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Odd-Helge Fjeldstad

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Introduction*

In most developing countries national tax collection is carried out by line departments within the Ministry of Finance. However, over the past two decades more than 20 developing countries, especially in Latin America and Africa, have established revenue authorities whereby the tax administration function is moved out of the Ministry of Finance and granted to a semi-autonomous entity (Devas, Delay and Hubbard 2001; Taliercio 2004).¹ Although each country that has established a revenue authority has done so under differing circumstances, there are some general patterns with respect to underlying political and economic circumstances. First, governments have been greatly dissatisfied with the performance of revenue collection, especially in the face of fiscal deficits and expanding public expenditure needs, and the chronic inefficiencies of the existing tax administration arrangements placed in the Ministry of Finance (Mann 2004). Second, perceptions of widespread corruption and tax evasion, combined with high taxpayer compliance costs, led to calls for wholesale reform of the tax administration (Barbone, Das-Gupta, Wulf and Hansson 1999; Ghura 1998). Third, in some aid-dependent African countries the shift to a semi-autonomous revenue authority model was also attractive to foreign donors because it created opportunities for more widespread reforms of the tax administration (Therkildsen 2004).

The revenue authority model is designed partly to limit direct political interference in day-to-day operations by the Ministry of Finance and partly to free the tax administration from the constraints of the civil service system (Devas *et al.* 2001; Taliercio 2002). A revenue authority is not meant to be as autonomous as a central bank or as dependent as departments in line ministries. It is 'semi-autonomous'.² But a revenue authority is meant to be quite independent of the financing and personnel rules that govern the public sector in general. A semi-autonomous revenue authority (SARA) can in principle recruit, retain and promote quality staff by paying salaries above civil service pay scales, and also more easily dismiss staff. Such steps are expected to provide incentives for greater job motivation and less corruption. Moreover, a single purpose agency is meant to integrate tax operations and focus its efforts on collecting revenues more effectively than is usually possible under civil service rules.

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¹ In Latin America, revenue authorities have been established in Jamaica (1981), Argentina (1988), Bolivia (1987, re-established in 2001), Peru (1988/1991), Colombia (1991), Venezuela (1993), Mexico (1997), Ecuador (1999), Guatemala (1999), and Guyana (2001). In Africa, the revenue authority model has been instituted in Ghana (1985), Uganda (1991), Zambia (1994), Kenya (1995), Malawi (1995), Tanzania (1996), South Africa (1997), Rwanda (1998), Zimbabwe (2001), Ethiopia (2002), Sierra Leone (2002), and Lesotho (2003). Burundi and Mauritius are planning revenue authorities and several West African countries may follow.

² The revenue authority model is motivated by the executive agency model, which is one institutional model of the new public management (NPM), which again is inspired by the radical public sector reform programs of the 1980s that began in the UK, USA, Australia and New Zealand. Autonomous agencies are seen as a remedy for a number of institutional problems that plague the public sector, such as multiple layers of principals and agents, Byzantine rules and regulations, and poor incentives. It is a way of separating certain governmental functions into arms-length units, giving the management the autonomy to operate the activity like a business, emphasizing economic norms and values. Willy McCourt and Martin Minogue (2001) examine the conceptual and practical problems connected with such policy transfers to developing countries.

Studies from a number of countries in Latin America (Taliercio 2002, 2004; Mann 2004) and Africa (Chand and Moene 1999; Fjeldstad 2003; Hadler 2000; Terpker 1999; Therkildsen 2004) show that the reforms appeared to be successful in the initial years. But the initial successes were in many cases not sustained. The first years after the establishment of a SARA often witnessed sharp increases in revenues. Reported corruption also seemed to decline. Thereafter, revenue enhancement stagnated and in some countries revenues as a percentage of GDP also dropped. There are also clear indications that corruption is on the rise again in many revenue administrations, especially in Africa (Waller 2000). This pattern, initial increases in revenue collection followed by stagnation or decline, often took place despite continued economic growth, reforms of important tax legislation in line with 'best practice' as prescribed by the IMF, and accumulated operational experiences in the new revenue administrations.

This chapter examines the experiences of the Uganda Revenue Authority (URA) in controlling fiscal corruption. The URA, established in 1991, is the oldest integrated revenue authority in sub-Saharan Africa.³ Hence, it is possible to assess the reform initiative on the basis of developments over a relatively long period of time. The reform appeared to be a success in URA's first years of existence. Reported revenue increased sharply – from 7 per cent of GDP in 1991 to around 12 per cent in 1997 (Katusiime 2003). Corruption also seemed to decline. During this period many observers referred to the URA as a model for other sub-African countries (Barbone *et al.* 1999; Silvani and Baer 1997; World Bank 1997). Unfortunately, since then, URA has failed to meet its targets and revenue has dropped as a percentage of GDP amid accusations of increasing corruption.⁴ An evaluation commissioned by the British Department for International Development (DFID) points to the continued public perception of a high level of corruption, reflected in the widespread availability of 'duty free' goods on local markets and arrests of senior URA officers (EME 2000, p. 20). The Ugandan government seems to support this view. For instance, in March 2000 President Yoweri Museveni is reported to have called the URA 'a den of thieves' (Therkildsen 2004, p. 82). Likewise, in March 2003 the former Commissioner General of the URA, Annebritt Aslund, listed corruption as 'problem number one' in the organization.⁵ Frequent media reports support the perception that corruption is endemic in the URA.

Rising levels of corruption may help explain why the growth in revenue has tailed off in recent years.⁶ But there are clearly other explanatory factors at work as well. First, tax revenue depends on external factors over which the tax administration has no control. For instance, general economic trends affect tax bases such as income tax, value-added-tax (VAT) and import duties. Import restrictions and politically allocated tax exemptions for different sectors and businesses also

³ In 1985, Ghana established the first revenue authority in Africa, but each major tax (for instance, income tax and customs duties) was collected by its own agency (Terpker 1999).

⁴ Still, in URA's corporate plan for 2002/03-2006/07, the target is to achieve a tax-to-GDP ratio of 17 per cent in 2006/07, which implies an annual increase in revenues by 1 per cent of GDP (URA 2002, p. 27). One should however be careful about drawing a too confident conclusion about successes and failures on the basis of the tax-to-GDP ratio since it tends to be a relatively imprecise measure of performance (Stotsky and WoldeMariam 1997). Nevertheless, increase in revenues measured as a percentage of GDP is the major performance criterion publicly announced by the Ugandan government, clearly reflected in the Budget Speeches of the Ministers of Finance and also in the URA's strategic plan. Moreover, the International Finance Institutions (IFIs) and various bilateral donors usually refer to the tax share as the key performance indicator.

⁵ Personal interview, Kampala, 20 March 2003.

⁶ In theory an increase in fiscal corruption may contribute to an increase in tax revenues. The essential link, studied by Dilip Mookherjee (1997) among others, is based on the idea that the possibility to negotiate bribes from evasive taxpayers motivates corrupt tax officers to work harder in order to detect evasion. This will be anticipated by the taxpayers, and hence tax evasion will be less attractive because it is more likely to be detected. Thus, it is claimed, corruption works to make tax evasion less appealing and thereby may increase tax revenues. Other scholars, however, argue that accepting fiscal corruption as an instrument for raising revenues in the short run may undermine tax collection in the longer run (Fjeldstad and Tungodden 2003).

contribute to reducing the tax base. Furthermore, staff productivity may have changed, possibly due to falling motivation, -- whether that is unrelated, causing or caused by an increase in corruption is not known. However, there are many indications that an increase in fiscal corruption has contributed to the drop in reported revenues as percentage of GDP. Thus, a closer look at the pattern of corruption may shed light on the development of tax revenues.

Reliable information on levels of corruption and tax evasion is obviously hard to come by. Given the sensitive issues at stake one cannot work towards an understanding of the phenomena discussed here by the standard methods of random sample, structured questionnaires and formal interviews. A combination of informal and formal methods is often required.⁷ This analysis, therefore, is based on a variety of sources of information collected during fieldwork in Uganda during the period 2000-2004: official reports and data on tax revenues; available grey literature produced by the government, the URA, donors and business communities; personal interviews and discussions with present and past tax officers and board members of the revenue authority, staff at the Ministry of Finance, business people and customs clearing agents in Kampala, aid workers, tax consultants and researchers; and newspaper articles on tax issues and the URA.

The next section describes the state of affairs in the tax administration in Uganda prior to the establishment of the URA. The following section examines key elements of the tax administrative reform. Then I focus on patterns of corruption in the URA and seek to determine which factors are crucial in explaining the extent and types of corruption in the tax administration and why. Finally, the chapter concludes with a discussion of ways to improving URA's performance in a situation where the broader social, political and economic environment as well as the public sector in general is seriously detrimental to good performance.

Factors leading to the establishment of the URA

Preliminary work on reforming the Ugandan tax administration began soon after the downfall of the Idi Amin regime in 1980. Over the next ten years at least two government commissions and three consultancy studies dealt with the problem of tax administration in the face of increasing fiscal problems (Republic of Uganda 1983; Ministry of Finance 1989; Republic of Uganda 1990; CLD 1991). Together these reports describe 'the decline of a previously highly regarded Ugandan civil service into a sorry state of inefficiency, irresponsibility, indiscipline and corruption' (Therkildsen 2004, p. 68).

The reports identified four main causes of poor tax administration:

- Lack of taxpaying culture among taxpayers. This was partly caused by a tax system perceived as unfair. Relatively high rates and a complex and partly incoherent set of rules, especially for customs and corporate taxes, resulted in large potential rewards for taxpayers willing to bribe to cut their own tax burden and/or speed up customs clearance of their goods.
- Low wage levels. The poor salaries at the tax administration compared to the private sector invited corruption. The average public employee's salary in 1989 was about 20 per cent of the corresponding salary in the private sector, and only 5 per cent for unskilled staff.
- Poor working conditions and little encouragement for staff to exercise initiative. Working conditions were characterized generally by a lack of technical equipment and poor office facilities. Moreover, the criteria for recruitment, promotion and rewards of staff and management were unclear and allowed substantial discretion.

⁷ Wade (1982) provides an excellent account of methodological challenges and approaches for analyzing systems of corruption in public sector institutions.

- Low probability of detection and punishment for corruption. Weak management, with poor information, auditing and supervision of staff. Internal auditing and monitoring functions had become for the most part non-operative and ineffective. In practice, the probability of being detected and punished for corruption was virtually non-existent.

The suggested remedies were first and foremost increased salaries and better management. However, a proposal for the establishment of a revenue authority did not appear until 1991 when consultants were asked to prepare for its establishment. According to Ole Therkildsen (2004, p. 68), the idea was inspired by the IMF and by experiences from Ghana. The consultants' arguments for an autonomous revenue authority were (Harvey and Robinson 1995, pp. 48-9):

'[B]y moving away from civil service terms and conditions of service and management practices ...many...problems can be overcome. In particular, with higher salaries staff will not need to seek alternative sources of income; coupled with stricter discipline this should reduce corruption, increase morale and productivity and thus the revenue intake.'

It was expected that the revenue authority model would provide 'stronger and more effective management of staff and resources, supported by better facilities and information and with adequate checks and auditing of both staff and taxpayers' (CLD 1991, executive summary).

Key elements of the tax administration reform

The Uganda Revenue Authority (URA) was set up on 5 September 1991 by the *Uganda Revenue Authority Statute No. 6 of 1991* as a central body for the assessment and collection of specified tax revenue, to administer and enforce the laws relating to such revenue and to account for all the revenue to which those laws apply. In practical terms, the main objective of the URA was to reach given revenue targets, expressed as a given ratio of tax revenue to GDP. These targets were to be revised annually on the basis of negotiations between the URA and the Ministry of Finance, and reflected in the Finance Minister's budget speech. The URA was also required to advise the Government on matters of revenue policy.

A key element of the administrative reform was to move the existing revenue departments out of the Ministry of Finance into a semi-autonomous revenue authority overseen by a fairly independent Board of Directors.⁸ The philosophy behind this move was mainly to provide incentives for the staff to improve their performance and thereby increase revenues. A revenue authority, established outside the civil service system is not bound by wage rates and employment regulations that apply to other sectors of government (Devas *et al.* 2001, p. 214). This meant that the URA, in principle, could pay rates which would enable it to attract and retain highly qualified staff. Hence, the consultants involved in setting up the URA recommended that management and professional staff remuneration should be competitive with the private sector (Therkildsen 2004, p. 71). Other staff should be paid a 'living wage'. Accordingly, they recommended a pay increase of up to 1800 per cent for lower-level staff and 600 per cent for middle-level staff. However, because commissioners in the Ministry of Finance were already very well paid compared to the private

⁸ Initially the Board was composed of nine persons: the Chairperson appointed by the Minister of Finance; the Commissioner General of the URA; the Secretary to the Treasury; the Principal Secretary of the Ministry of Commerce; the Commissioner for Industry; the Governor of the Bank of Uganda; and three members appointed by the Minister of Finance (RU 1991, p. 5). The main functions of the URA, its organizational structure, composition of the board, etc. are detailed in Fjeldstad *et al.* 2003, pp. 21-25). See also www.ugrevenue.com/

sector and also received generous tax-free benefits, a pay decrease of 30 per cent was suggested for this category. These suggestions implied that the compression rate (that is the pay difference between the top and bottom in the organization) would decrease from the excessive 729 in the MoF to 34 in the new URA (ibid). Although these recommendations were only partly implemented, the staff that moved to the URA received dramatic increases in pay rates – for some categories of staff 8-9 times higher salaries than corresponding positions in the civil service.

The reform also strengthened accounting and internal monitoring systems and curtailed the opportunity of tax officers to use their own discretion in dealing with cases. The general scarcity of qualified accountants, lawyers and IT-experts in Uganda meant, however, that the URA would also have only small numbers of these professionals. Finally, working conditions for employees were improved by upgrading offices, expanding computer services, purchasing service vehicles, and so on. Hence, the initial focus was mainly on internal matters; less attention was paid to the URA's external relations.

Drastic measures were put in place to break the 'culture of corruption' in the administration. All former MoF revenue staff, including the revenue commissioners, were transferred to the URA and employed on a probation basis (Therkildsen 2004, p. 70). During the probation period everybody was screened. Out of the around 1700 people who had worked in the former revenue departments of the MoF, some 200 tax officers and 40 secretaries were dismissed during this exercise, a screening process in which the Board was heavily involved. The Customs and Excise Department registered the largest number of staff dismissals. This created 'shock waves' among those who were left. Moreover, after one year of operations only two out of eight top-level positions were occupied by Ugandans (ibid).

The hiring of expatriates was initially pushed by foreign donors who were heavily involved in financing the administrative reform through technical assistance. Hence, the first Commissioner General (1991-97) was a Ghanaian, and later (2001-2004) the URA was led by a Swede. The philosophy behind the use of expatriates was to contribute to improved professionalism and integrity. When the Swedish born Commissioner General, Ms. Annebritt Aslund was appointed in 2001, President Museveni is reported to have remarked that she came from a 'very distant tribe' (Taliervo 2002). Given tribal interests and the prevalence of patronage in the public sector, the President thus indicated that it was necessary to hire an outsider in order to undertake serious reform of the tax administration.

The autonomy of the original Board of Directors led to conflicts between the Board, the Ministry of Finance (MoF) and the Commissioner General (CG). The statute set up conflicting responsibilities for the URA-Board, which was responsible for both the formulation and implementation of the policy of the URA. Moreover, the Ministry of Finance came to see the Board as problematic, partly because powerful members of the Board who were not appointed by the Ministry disagreed with the Ministry in some cases, and partly because the Ministry perceived that the Board did not possess the required technical expertise on taxation matters. Thus, when the statutes were amended in 1998, the Ministry of Finance's primacy as tax policy organ became more clearly established and the Board became less independent (Therkildsen 2004, p. 69).⁹

Under the legislative changes in 1998 the MoF increased its presence on the Board by getting four out of seven seats against four out of nine under the original statute. To provide for taxpayer representation, the Parliament also gave the Uganda Manufacturers Association (UMA) a seat on the board. As a consequence, the role of the Board changed from the being responsible for the formulation and implementation of the policy of the revenue authority, to being responsible for

⁹ After the amendment of the Finance Bill, the Board is composed of seven persons (Republic of Uganda 1998): the Chairperson, appointed by the Minister of Finance; the Commissioner General of the URA; one representative of the Ministry of Finance; one representative of the Ministry of Trade and Industry; one representative of the Uganda Manufacturers Association; two other persons appointed by the Minister of Finance who are not public officers but additional members of the board because of their special knowledge and experience in taxation matters.

monitoring the revenue performance of the authority and for determining the policies related to staffing and procurement. The Board also received more powers to intervene vis-à-vis the Commissioner General (CG) in staffing matters. Furthermore, it was responsible for complying with any directives given by the Minister of Finance. Consequently, these legislative changes, which implied that the Minister of Finance appointed the majority of the members of the Board and also gave directives to the Board, laid the foundation for conflicts between the Board (i.e. the MoF) and the CG. In practice, the new legislation gave day-to-day management authority, especially in staffing matters, to both the Board and the CG.

Corruption in the URA

Although the level of corruption was perceived to drop during the initial phase, corruption has been considered a problem in the URA since its outset. For instance, a survey conducted in Kampala in 1993, two years after the authority was established, revealed that there was 'a general impression that URA is a corrupt institution, high-handed and inconsiderate' (Zake 1998, p. 77). In a household survey covering the period 1995-97, the URA was rated comparatively corrupt, though less corrupt than the courts and the police, but worse than the health services and local government (Cockcroft and Legoretta 1998). Moreover, in a business survey conducted in 1998, which covered 243 firms, as many as 43 per cent said they were paying bribes to tax officers occasionally or always (Gauthier and Reinikka 2001, p. 22).¹⁰

Exemptions have increased in prevalence and importance from 1995-97 when Gauthier and Reinikka (2001) looked into this – despite official policies to the contrary. In particular, large firms have benefited from exemptions. Although the *Income Tax Act of 1997* provided more effective means to reduce exemptions, the introduction of accelerated depreciation allowances have weakened the effects of the reduction in exemptions (EME 2000, p. 17).

Revenue fraud in the form of smuggling, undervaluation and underdeclaration of income and taxable goods, misclassification of goods and so on, has been a rising problem. The government itself has increasingly focused on this problem in recent budget speeches and background papers to the budget. According to the *Uganda Manufacturers Association (UMA)*, smuggling accounted for a revenue loss of 10 per cent per year in the late 1990s (ibid).¹¹ The Customs Department, in particular, has most consistently had difficulties in meeting its targets (Obwona and Muwonge 2002, p. 27). Hence, various forms of revenue fraud, which imply the involvement of customs officers, are likely to be part of the explanation for the tax share stagnation in recent years.

Senior managers seem to be heavily involved in corruption in the URA. This is, for instance, reflected in the court case in 2003 against five senior officers attached to the *Large Taxpayers Department (LTPD)* who were accused of defrauding the URA of US\$ 338 million. The accused included the commissioner of the LTPD, three assistant commissioners for audits and business

¹⁰ The survey was conducted by the World Bank and the Uganda Private Sector Foundation. Businesses from four major economic sectors were interviewed: the manufacturing sector (66 per cent of the sample); commercial agriculture (13 per cent); tourism (12 per cent); and construction (9 per cent). The firms were interviewed on their activities in the period 1995-97, including issues like infrastructure services, physical investments, taxation, regulation, and corruption.

¹¹ During the 1990s, successions of more or less militarized units have been established to deal with smuggling and tax evasion (Therkildsen 2004, p. 80). These units include the Anti-Smuggling Unit (ASU), until 1996; the Revenue Protection Service (RPS), until 1998; and the Special Revenue Protection Service (SRPS), thereafter. Although the RPS was under URA control, the SRPS is outside the URA and employs mainly people from the army, the Internal Security Organization, and the External Security Organization. These militarized units are extremely unpopular among ordinary citizens due to their often extensive use of force. They are also unpopular within the URA because the units have a dual mandate (i) to track tax evaders, and (ii) to 'check those big shots in URA who collaborate with smugglers' (*The Monitor*, 28 June 1998).

analysis, and the public relations officer (*The New Vision* 11 March 2003, p. 4). However, according to officials in the URA, this court case is only the 'tip of the iceberg'.¹²

As a measure to combat corruption, all URA staff members were in January 2002 requested to fill out an asset declaration for themselves and their relatives. This is something Members of Parliament are supposed to do as well¹³ although several MPs refuse to comply (Musamali 2002; Mwenda 2002; Osike 2002). Asset declaration has proved to be a very difficult process in the URA as well. Many staff members own property that is not registered in their own name and sometimes not even in the name of their spouses or other relatives. As part of the anti-corruption program, 'Integrity Councillors' are supposed to 'carry the message' to the rest of the staff. A letter was distributed in 2002 within the URA where all staff members were asked to tell what they knew about misappropriation of tax revenues. According to the then Commissioner General (CG), this initiative resulted in a good deal of information. The CG also established a separate e-mail address to which only she had access, and where the general public could report. Several newspapers have published information on this address (Mpagi 2002).

In March 2002 a *Commission of Inquiry of Corruption in the URA* was appointed by the Government. On this occasion, the BBC News Online wrote (BBC 2002): 'A three-month judicial probe into Uganda's tax authority has started to root out "massive" corruption and boost tax revenues.' The Commission was chaired by High Court Magistrate Julia Ssebutinde, who had previously headed enquiries of corruption in the police force and the army. Judge Ssebutinde was assisted by two co-commissioners, Fawn Cousenes and James Kahoza. The Commission started its work in May 2002 and was expected to deliver its report and recommendations after 3-4 months. However, the enquiry took a much longer time than expected and was followed by rumors and accusations, including an alleged assassination attempt on Judge Ssebutinde.¹⁴

The much delayed and feared report was presented to the government in February 2004. However, Ssebutinde's two co-commissioners distanced themselves from the report's conclusions, and the public did not get access to it. Moreover, its legality was questioned by Members of Parliament and some of those that Ssebutinde accused of wrongdoing. Later in August 2004, the High Court nullified the report. Thus, the initial enthusiasm and expectations which met the Commission vanished. There are also indications that the long drawn out investigations carried out by the Commission and the rumors surrounding it, contributed to further eroding staff morale within the URA. In a farewell e-mail sent to the URA-staff in September 2004, the departing Commissioner General, Annebrit Aaslund, expressed her frustration at the way Justice Ssebutinde's Commission lost credibility following bickering between the commissioners. According to Aaslund, corruption 'remains a stain on the URA's reputation', but '[u]nfortunately an exercise, which I had hoped would help promote reform, has become a weight around the URA's neck' (*The Monitor*, September 2004).

Leaks from the Commission's report suggest that around 100 corrupt individuals are named in the report, which, according to some people interviewed, were fewer than what one 'hoped for', considering the total number of the staff (about 2200) and the size of the problem. Moreover, some of the 'known' offenders did not appear to be mentioned in the investigation. Some observers therefore suspected that the Commission's inquiry had become so politically sensitive that its conclusions under any circumstances were unlikely to have positive impacts on the fight against corruption in the URA. According to Darryn Jenkins (2003), other methods are required to break

¹² Personal interviews, Kampala, March 2003.

¹³ Leadership Code Act of July 2002.

¹⁴ On Friday night 10 October 2003 Justice Ssebutinde's home was reported to have been attacked by six gunmen. No one was hurt. In an interview, Ssebutinde linked the attack to the inquiry of corruption in the URA: 'I don't think it was an attempted robbery. Otherwise they would have begun with my neighbours who are richer, do not have armed guards and have expensive cars parked in their compounds. But the report (on URA) is ready and will be out anytime. We shall stand by our positions and leave the rest to God,' Ssebutinde said (*The Monitor*, 13 October 2003).

the cycle of corruption. He argues that a major re-staffing is needed to 'eliminate' corrupt staff (ibid, p. 15): 'This measure will also send a signal that the URA-management is serious,' and he adds, '[t]hat signal is awaited by the core of good staff'. However, according to senior officials interviewed in the URA, there is only a limited pool of qualified people who can fill the positions of the corrupt officers if they are to be retrenched. In other words, it is hard to replace corrupt staff. The URA cannot recruit expertise, but has to take on the costs of training new hires. Another issue emphasized by senior officials interviewed is that there are corrupt officers who are efficient, and non-corrupt officers who simply 'do not do anything'.

Understanding corruption in the URA

After the initial success, tax revenues have stagnated and in recent years dropped as a percentage of GDP. Moreover, corruption and tax evasion seem to be increasing at all levels of the URA. According to taxpayers interviewed, there is also an increase in the number of tax collectors *openly* demanding bribes after presenting taxpayers with unreasonably high assessments. How can this relapse be explained? The following factors may shed light on this development:

- *Declining real wages.*
- *Bonus systems and revenue targets.*
- *Hiring and firing of staff.*
- *Human resource management and job security.*
- *Political interference.*
- *Patronage.*
- Taxpayers' compliance.

Declining real wages

Despite a dramatic increase in pay rates compared with normal rates in the public sector, it was not enough to compensate for the potential gains from corruption. The situation worsened even more by the erosion of the initial pay rates by inflation. Between 1991 and 1998 nominal wages remained unchanged. Hence, although the URA staff on average received salaries 8-9 times higher than the corresponding positions in the civil service in 1991, this had shrunk to a factor of 4-5 in 2000 (EME 2000, p. 20). Furthermore, compared to the salaries in other autonomous authorities in Uganda, for example the Wildlife Authority and the Human Rights Commission, the URA pays less (Mitala 2001). This erosion of salary differentials is likely to have contributed to the erosion of staff motivation. It is therefore no surprise that the initial wage reform seems to have had only a limited impact on restraining the extent of corruption in the tax administration. But, irrespective of wage rates, the tax administration remains a very attractive workplace. The tax collection departments are particularly attractive. There is also considerable internal competition within the URA for vacancies in the operational departments. Thus, the erosion of wage rates is not sufficient to explain the prevalence and growth of corruption.

Bonus systems and revenue targets

Generally in a principal-agent setting, bonuses improve the performance of the agent by making the right sort of effort more rewarding in monetary terms. There are different ways in which to fashion a bonus system. One important distinction in this context is between individual and group bonuses. With individual bonuses each tax officer is rewarded for his or her individual effort. The upside to this bonus system is the direct link between what a tax officer does and what he or she receives. Possible downsides are opportunism and a lack of coordination between collectors, as each pursues the tasks that are most personally rewarding. With group bonuses, tax collectors are rewarded for

the performance of a group as a whole. The upside is greater coordination of tasks, the downside a possibility of free-riding behavior, as each officer sees only a marginal effect of his or her own effort on the bonus. Which of the two systems is chosen depends on several factors of which an important one is the ease of monitoring individual versus group output. The question of what bonuses are tied to is also important. If they are tied to a revenue collection target, performance depends on both effort and factors outside the revenue authority's control, such as fluctuations in the overall economic activity in the country.

In the case of the URA, group bonuses have been used. Performance is gauged in terms of a revenue target measured in term of tax revenues as a percentage of GDP. A 10 per cent salary bonus to staff was paid in 1998 when the revenue target was met. However, in the period 1991-1999, URA reached its revenue targets in five out of eight years, while only one bonus payment was made (URA 2002, p. 18). To the staff this was regarded as a broken promise.

Since 1998, there also seems to be a growing perception among staff and management that revenue targets are set unrealistically high, based on desired government expenditure levels rather than on the ability to tax (Therkildsen 2004). URA-staff interviewed pointed to the shaky empirical basis for the revenue targets set by the MoF, and they complained about their lack of influence in setting targets. This has been a major source of conflict between the URA and the MoF (ibid, p. 78). Hence, a sustained upward revision of revenue targets could prove detrimental to staff motivation. Moreover, revenue targets set in terms of revenues to GDP may be too broad a measure of performance. For individual staff members, the perceived ability to influence the percentage of revenues to GDP is likely limited, and bonuses based on this performance measure may not have much of an effect on staff effort and corruption. If group bonuses are to be used, bonuses awarded according to departmental revenues may provide a closer link between effort and reward.

To summarize, pay reforms are likely to have had little impact on staff performance and corruption in the URA, since the conditions under which pay would affect performance do not seem to hold. The bonus system was too general to provide effective incentives for individual staff members.

Hiring and firing of staff

The majority of the staff who had worked in the former revenue departments within the Ministry of Finance was re-engaged when URA was established. More than 85 per cent of the previous staff members were rehired, in spite of the fact that corruption was entrenched in the former tax administration. So when the level of corruption was perceived to drop during the initial phase of the URA, this may be due to the fact that most employees were working on a probation basis and, additionally, had yet to learn how the new system worked. Thus, although their attitudes towards corruption may not have changed, it was perceived to be more risky to get involved at that stage in corrupt dealings. Tax officers did not know how the internal control mechanisms worked or how the top management would execute the rules and whether they stood in danger of losing the prospect of a permanent job. These points were also confirmed in interviews with present and former URA staff. It was stressed that many employees in the operational departments used their probation period to study how the system worked 'waiting for better times.'

Looking at trends in employment at the URA, the initial shake-outs where staff was dismissed have not been sustained in the years following the establishment of the revenue authority except for top-level managers (Therkildsen 2004). This seems to indicate that dismissals are not as extensively used to discipline unproductive staff behavior as in the initial phase. Thus, there is reason to believe that the staff perceives that the risk of being fired for misconduct is dwindling.

Although the level of unemployment in Uganda is quite high, this might not be directly relevant to former staff of the URA seeking employment. Former tax officers are attractive to the private sector, due to their knowledge of how the tax administration works and their connections in the tax administration. The time a sacked tax official spends in unemployment might therefore be relatively short. Taken together, the dwindling probability of being fired and the ease with which

former tax officials, especially customs officers, can get new employment, suggest that pay increases in the tax administration would have to be very large to elicit more effort from staff.

Timothy Besley and John McLaren (1993) propose a model of corruption in tax collection which offers additional insights into the evolution of corruption in the URA as well. In this model, a proportion of tax collectors is corruptible and chooses between taking bribes and not taking bribes. A tax collector who takes bribes is caught and fired with a certain probability. Tax collectors, thus, compare bribes received to the expected loss from being fired, when deciding whether or not to take bribes. An increase in wages in the revenue authority means that losing your job is more costly, and therefore makes taking bribes less attractive. If wages are sufficiently high, all corruptible tax collectors will choose not to accept bribes. The level of wages sufficient to deter bribe taking then depends on the level of bribes and on the probability of being caught and fired when a bribe is accepted.¹⁵ The higher the bribes received by corrupt officials, the higher must the wages be to deter corruption. And more, the lower the probability of being sacked for corruption, the higher are the wages needed to make tax collectors desist from taking bribes. Therefore, a given pay increase has less of an impact on corruption if bribes are high and the risk of being caught low, than in the opposite case.

The bribe levels in certain parts of the tax administration, especially in customs, are very high compared to wages (McLinden 2005). As for the probability of being sacked for corruption, recall that the initial wave of dismissals has not been sustained. In addition, the appointment of executives known for their integrity in the initial stages of the reform has been undermined by recent examples of politically motivated appointments and interference into revenue authority affairs. A perception of a more lenient attitude towards corruption may, thus, have formed among the URA staff. The initial pay increases in the URA might consequently not have had much of an impact on corruption, and the subsequent decline in real wages has most likely eroded any initial impact.

An explanatory factor related to hiring and firing mechanisms is the impact of corruption networks. Corruption in public institutions is often conducted by reasonably well-organized networks, where trust and reciprocity is found between network members (Rose-Ackerman 1999; Gehlbach 2001). Such relationships are likely to reduce transaction costs, as well as any moral costs that may arise from allowing oneself to be involved in corruption. Furthermore, the peer networks often function as 'repositories of knowledge' for members, for example on the attitudes of the top management to corruption, how the internal monitoring unit works, who is potentially bribable among staff members and management, and so on.

The reforms probably managed to break up a few existing networks, but did not hinder new networks from emerging – both within and outside URA. Furthermore, new networks gradually formed between URA staff and former employees in the tax administration. Many of the dismissed people were attractive to the private sector due to their inside knowledge of the workings of the system. For example, former customs officers were recruited by clearing agencies or they set up their own agencies. These persons had intimate knowledge of the tax administration, of loopholes, etc. Because many of their former colleagues remained in the tax administration, good connections to the inside were assured.

Human resource management and job security

The URA is perceived by staff members to be a top-down organization characterized by submissiveness. Promotion is in general based on seniority. Younger staff members are given few opportunities to develop their skills. Incentives are in general weak in the sense that good performance is not rewarded and bad performance is not punished. According to interviews conducted during the period 2000-2003, the core of committed staff who would be willing to participate in change either are induced by peer pressure to conform to corrupt practices, or they are

¹⁵ Besley and McLaren (1993) assume that fired workers are reemployed at market wages, so unemployment does not play a part here, though one could easily fit this idea into the model.

turned off by an apparent lack of interest by a management – and a board - that seems mainly concerned about maintaining the *status quo*.

As noted above, the establishment of the URA reduced the extremely high pay differences between top and bottom level staff compared to the former tax administration. However, a wage gap of 3300 per cent between the top and bottom grades is still high and contributes to maintaining the distance between the executive management and the staff. Moreover, the bonus payment in 1998, equivalent to 10 per cent of each individual staff member's gross salary, amplified the already high wage differentials. In interviews, this was mentioned as a source of much resentment by URA staff. Moreover, in the view of a broad section of the staff, the commissioners lack detailed knowledge of how the organization actually works on the ground.

Although the turnover of ordinary staff members has been reduced after the initial shake outs, job insecurity seems to have increased for top managers. This may help explain corruption at the managerial level in the URA, in spite of the fact that the top managers are among the best paid officials in Uganda, even excluding their tax-free benefits such as housing and transport. In 2000/2001, for instance, a top manager in the URA was paid 3.6 times more per month than the corresponding position in the central government (Mitala 2001). Changes at the top-level have been pervasive throughout the URA's history. There are reasons to believe that the uncertainty which is thereby created has contributed to the observed high level corruption as managers try to enrich themselves while they are in the position to do so.¹⁶

The presence of corrupt managers may also have a contagious effect on the general corruption level within the revenue authority. Firstly, corrupt leaders may not worry very much about corruption at lower levels in the organization. Hence, the probability of being detected for corruption is likely to lower for the rank and file tax officers. Second, corrupt leaders contribute to a reduction in the moral and stigma costs connected with corruption. In such a situation we would expect the general level of corruption to increase.

Political interference

Few public agencies are as powerful and as interwoven with society as the tax administration, which monitors and appraises the economic activities of many of the citizens and businesses in the country. For instance, the tax administration often has important financial information about the economic operations of these actors. Hence, having political control over the tax administration can pay high political dividends (Taliercio 2002, p. 17). Politicians can, for example, intervene in the tax administration to grant favors such as tax exemptions to supporters or to harass political opponents through audits. Political interference in the recruitment process has been a source of dissatisfaction and unease among staff, who see this as causing job insecurity and also further exposing the URA to accusations of corruption.

A reform of the tax administration is costly to sustain in terms of increased pay and the purchase and maintenance of equipment. However, the costs of foregone opportunities for patronage and discretion in matters of taxation are probably at least as important to the delegating institutions. And arguably, the more successful a revenue authority is in increasing tax revenues, the higher are the costs of foregone patronage, because higher revenues provide more opportunities for embezzlement. Hence, the URA has become an attractive target for political interference, especially in personnel matters, because the authority offers both relatively well-paid jobs and considerable rent-seeking opportunities.

The URA has been riddled with political interventions, especially in managerial appointments and dismissals. In 1997, for instance, the President personally intervened in the appointment of the

¹⁶ This is supported by historical evidence from Germany and the Nordic countries (Rothstein 1998) and more recently in an econometric study by James E. Rauch and Peter B. Evans (2000) on bureaucratic structure and performance in a sample of developing countries. Here it is shown that increased job insecurity for public officials goes together with increased corruption.

new General Commissioner, although the person appointed by the president was not among the candidates listed for interview by the Board, and not the preferred candidate of the minister of finance (Therkildsen 2004, pp. 80-1). He also had close family ties to the president. Thus, President Museveni did what other members of the elite continuously try to: influence staffing in the URA. Moreover, as noted above, the President on several occasions publicly criticized the URA staff for being corrupt. This certainly had a major negative impact on taxpayers' perceptions of the revenue agency. The URA lost its legitimacy in the eyes of taxpayers. It also lost its formal and informal authority vis-à-vis the MoF and the state elites.

Patronage

Certain tribal networks are strong in the URA and influence promotions and transfers within the organization. Many tax officers and managers remain under the strong influence of traditional patterns of social relations and recognize the benefits of large extended families and strong kinship ties. This implies that such social relations operate at cross purposes to formal bureaucratic structures and positions. For instance, according to some informants, one of the Commissioners of the URA is fully controlled by a lower ranking official in the department, because this person ranks above the Commissioner in the kinship system.¹⁷ The traditional system rules over the formal 'modern' one. Fiscal corruption may therefore, to some extent, be understood in the context of a political economy in which access to social resources depends on patron-client links which exist independently of the URA yet influence its performance.¹⁸

Generally, kinship and other social relationships of reciprocity are used to mobilize affective ties for instrumental political and economic purposes (Smith 2003). Such relationships combine moral obligation and emotional attachment. They also serve to perpetuate an ethic of appropriate redistribution that fuels corruption (Olivier de Sardan 1999). The importance of such ties may be growing rather than withering away as the country tries to modernize and democratize in a context of economic instability and uncertainty.¹⁹ Thus, many people rely on the social connections of their extended families to secure admission to schools and to get help in paying school fees, to gain employment, to obtain business contracts, or to benefit from government services.

But although kinship and social networks are pervasive at all levels of the URA, their most obvious impact is at the top. Serious cases of corruption, involving high level, politically well-connected officers are rarely investigated. Thus, with a few exceptions such as the recent court case against five senior officials of the URA's *Large Taxpayers Department*, investigations into fiscal corruption only touch the surface. For instance, the *Inquiry of Corruption in the URA* (the Ssebutinde Commission) did not investigate systemic corruption and the role of family relations and nepotism in sustaining corruption networks. Consequently, neither key stakeholders in the central government nor donor representatives interviewed expected that the Ssebutinde Commission would have much impact.²⁰

¹⁷ Personal interviews, Kampala, March 2003.

¹⁸ In an influential study Patrick Chabal and Jean-Pascal Daloz (1999) argue that politics in Africa must be understood as driven by vertical ties of patronage. The power of these ties is maintained by redistributing resources accumulated through 'corruption' to clientilistic networks according to rules of reciprocity that have their origin in a kinship-based social organization and morality. According to Chabal and Daloz (p. 27), peoples' reference unit in Africa remains family- and kin-based, which is the fundamental 'circle of trust' within which individuals operate. Moreover, political elites seek to establish principles of mutual aid, of patron-client reciprocity, based on kin and family relations.

¹⁹ See Susan Rose-Ackerman (1998, pp. 317-323) for a discussion of the role of traditional networks in reform processes.

²⁰ Personal interviews, Kampala, March 2003. According to a Member of Parliament interviewed in May 2003, the lack of support to the Commission from senior politicians is because the top management of the URA is perceived to support the government. This contrasts the government's support to the investigation into

To some degree the URA has contributed to strengthen existing social networks. For instance, when someone gets a job in the tax administration he or she is expected to help his or her kin and family. Because Ugandans perceive that URA-officers receive high salaries, extended family members expect to get their share of the high wages. It is one's social obligation to help and share. URA staff are therefore seen by their family members and social networks as important potential patrons who have access to money, resources, and opportunities that they are morally obliged to share. A person in a position of power is expected to use that influence to help his or her kin and community of origin. Hence, increased salaries may lead to increased social obligations, which again may 'force' tax officers to take bribes to compensate for the higher expenses. What looks like corruption from the outside is undertaken by some tax officers in a context where the reciprocal obligations of kinship and community loyalty require such behavior in order to be regarded as a 'good person'. Hence, as argued by Daniel J. Smith (2003), the standard definition of corruption as 'the abuse of public office for private gain' assumes a rigid dichotomy between public and private that glosses over a complexity that characterizes the relationship between the individual and society in many African bureaucracies.

In the Ugandan context, to accumulate, even in corrupt ways, is not necessarily bad in itself. It is accumulation without distribution which is considered unethical (Barber 1997). Only someone who accumulates can redistribute and be identified as 'a man of honor' or 'a big man'. In an interview, Annebritt Aslund, the former General Commissioner of the URA, gave the example of two URA employees from the same family. One of them is honest, the other is corrupt. The one who has not accumulated more than he could from his official wage, is, according to her, 'regarded as a fool by the society' and earns no respect whatsoever (Fjeldstad, Kolstad and Lange 2003, p. 36). He can not offer needy relatives or friends much assistance. In their eyes his un-corrupt attitude is not only foolish but is, in essence, selfish.

Furthermore, it is in the tax officer's own interest to help others because he or she might be the one who needs help in the next time around. Thus, a manager in the tax administration may 'forgive' a tax collector who is caught taking bribes or embezzling money, because next time he or she may be the one who needs forgiveness (Tripp 2001). This may explain why the quite extensive use of dismissals in the initial phase of the URA has not been sustained (Obwona and Muwonge 2002). Instead of being fired, several tax officers detected for corruption have been transferred to other positions within the tax administration. Favors of this kind may also be understood as a way of consolidating and building social capital. In other words, tax officers are building up networks made up of family, friends, and acquaintances that are based on trust and reciprocity as a way of banking assistance for the future. The larger the network, the greater the accumulation of social capital that can be drawn on in a future time of need. Thus, one possible explanation for the persistent corruption in the URA may be the fact that people at the middle and low end of the political-economic spectrum are just as involved in vertical networks of patronage as the elite patrons who benefit the most.

Why do people continue to depend so greatly on their kin? What motivates people to follow social norms and patterns of patronage? The simple answer is that it is rational. The state is perceived as 'unreliable' when it comes to delivering basic services and assistance through formal channels. The use of kinship and other social relationships enables ordinary people to get access to resources that they might otherwise be denied (Smith 2003, p. 707). It is, in part, the very demands of the clientilistic networks to deliver public resources, including employment, based on moral obligations and affective attachments that make it difficult for officeholders to run offices in accordance with Weberian principles. Hence tax officers and managers in the URA find themselves in a schizophrenic situation. Their administrative and professional legitimacy is derived from their training and work in a modern bureaucratic organization and therefore in its values concerning 'public service' (Olivier de Sardin 1999, p. 48). This widespread adherence to abstract official

corruption in the police, since the police force, and in particular the top brass, was perceived to house widespread opposition.

norms of Western origin thus coexists with an equally prevalent pattern of behavior in conformity with social norms and family obligations. Many tax officers may be sincerely in favor of respecting the public domain and may want the tax bureaucracy to be at the service of citizens, but still they participate in everyday actions that reproduce the system that they denounce. Thus, a spiral is created in which networks of kin and tribe undermine efforts to modernize the tax administration and thus create an ongoing need for these very networks to continue to operate.

Taxpayers' compliance

In Uganda, as in many other African countries, the frequent use of the tax administration for political purposes has helped erode taxpayers' confidence in the fairness and impartiality of the tax administration, which has itself contributed to undermine tax compliance. An important element of the revenue authority reform in Uganda was therefore to give the new management of the tax administration autonomy from undue political influence. The establishment of a semi-autonomous revenue authority might be interpreted as an attempt by politicians to create a credible commitment to taxpayers that the tax administration will be more competent, effective and fair by delegating power to tax bureaucrats (Taliercio 2004). The promise of autonomy enables politicians to make the commitment credible because tax administration traditionally has been characterized by high levels of political intervention. The failure to sustain the autonomy of the URA may reflect the particularly difficult problem of credible commitment in these matters.

The formal autonomy awarded the URA upon its inception and the degree to which this autonomy was exerted in the initial phases of its existence, could very well have had a favorable impact on taxpayers' perceptions of the tax administration's operations, and hence possibly on compliance rates. In particular the initial increases in wages and the extensive use of dismissals arguably would be easily observable indicators of a high degree of personnel autonomy. Similarly, the appointment of board and management from outside the tax administration and from abroad, and the recruitment of individuals publicly recognized for their integrity, would be a signal of a high degree of managerial autonomy. The initial reform could therefore be expected to have had an impact on taxpayers' perceptions of fairness and competence in collecting taxes.

However, failure to sustain the initial reform efforts has provided a powerful signal to the contrary. The fact that nominal wages in the URA have been stagnant until recently and that the use of dismissals has decreased substantially both point to a decreasing degree of personnel autonomy. Increasing board and government interference in staffing matters has had a similar effect and also signals a lesser degree of managerial autonomy. In addition, managerial autonomy has been substantially undermined by the increasing use of tax exemptions granted by the politically motivated appointment of new board members. Several instances of political interference in the operations of the URA have been heavily featured in the local press. There is thus reason to believe that any initial improvement in taxpayer perceptions due to the administrative reforms was reversed in later years. To the extent that taxpayers were able to foresee this backlash, the reforms might not have had much of an impact on tax compliance in the first place, which indicates that any initial rise in tax revenues should be attributed to other factors.

Concluding remarks

Several factors have contributed to the disappointing results of the URA, and it is difficult to distinguish among them and to determine their appropriate weights. However, one lesson to be learned from URA's first 15 years of operation is that even with relatively respectable salaries and working conditions, corruption may still thrive. The study shows that pay level is only one of several factors affecting the behavior of tax officers. In an environment where the demand for

corrupt services is extensive and monitoring ineffective, wage increases may end up functioning as an extra bonus on top of the bribes taken by corrupt officers.

Recent economic research on human behavior indicates that reformers and economists have an inclination to exaggerate the impact of monetary incentives because of a too narrow understanding of intrinsic motivation and group dynamics (Frey 1997). In Uganda, however, the failure of reforms that stress monetary rewards and incentives may have a more straightforward explanation. Because of the importance of family networks, increased pay rates may imply more extensive social obligations, and in some cases actually result in a net loss to the individual. This state of affairs can develop into a vicious circle with higher wages leading to more corruption because the tax officer has to make up for the loss caused by such obligations. An outsider might conclude that officials lack intrinsic motivation to perform well and do not respond to incentives. However, a more careful study of the situation would instead conclude that the tax officials are responding very well to monetary incentives in a situation where higher nominal pay actually makes the official poorer. This might be a reason for the popularity of in-kind benefits among civil servants, which may be harder to share with one's kin (Platteau 2000, pp. 208-11).

We have seen that sharing norms, as reflected in patronage and social obligations in the URA, are liable to discourage the development of a professional tax administration. At the same time, the experiences of the URA emphasize the particular importance of breaking the influence of kin-based networks on the operations of the revenue administration. One suggestion is to introduce rotation systems for the staff, where revenue collectors remain only for short periods in the same post (Das-Gupta and Mookherjee 1998). But a danger of the rotation system is that the uncertainty which is thereby created for employees may result in increased corruption as collectors try to enrich themselves while they are stationed in the most 'lucrative' posts. The rotation of officials may also give corrupt superiors undue power. For instance, they might 'sell' assignments to attractive positions or reassign officials to remote stations as a punishment for honesty (Rose-Ackerman 1999, p. 84). The scarcity of qualified personnel like auditors and accountants further reduces the potential of rotation schemes in the poorest countries. Under such conditions it is little wonder that the revenue authority performs poorly because its behavior is shaped by conditions over which it has little control. It is difficult to insulate the revenue administration from contexts in which graft and corruption are the normal modes of public sector operations.

Must we thus conclude then that it is generally impossible to overcome traditional social restraints on the development of a professional, modern tax bureaucracy in a country like Uganda? If it is true that similar conditions were widespread in Western societies before modern economic growth took roots, the answer to that question must be negative. Also observations of contemporary African societies suggest that social changes do in fact occur which have the purpose and effect of changing the impact of traditional values and social obligations on the behavior of public officials (Platteau 2000). There are revenue authorities in poor African countries that perform relatively well despite dauntingly unfavorable contexts such as patronage and extensive corruption and despite overall poor public sector performance.

The experiences of the Zambia Revenue Authority, for instance, shows that expatriate senior advisors and top managers who are in place for a pre-defined and limited period of time can contribute to effective change by building integrity and professionalism in the organization through systemic changes (Wulf 2005). Placing expatriates in key management positions might also help in avoiding the unfolding logic of patronage and predatory authority. Strong expatriate leadership may more easily confront political and bureaucratic pressures, and thus provide a 'buffer zone' within which systemic changes and new forms of staff behavior are implanted. URA's experiences with expatriate top management, however, are mixed.

As the Ugandan case shows, it should be recognized that tax administrative reforms often are highly political processes that will inevitably pose a threat to important domestic stakeholders. The successful implementation of such reforms therefore requires political will to back them up (Tanzi and Pellechio 1997). The reforms are unlikely to succeed if the main source of energy and leadership comes from outside. In general, strong leadership of the revenue authority is essential for

overcoming the political and bureaucratic obstacles that confront the URA. This also requires a better demarcation of management authority between the Board and the Commissioner General. A board acting as the chief executive is certainly not a recipe for the strong and effective daily leadership which the revenue authority needs. The present problems of micro-management by the Ministry of Finance and the Board's involvement in day-to-day operations must therefore be addressed. This may imply a re-composition of the Board that better matches the expectations of the Government about the status and performance of the tax administration. Such measures, however, do not imply the end of mutual cooperation between the URA and the Ministry of Finance. The revenue authority possesses unique datasets on taxpayers and revenue bases, and this information is essential for improving tax policy and legislation.

The argument in favor of stronger managerial autonomy of the URA is consistent with recent studies on why some public organizations work well and others do not in developing countries. For instance, in a study of 29 organizations in six countries Merilee S. Grindle (1997) found that organizations with higher salaries paid to their staff did not perform better than public organizations which conformed to the low general public sector remuneration scales.²¹ Instead, good-performers had well-defined missions, where the employees internalized the organizations goals and saw themselves as vital contributors to its accomplishment (*ibid*, p. 486). Moreover, effective managerial practice and high expectations about employee performance were factors that led organizations to perform well, while some autonomy in personnel matters allowed a mission to be identified and enabled skilled managers to have some room to maneuver in setting standards for their organizations. This underscores the importance of leadership styles and internal performance management practices that focus on results.

Encouraging the development of a positive organizational culture may thus be an important way of improving URA's performance in a situation where the broader environment, including the public sector in general, discourages good performance. If the enabling environment is weak, managers tend to drive performance. Hence, internal leadership and culture are likely to be keys to establishing meritocratic and performance-oriented organizational behavior in situations where the formal political and administrative institutions are weak. Accordingly, a reasonable hypothesis would be that if the URA was given more real autonomy in personnel matters, this would contribute to greater capacity to set performance standards for its employees and hold them accountable to the organization for meeting those standards. Autonomy in personnel matters can here be understood as a facilitating condition that provides the URA and its managers with the ability to build cultures that allow the organization to rise above the norm for the public sector in Uganda (Grindle 1997, p. 488). Required measures would include a rigorously planned and executed re-staffing process, also at the senior management levels, and introduction of human resources policies relating to transparent recruitment, adequate remuneration, pension/retirement schemes, etc. Such measures ought to take place before proceeding with traditional forms of technical assistance such as the design and implementation of integrated computer systems, organization of formal training courses and on-the-job training, and process re-engineering in a wide range of areas, including better forms and filing, auditing and management of revenues, taxpayer education programs, and so on. The experiences with the latter forms of technical assistance for revenue enhancement and capacity building in tax administrations are mixed in Africa.

Tax administrative reforms take time to achieve and are often contested, high profile measures. They therefore require political will and support from the highest level of government. The URA was set up in 1991 by external consultants who arrived with a pre-fabricated, 'blue-print' for tax administrative reforms. Although the reforms were supported by the political leadership and senior officials in the Ministry of Finance for a number of years, this support soon began erode beginning with the change in the role and composition of the board in 1997. Thus, it is reasonable to ask whether the political support behind the establishment of a semi-autonomous revenue authority was genuine from the outset, or whether it reflected the bargaining power of donors. The

²¹ The six case countries were Bolivia, Central African Republic, Ghana, Morocco, Sri Lanka and Tanzania.

assumption that donors can build state capacity despite the lack of effective internal demand for a more effective tax administration is highly questionable.²²

Many observers conclude that a lack of a taxpaying 'culture' is the largest obstacle to building a firm long-term revenue base in Uganda. The opposite may, however, also be the case: as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism and corruption, it is unlikely to contribute to the fostering of a more conducive taxpaying culture. Despite quite comprehensive changes in the tax structure (rates and bases) in recent years, the tax system in Uganda is still complicated and non-transparent (Obwona and Muwonge 2002). Tax legislation is unclear and causes random and partly *ad hoc* collection procedures (Kasimbazi 2003). Assessors have wide discretionary powers to interpret tax laws, for instance, to allow or disallow expenses or charges, or to exempt items from import duties. These factors, combined with a perception of limited tangible benefits in return for taxes paid, legitimate tax evasion.

In such circumstances it is not surprising that taxation takes place in an atmosphere of distrust and fear between taxpayers and revenue officers. Extensive use of force is often required to collect revenues, as reflected in the use of special military units to enforce taxes and fight smuggling. Thus, the government's credible commitment about the use of tax revenues and its procedures to design and implement tax policy non-arbitrarily are crucial to regain legitimacy. The credibility or trustworthiness of the revenue administration's sanctions against tax defaulters is also important in this context (Slemrod 2003). Reforms of tax legislation and collection procedures, including measures to improve transparency in the taxpayer-tax officer relations, should therefore take place concurrently to reduce opportunities for corruption and the demand for corrupt services. When the government decides what measures to take as part of its tax reform program, it should bear in mind the state of the economy and the resources at hand. Uganda, like most poor countries, has neither the political capital nor the administrative capacity to sustain more than a limited range of concurrent initiatives. But an incremental process of change can add up to a radical transformation if it is sustained long enough.

A strong bond of accountability between citizens (taxpayers) and the public sector may contribute to generate demand for tax administrative reforms. For instance, business communities, taxpayers' associations, trade unions and other influential domestic institutions have a potential to put pressure on the revenue administration to do a better job. For taxation to have a positive effect on accountability between government and taxpayers, taxation must be 'felt' by a majority of citizens in order to trigger a response in the form of demands for greater accountability and improved public service delivery (Moore 1998). But the tax reforms during the last decade in Uganda have not done much to widen the tax base. It has proven especially difficult to incorporate the many informal business operators as well as professionals, such as lawyers, doctors, and private consultants, into the revenue base. Only formal business corporations appear to be visibly affected by the central government tax reforms. Still, there are indications that an organized voice and response to the revenue policies is developing within the Ugandan business and trading communities. The fact that some tax issues are being treated through formal, public organizations, rather than through bribery and public deals may indicate the beginning of a link between economic elites and government in issues of revenue generation

²² In a recent review of the experiences with IMF-supported programs to fiscal adjustment Ales Bulir and Soojin Moon (2003, p. 24) conclude that '...revenue enhancing measures, and perhaps also technical assistance provided to program countries, failed to provide a sustainable increase in the revenue-to-GDP ratio'.

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SUMMARY

Over the past two decades many developing countries have implemented comprehensive reforms of their tax administrations in order to increase revenue and curb corruption. This paper examines recent experiences in the fight against corruption in the Uganda Revenue Authority (URA). It argues that the technocratic remedies supported by donors have underplayed the degree to which progress in tax administration depends upon a thorough 'cultural change' in the public service. The motives of individual actors are often inextricably tied to the interests of the social groups to which they belong. In the URA patronage runs through networks grounded on ties of kinship and community origin. As such, people recognize the benefits of large extended families and strong kinship ties, even as their social and economic aspirations may be indisputably modern. This implies that such social relations may undermine formal bureaucratic structures and positions. If these problems, which are rooted in social norms and patterns of behavior rather than administrative features, are overlooked, the result may be to distort incentives. As a consequence, the government's commitment to reforming the tax administration may also be undermined.

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