TAX POLICY PAPER

Revenue Mobilisation at Local Government Level for Sustained Service Delivery

Challenges, Opportunities and Proposals

SEATINI
Strengthening Africa in World Trade

Oxfam

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Abbreviations

CSO	Civil Society Organisation
HLG	Higher Local Government
IGFTR	Inter-Governmental Fiscal Transfer Relations
LED	Local Economic Development
LG	Local Government
LGA	Local Government Act
LGFC	Local Government Finance Commission
LGHT	Local Government Hotel Tax
LGMSD	Local Government Service Delivery Program
LGSIP	Local Government Sector Investment Plan
LLG	Lower Local Government
LRE	Local Revenue Enhancement
LST	Local Service Tax
FY	Financial Year
GPT	Graduated Personal Income Tax
KCCA	Kampala Capital City Authority
MoFPED	Ministry of Finance, Planning and Economic Development
MoLG	Ministry of Local Government
MW	Mega Watt
NGO	Non-Governmental Organisation
O&M	Operation and Maintenance
PPP	Public Private Partnerships
UAAU	Urban Authorities Association of Uganda
UGX	Uganda Shillings
ULGA	Uganda Local Governments Association
UWA	Uganda Wild Life Authority
NFA	National Forest Authority
URA	Uganda Revenue Authority

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Executive Summary

Arising out of several recent studies, assessments, reports and discussions, it has been established that although Local revenue can be used to meaningfully supplement the grant transfers to Local Governments (LGs), in order to support service provision, there has been a decline in the capacity of Local Governments to collect local revenues. This Tax Policy Paper was produced after undertaking the following:

a) Literature review of relevant documents especially legislations on local revenues and Inter-Governmental Fiscal Transfer Relations (IGFTRs)

b) Review of relevant study and assessment reports

c) Interaction of one to one with officials in Local Government Finance Commission and Ministry of Local Government to develop consensus on some recommendations

d) Consultative meetings with various relevant organizations like SEATINI, Local Government Finance Commission (LGFC), and the Tax Justice Taskforce and Alliance.

Local revenues provide the most discretionary source of financing and are therefore important for the success and long-term sustainability of infrastructure and service delivery in Local Governments. Local collections are used for councilors' emoluments, co-funding capital development projects, providing bursaries, building administrative headquarters, operation and maintenance of infrastructural facilities, co-funding of donor funded projects, etc. This funding source is therefore instrumental in sustaining decentralisation and service provision at local level.

Over the last decade, the inadequacy of locally generated revenue has remained a major challenge for LGs and its poor collection has threatened to undermine the successes so far made under the policy of decentralisation in Uganda.
The decline in efforts to collect local revenue has been due to several factors, which include:

a) Unfortunate involvement of politicians
b) Introduction of new policy instruments without adequate analyses
c) Administrative weaknesses
d) Inadequacies in relevant legal provisions
e) Insufficient logistical support and poor funding for general LGs' operations

Recommendations

Firstly, it is pertinent to underline the fact that proper management and accountability in the management of taxation is of crucial importance and must be recognised as a first instance as both Central and Local Government embark on broadening the tax base. Credibility in the system and authorities by citizens must be seen as a precondition for increases in taxation and must be addressed by those in charge.

In connection hereto, the citizens should be empowered, by both civil society organisations and the Local Governments, to know and clearly understand their roles, rights and obligations in local revenue management and service delivery. Citizens should understand the types of dues collected from them, pay them, but also demand for accountability on the revenues collected from them.

The central recommendations towards the Central Government ask that they should:

a) Review the legal framework for local revenues to make their collection more effective

b) Develop administrative measures to improve efficiency of revenue management through recruitment of all necessary staff for local revenue administration

c) Provide adequate technical backstopping to LGs

d) Prepare a policy guideline on local revenue collections to encounter undue negative political involvement, on local revenues administration

e) Provide optimal funding to LGFC and Ministry of Local Government (MoLG) for technical and logistical support to LGs; investment in local revenue activities like construction of markets, and renovation of Taxi/ Lorry/ Bus parks

f) Provide a total of UGX 3.8 trillion to LGs which translates into at least 38% of the national budget for FY 2011/12. This is based on the findings from the Review of LG Financing study which identified a recurrent funding gap of UGX 2 trillion

g) Involve LGs in design of programs before designing grants and conditions for conditional grants

h) Deliberately support implementation of Local Economic Development (LED) and effective operationalisation of Public Private Partnership (PPP) in LGs

i) Engage in a partnership with civil society, the private sector and Local Governments to educate masses about their rights and obligations including paying taxes for development

Recommendations for the Local Governments include:

j) The Local Governments should strengthen local revenue data management.

k) The Local Governments should organize continuous tax education and awareness of the civic, political leaders and communities on the collection, utilization and accountability of local revenues.

l) The Local Governments should simplify the tax language to demystify taxation for the citizens.

Consistency in implementation of the above mentioned strategies will result in sustainable local revenues. However, the Central Government must take the initiative to design and mentor the necessary reforms and LG staff involved in the local revenue enhancement process. For best results there must be an approach that combines administrative reforms, expenditure rationalization, accountability and transparency. The overall success will depend on level of collaborative involvement of Local Governments and other key stakeholders like Civil Society Organisations (CSOs) and Private sector; and less dictation from the centre in order to create ownership of the revenue instruments.

1.0 Background

Uganda adopted a policy of decentralization back in 1992. Central government devolved functions and powers to Local Governments. This was done at all levels of Local Governments to ensure good governance and democratic participation in decision making as some of the strategies for poverty reduction. LGs are mandated under the Constitution and the Local Government Act to provide management services and other program activities including development infrastructure, planning, budgeting and supervision of services delivery, oversight functions of Councils, Operation and Maintenance (O&M) including maintenance of building infrastructure, and other basic logistical works, among others.

With the expenditure assignment explained above, revenue assignment was also among the functions assumed by Local Governments under decentralisation. Among the sources of local revenue devolved to Local Governments are:

a) Local Service Tax (LST)
b) Local Government Hotel Tax (LGHT)
c) Property rates and land based charges like building plan approval fees, land fees, etc.
d) Business licences
e) User fees (include market dues, parking fees), user charges and permits
f) Rent, Rates and Royalties
g) Cess on Produce
h) Other departmental revenue (include forest revenues; veterinary fees, registration of births; registration of marriages and deaths; fines; etc) always lumped as other sources of revenue
i) Any other revenue, which may be prescribed by the Local Government and approved by the Minister

LGs allocate revenues collected from these sources to supplement grants from the Government as prescribed in Article 193 of the Constitution, all to deliver on functions listed in the second schedule of the LGA (Cap 243).

Local revenue is the source of financing for recurrent operations of LGs and the sustainability of infrastructure investments; and it therefore provides the most discretionary source of financing. Therefore, Local Revenue Enhancement (LRE) is a critical component of LG financing. LRE entails a series of mechanisms to expand opportunities to increase returns from revenue sources of LGs.

1.1 The Current Performance of the Local Revenue Sources

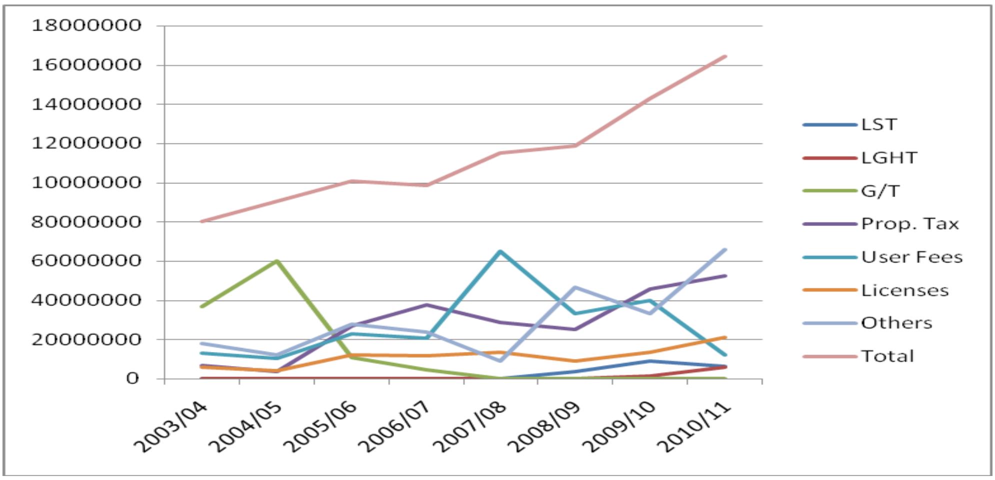
The performance of local revenue is still constrained as a major source of revenue to the Local Governments. In comparison to the grants received from the centre; local revenues are still contributing on average only about 3% to the total financing of the Local Governments. The trend is shown in table 1 below.

Table 1: Trend of Local Revenue Performance UGX'000 (actual) 2003/04-2010/11

Source	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
LST	-	-	-	-	-	3,838,412	9,194,611	6,542,311
LGHT	-	-	-	-	-	984'867	1,495,594	5,751,689
G/T	36,526,446	60,038,704	10,865,871	4,429,273	-	-	0	0
Prop. Tax	6,788,407	3,525,779	26,716,387	37,817,156	28,486,603	24,935,686	45,597,944	52,438,000
User Fees	13,099,763	10,504,237	23,095,924	20,945,588	64,854,246	33,153,423	39,923,598	12,294,000
Licenses	5,804,519	4,091,311	12,205,937	11,778,524	13,478,964	9,170,869	13,368,894	21,080,000
Others	17,887,507	12,200,841	27,781,041	23,684,109	9,064,925	46,626,491	33,221,782	66,117,000
Total	80,106,646	90,360,875	100,665,163	98,654,652	115,064,925	118,709,751	142,802,425	164,223,000

Source: LGFC Database: These are aggregated figures for all the districts with their sub counties, municipalities with their divisions and town councils including KCCA contribution

Figure 1.1: Trend in the Performance of Local Revenues UGX'000 (2003/04 – 2010/11)



Source: LGFC Database

Analysis of Table 1 and figure 1.1 shows that User fees performed fairly better than other revenues, followed by property relates revenues, Business licenses, Local service Tax and Local Government Hotel Tax in that order. Other revenues (Departmental revenues, Development charges, Royalties (see also Appendix 1 for details), Other fees, Fines, Sale of government properties) contributed significantly to the local revenues collected. Contributions from LST is only from people in gainful employment. The other categories are not yet assessed and collected.

Generally the performance of local revenues from 2005 to 2011 seems to have increased slightly, but it is due to inflation, and otherwise it reduced in real terms.

1.2 The Contribution to LG Budget (2010/11) and Collection Efficiency

In terms of the current collection levels of local revenues, the situation is deteriorating since on average LG local revenues contributed about 3% in FY2010/11 of their budgets as compared to about 9% in FY2003/04.

Regarding the percentage share of the locally raised revenue against the LG total budgeted revenue for FY 2010/11, the following has been observed:

- Amudat district had the lowest percentage share at 0.3%
- Buikwe district had the highest at 15.6%
- 39 LGs had between 1% and 2%
- 25 LGs had less than 1%
- 27 LGs had between 2% and 3%
- 13 LGs had between 3% and 4%
- 8 LGs had between 4% and 10%
- All MCs had above 10%, except two MCs (Soroti and Moroto) with 5.3% and 6.3%, respectively
- Amongst the MCs, Jinja had the highest at 45.9%

1.3 The Local Revenue Potential as of FY 2010/11

The estimated local revenue potential for the FY 2010/2011 was UGX334.6 billion based on the estimates by the Local Government Finance Commission.
The assessment of the potential for local revenue was conducted through an analytical framework that captured the following:

a) Actual collection against the budgeted amount by source

b) Estimation of the inefficiency loss in collection is the loss between the budgeted and the actual amount collected.

c) Estimation of extra revenue potential by source, this is the taxable amount within the tax base not captured in the tax registers

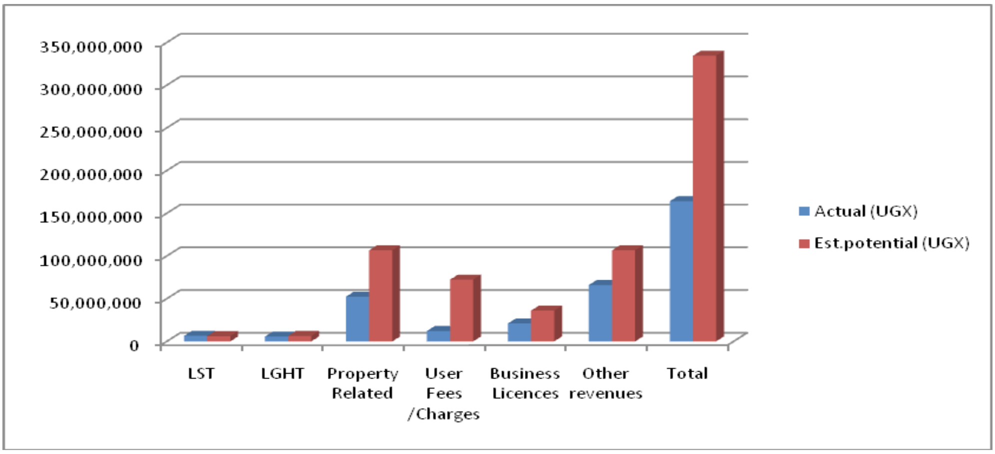
Therefore, the Revenue Potential = Actual collection + Inefficiency loss + Extra Potential. The potential for the year 2010/2011 is as shown in Table 3 below.

Table 3: The Local Revenue Potential (UGX'000) for FY 2010/2011

Local revenue source	Estimated potential (UGX)	Actual collected (UGX)	Percentage contribution
Local Service Tax	6,190,657	6,542,311	1.8
Local Government Hotel Tax	6,458,835	5,751,689	1.9
Property Related	106,718,188	52,438,000	32.0
User Fees / Charges	72,382,374	12,294,000	22.3
Business Licenses	36,056,420	21,080,000	10.0
Other revenues	106,796,136	66,117,000	32.0
Total	334,602,612	164,223,000	100.0

Source: LGFC Database

Fig. 1.2: Potential and Actual Local Revenues (UGX'000) FY2010/11



Source: LGFC Database

Table 3 and Figure 1.2 above indicate that there is a potential of collecting more revenue with enhanced efforts and strategies. For the financial year 2010/2011 there was a potential of collecting UGX 334.6bn up from UGX 164.2bn if all the Local Governments had collected all the relevant data on their major sources of local revenues. In other words, the LGs only realized approximately 49% of their potential local revenues.

1.4 Purposes of Taxation/Levy of Fees

LGs levy a tax or charge a fee for multiple purposes besides purely revenue generation, which include the following:

a) Raising funds for providing services: This includes all sources, though a more specific example is parking fees and market dues, which are purposely raised for maintaining the parking sites and market facilities respectively.

b) Reducing consumption/production of some products/services or changing behaviour: This includes fees on tobacco and permits for liquor production. The charge is usually high per unit.

c) Regulation: examples include business licenses and permits. The fee is usually considerably low but where it is high the reason is to make the business owner move to the right location/ street or choose another type of business.

d) Redistributing wealth/ income: examples include almost all the taxes like LST, LGHT and Property rates. It is known that these can only be paid by those who earn better than the rest and thus taxing the big earners raises revenue, which is later redistributed in form of providing services to the general population.

1.5 Recent Initiatives to Improve Performance

Governments together with LGs have been putting in place various efforts and initiatives to improve the performance of local revenues. Some of these initiatives have yielded fruits though some have not due to several reasons.
The initiatives include:

a) Introduction of new taxes (LST and LGHT) in 2007/08 and review/update of a number of relevant legislation like Local Government (Rating) Act 2006 (as amended) that saw, inter alia, the introduction of reforms in collection of Property Rates and introduction of the Town Planning Act.

b) Technical support from LGFC and MoLG in terms of training of LG appointed and elected staff in improved procedures and practices.

c) Introduction of Best Practices, defined by Local Revenue Enhancement Committee as "methods and ways of generating and mobilising local revenues that effectively use the scarce resources (people-power and money) available in a council to enhance tax administration and promote awareness in a manner that reduces the cost of compliance and maximises the revenues collected". These include, inter alia, sensitization of taxpayers, linking taxes to services, setting reserve prices and updating data.

d) Collaboration between URA and LGs to collect Presumptive Tax (see below)

Presumptive Tax

In May 2013, a collaborative arrangement was initiated by Ministry of (MoFPED) to have Uganda (URA) and LGs work together to ease collection of Presumptive Tax and raise approximately UGX 7 billion in the FY 2013/14 up from UGX 2 billion in FY 2012/13. This is one of the strategies aimed at funding the country's budget for FY2013/14.

A business entity is eligible to pay Presumptive Tax to URA if it has a sales turnover of more than UGX 5m to 50m per year. This is a form of income tax but on businesses for which URA does not have sufficient data. The term "presumptive" means it is a presumed income tax. Such businesses are many, they also pay licenses to LGs and the latter are within easy reach and already have some information about these businesses.

This tax is believed to have a big potential of UGX 100 billion but URA had failed to effectively collect enough from the source due to its (URA) being thin on the ground yet the tax-base is the businesses that are spread all over the countryside in LGs.

While URA has better and tested strategies in tax collection, LGs are better placed to handle this tax as they have important data and can effectively reach and collect from the respective businesses. Therefore, a collaborative arrangement between the LGs and URA would be the answer to this challenge.

It should be noted that consultations with LGs and lead institutions are going on, including MoFPED, MoLG, LGFC, KCCA and URA. URA has developed a software to capture relevant data on all eligible taxpayer businesses. It is from this data that URA and LGs will derive which taxes/non-tax revenues can be collected from each business entity and to which (either URA or LGs) these revenues belong. Collection and enforcement will be done by URA while LGs will mobilise the business owners to avail data and pay the various taxes, fees and permits. Thereafter the collections will be shared between URA and LGs according to what they are entitled to collect.

Once this strategy becomes operational, it will be replicated for other local revenues sources as will be applicable, for example, property rates.

2.0 Analysis of Performance and Challenges Faced by Local Governments in Increasing Local Revenue Base

2.1

This section analyses each source of local revenue with respect to current performance, issues and its distribution. This is followed by an analysis of general issues that cut across local revenue collection.

2.1.1 Local Service Tax Base

The Local Service Tax is a tax levied by LGs on the wealth and income of the following categories of people: Persons in gainful employment; self-employed and practicing professionals; self-employed artisans; businessmen and businesswomen; and commercial farmers. Presently commercial farmers LST schedule is not yet approved.

At the time of introduction in 2008, it was estimated that the combined LST and LGHT taxes would contribute UGX 67 billion. This aspiration has not been achieved as indicated in Table 1 above, given the yield of UGX 4.8 billion and UGX 10.7 billion in FYs 2008/09 and 2009/10, respectively.
Some of the challenges as regards collection of Local Service Tax, include:

a) Lack of data on the employees in the private sector has made assessing private sector employees difficult. Some employers in the private sector connive with the employees to evade or avoid paying LST

b) Lack of awareness by taxpayers on the responsibility to pay LST

c) Non-issuance of receipts by many businesses disorganizes enforcement and creates a lack of trust in its proper management

d) It can be argued that the Local Government Act (Cap 243) does not provide for effective mobilization of LST; i.e. the tax base is narrow and the threshold is still high, e.g. for persons in gainful employment group – one getting a monthly salary between UGX 100,000 to UGX 200,000 pays only UGX 5,000 a year. This leaves out the many employees getting below UGX 100,000 a month and in addition the rate of UGX 5,000 is too small and uneconomic to collect since a big number of prospective taxpayers like commercial farmers, boda-boda, etc have been exempted from paying LST. However, lowering the threshold and broadening the tax base with new sectors needs to be discussed soundly and preceded by thorough socio-economic analysis to avoid heavier tax burdens on citizens already experiencing challenges to their economic wellbeing and livelihood.

In terms of distribution of its collection, LGs collect 56% from rural districts compared to 44% from urban LG areas.

2.1.2 Local Government Hotel Tax

This is a tax charged by a Local Government per night for each hotel room occupied. It is levied on the occupant on top of the cost of the room. The tax is largely urban as most of the hotels/lodges are situated in towns. Urban councils contribute 80% while rural Local Governments contribute only 20% to the tax.

Some of the challenges noted in the administration, include:

a) Most hotel proprietors are unwilling to pay LGHT; they keep two sets of records, one for council and the other for management purposes. This has led to under-declaration of guests received. In addition, most of the local hotels do not maintain books of accounts. It is therefore difficult to track the trend of the room occupants and the taxes due.

b) Lack of proper reporting mechanisms instituted by Local Governments has resulted into rampant avoidance and evasion of this tax.

2.2 Market Dues and Parking Fees

2.2.1 Market Dues

The performance of market dues has increased over the years for both rural and urban Local Governments, however is still challenged by:

a) Most markets are not gazetted and are located on land that does not belong to the councils. There are also illegal markets operating alongside gazetted markets especially in the urban councils. This has reduced the number of market vendors in the gazetted markets

b) Unrealistic and poorly set reserve prices (estimation of LG take) are normally made by the technical teams to guide the tendering process. Private revenue collectors sometimes offer higher bids that are not realistic and thus overcasting the revenue budget

c) The charging policy (an approved list of levels of charges on items by Council) is not exhaustive and up-to-date to bolster market rental collections

d) Poor accessibility to most markets due to poor road network in the Local Governments and poor infrastructures in the markets. Most markets do not have running water, permanent stalls and are not fenced. This discourages market vendors from paying market dues

e) There is inadequate capacity of both LLGs and HLGs to supervise and monitor the revenue facilities to augment on contract management

2.2.2 Parking/Landing Fees

Parking fees is the major source of local revenues in most of the urban Local Governments. However, it faces the following challenges:

a) Slow tendering process has hindered the parking fee collection, awards are always delayed by the Districts Councils

b) Poor roads has made the people to shift to the boda-boda cyclists instead of using taxis that attracts parking fees

c) Boda-boda cyclists have been granted exemptions from paying parking fees, which minimizes the tax base.

d) Inadequate supervision and monitoring by both LLGs and HLGs of the revenue facilities to augment on contract management.

2.3 Trading Licenses

This is a regulatory fee for a business to operate in the locality. The rate is based on the type of business and locality. The collection of trading license has improved over the years especially in the urban Local Governments. However, some challenges have been noted in the administration, which include:

a) The insufficient data on all types of businesses

b) The Statutory Instrument of the Ministry of Trade and Cooperatives does not consider the ability of the businesses to pay as one of the basic factors in determining rates. It instead considers the grade of an urban LG and the street location as the main factors in determining rates

c) There are too few parish chiefs/ town agents to execute the collection of revenues

2.4 Property Rates

Property rates has the highest local revenue potential of UGX 106 billion for FY 2008/09, compared to any other source. Its performance has improved consistently, especially with the passing of the Local Government (Rating) Act in 2005.

The Local Government (Rating) Act 2005, as amended, empowers LGs to levy rates on commercial, residential and industrial properties. However, this law has not been fully implemented due to some challenges noted below:

a) The Local Government (Rating) 2005, as amended, does not provide for effective mobilization of property rates since it exempts owner occupied residential buildings. This exemption affects the performance of property rates by more than 45%

b) Taxpayers have limited awareness of property tax collection to the extent that some think they should not pay any tax on their properties. In addition, some property owners confuse property rate with ground rent

c) LGs need to update their valuation rolls but have no funds. Many structures/ properties established after 2005 are not yet included on the valuation lists.

d) Poor services have affected property rate compliance. Lack of the link between provision of services to payment of property rate, makes it difficult for the council to convince the taxpayers to pay the rates

e) Impracticable enforcement provisions; for example, enforcing collection for absentee property owners is lengthy and costly

2.5 Ground Rent

Ground rent is revenue on land leased out by council whether developed or not. The collection of ground rent has suffered the following challenges.

a) Slow uptake of plots by developers and transferring their ownership under leasehold. In most councils this has narrowed the tax base

b) Absence of the municipality land board hinders revenue collection

c) Collection of the land revenue by the district administration hampers revenue performance of the urban Local Governments

2.6 Property Related Charges

These are charges for activities that are related to land development and control. These are charged by Local Governments in consultation with the Ministry of Lands and Urban Development and they include Land Premium, Processing of Applications Fees, Consent to Transfer Fees/Charge, Valuation Fees, Conveyance Fee, Building Plans Approval Fee, Building Inspection Fee, Survey fees and Land Inspection Fees.

Their collection is faced with the following challenges:

a) Lack of proper records maintained on the land based activities

b) Method of collection is not well developed

c) Many developers in urban LGs construct structures at night to avoid regulation and payment of some fees.

2.7 Royalty Fees

The performance of royalty fees for Local Governments has improved over the years, with the highest collection of UGX 2.9 billion out of the estimated UGX 16.5 billion (FY 2007/08) from the companies dealing in exploiting the natural resources.

Royalty fees are paid in lieu of government/private projects based on exploitation of natural resources within the confines of the Local Governments. The organizations with direct link to such activities include, inter alia, Hydropower generation, Uganda Wildlife Authority, National Parks, Development for Minerals and Mining, National Forestry Authority (see Appendix 1 for further details on various royalties).

However, the collection of royalty fees in the Local Government is challenged by the following:

a) Insufficient data on the operations that could attract royalties

b) Unclear government policies and guidelines on modalities for collecting royalties and setting of rates

c) Lack of transparency in the sharing of royalties between the Central and Local Governments

d) Other issues as explained in appendix 1

2.8 Other local revenues

The rest of the revenues like other departmental revenue (including fees from forest products; veterinary fees, registration of births; registration of marriages and deaths; land transaction charges); cess on produce; loading fees i.e. on sand, murram, stones; fines; and other charges that can be prescribed by the Local Governments) are always lumped as "Other Sources" of Revenue.

The performance of other sources has been tremendous for some years with a contribution of UGX 43 billion out total collection of UGX 164.2bn in the financial year 2010/2011. Some of the challenges of this source are:

a) Local Governments have not developed strategies for the collection of some potential local revenue sources.

b) Veterinary fees and forest revenues collected by the departments are not shared with the Local Governments.

c) Most of the revenues collected from activities related to forestry are not remitted to the Local Governments.

2.9 General Issues

2.9.1 Rural and Urban Local Revenue Trends

Nationally, Districts contributed 78% of all local revenues in 2008/09 FY with Town Councils contributing 11% and municipalities also contributing 11%. As new LGs were created (District LGs increased from 39 in 1999 to 111 in 2013), new town councils were formed (from 60 in 2004/05 to 174 now) and municipalities from 13 to 22 in 2010/11. Creation of a new district out of an old one results into establishment of at least two self accounting urban councils where most property tax, commercial licenses and permits and well established markets revenues are a viable revenue source. As a result there occurs a significant revenue shift from rural to urban areas.
The contribution from districts drastically fell to 54% in 2009/10 as those of Town Councils and Municipalities rose to 21% and 25%, respectively. This implies that increasing urbanization will reduce the revenue bases for the rural areas especially the property and business levies.

2.9.2 Local Revenues and Decentralisation

Decentralisation by devolution was introduced to give power to LGs to select, plan for their priorities, allocate resources and implement activities to improve people's welfare.
LGs allocate revenues collected from local sources to supplement grants from the Government, in order to deliver on the devolved functions. Local revenue is the source of financing for recurrent operations of LGs and the sustainability of infrastructure investments like education/school, water points, health service units and environmental protection structures.
Grant transfers from Government to Local Governments have conditionalities, which restrict LGs to allocate the grant transfers to only national priorities. Local revenues, on the other hand, provide the most discretionary source of financing which avails Local Governments

the opportunity to allocate to their own priority activities without reference to the centre. This enables LGs to exercise their devolved powers and enhances their autonomy in decision making. Decentralization offers the poor the potential to exercise more direct influence over the factors that shape their lives.

It is under a decentralization framework that governments can respond more effectively to the needs of the rural poor, in particular, by increasing the provision, accountability and transparency of rural service delivery. However, this expectation can be met only if poor people are organized, if they participate in the project cycle, if they have the means to influence institutions and if governments assist them actively in these endeavors. Generating catalytic impact through field operations, policy dialogue and advocacy on behalf of the rural poor is an important part of the strategy that is expected to support decentralization. The process of decentralization is also needed to assist in ensuring the articulation of peoples' voices and aspirations, which is currently inhibited by their weak participation in the decentralisation processes in general; and in the mobilisation, allocation, and utilisation of resources at local level. This is critical for infrastructure development, promotion of inclusiveness and accountability in service delivery.

It is therefore generally understood that increased local revenue promotes local democracy, more public accountability, arouses more citizen interest in how services are delivered and increases the capacity of local councilors to serve their communities in accordance with their preferences.

In addition, it is through locally generated revenues that the local population, who are the contributors, generally derive the right to demand for accountability and services.

This therefore promotes ownership and sustainability of programmes and services, a basic tenet of decentralisation. Otherwise, it may be difficult to sustain decentralisation principles (like democratic governance, participation, transparency and accountability) without citizens' contribution.

Again, transparency cannot be given a lot of meaning unless there is a sound revenue base at the local levels. It is also known that government and donors cannot finance all the required social services and infrastructure in a sustainable way without locally generated revenues.

The current deterioration in service delivery and infrastructure has worsened the taxpayers' attitude towards any local revenue payment; thus a spiral decline in the local revenue performance generally.

All the above notwithstanding therefore, LGs ought to have sufficient own sources of revenue to sustain and drive decentralization further and thus the need to re-engineer strategies to improve revenue collection.

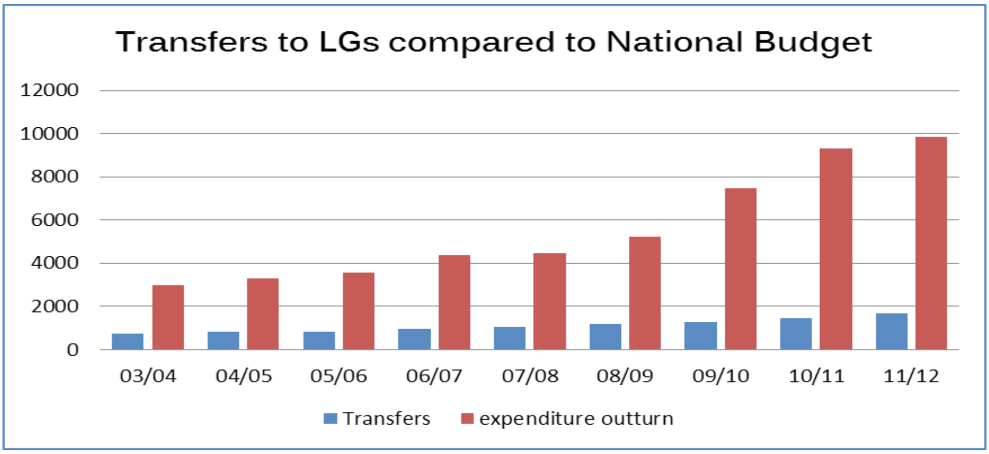
A Shaky Fiscal Decentralisation Architecture

The set provisions in the Constitution on funding LGs are not precise and obligation is not well articulated, including setting of conditions for grants and grant formulation plus grant adequacy; and the lead institution of this process is not clear. Those clauses that can be easily implemented have not also been implemented such as that which is included in Schedule VII of the Constitution.

The lack of real growth in most grants has constrained LGs in financing the increasing demands for services particularly as populations grow and inflation eats away the value of the shilling.

The diagram below shows that the ratio of spending held at the centre compared to transfers to LGs has been widening from a ratio of 1:3 to now 1:7 over the last ten years also depicted in Table 4 below. The trend contradicts the policy of decentralisation by devolution. LG transfers as a share of the national budget have fallen from 25% (2003/04) to 16% (FY 2011/12) as documented in LGFC's Review of LG Financing study. The implication is that local service delivery has suffered tremendously especially in the aspect of staffing, operation and maintenance of services and other recurrent costs.

Table 4: Transfers to LGs compared to National Budget FY 2003/04- 2011/12



Source: LGFC Review of LG Financing, 2012

Therefore, apart from poor local revenue collection, the grant transfers are not improving despite the heavy needs of the population, and subsequently the demand for services has increased given the increase in population, number of districts and rural -urban migration.

A study from 2012 by LGFC, Review of LG Financing, showed that the performance of social services like health and education has deteriorated due to insufficient financing (including LGs' failure to raise adequate local revenues) at LGs. The study indicated that LG grants funding which was at UGX 1.8 trillion had left a funding gap of UGX 2 trillion for FY2011/12, implying a performance of 47.4% and it seems to have fallen further in subsequent years. This would be an equivalent of only 16% of the national budget. That notwithstanding, in the previous year, FY2010/11, local revenue collection was at UGX 164.2bn out of a potential of UGX 334.6bn i.e. 49% performance which was very low.

3.0 The Basic Factors Affecting Local Revenue Performance

In summary, there are salient factors that have affected local revenue performance and they include the following:

a) Unfortunate involvement of politicians; an example being the chairperson from a Town Council stopping the collection of property rates

b) Poor coordination of players and institutions that interface with LG management

c) Some inadequacies in the relevant legal provisions which includes massive exemptions, inadequate framework regarding LG access to royalties, insufficient enforcement provisions, insufficient framework to enable Public Private Partnerships to promote Local Economic Development

d) Spontaneous creation of Local Governments (from 39 in 1991 to 111 districts in 2011) which meant more administrative costs (cost of creating a district is UGX 59bn, as per the MoLG database); and the consequence of a shift in revenue especially market dues, property tax and licences from district to urban LGs leaving the former as mere shells

e) Insufficient support from Central Government to boost operational funding, logistical equipment and transport

f) Administrative weaknesses within LGs, including low staffing and insufficient technical capacity; poor revenue management which leads to corruption

g) Poor utilisation and management of the collected revenues evidenced by embezzlement and diversion of funds; and corruption

h) Over reliance on grants. Grants contribute over 95% of LG budgets and seem to be more reliable. Therefore some political leaders and LGs relaxed on revenue collection efforts with a view that grants from the centre could be enough to fund LGs services

i) Insufficient logistical support and poor funding for general LGs' operations

3.1 Policy Implementation Gap

The above mentioned factors have led to a decline in collection of local revenues in real terms and since the transfers to LGs have also not been increasing in real terms, in most of the service areas like health which have been underfunded, service provision has substantially deteriorated. Subsequently, there has been a discontent among the population about service delivery in particular and the Decentralisation Policy implementation in general. In addition to this, a certain level of mistrust created by examples of embezzlement and corruption. Combined, this has worsened the taxpayers' attitude towards any local revenue payment and thus a spiral decline in local revenue performance.

4.0 Policy Recommendations

It is important that the current situation is reversed. It is fundamentally and strategically important for the central and local governments to involve the population in contributing towards their development. The people have a right to social services; at the same time they have an obligation and responsibility to ensure that the service is sustained by paying their taxes and dues. In the same vein, there needs to be a high amount of credibility within both Central and Local Government to improve tax collection which only becomes a burden if there is no proper delivery of social services and some of the tax revenues are swindled during the process.

Therefore, the Central Government should:

(a) Review the legal framework for local revenue collection in order to make it more effective. The revenue sources affected include Local Service Tax, Property rates, Royalty fees, Trade licenses and Agency fees. (Refer to appendix 1 for details). For example, it has been proposed by an LGFC study of LG revenue issues report of 2013 that Government should remove the exemptions on some owner-occupied residential properties in the urban centres. The rate payable for this category should not exceed 4% (currently at 0%) of the rateable value or a payment of an annual property rate raging from UGX 50,000/= to UGX 100,000/= per year.
In addition, exemptions on the eligible Local Service Tax payers should be eliminated. The schedule on LST for Commercial farmers should also be operationalised.

(b) Strengthen the enforcement provisions to increase compliance. The Local Government Rating Act 2005, as amended, provides for collection of rates in arrears to be recovered by warrant, action, or from tenants and occupiers of the property. Recovery both by warrant and action have not worked for absentee owners of properties. Again recovery from tenants has failed where the property has changed hands and has never been transferred.

(c) Along with LGs partner with Civil Society Organisations (CSOs) to massively educate citizens about their rights including the right to demand for services, feedback on utilisation; tax justice and on their obligations/responsibilities to pay taxes; involvement and sustaining service delivery. Government must involve people in provision of services. LGs should design a communication strategy to promote co-operation with the CSOs, Central Government development partners and the Community.

(d) Provide funds to LGFC and MoLG for technical and logistical support to LGs. Specifically this should include: Technical Capacity Building (including hands- on training of LG revenue staff) and providing basic revenue equipments like computers and vehicles/ motorcycles.

(e) Prepare a policy guideline on local revenue collections to encounter undue negative political involvement, on local revenues administration. For example, political pronouncements that roadside sellers should not pay market dues has encouraged vendors to operate near the established markets without paying a penny but instead continue to disrupt business in the markets.

(f) Extend the new Collaboration Strategy between URA and LGs beyond collection of Presumptive tax to Property rates. Arrangements like an MOU can be made to share the proceeds.

(g) Based on the findings from the Review of LG Financing study which identified a recurrent funding gap of UGX 2 trillion (LG funding/grants was UGX 1.8 trillion in FY 2011/12; add the gap of UGX 2 trillion, it becomes UGX 3.8 trillion required). The share of grants to Local Governments should be at least 38% of the national budget, assuming that the national budget would be UGX 10 trillion.

(h) Involve LGs in the design of programs before designing grants and conditions for conditional grants.

(i) Along with LGs develop administrative measures to improve efficiency of revenue management through:
   a. Recruiting in all necessary staff (Parish Chiefs, Revenue Officers, Assistant Tax Officers) for local revenue administration in the Local Governments to handle revenue collections
   b. Providing technical backstopping to Local Governments on key areas like setting of reserve prices, establishing fiscal databases

(j) Provide the funding for:
   a. Investment into local revenue activities like construction of markets, renovation of taxi/lorry/bus parks in Local Governments.
   b. Tax Awareness programmes in Local Governments.

(k) Deliberately support the implementation of Local Economic Development (LED) and effective operationalisation of Public Private Partnership (PPP) in LGs. This approach makes LGs use less money for investments and allows them to expand infrastructures, provide a variety of services to more people in a shorter time and also generate revenues sustainably.

(l) Introduce a statutory instrument to enable the levying of solid waste management fees in all urban areas. This instrument should be based on “generator pays” principle. This action will free resources which can be used on other priority expenditure areas in urban councils.

    Openly negotiate with LGs, the sharing percentage from oil and gas revenues for improved transparency and enhanced opportunity for Districts to benefit. In addition, Central Government should open for negotiations with LGs on the various percentages with the intention of a more equally sharing scheme that will support the LG revenue generation (see Appendix for details).

The following proposals are put forward to Local Governments:

(a) The Local Governments should strengthen local revenue data management.

(b) The Local Governments should be supported in estimating the reserve prices for their markets and taxi/bus parks by using guidelines developed for establishing revenue potential.

(c) Local Governments should ensure physical accountability in service delivery by involving the communities in planning, allocation and monitoring of local revenues; and putting revenues to visible social services and infrastructure to ensure compliance in tax payment.

(d) The Local Governments should analyse the potential revenue sources that could be enhanced or initiated at their own level. In consultation with the private sector and civil society, LGs should conduct a social and economic analysis of what the effects on citizens would be to avoid negative impact on livelihoods.

(e) The Local Governments should organize continuous tax education and awareness of the civic, political leaders and communities on the collection, utilization and accountability of local revenues.

(f) The Local Governments should simplify the tax language to demystify taxation for the citizens.

(g) The Local Governments should produce a format in which the hotel owners are can provide monthly returns. A hotel register book should also be produced to ensure compliance. Monitoring and inspection of these facilities from time to time should be done in collaboration with other stakeholders.

(h) The Local Governments should organize on-spot inspection of the facilities like projects being implemented using some co-founding from local revenues, e.g. those of Local Government Management Service Delivery Programme and Community Agriculture Infrastructure Improvement Programme. This should be carried out by both the politicians and the technical team to assess the infrastructure needed for the proper collection of revenue and other functions.

(i) The Local Governments should ensure that their approved charging policy is always up-to-date with the affairs of the markets and well publicised.

(j) LGs especially urban councils should introduce Solid Waste Management Fees.

(k) Local Governments should introduce a fee on activities of ‘gambling nature’ and sports betting for revenue improvement and regulation.

The following proposals are put forward to Citizens/Community:

(a) The citizens should be empowered, preferably by civil society organisations, to know and clearly understand their roles, rights and obligations in local revenue management and service delivery. Citizens should understand the types of dues collected from them, pay them, but also demand for accountability on the revenues collected from them.

(b) Further, the community should be made to understand their noble duties and civic rights as prescribed under Article 17 and Article 38 of the Constitution.

5.0 Conclusion

A systematic improvement in the above mentioned legal provisions and policy aspects will be very vital in establishing fundamental relationships between the central government, civil society organisations and the Local Governments in contributing to the support and realisation of the potential revenues badly needed for quality service delivery at local level. The consistency in implementation will largely contribute to popularisation and acceptance of taxes by the citizenry besides creating a need for enhancing transparency and accountability and demand for effective services, which is a cornerstone of decentralisation.

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Appendix 1

Information on various sources of royalties and distribution between Central and Local Government

Payment and sharing of royalty fees

Royalty fees from varying operations are provided for under relevant sections in the relevant Acts. The Acts stipulate that the entity licensed to carry out any activity is required to pay royalty fees to the district in which the operation facilities are located, at rates agreed between the two parties. Where the parties do not agree, for some activities like hydro-electricity generation, an Authority concerned is empowered to determine the rate to be paid to the Local Government by the licensee. Where the operating facility is located in more than one district the royalty paid will be shared proportionately by the concerned districts.

Rationale for paying royalty fees

Payment of royalty fees is justified on the account of exploitation of a public good to benefit a section of the community. A public good is something which when it is being used/ consumed, one finds it enormously expensive to exclude other people from using/ consuming it too. Such goods include roads, natural resources and others with such characteristics. Public goods are expected to benefit everybody but once a few people use these goods alone for their benefit, social justice demands that something be returned to the people. In addition, and fundamentally, the exploitation of such natural resources usually results into destruction of soil, water, vegetation and crops. It is a known fact that air, water and soil pollution and other various polluted externalities are detrimental to life. Therefore it is anticipated that all the associated remedial measures are met out of the Local Government budget and therefore some revenue should be extended to such a Local Government to possibly meet part of or all the related costs.

Minerals

Section 98(1) and (2) of the Mining Act, 2003 provides that “subject to section 100 of this Act, all minerals obtained or mined in the course of prospecting, exploration, mining or mineral beneficiation operations shall be subject to the payment of royalties on the gross value of the minerals based on the prevailing market prices of the minerals at such rates as shall be prescribed”. Section 100 provides that “where for any reason it is impractical to assess the amount of royalty due, the Commissioner may, with the approval of the Minister, assess a provisional royalty”. This revenue is collected by Uganda Revenue Authority (URA).

Central Government, Local Government and the owners or lawful occupiers of the land subject to mineral rights shall share royalties as follows: The tax revenue generated by Uganda Revenue Authority (URA) from minerals is shared between Central Government (80%), host Local Governments (17%) and individual land owner (3%). Prescribed Rates for Royalty payable by mineral rights holders are explained in the Second Schedule of the Mining Regulations, 2004.

Issue: Currently transfers to LGs like Town Councils and sub counties pass through the mother district. If royalties were for any of these lower Local Governments (LLGs) mentioned, it is very difficult for the district to pass on such funds to the LLG.

Issue: Mining of sand, clay and murram are not yet considered for paying royalties. Ministry of Energy has made a proposal to amend Article 244 of the Constitution (defines a mineral) such that sand, clay and murram mined for commercial purpose shall also immediately attract a royalty, but as of now, LGs are not benefiting any royalties from these activities.

Electricity power generation

According to the Electricity Act, 1999, Section 75 (7), (8) and (9), the holder of a license for hydropower generation shall pay to the district Local Government in which his/her generating station, including any dam or reservoir, is situated a royalty agreed upon by the licensee and the district Local Government, in consultation with Electricity Power Regulatory Authority (ERA). ERA regulates and therefore issues licenses to all those generating above 0.5MW only. Where the licensee and the district Local Government fail to agree upon the royalty, the authority shall determine the royalty to be paid to the district Local Government by the licensee. Where the generating station is situated in more than one district Local Government area, the royalty paid shall be shared proportionately among the district Local Governments.

Issue: The sharing LG has to be a district only.

Observation: The law should be amended to mention 'Local Government' instead of 'district' so that other Local Governments like Municipal, Divisions, Town councils, or sub counties hosting the natural resource also get a share.

Issue: LGs have less negotiating power compared to the Generating companies; therefore the former usually gets less than it should have been. LGs are usually not prepared, they do not have enough information about the hydropower that is likely to be generated, etc. such characteristics/ factors render the LGs incapacitated to engage the hydro-power generating companies.

Issue: There are other sources like oil, sugarcane residues (this one is for Kakira works in Jinja), etc from which electricity is being produced and yet they are not included in the Act. This has denied the opportunity for host LGs to get the subsequent royalties/ local revenues.

Issue: The Water Act is still silent about royalty fees from water to host LGs. this has not enabled LGs to get revenue from mineral water firms operating in the country.

Wildlife/ Protected Areas

According to the Uganda Wild Life Act, 1996, Cap.200 Section 69 (4), the board shall pay 20% of the park entry fees collected from a wildlife protected area to the Local Government of the area surrounding the wild life protected area from which the fees are collected.

The National Parks are managed by the Uganda Wildlife Authority and most of them generate revenue from tourism. This revenue is deposited with the UWA. The authority recognizes a geographical unit they call Protected Area (PA). UWA gives out some of this to the LGs surrounding the PAs. These PAs contain forests and animals of various types and species, some water bodies, and other physical organisms and features existing of a variety of landscapes.

Each PA is required to have a Revenue Sharing account (RS) onto which 20% of park entry fees are remitted every month.

The commonly funded activities include: Construction of schools and dispensaries; construction and maintenance of roads and bridges; construction of health units; Construction of community camp grounds; construction of council halls; Goat Rearing; Protection of Water Sources; Installation of crest water tanks; Bee keeping projects; Extension of gravity water schemes; Tree planting; and Grinding mill projects.

Issues:

a) These communities receive these funds as cheques with a minimal condition of ensuring that what was approved as a project to be funded is the one supported with the funds. This condition is detested by host LGs who prefer no conditions at all. The LGs consulted insist that they are entitled to such royalty fees which they consider to be a local revenue and therefore without conditions.

b) Currently UWA remits the funds to the Local Governments in form of conditional grants. Subsequently a number of Local Governments within these areas have not accessed funds mainly as a result of the Local Governments failing to meet the conditions for access.

c) These funds are rarely captured in the respective sub county and district budget (s), a situation that appears to be non-transparent.

d) Other economic activities in these protected areas like gorilla tracking, small scale mining, rafting, etc are not generating royalty fees to host LGs. These revenues are not being shared with host LGs.

For all the areas where royalties are given to LGs, there is not adequate information flow, for the LG to know that funds will be available at such a time and the requirements are not explicitly explained to the LG so that to allow them put these in place.