



RIGHTING THE SHIP: UGANDA OVERHAULS ITS TAX AGENCY, 2004–2014 (SHORT VERSION)

This summary draws on an ISS case study with the same title can be found on the [ISS website](#). Leon Schreiber drafted the full case based on interviews conducted in Kampala, Uganda in January and February 2019. Case published April 2019. Summary published in May 2019.

BACKGROUND

In the early 2000s, the Uganda Revenue Authority (URA) faced a crisis. Despite having a modernized legal framework that made the agency semiautonomous—so it could operate much as a business would though still be accountable to a public board—the institution had become paralyzed by corruption, outdated technologies, cumbersome procedures, and a toxic organizational culture. In 2004, to begin righting the ship, the finance minister appointed a new board that tapped 43-year-old Allen Kagina, who had served the agency for more than a decade, as the new commissioner general.

Early in her career, 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 the head of the entire operation, she faced the task of repairing the institution she had come to know well. The URA's performance problem was evident in the institution's own data: during 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. In 2014, Kagina recalled that at the time of her appointment, "corruption was part of the URA's identity" and that "revenue collections were so low that government had to borrow internally and externally to provide services to the people."¹

Working closely with other reform-minded officials, Kagina confronted both a big challenge and a tremendous opportunity to repair the broken institution.

KEY ISSUES

- For Ugandans, the outward manifestation of the URA’s poor performance came in the form of corruption, and any reform effort had to deal quickly with that issue. In a 1998 survey of 243 firms, 43% of respondents said they occasionally or always had paid bribes to tax officials.² And midway through a judicial commission’s investigation in 2003, five senior URA officials had been accused of defrauding the agency of hundreds of thousands of dollars.
- The URA’s internal structure hobbled effectiveness. Departments were divided by both function and tax type, which made it difficult to share information and standardize procedures. Exacerbating that problem was a highly fragmented and top-heavy organizational chart. The large number of job categories introduced multiple layers of management that weakened communication and decision making.
- There was evidence of systematic political involvement in URA affairs—especially in the form of influence over the recruitment, promotion, and transfer of staff.
- Procedures for handling domestic taxes and customs were all manual and paper based, with records stored in file cabinets at branch offices throughout the country.
- 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.

REFORM STRATEGY

Kagina decided she had to restructure the entire URA in order to create an honest and efficient organization that would manage Uganda’s tax programs, bolster collections, and regain public credibility. Within the commissioner general’s office, she assembled a modernization team, headed by Magoola Kalyebbi, which would move on several fronts at once.

The team’s plan was to improve service quality by modernizing processes and procedures for both domestic tax and customs, improve integrity, enhance corporate services, ramp up the use of information technology, and 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 eight key outputs—usually the commissioner of the relevant department. Project owners appointed their own managers and teams to implement the reforms outlined in the modernization plan, and they routinely reported back to the steering committee, which monitored each project’s progress.

A group of donors committed US\$12.35 million to a basket fund to help pay for the reforms. But “as the government started seeing that we produced

results, the Ugandan government eventually became the biggest funder,” Kalyebbi said.

ACTIONS TAKEN

Although Kalyebbi’s office designed the modernization plan, Kagina from 2004 to 2006 personally led the process of reconfiguring the URA’s disjointed organizational structure and hierarchical culture. 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. Taking advantage of the URA’s semiautonomous status, which exempted it from stringent public service rules, Kagina required all staff to apply for new jobs in the revamped agency.

Because their previous job positions had ceased to exist under the new structure, all 2,108 staff members had to apply for jobs. 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—and so on, one level at a time. Ultimately, 1,974 URA employees applied under the new structure, and 1,580 were rehired. The 394 who were not rehired received severance packages. Salaries and training also improved.

In the wake of the organization-wide shake-up, the agency’s internal audit and compliance department in 2006 adopted an integrity enhancement plan that was meant to further combat corruption. The recruitment process became more transparent, with short lists of candidates for positions displayed online. Within its ranks, the agency publicized complaints against individual officers, strengthened integrity training, established whistle-blower protections, and negotiated agreements with the government’s inspector general and director of public prosecutions that enabled the URA’s legal team to prosecute cases involving not only tax evasion but also staff corruption in the courts.

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. It then purchased a data management platform that could interface effectively with a new eTax system that facilitated electronic payment.

As those changes went into effect, the URA also strengthened its investigations division and turned it into a tax intelligence center. Instead of offering rewards for information, it developed seven criteria to identify possible tax evasion and began using economic models to spot suspicious

behavior. It also implemented internal procedures to spot abuse of the processes and help ensure fairness.

Several factors, including technology shortfalls, slowed progress in improving the customs operation. As the handover to a new commissioner general was taking place in 2014, the URA began rolling out a number of changes that had gradually come to fruition. The year before, the presidents of Uganda, Rwanda, and Kenya had agreed to fast-track the creation of a single customs territory. The URA had a new information system and cargo-tracking process ready to go. It centralized customs clearances and altered procedures to reduce the number of face-to-face encounters, required that brokers pass an exam before they could take up their jobs, and introduced six one-stop border posts to replace the two stops that cargo had previously had to negotiate: one on each side of a border.

RESULTS

From 2004 to 2014, Uganda's total domestic revenue collection increased to US\$3.1 billion from US\$878 million. Thanks to the significant increase in revenue that the URA collected annually, the Ugandan government had become able to fund 71.5% of the national budget in 2014—up from only 58.7% in 2005.

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, by conducting business in cash, and by not keeping accounting records. Another factor that contributed to the relative stagnation was that Uganda had begun granting increasingly generous tax exemptions as a way to attract investment. Such 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.

Staff morale improved. In mission-critical areas, the URA reduced turnover from 11% to 1.65%, said Vincent Seruma, who headed the human resources division.

LESSONS LEARNED

- Creating a semiautonomous tax authority did not guarantee long-term success in revenue collection. Founded in 1991, the URA was Africa's first semiautonomous tax authority. But despite early optimism, the agency's experience during the late 1990s and early 2000s demonstrated that its theoretically more robust institutional structure—including modern tax policies and a nominally independent board of directors—was not enough to prevent capture by corrupt interests.
- Even an agency with a poor reputation was salvageable. Backed by a government that had become alarmed by public outrage at the URA's

dysfunction, Kagina engineered a turnaround of the deeply compromised revenue authority.

- Improved information technology advanced other reforms. 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."
- Top-level involvement fostered success. Staff members credited Kagina's focused effort and her frequent presence at URA stations throughout the country for having moved the reform plan to completion.

References

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