job in the URA with a view to identify essential posts that had high turnover. To stem the outflow of talented employees in critical areas, "we introduced higher remuneration if you are a manager in a critical area," Seruma said. In another innovation, the URA began to recruit skilled people directly if advertising failed to find qualified applicants for job openings.

Within clearly defined limits, the URA further made it possible for staff to do consulting work outside the URA on a part-time basis as a way to earn extra income and expose personnel to new challenges. The URA also extended its consulting policy to permit staff to consult within the organization. Seruma cited the example of corporate team building, which had previously been facilitated by outsiders. "Instead, we now allow internal applications and hold auditions to hire our own people to run the team building . . . It was regardless of rank, so junior people could facilitate for the commissioner general," Seruma said. "The point is: How do you see your people? Do they have to sit at their desk even when their work is done? Or are you flexible?"

After using the first several years following the URA's restructuring to focus on improving the work environment, Seruma's team in 2013 adopted a new training strategy to enhance capacity. "We decided that we best understood our needs, so the commissioner general asked me to design a leadership development program," Seruma said. The first program, called FUEL—

Fired Up for Excellent Leadership—was mandatory for senior managers and lasted for one year.

Seruma's trainers split senior management into two groups, with each group attending two full-day contact sessions per month in addition to assignments. Staff were expected to arrive strictly on time at 6:30 a.m. on their contact session days, and cell phones were not allowed in class. To reward good performance, the human resources department introduced a credit-rating system. Staff could then use their reward credits to buy things like watches or handbags at an on-site shop. In 2014, some of the senior managers who had gone through the FUEL program became trainers for GEAR—Getting Equipped and Reinforced—a yearlong program aimed at middle managers. In the same way, GEAR's trainers in 2015 began training junior managers.

Seruma was proud that "we funded it all from the internal budget and designed it all ourselves. I am yet to see another corporate institution in this country do something similar."

Boosting integrity and improving the URA's image

In the wake of the organization-wide shake-up that required every staff member to reapply for a new position, the agency's internal audit and compliance department in 2006 adopted an integrity enhancement plan that was meant to further combat corruption and improve transparency. Under the plan, the URA reformed and introduced transparency into its hiring processes.

According to Begumisa Protazio, commissioner of internal audit and compliance, "Recruitment was not very transparent. Politics and relationships played parts in recruitment and deployment." To combat that perception, the URA began posting public notices of everyone who had applied to a given job opening "so that people can see who expressed interest in these jobs. Similarly, the names of short-listed candidates are also published on our website," Protazio said. "It's not like in the past, when it was about 'know-who'; now it is more about

'know-how.'" In addition, the URA made integrity training part of the mandatory one-year induction for all new staff members.

In executing another step of the plan, the URA introduced a whistle-blowing policy that made it possible for the public to report complaints directly to the commissioner of internal audit or anonymously—through a dedicated hotline (and later, through the URA website). Clear auditing standards, a code of conduct, and a taxpayer charter laid out the rights and responsibilities of tax officials and members of the public. The documents aimed to empower taxpayers by making them aware of their rights. At the same time, the clear rules made it easier to take disciplinary action against officials implicated in corruption.

In another innovation, Protazio's department on a monthly basis sent out so-called integrity messages to staff. Relayed through the URA's intranet, the monthly messages publicly called out URA workers who had been subjects of complaints. "The whole URA stops for two minutes because everyone checks. No one wants to be in that message. It's a form of social pressure," Protazio said.

In cases in which staff continued to flout the rules, the URA cracked down through partnerships with other government institutions. The agency signed memorandums of understanding with the government's inspector general and the director of public prosecutions, which delegated powers to the URA's legal team to prosecute in a court of law both corruption and tax evasion. "With that, we can prosecute both taxpayers and staff, and our success rate is very high," Protazio said.

To further bolster the URA's public image, the agency followed in the footsteps of neighboring Rwanda and Kenya, both of which had organized annual taxpayer appreciation events since 2001 and 2003, respectively. In 2005, the URA introduced its own taxpayer appreciation day, by hosting a glitzy gala dinner that recognized and rewarded the country's most-loyal taxpayers. The agency also hosted education clinics across the country, introduced radio talk shows to discuss tax issues, launched a toll-free helpline, and translated its tax literature into eight local languages.

Revamping business processes and IT

Transforming the URA's business processes and implementing a new IT solution were two more central goals of the reform effort. Domestic tax commissioner Moses Kajubi and his modernization team took on the task, with support from Kizza's IT department. Kajubi explained that "previous reform efforts were piecemeal and created silos within the domestic tax department," which was at the heart of the URA's work in collecting income tax, value-added tax, and corporate tax; customs was a separate department. "The need to get rid of silos gave birth to the idea of an integrated system," Kajubi said.

Instead of having different processes and different offices for different tax types, Kajubi's team wanted an electronic system that could handle functions like registration, declarations, payments, enforcements, audits, and debt collection under one roof. The team's first task was to procure, install, and start using a modern IT system.

In 2006 and 2007, the agency used funding from the UK Department for International Development to install network connections at all 70 of its offices throughout the country and to build a data center in Kampala. The next step was more complex. Kajubi said that "although we knew we wanted an integrated system, we didn't know what it would contain." Before it could make a decision on procurement, the team first needed more information about the kinds of tax administration systems available on the market—and the kinds of functionalities they had.

The URA decided to use the World Bank's recommended two-step bidding process. In the first phase, during 2007, the agency put out an open call for proposals so that companies could lay out their different options. "It was a filtering process, which was strategically very important,

because it showed us what the best solutions were," Kajubi said. Equipped with a deeper understanding of the different options, the URA in 2008 issued a second bid that described its desired solution in more detail. In the end, the contract went to India-based Tata Consultancy Services for a software system called eTax. The contract stipulated that Tata would own the source code for the IT system.

Kizza said eTax was an "off-the-shelf product, but Tata agreed that we would customize it to fit our needs." A small group of Tata's employees moved to Kampala in 2008 to work with the domestic-tax-modernization team. Together the tax experts and the IT team designed new business processes that would be compatible with eTax and at the same time modified eTax so that it would integrate seamlessly with the new processes. Meanwhile, a team of 40 software developers in India made the required software modifications.

In 2009, the URA rolled out electronic registration and filing at its Kampala East office. Kizza said his people chose that office "because it wasn't the most sensitive one, but it was also not too small." A month later, the team installed the system at the large-taxpayer office in Kampala, which enabled the country's biggest corporate taxpayers to conduct their tax work electronically.

At the Kampala East office, officials from the IT department trained staff to use eTax. In the process, the team also identified staff members who got the hang of it quickly. When the team moved the rollout to the large-taxpayer office, it took along those champions from the Kampala East office to become trainers. As the rollout expanded throughout the country, the IT team came to rely on the champions from local offices to help train colleagues working in other offices. "These were the people who just 'got it,' and eventually, they explained the system better than we could," Kizza said.

A year later, the URA rolled out electronic tax payments. Initially, only one bank in the country was willing to sign up and integrate its payment system with the URA's eTax. However, as electronic payment took off and all of the money was being deposited into a single URA bank account, "it was very painful for other banks. That quickly got them on board," Kizza said. In quick succession, other banks in the country also integrated their systems with eTax and opened dedicated accounts for URA payments.

Clamping down on fraud and evasion

Although the URA hoped to encourage voluntary compliance by taxpayers through its efforts to enhance integrity, improve its processes, and build staff capacity, it also sought to strengthen its ability to track down and punish fraudsters and evaders. Other arms of the URA often dumped complex cases on the investigations department and provided little guidance regarding the focus and target of the cases. The system needed clear criteria regarding how cases would be handled and who would handle them.

Patrick Mukiibi became commissioner of tax investigations in 2008. During 2008 and 2009, he focused on improving the skills of the department's 81 staff members, who consulted with other departments and drew up a list of competencies required for investigators. They then worked with the country's police as well as with the Internal Revenue Service in the United States and HM Revenue and Customs in Great Britain to design a retraining program. "More than anything, it was the mind-set that we were training. The difference between an investigator and an auditor is just a mind-set: the auditor looks only at recovering what was evaded, but the investigator wants to know how and why," Mukiibi said.

Next, the team set up an intelligence wing to collect and analyze information. Previously, Mukiibi said, "we called it a *case* if an informant just walked in with some information. Now, we

developed a seven-point assessment system to see whether it's worth deploying our resources and it could be developed into a case."

Aside from following up on existing information, department investigators also started analyzing economic information to generate their own cases so that they did not have to rely only on referrals and informants. In fact, "informants had taken over investigations," Mukiibi said. The URA in 2008 had stopped the practice of offering rewards but resumed the practice in modified form in 2013 "after reorganizing our house," Mukiibi said.

The new system did not allow informants to interact with investigators. Instead, informants had to upload their information on eTax or speak with the corporate affairs department so that investigators could not know who the informant was. The corporate affairs department then referred appropriate cases to the investigations team.

The investigations department established clear procedures for adjudicating on the merits of individual cases and set up three committees. The first, called the *gateway committee*, met every Thursday. Chaired by the head of scientific forensics, the gateway committee decided whether the corporate affairs department was correct to assign a specific case to investigations.

The *investigations management committee* checked the quality of ongoing investigations to ensure that they were adhering to the correct format for an investigations planning memorandum. "If you diverted from the memorandum, the investigations committee panel would beat you back into shape. We found that remarkably successful because it brought about checks and accountability," Mukiibi said.

Finally, a *prosecutions management committee* decided whether a case should be prosecuted or whether the URA should focus only on recovering lost revenue. The committee, comprising legal experts from the litigation department, checked the quality of the evidence gathered during the investigation. If approved, the file went to the litigation department, which

had prosecutorial powers, delegated from the police.

To enable investigators to effectively build cases, the URA in 2010 also built a state-of-the-art forensics laboratory at its headquarters. The laboratory enabled investigators to easily make clones of computer hard drives while in the field and to then mine the drives for data; by cloning the drives, the URA did not have to disrupt a company's business by impounding hard drives. The forensics team also gained the ability to closely inspect documents so it could identify forgeries and handwritings.

OVERCOMING OBSTACLES

Although many of the reforms focused on enhancing domestic tax collection, the URA also had to significantly improve the efficiency of its customs system. That task was especially urgent in light of a 2005 decision by the East African Community—of which Uganda was a founding member—to move toward the creation of a single customs union. Under the agreement, the member countries of the East African Community (Uganda, Kenya, and Tanzania were the founding members in 2000, with Burundi and Rwanda joining in 2007 and South Sudan gaining membership in 2016) had five years to prepare for the transition to a customs union that would implement uniform import tariffs across the region: 0%, 10%, or 25% depending on the type of goods imported.

The URA's 2006 modernization plan outlined several key outputs for the customs department, including the need to reengineer customs procedures, roll out IT systems, develop less-intrusive inspection procedures, and implement certain specific measures as outlined by the World Bank Trade Facilitation Support Program framework—including a cargo-tracking system suited to real-time reporting that also generated an audit trail. The agency also sought capacity to exchange information with neighboring customs authorities.

The plan had not gone far in its early years, however. Kagina's customs commissioner,

Kamajugo Richard, found that the URA was using an outdated version of the Automated System for Customs Data (ASYCUDA), a standardized IT solution developed by the World Customs Organization. There was no longer any technical support available for Uganda's version and at one point the whole program went down for a week, causing serious bottlenecks.[19] Internet reliability was low at several critical locations, which made it still harder to acquire the information needed to manage the agency effectively.

The commissioner helped assemble finance to support required changes and took some of the first steps to implement the program, but only after 2014 did the elements begin to come together, under Kamajugo's successor, Dicksons Kateshumbwa, an experienced customs official who became commissioner of customs in 2015.

Kateshumbwa said his team faced a number of pressing challenges. "Uganda is a landlocked country and a major supply route for our neighbors, yet we didn't have a cargo-tracking mechanism," he noted. That led to illegal dumping by people who claimed they were only traveling through Uganda en route to a neighboring country. The lack of cargo tracking opened the door for such people to avoid customs duties.

The absence of a centralized clearing system created a corruption problem as well, because the process of checking and approving imports and exports took place at various border posts in face-to-face meetings between customs officials and the agents-brokers who acted on behalf of importers.

The customs team's first key reform was the creation of a central clearinghouse at URA headquarters in Kampala. Instead of having customs officials work directly with clearing agents at border posts, the team used the URA's improved internet connectivity to link all border posts with the Kampala office, where a customs department clearance center operated around the clock, seven days a week. To manage the new

digital system, the customs department upgraded its software to the latest version of ASYCUDA.

Kateshumbwa, who had joined the URA in 2005 and had an MBA, stressed that workers in the new clearance center were not allowed to have cell phones in the office and that "officials are randomly assigned shipments." He added that "the center is cut off from the brokers, which means you can't build a relationship to compromise [officials]. We're also able to see who processed each shipment and track how long the responses take, which improved efficiency." The URA simultaneously cracked down on customs brokers by introducing an examination that each broker had to take before being permitted to obtain a license to operate in Uganda.

To further smooth importing and exporting, the URA streamlined the inspection process regarding vehicles carrying goods into Uganda. The team installed electronic scanners at border posts that permitted truck drivers to have their loads inspected without the need to open and unpack shipping containers. The clearance process sped up significantly. "We can now inspect and process about 300 trucks per hour using our newly installed nonintrusive-inspection-technology [scanners]," Kateshumbwa said.

With the basics in place, Uganda took its cooperation with the rest of the East African Community to the next level. In June 2013, the presidents of Uganda, Rwanda, and Kenya signed an agreement to fast-track the creation of a single customs territory (Tanzania joined in 2014). Although the move to a customs union had created a common policy and tariff framework, the single customs territory went a step further by integrating the *operations* of the participating countries' customs agencies. As a result, Uganda in 2015 introduced six one-stop border posts. Instead of clearing goods twice—once when exiting a neighboring country and again a few moments later when entering Uganda or vice versa—traders could now clear their cargoes in only one building, which housed officials from both revenue authorities.

The creation of that single customs territory meant that the URA could station its officials at the ports of Mombasa, in neighboring Kenya, and in Dar es Salaam, in adjacent Tanzania, through which most of Uganda's imports flowed. "We placed 45 URA staff members at those two ports. The goods are declared at the first point of entry, where URA officials work. It removed duplication, because the export document from Kenya now automatically becomes our import document," Kateshumbwa said. "This has cut down on a lot of wasted time, and it's now only a matter of days to get goods here from Mombasa."

Similarly, the URA created an electronic cargo-tracking system that was fully integrated with Kenya and Rwanda. Under the new system, "The moment goods arrive at the port of Mombasa, we attach an electronic GPS device, called a *seal*" to the container, Kateshumbwa said. Because each device contained a record of the route the specific truck would follow, "if you make an attempt to divert, we get an alert," he added.

Using large screens mounted on the wall of a monitoring center in Kampala, URA workers became able to track every shipment moving in and out of Uganda from and to the ports of Mombasa and Dar es Salaam. The new system made it much harder for importers to dump goods in Uganda that, for example, they had said were destined for the Democratic Republic of Congo.

ASSESSING RESULTS

From 2004 to 2014, Uganda's total domestic revenue collection increased to US$3.1 billion from US$878 million. During the same period, the country's revenue collection grew by an average of 17.3% every year, as compared with the regional average of 16.5%.[20] Thanks to the significant increase in revenue that the URA collected annually, the Ugandan government was able to fund 71.5% of the national budget in 2014—up from only 58.7% in 2005.[21] (The bulk of remaining funding came from a combination of international donors and borrowing.)

During the initial phase of the reforms from 2004 to 2008, the country's tax-to-GDP ratio correspondingly improved to 12.1% from 10.7%. However, the URA had not yet managed to break into the informal sector, in which millions of people—rich and poor—effectively avoided taxes by not registering for tax, by conducting business in cash, and by not keeping accounting records. (See the companion ISS case study "Bolstering Revenue, Building Fairness: Uganda Extends Its Tax Reach, 2014–2018.") The URA's inability to widen the tax net by keeping pace with the expanding informal sector contributed to a decline in the tax-to-GDP ratio to 11.6% in 2014.

A 2018 World Bank report noted that "the shift in the composition of the economy from agriculture to services and industry has strengthened the informal sector, with those leaving agriculture tending to end up in small informal non-agricultural enterprises."[22]

Another factor that contributed to the relative stagnation was that Uganda had begun granting increasingly generous tax exemptions as a way to attract investment. (Tax exemptions were granted mostly by the minister of finance and the Uganda Investment Authority on the basis of their ability to attract investment and stimulate certain industries.) The World Bank said that in 2016, "revenue forgone under the current tax system across all tax sources due to exemptions was estimated to be in the range of 4.5 to 5.0% of GDP."[23] The World Bank specifically highlighted the government's discretionary powers in granting exemptions as having had "a significant impact in the period from 2006 to 2016."[24]

Even though growing informality and abundant exemptions continued to hinder progress, the URA during 2004–14 nonetheless made significant progress by reforming its organizational culture, enhancing its business processes, adopting a modern IT system, building capacity, and streamlining customs procedures.

In a handover report Kagina delivered when she left the URA in 2014, she stated that the organizational transformation had "gone a long

way in improving communication and supervisor-supervisee relations [and] ushered in a new culture where staff view each other as colleagues and address seniors by their first names" rather than by their titles.[25]

The URA's efforts to enhance integrity and bolster the agency's public image also meant that from 2006 to 2010, the agency's score on an internal client satisfaction survey increased to 66.9% from 39%.

The URA's forensics lab became one of the best in the country and was used by the police and other government departments. "I confidently say the situation is unrecognizable from pre-2008," Mukiibi said. "Everything is different in terms of structure and information flow, and I am very proud of the tax investigations team. We can now collect and analyze a flood of information and are also able to gather credible evidence necessary to support our compliance management process."

Reforms to the IT system massively improved the efficiency of URA services. Seemingly small changes like the introduction of internet connectivity and digital communications software sped the pace of service delivery. Without the need for paper, Kagina also pointed to "a remarkable reduction . . . in expenditure on physical mail delivery, photocopying, printing paper, and up-country travels, let alone delays, losses, or failure to deliver mail in time. Staff can [now] complete online reports and information updates from anywhere in the country."

The creation of a digital storage warehouse and the fact that eTax recorded every job task made it much easier to spot errors and identify the people responsible for them. The adoption of eTax also minimized the need for direct contact between officials and taxpayers, thereby reducing the risk of corruption. Perhaps most important, the rollout of electronic services significantly reduced the need for taxpayers to stand in line at URA offices.

Finally, Seruma stressed the importance of the authority's capacity-building initiatives. "The

major transformation was that we began leveraging internal talent. In mission-critical areas, we reduced turnover from 11% to 1.65%," he said. "We now run our human resources like a corporate institution, which is not typical for a government department."

REFLECTIONS

As the oldest semiautonomous revenue authority in Africa, the Uganda Revenue Authority (URA) went through tumultuous ups and downs after its founding in 1991. Despite early optimism, the agency's experience during the late 1990s and early 2000s demonstrated that a more robust institutional structure—including modern tax policies and a nominally independent board of directors—was not enough to prevent capture by corrupt interests. However, the URA's experience from 2004 to 2014 showed that even a deeply corrupted revenue authority was salvageable. Backed by a government that had become alarmed by public outrage at the URA's dysfunction, Commissioner General Allen Kagina engineered a turnaround of the deeply compromised revenue authority.

Key to the turnaround was the well-managed IT transformation process. James Kizza, the URA's longtime IT assistant commissioner, highlighted the importance of viewing technology in context rather than in isolation. "The domestic tax department realized that it's not an IT problem. It called for reengineering everything from the forms to unnecessary processes." Making sure that process reengineering and technology reforms worked hand in hand was vital to the URA's progress.

Kizza emphasized another lesson that the URA learned a little too late. "We initially wanted to get the source code [for the eTax software] as soon as the system was installed, but the URA thought that donors would not go for it," he said. It was a costly oversight. "Now it is much more expensive to get the code when we want to make any changes. You must get the code before you sign [a contract with a vendor]; otherwise, the

vendor will refuse to give it to you later because it instead keeps getting new contracts to fix and upgrade the system," Kizza cautioned.

Magoola Kalyebbi, who headed the overarching modernization office from 2004 until 2009, singled out Kagina's focus on "the individuals in the organization, which may have held the key to reform. Most of the ideas about how to improve the organization already resided with the staff, who understand the problems. Kagina empowered them."

Kalyebbi added that "one of the memorable things she did was that, when we completed the [modernization] plan, she visited every station in Uganda, sometimes traveling throughout the night. . . . Her message to the staff was powerful: 'We are going to change, and you are part of the change. Help your organization change.' It was a simple message, but it got most of the staff to line up behind the plan."

Alongside all of the technical reforms to improve IT and reengineer business processes,

the URA underwent a profound cultural transformation that supported the reform effort. From a calcified, hierarchical, and divided organization, the agency adopted a nimble and collegial culture in which new ideas were welcomed.

By 2014, when Kagina left her position as URA commissioner general, she had steadied the ship, and she hoped the agency would build on its foundation of embracing change and innovation so it could go on to tackle lingering challenges, including exemptions and economic informality. "As the URA looks into the future, it is paramount that the institution position itself as an organization that anticipates changes and provides solutions ahead of time," she wrote.[26] "While the past 10 years have seen the URA transform into a leading organization, there's a need [now] to move the agency from being just a good one to being a great institution."[27]

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