



African Tax Administration Paper 5

Tax Administration Reforms: Lessons from Georgia and Uganda

Margaret Magumba

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The ICTD's African Tax Administration Papers (ATAPs) are research papers that will be of specific interest to people working in tax administration in Africa. The purpose is to encourage and support useful, policy-oriented research by African professionals directly involved in tax administration.

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Summary

Several tax revenue administrations have implemented significant reforms along their journeys with the aim of attaining higher tax revenue collections, improved taxpayer compliance and more efficient service delivery. The results defer from country to country depending on the nature of the reforms implemented and the circumstances surrounding them. This paper analyses and contrasts the tax reforms implemented in Georgia during its post-revolution period (after 2003) with those implemented in Uganda between 1991 and 2014. The analysis seeks to establish why Uganda's reforms did not achieve as much success as those of Georgia even though the two countries' reforms had much in common, and to derive key lessons from Georgia's experience.

Whereas there are rational justifications for the difference in results attained from the two countries' tax reforms, the paper proposes that Uganda – and other countries – can also be successful if similar principles are followed. The key lessons derived from Georgia's experience include: (1) for tax reforms to be successful, they must be driven by both the tax administration leadership and the overriding government leadership; (2) in order to curb corruption, there must be a transformation of mindset of both tax administrators and taxpayers; (3) early success of tax reforms must be matched with visible improvement in public service delivery in order to ensure sustainability of achievements; (4) tax administrators must be empowered to perform their duties without political interference; (5) tax laws and reforms must be applied uniformly to all taxpayers; and (6) salary increments for tax administrators must be matched with an increased probability of detection of corruption and guaranteed termination of employment should a tax administrator be found guilty of corruption.

Keywords: tax reforms, revenue administration, taxpayers, corruption, political interference, organisational restructuring, government reforms, revenue authority.

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Acronyms

FAD	Fiscal Affairs Department
ICT	information and communications technology
IGC	International Growth Centre
IMF	International Monetary Fund
MoFPED	Ministry of Finance, Planning and Economic Development
PPP	Purchasing Power Parity
SARA	semi-autonomous revenue authority
URA	Uganda Revenue Authority
VAT	Value Added Tax

1 Introduction

Tax administration is a fundamental issue in all economies. The ability to domestically raise resources that are sufficient to meet the budget needs of a country is one of the key requirements for substantial development and economic stability. For some countries, it is an accomplishment that requires maintenance, but for others it is a dream to be chased: Uganda falls into the latter category. Uganda, like many other developing countries, has grappled with frail revenue administration for decades, with bouts of improvement along its journey.

Tax revenue administration in Uganda went through a series of reforms in the period 1991–2014, with the height of these reforms occurring between 2004 and 2014. These reforms achieved a lot of improvement in the quality of tax administrators' service delivery, tax compliance and revenue collection. However, in contrast with some other countries that implemented somewhat similar reforms, the accomplishments of Uganda's reforms dwindle. One such country is Georgia. This paper describes the tax reforms of Uganda and Georgia, contrasts them and their results, and suggests reasons for the big difference in the two countries' results. The ultimate goal is to derive lessons from Georgia's reform experience. These can be applied in other countries, including Uganda, going forward.

The paper asserts that Uganda and Georgia's reforms had a lot in common, but a few fundamental differences in them led to a huge difference in the results they each achieved. The two most important lessons from Georgia's experience are pointed out as: first, in order for tax reforms to be highly successful, they must be driven by both the tax administration leadership and the overriding government leadership; and secondly, in order to curb corruption, there must be a transformation of mindset of both tax administrators and the public/taxpayers.

2 A record of tax administration reforms and their achievements in Uganda and Georgia

2.1 Uganda

According to Moore (2014), tax reforms in Anglophone Africa over the last 20 years mainly took on three forms, namely: the introduction of Value Added Tax (VAT), the introduction of improved revenue administration methods (mostly geared towards improving voluntary compliance through better taxpayer–administrator relationships), and the creation of semi-autonomous revenue authorities (SARA). Uganda, which is an Anglophone African country, took on all three categories of reforms as spelled out by Moore.

In 1991, a SARA – the Uganda Revenue Authority (URA) – was created to take over tax revenue administration, which was previously done by the Ministry of Finance, Planning and Economic Development (MoFPED). The creation of the URA was mainly driven by the need to get rid of public sector-related inefficiencies and reduce political influence in revenue administration. In addition, several tax policy reforms were implemented in the 1990s in an effort to increase revenue collections through improved administration. '[S]ome of the major tax policy reforms included: implementation of the Income Tax Act 1997, implementation of the Value Added Tax

(VAT) Act 1996 and establishment of the Tax Appeals Tribunal under the Tax Appeals Tribunal Act of 1997, among others' (Kagina 2015: 10).

At its inception, URA staff salaries were increased, financially elevating them above their counterparts in other public service functions. This was done in a bid to diminish their urge for corruption. Fjeldstad (2005) argues that the URA seemed to be a success in its first few years of operation, as corruption observably reduced and the country's tax to GDP ratio increased from 7 per cent in 1991 to 12 per cent in 1997. However, he notes that, thereafter, the performance of the URA stagnated and it became engulfed in corruption and severe administrative inefficiencies. This was arguably due to lack of efficient leadership/supervision that could have held staff accountable for their acts of corruption. Not surprisingly, in 1999, the president of Uganda, H.E. Yoweri Kaguta Museveni, referred to the URA as a 'den of thieves' and expressed that it needed thorough transformation (Yasiin Mugerwa 2014). The inefficiencies that characterised the URA a few years after its formation were the root of its popular 2004–14 reforms.

In 2004, a new Commissioner General, Allen Kagina, was appointed to head the URA and the agency saw a wave of radical reforms during her ten-year tenure. Soon after her appointment, Kagina implemented thorough organisational restructuring. She flaunted the notion of 'zero tolerance to corruption' through her radical reforms. In order to clean up the corruption-infested staff body, all the employees of the URA were fired, and those who were interested in re-acquiring their jobs had to re-apply for them. Re-appointments were done only for applicants who had kept a clean/corruption-free track record prior to the restructuring. Kagina (2015) states that through the restructuring process, 500 URA staff lost their jobs, and majority of the senior management staff were dismissed. New appointments were made in function-based departments, as opposed to the previous tax type-based departments that made up the agency.

According to Kagina (2015), several other reforms followed the URA's restructuring, some of which were drawn from recommendations made by the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF). The first of these reforms was business process re-engineering, which involved the introduction of information and communications technology (ICT)-based systems for client interface with the agency (registration, filing and payment of taxes) and numerous other electronic systems for efficient management of internal organisational processes, including risk-based auditing. This was followed by many other reforms geared towards improving the agency's brand and achieving voluntary taxpayer compliance through improved service delivery and staff professionalism. Salaries were also increased during her tenure in an effort to improve staff welfare, discourage corruption, and reduce staff attrition. Additionally, in line with Moore's (2014) claim that most Anglophone African countries introduced taxpayer segmentation as part of their major reforms, Uganda introduced taxpayer segmentation in phases along its reform journey, and by 2010, it possessed a dedicated Large Taxpayers' Office and Medium Taxpayers' Office.

Kagina recounts the achievements of the URA's reforms:

The decade of change from 2004 to 2014 produced great results. In an annual press brief, [the] Uganda Revenue Authority (2014) reported that revenue collections had grown rapidly by 317% in the period. Tax contribution to the National Budget grew from 58.7% to 71.5% in the same period. Public perception made a complete turnaround with various sections of society and leaders calling [the] URA a model public institution. The tax education program has increased tax literacy in the business community resulting in increased tax compliance. We validated tax compliance through tax audits (2015: 3–4).

Indeed, several other writers attest to the achievements derived from the URA's reforms; for example, Manwaring (2017) notes that the International Growth Centre (IGC) points to the URA's reforms as an example for others to follow, due to the successes they achieved in delivering client-friendly revenue administration services; and Katusiimeh and Kangave (2015) point out that the URA's reforms resulted in increased revenue collections, raising the percentage of domestic revenue contribution to the national budget from 52.06 per cent at the start of the most recent reforms then to 67.7 per cent in 2010/11.

Despite all the reforms and their undeniable accomplishments, it is still puzzling that other countries, like Georgia, that implemented similar reforms got a much bigger and sustained positive impact. Among other issues, a key indicator of confounding stagnancy in Uganda's revenue administration achievements is the country's persistently low tax to GDP ratio. Despite the seemingly successful recent URA reforms, MoFPED (2014) indicates that Uganda's tax to GDP ratio averaged at 13 per cent between 2004 and 2014, which is way below the average among other sub-Saharan African counterparts, estimated to be 20.28 per cent in 2014 (UNU WIDER 2019). The URA has also frequently failed to meet its revenue collection targets in recent years, a condition that raises questions about the sustainability of its reform achievements.

2.2 Georgia

This section summarises Georgia's tax reform experience, as narrated by the World Bank (2012).

Prior to Georgia's 2003 reforms, its revenue administration was in a dire state. It was characterised by inefficiency at all levels. The tax code was complex and got revised too frequently, creating a sense of ambiguity about true tax liabilities among taxpayers. This, among other factors, provided a big opportunity for corruption as it gave tax officers leeway to impose discretionary tax liabilities on taxpayers, which would culminate in negotiation and bribery. The intense corruption went unchecked for years, and by 2003, it had become a way of life for the people of Georgia. Because of these outrageous criminalities, the tax administration was not collecting sufficient funds to meet national expenditure needs, and the Government of Georgia was in a crisis, failing to meet its financial obligations to its employees and all its citizens.

After the switch of government in 2003, radical reforms were implemented in Georgia's tax administration, in four phases. The *first* phase aimed to change the mindset of people involved the execution of actions sending the message of 'zero tolerance for corruption' to all taxpayers. Among other things, this involved the arrest of prominent public figures for corruption, and hailing the entire country to voluntarily declare their assets and taxes due, or face the consequences of evasion. The *second* stage involved eliminating corruption from the staff body. They did not fire all the staff, as was the case in Uganda, but gave each employee a chance to prove themselves worthy going forward, and all who were caught engaging in corruption thereafter got fired. The *third* set of reform activities mainly aimed at simplifying the tax code and widening the tax base. This involved reducing the number of tax categories, simplifying tax procedures, reducing tax rates, introducing an increment of penalties for noncompliance, introducing cash registers for all VAT taxpayers, strictly enforcing tax laws, and delivering equal treatment for all taxpayers. The *fourth* set of actions involved improving the efficiency of tax administration processes. This entailed introducing electronic tax systems for taxpayer registration, filing, payment, and risk-based audits; and a two-stage dispute resolution mechanism which comprised an internal committee at the first stage and an external board to which taxpayers that were dissatisfied with a first stage ruling could appeal.

These reforms yielded tremendous results including: a tax revenue increment that enabled the government to fully fund its national budget and increased the tax to GDP ratio from 12 per cent to 20 per cent within just a year after reform implementation; a lower tax burden (ranked by Forbes as fourth in having a low tax burden for business); a speedy rise in the World Bank's ease of business rankings; a sustained reduction in corruption (from 13 per cent assertions of tax bribery among firms in 2005 to 3 per cent in 2011); an upsurge in business start-ups (from 205,000 registered businesses in 2003 to 350,000 in 2011); and increased accountability between tax administrators and taxpayers.

3 Contrasting Uganda and Georgia's reform experiences: What did Uganda miss?

3.1 A contrast of the reforms and their results

A comparison of reforms made by Uganda and Georgia reveals that the countries' reforms were somewhat similar. For example, both countries implemented organisational restructuring, improved incentives for their staff, implemented policy changes like levying VAT with a flat rate of 18 per cent, introduced electronic tax systems, improved their taxpayer-administrator relationships, simplified their tax processes, introduced better dispute resolution mechanisms, introduced risk-based auditing supported by electronic tax processes, etc.

However, the magnitude of the results in the two countries differs remarkably. As previously mentioned, Georgia's tax to GDP ratio surged after the introduction of the reforms, but Uganda's tax to GDP ratio only had a small increment at the start of the reforms, and then stagnated at a low average rate of around 13 per cent throughout the remainder of the reform period. Georgia's tax collections increased so much as to fully finance the national budget within just a year of reform implementation, but to this day, though there was an improvement in Uganda's revenue collections, the country has never been able to fully fund its national budget. Georgia shot up in the global ease of doing business rankings (Ministry of Finance of Georgia 2011), but for a big part of the reform period, Uganda continually fell in the ranks (Trade Economics 2018). As recognised by the World Bank (2012), corruption in Georgia sharply reduced, but in Uganda, 'whereas [the] URA implemented various initiatives to improve service, the clients did not feel strongly that enough had been done on [reduction of] corruption' (Kagina 2015: 33). These are some of the differences that present the puzzle under scrutiny. The reforms made by Uganda have had a significant effect but it is small in comparison with that of Georgia. The following paragraphs examine the probable cause for the difference between the two countries' reform results.

The first key difference between the reforms in the two countries was that Georgia's reforms were driven by stronger political will and backing than Uganda's. A OECD/ITC discussion paper (2015) asserts that, among other things, successful revenue mobilisation requires strong political commitment from the highest levels of government. Georgia's reforms involved joint action by the government as a whole; for example, the police, the judiciary, the parliament and other government arms played a major role in the reforms (World Bank 2012). They were not solely driven by the tax administration's leadership, as the case appeared to be in Uganda. The will and drive for change was engrained in both the overriding government leadership and the revenue administration's leadership.

Evidently, 'any country that has the will, strategy, and resources to reform tax administration probably does not need an independent revenue authority – and a country in which these critical ingredients are lacking is unlikely to be successful even if it creates such an authority' (Bird 2012: 5). In Uganda, even though a SARA was formed and several other reforms followed, at a higher level of government/political leadership, the will to drive transformation in tax administration was stronger in words than in action. This is depicted by the government's apparent political interference in revenue administration amidst the reforms, and the lack of committed action by other government agencies to support the tax reforms. Katusiimeh and Kangave (2015) argue that political influence undercut the URA's ability to achieve significant results, as politically connected individuals could easily engage in tax negotiations and receive exemptions, even after such exemptions had been abolished. Besides causing direct revenue loss, such anomalies render the tax system unfair and, needless to mention, it is difficult to elicit voluntary compliance from taxpayers who believe that tax regulations are not fairly/uniformly applied to all. In Georgia, however, even without a SARA being formed, success was achieved. Tax laws and regulations were equally applied to all citizens without political influence or favour. A fundamental inference from this contrast is that tax administration reforms cannot be hugely successful if they are solely driven by the revenue agency; they must be driven by the government as a whole.

Much as Uganda's Commissioner General had the president's support to carry out reforms in the URA, the extent of her radical actions was seemingly confined to URA staff. Through the employment terminations, the URA staff clearly received the message of 'zero tolerance to corruption', but the taxpayers did not, because there was no radical action taken against corrupt taxpayers. On the contrary, Georgia sent its 'no corruption' message clearly to both tax officers and the public through its organisational cleanup and arrest of prominent public figures for corruption. In Uganda, only the mindset of tax officers was transformed, but in Georgia, the entire country's mindset was transformed. With corruption tendencies still being enthused by Uganda's taxpayers, it was only a matter of time before tax officers again succumbed to corruption.

Additionally, the URA's failure to transform the public's mindset undermined the intention of increased staff salaries to deter corruption. One major way of detecting corruption is through whistle-blowers; but since Uganda's taxpayers still endorse corruption, the likelihood of whistle-blowing taxpayers is low. This reduces the probability of staff getting caught/losing their jobs due to corrupt behaviour, making it possible for them to continue reaping the benefits of engaging in corruption while retaining their well-paid jobs. Indeed, several studies have shown that salary increments for civil servants do not necessarily yield a reduction in corruption. A case study of China's civil service revealed that 'relying on pay increase as an anticorruption strategy is far from adequate' (Gong and Wu 2012). Benito *et al.* (2018) also found that higher wages do not reduce incentives for corruption especially if corruption tendencies are morally embraced in the society and the bribes offered are too attractive. Such findings fortify the notion that increased wages do not reduce corruption unless the chance of being caught is high, and job loss for offenders is a certainty. This necessitates more aggressive measures of tracing and punishing corruption if higher salaries are to have any impact. According to the World Bank (2012), cameras were installed in all tax offices in Georgia, generating full-time anti-corruption monitoring. This level of monitoring was not reached in Uganda.

Bird (2012) argues that, among other things, the value attached to government activities affects people's attitudes, which in turn affects their intentions and actions regarding tax compliance. Indeed, if people do not attach much value to the government's activities, they are less likely to comply with tax requirements. This is arguably another key factor that set back Uganda's tax reform achievements. The World Bank (2012) indicates that the Government of Georgia provided

better public services to its citizens after collecting more revenue as a result of the reforms, and the taxpayers were convinced of the need to pay taxes. In Uganda, however, there is no evidence to show that citizens acknowledged receiving better public services as a result of improved revenue collections following the early tax reforms. That is not to say that public services did not improve during the reform period; the key issue here is the perception of the taxpayers. If the taxpayers did not perceive any significant improvement in public services following the success of the first set of reforms, it is logical to conclude that they saw no use for further reform/improvement in tax compliance. This is perhaps one of the reasons why Uganda did not see much sustainability of its achievements from tax reform.

3.2 Examining the comparability of Uganda and Georgia's tax reforms

To make a fair contrast between the two countries' tax administration reforms, the broader picture has to be considered. This requires an answer to the question: 'What circumstances surrounded the reforms in each country?' For the purposes of this paper, finding the answer involves analysing the economic conditions and governance issues that surrounded the reforms in each country, and how these could have affected the reforms.

3.2.1 Economic conditions

According to the World Bank (2019), Georgia's GDP per capita averaged at US\$2,945 (PPP constant 2011 USD) from 1992 to 2002, which was the period preceding the country's reforms. On the contrary, prior to and during Uganda's initial tax reforms, from 1990 to 2003, Uganda's GDP per capita averaged at US\$952 (PPP constant 2011 USD). Clearly, in its pre-reform period, Georgia had a much higher GDP per capita than Uganda, which is indicative of a bigger tax base. Because of this, logically, one would expect Georgia's efforts to tap into its tax base to yield more tax revenue than Uganda's efforts. However, this by itself should not have hampered Uganda's ability to grow its tax to GDP ratio at a considerable rate if its reform efforts matched up to those of Georgia's. One cause for difference in the two country's reform results is perhaps that Georgia's reforms also entailed initiatives to expand the country's tax base, while Uganda's reforms at the time were mainly focused on collecting more tax revenue from the existing tax base.

3.2.2 Governance issues

At the time of its tax administration reforms, Georgia was in the process of radical national transformation following its popular Rose Revolution that saw the nation get a new leader. During this peaceful revolution, 'not one person was injured, not a drop of blood was spilled' (BBC 2005). However, the period preceding the revolution was not as rosy as its termination. Among other letdowns, the nation was 'characterized by centralization, non-existence of a legal framework and protection of property rights, strong vertical hierarchy of most political and economic structures as well as massive corruption and widespread existence of shadow economies' (Rinnert 2012). This state of affairs was the new president's motivation for implementing a full-blown reform agenda. As such, Georgia's tax administration reforms were part of a bigger set of reforms that were intended to transform Georgia's entire government system. This involved comprehensive transformations in the police (*ibid.*), government ministries, trade sector, etc. (Berishvili and Shengelia 2014). The reforms in the other sectors of government were doubtlessly instrumental contributors to the successful transformation in the country's tax administration.

Uganda's tax reforms, on the other hand, did not follow a spectacular national revolution and were not concurrent with reforms in other divisions of government. At the time of its reforms, Uganda was enjoying a relatively stable political environment and was in no hurry to transform other government bodies. This, perhaps, is part of the justification for the difference in the two countries' reform results. If the country was experiencing a holistic government reform at the time of its tax reforms, possibly the story would have been different.

However, it could be argued that from some perspectives, Uganda's current state of affairs is similar to that of pre-revolution Georgia. Opinions about the country's current socioeconomic condition vary widely among nationals, depending on one's political affiliation and personal views. What is indisputable, however, are the bare facts that have over time become common knowledge to the average Ugandan; for example that the country, though it desires to do so, is unable to fully fund its national budget domestically; that institutional failures like weak (almost non-existent) enforcement of property rights ail the country; that there is a chronic shortage of drugs and essential equipment in public hospitals; and that key government agencies like the police and the judiciary are mired in corruption, etc. In several national-scale surveys – including ones conducted by Uganda's Inspectorate of Government in 2012, the Uganda Bureau of Statistics in 2015, and the Afrobarometer and Transparency International in 2015 – the Uganda Police Force was named as the most corrupt institution in the country (Kato 2016). According to Wesaka (2018), the police and the judiciary, both of which are mandated to fairly enforce the law and deliver justice to Ugandans, perennially rank highly among the most corrupt institutions in the country. Such are the detrimental conditions that motivated Georgia's post-revolution leader to implement the radical changes that took place.

A country does not require a political revolution to implement effective reforms. All it requires is a change in leadership direction, and a motivation for this change. In Uganda, and other developing countries, the motivating factors are in abundance. The change in leadership direction could come through a change of the political leader or a change in the leadership course of the existing leader. The former is a more sure way to achieve success but achievement through the latter is possible, and it is perhaps a more feasible route for Uganda and other developing countries that have had long-standing political leaders whose regimes have no definite end in sight. Georgia's change in leadership direction came with a change of its president, but Uganda need not wait for a change of president to experience similar transformation. It was not the act of changing the political leader that caused the transformation in Georgia but the actions of its new leader. Hence, if the current president of Uganda borrowed a leaf from Georgia's experience and implemented radical and holistic government transformation, the country could experience similar reform in its tax administration and in the government as a whole: success is within reach! This reinforces the argument that in order for the transformation of a country's tax administration to be successful, it has to be spearheaded by the country's leadership at the highest level.

4 Proposal of a way forward for Uganda: Key lessons from Georgia's experience

When designing future tax reform agendas, Uganda, and other countries seeking to effectively transform their revenue administrations, need to consider the following lessons from Georgia's experience.

The most important lesson is that in order for tax administration reforms to be momentarily successful, they must be driven by the will and zeal of both the revenue administration leadership and the overriding government leadership. Support from, and if need be, reform of other government sectors is required, and practical expression of political will by government leaders is fundamental. As Bird rightfully put it, 'If the political will is there, the techniques needed for effective tax administration are not a secret' (2012: 2).

The second most important lesson is that in order for tax reforms to successfully eliminate corruption and elicit compliance, they must be designed to ensure the mindset transformation of not only the tax administrators but also the public/taxpayers. The subsequent lessons are not necessarily listed in order of importance.

Any early successes derived from tax reforms need to be matched with tangibly better delivery of public services. In order for the government to achieve sustainability of reform achievements, it needs to ensure that taxpayers witness benefits from their improvement in compliance, through receiving noticeably better public services.

The government needs to empower its tax administrators to carry out their duties without political interference or discretionary limitations. Tax laws/reforms ought to be applied uniformly to all taxpayers in order for them to be accepted as legitimate, even though they may be undesirable.

In order for salary increments to successfully deter corruption among tax administrators, they need to be matched with a higher chance of detection should an employee be involved in corruption, and guaranteed termination of employment when found guilty. This requires implementation of aggressive monitoring measures, such as the camera surveillance utilised in Georgia, and strict enforcement of relevant regulations.

5 Conclusion

Tax reforms in Uganda and Georgia took similar routes, but a few fundamental differences caused a tremendous difference in the results. Georgia achieved an incredible improvement in its tax administration efficiency and revenue collections, much more so than Uganda.

The key lessons to be learnt from Georgia's experience include: (1) for tax reforms to be successful, they must be driven by both the tax administration leadership and the overriding government leadership; (2) in order to curb corruption, a transformation of mindset must take place for both tax administrators and taxpayers; (3) early success of tax reforms must be matched with visible improvement in public service delivery in order to ensure sustainability of achievements; (4) tax administrators must be empowered to perform their duties without political interference; (5) tax laws and reforms must be applied uniformly to all taxpayers; and (6) in order to reduce corruption through salary increments for tax administrators, the salary increments must be matched with an increased probability of detection of corruption and guaranteed termination of employment on being found guilty.

Uganda, and other countries that may seek to exceptionally transform their tax administrations in the future, will undoubtedly achieve tangible results if the aforementioned factors are taken into consideration.

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