Discussion paper

Foreign aid and stimulating domestic revenue mobilisation in Uganda and Kenya

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Summary

The role of official development assistance (ODA) in supporting developing countries to enhance and generate domestic revenues (specifically tax revenue) has been the centre of much debate in the development discourse. With the adoption of the Sustainable Development Goals (SDGs),[1] great focus has been put on the need to map available domestic resources to finance developing countries' development agendas.

At a time when there is need for countries to assess and account for the effectiveness of aid to a recipient country's development, this discussion paper looks at ODA intended to stimulate domestic revenue mobilisation in Kenya and Uganda for poverty reduction and development.

Key learnings

- Tax revenue makes up the biggest proportion of total revenue for Uganda and Kenya, and was over 80% in fiscal year 2013/14 for both countries, while grants and non-tax revenue made up less than 20%.
- Norway is the largest funder of ODA to domestic revenue mobilisation activities in Uganda while the United States is the largest funder of ODA for Kenya's domestic revenue mobilisation activities.
- ODA to domestic revenue mobilisation in Uganda and Kenya is mainly towards projects that support domestic revenue mobilisation activities indirectly but whose main objectives are not domestic revenue mobilisation (termed 'wider projects' in this paper) as opposed to projects whose main objectives are primarily to support domestic revenue mobilisation activities ('core projects').
- Uganda's ODA funding to core domestic revenue mobilisation activities was mainly channelled to capacity building for oil revenue management.
- Kenya's funding to core domestic revenue mobilisation activities was to the Tax Justice Network, Africa and institutional collaboration between the Swedish International Development Cooperation Agency (Sida) and the Kenya Revenue Authority (KRA).
- Donor assistance to domestic revenue mobilisation has contributed to managing and administrating taxes in Uganda and Kenya through automating revenue collection systems, facilitating trade and building tax-related capacity.
- There is potential for more core projects to support domestic revenue mobilisation, especially towards innovative ways of taxing the informal sector, to further boost revenues.

Contents

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Acronyms

ASYCUDA	Automated System for Customs Data
DANIDA	Danish International Development Agency
DFID	Department for International Development
DI	Development Initiatives
EAC	East African Community
FFD	Financing for Development
GDP	Gross domestic product
GNI	Gross national income
ICTD	International Centre for Tax and Development
IMF	International Monetary Fund
KRA	Kenya Revenue Authority
MDG	Millennium Development Goal
NGO	Non-government organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay as you earn
SDG	Sustainable Development Goal
SSA	Sub-Saharan Africa
URA	Uganda Revenue Authority
VAT	Value added tax

Introduction

The role of official development assistance (ODA) in supporting developing countries to generate increased domestic revenues (specifically tax revenue) has been the subject of much debate in the development discourse. This is because attributing the impact of ODA investments on revenues has been challenging, a result of limited data quality and the fungible nature of ODA especially channelled through budget support.

With the adoption of the Sustainable Development Goals (SDGs),[1] great focus has been put on the need to map available domestic resources and alternatives to finance developing countries' development agendas.[2] This need has been further highlighted by Agenda 2063, which emphasises the need for countries to strengthen their domestic revenue mobilisation efforts for better development.[3]

This paper (see box below)[4] comes at a time when providers of development assistance need to assess and account for the effectiveness of aid for the recipient country's development in terms of value for money.[5]

This research takes the form of a discussion paper and looks at ODA to Kenya and Uganda that is aimed at increasing domestic revenue mobilisation. In addition to the introduction, this discussion paper includes a methodology section, a literature review that summarises selected studies on ODA supporting tax revenue collection; analysis and research from Kenya and Uganda, including key findings; and a conclusion.

Methodology

This research has adopted both quantitative and qualitative data to inform the analysis and findings. For the statistical data, the figures used are a result of a keyword search methodology of detailed domestic revenue mobilisation projects reported in the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee's Creditor Reporting System (CRS) database. The data was divided into two categories: core ODA to domestic revenue mobilisation for which its primary purpose is to directly support domestic revenue mobilisation activities,[6] and wider ODA to domestic revenue mobilisation where the primary objective is not towards domestic revenue mobilisation activities, yet the funding supports domestic revenue mobilisation.[7]

Furthermore, this paper has taken into account the challenges related to attributing ODA to tax revenue collection so as not to make inaccurate assertions and conclusions. For the qualitative data, a detailed literature review was undertaken that considered both the academic and policy contributions to this area of study, to show the importance of domestic revenue mobilisation to development and ways in which it has been supported through ODA.

Kenya and Uganda were chosen as countries for this research because Development Initiatives has a physical presence in both countries, and there are investments of ODA to support tax revenue enhancements and generation in both countries. In addition, both countries are partner states of the East African Community (EAC), which is in the process of harmonising some revenue processes and procedures in order to facilitate better and more efficient trade in East Africa.

Development Initiatives (DI) through a research grant from the International Centre for Tax and Development (ICTD) conducted this research to show ways in which ODA has supported tax revenue collection in Kenya and Uganda. The purpose of this assignment is to contribute to the growing body of research on understanding the role being played by ODA in supporting developing countries to enhance domestic revenue mobilisation. The views in this paper are DI's own and not necessarily the views and opinions of ICTD.

Literature review

The Millennium Development Goals (MDGs) adopted in 2000 and subsequently the Sustainable Development Goals (SDGs) of 2015 changed the development landscape for donor countries and institutions as well as for developing countries. But more importantly, there is a renewed focus on how to finance development and poverty reduction over the next 15 years, through the mobilisation of domestic resources in developing countries, as indicated in the Addis Ababa Action Agenda.[8]

Domestic revenue mobilisation is highly significant for a country's development[9] as it entails generating savings from domestic resources and allocating these to economically and socially productive investments. These resources are from both the public and private sector, in the form of tax and non-tax revenue.[10] The emphasis on domestic revenue mobilisation dates back to the Monterrey Consensus in 2002 to meet the MDGs and was reaffirmed during the Third International Conference on Financing for Development held in Addis Ababa in 2015. This meeting led to the creation of the Addis Tax Initiative that will see a concerted effort by international actors to support domestic revenue mobilisation in developing countries.[11] In addition, Agenda 2063 emphasises the need to strengthen domestic revenue mobilisation in order to build effective, transparent and harmonised tax and revenue collection systems.[12] This literature review next looks at why domestic revenue mobilisation is taking centre stage in financing development, especially in sub-Saharan Africa (SSA); and the opportunities for domestic revenue mobilisation in SSA.

Several reports have pointed out that domestic revenue mobilisation is taking centre stage in development financing due to a number of changing global dynamics. The Center for Global Development suggested that aid commitments made in 2005 under the Commission for Africa were far short of what was needed to meet the MDGs, and emphasised the need for domestic revenue mobilisation efforts to be enhanced and supported in developing countries to finance their development agendas.[13] The North–South Institute[14] argues that more stable and sustainable modes of development finance are needed, following the general uncertainty and volatility of aid flows during the global economic crisis.[15]

The ability of a state to move away from aid dependency is measured by its ability to generate its own revenue. Furthermore, the literature suggests that taxation is a useful indicator of state capacity.[16] Several authors have argued and concluded that reducing aid dependency is determined by the degree to which the state engages in learning-by-doing in the public sector, a process that is greatly affected by the level of aid in relation to overall revenue and the initial institutional conditions.[17] Thus, the amount and consistency of government revenues reveals the level of capacity that exists within the state apparatus.

Establishing the relationship between ODA and domestic revenue mobilisation is complicated by data quality, and econometric and statistical modelling challenges.[14] The most common tax indicator considered when assessing the impact of ODA on domestic revenue mobilisation is 'tax effort'.[18] A number of organisations use tax revenue as a share of GDP as the main indicator for tax effort.[13,14,19,20] Tax proportions, according to the literature, are highly dependent on the level of development and the economic structure through GDP per capita, the degree of openness of the economy, the agricultural and/or industrial share of GDP, and in some cases population growth.[21]

The most common arguments for increasing the role of domestic revenue mobilisation in financing development centre around sustainable development and effective state-building, including the ability of low income countries to pay their own wage bills,[22] and to access additional resources through attaining the most effective resource mixes (grants, concessional loans or loans) geared to the fight to end poverty. Strengthening tax institutions is viewed as an important component of state-building, which helps to improve accountability relationships between a government and its citizens.

Countries in SSA have experienced a sustained period of economic growth supported by some economic diversification, high commodity prices (especially oil) and enhanced tax revenue collection. This has seen SSA countries raise tax revenue at higher rates than during previous periods[20,23,24,25,26]

Despite these efforts, however, mobilising domestic resources, especially tax revenue, continues to be a major challenge for developing countries.[27] As KFW-Development Research[19] and Real Instituto Elcano[20] point out, low-income countries tend to have a small tax base and hence low tax revenue relative to their spending needs, which is one of the reasons they receive aid.[28] The small tax base in such countries is driven by low incomes combined with limited institutional capacity. The formal wage sector accounts for a small share of employment, as most workers are in the informal or agriculture sectors, with low earnings that are difficult to tax or below any reasonable threshold for tax liability. Capacity weaknesses in the revenue administrations further exacerbate these obstacles to tax collection.

Trade taxes represent over one-third of all tax revenues in SSA economies.[29] This is substantially higher than in other regions.[30] However, despite the potentially high return for investing development aid in tax-related assistance, only limited funds have been targeted at this sector.[31] Core aid for domestic revenue mobilisation from the OECD totalled US$92.8 million in 2013, which is 0.6% of total ODA.[32] African Union, NEPAD[33] argues that while tax revenue collection has improved in many African countries since the 1990s, there are many leakages and 'gaps' to be plugged, and more effective tax administration could contribute to improving revenues.

Developing countries face severe fiscal constraints to finance their development and growth agendas that are related to political, economic, institutional, and social issues. ODA can and in some cases does play a significant role in plugging the fiscal gap and supporting development especially in the social sectors of education and health.

ODA can support domestic revenue mobilisation efforts in developing countries by being targeted at tax policy design and tax policy administration, and by leveraging private sector financing and operators in the informal economy.[34] This discussion paper shows how ODA has stimulated and supported domestic revenue mobilisation efforts in Uganda and Kenya.

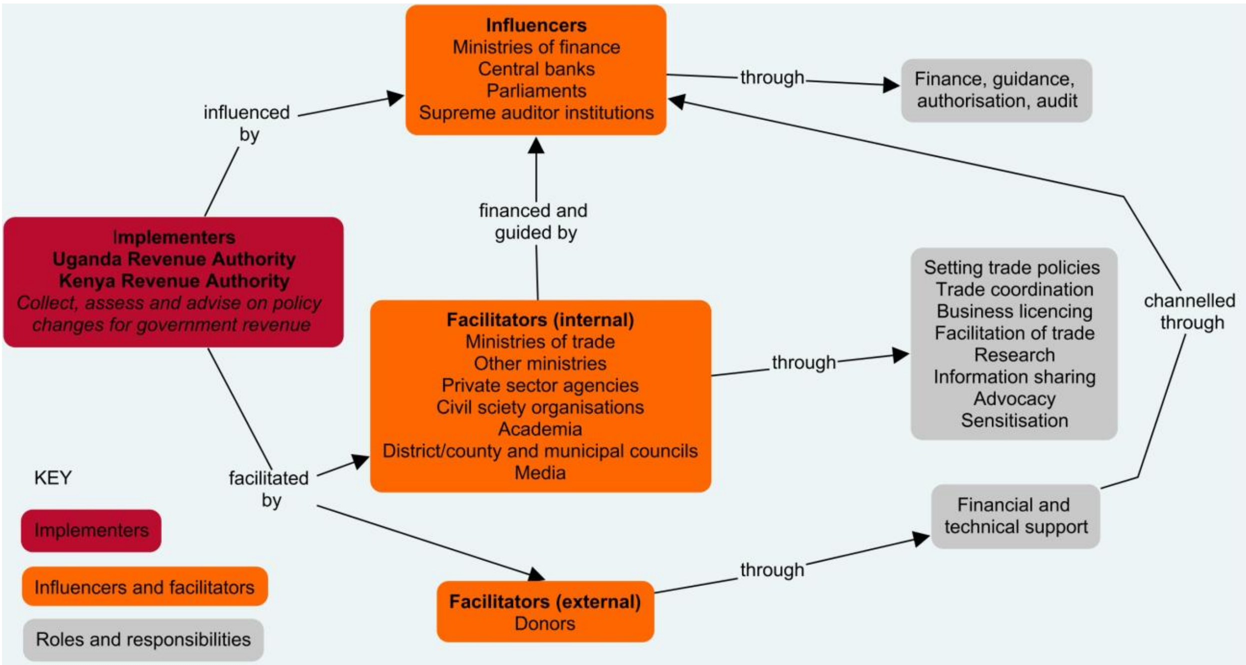
Analysis and findings

This section analyses domestic revenue mobilisation, centring on its administration, collection and the management of tax collection in Uganda and Kenya, assessing the revenue composition in these countries, and revenue enhancement efforts over the years. The findings demonstrate that ODA has stimulated domestic revenue mobilisation in Uganda and Kenya.

Domestic revenue mobilisation and tax composition in Uganda and Kenya

Domestic resource mobilisation (DRM**)** is a crucial element for a country's development, as it is the most sustainable and reliable source of government revenue. In most developing countries, it is mainly generated through taxation and other revenue generation sources including fines and fees.[35] In Uganda and Kenya, the Uganda Revenue Authority (URA) and the Kenya Revenue Authority (KRA) were established in 1991 and 1995 respectively with the mandate to spearhead the collection of domestic resources, including providing policy advice to the ministries of finance on revenue collection.[36] The revenue authorities also work with other government ministries, departments and agencies, civil society organisations, academia, private sector agencies, donors and non-governmental organisations (NGOs). These are categorised into implementers, influencers and facilitators in Figure 1 – also see Annex 1 for more details.

Figure 1: Domestic revenue mobilisation stakeholder mapping for Uganda and Kenya

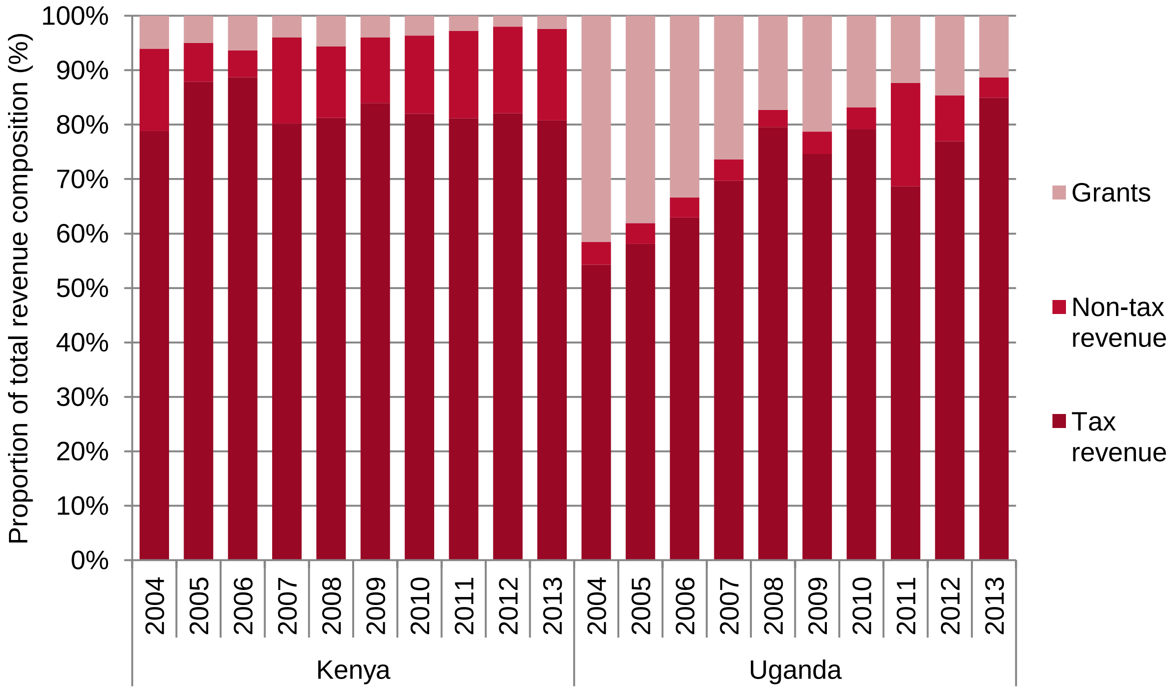


Source: Development Initiatives

Revenue mobilisation is a continuous effort in both Uganda and Kenya. Both governments have adopted mechanisms to improve administration, compliance and collection of taxes. Revenue collection has increased over time in Kenya and Uganda, with tax revenue making up the largest component – see Figure 2. In Uganda, tax revenue collections as a proportion of total revenue increased from 54% in 2004 to 85% in 2013.

The increase in tax revenue is partly a result of tax reforms and administration undertaken by the URA to increase the country's tax compliance, including sensitisation on the importance of tax as indicated later in this paper. In Kenya tax revenue collection has also increased, from 79% of the country's total revenue in 2004 to 81% in 2013. The proportion of grants, including ODA over these years has, however, been declining in both countries: from 5% in 2005 to 2% in 2013 in Kenya and from 38% in 2005 to 11% in 2013 in Uganda – see Figure 2.

Figure 2: Tax revenue composition for Uganda and Kenya, 2004–2013



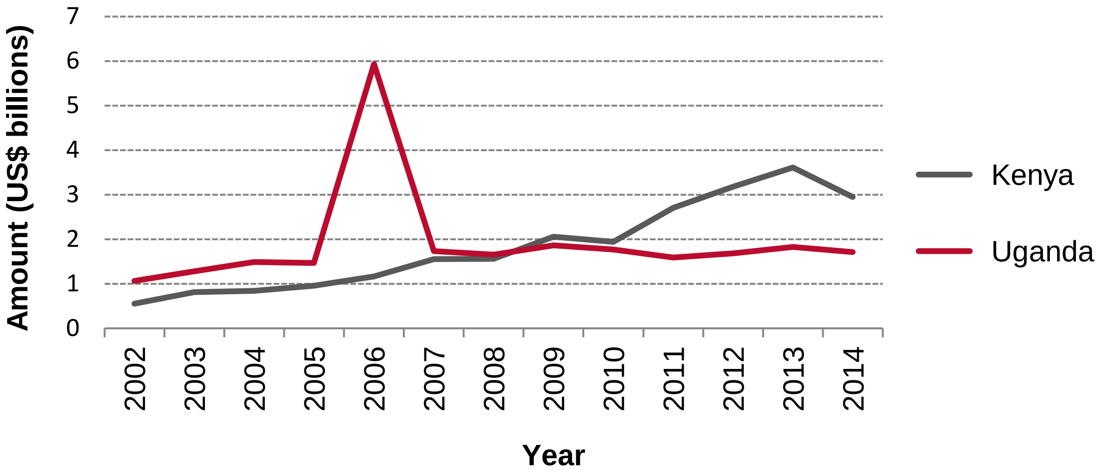
Source: ICTD Government Revenue Dataset (2015)

Taxes make up the biggest proportion of revenue in both countries: over 80% in 2013 for both Uganda and Kenya. This can be attributed to increased performance of sectors like manufacturing, transport, communication, and retail and wholesale. And also to the continuous tax reforms to increase tax revenue collection and management, reducing cases of evasion, and the increased capacity building efforts provided to this agenda, especially through ODA. The formal sector is, however, still the largest contributor to public tax revenue through pay as you earn (PAYE) and corporate taxes, among others. The informal sector is contributing very little tax to revenue, though it makes up 43% of Uganda's growing economy[37] and employs about 78% of the total workforce, compared with Kenya's 59% of the total workforce.

ODA disbursements and economic performance in Uganda and Kenya

ODA disbursements to Uganda and Kenya have increased substantially, by 430% for Kenya since 2002 (from US$556 million in 2002 to US$2.95 billion in 2014) and by 61% for Uganda (from US$1.066 billion in 2002 to US$1.71 billion in 2014). However, in recent years, the disbursements to Uganda have been smaller than to Kenya, as indicated in Figure 3. Similarly, per capita ODA for Uganda decreased by 20.11% between 2007 and 2013 (from US$57.9 to US$46.3), while in Kenya it grew by 107.95% (from US$36.6 to US$74.1) during the same period.[38] ODA to Kenya has, however, risen sharply in absolute terms, given the increasing humanitarian situations in Kenya, while ODA to Uganda is declining.

Figure 3: Gross ODA disbursements to Uganda and Kenya, 2002–2014, constant prices



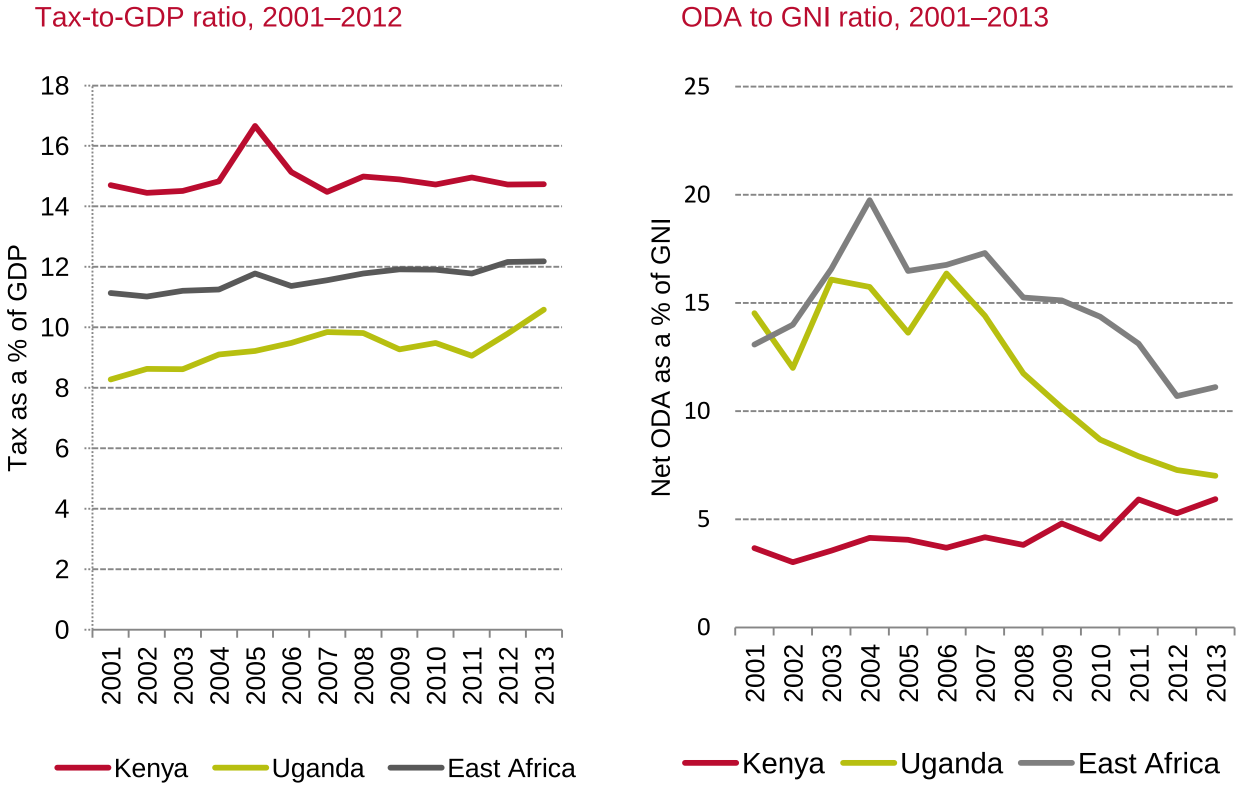
Source: *OECD CRS database, accessed 8 February 2016.*

Uganda experienced a spike in its ODA in 2006, as a result of its debt cancellation. Much as this was a great reduction in the country's indebtedness, Uganda's economic growth remained low due to other factors, including high interest rates, volatility of the exchange rate, and changes in global oil and commodity prices. Kenya, on the other hand, has experienced a steady increase in ODA in the decade up to 2013, with investments focusing on technical cooperation, emergency and food aid, aid to NGOs, and public financial management, among others.[39]

Given the role played by ODA in supplementing domestic revenue mobilisation, studies undertaken over the years have shown a negative relationship between tax and ODA, citing increased levels of domestic revenue mobilisation correlated to lower levels of ODA in the respective countries.[40] From Figure 4, there has been a consistent but modest increase in the tax-to-GDP ratio for Uganda, ranging between 8% and 11% from 2001 to 2013, with slight dips in 2007 and 2011. The ODA to GNI ratio, on the other hand, reduced from 16% to 7% during the same period.

Kenya has, however, had a more constant tax-to-GDP ratio, at an average rate of 14% between 2001 and 2013, with a peak in 2005. Yet the ODA to GNI ratio has increased from 4% in 2003 to 6% in 2013, as a result of an increase in humanitarian aid to Kenya,[41] and an improvement in the country's debt indicators, due to lower fiscal deficits in 2011 and 2012.[42]

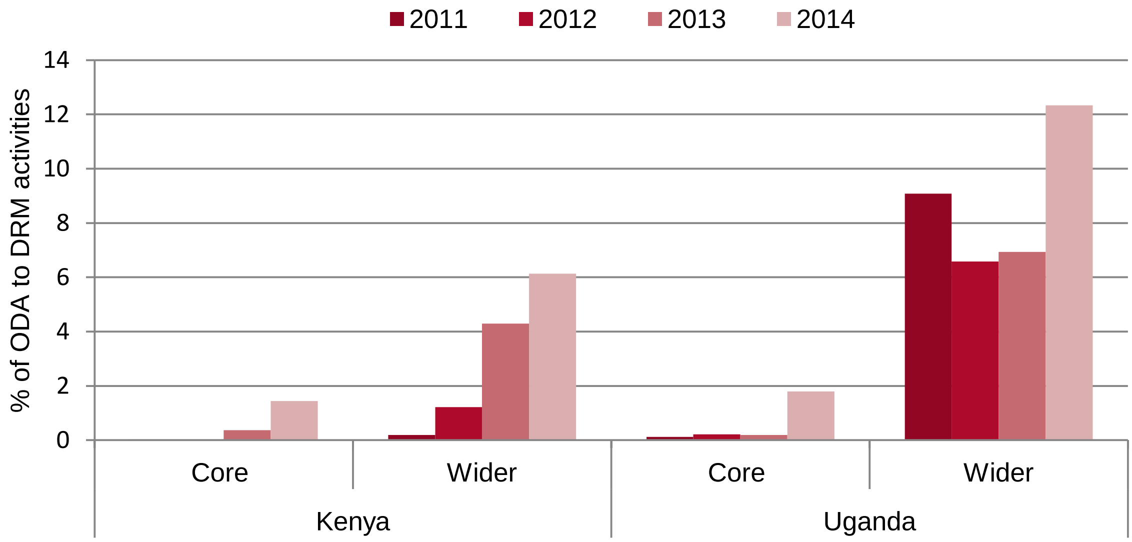
Figure 4: Relationship between tax, ODA and GDP in Uganda, Kenya and the EAC region



Source: ICTD GRD (2015) and World Bank, WDI database

Uganda's tax-to-GDP ratio is the lowest in the EAC region, as indicated in Figure 4. This ratio has increased by 0.2% per year over the last 10 years in Uganda.[43] Kenya's tax-to-GDP ratio is higher than that of Uganda and the EAC region, but is flat-lining. This can partly be explained through generous tax breaks offered by developing countries, with little or no investment benefits, which undermine the domestic revenue mobilisation efforts.[44] The ODA-to-GNI ratio, on the other hand, has been increasing for Kenya over the past 10 years, while it is falling in Uganda and the EAC region as a whole.

Figure 5: Proportion of ODA funding to domestic revenue mobilisation activities in Uganda and Kenya, 2011–2013



Source: *OECD CRS database [Accessed on 8 February 2016]*

ODA to domestic revenue mobilisation is provided through a range of supporting activities categorised here as either core or wider activities. 'Core' domestic revenue mobilisation activities include technical assistance programmes to revenue policy and administration, capacity building in preparation for increased revenue flows arising from oil, and support to subnational governments in raising local revenue. 'Wider' projects that include domestic revenue mobilisation objectives (those these are not the primary aims) include support to small and medium-sized enterprises in identifying regional market opportunities, and support to anti-corruption reforms.

While assistance channelled towards stimulating domestic revenue mobilisation has increased over the years, the proportions of this assistance to domestic revenue mobilisation activities are small compared with overall ODA volumes (ODA to domestic revenue mobilisation in Uganda and Kenya was 13% of total ODA to Kenya and Uganda).[45] In addition, ODA investments to core domestic revenue mobilisation activities specifically are low compared with wider activities and other sectors, as shown in Figure 5. These wider projects capture a diverse range of activities including local economic development, strengthening subnational functions, community planning and budgeting, advocating for favourable tax systems for the poor. However, most of these also have a local revenue generation or raising element embedded in them.

A number of projects have been supported in Uganda through ODA to domestic revenue mobilisation, with the largest core project being support to increase URA's oil revenue management capacity through training staff and providing an information technology system to manage oil taxation. While ODA to domestic revenue mobilisation in Kenya was majorly towards the Tax Justice Network, Africa, which advocates for the promotion of socially just, democratic and progressive taxation systems in Africa, and to institutional collaboration between the Swedish International Development Cooperation Agency, Sida and KRA.

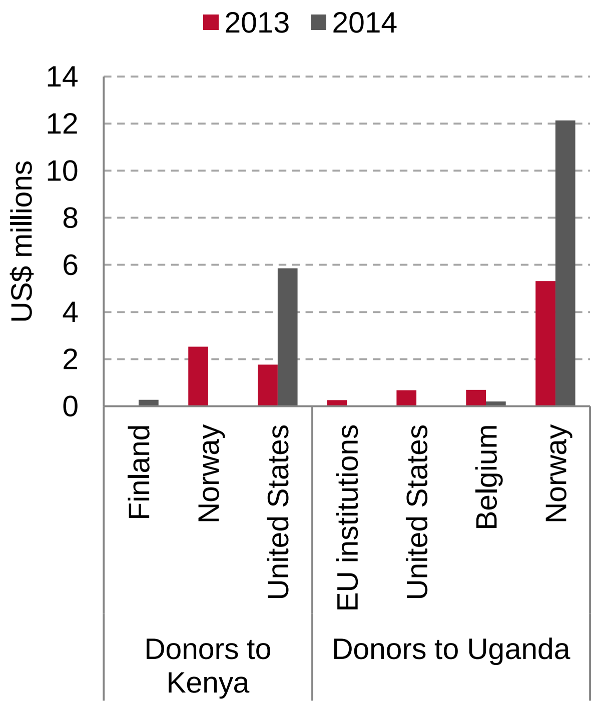
Donor support for domestic revenue mobilisation in Kenya and Uganda

In 2014, the United Kingdom was the biggest funder to core domestic revenue mobilisation activities in Uganda, while Sweden was the biggest funder of core domestic revenue mobilisation activities to Kenya – see Figure 6. Norway is the biggest funder of Uganda's ODA to wider domestic revenue mobilisation activities, while the United States is the biggest funder of Kenya's – see Figure 6. In 2014, Norway committed 85% of this ODA to strengthening the state administration in resource and revenue management of the oil and gas sector in Uganda, an increase in commitment from 2011.

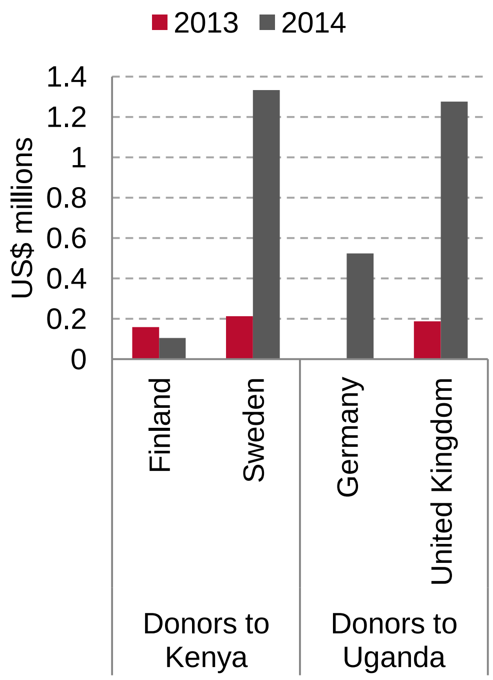
The United States committed 5% of Kenya's total ODA to domestic revenue mobilisation. This was to enhance the ability of civil society to advocate for budget support and promote revenue transparency in the national budget; and to strengthen sub-national governments in local revenue raising and development of budgets.

Figure 6: Largest ODA donors to domestic revenue mobilisation activities in Uganda and Kenya, 2013–2014

ODA to core domestic revenue mobilisation activities



ODA to wider domestic revenue mobilisation activities



Source: OECD CRS

Many efforts, both international and national, have been made to increase domestic revenue mobilisation, including using the acquisition of trading licences in Uganda to identify new revenue sources in the informal sector. Annual revisions of VAT in Uganda and Kenya have been made to maximise domestic revenue mobilisation.

Donor assistance to domestic revenue mobilisation has contributed to managing and administering taxes in Uganda and Kenya. This has ranged from contributions to improving systems and processes, to infrastructure development required to collect the taxes and boost trade, to capacity building for the staff. This has eased payment procedures of tax revenue, supported the use and upgrade of systems, infrastructure development, capacity building and tax compliance.

Aid has contributed greatly to rationalising the tax systems and administration, in the form of both financial and technical assistance. Forming the URA and KRA in 1991 and 1995 respectively, enabled the drive towards efficient and effective domestic revenue mobilisation. The channels through which this has been done have evolved over time, getting better and simpler with new technology mechanisms which have in turn simplified and rationalised tax systems and administration.

Evidence of ODA support to domestic revenue mobilisation in Uganda and Kenya

The following case studies are grouped into three major areas, based on the projects undertaken by the donors in these two countries: 1) system advancement; 2) support to increasing trade taxes; 3) tax-related capacity building.

System advancement

Revenue agencies in Uganda and Kenya rolled out the '**Integrated Tax Administration System**'**,** commonly known as 'e-tax'. This online system provides 24-hour service to tax payers, managing revenue collection through domestic taxes and duties for URA, including income tax, value-added tax, withholding tax and other excise duties. The UK's Department for International Development (DFID) and the governments of the Netherlands and Belgium supported the e-tax system in Uganda under a project worth approximately US$11.5 million.[46] From its adoption, Uganda recorded close to 4.5 million transactions in the financial year 2012/13, which brought in a 14% increase in net revenue.[47] The e-tax system has eased payment of taxes, including filing of tax refunds and motor vehicle registration, reduced time spent paying taxes and increased compliance and efficiency.

In line with this, **tax reforms in Uganda and Kenya** have enabled the continued improvement in tax administration and management. These have ranged from the enactment of laws, including acts of parliament like the Uganda Revenue Authority Act 1991 and the Kenya Revenue Authority Act 1995, the Income Tax Acts (1997 for Uganda and the 2014 revised income tax Act for Kenya), Excise Duty Act,[48] and the 2004 EAC Customs Management Act[49]. These laws have guided tax administration, collection and management of domestic revenue mobilisation in both countries. In line with this, the governments have undertaken tax reforms to increase efficiency in tax collection, including the introduction of a new VAT, annual revision of excise taxes on elastic commodities such as alcohol, cigarettes and cosmetics, and setting a uniform external tariff with other EAC member countries.[50] These reforms have in turn boosted trade and increased revenue collection, encouraging regional and intra-trade facilitation efforts in the EAC (more details follow).

Support to increasing trade taxes

Trade is essential to a country's economic growth and development. Low-income countries, including Uganda and Kenya, depend heavily on trade taxes as a major source of revenue.[51] In 2014, imports to Uganda and Kenya contributed 28.5% and 33.9% to GDP respectively.[52]

Donor assistance has boosted trade through ODA support addressing some of the obstacles to trade effectiveness, including infrastructure development. Following the 2010 East African Community (EAC) Customs Union, trade as a sector has received funding from donor agencies including DFID, the Danish International Development Agency (DANIDA), Irish Aid, the governments of Belgium and the Netherlands, and the World Bank. These investments have eased the movement of goods and services among countries in the EAC, reduced transporting time for goods and services, and increased the capacity in container trade and efficiency in handling of cargo and ships, which has in turn increased trade taxes.

Box 1
Donor investments to boost trade in Uganda and Kenya

Trade in Uganda and Kenya is hindered by poor transportation systems, including bad roads. Given that road transport is the main means of transport used for most commodities, poor and slow systems are used to clear these goods at the border posts in Uganda and Kenya, with increased tariff and non-tariff barriers, especially before the 2010 EAC Customs Union.

1. The Ntungamo–Mirama Hills road in south-western Uganda was constructed to the cost of US$22 million, channelled through TradeMark East Africa, while the Mombasa port infrastructure works cost US$45 million.
2. The Malaba border post completed in 2015 is maximising the free flow of goods and services through Uganda and Kenya, following funding received from the World Bank.
3. The use of systems such as the Automated System of Customs Data (ASYCUDA++), the 2005 SIMBA customs system and ASYCUDA World for customs clearance has evolved over time, as revenue agencies look for simpler and more efficient systems to streamline customs operations. Donor assistance has provided resources amounting to over US$13 million to train staff on the utilisation of these systems including ASYCUDA, e-tax, SIMBA, and the Customs Management System in Kenya among others.
4. The National Single Window initiative is being supported by donor assistance with US$5 million, targeted at regulatory authorities, importers and exporters.

Through TradeMark East Africa,[53] donors supported the construction of ‘one stop border posts’, which combine the activities of two countries at a single location, removing unnecessary obstacles that hinder legitimate trade and extends working hours, moving from 12 working hours to 24/7 operations, among other improvements.[54] This has reduced clearance time of goods and services at the border and increased revenue to both countries through customs clearance.

The ongoing use of simpler and more sophisticated automated systems for revenue collection has necessitated the need to train staff on how to use these systems, while building their capacities to operate efficiently and effectively. This has reduced congestion at Mombasa port, the borders and warehouses, both in Uganda and Kenya, and eased the work of clearing and forwarding agents who are a source of DRM.

The URA and the Ministry of Trade, Industry and Cooperatives are currently implementing the **National Electronic Single Window System**[55] to reduce transaction costs and time associated with processing documentation for selected imports and exports at key trade regulatory agencies in Uganda. This initiative has helped identify more revenue sources as it helps track eligible taxpayers, reducing evasion through trade.

Tax-related capacity building

Uganda and Kenya have the potential to increase their sources of revenue including the recently discovered reserves of petroleum in these countries. Capacity building is therefore a necessity to increase knowledge and understanding of the operations of petroleum exploration, management and production, and the stages and areas at which revenue is collected. Donor agencies such as DFID have provided funds to build the capacity of staff working in the respective ministries of finance and revenue agencies to understand the petroleum sector. These have ranged from degree courses to short courses on finance, tax collection and administration, and revenue management among others. The Norwegian government also provided funding through aid to strengthen the administration of the oil and gas sector in 2012. This has increased the knowledge base of staff on the management of mineral deposits in the country, including oil, and set the pace for revenue collection from these sources countrywide.

While revenue collection has increased, the countries' tax efforts are still low, as indicated by their tax-to-GDP ratios. ODA for domestic revenue mobilisation has a role to play especially in increasing capacity. Yet this needs to be targeted and aligned with the government strategy[56] for better results.

Conclusion

ODA to domestic revenue mobilisation, though still low, has contributed greatly to improving systems to boost tax collection and management, and increase tax revenue. ODA can continue to enhance revenues in the following ways in Uganda and Kenya:

ODA provided through enhancing trade has boosted economic growth through improved customs operations. Opportunities need to be explored for ODA to further enhance trade and growth that benefits the poorest people, providing more employment opportunities and increasing exports through multiplier effects to generate more revenue that can be taxed.

Donor support through domestic revenue mobilisation is required for more core domestic revenue mobilisation activities rather than simply including domestic revenue mobilisation objectives in wider projects. This could include more capacity building, support to raising local revenue and sensitisation of the population to pay their taxes to increase domestic revenue mobilisation collections, through an increased taxpayer register. The impact of ODA to this support should also be analysed and assessed through surveys (baseline and end line) to examine the relevance and extent of its contribution to domestic revenue mobilisation.

Developing countries including Uganda and Kenya are still faced with a large proportion of the population operating under the informal sector and therefore contributing little or nothing to domestic revenue mobilisation, as there are no clear ways to directly tax most of these sectors. The automation of the collection of domestic revenue mobilisation has helped to bring in new revenue sources through the purchase of trading licences among others. Yet despite some of these efforts there is still need for ODA to support alternative and better ways of identifying more taxpayers, and registering them, through tax education to reduce cases of evasion, and to find innovative ways of taxing the informal sector. However, these taxes should be progressive in nature to avoid an increase in poverty levels.

Annex 1: Stakeholder mapping

Implementers are the agencies mandated by law to collect, assess, and account for revenue collections to government. These advise on ways in which to improve DRM through compliance, to increase revenue collections. Implementers receive annual targets to revenue collection from the Ministry of Finance, which they aim to achieve in order to implement the respective budget.

Influencers provide guidance to the implementers on how to operate, setting annual targets to domestic revenue mobilisation collection and how best to do it. These are the drivers of the work done by the implementers. The Ministry of Finance sets the target for the revenue authority on an annual basis to which the authority should fulfil, and also manages the consolidated fund to which revenue collections are deposited. The ministry in addition audits the operations of the revenue agencies for transparency and accountability.[57] Together with the Ministry of Finance, the central bank also influences the operations of the revenue agencies through advising on the achievement of the targets set on external reserves, and the country's macro economic performance.

The facilitators, play a vital role in the collection of domestic revenue mobilisation. While the private sector contributes to the payment of domestic revenue, the civil society and academia provide knowledge through experience sharing and advocate for revenue payment. Donors provide resources, both financial and technical, used to build capacity of the implementers and influencers, improve systems to revenue collection and management, among others.

Table 1: Stakeholder mapping for domestic revenue mobilisation in Uganda and Kenya

	Uganda	Kenya	Role
Implementers	Uganda Revenue Authority	Kenya Revenue Authority	Collect, assess and account for all dividends due to government, including taxes, fees, charges and other impositions Advise on policy changes relating to all taxes
Influencers	Ministry of Finance, Planning and Economic Development Auditor General	Ministry of Finance and Development Auditor General	Set targets of annual revenue required Audit revenue authority operations Manage the consolidated fund
	Bank of Uganda	Bank of Kenya	Advises on the achievement or lack thereof of the target of external reserves
	Parliament of Uganda	Parliament of Kenya	Authorise revenue collection for other votes
Facilitators	Ministries of trade including investment authorities, manufacturers' associations, private sector, etc		Strengthening domestic trade policies Trade coordination Issuance of trade licences Monitor and evaluate performance of the trade sector Trade and export promotion of goods and services
	Donor agencies e.g. DFID, Irish Aid, Belgium Technical Cooperation, SIDA		Provide financial support used to address obstacles to effective tax Market provision through agreements
	District and municipal councils	County councils	Revenue collection through fines, licences, charges etc
	Academia and research institutes		Experience and information sharing Research
	Media		Information sharing

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Notes

[1] See www.undp.org/content/undp/en/home/sdgoverview/post-2015-development-agenda.html
[2] See Development Initiatives' Investment to End Poverty agenda, http://devinit.org/#!/themes/30
[3] See www.un.org/en/africa/osaa/pdf/au/agenda2063.pdf
[4] Development Initiatives (DI) through a research grant from the International Centre for Tax and Development (ICTD) conducted this research to show ways in which ODA has supported tax revenue collection in Kenya and Uganda. The purpose of this assignment is to contribute to the growing body of research on understanding the role being played by ODA in supporting developing countries to enhance domestic revenue mobilisation. The views in this paper are DI's own and not necessarily the views and opinions of ICTD.
[5] This research is part of DI's broader work on understanding how all-financial resources generated and allocated support the poverty reduction agenda. More specifically, this will feed into DI's follow-up on the outcomes of Financing for Development (FFD) conference held in the summer of 2015. It will specifically support the analysis developed around the main commitments made under the Addis Tax Initiative (ATI).
[6] Core projects to domestic revenue mobilisation include capacity building of staff in the revenue agencies, to use new systems to collect tax revenue effectively for example
[7] Projects to wider ODA to domestic revenue mobilisation include support to infrastructure to increase trade and generate more revenue.
[8] See Addis Ababa Action Agenda (AAAA) of the Third International Conference on Financing for Development, Action area 20
[9] It solidifies ownership over the country's development strategy and increases accountability between governments and citizens, see www.ictsd.org/bridges-news/trade-negotiations-insights/news/why-enhance-domestic-resource-mobilisation-in-africa
[10] Much as the resources from the private sector are important, for the purpose of this discussion paper, domestic revenue mobilisation will refer specifically to tax revenue mobilisation. This is because tax revenue is considered as a significant source of revenue for governments. In doing so, we do not discount the roles of other domestic revenue sources especially grants and non-tax revenue (recurring revenue from sources other than taxes earned by government for example fees and fines, and administrative revenue)
[11] See forthcoming Development Initiatives paper on commitments made under the Addis Tax Initiative.
[12] See www.ictsd.org/bridges-news/trade-negotiations-insights/news/why-enhance-domestic-resource-mobilisation-in-africa
[13] Center for Global Development (2006) An Aid-institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa
[14] North–South Institute (2012) Aid and Taxation: Is Sub-Saharan Africa Different? See http://www.nsi-ins.ca/wp-content/uploads/2013/02/2012-Aid-and-Taxation.pdf
[15] Much as the resources from the private sector are important, for the purpose of this discussion paper, domestic revenue mobilisation will refer specifically to tax revenue mobilisation. This is because tax revenue is considered as a significant source of revenue for governments. In doing so, we do not discount the roles of other domestic revenue sources especially grants and non-tax revenue (recurring revenue from sources other than taxes earned by government for example fees and fines, and administrative revenue)
[15] See forthcoming Development Initiatives paper on commitments made under the Addis Tax Initiative. See also http://agenda2063.au.int/en/sites/default/files/03_Agenda2063_popular_version_ENG%2021SEP15-3.pdf, and The global economic crisis has had a major impact on aid budgets in donor countries. Several donors in Europe and North America have seen development aid budget recalculated and in some instances aid agencies reduced to state departments in aftermath of the economic crisis.
[16] See also Kings College Cambridge (1963), Capital Accumulation and Economic Growth: Seminar on the Programming of Economic Development, Sao Paulo
See also Bauer (1976), Farming in Paradise: Happiness Projections in Old and New China, Germany, 171 - 204
See also Azam et al. (1999), The Redistributive State and Conflicts in Africa, WPS/2001.3
[17] Ibid
[18] The ratio of tax revenue to tax capacity (predicted tax to GDP ratio) which usually ranges between 0 and 1. See https://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf
[19] KFW-Development Research (2013) Does Aid Discourage Domestic Revenue Mobilization?
[20] Real Instituto Elcano (2009) Taxation, Governance & Resource Mobilization in Sub-Saharan Africa: A Survey of Key Issues (WP)
[21] See also Lotz, J.R., and E.R. Morrs (1967) Measuring 'Tax Effort' in Developing Countries, IMF Staff Papers, 14(3), 478 – 499,rs, 1967; Celliah, 1971, Celliah et al. 1975; Tanzi, 1981, Tanzi, 1992; Leuthold 1991; Stotsky and WoldeMariam, 1997; Ghura 1998
[22] Among them are Kariuki and Kiragu (2011)
[23] Action Aid (2013) Ending aid dependency through tax: Emerging research findings
[24] Africa Policy Research Institute Limited (2011) Public Sector Domestic Revenue Mobilization & Administration in Africa

[25] Uganda Revenue Authority and ECOSOC (2012) Aid as a catalyst to increase domestic revenue mobilization in sub Saharan Africa
[26] European Parliament (2014) Tax Revenue Mobilisation in Developing Countries: Issues and Challenges
[27]The reasons for challenges to domestic revenue mobilisation vary from high levels of informality because of the large informal sector, to complex tax laws, high compliance burdens and constraints in the tax administration capacity, among others. For purposes of this paper, we focus on the socio-economic challenges faced by developing countries like Burundi, Burkina Faso, the DRC, Eritrea, among others. See www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/C-10%20Note%202%20English%20(final)_for%20posting%202.pdf
[28] Because donors accept their need to spend at levels above their tax revenue
[29] See Governance and Social Development Resource Centre (2009), Political Settlements: Issues Paper, Jonathan Di John, June 2009
[30] See Bird & Zolt, 2005, Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries, https://ideas.repec.org/p/ays/ispwps/paper0507.html
[31] See Aid as a Catalyst for Domestic Revenue Mobilisation in Africa, Dr. Ngozi Okonjo-Iweala, July 2013
[32] See Aid for Domestic revenue mobilisation, Development Initiatives, 2016
[33] See African Union, New Partnership for Africa's Development (2013) Aid as A Catalyst For Domestic Resource Mobilization In Africa, Lweala-Okonjo N Dr

[34] See Aid as a catalyst for domestic revenue mobilisation in Africa, Dr. Ngozi Okonjo-Iweala, July 2013
[35] Taxation and aid for domestic revenue mobilisation, OECD
[36] See The Uganda Revenue Authority Act, 1991, and The Kenya Revenue Authority Act, 1995
[37] See www.monitor.co.ug/Business/Informal-sector-now-growing-faster--says-Ubos/-/688322/2205250/-/38b1ir/-/index.html. Accessed on 29th February 2016
[38] Source: World Bank's World Development Indicators database: http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#
[39] www.brookings.edu/~/media/research/files/papers/2009/1/kenya-aid-mwega/01_kenya_aid_mwega.pdf
[40] See https://www.imf.org/external/pubs/ft/wp/2012/wp12186.pdf
[41] See www.oecd.org/dac/stats/documentupload/ODA%202014%20Technical%20Note.pdf
[42] See https://www.imf.org/external/pubs/ft/dsa/pdf/2013/dsacr13107.pdf
[43] IMF Country report No 15/175 – Article IV
[44] OECD, Strengthening Tax Systems to Mobilise Domestic Resources in the Post 2015 Development Agenda, Element 11, Paper 2
[45] Author's calculations using data from OECD DAC dataset.
[46] See www.prnewswire.com/news-releases/tata-consultancy-services-to-design-and-implement-integrated-tax-system-for-uganda-57534372.html
[47] See www.businesstimes.co.tz/index.php?option=com_content&view=article&id=1776:uganda-e-tax-payments-boost-revenue-collections&catid=38:energy-and-mining
[48] For example the Uganda 2014 Excise Duty Act, and the Kenya 2015 Excise Duty Act, which provide for the assessment, charge and collection of excise duty
[49] This act was passed in 2004 by EAC member countries – Kenya, Uganda, and Tanzania, Rwanda and Burundi and revised in 2009. See www.tra.go.tz/tax%20laws/EAC_Customs_Management_Act_(Revised)[1].pdf
[50] Eissa N. O et Jack, W, 2009, Tax Reform in Kenya: Policy and Administrative Issues. See http://academiccommons.columbia.edu/catalog/ac:153953 and Kato, S.K, 2014, Uganda Tax Policy Reforms: A Case Study of Uganda Revenue Authority (URA), see http://bora.uib.no/handle/1956/8269
[51] See www.ictsd.org/bridges-news/trade-negotiations-insights/news/why-enhance-domestic-resource-mobilisation-in-africa
[52] World Bank database
[53] Trademark East Africa is funded by organisations including DFID, The Belgium Technical Cooperation, SIDA, among others www.ictsd.org/bridges-news/trade-negotiations-insights/news/why-enhance-domestic-resource-mobilisation-in-africa
[54] World Bank database
[55] See The National Electronic Single Window System is a trade facilitation concept, which allows traders to submit information requirements for trade regulatory documents, such as: customs declarations; applications for import and export permits; certificates of origin; and trading invoices, through a single online portal/window https://www.trademarkea.com/projects/uganda-national-single-window/
[56] As indicated in the countries' visions, Vision 2030 for Kenya and 2040 for Uganda which focus on transforming to middle income economies, with inclusive growth and high quality of life for the citizens.
[57] Public Finance Management Act, 2015