Conducting a study on the Revenue Potential of Uganda's Mining Sector

TERMS OF REFERENCE FOR CONSULTANCY SERVICES

SEATINI

Strengthening Africa in World Trade

UGEITI

Uganda Extractive Industries Transparency Initiative

OXFAM

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1. Background

The mining sector is playing an increasingly significant role in Uganda's economy. Uganda has close to 27 mineral types in commercially viable quantities including iron ore, gold, copper, cobalt, uranium, marble, limestone, phosphates and graphite, among others. In the 2022 – 2023 financial year, mining contributed 2.2% to the national GDP, according to data from the Uganda Bureau of Statistics. Th sector holds considerable potential for growth, employment generation, and foreign exchange earnings, tax and non-tax revenue among others. The importance of the sector is witnessed by its potential as highlighted in Vision 2040, the National Development Plan IV, and attainment of the Ten-Fold agenda by 20240 as well as industrialization and structural transformation.

In 2023, the government commenced extensive geological, geochemical, and airborne geophysical surveys which were at 80% completion. The preliminary results show new mineral potential in nickel and Platinum Group Metals (PGMs) in the Iganga gabbro intrusion; gold in Moroto, Zeu-Zombo, Kitaka-Buhweju, Kaliro-Ivukula and Aboke-Aloi; and marble in Moroto. Additionally, kimberlite with diamond potential was found in Kidera, Southeast of Uganda, while chromite was identified in Nakiloro, Moroto. Other significant potential was found for copper, cobalt, and some Rare Earth Elements (REE) in Naigobya; phosphates in Bukusu, iron ore in Mayuge and Bukusu, tantalite and tungsten in Southwest Uganda, diatomite in Pakwach, kaolin and bentonite clay in Kasio-Tonya, Hoima, and uranium in Mukuutu. The discoveries are anticipated to attract substantial investment and enhance the country's mineral sector.

The Problem

The mining sub-sector has great potential of contributing to economic growth and poverty alleviation through mineral exports, local consumption, manufacturing, employment generation and diversification of the economy and perhaps contribute to development of backward and forward linkages in resource rich regions like Karamoja and Uganda at large. Despite its huge potential, the mining sector remains unable to contribute significantly to domestic revenue mobilization efforts of the country. For instance, the macro-economic data provided by the Uganda Bureau of Statistics (UBOS) indicates that the mining and quarrying sector accounted for UGX 2,266.31 billion in the FY 2019/20 which represents 1.63% of the national GDP on current basic prices, including 1.17% from formal sector activity and 0.46% related to informal sector activities. The contribution of the mining and quarrying sector to GDP has decreased compared to the prior year's contribution (1.72%).

In terms of revenue, according to the Uganda Extractive Industry Transparency Initiative (UGEITI) Report FY 2022-22, the extractive sector contributed 0.6% to government revenue. Nevertheless, there was an increase in the sector's contribution to government revenue in the FY2021/22. The sector contributed UGX 411.38 billion, accounting for 1.43% of the total domestic revenues in the FY 2021-22.

It is imperative to note that the mining sector continue to contribute to revenue loss due to tax expenditure, especially the exemptions, specifically the reductions being awarded under the Corporate Income Tax (CIT) and Value Added Tax (VAT). According to the Tax Expenditure Report Financial Year 2022/2023, under rate reliefs, the payment of Service Fees by mining and Petroleum Licensees benefit from a relief from 15% to 10% and this since FY2018/19 to FY2022/23 has made Uganda to forego an estimated revenue amount to UGX. 17.91bn, UGX.11.22bn, UGX. 6.23bn, UGX. 23.63bn and UGX. 27.93bn respectively indicating an upward increase in revenue loss.

Furthermore, Allowances under the VAT, specifically, Deemed VAT payment on supplies by a contractor to a license under mining or petroleum operations; Deemed VAT on supplies to a contractor executing an aid funded project and Deemed VAT on supplies by contractors executing aid funded projects to a government ministry, department or agency contributing to Revenue Foregone Estimated at UGX. 449.30bn, UGX. 410.78bn, UGX. 556.93bn, UGX. 712.07bn, UGX. 740.90bn, for the FY FY18/19, FY FY19/20, FY20/21, FY21/22, and FY22/23 respectively. This indicates that revenue forego under VAT is increasingly taking an upward trend[1]. Thus, there is a need to undertake a cost-benefit analysis on revenue foregone to ascertain if it is commensurate with the anticipated or intended benefits.

The sector is also reported to contribute to revenue loss through illicit financial flows. The flows are anticipated to originate from various sources ranging from tax, for instance, tax evasion and avoidance, commercial activities, mis-invoicing, transfer-mispricing corruption, bribery, smuggling of high-value, low-weight commodities such as diamonds, gold, and other precious metals among others. Furthermore, the low revenue collection from the sector is being attributed to poor registration for different tax heads, for instance, PAYE and Withholding Tax by the mining companies; failure of the licensed companies to file their returns; under declaration of revenue from mining operations; mispricing of mineral which has resulted in under declaration among others.

The sector is also faced with failure to embrace mineral beneficiation or value addition which has made it contribute low tax and non-tax to Uganda's resource envelop due to exportation of

[1] Tax Expenditure Report Financial Year 2022/2023; https://www.finance.go.ug/sites/default/files/reports/Tax%20Expenditure%20Report%20FY22-23.pdf, page 17 and 18.

unprocessed minerals. According to the UGEITI Report 2021/22, it indicated that some companies were authorized to proceed with unprocessed exportation.[2]

Based on this, Oxfam in partnership with SEATINI Uganda and the Uganda Extractive Industries Transparency Initiative (UGEITI) Multi-Stakeholder Group (MSG) would like to conduct a comprehensive study to assess the revenue potential of Uganda's mining sector. The study will assess the current contribution, future prospects, and strategic interventions needed to fully realise the fiscal potential of the mining sector.

2. Objectives of the Study

The ultimate objective of the study is to assess the revenue potential of Uganda's mining sector and propose actionable strategies to enhance optimum revenue collection from the sector for inclusive and sustainable development. Specifically, the study will:

1. Analyse the existing legal and regulatory frameworks and practices hindering effective revenue collection from Uganda's mining sector and gaps therein
2. Track revenues collected and lost (tax and non-tax) from minerals and related activities for the last 5 years (2020/21 - 2024/25)
3. To identify potential gains and losses in case of tax expenditure being awarded to mining companies in line with the criteria agreed upon in the Uganda's Domestic Tax Laws, international good practices and Uganda's Local Content policy
4. To assess Uganda's Mineral Beneficiation/Value addition in line with African Mining Vision and attainment of the National Ten-Fold Growth Strategy, especially Track 6[3]
5. Provide policy and practice recommendations for enhancing mineral tax and non-tax revenue mobilization and reducing revenue loss for economic and sustainable development

4. Methodology

The consultant/team will use a mixed-methods approach including:

- Desk review of existing literature, policies, reports, and data
- Quantitative data analysis (national statistics, production, trade, etc.)
- Key informant interviews (government, private sector, communities)

[2] UGANDA EITI Report for Fiscal Year 2021/22 OCTOBER 2024 https://www.ugeiti.org/wp-content/uploads/2024/10/UGEITI-Report-2021-2022.pdf page 10
[3] Ministry of Finance Planning and Economic Development Ten-Fold Growth Strategy https://www.finance.go.ug/sites/default/files/reports/TENFOLD%20PRINT%20VERSION%20.pdf, page 35

- Stakeholder consultations and validation workshops

5. Deliverables

- **Inception Report**: Detailing methodology, work plan, and data needs
- **Draft Report**: Comprehensive analysis and preliminary findings
- **Validation and dissemination workshop**: Presentation of findings to key stakeholders
- **Final Report**: Incorporating feedback and finalized recommendations
- Presentation of study findings in the different dissemination workshops.
- **Policy Brief**: Develop 3 policy briefs providing a summary of key findings and policy actions

6. Timeline

The assignment is expected to be completed within 3 months, with key milestones as follows:

- Inception Report: Week 1
- Data Collection and Analysis: Weeks 2–9
- Draft Report: Week 10
- Validation Workshop: Week 11
- Final Report: Week 12

7. Qualifications of the Consultant/Team

- The lead consultant should have relevant professional or management experience in natural resources, specializations in areas like mineral exploration, mine planning, ore processing, and environmental management.
- Should hold Honor's Degree in either, Mineral Processing and Extractive, Law, Tax, international relations, public policy, development economic, Commerce or other relevant degree from a reputable university/institution master's degree.
- Experience in mineral resource, and sector related, development economics, or related fields.
- Knowledge of Uganda's mining sector and institutional landscape.
- Experience with policy and strategic advisory is an added advantage.
- Experience in mineral development, trading and fiscal policy.
- Thorough knowledge of the Fiscal policy and analytical skills.
- Excellent skills in written and spoken English.
- Flexibility and innovative approach to problem solving

8. Reporting and Coordination

The study will be commissioned by SEATINI Uganda, together with Oxfam, and supervised by SEATINI and Oxfam Finance for Development Coordinators. Regular updates will be required throughout the study period.

9. Application process.

Interested bidders will have to submit both a technical and financial proposals for the task on procurement@seatiniuganda.org. The deadline for submission ***is 3rd August 2025.***