



## CURBING FINANCIAL LEAKAGES TO ENHANCE DOMESTIC RESOURCE MOBILIZATION

*"Un masking Financial leakages in Uganda's economy"*

### TERMS OF REFERENCE.

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#### Introduction

SEATINI Uganda in partnership with Tax Justice Network Africa (TJNA) is implementing a project titled: "Capacity Building to Address Illicit Financial Flows and Boost DRM". The Scaling Up Tax Justice (SCUT) project seeks to promote financial transparency and accountability and increase domestic revenue mobilisation in Africa. One of the activities to be implemented is to develop a policy brief on curbing illicit financial flows to boost domestic revenue mobilization.

#### Background

Domestic resource mobilization is the only sustainable way of financing for development in many African countries. It is a cornerstone upon which every aspect of economic development and public welfare relies. According to the [Addis Ababa Action Agenda \(AAAA\)](#)<sup>1</sup> on financing for development, domestic resource mobilization is one of the action areas that are key to the achievement of the post-2015 development agenda and the Sustainable Development Goals (SDGs). The African Union (AU) also established the Agenda 2063<sup>2</sup> which is a strategic framework for the socio-economic transformation of the continent over the next 50 years. One key pillar on which the initiative rests is that Africa should be self-reliant and finance its own development. However, money increasing leaves the continent which greatly affects service delivery.

In 1997, Uganda fully liberalised the capital market allowing free movement of capital in and out of the country according to the private capital flows report by the Bank of Uganda. The magnitudes of capital flows of a long-term and short-term nature are not fully known as mechanisms for recording and monitoring such flows are either non-existent or inadequate<sup>3</sup>.

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<sup>1</sup> Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) [AAAA Outcome.pdf \(un.org\)](#)

<sup>2</sup> [Agenda 2063 | African Union \(au.int\)](#)

<sup>3</sup> PRIVATE CAPITAL FLOWS SURVEY 2001 REPORT



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Uganda recorded a capital and financial account deficit of 423.60 USD Million in the first quarter of 2023<sup>4</sup> Like many developing economies, Uganda faces challenges in understanding and managing the diversity of financial leakages that underpin its economic landscape.

One of the ways through which money leaves Uganda is through licit and Illicit financial flows (IFFs). Several studies have tried to estimate the total amount of IFFs in Africa. However, due to the secret nature of IFFs and the absence of a universally accepted definition, it is extremely difficult to accurately track them, and estimates can vary considerably. Yet, it is generally accepted that IFFs most certainly surpass aid flows and investment in volume in Africa.<sup>5</sup> Keeping that in mind, Uganda alone is estimated to be losing in the excess of Shs2 trillion annually in illicit financial flows.<sup>6</sup> This encompasses activities like tax evasion, money laundering, transfer pricing manipulations and corruption which continue to erode Uganda's economic stability. In 2019, UNCTAD research noted Africa loses approximately 86bn annually as a result of IFFs.

Despite Uganda's efforts to strengthen its financial institutions and regulatory frameworks, there has been a persistent lack of comprehensive data on specific channels through which financial leakages occur. This knowledge deficit affects the effective policy making, financial stability and domestic resource mobilization and as a result, government is deprived of vital revenue reducing opportunities for the much-needed public services and infrastructure development.

To effectively address these challenges, Uganda needs a comprehensive understanding of the drivers and actors involved in the financial leakages to identify the gaps in the enforcement of the existing regulatory landscape, areas of improvement and explore international best practices for curbing illicit financial flows.

It is upon this background that, SEATINI Uganda in partnership with Tax Justice Network Africa would like to develop a Policy brief on *"Unmasking financial leakages in Uganda's economy"*

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<https://bou.or.ug/bouwebsite/.content/search/index.html?lq=private+capital+flows+survey+2001+report&reload ed=&q=private+capital+flows+survey+2001+report&sort=score+desc>

<sup>4</sup> <https://tradingeconomics.com/uganda/capital-flows>

<sup>5</sup> <https://www.oecd.org/tax/transparency/documents/tax-transparency-in-africa-2023.pdf>

<sup>6</sup> <https://www.tralac.org/news/article/12890-illicit-financial-flows-cost-uganda-shs2-trillion.html>



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aimed at providing evidence-based recommendations for policy reforms and improved enforcement mechanisms as a powerful tool to curb illicit financial flows and enhance domestic resource mobilization in Uganda.

### **Specific Objectives**

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- To identify the key financial leakages (drivers and actors) involved at various levels and their impact on Domestic Revenue Mobilisation.
- To analyse the legal and regulatory frameworks in line with the regional and international commitments made by Uganda.
- Come up with recommendations on how to close the financial leakages to enhance domestic revenue mobilisation in Uganda.

### **Duration**

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The policy brief is expected to be completed within one month from the date of contract signing.

### **Expected Deliverables**

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A policy brief (6-7 pages) developed on Un masking financial leakages in Uganda's economy to be submitted to SEATINI-Uganda.

Submission deadline by COB on 12<sup>th</sup> November 2023 to [procurement@seatiniuganda.org](mailto:procurement@seatiniuganda.org).