



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 13-Mar-2019 | Report No: PIDC177153

**BASIC INFORMATION****A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P169908		Moderate	Strengthening Capacities and Institutions for PIM, PPPs and DRM
Region	Country	Date PID Prepared	Estimated Date of Approval
AFRICA	Uganda	13-Mar-2019	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Finance, Planning and Economic Development	Uganda Revenue Authority, PPP Unit, Project Analysis and Public Investment Management	

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PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	4.00
Total Financing	3.90
Financing Gap	0.10

DETAILS**Non-World Bank Group Financing**

Counterpart Funding	0.00
Borrower/Recipient	0.00
Trust Funds	3.90
UK-DFID Trust Fund to Support Uganda's NDP	3.90



B. Introduction and Context

Country Context

The Second National Development Plan (NDP II) adopted in 2015, aims to propel Uganda towards a middle income status country by 2020. This calls for significant increases in public investment, which the plan focusses on agriculture, tourism, minerals, oil and gas, infrastructure and human capital development. Indeed, authorities have planned to increase investments in public infrastructure as a key priority to remove the most binding constraint to growth. However, achieving the objectives of the NDP is largely hinged on the successful implementation of the core projects identified in the focus areas. This is expected to boost GDP growth to average of 6.3 % per annum and per capita incomes of US \$1,039 by 2020.

Increased investments also require additional fiscal space, which can be created by raising tax revenues (currently among the lowest in Sub-Saharan Africa), containing current spending, and enhancing the efficiency

of public infrastructure investment, with this also partially achieved through partnerships with the private sector.

The overall cost of the NDPII is estimated at approximately Uganda Shilling (UGX) 185.2 trillion, of which UGX 113 trillion is Government funding and UGX 72.2 trillion is private sector contribution.

Sectoral and Institutional Context

Uganda's effort to invest in infrastructure notwithstanding, persistent under-execution and inefficiencies of public investment management have constrained the ability of government to address the inadequate infrastructure, a key constraint to growth. Over the past three years, only 40–45 percent of budgeted capital expenditures were executed. In addition, the budget process suffers from a perpetual overhang of incomplete

projects, which require additional resources from the budget. Therefore, there are stop-and-go investment cycles, which can worsen volatility, especially once oil revenues come on-stream. In terms of the overall



quality of the institutional environment underpinning public investment management (PIM), Uganda ranks 46

out of 71 countries; well behind peers such as Ghana (27) and Rwanda (12).

Converting investments into productive assets requires effective management at all stages of the public investment project cycle—from inception to the management of the completed asset. Reforms to public financial management (PFM) systems in Uganda have ensured that some parts of the PIM cycle meet several good practice standards. Nonetheless, deficiencies in the ‘quality at entry’ of projects largely explain the implementation challenges such as cost escalations, time-overruns, contract disputes, abandonment of projects, poor quality of some completed projects, and limited maintenance and rapid depreciation of public capital stock.

The Ministry of Finance, Planning and Economic Development has embarked on strengthening PIMS by enhancing its own in-house capacity to appraise or be the 'gate keeper' ensuring quality of public projects, standardizing processes through manuals for preparation of projects and appraisal guidelines and building human capacities. This capacity building effort would need to spread across all government institutions to ensure that projects are prepared and implemented well. Furthermore, whereas GoU enacted the Public Private Partnership Act (PPP Act) in 2015, creating a regulatory framework and guidance for dealing with public private arrangements to invest in public projects, the bulk of public infrastructure investments are funded from the public budget. It is critical that GOU integrates and streamlines its infrastructure planning, PPP identification, structuring of the PPP projects and fiscal management processes to identify infrastructure priorities and allocate finances efficiently to those priorities to be able to attract more private participation in public infrastructure development.

The PPP Act (2015) notwithstanding, the corresponding centralized coordinating agency (PPP Unit) created to drive the process, remains understaffed while the ownership and capacity within the



contracting agencies to develop and implement PPPs are inadequate.

Uganda still ranks relatively low in international governance, competitiveness, rule of law, corruption perceptions, economic freedom, and doing business ratings, and has seen a growing debt-to-GDP ratio over the past decade, which might inhibit the country's ability to mobilize private finance. However, with prudent fiscal management, sound frameworks, and appropriate risk sharing, Uganda can partner with the private sector to remove inefficiencies in public spending and meet its infrastructure needs. In consideration of the business environment risks perceived by the private sector, de-risking approaches should be part of such plans.

The government's enactment of the Public-Private Partnerships (PPP) Act in 2015 and the articulation of the need to mobilize private finance for expanding and improving the country's infrastructure stock as a priority in its Vision 2040 show Uganda's growing commitment to initiating a structured PPP program over the longer term. Moving forward, the government needs to integrate and streamline its infrastructure planning, PPP identification, structuring of the PPP projects and fiscal management processes to identify infrastructure priorities and allocate finances efficiently to those priorities.

On the revenue side, Uganda must overcome three key challenges: leakages in revenue collections, especially from tax exemptions; informality evidenced by a significant proportion of economic transactions that are cash-based, unregistered and difficult to track; and elevation of investment and politically driven policies over revenue mobilization. Revenue forgone under the current tax system across all tax sources due to exemptions was estimated to be in the range of 4.5 to 5.0 percent of GDP in 2016/17. The bulk of these losses emanate from VAT exceptions valued at around 2.5 percentage points of GDP. The corporate income tax also lost up to 2 percent of GDP in revenue potential, which, combined with limitations imposed by other issues such as allowable deductions, reduces taxable income and erodes the tax base.

Both policy and institutional reforms undertaken since the 1990s brought some improvements in revenue effort. Among others, the establishment of the URA in 1991, the introduction of the VAT in 1996, and the reform of the income tax regime in 1997, contributed to an increase in the tax to GDP ratio from 6.8 percent of GDP in 1991/92 to 13.8 in 2016/17. In 2005, the common external tariff (CET) under the EAC Customs Union was adopted, and URA was restructured along functional lines. By 2009, the large and medium-sized



taxpayer offices were established, the customs system ASYCUDA World implemented, and by 2010 the e-Tax system introduced to systematize and standardize customs and tax processes.

Today, the institutions responsible for domestic revenue mobilization in Uganda include the Tax Policy Department (TPD), the Uganda Revenue Authority (URA) and Local Governments (LGs). The Tax Policy Department (TPD) under the Directorate of Macro Economic Affairs (MEA) in the Ministry of Finance, Planning

and Economic Affairs is mandated to undertake revenue forecasting, analysis and monitoring. This mandate covers a wide range of areas including initiating, developing tax policy and providing tax advisory services to the entire GoU. The URA is charged with administering the revenue acts for Uganda. Further, URA is mandated to advise the Minister responsible for Finance on revenue implications, tax administration and aspects of policy changes relating to all taxes administered by the authority. Local Governments collect Own Source Revenues (OSR) and have recently started partnering with the URA to facilitate taxpayer registration. A

case in point is the partnership between URA-KCCA and UNBS under the Taxpayer Registration Expansion Project (TREP).

Relationship to CPF

Strengthening DRM, improving PIM outcomes, and mobilizing long term financing in infrastructure

all supports the delivery of key priorities for reducing poverty and boosting shared prosperity in Uganda (as discussed in the Systematic Country Diagnostics, 2015 (SCD)). These areas fall under the third pillar of the CPF which aims at strengthening governance, accountability, and service delivery, but more specifically, the component related to economic governance and fiscal management.

C. Project Development Objective(s)



Proposed Development Objective(s)

To strengthen capacities in management and financing of public investments, including through public-private partnership and in domestic revenue mobilization.

Key Results

Results are shared across the 3 main areas of focus as follows:

A. PIM

- (i) Policy, Legal and Institutional PIMS framework strengthened
- (ii) Appraisal process and close monitoring of projects digitalized to simplify, quicken, and improve efficiency
- (iii) Capacities for preparing and implementing public projects enhanced

B. PPP

- (i) Capacity of MDAs for preparing, managing and implementing PPP projects
- (ii) Identify at least 2 potential PPP projects by screening and appraising potential PPP project proposals submitted to the PPP Unit and preparing robust feasibility studies of these PPP projects from bankability point of view, with this leading to successful procurement of private sector financing for infrastructure projects, successful financial close for the PPP projects and smooth implementation and management of PPP projects
- (iii) Putting in place robust legal framework for preparation and implementation of PPP projects

C. DRM

- (i) An Operational Fiscal Tax Expenditure Governance Framework
- (ii) An updated, consolidated, legally enforceable and binding tax legislative framework, with structures and capacity in Government of Uganda to keep the legal framework up to date with future pronouncements made through annual Finance Acts
- (iii) Improved capacities in URA

D. Preliminary Description



Activities/Components

Project description – DRM

Background and Context

The World Bank has completed two diagnostic studies[1] which revealed that Uganda’s revenue mobilization drive is constrained by mainly a narrow tax base, mainly characterized by gross informality; some defects in the tax policy and weaknesses in tax administration. To achieve the potential of domestic revenue, the Government will need to widen its tax base, improve the policy framework, and strengthen administration. Some of the report findings were disseminated in the Uganda Economic Update, 11th edition and form major inputs to both the draft Domestic Revenue Mobilization Strategy (DRM-S) Matrix and the 2018-2019 budget initiatives. The Bank is in discussion with Government of Uganda (GoU) authorities to explore opportunities for a Development Policy Operation (DPO) in Support of the Domestic Revenue Mobilization agenda.

On request by Government of Uganda, and with support from an Externally Funded grant from DFID[2], the World Bank initiated diagnostic assessments of four areas in tax administration[3] during FY 2017/18. These diagnostics and their validation are scheduled for conclusion and dissemination in FY2018/19.

These activities arose out of agreed upon activities for Bank-GoU programmatic support and recommendations arising out of earlier diagnostics. These and additional activities listed, are anchored on agreements reached by the DRM Coordination Committee through the Uganda DRM Coordination Strategy, approved in October 2016.

The requested funding is expected to support the completion, validation and inclusion of the results of these diagnostics into the DRM strategy formulation process and others listed below. The specified activities are designed to mitigate knowledge and technical gaps for DRM effort in Uganda. The activities include:

1. Conclusion and dissemination of the Tax Administration Assessments which include the Customs administration, Domestic tax administration, ICT governance and systems functionality, and Non-Technical Drivers
2. Support to the development and implementation of a tax expenditure framework
3. Diagnostics to establish potential and challenges of subnational Own Source Revenue,
4. Support to the development of a Compendium of Tax Laws,
5. Support to URA to enhance her preparedness for the next generation of efficiency and revenue raising reforms and
6. Support to the development and implementation of a framework to monitor revenue strategy and related outcomes. This activity will be elaborated further at a future date when conceptualization by government beyond staff costs, vehicles and equipment is complete.

1. Scope of work

The proposed analytical and advisory work program takes cognizance of the undertaking of the National DRM Task force, and the priorities agreed upon by that group as the most critical areas to support the DRM



agenda and eventually the formulation of a national domestic revenue mobilization strategy. This work program is envisaged to be undertaken over a relatively short period of time, stretching between July 2018 and June 2021. The program will have the main counter-parts in government as the Ministry of Finance, Planning and Economic Development, and Uganda Revenue Authority. The work on tax expenditures may include the Uganda Investment Authority, private sector and Civil Society Organization, key proponents of the tax expenditures in the country. The work program is envisaged to be part and parcel of the Work Bank's broader DRM agenda, expected to generate action points that can catalyze resources for implementation. The work will focus on the following activities:

Conclusion of the Diagnostic Assessments

Issues at hand: The Bank had completed drafts reports from the diagnostic assessments in four areas that were requested by the DRM committee: Customs, Domestic Tax, ICT and Non -Tax Drivers (or political economy of DRM) by end of June 2018. The validation process which includes: joint discussion of the findings with GoU authorities, filling of gaps of facts, and revision of the reports, mutual generation of reform options and later dissemination of the findings to appropriate stakeholders for possible consideration in the Domestic Revenue Mobilization Strategy, is still outstanding.

The proposed work: The proposed activity will involve the following:

1. Conclusion of peer review process, validating evidence and closing off the Diamond Assessment tool.
2. A five-day workshop to validate individual report findings, gain consensus on recommendations and generate reform options;
3. Update of the reports to reflect workshop outcomes and stakeholder inputs;

Host a forum of key stakeholders to discuss findings and key recommendations for purposes of the DRM-Strategy.

Project description – Strengthening PIM

The project activities will be organized around the following 4 main components/ tasks:

Component 1: Strengthening of the policy, legal and institutional PIM framework

Currently, the gate keeping role and independent review of projects is done at a high level by the Development Committee(DC) under the Chairmanship Permanent Secretary/ Secretary to the Treasury of the Ministry of Finance, with membership of NPA, the OPM, PPDA, Solicitor General and Office the President. However, there is no explicit legal provision surrounding the Public Investment Management Framework and the role of DC. In order to strengthen the gate keeping and independent review function surrounding PIMS,



the existing legal framework needs to be strengthened to provide for the explicit role of the DC and define the key institutional mandates and responsibilities for all stakeholders involved the PIMS process.

Summary of Component one activities

1. Formulation of a PIMS policy to cover all Public Investments.
2. Assessment of the Legal and Institutional framework surrounding PIMS such as the Public Finance Management Act (PFMA,2015) and Public Private Partnership Act(PPP,2015) to incorporate PIMS.

Component 2: Development of phase ii of the integrated bank of projects (IBP);

Countries with a credible PIMS framework have institutionalized a project data bank designed to give support to public investment management by acting as a registry of data and information on all public investment projects as a tool for tracking projects during their entire project cycle. This improves the readiness of projects and as such reduces the time between the decision to include or move forward with a project. The performance of an efficient Public Investment Management System is typically supported by an information system.

Summary of Component two activities

1. Study tour to Chile or any other Country with an IBP to benchmark the IBP functions and expected outputs.
2. Linking the IBP to other existing Government Systems aimed at integrating all phases of the project cycle from Project commencement to evaluation.
3. Roll out and capacity building of the IBP and Technical support of the IBP.

Component 3: Capacity building programme in PIMs

Operationalization of the comprehensive PIM framework is constrained by the limited capacity at MDAs in projects preparation, appraisal and consequent project management. The DC guidelines require MDAs to undertake cost-benefit analysis of the projects and engage in the evidence based project selection process. Immediate action is required to build capacity for MDAs in the cost-benefit analysis.



It is envisaged that in-country training program will be prepared and delivered to up to 40 officials from MDAs. The program shall be hands-on covering major aspects of financial, economic and stakeholder analysis of investment projects in different sectors (roads, energy and minerals development, water, health, education). The program shall equip participants with the practical skills of undertaking appraisal of investment initiatives.

The PAP department will partner with a reputable institution to come up with tailor made courses in PIMS and this will be undertaken by selected PAP officers.

Furthermore, on job assistance and partnership with experienced project development personnel will build capacity of Government officials MDAs and establish institutional memory with in MDAs.

Summary of component three activities

1. Training of Trainers of trainees.
2. Establishing a PIMS center of Excellence.
3. Sector specific project manuals.
4. Implementation, Monitoring and ex-post evaluation manual.
5. On the job assistance and capacity building at two MDAs.
6. On the job assistance and capacity building at PAP.

Component 4: Cross-cutting activities

Management and supervision of grant activities will be carried out by the MOFPED based task team leader for the grant. This will include day to day management and supervision of the grant activities.

Evidence based decision making is as a result of tailor made case studies, project models, relevant studies will be undertaken to inform decision making and solutions to improve project performance in a specified sector.

Summary of component four activities

1. Uganda based case studies, project models and templates for two sectors.
2. Management and supervision of grant activities.



[1] The two studies include, **(i) Background paper 1: An Assessment of Uganda’s Domestic Revenue Gaps and How to Tap the Potential** and **(ii) Background Paper 2: Improving Domestic Revenue Mobilization- Excise Duty Diagnostic**.

[2] A grant amounted to GBP 250,000 and closed in June 2018.

[3] The four areas included: **(i) A Customs Administration (ii) Domestic Tax Administration (Tax) Assessment (iii) URA’s ICT governance and systems functionality; and (v) The Non -Technical Drivers for DRM**.

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Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8	Cultural Heritage	Relevant
ESS 9	Financial Intermediaries	Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project entails capacity building and knowledge transfer through technical assistance and advisory services. Even for PPP, the project does not plan to get involved in actual physical investments. Nonetheless, the project could have some indirect E&S effects, if the projects eventually undertaken by government to



build the planned infrastructure, say in roads and energy, generate some environmental and social impacts. Any activities undertaken, or TA support provided, will take into account the ESSS standards.

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