A REVIEW OF THE MEDIUM TERM REVENUE STRATEGY PROCESS WITH A FOCUS ON CIVIL SOCIETY ENGAGEMENT AND PROGRESSIVITY

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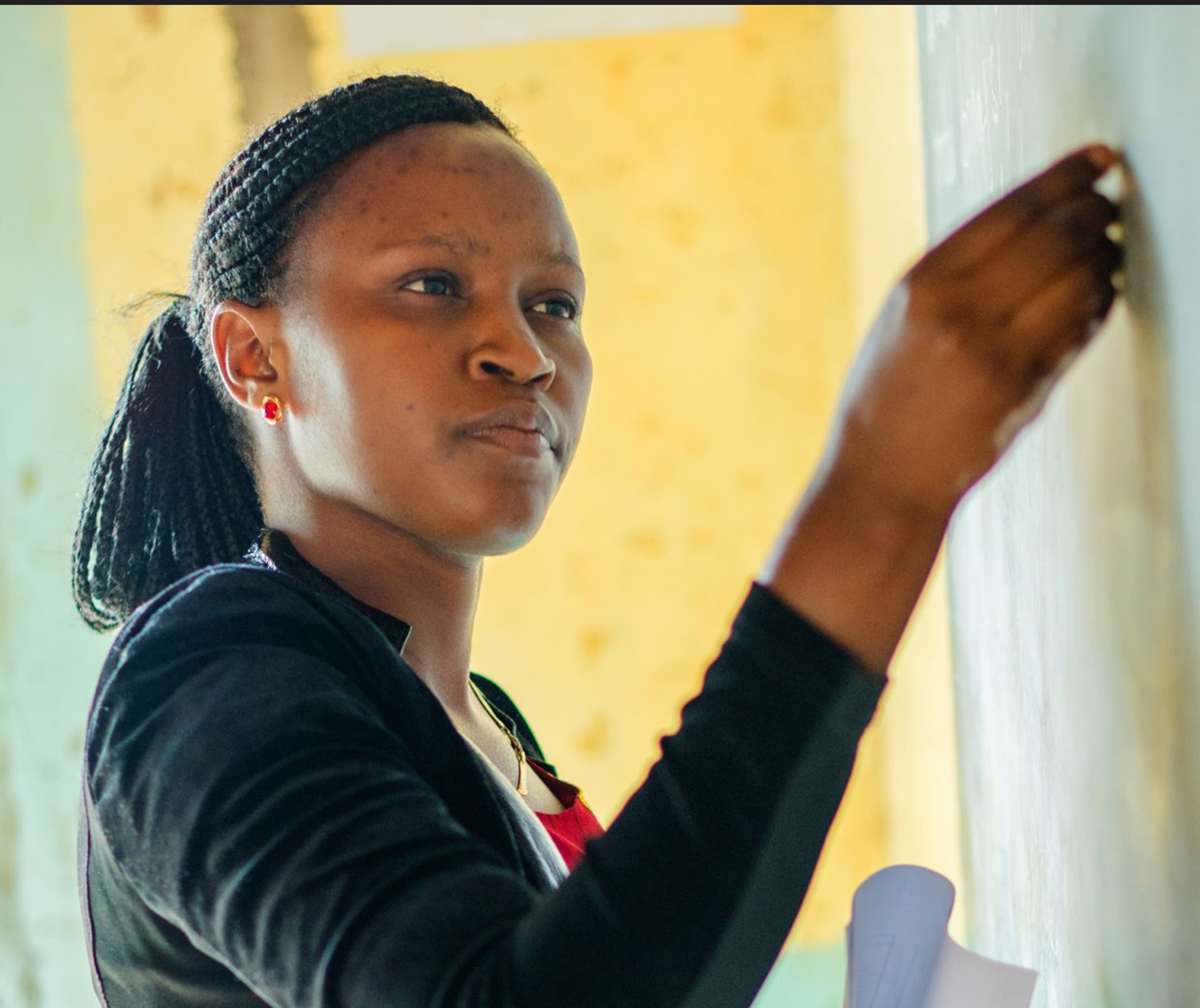

AUTHORS: Mtwalo Msoni, Anders Dahlbeck,
Crispin Kulemeka and John Mpoha

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COVER PHOTOGRAPH: Additional funding
raised through the MTRS could pay for more
teachers such as this teacher in Tanzania.
CREDIT: ACTIONAID

ACRONYMS

CSBAG	Civil Society Budget Advocacy Group (Uganda)
CIT	Corporate income tax
CSO	Civil society organisation
DRMS	Domestic resource mobilisation strategy
DTAA	Double taxation avoidance agreement
IMF	International Monetary Fund
IREDD	Institute for Research and Democratic Development (Liberia)
MTRS	Medium-term revenue strategy
OECD	Organisation for Economic Cooperation and Development
PCT	Platform for Collaboration on Tax
SEATINI	Southern and Eastern Africa Trade Information and Negotiation Institute
SDG	Sustainable Development Goals
VAT	Value-added tax

EXECUTIVE SUMMARY

Since the third Financing for Development conference in Addis Ababa, Ethiopia in July 2015, the international development community has increased its focus on domestic resource mobilisation. The Conference agreed that the only sustainable way for developing countries to meet the Sustainable Development Goals (SDGs) was to step up their domestic resource mobilisation efforts, and that development partners should double their financial and technical assistance in this area.

In 2016 the Platform for Collaboration on Tax (PCT) - an international initiative comprising international financial institutions such as the International Monetary Fund (IMF), World Bank, the Organisation for Economic Cooperation and Development (OECD) and the United Nations - made a recommendation to the G20 Ministers of Finance that developing countries should draft medium-term revenue strategies (MTRS) to enhance their revenue mobilisation efforts in a sustainable manner.

The MTRS is a multi-stakeholder process that comprises four interdependent elements, that must work together to be successful, namely:

1. agreement or consensus on broad revenue goals;
2. formulation of comprehensive tax reforms including of tax policy, tax administration and legal and regulatory mechanisms;
3. sustained political commitment to these reforms; and
4. external support from development partners to implement the country-owned reforms.

Since the development of the MTRS concept in 2016, several developing countries were expected to develop their own MTRS and implement the reforms necessary to unlock domestic resources to finance critical infrastructure and social spending, for example in health and education. To date, however, only three countries have managed to publish theirs: Uganda [2019/20 - 2023/24], Liberia [2018-2022] and Papua New Guinea [2018-2022].

CSOs are interested to understand the extent to which the tax reforms proposed in these published MTRS promote progressive tax systems, and whether they were formulated with effective CSO engagement. This study set out to explore these questions, to establish whether the MTRS tax policy reforms set out so far are progressive, and how collaboration between civil society organisations (CSOs), governments and the PCT can promote progressive tax policies. In particular, this study focused on:

- Whether the expectations of the PCT have been achieved.
- The role of CSOs in MTRS formulation;
- Lessons for CSOs and governments planning to embark on the formulation process.

Key questions for this study

- **To what extent has the MTRS met PCT expectations? Or is likely to?**
- **What concrete policies have been set out in the published MTRS? Are they progressive?**
- **What is the scope of civil society consultation? Who has been included and excluded?**
- **How have civil society contributions been considered or incorporated in MTRS processes?**

KEY FINDINGS

- **MTRS development has been slow and uneven.** To date, only three developing countries have published MTRS (Uganda, Liberia and Papua New Guinea), and Egypt is expected to be next. Other countries that have engaged PCT partners to formulate MTRS include Ethiopia, Benin, Senegal, Thailand, Bangladesh, Albania, Pakistan, Indonesia and Lao PDR. Developing a MTRS is a long process, requiring a lot of work to analyse tax policy and design tax measures, and requires government commitment to engage all key stakeholders in its development. Furthermore, it appears that the MTRS structure is different in each country, and it tends to be developed on the basis of existing tax reform plans.

- **Some tax reforms appear to broadly aim to strengthen progressive taxation.** Most tax policy reforms proposed in existing MTRS seem to be progressive in nature. All three countries commit to improve tax transparency through the publication of tax expenditure reports, reviewing tax exemptions and incentives, reforming capital gains tax, pursuing real estate taxation and improving personal income taxes by gradually moving tax-free bands above poverty line thresholds.

- **Implementation of reforms in the MTRS is slow.** In 2020/21, momentum for policy reform has been slowed by the COVID-19 pandemic, as emergency tax policy measures have been brought in to minimize the impact on businesses and the wider population.

- **There has been some civil society engagement in MTRS formulation, but the incorporation of policy submissions seems low.**

  – In **Uganda**, the Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI),[1] the Civil Society Budget Advocacy Group (CSBAG)[2] and the Tax Justice Alliance Network,[3] which includes Action Aid International, were active in shaping tax reforms. Ugandan CSOs were even involved in the drafting phase, and some of their proposals were incorporated in the final published MTRS. Partnerships between CSOs and the Government of Uganda seems strong, and CSOs have the technical capacity to engage with the Government in the formulation of tax policy.

  – In **Liberia**, the Institute for Research and Democratic Development (IREDD)[4] and other CSOs, especially those working on fiscal governance, were involved in the consultations. However, the extent to which CSO proposals were incorporated into the final published report is not clear.

  – In **Papua New Guinea**, much of the MTRS was informed by previous studies on tax reform and technical reports from the IMF. The process of developing tax reforms involved wide consultation and, in general, the Government consults with different stakeholders as part of public policy formulation processes. Therefore, although there was no new direct engagement with CSOs, their contribution during previous tax reforms constitutes indirect engagement in the MTRS process.

- **High-level political commitment is key.** In Liberia, the then President was involved in consultation meetings and chaired the National Revenue Symposium. This was a sign of strong political

1. See https://seatiniuganda.org/ SEATINI Uganda is a non-governmental organisation working on trade, fiscal and development issues, for the realisation of sustainable development and improved livelihoods in Uganda, East Africa and the African Region.
2. See https://www.csbag.org/ CSBAG is a coalition formed in 2004 to bring together CSOs at national and district levels to influence government decisions on the mobilisation and utilisation of resources for equitable and sustainable development.
3. See https://www.tjau.or.ug/ Tax Justice Alliance Uganda was established in 2014 to enable CSOs in Uganda to come together and deliberate on tax issues and pool human, financial and technological resources for common and/or joint action.
4. See https://iredd-lr.org/who-we-are/ IREDD is a research and policy advocacy organisation that works with grassroots organisations and partners at local and subnational levels. Their partnerships aim to create linkages between local groups and their local authorities and policy actors.

commitment and may have paved the way for smooth MTRS implementation, creating public awareness of the Strategy and promoting buy-in from the public. In Uganda, senior management of the Ministry of Finance; the National Assembly and some donors were involved in the process. It is not clear whether there was high-level involvement in the formulation of the MTRS in Papua New Guinea, but the country's leadership is committed to tax reforms in support of the National Development Plan.

- **Technical support is vital in the formulation of a Strategy:** It is clear from published reports that the IMF and World Bank assisted Uganda, Liberia and Papua New Guinea in the formulation of the MTRS through technical and analytical reports and diagnostic studies.

RECOMMENDATIONS

Below is a number of recommendations to CSOs, governments, IMF and other PCT partners. It is important to recognize the critical role that CSOs should play in shaping the tax reform agenda. CSOs are also in a strong position to hold governments to account on their tax reform policies and strengthen the social contract between citizens and the State.

Civil society groups should:

- Hold governments to account for the implementation of policy measures set out in the MTRS.
- Participate in the monitoring and evaluation of the MTRS, through CSO networks, to assess the impact on progressive taxation.
- Make tax policy recommendations as an alliance or network where possible, for greater impact.
- Continually build their own capacity on tax issues, to ensure high quality analysis which can easily be adopted into the MTRS.

Governments should:

- Produce, as standard practice, tax incidence analysis for the different tax measures proposed in the MTRS. Tax incidence analysis should particularly analyse tax burdens by wealth, income and sex.
- Give an annual progress update on the implementation of measures in the MTRS.
- Engage with CSOs on tax policy matters, to help ensure that progressive tax policies are integrated into revenue mobilisation strategies.
- Publish a draft MTRS for public feedback before finalisation, publishing and implementation. Where submitted proposals are rejected, governments need to justify this to civil society and other stakeholders.
- Provide relevant data and tax policy analysis to CSOs and have regular tax policy forum meetings where taxation issues can be thoroughly discussed.
- Provide space for CSOs to participate in the monitoring and evaluation of MTRS policy implementation.
- Build their own capacity in tax policy analysis and research, to be able to carry out independent tax policy research and minimize reliance on IMF and World Bank technical assistance.

PCT and partners should:

- Provide the necessary support to ensure that MTRS tax policy reforms promote fair and equitable and gender responsive tax policies.
- Include progress on MTRS implementation and lessons learned in PCT annual reports to support learning between countries.
- Engage CSOs, as standard practice, in the formulation of technical reports on tax policy reforms or diagnostic studies which underpin MTRS development.
- Set the implementation of MTRS as one of the key conditions or benchmarks for developing countries to access loans and programme support.
- Continue building tax policy analysis and research capacity in partner countries to ensure national ownership of reforms.
- Provide funds for CSOs to build their own capacity for meaningful engagement with government on taxation issues.

Conclusion

The MTRS is an important document for developing countries, setting out a government's strategic thinking on improving domestic resource mobilisation. CSOs need to advocate for progressive tax policies to be incorporated into the MTRS and continuously participate in the various formulation and implementation processes. However, MTRS implementation (in those countries where they have been formulated) remains slow. Governments should provide opportunities for CSO engagement, and CSOs should be integrated into the MTRS implementation and evaluation phases. The PCT should strengthen its support for capacity building on taxation matters for governments and CSOs.

INTRODUCTION

A medium-term revenue strategy (MTRS) is a high-level roadmap for tax system reform, covering a period of four to six years. Tax reform includes changes to tax policy, tax administration and legal frameworks.

Box 1: Core Elements of the MTRS

- A social contract on the level of revenue mobilization effort for the medium-term (5-10 years) with due consideration to the poverty and distributional implications of the associated measures.
- A comprehensive reform plan for the tax system, reflecting country circumstances and the state of institutional capacity:
  - A redesign of the policy setting to meet the revenue goal.
  - A reform of the revenue agencies to properly administer the policy setting and to achieve a high level of taxpayers' compliance to meet the level goal.
  - A stregthening of the legal framework to enable the policy redesign and administration reform, including by balancing revenue agencies' powers and taxpayers' rights.
- A country's commitment to a steady and sustained implementation, notably by securing political support and resourcing.
- Secured financing for the CD effort (technical assistance and training) to support the country in overcoming domestic constraints to formulate and implement an MTRS effectively.

Source: PCT, February 2017

The MTRS concept gained prominence in around 2016, after the Platform for Collaboration on Tax (PCT) made a recommendation to the G20 Ministers of Finance for developing countries to have a coherent plan to improve domestic revenue collection. The PCT comprises: the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the World Bank and the United Nations.

Considering the considerable funding required to meet the SDGs by 2030, developing countries need to mobilise their domestic resources.[5] In addition, there is a pre-existing need to build tax capacity to support adequate domestic resource mobilisation, which requires the development of country-owned tax reform strategies, supported by donors and capacity developers such as the IMF and World Bank.

However, the MTRS concept existed before the PCT, or even before the Addis Tax Initiative was established in 2015. For example, the Government of the Kingdom of Cambodia prepared and implemented its own revenue strategy for the period 2014-18, similar in structure to the current MTRS model.[6] It is likely that the preparation and analytical work for this was ongoing for at least a year before publication in 2014.

5. The United Nations estimated that Low Income Countries face a US$ 1.4 - 3 trillion funding gap to meet the SDGs. See https://www.sustainablegoals.org.uk/filling-the-finance-gap/

6. MTRS Cambodia 2014-2018 https://cambodianbudget.org/files-tinymce/New_Pic/Development_Policies/Sectoral_Policies/Medium_Term_Revenue_Mobilization_Strategy_2014-2018_Eng.pdf#:~:text=Medium-term%20Revenue%20Mobilization%20Strategy%202014-2018%20Page%204%20of,on%20this%20foundation%2C%20Cambodia%20has%20achieved%20high%20economic

Overview of this report

This report assesses the MTRS that have been promoted and supported by the PCT. The study draws lessons from pioneer countries where MTRS have been formulated and implemented, and makes recommendations addressing governments, civil society organisation (CSOs) and the PCT with the aim to improve national MTRS processes going forward. In particular, the research explored the three pioneer country examples to investigate:

1. the effectiveness of the MTRS in promoting progressive taxation; and
2. the extent of civil society engagement in formulating the MTRS.

This report provides an overview of the process in each of the three pioneering countries, highlighting the process of consultation and the level of progressivity of the resulting tax reforms. It does so primarily by analysing each MTRS, and through stakeholder interviews with relevant parties in the countries.

Background to the MTRS

In 2016, the PCT recommended to G20 Finance Ministers that developing countries should formulate and implement their own MTRS to sustainably enhance revenue mobilisation. Table 1, drawn from the 2020 PCT Report,[7] shows that countries are at different stages of formulating their MTRS. Some are in implementation phase, while others are still in formulation and pre-formulation phases. To date, only three countries - Liberia, Uganda and Papua New Guinea - have published and started to implement their MTRS.

Table 1. Status of Adoption of MTRS in Selected Countries (mid 2021).

No	Country	Implementation	Formulation support	Dialogue and Pre-formulation
1	Albania			
2	Bangladesh			
3	Benin			
4	Egypt			
5	Ethiopia			
6	Georgia			
7	Honduras			
8	Indonesia			
9	Jordan			
10	Lao PDR			
11	Liberia			
12	Malaysia			
13	Mongolia			
14	Morocco			
15	Myanmar			
16	Pakistan			
17	Papua New Guinea			
18	Rwanda			
19	Senegal			
20	Thailand			
21	Uganda			
22	Uzbekistan			
23	Vietnam			

Source: PCT Progress Report, 2020

7. PCT progress report for 2020

The pace of MTRS development has been slower than expected. The initial plan was to have at least three to five pilot countries publish a MTRS by July 2017. By 2020, only three countries had published a MTRS, though the Kingdom of Cambodia ran one between 2014 and 2018. Furthermore, the pace for adopting and finalizing the MTRS may continue to be slow, as countries focus on dealing with the COVID-19 pandemic. Also, for those countries with published reports, implementation of reforms may be put on hold as they pursue post-pandemic recovery policies.

MTRS development is high on the agenda of PCT partners and other development assistance institutions. Developing countries are being urged to develop and implement the MTRS, to ensure ownership and financing to achieve the SDGs by 2030. The MTRS development process is expected to be inclusive, and policies should result from wide consultation with key stakeholders in the country, including taxpayers and CSOs.

This report provides analysis of the policies of developing countries that have published their MTRS, and findings from interviews with key informants from selected institutions in those countries. Other experts from civil society were also interviewed to get their perspectives on the MTRS, including from ActionAid International, Oxfam International and Tax Justice Network Africa.

The need for MTRS

Developing countries have varied levels of potential to improve domestic revenue mobilisation. A first step is to identify constraints to enhancing domestic sources and develop strategies to address them in the medium term.

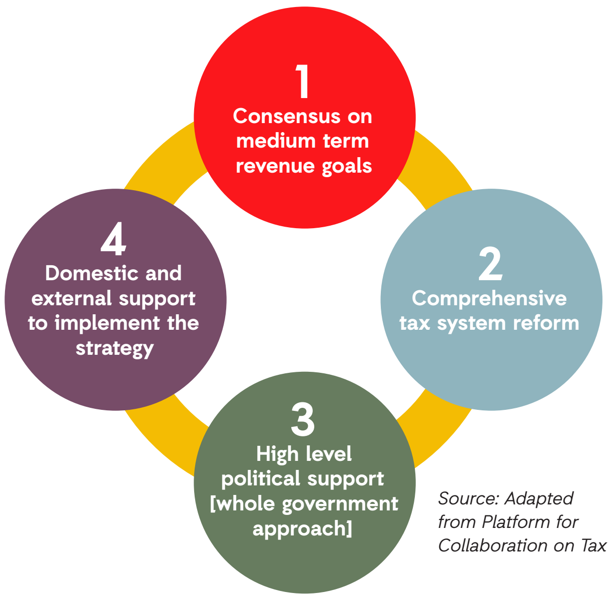
Many developing countries have very low tax-to-GDP ratios, of around 13 percent, compared to the minimum recommended ratio of 15 percent for a country to meet its basic needs.[8] In an age of drastically reduced foreign donor assistance, the need for domestic resource mobilisation cannot be over emphasised. The COVID-19 pandemic has placed greater urgency on countries to ensure that they adopt measures to enhance domestic resource mobilisation to fund infrastructure development and social expenditure without having to resort to excessive borrowing.

The MTRS facilitates the alignment and coordination of external support to implement tax reforms, which would enable taxpayers and CSOs to hold governments accountable on their promises and obligations. It can also bring certainty to taxpayers and investors concerning tax obligations in the foreseeable future. Finally, the MTRS could enable governments to smoothly implement their budget and effectively prioritize expenditure based on a medium-term revenue framework.

The MTRS process

The main objective of a MTRS is to provide a clear plan or path for a country to develop a tax system able to generate adequate resources to meet its fiscal needs. The key components or processes are outlined in figure 1.

The main outcome of the process is a revenue mobilisation strategy, and much of the work is undertaken in steps 1 and 2. It is critical for CSOs to be involved in these two stages, to help shape the design of the strategy. Steps 3 and 4 mainly relate to the implementation of the resulting strategy.



Source: Adapted from Platform for Collaboration on Tax

8. https://blogs.worldbank.org/governance/getting-15-percent-addressing-largest-tax-gaps

EXPERIENCES OF MTRS IN PIONEER COUNTRIES

In this section we look at the MTRS experience in the three pioneer countries – Uganda, Liberia and Papua New Guinea - and assess the progressivity of the measures recommended, as well as the extent and quality of CSO engagement in the process.

Uganda 2019/20 - 2023/24

In Uganda, the MTRS is known as the 'Domestic Revenue Mobilisation Strategy' (DRMS). It was developed from 2016 and runs from the 2019/20 to 2023/24 fiscal years.

Selected Tax Policy and Administrative Reforms

The strategy contains both tax policy and revenue administration reforms, which sought to:

Tax policy reforms	Tax administration measures
• Reform the tax policy formulation process to engage a wider population and taxpayers. • Publish a comprehensive tax expenditure report. • Strengthen taxation of the informal sector. • Strengthen value-added tax (VAT) productivity by reviewing exempt and zero-rated products. • Review tax incentives and exemptions, strengthen cost-benefit analysis and undertake impact analysis. • Strengthen the taxation regime for extractive industries.	• Build human resource capacity. • Modernise the IT systems of the Uganda Revenue Authority. • Expand the Taxpayer Register. • Strengthen the tax and customs tax compliance units.

Level of Consultation

The formulation of the DRMS in Uganda was broadly consultative. In general, the process involved identifying critical needs, challenges and risks at policy and administrative levels, and inviting stakeholders at different levels to come up with proposals.

The first step in strategy formulation was setting up a DRMS Committee, comprising senior-level representatives from government departments, CSOs and development partners. Members included the World Bank, IMF, UK-Aid, USAID, the European Union Delegation, Kreditanstalt für Wiederaufbau,[9] UNDP, and research institutions including the Economic Policy Research Centre and the International Growth Centre. The main CSOs involved were the Tax Justice Alliance,[10] the Civil Society Budget Advocacy Group (CSBAG)[11] and tax professionals like the Private Sector Foundation Uganda. The Southern and Eastern Africa Trade Information and Negotiations

9. See https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Subsahara-Africa/Uganda/
10. See https://www.tjau.or.ug/ Tax Justice Alliance Uganda was established in 2014 to enable CSOs in Uganda to come together and deliberate on tax issues and pool human, financial and technological resources for common and/or joint action.
11. See https://www.csbag.org/ CSBAG is a coalition formed in 2004 to bring together CSOs at national and district levels to influence government decisions on the mobilisation and utilisation of resources for equitable and sustainable development.

Institute (SEATINI)[12] and other CSOs were involved in the drafting phase as well as providing proposals to the initial phase. SEATINI and ActionAid Uganda also participated in Committee meetings as representatives of the Tax Justice Alliance.

The Government of Uganda adopted a number of proposals put forward by CSOs, although some related to gender and tax were dropped because of lack of supporting evidence. Policies that were recommended by CSOs and adopted by the Government included:

- reviewing tax exemptions and tax incentives under the Corporate Tax regime;
- reviewing zero-rated products and exemptions under the VAT regime; and
- reviewing and renegotiating tax treaties under the Double Taxation Avoidance Agreement (DTAA) or cross-border tax regimes.

Assessment of Progressivity

A primary objective of DRMS was to promote fairness and transparency in the tax system. Some of the planned policy instruments included stronger enforcement by the tax administration on non-compliant taxpayers, requiring tax clearance certificates for renewal of trade and service licenses, and the introduction of certain withholding taxes. The proposal to renegotiate DTAAs is an example of striving to introduce fairness, equity and progressivity in the tax system.

Liberia 2018 - 2022

In Liberia, the MTRS is known as the 'Domestic Revenue Mobilisation Strategy' (DRMS). It was developed from 2018 and runs from the 2018 to 2022 fiscal year.

> *"The overall objective of the DRMS in Liberia is to identify and guide national initiatives to mobilise resources for inclusive growth and poverty reduction to achieve Liberia Rising 2030".*[13]

The main objective of the DRMS in Liberia was to expand the tax base and minimize revenue losses. The DRMS sought to address tax evasion, deal with the challenges of taxing the informal sector, and reduce factors that promote tax gaps and revenue losses as embedded in the tax law, concession agreements and executive orders. The Strategy also sought to strengthen public confidence in the tax system and promote voluntary tax compliance by incentivizing compliant tax behaviour. Other objectives included mobilizing resources from the private sector and the implementation of flagship projects.

Selected Tax Policy and Administrative Reforms

Some of the policies included in the DRMS are:

- Strengthening taxation of high net-worth individuals.
- Strengthening taxation of the property sector.
- Formalizing the informal sector to make it easier to enforce tax collection and compliance.
- Reducing tax expenditure by restricting the use of executive orders to emergencies and discontinuing the use of Memoranda of Understanding to grant tax credit to companies.

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12. See https://seatiniuganda.org/ SEATINI Uganda is a non-governmental organisation working on trade, fiscal and development issues, for the realisation of sustainable development and improved livelihoods in Uganda, East Africa and the African Region.
13. Domestic Resource Mobilisation Strategy of Liberia 2018-22

- Replacing concession agreements with a licensing regime.
- Removing exemptions to reduce tax expenditures.
- Enhancing taxation of professional service providers by requiring tax clearance certificates for the renewal of their licensing certificates - in collaboration with the secretariats of professional bodies.

Level of Consultation

The formulation of the DRMS in Liberia involved a number of stakeholders, including the Government, development partners and donors, CSOs, business associations, academia and community leaders.
The consultation process included various elements. During the strategy development phase, meetings were held to the enable the participation of different actors, including:

- **Regional dialogue meetings** in all 15 counties of Liberia to get the views of taxpayers, attracting a cross-section of taxpayers, including some CSOs such as the Institute for Research and Democratic Development (IREDD);[14] and
- Over 40 **bilateral meetings** with government ministries, departments and agencies, the business community, academia, development partners, CSOs, ethnic communities and religious opinion leaders.

Once the draft strategy was released, there was a second round of consultations to get comments from stakeholders on the draft, culminating in regional validation workshops with stakeholder representatives. A final consultative meeting was held under the banner of the National Revenue Symposium, chaired by the then State President Ellen Johnson Sirleaf, and bringing together cabinet ministers, public and private stakeholders, CSOs and donors.

Assessment of Progressivity

The proposals emerging from the consultative meetings focused on increasing the fairness of the tax system, especially by strengthening taxation of the property sector and high net-worth individuals, the elimination of tax exemptions and increasing the tax-free band. The plan to strengthen revenue collection from the mining and real estate sectors was progressive, as property owners are primarily rich people who often do not pay a fair share of tax on their total income due to exemptions and other incentives embedded in the system.

The publication of a tax expenditure assessment report was a good approach to improving the transparency of the tax system, as it reveals the real beneficiaries and true cost to the economy of tax incentives and other exemptions provided for in the system.

Papua New Guinea 2018 - 2022

The formulation of the MTRS for Papua New Guinea benefited from work that the Government had already initiated on tax reform, as well as IMF technical reports. Specifically, the Strategy drew from the Papua New Guinea Tax Review (2015), Medium Term Tax Policy Reform and Selected Tax Policy Issues Report (IMF 2017).

The overarching objective of the revenue strategy was to improve the efficiency and effectiveness of the tax system and, implicitly, generate revenue on a sustainable basis. Specifically the aim was to develop a modern and robust tax system that guarantees fairness and the equitable application of tax laws and efficient tax administration.[15]

14. See https://iredd-lr.org/who-we-are/ IREDD is a research and policy advocacy organisation that works with grassroots organisations and partners at local and subnational levels. Their partnerships aim to create linkages between local groups and their local authorities and policy actors.
15. Papua New Guinea MTRS, 2018

Selected Tax Policy and Administrative Reforms

The strategy intended to implement the following reforms:

Tax policy	Tax administration and legislation
• Remove tax concessions, exemptions and special arrangements. • Rebalance the composition of income tax from labour income to consumption-based taxes. • Introduce capital gains tax on real estate, including mining and petroleum licenses. • Review and rationalize tax incentives and assess the feasibility of lowering the Corporate Income Tax (CIT) rate. • Improve taxation of the extractive industries by reviewing the fiscal regime for the sector. • Introduce a simplified tax regime for the informal sector. • Simplify and modernize tax laws to ensure certainty for taxpayers. • Strengthen tax expenditure reporting. • Review the taxation of goods and services by, among others, removing zero-rated products or migrating from zero-rating to exempting supplies made to charitable and aid organisations. • Review the excise tax regime by, for example, increasing excise on fuel, tobacco and alcohol while removing excise duties on luxury items. • Introduce a presumptive tax for small and medium enterprises with turnover below the VAT threshold. • Introduce a bank tax levied on bank assets and introduce land and property taxes.	• Implement the new Tax Administration Act. • Develop a taxpayer service charter/ strategy. • Develop a short-term revenue recovery plan. • Modernise IT systems. • Modernise and simplify the Income Tax Act • Build capacity of the new Revenue Policy Division. • Build capacity for fiscal analysis and modelling of the mining and petroleum sectors.

Level of Consultation

In Papua New Guinea, the formulation of the MTRS did not directly involve CSOs and other stakeholders. However, many of the reforms adopted in the Strategy were taken from previous studies and technical reports, which had been developed through wide consultation with different stakeholders. Furthermore, according to the 2020 Deloitte Budget Review, public seminars are routinely held to get inputs on the budget from different stakeholders, which may include CSOs.

Assessment of Progressivity

On paper, the tax reform plans appeared to make the tax system more progressive, but with some regressive elements. The Strategy included the introduction of capital gains tax on real estate and the sale of mining licenses and a review of taxation of the mining sector, as well as improving the personal income tax regime, removing exemptions and incentives, and promoting tax transparency by publishing tax expenditure. These measures appear to promote progressive taxation.

On the other hand, the general approach of shifting taxation from labour income towards consumption, increasing taxes on tobacco, alcohol and fuel, and reducing the CIT rate, are likely to harm the poor more and hence may be regressive.

MAIN FINDINGS

In this section we draw upon the analysis of the three countries to make an overall assessment of our key areas of interest – the progressivity of the suggested policies, and the extent and quality of consultation with civil society. We hope that these overall findings could be used to guide future MTRS processes in other countries.

Uganda, Liberia and Papua New Guinea are the pioneer countries that have managed to publish the MTRS, or Domestic Revenue Mobilisation Strategy. The development of these strategies has been a long process, requiring extensive consultation and tax policy analytical studies. Each country has followed a different structure for the DRMS/ MTRS, but all have drawn on prior tax reform work undertaken with technical assistance from the IMF and the World Bank.

Assessment of Progressivity

Revenue Strategies aim to improve progressive taxation, yet regressive elements persist.
In all three countries, there is a drive to make the tax systems fairer and more equitable. All commit to improving tax transparency through the publication of tax expenditure reports, reviewing exemptions and tax incentives, embracing capital gains tax, pursuing real estate taxation and improving personal income tax by gradually increasing the tax-free band to above poverty line thresholds. Some countries, such as Papua New Guinea, are shifting the tax burden towards consumption taxes, which has the potential to place a higher tax burden on poorer households.

The implementation of tax policy reform measures outlined in the strategies will be a good test of government commitment to progressive taxation. So far, implementation has been affected by the COVID-19 pandemic, as fiscal policies are focused more on containing the virus, economic recovery and political economy issues (including elections and change of government in some countries).

Level of Consultation

Several stakeholders were consulted in the formulation of the strategies, including CSOs, but they need capacity for effective engagement with government on taxation matters.

While CSOs generally provided high quality, informed feedback, further capacity building on tax issues could help ensure even more informed and successful engagement in future consultations. Specifically, in each country:

- In **Uganda**, SEATINI; CSBAG and the Tax Justice Alliance Network (which includes ActionAid International) were active in shaping the tax reforms and ensuring representation. CSOs in Uganda were even involved in the drafting phase, and some of their proposals were incorporated into the final published DRMS. Partnership between CSOs and the Government seems strong, and CSOs have technical capacity to engage with the Government in the tax policy formulation process. Furthermore, the involvement of senior government officials and donors in the Domestic Resource Mobilisation Committee was a good sign of political commitment to undertake tax reforms and should pave the way for smooth implementation of the resulting strategies.

- In **Liberia**, IREDD was the only CSO consulted, but it is not clear from the literature to what extent their proposals were incorporated in the final published report.

- In **Papua New Guinea**, much of the Strategy was informed by previous government studies and technical reports from the IMF and the World Bank on tax reform, which involved wide consultation. In addition, as part of the policy formulation process, the Government routinely undertakes public seminars with different stakeholders, including CSOs.

Enabling factors

High level political commitment is key.

In Liberia, the former State President of Liberia, Her Excellency Ellen Johnson Sirleaf, was involved in the consultative meetings and chaired the National Revenue Symposium. This was a good sign of strong political commitment and we hope this will ensure a smooth implementation of the Strategy, despite the change in leadership in the country.

Technical support is important for MTRS formulation.

It is clear from published reports that the IMF and World Bank have assisted Uganda, Liberia and Papua New Guinea in the formulation of their MTRS, providing technical reports, diagnostic studies and analyses. While IMF and World Bank policy advice and recommendations are not mandatory, most of their inputs end up in the final MTRS documents.

RECOMMENDATIONS

Based on the analysis and findings, in this section we offer a set of recommendations to different stakeholders to strengthen their role in improving MTRS processes and outcomes.

Civil society groups should:

- Hold governments to account for the implementation of policy measures set out in the MTRS.
- Participate (through their networks) in the monitoring and evaluation of the MTRS, to assess the impact on progressive taxation.
- Work as an alliance or network when making tax policy recommendations, to achieve greater impact.
- Continue to build their capacity on tax matters to ensure high quality analysis which can easily be adopted into the MTRS.

Governments should:

- Produce, as standard practice, tax incidence analysis for the different tax measures proposed in the MTRS. Tax incidence analysis should particularly analyse tax burdens by wealth, income and sex.
- Give an annual progress update on the implementation of measures in the MTRS.
- Engage with CSOs on tax policy matters to help ensure that progressive tax policies are integrated into revenue mobilisation strategies.
- Publish a consultation draft of the MTRS for public feedback before it is finalized and published for implementation, and where submitted proposals are rejected, justify this to civil society and other stakeholders.
- Provide relevant data and analytical tax policy reports to CSOs to do their own analysis, and have regular tax policy forum meetings where taxation issues can be thoroughly discussed.
- Provide space for CSOs to be part of the monitoring and evaluation of implementation of the policies in revenue mobilisation strategies.
- Build their own capacity in tax policy analysis and research to be able to carry out independent research on tax policies and minimize the reliance on technical assistance from the IMF and World Bank.

The PCT and partners should:

- Provide the necessary support to ensure that MTRS tax policy reforms promote fair and equitable and gender responsive tax policies
- Include progress on MTRS implementation and lessons learned in PCT annual reports for shared learning with other countries.
- Make it standard practice to engage CSOs in the formulation of technical reports or diagnostic studies on tax policy reforms since they often form the basis for developing the MTRS.
- Set MTRS implementation as one of the key conditions or benchmarks for developing countries to access loans and programme support.
- Continue building capacity in partner countries for tax policy analysis and research, to ensure country ownership of the reforms.
- Assist in providing funds for CSOs to further build their own capacity in taxation issues to allow meaningful engagement with governments.

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Annex 1: An extract from Tax Justice Alliance proposals to Uganda Ministry of Finance

A Sample extract from SEATINI's and TJA Proposals to the Ministry of Finance

Thematic Area	Issues	Assessed Risk/Challenges	Proposed Intervention/Recommendations
Tax Policy Framework			
Income Tax	**Informal sector:** The informal sector accounts for 43% of Uganda's GDP and is hard-to-tax sector due to poor record keeping, high-networth individuals (HNWI), emerging digital economy (e-commerce players), lack of permanent establishments	Informal trade transactions are complex to tax yet account for government expenditure (benefit and put pressure on government to deliver service in terms of security, infrastructure and other services)	▪ Formulate and implement policies that allow self-employed people and small businesses to formalize their businesses easily. Such policies include: reducing business compliance regulations, tax amnesties with a cut-off date for compliance, providing limited tax shelters for small-scale informal activity. ▪ Expand TREP to all LGs in Uganda. ▪ Incorporate specific legislation or regulations that ensure taxation of wealthy and High-Net worth Individuals (HNWI) by introducing within the personal income tax regime rates that are over and above the normal threshold to ensure equity and fairness. ▪ Adopt a single-tax model for small businesses which should be collected by a one revenue agency to reduce compliance burden for businessmen of which most are illiterate ▪ Legal provision on receipt issuance and mandatory acquisition of book-keeping software across small businesses ▪ Amendments into company registration to carter for e-commerce oriented companies ▪ Review ITA provision on taxation of digital economy. ▪ Amend the laws to allow URA to use third-party information (i.e. national ID database and land registries) to populate potential tax payers, validate tax returns and to inform tax investigations. ▪ For transportation sector especially bodabodas, leverage on innovations such as SofaBoda ▪ Annual environmental scans need to be conduct to identify and create avenues of taxing "cash-cows" are included. e.g. commercial farmers, forestry owners etc.
	Tax incentives (exemptions and holidays): a) un-transparent provision of incentives; b) discretionary powers given to the Minister of Finance; c) 10 years period given to companies producing and exporting at least 80 percent of their products that made out locally sourced materials (Section 21 of Income Tax Act (ITA); d) increasing trends of influential public officials to exempt themselves from income taxes; e) lack of public information on amount lost due to tax incentives	Tax revenue forgone per annum estimated at 2% of GDP with an approximate Ugx. 1 Trillion[1] Abuse by the Minister of Finance of the clause where exemptions/holidays are awarded beyond periods the law stipulates or to investors that have no capacity to invest e.g. Kingdom Kampala. No evidence of MoUs between GOU and Investors on commitment once holidays are awarded. Some tax incentives (holidays and tax expenditures) are not approved or even known to the sections of the government. The annual report by the Minister of Finance submitted to covers only the tax exemptions issued by the MoFPED. These exemptions form a very small share of total tax expenditures.	▪ Repeal Section 21 of Income Tax Law to provide tax holidays of only up to a maximum of five (5) years which can be extended after an independent and transparent cost-benefit analysis. ▪ Amend Section 77(1)-(2) of the Public Finance Management Act (PFMA), 2015 which accords the Minister to award tax exemptions and thereafter report and justify the award to parliament. ▪ All public officials armed force employees, security organization, President, MPs and Judges should be subjected to personal taxes on all their income. To cover the loss, their salaries and allowances should be increased accordingly. ▪ MoFPED should undertake and publish on annual basis a cost-benefit analysis of all tax incentives with a view to reducing or removing some of them. ▪ MoFPED should develop and implement a clear policy on tax incentives. ▪ Gov't should amend and align all laws and policies on incentives suchas investment Code, PFMA, Free Zones Act
	Double Taxation Treaties (DTAs): Although Uganda has made a number of amendments to its DTAs, there are still challenges such as mispricing, mis-invoicing, transfer pricing abuse; base erosion and profit shifting, and inadequate capacity to administer or enforce treaties that have different position. For instance, for negotiated and enforced treaties, the time element in the	Treaty shopping and manipulation of the DTA is highly associated with revenue leakages.	▪ Review and renegotiate existing treaties to ensure that they adopt **a)** the limitation of Benefits clause **b)** elevating exchange of information and mutual agreement **c)** harmonize and maintain same positions **d)** align with EAC tax policy framework/EAC Model and Uganda's model **e)** carter for sectors that will drive Uganda's economy for the subsequent years. ▪ Gov't should enter into a memorandum of understanding with some of the countries it does not have a double taxation treaty with in order to access information about

ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

http://actionforglobaljustice.actionaid.org

International Registration number: 27264198

Website: www.actionaid.org
Telephone: +27 11 731 4500
Fax: +27 11 880 8082
Email: mailjhb@actionaid.org

ActionAid International Secretariat,
Postnet Suite 248, Private Bag X31, Saxonwold 2132,
Johannesburg, South Africa.

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